GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title:	**SB0322.01: Increase business equipment tax exemption**
Primary Sponsor:	Josh Kassmier
Status:	As Introduced

☒ 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)	$5,693,408	$7,174,644	$7,185,571	$7,168,785
State Special Revenue (02)	$0	$0	$0	$0
SEPTR	($1,107,000)	($1,486,000)	($1,486,000)	($1,486,000)
Revenues				
General Fund (01)	($8,000)	($10,000)	($10,000)	($10,000)
State Special Revenue (02)	$0	$0	$0	$0
SEPTR	($1,107,000)	($1,486,000)	($1,486,000)	($1,486,000)
University	($81,000)	($109,000)	($109,000)	($109,000)
Net Impact	($5,701,408)	($7,184,644)	($7,195,571)	($7,178,785)
General Fund Balance				

Description of fiscal impact

SB 322 increases the class 8 business equipment property tax market value exemption from $1 million to $3 million. The change in exemption lowers taxable value. School equalization revenue from the 95 mills and vocational technical education mills are reduced. Local government jurisdictions and the Montana University System are reimbursed for lost revenue through the Entitlement Share Payment, eliminating any tax shifting within these jurisdictions. School district mills are not reimbursed and will have tax shifts associated with them.

FISCAL ANALYSIS

Assumptions

Department of Revenue

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. If the $3 million exemption of SB 322 had been in place, this taxable value would instead be $178.576 million, a reduction of $16.446 million of taxable value.
4. This reduction in taxable value results in a $1.345 million decrease in school equalization mills deposited in the School Equalization and Property Tax Reduction (SEPTR) Account and a $10,000 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 $2.4 million for counties, $839,000 for cities, $341,000 for miscellaneous districts, and $1.487 million for TIFs. This is a general fund expenditure.
6. These estimates are grown by the factor contained in HJ 2 for class 8 property to account for growth in TY 2025.
7. 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.
8. 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 75% of the total taxable value reduction.
9. 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.
10. The table below summarizes the entitlement share payments by fiscal year.

Jurisdiction	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**
University System	$81,000	$109,000	$109,000	$109,000
Counties	$1,940,000	$2,604,000	$2,604,000	$2,604,000
Cities	$691,000	$927,000	$927,000	$927,000
Miscellaneous	$281,000	$377,000	$377,000	$377,000
TIFs	$1,224,000	$1,643,000	$1,643,000	$1,643,000
Total Payments	$4,217,000	$5,660,000	$5,660,000	$5,660,000

Office of Public Instruction

1. SB 322 adjusts the exception on class 8 business equipment from $1 million to $3 million the change adjusts district and statewide taxable valuations (TV). This $14,157,886 decrease in TV will impact the calculation of guaranteed tax base (GTB) aid beginning FY 2027.
2. The decrease in statewide TV in SB 322 is less than the growth in HJ 2 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. The reduction to TV pursuant to SB 322 will reduce the revenue to be deposited to the SEPTR account by $1.1 million in FY 2026 and $1.5 million in FY 2027 with a like cost to state general fund.
3. The statewide present law taxable valuations are forecast to increase by 15.50% in FY 2026 and 1.07% in FY 2027.
4. 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 GTB	$258,811	$25,865	$35,850	$19,769
Local School Property Taxes	($258,811)	($25,865)	($35,850)	($19,769)

5. 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	$110,597	$2,779	$3,721	$3,016
Local Countywide Property Taxes	($110,597)	($2,779)	($3,721)	($3,016)

Fiscal Analysis Table

	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
Fiscal Impact				
Expenditures				
Transfers	$0	$0	$0	$0
Universities	$81,000	$109,000	$109,000	$109,000
Counties	$1,940,000	$2,604,000	$2,604,000	$2,604,000
Cities	$691,000	$927,000	$927,000	$927,000
Miscellaneous	$281,000	$377,000	$377,000	$377,000
TIFs	$1,224,000	$1,643,000	$1,643,000	$1,643,000
District GF GTB	$258,811	$25,865	$35,850	$19,769
County Retirement GTB	$110,597	$2,779	$3,721	$3,016
TOTAL Expenditures	**$4,586,408**	**$5,688,644**	**$5,699,571**	**$5,682,785**
Local Assistance	$0	$0	$0	$0
Funding of Expenditures				
General Fund (01)	$5,693,408	$7,174,644	$7,185,571	$7,168,785
State Special Revenue (02)	$0	$0	$0	$0
SEPTR	($1,107,000)	($1,486,000)	($1,486,000)	($1,486,000)
TOTAL Funding of Expenditures	**$4,586,408**	**$5,688,644**	**$5,699,571**	**$5,682,785**
Revenues				
General Fund (01)	($8,000)	($10,000)	($10,000)	($10,000)
State Special Revenue (02)	$0	$0	$0	$0
University	($81,000)	($109,000)	($109,000)	($109,000)
SEPTR	($1,107,000)	($1,486,000)	($1,486,000)	($1,486,000)
TOTAL Revenues	**($1,196,000)**	**($1,605,000)**	**($1,605,000)**	**($1,605,000)**
Net Impact to Fund Balance (Revenue minus Funding of Expenditures)				
General Fund (01)	($5,701,408)	($7,184,644)	($7,195,571)	($7,178,785)
State Special Revenue (02)	$0	$0	$0	$0
SEPTR	$0	$0	$0	$0
University	($81,000)	($109,000)	($109,000)	($109,000)

Effect on County or Other Local Revenues or Expenditures

Department of Revenue

1. The entitlement share reimbursement for taxing jurisdictions controlled by 15-10-420 prevents tax shifts onto other property owners due to the reduction in class 8 taxable value.
2. SB 322 does not contain a reimbursement mechanism for school districts that lose taxable value. Taxable value is about 0.35% lower under SB 322 than current law and school mills will adjust upward by the same amount on average.

Office of Public Instruction

3. Local school property taxes will reduce by $0.4 million in FY 2026 and by roughly $30,000 in following years.

Montana Association of Counties (MACO)

4. This bill proposes to reimburse local governments for the expanded exemption on class 8 business equipment tax. The reimbursement is intended to be included as a one-time increase in entitlement share payments to impacted counties.
5. Subsequent class 8 business equipment that would have been taxed (from $1 million to $3 million) in following years is not added to the entitlement share payments.

NO SPONSOR SIGNATURE

Sponsor's Initials	Date	Budget Director's Initials	Date
			2/24/2025