
Legislative Fiscal Division

Revenue Estimate Profile

Public Contractors Tax

Revenue Description: Contractors or subcontractors submitting a proposal to perform construction work in Montana for the federal government, state government, or any political subdivision must be licensed as a public contractor. A license is not required in order to bid on contracts in which federal aid is used for highway construction, but is required once the bid is awarded.

Statutory Reference:

Tax Rate (MCA) – 15-50-205

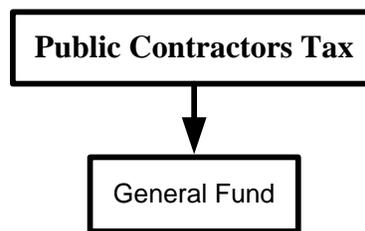
Tax Distribution (MCA) – 15-50-311

Date Due – within 30 days after payment to the contractor (15-50-309)

Applicable Tax Rate(s): A 1.0% license fee is applied to the gross receipts of each separate project let by any of the listed public entities. However, a credit (in the form of a refund) against the license fee is allowed for personal property taxes and certain motor vehicle fees paid in Montana on personal property or vehicles used in the business of the contractor. In addition, the amount of the net license fee paid (gross less the property tax refund) may be used as a credit on the contractor's corporate or individual tax return. Overpayments are also refunded.

Distribution: All public contractor tax revenue is deposited into the general fund.

Distribution Chart:



Collection Frequency: Monthly

% of Total General Fund Revenue:

FY 2004 – 0.15%

FY 2007 – 0.30%

FY 2010 – 0.43%

FY 2005 – 0.09%

FY 2008 – 0.26%

FY 2011 – 0.38%

FY 2006 – 0.25%

FY 2009 – 0.33%

FY 2012 – (0.16%)

Revenue Estimate Methodology:

Data

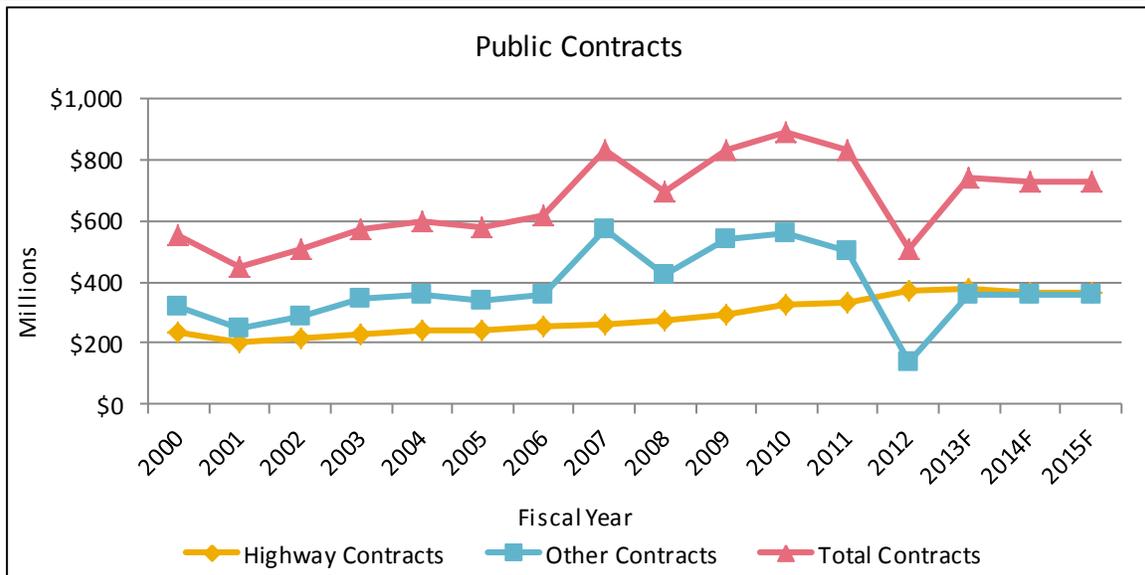
Total fiscal year tax collections are obtained from the state accounting system (SABHRS), estimates of highway contracts for future biennia are provided by the Department of Transportation (DOT), and actual credits and refunds paid in each fiscal year are available from the Department of Revenue (DOR).

A proxy for gross tax collections is developed by adjusting the SABHRS total collection data to account for the reductions of refunds and credits. The gross tax data is then disaggregated into two contract classifications, highway and all other contracts. Highway contracts typically account for about 38% of the gross tax collections.

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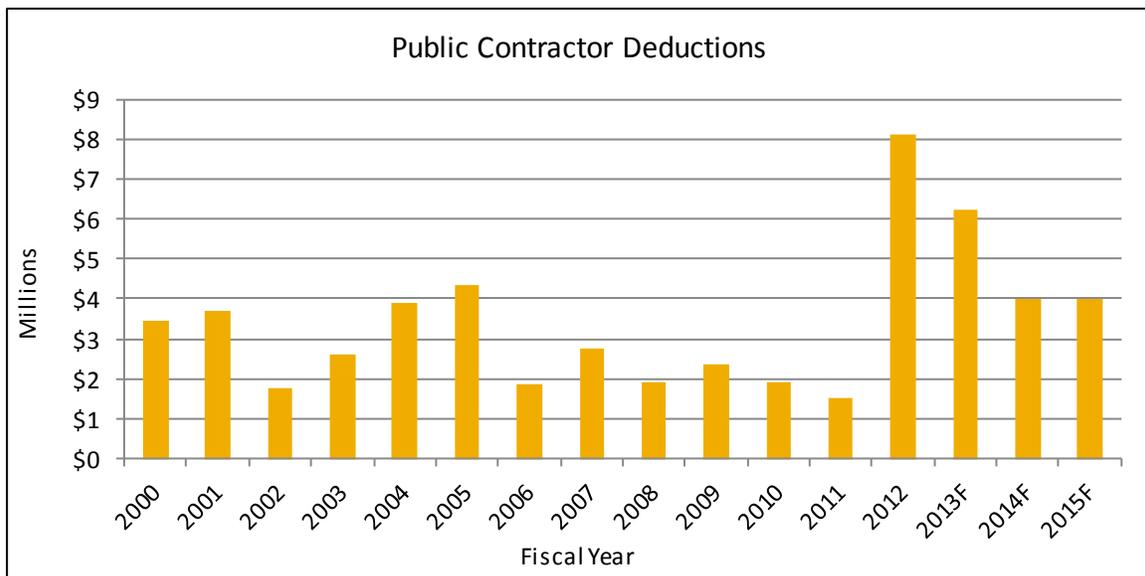
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The remainder of the gross collections can be credited to other types of contracts. These contracts include forestry, bridge construction, and public building projects. The figure above shows both the aggregated and disaggregated Montana public contract values and a trend line illustrating the moderate rate of growth inherent in the aggregated public contracts, approximately 4.6% annually.

Public contractor's tax revenue has been highly variable due to inconsistencies in processing payment of refunds and credits, as shown in the figure below.



Refunds are made up primarily of refund claims against the class 8-business property tax. Changes in the property tax rate, such as in FY 2000 when the rate was reduced from 6% to 3%, affect the amount of refunds. Credits are authorized for both individual income tax and the corporation license tax.

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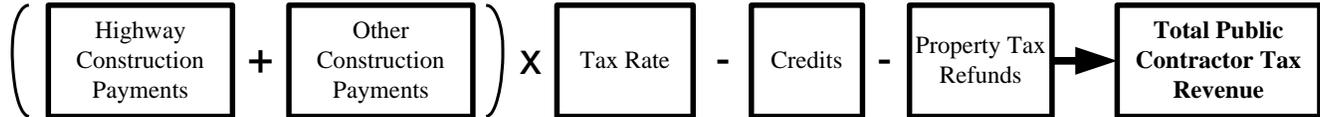
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Analysis

The forecast value of all contracts other than DOT contracts is based on a historical average. This estimate is added to the estimate of highway contracts provided by DOT and multiplied by 1% to obtain the gross tax revenue. Gross taxes are reduced by an aggregate forecast of refunds and credits to produce net tax collections.

Forecast Methodology:



Revenue Estimate Assumptions:

	t	Total Tax	GF Tax	Gross Tax	Credits & Refunds	Tax Rate	DOT Contracts	Other Contracts
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>		<u>Millions</u>	<u>Millions</u>
Actual	2002	3.267	3.267	5.053	1.788	1.0%	217.749	287.595
Actual	2003	3.082	3.082	5.706	2.625	1.0%	226.114	344.530
Actual	2004	2.120	2.120	6.004	3.884	1.0%	241.630	358.780
Actual	2005	1.411	1.411	5.752	4.341	1.0%	239.291	335.919
Actual	2006	4.275	4.275	6.158	1.883	1.0%	254.388	361.377
Actual	2007	5.567	5.567	8.336	2.769	1.0%	263.661	569.907
Actual	2008	5.063	5.063	6.964	1.902	1.0%	271.911	424.512
Actual	2009	5.930	5.930	8.287	2.357	1.0%	290.543	538.191
Actual	2010	6.969	6.969	8.882	1.913	1.0%	327.699	560.550
Actual	2011	6.803	6.803	8.329	1.525	1.0%	330.290	502.570
Actual	2012	-3.042	-3.042	5.068	8.110	1.0%	369.168	137.636
Forecast	2013	1.140	1.140	7.394	6.254	1.0%	379.194	360.186
Forecast	2014	3.259	3.259	7.241	3.983	1.0%	363.947	360.186
Forecast	2015	3.259	3.259	7.241	3.983	1.0%	363.947	360.186
Total Tax = (DOT Contracts + Other Contracts) × Tax Rate - Credits & Refunds								
GF Tax = Total Tax								