

Business Taxes

Corporation Income Tax
Driver's License Fees
Estate Tax
Individual Income Tax
Insurance Tax & License Fees
Investment License Fees
Lodging Taxes

Motor Vehicle Fees
Public Contractors Tax
Railroad Car Tax
Rental Car Sales Tax
Telecommunications Excise Tax
Vehicle Tax



Legislative Fiscal Division



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Legislative Fiscal Division

Revenue Estimate Profile

Corporation Income Tax

Revenue Description: The corporation income tax is a license fee levied against a corporation's net income earned in Montana. The corporation income tax is imposed on corporations that, for reasons of jurisdiction, are not taxable under a license tax. Factors that affect corporation income tax receipts include tax credits and the audit efforts by the Department of Revenue. As with individual income tax, all forecasts are adjusted for allowable credits.

Statutory Reference:

Tax Rate (MCA) – 15-31-121,

Tax Distribution (MCA) – 15-31-121, 15-1-501(1)

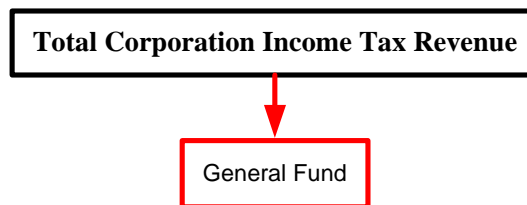
Date Due – by the 15th day of the fifth month following the close of the corporate fiscal year (15-31-111, 15-31-502).

Estimated taxes due April 15th, June 15th, September 15th, and December 15th (15-31-502).

Applicable Tax Rate(s): The tax rate is 6.75%, except for corporations making a "water's edge" election (see 15-31-322, MCA), who pay a 7.0% tax on their net income.

Distribution: Beginning fiscal 2006, all corporation tax revenue is distributed to the general fund.

Distribution Chart:



Collection Frequency: Monthly, Quarterly, and Annually

% of Total General Fund Revenue:

FY 2004 - 4.90%

FY 2005 - 6.42%

FY 2006 - 9.00%

Revenue Estimate Methodology:

Data

The data used to develop the estimates for the corporation income tax is provided by the Department of Revenue (DOR) and the state accounting system (SABHRS). The DOR provides corporation data from the corporation income tax return series that includes total corporation income, Montana allocation information, and the Montana tax liability. The return series tends to be relatively dated information because corporations are allowed up to 10.5 months after the end of the tax year to file the return. The DOR also provides a series based on the corporation income tax payment data. This series provides more timely data and includes individual corporation payment by type (estimated, tentative, return, refund, audit). SABHRS provides historic fiscal year data of total collections, current year payments, estimated payments, audits and penalty and interest, and refunds.

Several steps must be taken prior to analysis of the corporation income tax data. The corporation tax estimate for the 2009 biennium is calculated using the DOR payment data series. Upon receipt of the data series, all prior year payments must be removed. Next the data is broken into two parts, taxpayers paying greater than or equal to \$100,000 annually and taxpayers paying less than \$100,000. Finally, the large taxpayer data is disaggregated based on the industrial sector of the corporation. The data is then evaluated and adjusted when needed. If the data acceptably matches the SABHRS data, then the analysis process can begin.

Analysis

A new approach was developed to project corporate income taxes for the 2009 biennium. The corporation income tax is the

Legislative Fiscal Division

Revenue Estimate Profile

Corporation Income Tax

most complicated tax to estimate accurately, given the high level of variability in collections. Collection patterns show that current tax payments often originate in a previous year. Included in fiscal year data are late payments, audit payments, and refunds. These activities tend to promote misinterpretation of how high, or low as the case may be, Montana corporate profitability is in any given tax year. A simple review of SABHRS data will not distinguish the many anomalies of the data, leading to the adoption of incorrect assumptions. The approach developed for the corporation estimate employs DOR corporation tax payment data in an attempt to make future estimates as accurate as possible. By disaggregating the data based on corporate industrial sector, specific components of the corporate landscape can be analyzed, measured, and forecast independently with industrial sector projections. Finally, adjustments to historical payment data; prior year payments, audits, and refunds; can provide an indication of future payment behavior and a base from which estimates can be developed. The new technique was tested using fiscal 2005 payment data and industrial sector growth factors. This validation process showed that the technique accurately projected fiscal 2006 collections as reported on SABHRS. The results of this technique differ greatly from other types of corporate tax payment analysis/forecasting and are expected to provide a more conservative estimation for rate of overall growth.

Many corporate entities in Montana do not demonstrate profitability behavior like national corporations. For example, financial corporations lag the nation in profitability, and Montana's large natural resource base is as volatile as the commodity prices, affecting the payments of oil and gas, energy, mining, and timber corporations. To reflect the peculiar corporate profitability exhibited in Montana, the estimates of corporation tax payments are created through a detailed study of tax payments by industry. To ensure that proper growth is assessed to each industrial sector, the payment data of the high payment corporate tax payers is separated by industry and growth rates are established for each of the industrial sectors. The figure below shows each of the sectors that were developed in this process and include an oil and natural gas sector, a financial sector, an energy sector, a mining sector, a timber sector, a sector for all other large industrial corporation types, and a domestic sector (including all small corporate taxpayers). Also included in the figure below are the growth factors used to estimate future collections of the corporate income tax by sector and the source of those measures.

Corporation Sector Analysis						
Industrial Sectors	% Total Taxes	Source of Growth Measure	Growth Factors			
			2007	2008	2009	
Financial	16.6%	Global Insight - All Loans	6.92%	6.12%	5.66%	
**Oil & Nat. Gas	21.1%	LFD - Oil & Natural Gas	14.30%	-3.86%	-10.98%	
Energy	5.9%	Global Insight - Edemand*Eprice	0.78%	0.63%	1.66%	
Mining	3.8%	LFD - Metal Mines	8.87%	3.08%	-6.38%	
Timber	0.9%	Global Insight - Logging	-4.08%	-1.53%	0.09%	
All Other Industries	29.0%	Global Insight/LFD - Pre-tax Profs. Analysis	11.47%	1.63%	2.24%	
Domestic	22.7%	Global Insight/LFD - Pre-tax Profs. Analysis	11.47%	1.63%	2.24%	

Assumptions:

- Financial – The financial sector has recently been very profitable in Montana. Assumptions for the rationale behind the high profitability include lower interest rates and a highly active housing market. Both assumptions compel greater lending activities. This sector also includes investment corporations who are greatly affected by the activities of the stock market. Even with the effects of increased interest rates, the financial sector corporations are expected to increase their profitability over the next three years. The factor used to project future financial sector tax payment growth is derived from the change in the Global Insight projection of the amount of loans that will be issued to private and business consumers.
- Oil & Natural Gas – The oil and natural gas sector has experienced high levels of profitability as the prices for petroleum based products have increased over the past two years. The assumption of this analysis is that higher oil and gas prices have driven new production in the state and greater amounts of oil are being refined in Montana facilities. While the profitability of this sector has increased significantly, the rates of profitability are expected to decline in the future because the new production is now established. The factor used to project future oil and natural gas sector tax payment growth results is the change in the oil and natural gas gross values projected specifically for oil and natural gas severance taxes.

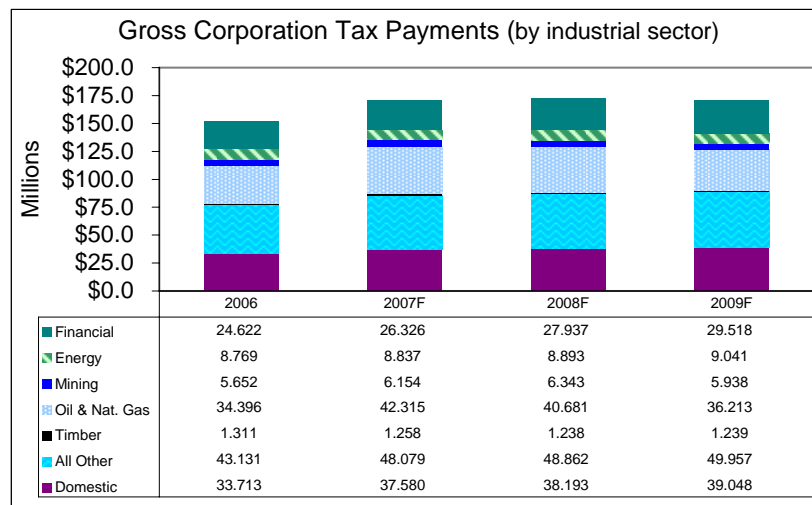
Legislative Fiscal Division

Revenue Estimate Profile

Corporation Income Tax

- Energy – Electric energy corporations have played a significant role in the Montana economy, but in recent years, the importance of this sector has diminished in relation to the corporation income tax. The profitability, and associated tax payment history, has continued to increase slowly over the past years, and the assumption has that trend continuing over the next three years. The factor used to project future energy sector tax payment growth is the change in the product of the Global Insight projection for electric energy demand and electric energy price.
- Mining – Montana’s mining sector recently gained new life as the price of almost all mineral commodities such as silver, gold, palladium, and copper has increased. Several mines temporarily reopened and have started new production. However, the price of most minerals is expected to decline over the next three years, and several large mining businesses are planning to discontinue their operations in Montana. Consequently, mining corporations are assumed to be less profitable in the next biennium. The factor used to project future tax payments through the mining sector is the change in value of minerals, projected specifically for the estimate of the metal mines tax.
- Timber – The timber sector in Montana is highly volatile. Timber corporations come and go, as evidenced in their tax payment history. The timber sector is assumed to remain volatile and is expected to reduce activity in upcoming years. The factor used to project future timber sector tax payment growth comes from the change in the Global Insight projection for logging in the nation.
- All Other – The all other sector includes the remaining large corporations. Included in this sector are businesses that endeavor in retail and wholesale sales, bar and restaurant activities, and construction activities, just to name a few. This sector is assumed to more closely follow the national corporation profitability model. The all other sector has experienced rapid growth over past years, and is assumed to experience high growth through 2007 with slower growth in the subsequent years. The factor used to project future tax payment growth in the all other sector was developed in an analysis that regressed SABHRS total corporation tax data against the Global Insight “pre-tax corporation profits” variable, lagged one year, and a business cycle variable to value the corporate tax impact of recessionary periods. The regression provided an R² rating of 0.8797, which means that the regression analysis explains 87.97 percent of the variability in total corporation tax payments, when all other impacts are held constant.*
- Domestic – The domestic sector is made up primarily of smaller corporate entities. Many of the corporations in this sector operate solely in Montana and are less profitable than their larger counterparts. The domestic sector is assumed to experience growth similar to the expected growth of other Montana based corporations, but while the growth will mimic the all other corporation profit growth level, the resulting expected tax payments will be substantially smaller. Consequently, the factor used to project future domestic sector tax payment growth comes from the same source and is identical to the rates developed in the analysis discussed in the all other sector discussion.

To develop the estimate for the corporation income tax, the sector growth rate is applied to the most recent fiscal year, 2006, of actual payments. The projected payments by sector are seen in the figure below. The sectors are next summed to produce the estimate of total corporation income tax payments. For the 2009 biennium, gross tax payments are \$170.4 million in fiscal 2007, \$172.0 in fiscal 2008, and \$170.8 in fiscal 2009.



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Revenue Estimate Profile Corporation Income Tax

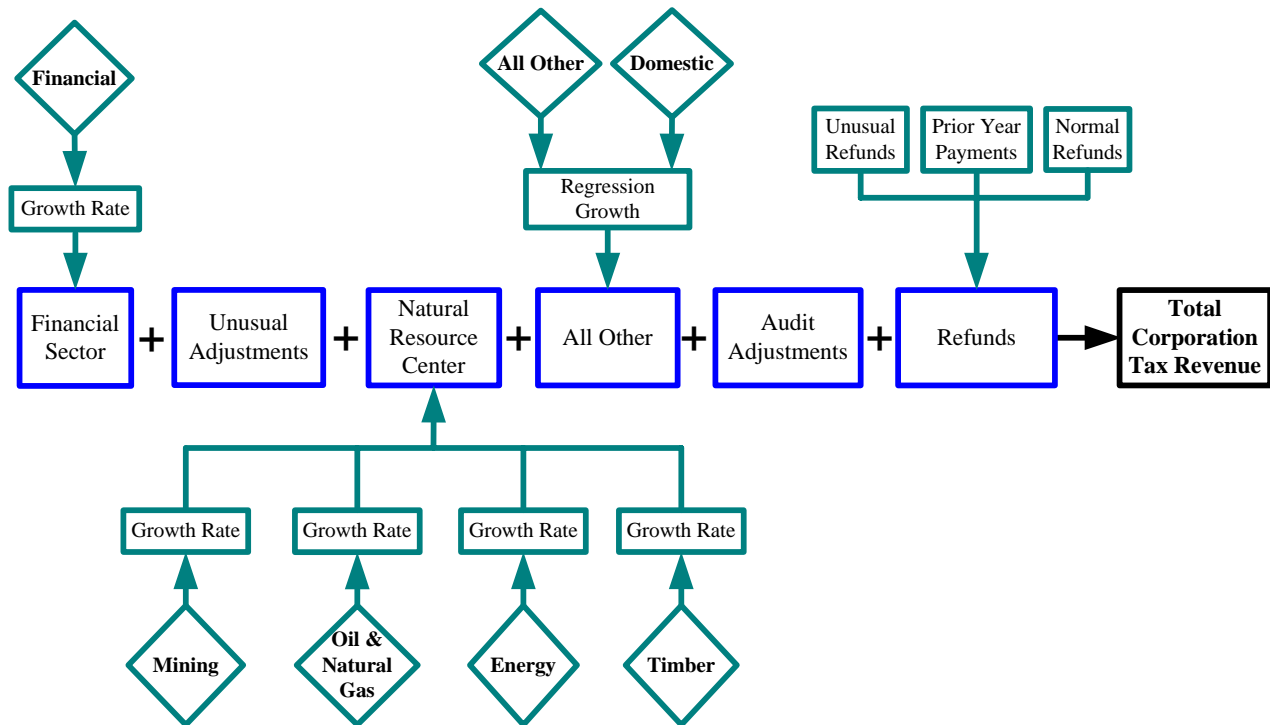
Adjustment and Distribution

After the estimate for gross corporation tax payments is complete, several adjustments are required. The first adjustment is to remove the projected refunds from the gross payments. Refunds in fiscal 2006 were 9.3 percent of total payments. That proportion is held constant, between fiscal 2007 and 2009. Gross payments are also reduced for unusual refunds anticipated by the DOR at \$6 million in fiscal 2007 and \$7 million in fiscal 2008. Gross payments are increased by audit activities. While audits have exceeded \$10 million in recent fiscal years, the DOR estimates that in the 2009 biennium, audits will produce \$4 million in fiscal 2007 and fiscal 2008 and \$4.5 million in fiscal 2009. The final adjustment is the increase of payments that result from prior year payments. Many corporations find mistakes in their payments outside the normal audit channel. Consequently, those mistakes are corrected through prior year payments. In fiscal 2006, prior year payments equaled \$8.1 million. Because the DOR believes the prior year activity was normal in fiscal 2006, adjustments for prior year payments are carried forward at the same level as observed in fiscal 2006.

*For additional information concerning the statistics of fit for the model used for this projection, contact the Legislative Fiscal Division.

** One adjustment made in the oil and gas sector creates the appearance of growth distortions.

Forecast Methodology



Legislative Fiscal Division

Revenue Estimate Profile Corporation Income Tax

Revenue Estimate Assumptions

	<u>t</u>	<u>Total Tax</u>	<u>GF Tax</u>	<u>US Profits</u>	<u>Tax</u>
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Billions</u>	<u>Rate</u>
Actual	2000	99.088867	90.682672	774.600000	0.067500
Actual	2001	103.670487	103.670487	740.700000	0.067500
Actual	2002	68.173253	68.173253	738.200000	0.067500
Actual	2003	44.137518	44.137518	838.300000	0.067500
Actual	2004	67.722940	67.722940	1026.200000	0.067500
Actual	2005	98.213716	98.213716	1331.500000	0.067500
Actual	2006	153.675068	153.675068	1639.400000	0.067500
Forecast	2007	160.796000	160.796000	1779.300000	0.067500
Forecast	2008	161.247000	161.247000	1825.100000	0.067500
Forecast	2009	167.664000	167.664000	1850.300000	0.067500

	<u>t</u>	<u>Total</u>	<u>Nat. Res.</u>	<u>Financial</u>	<u>All Other</u>	<u>Refunds</u>	<u>Audits</u>
	<u>Fiscal</u>	<u>Millions</u>	<u>Sector</u>	<u>Sector</u>	<u>Sector</u>	<u>Millions</u>	<u>Millions</u>
			<u>Millions</u>	<u>Millions</u>	<u>Millions</u>		
Actual	2000	99.088867					
Actual	2001	103.670487					
Actual	2002	68.173253					
Actual	2003	44.137518					
Actual	2004	67.722940					
Actual	2005	98.213716					
Actual	2006	153.675068					
Forecast	2007	160.796000	58.563989	26.325701	85.659009	-13.752441	4.000000
Forecast	2008	161.247000	57.156314	27.936834	87.055251	-14.901213	4.000000
Forecast	2009	167.664000	52.431368	29.518059	89.005289	-7.790201	4.500000

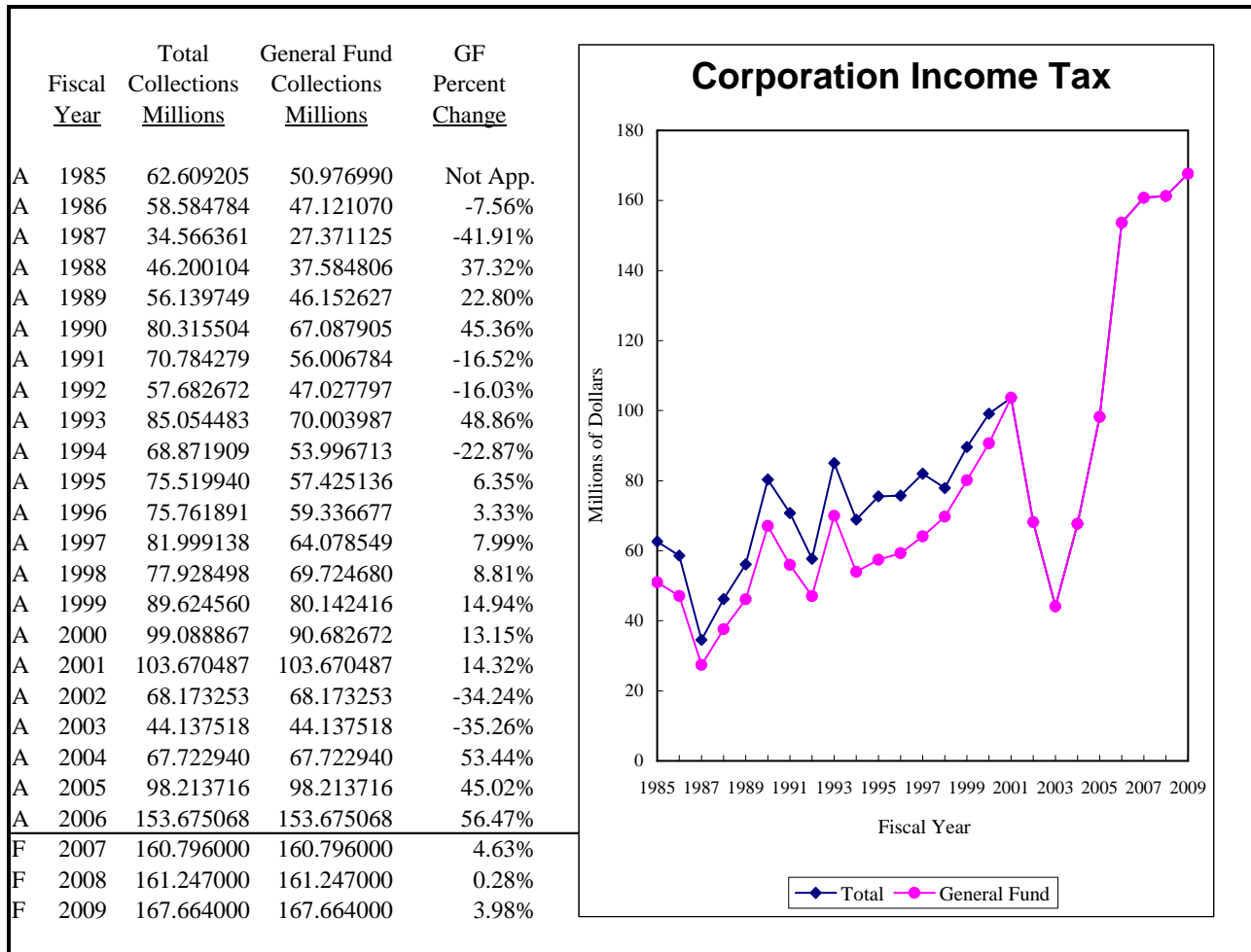
Total Tax = Nat. Res. + Financial + All Other + Refunds + Audits

GF Tax = Total Tax

Legislative Fiscal Division

Revenue Estimate Profile Corporation Income Tax

Revenue Projection:



Data Source(s): SABHRS, Global Insight, Department of Revenue

Contacts: Department of Revenue

Legislative Fiscal Division

Revenue Estimate Profile

Driver's License Fees

Revenue Description: A resident of Montana must have a valid driver's license to operate a motor vehicle on any highway in the state. A driver's license is issued only if the applicant passes specified examinations and pays fees. The fees are collected by Department of Justice, Motor Vehicle Division staff or county treasurers and are forwarded to the state treasurer for deposit. The fees included in this source are from regular driver's licenses, commercial driver's licenses, motorcycle endorsements, duplicate driver's licenses, and renewal notices. Between October 1, 1995 and October 1, 1999, one-half of the licenses issued for those between the ages of 21 and 67 were 4-year licenses and one-half were 8-year licenses. Drivers outside these age brackets were assigned driver's licenses with terms which depend on how many years the driver is less than 21 or less than 75 years old. Between October 1, 1999 and July 1, 2005, all licenses for those 21-67 years of age were valid for 8 years. With the enactment of House Bill 192 by the 2005 legislature, commercial licenses are valid for 5 years.

Statutory Reference:

Tax Rates (MCA) – Duplicate license (61-5-114), all others (61-5-111(6))

Tax Distribution (MCA) – 61-5-121

Date Due – upon application

Applicable Tax Rate(s):

 Driver's license fees are:

- driver's license, except a commercial driver's license - \$5.00 per year or fraction of a year
- motorcycle endorsement - \$0.50 per year or fraction of a year
- commercial driver's licenses (includes the basic license fee of \$5.00):
 - interstate - \$10.00 per year or fraction of a year
 - intrastate - \$8.50 per year or fraction of a year
- duplicate license - \$10.00
- renewal notice - \$0.50

Distribution: The distribution of license fee revenue varies by the type of license and who collects the fee. The table shows the current statutory distribution. Note: the portion allocated to counties applies only when the county collects the fee. Otherwise, the county allocation is added to the general fund distribution.

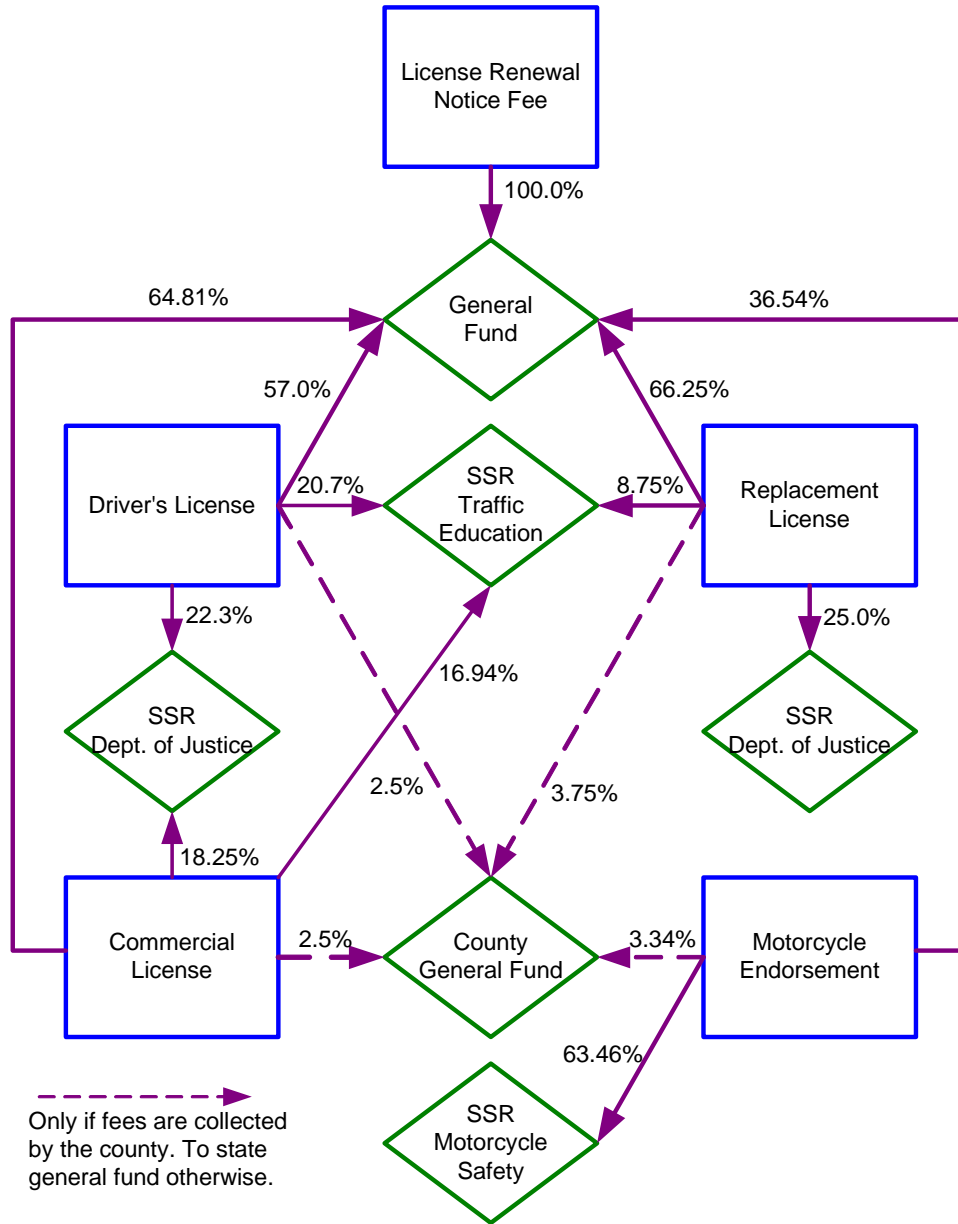
Allocation	Distribution of Driver's License Fees				
	Driver's License	Replacement License	Motorcycle Endorsement	Commercial Driver's License	Renewal Notice
Montana Highway Patrol	22.30%	25.00%	0.00%	18.25%	0.00%
County or State General Fund	2.50%	3.75%	3.34%	2.50%	0.00%
Motorcycle Safety Account	0.00%	0.00%	63.46%	0.00%	0.00%
Traffic Education Account	20.70%	8.75%	0.00%	16.94%	0.00%
State General Fund (remainder)	<u>54.50%</u>	<u>62.50%</u>	<u>33.20%</u>	<u>62.31%</u>	<u>100.00%</u>
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Legislative Fiscal Division

Revenue Estimate Profile

Driver's License Fees

Distribution Chart:



Collection Frequency: Monthly

% of Total General Fund Revenue:

FY 2004 – 0.22%

FY 2005 – 0.22%

FY 2006 – 0.22%

Legislative Fiscal Division

Revenue Estimate Profile

Driver's License Fees

Revenue Estimate Methodology:

Deriving an estimate of driver's license revenue is a matter of determining an estimate for the number of each of the six various licenses/fees. Once determined, each number can be multiplied by the applicable fee and the resulting products added together to derive the total revenue estimate. Since the number of licenses depends on the number of drivers, an estimate of the number of people in the driving age bracket is also used in determining the estimate.

Data

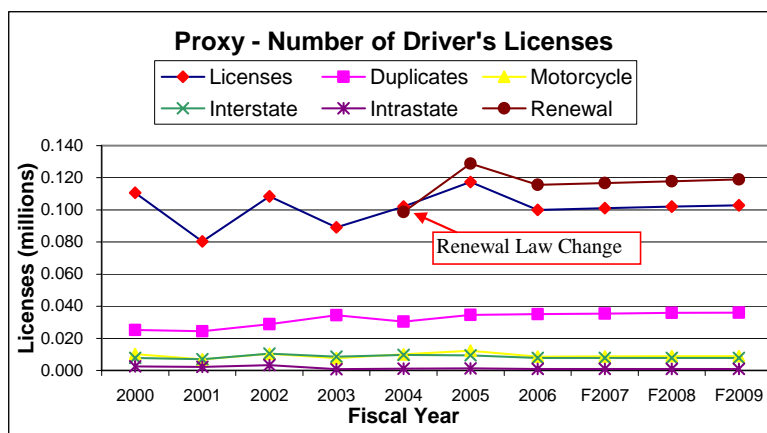
There are six different sources of revenue - five different driver's licenses and one renewal notice. The best source of data for the number of licenses and the renewal notices is contained in the history of revenue collections for each of these six items. This information is readily available from the state accounting system (SABHRS) which records revenue from each source separately. By knowing the actual revenue collected from a specific fee and the amount of the fee, the number of licenses can be calculated. To adjust for population, population estimates for Montana are used (see "Montana Population" in the Montana Economic Outlook section at the beginning of this publication).

Analysis

The methodology used to determine the number of each license/fee differs slightly, but as shown in the figure below, since fiscal 2004 the numbers do not vary by much:

1. The proxy numbers for driver's and motorcycle licenses are derived by multiplying the population estimate for those 16 years or older for each year by the ratio between the number of licenses in the last known fiscal year and the population for that year.
2. For duplicate licenses, the proxy number is derived by multiplying the number of driver's licenses by the previous year's ratio between the number of duplicates and drivers licenses. Because the driver's license proxy includes the effects of population change, these effects are also included in the proxy for duplicate licenses.
3. The proxies for the number of interstate and intrastate licenses are the amounts from the last known fiscal year.
4. To approximate the number of renewal notices, the ratio between the previous years' number of notices to the proxy number of licenses is multiplied by the estimated number of licenses. Since the license proxy includes the effects of population change, these effects are also included in the proxy for renewal notices.

If necessary, adjustments are made; usually based on legislation enacted the previous legislative session. For example, the renewal notice was first authorized in October 2003 and, so, was in effect for 2/3 of fiscal 2004. Using fiscal 2003 actual collections required an adjustment to reflect a full year's revenue so future years could be estimated. Once the proxies for the numbers of various licenses are estimated, the revenue from each can be derived by multiplying the number by the applicable fee.



Adjustments and Distribution

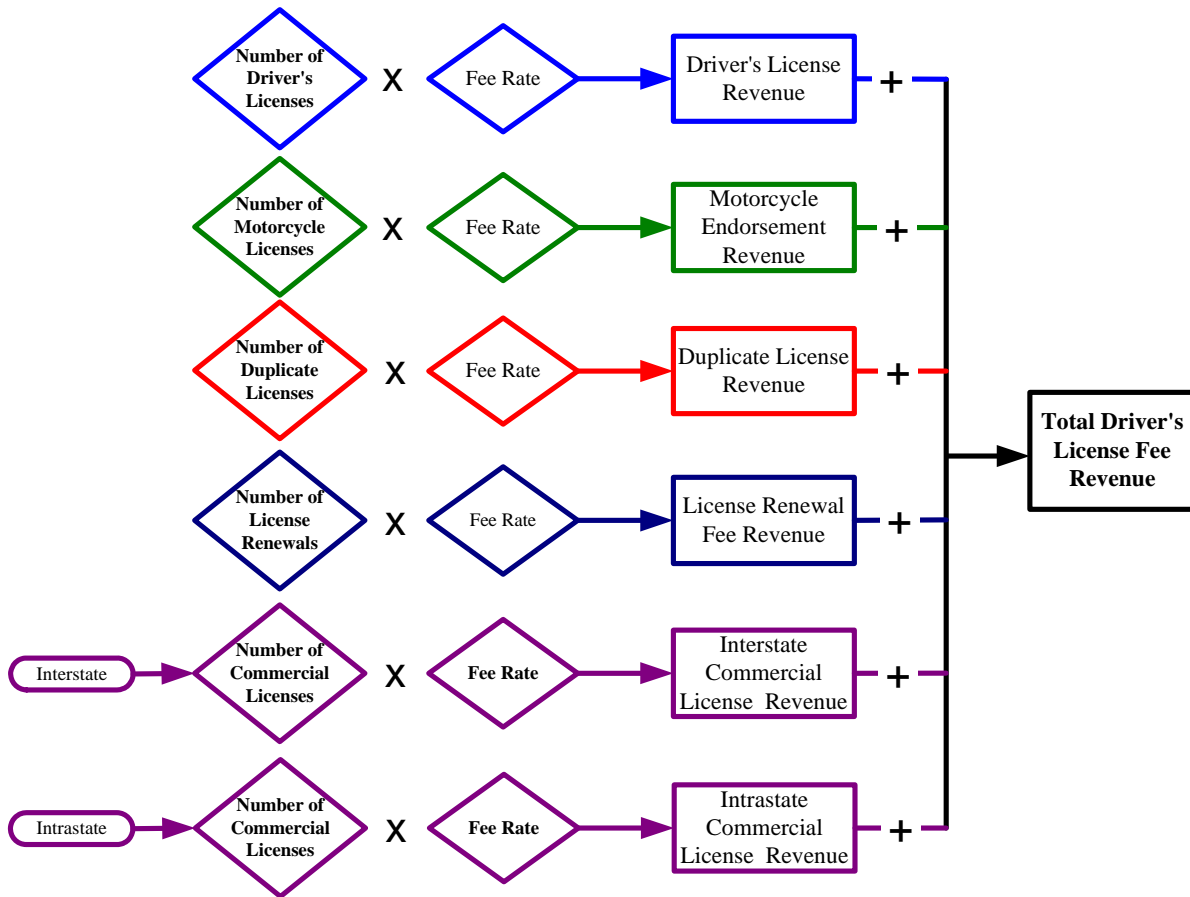
Once the proxy number for each license has been estimated, adjustments if any, are made. After any adjustments, the applicable distribution percentage of the revenue for each license fee is applied (see the "Distribution" section).

Legislative Fiscal Division

Revenue Estimate Profile

Driver's License Fees

Forecast Methodology



Legislative Fiscal Division

Revenue Estimate Profile

Driver's License Fees

Revenue Estimate Assumptions

	t	Total Fee	GF Fee	GF Fee	GF Fee	GF Fee	GF Fee	GF Fee
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Licenses</u>	<u>Duplicates</u>	<u>Cycle</u>	<u>Commercial</u>	<u>Renewal</u>
				<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2000	3.835971	2.333182	0.000000	0.000000	0.000000	0.000000	0.000000
Actual	2001	3.062533	1.895595	0.000000	0.000000	0.000000	0.000000	0.000000
Actual	2002	4.172805	2.580000	0.000000	0.000000	0.000000	0.000000	0.000000
Actual	2003	3.420939	2.119499	0.000000	0.000000	0.000000	0.000000	0.000000
Actual	2004	4.894628	3.021405	2.294933	0.198084	0.014374	0.417624	0.049367
Actual	2005	5.562399	3.373220	2.639363	0.224831	0.017425	0.408382	0.064446
Actual	2006	4.872301	3.828459	3.141560	0.316321	0.012336	0.353398	0.057787
Forecast	2007	4.918000	3.918000	3.173860	0.319574	0.012462	0.353398	0.058381
Forecast	2008	4.961000	3.952000	3.204212	0.322629	0.012582	0.353398	0.058940
Forecast	2009	5.000000	3.983000	3.231893	0.325414	0.012690	0.353398	0.059449

License							
Count	t	Proxy	Proxy	Proxy	Proxy	Proxy	Proxy
<u>Millions</u>	<u>Fiscal</u>	<u>Licenses</u>	<u>Duplicates</u>	<u>Cycle</u>	<u>Interstate</u>	<u>Intrastate</u>	<u>Renewal</u>
Actual	2000	0.110658	0.025272	0.010240	0.007801	0.002477	0.000000
Actual	2001	0.080396	0.024359	0.006932	0.006961	0.002210	0.000000
Actual	2002	0.108432	0.028832	0.010405	0.010579	0.003359	0.000000
Actual	2003	0.089124	0.034501	0.007652	0.008641	0.000722	0.000000
Actual	2004	0.101997	0.030416	0.010112	0.009739	0.001115	0.098734
Actual	2005	0.117305	0.034523	0.012258	0.009390	0.001281	0.128892
Actual	2006	0.099986	0.035098	0.008678	0.007737	0.001000	0.115574
Forecast	2007	0.101014	0.035459	0.008767	0.007737	0.001000	0.116762
Forecast	2008	0.101980	0.035798	0.008851	0.007737	0.001000	0.117879
Forecast	2009	0.102861	0.036107	0.008927	0.007737	0.001000	0.118897

Legislative Fiscal Division

Revenue Estimate Profile

Driver's License Fees

<u>GF Fee</u> <u>Rate in \$</u>	<u>t</u> <u>Fiscal</u>	<u>Proxy</u> <u>Licenses</u>	<u>Proxy</u> <u>Duplicates</u>	<u>Proxy</u> <u>Cycle</u>	<u>Proxy</u> <u>Interstate</u>	<u>Proxy</u> <u>Intrastate</u>	<u>Proxy</u> <u>Renewal</u>
Actual	2000						
Actual	2001						
Actual	2002						
Actual	2003						
Actual	2004	22.500000	6.512500	1.421520	39.700000	27.790000	0.500000
Actual	2005	22.500000	6.512500	1.421520	39.700000	27.790000	0.500000
Actual	2006	31.420000	9.012500	1.421520	41.155000	34.981750	0.500000
Forecast	2007	31.420000	9.012500	1.421520	41.155000	34.981750	0.500000
Forecast	2008	31.420000	9.012500	1.421520	41.155000	34.981750	0.500000
Forecast	2009	31.420000	9.012500	1.421520	41.155000	34.981750	0.500000

<u>Total Fee</u> <u>Rate in \$</u>	<u>t</u> <u>Fiscal</u>	<u>Proxy</u> <u>Licenses</u>	<u>Proxy</u> <u>Duplicates</u>	<u>Proxy</u> <u>Cycle</u>	<u>Proxy</u> <u>Interstate</u>	<u>Proxy</u> <u>Intrastate</u>	<u>Proxy</u> <u>Renewal</u>
Actual	2000	30.0000	5.0000	3.7500	37.5000	26.2500	0.0000
Actual	2001	32.0000	5.0000	4.0000	40.0000	28.0000	0.0000
Actual	2002	32.0000	5.0000	4.0000	40.0000	28.0000	0.0000
Actual	2003	32.0000	5.0000	4.0000	40.0000	28.0000	0.0000
Actual	2004	40.0000	10.0000	4.0000	40.0000	28.0000	0.5000
Actual	2005	40.0000	10.0000	4.0000	40.0000	28.0000	0.5000
Actual	2006	40.0000	10.0000	4.0000	50.0000	42.5000	0.5000
Forecast	2007	40.0000	10.0000	4.0000	50.0000	42.5000	0.5000
Forecast	2008	40.0000	10.0000	4.0000	50.0000	42.5000	0.5000
Forecast	2009	40.0000	10.0000	4.0000	50.0000	42.5000	0.5000

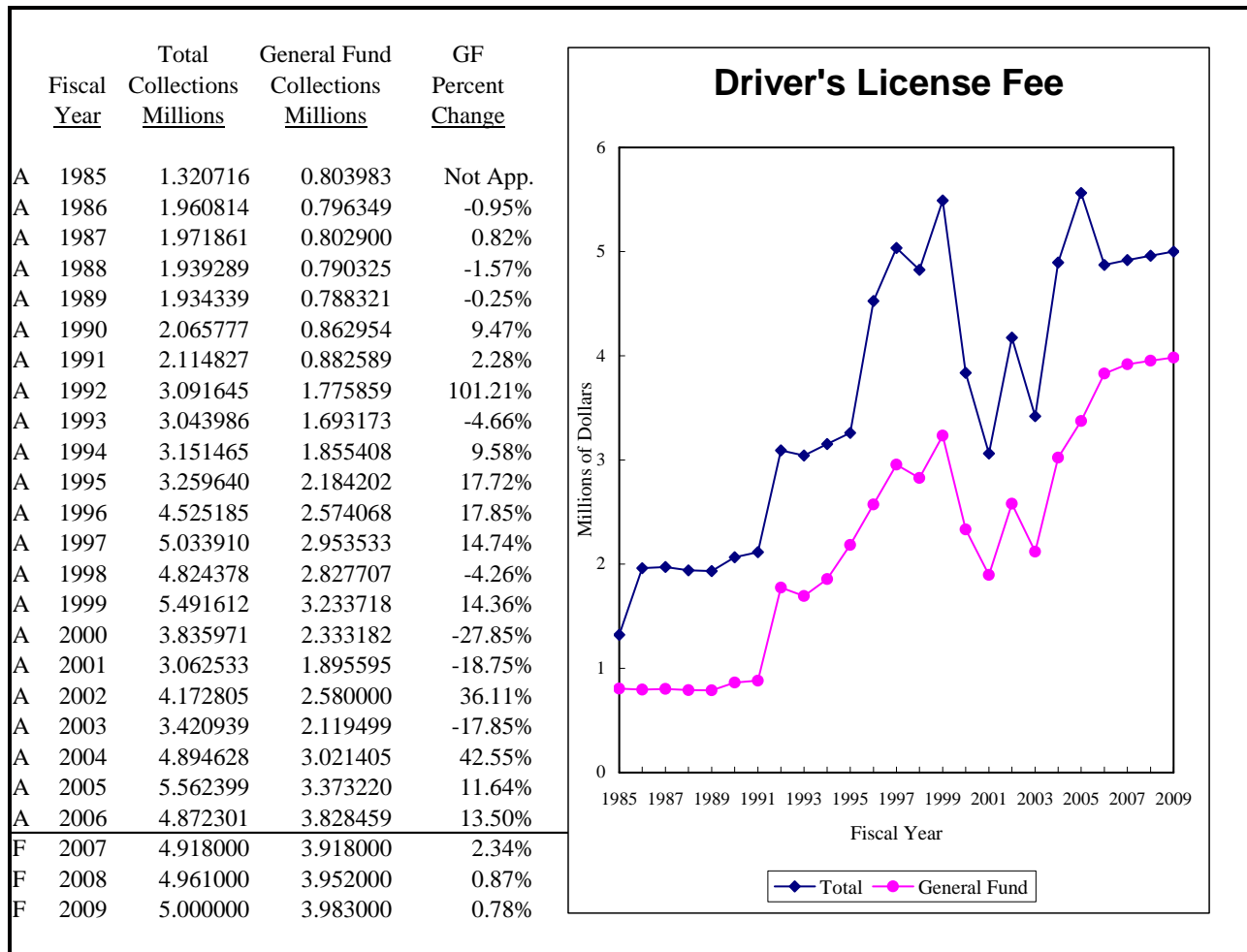
Total Fee = Licenses * Fee + Duplicates * Fee + Cycle * Fee + Interstate * Fee + Intrastate * Fee + Renewal * Fee
 GF Fee = Licenses * GF Fee + Duplicates * GF Fee + Cycle * GF Fee + Interstate * GF Fee +
 Intrastate * GF Fee + Renewal * GF Fee

Legislative Fiscal Division

Revenue Estimate Profile

Driver's License Fees

Revenue Projection:



Data Source(s): SABHRS, Department of Administration, County Treasurer Offices

Contacts: Department of Justice

Legislative Fiscal Division

Revenue Estimate Profile

Estate Tax

Revenue Description: Due to passage of Legislative Referendum 116 by the electorate in November 2000, the state inheritance tax was repealed. The tax had been imposed on the transfer of any decedent's property, interest in property, or income from property within the state, to any other person or corporation except a surviving spouse, child or lineal descendant, stepchild, or governmental or charitable organization. Although the referendum was effective immediately, it applied to deaths occurring after December 31, 2000. Thus, inheritance tax revenue will continue to produce revenue, but the amount of revenue will decrease each year. In addition to the inheritance tax, an estate tax is imposed on estates transferred to heirs at death. The Montana estate tax is equal to the maximum estate tax credit allowed under federal estate tax law.

Congress passed the "Economic Growth and Tax Relief Reconciliation Act of 2001" which scheduled a step down approach to the repeal of the federal estate tax. Provisions of the act included the elimination of the state estate tax credit, the source of Montana's estate tax revenue. The estate credit of those who died in 2002, 2003, and 2004 are reduced by 25 percent per each year until 2005 when the credit will equal zero. Many years may pass before the time that estates are finally settled and the taxes of the estates are paid, and estate tax revenues are expected to become insignificant by the end of the decade. Federal estate tax laws will return to a pre-2002 level if Congress does not take further action to make the repeal of the tax permanent.

Since 1980, revenues from inheritance taxes have fluctuated because of federal and state law changes, changes in wealth, changes in the death rate of the population, accounting procedures, and the processing of several large estates.

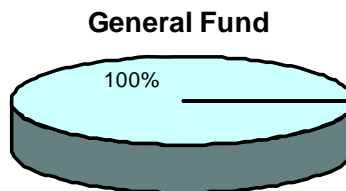
Statutory Reference:

Tax Rate (MCA) – 72-16-905
Tax Distribution (MCA) – 72-16-912
Date Due – 18 months after death (72-16-909)

Applicable Tax Rate(s): The estate tax is equal to the maximum estate tax credit allowed under federal estate tax law.

Distribution: All proceeds are deposited into the general fund.

Distribution Chart:



Collection Frequency: Monthly

% of Total General Fund Revenue:

FY 2004 – 0.83%
FY 2005 – 0.27%
FY 2006 – 0.10%

Revenue Estimate Methodology:

Data

To create the estate tax projection, data is supplied by the Department of Revenue (DOR) and the state accounting system (SABHRS). The DOR provides the details of fiscal year tax filers on individual estates. SABHRS data provides aggregate historic collections of the estate tax.

Legislative Fiscal Division

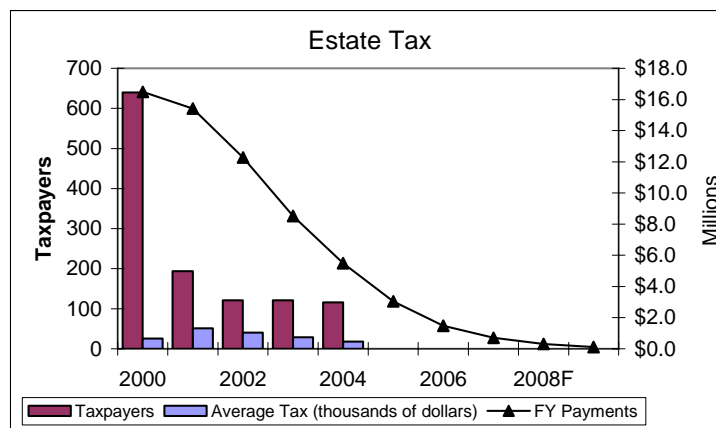
Revenue Estimate Profile

Estate Tax

To prepare fiscal year data from DOR for analysis, several steps must occur. First, the data is separated based on the individual's year of death. This is a necessary step because the estate tax laws are imposed based on the year of death. Next, all new and prior year data is combined by year of death, and that data is sorted based on total tax payment. For the estate tax analysis, the tax filers who do not owe estate tax are ignored.

Analysis

The estate tax has undergone many changes over the past decade. Effective in 2001, the state eliminated the inheritance tax. Then, with the federal tax relief measures passed by Congress in 2001, the state's refund of the federal estate tax credit was reduced annually; by 25 percent in 2002, 50 percent in 2003, and 75 percent in 2004, and then eliminated for deaths occurring in 2005. At the same time, Congress enacted increasing levels of estate income exemptions, dramatically reducing the amount of tax imposed on estates. At this time, the state no longer collects any current year "death" tax of any sort. However, because of the length of time needed for estates to go through probate and emerge from trusts, estate tax payments are anticipated to continue for many years at steadily decreasing amounts.



Future collections of the estate tax are developed with a complex system of averaging. First, a ratio of taxpayers to deaths is created. The product of that ratio is then adjusted in recognition of the changes in the laws governing the "death" taxes. Next, the average tax paid by taxpayer is calculated. When those quantities are multiplied, the result is the expected estate taxes for the given year of death. The figure below shows the number of taxpayers and the average tax as calculated with this methodology from deaths occurring in 2000 through deaths occurring in 2004, the last year the federal government refunded the estate tax credit.

Finally, payments of the estate tax are distributed across the years based on an analysis undertaken by the DOR in the late 1990's. The distribution of the estate tax over the years is presented by the curve in the figure above. In their analysis, the DOR found that payments of the "death" taxes are spread over a large number of calendar year quarters. Factoring the quarterly payment proportions into calendar year proportions, it was determined that payments are spread across approximately 8 years at rates as seen in the figure at the right.

Estate Tax Payment Schedule	
Year of Death	33.3%
1 Year Following Death	41.7%
2 Years Following Death	8.7%
3 Years Following Death	8.1%
4 Years Following Death	4.1%
5 Years Following Death	2.1%
6 Years Following Death	2.1%
7 Years Following Death	2.1%

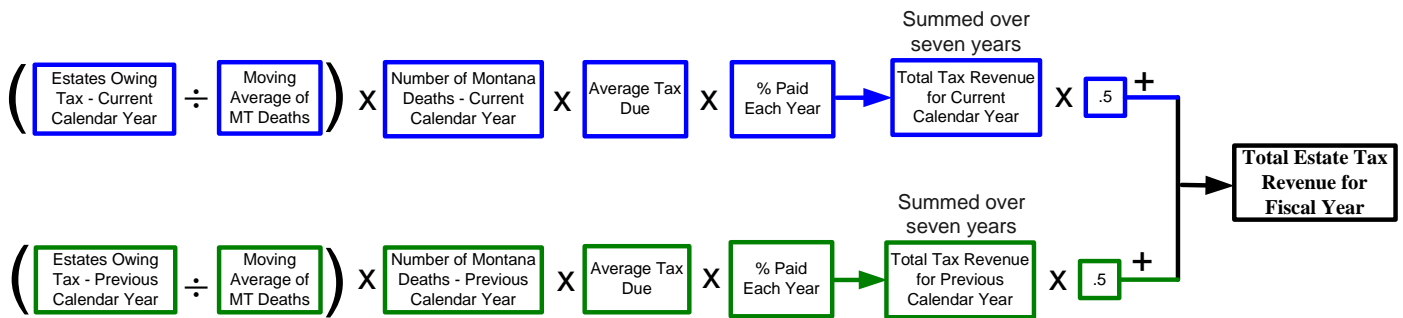
Finally, the calendar year payment distributions are adjusted for the fiscal year. As a result of this analysis, the estate tax is projected to be \$706,000, \$310,000, and \$113,000 for fiscal 2007 through 2009 respectively.

Legislative Fiscal Division

Revenue Estimate Profile

Estate Tax

Forecast Methodology



Revenue Estimate Assumptions

	t	Total Tax	GF Tax	Annual
	Fiscal	Millions	Millions	Growth
Actual	2000	19.038785	19.038785	0.040275
Actual	2001	20.285642	20.285642	0.065490
Actual	2002	13.816144	13.816144	-0.318920
Actual	2003	13.305983	13.305983	-0.036925
Actual	2004	11.431103	11.431103	-0.140905
Actual	2005	4.190613	4.190613	-0.633403
Actual	2006	1.773169	1.773169	-0.576871
Forecast	2007	0.706000	0.706000	-0.601674
Forecast	2008	0.310000	0.310000	-0.560711
Forecast	2009	0.113000	0.113000	-0.634393

Total Tax = Previous Fiscal Total Tax * Annual Growth

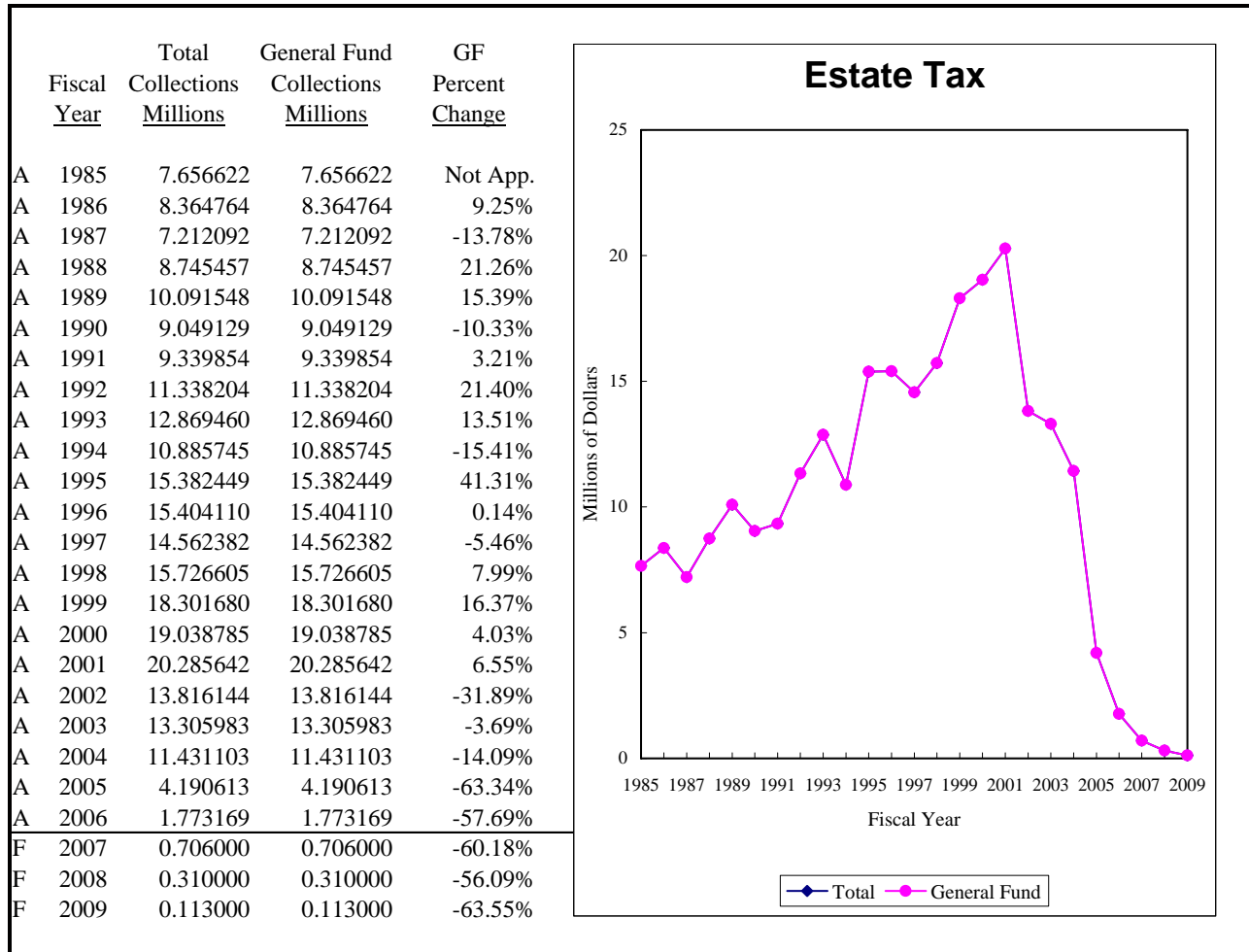
GF Tax = Total Tax

Legislative Fiscal Division

Revenue Estimate Profile

Estate Tax

Revenue Projection:



Data Source(s): SABHRS

Contacts: Department of Revenue

Legislative Fiscal Division

Revenue Estimate Profile

Individual Income Tax

Revenue Description: The tax is levied against taxable income, which is defined as Montana personal income adjusted for exemptions and deductions. Once tax liability is determined, the amount of tax due is computed by subtracting allowable credits.

Statutory Reference:

Tax Rate (MCA) – 15-30-103

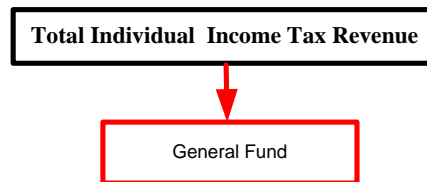
Tax Distribution (MCA) – 15-1-501(1)

Date Due – 15th day of the fourth month of the filer’s fiscal year (15-30-144). Withholding taxes due monthly, quarterly, or on an accelerated schedule depending on income (15-30-204). Estimated taxes due on the 15th day of the 4th, 6th, and 9th month and the month following the close of the tax year.

Applicable Tax Rate(s): Tax rates vary from 1.0% to 6.9%, depending on the level of taxable income. Tax brackets, personal exemption amounts, and the standard deduction are adjusted by the rate of inflation in each year. SB 407, enacted by the 2003 legislature, created a new capital gains income tax credit. As a result the tax rate on capital gains income is less than the tax rate on ordinary income by 1 percent in tax years 2005 and 2006, and by 2 percent in tax year 2007 and beyond.

Distribution: All proceeds are deposited into the general fund.

Distribution Chart:



Collection Frequency: Withholding and estimated taxes are collected monthly, bi-weekly, and weekly.

% of Total General Fund Revenue:

FY 2004 – 43.82%

FY 2005 – 46.13%

FY 2006 – 45.01%

Revenue Estimate Methodology:

Data

There are three kinds of data required to make forecasts of individual income tax revenue. First is historical individual income tax return data, second is state and national historic data on income, inflation, employment, and other economic variables, and third is forecasts of economic activity that determines income and deductions.

Actual individual income tax return data is supplied annually by the Department of Revenue (DOR). This data is usually available in November and is for the prior tax year. The data include line-by-line tax return information for each state income taxpayer (except those that have been removed because of the existence of certain federal information).

The second set of data required is historical information on Montana incomes by type of income, inflation rates, employment, and other economic variables. These data are available from individual income tax returns, Bureau of Economic Analysis, Bureau of Labor Statistics, and Global Insights, a forecasting firm that provides forecasts of national and Montana economic activity.

Legislative Fiscal Division

Revenue Estimate Profile

Individual Income Tax

The third set of data includes forecasts of economic conditions that determine income and deductions. These data are used to produce future growth rates for each income and deduction item, as explained in the methodology section below. Global Insights forecasts a myriad of state and national economic variables that are used to assess overall state and national economic activity.

Analysis

An individual income tax simulation model is used to forecast future Montana calendar year individual income tax liability for all residents. These forecasts are converted to fiscal year liability and are adjusted for audits and possibly one time events. The individual income tax simulation model reflects the effects of SB 407, the legislation that changed the individual income tax system in Montana and was passed by the 2003 legislature. This legislature collapsed the tax brackets (with a top tax rate of 11 percent in the old system) into a system with 7 tax brackets (with a top rate of 6.9 percent). The model also limits deductibility of federal taxes paid to \$5,000 for single taxpayers and \$10,000 for married taxpayers.

The calendar year state tax liability forecasts are derived by applying growth rates to each resident taxpayer's income and deduction item. Since the latest year for which tax return data are available is tax year 2005, growth rates must be formulated for tax years 2006 through 2009. These growth rates are applied to each taxpayer's tax return data for each year. A sub-model within the simulation model also forecasts the federal individual income tax liability for each resident taxpayer. The result is a forecast of calendar year state individual income tax liability for each resident, which when summed results in a statewide forecast of state individual income tax liability for each year.

The statewide forecast of resident individual income tax liability is multiplied by an all-filers percentage. This step is required so the estimates include the tax liability for non-residents. "All-filers" include residents, nonresidents, and part-time residents. In tax year 2005, nonresidents and part-time residents were 8.6 percent of resident filers. The next step is to adjust the all-filers calendar year tax liability by the expected future growth in the number of taxpayers. This results in a forecast of total calendar year individual income tax liability before credits. From this amount, an estimate of allowable credits are deducted. The result is a calendar year individual income tax liability for each future year.

The calendar year liabilities are then converted to fiscal year liabilities by applying an allocation of the prior calendar year's liabilities with an allocation of the current calendar year tax liability. A prior analysis indicates that the percentage to apply to the prior year is 47.9 percent and to the current year is 52.1 percent.

Once fiscal year liabilities are determined, a calculation of the growth rates between fiscal years is developed. These growth rates are then applied to the latest fiscal year (FY 2006) collections of individual income tax by the state. Before the growth rates are applied, however, the latest collection of individual income tax revenue is adjusted by subtracting out audit and other unusual collections. For instance, in FY 2006, total individual income tax collections were \$768.9 million, of which \$22.7 million was audit collections. Total collections before audits were \$ 746.2 million. This amount was adjusted further by an estimate of excess payments made by taxpayers in FY 2006 due to the effects of SB 407. It is believed that in FY 2006, taxpayers did not adjust their estimated payments for tax year 2005 and 2006, and overpaid \$24 million in taxes. These overpayments will be returned as refunds in FY 2007. Current refund activity in October supports this supposition. Thus the growth rates for the estimates in fiscal years 2007 through 2009 are applied to an adjusted base number of \$722.2 million. Once the amount of anticipated revenue before audits has been forecast, an estimate of future audit receipts as provided by DOR is added. Finally the estimates of individual income tax revenue are adjusted by the effect of legislation passed by the 59th Legislature.

Growth Rates

The table below contains the growth rates used to forecast the 2006 through 2009 individual income and deduction items.

Legislative Fiscal Division

Revenue Estimate Profile

Individual Income Tax

Income Tax Growth Rates 2006 - 2009					
		Calendar Year			
		2006	2007	2008	2009
Full Year Resident Returns (Annual)		1.42%	1.40%	1.38%	1.37%
All Filer Adjustment		8.60%	8.60%	8.60%	8.60%
Inflation State		4.32%	2.70%	2.20%	2.20%
Inflation Federal		3.11%	3.90%	3.15%	2.20%
Tax Return Data	Line				
<u>INCOME</u>					
Wages and salaries	6	9.50%	4.91%	4.00%	4.31%
Interest income	7	7.85%	5.51%	6.80%	9.98%
Dividend income	8	11.19%	11.70%	10.90%	8.67%
Net business income	9	1.53%	2.26%	2.63%	1.71%
Capital gains	10	0.00%	0.00%	0.00%	0.00%
Supplemental gains	11	-1.58%	-2.30%	-2.88%	-3.43%
Rents, royalties, etc.	12	10.12%	8.74%	9.00%	13.61%
IRA distributions	13b	7.22%	7.77%	5.38%	6.39%
Taxable pensions	14b	7.22%	7.77%	5.38%	6.39%
Taxable soc. sec.	15b	11.66%	2.53%	2.55%	2.21%
Farm income	16	21.97%	14.41%	11.16%	7.40%
Other income	17	-10.79%	-9.74%	-8.87%	-8.15%
Adjustments to income	19	7.27%	7.27%	7.27%	7.26%
<u>ADDITIONS:</u>					
Interest on local govt. bonds	21	-2.71%	4.11%	-14.22%	-11.98%
Federal income tax refunds	22	8.59%	8.59%	8.59%	8.59%
Other additions	23	0.00%	0.00%	0.00%	0.00%
<u>REDUCTIONS:</u>					
Farm risk management account	26	0.00%	0.00%	0.00%	0.00%
Elderly interest exclusion	27				
Exclusion for savings bonds	28	23.30%	1.91%	1.41%	5.13%
Exempt pension income	29				
Unemployment income	30	0.00%	0.00%	0.00%	0.00%
Medical savings account excl.	31	11.65%	10.43%	9.45%	8.63%
Family education account excl.	32	12.44%	11.06%	9.96%	9.06%
First-time homebuyers acct. excl.	33	4.42%	4.42%	4.42%	4.42%
Other reductions	35	7.00%	7.00%	7.00%	7.00%
Health Care Professional Loan Pmt excl	34	0.00%	0.00%	0.00%	0.00%
<u>TAX ITEMS:</u>					
Montana tax withheld	54	9.50%	4.91%	4.00%	4.31%
Payments of estimated tax	55	6.02%	5.47%	5.23%	6.90%
<u>ITEMIZED DEDUCTIONS:</u>					
Medical insurance premiums	68	5.53%	5.53%	5.53%	5.53%
Medical deduction	71	8.05%	8.05%	8.05%	8.05%
Long-term care insurance	72	6.83%	6.39%	6.01%	5.67%
Balance of federal tax	74	1.86%	0.00%	0.00%	0.00%
Additional federal tax	75	1.42%	1.42%	1.42%	1.42%
Property taxes	76	4.56%	4.56%	4.56%	4.56%
Other deductible taxes	77	6.05%	6.05%	6.05%	6.05%
Home mortgage interest	78	6.57%	6.57%	6.57%	6.57%
Deductible investment interest	79	4.15%	-0.48%	-0.60%	0.27%
Contributions	80	3.82%	2.79%	2.47%	2.23%
Child/dependent care expenses	81	-3.10%	-3.10%	-3.10%	-3.10%
Casualty and theft losses	82	0.15%	0.15%	0.15%	0.15%
Tier I - Miscellaneous	87	6.79%	6.79%	6.79%	6.79%
Tier II - Miscellaneous	88	6.76%	3.01%	3.01%	3.01%
Gambling Losses	89	8.34%	8.34%	8.34%	8.34%

Legislative Fiscal Division

Revenue Estimate Profile

Individual Income Tax

The remaining assumptions regarding credits are in the following table

	Credit Assumptions (Millions)			
	Calendar Year			
	2006	2007	2008	2009
Homeowner/Renter Credits	(13.13)	(13.79)	(14.45)	(15.10)
Other Credits	(36.29)	(38.06)	(42.34)	(46.61)
Capital Gain Credit	(15.36)	(30.72)	(30.72)	(30.72)

One of the other credits is the endowment credit, which expires Dec. 31, 2007

Audits

Audit estimates are provided by the DOR. An adjustment is made for excess estimated individual income tax payments in FY 2006. Since tax year 2005 did not contain the effects of three pieces of legislation, all of which became effective in tax year 2006, the estimated impacts are included in the estimates. These bills were: HB 439 eliminates double credits for foreign individual income taxpayers; HB 667 creates a tax credit for health insurance purchases by small business; and SB 340 creates a credit for residential geothermal systems.

	Audit Assumptions (Millions)			
	Fiscal Year			
	2006	2007	2008	2009
Audits	22.74	25.00	25.00	25.00
Excess Estimated Payments	(24.00)	-	-	-
Legislation from Prior Session	-	(3.03)	(3.63)	(3.63)
2 % Capital Gain Credit Delay	-	15.36	(15.36)	-
Tax Benefit Rule for Federal Refunds	-	(7.98)	-	-

Legislation

The capital gain credit is 1 percent in tax years 2005 (\$15.4 million) and 2006, and will increase to 2 percent in tax year 2007 and beyond. However, it is expected that the \$15.4 million increase in the capital gain credit in tax year 2007 will not impact collections until fiscal 2008 because taxpayers will not adjust their estimated tax behavior during tax year 2007. Instead greater refunds will be issued in the first 4 months of calendar 2008.

2% Capital Gain Credit Delay

Under the old individual income tax law prior to SB 407, all federal tax payments were fully deductible and federal individual income tax refunds were taxable in the following year. SB 407 limits the deductibility of federal individual income payments to \$5,000 for single, head of household and married separate filers, and to \$10,000 for married joint filers. Taxpayers are not required to include federal individual income tax refunds if they were limited by the ceiling on the deductibility on federal individual income payments.

Tax Benefit Rule for Federal Refunds

Individual income tax collections in FY 2006 were 8.7 percent higher than FY 2005 collections. The main reasons for this change were increases in wages (6.2 percent), increased capital gains (30.3 percent), increased royalty income (32.8 percent) and over payments due to the effects of SB 407. Because taxpayers did not adjust their expected payments for the impact of SB 407, over payments occurred in FY 2006 with refunds expected in FY 2007.

Excess Estimated Payments

Wages in the first half of calendar 2006 are above the first two quarters of calendar year 2005 by 9.8 percent. The growth rate assumed for wage growth in calendar 2006 is slightly less at 9.5 percent. Low unemployment and strong employment growth in mining, health care, construction and services is expected to continue through the end of this year. It is expected that growth will slow to between 4 and 5 percent in calendar years 2007, 2008 and 2009 as the national economy returns to a more moderate growth rate.

Legislative Fiscal Division

Revenue Estimate Profile Individual Income Tax

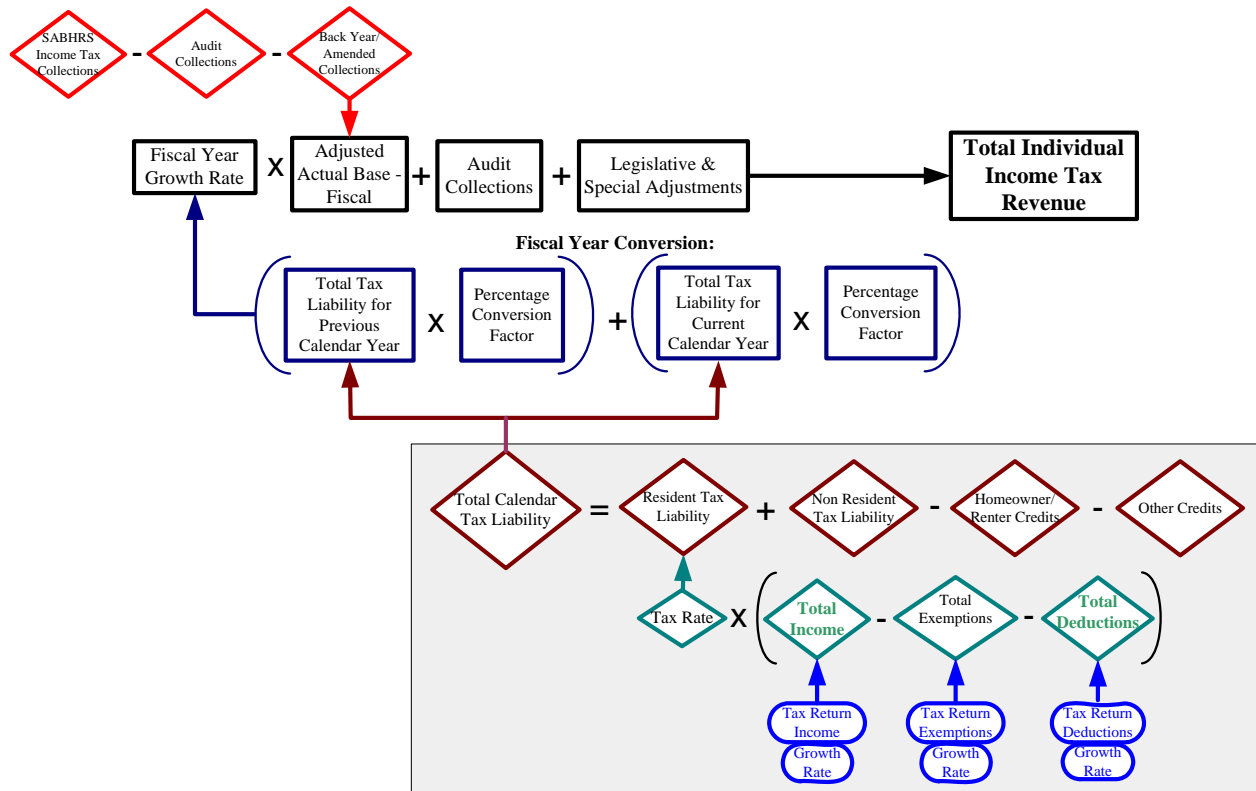
Capital gains income grew over 30 percent in tax year 2005 from tax year 2004. Over \$1.5 billion of Montana's individual income subject to tax is from net capital gains. Capital gains as a share of total individual income subject to tax increased to 8.9 percent in tax year 2005 compared with 5.7 percent in tax year 2001. These net gains are from equity, land sales, and sales of businesses. The extent to which each of these factors has contributed to the large increase in capital gains income is unknown. Because this source of income is highly volatile, future capital gains income are expected to equal the amount in calendar 2005.

Rent, royalty and partnership income is another large income component and grew almost by a third in calendar 2005 over 2004. Between calendar 2000 and 2004 this income grew by an average 9.4 percent per year. The reason for the extraordinary growth in 2005 is thought to be associated with growth in oil and natural gas royalties. Future growth in this source is expected to return to the average growth rate of 9 to 10 percent, as oil and gas prices moderate and production stabilizes.

The forecasts of individual income tax collections are shown in the table below.

	Fiscal Year	Amount	Percent Change
A	Fiscal 2006	\$768.92	8.7%
F	Fiscal 2007	\$793.85	3.2%
F	Fiscal 2008	\$797.03	0.4%
F	Fiscal 2009	\$851.11	6.8%

Forecast Methodology



Legislative Fiscal Division

Revenue Estimate Profile

Individual Income Tax

Revenue Estimate Assumptions

t	Total Tax	GF Tax	Legislation	Fed Refund	Cap Gains	Net Tax
<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Percent</u>	<u>Millions</u>	<u>Liability</u>
						<u>Millions</u>
Actual	2002	517.567691	517.567691	0.000000	0.000000	517.567691
Actual	2003	535.830664	535.830664	0.000000	0.000000	535.830664
Actual	2004	605.582309	605.348420	0.000000	0.000000	605.348420
Actual	2005	707.343333	706.234579	0.000000	0.000000	706.234579
Actual	2006	768.922343	768.922343	0.000000	0.000000	768.922343
Forecast	2007	793.846640	793.846640	-3.025000	-7.975000	789.484705
Forecast	2008	797.034816	797.034816	-3.626276	0.000000	816.023027
Forecast	2009	851.110199	851.110199	-3.626286	0.000000	854.736485

t	Total Tax	GF Tax	Legislation	Fed Refund	Cap Gains	Net Tax
<u>Fiscal</u>	<u>Annual</u>	<u>Annual</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Liability</u>
	<u>Percent</u>	<u>Percent</u>		<u>Percent</u>	<u>Percent</u>	<u>Percent</u>
Actual	2002					
Actual	2003	3.5286%	3.5286%	NA	NA	3.5286%
Actual	2004	13.0175%	12.9738%	NA	NA	12.9738%
Actual	2005	16.8038%	16.6658%	NA	NA	16.6658%
Actual	2006	8.7057%	8.8763%	NA	NA	8.8763%
Forecast	2007	3.2415%	3.2415%	NA	NA	2.6742%
Forecast	2008	0.4016%	0.4016%	19.8769%	NA	3.3615%
Forecast	2009	6.7846%	6.7846%	0.0003%	NA	4.7442%

t	Total	Total	Collections less	Excess Refund	Audits	
<u>Fiscal</u>	<u>Liability</u>	<u>Liability</u>	<u>Aud & XS Refund</u>	<u>Percent</u>	<u>Adjustment</u>	
	<u>Millions</u>	<u>Percent</u>	<u>Millions</u>	<u>Percent</u>	<u>Millions</u>	
					<u>Millions</u>	
Actual	2002	494.726111	NA	NA	0.000000	21.812031
Actual	2003	518.882356	4.8828%	NA	0.000000	23.626679
Actual	2004	585.933476	12.9222%	NA	0.000000	29.922459
Actual	2005	646.370293	10.3146%	NA	0.000000	37.240151
Actual	2006	696.265967	7.7194%	722.178752	-24.000000	22.743591
Forecast	2007	737.053714	5.8581%	764.484705	0.000000	25.000000
Forecast	2008	762.639706	3.4714%	791.023027	0.000000	25.000000
Forecast	2009	799.963712	4.8941%	829.736485	0.000000	25.000000

t	Resident	Population	Homeowner	All Other	All Filers	All Filers
<u>Cal.</u>	<u>Liability</u>	<u>Adjustment</u>	<u>Credit</u>	<u>Credits</u>	<u>Multiplier</u>	<u>Liability</u>
	<u>Millions</u>	<u>Percent</u>	<u>Millions</u>	<u>Millions</u>	<u>Percent</u>	<u>Millions</u>
Actual	2002	494.216195	1.000000	11.049173	19.408774	494.664058
Actual	2003	538.246242	1.000000	11.889280	21.838995	541.148315
Actual	2004	620.964952	1.000000	12.193124	26.948002	627.108316
Actual	2005	652.487295	1.000000	11.580412	32.957621	664.079482
Forecast	2006	696.865800	1.024400	13.132415	36.289756	725.857763
Forecast	2007	708.409600	1.038800	13.789590	38.064635	747.347113
Forecast	2008	728.767100	1.053100	14.446765	42.339513	776.699500
Forecast	2009	761.706800	1.067500	15.103940	46.614391	821.352498

Legislative Fiscal Division

Revenue Estimate Profile

Individual Income Tax

	<u>t</u>	<u>Resident</u> <u>Liability</u> <u>Percent</u>	<u>Population</u> <u>Adjustment</u> <u>Percent</u>	<u>Homeowner</u> <u>Credit</u> <u>Percent</u>	<u>All Other</u> <u>Credits</u> <u>Percent</u>	<u>All Filers</u> <u>Multiplier</u> <u>Percent</u>	<u>All Filers</u> <u>Liability</u> <u>Percent</u>
Actual	2002						
Actual	2003	8.9091%		7.6033%	12.5212%	0.5195%	9.3971%
Actual	2004	15.3682%	0.0000%	2.5556%	23.3940%	0.4561%	15.8847%
Actual	2005	5.0763%	0.0000%	-5.0251%	22.3008%	1.2209%	5.8955%
Forecast	2006	6.8014%	2.4400%	13.4020%	10.1104%	0.0000%	9.3028%
Forecast	2007	1.6565%	1.4057%	5.0042%	4.8909%	0.0000%	2.9605%
Forecast	2008	2.8737%	1.3766%	4.7657%	11.2306%	0.0000%	3.9275%
Forecast	2009	4.5199%	1.3674%	4.5489%	10.0967%	0.0000%	5.7491%

	<u>t</u>	<u>Wages</u> <u>Millions</u>	<u>Annual</u> <u>Growth</u>	<u>Interest</u> <u>Millions</u>	<u>Annual</u> <u>Growth</u>	<u>Dividends</u> <u>Millions</u>	<u>Annual</u> <u>Growth</u>	<u>Federal Inflation</u> <u>Growth</u>
Actual	2002	9,265.904285		528.958537		264.875326		3.288798%
Actual	2003	9,649.686526	4.1419%	453.025235	-14.3552%	297.422847	12.2879%	1.592040%
Actual	2004	10,209.868547	5.8052%	411.888867	-9.0804%	379.386080	27.5578%	2.280677%
Actual	2005	10,840.673693	6.1784%	480.087683	16.5576%	463.027085	22.0464%	2.302782%
Forecast	2006	11,870.074018	9.4957%	517.789426	7.8531%	514.861484	11.1947%	3.106753%
Forecast	2007	12,452.354242	4.9054%	546.338513	5.5136%	575.076522	11.6954%	3.903683%
Forecast	2008	12,949.883498	3.9955%	583.513176	6.8043%	637.758163	10.8997%	3.154440%
Forecast	2009	13,507.491283	4.3059%	641.768387	9.9835%	693.081137	8.6746%	2.200000%

Legislative Fiscal Division

Revenue Estimate Profile

Individual Income Tax

	t	Business Income Cal. Millions	Annual Growth	Capital Gains Millions	Annual Growth	Supplemental Gains Millions	Annual Growth	State Inflation Growth
Actual	2002	620.571881		637.443506		32.565301		1.067416%
Actual	2003	629.701263	1.4711%	790.912922	24.0758%	55.546743	70.5703%	2.112285%
Actual	2004	680.789997	8.1132%	1,193.177168	50.8608%	69.724283	25.5236%	3.266195%
Actual	2005	749.587514	10.1055%	1,554.054359	30.2451%	77.631349	11.3405%	2.530311%
Forecast	2006	761.019619	1.5251%	1,554.054359	0.0000%	76.401556	-1.5841%	4.318766%
Forecast	2007	778.208105	2.2586%	1,554.054359	0.0000%	74.643621	-2.3009%	2.700000%
Forecast	2008	798.659755	2.6280%	1,554.054359	0.0000%	72.496325	-2.8767%	2.200000%
Forecast	2009	812.300842	1.7080%	1,554.054359	0.0000%	70.012499	-3.4261%	2.200000%

	t	Rents, Royalties S-Corps Cal. Millions	Annual Growth	Farm Income Gains Millions	Annual Growth	Social Security Millions	Annual Growth
Actual	2002	1,014.593070		-157.524702		254.248840	
Actual	2003	1,019.724460	0.5058%	-146.211074	-7.1821%	267.287155	5.1282%
Actual	2004	1,283.270778	25.8449%	-139.623058	-4.5058%	305.542493	14.3124%
Actual	2005	1,704.629493	32.8347%	-125.935382	-9.8033%	359.184070	17.5562%
Forecast	2006	1,877.179749	10.1224%	-153.598246	21.9659%	401.060280	11.6587%
Forecast	2007	2,041.318926	8.7439%	-175.734857	14.4120%	411.210963	2.5310%
Forecast	2008	2,225.037630	9.0000%	-195.339585	11.1559%	421.704859	2.5519%
Forecast	2009	2,527.817342	13.6078%	-209.795670	7.4005%	431.045129	2.2149%

	t	IRA Income Cal. Millions	Annual Growth	Pension Income Millions	Annual Growth	Other Income Millions	Annual Growth
Actual	2002	231.216869		1,019.171838		-5.377242	
Actual	2003	237.257497	2.6125%	1,070.481555	5.0345%	-47.935941	791.4596%
Actual	2004	271.069295	14.2511%	1,146.454816	7.0971%	-78.401984	63.5557%
Actual	2005	308.394240	13.7695%	1,216.408584	6.1017%	-70.992520	-9.4506%
Forecast	2006	330.669565	7.2230%	1,304.269812	7.2230%	-63.332757	-10.7895%
Forecast	2007	356.374301	7.7735%	1,405.657766	7.7735%	-57.164928	-9.7388%
Forecast	2008	375.539290	5.3778%	1,481.250805	5.3778%	-52.091826	-8.8745%
Forecast	2009	399.520271	6.3857%	1,575.839702	6.3857%	-47.845755	-8.1511%

	t	Total Income Cal. Millions	Annual Growth	IRA, Etc Reductions Millions	Annual Growth	Fed Adjusted Gross Income Millions	Annual Growth
Actual	2002	13,706.647509		252.613291		13,454.034218	
Actual	2003	14,276.899188	4.1604%	292.240897	15.6871%	13,984.658291	3.9440%
Actual	2004	15,733.147282	10.2000%	322.437719	10.3329%	15,410.709563	10.1973%
Actual	2005	17,556.750168	11.5908%	367.926583	14.1078%	17,188.823585	11.5382%
Forecast	2006	18,990.448865	8.1661%	394.690161	7.2742%	18,595.758704	8.1852%
Forecast	2007	19,962.337533	5.1178%	423.385749	7.2704%	19,538.951784	5.0721%
Forecast	2008	20,852.466449	4.4590%	454.151745	7.2667%	20,398.314704	4.3982%
Forecast	2009	21,955.289525	5.2887%	487.136388	7.2629%	21,468.153138	5.2447%

Legislative Fiscal Division

Revenue Estimate Profile

Individual Income Tax

	t	Bond Interest	Annual Growth	FIT Refunds	Annual Growth	Other Additions	Annual Growth
	Cal.	Millions		Millions		Millions	
Actual	2002	43.230217		247.312164		150.548387	
Actual	2003	44.962241	4.0065%	256.907579	3.8799%	177.862268	18.1429%
Actual	2004	47.870779	6.4688%	271.610536	5.7231%	205.778955	15.6957%
Actual	2005	47.838094	-0.0683%	252.492445	-7.0388%	153.779954	-25.2693%
Forecast	2006	46.541767	-2.7098%	156.094749	-38.1784%	153.779954	0.0000%
Forecast	2007	48.452638	4.1057%	167.714948	7.4443%	153.779954	0.0000%
Forecast	2008	41.561410	-14.2226%	166.581417	-0.6759%	153.779954	0.0000%
Forecast	2009	36.583328	-11.9777%	176.737425	6.0967%	153.779954	0.0000%

	t	Farm Risk Mgmt Excl.	Annual Growth	Int. Exc. Elderly	Annual Growth	Savings Bond	Annual Growth
	Cal.	Millions		Millions		Millions	
Actual	2002	0.061948		43.310418		59.642270	
Actual	2003	0.872912	NA	40.099155	-7.4145%	47.157089	-20.9334%
Actual	2004	0.009694	NA	37.998529	-5.2386%	43.523775	-7.7047%
Actual	2005	0.000000	-100.0000%	38.040881	0.1115%	49.152173	12.9318%
Forecast	2006	0.000000	0.0000%	38.810748	2.0238%	60.607032	23.3049%
Forecast	2007	0.000000	0.0000%	39.153860	0.8841%	61.767360	1.9145%
Forecast	2008	0.000000	0.0000%	39.597130	1.1321%	62.639114	1.4114%
Forecast	2009	0.000000	0.0000%	40.282719	1.7314%	65.855564	5.1349%

	t	Exempt Retirement	Annual Growth	Unemployment	Annual Growth	Med. Savings	Annual Growth
	Cal.	Millions		Millions		Millions	
Actual	2002	166.435046		78.266420		9.937218	
Actual	2003	168.680258	1.3490%	85.701639	9.4999%	11.398465	14.7048%
Actual	2004	167.439300	-0.7357%	67.368156	-21.3922%	13.876118	21.7367%
Actual	2005	130.743336	-21.9160%	56.427479	-16.2401%	14.351849	3.4284%
Forecast	2006	146.992661	12.4284%	56.427479	0.0000%	16.023428	11.6471%
Forecast	2007	141.592443	-3.6738%	56.427479	0.0000%	17.695007	10.4321%
Forecast	2008	137.662950	-2.7752%	56.427479	0.0000%	19.366585	9.4466%
Forecast	2009	132.822502	-3.5162%	56.427479	0.0000%	21.038164	8.6313%

	t	Family Education	Annual Growth	First Time Home	Annual Growth	Doctor Student Loan Excl.	Annual Growth
	Cal.	Millions		Millions		Millions	
Actual	2002	5.479782		0.928656		0.000000	
Actual	2003	6.583685	20.1450%	1.067385	14.9387%	0.381209	NA
Actual	2004	7.474032	13.5235%	0.866326	-18.8366%	0.330155	-13.3927%
Actual	2005	6.984276	-6.5528%	0.732091	-15.4947%	0.258197	-21.7952%
Forecast	2006	7.853133	12.4402%	0.764452	4.4203%	0.258197	0.0000%
Forecast	2007	8.721989	11.0638%	0.798243	4.4203%	0.258197	0.0000%
Forecast	2008	9.590846	9.9617%	0.833527	4.4203%	0.258197	0.0000%
Forecast	2009	10.459703	9.0592%	0.870372	4.4203%	0.258197	0.0000%

Legislative Fiscal Division

Revenue Estimate Profile

Individual Income Tax

	t	Other Reductions	Annual Growth	Additions to Income	Additions Annual Growth	Reductions to Income	Reductions Annual Growth
	Cal.	Millions		Millions		Millions	
Actual	2002	496.250650		441.090768		860.312408	
Actual	2003	530.169050	6.8349%	479.732088	8.7604%	892.110847	3.6962%
Actual	2004	585.906558	10.5132%	525.260270	9.4903%	924.792643	3.6634%
Actual	2005	656.586579	12.0634%	454.110493	-13.5456%	953.276861	3.0801%
Forecast	2006	702.557083	7.0014%	356.416470	-21.5133%	1,030.294213	8.0792%
Forecast	2007	751.746183	7.0014%	369.947540	3.7964%	1,078.160761	4.6459%
Forecast	2008	804.379228	7.0014%	361.922781	-2.1692%	1,130.755056	4.8781%
Forecast	2009	860.697344	7.0014%	367.100707	1.4307%	1,188.712043	5.1255%

	t	MT Adjusted Gross Income	MAGI Annual Growth	Medical Premiums	Annual Growth	Medical Deductions	Annual Growth
	Cal.	Millions		Millions		Millions	
Actual	2002	13,034.812578		239.493910		222.983052	
Actual	2003	13,572.279532	4.1233%	234.737082	-1.9862%	236.626833	6.1188%
Actual	2004	15,011.177190	10.6017%	251.763151	7.2533%	258.564236	9.2709%
Actual	2005	16,689.657217	11.1815%	266.946118	6.0307%	273.368945	5.7257%
Forecast	2006	17,921.880961	7.3832%	281.720317	5.5345%	295.376989	8.0507%
Forecast	2007	18,830.738564	5.0712%	297.312198	5.5345%	319.156829	8.0507%
Forecast	2008	19,629.482429	4.2417%	313.767015	5.5345%	344.851106	8.0507%
Forecast	2009	20,646.541802	5.1813%	331.132528	5.5345%	372.613946	8.0507%

	t	Long Term Care	Annual Growth	Federal Income Tax Deducted	Annual Growth	Real Estate	Annual Growth
	Cal.	Millions		Millions		Millions	
Actual	2002	15.887210		1,644.516826		274.873159	
Actual	2003	17.295360	4.1367%	1,612.852777	-1.9254%	291.351060	5.9947%
Actual	2004	18.472371	3.9700%	1,749.652428	8.4818%	313.019635	7.4373%
Actual	2005	19.124533	3.8200%	915.474509	-47.6768%	313.167636	0.0473%
Forecast	2006	20.430377	6.8281%	1,048.036035	14.4801%	327.439696	4.5573%
Forecast	2007	21.736221	6.3917%	1,124.298767	7.2767%	342.362180	4.5573%
Forecast	2008	23.042064	6.0077%	1,142.539531	1.6224%	357.964729	4.5573%
Forecast	2009	24.347908	5.6672%	1,155.800439	1.1607%	374.278337	4.5573%

	t	Other Taxes	Annual Growth	Home Mortgage	Annual Growth	Deductible Interest	Annual Growth
	Cal.	Millions		Millions		Millions	
Actual	2002	39.533367		752.226098		27.933231	
Actual	2003	40.720924	3.0039%	744.358655	-1.0459%	24.518357	-12.2251%
Actual	2004	44.860192	10.1650%	775.952387	4.2444%	27.543815	12.3396%
Actual	2005	56.835533	26.6948%	852.044469	9.8063%	38.056370	38.1667%
Forecast	2006	60.275518	6.0525%	908.027898	6.5705%	39.637581	4.1549%
Forecast	2007	63.923710	6.0525%	967.689708	6.5705%	39.448110	-0.4780%
Forecast	2008	67.792709	6.0525%	1,031.271586	6.5705%	39.213345	-0.5951%
Forecast	2009	71.895880	6.0525%	1,099.031100	6.5705%	39.317321	0.2652%

Legislative Fiscal Division

Revenue Estimate Profile

Individual Income Tax

	<u>t</u>	<u>Contributions</u>	<u>Annual</u>	<u>Child</u>	<u>Annual</u>	<u>Casualty</u>	<u>Annual</u>
	<u>Cal.</u>	<u>Millions</u>	<u>Growth</u>	<u>Care</u>	<u>Growth</u>	<u>Millions</u>	<u>Growth</u>
				<u>Millions</u>			
Actual	2002	345.228308		1.667803		4.464106	
Actual	2003	337.410601	-2.2645%	1.704198	2.1822%	4.105444	-8.0344%
Actual	2004	375.309514	11.2323%	1.544650	-9.3621%	3.618700	-11.8561%
Actual	2005	447.798065	19.3143%	1.494959	-3.2170%	4.477764	23.7396%
Forecast	2006	464.925819	3.8249%	1.448605	-3.1007%	4.484424	0.1487%
Forecast	2007	477.888049	2.7880%	1.403688	-3.1007%	4.491095	0.1487%
Forecast	2008	489.697984	2.4713%	1.360165	-3.1007%	4.497775	0.1487%
Forecast	2009	500.596177	2.2255%	1.317990	-3.1007%	4.504465	0.1487%

	<u>t</u>	<u>Miscellaneous</u>	<u>Annual</u>	<u>Miscellaneous</u>	<u>Annual</u>	<u>Gambling</u>	<u>Annual</u>
	<u>Cal.</u>	<u>Expense 1</u>	<u>Growth</u>	<u>Expense 2</u>	<u>Growth</u>	<u>Losses</u>	<u>Growth</u>
		<u>Millions</u>		<u>Millions</u>		<u>Millions</u>	
Actual	2002	146.328492		4.266845		4.846199	
Actual	2003	146.982049	0.4466%	7.147014	67.5011%	4.674101	-3.5512%
Actual	2004	160.407920	9.1344%	4.928271	-31.0443%	5.747520	22.9653%
Actual	2005	174.095185	8.5328%	6.133005	24.4454%	7.371107	28.2485%
Forecast	2006	185.923546	6.7942%	6.547462	6.7578%	7.985955	8.3413%
Forecast	2007	198.555548	6.7942%	6.744751	3.0132%	8.652090	8.3413%
Forecast	2008	212.045793	6.7942%	6.947985	3.0132%	9.373789	8.3413%
Forecast	2009	226.452591	6.7942%	7.157343	3.0132%	10.155687	8.3413%

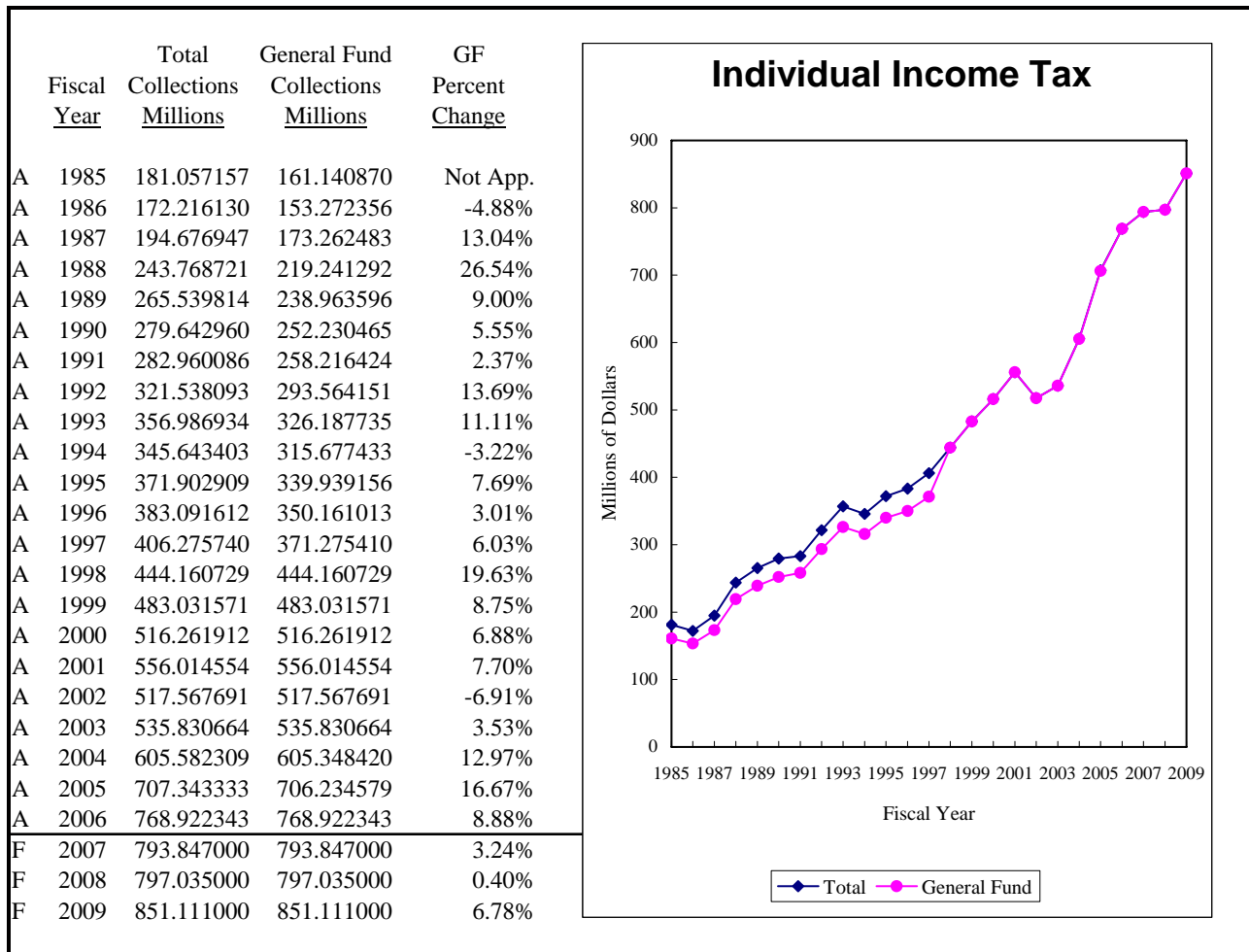
	<u>t</u>	<u>Itemized</u>	<u>Annual</u>	<u>Capital Gains</u>	<u>Annual</u>
	<u>Cal.</u>	<u>Deductions</u>	<u>Growth</u>	<u>Credit</u>	<u>Growth</u>
		<u>Millions</u>		<u>Millions</u>	
Actual	2002	3,724.248606		0.000000	
Actual	2003	3,704.484455	-0.5307%	0.000000	NA
Actual	2004	3,991.384790	7.7447%	0.000000	NA
Actual	2005	3,376.388198	-15.4081%	15.361935	NA
Forecast	2006	3,652.260222	8.1706%	15.361935	0.0000%
Forecast	2007	3,873.662942	6.0621%	30.723870	100.0000%
Forecast	2008	4,044.365575	4.4067%	30.723870	0.0000%
Forecast	2009	4,218.601713	4.3081%	30.723870	0.0000%

Legislative Fiscal Division

Revenue Estimate Profile

Individual Income Tax

Revenue Projection:



Data Source(s): SABHRS, Income Tax Returns, Labor Statistics - Departments of Commerce, Labor & Industry and Revenue; Bureau of Economic Analysis, Bureau of Labor Statistics, Global Insight, Congressional Budget Office, Industry

Contacts: Department of Revenue, Census and Economic Information

Legislative Fiscal Division

Revenue Estimate Profile

Insurance Tax & License Fees

Revenue Description: The insurance premiums tax is levied on the net premiums or gross underwriting profit for each insurance company operating in Montana. Gross underwriting profit is essentially insurance premium income. In addition, various insurance and license fees are also collected.

Statutory Reference:

- Tax Rate (MCA) – 33-2-705(2), 33-2-311, 33-28-201(1&2), 50-3-109(1)
- Fee Rate (MCA) – 33-2-708(1&2), 33-14-201(2), 33-2-712, 33-38-105
- Tax Distribution (MCA) – 33-2-708(3), 33-2-712, 50-3-109(1)
- Date Due – March 1st each year (33-2-705(1), 33-2-712, 33-28-201(1&2)). Quarterly payments due the 15th of April, June, September, and December (Administrative Rules 6.6.2704, 6.6.2705)

Applicable Tax Rate(s): The current tax rate is 2.75% of net premiums (including cancellation and return premiums) on policies sold in Montana. In addition to this tax, there is a 2.5 % tax on the fire portion of net premiums for selected risks. For each Montana resident insured under any individual or group disability or health insurance policy, all insurers are required to pay \$1.00 to the State Insurance Commissioner from October 1, 2005 through June 30, 2007. After that time, the fee is \$0.70. This fee is deposited to the state special revenue fund and used to fund the statewide genetics program established in statute (50-19-211, MCA). Senate Bill 132 (passed by the 1999 legislature) eliminated many disparate fees on insurance companies, which had partially been deposited into the general fund, and replaced them with a single company annual fee of \$1,900. Revenue from this fee is deposited to the state special revenue fund for administration of insurance activities. The following lists various insurance related fees.

Insurance Fees Collected by the State Auditor				
Fee	Amount	MCA Cite	ARM Cite	
General Fund				
Farm mutual insurer filing of articles of incorporation	10.00	33-4-202		
Farm mutual county insurer certificate of authority	10.00	33-4-505		
Farm mutual state insurer certificate of authority	25.00	33-4-505		
Benevolent association certificate of authority and reinstatement	25.00	33-6-401		
Fraternal benefit society report filing	25.00	33-7-118		
Fraternal benefit society certificate of authority renewal	10.00	33-7-217		
Fraternal benefit society lapsed certificate of authority reinstatement	25.00	33-7-217		
Insurance administrator certificate of registration application and renewal	100.00	33-17-603		
Medical care discount card certification and renewal	100.00	33-38-105		
State Auditor's Office				
Domestic and foreign insurer accreditation	275.00	33-1-313	6.6.4101	
Insurance producers charges and expenses for examinations	Variable	33-1-413		
Reinstatement of certificate of authority	100.00	33-2-117		
Certificate of authority	1,900.00	33-2-708		
Non-resident application for original license	100.00	33-2-708		
Non-resident biennial license renewal	50.00	33-2-708		
Non-resident lapsed license reinstatement	100.00	33-2-708		
Resident lapsed insurance producer's license reinstatement	100.00	33-2-708		
Surplus lines insurance producer license application	50.00	33-2-708		
Surplus lines insurance producer license biennial renewal	100.00	33-2-708		
Surplus lines insurance lapsed producer license reinstatement	200.00	33-2-708		
Insurance adjuster license application	50.00	33-2-708		
Insurance adjuster license biennial renewal	100.00	33-2-708		
Insurance adjuster lapsed license reinstatement	200.00	33-2-708		
Insurance consultant license application	50.00	33-2-708		
Insurance consultant license biennial renewal	100.00	33-2-708		
Insurance consultant lapsed license reinstatement	200.00	33-2-708		

Legislative Fiscal Division

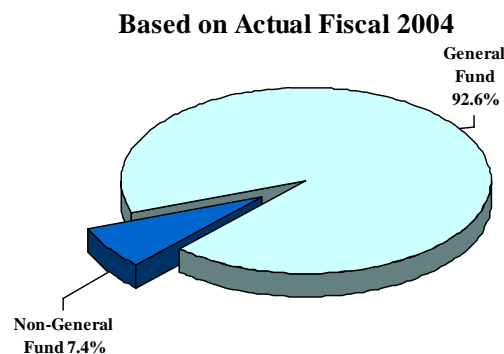
Revenue Estimate Profile

Insurance Tax & License Fees

Rental car entity producer quarterly filing	25.00	33-2-708	
A copy of each document page	0.50	33-2-708	
Insurance Fees Collected by the State Auditor (continued)			
Fee	Amount	MCA Cite	ARM Cite
Review of each course or program submitted for continuing education	75.00	33-2-708	
Genetics program fee for each MT resident insured	1.00	33-2-712	
Surplus lines stamping fee	1% of base premium	33-2-321	6.6.2804
Charges and expenses for examinations	Variable	33-4-315	
Fraternal benefit society charges and expenses for examinations	Variable	33-7-119	
Fraternal benefit society service of process	2.00	33-7-123	
Guaranty associations charges and expenses for examinations	Variable	33-10-218	
Premium finance company license application	100.00	33-14-201	
Premium finance company license renewal	100.00	33-14-201	
Rating & advisory organization charges and expenses for examinations	Variable	33-16-106	
Rating & advisory organization license application	100.00	33-16-403	
Insurance producers background examination	Variable	33-17-201	
Insurance producers charges and examinations	Variable	33-17-212	
Review of each non-resident course submitted for continuing education	75.00	33-17-1206	6.6.4213
Viatical settlement provider registration application	1,900.00	33-20-1315	6.6.8502
Viatical settlement broker license	50.00	33-20-1315	6.6.8502
Viatical settlement provider license renewal	1,900.00	33-20-1315	6.6.8503
Captive insurance company license application	200.00	33-28-102	
Captive insurance company license renewal	300.00	33-28-102	
Captive insurance company examinations and investigations	Variable	33-28-108	
Health service corporation certified copies	0.50	33-30-204	
Health service corporation membership contract filing	25.00	33-30-204	
Health service corporation membership contract package filing	100.00	33-30-204	
Health service corporation filing statement	25.00	33-30-204	
Health service corporation license	300.00	33-30-204	
Health service corporation license renewal	300.00	33-30-204	
Health maintenance organization certification of authority	300.00	33-31-212	
Health maintenance organization amendment to documents	25.00	33-31-212	
Health maintenance organization statement filing	25.00	33-31-212	

Distribution: Insurance tax proceeds from the tax on surplus lines premiums, net premiums, captive insurance company premiums, and fire insurance premiums are deposited into the general fund. License fees and the 1% stamping fee on surplus lines insurance premiums are deposited into the state special revenue fund for use by the State Auditor. Beginning October 2005, the genetic fee revenue is deposited to the state special revenue fund.

Distribution Chart:



Legislative Fiscal Division

Revenue Estimate Profile

Insurance Tax & License Fees

Collection Frequency: Quarterly and annually

% of Total General Fund Revenue:

- FY 2004 – 4.11%
- FY 2005 – 3.74%
- FY 2006 – 3.44%

Revenue Estimate Methodology:

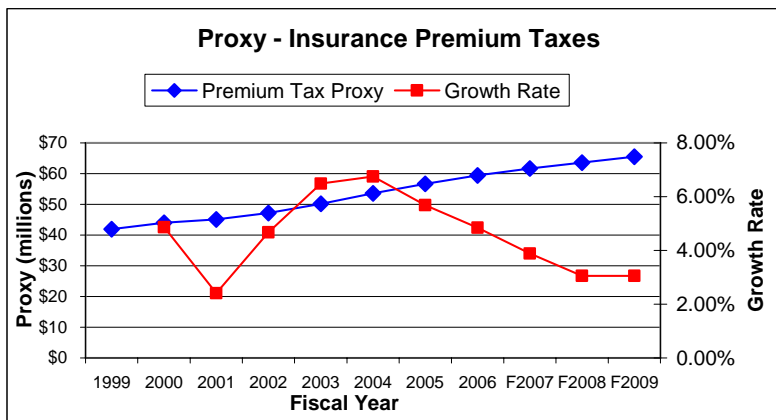
The large majority of insurance tax and license fee revenue is from premium taxes with minor amounts from a multitude of different fees. Estimates are made for these components based on growth factors and then summed. This total is reduced by estimates of refunds and guarantee offsets. Guarantees are amounts that members of the Montana comprehensive health associations are required to pay into a reserve account (up to 1 percent of the total disability insurance premium received from Montana residents). The amount of these payments reduces (offsets) premium tax liabilities dollar for dollar (33-22-1513(7), MCA).

Data

The state accounting system provides historical collection data for the various components needed for the analysis. This includes collections of insurance premium taxes, genetics program fees, and various general fund and state special revenue fees. The State Auditor’s Office provides historical data on offsets and refunds as well as estimates for these items for the 3-year period.

Analysis

Because offsets and refunds can vary substantially, the technique used to estimate the premium tax revenue component of this source begins by adding the offset and refund amounts to the amounts shown on the state accounting system. A regression analysis is run on this historical data to derive a proxy for total premium taxes for the years to be estimated. Because premium tax revenue collections do not vary widely year to year, this technique results in a good “fit”. A growth rate for each year is calculated and applied to each previous year to derive the estimate for insurance premium tax revenue. The figure below graphically shows the results of the proxy amounts and the growth rate.



From these amounts offsets and refunds, as estimated by the State Auditor’s Office, are subtracted to derive the amount of net premium taxes expected to be received by the state.

If no better information is available, the estimates for the other components such as genetics program fees, general fund fees, and state special revenue fees are a continuation of the last known fiscal year amounts. Because legislation enacted last session (SB 275 increased the genetics fee and earmarked the revenue) became effective October 2005, four months into fiscal 2006, adjustments were made to actual collection so future estimates and distributions of the revenue would be accurate.

Legislative Fiscal Division

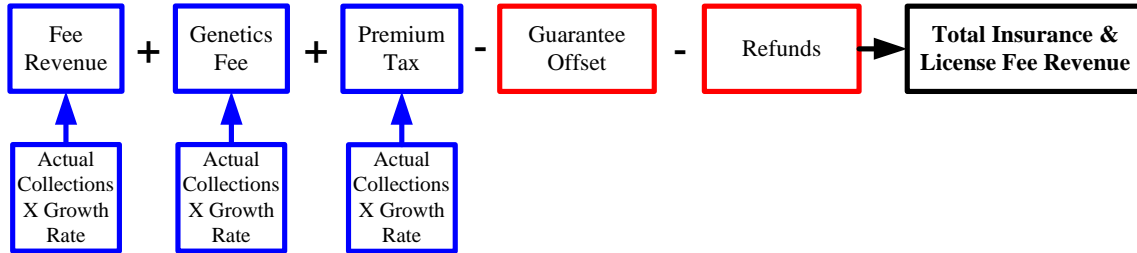
Revenue Estimate Profile

Insurance Tax & License Fees

Adjustments and Distribution

Once each component has been estimated, adjustments if any, are made. Since each component is estimated separately and each goes to either the general fund or the state special revenue fund, the distribution of the revenue has already been done.

Forecast Methodology



Revenue Estimate Assumptions

	t	Total Tax	GF Tax	Non-GF Fees	GF Fees
	Fiscal	Millions	Millions	Millions	Millions
Actual	2000	42.617531	39.333537	3.283994	1.028229
Actual	2001	45.951678	42.297647	3.654031	0.444540
Actual	2002	51.083956	47.290738	3.793218	0.290736
Actual	2003	54.789956	50.809600	3.980356	0.378097
Actual	2004	61.063242	56.532929	4.530313	0.623010
Actual	2005	61.289844	57.308425	3.981419	-0.416721
Actual	2006	64.521416	58.794762	4.816049	0.199100
Forecast	2007	65.984000	60.241000	4.832485	0.182664
Forecast	2008	67.599000	62.129000	4.832485	0.182664
Forecast	2009	69.541000	64.071000	4.832485	0.182664

	t	Genetics	Premium Tax	Offsets	Refunds
	Fiscal	Millions	Millions	Millions	Millions
Actual	2000	0.542398	40.121480	2.082935	1.881369
Actual	2001	0.634902	42.405287	0.861069	0.326014
Actual	2002	0.569711	47.682854	0.740006	0.512557
Actual	2003	0.563399	52.037866	1.463016	0.706745
Actual	2004	0.582956	56.775107	1.161437	0.286707
Actual	2005	0.634985	59.308556	1.650234	0.568162
Actual	2006	0.910605	60.064454	1.116040	0.352752
Forecast	2007	0.910605	61.701423	1.168182	0.475000
Forecast	2008	0.637424	63.586170	1.165000	0.475000
Forecast	2009	0.637424	65.528555	1.165000	0.475000

Total Tax = Non-GF Fees + GF Fees + Genetics + Premium Tax - Offsets - Refunds

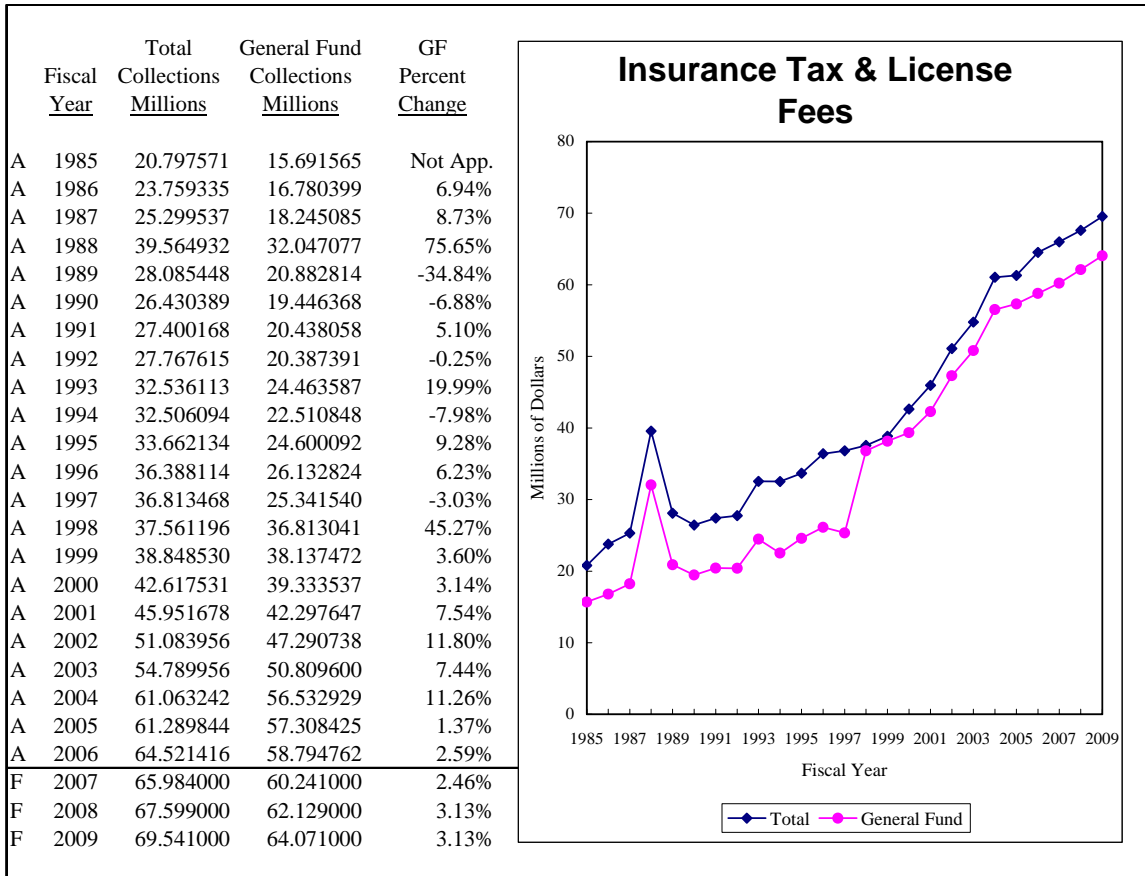
GF Tax = GF Fees + Premium Tax - Offsets - Refunds

Legislative Fiscal Division

Revenue Estimate Profile

Insurance Tax & License Fees

Revenue Projection:



Data Source(s): SABHRS, State Auditor

Contacts: State Auditor

Legislative Fiscal Division

Revenue Estimate Profile

Investment License Fee

Revenue Description: Investment advisors and investment companies pay various fees to the state. These fees are for: 1) registration of securities and agents; 2) registration of securities by notification; 3) notice of a federal filing of a federally secured security; and 4) name changes.

Statutory Reference:

Fee Rate (MCA) – 30-10-209, 30-10-904

Fee Distribution (MCA) – excess to general fund (30-10-115), 30-10-209(6), portfolio notice fee (30-10-209(1d)), 30-10-210(2), 30-10-907

Date Due (Regulation of dealers) – initial (upon registration), annual (prior to December 31st) (30-10-201 (9&11)

Date Due (Regulation of securities) – upon registration (30-10-206(3c), valid for one year (30-10-209(1b)), renewal (prior to termination date):

Applicable Tax Rate(s): Initial and annual security registration fees vary based on the offering price of securities, but cannot be less than \$200 or more than \$1,000. Initial and annual registration fees for a broker-dealer, investment adviser, and federal covered adviser are \$200. Initial and annual registration fees for a salesperson or investment adviser are \$50. The fee for name changes to series, portfolio, or a subdivision of an investment company is \$50. More details on the fees are provided below.

Security Fees Collected by the State Auditor			
Fee	Amount	MCA Cite	ARM Cite
General Fund			
Certified or uncertified copies	0.50	30-10-107	
Initial registration for the first \$100,000 issue	200	30-10-209	
Additional registration fee of 0.1% over \$100,000 max of \$1,000	1,000	30-10-209	
Registration renewal fee of 0.1%, min of \$200 & max of \$1,000	1,000	30-10-209	
Late amended registration 0.3%, min of \$600 & max of \$3,000	3,000	30-10-209	
Name change of series, portfolio or other subdivision of an issuer	50	30-10-209	
Registration for broker-dealer or investment adviser	200	30-10-209	
Registration renewal for broker-dealer or investment adviser	200	30-10-209	
Initial registration for salesperson or investment adviser representative	50	30-10-209	
Registration renewal for salesperson or investment adviser representative	50	30-10-209	
Transfer of registration for salesperson or investment adviser representative	50	30-10-209	
Initial registration for federal covered adviser	200	30-10-209	
Registration renewal for federal covered adviser	200	30-10-209	
Certified or uncertified copies	Variable	30-10-209	
Request for exemption for transaction in compliance with rules-first \$100,000	200	30-10-209	6.10.120
Request for exemption for transaction in compliance with rules-0.1% over \$100,000, \$1,000 max	1,000	30-10-209	6.10.120
Request for exemption for other transactions	50	30-10-209	
Living trusts initial license application for the first \$100,000 issue	200	30-10-904	
Living trusts additional license application fee of 0.1% over \$100,000 max of \$1,000	1,000	30-10-904	
Living trusts license renewal fee of 0.1%, min of \$200 & max of \$1,000	1,000	30-10-904	
State Auditor's Office			
Collected examination costs	Various	30-10-115	
Portfolio notice filing - Initial registration for the first \$100,000 issue	200	30-10-209	
Portfolio notice filing - Additional registration fee of 0.1% over \$100,000 max of \$1,000	1,000	30-10-209	
Portfolio notice filing - Registration renewal fee of 0.1%, min of \$200 & max of \$1,000	1,000	30-10-209	
Portfolio notice filing - Late amended registration 0.3%, min of \$600 & max of \$3,000	3,000	30-10-209	

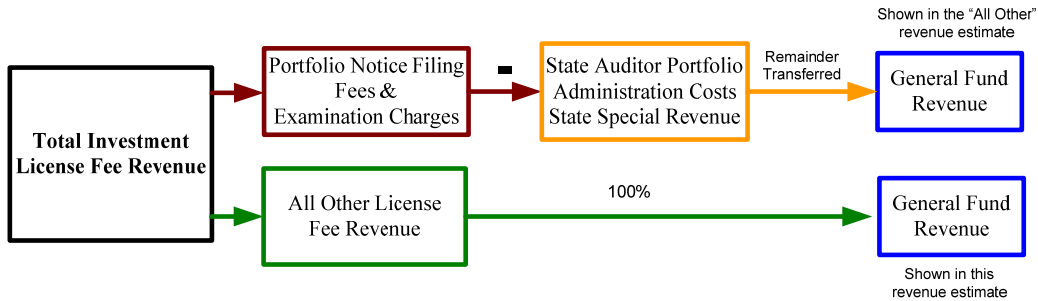
Distribution: All fees except portfolio notice filing fees and examination charges are deposited to the general fund. Portfolio notice filing fees and examination charges are deposited in a state special revenue account from which the State Auditor pays for expenses associated with the regulation of portfolio activities. The excess in this account is transferred to the general fund throughout the year as a non-budgeted transfer and is shown under the “All Other” revenue category.

Legislative Fiscal Division

Revenue Estimate Profile

Investment License Fee

Distribution Chart:



Collection Frequency: Varies

% of Total General Fund Revenue:

- FY 2004 - 0.35%
- FY 2005 - 0.34%
- FY 2006 - 0.33%

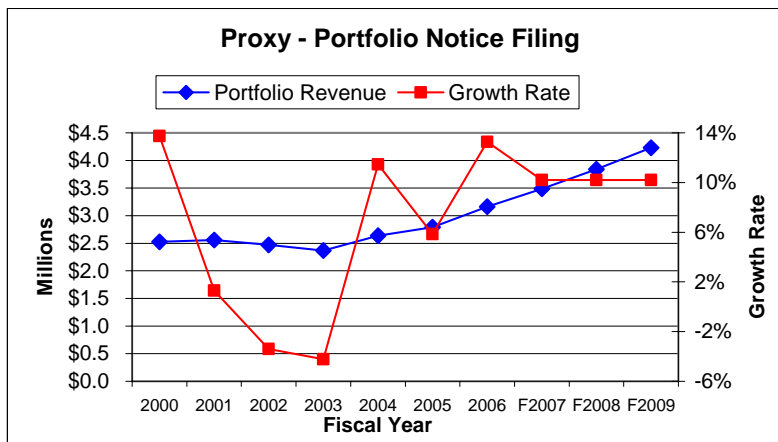
Revenue Estimate Methodology: Investment license fee revenue is obtained from two major sources: 1) portfolio notice filing and examination fees (state special revenue); and 2) many other varied fees (general fund). The portfolio notice filing fees, examination fees, and other permit revenue are estimated separately and then summed.

Data

The state accounting system (SABHRS) provides historical collection data for the state special revenue portfolio notice filing fees. Revenue from examination fee and fees distributed to the general fund is also available and, depending on the analysis technique used to derive the estimate for this source, this data is also used. The State Auditor’s Office provides revenue estimates of the general fund and examination fees in its biennial budget submission for the 3-year period under consideration. Also provided in the budget submission are requested appropriations for the portfolio regulatory program that are needed to determine the transfer amount of portfolio notice filing and examination fee revenue to the general fund.

Analysis

To estimate the revenue from the portfolio notice filing fee, the average of the yearly growth rate for each year between FY 2003 and 2006 was applied to each previous year to derive the estimate for portfolio notice filing fee revenue (see the figure below). This same technique was also used to estimate the examination fee and permit revenue.



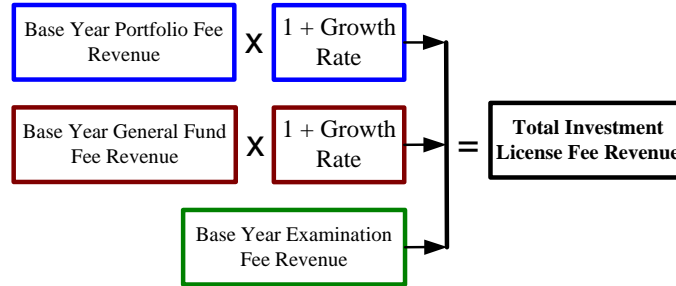
Legislative Fiscal Division

Revenue Estimate Profile Investment License Fee

Adjustments and Distribution

Once each component has been estimated, adjustments if any, are made. Since the general fund and the state special revenue component are estimated under separate methodologies, the distribution of the revenue has already been done. However, there is a further distribution of the portfolio notice filing and examination fee revenue after it is in the state special revenue fund. Once there, the revenue is reduced by estimates of the appropriations required by the State Auditor's Office to regulate portfolio activities. The remaining amount of the fee revenue is then transferred to the general fund. The general fund transfer amounts are not shown in this revenue source, but are shown in the "All Other" revenue source.

Forecast Methodology



Revenue Estimate Assumptions

	t	Total Tax	GF Tax	GF Transfer	Licenses	Portfolio	Portfolio
	Fiscal	Millions	Millions	Millions	Millions	Millions	Expenses
							Millions
Actual	2000	7.915054	5.389593	2.296258	5.389593	2.525461	0.151983
Actual	2001	8.447250	5.888594	2.445000	5.888594	2.558656	0.135759
Actual	2002	7.467433	4.991593	2.179165	4.991593	2.475840	0.202493
Actual	2003	7.520038	5.141561	2.036200	5.141787	2.378477	0.320954
Actual	2004	7.485904	4.833881	2.113000	4.833881	2.652023	0.683808
Actual	2005	8.007099	5.192327	2.110000	5.192327	2.814772	0.689948
Actual	2006	8.763918	5.584127	2.234000	5.584127	3.179791	0.653932
Forecast	2007	9.504000	6.002000	2.658000	6.001848	3.502205	0.844395
Forecast	2008	10.308000	6.451000	3.006000	6.450816	3.857482	0.850903
Forecast	2009	11.182000	6.933000	3.401000	6.933369	4.248971	0.847969

	t	Licenses	Portfolio	Expense
	Fiscal	Growth %	Growth %	Growth %
Actual	2000	0.221213	0.137475	0.044550
Actual	2001	0.092586	0.013144	-0.106749
Actual	2002	-0.152329	-0.034073	0.491562
Actual	2003	0.030089	-0.042251	0.585013
Actual	2004	-0.059883	0.114598	1.130548
Actual	2005	0.074153	0.058485	0.008979
Actual	2006	0.075457	0.132697	-0.052201
Forecast	2007	0.074805	0.101927	0.291258
Forecast	2008	0.074805	0.101927	0.007707
Forecast	2009	0.074805	0.101927	-0.003448

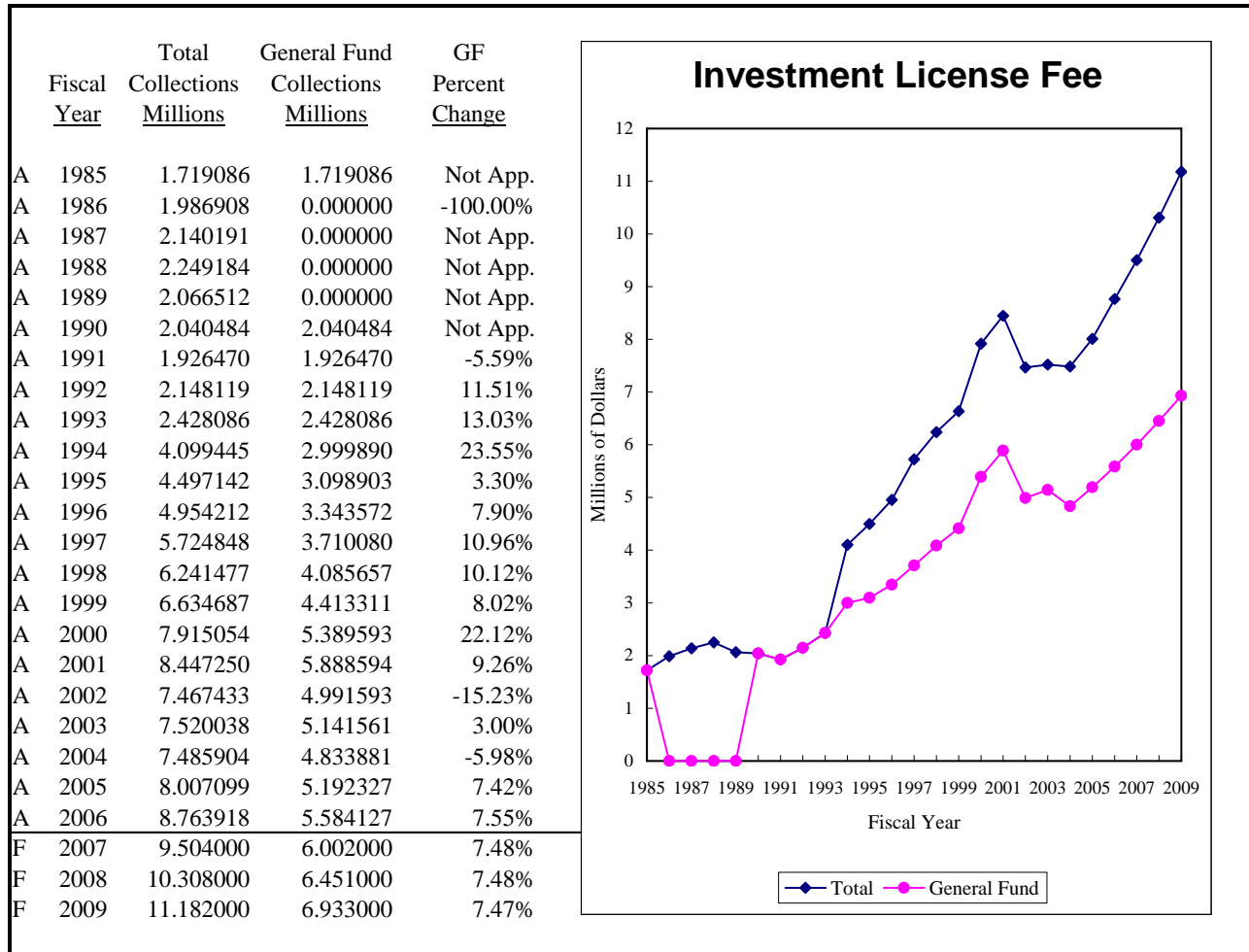
Total Tax = Licenses + Portfolio - Portfolio Expenses
 GF Tax = Licenses
 GF Transfer = Portfolio - Portfolio Expenses

Legislative Fiscal Division

Revenue Estimate Profile

Investment License Fee

Revenue Projection:



Data Source(s): State Auditor

Contacts: State Auditor

Legislative Fiscal Division

Revenue Estimate Profile

Lodging Taxes

Revenue Description: The state imposes two taxes on room charges collected by lodging facilities and campgrounds – a lodging sales tax and a lodging facility use tax. The taxes only apply for rooms used for lodging.

The 3 percent lodging sales tax began June 1, 2003 and applies to hotels, motels, campgrounds, resorts, dormitories, condominium inns, dude ranches, guest ranches, hostels, public lodging houses, and bed and breakfast facilities. Exempt are facilities: 1) for health care; 2) owned by non-profit corporations for use by people under 18-years of age for camping; 3) whose average daily charge is less than 60 percent of the amount the state of Montana reimburses for lodging; or 4) rented for 30 days or more. Sales to the U.S. government are also exempt from the sales tax. All facilities subject to the tax must obtain a seller's permit before engaging in business subject to the sales tax within Montana. The vendor must pay the tax due by the last day of the month following a calendar quarter. Vendors are allowed to claim and keep five percent of the tax as an allowance, not to exceed \$1,000 a quarter. The Department of Revenue may require a retailer to post security up to twice the average tax liability to be used to recover taxes, interest, and penalties owed.

The 4 percent lodging facility use tax applies to facilities containing individual sleeping rooms or suites, providing overnight lodging for periods of less than 30 days to the general public for compensation. This includes hotels, motels, campgrounds, resorts, dormitories, condominium inns, dude ranches, guest ranches, hostels, public lodging houses, or bed and breakfasts. Exempt are: 1) non-profit or religious corporation facilities used primarily by persons under 18 years of age for camping; 2) facilities whose average daily charge does not exceed 60 percent of the amount the state of Montana reimburses for lodging; or 4) rented for 30 days or more. All facilities must be registered with the Department of Revenue. Any of the tax paid by state employees is returned to the fund that paid the tax. Since general fund pays a portion of the tax, a portion is returned to the general fund. This amount is also shown in the "All Other Revenue" profile.

Statutory Reference:

Tax Rate (MCA) – 15-65-111 (lodging facility use tax), 15-68-102 (lodging sales tax)

Tax Distribution (MCA) – 15-65-121 (lodging facility use tax), 15-68-820 (lodging sales tax)

Date Due – Lodging facility use tax is due before the end of calendar quarter (15-65-112). The lodging sales tax is due the last day of the month following the calendar quarter (15-68-502(1)).

Applicable Tax Rate(s): The lodging sales tax is 3.0 percent of the sales price. The lodging facility use tax is 4.0 percent of room charges.

Distribution:

1. Sales Tax: 100% general fund
2. Lodging Facility Use Tax:

Fiscal 2004 - 2007, the revenue is first distributed: 1) to the Department of Revenue in the amount appropriated for collection and disbursement costs; 2) to the various funds from which payment of the tax paid by state employees were made, including the general fund; and 3) \$400,000 to the Montana heritage preservation and development fund which is statutorily appropriated for restoring and maintaining historic properties. After these distributions, the remainder is distributed and statutorily appropriated:

- o 67.5% to the Department of Commerce for tourism promotion and promotion of the state as a location for the production of motion pictures and television commercials.
- o 22.5% to regional nonprofit tourism corporations.
- o 6.5% to the Department of Fish, Wildlife and Parks for maintenance of state park facilities.
- o 2.5% to the university system for the establishment and maintenance of a Montana travel research program.
- o 1.0% to the Montana Historical Society to install and maintain roadside historical signs and historic sites.

Fiscal 2008 and beyond, the revenue is first distributed: 1) to the Department of Revenue in the amount appropriated for collection and disbursement costs; and 2) to the various funds from which payment of the tax paid by state employees were made, including the general fund. After these distributions, the remainder is distributed and statutorily appropriated:

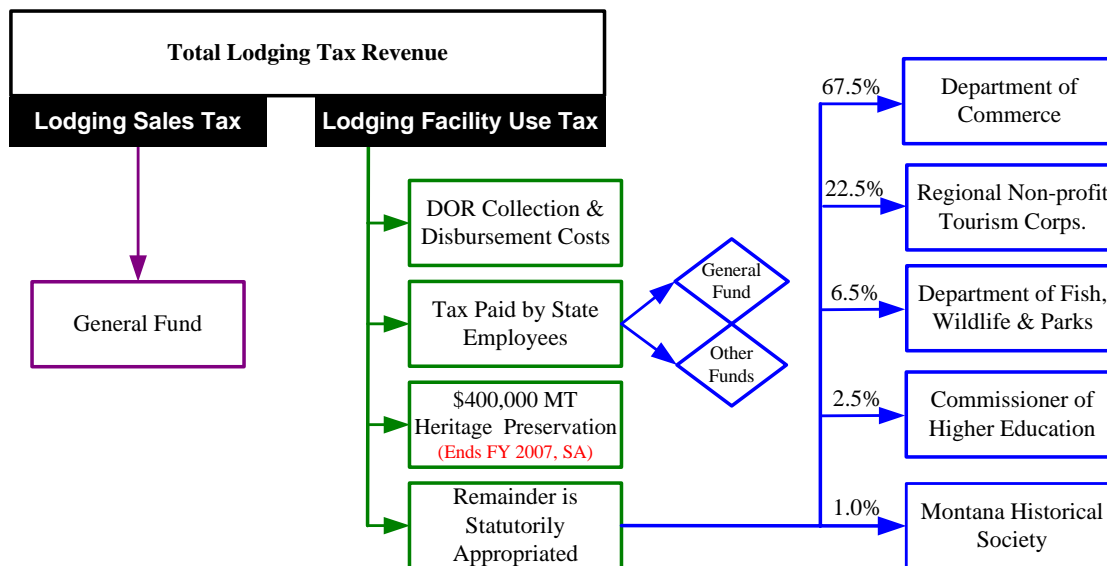
Legislative Fiscal Division

Revenue Estimate Profile

Lodging Taxes

- 67.5% to the Department of Commerce for tourism promotion and promotion of the state as a location for the production of motion pictures and television commercials.
- 22.5% to regional nonprofit tourism corporations.
- 6.5% to the Department of Fish, Wildlife and Parks for maintenance of state park facilities.
- 2.5% to the university system for the establishment and maintenance of a Montana travel research program.
- 1.0% to the Montana Historical Society to install and maintain roadside historical signs and historic sites.

Distribution Chart:



Collection Frequency: The owner of a facility collects the tax and remits it quarterly to the Department of Revenue.

% of Total General Fund Revenue:

A small portion for reimbursement of lodging facility taxes paid by state employees is included in "All Other General Fund Revenue"

FY 2004 – 0.67%

FY 2005 – 0.67%

FY 2006 – 0.63%

Revenue Estimate Methodology:

Data

Data from the state accounting system (SABHRS) is used to prepare the estimate for the lodging facility tax. Additional data, such as the consumer price index projections, provided by the Global Insight Econometric Service (GI), and non-residential tourism expenditures, provided by the Institute for Tourism and Recreation Research, is used to evaluate the results of the methodology.

Total lodging facility taxes are made up of two separate taxes, the lodging facility use tax, which is deposited into state special revenue accounts to fund state tourism activities, and the lodging facility sales tax, which is deposited into the general fund. There are some differences in the numbers of rooms that each of the facility taxes are imposed on, so the proxy for room charges differs slightly between the two taxes. Typically, the taxable room charge of the facility sales tax is between 94 percent and 96 percent of the room charge of the facility use tax. Both taxes are estimated using a single proxy of the taxable room charges in Montana, but adjustments are made to the proxy estimate for the lodging facility sales tax.

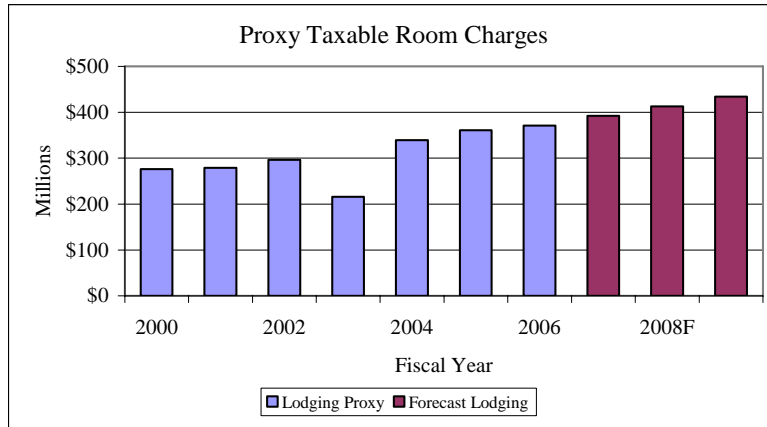
Legislative Fiscal Division

Revenue Estimate Profile

Lodging Taxes

Analysis

Because the lodging facilities taxes exhibit relatively consistent growth from year to year, the projection of the proxy for lodging receipts is estimated using a linear trend regression model. The trend is based on the proxy taxable room charges, beginning in fiscal 1988 when the tax was first assessed. The results of the model are depicted in the figure below.



The statistics of fit show that a linear trend accurately measures the rate of growth in the number of taxable room charges in Montana. The regression model utilizes three independent variables. The main variable of the model is the passage of time, and two dummy variables (variables with a value of 0 or 1) serve to reduce extreme variations in the data series (1992 and 2003). The model provides an R² rating of 0.994. This means that the linear trend explains 99.4 percent of the variability of the number of taxable room charges in Montana, when all other impacts are held constant.* The model produces an estimated increase in taxable room charges equal to approximately 4.0 percent per fiscal year. The model predicts taxable room charges of \$392.2 million, \$412.8 million, and \$434.4 million in fiscal years 2007 through 2009 respectively.

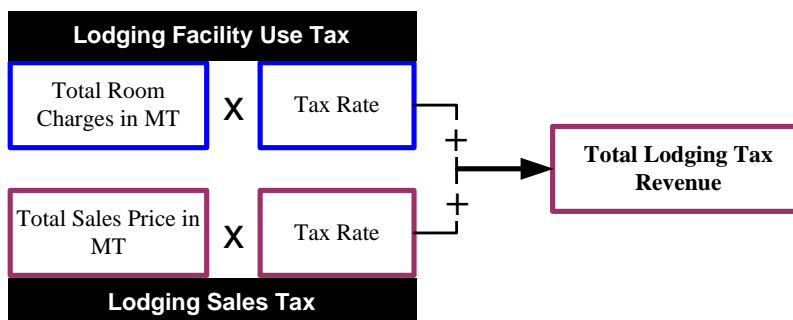
After the projections for the taxable room charges are determined, the amounts are reduced by ratio to account for the difference apparent in the taxable room receipts of the lodging facility use tax and lodging facility sales tax. Finally, the estimates for each of the taxes are determined by multiplying the estimates of taxable room charges by the tax rate. The two taxes are then added together to create the gross fiscal year estimates of the lodging facility taxes.

Adjustments

Several adjustments are required before the revenues of the lodging facility taxes are distributed. A portion of the total collections are distributed to the DOR to cover the expenses associated with administration of the tax. From the lodging facility use tax, reimbursements are provided to the general fund for the tax paid by state employees who stay in lodging facilities in connection with their jobs. The final adjustment, occurring for the last time in fiscal 2007, is a distribution of \$400,000 to the Montana Historic Preservation fund. After the gross lodging facility tax estimates are adjusted, the remainder of the revenues flow to the statutorily designated agencies and the general fund.

*For additional information concerning the statistics of fit for the model used for this projection, contact the Legislative Fiscal Division.

Forecast Methodology



Legislative Fiscal Division

Revenue Estimate Profile

Lodging Taxes

Revenue Estimate Assumptions

	t	Total Tax	GF Tax	Accom.	Accom.	Lodging	Lodging	DOR
	Fiscal	Millions	Millions	Sales	Tax Rate	Sales	Tax Rate	Admin.
				Millions	Rate	Millions	Rate	Millions
Actual	2000	11.052773	0.000000	276.319325	4.0000%			0.114927
Actual	2001	11.161741	0.000000	279.043525	4.0000%			0.114525
Actual	2002	11.862436	0.000000	296.560900	4.0000%			0.126368
Actual	2003	12.612664	2.271237	216.035675	4.0000%			0.103338
Actual	2004	22.848038	9.278658	339.234500	4.0000%	309.288600	3.0000%	0.137254
Actual	2005	24.636260	10.200914	360.883650	4.0000%	340.030467	3.0000%	0.141371
Actual	2006	25.519386	10.679216	371.004250	4.0000%	355.973867	3.0000%	0.029122
Forecast	2007	26.979000	11.290000	392.217220	4.0000%	376.327442	3.0000%	0.149981
Forecast	2008	28.393000	11.881000	412.771878	4.0000%	396.049375	3.0000%	0.149107
Forecast	2009	29.881000	12.504000	434.403730	4.0000%	416.804862	3.0000%	0.154480

	t	Higher Ed.	DOC	Sites &	Regional	FWP	MT.	All Other
	Fiscal	Millions	Millions	Signs	Millions	Millions	Heritage	Entities
				Millions			Millions	Millions
Actual	2000	0.263447	7.113045	0.105379	2.371015	0.684960	0.400000	0.000000
Actual	2001	0.267061	7.210657	0.106824	2.403552	0.694358	0.400000	-0.035236
Actual	2002	0.283388	7.651483	0.113892	2.550494	0.736809	0.400000	0.000002
Actual	2003	0.288449	6.088121	0.115511	2.596040	0.749968	0.400000	0.000000
Actual	2004	0.325804	8.796686	0.130321	2.932227	0.847088	0.400000	0.000000
Actual	2005	0.347350	9.378433	0.138940	3.126144	0.903108	0.400000	0.000000
Actual	2006	0.360276	9.727458	0.144110	3.242486	0.936718	0.400000	0.000000
Forecast	2007	0.378000	10.219000	0.151000	3.406000	0.984000	0.400000	0.000000
Forecast	2008	0.409000	11.045000	0.164000	3.682000	1.064000	0.000000	0.000000
Forecast	2009	0.431000	11.625000	0.172000	3.875000	1.119000	0.000000	0.000000

Total Tax = Accom. Sales * Accom. Tax Rate + Lodging Sales * Lodging Tax Rate

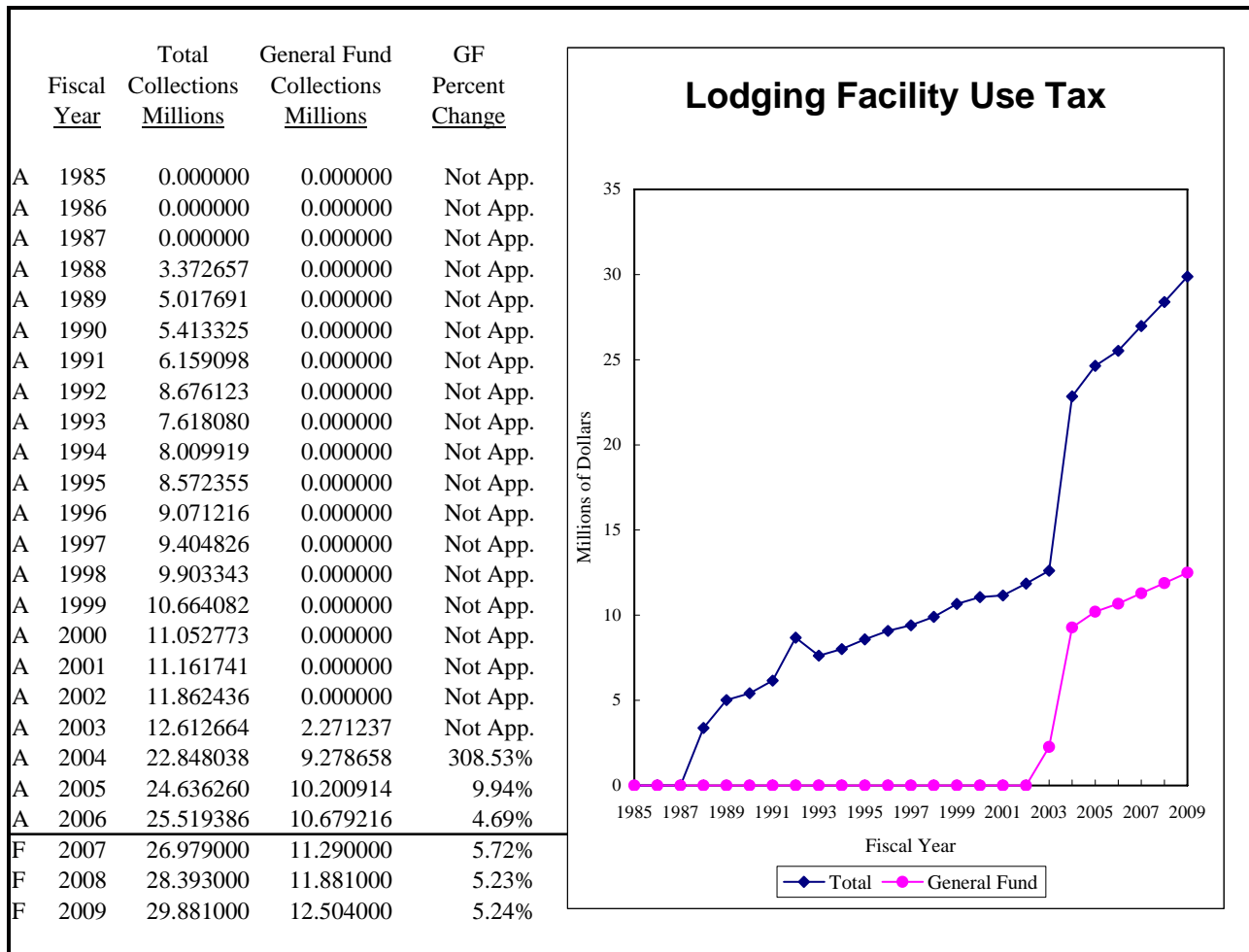
GF Tax = Lodging Sales * Lodging Tax Rate

Legislative Fiscal Division

Revenue Estimate Profile

Lodging Taxes

Revenue Projection:



Data Source(s): UM Institute for Tourism and Recreation Research, SABHRS, Global Insight

Contacts: Department of Revenue

Legislative Fiscal Division

Revenue Estimate Profile

Motor Vehicle Fee

Revenue Description: The state assesses a variety of motor vehicle fees, such as fees for the filing of motor vehicle liens, fees for new license plates, title fees, and annual and permanent registration fees. The fees vary according to the type of vehicle (i.e., motor vehicle, snowmobile, etc.) and the type of license plate (regular, personal, military, etc.). There are also Gross Vehicle Weight (GVW) fees on trucks and pickups, as well as special fees for senior citizen transportation, veteran services, the highway patrol pension fund, salaries for the highway patrol, motorcycle safety, electronic commerce applications, and an optional \$4 registration fee on light vehicles for state parks and fishing access sites.

Effective January 1, 2004, all fees on motorcycles and quadricycles, trailers, travel trailers, snowmobiles, off-highway vehicles, and watercraft are one-time only and permanent, except upon change of ownership. Fees on other vehicles are annual. Light vehicles older than ten years old may be licensed permanently, at the option of the owner. New license plate fees will increase from \$2 to \$5. The registration fees on campers and pontoons and rubber rafts are eliminated. Beginning January 1, 2005, the registration fees on all light vehicles increased, as well permanent fees on recreational trailers, off-highway vehicles, snowmobiles, recreational vehicles, and motorcycles. Beginning January 2006, motor homes 11 years or older may be permanently registered and the registration fee for certain vehicles increase \$5 to fund Highway Patrol salaries.

Statutory Reference:

Tax Fee rate – multiple, but generally in Title 61, chapter 3. Permanent registration 61-3-562

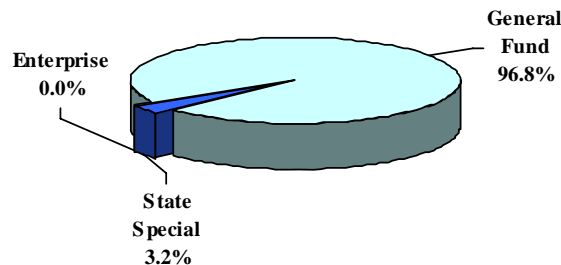
Tax Distribution (MCA) – all fees in Title 61 are distributed to the general fund unless stated otherwise (61-3-108)

Applicable Tax Rate(s): Various

Distribution: Most motor vehicle fees are allocated to the general fund. The following fees are distributed to the Motor Vehicle Information Technology Systems state special revenue account: 1) \$4 of the \$8 recording lien fee (including boats, snowmobiles, and off highway vehicles); 2) \$5.00 of the \$10.00 certificate of ownership fees for watercraft, snowmobiles, off-highway vehicles and all other vehicles; 3) \$5.00 of the \$10.00 duplicate certificate of ownership fee; and 4) all of the \$10.00 fee for the issuance of a new certificate of title following the release of a lien. Other distributions to other state special revenue accounts (and county general fund) are: 1) \$10 of the \$30 donation fee for collegiate license plates to the student academic scholarship fund or foundation of the named institution; 2) the annual donation fee of \$20 for motorcycle or quadricycles specialty license plates for grants to chronically or critically ill children; 3) \$5 of the \$15 administrative fee for generic specialty license plates to the county general fund; 4) all of the \$15 surcharge for sponsoring a generic patriotic license plate for the construction, maintenance, operation, and administration of state veterans' cemeteries; and 5) with the enactment of SB 285 by the 2005 legislature, the optional \$4 fee for parks is deposited in a state special account rather than the general fund. With the enactment of HB 671 by the 2005 legislature, revenue from new temporary registration fees of \$3 and \$8 are deposited in a non-budgeted enterprise fund.

Distribution Chart:

Based on Actual Fiscal 2006



Legislative Fiscal Division

Revenue Estimate Profile

Motor Vehicle Fee

Collection Frequency: The various fees are generally collected on a monthly basis.

% of Total General Fund Revenue:

FY 2004 – 2.22%
 FY 2005 – 2.00%
 FY 2006 – 1.24%

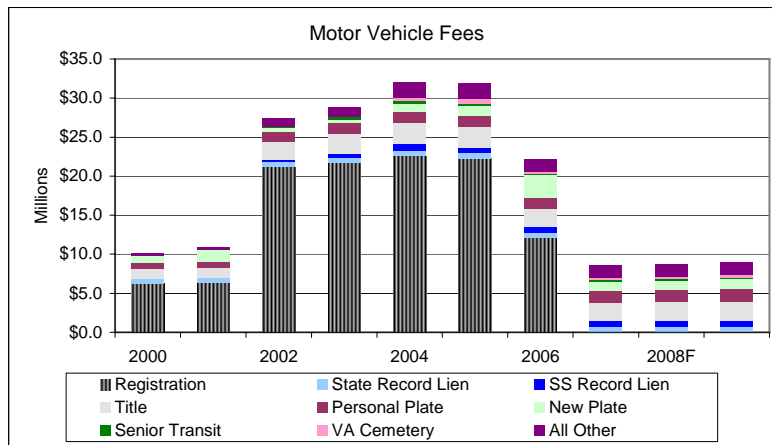
Revenue Estimate Methodology:

Data

The data used to estimate the motor vehicle account (MVA) fees is obtained from the state accounting system (SABHRS) and Global Insight Econometric Service (GI). No adjustments are required on the raw data in preparation for analysis.

Analysis

MVA fees are currently imposed at different rates on eight major categories. Included in the fees assessed against motor vehicles in Montana are registration fees, two types of record liens, title fees, personal and new plate fees, senior transit fees, and veteran’s administration fees. The ninth category is made up of other miscellaneous fees assessed on motor vehicles. As shown in the figure below, the collection of motor vehicle fees has been highly variable since fiscal 2000. The figure below also shows the impact of the reduction and subsequent elimination of the vehicle registration fee, the largest fee component, as a MVA fee in fiscal 2006 and fiscal 2007. This change in the vehicle registration fees is the combined impact of SB 285 and HB 671, both implemented in the 2005 session. However, registration fee revenues are now recorded as vehicle taxes so the next change to total revenues is zero.



The future growth in MVA fees results from growth in the vehicle stock in Montana. Because fee payments are directly connected to the number of vehicles in the state, estimates for the MVA fees are made by applying the growth rate for the national vehicle stock, as projected by GI. For the 2009 biennium, that growth rate is expected to be 2.4 percent. The growth rate is applied to the base year (fiscal 2006) of each of the fee categories and carried forward at the same rate for the fiscal years of the 2009 biennium. Finally, the estimated tax collections of each category are combined to create the total estimates for the MVA fees.

Adjustments

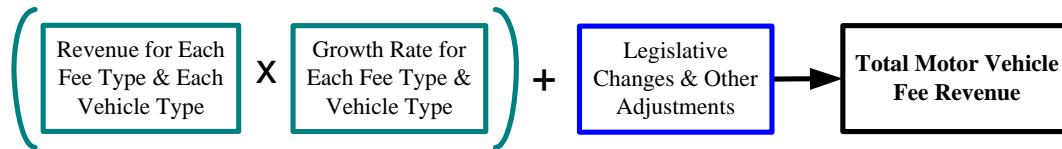
In past years, adjustments to MVA fees have been required as a result of legislative actions. In estimates for the 2009 biennium, legislative action adjustments are made in each fiscal year in amounts of \$2.8 million, \$1.2 million, and \$1.2 million in fiscal 2007 through 2009 respectively. These legislative actions are the impacts of SB 118, passed in the 2003 session and increasing MVA collections by \$1.6 million in fiscal 2007, and SB 671, passed in the 2005 session and increasing MVA collections by \$1.2 million in each year of the forecast period.

Legislative Fiscal Division

Revenue Estimate Profile

Motor Vehicle Fee

Forecast Methodology



Revenue Estimate Assumptions

	t	Total Tax	GF Tax	GF Fee	GF Fee	GF Fee	GF Fee	GF Fee
	Fiscal	Millions	Millions	Registration	Record	Titles	Personal	VA Cemetery
				Millions	Millions	Millions	Millions	Millions
Actual	2000	11.715716	11.715716	6.233271	0.629295	1.292338	0.727670	
Actual	2001	12.548251	12.548251	6.367734	0.635889	1.290092	0.712995	
Actual	2002	27.456893	27.271180	21.180491	0.727958	2.352977	1.269593	
Actual	2003	28.906484	28.352232	21.712218	0.696408	2.441699	1.353633	
Actual	2004	31.602204	30.723879	22.576638	0.737269	2.660438	1.492359	
Actual	2005	31.361863	30.639532	22.230804	0.716784	2.607814	1.508333	
Actual	2006	21.903344	21.195081	12.084778	0.688231	2.368829	1.418129	0.232542
Forecast	2007	11.318000	10.613000	0.000000	0.704749	2.425681	1.452164	0.238123
Forecast	2008	9.923000	9.201000	0.000000	0.721663	2.483897	1.487016	0.243838
Forecast	2009	10.133000	9.394000	0.000000	0.738983	2.543511	1.522704	0.249690

	t	GF Fee	GF Fee	GF Fee	GF Fee	GF Fee	Non GF Fee	Adjustments
	Fiscal	New Plate	Computer	\$.25	Other	Transit	Lien	
		Millions	Millions	Millions	Millions	Millions	Millions	Millions
Actual	2000	0.856821	1.304458	0.299821	0.372042			
Actual	2001	1.536103	1.335946	0.304236	0.365256			
Actual	2002	0.524575	-0.001199	0.024150	1.083974	0.108661	0.185713	
Actual	2003	0.491723	0.000000	0.000000	1.221468	0.435083	0.554252	
Actual	2004	0.909985	0.000000	0.000000	1.953075	0.394115	0.878325	
Actual	2005	1.191590	0.000000	0.000000	2.011671	0.372536	0.722331	0.000000
Actual	2006	2.865422	0.000000	0.000000	1.567085	0.202607	0.708263	0.000000
Forecast	2007	3.980188	0.000000	0.000000	1.604695	0.207470	0.704749	0.000000
Forecast	2008	2.409473	0.000000	0.000000	1.643208	0.212449	0.721663	0.000000
Forecast	2009	2.439460	0.000000	0.000000	1.682645	0.217548	0.738983	0.000000

Legislative Fiscal Division

Revenue Estimate Profile

Motor Vehicle Fee

	t	GF Fee Registration	GF Fee Record	GF Fee Titles	GF Fee Personal	GF Fee New Plate	GF Fee Other	GF Fee VA Cemetery
	Fiscal	Growth Rate	Growth Rate	Growth Rate	Growth Rate	Growth Rate	Growth Rate	Growth Rate
Actual	2000	3.2150%	-0.0519%	2.1117%	4.8659%	84.1881%	-8.5040%	
Actual	2001	2.1572%	1.0478%	-0.1738%	-2.0167%	79.2793%	-1.8240%	
Actual	2002	232.6221%	14.4788%	82.3883%	78.0648%	-65.8503%	196.7710%	
Actual	2003	2.5105%	-4.3340%	3.7706%	6.6194%	-6.2626%	12.6843%	
Actual	2004	3.9813%	5.8674%	8.9585%	10.2484%	85.0605%	59.8957%	
Actual	2005	-1.5318%	-2.7785%	-1.9780%	1.0704%	30.9461%	3.0002%	37.8945%
Actual	2006	-45.6395%	-3.9835%	-9.1642%	-5.9804%	140.4705%	-22.1003%	-57.2111%
Forecast	2007	2.4000%	2.4000%	2.4000%	2.4000%	2.4000%	2.4000%	2.4000%
Forecast	2008	2.4000%	2.4000%	2.4000%	2.4000%	2.4000%	2.4000%	2.4000%
Forecast	2009	2.4000%	2.4000%	2.4000%	2.4000%	2.4000%	2.4000%	2.4000%

	t	GF Fee New Plate	GF Fee Computer	GF Fee \$.25	GF Fee Other	GF Fee Transit	Non GF Fee Lien
	Fiscal	Growth Rate	Growth Rate	Growth Rate	Growth Rate	Growth Rate	Growth Rate
Actual	2000	84.1881%	2.8335%	5.4012%	-8.5040%		
Actual	2001	79.2793%	2.4139%	1.4725%	-1.8240%		
Actual	2002	-65.8503%	-100.0897%	-92.0621%	196.7710%		
Actual	2003	-6.2626%	-100.0000%	-100.0000%	12.6843%	300.4040%	-4.3340%
Actual	2004	85.0605%			59.8957%	-9.4161%	5.8674%
Actual	2005	30.9461%			3.0002%	-5.4753%	-2.7785%
Actual	2006	140.4705%			-22.1003%	-45.6141%	-3.9835%
Forecast	2007	-57.4168%			2.4000%	2.4000%	2.4000%
Forecast	2008				2.4000%	2.4000%	2.4000%
Forecast	2009				2.4000%	2.4000%	2.4000%

Total Tax = Registration + Record + Titles + Personal + New Plate + VA Cemetery + Other + Transit + Lein

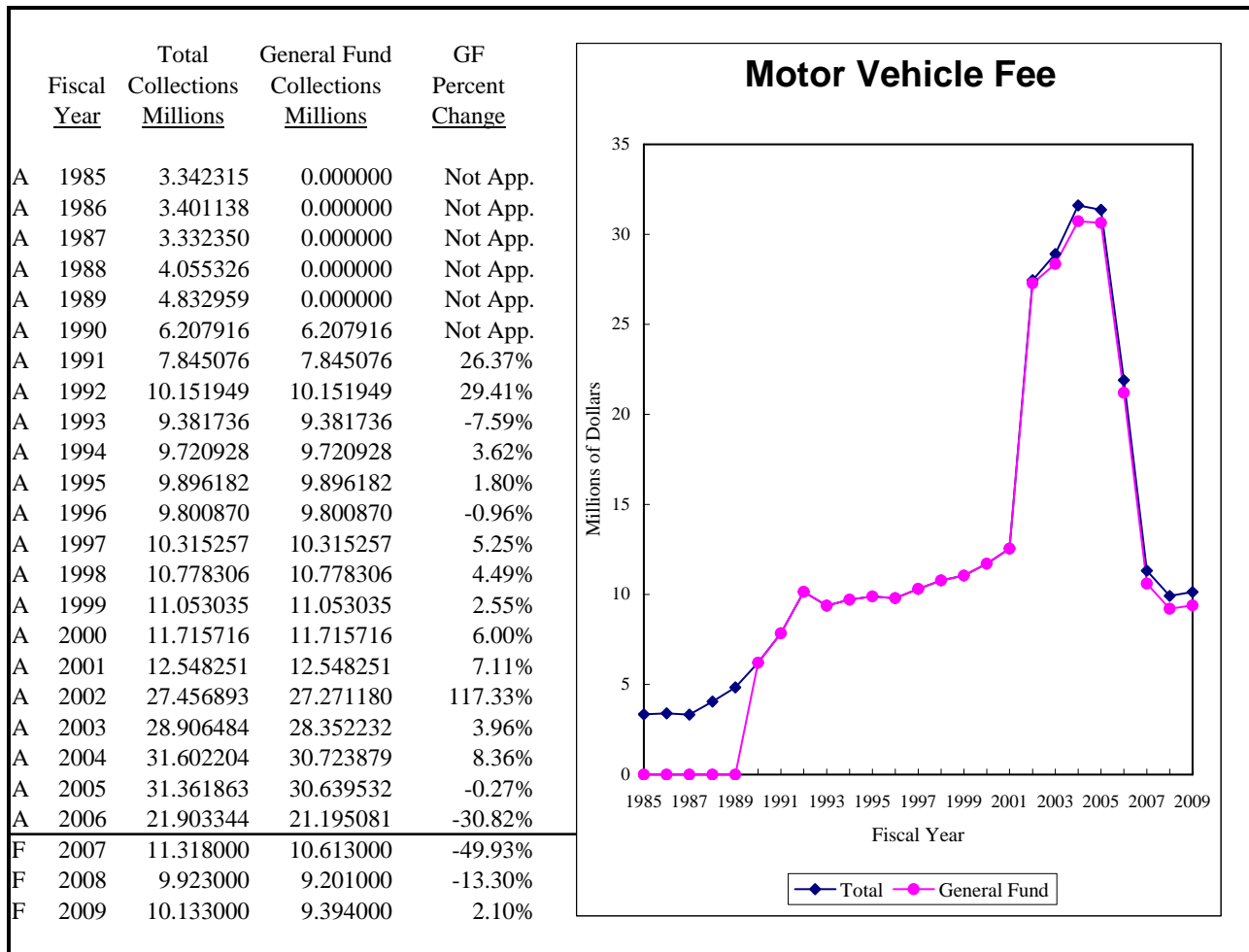
GF Tax = Total Tax - Lein

Legislative Fiscal Division

Revenue Estimate Profile

Motor Vehicle Fee

Revenue Projection:



Data Source(s): SABHRS, Department of Justice

Contacts: Department of Justice

Legislative Fiscal Division

Revenue Estimate Profile

Public Contractors Tax

Revenue Description: Contractors or subcontractors submitting a proposal to perform construction work in Montana for the federal government, state government, or any political subdivision, must be licensed as a public contractor. A license is not required in order to bid on contracts in which federal aid is used for highway construction, but a license is required once the bid is awarded.

Statutory Reference:

Tax Rate (MCA) – 15-50-205

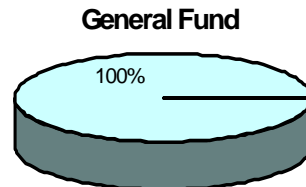
Tax Distribution MCA) – 15-50-311

Date Due – within 30 days after payment to the contractor (15-50-309)

Applicable Tax Rate(s): A 1.0 percent license fee is applied to the gross receipts of each separate project let by any of the listed public entities. However, a credit (in the form of a refund) against the license fee is allowed for personal property taxes and certain motor vehicle fees paid in Montana on personal property or vehicles used in the business of the contractor. In addition, the amount of the net license fee paid (gross less the property tax refund) may be used as a credit on the contractor's corporate or individual tax return. Overpayments are also refunded.

Distribution: All public contractor tax revenue is deposited into the general fund.

Distribution Chart:



Collection Frequency: Monthly

% of Total General Fund Revenue:

FY 2004 – 0.15%

FY 2005 – 0.09%

FY 2006 – 0.25%

Revenue Estimate Methodology:

Data

Data for the public contractor's tax is obtained from the state accounting system (SABHRS), the Department of Transportation (DOT), and the Department of Revenue (DOR) is used to make the public contractors gross receipts tax (PCGRT) estimate. SABHRS data is utilized for total fiscal year tax collections. The DOT provides estimates of highway contracts for future biennia. The DOR provides information on the amounts of credits and refunds paid in each fiscal year.

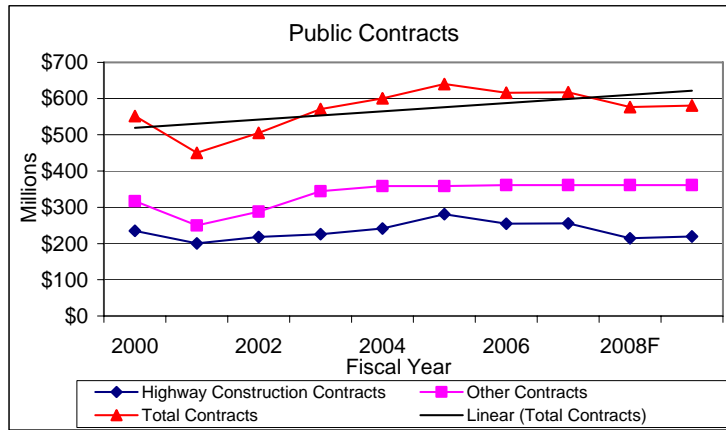
Several steps are involved in preparing the data for analysis. After collecting the SABHRS total collection data, net tax collections are increased to account for the reductions of refunds and credits, creating a proxy for gross tax collections. From

Legislative Fiscal Division

Revenue Estimate Profile

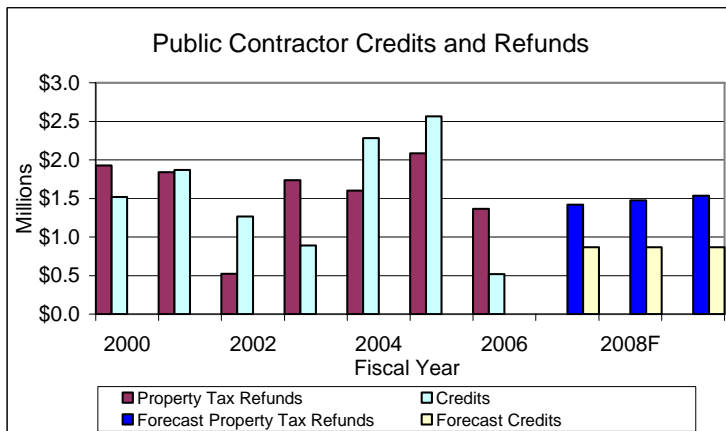
Public Contractors Tax

there, the gross tax data must be disaggregated into two containers, highway and all other contracts. This is done by reducing the gross tax by the total amount of highway/road contracts, also obtained through SABHRS. Historically, highway contracts have been responsible for almost 42 percent of the gross tax collections.



The remainder of the gross collections can be credited to other types of contracts. These contracts include forestry, bridge construction, and public building projects. The figure above shows both the aggregated and disaggregated public contract amounts and a trend line illustrating the slow rate of growth inherent in the aggregated public contracts.

The DOR provides historical data of refund and credit activity for the analysis. The PCGRT is highly variable, but the variability is not caused by volatility in the number of contracts but by inconsistencies in processing payment of refunds and credits. As apparent in the figure below, the DOR deferred some of the refund and credit processing in fiscal 2002 and 2003, creating a processing backlog. Consequently, processing for those years was postponed to fiscal 2004 and 2005, exaggerating the credit and refund amounts.



PCGRT refunds are made up primarily of refund claims against the class 8-business property tax. Changes in the property tax rate, as occurred in 2000 when the rate was reduced from 6 percent to 3 percent, affects the amount of refunds. Credits are authorized against both individual income tax and the corporation license tax. The credit series as observed in the figure above is a combination of both individual and corporation credits.

Analysis

Analysis of the PCGRT shows a growth of Montana highway contracts at 3.1 percent annually. However, highway contract growth is highly reliant on federal appropriation for highway construction in the state. Each biennium, the DOT legislative

Legislative Fiscal Division

Revenue Estimate Profile

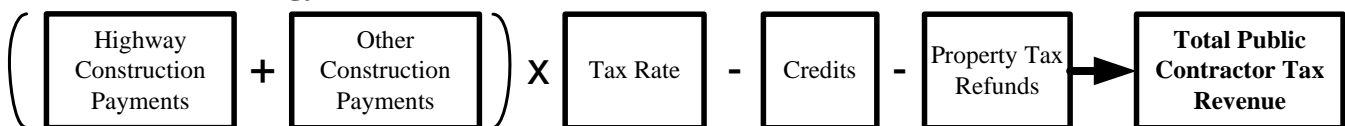
Public Contractors Tax

budget shows the amount of contracts that are expected in the upcoming biennium. In the 2009 biennium, highway contracts through the DOT are expected to be \$255.7 million, \$214.8 million, and \$219.3 million in fiscal 2007 through fiscal 2009, respectively. While annual growth for “other” contracts has been 3.4 percent, no growth is assumed for the next biennium, and other contracts are held constant at \$361.4 million for the biennium. Next, the annual contract amounts are summed. Finally, the tax rate is applied to the amount of total contracts to determine the gross collections of the PCGR tax.

Adjustments

Two adjustments reduce gross collections of the PCGR tax, income tax credits and property tax refunds. According to the DOR, the backlog in processing has been eliminated, and net collections should appear more consistent in the future. Consequently, growth of the refund and credit activity should become more stable. However, with the passage of SB 323, credits may now be carried forward for up to five succeeding years. According to the fiscal note prepared for SB 323, the credit carryforward will provide additional credits of \$350,000 per year beginning in fiscal 2007. Consequently, total credits are expected to be \$868,379 each fiscal year from 2007 through 2009. Property tax refunds are estimated by developing a relationship between total business property taxes paid and the contractor refunds. This technique produces estimates of property tax refunds that amount to \$1.4 million, \$1.5 million, and \$1.5 million for fiscal 2007 through 2009, respectively. For the upcoming biennium, the methodology produces PCGRT estimates of \$3.9 million in 2007, \$3.4 million in 2008, and \$3.4 million in 2009.

Forecast Methodology



Revenue Estimate Assumptions

	t	Total Tax	GF Tax	Gross Tax	Credits	Tax	DOT	Other
	Fiscal	Millions	Millions	Millions	& Refunds	Rate	Contracts	Contracts
					Millions		Millions	Millions
Actual	2000	2.162223	2.162223	5.516069	3.444985	0.010000	234.875465	316.731435
Actual	2001	0.791615	0.791615	4.502749	3.711134	0.010000	200.507963	249.766937
Actual	2002	3.267321	3.267321	5.054973	1.787652	0.010000	217.749022	287.748278
Actual	2003	3.081553	3.081553	5.706437	2.624885	0.010000	226.113524	344.530176
Actual	2004	2.120485	2.120485	6.004105	3.883620	0.010000	241.630131	358.780369
Actual	2005	1.410831	1.410831	5.752099	4.341269	0.010000	239.291109	335.918791
Actual	2006	4.274649	4.274649	6.157650	1.883218	0.010000	254.388458	361.376542
Forecast	2007	3.883000	3.883000	6.171168	2.287812	0.010000	255.740256	361.376542
Forecast	2008	3.417000	3.417000	5.761760	2.344589	0.010000	214.799459	361.376542
Forecast	2009	3.403000	3.403000	5.807061	2.403637	0.010000	219.329564	361.376542

Total Tax = (DOT Contracts + Other Contracts) * Tax Rate - Credits & Refunds

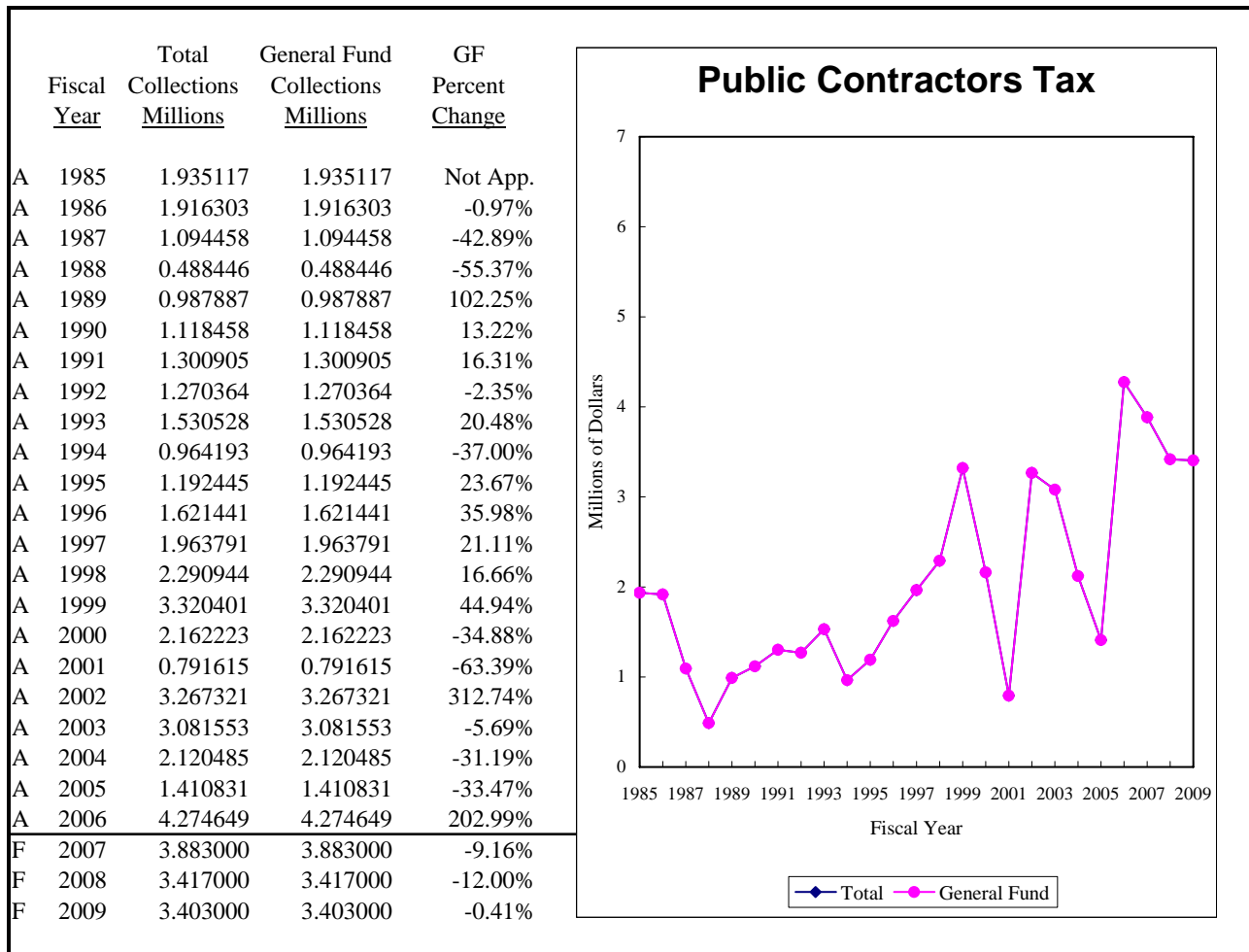
GF Tax = Total Tax

Legislative Fiscal Division

Revenue Estimate Profile

Public Contractors Tax

Revenue Projection:



Data Source(s): SABHRS, Department of Revenue, Department of Transportation

Contacts: Department of Revenue, Department of Transportation

Legislative Fiscal Division

Revenue Estimate Profile

Railroad Car Tax

Revenue Description: All railroad property is subject to taxation as defined in the federal Railroad Revitalization and Regulatory Reform Act of 1976. The Railroad car tax applies to the rolling stock owned by railroad companies. The railroad car tax rate the average property tax rate for commercial and industrial property. Railroad car companies, which operate in several states, pay taxes on the portion of the property value allocated to Montana, based on the ratio of the car miles traveled within Montana to the total number of car miles traveled in all states, as well as time spent in the state relative to time spent in other states.

Statutory Reference:

Tax Rate (MCA) - 15-23-214(1)

Tax Distribution (MCA) – 15-23-215

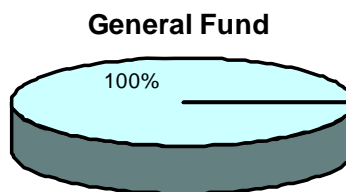
Date Due – Report due to the Department of Revenue April 15th of each year for the previous calendar year (15-23-103(2), 15-23-212). The department calculates the tax due by the third Monday in October (15-23-214(1)). One-half of the tax is due by November 30th and one-half is due by May 31st (15-23-214(3), 15-16-102(1)).

Applicable Tax Rate(s): The tax rate is equal to the previous year's average statewide tax rate for commercial and industrial property. This is multiplied by the statewide average mill levy for commercial and industrial property. The most current tax year rates are:

- 2003 – 4.02%
- 2004 – 3.88%
- 2005 – 3.81%
- 2006 – 3.70%
- 2007 – 3.60%

Distribution: All revenue from this tax is deposited into the general fund.

Distribution Chart:



Collection Frequency: Semi-annually

% of Total General Fund Revenue:

FY 2004 – 0.11%

FY 2005 – 0.10%

FY 2006 – 0.10%

Revenue Estimate Methodology:

Data

Data from the Department of Revenue (DOR) is used to estimate railcar tax collections. Additionally, SABHRS data is used to check the estimates against the historic values. DOR provides data on the value of national railroad car fleet, Montana's rolling stock, and railroad car tax assessed by company. DOR also provides the historic observations of the average mill levy and applicable tax rate.

Legislative Fiscal Division

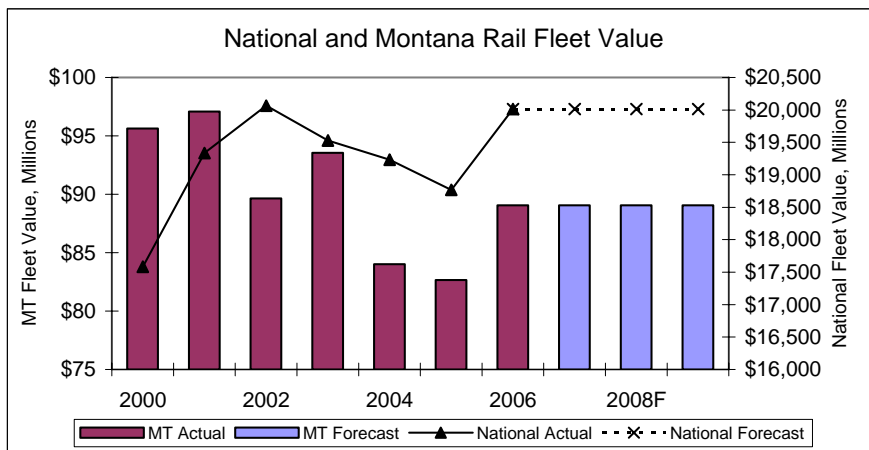
Revenue Estimate Profile

Railroad Car Tax

Analysis

Although the railcar tax appears quite volatile, most of the volatility is caused by shifts in average mill levies and tax rates, both of which are controlled in large part by factors outside of the growth in rail shipments. Furthermore, a large part of the volatility can be traced to litigation brought by rail companies and settled in federal legislation. In 1993, some rail companies protested tax rates. Tax payments were reduced for four years. Then, in 1977, the litigation was settled and the companies were required to make both past and current payments. Railroad properties are taxed as class 12 properties. To calculate total railroad car tax collections (class 12 property), the market value of the Montana fleet is multiplied by the average mill levy and tax rate.

The estimate of the railroad car tax is based on the market value of the rail fleet in Montana. Before the market value can be ascertained, some preliminary estimates must be developed. As illustrated in the figure below, the market value of Montana's fleet is based on a relationship with market value of the U.S. fleet. Consequently, an estimate for the value of the national fleet is developed using the average rate of growth in the U.S. fleet value, based on a four-year pattern of growth. That rate is then applied to the last year of actual fleet value available. Next, a measure of the apportionment of Montana fleet value is developed in percent terms. The apportionment is then applied to the estimate for the national fleet market value to determine the Montana railroad fleet market value. Since the mid 1990's, the market value of Montana's rail fleet has been about 0.56 percent of the nation's fleet. However in recent years, Montana's proportion of rail fleet market value has diminished to 0.45 percent of the nation's fleet value. For the purpose of estimating future railroad car tax collections, the most recent ratio of Montana market fleet value to national fleet value is used, 0.45 percent. This process provides estimates for the market value of Montana rolling stock of \$89.1 million in fiscal 2007 through fiscal 2009.



After the Montana market fleet value is determined, the average commercial and industrial (C&I) mill levy and tax rate must be calculated. The rate of the mill levy is calculated from the average of statewide commercial and industrial mill levies. The average mill levy is expected to increase because counties are able to raise levies at a rate equal to half of the annual rate of inflation. Furthermore, the increasing costs of school budgets will further force the average mill levy to increase. The calculated mill levy estimates for the 2009 biennium are 0.516 percent in fiscal 2007, 0.522 percent in fiscal 2008, and 0.528 percent in fiscal 2009.

The tax rate for the railroad property is created from a weighted average of five property classes: class 4, 7, 8, 9, and 13. Class 4 property tax, which is the residential and commercial property tax, is weighted more heavily than the other classes. In the 2009 biennium, class 4 property tax rates will decrease, the result of SB 461 passed in the 2005 session, to mitigate the increasing property values occurring in the current appraisal cycle. Consequently, class 4 property taxes are expected to drop by 0.07 percent annually through fiscal 2009. The other four classes are scheduled to remain constant. The estimated tax rate will be 3.6 percent fiscal 2007, 3.4 percent in fiscal 2008, and 3.2 percent in fiscal 2009.

Finally, the rail car tax estimates are completed by multiply the Montana market value by the average mills and the tax rate.

Legislative Fiscal Division

Revenue Estimate Profile

Railroad Car Tax

Forecast Methodology



Revenue Estimate Assumptions

	t	Total Tax	GF Tax	Total MV	MT	MT MV	Tax	Mills
	Fiscal	Millions	Millions	of Fleet	Allocation	of Fleet	Rate	95/100 %
				Millions	Percent	Millions		
Actual	2000	2.100600	2.100600	17582.615541	0.005439	95.626964	0.060800	0.363540
Actual	2001	1.555747	1.555747	19335.425780	0.005021	97.074849	0.042700	0.380060
Actual	2002	1.489813	1.489813	20065.083606	0.004468	89.657366	0.042100	0.400980
Actual	2003	1.484264	1.484264	19527.799607	0.004791	93.549116	0.040200	0.419254
Actual	2004	1.567868	1.567868	19231.928074	0.004369	84.019893	0.038800	0.474429
Actual	2005	1.604005	1.604005	18767.654718	0.004404	82.645528	0.038100	0.487040
Actual	2006	1.667441	1.667441	20014.411877	0.004450	89.055569	0.037400	0.509510
Forecast	2007	1.631000	1.631000	20014.411877	0.004450	89.064133	0.035500	0.515710
Forecast	2008	1.567000	1.567000	20014.411877	0.004450	89.064133	0.033700	0.521990
Forecast	2009	1.506000	1.506000	20014.411877	0.004450	89.064133	0.032000	0.528340

Total Tax = Total MV of Fleet * MT Allocation * Tax Rate * Mills

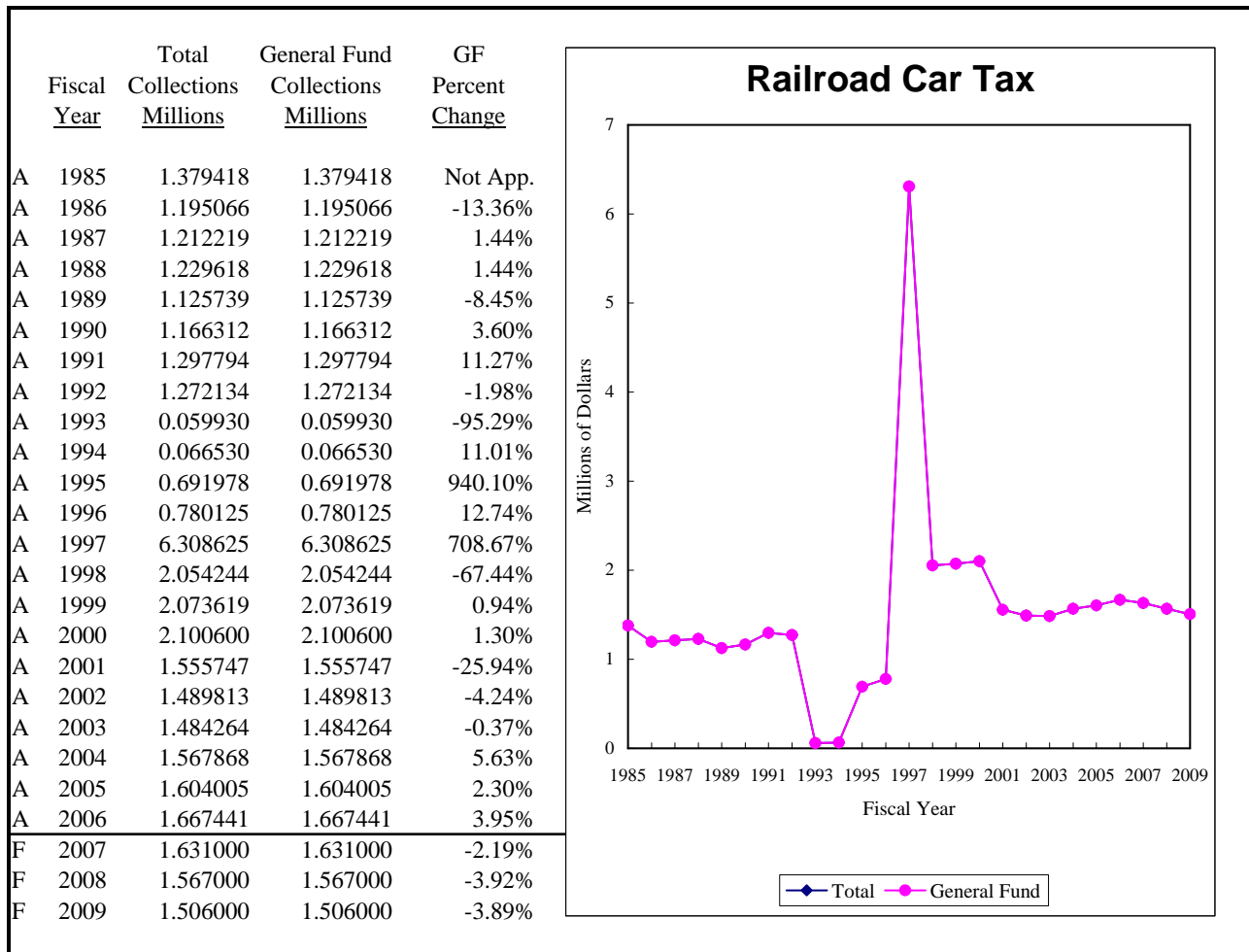
GF Tax = Total Tax

Legislative Fiscal Division

Revenue Estimate Profile

Railroad Car Tax

Revenue Projection:



Data Source(s): SABHRS, Department of Revenue

Contacts: Railroad Car Companies, Department of Revenue

Legislative Fiscal Division

Revenue Estimate Profile

Rental Car Sales Tax

Revenue Description: Beginning July 1, 2003, a new four percent sales tax is imposed on the base rental charge for rental vehicles. The base rental charge includes use charges for time and mileage, insurance, accessory equipment, and charges for additional or underage drivers. It does not include price discounts, charges for operating an airport concession, motor fuel, intercity drop charges, and government taxes. A rental vehicle is one that is used by a person other than the owner by arrangement and for consideration. Included are light vehicles, motorcycles, motor-driven cycles, quadricycles, motorboats and sailboats, and off-highway vehicles. Sales to the U.S. government are exempt from the sales tax. All facilities subject to the tax must obtain a seller's permit before engaging in business subject to the sales tax within Montana. The Department of Revenue may require a retailer to post security up to twice the average tax liability to be used to recover taxes, interest, and penalties owed. Vendors are allowed to claim and keep five percent of the tax as an allowance, not to exceed \$1,000 a quarter.

Statutory Reference:

Tax Rate (MCA) - 15-68-102(1b)

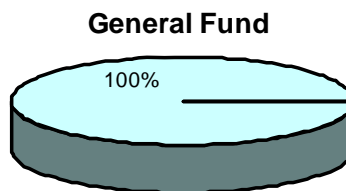
Tax Distribution MCA) - 15-68-820

Date Due - before the last day of the month following the calendar quarter (15-68-502(1))

Applicable Tax Rate(s): A four percent sales tax is imposed on the base rental charge for rental vehicles.

Distribution: All revenue from this tax is deposited into the general fund.

Distribution Chart:



Collection Frequency: The vendor must pay the tax due by the last day of the month following a calendar quarter.

% of Total General Fund Revenue:

FY 2004 - 0.18%

FY 2005 - 0.17%

FY 2006 - 0.16%

Revenue Estimate Methodology:

Data

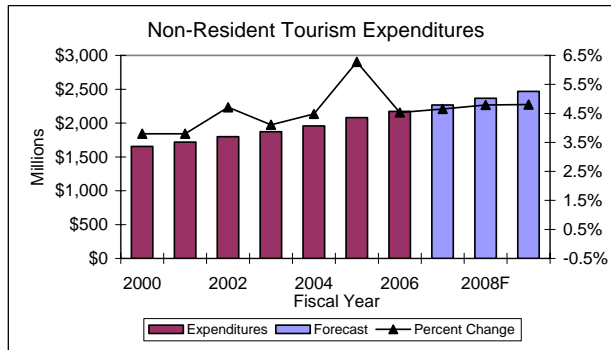
The estimate of the rental car sales tax requires data from two sources, the state accounting system (SABHRS) and the Institute for Tourism and Recreation Research (ITRR). The SABHRS data includes the historic tax collection observations and the ITRR data provides the historic growth associated with the tourism industry.

SABHRS data provides only three historical collection observations of the rental car sales tax. Because the data is so limited, ITRR data is used to provide a proxy for future growth with their Montana non-resident tourism expenditure data series. The unadjusted (inflationary) series is used because the tax is based on a percentage of the rental costs of vehicles. As seen in the figure below, tourism expenditures are expected to experience slow growth in future years. Historically, the growth of non-resident tourism expenditures has varied between 3.8 percent in 2000 and 5.4 percent in 2005. Inflation during the period fluctuated between 2.2 percent reported in 2000 to 3.0 percent reported in 2005. Average inflation during the period was 2.5 percent.

Legislative Fiscal Division

Revenue Estimate Profile

Rental Car Sales Tax



Before analysis can begin on the rental car tax, a proxy value for rental car expenditures must be developed. This calculation is made by dividing historic tax receipts, provided through SABHRS, by the current tax rate. The proxy is then related to the non-resident tourism expenditures on a proportional basis.

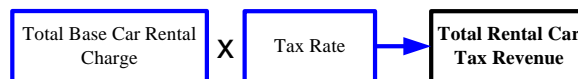
Analysis

Because of the short duration of the rental car sales tax, neither a trend nor regression model will provide adequate results for estimating future collections. Consequently, future growth in the rental car sales tax is based on the average growth of non-resident tourism expenditures, which is currently 4.4 percent. To develop the proxy of rental car expenditures from fiscal 2006, is increased by the average rate of growth. This methodology produces estimates of \$2.8 million in 2007, \$3.0 million in 2008, and \$3.1 million in 2009. As the tax is imposed in future years, historic growth rates will become available, which will enable the calculation of growth rates from actual data.

Adjustment and Distribution

The final step in development of the rental car sales tax projection is to reduce the projection by credits and audits. Credits may be requested by vendors for tax payments on dollars that are later recognized as bad debt. Additionally, a credit is allowed if a similar tax has been levied and paid in another state on property that was leased outside this state but used in the state. Additionally, the DOR may audit the accounts of vendors who pay the rental car sales tax, and both positive and negative adjustments may be made to the total collections. To date, no credits or audits have occurred.

Forecast Methodology



Revenue Estimate Assumptions

t	Total Tax	GF Tax	Taxable Sales	Tax Rate	Credits	Audits
Fiscal	Millions	Millions	Millions	Percent	Millions	Millions
Actual 2000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Actual 2001	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Actual 2002	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Actual 2003	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Actual 2004	2.485989	2.485989	62.149725	0.040000	0.000000	0.000000
Actual 2005	2.565554	2.565554	64.138850	0.040000	0.000000	0.000000
Actual 2006	2.755072	2.755072	68.876800	0.040000	0.000000	0.000000
Forecast 2007	2.875000	2.875000	71.879828	0.040000	0.000000	0.000000
Forecast 2008	3.000000	3.000000	75.013789	0.040000	0.000000	0.000000
Forecast 2009	3.131000	3.131000	78.284390	0.040000	0.000000	0.000000

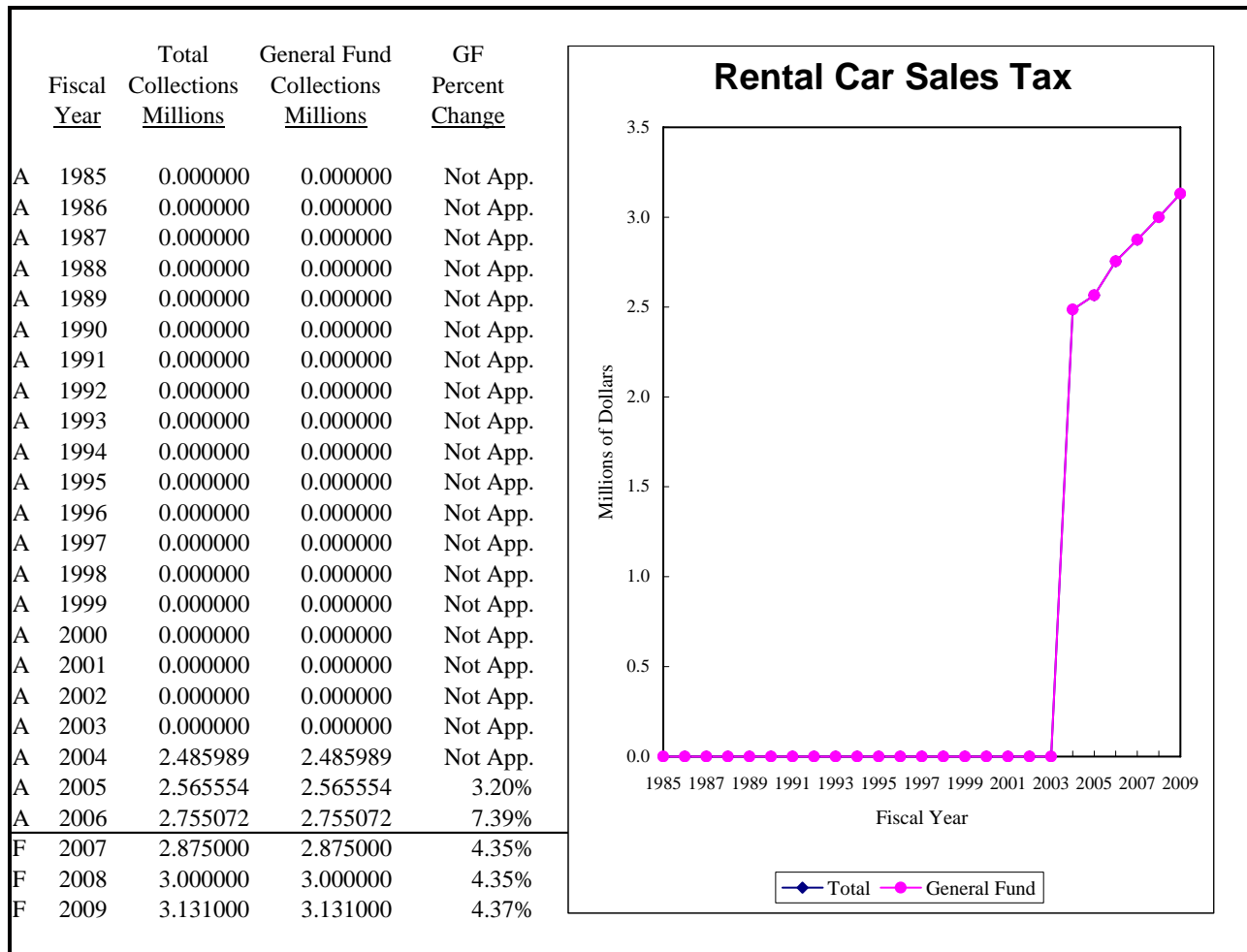
Total Tax = Taxable Sales * Tax Rate - Credits + Audits
 GF Tax = Total Tax

Legislative Fiscal Division

Revenue Estimate Profile

Rental Car Sales Tax

Revenue Projection:



Data Source(s): SABHRS, Department of Revenue

Contacts: Rental Car Companies

Legislative Fiscal Division

Revenue Estimate Profile

Telecommunications Excise Tax

Revenue Description: The retail telecommunications excise tax is levied on the sales price of retail telecommunications services originating or terminating in the state. It is paid by the retail purchaser and collected by the provider.

Statutory Reference:

Tax Rate (MCA) – 15-53-130

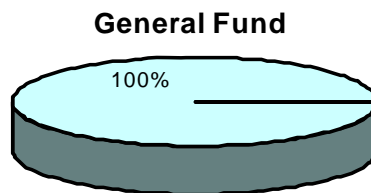
Tax Distribution (MCA) – 15-53-156

Date Due – 60 days after the end of the calendar quarter (15-53-139)

Applicable Tax Rate(s): The current tax rate of 3.75% is applied to the sales price of retail telecommunications services. Sales price includes payment for services such as distribution, supply, transmission, and delivery, but excludes federal taxes, relocation of service, equipment repair, prepaid calling cards, and other items. Gross receipts from the provision of internet services are also exempt. Credits previously allowed for costs of advanced telecommunications infrastructure improvements were repealed in House Bill 96 by the 2003 legislature.

Distribution: After retaining an allowance for refunds, all proceeds are deposited into the general fund.

Distribution Chart:



Collection Frequency: Quarterly

% of Total General Fund Revenue:

FY 2004 - 1.51%

FY 2005 - 1.38%

FY 2006 - 1.24%

Revenue Estimate Methodology:

The retail telecommunications tax is applied to sales price of services provided. The estimate for the tax revenue is derived by estimating the annual sales price of services provided for the 3-year period in question. Using these estimates of sales, the tax rate is applied.

Data

Data from quarterly reports produced by DOR provide a history of retail telecommunications sales for each individual company. CPI data is obtained from Global Insight.

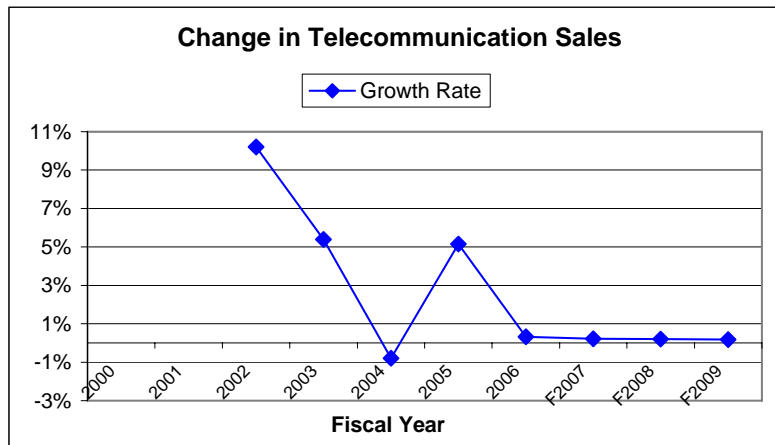
Analysis

The total retail telecommunication sales, as reported on the DOR report, are summed for each fiscal year. The ratio of the growth rate in sales from the previous fiscal year to the CPI rate as report by Global Insight for that year is multiplied by the CPI rate for the current year. The resulting growth rate is applied to the sales of the previous year. Yearly estimated sales are multiplied by the tax rate to derive total revenue from this source.

Legislative Fiscal Division

Revenue Estimate Profile

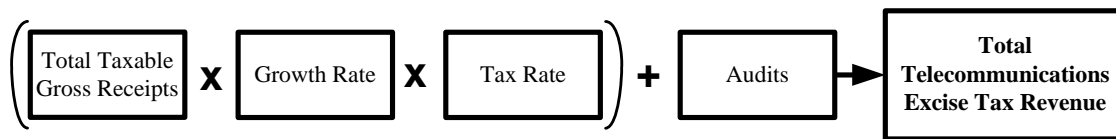
Telecommunications Excise Tax



Adjustments and Distribution

Once total tax revenue for each fiscal year is determined, the applicable distribution percentage, 100 percent to the general fund, is applied.

Forecast Methodology



Revenue Estimate Assumptions

	t	Total Tax	GF Tax	Taxable	Tax	Credits	Audits
	Fiscal	Millions	Millions	Sales	Rate	Millions	Millions
				Millions	Percent		
Actual	2000	6.366299	6.366299	182.127040	0.037500	0.000000	0.000000
Actual	2001	18.838200	18.838200	465.259867	0.037500	0.429045	1.820000
Actual	2002	19.593501	19.593501	512.754187	0.037500	0.252198	0.617417
Actual	2003	20.804524	20.804524	540.397200	0.037500	0.004069	0.543698
Actual	2004	20.890335	20.890335	536.138960	0.037500	0.052757	0.837881
Actual	2005	21.144420	21.144420	563.779627	0.037500	0.000000	0.002684
Actual	2006	21.208947	21.208947	565.571920	0.037500	0.000000	0.000000
Forecast	2007	21.255000	21.255000	566.788465	0.037500	0.000000	0.000000
Forecast	2008	21.298000	21.298000	567.927143	0.037500	0.000000	0.000000
Forecast	2009	21.335000	21.335000	568.911929	0.037500	0.000000	0.000000

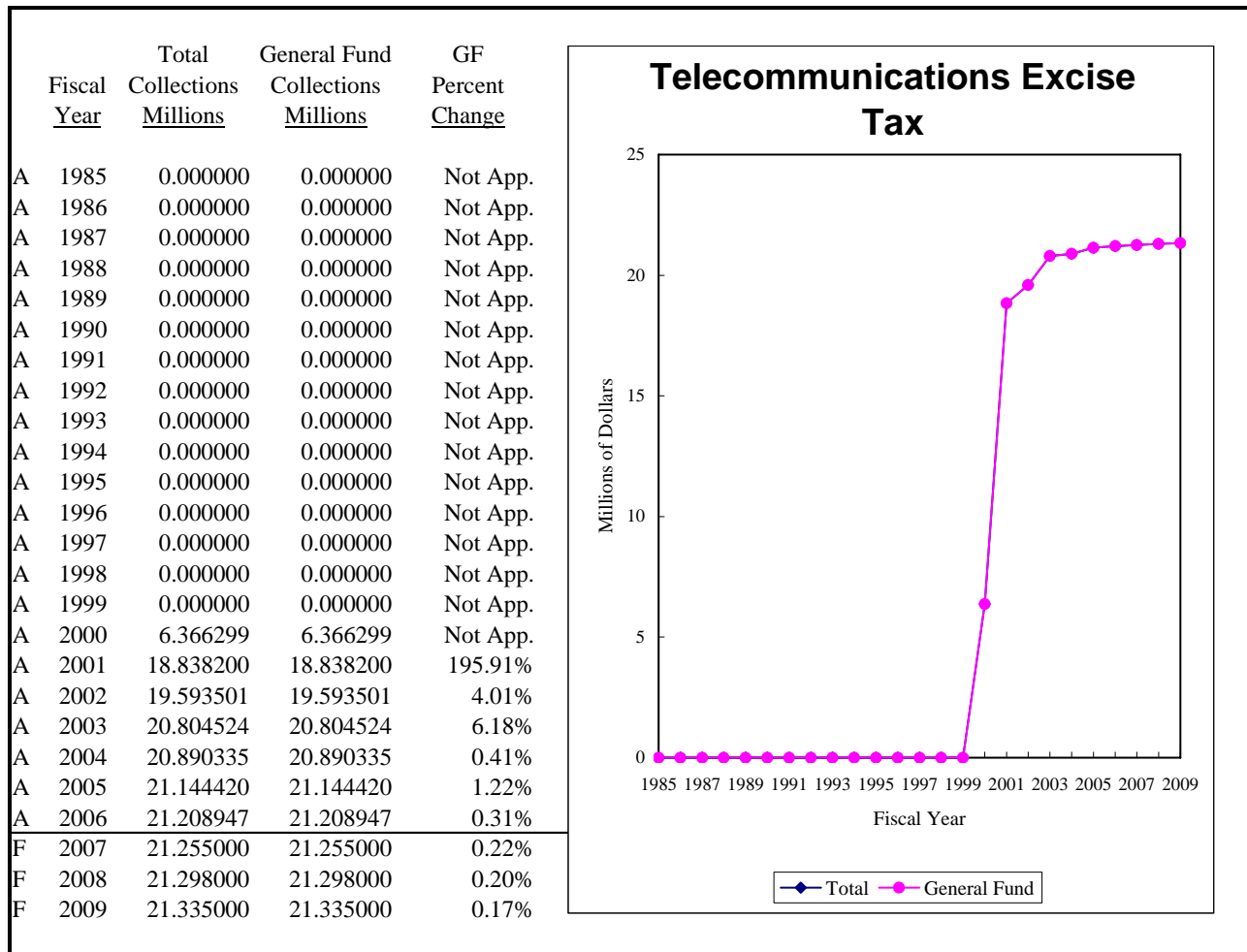
Total Tax = Taxable Sales * Tax Rate - Credits + Audits
 GF Tax = Total Tax

Legislative Fiscal Division

Revenue Estimate Profile

Telecommunications Excise Tax

Revenue Projection:



Data Source(s): SABHRS, Department of Revenue

Contacts: Major Telecommunications Companies

Legislative Fiscal Division

Revenue Estimate Profile

Vehicle Tax

Revenue Description: Light vehicles, motorcycles and quadricycles, snowmobiles, buses, trucks, truck tractors having a manufacturer's rated capacity of more than 1 ton, motor homes, and certain trailers and travel trailers are taxed under a fee schedule that varies by age and weight.

Before January 1, 2001 light vehicles were taxed on an ad valorem basis. As a result of Referendum (LR) 115 (HB540), passed by the electorate in November 2000, light vehicles pay a fee-in-lieu of tax (FILT). The fee is \$195 for light vehicles of age between zero and four years, \$65 for vehicles between five and ten years of age, and \$6 for vehicles over ten years old. Owners of vehicles greater than ten years old may pay \$50 for a permanent registration.

Effective January 1, 2003, the fee schedule on heavy trucks is reduced by 1/6th for calendar 2003, by 1/3rd for calendar 2004 and by 1/2 for calendar 2005. These changes were enacted by HB 247 in the 2003 legislative session. The fee schedule for truck varies by age and weight capacity.

Effective January 1, 2004, the fees-in-lieu-of-tax on motorcycles and quadricycles, trailers and travel trailers, snowmobiles, watercraft, off-highway vehicles are one-time payments, except upon change of ownership. These one-time fees in calendar 2004 doubled in calendar 2005 and thereafter.

Statutory Reference:

Tax Rate (MCA) – watercraft one-time (23-2-516), snowmobiles one-time (23-2-626), OHV one-time (23-2-803), vehicles greater than 1 ton (61-3-529)

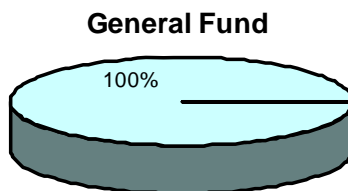
Tax Distribution (MCA) – watercraft (23-2-518), snowmobiles (23-2-619(7)), OHV (23-2-803), light vehicles (61-3-509), motorcycles and quadricycles (61-3-509), motor homes (61-3-509), vehicles greater than 1 ton (61-3-509)

Date Due – County treasurers to remitted the revenue to the Department of Revenue every 30 days (15-1-504 & 61-3-509).

Applicable Tax Rate(s): Varies

Distribution: All fees-in-lieu-of-tax are deposited in the general fund.

Distribution Chart:



Collection Frequency: Monthly

% of Total General Fund Revenue:

FY 2004 – 6.05%

FY 2005 – 5.23%

FY 2006 – 5.39%

Legislative Fiscal Division

Revenue Estimate Profile

Vehicle Tax

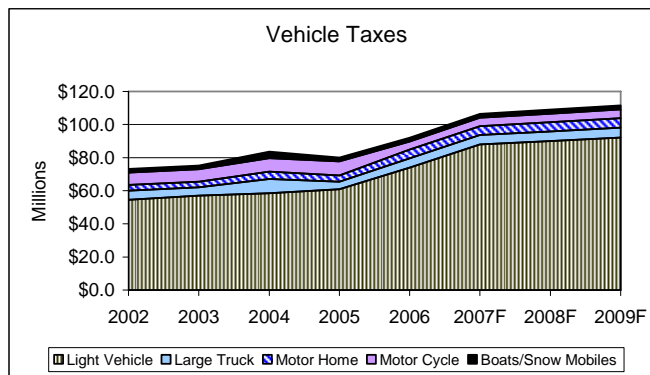
Revenue Estimate Methodology:

Data

The data used to estimate the motor vehicle tax is obtained from the state accounting system (SABHRS) and Global Insight Econometric Service (GI). No adjustments are required on the raw data in preparation for analysis.

Analysis

Vehicle taxes are currently imposed at different rates on five categories of vehicles (tax schedule varies by age and weight) including light vehicles, large trucks, motor homes, motor cycles (including tri-cycles), and boats and snowmobiles. As shown in the figure below, the taxes have increased at a slow rate since fiscal 2002. The figure below also shows greater rate of growth for light vehicle taxes in fiscal 2006 and fiscal 2007. This growth results from the legislative impacts of SB 285 and HB 671, both implemented in the 2005 session. Analysis shows that the trend of slow growth is expected to continue through the 2009 biennium.

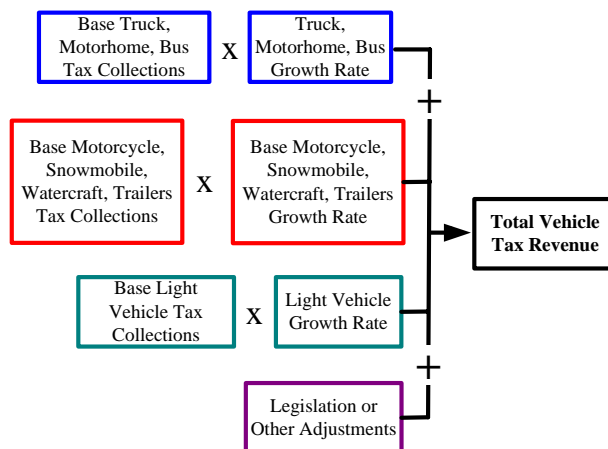


The future growth in vehicle taxes results from growth in the vehicle stock in Montana. Because tax payments are directly connected to the number of vehicles in the state, estimates for the vehicle tax are made by applying the growth rate for the national vehicle stock, as projected by GI. For the 2009 biennium, that growth rate is expected to be 2.4 percent. The growth rate is applied to the base year (fiscal 2006) of each of the vehicle categories and carried forward at the same rate for the fiscal years of the 2009 biennium. Finally, the estimated tax collections of each category are combined to create the total estimates for the vehicle tax.

Adjustments

In past years, adjustments to vehicle taxes have been required as a result of legislative actions. In estimates for the 2009 biennium, no adjustments are required.

Forecast Methodology:



Legislative Fiscal Division

Revenue Estimate Profile

Vehicle Tax

Revenue Estimate Assumptions:

	<u>t</u>	<u>Total Tax</u>	<u>GF Tax</u>	<u>Non-GF Tax</u>	<u>Legislation</u>
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2000				
Actual	2001				
Actual	2002	73.091930	73.127444	-0.035514	
Actual	2003	75.185832	75.185331	0.000501	
Actual	2004	83.606576	83.606576	0.000000	
Actual	2005	80.132416	80.132416	0.000000	0.000000
Actual	2006	92.097303	92.097303	0.000000	0.000000
Forecast	2007	106.473000	106.473000	0.000000	0.000000
Forecast	2008	109.028000	109.028000	0.000000	0.000000
Forecast	2009	111.645000	111.645000	0.000000	0.000000

	<u>t</u>	<u>Large</u>	<u>Motor</u>	<u>Light</u>	<u>Boats/</u>	<u>MCO</u>	<u>District</u>
	<u>Fiscal</u>	<u>Truck</u>	<u>Home</u>	<u>Vehicle</u>	<u>Snow</u>	<u>Registration</u>	<u>Courts</u>
		<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2000						
Actual	2001						
Actual	2002	5.383664	3.607418	54.602101	2.075694	7.458568	-0.035514
Actual	2003	5.116869	3.342342	56.961345	2.195942	7.568832	0.000000
Actual	2004	8.562457	4.484770	58.457160	3.980061	8.122128	0.000000
Actual	2005	4.433347	3.834690	60.940073	2.369148	8.555157	0.000000
Actual	2006	5.576714	5.235701	73.979874	2.325379	4.979634	0.000000
Forecast	2007	5.710555	5.361358	87.920431	2.381188	5.099145	0.000000
Forecast	2008	5.847608	5.490031	90.030521	2.438337	5.221524	0.000000
Forecast	2009	5.987951	5.621792	92.191254	2.496857	5.346841	0.000000

	<u>t</u>	<u>Large</u>	<u>Motor</u>	<u>Light</u>	<u>Boats/</u>	<u>MCO</u>
	<u>Fiscal</u>	<u>Truck</u>	<u>Home</u>	<u>Vehicle</u>	<u>Snow</u>	<u>Registration</u>
		<u>Rate</u>	<u>Rate</u>	<u>Rate</u>	<u>Rate</u>	<u>Rate</u>
Actual	2000					
Actual	2001					
Actual	2002					
Actual	2003	0.028648	-0.049556	-0.073481	0.043208	0.057931
Actual	2004	0.111999	0.673378	0.341805	0.026260	0.812462
Actual	2005	-0.041554	-0.482234	-0.144953	0.042474	-0.404746
Actual	2006	0.149314	0.257902	0.365352	0.213977	-0.018475
Forecast	2007	0.024000	0.024000	0.024000	0.024000	0.024000
Forecast	2008	0.024000	0.024000	0.024000	0.024000	0.024000
Forecast	2009	0.024000	0.024000	0.024000	0.024000	0.024000

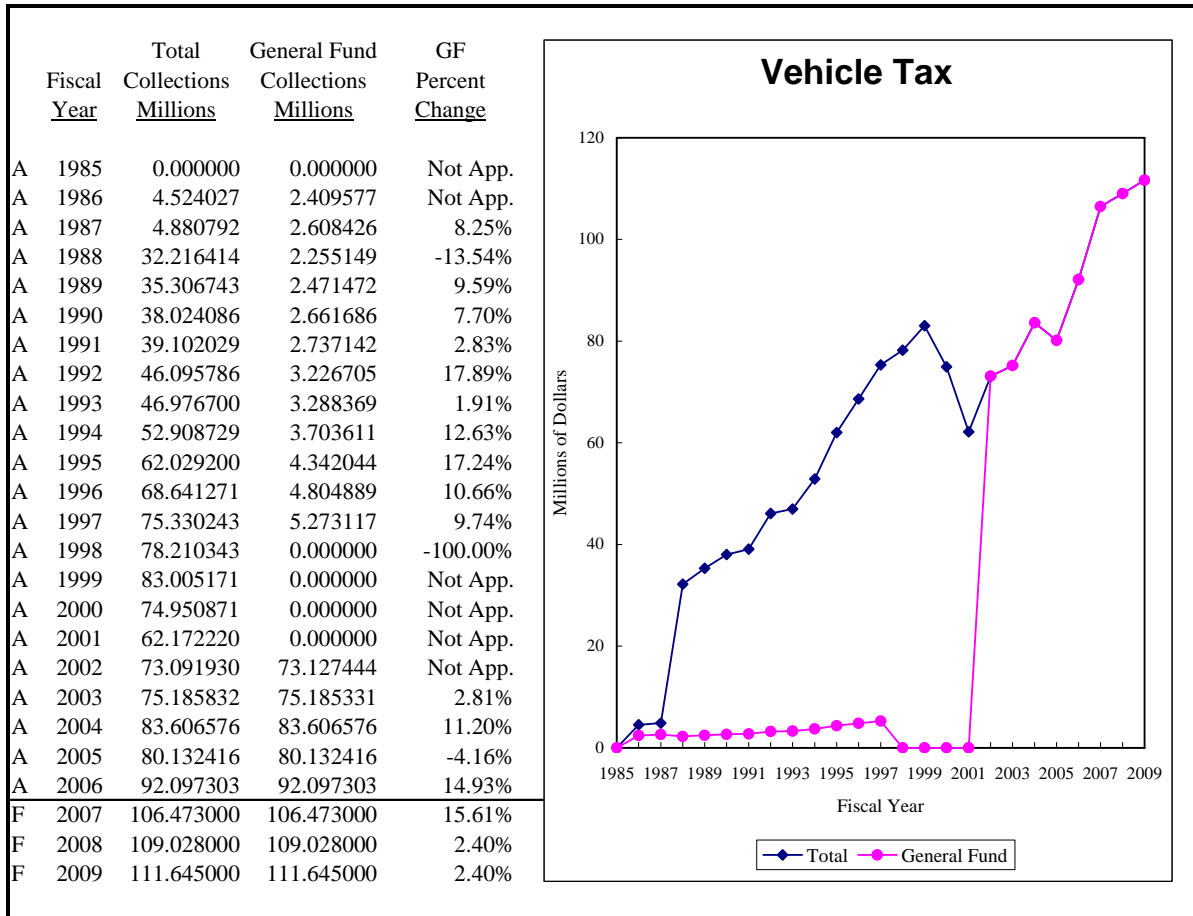
Total Tax = Large Trucks + Motor Home + Light Vehicle + Boats/Snow + MCO Registration
 GF Tax = Total Tax

Legislative Fiscal Division

Revenue Estimate Profile

Vehicle Tax

Revenue Projection:



Data Source(s): Department of Justice, SABHRS

Contacts: Department of Justice