

Governor's Property Tax Advisory Council
Tax Fairness Subcommittee

Wednesday, April 17, 2024, 9 am.

Online

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Agenda

9:00 am Call to Order/Opening Remarks – Representative Jones

Homestead and Comestead-type Exemptions and Tax Rates.

- Overview of Homestead and Comstead Modeling: Assumptions, & Parameters
- Presentation of Several Homestead and Comstead Scenarios with Implied Revenue Effects and Tax Shifts.
- Committee Discussion of Implications, Tax shifts, and Policy Options Identified with the Model.

11:00 am **Magnitude and Seasonality of Accommodation Tax**

11:30 am **Fuel Taxes–Review of Prior Presentation and Implications - Context**

11:50 am Information Requests for the Next Subcommittee Meeting
Date of next Tax Fairness Subcommittee meeting.

Next Property Tax Advisory Council Meeting, April 22, 2024,
Budget Office Conference Room, Rm 250, Capitol (and online as needed).

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Accommodations Tax

To get some answers to the questions that emerged at the last meeting about a seasonal accommodation tax I looked at estimated lodging taxable sales by month for CY 2008 through CY 2023.

The questions were: **What is the scale of an additional 1% tax?**

In CY 2023 a 1% surtax would have brought-in about \$14.5 million.

What is the future trajectory of these collections?

That depends on assumptions:

- Do we maintain Montana's post-pandemic surge base and grow at trend (9%)?
- Do we revert to the mean level of sales (decelerate to 4% or 5%) and then return to faster historical trend?
- Or are we at capacity and growth will be limited?
- OBPP and the LFD will work on detailed forecasts in the summer and fall. But here are some scenarios:

Accommodations tax increase directed at reducing Montana Property Tax

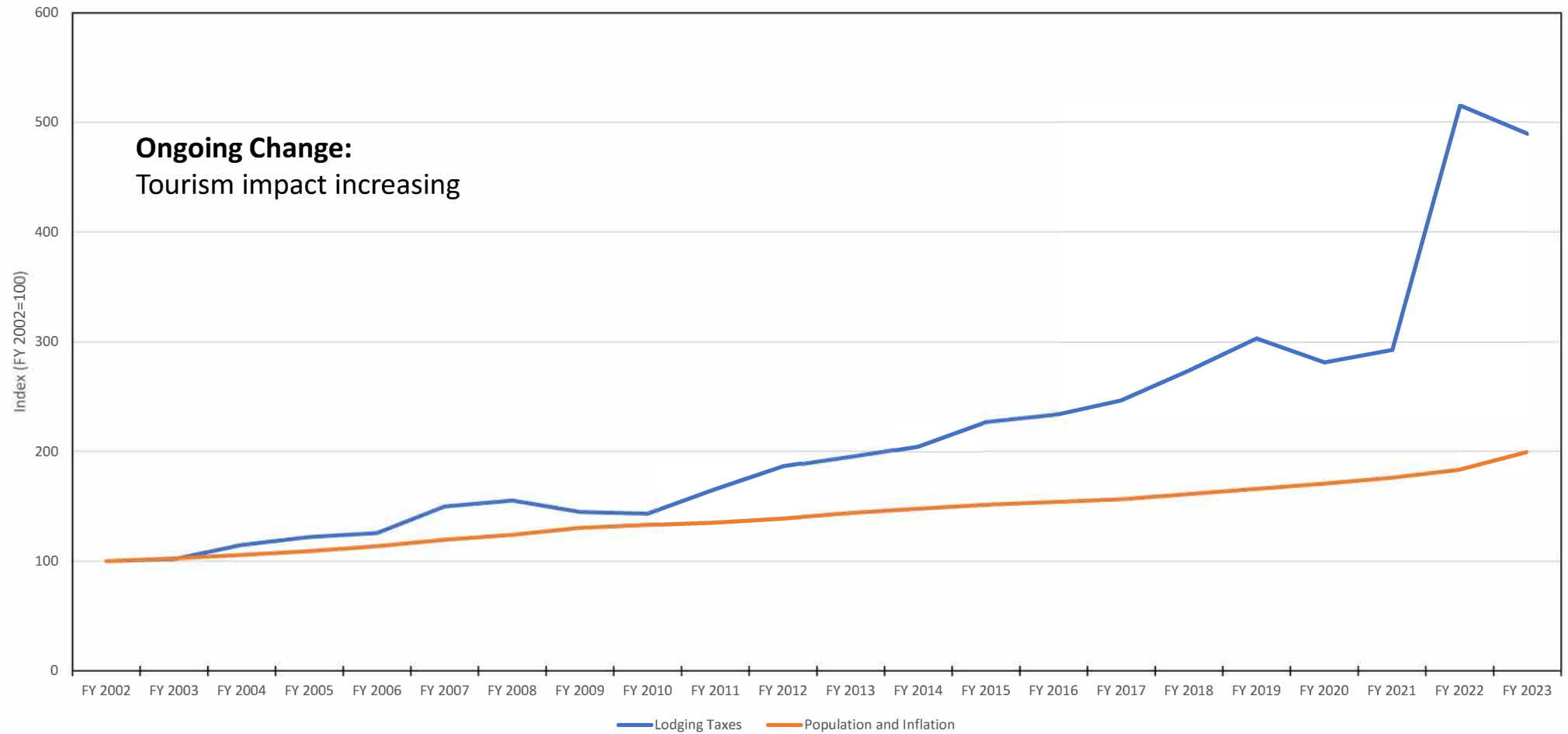
- **Example consideration: An additional 2% during July, August, and September would have yielded about \$11.4 Million in additional revenues**
- Total collections for FY 2023 were about \$118.9 Million
- In accordance with 15-68-102, MCA, a 4% accommodations sales tax is levied on all charges for accommodations at lodging facilities and campgrounds in the state. In accordance with 15-65-111, MCA, Montana charges a lodging facility use tax of 4% on all accommodations.

Comparison Data: Other states lodging taxes as of 2022

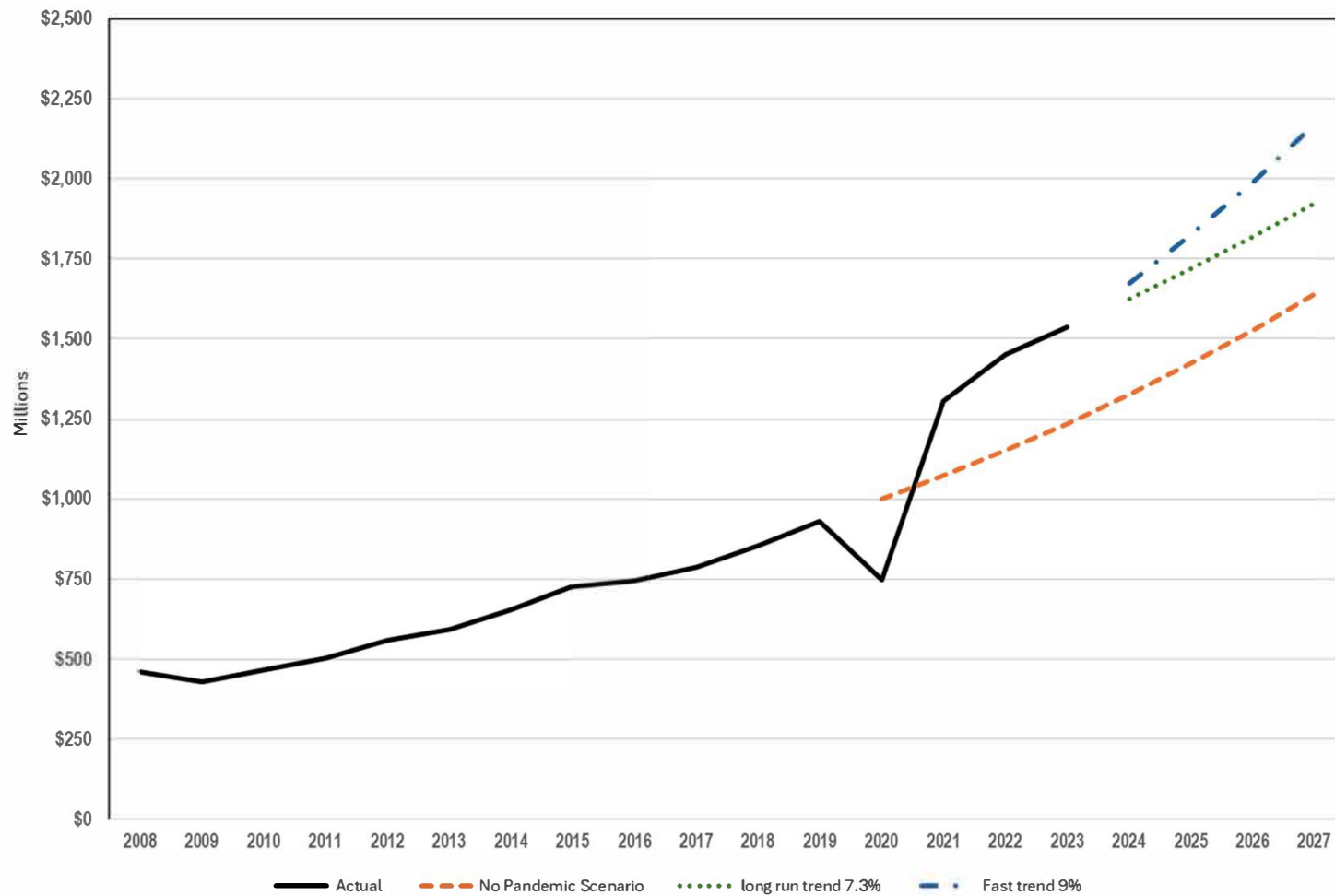
- South Dakota – 7% (1.5% lodging tax & 4.5% statewide sales tax)
- Utah – 5.02% (0.32% lodging tax & 4.7% statewide sales tax)
- Wyoming – 9% (5% lodging tax & 4% statewide sale tax)
- North Dakota – 5% (no lodging tax & 5% statewide sales tax)
- Idaho – 8% (2% lodging tax & 6% statewide sales tax)

Other state data source: [NCSL 2022](#)

Growth in Montana Lodging Taxes FY 2002 to FY 2023



Illustrative Future MT Taxable Accommodation Sales Under Alternative Growth Scenarios



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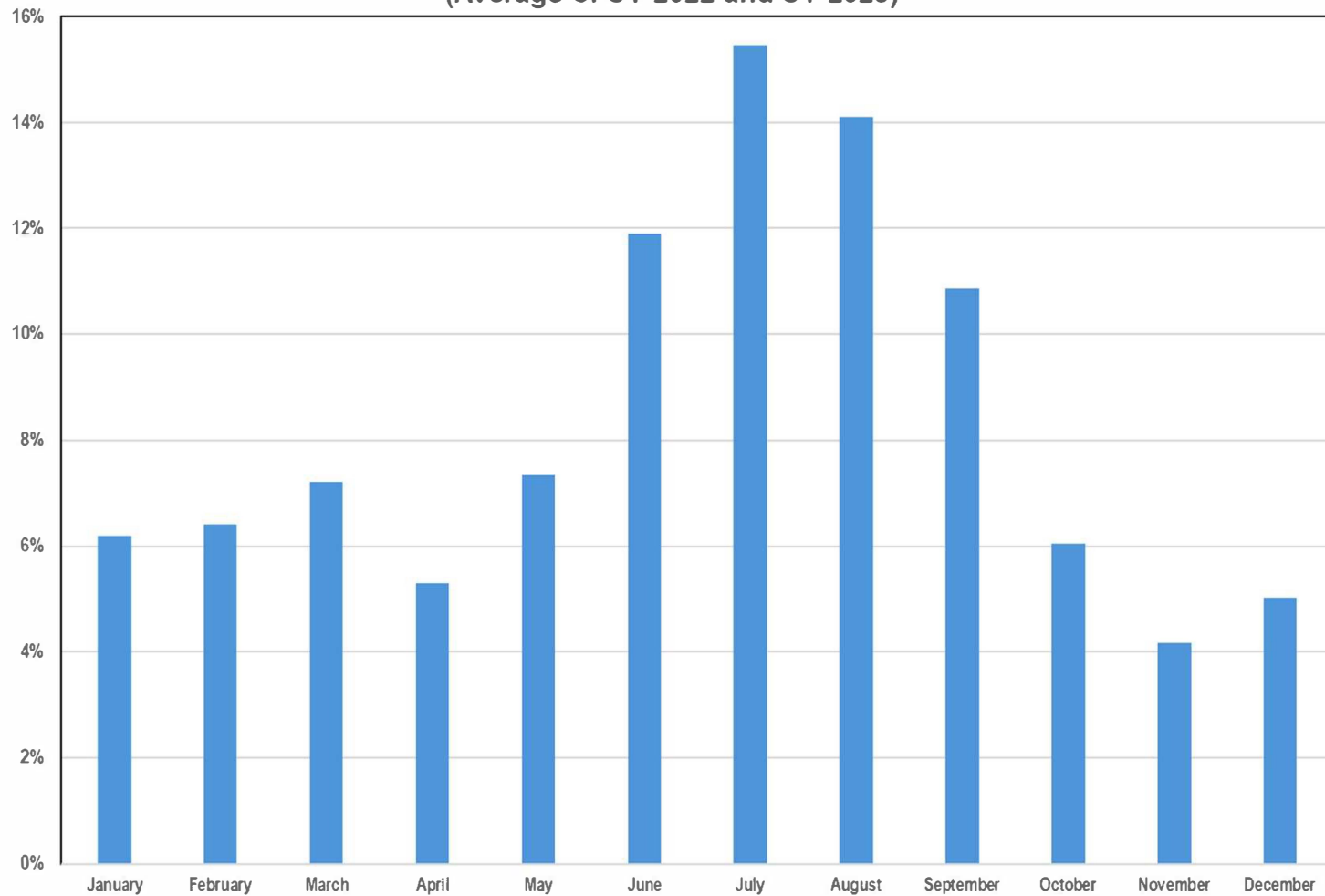
Additional questions about a seasonal tax were: **What are the peak months for taxable accommodation sales?**

- The peak months – unsurprisingly are June, July, August, and September.
- Those months would cover between 52% and 56% of taxable sales and be worth about \$7.7 million based on FY 2023 taxable sales (June would be the end of the fiscal year). The distribution by month is shown on the next slide.

However, if any legislation were to emerge:

- A specific distribution would need to be established given the current law allocation of the lodging use and facilities taxes.
- The structure of any new tax or surtax would have to be evaluated and adjudicated to steer clear of any constitutional limitations. Could it just be a 5% use or sales tax under current law, or would it need to be a new 1% surtax?
- The data available to me does not have regional or county information. We possibly could do more regional analysis if there is interest, with DOR's more detailed information.

Shares of Taxable Montana Accomodation Sales by Month
(Average of CY 2022 and CY 2023)



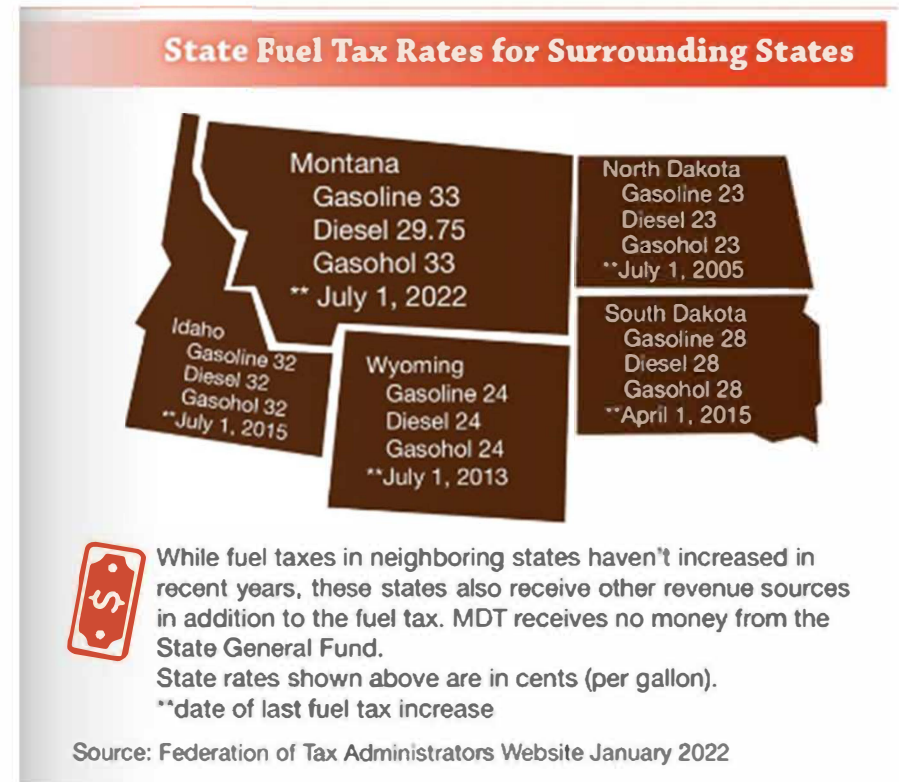
Gasoline Tax Increase returned to lower property taxes.

- Gas is taxed at 0.33 per gallon, diesel at 0.2975 per gallon.
- Recent summer averages of 50-60 million gallons of gas are sold each month. This is up from a low of 40 million gallons in March. Each penny of fuel tax per summer month brings in \$500,000 to \$600,000. This does not include diesel which averages closer to 30 million gallons per month.

How the tax returns to the impacted area.

- Approximately \$0.07 of each gallon of gasoline tax goes to locals. Of this approximately 2.6 cents to counties and 4.4 cents to cities.

Montana vs Surrounding states



Would a seasonal gas tax increase, with the amount collected returned to buy down property taxes, make sense? Would there be a way to collect receipts and refund Montana income resident collections?

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Another look at the seasonal gas tax slide that has already been provided to the PTAC. (see next slide)

- The marginal gains from a penny (\$0.01) of a seasonal fuel tax are quite small - \$500,000 - \$600,000 per month (on total sales of 50 to 60 gallon a month in the summer).
- However, only \$100,000 to \$200,000 per month is due to the marginal increase in fuel use that might be due to an increase in non-resident users (10 to 20 million gallons over a base of 40 million off-season gallons a month)
- While consumption over the summer months brings in \$3 million to \$6 million per month (at \$0.2975) on the extra 10 to 20 million gallons sold each summer month – if we presume that is due to visitors.
- A rebate for Montana users would likely be very large fraction of \$400,000 per month each seasonal penny would bring in (40 million gallons @ \$0.01).
- A 100 gallon per month resident user would get back \$1.00 per month per penny of surtax.
- There likely would be a proportionally large administrative burdens for both Montana consumers and the state to implement a rebate.
- Additionally, current fuel tax revenue is used to match federal highway dollars (at preferential rates) for state and local projects.
- Is the Committee interested in pursuing this more? We could reach out to MDT for more analysis if so.

Considerations when Evaluating Policy Options

- Tax shift between various property tax classes
- Tax shift between property taxpayers and income taxpayers
- Tax shift between Montana residents and out-of-state residential property owners
- Impact on local government and public-school funding --short and long-term
- Differential effects on counties across the state
- Long-term effects on Montana's tax system
- Managing for where the “puck” is moving to versus a solution for the past
- Not creating a solution addressing an anomaly (One-time shifts pandemic)
- Identification of necessary statutory changes



Public Comment

Next Steps
