GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title:	**HB0489.01: Revise sales tax laws to provide for local option tax**
Primary Sponsor:	Greg Oblander
Status:	As Introduced

☐ 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

	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
Expenditures				
General Fund (01)	$0	$0	$0	$0
Revenues				
General Fund (01)	$0	$0	$0	$0
Net Impact General Fund Balance	$0	$0	$0	$0

Description of fiscal impact

HB 489 creates a framework for establishing local option sales tax by the electorate in each county and provides a basis for distributing collections if the electorate in any county opts to establish such a tax. The amount of collections are to be dedicated to providing property tax relief in both counties that vote to enact a local option sales tax (90%) and a small portion (9.75%) of those counties that do not. This bill itself does not generate any tax revenue, because it creates the opportunity for counties to enact the tax. However, applying the bill provisions in counties that elect the tax would affect rental vehicle and accommodations sales tax distributions in those counties. If the seven largest counties enacted this local option tax it could reduce state rental car and accommodation tax collections by approximately $50-$70 million.

FISCAL ANALYSIS

Assumptions

Department of Revenue

1. HB 489 creates a local option sales tax with the purpose of providing property tax relief. The effective date is July 1, 2026, Which would put it on the November 2026 general election ballot. If it were to pass it would likely apply to sales beginning in FY 2028 (CY 2027) in counties that vote to enact it.
2. Each county may determine which goods and services are subject to the tax, the duration of the tax, up to 10 years and the tax rate , up to a maximum of 4%. The sales tax may not be charged on rental vehicles, accommodations, or basic necessities.
3. Collections of any enacted local option tax are to be distributed as follows:
   a. 90% to provide property tax relief in the county electing the tax;
   b. 9.75% to the local option tax distribution account for property tax relief in counties not electing a local option tax; and

   c. 0.25% retained by retailers collecting and remitting the tax for administrative costs.
4. The property tax relief is provided in the form of a credit on property tax bills of primary residences and long-term rental properties and would not impact property tax collections by local governments or the state. The Department of Revenue is responsible for providing a list of the eligible properties to the counties (2023 rebates, PTAP, 2EC, etc.), Properties not on the DOR list (based on information available to the department) would have the ability to apply with the county to get on the list and to receive the property tax rebate.
5. The distribution of the 9.75% of local option tax revenue to counties not electing a local option tax would be made using the formula provided in 15-70-101 (2)(b), MCA, the formula for distributing fuel tax revenue to the local government road construction and maintenance restricted account.
6. While the local option tax may not be collected on vehicle rentals or accommodations, collections from the state sales tax on rental vehicles and accommodations in counties that elect a local option sales tax would be redirected back to the county where the sale occurred and must be used for property tax relief. This would require changes to the rental vehicle sales tax and accommodations sales tax forms to specify which county sales occurred in. It would also require taxpayers with sales in multiple counties to break out the sales by county or file separate returns for each county.
7. Depending on how many and which counties elect to enact the local option sales tax, rental vehicle and accommodations sales tax collections by the state could be significantly reduced. However, HB 489 only enables counties to enact the local sales tax, so this bill does not create any fiscal impacts.
8. The Department of Revenue would be responsible for collecting the portion of the local option tax going into the distribution account and redistributing that out to counties not electing a local option tax. The department is able to retain 5% of these funds that it collects but would need an appropriation to spend that money. Any additional costs to the department once counties begin enacting the local option tax would be able to be covered by this 5%.
9. Rules will need to be developed, and forms updated, but the department does not expect to need additional FTE to administer this bill at start-up.

Effect on County or Other Local Revenues or Expenditures
Department of Revenue

1. Depending on how many and which counties elect to enact the local option sales tax and the breadth of the goods and services taxed, local collections could be substantial. For example, if the seven largest counties elected to enact the local option tax, based on the department's sales tax model, and assuming a moderate amount of non-essential goods and services were subject to the local option tax, approximately \$600-\$750 million in annual revenue could be generated from the seven largest counties with \$55-\$69 million of that being distributed to the other, non-electing counties. Additionally, the rental vehicle ad accommodations sales tax revenue being distributed back to those seven counties would likely total approximately \$50-\$70 million.

Technical Concerns
Department of Revenue

1. Section 8 of the bill does not explicitly state how the 9.75% of the local option tax revenue is deposited into the local option distribution account. This clarification will be needed to have the funds deposited into the account for distribution by the Department of Revenue.
2. Section 9(2)(b)(ii) of the bill requires the department to share information on properties claiming the elderly homeowner and renter credit with counties. This violates the tax disclosure laws.

	2/22/25		2/22/2025
Sponsor's Initials	Date	Budget Director's Initials	Date