



Targeted Property Tax Relief for Homeowners and Renters: Is a Circuit Breaker the Solution?

Why Does Montana Need Targeted Property Tax Relief?

The Montana Department of Revenue is completing the most recent reappraisal of property values in the state. Based on the most current estimates provided by the Department, the appraisals are likely to result in a statewide average increase of approximately 56% in residential home values. The Governor and leadership of both parties represented in the legislature have expressed a commitment to keeping property tax revenue neutral as a result of the reappraisals and to mitigate the effects of increased property values on taxpayers. Efforts should be taken to ensure that any proposed property tax mitigation is targeted effectively towards those individuals and families least able to pay increased property taxes, namely those who pay an unduly high share of their income in property taxes.

How Much Do Homeowners Contribute toward All Property Tax Collected by State and Local Governments?

Property taxes paid by homeowners makes up almost half of all property taxes collected in the state. This share has steadily increased overtime in relation to other classes of property, from 38% of all property taxes collected in 1994 to 49% in 2008. Mitigation strategies should not further increase the tax obligation of homeowners relative to other types of property, such as agricultural land, forestland, business equipment, and centrally assessed property.

How Has the State Mitigated Property Taxes After Prior Reappraisals?

After the last reappraisal, the 2003 Legislature mitigated the effect of the higher property values on residential taxpayers by:

- phasing in the higher property values over a six year period;
- reducing the tax rates in each of the six years (from 3.46% in 2002 to 3.01% in 2008); and
- increasing the **homestead exemption**, which exempts from taxation a certain percentage of residential home values, over the six year period.

What's Wrong with this Approach?

The 2003 mitigation efforts were applied across the board to all homeowners regardless of how high the income or home values of the taxpayer. They thus failed to adequately target those most in need of property tax mitigation, namely homeowners for whom increased property taxes would be unduly high in relation to their income.

Why Would Property Taxes be Higher in Relation to Some Taxpayers' Income?

Property tax obligations can be burdensome in relation to taxpayers' income for several reasons:

- Homeowners and renters who have relatively steady incomes may see rapid increases in property values, resulting in higher property taxes in relation to their incomes;
- Low-income homeowners and renters tend to have higher housing costs in proportion to their income, resulting in higher property tax obligations as a share of that income;
- Homeowners and renters may occasionally experience a sudden decline in income, resulting in a greater share of that income taken up by property taxes.

What is a Circuit Breaker?

In general, circuit breakers are designed to assist homeowners who pay a high share of their income in property taxes. Although there is much variety between circuit breaker programs throughout the country, they typically share the following two characteristics:

- The state determines a maximum proportion of income that a homeowner is expected to pay in property taxes.
- Any property tax payment that exceeds this ratio for a homeowner is rebated in part or whole to the taxpayer.

"Property tax circuit breakers, like the electrical devices that shut off electric power to prevent circuits from overloading, prevent property taxes from 'overloading' a family's budget by 'shutting off' property taxes once they exceed a certain share of the family's income."

Center on Budget and Policy Priorities ("The Property Tax Circuit Breaker: An Introduction and Survey of Current Programs," March 2007).

Factors to Consider in Designing a Circuit Breaker

• Should Renters be Eligible?

Ten of the 18 states offering circuit breakers make them eligible to renters, acknowledging that a portion of property taxes is passed on by landlords to tenants in the form of higher rent.

• What Percentage of Income Paid in Property Taxes Should Trigger the Circuit Breaker?

Circuit breakers are set to trigger at varying ratios of property taxes to income, from 1% to 10% of income.

• What Portions of Taxes Paid Over the Property Tax to Income Ratio Should be Refunded?

States refund anywhere from 25% to 100% of the amount paid in excess of the ratio.

• Should there be a Maximum Benefit?

The maximum benefit allowed by the states varies from a low of \$200 in Oklahoma to a high of \$2000 in Maine.

• Should there be an Income Ceiling?

All current programs cap eligibility at a certain income. However, the income ceiling varies widely from \$10,000 in Oregon to \$200,000 in New Jersey.

• How Should the Circuit Breaker be Administered?

Approximately half of the states with circuit breakers administer the refund through their income tax system; the other half administer them as stand-alone programs.