



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

To open, right click on "Select a bill", select Worksheet Object/Edit. To exit, click outside the spreadsheet.

Bill #	SB0120
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Title:	Revise tax treatment of income and dividends of real estate investment trusts
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Primary Sponsor:	Elliott, J.
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Status:	As Introduced
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- Significant Local Gov Impact
 Needs to be included in HB 2
 Technical Concerns
 Included in the Executive Budget
 Significant Long-Term Impacts
 Dedicated Revenue Form Attached

FISCAL SUMMARY

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
Revenue:				
General Fund	\$5,970,785	\$7,262,338	\$8,833,269	\$10,744,011
Net Impact-General Fund Balance	<u>\$5,970,785</u>	<u>\$7,262,338</u>	<u>\$8,833,269</u>	<u>\$10,744,011</u>

Description of Fiscal Impact: This bill will require Real Estate Investment Trusts (REIT) to pay taxes on income earned in Montana.

FISCAL ANALYSIS

Assumptions:

1. This bill will require Real Estate Investment Trusts (REITs) to pay taxes on income earned in Montana. Under current law REITs do not pay taxes on the income they earn in Montana to the same degree as other businesses. This occurs because of the unique deduction that REITs enjoy under federal law for dividends they pay to their owners. The dividend paid deduction effectively eliminates most, if not all, their income tax in Montana, even though they operate in the same manner as other businesses in the state.
2. If the provisions of this bill were in place during tax year 2004 an additional \$3,318,153 in income tax revenue would have been collected.
3. In reviewing tax returns from tax year 2002 through tax year 2004 it was determined that revenue from requiring REITs to pay income tax like other businesses would have grown at a rate of more than 21%.
4. Based on review of SEC filings of several large REITs that have Montana holdings, it is believed that this growth trend will continue through the next decade.
5. The revenue estimate is based on growing tax year 2004 estimated revenue at 21% rate per year through 2010. However, this high growth rate is likely to decline at some future date that is outside the time period covered by this fiscal note.

6. The department will not require any additional resources to administer this change in law.

	<u>FY 2008</u> <u>Difference</u>	<u>FY 2009</u> <u>Difference</u>	<u>FY 2010</u> <u>Difference</u>	<u>FY 2011</u> <u>Difference</u>
<u>Fiscal Impact:</u>				
<u>Revenues:</u>				
General Fund (01)	<u>\$5,970,785</u>	<u>\$7,262,338</u>	<u>\$8,833,269</u>	<u>\$10,744,011</u>
TOTAL Revenues	<u><u>\$5,970,785</u></u>	<u><u>\$7,262,338</u></u>	<u><u>\$8,833,269</u></u>	<u><u>\$10,744,011</u></u>

<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$5,970,785	\$7,262,338	\$8,833,269	\$10,744,011

Effect on County or Other Local Revenues or Expenditures:

Long-Range Impacts:

1. The SEC filings of REITs in Montana indicate that the REITs will continue to pay significant dividends in the near future. If the REITs accelerate or decrease earnings subject to tax, the revenue from this bill will increase or decrease in a proportional manner.

Technical Notes:

1. None.

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<i>Sponsor's Initials</i>	<i>Date</i>	<i>Budget Director's Initials</i>	<i>Date</i>