
Legislative Fiscal Division

Revenue Estimate Profile

Corporation License Tax

Revenue Description: The corporation license tax is a license fee levied against a corporation's net income earned in Montana. The corporation income tax is imposed on corporations that, for reasons of jurisdiction, are not taxable under a license tax. Factors that affect corporation license tax receipts include tax credits and the audit efforts by the Department of Revenue (DOR). As with individual income tax, all tax liability is adjusted for allowable credits.

Statutory Reference:

Tax Rate (MCA) – 15-31-121,

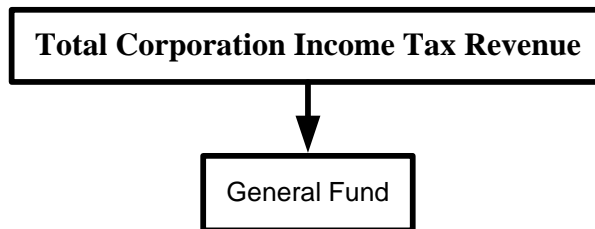
Tax Distribution (MCA) – 15-31-121

Date Due – by the 15th day of the fifth month following the close of the corporate fiscal year (15-31-111, 15-31-502). Estimated taxes due April 15th, June 15th, September 15th, and December 15th (15-31-502).

Applicable Tax Rate(s): The tax rate is 6.75%, except for corporations making a "water's edge" election (see 15-31-322, MCA), who pay a 7.0% tax on their net income.

Distribution: Beginning FY 2006, all corporation tax revenue is distributed to the general fund.

Distribution Chart:



Collection Frequency: Monthly, Quarterly, and Annually

% of Total General Fund Revenue:

FY 2004 – 4.90%	FY 2007 – 9.67%	FY 2010 – 5.40%
FY 2005 – 6.42%	FY 2008 – 8.17%	FY 2011 – 6.88%
FY 2006 – 9.00%	FY 2009 – 9.20%	FY 2012 – 6.83%

Revenue Estimate Methodology:

Data

The data used to develop the estimates for the corporation income tax are provided by DOR, the state accounting system (SABHRS), and IHS. The DOR provides corporation data from the corporation income tax return series that include total corporation income, Montana allocation information, and the Montana tax liability. The return series is dated information since corporations are allowed up to 10.5 months after the end of the tax year to file the return. The DOR also provides a series based on the tax payment data. This series provides more timely data and includes individual corporation payment by type (estimated, tentative, return, refund, and audit). SABHRS provides historic fiscal year data of total collections, current year payments, estimated payments, audits and penalty and interest, and refunds.

Analysis

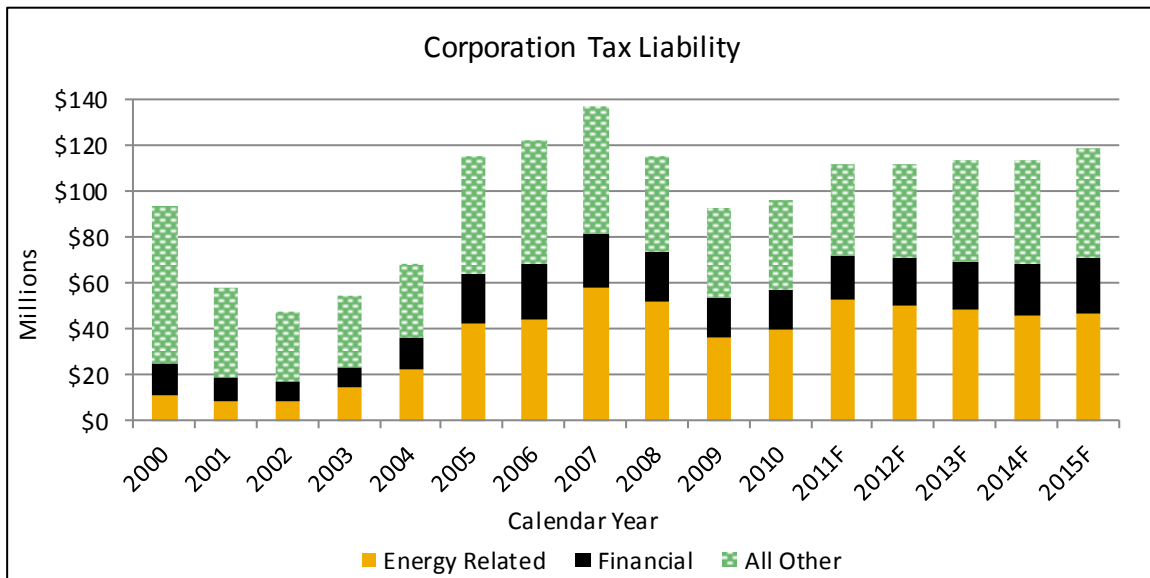
The corporation license tax is highly volatile. Collection patterns show that current tax payments often originate in a previous year. Included in fiscal year data are late payments, audit payments, and refunds. The data often includes payment for tax periods more than 20 years in the past. These activities promote misinterpretation of how high, or low as the case may be, Montana corporate profitability is in any given tax year. A simple review of SABHRS data will not distinguish the many anomalies of the data, and may lead to the adoption of incorrect assumptions.

Legislative Fiscal Division

Revenue Estimate Profile

Corporation License Tax

DOR now requires industry sector information on the corporate tax returns. Significant work has been done to apply the new sector information to prior years' return data. The result is a sixteen-year history of income and tax liability for each sector. The historical tax liability of each sector is modeled against characteristic national or Montana-specific economic variables from IHS to produce a forecast of calendar year tax liability. As shown in the figure below, energy related sectors account for nearly half of total tax liability. The underlying volatility of the energy industry is a large contributor to the overall volatility of this tax source.



Assumptions

Each of the eleven sectors is listed below, followed by the average share of tax liability, a brief description of the sector, and the underlying economic variables used to develop the projection. The variables used to develop most of the projections are the average price of West Texas Intermediate Crude, GDP, the average number of housing starts in Montana, and the median existing home price in Montana. All variable projections are provided by IHS.

- Manufacturing (25%)—The manufacturing industry in Montana is highly correlated with energy prices and is therefore a relatively variable with respect to its aggregate tax liability. This sector is modeled on the average price of West Texas Intermediate Crude.
- Financial services (19%)—This sector includes banks, bank holding corporations, and companies involved in investment activities. Financial sector tax liability is modeled on median existing home prices in Montana.
- Wholesale and retail trade (13%)—This combined sector models well against Montana retail sales.
- Mining (9%)—The mining industry in Montana is heavily dependent on energy prices; it is modeled on the average price of West Texas Intermediate Crude.
- Professional and business services (8%)—The professional service sector comprises establishments that specialize in performing professional, scientific, and technical activities for others. The business service sector comprises establishments performing routine support activities for the day-to-day operations of other organizations. The combined sectors' tax liability is modeled on GDP.
- Transportation and warehousing (6%)—The transportation and warehousing sector includes industries providing transportation of passengers and cargo, warehousing and storage for goods, scenic and sightseeing transportation, and support activities related to modes of transportation. Its tax liability is modeled on median house price.

Legislative Fiscal Division

Revenue Estimate Profile

Corporation License Tax

- Information (4%)—The main components of this sector are the publishing industries, the motion picture and sound recording industries, the broadcasting industries, the telecommunications industries, and the information services industries. Its tax liability is modeled on the average number of housing starts per year.
- Utilities (3%)—The utilities sector includes establishments engaged in the provision of electric power, natural gas, steam supply, water supply, and sewage removal. The tax liability of this sector is modeled on the average number of housing starts per year.
- Agriculture (3%)—The tax liability of the agriculture sector is modeled on real GSP for agriculture.
- Social and educational services (2%)—This is a broad grouping of educational and health services, and arts, entertainment and recreation. The tax liability is modeled on GDP.
- Construction (2%)—The construction industry is the smallest contributor to corporation tax liability, likely because most construction companies are organized as S-corps or limited liability companies. Its tax liability is modeled on the average annual number of housing starts.

To develop the estimate for the corporation income tax, the sector growth rate is applied to the most recent tax year collections, 2010. The industrial sectors are then summed to provide an estimate for the tax year corporation tax liabilities. Because the industrial sector estimates are based on a tax year analysis, but are paid in a state fiscal year, payment timing must be taken into consideration. Analysis shows that the payments made in any given state fiscal year are made of the tax liability of the numerous previous tax years. Estimated tax payments made in the first half of the fiscal year are assumed to be payments for the liabilities of the previous tax year and payments in the second half of the fiscal year are assumed to be liabilities of the current tax year. Audits and refunds are generally assumed to be corrections to tax liabilities of the prior year. When calculated, the analysis suggests that 5% of the payments in the current fiscal year occur from liabilities of two years previous, 55% of the fiscal year payments are from tax liabilities of one year previous, and 40% of the payments are related to the current year's tax liability. When the percentages of each tax year are combined, the resulting value is adjusted by an average factor to produce the fiscal year corporate tax liability.

Adjustments

After the estimate for the fiscal year gross corporation tax liability is complete, several adjustments are required. The adjustments and the corresponding estimate process for each is described below.

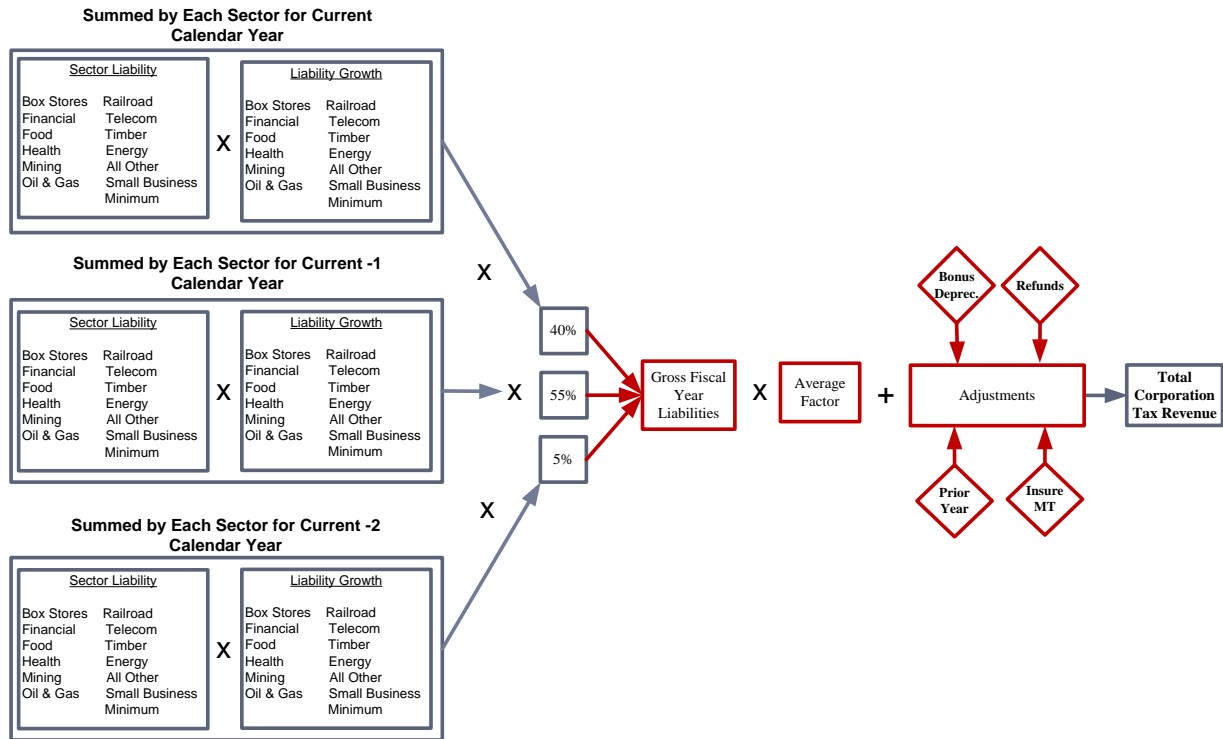
- Refunds—After elevated levels in FY 2010 through FY 2012, refunds are projected to resume a more historical average based on the ratio to prior years' gross liability.
- Audits, penalties and interest—Audits, penalties and interest revenue are determined based on an average of past year ratios to gross fiscal year liability; these amounts included with the forecast gross tax liability in determining total fiscal year liability.
- Bonus depreciation—The bonus depreciation provisions of the Economic Stimulus Act of 2008 allows taxpayers to accelerate the depreciation on certain qualified property. The net effect is zero, but the timing of payments changes. The accelerated depreciation resulted in lower fiscal year payments in FY 2009 and FY 2010; the lingering effect is increased payments for each year in the forecast biennium.
- Insure Montana credit reimbursement—Beginning in FY 2010, the DOR adjusted the corporation tax account for the refund of the Insure Montana credit. As a result, the reimbursement will necessarily be shown as an adjustment in future years.
- Legislation impacts – any changes implemented by the 2011 Legislature that have yet to be fully implemented in the base year are added to future years.

Legislative Fiscal Division

Revenue Estimate Profile

Corporation License Tax

Forecast Methodology:



Legislative Fiscal Division

Revenue Estimate Profile

Corporation License Tax

Revenue Estimate Assumptions:

	t	Total Tax	GF Tax	Tax	Refunds	Audit & P&I	Bonus	Insure MT
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Rate</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2002	68.173	68.173	6.75%				
Actual	2003	44.138	44.138	6.75%				
Actual	2004	67.723	67.723	6.75%				
Actual	2005	98.214	98.214	6.75%				
Actual	2006	153.675	153.675	6.75%	(13.859)	10.830		
Actual	2007	177.504	177.504	6.75%	(26.200)	26.813		
Actual	2008	160.342	160.342	6.75%	(27.900)	16.874		
Actual	2009	166.355	166.355	6.75%	(19.881)	31.036		
Actual	2010	87.901	87.901	6.75%	(37.121)	15.380		
Actual	2011	119.044	119.044	6.75%	(29.800)	26.116		
Actual	2012	127.771	127.771	6.75%	(38.757)	27.366		
Forecast	2013	149.158	149.158	6.75%	(24.400)	22.100	2.137	1.000
Forecast	2014	152.832	152.832	6.75%	(24.477)	22.425	4.103	1.000
Forecast	2015	154.149	154.149	6.75%	(25.593)	22.496	3.282	1.000

	t	Agriculture	Mining	Utilities	Construction	Manufacture	Trade	Transport
	<u>Cal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2002	1.966	2.021	1.604	1.033	5.918	7.983	1.417
Actual	2003	1.614	4.031	1.649	1.104	9.738	8.485	1.147
Actual	2004	1.636	5.256	1.561	1.151	16.532	8.859	3.860
Actual	2005	2.269	14.589	4.471	2.278	27.314	13.892	9.269
Actual	2006	2.823	9.798	4.938	2.873	34.111	13.071	10.250
Actual	2007	3.437	12.237	6.594	2.721	45.595	14.836	10.145
Actual	2008	3.094	11.654	2.508	2.373	39.358	9.942	11.268
Actual	2009	3.043	11.613	2.394	2.364	24.276	13.361	6.455
Actual	2010	3.224	10.006	1.399	1.518	29.653	12.019	7.114
Actual	2011	2.657	14.688	1.006	1.112	37.291	13.881	8.341
Actual	2012	2.765	14.481	0.806	1.040	35.462	14.285	8.670
Forecast	2013	2.778	13.709	1.544	1.305	34.540	14.664	9.195
Forecast	2014	2.821	13.320	1.807	1.399	32.215	15.017	9.922
Forecast	2015	2.865	12.339	2.311	1.580	34.280	15.463	10.591

Legislative Fiscal Division

Revenue Estimate Profile

Corporation License Tax

	t	Information	Professional	Large Banks	Social	Unknown	Total
	Cal	Millions	Millions	Millions	Millions	Millions	CY Liability
							Millions
Actual	2002	2.420	5.306	8.959	1.208	6.258	46.092
Actual	2003	2.686	5.536	9.170	1.370	5.699	52.230
Actual	2004	2.008	6.132	13.739	1.433	4.346	66.512
Actual	2005	3.770	7.233	21.306	1.891	4.848	113.130
Actual	2006	4.701	7.844	23.826	1.922	3.803	119.959
Actual	2007	3.788	6.564	23.253	2.501	2.339	134.011
Actual	2008	3.396	4.776	22.402	1.703	0.948	113.422
Actual	2009	1.758	6.356	17.051	1.774	0.171	90.616
Actual	2010	2.697	6.570	17.203	1.954	0.190	93.547
Actual	2011	1.982	7.097	19.467	1.966	0.150	109.640
Actual	2012	1.880	7.302	20.200	2.108	0.150	109.149
Forecast	2013	2.254	7.538	20.902	2.179	0.150	110.758
Forecast	2014	2.387	7.786	22.022	2.262	0.150	111.108
Forecast	2015	2.642	8.034	23.572	2.349	0.150	116.177

	t	Calculated	Payroll Tax	Legislation
	Fiscal	Fiscal Factor	Millions	Millions
Actual	2002			
Actual	2003			
Actual	2004			
Actual	2005			
Actual	2006	1.330		
Actual	2007	1.384		
Actual	2008	1.334		
Actual	2009	1.473		
Actual	2010	1.180		
Actual	2011	1.230		
Actual	2012	1.282		
Forecast	2013	1.350	0.067	
Forecast	2014	1.350	0.176	
Forecast	2015	1.350	0.255	

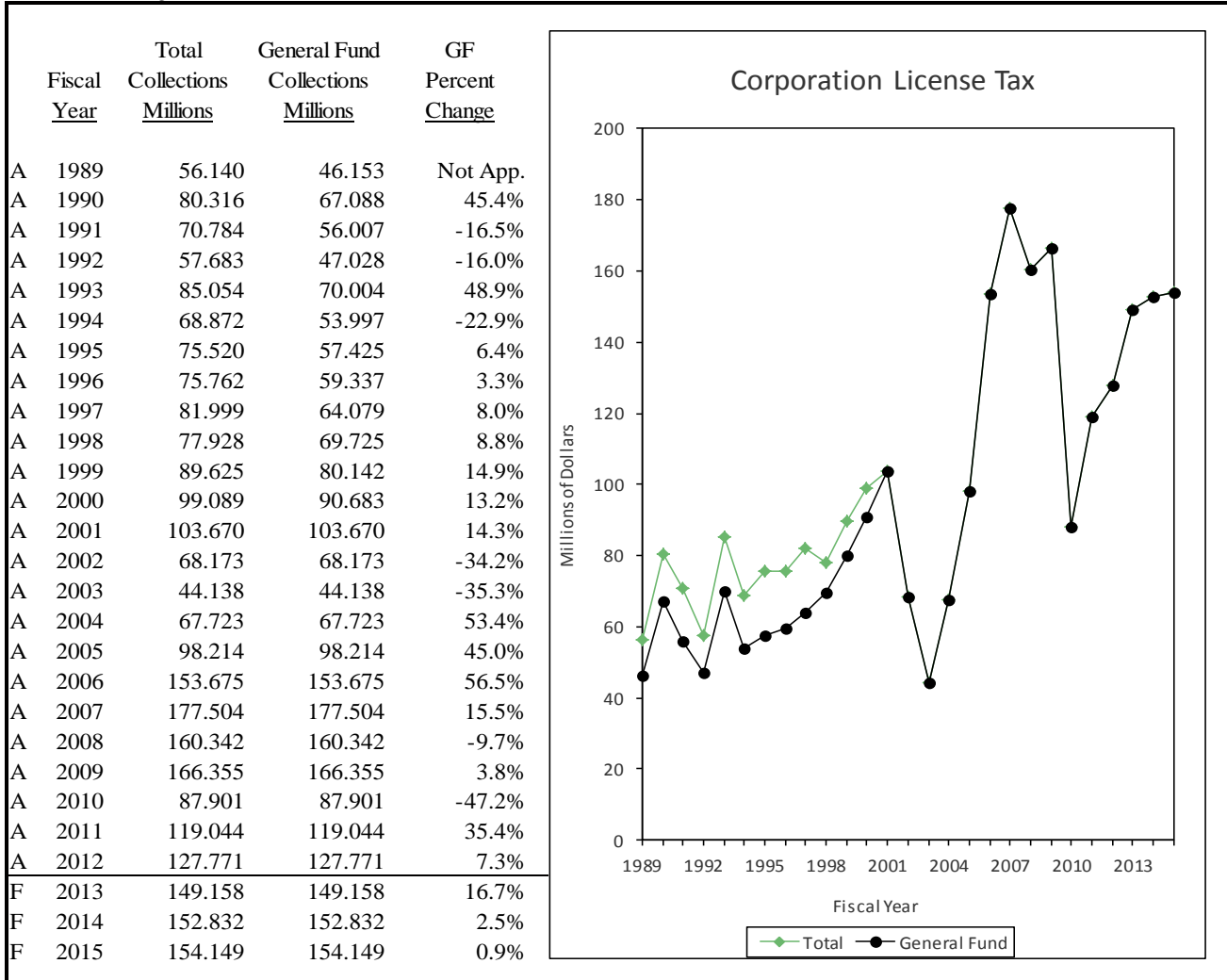
Total Tax = (5%*(Total CY Liability)_(t-2) + 55%*(Total CY Liability)_(t-1) + 40%*(Total CY Liability)_t)
 *Calculated Fiscal Factor + Refunds + Audit & P&I + Insure MT Credit + Bonus + Payroll + Legislation
 GF Tax = Total Tax

Legislative Fiscal Division

Revenue Estimate Profile

Corporation License Tax

Revenue Projection:



Data Source(s): SABHRS, IHS, Department of Revenue

Contacts: Department of Revenue