



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:

HB0430 - Establish a rent local program funded with tax on short-term rentals (Gillette, Jane)

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

	<u>FY 2024 Difference</u>	<u>FY 2025 Difference</u>	<u>FY 2026 Difference</u>	<u>FY 2027 Difference</u>
Expenditures:				
General Fund	\$93,347	\$91,793	\$93,013	\$94,253
Revenue:				
General Fund	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance:	<u>(\$93,347)</u>	<u>(\$91,793)</u>	<u>(\$93,013)</u>	<u>(\$94,253)</u>

Description of fiscal impact: HB 430 would create a rent local program, funded by a local option tax of 0.25% on short-term rentals within the city, resort area, or county. This bill alone would not generate any additional revenues, because localities would have to elect to enact the rent local program and associated tax for any collections to occur. The Department of Revenue would need an additional 1.00 FTE tax examiner beginning in FY 2024 to handle the additional accounts and the collection and distribution of the short-term local-option rental tax revenue.

FISCAL ANALYSIS

Assumptions:**Department of Revenue**

- HB 430 would create a rent local program, funded by a local option tax of 0.25% on short-term rentals within the city, resort area, or county. The rent local program would provide rebates to property owners who rent residential dwellings to local employees. The local governing body would be responsible for administering the rent local program.

2. This bill alone would not have a fiscal impact to the local governments or to the state because the rent local program and associated short-term rental tax must be passed by individual localities for there to be an impact.
3. The effective date for this bill is January 1, 2024, so likely the soonest any elected local-option short-term rental taxes would take effect would be in FY 2025.
4. The HJ 2 forecast for total accommodations tax collections in FY 2025 is \$165 million. This is a combination of the 4% lodging facilities use tax and 4% accommodations sales tax. Based on accommodations tax returns from third-party booking companies for short-term rentals, it is assumed that short-term rentals currently account for about 30% of total accommodations tax collections, which would be about \$53 million in FY 2025.
5. For reference, if the local-option short-term rental tax of 0.25% were enacted statewide for FY 2025, the total estimated tax revenue generated would be about \$1.65 million. Currently over 60% of total short-term rental collections can be attributed to Gallatin and Flathead counties, with the top ten counties accounting for over 90% of the collections.
6. The Department of Revenue would retain 5% of the local-option short-term rental tax collections to help cover administrative costs, and the remaining 95% would be distributed back to the localities where they were collected to provide the property rebates.
7. The Department of Revenue would be responsible for the administration, collection, and distribution of the local-option short-term rental tax portion of this bill. The option for incorporated cities and towns, resort areas, and/or counties to enact the local-option short-term rental tax increases the number of potential accounts per short-term rental taxpayer from 73 to 195. Additionally, within each city, resort area, or county that enacts a local-option short-term rental tax, the Department of Revenue would have to identify which accounts are classified as short-term rentals and subject to the additional 0.25% tax.
8. To administer the local-option short-term rental tax in this bill, the Department of Revenue would need an additional 1.00 FTE tax examiner beginning in FY 2024 to handle the additional accounts and collection and distribution of the revenue. The total cost of this 1.00 FTE and associated costs would be \$93,347 in FY 2024, \$91,793 in FY 2025, \$93,013 in FY 2026, and \$94,253 in FY 2027.
9. This fiscal note assumes these costs would be funded through the general fund, but if/when some local-option short-term rental taxes are passed and implemented, the Department of Revenue would retain 5% of the collections to help cover the costs of administering the program.

Department of Commerce

10. Section 7 of the bill changes the language in 15-68-820, MCA, but makes no changes to the allocation to the Department of Commerce. Therefore, there would be no fiscal impact to the Department of Commerce.

	<u>FY 2024 Difference</u>	<u>FY 2025 Difference</u>	<u>FY 2026 Difference</u>	<u>FY 2027 Difference</u>
<u>Fiscal Impact:</u>				
FTE	1.00	1.00	1.00	1.00
<u>Expenditures:</u>				
Personal Services	\$81,789	\$83,096	\$84,153	\$85,225
Operating Expenses	\$11,558	\$8,697	\$8,860	\$9,028
TOTAL Expenditures	\$93,347	\$91,793	\$93,013	\$94,253
<u>Funding of Expenditures:</u>				
General Fund (01)	\$93,347	\$91,793	\$93,013	\$94,253
TOTAL Funding of Exp.	\$93,347	\$91,793	\$93,013	\$94,253
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
TOTAL Revenues	\$0	\$0	\$0	\$0
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$93,347)	(\$91,793)	(\$93,013)	(\$94,253)

Effect on County or Other Local Revenues or Expenditures:

1. The local governments that elect to enact the 0.25% short-term rental tax would receive back 95% of the revenue generated in their city, resort area, or county to provide rebates to property owners who rent residential dwellings to local employees.

NOT SIGNED BY SPONSOR

			2-15-23
<i>Sponsor's Initials</i>	<i>Date</i>	<i>Budget Director's Initials</i>	<i>Date</i>