



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2025 Biennium

**Bill information:**

SB0530 - Generally revise taxation of new, expanded, or improved industrial property (Hertz, Greg )

**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

	<b>FY 2024 Difference</b>	<b>FY 2025 Difference</b>	<b>FY 2026 Difference</b>	<b>FY 2027 Difference</b>
<b>Expenditures:</b>				
General Fund	\$6,000	\$0	\$0	\$0
State Special Revenue	\$0	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	(\$100,000)	(\$550,000)	(\$800,000)	(\$1,050,000)
State Special Revenue	(\$7,000)	(\$35,000)	(\$50,000)	(\$65,000)
<b>Net Impact-General Fund Balance:</b>	<u>(\$106,000)</u>	<u>(\$550,000)</u>	<u>(\$800,000)</u>	<u>(\$1,050,000)</u>

**Description of fiscal impact:** SB 530 creates an exemption for property used in a manufacturing process. The exemption is 100% of taxable value for the first five years and then the exemption is phased out at 20% per year over five additional years for a total exemption lifetime of 10 years.

### FISCAL ANALYSIS

**Assumptions:****Department of Revenue**

- HJ 2 contains estimated increases in the taxable value of class 8 property by fiscal year. Those increases are \$4.47 million in FY 2024, \$3.52 million in FY 2025, \$3.61 million in FY 2026, and \$3.69 million in FY 2027.
- These estimates are decreased by 10% to approximate the effects of the passage and approval of HB 212 which increased the market value exemption on business equipment from \$300,000 to \$1 million.
- Based on the current split of property in class 8, roughly 80% of this new property is expected to fall under the manufacturing machinery, fixtures, and equipment definition contained in SB 530.
- Year-over-year exempt property is estimated at \$3.23 million in FY 2023, \$2.55 million in FY 2024, \$2.61 million in FY 2025, and \$2.67 million in FY 2026.

5. Normally fiscal year effects are a year removed from the tax year, meaning FY 2024 is based on TY 2023 records. SB 530 is effective starting TY 2024.
6. Class 8 property is unlike most other property in the state due to its inherently mobile nature. Some degree of class 8 property is strict personal property. This property pays taxes in the fiscal year of the tax year.
7. Therefore, there are fiscal effects in FY 2024 due to the strict personal property portion of the exempted property under SB 530. Strict personal property accounted for 34.2% of class 8 property in TY 2022. It is assumed this same percentage would apply to SB 530 exempt property.
8. This exempt property reduces general fund revenue through the 95 mills levied for school equalization, as well as the 0.5 weighted average mill for vocational technical education.
9. This property also represents a reduction to the Montana University System 6 mills.
10. System changes to track and implement exemptions under SB 530 will cost \$6,000 in FY 2024.

<b><u>Fiscal Impact:</u></b>	<b><u>FY 2024 Difference</u></b>	<b><u>FY 2025 Difference</u></b>	<b><u>FY 2026 Difference</u></b>	<b><u>FY 2027 Difference</u></b>
<b>FTE</b>	0.00	0.00	0.00	0.00
<b><u>Expenditures:</u></b>				
Personal Services	\$0	\$0	\$0	\$0
Operating Expenses	\$6,000	\$0	\$0	\$0
<b>TOTAL Expenditures</b>	<u>\$6,000</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$6,000	\$0	\$0	\$0
<b>TOTAL Funding of Exp.</b>	<u>\$6,000</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b><u>Revenues:</u></b>				
General Fund (01)	(\$100,000)	(\$550,000)	(\$800,000)	(\$1,050,000)
State Special Revenue (02)	(\$7,000)	(\$35,000)	(\$50,000)	(\$65,000)
<b>TOTAL Revenues</b>	<u>(\$107,000)</u>	<u>(\$585,000)</u>	<u>(\$850,000)</u>	<u>(\$1,115,000)</u>

**Net Impact to Fund Balance (Revenue minus Funding of Expenditures):**

General Fund (01)	(\$106,000)	(\$550,000)	(\$800,000)	(\$1,050,000)
State Special Revenue (02)	(\$7,000)	(\$35,000)	(\$50,000)	(\$65,000)

**Effect on County or Other Local Revenues or Expenditures:**

1. Statewide taxable value is expected to be about 0.2% lower under SB 530 than current law. All else equal, local mills will be 0.2% higher as a result.

**Long-Term Impacts:**

1. From FY 2029 onward, property will fall from full exemption status into partial exemption status as the exemption phases out by 20% each year. Assuming a constant rate of new equipment, the tax expenditure will increase less rapidly beginning FY 2029 and stabilize in FY 2034.

NO SPONSOR SIGNATURE

3/28/23

*[Handwritten Signature]*

3-28-23

Sponsor's Initials

Date

Budget Director's Initials

Date