Memorandum

To: Ed Caplis, Tax Policy and Research

From: Dylan Cole, Tax Policy and Research

Date: April 20, 2022

Subject: Explanation of HB 303 Reimbursements

HB 303 of the 2021 Legislature increased the exemption of Class 8 property from $100,000 to $300,000 starting January 1, 2022. This increased exemption of Class 8 property results in decreased taxable value for most taxing jurisdictions in the state. To offset mill shifting because of this lowered taxable value counties, cities and towns, consolidated governments, and Tax Increment Financing Districts (TIFs) are reimbursed for their lost tax revenue through the Entitlement Share Program. The reimbursement amounts can be found on the department website at https://mtrevenue.gov/HB303Reimbursements

In FY 2022, strict personal property is billed based on TY 2022 value. Because HB 303 went into effect January 1, 2022, the taxable values for strict personal property are reduced from the increase in the class 8 exemption. However, the FY 2022 taxable value used to calculate mill levies was based on taxable value from TY 2021 (before the reduction took effect). Because of this timing issue, taxing jurisdictions will receive less revenue from strict personal property than they anticipated.

This only applies to strict personal property. All other class 8 property in FY 2022 is billed based on TY 2021 value. This is prior to the tax reduction and will not affect FY 2022 revenue. Therefore, the FY 2022 reimbursement is only for the shortage of strict personal property tax revenue. This payment will be added to the final quarterly payment of the FY 2022 Entitlement Share Payment (semi-annual for TIFs).

This example illustrates how the calculation was performed. 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 2022	$10,000
Certified Taxable Value in TY 2021	$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 303. 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 2022	\$90,000
Mill Levy	100
Actual Revenue Collected for FY 2021	\$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 $\$10{,}000\ x\ 0.1 = \$1{,}000$

For Fiscal Years 2023 and after, the reimbursement is calculated in a similar fashion. However, instead of replacing anticipated revenue, it is intended to offset mill shifting that would be necessary to raise a similar amount of revenue from a decreased tax base. For example, assume a taxing jurisdiction was told they had \$500,000 of taxable value and this taxing jurisdiction was authorized to collect \$25,000 in revenue in FY 2023. Mill levies would be set at 50 mills. Also assume this taxing jurisdiction will receive \$5,000 for their HB 303 reimbursement.

FY 2023 Tax Revenue	\$25,000
TY 2022 Certified Taxable Value	\$500,000
Mill Levy	50

Mill Levy = (Revenue / TV) * 1000

Because the \$5,000 reimbursement wasn't factored into their mill levy computation, this jurisdiction will collect \$5,000 in additional revenue that it was not authorized to collect.

FY 2023 Tax Revenue	\$25,000
HB 303 Reimbursement	\$5,000
Total Revenue Collected	\$30,000

Therefore, for taxing jurisdictions to comply with HB 303, they first must find the "Fiscal Year 2023 – All Class 8 Reimbursable Tax" calculation associated with their jurisdiction. Then use this number to offset revenue before calculating the mill levy.

FY 2023 Tax Revenue	\$25,000
HB 303 Reimbursement	\$5,000
FY 2023 Tax Revenue less HB 303 Reimbursement	\$20,000

FY 2023 Tax Revenue less HB 303 Reimbursement	\$20,000
TY 2022 Certified Taxable Value	\$500,000
New Mill Levy	40

Mill Levy = (Revenue / TV) * 1000

FY 2023 Tax Revenue	\$20,000
HB 303 Reimbursement	\$5,000
Total Revenue Collected	\$25,000

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

If you have any other questions, please feel free to contact me by way of email at dylan.cole@mt.gov or by phone at 406-444-6634.