

HJ 36: OTHER REVENUE SOURCES

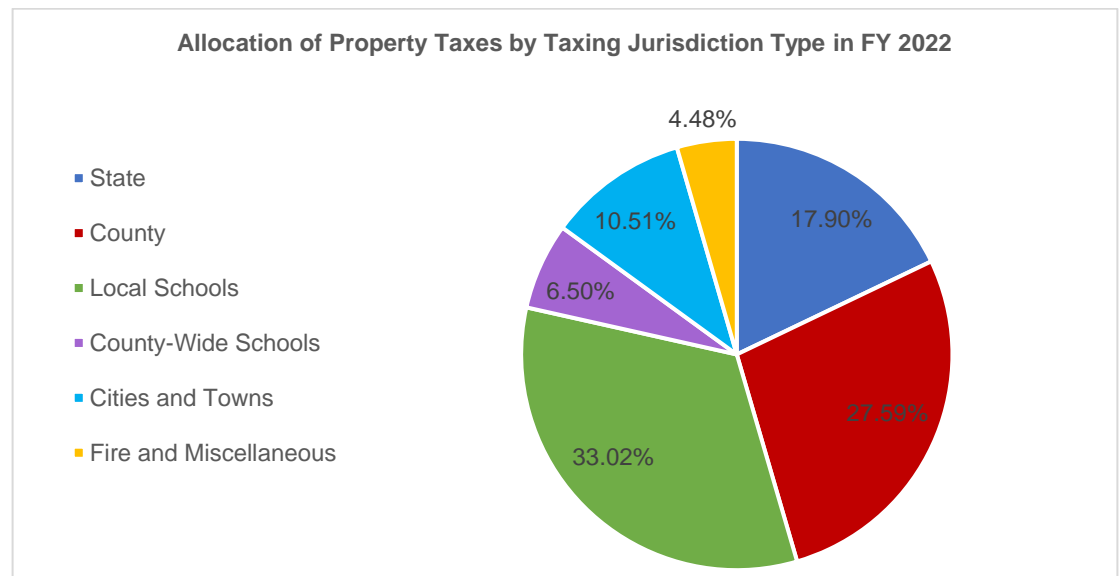
For the Revenue Interim Committee's study of residential property taxes, the committee requested information for discussions about replacing some property tax revenue with other sources of revenue. Members specifically asked for information on a statewide sales tax and capital gains taxation.

PROPERTY TAX COLLECTIONS NEAR \$2 BILLION

Property tax collections are the result of policies set by the state legislature and budgets adopted by local governments.

The legislature sets tax rates, makes policies on school funding requirements and how much revenue cities and counties can collect, and levies statewide property taxes for K-12 education, vocational-technical education, and the state university system. School districts, counties, cities, and special districts adopt budgets based on state law and local needs and preferences.

In fiscal year 2022, property tax collections that fund education and local governments are expected to total \$1.993 billion.



Source: Dylan Cole, Department of Revenue

The largest share of the revenue funds schools: 33%, or \$658 million, goes to local schools and 6.5%, or \$129.6 million, to county-wide school-related levies. In addition, 94% of the state portion of the revenue is deposited in the general fund.¹ This accounts for about 38% of total general fund distributions to schools.²

Taxes Levied by Jurisdiction Type

Taxing Jurisdiction	FY2021		FY2022	
	Tax Revenue	Percent of Total	Tax Revenue	Percent of Total
State	\$328,348,415	17.18%	\$356,591,368	17.90%
County	\$523,387,503	27.39%	\$549,771,437	27.59%
Local Schools	\$652,362,918	34.14%	\$657,987,701	33.02%
County-Wide Schools	\$130,658,163	6.84%	\$129,563,295	6.50%
Cities and Towns	\$198,842,671	10.41%	\$209,355,673	10.51%
Fire and Miscellaneous	\$77,290,254	4.04%	\$89,350,291	4.48%
	\$1,910,889,924	100.00%	\$1,992,619,764	100.00%

Source: Dylan Cole, Department of Revenue

2% SALES TAX RAISES NEARLY TOTAL OF LOCAL SCHOOL LEVIES

Department of Revenue estimates for a statewide sales tax modeled after South Dakota's suggest that Montana could raise more than \$300 million for each 1% of sales tax levied. South Dakota levies a broad-based sales tax that includes taxes on many goods and services.³

Two estimates are included: one that includes in the tax base motor vehicle and farm equipment sales and construction services and one that excludes them. For FY 2023, the estimate for a 1% taxes that exempts vehicles, farm equipment, and construction services is \$302 million after accounting for noncompliance and a vendor allowance. The estimate including those sales and services in the tax base is \$360.7 million.

Local schools raised \$658 million in property taxes in FY 2022 and countywide school levies accounted for another \$129.6 million. A 2.18% South Dakota-style sales tax that exempts

A 2.6% statewide sales tax like South Dakota's could raise enough revenue to replace local and countywide school levies.

¹ See the Appendix for a more detailed summary of property tax revenue by levy type.

² General fund distributions to public schools in [House Bill 2](#) were \$880,864,329 for FY 2022.

³ Finn McMichael, "Memo: Revenue Impact of Statewide Sales Tax – Modeled after South Dakota," April 18, 2022.

motor vehicle and farm equipment sales and construction services could raise enough revenue to replace local school property taxes. To replace the local school levies and the countywide levies, the tax would have to be 2.6%

CAPITAL GAINS TAXED AT REDUCED RATE SINCE 2005

Montana's capital gains income tax credit has existed since 2005, but the tax treatment of capital gains will change in 2024 when [Senate Bill 399](#) (2021) is fully implemented.

Prior to the enactment of [Senate Bill 407](#)⁴ (2003), capital gains claimed on a Montana income tax return were taxed as ordinary income. When implemented, SB 407 provided a credit equal to 1% of net capital gains in 2005 and 2006 and equal to 2% of net capital gains in 2007 and after. The non-refundable capital gains credit is equivalent to taxing capital gains at a reduced rate.

SB 399 makes considerable revisions to the Montana individual income tax. While the bill will repeal the capital gains credit in 2024, an adjustment elsewhere in the calculation of taxable income is intended to have a similar effect to the credit. If net long-term capital gains are included in federal taxable income, the taxpayer will subtract 30% of net-long term capital gains from federal taxable income (the new starting point for calculating Montana taxable income). The 30% figure is meant to approximate the 2% credit divided by the 6.75% top marginal tax rate in current law (which is reduced to 6.5% when SB 399 is fully implemented in 2024).

This fiscal note for SB 399 does not individually estimate the fiscal impact of the change to capital gains taxation.

For additional information about capital gains, see the following reports provided to the HJ 35 Committee in 2020:

- Aaron McNay, "[Memo: Types of Capital Gains Income](#)," March 19, 2020
- Aaron McNay, "[Memo: Capital Gains in Montana by Household](#)," March 19, 2020.

2021 BILLS AIMED TO REVISE CAPITAL GAINS CREDIT IN OTHER WAYS

The 2021 Legislature considered but failed to pass two bills that would have revised capital gains taxation and used the revenue to provide property tax relief.

[House Bill 672](#) sponsored by Rep. Jim Hamilton would have revised the capital gains credit to fund a circuit breaker. Under the bill, the capital gains credit would be 1% or 2% (depending on whether adjusted gross income is more than \$750,000) of the lesser of Montana source net capital gains or taxable income. The change in capital

⁴ SB 407 also capped the deduction for federal income tax paid, revised the income tax rate schedule, provided for a 3% sales tax on accommodations and a 4% sales tax on rental cars, and increased the cigarette tax and the tobacco products tax.

gains credit would have increased income tax revenue by \$10.5 million in tax year 2022. The House Taxation Committee tabled HB 672.

[Senate Bill 394](#) was introduced by Sen. Shannon O'Brien would have limited the capital gains tax credit to taxpayers with adjusted gross income of less than \$1 million and calculated the credit as 2% of the lesser of net capital gains or taxable income. The bill provided property tax relief to the elderly by revising the calculation of the elderly homeowner and renter credit and raising the maximum credit to \$1,700. The capital gains changes in SB 394 were estimated to increase income tax collections by \$16.7 million in tax year 2022. The bill failed to make the transmittal deadline.

APPENDIX

Taxes Levied on the Montana Property Tax Bill						
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Valuation¹						
Market Value of Taxable Property	136,934,429,644	148,339,510,804	151,023,043,539	166,215,859,888	169,216,191,395	188,310,423,351
Statewide Total Taxable Value	2,691,987,518	2,895,215,029	2,904,772,508	3,136,515,017	3,212,695,899	3,487,627,097
City/Town Taxable Value	919,157,377	979,467,125	990,265,593	1,077,527,165	1,078,981,836	1,177,071,095
Taxes Levied²						
State						
University	15,491,504	17,455,388	17,563,962	18,959,917	19,409,144	21,081,079
Vo-Tech (General Fund)	1,369,397	1,451,966	1,469,488	1,586,137	1,596,422	1,695,066
State General Fund	<u>257,908,937</u>	<u>276,405,990</u>	<u>278,124,867</u>	<u>300,229,431</u>	<u>307,342,850</u>	<u>333,815,223</u>
Subtotal State	274,769,838	295,313,344	297,158,316	320,775,486	328,348,415	356,591,368
County						
General	116,876,741	126,609,859	124,058,556	136,970,388	146,565,727	154,070,620
Road	55,615,371	56,393,977	60,829,727	63,574,232	65,456,925	69,837,496
Bridge	15,113,861	14,172,207	15,075,882	15,583,782	15,502,323	15,538,481
Entitlement	5,324,005	5,517,187	5,673,223	5,896,025	5,968,947	6,253,267
Bond Interest	0	0	0	0	0	0
County Fair	7,150,091	8,877,393	8,980,675	8,532,624	9,078,886	9,237,250
Library	12,965,969	14,870,744	15,512,643	16,276,265	16,773,847	17,510,308
Agricultural Extension	3,955,752	4,245,403	4,086,672	4,216,006	4,419,243	4,051,030
Planning	3,138,904	3,312,845	3,393,007	3,404,124	3,648,248	3,940,506
Health and Sanitation	10,842,902	43,696,194	46,555,306	55,032,425	55,817,111	58,844,017
Hospital	3,683,031	3,769,007	3,640,887	3,859,007	3,003,962	2,607,435
Airport	2,149,239	2,645,896	2,358,232	3,089,223	2,811,857	3,104,736
District Court	7,247,268	7,307,808	7,619,265	7,530,878	7,435,274	7,380,679
Weed Control	5,697,817	5,770,341	5,789,810	6,186,924	6,075,103	5,564,670
Senior Citizens	5,171,256	8,400,186	8,823,073	10,127,739	11,258,396	11,898,422
Public Safety	79,787,788	109,302,531	119,869,197	128,873,507	135,689,884	141,596,828
Other	<u>101,175,180</u>	<u>32,410,728</u>	<u>39,136,437</u>	<u>34,418,795</u>	<u>33,881,771</u>	<u>38,335,692</u>
Subtotal County	435,895,178	447,302,306	471,402,590	503,571,942	523,387,503	549,771,437
Local Schools						
Elementary	275,281,737	323,335,565	327,625,303	344,422,928	349,227,760	349,925,677
High School	155,434,923	181,713,418	188,931,156	194,167,571	194,089,228	195,500,146
K-12	63,852,009	74,580,017	89,522,972	95,873,021	100,811,931	103,900,420
Jr. College	<u>7,068,968</u>	<u>7,563,594</u>	<u>7,821,051</u>	<u>7,983,788</u>	<u>8,233,999</u>	<u>8,661,458</u>
Subtotal Local Schools	501,637,637	587,192,594	613,900,481	642,447,307	652,362,918	657,987,701
County-Wide Schools	109,143,305	119,124,717	126,502,579	123,665,080	130,658,163	129,563,295
Cities and Towns	164,529,140	171,739,280	177,769,753	192,560,706	198,842,671	209,355,673
Fire and Miscellaneous	58,756,356	77,523,883	65,727,808	73,472,884	77,290,254	89,350,291
Total Property Tax Based on Mills	\$1,544,731,454	\$1,698,196,124	\$1,752,461,527	\$1,856,493,405	\$1,910,889,924	\$1,992,619,764
S.I.D.'s and Fees	\$176,274,421	\$157,236,226	\$178,739,245	\$184,541,846	\$198,988,834	\$202,318,931
Total Property Taxes	\$1,721,005,875	\$1,855,432,350	\$1,931,200,772	\$2,041,035,251	\$2,109,878,758	\$2,194,938,696

1 State taxable value include local abatements, Source: State Assessor's Report

2 Includes revenue distributed to TIFDs, Source: Taxes Levied Report

Source: Dylan Cole, Department of Revenue

