Montana Tax Forfeiture Reform

Montana

Harry owns a home.
Its market value is $139,300.

TAX BILL
$1,125

But Harry failed to pay
his property tax.

Unjust Current Law

1. The county issues a tax lien on Harry's property, which a private investor may purchase by paying the total tax debt.
2. Harry has 3 years to pay off the taxes, penalties, and interest charges, plus any new taxes, but in a specific and confusing order.
3. After three years, the county gives the investor a tax deed—giving him the property for pennies on the dollar.
4. The investor sells the property for much more than he paid for the tax debt.
5. The investor keeps all the profit.
6. Harry is evicted. He gets no money for his home and loses all equity—his life savings..

Proposed Reform Law

TAX LIEN AUCTION

1. **Reform 1.** The debt is over $1,000 so the county initiates a **tax lien** auction. The private investor may purchase the debt. The investor who offers the **lowest interest** rate to Harry wins the auction.
2. **Reform 2.** Harry has 3 years to pay back the tax debt, penalties, and the *new low-interest rate*. The reform law ends the confusing requirement about what gets paid first so Harry has a better chance of paying his debts and keeping his home.

TAX DEED AUCTION

3. **Reform 3.** If Harry does not pay the tax debt within three years, the investor asks the county to hold a **tax deed** auction. To protect Harry's equity, the opening bid must cover the cost of the tax debt, penalties, interest, cost of the auction, AND, if there is a building on the property, add at least half the value of the building.
4. Anyone may bid to buy the house, and the highest bidder wins.
5. The original tax lien investor gets back what he paid, plus interest.
6. Harry gets all "Surplus Funds" that exceed the tax debt, penalties, interest, and auction fees, after paying off any prior mortgage first.

Montana Tax Forfeiture Reform

Current Law

- If a Montana taxpayer mistakenly underpays his property taxes, even by a few dollars, a sophisticated investor can take his home, sell it, and not give him a dime. Montana law allows and encourages this.

- Under Montana's tax forfeiture law, a county can sell tax debts to investors as a tax lien. After three years, if the taxpayer has not paid off the taxes, penalties, and accumulating interest, the investor automatically receives a tax deed entitling the investor to full ownership of the property. The homeowner is evicted, and the property is usually sold. The homeowner is not entitled to any of the equity that he put into the home.

- This can and does happen in Montana. For example, in 2016, the Great Falls Tribune told the story of 78-year-old master electrician Gary Guidotti. This is what the Tribune reported, "Cascade County issued a tax lien on Guidotti's house ... for unpaid property taxes equaling $1,125.45. Seventeen months later the county sold the tax lien to the Sunrise Financial Group investment company for $667.20. On Sept. 30, 2011, Sunrise Financial received a tax deed for the house. For an initial investment of less than $700, Sunrise Financial acquired a property that was appraised in 2015 at a market value of $139,300. Gary Guidotti got nothing." At last report, Guidotti lived in a rundown RV behind his old home.

Proposed Law

To right this wrong, the proposed bill would:

- Ensure that property owners receive the value of their property through a two-step auction process where surplus funds are returned to property owners.

- Remove barriers to repaying debts by
  1. removing requirements to pay current taxes before delinquent taxes and
  2. creating incentives for investors to offer low-interest rates.

- Create an incentive for investors to purchase properties at a higher price, thus ensuring that property owners can access the value of their home.

- Protect property owners by prohibiting counties from placing tax liens on tax debts of less than $1,000.