Montana Department of Revenue

Mike Kadas
Director

Steve Bullock
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Memorandum

To: Mike Kadas, Director
Montana Department of Revenue

From: Eric Dale, Tax Policy and Research
Montana Department of Revenue

Date: September 28, 2017

Subject: Small Business Impact Analysis of Rules Relating to Trended Depreciation Schedules of Tangible Personal Property and Changing MAR 42-2-987

ARM 42.21.157, requires the Department to update the depreciation schedules of tangible personal property on an annual basis. The purpose of these depreciation schedules is to account for the effect wear and tear has on the value of tangible personal property.

The annual changes to ARM 42.21.113 through ARM 42.21.155 and ARM 42.21.1311 affect all businesses with tangible personal property. In the annual updating of the depreciation schedules, the Department allows its appraisers to account for the impact of an additional year of wear and tear has had on the value of tangible personal property. These changes allow the department to determine a more accurate market value of personal property. Small businesses would see a negative impact if these tables were not updated. Without the ability to apply current depreciation schedules, the Department's appraisers would overstate the value of this property.

House Bill 115, of the 2017 Legislative Session, replaced the requirement that the department use a specifically named publication to value farm machinery with language that allows the department to seek out and use other published valuation guides that meet the criteria in the statute instead. Therefore, the department proposes updating the rules to strike the former guide from the rule and add language to adopt, by reference, the same online valuation source the department has been using to valuing heavy equipment for many years. Using a single valuation source for both heavy equipment and farm machinery offers the department an opportunity to cut annual costs and improve efficiency.

In addition to making the annual updates, the new valuation source makes the following changes to the depreciation schedules.

Current Year	Trended % Good	Prior Year	Prior Year % Good	Percentage Point Change
2018	**80%**	**2017**	**80%**	0
2017	**50%**	**2016**	**75%**	-25
2016	**48%**	**2015**	**65%**	-17
2015	**45%**	**2014**	**59%**	-14
2014	**45%**	**2013**	**52%**	-7
2013	**43%**	**2012**	**49%**	-6
2012	**40%**	**2011**	**45%**	-5
2011	**40%**	**2010**	**43%**	-3
2010	**40%**	**2009**	**39%**	1
2009	**39%**	**2008**	**40%**	-1
2008	**38%**	**2007**	**40%**	-2
2007	**38%**	**2006**	**37%**	1
2006	**37%**	**2005**	**34%**	3
2005	**36%**	**2004**	**33%**	3
2004	**36%**	**2003**	**30%**	6
2003	**34%**	**2002**	**25%**	9
2002 and older	**31%**	**2001 and older**	**20%**	11

This change may positively or negatively affect taxpayers depending on the model year. For example, farm machinery and equipment new two years ago would have had a trended percentage wholesale of 75 percent using the current valuation guide but has a trended percentage wholesale of 50 percent using the proposed valuation guide. On the other hand, farm machinery and equipment older than 20 years would have had a trended percentage wholesale of 20 percent using the current valuation guide but has a trended percentage wholesale of 31 percent using the proposed valuation guide.

It is estimated up to 4,600 property owners have the possibility of being effected. Further, based on estimates from the property assessment division of the department of revenue, the statewide change will decrease taxable value by $120,000. Using the average TY 2016 mill values for agricultural equipment, this would imply a statewide decrease in taxes paid of approximately $60,000.