Memorandum

To: Ed Caplis, Tax Policy and Research

From: Emily Klungtvedt, Tax Policy and Research

Date: May 1, 2014

Subject: Explanation of SB96 Reimbursements

Taxing jurisdictions can find the amount that will be reimbursed to them due to SB96 under the "Entitlement Share Payments" tab here: http://revenue.mt.gov/home/local_governments.aspx. In this document, each taxing jurisdiction has two reimbursement calculations that are to be treated differently for budgeting purposes. These two calculations are titled "Fiscal Year 2014 – Strict Class 8 Personal Property" (in red) and "Fiscal Year 2015 – Class 8 and Class 12 Property" (in blue). This memo explains the difference between the two reimbursements and what each taxing jurisdiction should do with these reimbursements.

"Fiscal Year 2014 – Strict Class 8 Personal Property"

The calculations with the label "Fiscal Year 2014 – Strict Class 8 Personal Property" are meant as a one-time reimbursement to taxing jurisdictions for receiving less revenue than anticipated from strict personal property collections in FY 2014.

In FY 2014, strict personal property is billed based on TY 2014 value. Because SB96 went into effect January 1, 2014, these taxable values for strict personal property are reduced from the reduction in the class 8 tax rate. However, the FY 2014 taxable value used to calculate mill levies was based on taxable value from TY 2013 (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 2014 is billed based on TY 2013 value. This is prior to the tax reduction and will not affect FY 2014 revenue. Therefore the FY 2014 reimbursement is only for the shortage of strict personal property tax revenue.

For example, assume a taxing jurisdiction was authorized to collect $10,000 in tax revenue in FY 2014. Also assume that the Department of Revenue sent the taxing jurisdiction the TY 2013 certified taxable values and that same taxing jurisdiction had $100,000 in taxable value ($100,000/$1,000 = $100 taxable value per mill). Using this information the taxing jurisdiction would have set their mill levy at 100 mills.

Anticipated Revenue for FY 2014	$10,000
Certified Taxable Value in TY 2013	$100,000
Mill Levy	100

Mill Levy = (Revenue / TV) * 1000

As explained above, actual taxable value for FY 2014 will be less than the certified taxable value that taxing jurisdictions used to calculate mills. Therefore, assume that actual taxable value for FY 2014 was only $90,000 because of the reduction in strict personal property taxable value.

Actual Taxable Value for FY 2014	$90,000
Mill Levy	100
Actual Revenue Collected for FY 2014	$9,000

Actual Revenue = TV/1000 * Mill Levy

As can be seen, there is a $1,000 difference between anticipated revenue and actual revenue collected. Therefore the "Fiscal Year 2014 – Strict Class 8 Personal Property" reimbursement must be used to make up the difference.

This reimbursement will be sent with the Entitlement Share Payment in June. Take the amount shown on the "Fiscal Year 2014 – Strict Class 8 Personal Property" and treat this amount as part of property tax revenue collected in FY 2014.

"Fiscal Year 2015 – Class 8 and Class 12 Property"

The "Fiscal Year 2015 – Class 8 and Class 12 Property" estimate is to be used when calculating mills for FY 2015. This number is the entire amount taxing jurisdictions will be reimbursed for SB96 and therefore taxing jurisdictions will need to use this number to offset their revenue when calculating their mill levy in FY 2015. A more detailed explanation follows.

For FY 2015, SB96 will have taken its full affect. This means that the TY 2014 certified taxable value, sent by the Department of Revenue, will have the entire tax reduction put into effect for all class 8 and class 12 property. Because taxing jurisdictions use the TY 2014 certified taxable value when calculating their mill levy for FY 2015, the full loss in taxable value is already taken into consideration and there will not be a difference between anticipated revenue collections and actual revenue collected as was the case in FY 2014.

However, by law each taxing jurisdiction will be reimbursed an amount equal to the loss of property revenue due to SB96. The "Fiscal Year 2015 – Class 8 and Class 12 Property" is this reimbursement amount for FY 2015. Taxing jurisdictions will need to offset this reimbursement when calculating their mill levy. If they do not offset this reimbursement, they will collect more revenue than the authorized amount.

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 2015. Mill levies would be set at 50 mills. Also assume this taxing jurisdiction will receive $5,000 for their SB96 reimbursement.

FY 2015 Tax Revenue	$25,000
TY 2014 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 2015 Tax Revenue	$25,000
SB96 Reimbursement	$5,000
Total Revenue Collected	$30,000

Therefore, for taxing jurisdictions to comply with SB96, they first must find the "Fiscal Year 2015 – Class 8 and Class 12 Property" calculation associated with their jurisdiction. Then, similar to the example above, use this number to offset revenue before calculating the mill levy.

FY 2015 Tax Revenue	$25,000
SB96 Reimbursement	$5,000
FY 2015 Tax Revenue – SB96 Reimbursement	$20,000

FY 2015 Tax Revenue – SB96 Reimbursement	$20,000
TY 2014 Certified Taxable Value	$500,000
New Mill Levy	40

Mill Levy = (Revenue / TV) * 1000

FY 2015 Tax Revenue	$20,000
SB96 Reimbursement	$5,000
Total Revenue Collected	$25,000

Taxing jurisdictions will receive this reimbursement with their Entitlement Share Payments in FY 2015.

For further questions, contact Emily Klungtvedt at eklungtvedt@mt.gov or (406)444-6634.