



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: SB0322.02 R: Increase business equipment tax exemption

Primary Sponsor: Josh Kassmier Status: As Amended in Senate Committee

☐ Included in the Executive Budget ☒ Needs to be included in HB 2 ☒ Significant Local Gov Impact

☐ Significant Long-Term Impacts ☐ Technical Concerns ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>	<u>FY 2028</u> <u>Difference</u>	<u>FY 2029</u> <u>Difference</u>
Expenditures				
General Fund (01)	\$1,722,597	\$2,554,864	\$2,559,064	\$2,574,544
State Special Revenue (02)	(\$416,000)	(\$551,000)	(\$564,000)	(\$577,000)
Revenues				
General Fund (01)	(\$3,000)	(\$3,000)	(\$4,000)	(\$4,000)
State Special Revenue (02)	(\$416,000)	(\$551,000)	(\$564,000)	(\$577,000)
Net Impact	<u>(\$1,725,597)</u>	<u>(\$2,557,864)</u>	<u>(\$2,563,064)</u>	<u>(\$2,578,544)</u>
General Fund Balance				

Description of fiscal impact

SB 322, as amended, increases the class 8 business equipment property tax market value exemption from \$1 million to \$1.5 million. The change in exemption lowers taxable value. School equalization revenue from the 95 mills and vocational technical education mills are reduced. Local jurisdictions and the Montana University System are reimbursed for lost revenue through the Entitlement Share Payment, eliminating any tax shifting within these jurisdictions. School district mills are not reimbursed and will have tax shifts associated with them.

FISCAL ANALYSIS

Assumptions

Department of Revenue

1. Under current law, class 8 business equipment property receives an exemption of \$1 million of market value per aggregated business.
2. In tax year (TY) 2024, class 8 property statewide had an assessed market value after exemption of \$8.039 billion with an associated taxable value of \$195.022 million.
3. If the \$1.5 million exemption of SB 322, as amended, had been in place, the taxable value would instead be \$189.173 million, a reduction of \$5.849 million of taxable value.
4. This reduction in taxable value results in a \$484,000 decrease in school equalization mills deposited in the School Equalization and Property Tax Reduction (SEPTR) Account and a \$3,000 reduction in the vocational technical education mills deposited in the general fund.
5. Counties, cities, miscellaneous jurisdictions, and tax increment financing (TIF) districts are reimbursed for the difference between expected tax collections under current law and tax collections under SB 322 through the Entitlement Share program. This amounts to about \$882,000 for counties, \$295,000 for cities, \$121,000 for miscellaneous districts, and \$459,000 for TIFs.

6. The six mills levied for the university system are also reimbursed for lost revenue. This amounts to about \$35,000.
7. These estimates are grown by the factor contained in HJ 2 for class 8 property to account for growth in TY 2025.
8. There are two general types of class 8 business property: "lien-to-real" and "strict" personal property. "Lien-to-real" pays taxes at the same time as all other classes of property, one-half in November and one-half in May of the following year. This means lien-to-real property pays taxes in the fiscal year after the tax year. "Strict" personal property pays taxes in the spring of the same tax year it is assessed. This means strict personal property pays taxes in the same fiscal year as the tax year.
9. SB 322 applies beginning TY 2026; this means there is an FY 2026 effect only from the strict personal property taxes assessed in TY 2026. This taxable value effect is about 75% of the total taxable value reduction.
10. The entitlement share payments will include a one-time reimbursement in FY 2026 for strict personal property, and then an ongoing payment for FY 2027 forward for the full effect of SB 322.
11. The table below summarizes the entitlement share payments by fiscal year.

Jurisdiction	FY 2026(OTO)	FY 2027	FY 2028	FY 2029
University System	\$30,000	\$38,000	\$38,000	\$38,000
Counties	\$757,000	\$974,000	\$974,000	\$974,000
Cities	\$253,000	\$326,000	\$326,000	\$326,000
Miscellaneous	\$104,000	\$134,000	\$134,000	\$134,000
TIFs	\$39,400	\$507,000	\$507,000	\$507,000

Office of Public Instruction (OPI)

12. The decrease in statewide TV in SB 322 is less than the growth in HJ 2 therefore, the current year 95 mill revenue compared to the prior year 95 mill revenue is greater than prior year 95 mill revenue. Adjusted increases of TV between years would generate the need to distribute additional funding to the county retirement fund however current law, before any legislation is enacted, meets all the distribution maximums in 20-9-336, MCA, for all the "dials" therefore, any additional 95 mill revenue will be distributed to the SEPTR account with a like reduction to general fund expenditures for BASE aid funding. The reduction to TV pursuant to SB 322 will reduce the revenue to be deposited to the SEPTR account in each year with a like cost to state general fund.
13. The statewide present law taxable valuations are forecast to increase by 15.50% in FY 2026 and 1.07% in FY 2027.
14. Reductions to taxable value will adjust the value of each mill levied. As a result, additional mills will be required to achieve the same level of funding for the formulaic retirement GTB calculation. State retirement GTB described under section 20-9-366, MCA, will adjust for qualifying districts. The estimated amounts are in provided in the table below:

	FY 2026	FY 2027	FY 2028	FY 2029
District GF GTB	\$82,597	\$24,378	\$15,199	\$17,505
Local School Property Taxes	(\$82,597)	(\$24,378)	(\$15,199)	(\$17,505)

15. Reductions to taxable value will adjust the value of each mill levied. As a result, additional mills will be required to achieve the same level of funding for the formulaic retirement GTB calculation. State retirement GTB described under section 20-9-366, MCA, will adjust for qualifying districts. The estimated amounts are in provided in the table below:

	FY 2026	FY 2027	FY 2028	FY 2029
County Retirement GTB	\$40,600	\$486	\$865	\$1,039
Local County Property Taxes	(\$40,600)	(\$486)	(\$865)	(\$1,039)

Fiscal Analysis Table

	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>	<u>FY 2028</u> <u>Difference</u>	<u>FY 2029</u> <u>Difference</u>
<u>Fiscal Impact</u>				
<u>Expenditures</u>				
Transfers	\$30,000	\$38,000	\$38,000	\$38,000
Local Assistance	\$0	\$0	\$0	\$0
Entitlement Share Counties	\$757,000	\$974,000	\$974,000	\$974,000
District GF GTB	\$82,597	\$24,378	\$15,199	\$17,505
Entitlement Share TIFs	\$39,400	\$507,000	\$507,000	\$507,000
Entitlement Share Miscellaneous	\$104,000	\$134,000	\$134,000	\$134,000
Entitlement Share Cities	\$253,000	\$326,000	\$326,000	\$326,000
County Retirement GTB	\$40,600	\$486	\$865	\$1,039
TOTAL Expenditures	<u>\$1,306,597</u>	<u>\$2,003,864</u>	<u>\$1,995,064</u>	<u>\$1,997,544</u>
<u>Funding of Expenditures</u>				
General Fund (01)	\$1,722,597	\$2,554,864	\$2,559,064	\$2,574,544
State Special Revenue (02)	(\$416,000)	(\$551,000)	(\$564,000)	(\$577,000)
TOTAL Funding of Expenditures	<u>\$1,306,597</u>	<u>\$2,003,864</u>	<u>\$1,995,064</u>	<u>\$1,997,544</u>
<u>Revenues</u>				
General Fund (01)	(\$3,000)	(\$3,000)	(\$4,000)	(\$4,000)
State Special Revenue (02)	(\$416,000)	(\$551,000)	(\$564,000)	(\$577,000)
TOTAL Revenues	<u>(\$419,000)</u>	<u>(\$554,000)</u>	<u>(\$568,000)</u>	<u>(\$581,000)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u>				
General Fund (01)	(\$1,725,597)	(\$2,557,864)	(\$2,563,064)	(\$2,578,544)
State Special Revenue (02)	\$0	\$0	\$0	\$0

Effect on County or Other Local Revenues or Expenditures

1. The entitlement share reimbursement for taxing jurisdictions controlled by 15-10-420, MCA prevents tax shifts onto other property owners due to the reduction in class 8 taxable value.
2. SB 322 does not contain a reimbursement mechanism for school districts that lose taxable value. Taxable value is on average 0.12% lower under SB 322 as amended than current law and school mills will adjust upward by the same amount on average.
3. Local school property taxes will decrease by \$123,000 in FY 2026 and \$25,000 in FY 2027 for district general fund GTB and county retirement GTB.

Sponsor's Initials

Date


 Budget Director's Initials

4/16/2025

Date