MONTANA TAX CLIMATE & INCENTIVES

Corporate Tax Credits

Alternative Energy Production Credit

Qualifying Expenditures: Investment of $5,000 or more in certain depreciable property qualifying under section 48(a) of the Internal Revenue Code of 1986, as amended, for a commercial or net metering system located in Montana which generates energy by means of an alternative renewable energy source.

Benefit: The credit is 35% of the eligible expenditures but is reduced by the amount of the federal credits so the effective credit does not exceed 60% of eligible costs. The credit must first be claimed in the year in which the asset was placed in service; any excess credit may be carried over up to seven years.

For wind energy investments five megawatts or larger, which are located within the exterior boundaries of a Montana Indian reservation, the credit may be carried over up to 15 years and the limitation of 60% of eligible costs is eliminated. This provision applies for tax years beginning after December 31, 2001.

Alternative Fuel Credit

Eligibility: An individual, corporation, partnership, or small business corporation as defined in MCA 15-30-3301 is allowed a tax credit against taxes imposed by MCA 15-30-2103 or MCA 15-31-101 for equipment and labor costs incurred to convert a motor vehicle licensed in Montana to operate on alternative fuel.

Qualifying Expenditures: Equipment and labor costs incurred to convert a motor vehicle licensed in Montana to operate on alternative fuel qualify as allowable expenditures.

Benefit: The allowable benefit is 50% of equipment and labor costs up to $500 for a vehicle less than 10,000 pounds or $1,000 for a vehicle weighing more than 10,000 pounds.

Biodiesel/Bio Lubricant Production Facilities Credit

Qualifying Expenditures: The cost of investments in depreciable property in Montana that is used primarily for constructing or equipping a facility, or both, for purposes of producing biodiesel or biolubricant production

Benefit: The amount of the credit that may be claimed is 15% of the costs for biodiesel/biolubricant production facility. Any unused credit may be carried forward for seven succeeding tax years.

Biodiesel Blending and Storage Credit

Qualifying Expenditures: The cost of investments in depreciable property used for storing or blending biodiesel made from Montana products with petroleum diesel for sale.

Benefit: The amount of the credit that may be claimed is:

- Special fuel distributors: 15% of the costs, up to a total of $52,500
- Owner or operator of a motor fuel outlet: 15% of the costs, up to a total of $7,500

Any unused credit may be carried forward for seven succeeding tax years.

Note: Biofuel related credits (Blending/production, storage, and oilseed crushing)-the facility needed to be in service by 12/31/2014. No new credit can be generated; only credits carried over

Corporate Tax Credits, Cont.

College Contribution Credit

Qualifying Expenditures: An individual, corporation, partnership, or small business corporation is allowed a tax credit in an amount equal to 10% of the aggregate amount of charitable contributions made by the taxpayer during the year to a foundation or a general endowment fund of:

- the Montana University System as a whole or any unit or campus;
- a Montana private college;
- a Montana community college that is part of a community college district defined and organized as provided in 20-15-101; or
- a tribal college located in Montana that meets the requirements of 25 U.S.C 1804.

The maximum credit that a taxpayer may claim in a year under this section is $500. The credit allowed under this section may not exceed the taxpayer's income tax liability. Contractors may use the amount of gross receipts tax paid as a credit against the contractor's corporation income tax liability or income tax liability, depending upon the type of tax the contractor must pay. The credit may be carried forward a maximum of five years.

Contractor's Gross Receipts Tax Credit

Qualifying Expenditures: Contractors are required to pay a license fee equal to one percent of the gross receipts from government contracts during the year for which the license is issued.

Benefit: The credit can be used to offset the tax liability of corporate license or corporate income taxes. Unused Contractor's Gross Receipts Tax Credit can be carried forward for up to five subsequent years.

Dependent Care Assistance Credit

Benefit: A credit against income tax liability for the amount paid or incurred during the year to provide dependent care assistance to your employees. There are three programs that are available that qualify for this credit, including:

- A daycare facilities credit ;
- A dependent case assistance credit; and,
- A dependent care information and referral service credit.

Note: Dependent care assistance credits-the daycare facility had to be opened by 1/1/2005 and the carryover of the credit expired last year. The other aspects of the credit (assistance and referral services) are still in place.

Disability Insurance for Uninsured Montanans Credit

Benefit: The credit applies to disability insurance expenditures. To qualify for the credit the business must:

- Be located in Montana;
- Be in existence for at least 12 months;
- Employ at least two but no more than 20 employees working at least 20 hours a week; and,
- Pay at least 50% of each employee's insurance premiums.

Corporate Tax Credits, Cont.

Empowerment Zone Tax Credit

Eligibility: Eligible organizations include individuals, corporations, small business corporations, pass-through entities, and partnerships. Local governments can establish empowerment zones to encourage economic development. Among other criteria, unemployment within the empowerment zone area must be at least 150% of the statewide average unemployment or poverty rate in the two years prior to creation of the empowerment zone.

Qualifying Expenditures: To qualify, business must be located in a facility within the empowerment zone with
less than 10% of retail sales coming from of tangible personal property, other than that manufactured in the facility.

To qualify, the business must increase employment within the empowerment zone with employees who:

- work at least 1,750 hours per year in permanent employment intended to last at least three years;
- were not employed in the business within the 12 preceding months;
- at least 35% are residents of the county at the time of their employment;
- are provided a health benefit plan of which at least 50% of the premium is paid by the business; and,
- are paid for job duties performed at the empowerment zone location.

Benefit: The credit against income tax liability for each qualifying employee is $500 for the first year of employment; $1,000 for the second year of employment; and, $1,500 for the third year of employment. If the credit exceeds the taxpayer's income tax liability, the credit may be carried forward seven years and carried back three years. In addition to the income tax credits, the employer is also entitled to a credit against the insurance premium taxes imposed by 33-2-705, MCA. The credits against the premium tax are the same as listed above.

Energy Conservation Investments Deduction

Eligibility: Allowable expenditures are capital investment in a building for energy conservation purposes which is not financed by state, federal, or private grant funds.

Benefit: The taxpayer may deduct from gross corporate income up to $1,800 for residential investment. Alternatively, $3,600 may be deducted for commercial building investment.

Geothermal System Credit

Benefit: Credit up to $1,500 for installation costs for a qualified geothermal system. Allowable costs include:

- Trenching, well drilling, casing and downhole heat exchangers;
- Piping, control devices, and pumps that move heat from the earth to heat or cool the building;
- Ground source or ground coupled heat pumps;
- Liquid-to-air heat exchanger, ductwork and fans installed with a ground heat well that pump heat from a well into a building; or,
- Design and labor.

Historic Buildings Preservation Credit

Benefit: A corporation may claim this credit for expenditures made for the preservation of certain historic buildings located in Montana. Qualifying historic buildings are those structures defined in Section 47(c) of the IRC. The allowable Montana credit is 25% of the federal rehabilitation credit provided for in Section 47(a)(2) of the IRC. Any unused credit can be carried forward for up to seven years succeeding the year in which the credit is generated.

Increase Research and Development Activities Credit (Expired 12/31/2010)

Infrastructure User Fee Credit

Qualifying Expenditures: A business that is created or expanded as the result of a loan made by the Montana Board of Investments to enhance economic development and create jobs in the basic sector of the economy may claim this credit for the fees it pays to use the infrastructure.

Mineral and Coal Exploration Incentive Credit

Qualifying Expenditures: Certified expenditures for mining exploration activities, which represent costs incurred for activities in direct support of exploration activity conducted at a specific exploration site for the purpose of determining the existence, location, extent or quality of a mineral or coal deposit. The credit applies to activities associated with both new mines and mines that are being reopened. These expenditures must receive prior certification by the department in order to qualify for the credit.

Benefit: A credit may be claimed for certified expenditures of mining exploration activities not to exceed 50% of the tax liability for the tax year that is related to production from the mining operation at which the exploration activities occurred. If a portion of the credit is not applied during a tax year, it may be carried forward and applied during a subsequent tax year.

New/Expanded Industry Credit

Eligibility: Eligible organizations are manufacturing companies that undergo qualified expansion.

Qualifying Expenditures: Allowable expenses are organizational expenditures which increase total full-time employment by at least 30%.

Benefit: The total amount of the credit is 1% of the total wages paid to new employees. Credit is available during the first three years following initiation or expansion of the manufacturing operation. Credit is limited to the year in which it is earned.

Oilseed Crushing Facility Credit

Benefit: Credit for the cost of investments in qualifying depreciable property in Montana used to crush oilseed crops for the purpose of making biodiesel fuel or biolubricant. The credit is equal to 15% of the property cost, up to a maximum credit of $500,000. It will be applied against income tax liability in the tax year that the facility begins processing the oilseed or manufacturing a product from the oilseed. The credit can be carried over for seven succeeding years if the facility is crushing oilseed during that tax period.

Corporate Tax Credits, Cont.

Qualified Endowment Credit

Qualifying Expenditures: A qualified endowment is a permanent, irrevocable fund established for a specific charitable, religious, educational, or eleemosynary (philanthropic) purpose that is held by:

- A tax-exempt 501(c)(3) corporation formed under the laws of Montana, or
- A bank or trust company holding an endowment fund on behalf of a Montana or foreign 501(c)(3)organization.

A C corporation engaged in an active trade or business is entitled to a credit equal to 20% of all charitable contributions to a qualified endowment. Contributions do not have to be in the form of a planned gift. A C corporation's credit cannot exceed the lower of its corporate income tax liability or $10,000.

The contributions of an S corporation, partnership, or limited liability company are passed through to shareholders, partners, or members in the same proportion used to report the corporation's, partnership's or limited liability company's income or loss for Montana tax purposes; this amount should be reported to owners on Montana Schedule K-1. The pass-through entity's contributions do not have to be in the form of a planned gift.

Recycle Credit

Qualifying Expenditures: Investments in depreciable equipment or machinery used to collect, process or manufacture a product from reclaimed material or depreciable property that treats soil contaminated by hazardous wastes can be claimed.

Benefit: The credit allowed is a percentage (25% to 5%) of the cost of the property used in Montana. No carry forward or carry back is allowed.

Emergency Lodging Credit

Eligibility: A licensed lodging facility that provided lodging for individuals displaced from their residences by reason of temporary immediate danger from assault or potential assault by partners or family members may be eligible to claim this credit. These individuals must be referred by designated charitable organizations.

Benefit: The credit is limited to a maximum of five nights of lodging for each individual per calendar year.

Note: In the 2015 legislature, the "Temporary Emergency Lodging" credit was renamed "Emergency Lodging" and the definition of who can be referred was broadened. SB175 expanded it to include an individual or family "in immediate need of shelter based on an imminent or existing threat to the safety or security of the individual or family" It's basically the same concept except now someone could be referred to a motel if a homeless shelter is full for example.

Unlocking State Lands Credit

Benefit: A taxpayer is allowed a credit in the amount of $500 for each qualified access to state land. The maximum credit that a taxpayer may claim in a year under this section is $2,000.

Note: The 2015 legislature made changes to the "Unlocking State Lands" credit (SB309). It will be "Unlocking Public Lands" program as US Forest Service and BLM land will be eligible and the credit will increase to $750 with a maximum of $3,000. These changes don't take effect until 2016.

MONTANA CORPORATE & BUSINESS CREDITS

AMOUNTS CLAIMED IN TAX YEAR 2012

	C Corporations		S Corporations		Partnerships	
Credit	**# of Credits**	**Credit Amount**	**Montana**	**Multi-State**	**Montana2**	**Multi-State3**
Alternative Energy Production Credit	*	$50	$14,288	$0	$14,590	$0
Alternative Fuel Credit	0	$0	$0	$0	$1,000	$0
Biodiesel Blending Credit	0	$0	$0	$0	$0	$0
Charitable Endowment Contribution Credit	20	$60,406	$0	$0	$0	$0
College Contribution Credit	28	$9,020	$9,893	$1,380	$2,137	$510
Contractors' Gross Receipts Credit	104	$763,534	$2,495,745	$1,069,911	$193,444	$7,969
Credit for Investment in Recycling Equipment	*	$79,815	$331,399	$28,827	$147,030	$6,250
Dependent Care Credit	0	$0	$0	$0	$0	$0
Empowerment Zone Credit	0	$0	$0	$0	$0	$0
Film Production Credit	*	$49,491	$31,816	$47,848	$0	$0
Historic Building Preservation Credit	0	$0	$7,020	$0	$178,162	$0
Increased Research Activity Credit	14	$47,394	$0	$0	$0	$0
Infrastructure Users Fee Credit	*	$305,304	$0	$0	$35,609	$0
Insurance for Uninsured Montanans Credit	19	$15,220	$112,941	$4,955	$20,268	$4,920
Insure Montana Credit	156	$667,413	$1,351,347	$52,646	$173,692	$0
Mineral Exploration Credit	*	$25	$0	$0	$0	$0
Oilseed Crushing Credit	0	$0	$0	$0	$0	$0
Temporary Emergency Loding Credit	0	$0	$0	$0	$0	$0

* For S Corporations and Partnerships, the Credits are net of distributions from First-Tier to Second-Tier Pass-Throughs

Additional Credits for C Corporations	**# of Credits**	**Credit Amount**
Biodiesel/Biolubricant Production Facilities Credit	0	$0
Film Qualified Expenditures Credit	0	$33,862
Geothermal Heating System Credit	0	$0

Corporate Tax Deductions and Exemptions

Capital Gains and Dividends from Small Business Investment Company Tax Exemption

Eligibility: Any capital gains or dividend income realized by an individual or corporation from an investment in a Small Business Investment Company (as defined by state law) is eligible.

Benefit: The capital gains or dividend income is exempt from state individual and corporate income tax.

Capital Gain Exclusion From Sale of Mobile Home Park

Eligibility: Any capital gain income realized by an individual or corporation from the sale or exchange of a mobile home park is eligible.

Benefit: The capital gain is exempt from state individual and corporate income tax.

Donation of Exploration Information Deduction

Benefit: A taxpayer may deduct documented expenses for the donation of mineral exploration information generated as part of certified expenditures. The information must be donated to the Montana Tech Foundation to reside as part of the Montana Tech Research Library, and the documented expenses must be based on the cost of recreating the donated information. The Montana Tech Foundation has the right to limit information accepted and deductions granted. The deduction may not exceed 20% of the actual value of the data if a tax credit for the same exploration activity data is taken under this part.

Benefit: A corporate taxpayer may deduct a portion of expenditures on capital investment in a building for an energy conservation purpose from gross corporate income.

Research and Development Firms Tax Exemption

Eligibility: In order for a firm to qualify as a research and development firm, more than 50% of the real and tangible personal property must be located in Montana and more than 50% of its Montana payroll must be directly related to research and development activities. A corporation that is created through the reorganization of a corporation currently operating in Montana is not eligible for the research and development tax benefits if the newly created research and development subsidiary is essentially continuing current and past activities of the parent in Montana.

Benefit: An eligible research and development firm that is organized to engage in business in the state of Montana for the first time is not subject to any of the taxes imposed on net income earned from research and development activities during its first five taxable years of activity in Montana.

Corporate Tax Deductions and Exemptions, Cont.

Recycling Property Credit

An individual, corporation, partnership, or small business corporation may receive a tax credit for investments in depreciable property used primarily to collect or process reclaimable material or to manufacture a product from reclaimed material according to the following schedule:

- 25% of the cost of the property on the first $250,000 invested;
- 15% of the cost of the property on the next $250,000 invested; and
- 5% of the cost of the property on the next $500,000 invested.

Taxpayers that purchase recycled material as a business-related expense can deduct 10% of the expense of these products from federal adjusted gross income in arriving at Montana adjusted gross income. Taxpayers may deduct expenditures for organic fertilizer, such as compost, that is produced in Montana and used in Montana. The deduction is allowed if the expenditure was not otherwise deducted in computing taxable income.

A credit against permit fees may be claimed for glass used in recycled material in the calendar year prior to that which the applicant is paying fees under 75-2-220.

The amount of the credit is:

- Eight dollars ($8) for each ton of post-consumer glass used as a substitute for non-recycled materials; with
- A maximum allowable credit in any calendar year of $2,000 or the total amount of fees due, whichever is less.

The post-consumer glass used in recycled material may not be an industrial waste generated by the person claiming the credit unless the person generating the waste historically has disposed of the waste onsite or in a licensed landfill; and. standard industrial practice has not generally included the reuse of the waste in the manufacturing process.

CAPITAL GAINS & DIVIDENDS SMALL BUSINESS INVESTMENT COMPANY TAX EXEMPTION

AMOUNTS CLAIMED IN TAX YEAR 2012

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
Capital Gains and Dividends from Small Business Investment Company Tax Exemption	$15	$47,868	*	$24,814	$0	$0	*	$72,682

Additional Exemptions and Deductions for C Corporations
Research and Development Firms Tax Exemption (are not subject to the corporate income tax for the first five years of operation)
Deduction for Purchasing Montana-Produced Organic Fertilizer and Inorganic Fertilizer Produced as a By-product
Donation of Exploration Information Deduction
Energy Conservation Investments Deduction
Recycle Deduction

* Information not availabl

Property Tax Incentives - State and Local Options

Electrolytic Reduction Facilities (15-6-135 MCA)

Eligibility: Machinery used in electrolytic reduction facilities is eligible for a taxable valuation rate of 3% are eligible.

Qualifying Property: Machinery used in electrolytic reduction facilities qualifies for the incentive.

Benefit: The tax benefit received is a reduced taxable valuation rate of 3%. The tax benefit applies to all mills levied on the property and does not phase-out with time.

Exemption and Abatement for Remodeling or Expansion of Certain Commercial Property- Local Option (15-24-1502 MCA)

Eligibility: Remodeling, reconstruction or expansion of an existing commercial building or structure is eligible for an exemption during the construction period (not to exceed 12 months) and for up to five years following completion of construction. The buildings and structures may receive a property tax reduction for four years following the exemption period.

Qualifying Property: Qualifying property includes remodeling, reconstruction or expansion of existing commercial buildings or structures, which increases their taxable value by at least 5%. The property may not have been used in a business for at least 6 months immediately preceding the application for the benefit and the property taxes may not be delinquent.

Benefit: The tax exemption and reduction is limited to 100% of the increase in taxable value caused by remodeling, reconstruction or expansion.

Construction period (12 months or less)	- 0%
Five years following completion of construction	- 0%
First year following exemption period	- 20%
Second year following exemption period	- 40%
Third year following exemption period	- 60%
Fourth year following exemption period	- 80%
Following years	- 100%

Exemption for Business Incubators (15-24-1801 MCA to 15-24-1802 MCA)

Eligibility: If approved by the local governing body, a business incubator owned or leased and operated by a local economic development organization is eligible for an exemption from property taxes.

"Business incubator" means a facility that leases space to and provides shared services (receptionist, copying, secretarial, etc.) and business assistance (marketing plans, business plans, accounting, administration to new businesses) in order to improve their chances of success.

"Local economic development organization" means a private nonprofit organization exempt from taxation under section 501(c)(3) or 501 (c)(6) of the Internal Revenue Code whose primary purposes are to develop the economy of its area and to provide assistance to businesses in that area.

The governing body of the affected county, consolidated government, incorporated city or town, or school district in which the property is located must have approved the tax exemption by resolution.

Qualifying Property: All real and personal property of the business incubator may qualify.

Benefit: The tax benefit received is complete exemption from the number of mills levied and assessed by the governing body approving the exemption. If the governing body approving the exemption is a county, consolidated government or incorporated city or town, the exemption applies to the state levied mills.

Expanding "Value-Added" Machinery and Equipment (15-24-2401 MCA thru 15-24-2405 MCA) - Local Option

Eligibility: If approved by the local governing bodies, an existing value-added industry that expands to include value-added machinery and equipment is entitled to receive a decrease in the tax rate for the value-added machinery and equipment.

"Value-added industry" is a firm that engages in the mechanical or chemical transformation of materials or substances into new products in the manner defined as manufacturing in the North American Industry Classification System Manual prepared by the United States Office of Management and Budget and engages in:

- Processing of Montana raw materials such as minerals, ore, oil, gas, coal, agricultural products, and forestry products; or the
- Processing of semi-finished products produced in Montana that is used by the industry as a raw material in further manufacturing.

The new value-added machinery and equipment must directly result in the creation of new jobs. Local governing bodies must approve by resolution the abatement.

Qualifying: Property: Machinery and equipment used for value-added manufacturing and processing that result in the hiring of new full-time employees may qualify.

Benefit: The tax benefit received is a reduced tax rate to as low as 3%, for the qualifying property. The number of new full-time employees determines the amount of reduction. The tax benefit applies to the number of mills levied and assessed by each local governing body approving the benefit. The benefit also applies to statewide levies if the governing body approving the benefit is a county, consolidated government, or incorporated city or town.

Gasohol Producing Equipment (15-6-135 MCA)

Eligibility: Property used to produce ethanol-blended gasoline is eligible for a reduced taxable valuation rate of 3% (normally 3.30% for real property) for the first three years of its operation.

Qualifying Property: Any real or personal property used primarily in the production of gasohol may qualify.

Benefit: The tax benefit received is a reduced taxable valuation rate of 3%. The tax benefit applies to all mills levied on the property and is available during construction and the first three years of operation.

Historic Properties (15-24-1601 MCA thru 15-24-1607 MCA)

Eligibility: A property that meets the design review criteria in MCA 15-24-1605 is eligible for a property tax abatement if it is:

- Located with the boundaries of a national register historic district and contributes to the district;
- A newly constructed property within the boundaries of a national register historic district that meets design criteria for being architecturally compatible with the district; and,
- Listed individually in the National Register of Historic Places.

Qualifying Property: Properties located in a national register historic district or listed individually on the National Register of Historic Places that are restored, rehabilitated, expanded or newly constructed within the district and that meet certain design review criteria.

Benefit: An eligible property can be allowed an abatement of 100% of the taxable value increase attributed to the rehabilitation, restoration, expansion or new construction for a period of up to five years.

Industrial Parks (15-24-1901 MCA thru 15-24-1902 MCA)

Eligibility: If approved by the local governing body, an industrial park owned and operated by a local economic development organization or port authority is eligible for an exemption from property taxes. "Industrial park" means property zoned for light and heavy industry. The term includes fully developed or partially developed land and improvements and undeveloped land. "Local economic development organization" means a private, nonprofit organization exempt from taxation under section 501(c)(3) or 501 (c)(6) of the Internal Revenue Code whose primary purposes are to develop the economy of its area and to provide assistance to businesses in that area. The governing body of the affected county, consolidated government, incorporated city or town, or school district must have approved the tax-exemption by resolution.

Qualifying Property: All real and personal property of the industrial park may qualify.

Benefit: The tax benefit received is complete exemption from the number of mills levied and assessed by the governing body approving the exemption. If the governing body approving the exemption is a county, consolidated government or incorporated city or town, the exemption applies to the state levied mills.

Local Economic Development Organization (15-24-2001 MCA thru 15-24-2002 MCA)

Eligibility: Commercial improvements and land sold or donated to a local economic development organization for subsequent sale or lease to a profit-oriented employment-stimulating business. The property must have not been used in business for the 6 months preceding the sale or donation. "Local economic development organization" means a private, nonprofit organization whose primary purposes are to develop the economy of an area and to provide assistance to businesses in the area.

Qualifying Property: Qualifying property may include commercial property that has not been used in business for the six-month period immediately preceding the donation or sale to a local economic development organization.

Benefit: If the approving governing body is a county government, consolidated government or incorporated city or town, the mills under Title 15, Chapter 10, MCA (6 mill university levy), MCA 20-9-331 (33 mill elementary equalization levy), MCA 20-9-333 (22 mill high school equalization levy) and the number of mills levied, and at the sole discretion of the approving governing body, can be exempted.

New or Expanding Industries (15-24-1402 MCA) – Local Option

Eligibility: If approved by the local governing body, property used by certain new or expanding industries is eligible for reduced taxable valuation (up to 50% of their taxable value for the first five years) during the first nine years after construction or expansion.

Industry includes, but is not limited to, a firm that engages in the:

- Mechanical or chemical transformation of materials or substances into products in the manner defined as manufacturing in the 1987 Standard Industrial Classification Manual prepared by the United States Office of Management and Budget;
- Extraction or harvesting of minerals, ore, or forestry products;
- Processing of Montana raw materials such as minerals, ore, agricultural products, and forestry products;
- Transportation, warehousing, or distribution of commercial products or materials if 50% or more of the industry's gross sales or receipts are earned from outside the state; or earning of 50% or more of their annual gross income from out-of-state sales; or,
- Engages in the production of electric energy of one megawatt or more by means of an alternative renewable energy source as defined in 90-4-102, MCA.

“New industry” is a firm which is new to the jurisdiction approving the abatement and has invested a minimum of $125,000 worth of qualifying improvements; or, modernized processes within the jurisdiction. Property that qualifies as new industry property under the state option discussed above cannot qualify as new industry property under the local option.

New or Expanding Industries (15-24-1402 MCA) – Local Option, Cont.

"Expanding industry" is one that has added a minimum of $50,000 worth of improvements or modernized processes to its property within the same taxing jurisdiction.

The governing body of the affected county or the incorporated city or town must have approved by resolution the abatement.

Qualifying Property: The added improvements and/or added modernized processes may qualify.

Benefit: The tax benefit received is a percentage multiplier applied to the increase in taxable value of the qualifying improvements or modernized processes. The tax benefit applies to the number of mills levied and assessed for high school district and elementary school district purposes and to the number of mills levied and assessed by the local governing body approving the benefit.

First through fifth year following construction	- 50%
Sixth year following construction	- 60%
Seventh year following construction	- 70%
Eighth year following construction	- 80%
Ninth year following construction	- 90%
Tenth and following years	- 100%

New Industrial Property (15-6-135 MCA)

Eligibility: New industrial property, including real and personal property, is eligible for a reduced taxable valuation rate of 3% (normally 3.01% for real property) for the first three years of operation. Personal property is taxed at 3%.

"New industry" means any organization that establishes a new plant in Montana for the operation of a new industrial endeavor, as distinguished from a mere expansion, reorganization, or merger of an existing industry. New industry includes only those industries that:

- Manufacture, mill, mine, produce, process, or fabricate materials;
- Do similar work, employing capital and labor, in which materials unserviceable in their natural state are extracted, processed, or made fit for use or are substantially altered or treated so as to create commercial products or materials;
- Engage in the mechanical or chemical transformation of materials or substances into new products in the manner defined as manufacturing in the 1987 Standard Industrial Classification Manual prepared by the United States Office of Management and Budget;
- Engage in the transportation, warehousing, or distribution of commercial products or materials if 50% or more of the industry's gross sales or receipts are earned from outside the state; or
- Earn 50% or more of their annual gross income from out-of-state sales.

Qualifying Property: All real and personal property of the new industry may qualify. It does not include property used by retail or wholesale merchants, commercial services of any type, agriculture, trades, or professions unless the business or profession meets the eligibility requirements; a plant that will create adverse impact on existing state, county, or municipal services; or property used or employed in any industrial plant that has been in operation in this state for three years or longer.

Benefit: The tax benefit received is a reduced taxable valuation rate of 3%. The tax benefit applies to all mills levied on the property.

Property Tax Incentives - State and Local Options, Cont.

Pollution Control and Carbon Capture Equipment (15-6-135 MCA)

Eligibility: Air and water pollution control and carbon capture equipment placed in service after January 1, 2014 is exempt from taxation for a period of 10 years from the date of certification. Pollution control installed before January 1, 2014 or after the 10 year exemption is still eligible for a reduced taxable valuation rate of 3%.

Qualifying Property: The portion of identifiable property, facilities, machinery, devices, or equipment designed, constructed, under construction, or operated for removing, disposing, abating, treating, eliminating, destroying, neutralizing, stabilizing, rendering inert, storing, or preventing the creation of air or water pollutants that, except for the use of the item, would be released to the environment. This includes machinery, devices, or equipment used to capture carbon dioxide or other greenhouse gases. Reduction in pollutants obtained through operational techniques without specific facilities, machinery, devices, or equipment is not eligible.

Benefit: The tax benefit received is an exemption from tax for 10 years and/or a reduced taxable valuation rate of 3%. The tax benefit applies to all mills levied on the property.

Reduced Rate for Remodeling of Building or Structures (15-24-1501 MCA)

Eligibility: Remodeling of existing buildings or structures is eligible for a reduced tax rate for five years following construction.

Qualifying Property: Remodeling, reconstruction, or expansion of existing buildings or structures, which increases their taxable value by at least 2.5% may qualify.

Benefit: The tax benefit received is a percentage multiplier applied to the increase in taxable value of the qualifying improvements.

Construction period	- 0%
First year following construction	- 20%
Second year following construction	- 40%
Third year following construction	- 60%
Fourth year following construction	- 80%
Fifth year following construction	- 100%
Following years	- 100%

Research and Development (15-6-135 MCA)

Eligibility: Property devoted to research and development is eligible for a reduced taxable valuation rate of 3% (normally 3.01% for real property).

Qualifying Property: Qualifying property includes all land and improvements and personal property owned by a research and development firm and actively devoted to research and development.

Benefit: The tax benefit received is a reduced taxable valuation rate of 3%. The tax benefit applies to all mills levied on the property and does not phase-out with time.

Suspension, Cancellation of Delinquent Taxes (15-24-1701 MCA thru 15-24-1703 MCA)

Eligibility: If approved by the local governing body, delinquent property taxes on commercial property may be suspended to facilitate the purchase and continued operation of a business utilizing the commercial property.

The following is a general list of items that are exempt from property taxation:

(Business related)

- Specific educational facilities not to exceed 80 acres of land
- Nonprofit healthcare facilities
- Intangible personal property
- All bicycles
- Truck canopy cover or topper weighing less than 300 pounds with no accommodations attached
- Business inventories and free-port merchandise
- Certain leased and rental equipment
- All down-hole equipment in oil and gas wells
- All property used for the exclusive purpose of filming motion pictures or television commercials is exempt, provided the property is not in the state for an excess of 180 consecutive days. This credit expired 12/31/2014
- Title plant owned by a title insurer or title agent
- Business equipment with an aggregate market value of less than $100,000
- First $15,000 or less of value of hand-held tools
- First $100,000 or less of the value of non-fossil forms of energy generation for a multifamily residential dwelling or a non-residential structure or $20,000 or less for a single family residential dwelling
- Space vehicles and the fixtures and equipment used to manufacture or maintain the space vehicles
- Certain mineral exemptions
- Improvements made to commercial buildings to remove barriers to persons with disabilities
- Personal property used by an industrial dairy or an industrial milk processor and dairy livestock used by an industrial dairy
- Machinery and equipment used in canola seed processing facility or a malting barley facility
- Manufacturing machinery and equipment used for production of ethanol from grain (10 year exemption)
- Machinery and equipment of a qualifying electrical generating facility using an alternative renewable energy source (five year property tax exemption), certain noncommercial electrical generation machinery/equipment
- Right of entry
- Farm buildings valued at less than $500
- Agricultural implements valued at less than $100
- Harnesses, saddlery, and tack
- Irrigation and drainage facilities
- Non-processed agricultural products
- Beet implements
- Livestock, poultry, bees, and biological control insects
- Any nonprofit facilities used for training, practice, or competition in international sports and athletic events
- Any nonprofit corporation organized to furnish potable water to its members (other than ag irrigation)
- Any nonprofit corporation providing care for the developmentally disabled, mentally ill, vocationally handicapped, retired, aged, or chronically ill
- Any nonprofit community services buildings with land up to three acres
- Qualifying property on railroad land leased by nonprofit organizations
- Motor vehicles subject to registration fee
- Vehicles of certain health care professionals
- Land that is within 660 feet on either side of a qualifying transmission right-of-way constructed after January 1, 2007
- Low income housing owned by a partnership with a nonprofit as the general partner

MONTANA PROPERTY TAX INCENTIVES

TAX YEAR 2014

Property Tax	2014 Assessed Value	2014 Taxable Value	Rate	Taxes Levied	Effective Rate
Improvements on Industrial Land (Class 5)	$13,265	$398	3.00%	$143	1.08%
Pollution Control Equipment (Class 5) - Includes Centrally Assessed	$285,896,770	$8,576,908	3.00%	$3,305,663	1.16%
Gasohol Producing Equipment (Class 5)	$0	$0	3.00%	$0	0.00%
Aluminum Electrolytic Reduction Facilities	$9,580,147	$287,404	3.00%	$153,741	1.60%
New and Expanding Research and Development (Class 5)	$14,223,160	$213,765	1.50%	$112,592	0.79%
New or Expanding Industries (Class 4)	$1,098,574,952	$25,638,039	2.33%	$14,683,655	1.34%
Expanding "Value-Added" Machinery and Equipment (Class 8)	$673,458,265	$15,471,934	2.30%	$8,246,993	1.22%
Reduced Rate for Remodeling of Building or Structures (Class 4)	$16,850,952	$333,196	1.98%	$234,829	1.39%

Other Property Tax Incentives
Exemption for Business Incubators
Industrial Parks
Historic Properties
Local Economic Development Organization
Suspension, Cancellation of Delinquent Taxes
Value-Added Manufacturing

Natural Resource Tax Incentives

New Underground Coal Severance Tax Exemption (15-23-703, MCA)

The incentive provides a reduced coal gross proceeds tax rate of 2.5 percent for new and existing underground mines for the first 10 years of coal production. There were no claims for this reduced tax rate for FY 2013 or FY 2014.

Metal Mine License Tax Exemption (15-23-801, MCA)

The first $250,000 of gross value is exempt from the tax, which essentially exempts smaller mines.

Reduced Rate for Natural Resource Tax - New Oil Production (15-36-304, MCA)

Oil or gas produced from a well that qualifies as “new” production is taxed at a reduced rate of 0.76 percent. This reduced rate applies for the first 12 months of production from a conventional well and the first 18 months of production from a horizontally completed well.

New production includes production from new wells and from wells that have not produced oil or gas during the previous 60 months. This reduced rate is intended to provide an incentive for the exploration, development and production of oil and gas.

Reduced Rate for New Horizontally Drilled Oil Production (15-36-304, MCA)

The first 18 months of incremental production from a horizontally recompleted well is taxed at 5.76 percent. After this period, the tax rate reverts to 9.26 percent for post-99 wells or 12.76 percent for pre-99 wells. There were no horizontally recompleted oil wells approved in 2011, 2013, or 2014.

Reduced Rate for Oil Incremental Production (15-36-304, MCA)

In any quarter when the average price of West Texas Intermediate (WTI) crude oil is less than $30 per barrel, incremental production from secondary recovery projects is taxed at 8.76 percent, and incremental production from tertiary recovery projects is taxed at 6.06 percent. In quarters when the average price of WTI is at least $30 per barrel, these wells are taxed at 9.26 percent for post-99 wells and 12.76 percent for pre-99 wells.

The reduced rates provide incentives for the use of enhanced recovery technologies when prices are low. The state does not currently forgo any revenue as a result of this tax expenditure because the average quarterly WTI price has not been below $30 per barrel since the 4th quarter of FY 2003.

Reduced Rate for Oil Stripper Production (15-36-304, MCA)

In any quarter the average price of WTI crude oil is less than $38 per barrel, oil from wells on leases that produce less than three barrels per well per day is taxed at 0.76 percent (stripper exemption). If the price of WTI is equal to or greater than $38 per barrel this oil is taxed at 6.26 percent. From wells on leases that produce between three and 15 barrels per well per day (stripper oil), the first 10 barrels per day are taxed at 5.76 percent and remaining production is taxed at 9.26 percent in quarters when the average price of WTI is less than $30 per barrel. In quarters when the average price of WTI is at least $30per barrel, stripper oil is taxed at 9.26 percent for post-99 and 12.76 percent for pre-99 wells.

The reduced rates on stripper exemption and stripper oil provide an incentive to keep low-volume wells in production. The state does not currently forgo any revenue as a result of oil prices being below $38 or $30 per barrel because the average quarterly WTI price has not been below $38 per barrel since the 3rd quarter of FY 2004.

NATURAL RESOURCE RELATED TAX INCENTIVES

TAX YEAR 2014

Incentive	Amount
Reduced Rate for New Horizontally Drilled Oil Production	$55,864,789
Reduced Rate for New Natural Gas Production	$2,010,467
Reduced Rate for Oil Stripper Production	$1,366,587
Natural Gas Pre-1999 and Less than 60 MCF/day (Oil and Gas Production Tax)	$1,283,197
Horizontally Recompleted Wells	$0
Reduced Gross Proceeds Tax Rate for New Underground Coal Mines (Coal Severance Tax)	$0
Metal Mine License Tax Exemption	$0
Reduced Rate for Natural Resource Tax - New Oil Production	0.76 Rate
Reduced Rate for Oil Incremental Production	$0
Reduced Rate for Pre 1/1/99 Oil Production	$0
Reduced Rate for Natural Gas Stripper Production	$0
Reduced Rate for Pre 1/1/99 Natural Gas Production	$0

2015 STATE BUSINESS TAX CLIMATE INDEX RANKS AND COMPONENT TAX RANKS

Table 1. 2015 State Business Tax Climate Index Ranks and Component Tax Ranks

	Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Unemployment Insurance Tax Rank	Property Tax Rank
Wyoming	1	1	1	13	34	35
South Dakota	2	1	1	35	41	18
Nevada	3	1	1	39	43	9
Alaska	4	30	1	5	24	32
Florida	5	14	1	12	3	16
Montana	6	18	20	3	18	8
New Hampshire	7	48	9	2	44	43
Indiana	8	22	10	10	7	5
Utah	9	5	12	19	22	4
Texas	10	39	6	36	15	36
Washington	11	28	6	46	19	23
Oregon	12	36	31	4	30	15
Michigan	13	10	14	7	47	27
Delaware	14	50	33	1	2	13
Tennessee	15	15	8	47	26	37
North Carolina	16	25	15	33	11	29
Missouri	17	4	29	29	12	7
Mississippi	18	11	21	28	8	33
Idaho	19	21	24	22	46	3
Colorado	20	12	16	43	35	22
West Virginia	21	17	26	25	23	25
Kansas	22	38	18	30	9	28
Arizona	23	24	19	49	4	6
Massachusetts	24	37	13	21	48	45
North Dakota	25	19	36	20	16	2
Kentucky	26	29	30	11	45	17
Virginia	27	6	39	6	37	26
Alabama	28	27	23	41	25	10
Nebraska	29	31	25	27	13	39
Hawaii	30	9	37	15	28	12
Illinois	31	47	11	34	38	44
Oklahoma	32	7	40	38	1	11
Maine	33	45	22	9	42	40
Pennsylvania	34	46	17	24	50	42
Louisiana	35	23	27	50	6	24
Georgia	36	8	42	17	36	30
South Carolina	37	13	41	18	40	21
New Mexico	38	35	35	45	10	1
Arkansas	39	40	28	44	39	19
Maryland	40	16	45	8	21	41
Iowa	41	49	32	23	33	38
Connecticut	42	32	34	31	20	49
Wisconsin	43	33	43	14	27	31
Ohio	44	26	47	32	5	20
Rhode Island	45	43	38	26	49	47
District of Columbia	45	38	35	42	27	44
Vermont	46	42	44	16	17	48
Minnesota	47	44	46	37	29	34
California	48	34	50	42	14	14
New York	49	20	49	40	31	46
New Jersey	50	41	48	48	32	50

Note: 1 is best, 50 is worst. Rankings do not average to total. States without a tax rank equally as 1 for that component. D.C. score and rank do not affect other states. Report shows tax systems as of July 1, 2014 (the beginning of Fiscal Year 2015).

Source: Tax Foundation calculations.

SOURCES & RESOURCES

Montana Department of Revenue – 2012-2014 Biennial Report: http://revenue.mt.gov/

Montana Department of Revenue – Forms http://revenue.mt.gov/home/businesses

Governing Tax Data: http://www.governing.com/gov-data/state-tax-revenue-data.html

State Business Incentives Database: http://apps.csg.org/BusinessIncentives/

Tax Foundation – State Taxes: http://taxfoundation.org/tax-topics/state-taxes