



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2015 Biennium

Bill #	HB0332	Title:	Revise tax laws to increase the business equipment tax threshold
Primary Sponsor:	McNally, Mary	Status:	As Introduced-Revised

- | | | |
|--|--|--|
| <input checked="" type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input checked="" type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2014 Difference</u>	<u>FY 2015 Difference</u>	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>
Expenditures:				
General Fund	\$0	\$5,451,769	\$3,182,960	\$3,376,862
Revenue:				
General Fund	(\$458,425)	(\$709,949)	(\$742,607)	(\$776,767)
State Special Revenue	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance:	<u>(\$458,425)</u>	<u>(\$6,161,718)</u>	<u>(\$3,925,567)</u>	<u>(\$4,153,629)</u>

Description of fiscal impact: This bill reduces the taxes assessed on class eight business equipment by increasing the class eight business equipment exemption threshold from \$20,000 to \$100,000 in TY 2014. The class eight property of a person or business that owns an aggregate of \$100,000 or less, in class eight business equipment is exempt from taxation. Current law is assumed to provide a tax rate of 1.5% on the first \$3 million of taxable market value and 3% for all taxable market value in excess of \$3 million, owned by a taxpayer, in TY 2014 under the provisions of SB 372 (2011 session). Reimbursements are provided to the university system, local governments, local schools, and TIFs from the general fund for reductions in property tax revenue due to HB 332, as introduced.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. This bill applies to property tax years beginning after December 31, 2013 and would therefore reduce the class eight property tax base starting in TY 2014. This would lead to reimbursement changes beginning in FY 2015. FY 2014 tax receipts for not lien-to-real property (strict personal property) would be reduced due to this bill and reimbursed in FY 2015.

- This fiscal note assumes the current statutory language 15-6-138(3), MCA, that would increase the threshold from \$2 million to \$3 million and decrease the tax rate from 2% to 1.5% for tax year TY 2014.

Business Equipment - Class Eight Tax Rate Brackets and Thresholds: Current Law and HB 332 as Introduced						
	Duration	Rate	Bracket	Rate	Threshold	Relative Reduction
Current Law (to TY 2013)	TY2012 to TY2013	2%	up to \$ 2,000,000, then	3%	\$20,000	
Current Law (SB 372 Step 2)	TY2014 and after	1.50%	up to \$ 3,000,000, then	3%	\$20,000	0.00%
HB 332 as Introduced	TY2014 and after	1.50%	up to \$ 3,000,000, then	3%	\$100,000	-4.35%

Reduction in Taxable Value

- The major fiscal impact results from an increase in the class 8 exemption threshold from \$20,000 to \$100,000 beginning in TY 2014 and the reimbursements to local jurisdictions (local governments, tax increment financing districts, and local schools) for these reductions in taxable value. For a sense of scale, the bill would reduce the class 8 tax base by approximately \$7.4 million (4.35%) in TY 2014.
- This fiscal note does not include impacts for revenue lost from a reduction in the class twelve tax rate, because, in the past, this impact has been very small, at approximately 4.1% percent of the class eight reimbursement totals. (Simulations with the property tax model suggest the change in the class 12 tax rate would be less than 0.03%).

Full-Year Reimbursement to Local Jurisdictions and the University System

- This bill retains existing statutory language that provides a reimbursement from the general fund to: local governments; tax increment financing districts; school districts; county school retirement funds; county transportation funds; and the Montana University System for class eight and class twelve revenue lost due to the class eight rate reductions. This bill provides the same type of reimbursement for the reduction due to the increase in the exemption threshold provided in this bill.
- To calculate the reimbursement, this analysis uses TY 2012 (FY 2013) individual record class eight property information and millage rates provided by the Department of Revenue. To forecast TY 2014 class eight property values, this analysis uses the 4.6% growth rate for TY 2013 and TY 2014 used in the OBPP revenue estimates.
- The estimate of the proposed law annual reimbursement for FY 2015 is \$3,516,305. The distribution of the reimbursements is presented below:

Tax Year 2014 / Fiscal Year 2015	
Annual TY 2014 / FY 2015 Distribution of Reimbursements	
Additional Reimbursements	
Local Gov.	\$1,638,482
TIF	\$218,830
6 Mill	\$44,449
School	\$1,614,544
Total	\$3,516,305

- The distribution of the reimbursements to local governments and tax increment finance districts would become a part of the entitlement share payment statutory appropriation base in FY 2015. Payments for local governments would then grow by the entitlement share payment growth rate per 15-1-121, MCA.
- Reimbursements to schools would be through an increase in the school block grant payments under the provisions of 20-9-630, MCA. (This would require coordinating language in HB 2).

One-time Reimbursements for Strict Personal Property (FY 2014)

10. Both current law and this bill contain language requiring, in years when rate reductions occur, a one-time reimbursement attributable to personal property that is not a lien on real property, as this tax revenue reduction occurs in the same fiscal year as the tax year (Note: most property tax is collected in the subsequent fiscal year). These payments are to be made in FY 2015 but are separate standalone payments for the revenue loss that is estimated to occur in FY 2014. These payments are as follows:

Strict Personal Property (One-Time)	
TY 2014 / FY 2014 Reimbursements Paid in August FY 2015	
Additional Reimbursements	
Local Gov.	\$1,122,144
TIF	\$195,056
6 Mill	\$28,705
School	\$1,080,440
Total	\$2,426,345

Revenue Reductions to the State General Fund (95 mill and 1.5 mill) and University (6 mill) levies

11. This bill reduces revenue paid to the general fund from: the 40 mill equalization levy (20-9-360, MCA); the 33 mill elementary levy (20-9-331, MCA); and the 22 mill high school levies (20-9-333, MCA); as well as the weighted average (0.82 mills) of the 1.5 mill College of Technology levy (20-25-439, MCA) applicable to Cascade, Lewis and Clark, Missoula, Silver Bow, and Yellowstone county property. The state general fund revenue loss from the statewide average combined millage rate of 95.82 mills is estimated to be a reduction of \$709,949 in FY 2015. This reduction is assumed to grow annually at the 4.6% class eight growth rate, provided by the OBPP, providing reductions in state revenue of approximately \$742,502 in FY 2016 and \$776,657 in FY 2017.

12. This bill reduces revenue paid to the university 6 mill levies. The university 6 mill revenue loss is estimated to be \$44,449 in FY 2015. This reduction is assumed to grow annually at the 4.6% class eight growth rate, provided by the OBPP, providing reductions in special fund revenue of approximately \$46,494 in FY 2016 and \$48,632 in FY 2017.

One-time Revenue Reductions to the State General Fund (95 mill and 1.5 mill) and University (6 mill) levies

13. The general fund experiences the reduction in taxes paid on non-lien to real (strict) personal property in FY 2014. This is estimated to be \$458,425 in FY 2014.

14. The university 6 mill levies experience the reduction in taxes paid on non-lien to real (strict) personal property in FY 2014. This is estimated to be \$28,705 in FY 2014.

Office of Public Instruction

15. On-going school property tax revenue losses and reimbursements are presented in assumption #7 and the reductions are reimbursed through the school block grant payments program 20-9-630, MCA.

16. There is a one-time loss of revenue to school districts in FY 2014 for strict personal property tax that is reimbursed through a one-time payment in FY 2015 as outlined in assumption #10.

17. The decrease in property tax revenues due to this bill for strict personal property in FY 2014 does not have a guarantee tax base aid (GTB) effect on school districts in FY 2014. GTB would have been determined prior to the effective date of the bill.

18. In FY 2015, there would be a \$970,881 reduction in GTB payments to schools due to the change in taxable value. In FY 2016, the reduction would be \$625,390 and in FY 2017 a reduction of \$433,626.

19. These GTB reductions are offset because block grant reimbursement payments made to school districts via block grant payments are non-levy revenue for school budgeting purposes. Non-levy revenues are considered prior to GTB calculation in school budgeting. Therefore, the reimbursement goes into school district base funding, with the net effect of reducing GTB costs to the state relative to current law.

20. The reimbursement for lost FY 2014 revenue would be reimbursed to school districts as one-time-only block grant payments in FY 2015. (Assumption #10) Ongoing block grant payments of \$1.6 million begin in FY 2015. (Assumption #7).
21. There would also be countywide retirement GTB and countywide transportation effects. The one-time-only payments for FY 2014 revenue reduction would be \$0.19 million paid to the county funds in FY 2015 and the ongoing reimbursement would be \$0.29 million beginning in FY 2015.

<u>Fiscal Impact:</u>	<u>FY 2014 Difference</u>	<u>FY 2015 Difference</u>	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>
Department of Revenue				
<u>Expenditures:</u>				
Transfer Local Govt (15-1-121)	\$0	\$1,638,482	\$1,638,482	\$1,638,482
Transfer Local Govt (One-time)	\$0	\$1,122,144	\$0	\$0
Transfer TIFs (15-1-121)	\$0	\$218,830	\$218,830	\$218,830
Transfer TIFs (One-time)	\$0	\$195,056	\$0	\$0
Transfer MUS (Ongoing)	\$0	\$44,449	\$46,494	\$48,632
Transfer MUS (One-time)	\$0	\$28,705	\$0	\$0
TOTAL Expenditures	\$0	\$3,247,666	\$1,903,806	\$1,905,944
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$3,247,666	\$1,903,806	\$1,905,944
TOTAL Funding of Exp.	\$0	\$3,247,666	\$1,903,806	\$1,905,944
Office of Public Instruction				
<u>Expenditures:</u>				
K-12 BASE Aid (GTB)	\$0	(\$970,881)	(\$625,390)	(\$433,626)
Block Grant Payments (Ongoing)	\$0	\$1,614,544	\$1,614,544	\$1,614,544
Block Grant Payments (OTO)	\$0	\$1,080,440	\$0	\$0
Co. Retire GTB & Transport (Ongoing)	\$0	\$290,000	\$290,000	\$290,000
Co. Retire GTB & Transport (OTO)	\$0	\$190,000	\$0	\$0
TOTAL Expenditures	\$0	\$2,204,103	\$1,279,154	\$1,470,918
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$2,204,103	\$1,279,154	\$1,470,918
TOTAL Funding of Exp.	\$0	\$2,204,103	\$1,279,154	\$1,470,918
<u>Revenues:</u>				
General Fund (01)	(\$458,425)	(\$709,949)	(\$742,607)	(\$776,767)
Property Tax (6 mill) SSR (02)	(\$28,705)	(\$44,449)	(\$46,494)	(\$48,632)
Transfer to MUS for 6 Mill SSR (02)	\$28,705	\$44,449	\$46,494	\$48,632
TOTAL Revenues	(\$458,425)	(\$709,949)	(\$742,607)	(\$776,767)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$458,425)	(\$6,161,718)	(\$3,925,566)	(\$4,153,629)
State Special Revenue (02)	\$0	\$0	\$0	\$0

Effect on County or Other Local Revenues or Expenditures:

Department of Revenue

1. Local government revenues will be reimbursed through an increment to the entitlement share payment base, and schools would be reimbursed through the Title 20 school block grants provisions.

Montana Association of Counties

2. The timing of the one-time reimbursements (paid in August) requires local governments' to change their normal year-end accounting procedures.

Office of Public Instruction

3. As calculated in the school funding model, local school property taxes could decrease by approximately \$1.25 million in FY 2015 and \$0.5 million in FY 2015 and then \$0.3 million beginning in FY 2016 and beyond.

Sponsor's Initials

Date

Budget Director's Initials

Date