GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:	
HB0223 - Expanding the disabled veteran property tax assistance program (Kerns, Scot)	
Status:	As Amended in House Committee

☒Significant Local Gov Impact ☒Needs to be included in HB 2 ☐Technical Concerns

☐Included in the Executive Budget ☐Significant Long-Term Impacts ☐Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2024 Difference	FY 2025 Difference	FY 2026 Difference	FY 2027 Difference
Expenditures:				
General Fund	$75,354	$2,380	$2,380	$2,380
State Special Revenue	$0	$0	$0	$0
Revenue:				
General Fund	$0	($747,000)	($819,000)	($839,000)
State Special Revenue	$0	($47,000)	($51,000)	($53,000)
Net Impact-General Fund Balance:	($75,354)	($749,380)	($821,380)	($841,380)

Description of fiscal impact: HB 223 expands eligibility for the Disabled Veteran (DAV) Property Tax Assistance Program in two ways. First, it lowers the eligibility standard for veterans to a disability rating to 80%, from 100%. Second, it revises the maximum income cap thus making the program available to veterans with qualifying disability ratings eligible with a maximum income ranging from $60,000 to $75,000. The program retains it graduated phase-down. The exemption expansion would be effective beginning in TY 2024. The Department of Revenue (DOR) would require an additional 1.00 FTE in the first year to address anticipated increase in applicants. The House Appropriations Committee amendments increase the disability criteria and lower income caps.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. HB 223 as amended expands the Disabled Veteran Property Tax Assistance Program to veterans rated 80-90% disabled and raises the maximum allowed income level to qualify for the program.
2. Under current law, veterans with disability ratings of 100% or surviving spouses with income below certain limits are eligible for the Disabled Veteran Property Tax Assistance Program (DAV). Depending on the

applicant's income level, the percentage a veteran's taxable value is reduced falls as income rises (from 100% taxable value reduction to 50%).

3. HB 223 increases the top income limit to $60,000 for a single person or surviving spouse and $75,000 for a married couple or head of household.
4. These income limits are adjusted annually for inflation using the PCE index for the first quarter of the prior tax year divided by the PCE index for the first quarter of 2015.
5. The first applicable year of HB 223 would be TY 2024. To estimate the Q1 2023 PCE, the difference between the 2022 Q3 index and Q4 index was added to the Q4 2022 PCE index (125.69 = 124.725 + 0.965). Dividing this estimated index by the 2015 Q1 index results in an adjustment factor of about 1.2245 (1.2245 = 125.69/102.643).
6. The table below estimates the income limits under current law for each taxable value reduction level for TY 2024:

Reduction Level	Single Min	Single Max	Married Min	Married Max	Surviving Spouse Min	Surviving Spouse Max
100%	$0	$45,803	$0	$54,963	$0	$38,169
80%	$45,804	$50,384	$54,964	$59,544	$38,170	$42,750
70%	$50,385	$54,963	$59,545	$64,124	$42,751	$47,330
50%	$54,964	$59,544	$64,125	$68,705	$47,331	$51,911

7. The following table shows the estimated income limits for TY 2024, but with the proposed $60,000 and $75,000 maximum income limits adjusted for inflation ($73,470 = $60,000 x 1.2245; $91,838 = $75,000 x 1.2245):

Reduction Level	Single Min	Single Max	Married Min	Married Max	Surviving Spouse Min	Surviving Spouse Max
100%	$0	$45,803	$0	$54,963	$0	$38,169
80%	$45,804	$50,384	$54,964	$59,544	$38,170	$42,750
70%	$50,385	$54,963	$59,545	$64,124	$42,751	$47,330
50%	$54,964	$73,470	$64,125	$91,838	$47,331	$73,470

8. The table below shows the current number of properties with this exemption by percent reduction of taxable value:

Reduction (100% Disability Rating)	Properties
50%	58
70%	79
80%	72
100%	2,820
Total	**3,029**

9. The median household income for all veterans in Montana is approximately $52,800, which is fairly similar to the current income limits for this exemption. It is assumed that the median income for 100% disabled veterans would be lower than the median of all veterans; therefore, the number of additional properties that would qualify for the exemption with the proposed income limits would likely not double (the increment will be less than the current total of 3,029 properties).
10. The DOR matches income information to properties owned by disabled veterans that have qualified for the DAV exemption in the past. There are approximately 155 properties in this database that are above the current law income limits and less than the proposed maximum income limits.

11. It is estimated the total number of additional properties that would be eligible for the 50% exemption with the proposed income limit increase would be about double the amount of these formerly eligible households (310 = 155 * 2).
12. This increment is estimated to decrease TY 2024 taxable value by about $629,000 with 310 additional properties receiving the 50% reduction.

TV Reduction	Properties	Est. TV Difference
50%	310	-$629,000

13. Veteran disability ratings range from 0% to 100% and increase in 10% increments.
14. According to Veterans Benefits Administration, about 18.5% of disabled veterans are rated 100% disabled. About 18.4% of disabled veterans are rated 80-90% disabled.
15. Assuming that the income distribution for veterans with 80% to 90% disability ratings is similar to the distribution of veterans with disability ratings of 100%, and that similar proportion of disabled veterans rated 80% to 90% disabled, would apply for this program's exemption, about 3,296 additional properties would likely receive this exemption.
16. The table below shows the estimated number of properties owned by 80-90% disabled veterans that would now qualify for this exemption and the estimated difference in taxable value by percent reduction of taxable value for TY 2024:

Reduction	Number of Properties	Est. TV Difference
30%	328	-$463,000
35%	79	-$132,000
40%	72	-$142,000
50%	2817	-$6,439,000
Total	**3296**	**-$7,176,000**

17. Combining two estimates (assumptions #12 & #16), the increase of the income cap and allowing veterans with 80% to 90% disability ratings qualify for the DAV exemptions, the estimated total statewide reduction in taxable value for TY 2024 would be about $7.8 million.
18. Using estimated growth rates from HJ 2, the following table shows the estimated impact on taxable values and state revenue for FY 2025 through FY 2027:

FY	Taxable Value	General Fund	MUS
		($ millions)	
2025	-$7.81	-$0.747	-$0.047
2026	-$8.57	-$0.819	-$0.051
2027	-$8.77	-$0.839	-$0.053

DOR Administrative Expense

19. The department's Property Assessment Division (PAD) estimates that 1.00 FTE would be required to process new applications in FY 2024; each year thereafter, the ongoing work would be absorbed. The position required in FY 2024 would incur standard support operating expenses.
20. PAD would have an increased mailing costs of $2,380 each year for decision letters to new applicants.
21. HB 223 would be effective for property tax years beginning after December 31, 2023.

	FY 2024 Difference	FY 2025 Difference	FY 2026 Difference	FY 2027 Difference
Fiscal Impact:				
FTE	1.00	0.00	0.00	0.00
Expenditures:				
Personal Services	$61,416	$0	$0	$0
Operating Expenses	$13,938	$2,380	$2,380	$2,380
TOTAL Expenditures	$75,354	$2,380	$2,380	$2,380
Funding of Expenditures:				
General Fund (01)	$75,354	$2,380	$2,380	$2,380
State Special Revenue (02)	$0	$0	$0	$0
TOTAL Funding of Exp.	$75,354	$2,380	$2,380	$2,380
Revenues:				
General Fund (01)	$0	($747,000)	($819,000)	($839,000)
State Special Revenue (02)	$0	($47,000)	($51,000)	($53,000)
TOTAL Revenues	$0	($794,000)	($870,000)	($892,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($75,354)	($749,380)	($821,380)	($841,380)
State Special Revenue (02)	$0	($47,000)	($51,000)	($53,000)

Effect on County or Other Local Revenues or Expenditures:

Department of Revenue

1. HB 223 would reduce the TY 2024 statewide taxable value base by $7.8 million or a reduction of about 0.17%. In local taxing jurisdictions the reduction in taxable value would be offset as jurisdictions would levy to maintain authorized levels of revenue. This shift would be proportional to that share of taxable value affected by HB 223. In levy in districts with greater than average DAV property tax exemptions, the shift would be somewhat larger than average. In levy districts with below average DAV program property exemptions, the shift would be somewhat smaller.

Technical Notes:

1. As demonstrated in assumption #7, the proposed maximum income limits of $60,000 and $75,000 in the bill as written would result in maximum income limits of $73,470 and $91,838 in TY 2024. These maximum income limits, along with the other income thresholds, would also be adjusted annually. If the intent of the bill was to establish maximum income limits of $60,000 and $75,000 in TY 2024, amendments would be needed to modify language in 15-6-301 (3), MCA. Income brackets for the Property Tax Assistance Program will also need to be updated to their TY 2024 levels since they are also affected by the inflationary factor of 15-6-301(3), MCA.

		2-15-23	
Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*