



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: HB0844.02 (002): Revise the taxation of class eight business equipment

Primary Sponsor: Mike Vinton Status: As Amended in House 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)	\$1,769,843	\$2,188,182	\$2,212,531	\$2,236,201
State Special Revenue (02)	\$0	\$0	\$0	\$0
SEPTR	(\$422,000)	(\$539,000)	(\$561,000)	(\$588,000)
University	(\$27,000)	(\$34,000)	(\$34,000)	(\$34,000)
Revenues				
General Fund (01)	(\$2,000)	(\$3,000)	(\$3,000)	(\$3,000)
State Special Revenue (02)	\$0	\$0	\$0	\$0
SEPTR	(\$422,000)	(\$539,000)	(\$561,000)	(\$588,000)
University	(\$27,000)	(\$34,000)	(\$34,000)	(\$34,000)
Net Impact	<u>(\$1,771,843)</u>	<u>(\$2,191,182)</u>	<u>(\$2,215,531)</u>	<u>(\$2,239,201)</u>
General Fund Balance				

Description of fiscal impact

HB 844 as amended in the House Taxation Committee, increases the class 8 business equipment property tax market value exemption from \$1 million to \$1.5 million beginning TY 2026 and adjusts the exemption each year based on changes in the consumer price index. It also exempts individual pieces of personal property with a cost of less than \$250. These changes lower statewide taxable value by \$5.672 million (0.10% reduction). School equalization revenue from the 95 mills and vocational technical education mills are reduced. Local government jurisdictions and the Montana University System are reimbursed for lost revenue through the Entitlement Share Payment, eliminating tax shifting within these jurisdictions. School districts are not directly reimbursed and will have tax shifts associated with them, to the extent they are not offset by adjustments to state school guaranteed tax base aid (GTB) programs.

FISCAL ANALYSIS

Assumptions

Department of Revenue

- Under current law, class 8 business equipment property receives an exemption of \$1 million of market value per aggregated business.
- In tax year (TY) 2024, the taxable value (TV) of class 8 property statewide was \$192.699 million. Grown by HJ 2 forecasts for class 8 property, in TY 2026, when HB 844 takes effect, the TV of property is expected to be \$219.242 million.

3. Under HB 844, with the \$1.5 million aggregated exemption and the exemption of individual pieces of property less than \$250, the TY 2026 taxable value would instead be \$213.570 million, a reduction of \$5.672 million (0.10% statewide). Approximately \$179,000 of the TV reduction is the result of the exemption of individual pieces of property less than \$250. The remaining \$5.493 million reduction is from increasing the aggregate exemption to \$1.5 million.
4. The \$1.5 million aggregate exemption will grow by inflation according to the consumer price index, rounded to the nearest \$1,000. The exemption amount is estimated to be \$1.5 million in TY 2026, \$1.529 million in TY 2027, and \$1.564 million in TY 2028.
5. The reduction in TV results in a \$539,000 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.
6. Counties, cities, miscellaneous jurisdictions, and tax increment financing (TIF) districts are reimbursed for the difference between the expected tax collections under current law and tax collections under HB 844 through the Entitlement Share Program. This amounts to about \$856,000 for counties, \$289,000 for cities, \$50,000 for miscellaneous jurisdictions, and \$436,000 for TIFs. This is a general fund expenditure in TY 2026 when the bill takes effect.
7. 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.
8. HB 844 applies beginning TY 2026; this means there is an FY 2026 effect only from the strict personal property taxes assessed in TY 2026. This TV effect is about 78% of the total TV reduction.
9. 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 HB 844.
10. School taxes are not reimbursed and will be shifted to other classes of property.
11. The following table contains the TV reduction and the impact on affected taxing jurisdictions.

Impact	Taxing Jurisdiction	FY 2026	FY 2027	FY 2028	FY 2029
Taxable Value		(\$4,439,000)	(\$5,672,000)	(\$5,903,000)	(\$6,189,000)
Foregone Revenue	SEPTR	(\$422,000)	(\$539,000)	(\$561,000)	(\$588,000)
Foregone Revenue	Vo-tech	(\$2,000)	(\$3,000)	(\$3,000)	(\$3,000)

Impact	Taxing Jurisdiction	FY 2026	FY 2027	FY 2028	FY 2029
Entitlement Share	University	(\$27,000)	(\$34,000)	(\$34,000)	(\$34,000)
Entitlement Share	Cities/Towns	(\$227,000)	(\$289,000)	(\$289,000)	(\$289,000)
Entitlement Share	County	(\$670,000)	(\$856,000)	(\$856,000)	(\$856,000)
Entitlement Share	TIFs	(\$341,000)	(\$436,000)	(\$436,000)	(\$436,000)
Entitlement Share	Miscellaneous	(\$39,000)	(\$50,000)	(\$50,000)	(\$50,000)
Total General Fund Expense		(\$1,304,000)	(\$1,665,000)	(\$1,665,000)	(\$1,665,000)

12. System changes and other administrative expenses will be absorbed by the department.

Office of Public Instruction

13. HB 844, as amended, reduces taxable value which 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 and required BASE levy area of a district's general fund budget. State general fund 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	\$46,968	\$20,462	\$20,855	\$18,583
Local School Property Taxes	(\$46,968)	(\$20,462)	(\$20,855)	(\$18,583)

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
County Retirement GTB	\$25,875	\$720	\$2,676	\$1,618
Local School Property Taxes	(\$25,875)	(\$720)	(\$2,676)	(\$1,618)

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	\$0	\$0	\$0	\$0
University	(\$27,000)	(\$34,000)	(\$34,000)	(\$34,000)
Vo-Tech	(\$2,000)	(\$3,000)	(\$3,000)	(\$3,000)
Local Assistance	\$0	\$0	\$0	\$0
Entitlement Share-Miscellaneous	\$39,000	\$50,000	\$50,000	\$50,000
Entitlement Share-TIFs	\$341,000	\$436,000	\$436,000	\$436,000
Entitlement Share-Counties	\$670,000	\$856,000	\$856,000	\$856,000
Entitlement Share-Cities/Towns	\$227,000	\$289,000	\$289,000	\$289,000
County Retirement GTB	\$25,875	\$720	\$2,676	\$1,618
District GF GTB	\$46,968	\$20,462	\$20,855	\$18,583
TOTAL Expenditures	<u>\$1,320,843</u>	<u>\$1,615,182</u>	<u>\$1,617,531</u>	<u>\$1,614,201</u>
<u>Funding of Expenditures</u>				
General Fund (01)	\$1,769,843	\$2,188,182	\$2,212,531	\$2,236,201
State Special Revenue (02)	\$0	\$0	\$0	\$0
SEPTR	(\$422,000)	(\$539,000)	(\$561,000)	(\$588,000)
University	(\$27,000)	(\$34,000)	(\$34,000)	(\$34,000)
TOTAL Funding of Expenditures	<u>\$1,320,843</u>	<u>\$1,615,182</u>	<u>\$1,617,531</u>	<u>\$1,614,201</u>
<u>Revenues</u>				
General Fund (01)	(\$2,000)	(\$3,000)	(\$3,000)	(\$3,000)
State Special Revenue (02)	\$0	\$0	\$0	\$0
SEPTR	(\$422,000)	(\$539,000)	(\$561,000)	(\$588,000)
University	(\$27,000)	(\$34,000)	(\$34,000)	(\$34,000)
TOTAL Revenues	<u>(\$451,000)</u>	<u>(\$576,000)</u>	<u>(\$598,000)</u>	<u>(\$625,000)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u>				
General Fund (01)	(\$1,771,843)	(\$2,191,182)	(\$2,215,531)	(\$2,239,201)
State Special Revenue (02)	\$0	\$0	\$0	\$0
SEPTR	\$0	\$0	\$0	\$0
University	\$0	\$0	\$0	\$0

Effect on County or Other Local Revenues or Expenditures

Department of Revenue

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.

Office of Public Instruction

2. Local school property taxes will decrease by \$73,000 in FY 2026 and by \$21,000 in FY 2027 and beyond due to State GTB subsidies to local school districts and school countywide retirement expense.

NOT SIGNED BY SPONSOR

Sponsor's Initials

Date



Budget Director's Initials

4/7/2025

Date