



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill #	SB0394	Title:	Revise intangible personal property exemption and unit valuation methodology
Primary Sponsor:	Blasdel, Mark	Status:	As Amended in Senate 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

	<u>FY 2016</u> <u>Difference</u>	<u>FY 2017</u> <u>Difference</u>	<u>FY 2018</u> <u>Difference</u>	<u>FY 2019</u> <u>Difference</u>
Expenditures:				
General Fund	\$0	\$1,947,697	(\$889,199)	(\$905,076)
State Special Revenue	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	(\$10,786,674)	(\$11,147,305)	(\$11,544,472)
State Special Revenue	\$0	(\$679,404)	(\$702,119)	(\$727,134)
Net Impact-General Fund Balance:	<u>\$0</u>	<u>(\$12,734,371)</u>	<u>(\$10,258,106)</u>	<u>(\$10,639,396)</u>

Description of fiscal impact: SB 394, as amended, revises the intangible personal property (IPP) exemption for centrally assessed companies by exempting additional items from taxation and by requiring that the value of IPP be determined by the asset value as reflected on the taxpayers' books and records, or based on market value. The estimated reduction in state property tax revenue is \$11.466 million in FY 2017, \$11.849 million in FY 2018, and \$12.272 in FY 2019. SB 394 would have a significant revenue impact to local governments and schools.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

- Under current law, centrally assessed companies are valued as a unit and given an exemption for intangible personal property (IPP). This determines their market value for property tax purposes.
- To determine the centrally assessed companies IPP value, they are given either a standard IPP exemption based on their industry or they may request an alternative IPP exemption based on the definition of IPP in current statute (15-6-218, MCA). The standard exemption, the average exemption currently being taken, and the total number of centrally assessed companies are listed in the table below.

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Current Law - IPP Exemption			
Industry	Standard IPP	Average IPP	Companies
Airlines	10.0%	11.1%	16
Electric	10.0%	10.1%	14
Electric Co-op	5.0%	5.0%	32
Pipelines	5.0%	6.7%	24
Railroads	5.0%	8.3%	8
Telecommunications	15.0%	23.0%	28
Telephone Co-ops	5.0%	5.2%	10
Total	7.3%	10.6%	132

- SB 394 revises the definition of IPP to include a number of items not previously included such as customer relationships and going concern. SB 394 also specifies that IPP is to be determined based on the asset value as reflected on the books and records of the taxpayer or the market value.
- There are 17 companies that do not take the standard IPP exemption. SB 394 would increase their current exemption to account for additional IPP value that is not included under current law but is proposed under SB 394. In addition, two of these companies have undergone an IPP study that valued their market value of IPP greater than their book value of IPP. The table below lists these 17 companies average current exemption, their estimated average SB 394 exemption, and the number of companies by industry type. Since the original fiscal note was prepared, the average IPP rate for telecommunications companies not taking the standard exemption was revised (lowered from 53.8% to 52.1%). This change is responsible for the bulk of the change in the new fiscal note.

Companies Not Taking the Standard Exemption			
Industry	Average IPP Exemption		Companies
	Current IPP Rate	Proposed IPP Rate	
Airlines	18.6%	33.3%	2
Electric	11.0%	13.1%	1
Electric Co-op	5.4%	5.4%	1
Pipelines	25.2%	28.9%	2
Railroads	31.3%	34.2%	1
Telecommunications	39.8%	52.1%	9
Telephone Co-ops	6.6%	9.0%	1
Total	30.9%	40.6%	17

- For centrally assessed companies that currently take the standard IPP exemption, this fiscal note assumes that under SB 394, additional companies would submit IPP studies for use in determining their IPP market value. Under this assumption, the remaining companies may, on average, receive an IPP exemption approximately equivalent to the average IPP exemption of the companies listed in assumption #4.
- Taxable value (TV) for centrally assessed companies for TY 2014 (FY 2015) is approximately \$689.84 million. If the exemption would have been in place the taxable value would have been \$586.15 million, a difference of \$103.69 million. This bill applies to tax years beginning TY 2016 (FY 2017). Applying HJ 2 growth rates for FY 2016 and FY 2017, and OBPP rates for FY 2018 and FY 2019, the following table shows the current law TV, proposed TV, and the difference.

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Change in TV			
FY	Current TV	Proposed TV	Difference
FY 2017	753,352,352	640,118,323	113,234,029
FY 2018	778,539,249	661,519,456	117,019,793
FY 2019	806,277,754	685,088,673	121,189,081

7. The following table shows the state loss of revenue due to SB 394. State revenue includes the 6 mills levied for the University system and 95.26 mills which are the weighted average mills levied on centrally assessed companies for the general fund (95 school equalization mills and 1.5 vo-tech mills levied on select counties).

Change in State Taxes			
FY	Loss in 6-Mill	Loss in GF Mills	Total Revenue Loss
FY 2017	\$679,404	\$10,786,674	\$11,466,078
FY 2018	\$702,119	\$11,147,305	\$11,849,424
FY 2019	\$727,134	\$11,544,472	\$12,271,606

8. This bill will affect more than centrally assessed property owners; at this time, the department does not receive sufficient detail from those owners to fully evaluate the effect of the expanded list of intangible personal property.

9. There are no costs to the department for implementation.

Office of Public Instruction

10. Local school district mills would shift among tax types to provide the necessary revenue for school district budgets. The amount each taxpayer pays will change based on the change in value of property with respect to the district average but total local school taxes paid would essentially match present law.

11. SB 394 proposed changes to property tax classes creates a guaranteed tax base aid (GTB) cost in FY 2016 of approximately \$2.0 million and a GTB savings of approximately \$0.9 million in each year thereafter. The effects on the state general fund are outlined below:

FY 2016	FY 2017	FY 2018	FY 2019
	\$1,947,697	(\$889,199)	(\$905,076)

12. Revenue received from county school levies for all district funds will not change due to this bill as tax shifting occurs.

13. There is a negligible change to retirement GTB.

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<u>Fiscal Impact:</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
Office of Public Instruction (OPI)				
<u>Expenditures: (OPI)</u>				
Guaranteed Tax BASE aid (GTB)	\$0	\$1,947,697	(\$889,199)	(\$905,076)
TOTAL Expenditures	\$0	\$1,947,697	(\$889,199)	(\$905,076)
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$1,947,697	(\$889,199)	(\$905,076)
TOTAL Funding of Exp.	\$0	\$1,947,697	(\$889,199)	(\$905,076)
Department of Revenue (DOR)				
<u>Revenues: (DOR)</u>				
General Fund (01)	\$0	(\$10,786,674)	(\$11,147,305)	(\$11,544,472)
State Special Revenue (02)	\$0	(\$679,404)	(\$702,119)	(\$727,134)
TOTAL Revenues	\$0	(\$11,466,078)	(\$11,849,424)	(\$12,271,606)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	(\$12,734,371)	(\$10,258,106)	(\$10,639,396)
State Special Revenue (02)	\$0	(\$679,404)	(\$702,119)	(\$727,134)

Effect on County or Other Local Revenues or Expenditures:

1. The reduction in taxable value would change the mill rates set by local governments and schools. To the extent that local governments (under the provisions of 15-10-420, MCA) and schools (under the school funding provisions of Title 20) are able to adjust mills to account for the loss in taxable value, these taxes will shift to other taxpayers.
2. The following tables show the current centrally assessed weighted average mills for local governments and schools, and an estimate of the amount of revenue that will be shifted to other taxpayers.

Local Government - Tax Shift from SB 394			
<u>FY</u>	<u>Reduction in TV</u>	<u>Current Mills</u>	<u>Revenue Tax Shift</u>
FY 2017	113,234,029	199.58	\$22,599,248
FY 2018	117,019,793	199.58	\$23,354,810
FY 2019	121,189,081	199.58	\$24,186,917

Schools - Tax Shift from SB 394			
<u>FY</u>	<u>Reduction in TV</u>	<u>Current Mills</u>	<u>Revenue Tax Shift</u>
FY 2017	113,234,029	189.28	\$21,432,937
FY 2018	117,019,793	189.28	\$22,149,506
FY 2019	121,189,081	189.28	\$22,938,669

Sponsor's Initials

Date

Budget Director's Initials

Date