January 15, 2020

Local Government Interim Committee

1999 SESSION TAX CUTS AFFECTING LOCAL GOVERNMENTS AND SCHOOLS

The following is a summary of tax-related legislation enacted during the 1999 Legislative Session that created fiscal impacts for local governments and schools. The legislative summary is divided into five parts: individual income taxes, motor vehicle taxes, natural resource taxes, property taxes, and utility taxes. Most bill summaries provide a breakout of local government, school, and total fiscal impacts[1] except for the income tax category. The changes to income tax made it easier to qualify for the elderly homeowner's and renter's property tax credit, which affected many local citizens. However, since this tax was collected at the state level, it would not have affected local governments and schools directly.

Many pieces of legislation, particularly SB 200 (business equipment tax relief), HB 128 (revise taxation or telecommunications property, and HB 174 (revise taxation of electrical generation property), provided tax reimbursements to local taxing jurisdictions. SB 184 voided these individual reimbursements and instead implemented a unified reimbursement scheme for these bills as well as tax reductions related to natural resource production taxes (primarily oil and natural gas).

Tax cuts enacted during the 1999 session totaled roughly $115.6 million and the various reimbursement programs provided $76 million in relief to local governments and schools, leaving a $39.6 million-dollar deficit. As seen as a percentage, roughly 66% of the tax cuts were backfilled using tax reimbursement programs. Also note that certain reimbursements (primarily those in SB 184) were set to terminate in 2001, making the statewide reimbursement percentage closer to 54% for 2001.

Individual Income Tax

HB 652 (CH. 445). Revises the definition of "income" as it relates to the residential property tax credit for the elderly; excludes the taxpayer's basis (the value of an asset at the time of acquisition) in the determination of income. Applies retroactively to tax years beginning after December 31, 1998.

SB 424 (CH. 547). Expands the household income threshold for eligibility for the elderly homeowner and renter property tax credit; phases out the credit for claimants whose income is $35,000 or more; provides that the credit may not be claimed by a person whose household income is $45,000 or more. Applies retroactively to tax years beginning after December 31, 1998.

[1] The fiscal impacts were taken from a memo written by Jeff Martin of Legislative Services in November of 1999. The calculations were derived using assumptions from fiscal notes produced during the 1999 session.

Motor Vehicle Taxation

HB 540 (CH. 515, REFERENDUM). Replaces the current system of taxation of automobiles, vans, sport utility vehicles, and light trucks (1.4% of the depreciated value of the manufacturer's suggested retail price – see SB 260 below) with a registration fee on light vehicles based on the age of the vehicle; imposes fees as follows: $195 on vehicles 0-4 years old, $65 on vehicles 5-10 years old, $6 on vehicles 11 years old and older; allows the owner of a light vehicle to register the vehicle for a 24-month period; allows vehicles, including motorcycles and quadricycles, 11 years old and older to be permanently registered; revises the fee in lieu of tax on motorcycles and quadricycles; provides for distribution of the registration fee based on mill levies but exclusive of statewide levies; repeals the sales tax on new motor vehicle; allows a county to impose a local option fee on motor vehicles with voter approval or maintain the existing local option tax; provides that the proposed act be submitted to the qualified electors of Montana. Referendum approved by voters in November 2000, thus the referendum applies to motor vehicle registration periods beginning after Dec. 31, 2000.

Fiscal impact: $5.5 million total

HB 260 (CH 180). Reduces the tax rate on light vehicles from 2% to 1.4% of the depreciated value of the manufacturer's suggested retail price and on fleet vehicles from 1% to one-half the rate on light vehicles; provides that the tax rate decreases as the statewide value of light and fleet vehicles increases; provides that the amount of money distributed to the District Court fund from light vehicle taxes remain unchanged; changes the distribution formula for motor vehicle tax collections to exclude statewide levies; provides a reimbursement to the general fund of local schools (see SB 184); increases the permissible tax rate allowed under the local option vehicle tax from 0.5% to 0.7%; requires voter approval for imposition of the local option vehicle tax; provides for the transfer of funds from the state general fund to the state special revenue accounts for purposes of the 6-mill university levy and the 9-mill county public assistance levy. Applies to motor vehicle and fleet registration periods beginning after Dec. 31, 1999.

Fiscal impact: $9.6 million, local govt. $6.9 million, schools $16.5 million, total

Natural Resource Taxation

HB 658 (CH. 448). (See also SB 530 in this section). Exempts from the oil production tax that is attributable to county and school taxing units oil production from a stripper well that produces 3 barrels a day or less if the average price of a barrel of oil during a calendar quarter is less than $30. Applies to oil produced and sold during the quarters beginning after June 30, 1999.

Fiscal Impact: $234,000, local govt. $498,000, schools $732,000, total

HB 661 (CH. 530). (See also SB 530 in this section). Revises the taxation of oil production produced from a stripper well; revises the definition of "stripper oil" to include wells that produce less than 15 barrels of oil a day (previously 10 barrels a day); reduces the tax rate on stripper oil production in excess of 10 barrels a day; eliminates the distinction between pre-1985 and post-1985 stripper production for the purposes of taxation; clarifies the requirements for reporting oil and natural gas production from pre-1985 wells and post-1985 wells. Applies to oil produced and sold after June 30, 1999.

Fiscal Impact: $234,000, local govt. $498,000, schools $732,000, total

SB 530 (CH. 554). Revises the taxation of oil and natural gas production; revises the definition of "qualifying production" and definitions related to wells; shortens the time period for lower tax rates for qualifying production; distinguishes between pre-1999 and post-1999 oil and natural gas production for the purposes of taxation; revises tax rates applied to oil and natural gas production; provides a tax incentive for horizontally completed natural gas wells; establishes uniform tax rates for nonworking interest owners; incorporates tax revisions contained in HB 658 and HB 661; revises the distribution of oil and gas production taxes; provides a 1-year phase-in of certain provisions. Generally applies to oil and natural gas produced and sold to wells drilled (from pre-1999 and post-1999 wells) after Dec. 31, 1999.

Fiscal Impact: $707,000, local govt. $1,502,000, schools $2,209,000, total

Property Taxation

HB 669 (CH. 531). Revises and clarifies the valuation of railroad transportation property for the purposes of property taxation; specifies the methods to be used by the Department of Revenue in the valuation of railroad transportation property; provides definitions. Applies retroactively to tax years beginning after Dec. 31, 1998.

Fiscal Impact: $106,000, local govt. $131,000, schools $237,000 total

SB111 (CH 583). Exempts intangible personal property from property taxation; phases in over 3 years the exemption for intangible personal property that is centrally assessed (e.g. railroads, utilities, telecommunications, and pipelines); requires the Department of Revenue to adopt rules that specify the valuation methodology for intangible personal property owned by centrally companies; requires the Department of Revenue to report on intangible personal property annually to the Revenue and Taxation Committee and to the Legislature in 2001. The fiscal impact will be larger in the out years.

Fiscal Impact: $377,000, local govt. $463,000, schools $840,000, total

SB 184 (CH. 584) Generally revises property tax laws; revises (I-105) property tax limitations; establishes a procedure by which mill levies must be imposed in order to comply with tax limitations (allows mill levies to "float" except for statewide levies); provides a progressive exemption for a portion of the market value of certain residential (16% of the market value for tax year 1999 to 31% of the market value for tax year 2002) class four property; phases in the remainder of the value change in class four property (residential and commercial land improvements) from the 1997 reappraisal cycle over 4 years; phases in a tax rate reduction for class four property (and class three agricultural property) from 3.794% to 3.46%; phases in a rate reduction for class ten property (forest lands) from 0.79% to 0.35%; allows an extension of 1999 statutory deadlines relating to assessments, reimbursements, budgets, and collection of property taxes; provides for periodic reappraisal on a 6-year cycle and the phasing in of new values (new values would be in effect January 1, 2003); provides for reimbursement to local governments, schools, and tax increment districts for loss of property tax or other revenue as a result of the enactment of HB 128 (reduction in the property tax rate applied to telecommunications property), HB 174 (reduction in the property tax rate applied to electrical generation property), HB 658 (stripper well exemption), SB 200 (reduction in the tax rates applied to business equipment and livestock), and SB 530 (general revision of oil and natural gas production taxes); creates an interim local government funding and structure committee and an interim court funding and structure study committee; provides appropriations for reimbursements to local taxing jurisdictions for lost revenue under SB 260 to the general fund of local schools, for school BASE aid, and for the study committees. Applies retroactively to tax years beginning after Dec. 31, 1998. Section 167 related to the reimbursement of revenue to local taxing jurisdictions terminates Dec. 31, 2001.

Fiscal Impact: $25,8 million, local govt. $26.9 million, schools $52.7 million, total

SB 200 (CH. 285). Promotes economic growth and encourages business retention; reduces the tax rate on class eight property (business equipment) from 6% to 3% beginning in tax year 2000; provides an exemption from taxation class eight property for taxpayers owning an aggregate of $5,000 or less of business equipment; provides a phased-in rate reduction and eventual exemption from taxation of class eight property if Montana real wages and salaries increase by at least 2.85% from the prior year (in any tax year, beginning with tax year 2004); provides limited reporting requirements for exempt business equipment; reduces incrementally the tax rate on class sic property (primarily livestock and rental equipment) from 4% to 1% beginning in tax year 2000; exempts the property tax on class six property in 2003; reimburses local taxing jurisdictions for the phased-in rate reduction and elimination of class six property (reimbursement voided by SB 184); reimburses local taxing jurisdictions for the exemptions and phased-in rate reduction and elimination of class six property (reimbursement voided by SB 184); revises the indebtedness limitations of local taxing jurisdictions to offset class six and class eight property tax rate reductions; provides a statutory appropriation for property tax reimbursements (appropriation voided by SB 184).

Fiscal impact: $20.1 million, local govt. $24.7 million, schools $44.8 million, total

SB 274 (CH. 539). Exempts from property taxation space vehicles and business personal property used to design, manufacture, and launch space vehicles (VentureStar). Applies to tax years beginning after Dec. 31. 1999.

SB 532 (CH. 555). Exempts business personal property and livestock used by an industrial dairy from property taxation; defines "industrial dairy" and "industrial mild processor"; provides that milk and milk products processed by an industrial dairy or an industrial milk processor before export from the state to qualify for the exemption. Applies to industrial dairies and industrial milk processors established after June 30, 1999.

Utility Taxation

HB 128 (CH. 426). Generally revises the taxation of telecommunications services providers; imposes a 3.75% statewide retail telecommunication excise tax to replace revenue lost by reclassifying centrally assessed telecommunication services providers' property from class nine to a new property tax class thirteen and by repealing the telephone company license tax; taxes telecommunications property at 6% of its market value (formerly at 12%); requires that rural telephone cooperatives and rural electric cooperatives offering service in an area served by an incumbent local exchange provider collect the retail telecommunications excise tax from customers in the incumbent local exchange area; provides for the distribution of tax revenue (distribution to special revenue account voided by SB 184); provides that a percentage of the retail telecommunication excise tax be used to reimburse property tax revenue lost by reducing the tax rate on telecommunications services providers' property from 12% to 5% (reimbursement to local taxing jurisdictions voided by SB 184); reclassifies class seven (8% tax rate) telecommunications property as class five (3% tax rate); revises the debt limits of taxing jurisdictions. Applies to tax years beginning after Dec. 31, 1999.

Fiscal impact: $6.7 million, local govt. $8.3 million, schools $15 million, total

HB 174 (CH. 556). Generally revises the taxation of electrical generation facilities to comport with the emerging competitive markets in the supply of electricity; creates class thirteen property to include electrical generation facilities (and telecommunications services property included as class thirteen property in HB 128); provides a definition of "electrical generation facilities"; provides an exemption for qualifying small power production facilities; taxes all electrical generation facilities that were previously taxed under class nine (12% tax rate) as class thirteen property; taxes class thirteen property at 6% of its market value; imposes a 0.0015 cent per kilowatt-hour wholesale energy transaction tax on the transmission of electricity in the state; requires transmission services providers to collect the tax from owners of electrical generation facilities or from distribution services providers; provides exemptions from the wholesale energy transaction tax; allows the electric energy producers' license tax to be itemized on a customer's bill; provides for the distribution of wholesale energy transaction tax revenue to taxing jurisdictions (distribution voided by SB 184); provides a statutory appropriation for the distribution of tax revenue to taxing jurisdictions (appropriation voided by SB 184); revises the classification of counties; revises the debt limits of taxing jurisdictions. Applies to tax years beginning after December 31, 1999, and to fiscal years beginning after June 30, 2000.

Fiscal impact: $744,000, local govt. $1,412,000, schools $2,156,000 total