



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 Amended in House Committee

- |  |   |  |
|--|---|--|
| <input checked="" type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2  | <input checked="" type="checkbox"/> Technical Concerns   |
| <input type="checkbox"/> Included in the Executive Budget        | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

### FISCAL SUMMARY

	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>
<b>Expenditures:</b>				
General Fund	\$6,000	\$0	\$0	\$0
State Special Revenue	\$0	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	(\$95,000)	(\$500,000)	(\$720,000)	(\$950,000)
State Special Revenue	(\$6,000)	(\$31,000)	(\$46,000)	(\$60,000)
<b>Net Impact-General Fund Balance:</b>	<u>(\$101,000)</u>	<u>(\$500,000)</u>	<u>(\$720,000)</u>	<u>(\$950,000)</u>

**Description of fiscal impact:** SB 530 creates an exemption for property used in a manufacturing process. As amended in the House Taxation Committee, an 80% of taxable value exemption is granted automatically on application. Businesses may apply to the county commission where the equipment is placed into service for an additional 10% or 20% of taxable value exemption . The maximum exemption is set for the initial five years and then phases-out in 20% annual increments over the next five years.

### FISCAL ANALYSIS

**Assumptions:**

**Department of Revenue**

1. 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.
2. 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.
3. 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.
4. It is estimated that the average exemption granted will be 90% of taxable value.

5. Taxable value of year-over-year exempt property is estimated at \$2.91 million in FY 2023, \$2.29 million in FY 2024, \$2.35 million in FY 2025, and \$2.40 million in FY 2026.
6. 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. However, class 8 property is unlike most other property in the state due to its inherently mobile nature. A share 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 bill also reduces the taxable value Montana University System 6 mill (state special revenue) property.
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>	<b>\$6,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$6,000	\$0	\$0	\$0
<b>TOTAL Funding of Exp.</b>	<b>\$6,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b><u>Revenues:</u></b>				
General Fund (01)	(\$95,000)	(\$500,000)	(\$720,000)	(\$950,000)
State Special Revenue (02)	(\$6,000)	(\$31,000)	(\$46,000)	(\$60,000)
<b>TOTAL Revenues</b>	<b>(\$101,000)</b>	<b>(\$531,000)</b>	<b>(\$766,000)</b>	<b>(\$1,010,000)</b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	(\$101,000)	(\$500,000)	(\$720,000)	(\$950,000)
State Special Revenue (02)	(\$6,000)	(\$31,000)	(\$46,000)	(\$60,000)

**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, a portion of this exempt property will begin to phase-up into partial exemption status. Assuming a constant rate of qualifying new equipment, the tax expenditure (revenue reduction) will increase less rapidly beginning FY 2029 and should stabilize after FY 2033.

**Technical Notes:**

1. The application deadline of March 1 and subsequent 120 days for local review means that this property exemption would create a very tight timeline and puts the department behind schedule with respect to normal assessment noticing timelines. This potentially could delay the certification of value for local taxing jurisdictions. While the language for this exemption mirrors the new and expanding industry (NEI) timeline, there are relatively few applications for NEI. NEI exemptions are almost always requested in advance of project investment as the abatement is not guaranteed. The SB 530 exemption has broad coverage and automatically grants an 80% abatement, the Department anticipates many more applications that are not always requested in advance of equipment being placed into service.
2. The definition of “manufacturing machinery, fixtures and equipment” in SB 530 is broad and may lead to litigation. Businesses have successfully argued that buildings (structures) are necessary for the transformation of raw products into finished goods. Given that precedent, there is ambiguity with regard to the property that would qualify for the exemption. More narrow definition for manufacturing machinery, fixtures and equipment, or granting the exemption to all class 8 personal property would facilitate the administration of this exemption.

NO SPONSOR SIGNATURE

4.21.23

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*Sponsor's Initials*

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*Date*



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*Budget Director's Initials*

4-20-23

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*Date*