Fiscal Note 2023 Biennium

Governor's Office of Budget and Program Planning

Bill #	HB0372	**Title:**	Eliminate business equipment tax
Primary Sponsor:	Ler, Brandon	**Status:**	As Amended in House 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

	FY 2022 Difference	FY 2023 Difference	FY 2024 Difference	FY 2025 Difference
Expenditures:				
General Fund	$4,687,000	$6,471,676	$8,018,622	$8,946,754
State Special Revenue	$0	$0	$0	$0
Revenue:				
General Fund	($705,000)	($1,298,000)	($1,557,000)	($1,756,000)
State Special Revenue	($44,000)	($82,000)	($98,000)	($110,000)
Net Impact-General Fund Balance:	($5,392,000)	($7,769,676)	($9,575,622)	($10,702,754)

Description of fiscal impact: HB 372 as amended in the House Taxation Committee phases-in the elimination class 8 business equipment from the property tax base. It does so by increasing the class 8 business equipment exemption from $100,000 to $300,000 in tax year (TY) 2022, then increases the exemption by $100,000 per year until TY 2030, at which point all class 8 business equipment becomes exempt property. The legislation also reimburses local government jurisdictions for this reduction through entitlement share transfers and schools by raising the guarantee tax base aid (GTB) ratio multiplier, all from the state general fund. The general fund 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, there was $7.876 billion in market value of non-exempt class 8 property which had a taxable value of $161.389 million.
2. The following table shows the reductions in taxable value had the varying exemption thresholds in HB 372 been in effect.

Estimated Change in Taxable Value ($ Millions)		
Exemption Threshold	Taxable Value	SB 372.02
$100,000	$161.389	$0.000
$300,000	$149.156	($12.233)
$400,000	$145.686	($15.703)
$500,000	$143.022	($18.368)
$600,000	$140.910	($20.480)
$700,000	$139.170	($22.220)
$800,000	$137.670	($23.719)
$900,000	$136.353	($25.036)
$1,000,000	$135.171	($26.218)
Unlimited	$0.000	($161.389)

3. The following tables show the reduction in general fund, MUS revenue, county, city, local school, and TIF revenue associated with the exemption thresholds relative to TY 2020 values.

Estimated Loss in Property Tax Revenue for Varying Exemption Thresholds ($ Millions)						
Threshold	General Fund	MUS	County	Cities	Schools	TIFS
$300,000	($1.087)	($0.068)	($2.085)	($0.469)	($2.275)	($0.593)
$400,000	($1.391)	($0.088)	($2.664)	($0.620)	($2.921)	($0.795)
$500,000	($1.622)	($0.102)	($3.099)	($0.744)	($3.417)	($0.971)
$600,000	($1.803)	($0.113)	($3.434)	($0.849)	($3.808)	($1.128)
$700,000	($1.950)	($0.123)	($3.705)	($0.938)	($4.130)	($1.272)
$800,000	($2.076)	($0.131)	($3.936)	($1.019)	($4.407)	($1.400)
$900,000	($2.187)	($0.138)	($4.138)	($1.091)	($4.651)	($1.514)
$1,000,000	($2.286)	($0.144)	($4.316)	($1.158)	($4.871)	($1.620)
Unlimited	($15.002)	($0.939)	($26.543)	($5.555)	($30.403)	($9.188)

4. Class 8 property can be taxed as if it were real property (lien-to real) which is billed in November and the following May of the fiscal year subsequent the tax year; and some class 8 property is "strict" personal property (not lien-to-real) which is billed in April, the same fiscal year as the tax year. Therefore, class 8 receipts do not follow the typical subsequent fiscal year receipts pattern. In the fiscal year following the tax year if there was a change, only the not lien-to-real property will be affected by the increased exemption, and only these affects will be reimbursed in that fiscal year. The lien-to-real reimbursements will be made in the same fiscal year as the tax year.
5. The breakout of the TY 2020 change in taxes paid between not lien-to-real, which would pay taxes in FY 2020, and lien-to-real, which pay taxes in FY 2021 is presented in the following table:

Estimated Loss in Property Tax Revenue for Varying Exemption Thresholds ($ Millions)							
Exemption Threshold		General Fund	MUS	County	Cities	Schools	TIFS
$300,000	Not Lien-to-Real	($0.699)	($0.044)	($1.280)	($0.392)	($1.542)	($0.489)
	Lien-to-Real	($0.388)	($0.024)	($0.805)	($0.077)	($0.733)	($0.104)
	Total	($1.087)	($0.068)	($2.085)	($0.469)	($2.275)	($0.593)
$400,000	Not Lien-to-Real	($0.900)	($0.057)	($1.646)	($0.516)	($1.987)	($0.654)
	Lien-to-Real	($0.491)	($0.031)	($1.018)	($0.104)	($0.933)	($0.141)
	Total	($1.391)	($0.088)	($2.664)	($0.620)	($2.921)	($0.795)
$500,000	Not Lien-to-Real	($1.053)	($0.066)	($1.923)	($0.616)	($2.330)	($0.796)
	Lien-to-Real	($0.568)	($0.036)	($1.176)	($0.128)	($1.087)	($0.174)
	Total	($1.622)	($0.102)	($3.099)	($0.744)	($3.417)	($0.971)
$600,000	Not Lien-to-Real	($1.174)	($0.074)	($2.137)	($0.699)	($2.600)	($0.922)
	Lien-to-Real	($0.629)	($0.040)	($1.298)	($0.149)	($1.209)	($0.206)
	Total	($1.803)	($0.113)	($3.434)	($0.849)	($3.808)	($1.128)
$700,000	Not Lien-to-Real	($1.274)	($0.080)	($2.314)	($0.771)	($2.825)	($1.035)
	Lien-to-Real	($0.676)	($0.043)	($1.391)	($0.168)	($1.305)	($0.237)
	Total	($1.950)	($0.123)	($3.705)	($0.938)	($4.130)	($1.272)
$800,000	Not Lien-to-Real	($1.361)	($0.086)	($2.468)	($0.834)	($3.021)	($1.134)
	Lien-to-Real	($0.715)	($0.045)	($1.468)	($0.185)	($1.387)	($0.266)
	Total	($2.076)	($0.131)	($3.936)	($1.019)	($4.407)	($1.400)
$900,000	Not Lien-to-Real	($1.438)	($0.090)	($2.603)	($0.891)	($3.194)	($1.222)
	Lien-to-Real	($0.750)	($0.047)	($1.534)	($0.201)	($1.458)	($0.293)
	Total	($2.187)	($0.138)	($4.138)	($1.091)	($4.651)	($1.514)
$1,000,000	Not Lien-to-Real	($1.506)	($0.095)	($2.724)	($0.942)	($3.349)	($1.301)
	Lien-to-Real	($0.780)	($0.049)	($1.592)	($0.216)	($1.522)	($0.318)
	Total	($2.286)	($0.144)	($4.316)	($1.158)	($4.871)	($1.620)
Unlimited	Not Lien-to-Real	($4.217)	($0.265)	($7.894)	($2.513)	($8.889)	($3.305)
	Lien-to-Real	($10.785)	($0.674)	($18.649)	($3.042)	($21.513)	($5.883)
	Total	($15.002)	($0.939)	($26.543)	($5.555)	($30.403)	($9.188)

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:

Estimated impact by Fiscal Year and Tax Year ($ millions)						
Tax Year	TY 2022 (300K Exemption)			TY 2023 (400K Exemption)		
Category	Not Lien-to-Real	Lien-to-Real		Not Lien-to-Real	Lien-to-Real	
Fiscal Year	2022	2023	Total	2023	2024	Total
GF	$0.71	$0.39	$1.10	$0.91	$0.50	$1.40
MUS	$0.04	$0.03	$0.07	$0.06	$0.03	$0.09
Tax Year	TY 2024 (500K Exemption)			TY 2024 (600K Exemption)		
Category	Not Lien-to-Real	Lien-to-Real		Not Lien-to-Real	Lien-to-Real	
Fiscal Year	2024	2025	Total	2025	2026	Total
GF	$1.06	$0.57	$1.64	$1.18	$0.63	$1.82
MUS	$0.07	$0.04	$0.10	$0.07	$0.04	$0.11

7. This legislation reimburses the estimated loss in revenue to TIF districts, county governments, incorporated cities and towns, and local schools from the state general fund.

DOR Administrative Costs

8. HB 372, as amended, would save the department 1.00 FTE starting in FY 2023 associated with administering the current businesses equipment tax as approximately a quarter of the current personal property records would fall below the increased exemption threshold amount.

Office of Public Instruction

9. On-going school property tax revenue losses and reimbursements are presented in the department of revenues assumption section and the reductions are reimbursed through increases to the GTB multiplier described in section 18 of HB 372.
10. 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 taxable values used in determining GTB subsidy per mill would have been determined prior to the effective date of the bill however the multiplier is adjusted in accordance with the requirements of HB 372.
11. School district general fund GTB is a property tax supplement to a district's general fund for lower ANB and taxable wealth districts by equalizing the number of mills necessary to fund the BASE budget. This subsidy is determined by measuring each district against an inflated statewide ratio. The result of inflating the multiplier associated with the inflated value results in qualifying additional districts to receive GTB and increases the amount of GTB to districts.
12. The following table includes the percent increases as provided in HB 372 and estimated increased distribution of district general fund GTB:

Fiscal Year	GTB multiplier	GTB Statewide Increase
FY 2022	236%	$2,578,000
FY 2023	236%	$2,754,000
FY 2024	237%	$3,518,000
FY 2025	237%	$3,670,000
FY 2026	238%	$4,449,000
FY 2027	238%	$4,582,000
FY 2028	238%	$4,669,000

Fiscal Impact:	**FY 2022 Difference**	**FY 2023 Difference**	**FY 2024 Difference**	**FY 2025 Difference**
Department of Revenue (DOR)				
FTE	0.00	(1.00)	(1.00)	(1.00)
Expenditures:				
Personal Services (DOR)	$0	($59,515)	($60,218)	($60,932)
Operating Expenses (DOR)	$0	($8,009)	($8,160)	($8,314)
Transfers to MUS (DOA)	$44,000	$82,000	$98,000	$110,000
Transfers to Counties (DOR)	$1,280,000	$2,451,000	$2,941,000	$3,313,000
Transfers to Cities (DOR)	$392,000	$494,200	$593,000	$827,000
Transfers to TIFs (DOR)	$393,000	$758,000	$937,000	$1,096,000
Local Assistance GTB (OPI)	$2,578,000	$2,754,000	$3,518,000	$3,670,000
TOTAL Expenditures	$4,687,000	$6,471,676	$8,018,622	$8,946,754
Funding of Expenditures:				
General Fund (01)	$4,687,000	$6,471,676	$8,018,622	$8,946,754
State Special Revenue (02)	$0	$0	$0	$0
TOTAL Funding of Exp.	$4,687,000	$6,471,676	$8,018,622	$8,946,754
Revenues:				
General Fund (01)	($705,000)	($1,298,000)	($1,557,000)	($1,756,000)
State Special Revenue (02)	($44,000)	($82,000)	($98,000)	($110,000)
TOTAL Revenues	($749,000)	($1,380,000)	($1,655,000)	($1,866,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($5,392,000)	($7,769,676)	($9,575,622)	($10,702,754)
State Special Revenue (02)	($44,000)	($82,000)	($98,000)	($110,000)

Effect on County or Other Local Revenues or Expenditures:

Department of Revenue

1. The foregone tax revenue associated with the reduction to local taxable value is reimbursed through entitlement share transfers. The reimbursements are anticipated to offset the mill increases that would have resulted otherwise for jurisdictions that operate under the 15-10-420, MCA, mill levy limitation.

Office of Public Instruction

2. As calculated in the school funding model, local school property taxes could decrease statewide by $2,581,000 in FY 2022 and $2,745,000 in FY 2023 and incrementally increase corresponding to the GTB increase between the span of the multiplier increase (see assumption #12).

Long-Term Impacts:

1. SB 372 eliminates class 8 property from the tax rolls, over time, by raising the exemption threshold in steps and then eliminating the class in TY 2030.
2. The DOR biennial report shows that class 8 property represented 5.02% of the TY 2020 tax base. FY 2021 state revenue based on mills was $328.3 million. Five percent of state FY 21 mill levy revenue is $16.5 million.
3. SB 372 mitigates the local impacts of this reduction by shifting the local revenue reductions to the general fund. The DOR biennial report shows that in TY 2021 (FY 2021) local property tax mills generated $1,582.5 million in local revenue. Five percent of local property tax revenue represented $79.5 million in FY 2021.

Technical Notes:

Department of Revenue

1. The repeal of class 8 property in 2030 should be clarified. All property in Montana is subject to taxation unless specifically exempted (15-6-101, MCA). While Section 5, amending 15-6-138, MCA, contains an increasing exemption, Section 21 repeals 15-6-138, MCA, on January 1, 2030. It is unclear how the property listed in 15-6-138, MCA, (current class 8 statute) will be taxed once the statute is repealed.
2. With the elimination of property tax on tangible personal property (class 8) an equalization issue may occur with the other classes property that have similar property. Railroads may seek federal 4 R Act relief from the state. The state may have to provide an exemption for all tangible personal property in all property classes.

	3-26-21	KA	3-25-21
Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*