

HOUSE BILL NO. 231

INTRODUCED BY L. JONES, B. LER, S. ESSMANN, R. MINER, W. MCKAMEY, D. FERN, J. KASSMIER, M. BERTOGLIO, C. SPRUNGER, S. MORIGEAU, G. HUNTER, C. COCHRAN, S. FITZPATRICK, M. NIKOLAKAKOS, G. HERTZ, C. SCHOMER, E. TILLEMANN, R. TEMPEL, J. DARLING, G. PARRY, K. WALSH, G. NIKOLAKAKOS, B. BARKER, M. CUFFE, T. MCGILLVRAY, B. GILLESPIE, D. BEDEY

A BILL FOR AN ACT ENTITLED: "AN ACT GENERALLY REVISING PROPERTY TAX LAWS; REVISING TAX RATES FOR CERTAIN CLASS FOUR RESIDENTIAL AND COMMERCIAL PROPERTY; PROVIDING A LOWER TAX RATE FOR CERTAIN OWNER-OCCUPIED RESIDENTIAL PROPERTY AND LONG-TERM RENTALS; PROVIDING A LOWER TAX RATE FOR A PORTION OF COMMERCIAL PROPERTY VALUE; PROVIDING ELIGIBILITY AND APPLICATION REQUIREMENTS; PROVIDING FOR AN APPEAL PROCESS; PROVIDING DEFINITIONS; PROVIDING RULEMAKING AUTHORITY; AMENDING SECTIONS 15-1-121, 15-6-134, 15-7-102, 15-15-101, 15-15-102, 15-15-103, 15-16-101, AND 15-17-125, MCA; AND PROVIDING ~~AN~~ ~~IMMEDIATE~~ EFFECTIVE DATE DATES, APPLICABILITY DATES, AND ~~A~~ TERMINATION DATE DATES."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

NEW SECTION. **Section 1. Definitions.** As used in [sections 1 through 7] and 15-6-134, the following definitions apply:

- (1) "Homestead reduced tax rate" means the tax rate provided for in 15-6-134(3)(b)(i).
- (2) "Long-term rental" means class four residential property:
 - (a) that is a single-family dwelling unit, unit of a multiple-unit dwelling, trailer, manufactured home, or mobile home and the parcel on which the long-term rental improvements are located but not including any contiguous or adjacent parcels;
 - (b) that an owner can demonstrate was rented for periods of 28 days or more for at least ~~9~~ 7 months in each tax year for which the rental property reduced tax rate is claimed;
 - (c) that is occupied by tenants who use the dwelling as a residence during the year in which the reduced tax rate is claimed; and

1 reduced tax rate or the rental property reduced tax rate and notify the taxpayer of its determination by mail or
2 electronically. In the notification, the department shall state its reasons for accepting or denying the application.

3 (2) If a property owner is aggrieved by the determination made by the department after the review
4 provided for in subsection (1), the property owner has the right to first appeal to the county tax appeal board
5 and then to the Montana tax appeal board, whose findings are final subject to the right of review in the courts.
6 An appeal to the county tax appeal board, pursuant to 15-15-102, must be filed within 30 days from the date on
7 the notice of the department's determination. If the county tax appeal board or the Montana tax appeal board
8 determines that the homestead reduced tax rate or the rental property reduced tax rate should apply, the
9 department shall adjust the taxable value of the property in accordance with the board's order.

10
11 NEW SECTION. Section 7. Rulemaking authority. The department shall adopt rules that are
12 necessary to implement and administer [sections 1 through 7].

13
14 NEW SECTION. Section 8. Legislative findings -- local government charters and fixed mill levy
15 **limits superseded.** (1) (a) The legislature finds that most local governments have transitioned to mill levies that
16 adjust downward when taxable value increases under 15-10-420. This floating mill levy concept automatically
17 lowers the number of mills levied against a taxpayer when property values increase, which mitigates increases
18 in property values. However, when mill levies are fixed, the opposite occurs when property values increase, and
19 property taxes are not automatically mitigated for taxpayers that are levied based on a fixed mill levy.

20 (b) The legislature finds further that it is prohibited under Article VIII, section 2, of the Montana
21 constitution, from suspending or contracting away the power to tax. The legislature also recognizes and
22 respects the power of local governments under Article XI, section 5, of the Montana constitution to adopt,
23 amend, revise, or abandon a charter.

24 (2) As a matter of policy, the legislature intends to supersede local government charters that fix mill
25 levy limits for the limited purpose of exercising the power to tax while also maintaining local government
26 revenue sources without raising taxes on residential taxpayers. Having considered all options on a statewide
27 basis, the legislature finds the statutory structure of the property tax has evolved significantly since the passage
28 of Initiative Measure No. 105 on November 4, 1986, and the enactment of 15-10-420 by the legislature in 1999.

Given the significant change in the structure of the property tax and the rising cost of residential property in the last 5 years, there is a compelling interest to all the citizens of the state to lower residential property tax rates for primary residences, which can only be accomplished by this section and 15-10-420.

(3) After [the effective date of this section], a local government with a mill levy limit of a specific number of mills that may be imposed, either by charter or by voter approval, shall levy the number of mills in fiscal year 2026 that will generate the amount of property taxes assessed in fiscal year 2025. In fiscal years after 2026, the local government shall levy the number of mills levied in fiscal year 2026.

NEW SECTION. Section 9. Reimbursement for loss of revenue from certain fixed mill levies. (1)

The department shall reimburse each taxing entity as provided in this section for the revenue loss resulting from the tax rate reductions in 15-6-134 as amended by [this act] for the following levies:

(a) levies of a local government with a charter form of government that includes a mill levy limit of a specific number of mills that may be imposed in the charter; and

(b) levies stated as a specific mill levy authorized by voters before [the effective date of this section].

(2) For fiscal year 2026, the reimbursement must be equal to the difference between the property tax revenue collected from the levies provided for in subsection (1) and the property tax revenue collected in fiscal year 2025. After fiscal year 2026, the reimbursement must be equal to the difference between the property tax revenue collected from the levies provided for in subsection (1) and the property tax revenue that would be collected in the current fiscal year using the mill levy that would raise the fiscal year 2025 tax revenue using the fiscal year 2026 taxable value.

(3) A reimbursement provided for in this section may only be made for 4 years after [the effective date of this section].

(4) The department shall distribute the reimbursements with the entitlement share payments under 15-1-121(7).

Section 10. Section 15-1-121, MCA, is amended to read:

"15-1-121. Entitlement share payment -- purpose -- appropriation. (1) As described in 15-1-

120(3), each local government is entitled to an annual amount that is the replacement for revenue received by local governments for diminishment of property tax base and various earmarked fees and other revenue that, pursuant to Chapter 574, Laws of 2001, amended by section 4, Chapter 13, Special Laws of August 2002, and later enactments, were consolidated to provide aggregation of certain reimbursements, fees, tax collections, and other revenue in the state treasury with each local government's share. The reimbursement under this section is provided by direct payment from the state treasury rather than the ad hoc system that offset certain state payments with local government collections due the state and reimbursements made by percentage splits, with a local government remitting a portion of collections to the state, retaining a portion, and in some cases sending a portion to other local governments.

(2) The sources of dedicated revenue that were relinquished by local governments in exchange for an entitlement share of the state general fund were:

(a) personal property tax reimbursements pursuant to sections 167(1) through (5) and 169(6), Chapter 584, Laws of 1999;

(b) vehicle, boat, and aircraft taxes and fees pursuant to:

(i) Title 23, chapter 2, part 5;

(ii) Title 23, chapter 2, part 6;

(iii) Title 23, chapter 2, part 8;

(iv) 61-3-317;

(v) 61-3-321;

(vi) Title 61, chapter 3, part 5, except for 61-3-509(3), as that subsection read prior to the amendment of 61-3-509 in 2001;

(vii) Title 61, chapter 3, part 7;

(viii) 5% of the fees collected under 61-10-122;

(ix) 61-10-130;

(x) 61-10-148; and

(xi) 67-3-205;

(c) gaming revenue pursuant to Title 23, chapter 5, part 6, except for the permit fee in 23-5-612(2)(a);

(d) district court fees pursuant to:

(i) 25-1-201, except those fees in 25-1-201(1)(d), (1)(g), and (1)(j);

(ii) 25-1-202;

(iii) 25-9-506; and

(iv) 27-9-103;

(e) certificate of title fees for manufactured homes pursuant to 15-1-116;

(f) financial institution taxes collected pursuant to the former provisions of Title 15, chapter 31, part 7;

(g) all beer, liquor, and wine taxes pursuant to:

(i) 16-1-404;

(ii) 16-1-406; and

(iii) 16-1-411;

(h) late filing fees pursuant to 61-3-220;

(i) title and registration fees pursuant to 61-3-203;

(j) veterans' cemetery license plate fees pursuant to 61-3-459;

(k) county personalized license plate fees pursuant to 61-3-406;

(l) special mobile equipment fees pursuant to 61-3-431;

(m) single movement permit fees pursuant to 61-4-310;

(n) state aeronautics fees pursuant to 67-3-101; and

(o) department of natural resources and conservation payments in lieu of taxes pursuant to former Title 77, chapter 1, part 5.

(3) Except as provided in subsection (7)(b), the total amount received by each local government in the prior fiscal year as an entitlement share payment under this section is the base component for the subsequent fiscal year distribution, and in each subsequent year the prior year entitlement share payment, including any reimbursement payments received pursuant to subsection (7), is each local government's base component. The sum of all local governments' base components is the fiscal year entitlement share pool.

(4) (a) Except as provided in subsections (4)(b)(iv) and (7)(b), the base entitlement share pool must be increased annually by an entitlement share growth rate as provided for in this subsection (4). The

amount determined through the application of annual growth rates is the entitlement share pool for each fiscal year.

(b) By October 1 of each year, the department shall calculate the growth rate of the entitlement share pool for the next fiscal year in the following manner:

(i) The department shall calculate the entitlement share growth rate based on the ratio of two factors of state revenue sources for the first, second, and third most recently completed fiscal years as recorded on the statewide accounting, budgeting, and human resource system. The first factor is the sum of the revenue for the first and second previous completed fiscal years received from the sources referred to in subsections (2)(b), (2)(c), and (2)(g) divided by the sum of the revenue for the second and third previous completed fiscal years received from the same sources multiplied by 0.75. The second factor is the sum of the revenue for the first and second previous completed fiscal years received from individual income tax as provided in Title 15, chapter 30, and corporate income tax as provided in Title 15, chapter 31, divided by the sum of the revenue for the second and third previous completed fiscal years received from the same sources multiplied by 0.25.

(ii) Except as provided in subsections (4)(b)(iii) and (4)(b)(iv), the entitlement share growth rate is the lesser of:

(A) the sum of the first factor plus the second factor; or

(B) 1.03 for counties, 1.0325 for consolidated local governments, and 1.035 for cities and towns.

(iii) In no instance can the entitlement growth factor be less than 1. Subject to subsection (4)(b)(iv), the entitlement share growth rate is applied to the most recently completed fiscal year entitlement payment to determine the subsequent fiscal year payment.

(iv) The entitlement share growth rate, as described in this subsection (4), is:

(A) for fiscal year 2018, 1.005;

(B) for fiscal year 2019, 1.0187;

(C) for fiscal year 2020 and thereafter, determined as provided in subsection (4)(b)(ii). The rate must be applied to the entitlement payment for the previous fiscal year as if the payment had been calculated using entitlement share growth rates for fiscal years 2018 and 2019 as provided in subsection (4)(b)(ii).

(5) As used in this section, "local government" means a county, a consolidated local government,

an incorporated city, and an incorporated town. A local government does not include a tax increment financing district provided for in subsection (8). The county or consolidated local government is responsible for making an allocation from the county's or consolidated local government's share of the entitlement share pool to each special district within the county or consolidated local government in a manner that reasonably reflects each special district's loss of revenue sources for which reimbursement is provided in this section. The allocation for each special district that existed in 2002 must be based on the relative proportion of the loss of revenue in 2002.

(6) (a) The entitlement share pools calculated in this section, the amounts distributed under 15-1-123(4) for local governments, the funding provided for in subsection (8) of this section, and the amounts distributed under 15-1-123(5) for tax increment financing districts are statutorily appropriated, as provided in 17-7-502, from the general fund to the department for distribution to local governments.

(b) (i) The growth amount is the difference between the entitlement share pool in the current fiscal year and the entitlement share pool in the previous fiscal year. The growth factor in the entitlement share must be calculated separately for:

(A) counties;

(B) consolidated local governments; and

(C) incorporated cities and towns.

(ii) In each fiscal year, the growth amount for counties must be allocated as follows:

(A) 50% of the growth amount must be allocated based upon each county's percentage of the prior fiscal year entitlement share pool for all counties; and

(B) 50% of the growth amount must be allocated based upon the percentage that each county's population bears to the state population not residing within consolidated local governments as determined by the latest interim year population estimates from the Montana department of commerce as supplied by the United States bureau of the census.

(iii) In each fiscal year, the growth amount for consolidated local governments must be allocated as follows:

(A) 50% of the growth amount must be allocated based upon each consolidated local government's percentage of the prior fiscal year entitlement share pool for all consolidated local governments;

1 and

2 (B) 50% of the growth amount must be allocated based upon the percentage that each
3 consolidated local government's population bears to the state's total population residing within consolidated
4 local governments as determined by the latest interim year population estimates from the Montana department
5 of commerce as supplied by the United States bureau of the census.

6 (iv) In each fiscal year, the growth amount for incorporated cities and towns must be allocated as
7 follows:

8 (A) 50% of the growth amount must be allocated based upon each incorporated city's or town's
9 percentage of the prior fiscal year entitlement share pool for all incorporated cities and towns; and

10 (B) 50% of the growth amount must be allocated based upon the percentage that each city's or
11 town's population bears to the state's total population residing within incorporated cities and towns as
12 determined by the latest interim year population estimates from the Montana department of commerce as
13 supplied by the United States bureau of the census.

14 (v) In each fiscal year, the amount of the entitlement share pool before the growth amount or
15 adjustments made under subsection (7) are applied is to be distributed to each local government in the same
16 manner as the entitlement share pool was distributed in the prior fiscal year.

17 (7) (a) If the legislature enacts a reimbursement provision that is to be distributed pursuant to this
18 section, the department shall determine the reimbursement amount as provided in the enactment and add the
19 appropriate amount to the entitlement share distribution under this section. The total entitlement share
20 distributions in a fiscal year, including distributions made pursuant to this subsection, equal the local fiscal year
21 entitlement share pool. The ratio of each local government's distribution from the entitlement share pool must
22 be recomputed to determine each local government's ratio to be used in the subsequent year's distribution
23 determination under subsections (6)(b)(ii)(A), (6)(b)(iii)(A), and (6)(b)(iv)(A).

24 (b) For fiscal year 2018 and thereafter, the growth rate provided for in subsection (4) does not
25 apply to the portion of the entitlement share pool attributable to the reimbursement provided for in 15-1-123(1)
26 and (2). The department shall calculate the portion of the entitlement share pool attributable to the
27 reimbursement in 15-1-123(1) and (2), including the application of the growth rate in previous fiscal years, for
28 counties, consolidated local governments, and cities and, for fiscal year 2018 and thereafter, apply the growth

rate for that portion of the entitlement share pool as provided in 15-1-123(3).

(c) The growth amount resulting from the application of the growth rate in 15-1-123(3) must be allocated as provided in subsections (6)(b)(ii)(A), (6)(b)(iii)(A), and (6)(b)(iv)(A) of this section.

(d) The growth rate provided for in subsection (4) does not apply to the portion of the entitlement share pool attributable to the reimbursement provided for in [section 9].

(8) (a) Except for a tax increment financing district entitled to a reimbursement under 15-1-123(5), if a tax increment financing district was not in existence during the fiscal year ending June 30, 2000, then the tax increment financing district is not entitled to any funding. If a tax increment financing district referred to in subsection (8)(b) terminates, then the funding for the district provided for in subsection (8)(b) terminates.

(b) One-half of the payments provided for in this subsection (8)(b) must be made by November 30 and the other half by May 31 of each year. Subject to subsection (8)(a), the entitlement share for tax increment financing districts is as follows:

Flathead	Kalispell - District 2	\$4,638
Flathead	Kalispell - District 3	37,231
Flathead	Whitefish District	148,194
Gallatin	Bozeman - downtown	31,158
Missoula	Missoula - 1-1C	225,251
Missoula	Missoula - 4-1C	30,009

(9) The estimated fiscal year entitlement share pool and any subsequent entitlement share pool for local governments do not include revenue received from tax increment financing districts.

(10) When there has been an underpayment of a local government's share of the entitlement share pool, the department shall distribute the difference between the underpayment and the correct amount of the entitlement share. When there has been an overpayment of a local government's entitlement share, the local government shall remit the overpaid amount to the department.

(11) A local government may appeal the department's estimation of the base component, the entitlement share growth rate, or a local government's allocation of the entitlement share pool, according to the uniform dispute review procedure in 15-1-211.

(12) (a) Except as provided in 2-7-517, a payment required pursuant to this section may not be

offset by a debt owed to a state agency by a local government in accordance with Title 17, chapter 4, part 1.

(b) A payment required pursuant to this section must be withheld if a local government:

(i) fails to meet a deadline established in 2-7-503(1), 7-6-611(2), 7-6-4024(3), or 7-6-4036(1); and

(ii) fails to remit any amounts collected on behalf of the state as required by 15-1-504 or as otherwise required by law within 45 days of the end of a month.

(c) A payment required pursuant to this section may be withheld if, for more than 90 days, a local government fails to:

(i) file a financial report required by 15-1-504;

(ii) remit any amounts collected on behalf of the state as required by 15-1-504; or

(iii) remit any other amounts owed to the state or another taxing jurisdiction."

Section 11. Section 15-6-134, MCA, is amended to read:

"15-6-134. Class four property -- description -- taxable percentage -- definitions. (1) Class four property includes:

(a) ~~subject to subsection (1)(e),~~ all land, except that specifically included in another class;

(b) ~~subject to subsection (1)(e):~~

(i) all improvements, including single-family residences, trailers, manufactured homes, or mobile homes used as a residence, except those specifically included in another class;

(ii) appurtenant improvements to the residences, including the parcels of land upon which the residences are located and any leasehold improvements;

(iii) vacant residential lots; and

(iv) rental multifamily dwelling units.

(c) all improvements on land that is eligible for valuation, assessment, and taxation as agricultural land under 15-7-202;

~~(d) _____, including 1 acre of real property beneath residential improvements on land described in 15-6-133(1)(c). The 1 acre must be valued at market value.~~

~~(d) _____ and 1 acre of real property beneath an improvement used as a residence on land eligible for valuation, assessment, and taxation as forest land under 15-6-143. The 1 acre must be valued at market value.~~

(5) The county treasurer shall file the tax lien certificate with the county clerk and recorder."

NEW SECTION. Section 18. Codification instruction. (1) [Sections 1 through 78] are intended to be codified as an integral part of Title 15, chapter 6, and the provisions of Title 15, chapter 6, apply to [sections 1 through 78].

(2) [Section 9] is intended to be codified as an integral part of Title 15, chapter 1, part 1, and the provisions of Title 15, chapter 1, part 1, apply to [section 9].

NEW SECTION. Section 19. Effective date -- contingency. (1) Except as provided in subsection (2), [This this act] is effective on passage and approval.

(2) [Sections 9 and 10] are effective on the date that the department of revenue certifies to the code commissioner that a court of final disposition finds that [section 8] is invalid. The department of revenue shall submit certification within 30 days of the occurrence of the contingency.

COORDINATION SECTION. SECTION 20. COORDINATION INSTRUCTION. IF HOUSE BILL NO. 154 IS NOT PASSED BY THE LEGISLATURE AND IF [THIS ACT] IS PASSED BY THE LEGISLATURE AND CONTAINS A SECTION THAT AMENDS 15-6-134, THEN SUBSECTION (3)(B)(I)(A) OF 15-6-134 IN [THIS ACT] MUST BE REPLACED WITH THE FOLLOWING:

"(A) 0.74% FOR THE MARKET VALUE THAT IS 2 TIMES THE MEDIAN RESIDENTIAL VALUE OR LESS;"

NEW SECTION. Section 21. Applicability -- retroactive applicability. (1) Except as provided in subsection (2), [this act] applies retroactively to property tax years beginning after December 31, 2024.

(2) [Sections 3 and 4] apply to property tax years beginning after December 31, 2026.

NEW SECTION. Section 22. Termination. [Section 2] and the references to [section 2] in [section 5], 15-6-134, 15-15-101, 15-15-102, and 15-15-103 terminate December 31, 2026.

NEW SECTION. Section 23. Contingent termination. [Sections 9 and 10] terminate on the date that

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Drafter: Megan Moore,

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1 the department of revenue certifies to the code commissioner that reimbursements authorized pursuant to
2 [section 9] have been completed. The department of revenue shall submit certification within 30 days of the
3 occurrence of the contingency.

4 - END -

AMENDED