Fiscal Note 2009 Biennium

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Bill #	SB0464	**Title:**	Property tax relief - local option realty transfer tax
Primary Sponsor:	Weinberg, Dan	**Status:**	As Introduced

- ☑ 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 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Expenditures:				
General Fund	$16,700	$0	$0	$0
Revenue:				
General Fund	$0	$0	$0	$0
Net Impact-General Fund Balance	($16,700)	$0	$0	$0

Description of fiscal impact: This legislation allows local governments to a impose local option realty transfer tax on class 3 agricultural and class 4 residential and commercial property; 10% of the proceeds of the tax are required to be used for property tax relief.

FISCAL ANALYSIS

Assumptions:

1. This legislation allows municipalities or counties to impose a 1% realty transfer tax. Local governments are required to exclude at least 50% of the property value from taxation (the exemption amount may be higher) for properties with a market value less than $1 million. Local governments may choose to increase the $1 million maximum market value subject to the 50% value exemption, but it may not be lower than $1 million. The local government must use at least 10% of the revenues from the realty transfer tax to reduce local government property tax levies.
2. This fiscal note assumes that all localities adopt the local option realty transfer tax.
3. This fiscal note assumes that all localities will exempt 50% of the property value from taxation for all properties less than $1 million in market value (properties sold for over $1 million receive an exemption for $500,000).

4. There was an estimated $701,275,655 in sales of agriculture land and $8,478,824,237 in sales of class 4 property in Montana during calendar year 2005. The taxable portion of these sales after removing the exempted value (50% of value up to a maximum exemption of $500,000) would have been $350,725,208 for agriculture sales and $5,153,033,361 for class 4 sales. The total state-wide realty transfer tax revenues at a rate of 1% would have been $55,037,586 had the proposed legislation been in effect during calendar year 2005.
5. The Center for Applied Economic Research reports that between 1999 and 2003, the average home price increased at an annual rate of growth of 8.6%. The Federal Reserve Bank of Kansas City indicates comparable land value increases for agricultural farmland since the first half of 2004. At this rate of growth, the estimated revenues from this tax will be to $64.9 million ($55.04 million x 1.086^2) in calendar year 2007, $70.5 million ($64.9 million x 1.086) in calendar year 2008, $76.6 million ($70.5 million x 1.086) in calendar year 2009, $83.1 million ($76.6 million x 1.086) in calendar year 2010, and $90.3 million ($83.1 million x 1.086) in calendar year 2011.
6. It is assumed that, although the bill is effective on passage and approval, the process of implementing this tax will result in no revenue for FY 2007. The fiscal impact shown for fiscal years 2008 through 2011 assumes the tax is fully implemented on July 1, 2007.
7. Assuming that half of the revenues for the calendar year are received in the same fiscal year and half are received in the following fiscal year, the revenues received will be $67.7 million (($64.9 million x 0.5) + ($70.5 million x 0.5)) in FY 2008, $73.5 million (($70.5 million x 0.5) + ($76.6 million x 0.5)) in FY 2009, $79.8 million (($76.6 million x 0.5) + ($83.1 million x 0.5)) in FY 2010, and $86.7 (($83.1 million x 0.5) + ($90.3 million x 0.5)) in FY 2011.
8. The proposed legislation requires that 10% of revenues raised must be used to reduce local government property tax levies. The amount used to reduce property tax levies will be $6.77 million ($67.7 million x 0.1) in FY 2008, $7.35 million ($73.5 million x 0.1) in FY 2009, $7.98 million ($79.8 million x 0.1) in FY 2010, and $8.67 ($86.7 million x 0.1) in FY 2011.
9. Total local revenue, which is gross tax revenues from the realty transfer tax less the amount required to reduce property tax levies, will be $60.93 million ($67.7 million - $6.77 million) in FY 2008, $66.15 million ($73.5 million - $7.35 million) in FY 2009, $71.82 million ($79.8 million – $7.98 million) in FY 2010, and $78.03 million ($86.7 million - $8.67 million) in FY 2011.
10. The Department of Revenue will be required to redesign the realty transfer certificate to allow for the implementation of this tax. The administrative cost from the general fund to implement the proposed legislation would be $16,700 in FY 2008.

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Fiscal Impact:				
FTE	0.00	0.00	0.00	0.00
Expenditures:				
Personal Services	$16,700	$0	$0	$0
TOTAL Expenditures	$16,700	$0	$0	$0
Funding of Expenditures:				
General Fund (01)	$16,700	$0	$0	$0
TOTAL Funding of Exp.	$16,700	$0	$0	$0
Revenues:				
General Fund (01)	$0	$0	$0	$0
TOTAL Revenues	$0	$0	$0	$0
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($16,700)	$0	$0	$0

Effect on County or Other Local Revenues or Expenditures:

1. This bill may impose significant administrative burden on county treasurers to collect the tax. This legislation allows city governments to provide a 3% allowance to the county treasurers for these costs.
2. This legislation expands public finance options for local governments.
3. Under the assumptions un the fiscal note, local governments net revenue will increase:
   - $60.93 million in FY 2008,
   - $66.15 million in FY 2009,
   - $71.82 million in FY 2010, and
   - $78.03 million in FY 2011.

Long-Range Impacts:

1. This legislation may have long-range impacts on local government revenues.

Technical Notes:

1. This legislation allows for the imposition of a realty transfer tax on Class 3 and Class 4 properties (agricultural property and residential and commercial property), but not on Class 10 property (forestland). In many situations, a transfer of property includes Class 3, Class 4, and Class 10 property in one sale. This legislation does not provide a methodology to handle the taxation of these types of sales.
2. The term "taxable value" is defined differently in Section 4(1)(b) than the current definition used in property taxation.
3. Under Section 4(2), the tax is imposed on the seller of the property, but is payable by the transferee. This creates confusion.
4. It is not clear how this legislation will interfere or compromise property tax appeals. It is not clear how the Department of Revenue would be notified if a value is modified by a district court.

Sponsor's Initials *Date* *Budget Director's Initials* *Date*