The Policy Institute

The Implications of Transmission Line Tax Rates

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The Policy Institute blends authoritative research and hands-on political engagement to create public policy based on economic justice, fair taxation, corporate accountability and environmental responsibility.

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In 2005 and 2007, the Montana Legislature established lower property tax rates and a tax abatement for transmission lines that carried power generated by alternative energy sources (wind, ethanol, biomass, geothermal, *et al*) and were built after June 1, 2007. What are the tax implications of those changes?

The question is impossible to answer with precision, because no transmission lines that qualify for the lower tax rate have been constructed yet. However, it is possible to estimate the magnitude of tax implications by applying the new and old tax rates to one of the new transmission line proposals in Montana that ostensibly would qualify for the lower rates.

In our analysis, we applied old and new property tax rates to the Montana Alberta Tie Ltd. transmission line ("MATL") to correspond with different types of power that could be transmitted on the line (e.g., coal-generated power would be taxed at the old rate, wind-generated power at the new). We then calculated how those different tax rates would affect the annual tax payments for MATL's owners and the tax revenues to the counties through which MATL would run.

We selected MATL for this exercise because it has advanced further down the permitting path than other proposed lines in Montana and, judging from news reports, appears to be nearing its construction phase. MATL is proposed as a 214-mile line between Great Falls and Lethbridge, with approximately 130 miles transecting five counties in Montana.

It is important to note that MATL has been described, promoted, and publicly discussed as a line intended to transmit wind power and that we have assigned more traditional forms of electricity, e.g.,. coal- or hydro-generated, to be transmitted by MATL for illustrative purposes only.

Our analysis indicates that new transmission lines that qualify for the lower property tax rate and abatement will pay significantly less in property taxes than the same transmission line that carries, say, coal-generated electricity.

Annual Property Tax Payments to Five Montana Counties

MATL (transmitting coal)	$2,962,377/year
MATL (transmitting wind, with 50% abatement)	$ 370,297/year
Difference	**$2,592,080/year**

SAMPLE: Annual Property Tax Payments to One County
(Teton County – 25 miles of line)

MATL (transmitting coal)	$604,275/year
MATL (transmitting wind, with 50% abatement)	$ 75,534/year
Difference	**$528,741/year**

This analysis is intended to illustrate the effects of different tax rates. It does not judge the rationale behind the tax rates, nor does it suggest that the construction of new transmission lines occurs independently of the consideration of tax implications. Yet, if it is presumed that tax incentives are a significant factor in the development and expansion of Montana's transmission grid (and the closely related expansion of the state's power production capacity), the implications of those incentives should be appraised and contemplated.

The spreadsheet and accompanying footnotes below contain the details of this analysis.

Local Property Tax Reductions from Electrical Transmission Lines When Renewable Energy Tax Reductions Are Applied

(This analysis is for illustrative purposes only. MATL is not yet constructed, and its actual tax situation is unknown[1].)

County[1]	Line length (miles)[2]	Assessed value per mile[3]	County mill levy[4]	Class 9 tax rate (12%)[5]	Class 9 taxable value[6]	Class 9 property tax[7]	Class 14 tax rate (3%)[8]	Class 14 taxable value[9]	Class 14 property tax[10]	Class 14 (3%) vs Class 9 (12%) tax difference[11]	Class 14 abatement rate (1.5%)[12]	Class 14 abatement taxable value[13]	Class 14 abatement property tax[14]	Class 14 abate. (1.5%) vs Class 9 (12%) tax diff.[15]
Cascade	12.76	$363,284	0.49374	0.12	$556,260	$274,648	0.03	$139,065	$68,662	$205,986	0.015	$69,533	$34,331	$240,317
Choteau	5.87	$363,284	0.48253	0.12	$255,897	$123,478	0.03	$63,974	$30,870	$92,609	0.015	$31,987	$15,435	$108,043
Glacier	40.41	$363,284	0.49276	0.12	$1,761,637	$868,064	0.03	$440,409	$217,016	$651,048	0.015	$220,205	$108,508	$759,556
Pondera	45.69	$363,284	0.54820	0.12	$1,991,814	$1,091,912	0.03	$497,953	$272,978	$818,934	0.015	$248,977	$136,489	$955,423
Teton	25.16	$363,284	0.55093	0.12	$1,096,827	$604,275	0.03	$274,207	$151,069	$453,206	0.015	$137,103	$75,534	$528,741
Total	129.89	-	-	-	$5,662,435	$2,962,377	-	$1,415,609	$740,594	$2,221,783	-	$707,804	$370,297	$2,592,080

[1]The proposed Montana Alberta Tie Ltd. transmission line (MATL) is used here to illustrate how Montana's renewable energy tax laws may be utilized to reduce tax obligations to transmission line owners and property tax revenue to counties. MATL was selected for this exercise because it, among several transmission line proposals in Montana, has progressed further in the permitting process than others and has been the subject of basic tax analysis ("Final Environmental Impact Statement for the Montana Alberta Tie Ltd. (MATL) 230-kV Transmission Line," U.S. Department of Energy and State of Montana Department of Environmental Quality, September 2008). This analysis is intended for illustrative purposes only; MATL is not constructed or operational, and its actual tax situation is unknown.

[2]As proposed, MATL would extend from Lethbridge, Alberta to Great Falls, Montana. The line would run through five Montana counties.

[3]The length of the MATL line in a county varies with alternative designs. This exercise uses line length data for Alternative 2 in the MATL EIS.

[4]MATL EIS, September 2008.

[5]For tax year 2008, from "Biennial Report: July 1, 2006 to June 30, 2008," Montana Department of Revenue. A mill levy is the number of dollars a taxpayer must pay annually for every dollar of taxable value. County mill levies raise revenue for county government operations, schools, and other public services. The mill levy of Cascade County may be alternately expressed as 504 mills.

[6]Transmission lines in Montana fall into one of two property tax categories (Class 9 or Class 14) in Montana. Traditional transmission lines (transmitting power from, e.g., coal-fired or hydro generation facilities) are classified as Class 9 and taxed in Montana at a rate of 12% of assessed value. Property tax rates are established by the Montana Legislature. Class 9 tax rates are described in 15-6-141, Montana Codes Annotated (MCA).

[7]Taxable value is determined by multiplying assessed value, i.e., assessed value per mile multiplied by line length) times the applicable tax rate.

(footnotes continue below)

[8]Property tax is determined by multiplying taxable value times the county mill levy. Example: Property tax on the MATL line located in Cascade County (for the Class 9 property scenario) is equal to $556,260 times 0.49374, or $274,648.

[9]The Class 14 tax rate (3%) was established by the 2005 Montana Legislature to promote the development and transmission of alternative energy power (wind, geothermal, biomass, et al).

[10]Taxable value = assessed value (of total county line length) multiplied by tax rate.

[11]Property tax = taxable value multiplied by mill levy.

[12]By virtue of transmitting power generated from alternative sources, MATL pays less property tax than if the line transmitted power generated from traditional sources, e.g., coal. In this exercise, MATL pays $2,194,575 less in property taxes annually (and counties receive that much less annually) by transmitting alternative energy. (This exercise presumes that 100% of MATL's capacity is consumed by alternative sources. If a mix of alternative and traditional sources are transmitted on a line, the Class 14 and Class 9 tax rates are applied proportionally.)

[13]In a 2007 special session, the Legislature enacted a law that allows the owner of a transmission line constructed after June 1, 2007 and carrying electricity generated by a renewable source to seek a reduction in property taxes of 50% for a period up to 19 years. This abatement would decrease the property tax rate on a transmission line carrying renewable energy from 3% to 1.5%.

[14]Taxable value = assessed value (of total county line length) multiplied by tax rate.

[15]Property tax = taxable value multiplied by mill levy.

[16]In the scenario in which MATL qualified for both the Class 14 tax rate and the alternative energy abatement, MATL owners would pay $2,592,080 less annually in property taxes than if the line transmitted a traditional form of power, e.g., coal or hydro.