Montana Department of Revenue

Dan Bucks
Director

Brian Schweitzer
Governor

Date: April 17, 2008

To: Revenue and Transportation Interim Committee

From: Dan Dodds and Mary Craigle, Tax Policy Analysts

Subject: Household Income and Property Tax on Primary Residences

Do households with higher incomes pay a larger or smaller percentage of their income in property taxes on their primary residence than households with lower incomes?

On average, households with higher incomes pay a smaller percentage of their income in property taxes on their primary residence. The main reason is that, on average, the value of the primary residence is a smaller multiple of income for households with higher incomes. Put another way, people with higher incomes generally spend a smaller fraction of their income on housing than people with lower incomes.

We used information from the $400 property tax rebate applications to match property tax for the primary residences of 211,481 resident taxpayers who claimed the rebate with income they reported on their 2006 income tax returns. This is approximately 83% of the estimated 254,458 owner-occupied residences that existed in Montana in 2006. As a measure of total household income, we used the sum of total income reported for federal taxes (line 22 on Montana Form 2) and total Montana additions to federal income (line 38 on Form 2). We combined the income of married couples.

Figure 1, which is attached, shows the average ratio of property tax on the primary residence to total household income for households with income between $10,000 and $200,000. Each dot represents 100 households, grouped by income. Some of these households claimed the elderly homeowner/renter credit. The blue dots show the ratio of property taxes to income. The pink dots show the ratio of property taxes minus elderly homeowner/renter credits to income. In groups where no household took the elderly homeowner/renter credit, the blue dot covers the pink dot.

Table 1, on the next page, shows the same information for six broad income groups, including households with high and low incomes that were left out of Figure 1 to make the scale of the graph manageable.

Table 1
Property Tax as a Percent of Income

Total Household Income	Households	Property Tax on Primary Residence / Household Income
Under $10,000	12,000	21.1%
$10,000 to $20,000	21,400	6.7%
$20,000 to $50,000	66,400	3.4%
$50,000 to $100,000	74,200	2.1%
$100,000 to $200,000	23,700	1.6%
Over $200,000	7,769	0.9%

On average, households with higher incomes pay a lower percentage of their income in property tax on their primary residence. For homeowners with incomes less than $10,000, property taxes average more than 21% of their income. For homeowners with incomes greater than $200,000, property taxes average less than 1% of their income.

The property tax on a house is calculated in two steps. First, the appraised value is multiplied by the homestead exemption percentage and the tax rate to give taxable value. Taxable value is multiplied by the total of all mills imposed in the house's location (the consolidated mills) and divided by 1,000 to give property tax. The two parts of this calculation that differ between taxpayers are the value of the house and the mill levy. In tax year 2006, the average statewide mill on residential property was 549.92 mills.

Figure 2 shows average ratio of market value of the primary residence to household income for households who claimed the property tax credit. Again, each dot represents 100 households, grouped by income, and households with incomes over $200,000 have been left off to keep the scale reasonable. Households with higher incomes generally have more expensive houses, but house values are not proportional to income. On average, house value is a larger multiple of income for households with lower incomes. Table 2 shows the same information for the six broad income groups in Table 1.

Table 2
Property Value as a Multiple of Income

Total Household Income	Households	Market Value of Primary Residence / Household Income
Under $10,000	12,000	19.7
$10,000 to $20,000	21,400	6.0
$20,000 to $50,000	66,400	3.0
$50,000 to $100,000	74,200	1.8
$100,000 to $200,000	23,700	1.4
Over $200,000	7,769	0.8

Figure 3 and Table 3 show average mill levies. Households with low and high incomes on average pay slightly lower mill levies than households with middle incomes. This is largely due to the fact that low-income and high-income homeowners are more likely to live outside city limits, as is shown by the third column in Table 3. On average, homeowners inside city limits pay 109 mills more than those outside city limits. Residences inside the city were identified as those which pay city/town millage.

Table 3
Income and Mill Levies

Income Range	Average Consolidated Mill Levy	Percent Outside City Limits
Under $10,000	567.0	56.1%
$10,000 to $20,000	576.0	51.9%
$20,000 to $50,000	580.4	50.6%
$50,000 to $100,000	581.1	51.7%
$100,000 to $200,000	571.6	54.7%
Over $200,000	558.3	58.3%

Figures 1 through 3 and Tables 1 through 3 all use a one year measure of households' income. Some households have incomes that vary from year to year, and most households' incomes vary over the course of homeowner's lives. Of the 211,481 households with matching income tax and property tax records, 150,978 (71%) had income tax returns for each of the last ten years. We averaged each of these household's income over the last ten years and multiplied each household's ten-year average by 1.257, which is the ratio of overall average income for 2006 to the overall ten-year average. This provides a measure of adjusted household income for the past decade.

Figure 4 shows 2006 property taxes as a percent of income for these households. Each blue dot is 100 households grouped by their 2006 income, and each pink dot is 100 households grouped by their adjusted ten-year average income. The curve with ten-year average income is slightly flatter but has the same overall shape. Households with higher incomes pay a smaller percentage of their income in property taxes than households with lower incomes, regardless of whether income is measured for a single year or averaged over ten years.

Fig. 1 Property Tax as a Percent of Income

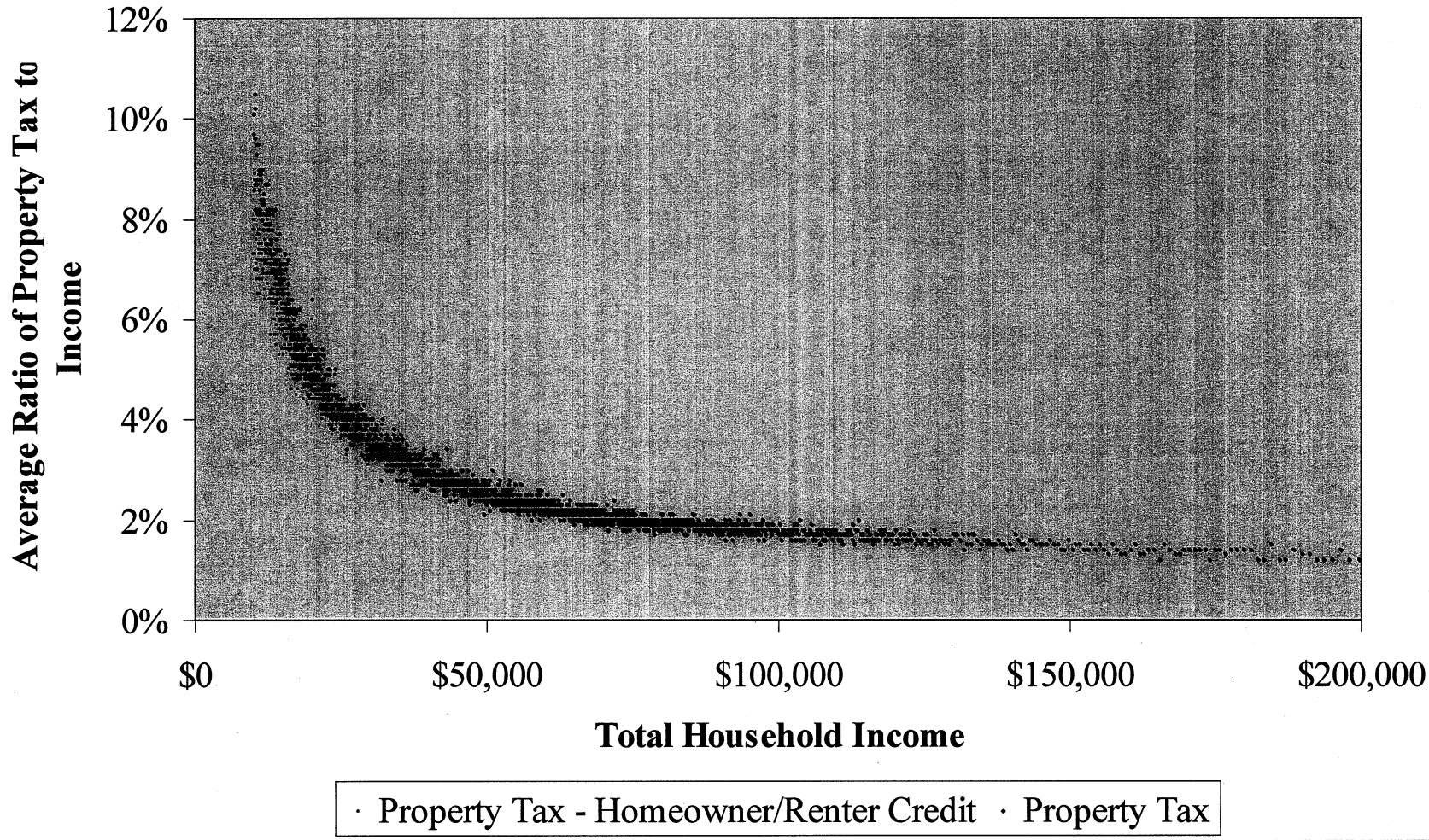


Fig 2. Market Value of Primary Residence / Household Income

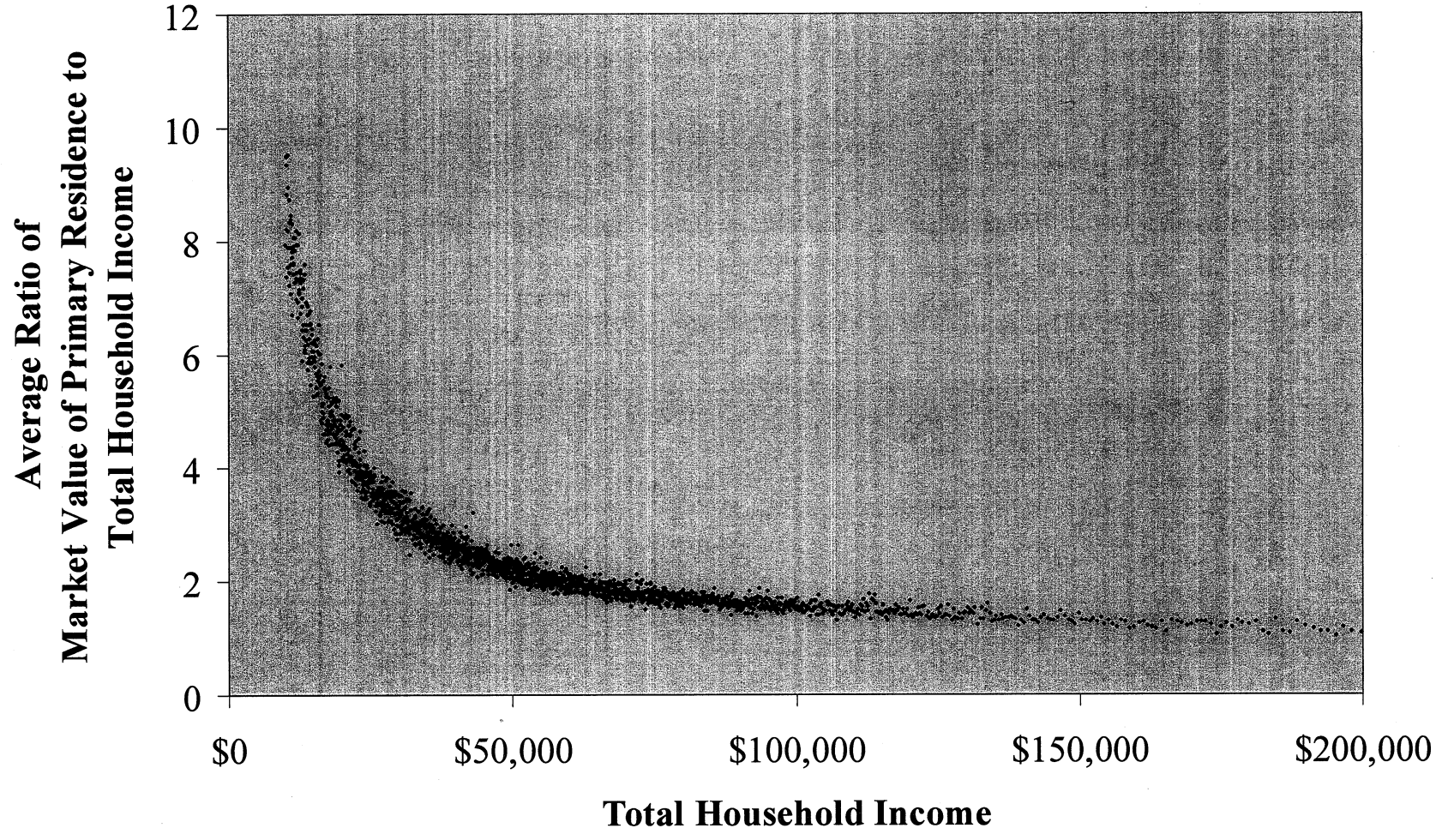


Fig. 3 Income and Total Mills

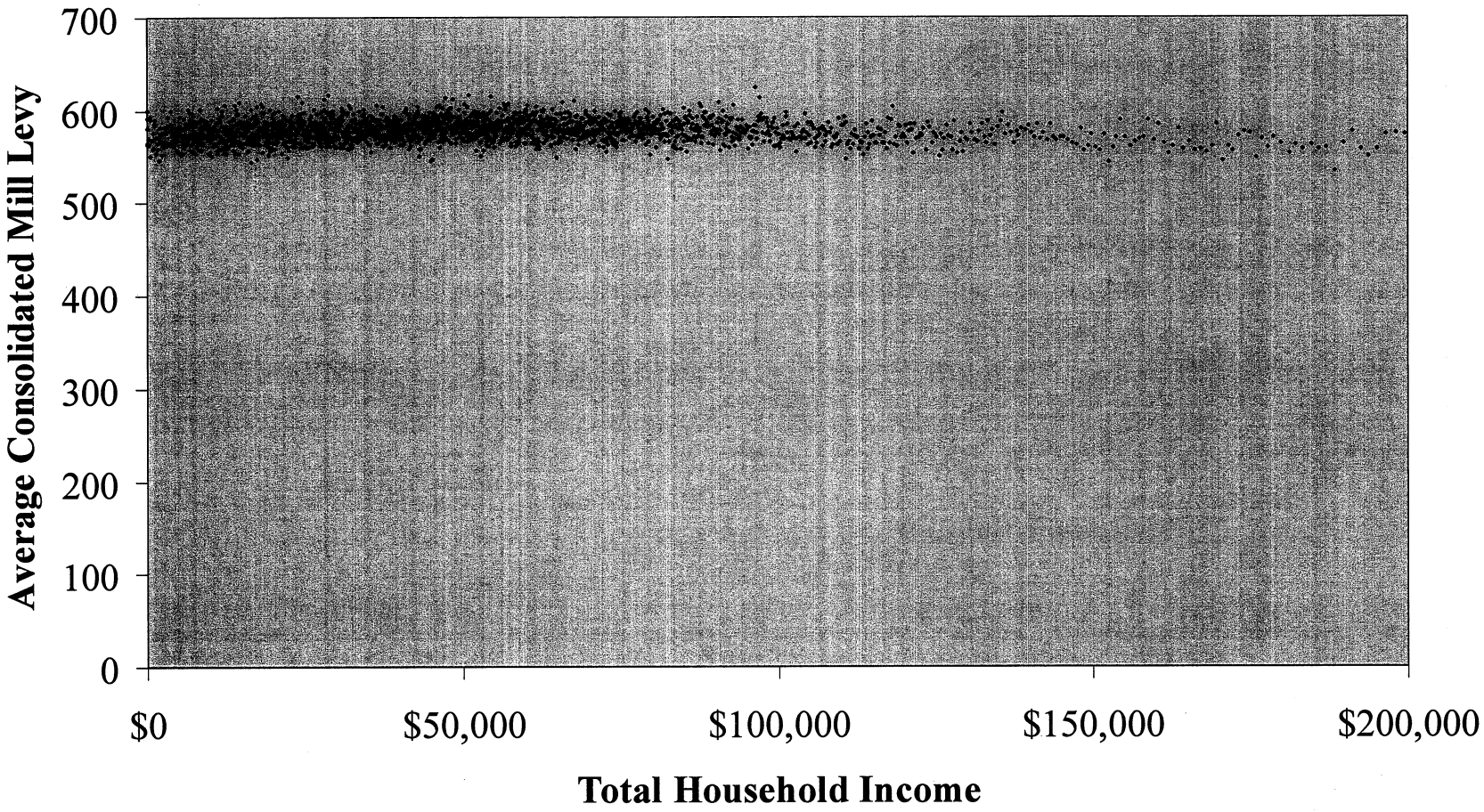
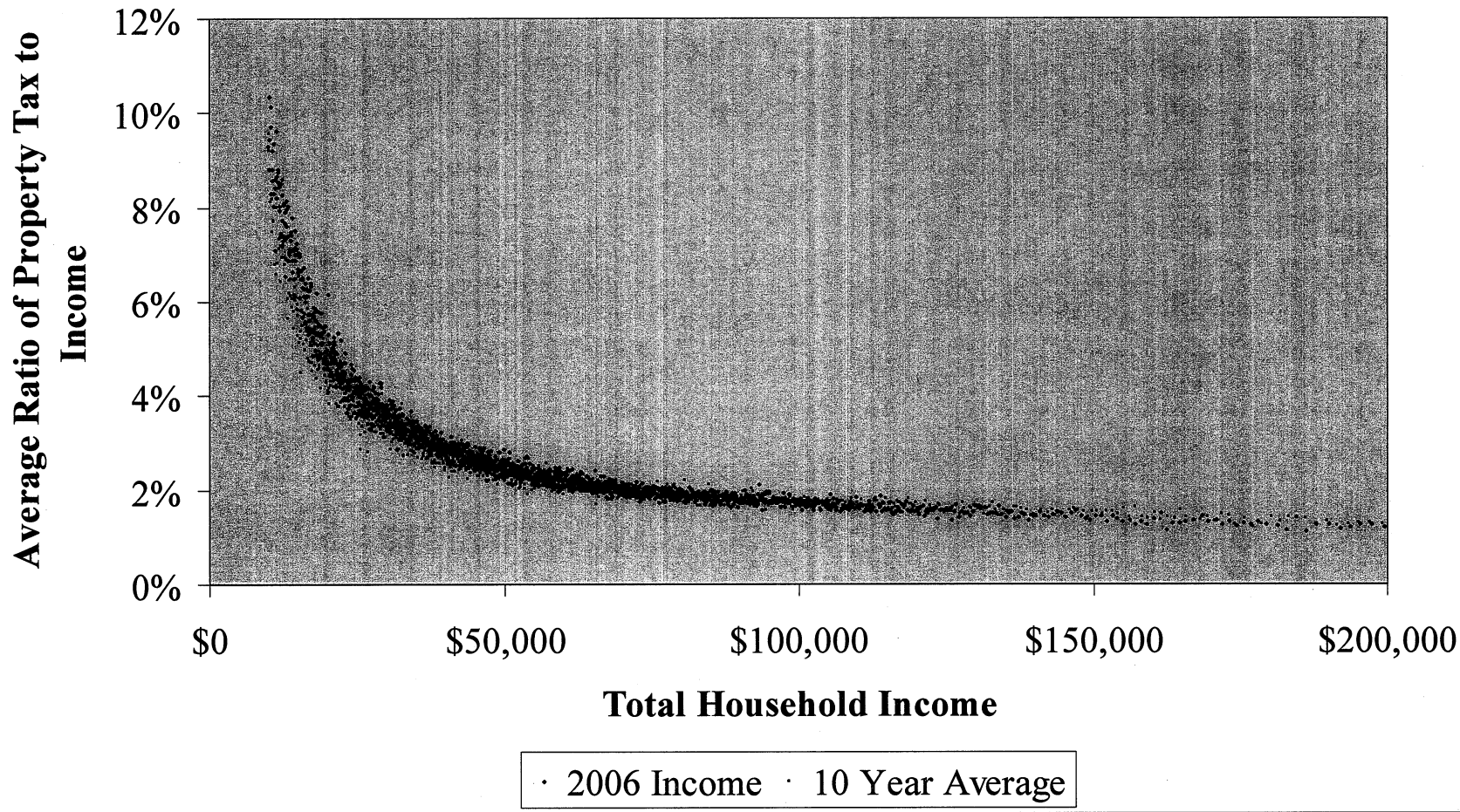


Fig 4. Property Tax as a Percent of Income



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