GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:	
HB0212 - Increase business equipment tax exemption (Kassmier, Joshua)	
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	$3,682,000	$4,732,000	$4,732,000	$4,732,000
State Special Revenue	$0	$0	$0	$0
Revenue:				
General Fund	($1,008,000)	($1,325,000)	($1,356,000)	($1,387,000)
State Special Revenue	($63,000)	($81,000)	($82,900)	($84,400)
Net Impact-General Fund Balance:	($4,690,000)	($6,057,000)	($6,088,000)	($6,119,000)

Description of fiscal impact: HB 212 increases the class 8 business equipment property tax market value exemption from $300,000 to $1,000,000. The change in the threshold lowers taxable value. General fund 95 mill and University 6-mill revenues are reduced by the increased exemption. Local jurisdictions, other than schools, are reimbursed through the Entitlement Share Program for the forgone revenue. Reimbursement to K-12 public school districts is accomplished by an adjustment to the guaranteed tax base aid (GTB) ratio. These reimbursements result in state general fund expense to mitigate local jurisdiction tax shifts.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. Under current law class 8, business equipment property is taxed at 1.5% for the first $6 million in market value held by one owner statewide, and at a 3% tax rate for the subsequent value. Class 8 property owners also receive an exemption on their first $300,000 in assessed market value.
2. In tax year (TY) 2022, class 8 property statewide had an assessed market value of $6.336 billion and a taxable value of $147.392 million.
3. HB 212 changes the $300,000 exemption to $1,000,000 and provides for reimbursement from the state general fund for forgone revenue for local jurisdictions.

4. If HB 212 had been in effect in TY 2022, the taxable value would have been $132.695 million. A difference of $14.697 million, a reduction of 9.97%.
5. That reduction in taxable value difference translates to a revenue reduction of $1.258 million for the general fund (95 state school equalizations mills and 1.5 vocational education mills in counites with colleges of technology), and $79,000 in university 6-mill state special revenue for the Montana University System (MUS). Local revenue shifts would be $743,000 in municipalities, $2.761 million in counties and miscellaneous districts and $1.089 million in Tax Increment Financing (TIF) revenues. For local schools, $3.148 million in local (and countywide) school revenues would have been shifted,
6. These TY 2022 estimates are grown by HJ 2 class 8 growth for the relevant fiscal years.
7. HB 212 would first apply to TY 2024 property (ownership as of the January 1, 2024, assessment date). The effects on revenue receipts depends on the type of class 8 property. There are two general types of class 8 property. The first, known as lien-to-real, pays taxes at the same time as all other classes of property, one-half in November and one-half in May, the fiscal year following the tax year. The other type of class 8 property is "strict" personal property, or non-lien-to-real property. This property pays taxes in the spring of the same fiscal year as the tax year. Strict personal property will realize a tax reduction as soon as FY 2024, while lien-to-real property will not realize that tax reduction until their taxes are due in FY 2025.
8. That means the general fund effect of reduced taxable value and the reimbursements proposed in HB 212 occur in two phases. Local governments reimbursements through the Entitlement Share Payment for FY 2024 are payments for the "strict" personal property portion of class 8 property exempted by HB 212 (approximately 77.8% of class 8 property). FY 2025, reimbursement includes the TY 2024 lien-to-real property and the strict personal property assessed in TY 2025.
9. The Entitlement Share reimbursements apply to property tax reductions in jurisdictions that receive revenue controlled by Title 15, MCA -- TIF districts, county governments, the MUS, and incorporated cities and towns.

Jurisdiction	FY 2024	FY 2025	FY 2026	FY 2027
City/Town	$596,000	$766,000	$766,000	$766,000
County	$2,213,000	$2,844,000	$2,844,000	$2,844,000
MUS	$63,000	$81,000	$81,000	$81,000
TIFS	$873,000	$1,122,000	$1,122,000	$1,122,000

10. General fund and university state special fund property tax revenue reductions grow over time (relative to present law) due to growth class 8 property as contained in HJ 2.
11. The administrative costs to implement this legislation are in keeping with current annual processes and will result in no additional cost.

Office of Public Instruction (OPI)

12. The decrease in property tax revenue due to the reduction of business equipment tax related to HB 212 for strict personal property in FY 2024 does not have a guaranteed tax base aid (GTB) effect on school districts in FY 2024 because taxable values used to determine GTB subsidy per mill would have been calculated prior to the effective date of the bill.
13. School district general fund GTB is a property tax supplement to a school 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 the statewide ratio. The result of increasing the GTB ratio associated with the inflated taxable value, results in qualifying additional school districts to receive GTB and increases the amount of GTB the state pays to school districts.
14. On-going school property tax revenue reductions and reimbursements are presented in the accounting detail of this fiscal note with the business equipment tax reductions reimbursed through adjustment to the GTB ratio.

Fiscal Impact:	**FY 2024 Difference**	**FY 2025 Difference**	**FY 2026 Difference**	**FY 2027 Difference**
Department of Revenue (DOR)				
FTE	0.00	0.00	0.00	0.00
Expenditures:				
Local Assistance Entitlement Share (DOR)				
Cities and Towns	$596,000	$766,000	$766,000	$766,000
Counties	$2,213,000	$2,844,000	$2,844,000	$2,844,000
TIF Districts	$873,000	$1,122,000	$1,122,000	$1,122,000
Office of Public Instruction (OPI)				
Local Assistance (GTB)	$0	$565,848	$570,116	$578,081
Department of Administration				
Transfers MUS	$63,000	$81,000	$81,000	$81,000
TOTAL Expenditures	$3,682,000	$4,732,000	$4,732,000	$4,732,000
Funding of Expenditures:				
General Fund (01)	$3,682,000	$4,732,000	$4,732,000	$4,732,000
State Special Revenue (02)	$0	$0	$0	$0
TOTAL Funding of Exp.	$3,682,000	$4,732,000	$4,732,000	$4,732,000
Revenues:				
General Fund (01)	($1,008,000)	($1,325,000)	($1,356,000)	($1,387,000)
State Special Revenue (02)	($63,000)	($81,000)	($82,900)	($84,800)
TOTAL Revenues	($1,071,000)	($1,406,000)	($1,438,900)	($1,471,800)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($4,690,000)	($6,057,000)	($6,088,000)	($6,119,000)

Effect on County or Other Local Revenues or Expenditures:

Department of Revenue

1. The tax revenue foregone associated with the reduction in taxable value for local taxing jurisdictions is reimbursed through entitlement share payments limiting tax shifting onto other property owners.

Technical Notes:

Office of Budget and Program Planning

1. This legislation could interact with other legislation that has impact on the GTB ratio and may need future coordination language.

JK	1-16-23	[illegible]	1-16-23
Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*