

Review of RAT and Schweitzer (Martz) Current Law Revenue Estimates - December 1, 2004				
Branch of Government	FY 2005	FY 2006	FY 2007	Total
Executive - Martz	1,409.469	1,413.010	1,456.374	4,278.853
Revenue and Transportation	1,384.640	1,429.143	1,469.173	4,282.956
RAT. Above (Under) Exec.	(24.829)	16.133	12.799	4.103

Revenue and Transportation Revenue Estimate Changes to One-Time and On-Going Revenue			
Branch of Government	One-Time	On-Going	On-Going
Martz Budget with I-149	34.814	29.356	28.915
RAT Adjustment	(24.829)	16.133	12.799
Available Using RAT Numbers	9.985	45.489	41.714

Revenue Differences - FY 2005

- Individual income tax of OBPP is \$26.6 million above LFD
 FY 2004 = \$605.348 - Actual
 FY 2005 = \$615.267 - OBPP
 Change = 9.919 - 1.6% increase

FY 2004 = \$605.348 - Actual
 FY 2005 = \$588.638 - LFD
 Change = (\$ 16.71) - 97.2% of FY 2004

Revenue growth Individual Income Tax through November 2004 = 11.6%
 The LFD ignored the FY 2004 revenue growth as being due to federal tax law changes. The LFD did not test this theory. OBPP tested this theory and found that the federal tax law change impact was negligible.

Revenue Difference FY 2006 - FY 2007

	FY 2006	FY 2007
1. Individual income tax for OBPP is lower than LFD	(11.527)	(14.593)
2. Corporate income tax is different	(4.955)	2.342
OBPP Under LFD	(16.482)	(12.251)

The individual income tax is different for a number of reasons, but the three large differences which increase the LFD revenue are due to the LFD having higher rent, royalty, an partnership income; higher net business income; and using itemized deductions for mortgage interest. Two items that offset some of the three items above are that the LFD used the FY 2003 as the starting point and discounted the FY 2004 revenue growth and used lower farm income, other income, and adjustments to income than the OBPP.

Corporate tax is growing faster in the earlier years under the LFD and then decreases in FY 2007

	FY 2004	FY 2005	FY 2006	FY 2007
OBPP	67.723	62.448	75.666	80.269
LFD	67.723	66.332	80.621	77.927
OBPP over (under) LFD	0.000	(3.884)	(4.955)	2.342

FY 2005 has some extra large refunds to be given.

Paynter, Judy

From: Dodds, Dan
Sent: Thursday, December 02, 2004 4:49 PM
To: Paynter, Judy

Judy,
Here is a table showing the sources of differences in the FY 2007 income tax estimates.

FY 2007 Income Tax Revenue Estimate	
Changes to OBPP Estimate from Adopting LFD Assumptions	
(\$ million)	
LFD Rent, Royalty & Partnership Income	14.263
LFD Mortgage Interest Deduction	12.744
LFD Net Business Income	6.617
LFD IRA Distributions, Taxable Retirement & Social Security	4.268
LFD Contributions Deduction	3.990
LFD Population Growth & Inflation	3.980
LFD Capital Gains	3.922
LFD Wages & Salaries	2.021
LFD Calendar Year to Fiscal Year Conversion	1.020
LFD Additions to Income	0.665
Remove 2005 Rate Change Transition	0.000
LFD Credits, Audit & Bonus Depreciation	-1.821
LFD Withholding & QETP	-2.024
LFD Interest & Dividend Income	-2.578
LFD All Other Deductions	-4.451
LFD Farm Income, Other Income, Adjustments to Income	-7.356
Use FY03 Starting Point	<u>-12.985</u>
Total Difference (LFD Estimate - OBPP Estimate)	22.275

I will write up an explanation next week.