

Corporation Income Tax (15-31-121, MCA)

1. Model Characteristics

- Total Montana corporate income tax collections, are projected as a function of fiscal year national corporate profits before taxes (with a one-year and a two-year lag), an indicator variable for accelerated depreciation rate regime, and a dummy variable to capture the extraordinary (positive) effects of FY 2009 collections. The model accounts for serial autocorrelation bias with lagged variables.
- The model was tested for the pre-FY 1992 and post-FY 1992 periods supporting the use of the longer time series, despite historical tax policy changes and structural changes in the Montana economy.
- The revenue estimate does not use the model predicted forecast revenue. Because of taxpayer flexibility granted by accounting rules, the option to carry-forward losses (7 years), or claw-back prior taxes paid (three years), the lower 90th percentile confidence bound is used to mitigate risk.

2. Model Data

- State accounting records, BEA/IHS U.S. Corporate profits, IRS bonus depreciation rules
- The historical data cover the FY 1969 to FY 2014.
- IHS projections drive the estimates for FY 2015- FY 2017

3. Key Variables

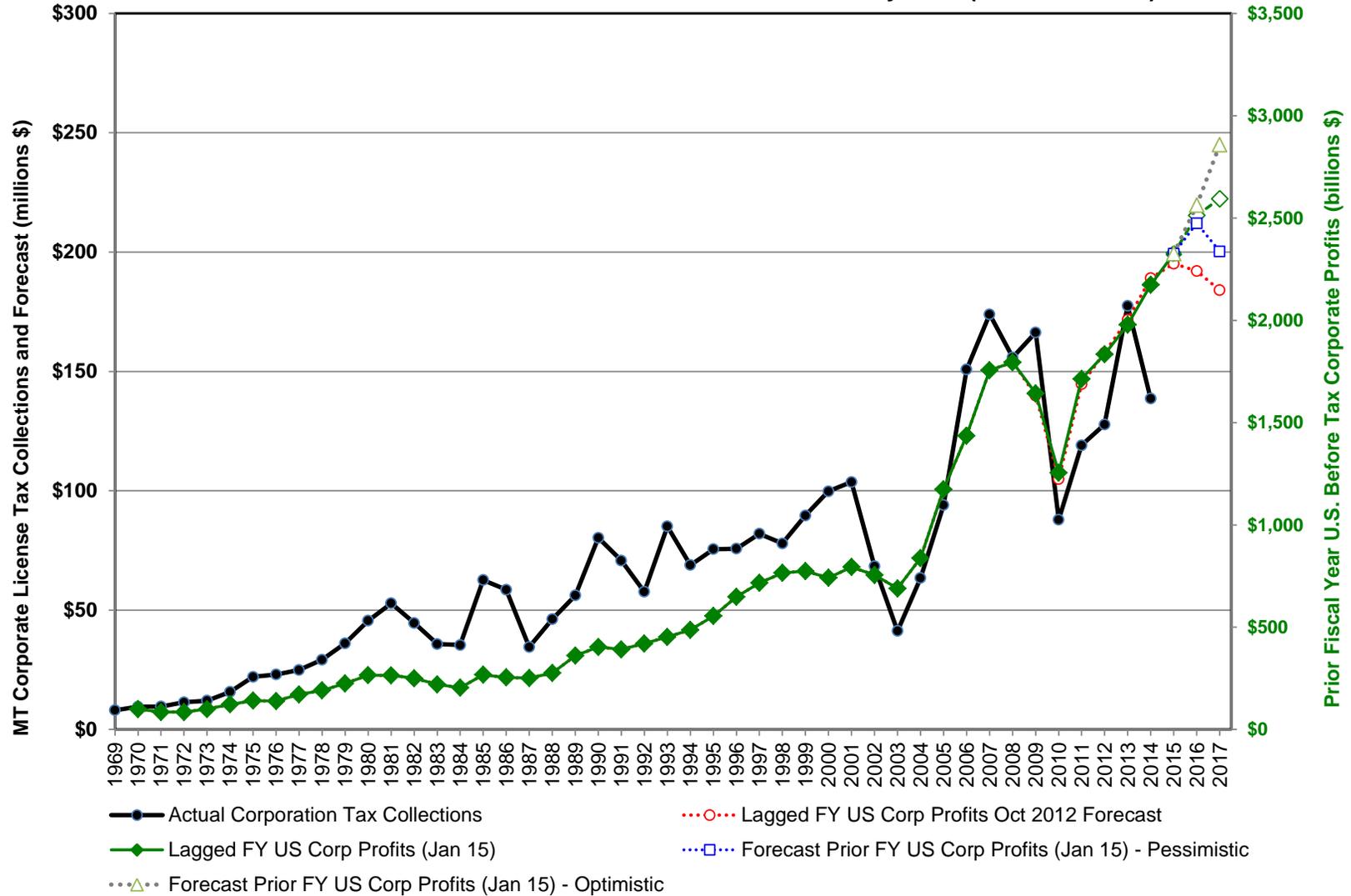
- Total Montana FY corporation income tax collections
BEA U.S. corporate profits
- IRS statutory accelerated depreciation rates and thresholds

4. Other Important Points

- Corporations pay taxes based on the Montana share of their accounting profits.
- Corporations may reorganize their business structure, which can have effects on the level and allocation of tax between individual income tax and corporation income tax.
- The top 100 (of around 16,500) corporation tax filers pay 70% of corporation tax.
- The largest taxpayers tend to operate worldwide, or nationally, and have profit shares allocated to Montana.
- Since CY 2001, there have been seven federal accelerated depreciation law changes; some of the changes have been retroactive.
- Accelerated depreciation does not eliminate or reduce tax liability permanently; the liability is shifted into the future, complicating the timing of tax collections.
- The use of and the true stock of carry-forward losses is currently unknown. Their use at greater than historical pattern may lower corporation license tax collections, and vice versa.



Graph 1
Montana Corporation Tax Revenue and Prior Fiscal Year U.S. Before-Tax Corporate Profits
with IHS Economics Forecasts of October 2012 and January 2015 (with Scenarios)



For questions or additional information please contact the Office of Budget and Program Planning at 444-3616.