Fiscal Note 2015 Biennium

GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Bill #	HB0523	**Title:**	Reduce corporation tax rate
Primary Sponsor:	Schwaderer, Nicholas	**Status:**	As Amended in House Committee

- ☐ 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

	FY 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Expenditures:				
General Fund	$0	$0	$0	$0
Revenue:				
General Fund	$0	($6,212,000)	($12,511,000)	($12,599,000)
Net Impact-General Fund Balance:	$0	($6,212,000)	($12,511,000)	($12,599,000)

Description of fiscal impact: HB 523, as amended, reduces the corporate license tax rate from 6.75% to 5.9%. General fund revenue is reduced by $6.2 million in FY 2015, $12.5 million in FY 2016, and $12.6 million in FY 2017.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. Under current law, the corporate license rate paid by C corporations on Montana taxable income is 6.75% unless the corporation has elected to file water's edge. Corporations which elect to file as water's edge corporations pay a corporate license rate of 7% on Montana taxable income. Each corporation subject to taxation must pay a minimum tax not less than $50. Corporate license tax revenues are deposited in the general fund.
2. HB 523, as amended, proposes to reduce the corporate license rate to 5.9% from 6.75% for non-water's edge corporations. Provisions of the bill are effective January 1, 2014. However, HB 523, as amended, applies to tax periods beginning after December 31, 2014.
3. In order to estimate the impact on the corporate tax revenues for all non-water's edge taxpayers, the tax liability under the new rate was calculated using Montana taxable income from the most recent complete

dataset of tax returns. Then the calculated new tax liability was subtracted from the tax liability reported on the returns. This resulted in tax liability for non-water's edge filers being reduced by 11.984%.

4. However, some corporate license taxpayers elect to file water's edge and were not included in the calculation above. When those taxpayers are included, reducing the corporate rate reduces total tax liability for all filers by 9.382%.
5. In SJ 2, estimated corporate tax revenues for FY 2014 and FY 2015 are $154.096 million and $155.022 million respectively. There is no estimate available of corporate tax revenues in FY 2016 and FY 2017; but applying the rate of growth between FY 2014 and FY 2015 (0.6%), produces estimated revenues in FY 2016 and FY 2017 of $155.954 million and $156.891 million, respectively.
6. Corporate license tax audits, penalties and interest are estimated to be $22.602 million in FY 2014 and FY 2015. For purposes of this fiscal note, these revenues are assumed to not be affected by the tax rate and are assumed to be $22.602 million in FY 2016 and FY 2017. However, to the extent this assumption is not correct; the fiscal impact of this bill will be higher.
7. HB 523, as amended, changes the tax rate for corporate income taxpayers from 6.75% to 5.9%, except for corporations who elect to file water's edge. The rate change applies to tax years beginning after December 31, 2014. In FY 2015, estimated revenues before audit, penalty and interest collections are $132.420 million ($155.022 million minus $22.602 million), in FY 2016 $133.352 million ($155.954 million minus $22.602 million), and in FY 2017 $134.289 million ($156.891 million minus $22.602 million).
8. Applying the calculated average reduction of 9.382% to the estimated revenues above, the estimated reduction in corporate license tax revenue is $12.424 million in FY 2015, $12.511 million in FY 2016, and $12.599 million in FY 2017.
9. Assuming the provisions of the bill apply to tax years beginning after December 31, 2014, the tax rate change would affect tax liability and therefore general fund income in CY 2015. This change in tax rate and liability is assumed to affect estimated payments beginning in the middle of FY 2015; therefore, the general fund fiscal impact is assumed to be half of FY 2015 estimated revenue impact, or $6.212, $12.511 million in FY 2016 and $12.599 million in FY 2017.
10. There is no significant impact to Department of Revenue costs due to provisions of this bill.

Fiscal Impact: **Department of Revenue**	**FY 2014** **Difference**	**FY 2015** **Difference**	**FY 2016** **Difference**	**FY 2017** **Difference**
Expenditures:				
TOTAL Expenditures	$0	$0	$0	$0
Funding of Expenditures:				
General Fund (01)	$0	$0	$0	$0
TOTAL Funding of Exp.	$0	$0	$0	$0
Revenues:				
General Fund (01)	$0	($6,212,000)	($12,511,000)	($12,599,000)
TOTAL Revenues	$0	($6,212,000)	($12,511,000)	($12,599,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	$0	($6,212,000)	($12,511,000)	($12,599,000)

Technical Notes:

1. Provisions of the bill are effective January 1, 2014. However the bill applies to tax periods beginning after December 31, 2014, or as of January 1, 2015. This leaves a gap of about a year where the provisions of the bill are effective, but the tax rate will be under the old tax rate. This may be confusing to taxpayers. The fiscal note assumes that the gap is intentional.

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*