MONTANA
DEPARTMENT OF
REVENUE

Memorandum

To: Eric Dale, Tax Policy and Research

From: Dylan Cole, Tax Policy and Research

Date: April 11, 2024

Subject: Explanation of HB 212 Class 8 Reimbursements

HB 212 from the 2023 legislative session increased the exemption of Class 8 property from $300,000 to $1,000,000 starting January 1, 2024. To offset mill shifting because of this lowered taxable value counties, cities and towns, consolidated governments, and tax increment financing districts (TIFs) are to be reimbursed for their lost tax revenue through the Entitlement Share Program. This memo explains the reimbursement process and answers some common questions about the reimbursements.

The Department of Revenue has determined the reimbursements to local governments by recalculating taxable values of class 8 property under the higher exemption threshold and multiplying that lost taxable value by the mill levies of affected jurisdictions. The taxing jurisdiction detail workbook contains all taxing jurisdictions that lost some amount of class 8 business equipment property. There are two different reimbursements to local governments. A one-time strict personal property reimbursement and an ongoing total class 8 property reimbursement.

Strict Personal Property

The first reimbursement will be paid in June 2024 and is for strict personal property, or personal property that is not lien-to-real. This property represents about ¾ of the total losses of taxable value to taxing jurisdictions.

Strict personal property for FY 2024 is billed on TY 2024 value, but taxing jurisdictions set their millage on personal property reported in TY 2023. Since HB 212 went into effect January 1, 2024, the TY 2024 taxable values for strict personal property are lower than what taxing jurisdictions anticipated. To avoid this revenue shortfall, there is a reimbursement for this loss in tax revenue. This is a one-time reimbursement and will be included in the fourth quarter FY 2024 Entitlement Share Payment to local governments (second semi-annual payment for TIFs).

All Class 8 Property

There is an ongoing reimbursement starting FY 2025 for any taxing jurisdiction that lost taxable value due to HB 212. The purpose of the ongoing reimbursement is to offset the mill shift that naturally occurs from taxable value reductions. The mechanics of how the reimbursement was calculated and how it is implemented are explained in the simplified example below:

Consider a taxing jurisdiction that budgeted for $10,000 from a taxable value of $100,000. This jurisdiction would need to levy 100 mills.

Anticipated Revenue for FY 2024	$10,000
Certified Taxable Value in TY 2023	$100,000
Mill Levy	100

Mill Levy = (Revenue / TV) * 1000

However, the taxable value for the jurisdiction only comes in at $90,000 because of the reduction in taxable value from HB 212. At a mill levy of 100, that taxable value only raises $9,000, leaving the jurisdiction short $1,000. In this hypothetical example, the taxing jurisdiction is entitled to a reimbursement of $1,000 from the state.

Actual Taxable Value for FY 2024	$90,000
Mill Levy	100
Actual Revenue Collected for FY 2024	$9,000

Actual Revenue = TV * Mill Levy/1000

The reimbursement amount is equal to the lost taxable value multiplied by the mills divided by 1000. In this case it is $(\$100{,}000 - \$90{,}000)\ x\ 100/1000$. This simplifies to $\$10{,}000\ x\ 0.1 = \$1{,}000$.

Now in the next fiscal year, FY 2025, the taxing jurisdiction must determine its mill levy from its taxable value. Assume no growth in taxable value or revenue for simplicity.

FY 2025 Tax Revenue	$10,000
TY 2024 Certified Taxable Value	$90,000
Mill Levy	111.11

Mill Levy = (Revenue / TV) * 1000

If the taxing jurisdiction does not account for the reimbursement through the Entitlement Share, it's mill levy must increase by 11.11 to offset the reduction in taxable value. However, 15-10-420(7), MCA states "In determining the maximum number of mills… the governmental entity: (b) may not increase the number of mills to account for a loss of tax base because of legislative action that is reimbursed under the provisions of 15-1-121(7)." **The taxing jurisdiction must deduct the reimbursed revenue from its budget before making the mill levy determination.** This revenue deduction happens one time and resets the budget authority which will grow normally from there subject to 15-10-420. The tables below show how the calculation makes taxing jurisdictions whole.

FY 2025 Tax Revenue	$10,000
HB 212 Reimbursement	$1,000
FY 2025 Tax Revenue less HB 212 Reimbursement	$9,000

FY 2025 Tax Revenue less HB 212 Reimbursement	$9,000
TY 2024 Certified Taxable Value	$90,000
New Mill Levy	100

Mill Levy = (Revenue / TV) * 1000

FY 2025 Tax Revenue	$9,000
HB 212 Reimbursement	$1,000
Total Revenue Collected	$10,000

Taxing jurisdictions will receive this reimbursement quarterly through the regular Entitlement Share Payment process.

How to read the reimbursement tables

The Department has determined how much revenue each taxing jurisdiction has lost because of HB 212. That information is organized by county number in the Countywide and Miscellaneous Taxing Jurisdiction Detail file.

The table on the next page shows an example of the countywide general levies (COGEN) for Silver Bow County. There was an estimated $187,393.93 shortfall in taxable value of strict personal property in FY 2024. The COGEN will receive a one-time payment of $44,183.74 to offset this tax base reduction. For FY 2025 and all future tax years, there is an ongoing reduction of $290,729.37 in taxable value. This is offset by an ongoing payment of $68,548.17. When Silver Bow County calculates their maximum revenue authority under 15-10-420, MCA they will need to subtract $68,548.17 from their revenue authority before they determine how

many mills to levy. All taxing jurisdictions subject to 15-10-420 must find their taxing jurisdiction reimbursement and reduce their budget authority accordingly. There is a separate file for cities and towns titled Cities and Towns Detail.

01 - Silver Bow						
Taxing Jurisdictions			FY 2024 (Strict Personal Property)		FY 2025 (All Class 8 Property)	
Taxing Unit Code	Taxing Unit Description	Mills	Taxable Value	Tax	Taxable Value	Tax
01-COGEN	COUNTY WIDE GENERAL LEVIES	235.78	$187,393.93	$44,183.74	$290,729.37	$68,548.17

FAQ

(Q): Which number should a taxing jurisdiction reduce their 15-10-420 budget authority by?

(A): The number in the column under **FY 2025 (All Class 8 Property) Tax**. It is highlighted for the Silver Bow COGEN fund in the table above. Do not use the taxable value number.

(Q): Do taxing jurisdictions need to reduce collections based on the Strict Personal Property reimbursement?

(A): No, the detail in the workbook is to help counties disburse money to the appropriate jurisdictions. Taxing jurisdictions should not reduce revenue authority based on the strict personal property payment.

(Q): Do TIFs need to account for reductions in revenue authority?

(A): No, TIFs do not set mills. While TIFs are reimbursed for lost increment, the reduction in revenue authority is mandated by 15-10-420, which does not apply to TIFs.

(Q): Do I need to make the 15-10-420 adjustment in future years?

(A): No, by reducing budget authority exactly one time, the reimbursement plus the smaller budget authority restores the taxing jurisdiction to the same revenue as shown in the example. In future years the revenue reduction will already be 'baked in' and no further adjustment is necessary.

If you have any additional questions, please email me at dylan.cole@mt.gov or give me a call at (406) 444-6634.