



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

Bill # HB0303

Title: Revise business equipment tax laws: Business Investment Grows (BIG) Jobs Act

Primary Sponsor: Kassmier, Joshua

Status: As Amended in Senate Committee

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|--|--|--|
| <input checked="" type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input checked="" 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 2022</u> <u>Difference</u>	<u>FY 2023</u> <u>Difference</u>	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>
Expenditures:				
General Fund	\$2,205,100	\$5,974,345	\$5,719,482	\$5,782,510
State Special Revenue	\$0	\$0	\$0	\$0
Revenue:				
General Fund	(\$704,000)	(\$1,098,000)	(\$1,103,000)	(\$1,107,000)
State Special Revenue	(\$44,100)	(\$68,800)	(\$69,100)	(\$69,400)
Net Impact-General Fund Balance:	<u>(\$2,909,100)</u>	<u>(\$7,072,345)</u>	<u>(\$6,822,482)</u>	<u>(\$6,889,510)</u>

Description of fiscal impact: HB 303, as amended in the Senate Finance and Claims Committee, increases the current market value exemption for class 8 business equipment from \$100,000 to \$300,000, and gives the Budget Director contingency authority to comply with provisions of the American Recovery Plan Act. The change in the threshold lowers taxable value. The legislation also reimburses local government jurisdictions for this reduction with entitlement share transfers, and local school districts through an increase in Guaranteed Tax Base aid (GTB) payments from the state general fund. The reimbursements limit the tax burden shift to other property taxpayers in affected jurisdictions.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. Under present law, in TY 2020 non-exempt class 8 property had \$7.876 billion in market value and a taxable value of \$161.389 million.
2. Had the provisions of this bill been in effect, there would have been an estimated taxable value of \$149.156 million (a reduction of \$12.333 million).
3. This reduction in taxable value would have translated to an estimated reduction of \$1.087 million in general fund revenue, \$68,000 in Montana University System (MUS) revenue, \$2.085 million in county revenue,

\$469,000 in city revenue, \$2.275 million in local school revenue, and \$593,000 in Tax Increment Financing (TIF) revenue.

4. HB 303 would first apply to TY 2022 property. Class 8 property can pay billed taxes as if it were real property (liened-to-real property) which is billed in two halves -- November and the following May -- the subsequent fiscal year; while some class 8 property is “strict” personal property (not lien-to-real) which is billed in April, the fiscal year of billing. Therefore, class 8 receipts do not follow the typical fiscal year pattern. With HB 303 there are revenue impacts in FY 2022. Only the “strict” personal property is affected in FY 2022 by the increased exemption, and only the “strict” personal property tax effects are reimbursed in FY 2022.
5. The breakout of the known TY 2020 class 8 taxes paid between “strict” personal property (64.3%), which was received in FY 2020, and the “billed as real” personal property (35.7%) as anticipated to be received in FY 2021 is presented below:

	General Fund	MUS	County	Cities	Schools	TIFS
Strict Personal Property	(\$699,000)	(\$44,000)	(\$1,280,000)	(\$392,000)	(\$1,542,000)	(\$489,000)
Lien-to-Real	(\$388,000)	(\$24,000)	(\$805,000)	(\$77,000)	(\$733,000)	(\$104,000)
Total	(\$1,087,000)	(\$68,000)	(\$2,085,000)	(\$469,000)	(\$2,275,000)	(\$593,000)

6. The TY 2020 effects are multiplied by estimated growth rates for class 8 property contained in HJ 2 to estimate the impacts for FY 2022 through FY 2025. The following table shows the estimated revenue reductions by tax year for the general fund and the MUS for TY 2022 through TY 2025 and the fiscal year distribution of those reductions.

Tax Year Effects	TY 2022	TY 2023	TY 2024	TY 2025
HJR2	0.40%	0.40%	0.40%	0.40%
General Fund	\$1,095,000	\$1,100,000	\$1,104,000	\$1,109,000
University SSR	\$68,600	\$68,900	\$69,200	\$69,500
Fiscal Year Distribution	FY 2022	FY 2023	FY 2024	FY 2025
General Fund	\$704,000	\$391,000	\$707,000	\$393,000
University SSR	\$44,100	\$24,500	\$44,300	\$24,600
Fiscal Year Totals	FY 2022	FY 2023	FY 2024	FY 2025
General Fund	\$704,000	\$1,098,000	\$1,103,000	\$1,107,000
University SSR	\$44,100	\$68,800	\$69,100	\$69,400

7. This legislation reimburses the estimated loss in revenue to TIF districts, county governments, incorporated cities and town, and local schools from the state general fund.
8. Per the provisions of this legislation, the reimbursements to TIF's, the MUS, county governments, city governments at the TY 2022 level via the entitlement share reimbursement formula. Schools are reimbursed by the Office of Public Instruction through the GTB funding ratio.
9. The administrative costs to implement this legislation keep with current annual processes and will result in no additional cost.

Office of Public Instruction (OPI)

10. On-going school property tax revenue losses and reimbursements are presented in the Department of Revenue assumptions. The reductions are reimbursed through a change in the guaranteed tax base ratio from 232% (current law) to 236% in 20-9-366, MCA, of HB 303 as amended in the Senate Finance and Claims Committee. The increased GTB funding would need to be appropriated in HB 2.

11. The decrease in property tax revenue due to this bill for strict personal property in FY 2022 does not have a guarantee tax base aid (GTB) effect on school districts in FY 2022. The GTB subsidy per mill would have been determined prior to the effective date of the bill.

<u>Fiscal Impact:</u>	<u>FY 2022 Difference</u>	<u>FY 2023 Difference</u>	<u>FY 2024 Difference</u>	<u>FY 2025 Difference</u>
FTE	0.00	0.00	0.00	0.00
<u>Expenditures:</u>				
Transfers to MUS (DOA)	\$44,100	\$68,800	\$68,800	\$68,800
Transfers to Counties (DOR)	\$1,280,000	\$2,085,000	\$2,085,000	\$2,085,000
Transfers to Cities (DOR)	\$392,000	\$469,000	\$469,000	\$469,000
Transfers to TIFs (DOR)	\$489,000	\$593,000	\$593,000	\$593,000
Local Assistance GTB (OPI)	\$0	\$2,758,545	\$2,503,682	\$2,566,710
TOTAL Expenditures	\$2,205,100	\$5,974,345	\$5,719,482	\$5,782,510
<u>Funding of Expenditures:</u>				
General Fund (01)	\$2,205,100	\$5,974,345	\$5,719,482	\$5,782,510
State Special Revenue (02)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	\$2,205,100	\$5,974,345	\$5,719,482	\$5,782,510
<u>Revenues:</u>				
General Fund (01)	(\$704,000)	(\$1,098,000)	(\$1,103,000)	(\$1,107,000)
State Special Revenue (02)	(\$44,100)	(\$68,800)	(\$69,100)	(\$69,400)
TOTAL Revenues	(\$748,100)	(\$1,166,800)	(\$1,172,100)	(\$1,176,400)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$2,909,100)	(\$7,072,345)	(\$6,822,482)	(\$6,889,510)
State Special Revenue (02)	(\$44,100)	(\$68,800)	(\$69,100)	(\$69,400)

Effect on County or Other Local Revenues or Expenditures:

Department of Revenue


1. The tax revenue associated with the reduction to local taxable value are reimbursed through entitlement share transfers. The reimbursements are anticipated to offset the revenue reductions that otherwise could have developed for jurisdictions that operate under the 15-10-420, MCA, mill levy limitations.

Office of Public Instruction

2. Statewide, school districts are reimbursed through an increase in the GTB payments.

Technical Notes:

1. The amended bill includes contingent termination conditions related to the American Rescue Plan Act (ARPA). If the contingencies are invoked, the ARPA effective dates and contingent terminations would defer the fiscal impacts of the increase in exemption thresholds. This fiscal note assumes that the contingent termination conditions are not met.

		 Budget Director's Initials	5/25/21 Date
<i>Sponsor's Initials</i>	<i>Date</i>		