GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title:	**SB0322.03 (001): Increase business equipment tax exemption**		
Primary Sponsor:	Josh Kassmier	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

	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
Expenditures				
General Fund (01)	$2,240,012	$3,467,313	$3,549,169	$3,650,591
State Special Revenue (02)	$0	$0	$0	$0
SEPTR	($485,000)	($815,000)	($852,000)	($891,000)
University	($33,000)	($55,000)	($57,000)	($58,000)
Revenues				
General Fund (01)	($2,000)	($4,000)	($4,000)	($4,000)
State Special Revenue (02)	$0	$0	$0	$0
SEPTR	($485,000)	($815,000)	($852,000)	($891,000)
University	($33,000)	($55,000)	($57,000)	($58,000)
Net Impact	($2,242,012)	($3,471,313)	($3,553,169)	($3,654,591)
General Fund Balance				

Description of fiscal impact

SB 322, as amended in House Taxation Committee, increases the class 8 business equipment property tax market value exemption from $1 million to $1.5 million and annually adjusts the exemption by inflation. The amended bill also exempts any piece of equipment with an acquired cost less than $500. These changes lower taxable value. School equalization revenue from the 95 mills and vocational technical education mills are reduced. Local jurisdictions are reimbursed for lost revenue through the entitlement share payment, eliminating any tax shifting within these jurisdictions. School districts will receive $170,012 in FY 2026 and $34,313 in FY 2027 for GTB adjustments.

FISCAL ANALYSIS

Assumptions

1. Under current law, class 8 business equipment property receives an exemption of $1 million of market value per aggregated business.
2. In Tax Year 2024, class 8 property statewide had an assessed market value after exemption of $8.039 billion with an associated taxable value of $195.022 million.
3. After eliminating pieces of property with acquired cost less than $500 and implementing a market value exemption of $1.5 million, that same property would have a taxable value of $186.710 million, a reduction of $8.312 million of taxable value.

4. This reduction in taxable value results in a $716,000 decrease in school equalization mills deposited in the school equalization and property tax reduction (SEPTR) account and a $4,000 reduction in the vocational technical education mills deposited in the general fund.
5. Counties, cities, miscellaneous jurisdictions, and tax increment financing (TIF) districts are reimbursed for the difference between expected tax collections under current law and tax collections under SB 322 through the entitlement share program. This amounts to about $1.432 million for counties, $306,000 for cities, $136,000 for miscellaneous districts, and $469,000 for TIFs.
6. The six mills levied for the university system are not reimbursed for lost revenue. This amounts to about $56,000.
7. These estimates are grown by the factor contained in HJ 2 for class 8 property to account for growth in TY 2025.
8. 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.
9. SB 322 applies beginning TY 2026; this means there is an FY 2026 effect only from the strict personal property taxes assessed in TY 2026. This taxable value effect is about 61% of the total taxable value reduction.
10. 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 SB 322.
11. The amendment placed on the bill in House Taxation Committee also created an inflation adjustment to the class 8 exemption. This exemption threshold change must also be reimbursed through the entitlement share and increase the reductions in collections of state levied mills.
12. The entitlement share reimbursement for each entity is grown by the rate of inflation contained in HJ 2. There is both a one-time reimbursement for the strict personal losses in each tax year and an increase to the ongoing reimbursement each year. The table below shows the entitlement share distributions.

	FY 2026	FY 2027	FY 2028	FY 2029
University System	$33,000	$55,000	$57,000	$58,000
Counties	$970,000	$1,603,000	$1,638,000	$1,674,000
Cities	$207,000	$342,000	$350,000	$357,000
Misc.	$92,000	$152,000	$155,000	$159,000
TIFs	$318,000	$525,000	$536,000	$548,000
Total General Fund	$1,620,000	$2,677,000	$2,736,000	$2,796,000

13. State mill revenue losses are also increased by the combined rate of class 8 growth contained in HJ 2 and the expected inflation rate in HJ 2.

Office of Public Instruction

14. SB 322 adjusts the exception on class 8 business equipment from $1 million to $1.5 million, and includes adjustment for inflationary growth, the change adjusts district and statewide taxable valuations (TV). This $8.0 million decrease in TV will impact the calculation of guaranteed tax base (GTB) aid beginning FY 2027.
15. The decrease in statewide TV in SB 322 results in less growth in prior year estimated 95 mill revenue therefore, the current year 95 mill revenue compared to the prior year 95 mill revenue is greater than prior year 95 mill revenue. Adjusted increases of TV between years would generate the need to distribute additional funding to the county retirement fund however current law, before any legislation is enacted, meets all the distribution maximums in 20-9-336, MCA, for all the "dials" therefore, any additional 95 mill revenue will be distributed to the SEPTR account with a like reduction to general fund expenditures for BASE aid funding.

16. The statewide present law taxable valuations are forecast to increase by 15.50% in FY 2026 and 1.07% in FY 2027.
17. 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 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 GT	$113,984	$33,642	$20,975	$24,157
Local School Property Taxes	($113,984)	($33,642)	($20,975)	($24,157)

18. 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	$56,028	$671	$1,194	$1,434
Local Countywide Property Taxes	($56,028)	($671)	($1,194)	($1,434)

Fiscal Analysis Table

	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
Fiscal Impact				
Expenditures				
Transfers	$0	$0	$0	$0
Universities	($33,000)	($55,000)	($57,000)	($58,000)
Vo-Tech	($2,000)	($4,000)	($4,000)	($4,000)
Local Assistance	$0	$0	$0	$0
District GF GTB	$113,984	$33,642	$20,975	$24,157
County Retirement GTB	$56,028	$671	$1,194	$1,434
Entitle Share Miscellaneous	$92,000	$152,000	$155,000	$159,000
Entitle Share Cities	$207,000	$342,000	$350,000	$357,000
Entitle Share Counties	$970,000	$1,603,000	$1,638,000	$1,674,000
Entitle Share TIFs	$318,000	$525,000	$536,000	$548,000
TOTAL Expenditures	**$1,722,012**	**$2,597,313**	**$2,640,169**	**$2,701,591**
Funding of Expenditures				
General Fund (01)	$2,240,012	$3,467,313	$3,549,169	$3,650,591
State Special Revenue (02)	$0	$0	$0	$0
SEPTR	($485,000)	($815,000)	($852,000)	($891,000)
University	($33,000)	($55,000)	($57,000)	($58,000)
TOTAL Funding of Expenditures	**$1,722,012**	**$2,597,313**	**$2,640,169**	**$2,701,591**
Revenues				
General Fund (01)	($2,000)	($4,000)	($4,000)	($4,000)
State Special Revenue (02)	$0	$0	$0	$0
University	($33,000)	($55,000)	($57,000)	($58,000)
SEPTR	($485,000)	($815,000)	($852,000)	($891,000)
TOTAL Revenues	**($520,000)**	**($874,000)**	**($913,000)**	**($953,000)**
Net Impact to Fund Balance (Revenue minus Funding of Expenditures)				
General Fund (01)	($2,242,012)	($3,471,313)	($3,553,169)	($3,654,591)
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

19. 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.
20. SB 322 does not contain a reimbursement mechanism for school districts that lose taxable value. Taxable value is on average 0.17% lower under SB 322 as amended than current law and school mills will adjust upward by the same amount on average.

Office of Public Instruction

1. Local property taxes will decrease by $170,012 in FY 2026 and $34,313 in FY 2027 due to GTB adjustments related to SB 322, as amended.

Technical Concerns

Department of Revenue

1. Each year, the department must calculate the difference in tax collections for class 8 property in every taxing jurisdiction by comparing the current exemption threshold to the next year's inflation-adjusted

exemption. The department then reimburses taxing jurisdictions for this difference. This will result in many taxing jurisdictions receiving very small increased reimbursements, which include both a one-time strict personal property payment and an ongoing adjustment. County treasurers must allocate these reimbursements among the various taxing jurisdictions, and local governments must adjust their 15-10-420, MCA calculations accordingly. To avoid this complexity, it is recommended to modify 15-1-123, MCA to exempt the threshold inflation adjustment from the reimbursement.

NO SPONSOR SIGNATURE 4.24

Sponsor's Initials Date

RC 4/23/2025

Budget Director's Initials Date