

BEFORE THE DEPARTMENT OF REVENUE
OF THE STATE OF MONTANA

In the matter of the amendment of) NOTICE OF PUBLIC HEARING ON
ARM 42.21.155 and 42.22.1311) PROPOSED AMENDMENT
pertaining to 2025 Personal Property)
Depreciation Schedules and Trend)
Tables)

TO: All Concerned Persons

1. On November 26, 2024, at 2:00 p.m., the Department of Revenue will hold a public hearing in the Third Floor Reception Area Conference Room of the Sam W. Mitchell Building, located at 125 North Roberts, Helena, Montana, to consider the proposed amendment of the above-stated rules. The conference room is most readily accessed by entering through the east doors of the building.

2. The Department of Revenue will make reasonable accommodations for persons with disabilities who wish to participate in this public hearing or need an alternative accessible format of this notice. If you require an accommodation, please advise the department of the nature of the accommodation needed, no later than 5 p.m. on November 8, 2024. Please contact Kassie Hawbaker, Department of Revenue, Director's Office, P.O. Box 7701, Helena, Montana 59604-7701; telephone (406) 444-0365; fax (406) 444-3696; or kassie.hawbaker@mt.gov.

3. STATEMENT OF REASONABLE NECESSITY. The department proposes to amend ARM 42.21.155 and 42.22.1311 to update the authority of the web-based Personal Property Depreciation Schedules and Trend Tables publication (publication), adopted and incorporated by reference in the rules, to the 2025 version. The publication is updated annually, effective January 1, and is located within the department's website at <https://mtrevenue.gov>. The 2025 publication reflects changes in personal property and industrial machinery and equipment depreciation and trend factoring data in the department's valuation manuals and guides since last year. Both the 2024 publication and the proposed 2025 publication are available for review.

4. The rules as proposed to be amended provide as follows, new matter underlined, deleted matter interlined:

42.21.155 PERSONAL PROPERTY CATEGORIES AND TRENDED DEPRECIATION METHODOLOGIES (1) The department has established eight categories of personal property for determination of trend factors and depreciation, and trended depreciation schedules of four, five, ten, fifteen, or twenty years have been assigned for each category based on its type and expected useful lifespan, as provided in (4). The equipment listings in (4) provide representative examples of property in a category and are not meant to be an exhaustive list.

(2) Each trended depreciation schedule contains a residual trended percent good, designated as "older" in the final row of each schedule, which is applied to an item of personal property that exceeds the typical lifespan because personal property remains taxable until its disposal. The purpose of trended depreciation is to bring the cost of equipment acquired in a previous year to an approximate current cost before depreciating it.

(3) Prior to January 1 of each year, the department will use cost index trends for equipment and depreciation percentages for furniture and fixtures from the previous July's edition of Marshall & Swift Valuation Service Guide (Marshall & Swift Guide) to calculate the trend factors and the trended percent good for the schedules in (4). The Marshall & Swift Guide is a widely recognized valuation authority which the department adopts and incorporates by reference. The Marshall & Swift Guide may be reviewed at the department's central office or purchased from the publisher: Corelogic, 40 Pacifica Street, Suite 900, Irvine, California 92618.

(a) The trends from the Marshall & Swift Guide represent industry-wide national average changes in equipment costs - customarily increases - from the base year, 1926. Trends are typically greater than a value of one, but may be less than one.

(b) For trended depreciation schedules, the department calculates the year one trend for each schedule as the average trend of the first three quarters of the current year. The trend for each successive year is the final trend for that year.

(i) Using year one as the base year, the department calculates the changes in equipment costs - the trend factors - for each schedule in (4), as the quotient of the year one trend and any following year's trend.

(ii) The department then uses the depreciation percentages from the Marshall & Swift Guide to calculate the "percent good" over the period of years that is typical for each property category. Trended percent good is then calculated as the product of the percent good and the trend factor for each year represented in a schedule.

(4) The department shall post its trended depreciation schedules for the upcoming tax year for the categories of personal property described below on the department's website located at <http://www.mtrevenue.gov>. The department adopts and incorporates by reference its 2024 2025 Personal Property Depreciation Schedules and Trend Tables publication, effective January 1, 2024 2025. The Depreciation Schedules and Trend Tables publication contains the detailed schedules and tables the department uses for valuing personal property and industrial machinery and equipment. The personal property categories and trended depreciation methodologies that apply to the Depreciation Schedules and Trend Tables publication are as follows:

(a) Computerized Equipment - a four-year depreciation and a residual percentage will be applied to computerized equipment such as computers, peripheral equipment that cannot function independently of a computer, computerized medical equipment, and gaming machines. The four-year depreciation schedule was developed and implemented after consultation with industry representatives; the trend factors are calculated from the office equipment category of the Marshall & Swift Guide.

(b) Office and Commercial Equipment - a five-year depreciation and a residual percentage will be applied to non-computerized equipment such as office equipment and furnishings, specialized medical equipment, janitorial equipment, coin-operated washers and dryers, beauty and barber shop equipment, tanning beds, furnishings for hotels, motels, rental apartments, rental homes, nursing home and other care facilities, and locally assessed cable tv dishes. The trend factors are calculated from the office equipment category of the Marshall & Swift Guide.

(c) Furniture, Fixtures, and Miscellaneous Equipment - a ten-year depreciation and a residual percentage will be applied to all other commercial furniture and fixtures such as handheld and non-handheld shop and construction tools and equipment, medical and dental chairs and tables, theater equipment, survey equipment, billboards and signage, garbage bins, coin-operated pool and other game tables, gas pumps, bar and restaurant equipment and furnishings, bowling alleys and equipment, excepting auto-scorers which have a four-year depreciation, photo and developing equipment, mortuary equipment, safes, security systems, port-a-potties, locally assessed cable tv towers, ski lift equipment including aerial lifts, surface lifts, portable lifts and tows including the towers, cables, ropes, sheave assemblies, the conveying devices, power units, and all accessories. The trend factors are calculated from the average_of_all category of the Marshall & Swift Guide.

(d) Seismograph Units and Allied Equipment - a five-year depreciation and a residual percentage will be applied to seismograph units and allied equipment. An 80 percent wholesale factor is used for wheeled seismograph units. The trend factors are calculated from the chemical industry category of the Marshall & Swift Guide.

(e) Oil Drilling, Workover, and Service Rigs - a ten-year depreciation and a residual percentage will be applied to all oil drilling, workover, and service rigs. An 80 percent wholesale factor is applied to self-propelled wheeled workover and service rigs. The trend factors are calculated from the chemical industry category of the Marshall & Swift Guide.

(f) Oil and Gas Field Machinery and Equipment - a fifteen-year depreciation and a residual percentage will be applied to oil and gas field machinery and equipment. The trend factors are calculated from the chemical industry category of the Marshall & Swift Guide.

(g) Farm Machinery and Equipment - a twenty-year depreciation and a residual percentage will be applied to farm machinery and equipment. A 50 percent wholesale factor is applied. The trend factors are calculated from the average_of_all category of the Marshall & Swift Guide.

(h) Heavy Equipment - a twenty-year depreciation and a residual percentage will be applied to heavy equipment. A 50 percent wholesale factor is applied. The trend factors are calculated from the contractor's equipment category of the Marshall & Swift Guide.

AUTH: 15-1-201, 15-23-108, MCA

IMP: 15-6-135, 15-6-138, 15-6-202, 15-6-207, 15-6-213, 15-6-219, 15-8-111,
MCA

42.22.1311 INDUSTRIAL MACHINERY AND EQUIPMENT TREND

FACTORS (1) Prior to January 1 of each year, the department calculates trend factors to value industrial machinery and equipment for ad valorem tax purposes pursuant to ARM 42.22.1306. The department uses annual cost indexes from the Marshall & Swift Guide described in ARM 42.21.155. The current index is divided by the annual index for each year to arrive at a trending factor. Each major industry has its own trend factor table containing industry descriptions with the applicable trend table number and life expectancy. Where no index exists in the Marshall & Swift Guide for an industry, that industry is grouped with other industries using similar equipment. Industrial machinery and equipment remain taxable at the level of the final year of life expectancy until its disposal.

(2) The department shall post its trend factor tables for industrial machinery and equipment for the upcoming tax year on the department's internet website located at <http://www.mtrevenue.gov>. The department adopts and incorporates by reference its ~~2024~~ 2025 Personal Property Depreciation Schedules and Trend Tables publication, effective January 1, ~~2024~~ 2025. The Depreciation Schedules and Trend Tables publication contains the detailed schedules and tables the department uses for valuing personal property and industrial machinery and equipment.

(3) Mining machinery and equipment is engaged in the extraction, excavation, burrowing, or otherwise freeing raw material from the earth. Mobile mining equipment moves under its own power or on its own wheels and chassis, including any attachments used with or attached to such equipment, but does not include equipment that requires a foundation for the performance of the function for which it was designed and built. Mobile mining equipment used for extraction is valued by using the procedures established for heavy equipment found in ARM 42.21.154 and 42.21.155.

AUTH: 15-1-201, MCA

IMP: 15-6-135, 15-6-138, 15-8-111, MCA

5. Concerned persons may submit their data, views, or arguments, either orally or in writing, at the hearing. Written data, views, or arguments may also be submitted to: Kassie Hawbaker, Department of Revenue, Director's Office, P.O. Box 7701, Helena, Montana 59604-7701; telephone (406) 444-0365; fax (406) 444-3696; or e-mail todd.olson@mt.gov and must be received no later than 5:00 p.m., December 2, 2024.

6. Todd Olson, Department of Revenue, Director's Office, has been designated to preside over and conduct the hearing.

7. The Department of Revenue maintains a list of interested persons who wish to receive notices of rulemaking actions proposed by this agency. Persons who wish to have their name added to the list shall make a written request, which includes the name and e-mail or mailing address of the person to receive notices and specifies that the person wishes to receive notice regarding particular subject matter or matters. Notices will be sent by e-mail unless a mailing preference is

noted in the request. A written request may be mailed or delivered to the person in number 5 above or faxed to the office at (406) 444-3696, or may be made by completing a request form at any rules hearing held by the Department of Revenue.

8. An electronic copy of this notice is available on the department's web site at www.mtrevenue.gov, or through the Secretary of State's web site at rules.mt.gov.

9. The bill sponsor contact requirements of 2-4-302, MCA, do not apply.

10. With regard to the requirements of 2-4-111, MCA, the department has determined that the amendment of the publication referenced in the above-referenced rules may significantly and directly impact small businesses. While the extent of any potential impact is fact-dependent on the circumstances of each taxpayer, the department notes the following impactful changes based on the valuation resources adopted by the department:

- Personal property taxpayers are likely to see a lower than average increase in the taxable value of their property in 2025 as compared to 2024. The anticipated increase in taxable value is the result of the valuation process which first trends the acquired cost to an approximate current value before applying depreciation. The department has used the same method and source for trend factors for many years.
 - The 5-year average rate of increase in the trend factors for office equipment is 5.34 percent; the 2025 trend increased 0.80 percent.
 - The 10-year average rate of increase in the trend factors for miscellaneous furniture and fixtures is 3.88 percent; the 2025 trend increased 1.12 percent.
 - The 15-year average rate of increase in the trend factors for oil and gas field equipment is 3.09 percent; the 2025 trend increased 1.63 percent.
 - The 30-year average rate of increase in the trend factors for farm machinery and equipment is 2.90 percent; the 2025 trend increased 1.12 percent.
 - The 30-year average rate of increase in the trend factors for heavy equipment is 2.75 percent; the 2025 trend increased 1.98 percent.

11. The department intends to adopt the above-described rule amendments during the fourth quarter of 2024, with an effective date of January 1, 2025. With regard to the requirements of 2-4-305(11), MCA, this rulemaking meets one or more of the exceptions provided in (11)(b)(ii) because ARM 42.21.155 and 42.22.1311 are procedural rules that already acknowledge and disclose that the valuation data source, which the department has adopted and incorporated into the rules (e.g., Marshall & Swift Valuation Service Guide) and uses to update the publication described in number 3 above, is unavailable until the third calendar quarter of any year.

/s/ Todd Olson
Todd Olson
Rule Reviewer

/s/ Scott Mendenhall
Scott Mendenhall
Deputy Director of Revenue

Certified to the Secretary of State October 22, 2024