



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

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| Bill # | HB0303 |
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| Title: | Revise business equipment tax laws: Business Investment Grows (BIG) Jobs Act |
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| Primary Sponsor: | Kassmier, Joshua |
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| Status: | As Amended |
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- 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 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 | \$2,350,828 | \$3,164,992 | \$3,185,087 | \$3,213,512 |
| State Special Revenue | \$0 | \$0 | \$0 | \$0 |
| Revenue: | | | | |
| General Fund | (\$424,000) | (\$666,000) | (\$667,000) | (\$667,000) |
| State Special Revenue | (\$27,000) | (\$42,400) | (\$42,500) | (\$42,500) |
| Net Impact-General Fund Balance: | <u>(\$2,774,828)</u> | <u>(\$3,830,992)</u> | <u>(\$3,852,087)</u> | <u>(\$3,880,512)</u> |

Description of fiscal impact: HB 303, as amended, increases the current exemption for class 8 business equipment from \$100,000 to \$200,000. The change in the threshold lowers taxable value. The legislation also reimburses local government jurisdictions for this reduction with entitlement share transfers and schools through an increase in the Guaranteed Tax Base aid (GTB) 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

- 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.
- Had the provisions of this bill been in effect, there would have been an estimated taxable value of \$154.005 million (a reduction of \$7.384 million).
- This reduction in taxable value would have translated to an estimated loss of \$658,000 in general fund revenue, \$41,000 in Montana University System (MUS) revenue, \$1.264 million in county revenue, \$272,000

in city revenue, \$1.370 million in local school revenue, and \$342,000 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 (lien-to real) which is billed in two halves in 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 following 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 (68.9%), which was received in FY 2020, and the “billed as real” personal property (36.2%) as anticipated to be received in FY 2021 is presented below:

| | General Fund | MUS | County | Cities | Schools | TIFS |
|--------------------------|--------------|------------|---------------|-------------|---------------|-------------|
| Strict Personal Property | (\$420,000) | (\$26,000) | (\$771,000) | (\$228,000) | (\$924,000) | (\$284,000) |
| Lien-to-Real | (\$238,000) | (\$15,000) | (\$494,000) | (\$44,000) | (\$446,000) | (\$58,000) |
| Total | (\$658,000) | (\$41,000) | (\$1,264,000) | (\$272,000) | (\$1,370,000) | (\$342,000) |

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% | | 0.00% | | 0% |
| General Fund | \$663,000 | | \$666,000 | | \$666,000 | | \$666,000 |
| University SSR | \$42,200 | | \$42,400 | | \$42,400 | | \$42,400 |
| Fiscal Year Distribution | FY 2022 | FY 2023 | FY 2023 | FY 2024 | FY 2024 | FY 2025 | FY 2025 |
| General Fund | \$424,000 | \$240,000 | \$426,000 | \$241,000 | \$426,000 | \$241,000 | \$426,000 |
| University SSR | \$27,000 | \$15,300 | \$27,100 | \$15,400 | \$27,100 | \$15,400 | \$27,100 |
| Fiscal Year Totals | FY 2022 | | FY 2023 | | FY 2024 | | FY 2025 |
| General Fund | \$424,000 | | \$666,000 | | \$667,000 | | \$667,000 |
| University SSR | \$27,000 | | \$42,400 | | \$42,500 | | \$42,500 |

7. This legislation reimburses the above 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 occur via the entitlement share reimbursements. Schools are reimbursed by the Office of Public Instruction at their TY 2022 levels.
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 234% in Section 4, 20-9-366, MCA, of HB 303 as amended. The increased GTB funding would need to be appropriated in HB 2.


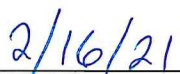

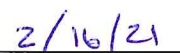
11. The decrease in property tax revenue due to this bill for strict personal property in FY 2022 does not have a guarantee tax base aid (GTB) effect on school districts in FY 2022. The GTB subsidy per mill would have been determined prior to the effective date of the bill.

| <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) | \$27,000 | \$42,400 | \$42,500 | \$42,500 |
| Transfers to Counties (DOR) | \$771,000 | \$1,264,000 | \$1,264,000 | \$1,264,000 |
| Transfers to Cities (DOR) | \$228,000 | \$272,000 | \$272,000 | \$272,000 |
| Transfers to TIFs (DOR) | \$284,000 | \$342,000 | \$342,000 | \$342,000 |
| Local Assistance GTB (OPI) | \$1,040,828 | \$1,244,592 | \$1,264,587 | \$1,293,012 |
| TOTAL Expenditures | \$2,350,828 | \$3,164,992 | \$3,185,087 | \$3,213,512 |
| <u>Funding of Expenditures:</u> | | | | |
| General Fund (01) | \$2,350,828 | \$3,164,992 | \$3,185,087 | \$3,213,512 |
| State Special Revenue (02) | \$0 | \$0 | \$0 | \$0 |
| TOTAL Funding of Exp. | \$2,350,828 | \$3,164,992 | \$3,185,087 | \$3,213,512 |
| <u>Revenues:</u> | | | | |
| General Fund (01) | (\$424,000) | (\$666,000) | (\$667,000) | (\$667,000) |
| State Special Revenue (02) | (\$27,000) | (\$42,400) | (\$42,500) | (\$42,500) |
| TOTAL Revenues | (\$451,000) | (\$708,400) | (\$709,500) | (\$709,500) |
| <u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u> | | | | |
| General Fund (01) | (\$2,774,828) | (\$3,830,992) | (\$3,852,087) | (\$3,880,512) |
| State Special Revenue (02) | (\$27,000) | (\$42,400) | (\$42,500) | (\$42,500) |

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.

 Sponsor's Initials Date Budget Director's Initials Date