GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:	
HB0943 - Revise taxation of property used as a short-term rental (Fern, Dave)	
Status:	As Introduced

☐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 2024 Difference	FY 2025 Difference	FY 2026 Difference	FY 2027 Difference
Expenditures:				
General Fund	$67,384	$65,338	$0	$0
State Special Revenue	$0	$0	$0	$0
Revenue:				
General Fund	$0	$1,464,000	$2,410,000	$3,289,000
State Special Revenue	$0	$92,000	$151,000	$207,000
Net Impact-General Fund Balance:	($67,384)	$1,398,662	$2,410,000	$3,289,000

Description of fiscal impact: HB 943 revises the taxation of short-term rental properties. Instead of being taxed at the residential tax rate, properties used as short-term rentals would be classified as commercial property and taxed at the commercial tax rate.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. HB 943 reclassifies properties used as short-term rentals from residential properties to commercial properties.
2. The bill defines a short-term rental as a single-family home, dwelling unit, condominium, cooperative, or timeshare that is rented for 30 days or less.
3. The residential tax rate is currently 1.35%; the commercial tax rate is 1.89%, or 1.4 times the residential rate.
4. According to a 2021 University of Montana study, there were over 12,000 known short-term rental units in Montana as of September 2020. Due to growth in the short-term rental market, it is estimated that there would be about 15,000 properties used as short-term rentals in the state for TY 2024.
5. Because it would take the Department of Revenue Property Assessment Division time to identify all of these short-term rental properties (see technical note), it is assumed that about 50% of them could be identified in the first year, 75% in the second year, and 100% in the third year.

6. Assuming the phasing in of identified short-term rental properties (assumption #5) and using the estimated growth rates in HJ 2, the table below shows the estimated difference in taxable value for these properties under current law and HB 943 for TY 2024 through TY 2026.

	TY 2024	**TY 2025**	**TY 2026**
Est. Number of Identified Short-Term Rentals	7,500	11,250	15,000
Taxable Value Current Law	$38,315,000	$63,083,000	$86,107,000
Taxable Value HB 943	$53,641,000	$88,317,000	$120,549,000
Difference in Taxable Value	$15,326,000	$25,233,000	$34,443,000

7. With the increase in taxable value, state revenue would increase under HB 943. The estimated difference in revenue is in the table below.

Difference in Revenue HB 943			
	TY 2024	TY 2025	TY 2026
General Fund (95 and 1.5 mills)	$1,464,000	$2,410,000	$3,289,000
Montana University System (6 mills)	$92,000	$151,000	$207,000

8. Montana University System, 6 mills, is deposited to a state special revenue account.

DOR Administrative Costs

9. The Department of Revenue Property Assessment Division would require 1.00 FTE in FY 2024 and FY 2025 to conduct research and identify short-term rentals in the state and adjust the property records to apply the commercial tax rate.
10. System changes required to implement this bill would be absorbed as part of normal updates.
11. This bill is effective beginning in TY 2024.

Fiscal Impact:	**FY 2024 Difference**	**FY 2025 Difference**	**FY 2026 Difference**	**FY 2027 Difference**
FTE	1.00	1.00	0.00	0.00
Expenditures:				
Personal Services	$55,826	$56,641	$0	$0
Operating Expenses	$11,558	$8,697	$0	$0
TOTAL Expenditures	$67,384	$65,338	$0	$0
Funding of Expenditures:				
General Fund (01)	$67,384	$65,338	$0	$0
State Special Revenue (02)	$0	$0	$0	$0
TOTAL Funding of Exp.	$67,384	$65,338	$0	$0
Revenues:				
General Fund (01)	$0	$1,464,000	$2,410,000	$3,289,000
State Special Revenue (02)	$0	$92,000	$151,000	$207,000
TOTAL Revenues	$0	$1,556,000	$2,561,000	$3,496,000
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($67,384)	$1,398,662	$2,410,000	$3,289,000
State Special Revenue (02)	$0	$92,000	$151,000	$207,000

Effect on County or Other Local Revenues or Expenditures:

1. Changing the classification and tax rate of short-term rentals to the commercial tax rate increases taxable value by about 1% statewide in TY 2024. It is assumed that local taxing jurisdictions' mills would float down to account for the increased tax base.
2. Jurisdictions with a higher concentration of short-term rentals would likely have more of a decrease in tax burden than jurisdictions with fewer short-term rentals.

Technical Notes:

1. The Property Assessment Division currently has no consistent way of identifying whether a property is a short-term rental or not. Some counties or municipalities may require short-term rentals to be licensed but this is not consistent statewide. Without a statewide registration or licensing requirement for short-term rental properties, the Division would only be able to classify these properties as commercial as they become aware of them, which could lead to not treating all these similar properties equitably.

	3/20/23		3-29-23
Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*