

# FISCAL NOTE

**Bill #:** SB 498

**Title:** Impose visitor's tax

**Primary**

**Sponsor:** Don Ryan

**Status:** As Introduced

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Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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## Fiscal Summary

	<b><u>FY2002</u></b> <b><u>Difference</u></b>	<b><u>FY2003</u></b> <b><u>Difference</u></b>
<b>Expenditures:</b>		
General Fund	\$11,786,152	\$4,587,453
<b>Revenue:</b>		
General Fund	\$20,238	\$28,198
State Special Revenue	\$20,035,236	\$27,915,762
<b>Net Impact on General Fund Balance:</b>	<b>\$(11,765,914)</b>	<b>\$(4,559,255)</b>

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<b><u>Yes</u></b>	<b><u>No</u></b>		<b><u>Yes</u></b>	<b><u>No</u></b>	
	X	Significant Local Gov. Impact	X		Technical Concerns
	X	Included in the Executive Budget		X	Significant Long-Term Impacts
	X	Dedicated Revenue Form Attached		X	Family Impact Form Attached

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## Fiscal Analysis

### ASSUMPTIONS:

#### **Department of Revenue**

1. This bill would impose a 4% sales tax on purchases of goods and services except for a) goods sold for resale, b) equipment, machinery, fixtures, and tools for business purposes, c) vehicles on which a tax or fee is paid at purchase or that are subject to a registration fee, d) motor fuels, e) alcoholic beverages, f) cigarettes and tobacco, g) lodging facilities, and h) services performed under warranty or paid by insurance.
2. This bill exempts a) Montana taxpayers and their minor dependents who live with them, b) residents who do not pay taxes because of age or infirmity, and c) federal and tribal purchases.
3. Taxable sales to non-residents would be \$710,091,644 in fiscal 2002 and \$742,045,768 in fiscal 2003. The tax would be collected beginning November 1, 2001. Merchants would deduct 5% of collections to

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defray their costs. Collections would be \$20,237,612 in fiscal 2002 (95% of 8/12ths of 4% of \$710,091,644) and \$28,197,739 in fiscal 2003 (95% of 4% of \$742,045,768).

4. One percent of collections would be deposited in the general fund to pay the Department of Revenue's costs of administering the tax. Deposits to the general fund would be \$20,238 in fiscal 2002 and \$28,198 in fiscal 2003. Ninety-nine percent would be deposited in a state special revenue fund for the university system. Deposits to the special revenue fund for the university system would be \$20,035,236 in fiscal 2002 and \$27,915,762 in fiscal 2003.
5. The Department of Revenue would have to process returns for and audit almost as many merchants as it would with a general sales tax. Since this would be a new tax, the department would require significant new staff and a new computer system. These costs would be \$9,490,152 in fiscal 2002, and \$4,587,453 in fiscal 2003. In fiscal 2002, there would be one-time costs of \$2,296,000 to produce and mail 400,000 photo tax-exemption cards. Total administrative costs for the Department of Revenue would be \$11,786,152 in fiscal 2002 and \$4,587,453 in fiscal 2003.

### **Judiciary**

6. This bill probably will impose a minor increase in the caseloads of Montana courts, primarily in the courts of limited jurisdiction. No cost has been included in this fiscal note for these costs as a reasonable estimate cannot be obtained.

### **Department of Justice**

7. The Montana Department of Justice, Motor Vehicle Division (DOJ/MVD) maintains a database for all driver licenses and identification cards issued by the State of Montana. This database includes the individual's demographic information, photo image, and signature image. The Montana driver licenses and identification cards issued by the DOJ/MVD are highly secure products that are very resistant to fraudulent attempts to alter the cards. It is assumed the DOR would utilize the DOJ/MVD database and production process to produce the Montana resident taxpayer identification cards.
8. Based on DOJ/MVD's contract (which expires in 2007) with the vendor to manufacture the cards, it would cost \$3.15/card for the manufacture of the card and an estimated \$0.35/card for mailing. It would also cost an average of \$1.00/card for overhead including staff time to process a new photo for those individuals whose demographics and images are not currently in the motor vehicle system database. The total is estimated to cost \$4.50 per Montana resident taxpayer identification card issued. Additionally, there would be a one time only cost in FY 2002 of approximately \$29,000 for programming by the vendor to produce the required taxpayer identification cards.
9. There are currently 692,000 driver license records and 70,000 identification card records in the DOJ/MVD motor vehicle database. Some individuals have both a driver's license and an identification card. The total number of Montana resident taxpayer identification cards that would be required by the DOR is unknown to the DOJ/MVD. Without that information it is difficult to estimate the total cost of producing the initial number Montana resident taxpayer identification cards needed or the number of additional cards that would be required in subsequent years.
10. Additional one-time operating costs in FY 2002 to the Department of Justice to determine the information required by DOR and develop the programming necessary to produce the Montana taxpayer identification card are estimated at \$12,000 (160 hours x \$75/hour) for FY 2002. A combination of DOJ programming staff and private vendors will be necessary to address the current backlog of more than 15,000 hours of programming to comply with existing mandates and the considerable system maintenance that is required. Computer costs to complete the programming are estimated at \$3,300 (20 days @ \$165/day). Total costs in FY 2002 for programming are estimated at \$15,300 (\$12,000 + \$3,300).

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FISCAL IMPACT:

	FY2002 <u>Difference</u>	FY2003 <u>Difference</u>
FTE	86.2	99.2
<u>Expenditures:</u>		
Personal Services	\$2,287,499	\$2,575,923
Operating – Dept Justice	44,300	0
Operating Expenses	\$9,247,118	\$1,407,738
Equipment	<u>\$251,535</u>	<u>\$603,792</u>
TOTAL	\$11,830,452	\$4,587,453
<u>Funding:</u>		
General Fund (01)	\$11,830,452	\$4,587,453
<u>Revenues:</u>		
General Fund (01)	\$20,238	\$28,198
State Special Revenue (02)	\$20,035,236	\$27,915,762
<u>Net Impact to Fund Balance (Revenue minus Expenditure):</u>		
General Fund (01)	\$(11,810,214)	\$(4,559,255)
State Special Revenue (02)	\$20,035,236	\$27,915,762

TECHNICAL NOTES:**Department of Revenue**

1. This bill would require the Department of Revenue to implement systems to administer a completely new tax in 180 days. The department would have to develop tax forms, non-taxable transaction certificates, and a new computer system; hire and train new employees; adopt administrative rules; and register and educate businesses. This could not be done in 180 days. The earliest that this could be done is January 1, 2003.
2. Section 3 exempts “goods sold for resale” from the tax. It is not clear whether this includes sales of parts that will be combined into another product and then sold. The fiscal note is based on the assumption that it does.
3. Section 3 exempts “*goods* sold for resale.” The fiscal note assumes that the intent is to tax sales of services to businesses.
4. If the intent is to tax sales of services to businesses, the taxable status of Montana and out-of-state businesses needs to be clarified. Section four defines exemptions for individuals. In the case of purchases by businesses, this appears to make whether the sale is taxable depend on whether the individual making the purchase is exempt.
5. Section 4(2) defines “Montana taxpayer” as a person who has paid income taxes, paid property taxes, or qualified for the credit in 15-30-171 - 179. The bill does not specify a time period within which these conditions must have been met.
6. This bill does not address sales from vending machines. They must either all be taxed or all be exempt. This fiscal note assumes that they are exempt.
7. Section 6 requires that the tax applies beginning 180 days after passage and approval. At the latest, this would be late October of 2001. Section 3(3) requires that the Department of Revenue, working with other

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state agencies, shall develop a resident identification method within 180 days after passage and approval and that the department shall consider mailing a resident taxpayer identification card with income tax returns and property tax statements. If developing identification cards takes 180 days, they will not be available when the tax takes effect. Income tax forms are mailed in December, and property tax statements are mailed in May. If resident identification cards were mailed with these forms, residents would not receive them until two to seven months after the tax went into effect.

8. The bill needs to specify how often merchants would file returns and how soon after the end of the tax period returns are due.

**Department of Justice**

9. It is not possible to generate within the next 180 days the high number of Montana resident taxpayer identification cards that would be required; therefore, compliance with the effective dates for distribution of the resident taxpayer identification cards is not possible.