



Railcars and taxes

FREQUENTLY ASKED QUESTIONS FOR MONTANA

Are railcars taxed?

Yes, like all property in Montana, railcar owners pay property tax

By law, railcars are valued and taxed yearly in Montana. The laws governing railcar tax are 15-23-101 through 15-23-216, MCA. There are also administrative rules that cover valuing and assessing railcars, which are 42.22.101 through 42.22.122, ARM.

Railcar taxation is unique in a couple of ways. First, railcars meet the definition of Class 12 property* (15-6-145, MCA) and the department's Tax, Policy, and Research unit calculates the tax rate on an annual basis. The tax rate calculation in tax year 2009 was 3.45 percent.

The second unique calculation used for railcar valuation and assessment is the use of an annually calculated mill levy. The mill levy is calculated using the previous year's state-wide mill rate. Last year, the rate was 524.81 mills.

***Class 12 property description (15-6-145, MCA):** "Class twelve property includes all property of a railroad car company as defined in 15-23-211, all railroad transportation property as described in the Railroad Revitalization and Regulatory Reform Act of 1976 as it read on January 1, 1986, and all airline transportation property as described in the Tax Equity and Fiscal Responsibility Act of 1982 as it read on January 1, 1986."

Who taxes railcars?

The Department of Revenue values, assesses, and taxes railcars

The department generally is responsible for valuing and classifying property in Montana. By law, the department not only values and assesses the railcar property, but also bills and collects the taxes associated with the assessment.

The department uses recognized unit appraisal methodologies to value all of the cars in an interstate company's fleet, and then allocates a portion of the interstate value to Montana to account for 100 percent of the state's portion of that value. The department's Business Tax and Valuation Bureau administers this process. The department's Accounts Receivable and Collections Bureau provides collection services while the Tax, Policy and Research unit compiles and analyzes data.

How are railcars taxed?

Railcars are valued and assessed using unitary methodologies.

Because of the nature of the railcar industry, individual car movements are very difficult to track and attribute to any one county or levy district.

Centrally assessed* properties are generally valued using unitary methodologies. This means that the entire fleet of a taxpayer's railcars is valued as a whole, without regard to the location of the property. The property could be located in any state in the nation, as well as Montana. This is called the unit value.

The total unit value is then allocated to Montana based on the operating characteristics such as mileage, speed, and other activities.

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How are railcars taxed?

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Unity value is appropriate for property such as railcars because market transactions and other market influences occur at the unit level. Because railcars are valued as a whole unit, instead of individually, the property's value is enhanced. Therefore, this method of valuation allows the Department of Revenue to correctly calculate the enhanced market value of the property.

This explanation leads us to the question, "do counties receive taxes from railcars located in the counties?" The answer is, "no." The taxes collected are deposited into the state's general fund according to 15-23-215, MCA.

***Centrally assessed property defined:** *Properties specifically listed in 15-23-101, MCA and ARM 42.22.102 (1) — Railroad; railroad car; microwave; telecommunications; telephone cooperatives; gas utilities; electric utilities; electric cooperatives; ditch; canal; flume; natural gas pipeline; oil pipeline; and airlines.*

- *The property must be physically connected — Companies that actually have physically connected property that crosses a county or state boundary.*
- *Or, the company must have unity of operation — Companies that have operating characteristics that exhibits unity where the property is functionally operated as a single entity but may not have a physical connection.*

Are idled or parked railcars taxed?

All railcars are taxed in Montana regardless of their activity

Because of the methodologies used for valuing railcars, all of the value attributed to Montana is captured whether the car is rolling or parked.

The following formula calculates the allocation of value to Montana (speed = miles per day):

$$\text{Allocation \%} = \text{miles in Montana} / (\text{speed of car} * 365 \text{ days}) / \text{railcars in fleet}$$

If we use an example of a company that has no idled cars, and compare it to a company with idled cars, you can see how the idled or parked cars affect the allocation percentage.

No idled cars in Montana:

$$\text{Allocation} = 124,462,437 \text{ miles in MT} / (710 \text{ mpd} * 365) / 145,785 \text{ cars}$$

$$\text{Allocation} = .329\% \text{ value allocated to Montana (no idled cars in MT)}$$

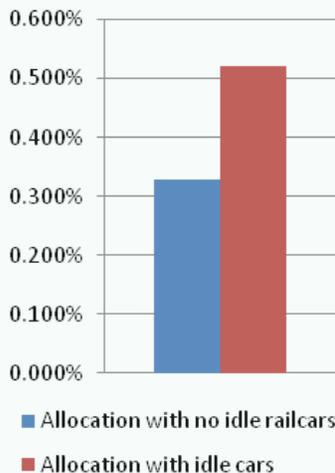
Idled cars in Montana:

$$\text{Allocation} = 124,462,437 \text{ miles in MT} / (450 \text{ mpd} * 365) / 145,785 \text{ cars}$$

$$\text{Allocation} = .520\% \text{ value allocated to Montana (idled cars in MT)}$$

As you can see from the formulas, a company with idled or slow cars is going to realize a much higher portion of their total value being allocated to Montana. This exact example would be a 32.62% increase in value and taxes.

Idled railcars in Montana have a higher tax liability



How are railcars valued?

In Montana, railcars are valued at 100 percent of their market value

All property in Montana must be valued at 100 percent of its market value. Specifically, “All taxable property must be assessed at 100 percent of its market value except as otherwise provided.”

The law goes on to define market value: “Market value is the value at which property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts” (15-8-111, MCA).



Idled “spine cars” near Ulm, Montana.

To determine the market value, the department uses historical cost new less depreciation (HCLD) or original cost new less depreciation (OCLD) approaches. The department also adds to these costs any improvements or special equipment that may be present on the railcar. This is similar to how business equipment is valued. The department calculates depreciation equally over the life of the railcars (straight-line method) taking into consideration all forms of physical, functional, and external depreciation or obsolescence.

How is railcar activity tracked?

Railcar activity in Montana is tracked using Railroad Mileage Reports

The question often comes up of how car activity is tracked in Montana, especially given the nature of the industry and the relative speed at which railcars travel into and out of the state.

Railroad companies report all railcar activity in the state regardless of who owns the railcars.

Montana law requires railroad companies, to report the “number, kind, and total number of miles traveled within the state by railroad cars owned by railroad car companies”* (15-23-204, MCA).

These railroad reports give the department detailed information showing all railcar activity in the state on any given tax year. This allows the department to enforce compliance and ultimately tax all railcars in Montana.

***Railroad car company defined:** “Railroad car company” means any person, other than a railroad company, engaged in operating, leasing, or furnishing private railroad cars, whether or not owned by that person, for the transportation of persons or freight over railroad lines located wholly or partially within this state (15-23-211, MCA).