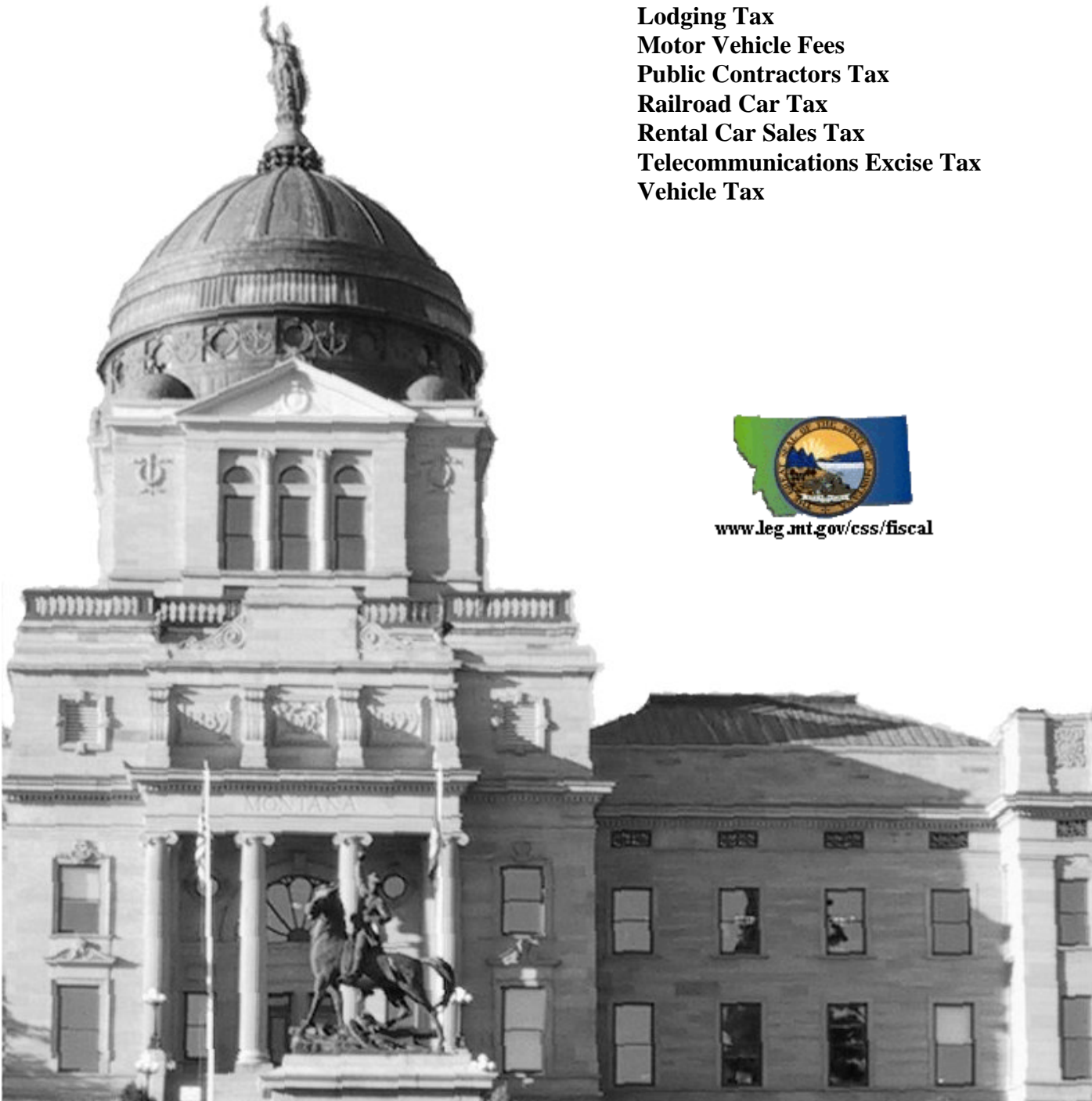


Business and Personal Taxes

Corporation Income Tax
Driver's License Fees
Estate Tax
Individual Income Tax
Insurance Tax & License Fees
Investment License Fee
Lodging Tax
Motor Vehicle Fees
Public Contractors Tax
Railroad Car Tax
Rental Car Sales Tax
Telecommunications Excise Tax
Vehicle Tax



www.leg.mt.gov/css/fiscal



Legislative Fiscal Division

Revenue Estimate Profile Corporation Income Tax

Revenue Description: The corporation income 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 income tax receipts include tax credits and the audit efforts by the Department of Revenue. 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

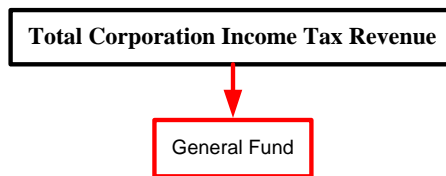
Date Due – by the 15th day of the fifth month following the close of the corporate fiscal year (15-31-111, 15-31-502).

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 fiscal 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 2005 - 6.42%

FY 2008 - 8.17%

FY 2006 - 9.00%

Revenue Estimate Methodology:

Data

The data used to develop the estimates for the corporation income tax are provided by the Department of Revenue (DOR), the state accounting system (SABHRS), and Global Insight. 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 corporation income tax payment data. This series provides more timely data and includes individual corporation payment by type (estimated, tentative, return, refund, audit). SABHRS provides historic fiscal year data of total collections, current year payments, estimated payments, audits and penalty and interest, and refunds.

Several steps must be taken prior to analysis of the corporation income tax data. The corporation tax estimate for the estimated period is calculated using the DOR payment data series. Upon receipt of the data series, the data is sorted by filing period. Next, the data is broken into three parts, taxpayers with tax liabilities greater than or equal to \$100,000 annually (based on a three year average), taxpayers with liabilities less than \$100,000, and taxpayers who pay the minimum tax of \$50. Finally, the large taxpayer data is disaggregated based on the industrial sector of the corporation. The data is then evaluated and adjusted when needed. If the data acceptably matches the SABHRS data, then the analysis process can begin.

Legislative Fiscal Division

Revenue Estimate Profile Corporation Income Tax

In recent years, the DOR has provided more detailed corporation tax data, leading to the formulation of this new corporation tax methodology. First introduced and adopted by the 59th Legislature, this methodology has expanded with time. The concept involves measuring the growth of each individual industrial sector for the economic impacts expected in the upcoming years. Unfortunately, because of the limited number of tax year observations in the available data set, development of growth rates with economic models related to historic trends and patterns is not possible. Instead, and until enough data is available, growth rates developed by the Global Insight Economic Analysis Company and through related analysis performed by the LFD for other tax revenue sources necessarily replaces the development of growth rates.

Analysis

The corporation income tax exhibits high levels of variability in collections. 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. 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. The approach developed for the corporation estimate employs DOR corporation tax payment data to make future estimates as accurate as possible. By disaggregating the data based on corporate industrial sector, specific components of the corporate landscape can be analyzed, measured, and forecast individually with industrial sector projections.

Many corporate entities in Montana do not demonstrate profitability behavior like national corporations. For example, financial corporations lag the nation in profitability, and Montana's large natural resource base is as volatile as the commodity prices, affecting the payments of oil and gas, energy, mining, and timber corporations. To reflect the peculiar corporate profitability exhibited in Montana, the estimates of corporation tax payments are created through a detailed study of tax payments by industry. To ensure that proper growth is assessed to each industrial sector, the payment data of the high liability corporate tax payers is separated by industry and growth rates are established for each of the industrial sectors. The figure below shows each of the sectors that were developed in this process, its significance to total corporation tax collections, the source of the growth rates used in the estimates, and the rates used in the estimates. The table also includes a category for each small (domestic) and minimum taxpayers.

Corporation Sector Analysis							
Industrial Sectors	% Total Taxes	Source of Growth Measure	Growth Factors				
			2008	2009	2010	2011	
AllOther	7.7%	GI - Pre-tax Profs. Analysis	-8.14%	-12.17%	2.50%	18.85%	
BoxStore	5.0%	GI - Change in Consumer Spending	-1.01%	-1.04%	3.11%	2.44%	
Financial	15.7%	GI - Weighted Average, Loans/Credit & S&P 500	0.52%	2.45%	3.98%	3.86%	
Food	3.7%	GI - Change in Consumer Spending	0.43%	-0.14%	2.24%	1.96%	
Health	1.9%	GI - Change in Consumer Spending	-0.70%	2.56%	5.59%	6.55%	
Minimum	0.1%	No growth projected	0.00%	0.00%	0.00%	0.00%	
Mining	2.0%	LFD - Change in MT Metals Mines Gross Value	-13.74%	-14.95%	-0.79%	1.09%	
OilGas	22.7%	LFD - Change in MT Oil Gross Value	32.91%	-42.28%	14.11%	-8.64%	
Railroad	4.3%	LFD - Growth in Railcar Activity	6.79%	5.40%	3.59%	3.47%	
Domestic	24.7%	GI - Pre-tax Profs. Analysis	-8.14%	-12.17%	2.50%	18.85%	
TelCom	2.4%	LFD - Growth in Telecommunications Activity	0.29%	-0.07%	0.18%	0.22%	
Timber	1.2%	GI - Industrial Prod. Index, Wood Products	-11.88%	-17.71%	5.87%	12.33%	
Utility	8.7%	LFD - Change in MT Energy Production	1.42%	0.20%	0.20%	0.20%	

Assumptions:

- All Other – Making up 7.7 percent of the total tax liabilities reported in the corporate tax, the all other sector includes the large corporations whose industrial sectors are varied. Included in this sector are businesses that endeavor in bar and restaurant activities, construction activities, and information technology activities, just to name a few. This sector is assumed to more closely follow the national corporation profitability model. The growth factor used to project future tax liabilities in the this sector is developed in a model that regresses SABHRS total corporation tax data against the Global Insight “pre-tax corporation profits” variable, lagged one year, and a business cycle variable, which quantifies the revenue effect of economic downturns. The regression provided an R^2 rating of 0.88, which means that the regression analysis explains 88.0 percent of the variability in total corporation tax payments, when all other impacts are held constant.*

Legislative Fiscal Division

Revenue Estimate Profile

Corporation Income Tax

- **Box Store** – The box store sector includes large retail stores in Montana and represents 5 percent of the total corporate tax liability. Box stores have grown in relative importance in the corporate tax base, as more stores locate in the state. These businesses are assumed to follow the national trend for retail sales in the nation. To project future box store liability, a growth rate is developed by measuring the change of consumer spending for food, durable goods, and non-durable goods as historically tracked by the Bureau of Economic Analysis (BEA) and projected by Global Insight.
- **Financial** – The financial sector is the third largest sector estimated in this methodology, with 15.7 percent of the corporation tax liability. This sector includes banks, bank holding corporations, insurance corporations, and investment activities. The financial sector is not expected to continue the same double digit rates of growth, demonstrated in past years, but instead will experience a significantly slower rate of growth in the years of this analysis. The factor used to project future financial sector tax payment growth rate is weighted average of the change in the Global Insight projections of all loans and credit and the S&P 500 index.
- **Food** – The food sector, which accounts for 3.7 percent of corporation tax liability, includes corporations that produce and transport food products. The food sector has increased in recent years, and is expected to continue to demonstrate slow growth over the next three years. To project future food sector liability, the change in consumer spending for food items, as tracked historically by the BEA and projected by Global Insight, is applied to the tax year base.
- **Health** – The health sector includes primarily corporations involved in the manufacture of pharmaceuticals and is responsible for almost 2 percent of the corporation tax liability. The sector has experienced significant growth in recent years. To project future health sector liabilities, the change in consumer spending for health and pharmaceuticals is applied to the tax year base.
- **Minimum** – The minimum paying corporations, accounting for just 0.1 percent of corporation tax liabilities, are assumed to include corporations that are new start-ups, corporations who have experienced net operating losses, and small businesses. With consideration of the volatility of this sector, no growth rate is applied to the base year tax liabilities.
- **Mining** – Montana’s mining sector, consisting of 2.0 percent of large tax liability corporations, has gained new life in recent years as the price of almost all mineral commodities such as silver, gold, palladium, and copper has increased. However, the national mining industry is expected to experience declines in calendar year 2008 and 2010, followed by slow growth in the remaining year of this analysis. Consequently, mining corporations are assumed to be less profitable in the next biennium. The factor used to project future tax liability of this sector is the change mining Montana metal mine gross value, as tracked and projected by the Legislative Fiscal Division (LFD).
- **Oil & Natural Gas** – The oil and natural gas sector has experienced high levels of profitability as the prices for petroleum based products have increased over the past two years, however the price per barrel of crude oil experienced a sharp decline in the third quarter of 2008, and is expected to continue to decline throughout 2009. The assumption of this analysis is that lower oil and gas prices will negatively affect the profitability of corporations of this sector. The factor used to project future oil and natural gas sector tax liabilities is derived from the change in the oil and natural gas gross values projected by the LFD specifically for oil and natural gas severance taxes.
- **Railroad** – The railroad industry is responsible for 4.3 percent of Montana’s corporation tax liability. The industry has demonstrated significant growth between tax year 2006 and 2007, but in future years the growth in rail industry’s tax liability is expected to resume a more normal pattern. The factor used to project the future tax liability of the rail industry is the change in the Montana allocation of railcar value, as projected by the LFD for the railcar tax.
- **Domestic** – The domestic “sector” consists of corporate entities from all industrial sectors and have average tax liabilities between \$50 and \$100,000. This “sector” has the greatest amount of overall tax liability, 24.7 percent. Many of the corporations in this sector are thought to operate solely in Montana and may be less profitable than their larger counterparts. With the diverse grouping of industrial types in this “sector”, the growth factor used for the domestic sector is developed in a regression analysis, as discussed in the “All Other” sector discussion.
- **Telecom** – The telecom industry, comprising 2.4 percent of the total corporation tax liability, includes telecommunications and internet technology companies. In Montana, the total tax liability of this sector has remained relatively constant in recent years, and that trend is expected to continue in the period of analysis. The growth factor used to project the tax liability of the telecom sector is the change in the proxy of taxable telecom receipts, as developed by the LFD in the estimate for the telecom tax.
- **Timber** – The timber sector in Montana is highly volatile. Timber corporations come and go, as evidenced in the history of their tax liabilities. The timber sector is assumed to remain volatile and is expected to experience reduced activity in calendar year 2007 and 2008. The factor used to project future timber sector tax growth is derived from the change in the Global Insight projection for the production of wood products in the nation.
- **Utility** – Utility corporations include corporations that produce and transmit electric and gas utilities to consumers. In the

Legislative Fiscal Division

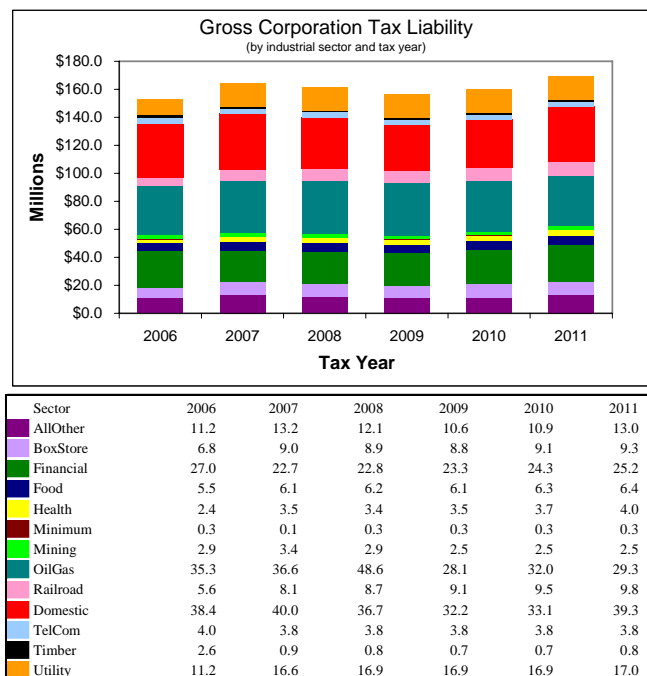
Revenue Estimate Profile

Corporation Income Tax

past, utility corporations were among the largest corporations in the state. In more recent times, the tax liabilities of utility corporations have diminished. However, in the past two years, the utility sector has regained some significance, as demonstrated by its contribution of 8.7 percent of the total corporation tax liability. The utility sector is expected to assume a rate of slow growth for the foreseeable future. The factor used to project future tax liability growth is the change in energy production, as estimated by the LFD for the electrical energy tax.

*For additional information concerning the statistics of fit for the model used for this projection, contact the Legislative Fiscal Division.

To develop the estimate for the corporation income tax, the sector growth rate is applied to the most recent tax year collections, 2007. The base year of 2007 is assumed to represent the most complete year of actual payments. 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 return payments made in the state fiscal year are made for the tax liability of the previous tax year. 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 60 percent of all corporation income taxes are for liabilities from the previous year and 40 percent of the taxes are from the current year. When the percentages of each tax year are combined, the resulting value is the fiscal year gross corporate tax liability.

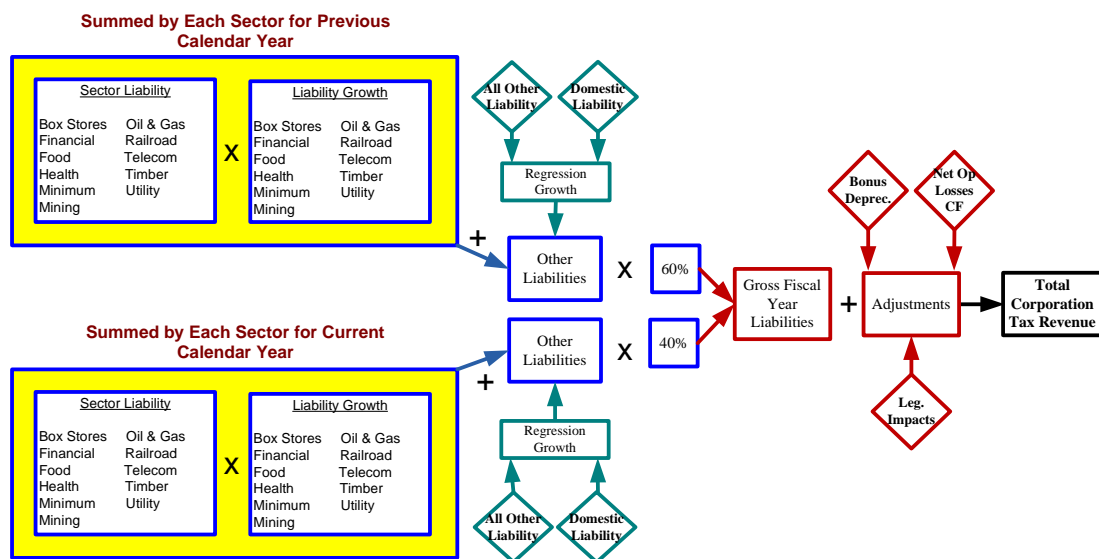


Adjustment and Distribution

After the estimate for the fiscal year gross corporation tax liability is complete, several adjustments are required. The first adjustment is for new legislation passed by the 60th Legislature but not yet included in the tax base. The next adjustment is to account for the bonus depreciation provision of the Economic Stimulus Act of 2008. As calculated by the Department of Revenue, the revenue effects of the act will cause a reduction of corporation tax revenue in fiscal years 2009 and 2010, but will increase tax revenues in fiscal years 2011 through 2014. Finally, given the recent economic downturn, an adjustment is made to account for the likelihood of unusual net operating loss (NOL) impacts. Because NOL losses may be distributed over a number of years, the effect of an economic downturn, with its associated NOL's, is expected to reduce total corporation tax liabilities in all three years of the analysis.

Revenue Estimate Profile
Corporation Income Tax

Forecast Methodology



Legislative Fiscal Division

Revenue Estimate Profile

Corporation Income Tax

Revenue Estimate Assumptions

	<u>t</u> <u>Fiscal</u>	<u>Total Tax</u> <u>Millions</u>	<u>GF Tax</u> <u>Millions</u>	<u>US Profits</u> <u>Billions</u>	<u>Tax</u> <u>Rate</u>	<u>Bonus</u> <u>Depreciation</u> <u>Millions</u>	<u>Legislation</u> <u>Impacts</u> <u>Millions</u>
Actual	2000	99.088867	90.682672	774.600000	0.067500		
Actual	2001	103.670487	103.670487	740.700000	0.067500		
Actual	2002	68.173253	68.173253	738.200000	0.067500		
Actual	2003	44.137518	44.137518	838.300000	0.067500		
Actual	2004	67.722940	67.722940	1056.400000	0.067500		
Actual	2005	98.213716	98.213716	1412.600000	0.067500		
Actual	2006	153.675068	153.675068	1747.200000	0.067500		
Actual	2007	177.503707	177.503707	1880.000000	0.067500		
Actual	2008	160.341786	160.341786	1755.100000	0.067500		
Forecast	2009	156.132000	156.132000	1647.600000	0.067500	(2.618017)	(0.173442)
Forecast	2010	136.293000	136.293000	1752.400000	0.067500	(3.619759)	(2.221361)
Forecast	2011	149.352000	149.352000	1845.400000	0.067500	0.708452	(0.451505)

	<u>t</u> <u>Cal</u>	<u>AllOther</u> <u>Millions</u>	<u>BoxStore</u> <u>Millions</u>	<u>Financial</u> <u>Millions</u>	<u>Food</u> <u>Millions</u>	<u>Health</u> <u>Millions</u>	<u>Minimum</u> <u>Millions</u>	<u>Mining</u> <u>Millions</u>
Actual	2000							
Actual	2001							
Actual	2002							
Actual	2003							
Actual	2004							
Actual	2005							
Actual	2006							
Actual	2007							
Actual	2008	12.109538	8.937609	22.781306	6.151872	3.443864	0.086278	2.918816
Forecast	2009	10.635807	8.844658	23.339448	6.143259	3.532027	0.086278	2.482453
Forecast	2010	10.901702	9.119727	24.268358	6.280868	3.729467	0.086278	2.462842
Forecast	2011	12.956673	9.342248	25.205117	6.403973	3.973747	0.086278	2.489687

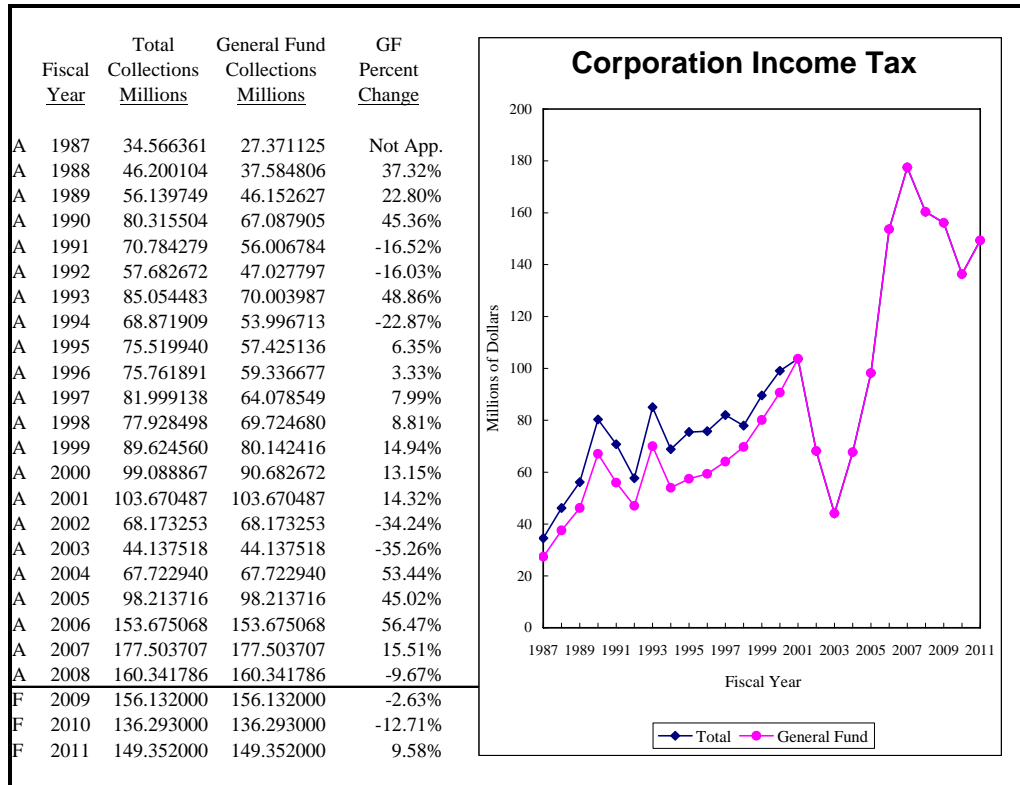
	<u>t</u> <u>Cal</u>	<u>OilGas</u> <u>Millions</u>	<u>Railroad</u> <u>Millions</u>	<u>SmallPays</u> <u>Millions</u>	<u>TelCom</u> <u>Millions</u>	<u>Timber</u> <u>Millions</u>	<u>Utility</u> <u>Millions</u>	<u>NOL</u> <u>CarryOver</u> <u>Millions</u>
Actual	2000							
Actual	2001							
Actual	2002							
Actual	2003							
Actual	2004							
Actual	2005							
Actual	2006							
Actual	2007							
Actual	2008	48.642711	8.660669	36.713968	3.762653	0.833615	16.867791	
Forecast	2009	28.076573	9.128345	32.245878	3.760019	0.685982	16.901527	(2.568244)
Forecast	2010	32.038177	9.456053	33.052025	3.766787	0.726249	16.935330	(6.513256)
Forecast	2011	29.270079	9.784178	39.282332	3.775074	0.815796	16.969201	(6.741550)

Total Tax = AllOther + BoxStore + Financial + Food + Health + Minimum + Mining
+ OilGas + Railroad + SmallPays + TELCOM + Timber + Utility + Business Cycle + Bonus + Legislation
GF Tax = Total Tax

Legislative Fiscal Division

Revenue Estimate Profile Corporation Income Tax

Revenue Projection:



Data Source(s): SABHRS, Global Insight, Department of Revenue

Contacts: Department of Revenue

Legislative Fiscal Division

Revenue Estimate Profile

Driver's License Fees

Revenue Description: A resident of Montana must have a valid driver's license to operate a motor vehicle on any highway in the state. A driver's license is issued only if the applicant passes specified examinations and pays fees. The fees are collected by Department of Justice, Motor Vehicle Division staff or county treasurers and are forwarded to the state treasurer for deposit. If collected by the county treasurers, a portion is retained by the county. The estimates shown in this source are net of revenue retained by the counties. The fees included in this source are from regular driver's licenses, commercial driver's licenses, motorcycle endorsements, duplicate driver's licenses, and renewal notices. Between October 1, 1995 and October 1, 1999, one-half of the licenses issued for those between the ages of 21 and 67 were 4-year licenses and one-half were 8-year licenses. Drivers outside these age brackets were assigned driver's licenses with terms which depend on how many years the driver is less than 21 or less than 75 years old. Between October 1, 1999 and July 1, 2005, all licenses for those 21-67 years of age were valid for 8 years. With the enactment of House Bill 192 by the 2005 legislature, commercial licenses are valid for 5 years.

Statutory Reference:

Tax Rates (MCA) – Duplicate license (61-5-114), all others (61-5-111(6))

Tax Distribution (MCA) – 61-5-121

Date Due – upon application

Applicable Tax Rate(s):

 Driver's license fees are:

- driver's license, except a commercial driver's license - \$5.00 per year or fraction of a year
- motorcycle endorsement - \$0.50 per year or fraction of a year
- commercial driver's licenses (includes the basic license fee of \$5.00):
 - interstate - \$10.00 per year or fraction of a year
 - intrastate - \$8.50 per year or fraction of a year
- duplicate license - \$10.00
- renewal notice - \$0.50

Distribution: The distribution of license fee revenue varies by the type of license and who collects the fee. The table shows the current statutory distribution. Note: the portion allocated to counties applies only when the county collects the fee. Otherwise, the county allocation is added to the general fund distribution.

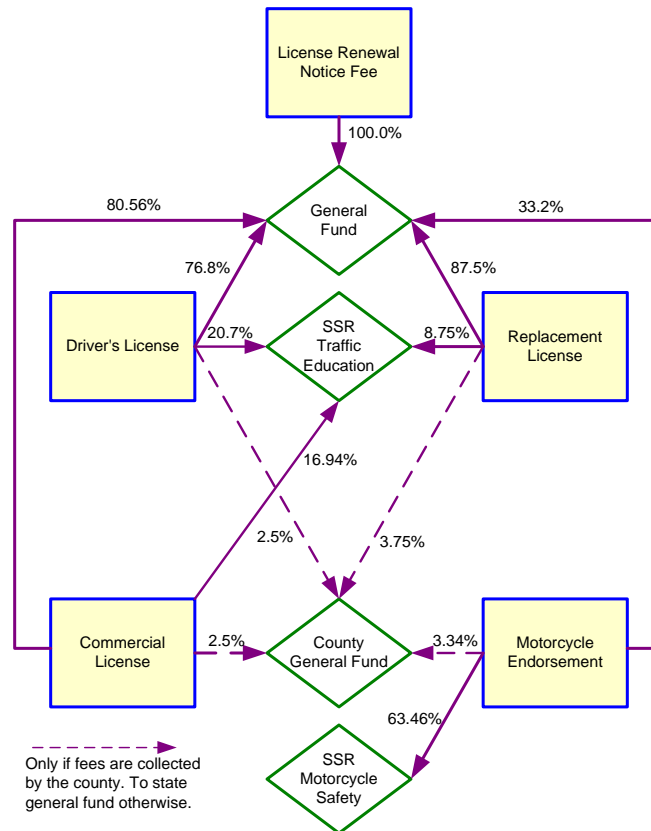
Distribution of Driver's License Fees					
	Driver's	Replacement	Motorcycle	Commercial	
Allocation	License	License	Endorsement	Driver's	Renewal
County or State General Fund	2.50%	3.75%	3.34%	2.50%	0.00%
Motorcycle Safety Account	0.00%	0.00%	63.46%	0.00%	0.00%
Traffic Education Account	20.70%	8.75%	0.00%	16.94%	0.00%
State General Fund (remainder)	<u>76.80%</u>	<u>87.50%</u>	<u>33.20%</u>	<u>80.56%</u>	<u>100.00%</u>
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Legislative Fiscal Division

Revenue Estimate Profile

Driver's License Fees

Distribution Chart:



Collection Frequency: Monthly

% of Total General Fund Revenue:

FY 2004 – 0.22%	FY 2007 – 0.25%
FY 2005 – 0.22%	FY 2008 – 0.20%
FY 2006 – 0.22%	

Revenue Estimate Methodology:

Deriving an estimate of driver's license revenue is a matter of determining an estimate for the number of each of the six various licenses/fees. Once determined, each number can be multiplied by the applicable fee and the resulting products added together to derive the total revenue estimate. Since the number of licenses depends on the number of drivers, an estimate of the number of people in the driving age bracket is also used in determining the estimate. As the distribution chart above shows, a portion of the revenue is collected and retained at the county level. Therefore, these revenue estimates only show the state's portion.

Data

There are six different sources of revenue - five different driver's licenses and the renewal notice. The best source of data for the number of licenses and the renewal notice is contained in the history of revenue collections for each of these six items. This information is readily available from the state accounting system (SABHRS) which records revenue from each source separately. By knowing the actual revenue collected from a specific fee and the amount of the fee, the number of licenses can be calculated. To adjust for population, population estimates for Montana are used (see "Montana Population" in the Montana Economic Outlook section at the beginning of this publication).

Legislative Fiscal Division

Revenue Estimate Profile

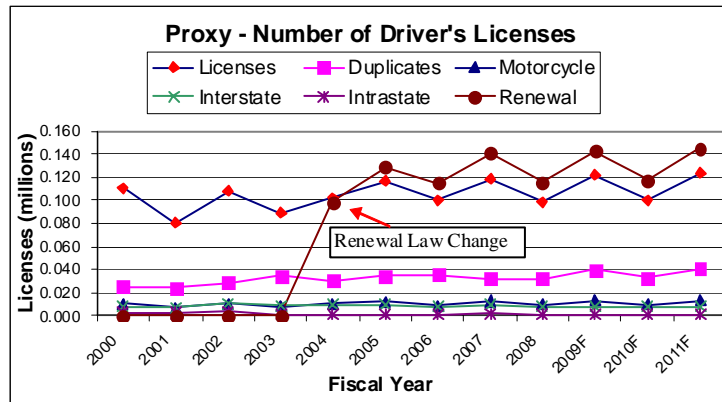
Driver's License Fees

Analysis

The methodology used to determine the number of each license/fee differs slightly:

1. The proxy numbers for driver's and motorcycle licenses are derived by multiplying the population estimate for those 16 years or older for each year by: a) for FY 2009 and FY 2011, the ratio between the number of licenses in fiscal year 2007 and the population for the previous year; and b) for FY 2010, the ratio between the number of licenses in fiscal year 2008 and the population for the previous year.
2. For duplicate licenses, the proxy number is derived by multiplying the number of driver's licenses by the previous year's ratio between the number of duplicates and drivers licenses. Because the driver's license proxy includes the effects of population change, these effects are also included in the proxy for duplicate licenses.
3. The proxies for the number of interstate and intrastate licenses are the amounts from the last known fiscal year.
4. To approximate the number of renewal notices, the ratio between the previous years' number of notices to the proxy number of licenses is multiplied by the estimated number of licenses. Since the license proxy includes the effects of population change, these effects are also included in the proxy for renewal notices.
5. Based on historical percentages, amounts retained by the counties are calculated and subtracted from the total revenue to derive the state's portion.

If necessary, adjustments are made; usually based on legislation enacted the previous legislative session. For example, the renewal notice was first authorized in October 2003 and, so, was in effect for 2/3 of fiscal 2004. Using fiscal 2003 actual collections required an adjustment to reflect a full year's revenue so future years could be estimated. Once the proxies for the numbers of various licenses are estimated, the revenue from each can be derived by multiplying the number by the applicable fee. The amount from each license are then summed and the portion retained by the counties subtracted.



Adjustments and Distribution

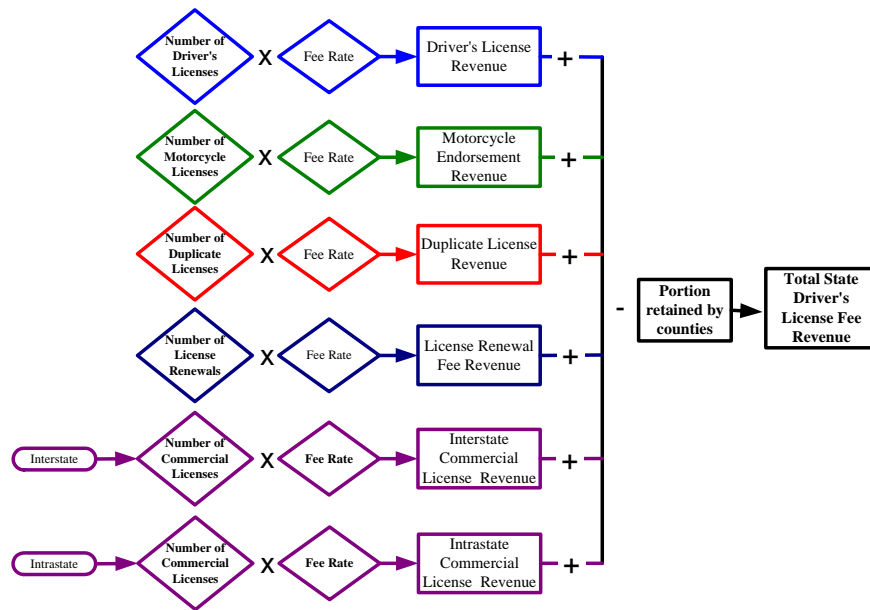
Once the proxy number for each license has been estimated, adjustments, if any, are made. After any adjustments, the applicable distribution percentage of the revenue for each license fee is applied (see the "Distribution" section).

Legislative Fiscal Division

Revenue Estimate Profile

Driver's License Fees

Forecast Methodology



Revenue Estimate Assumptions

	t	Total Fee	GF Fee	GF Fee	GF Fee	GF Fee	GF Fee
	Fiscal	Millions	Millions	Licenses	Duplicates	Cycle	Commercial
				Millions	Millions	Millions	Millions
Actual	2000	3.835971	2.333182	0.000000	0.000000	0.000000	0.000000
Actual	2001	3.062533	1.895595	0.000000	0.000000	0.000000	0.000000
Actual	2002	4.172805	2.580000	0.000000	0.000000	0.000000	0.000000
Actual	2003	3.420939	2.119499	0.000000	0.000000	0.000000	0.000000
Actual	2004	4.894628	3.021405	2.223535	0.190100	0.013429	0.410261
Actual	2005	5.562399	3.373220	2.557249	0.215769	0.016279	0.401181
Actual	2006	4.872301	3.828459	3.071570	0.307108	0.011524	0.345884
Actual	2007	5.746668	4.608614	3.653530	0.282065	0.016848	0.438941
Actual	2008	4.845324	3.865872	3.037471	0.284708	0.013000	0.376844
Forecast	2009	5.824000	4.667000	3.830821	0.361600	0.018488	0.385030
Forecast	2010	4.887000	3.920000	3.163397	0.298602	0.014170	0.385030
Forecast	2011	5.914000	4.739000	3.895169	0.367674	0.018800	0.385030

Licenses	t	Proxy	Proxy	Proxy	Proxy	Proxy	Proxy
Count	Fiscal	Licenses	Duplicates	Cycle	Interstate	Intrastate	Renewal
Millions							
Actual	2000	0.110658	0.025272	0.010240	0.007801	0.002477	0.000000
Actual	2001	0.080396	0.024359	0.006932	0.006961	0.002210	0.000000
Actual	2002	0.108432	0.028832	0.010405	0.010579	0.003359	0.000000
Actual	2003	0.089124	0.034501	0.007652	0.008641	0.000722	0.000000
Actual	2004	0.101997	0.030416	0.010112	0.009739	0.001115	0.098734
Actual	2005	0.117305	0.034523	0.012258	0.009390	0.001281	0.128892
Actual	2006	0.099986	0.035098	0.008678	0.007737	0.001000	0.115574
Actual	2007	0.118930	0.032236	0.012687	0.009635	0.001485	0.141192
Actual	2008	0.098876	0.032538	0.009789	0.008356	0.001176	0.115938
Forecast	2009	0.121923	0.040122	0.013006	0.008356	0.001176	0.142962
Forecast	2010	0.100681	0.033132	0.009968	0.008356	0.001176	0.118054
Forecast	2011	0.123971	0.040796	0.013225	0.008356	0.001176	0.145363

Legislative Fiscal Division

Revenue Estimate Profile

Driver's License Fees

GF Fee Rate in \$	t Fiscal	Proxy Licenses	Proxy Duplicates	Proxy Cycle	Proxy Interstate	Proxy Intrastate	Proxy Renewal
Actual	2000						
Actual	2001						
Actual	2002						
Actual	2003						
Actual	2004	21.800000	6.250000	1.328000	39.000000	27.300000	0.500000
Actual	2005	21.800000	6.250000	1.328000	39.000000	27.300000	0.500000
Actual	2006	30.720000	8.750000	1.328000	40.280000	34.238000	0.500000
Actual	2007	30.720000	8.750000	1.328000	40.280000	34.238000	0.500000
Actual	2008	30.720000	8.750000	1.328000	40.280000	34.238000	0.500000
Forecast	2009	31.420000	9.012500	1.421520	41.155000	34.981750	0.500000
Forecast	2010	31.420000	9.012500	1.421520	41.155000	34.981750	0.500000
Forecast	2011	31.420000	9.012500	1.421520	41.155000	34.981750	0.500000

Total Fee Rate in \$	t Fiscal	Proxy Licenses	Proxy Duplicates	Proxy Cycle	Proxy Interstate	Proxy Intrastate	Proxy Renewal
Actual	2000	30.0000	5.0000	3.7500	37.5000	26.2500	0.0000
Actual	2001	32.0000	5.0000	4.0000	40.0000	28.0000	0.0000
Actual	2002	32.0000	5.0000	4.0000	40.0000	28.0000	0.0000
Actual	2003	32.0000	5.0000	4.0000	40.0000	28.0000	0.0000
Actual	2004	40.0000	10.0000	4.0000	40.0000	28.0000	0.5000
Actual	2005	40.0000	10.0000	4.0000	40.0000	28.0000	0.5000
Actual	2006	40.0000	10.0000	4.0000	50.0000	42.5000	0.5000
Actual	2007	40.0000	10.0000	4.0000	50.0000	42.5000	0.5000
Actual	2008	40.0000	10.0000	4.0000	50.0000	42.5000	0.5000
Forecast	2009	40.0000	10.0000	4.0000	50.0000	42.5000	0.5000
Forecast	2010	40.0000	10.0000	4.0000	50.0000	42.5000	0.5000
Forecast	2011	40.0000	10.0000	4.0000	50.0000	42.5000	0.5000

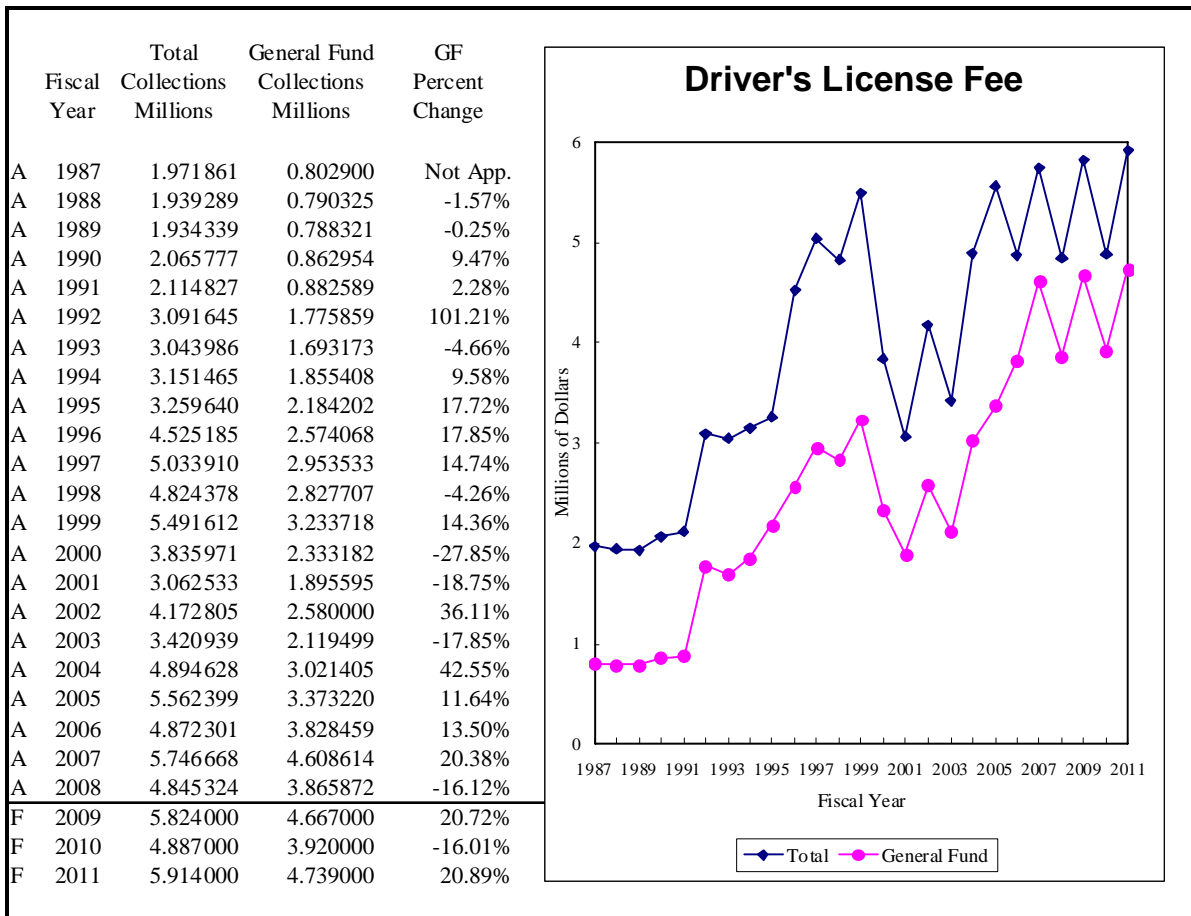
Total Fee = Licenses * Fee + Duplicates * Fee + Cycle * Fee + Interstate * Fee + Intrastate * Fee + Renewal * Fee
 GF Fee = Licenses * GF Fee + Duplicates * GF Fee + Cycle * GF Fee + Interstate * GF Fee +
 Intrastate * GF Fee + Renewal * GF Fee

Legislative Fiscal Division

Revenue Estimate Profile

Driver's License Fees

Revenue Projection:



Data Source(s): SABHRS, Department of Administration, County Treasurer Offices

Contacts: Department of Justice

Legislative Fiscal Division

Revenue Estimate Profile

Estate Tax

Revenue Description: Due to passage of Legislative Referendum 116 by the electorate in November 2000, the state inheritance tax was repealed. The tax had been imposed on the transfer of any decedent's property, interest in property, or income from property within the state, to any other person or corporation except a surviving spouse, child or lineal descendant, stepchild, or governmental or charitable organization. Although the referendum was effective immediately, it applied to deaths occurring after December 31, 2000. Thus, inheritance tax revenue will continue to produce revenue, but the amount of revenue will decrease each year. In addition to the inheritance tax, an estate tax is imposed on estates transferred to heirs at death. The Montana estate tax is equal to the maximum estate tax credit allowed under federal estate tax law.

Congress passed the "Economic Growth and Tax Relief Reconciliation Act of 2001" which scheduled a step down approach to the repeal of the federal estate tax. Provisions of the act included the elimination of the state estate tax credit, the source of Montana's estate tax revenue. The estate credit of those who died in 2002, 2003, and 2004 is reduced by 25 percent per each year until 2005 when the credit will equal zero. Many years may pass before the time that estates are finally settled and the taxes of the estates are paid, and estate tax revenues are expected to become insignificant by the end of the decade. Federal estate tax laws will return to a pre-2002 level for deaths occurring in 2011 and forward if Congress does not take further action to make the repeal of the tax permanent.

Since 1980, revenues from inheritance taxes have fluctuated because of federal and state law changes, changes in wealth, changes in the death rate of the population, accounting procedures, and the processing of large estates.

Statutory Reference:

Tax Rate (MCA) – 72-16-905

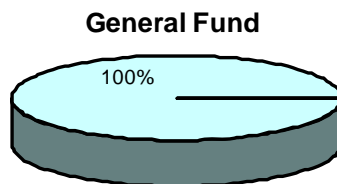
Tax Distribution (MCA) – 17-2-124(2), 72-16-1003

Date Due – 18 months after death (72-16-909)

Applicable Tax Rate(s): The estate tax is equal to the maximum estate tax credit allowed under federal estate tax law.

Distribution: All proceeds are deposited into the general fund.

Distribution Chart:



Collection Frequency: Monthly

% of Total General Fund Revenue:

FY 2004 – 0.83%

FY 2007 – 0.05%

FY 2005 – 0.27%

FY 2008 – 0.01%

FY 2006 – 0.10%

Revenue Estimate Methodology:

Data

To create the estate tax projection, data are supplied by the Department of Revenue (DOR) and the state accounting system (SABHRS). The DOR provides the details of fiscal year tax filers on individual estates. SABHRS data provides aggregate historic collections of the estate tax.

Legislative Fiscal Division

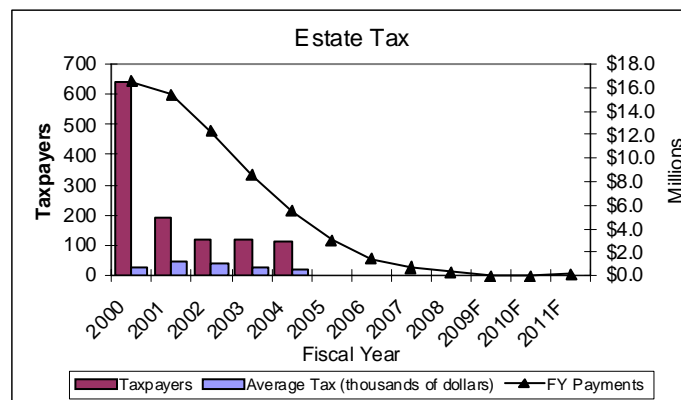
Revenue Estimate Profile

Estate Tax

To prepare fiscal year data from DOR for analysis, several steps must occur. First, the data is separated based on the individual's year of death. This is a necessary step because the estate tax laws are imposed based on the year of death. Next, all new and prior year data is combined by year of death, and that data is sorted based on total tax payment. For the estate tax analysis, the tax filers who do not owe estate tax are ignored.

Analysis

The estate tax has undergone many changes over the past decade. Effective in fiscal 2001, the state eliminated the inheritance tax. Then, with the federal tax relief measures passed by Congress in 2001, the state's refund of the federal estate tax credit was reduced annually; by 25 percent in fiscal 2002, 50 percent in fiscal 2003, and 75 percent in fiscal 2004, and then eliminated for deaths occurring in and after fiscal 2005. At the same time, Congress enacted increasing levels of estate income exemptions, dramatically reducing the amount of tax imposed on estates. At this time, the state no longer collects any current year "death" tax of any sort. However, because of the length of time needed for estates to go through probate and emerge from trusts, estate tax payments are anticipated to continue for many years at steadily decreasing amounts.



Future collections of the estate tax are developed with a complex system of averaging. First, a ratio of taxpayers to deaths is created. The product of that ratio is then adjusted in recognition of the changes in the laws governing the "death" taxes. Next, the average tax paid by taxpayer is calculated. When those quantities are multiplied, the result is the expected estate taxes for the given year of death. The figure above shows the number of taxpayers and the average tax as calculated with this methodology from deaths occurring in 2000 through deaths occurring in fiscal 2004, the last year the federal government refunded the estate tax credit.

Finally, payments of the estate tax are distributed across the years based on an analysis undertaken by the DOR in the late 1990's. The distribution of the estate tax over the years is presented by the curve in the figure above. In their analysis, the DOR found that payments of the "death" taxes are spread over a large number of calendar year quarters. Factoring the quarterly payment proportions into calendar year proportions, it was determined that payments are spread across approximately 8 years at rates as seen in the figure at the right.

Estate Tax Payment Schedule	
Year of Death	33.3%
1 Year Following Death	41.7%
2 Years Following Death	8.7%
3 Years Following Death	8.1%
4 Years Following Death	4.1%
5 Years Following Death	2.1%
6 Years Following Death	2.1%
7 Years Following Death	2.1%

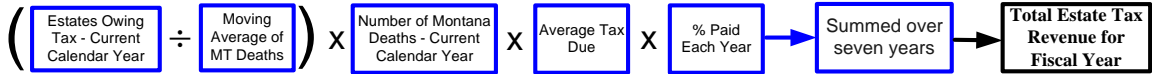
As a result of this analysis, the estate tax is projected to be \$113,000 in fiscal 2009, \$29,000 in fiscal 2010, and \$5,000 in fiscal 2011

Legislative Fiscal Division

Revenue Estimate Profile

Estate Tax

Forecast Methodology



Revenue Estimate Assumptions

	<u>t</u>	<u>Total Tax</u>	<u>GF Tax</u>	<u>Annual</u>
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Growth</u>
Actual	2000	19.038785	19.038785	0.040275
Actual	2001	20.285642	20.285642	0.065490
Actual	2002	13.816144	13.816144	-0.318920
Actual	2003	13.305983	13.305983	-0.036925
Actual	2004	11.431103	11.431103	-0.140905
Actual	2005	4.190613	4.190613	-0.633403
Actual	2006	1.773169	1.773169	-0.576871
Actual	2007	0.838865	0.838865	-0.526912
Actual	2008	0.122148	0.122148	-0.854389
Forecast	2009	0.113000	0.113000	-0.071315
Forecast	2010	0.029000	0.029000	-0.747472
Forecast	2011	0.005000	0.005000	-0.813342

Total Tax = Previous Fiscal Total Tax * (1 + Annual Growth)

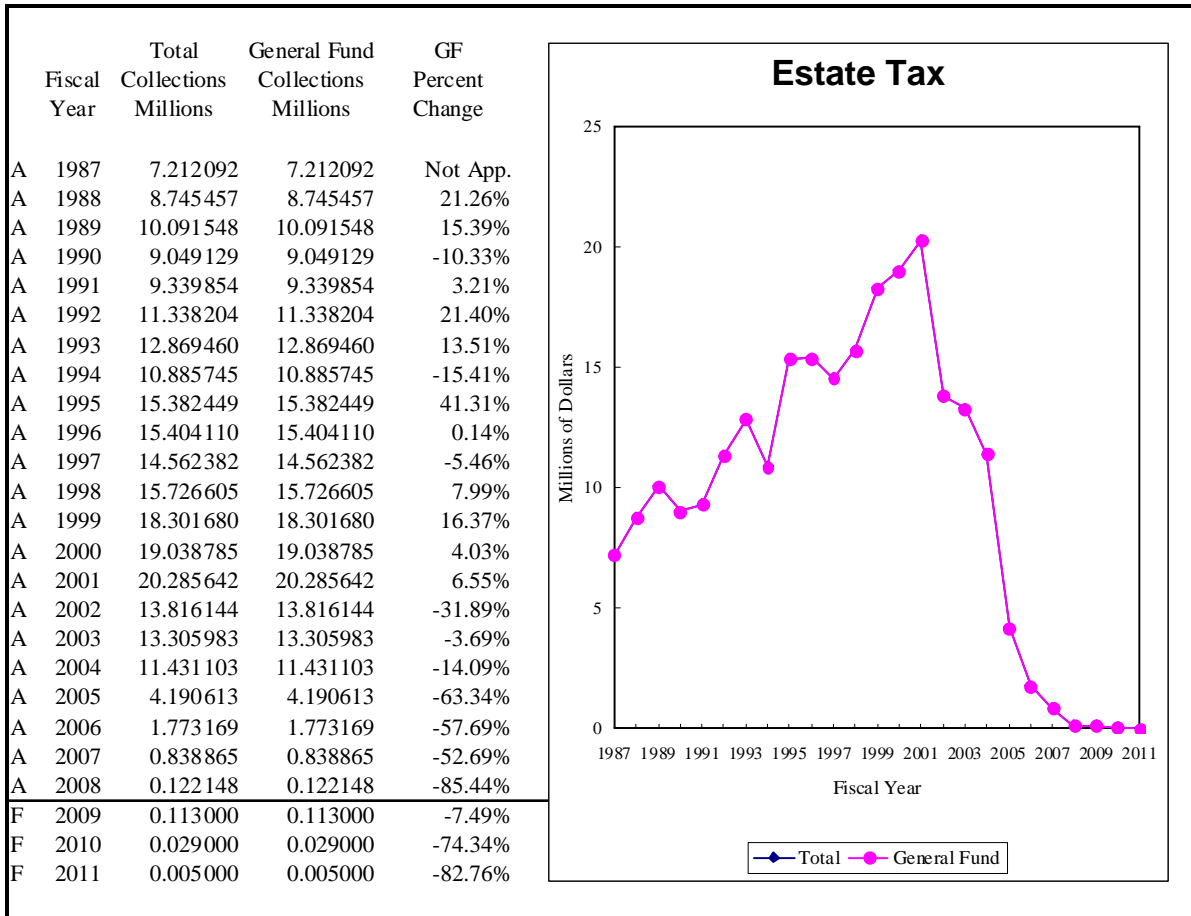
GF Tax = Total Tax

Legislative Fiscal Division

Revenue Estimate Profile

Estate Tax

Revenue Projection:



Data Source(s): SABHRS

Contacts: Department of Revenue

Legislative Fiscal Division

Revenue Estimate Profile

Individual Income Tax

Revenue Description: The tax is levied against taxable income, which is defined as Montana personal income adjusted for exemptions and deductions. Once tax liability is determined, the amount of tax due is computed by subtracting allowable credits.

Statutory Reference:

Tax Rate (MCA) – 15-30-103, 15-30-105, 15-30-106

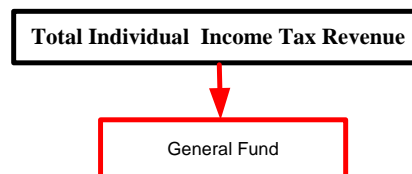
Tax Distribution (MCA) – 17-2-124(2)

Date Due – 15th day of the fourth month of the filer's fiscal year (15-30-144). Withholding taxes due monthly, quarterly, or on an accelerated schedule depending on income (15-30-204). Estimated taxes due on the 15th day of the 4th, 6th, and 9th month and the month following the close of the tax year.

Applicable Tax Rate(s): Tax rates vary from 1.0% to 6.9%, depending on the level of taxable income. Tax brackets, personal exemption amounts, and the standard deduction are adjusted by the rate of inflation in each year. SB 407, enacted by the 2003 legislature, created a new capital gains income tax credit. As a result the tax rate on capital gains income is less than the tax rate on ordinary income by 1 percent in tax years 2005 and 2006, and by 2 percent in tax year 2007 and beyond.

Distribution: All proceeds are deposited into the general fund.

Distribution Chart:



Collection Frequency: Withholding and estimated taxes are collected monthly, bi-weekly, and weekly.

% of Total General Fund Revenue:

FY 2004 – 43.82%	FY 2007 – 45.04%
FY 2005 – 46.13%	FY 2008 – 44.17%
FY 2006 – 45.01%	

Revenue Estimate Methodology:

Data

There are three kinds of data required to make forecasts of individual income tax revenue. First is historical individual income tax return data, second is state and national historic data on income, inflation, employment, and other economic variables, and third is forecasts of economic activity that determine income and deductions.

Actual individual income tax return data are supplied annually by the Department of Revenue (DOR). This data are usually available in November and are for the prior tax year. The data include line-by-line tax return information for each state income taxpayer (except those that have been removed because of the existence of certain federal information).

The second set of data required is historical information on Montana incomes by type of income, inflation rates, employment, and other economic variables. These data are available from individual income tax returns, Bureau of Economic Analysis, Bureau of Labor Statistics, and Global Insight, a forecasting firm that provides forecasts of national and Montana economic activity.

The third set of data includes forecasts of economic conditions that determine income and deductions. These data are used to produce future growth rates for each income and deduction item, as explained in the methodology section below. Global Insight forecasts a myriad of state and national economic variables that are used to assess overall state and national economic activity.

Legislative Fiscal Division

Revenue Estimate Profile

Individual Income Tax

Analysis

An individual income tax simulation model is used to forecast future Montana calendar year individual income tax liability for all residents. These forecasts are converted to fiscal year liability and are adjusted for audits and possibly one-time events. The individual income tax simulation model reflects the effects of SB 407, the legislation that changed the individual income tax system in Montana and was passed by the 2003 legislature. This legislation collapsed the tax brackets (with a top tax rate of 11 percent in the old system) into a system with 7 tax brackets (with a top rate of 6.9 percent). The model also limits deductibility of federal taxes paid to \$5,000 for single taxpayers and \$10,000 for married taxpayers.

The calendar year state tax liability forecasts are derived by applying growth rates to each resident taxpayer's income and deduction item. Since the latest year for which tax return data are available is tax year 2007, growth rates must be formulated for tax years 2008 through 2011. These growth rates are applied to each taxpayer's tax return data for each year. A sub-model within the simulation model also forecasts the federal individual income tax liability for each resident taxpayer. The result is a forecast of calendar year state individual income tax liability for each resident, the sum of which results in a statewide forecast of state individual income tax liability for each year.

The individual income tax data for tax year 2007 were adjusted when grown to 2008 by the amount of the federal rebate of \$600 per adult taxpayer, and \$300 per child. This reflects the one-time infusion of taxable income in 2008.

	Credit Assumptions (Millions)			
	Calendar year			
	2008	2009	2010	2011
Homeowner/Renter Credits	9.81	9.81	9.81	9.81
Endowment Credit	2.87	3.02	3.17	3.33
Insurance Credits	3.80	3.80	3.80	3.80
Capital Gains Credit	34.95	28.89	32.25	36.63
Other Credits	33.29	33.60	34.31	35.36
Total Credits	84.73	79.12	83.34	88.93

The statewide forecast of resident individual income tax liability is multiplied by an all-filers percentage. This step is required so the estimates include the tax liability for non-residents. In tax year 2007, nonresidents and part-time residents were 6.0 percent of resident filers. The next step is to adjust the all-filers calendar year tax liability by the expected future growth in the number of taxpayers. This results in a forecast of total calendar year individual income tax liability before credits. From this amount, an estimate of allowable credits are deducted. The credits are shown in the table above. The result is a calendar year individual income tax liability for each future year.

Fiscal Year Conversion

The calendar year liabilities are then converted to fiscal year liabilities by summing an allocation of the prior calendar year's liabilities with an allocation of the current calendar year tax liability. A prior analysis indicated that the percentage to apply to the prior year is 47.9 percent and to the current year is 52.1 percent.

Audits and Other Assumptions

Once fiscal year liabilities are determined, a calculation of the growth rates between fiscal years is developed. These growth rates are then applied to the latest fiscal year (FY 2008) collections of individual income tax by the state. Before the growth rates are applied, however, the latest collection of individual income tax revenue is adjusted by subtracting out audit and other unusual collections. For instance, in FY 2008, total individual income tax collections were \$866.6 million, of which \$30.6 million was audit collections. This amount was adjusted further by an estimate of excess payments made by taxpayers in FY 2009 made in October 2008. It is believed that in calendar 2007, taxpayers overpaid \$14.4 million in taxes, the refunds for which were made in October 2008. Current refund activity in October 2008 supports this supposition. It is possible this was due to tax payers not adjusting their withholding when the capital gains credit rose to 2 percent in tax year 2007.

Legislative Fiscal Division

Revenue Estimate Profile

Individual Income Tax

	Audit and Other Assumptions (Millions)		
	Fiscal Year		
	2009	2010	2011
Audits, Penalties and Interest	30.84	31.32	32.15
Excess Reunds in FY 2009	(14.45)	-	-
Other Adjustments to FY 2008 Base Year Collections	9.02	-	-
Legislation Impacts	5.10	5.11	5.11
Depreciation Bonus	(0.52)	(0.72)	0.14

Another adjustment was made for the net effect of several impacts on FY 2008 collections as a result of legislation in 2007. First, the collection data in FY 2008 reflects a reduction in normal revenue due to the \$140 residential property tax credit available for tax year 2007. Thus \$25.0 million was added to the collections in FY 2008. Second, an amount of \$10.1 million was subtracted from FY 2008 collections that reflects the net effect of the new program by the department to collect natural resource taxes by withholding. This amount represents an acceleration of revenue that will not be repeated in the future. Third, \$2.8 million was subtracted to reflect the taxes associated with the one-time \$400 state property tax rebate for residential property taxes that was made in late 2007. Fourth, \$3.1 million is subtracted from FY 2008 collections to reflect insurance credits. Thus, the growth rates for the estimates in fiscal years 2009 through 2011 are applied to an adjusted base number of \$836.2 million. Once the amount of anticipated revenue before audits has been forecast, an estimate of future audit receipts as provided by DOR is added. Finally the estimates of individual income tax revenue are adjusted by the effects of other legislation passed in 2007

Growth Rates

The table below contains the growth rates used to forecast calendar years 2008 through 2011 individual income and deduction items.

Legislative Fiscal Division

Revenue Estimate Profile

Individual Income Tax

Income Tax Growth Rates 2008 - 2011				
	Calendar Year			
	2008	2009	2010	2011
Full Year Resident Returns (Annual)	0.79%	0.49%	1.40%	1.60%
Inflation State	5.02%	-1.85%	2.55%	3.01%
Inflation Federal	2.29%	4.26%	-0.36%	1.58%
All Filers Multiplier	5.99%	5.99%	5.99%	5.99%
Wages and salaries	4.53%	2.29%	3.09%	3.41%
Interest income	1.14%	-1.46%	-1.42%	8.05%
Dividend income	6.09%	-1.18%	1.33%	3.06%
Net business income	-0.24%	2.46%	4.34%	4.36%
Capital gains	-16.32%	-17.35%	11.63%	13.60%
Supplemental gains	5.32%	5.32%	5.32%	5.32%
Rents, royalties, etc.	0.00%	0.00%	0.00%	0.00%
IRA distributions	5.75%	5.75%	5.75%	5.75%
Taxable pensions	6.06%	6.06%	6.06%	6.06%
Taxable soc. sec.	10.35%	10.35%	10.35%	10.35%
Farm income	0.00%	0.00%	0.00%	0.00%
Other income	7.07%	7.07%	7.07%	7.07%
Adjustments to income	5.00%	5.00%	5.00%	5.00%
ADDITIONS:				
Interest on local govt. bonds	1.14%	-1.46%	-1.42%	8.05%
Federal income tax refunds	0.00%	0.00%	0.00%	0.00%
Other additions	0.00%	0.00%	0.00%	0.00%
REDUCTIONS:				
Farm risk management account	0.00%	0.00%	0.00%	0.00%
Elderly interest exclusion	1.14%	-1.46%	-1.42%	8.05%
Exclusion for savings bonds	1.14%	-1.46%	-1.42%	8.05%
Exempt pension income	0.00%	0.00%	0.00%	0.00%
Unemployment income	3.13%	3.13%	3.13%	3.13%
Medical savings account excl.	13.69%	13.69%	13.69%	13.69%
Family education account excl.	20.92%	20.92%	20.92%	20.92%
First-time homebuyers acct. excl.	-4.42%	-4.42%	-4.42%	-4.42%
Other reductions	5.00%	5.00%	5.00%	5.00%
Health Care Professional Loan Pmt excl	0.00%	0.00%	0.00%	0.00%
TAX ITEMS:				
Montana tax withheld	5.00%	5.00%	5.00%	5.00%
Payments of estimated tax	5.00%	5.00%	5.00%	5.00%
ITEMIZED DEDUCTIONS:				
Medical insurance premiums	6.68%	6.68%	6.68%	6.68%
Medical deduction	6.51%	6.51%	6.51%	6.51%
Long-term care insurance	8.92%	8.92%	8.92%	8.92%
Balance of federal tax	7.14%	7.14%	7.14%	7.14%
Additional federal tax	5.64%	5.64%	5.64%	5.64%
Property taxes	5.63%	5.63%	5.63%	5.63%
Other deductible taxes	5.64%	5.64%	5.64%	5.64%
Home mortgage interest	7.23%	7.23%	7.23%	7.23%
Deductible investment interest	5.90%	5.90%	5.90%	5.90%
Contributions	7.84%	7.84%	7.84%	7.84%
Child/dependent care expenses	-2.66%	-2.66%	-2.66%	-2.66%
Casualty and theft losses	-6.00%	-6.00%	-6.00%	-6.00%
Tier I - Miscellaneous	6.78%	6.78%	6.78%	6.78%
Tier II - Miscellaneous	5.16%	5.16%	5.16%	5.16%
Gambling Losses	6.62%	6.62%	6.62%	6.62%

Legislative Fiscal Division

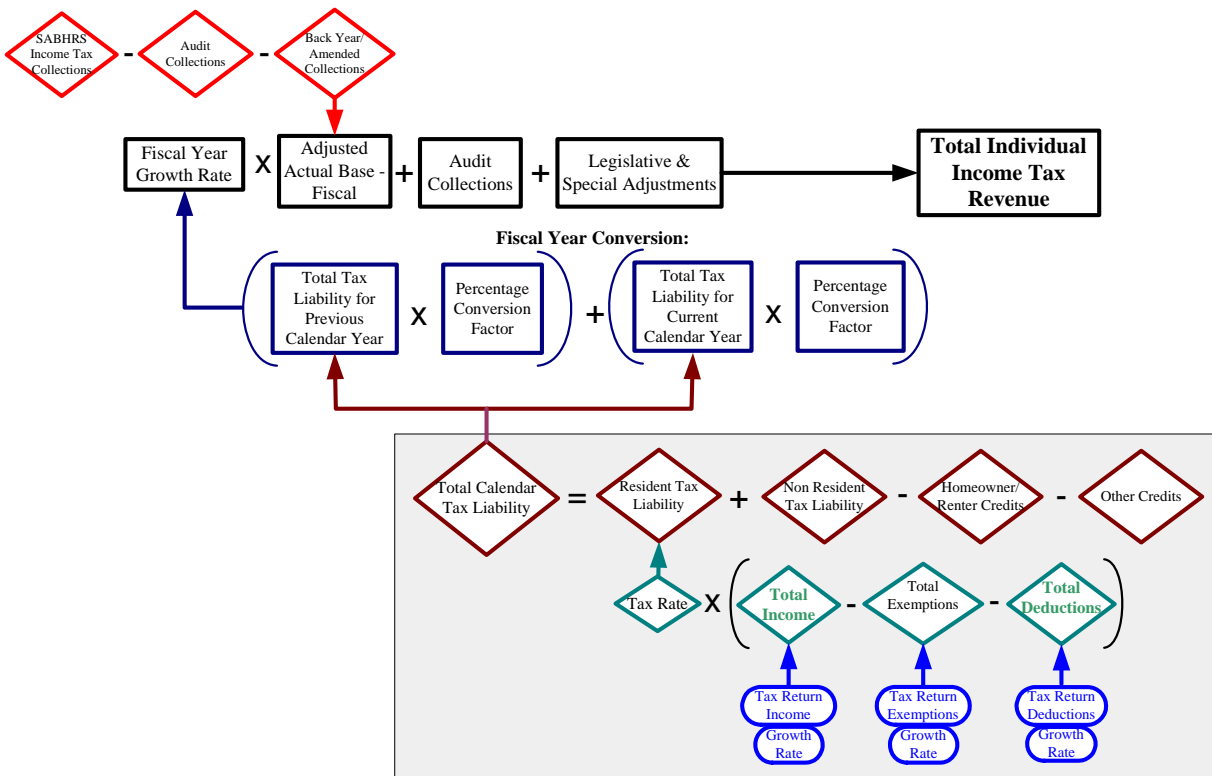
Revenue Estimate Profile

Individual Income Tax

The forecasts of individual income tax collections are shown in the table below.

Income Tax Forecast (Millions)		
Fiscal Year	Amount	Change
Fiscal Year 2009	\$ 871.65	0.58%
Fiscal Year 2010	\$ 884.93	1.52%
Fiscal Year 2011	\$ 908.99	2.72%

Forecast Methodology



Legislative Fiscal Division

Revenue Estimate Profile

Individual Income Tax

Revenue Estimate Assumptions

	t	Total Tax	GF Tax	Legislation	Depreciation	Other
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Bonus</u>	<u>Adjustments</u>
					<u>Millions</u>	<u>Millions</u>
Actual	2004	605.348420	605.348420	0.000000	0.000000	0.0000%
Actual	2005	706.234579	706.234579	0.000000	0.000000	0.0000%
Actual	2006	768.922343	768.922343	0.000000	0.000000	0.000000
Actual	2007	827.145498	827.145498	0.000000	0.000000	0.000000
Actual	2008	866.659000	866.659000	0.000000	0.000000	0.000000
Forecast	2009	871.653000	871.653000	5.104000	-0.523603	9.020000
Forecast	2010	884.934000	884.934000	5.111000	-0.723952	0.000000
Forecast	2011	908.994000	908.994000	5.109000	0.141690	0.000000

	t	Total Tax	GF Tax	Legislation	Depreciation	Other
	<u>Fiscal</u>	<u>Annual</u>	<u>Annual</u>	<u>Percent</u>	<u>Bonus</u>	<u>Adjustment</u>
		<u>Percent</u>	<u>Percent</u>		<u>Millions</u>	<u>Percent</u>
Actual	2004					
Actual	2005	16.6658%	16.6658%	NA	NA	NA
Actual	2006	8.8763%	8.8763%	NA	NA	NA
Actual	2007	7.5720%	7.5720%	NA	NA	NA
Actual	2008	4.7771%	4.7771%	NA	NA	NA
Forecast	2009	0.5762%	0.5762%	NA	NA	NA
Forecast	2010	1.5237%	1.5237%	NA	NA	NA
Forecast	2011	2.7188%	2.7188%	NA	NA	NA

	t	Total	Total	Collections less		Excess Refund		
	<u>Fiscal</u>	<u>Liability</u>	<u>Liability</u>	<u>Aud & XS Refund</u>	<u>Percent</u>	<u>Adjustment</u>	<u>Audits</u>	<u>Audits</u>
		<u>Millions</u>	<u>Percent</u>	<u>Millions</u>	<u>Percent</u>	<u>Millions</u>	<u>Millions</u>	<u>Percent</u>
Actual	2004	586.531665		577.409850		0.000000	29.922459	
Actual	2005	647.290546	10.3590%	670.640182	16.1463%	0.000000	37.240151	24.4555%
Actual	2006	702.193696	8.4820%	746.178752	11.2637%	0.000000	22.743591	-38.9272%
Actual	2007	754.024024	7.3812%	801.670373	7.4368%	0.000000	25.475125	12.0101%
Actual	2008	772.158670	2.4050%	836.021885	4.2850%	0.000000	30.636653	20.2611%
Forecast	2009	777.395256	0.6782%	836.227980	0.0247%	-14.447000	30.844423	0.6782%
Forecast	2010	789.474999	1.5539%	849.222127	1.5539%	0.000000	31.323706	1.5539%
Forecast	2011	810.272639	2.6344%	871.594035	2.6344%	0.000000	32.148886	2.6344%

Legislative Fiscal Division

Revenue Estimate Profile

Individual Income Tax

	<u>t</u> <u>Cal.</u>	<u>Resident</u> <u>Liability</u> <u>Millions</u>	<u>Population</u> <u>Adjustment</u> <u>Percent</u>	<u>Homeowner</u> <u>Credit</u> <u>Millions</u>	<u>All Other</u> <u>Credits</u> <u>Millions</u>	<u>All Filers</u> <u>Multiplier</u> <u>Percent</u>	<u>All Filers</u> <u>Liability</u> <u>Millions</u>
Actual	2004	620.964952	1.000000	12.193124	26.948002	1.072926	627.108316
Actual	2005	652.487295	1.000000	11.580412	32.957621	1.086025	665.398807
Actual	2006	729.198022	1.000000	10.726021	39.718632	1.078537	736.022394
Actual	2007	771.627088	1.000000	9.810626	37.473260	1.059914	770.574467
Forecast	2008	770.778881	1.007872	9.810626	39.964642	1.059914	773.615163
Forecast	2009	774.200404	1.012821	9.810626	40.425332	1.059914	780.870620
Forecast	2010	779.474230	1.026991	9.810626	41.278587	1.059914	797.385743
Forecast	2011	790.666151	1.043410	9.810626	42.486062	1.059914	822.120669

	<u>t</u> <u>Cal.</u>	<u>Resident</u> <u>Liability</u> <u>Percent</u>	<u>Population</u> <u>Adjustment</u> <u>Percent</u>	<u>Homeowner</u> <u>Credit</u> <u>Percent</u>	<u>All Other</u> <u>Credits</u> <u>Percent</u>	<u>All Filers</u> <u>Multiplier</u> <u>Percent</u>	<u>All Filers</u> <u>Liability</u> <u>Percent</u>
Actual	2004						
Actual	2005	5.0763%	0.0000%	-5.0251%	22.3008%	1.2209%	6.1059%
Actual	2006	11.7567%	0.0000%	-7.3779%	20.5143%	-0.6895%	10.6137%
Actual	2007	5.8186%	0.0000%	-8.5343%	-5.6532%	-1.7267%	4.6944%
Forecast	2008	-0.1099%	0.7872%	0.0000%	6.6484%	0.0000%	0.3946%
Forecast	2009	0.4439%	0.4910%	0.0000%	1.1527%	0.0000%	0.9379%
Forecast	2010	0.6812%	1.3991%	0.0000%	2.1107%	0.0000%	2.1150%
Forecast	2011	1.4358%	1.5987%	0.0000%	2.9252%	0.0000%	3.1020%

	<u>t</u> <u>Cal.</u>	<u>Wages</u> <u>Millions</u>	<u>Annual</u> <u>Growth</u>	<u>Interest</u> <u>Millions</u>	<u>Annual</u> <u>Growth</u>	<u>Dividends</u> <u>Millions</u>	<u>Annual</u> <u>Growth</u>	<u>Federal Inflation</u> <u>Growth</u>
Actual	2004	10,209.868547		411.888867		379.386080		2.2807%
Actual	2005	10,840.673693	6.1784%	480.087683	16.5576%	463.027085	22.0464%	2.3028%
Actual	2006	11,779.591544	8.6611%	636.780024	32.6383%	521.733730	12.6789%	3.1068%
Actual	2007	12,669.893871	7.5580%	756.825601	18.8520%	619.818662	18.7998%	3.9037%
Forecast	2008	13,243.257541	4.5254%	765.438754	1.1381%	657.567598	6.0903%	2.2871%
Forecast	2009	13,546.793857	2.2920%	754.245769	-1.4623%	649.783761	-1.1837%	4.2624%
Forecast	2010	13,965.298992	3.0893%	743.505738	-1.4239%	658.421964	1.3294%	-0.3625%
Forecast	2011	14,441.603782	3.4106%	803.357941	8.0500%	678.560391	3.0586%	1.5763%

Legislative Fiscal Division

Revenue Estimate Profile

Individual Income Tax

	t	Business Income Cal. Millions	Annual Growth	Capital Gains Millions	Annual Growth	Supplemental Gains Millions	Annual Growth	State Inflation Growth
Actual	2004	680.789997		1,193.177168		69.724283		3.2662%
Actual	2005	749.587514	10.1055%	1,554.054359	30.2451%	77.631349	11.3405%	2.5303%
Actual	2006	785.303056	4.7647%	2,006.020579	29.0830%	67.793383	-12.6727%	4.3295%
Actual	2007	762.060275	-2.9597%	2,088.578896	4.1155%	66.366623	-2.1046%	2.6866%
Forecast	2008	760.232992	-0.2398%	1,747.679100	-16.3221%	69.896511	5.3188%	5.0222%
Forecast	2009	778.957273	2.4630%	1,444.450946	-17.3503%	73.614145	5.3188%	-1.8516%
Forecast	2010	812.748471	4.3380%	1,612.411268	11.6280%	77.529512	5.3188%	2.5540%
Forecast	2011	848.175585	4.3589%	1,831.644440	13.5966%	81.653128	5.3188%	3.0136%

	t	Rents, Royalties S-Corps Cal. Millions	Annual Growth	Farm Income Gains Millions	Annual Growth	Social Security Millions	Annual Growth
Actual	2004	1,283.270778		-139.623058		305.542493	
Actual	2005	1,704.629493	32.8347%	-125.935382	-9.8033%	359.184070	17.5562%
Actual	2006	1,944.998907	14.1010%	-176.145427	39.8697%	434.517972	20.9736%
Actual	2007	1,976.847413	1.6375%	-155.988767	-11.4432%	508.636749	17.0577%
Forecast	2008	1,976.847413	0.0000%	-155.988767	0.0000%	561.280653	10.3500%
Forecast	2009	1,976.847413	0.0000%	-155.988767	0.0000%	619.373200	10.3500%
Forecast	2010	1,976.847413	0.0000%	-155.988767	0.0000%	683.478326	10.3500%
Forecast	2011	1,976.847413	0.0000%	-155.988767	0.0000%	754.218333	10.3500%

	t	IRA Income Cal. Millions	Annual Growth	Pension Income Millions	Annual Growth	Other Income Millions	Annual Growth
Actual	2004	271.069295		1,146.454816		-78.401984	
Actual	2005	308.394240	13.7695%	1,216.408584	6.1017%	-70.992520	-9.4506%
Actual	2006	339.908795	10.2189%	1,317.954258	8.3480%	-49.247766	-30.6296%
Actual	2007	396.198583	16.5603%	1,416.590262	7.4840%	186.908067	-479.5260%
Forecast	2008	418.963276	5.7458%	1,502.455996	6.0614%	200.115982	7.0665%
Forecast	2009	443.035978	5.7458%	1,593.526428	6.0614%	214.257238	7.0665%
Forecast	2010	468.491844	5.7458%	1,690.117037	6.0614%	229.397790	7.0665%
Forecast	2011	495.410347	5.7458%	1,792.562426	6.0614%	245.608254	7.0665%

Legislative Fiscal Division

Revenue Estimate Profile

Individual Income Tax

	t	Total Income Millions	Annual Growth	IRA, Etc Reductions Millions	Annual Growth	Fed Adjusted Gross Income Millions	Annual Growth
Actual	2004	15,733.147282		322.437719		15,410.709563	
Actual	2005	17,556.750168	11.5908%	367.926583	14.1078%	17,188.823585	11.5382%
Actual	2006	19,609.209055	11.6904%	389.094958	5.7534%	19,220.114097	11.8175%
Actual	2007	21,320.193697	8.7254%	427.199652	9.7932%	20,892.994045	8.7038%
Forecast	2008	21,747.747048	2.0054%	448.559635	5.0000%	21,299.187413	1.9442%
Forecast	2009	21,938.897240	0.8789%	470.987616	5.0000%	21,467.909624	0.7922%
Forecast	2010	22,762.259587	3.7530%	494.536997	5.0000%	22,267.722590	3.7256%
Forecast	2011	23,793.653274	4.5312%	519.263847	5.0000%	23,274.389427	4.5207%

	t	Bond Interest Millions	Annual Growth	FIT Refunds Millions	Annual Growth	Other Additions Millions	Annual Growth
Actual	2004	47.870779		271.610536		205.778955	
Actual	2005	47.838094	-0.0683%	252.492445	-7.0388%	153.779954	-25.2693%
Actual	2006	71.964993	50.4345%	147.708240	-41.4999%	326.647706	112.4124%
Actual	2007	79.868372	10.9823%	146.327719	-0.9346%	324.513661	-0.6533%
Forecast	2008	80.777324	1.1381%	146.327719	0.0000%	324.513661	0.0000%
Forecast	2009	79.596120	-1.4623%	146.327719	0.0000%	324.513661	0.0000%
Forecast	2010	78.462717	-1.4239%	146.327719	0.0000%	324.513661	0.0000%
Forecast	2011	84.778965	8.0500%	146.327719	0.0000%	324.513661	0.0000%

	t	Farm Risk Mgmt Excl. Millions	Annual Growth	Int. Exc. Elderly Millions	Annual Growth	Savings Bond Millions	Annual Growth
Actual	2004	0.009694	NA	37.998529		43.523775	
Actual	2005	0.000000	-100.0000%	38.040881	0.1115%	49.152173	12.9318%
Actual	2006	0.000000	NA	43.447193	14.2118%	67.566360	37.4636%
Actual	2007	0.000000	NA	47.408013	9.1164%	76.997436	13.9582%
Forecast	2008	0.000000	NA	47.947546	1.1381%	77.873715	1.1381%
Forecast	2009	0.000000	NA	47.246411	-1.4623%	76.734971	-1.4623%
Forecast	2010	0.000000	NA	46.573649	-1.4239%	75.642308	-1.4239%
Forecast	2011	0.000000	NA	50.322827	8.0500%	81.731513	8.0500%

Legislative Fiscal Division

Revenue Estimate Profile

Individual Income Tax

	t	Unemployment	Annual	Med.	Annual	Family	Annual
	Cal.	Millions	Growth	Savings	Growth	Education	Growth
				Millions		Millions	
Actual	2004	67.368156		13.876118		7.474032	
Actual	2005	56.427479	-16.2401%	14.351849	3.4284%	6.984276	-6.5528%
Actual	2006	58.694074	4.0168%	15.790740	10.0258%	7.515336	7.6037%
Actual	2007	62.871680	7.1176%	16.637763	5.3640%	8.008773	6.5657%
Forecast	2008	64.836861	3.1257%	18.915469	13.6900%	9.684424	20.9227%
Forecast	2009	66.863468	3.1257%	21.504992	13.6900%	11.710667	20.9227%
Forecast	2010	68.953421	3.1257%	24.449020	13.6900%	14.160854	20.9227%
Forecast	2011	71.108699	3.1257%	27.796084	13.6900%	17.123686	20.9227%

	t	First Time	Annual	Doctor Student	Annual	Other	Annual
	Cal.	Home	Growth	Loan Excl.	Growth	Reductions	Growth
		Millions		Millions		Millions	
Actual	2004	0.866326		0.330155		585.906558	
Actual	2005	0.732091	-15.4947%	0.258197	-21.7952%	656.586579	12.0634%
Actual	2006	0.587253	-19.7842%	0.250626	-2.9323%	784.246528	19.4430%
Actual	2007	0.538547	-8.2939%	0.256554	2.3653%	855.990665	9.1482%
Forecast	2008	0.514737	-4.4212%	0.256554	0.0000%	898.790198	5.0000%
Forecast	2009	0.491979	-4.4212%	0.256554	0.0000%	943.729708	5.0000%
Forecast	2010	0.470227	-4.4212%	0.256554	0.0000%	990.916194	5.0000%
Forecast	2011	0.449437	-4.4212%	0.256554	0.0000%	1,040.462003	5.0000%

	t	Reductions to	Reductions	Additions to	Additions	MT Adjusted	MAGI
	Cal.	Income	Annual	Income	Annual	Gross Income	Annual
		Millions	Growth	Millions	Growth	Millions	Growth
Actual	2004	924.792643		525.260270		15,011.177190	
Actual	2005	953.276861	3.0801%	454.110493	-13.5456%	16,689.657217	11.1815%
Actual	2006	1,107.147070	16.1412%	546.320939	20.3057%	18,659.287966	11.8015%
Actual	2007	1,195.607426	7.9899%	550.709752	0.8033%	20,248.096371	8.5148%
Forecast	2008	1,118.819504	-6.4225%	551.618704	0.1651%	20,393.774262	0.7195%
Forecast	2009	1,168.538749	4.4439%	550.437500	-0.2141%	20,416.743460	0.1126%
Forecast	2010	1,221.422226	4.5256%	549.304097	-0.2059%	20,861.305606	2.1774%
Forecast	2011	1,289.250804	5.5532%	555.620345	1.1499%	21,440.986056	2.7787%

Legislative Fiscal Division

Revenue Estimate Profile

Individual Income Tax

	t	Medical Premiums Cal. Millions	Annual Growth	Medical Deductions Millions	Annual Growth	Long Term Care Millions	Annual Growth
Actual	2004	251.763151		258.564236		18.472371	
Actual	2005	266.946118	6.0307%	273.368945	5.7257%	19.124533	3.5305%
Actual	2006	304.942061	14.2336%	274.060275	0.2529%	21.552299	12.6945%
Actual	2007	314.537194	3.1465%	287.408401	4.8705%	24.551454	13.9157%
Forecast	2008	335.554299	6.6819%	306.113509	6.5082%	26.740553	8.9164%
Forecast	2009	357.975748	6.6819%	326.035983	6.5082%	29.124841	8.9164%
Forecast	2010	381.895380	6.6819%	347.255052	6.5082%	31.721720	8.9164%
Forecast	2011	407.413301	6.6819%	369.855099	6.5082%	34.550147	8.9164%

	t	Federal Income Tax Deducted Cal. Millions	Annual Growth	Real Estate Millions	Annual Growth	Other Taxes Millions	Annual Growth
Actual	2004	1,749.652428		313.019635		44.860192	
Actual	2005	915.474509	-47.6768%	313.167636	0.0473%	56.835533	26.6948%
Actual	2006	1,003.148676	9.5769%	335.796457	7.2258%	64.308000	13.1475%
Actual	2007	1,065.150406	6.1807%	351.507817	4.6788%	63.501418	-1.2542%
Forecast	2008	1,016.238133	-4.5921%	371.303491	5.6316%	67.082973	5.6401%
Forecast	2009	976.571287	-3.9033%	392.213988	5.6316%	70.866532	5.6401%
Forecast	2010	1,000.273853	2.4271%	414.302090	5.6316%	74.863488	5.6401%
Forecast	2011	1,039.915001	3.9630%	437.634115	5.6316%	79.085878	5.6401%

	t	Home Mortgage Cal. Millions	Annual Growth	Deductible Interest Millions	Annual Growth	Contributions Millions	Annual Growth
Actual	2004	775.952387		27.543815		375.309514	
Actual	2005	852.044469	9.8063%	38.056370	38.1667%	447.798065	19.3143%
Actual	2006	965.230692	13.2841%	54.142196	42.2684%	463.825892	3.5793%
Actual	2007	1,099.986447	13.9610%	59.497325	9.8909%	658.657631	42.0054%
Forecast	2008	1,179.518861	7.2303%	63.004847	5.8953%	710.320526	7.8437%
Forecast	2009	1,264.801713	7.2303%	66.719146	5.8953%	766.035686	7.8437%
Forecast	2010	1,356.250779	7.2303%	70.652413	5.8953%	826.120955	7.8437%
Forecast	2011	1,454.311895	7.2303%	74.817556	5.8953%	890.919112	7.8437%

Legislative Fiscal Division

Revenue Estimate Profile

Individual Income Tax

	t	Child Care Millions	Annual Growth	Casualty Losses Millions	Annual Growth	Miscellaneous Expense 1 Millions	Annual Growth
Actual	2004	1.544650		3.618700		160.407920	
Actual	2005	1.494959	-3.2170%	4.477764	23.7396%	174.095185	8.5328%
Actual	2006	1.391599	-6.9139%	7.373395	64.6669%	186.204149	6.9554%
Actual	2007	1.471368	5.7322%	4.675161	-36.5942%	204.621089	9.8907%
Forecast	2008	1.432246	-2.6589%	4.394426	-6.0048%	218.503055	6.7842%
Forecast	2009	1.394164	-2.6589%	4.130549	-6.0048%	233.326805	6.7842%
Forecast	2010	1.357094	-2.6589%	3.882518	-6.0048%	249.156233	6.7842%
Forecast	2011	1.321011	-2.6589%	3.649380	-6.0048%	266.059565	6.7842%

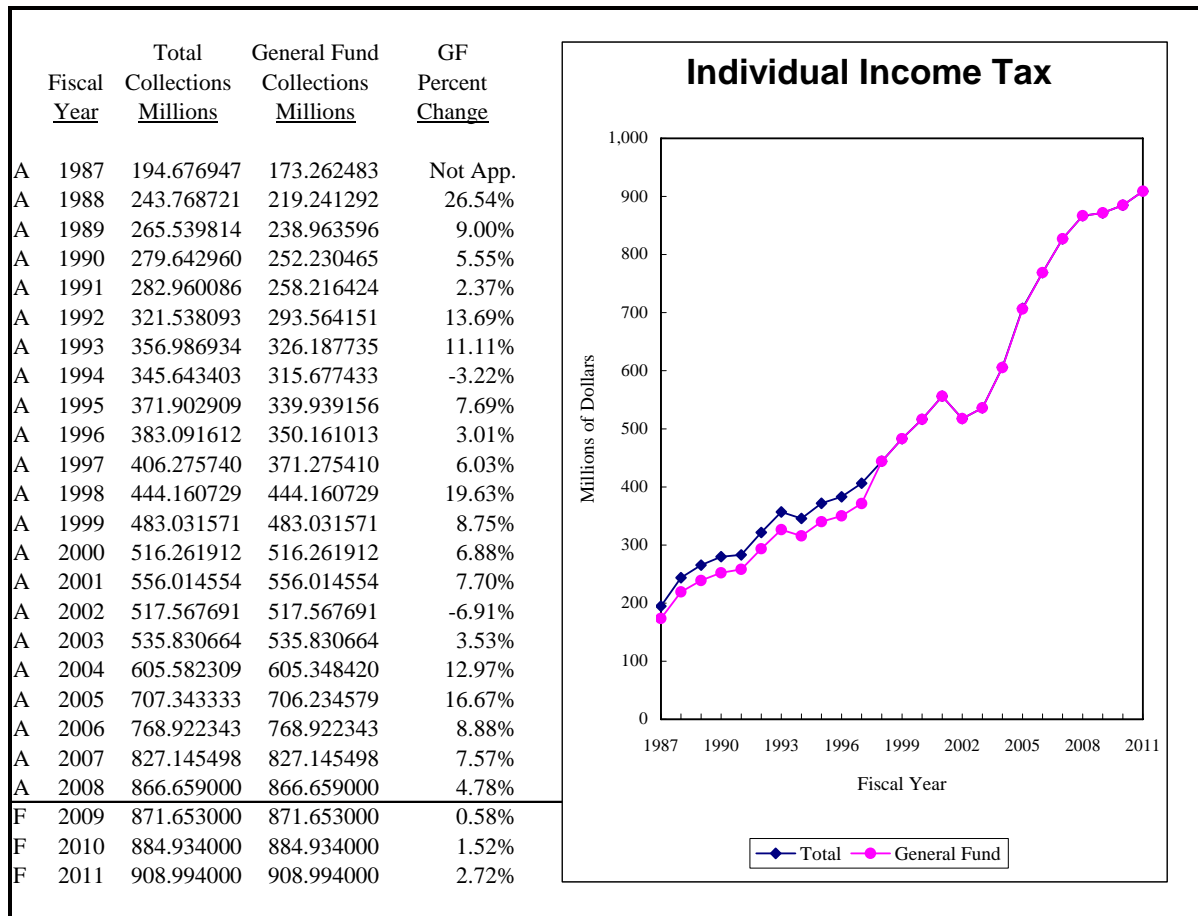
	t	Miscellaneous Expense 2 Millions	Annual Growth	Gambling Losses Millions	Annual Growth	Capital Gains Credit Millions	Annual Growth
Actual	2004	4.928271		5.747520		0.000000	
Actual	2005	6.133005	24.4454%	7.371107	28.2485%	15.361935	NA
Actual	2006	8.989306	46.5726%	7.915594	7.3868%	19.599422	27.5843%
Actual	2007	5.361661	-40.3551%	8.914262	12.6165%	40.025383	104.2172%
Forecast	2008	5.638158	5.1569%	9.504206	6.62%	34.953582	-12.6715%
Forecast	2009	5.928914	5.1569%	10.133193	6.62%	28.889019	-17.3503%
Forecast	2010	6.234665	5.1569%	10.803806	6.62%	32.248225	11.6280%
Forecast	2011	6.556182	5.1569%	11.518800	6.62%	36.632889	13.5966%

Legislative Fiscal Division

Revenue Estimate Profile

Individual Income Tax

Revenue Projection:



Data Source(s): SABHRS, Income Tax Returns, Labor Statistics - Departments of Commerce, Labor & Industry and Revenue; Bureau of Economic Analysis, Bureau of Labor Statistics, Global Insight, Congressional Budget Office, Industry

Contacts: Department of Revenue, Census and Economic Information

Legislative Fiscal Division

Revenue Estimate Profile

Insurance Tax & License Fees

Revenue Description: The insurance premiums tax is levied on the net premiums or gross underwriting profit for each insurance company operating in Montana. Gross underwriting profit is essentially insurance premium income. In addition, various insurance and license fees are also collected.

Statutory Reference:

Tax Rate (MCA) – 33-2-705(2), 33-2-311, 33-28-201(1&2), 50-3-109(1)
 Fee Rate (MCA) – 33-2-708(1&2), 33-14-201(2), 33-2-712, 33-38-105
 Tax Distribution (MCA) – 33-2-708(3), 33-2-712, 50-3-109(1), 33-28-120
 Date Due – March 1st each year (33-2-705(1), 33-2-712, 33-28-201(1&2)). Quarterly payments due the 15th of April, June, September, and December (Administrative Rules 6.6.2704, 6.6.2705)

Applicable Tax Rate(s): The current tax rate is 2.75% of net premiums (including cancellation and return premiums) on policies sold in Montana. In addition to this tax, there is a 2.5 % tax on the fire portion of net premiums for selected risks. Beginning FY 2008 with the enactment of HB 278 (2007 session), for each Montana resident insured under any individual or group disability or health insurance policy, all insurers are required to pay \$1.00 to the State Insurance Commissioner. The fee had been scheduled to be reduced to \$0.70 but the legislation extended the \$1.00 fee indefinitely. This fee is deposited to the state special revenue fund and used to fund the statewide genetics program established in statute (50-19-211, MCA). Senate Bill 132 (passed by the 1999 legislature) eliminated many disparate fees on insurance companies, which had partially been deposited into the general fund, and replaced them with a single company annual fee of \$1,900. Revenue from this fee is deposited to the state special revenue fund for administration of insurance activities. The following lists various insurance related fees.

Insurance Fees Collected by the State Auditor				
Fee	Amount	MCA Cite	ARM Cite	
<u>General Fund</u>				
Farm mutual insurer filing of articles of incorporation	10.00	33-4-202		
Farm mutual county insurer certificate of authority	10.00	33-4-505		
Farm mutual state insurer certificate of authority	25.00	33-4-505		
Benevolent association certificate of authority and reinstatement	25.00	33-6-401		
Fraternal benefit society report filing	25.00	33-7-118		
Fraternal benefit society certificate of authority renewal	10.00	33-7-217		
Fraternal benefit society lapsed certificate of authority reinstatement	25.00	33-7-217		
Insurance administrator certificate of registration application and renewal	100.00	33-17-603		
Medical care discount card certification and renewal	100.00	33-38-105		
<u>State Auditor's Office</u>				
Domestic and foreign insurer accreditation	275.00	33-1-313	6.6.4101	
Insurance producers charges and expenses for examinations	Variable	33-1-413		
Reinstatement of certificate of authority	100.00	33-2-117		
Certificate of authority	1,900.00	33-2-708		
Non-resident application for original license	100.00	33-2-708		
Non-resident biennial license renewal	50.00	33-2-708		
Non-resident lapsed license reinstatement	100.00	33-2-708		
Resident lapsed insurance producer's license reinstatement	100.00	33-2-708		
Surplus lines insurance producer license application	50.00	33-2-708		
Surplus lines insurance producer license biennial renewal	100.00	33-2-708		
Surplus lines insurance lapsed producer license reinstatement	200.00	33-2-708		
Insurance adjuster license application	50.00	33-2-708		
Insurance adjuster license biennial renewal	100.00	33-2-708		
Insurance adjuster lapsed license reinstatement	200.00	33-2-708		
Insurance consultant license application	50.00	33-2-708		
Insurance consultant license biennial renewal	100.00	33-2-708		
Insurance consultant lapsed license reinstatement	200.00	33-2-708		
Rental car entity producer license application	100.00	33-2-708		
Rental car entity producer quarterly filing	25.00	33-2-708		
A copy of each document page	0.50	33-2-708		

Legislative Fiscal Division

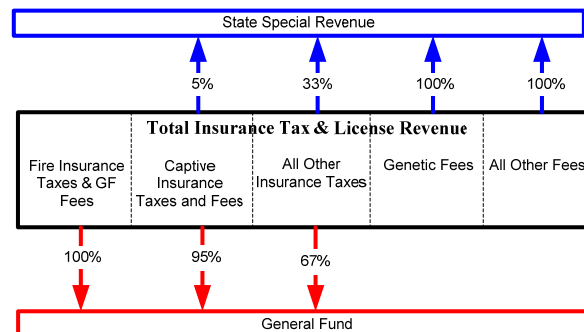
Revenue Estimate Profile

Insurance Tax & License Fees

Insurance Fees Collected by the State Auditor (continued)				
Fee	Amount	MCA Cite	ARM Cite	
Review of each course or program submitted for continuing education	75.00	33-2-708		
Genetics program fee for each MT resident insured	1.00	33-2-712		
Surplus lines stamping fee	1% of base premium	33-2-321	6.6.2804	
Charges and expenses for examinations	Variable	33-4-315		
Fraternal benefit society charges and expenses for examinations	Variable	33-7-119		
Fraternal benefit society service of process	2.00	33-7-123		
Guaranty associations charges and expenses for examinations	Variable	33-10-218		
Premium finance company license application	100.00	33-14-201		
Premium finance company license renewal	100.00	33-14-201		
Rating & advisory organization charges and expenses for examinations	Variable	33-16-106		
Rating & advisory organization license application	100.00	33-16-403		
Insurance producers background examination	Variable	33-17-201		
Insurance producers charges and examinations	Variable	33-17-212		
Review of each non-resident course submitted for continuing education	75.00	33-17-1206	6.6.4213	
Viatical settlement provider registration application	1,900.00	33-20-1315	6.6.8502	
Viatical settlement broker license	50.00	33-20-1315	6.6.8502	
Viatical settlement provider license renewal	1,900.00	33-20-1315	6.6.8503	
Captive insurance company license application	200.00	33-28-102		
Captive insurance company license renewal	300.00	33-28-102		
Captive insurance company examinations and investigations	Variable	33-28-108		
Health service corporation certified copies	0.50	33-30-204		
Health service corporation membership contract filing	25.00	33-30-204		
Health service corporation membership contract package filing	100.00	33-30-204		
Health service corporation filing statement	25.00	33-30-204		
Health service corporation license	300.00	33-30-204		
Health service corporation license renewal	300.00	33-30-204		
Health maintenance organization certification of authority	300.00	33-31-212		
Health maintenance organization amendment to documents	25.00	33-31-212		
Health maintenance organization statement filing	25.00	33-31-212		
Health maintenance organization certification of authority renewal	300.00	33-31-212		
Health maintenance organization charges & examinations	Variable	33-31-401		
Actual cost to review an application for a managed care community network	Variable	53-6-703	6.6.5805	

Distribution: With the approval of Initiative 155 by the electorate in November 2008, 67 percent of insurance tax proceeds from the tax on surplus lines premiums and net premiums are deposited into the general fund. The remaining 33 percent of the revenue is deposited to the state special revenue to expand the children health insurance program and Medicaid eligibility of uninsured children. All fire insurance premiums are deposited to the general fund. Due to enactment of SB 161 by the 2007 legislature, five percent of premium tax revenue from captive insurance company and all fees and assessments on captive insurance companies are deposited to a state special revenue fund to be used to administer captive insurance captive insurance company statutes and reimburse expenses incurred in promoting captive insurance in Montana. The other 95 percent of captive insurance premium tax revenue is deposited to the general fund. License fees and the 1% stamping fee on surplus lines insurance premiums are deposited into the state special revenue fund for use by the State Auditor. Beginning October 2005, the genetic fee revenue is deposited to the state special revenue fund.

Distribution Chart:



Legislative Fiscal Division

Revenue Estimate Profile

Insurance Tax & License Fees

Collection Frequency: Quarterly and annually

% of Total General Fund Revenue:

FY 2004 – 4.11%	FY 2007 – 3.33%
FY 2005 – 3.74%	FY 2008 – 3.26%
FY 2006 – 3.44%	

Revenue Estimate Methodology:

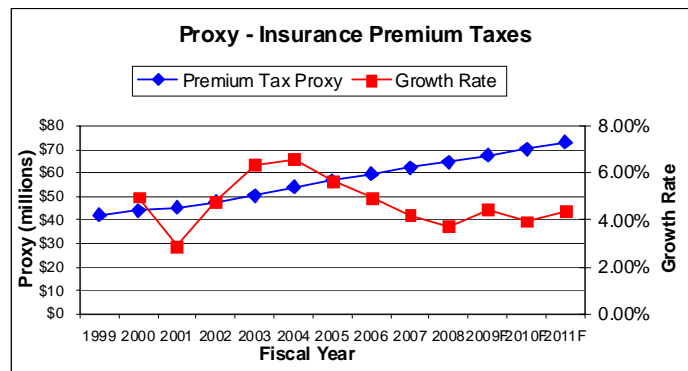
The large majority of insurance tax and license fee revenue is from premium taxes with minor amounts from a multitude of different fees. Estimates are made for these components based on measures of growth and then summed. This total is reduced by estimates of refunds and guarantee offsets. Guarantees are amounts that members of the Montana comprehensive health associations are required to pay into a reserve account (up to 1 percent of the total disability insurance premium received from Montana residents). The amount of these payments reduces (offsets) premium tax liabilities dollar for dollar (33-22-1513(7), MCA).

Data

The state accounting system provides historical collection data for the various components needed for the analysis. These include collections of insurance premium taxes, genetics program fees, and various general fund and state special revenue fees. The State Auditor's Office provides historical data on offsets and refunds as well as estimates for these items for the 3-year period.

Analysis

Because offsets and refunds can vary substantially, the technique used to estimate the premium tax revenue component of this source begins by adding the offset and refund amounts to the amounts shown on the state accounting system to derive a “true” amount of taxes. To estimate premium taxes, an exponent to the base of the natural logarithm is determined from a regression analysis based on long-term interest rates from FY 1990 to FY 2008. Premium taxes paid and long-term interest rates show an inverse relationship.



From the estimated amounts, offsets and refunds as estimated by the State Auditor's Office are subtracted to derive the amount of net premium taxes expected to be received by the state.

If no better information is available, the estimates for the other components such as genetics program fees, general fund fees, and state special revenue fees are a continuation of the last known fiscal year amounts.

Adjustments and Distribution

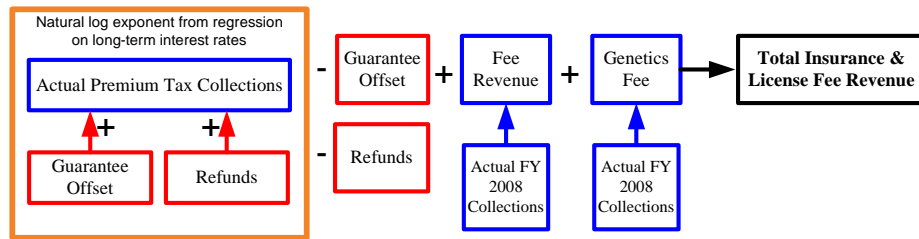
Once each component has been estimated, adjustments if any, are made. Since each component is estimated separately and each goes to either the general fund or the state special revenue fund, the distribution of the revenue has already been done.

Legislative Fiscal Division

Revenue Estimate Profile

Insurance Tax & License Fees

Forecast Methodology



Revenue Estimate Assumptions

	t	Total Tax	GF Tax	Non-GF Fees	GF Fees	CHIP
	Fiscal	Millions	Millions	Millions	Millions	Millions
Actual	2000	42.617531	39.333537	3.283994	1.028229	
Actual	2001	45.951678	42.297647	3.654031	0.444540	
Actual	2002	51.083956	47.290738	3.793218	0.290736	
Actual	2003	54.789956	50.809600	3.980356	0.378097	
Actual	2004	61.063242	56.532929	4.530313	0.623010	
Actual	2005	61.289844	57.308425	3.981419	-0.416721	
Actual	2006	64.521416	58.794762	4.816049	0.199100	
Actual	2007	66.321001	61.074266	4.199638	0.001513	
Actual	2008	69.265493	64.003987	4.556137	0.012600	
Forecast	2009	71.013000	49.769424	4.556137	0.012600	15.937576
Forecast	2010	73.677000	47.144316	4.556137	0.012600	21.226684
Forecast	2011	76.757000	49.267829	4.556137	0.012600	22.183171

	t	Genetics	Premium Tax	Offsets	Refunds
	Fiscal	Millions	Millions	Millions	Millions
Actual	2000	0.542398	40.121480	2.082935	1.881369
Actual	2001	0.634902	42.405287	0.861069	0.326014
Actual	2002	0.569711	47.682854	0.740006	0.512557
Actual	2003	0.563399	52.037866	1.463016	0.706745
Actual	2004	0.582956	56.775107	1.161437	0.286707
Actual	2005	0.634985	59.308556	1.650234	0.568162
Actual	2006	0.910605	60.064454	1.116040	0.352752
Actual	2007	1.047097	62.879617	1.678518	0.128346
Actual	2008	0.749971	65.703393	1.576475	0.180132
Forecast	2009	0.749971	67.454615	1.510000	0.250000
Forecast	2010	0.749971	70.118734	1.510000	0.250000
Forecast	2011	0.749971	73.199018	1.510000	0.250000

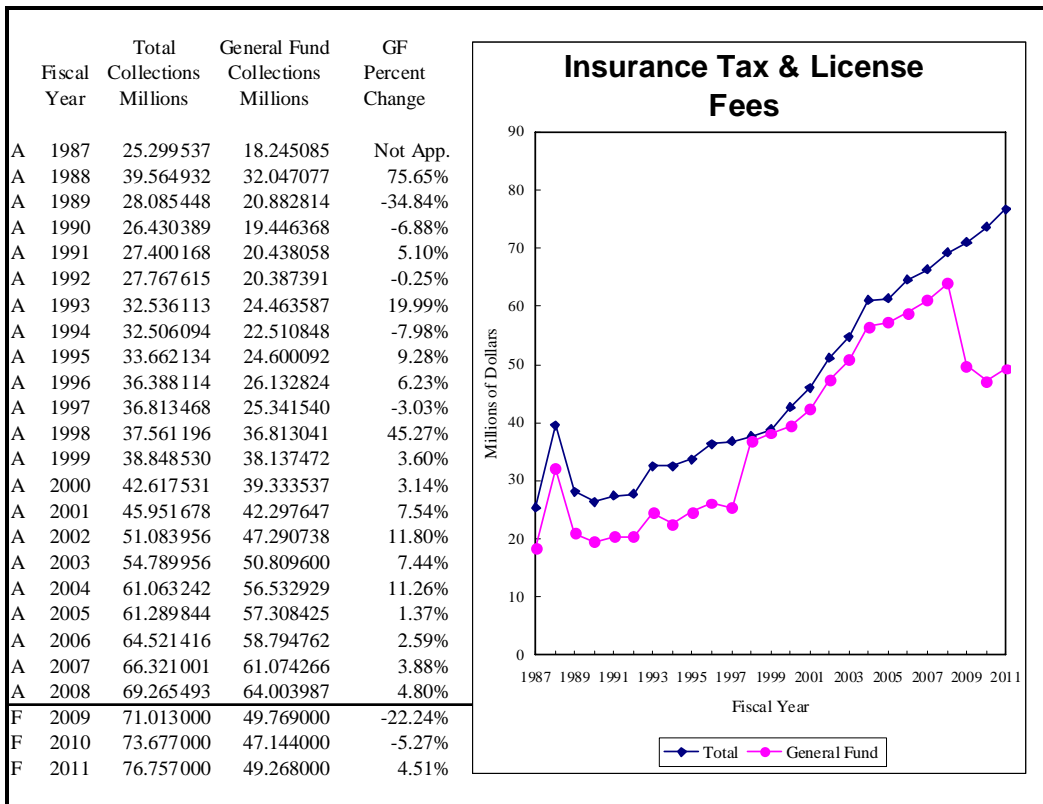
Total Tax = Non-GF Fees + GF Fees + Genetics + Premium Tax - Offsets - Refunds
GF Tax = GF Fees + Premium Tax - Offsets - Refunds - CHIP

Legislative Fiscal Division

Revenue Estimate Profile

Insurance Tax & License Fees

Revenue Projection:



Data Source(s): SABHRS, State Auditor

Contacts: State Auditor

Legislative Fiscal Division

Revenue Estimate Profile Investment License Fee

Revenue Description: Investment advisors and investment companies pay various fees to the state. These fees are for: 1) registration of securities and agents; 2) registration of securities by notification; 3) notice of a federal filing of a federally secured security; and 4) name changes.

Statutory Reference:

Fee Rate (MCA) – 30-10-209, 30-10-904

Fee Distribution (MCA) – excess to general fund (30-10-115), 30-10-209(6), portfolio notice fee (30-10-209(1d)), 30-10-210(2), 30-10-907

Date Due (Regulation of dealers) – initial (upon registration), annual (prior to December 31st) (30-10-201 (9&11)

Date Due (Regulation of securities) – upon registration (30-10-206(3c), valid for one year (30-10-209(1b)), renewal (prior to termination date):

Applicable Tax Rate(s): Initial and annual security registration fees vary based on the offering price of securities, but cannot be less than \$200 or more than \$1,000. Initial and annual registration fees for a broker-dealer, investment adviser, and federal covered adviser are \$200. Initial and annual registration fees for a salesperson or investment adviser are \$50. The fee for name changes to series, portfolio, or a subdivision of an investment company is \$50. More details on the fees are provided below.

Security Fees Collected by the State Auditor			
Fee	Amount	MCA Cite	ARM Cite
General Fund			
Certified or uncertified copies	0.50	30-10-107	
Initial registration for the first \$100,000 issue	200	30-10-209	
Additional registration fee of 0.1% over \$100,000 max of \$1,000	1,000	30-10-209	
Registration renewal fee of 0.1%, min of \$200 & max of \$1,000	1,000	30-10-209	
Late amended registration 0.3%, min of \$600 & max of \$3,000	3,000	30-10-209	
Name change of series, portfolio or other subdivision of an issuer	50	30-10-209	
Registration for broker-dealer or investment adviser	200	30-10-209	
Registration renewal for broker-dealer or investment adviser	200	30-10-209	
Initial registration for salesperson or investment adviser representative	50	30-10-209	
Registration renewal for salesperson or investment adviser representative	50	30-10-209	
Transfer of registration for salesperson or investment adviser representative	50	30-10-209	
Initial registration for federal covered adviser	200	30-10-209	
Registration renewal for federal covered adviser	200	30-10-209	
Certified or uncertified copies	Variable	30-10-209	
Request for exemption for transaction in compliance with rules-first \$100,000	200	30-10-209	6.10.120
Request for exemption for transaction in compliance with rules-0.1% over \$100,000, \$1,000 max	1,000	30-10-209	6.10.120
Request for exemption for other transactions	50	30-10-209	
Living trusts initial license application for the first \$100,000 issue	200	30-10-904	
Living trusts additional license application fee of 0.1% over \$100,000 max of \$1,000	1,000	30-10-904	
Living trusts license renewal fee of 0.1%, min of \$200 & max of \$1,000	1,000	30-10-904	
State Auditor's Office			
Collected examination costs	Various	30-10-115	
Portfolio notice filing - Initial registration for the first \$100,000 issue	200	30-10-209	
Portfolio notice filing - Additional registration fee of 0.1% over \$100,000 max of \$1,000	1,000	30-10-209	
Portfolio notice filing - Registration renewal fee of 0.1%, min of \$200 & max of \$1,000	1,000	30-10-209	
Portfolio notice filing - Late amended registration 0.3%, min of \$600 & max of \$3,000	3,000	30-10-209	

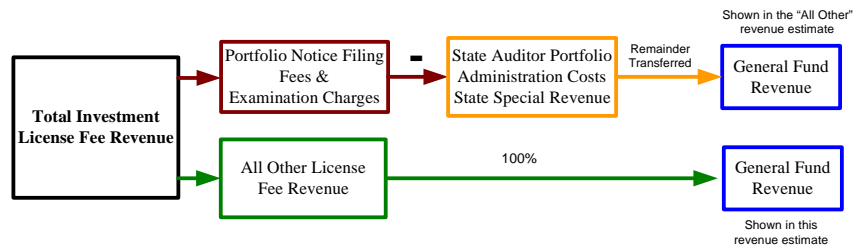
Distribution: All fees except portfolio notice filing fees and examination charges are deposited to the general fund. Portfolio notice filing fees and examination charges are deposited in a state special revenue account from which the State Auditor pays for expenses associated with the regulation of portfolio activities. The excess in this account is transferred to the general fund throughout the year as a non-budgeted transfer and is shown under the “All Other” revenue category.

Legislative Fiscal Division

Revenue Estimate Profile

Investment License Fee

Distribution Chart:



Collection Frequency: Varies

% of Total General Fund Revenue:

FY 2004 - 0.35%	FY 2007 - 0.33%
FY 2005 - 0.34%	FY 2008 - 0.33%
FY 2006 - 0.33%	

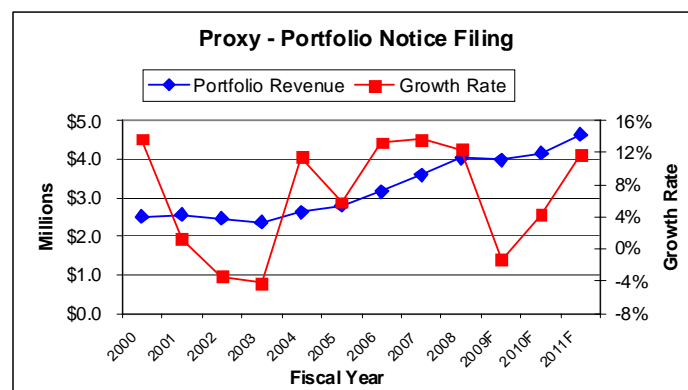
Revenue Estimate Methodology: Investment license fee revenue is obtained from two major sources: 1) portfolio notice filing and examination fees (state special revenue); and 2) many other varied fees (general fund). The portfolio notice filing fees, examination fees, and other permit revenue are estimated separately and then summed.

Data

The state accounting system (SABHRS) provides historical collection data for the state special revenue portfolio notice filing fees. Revenue from examination fee and fees distributed to the general fund is also available and, depending on the analysis technique used to derive the estimate for this source, this data is also used. The State Auditor's Office provides revenue estimates of the general fund and examination fees in its biennial budget submission for the 3-year period under consideration. Also provided in the budget submission are requested appropriations for the portfolio regulatory program that are needed to determine the transfer amount of portfolio notice filing and examination fee revenue to the general fund.

Analysis

To estimate the revenue from the portfolio notice filing fee, licenses, and permits, the same technique is used. A regression analysis of collections from FY 2000 to FY 2008 based on the S&P Index provides yearly growth rates. The rates are applied to each previous year to derive the estimate for each fiscal year (see the figure below).



Adjustments and Distribution

Once each component has been estimated, adjustments, if any, are made. Since the general fund and the state special revenue component are estimated under separate methodologies, the distribution of the revenue has already been done. However, there is a further distribution of the portfolio notice filing and examination fee revenue after it is in the state special revenue fund. Once

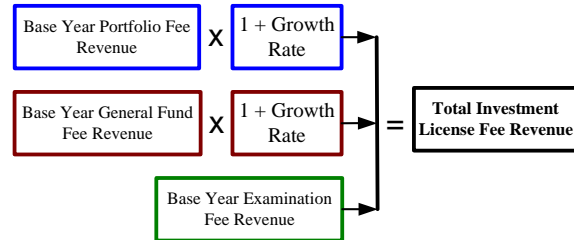
Legislative Fiscal Division

Revenue Estimate Profile

Investment License Fee

there, the revenue is reduced by estimates of the appropriations required by the State Auditor's Office to regulate portfolio activities. The remaining amount of the fee revenue is then transferred to the general fund. The general fund transfer amounts are not shown in this revenue source, but are shown in the "All Other" revenue source.

Forecast Methodology



Revenue Estimate Assumptions

	t	Total Tax	GF Tax	GF Transfer	Licenses	Portfolio	Portfolio
	Fiscal	Millions	Millions	Millions	Millions	Millions	Expenses
							Millions
Actual	2000	7.915054	5.389593	2.296258	5.389593	2.525461	0.151983
Actual	2001	8.447250	5.888594	2.445000	5.888594	2.558656	0.135759
Actual	2002	7.467433	4.991593	2.179165	4.991593	2.475840	0.202493
Actual	2003	7.520038	5.141561	2.036200	5.141787	2.378477	0.320954
Actual	2004	7.485904	4.833881	2.113000	4.833881	2.652023	0.683808
Actual	2005	8.007099	5.192327	2.110000	5.192327	2.814772	0.689948
Actual	2006	8.763918	5.584127	2.234000	5.584127	3.179791	0.653932
Actual	2007	9.692058	6.094903	2.977013	6.094903	3.597155	0.630113
Actual	2008	10.556365	6.513962	3.309251	6.513962	4.042403	0.673655
Forecast	2009	10.119000	6.127000	3.003000	6.127231	3.991673	0.989092
Forecast	2010	10.371000	6.210000	3.011000	6.209974	4.161091	1.149719
Forecast	2011	11.471000	6.825000	3.488000	6.824966	4.646570	1.158452

	t	Licenses	Portfolio	Expense
	Fiscal	Growth %	Growth %	Growth %
Actual	2000	0.221213	0.137475	0.044550
Actual	2001	0.092586	0.013144	-0.106749
Actual	2002	-0.152329	-0.034073	0.491562
Actual	2003	0.030089	-0.042251	0.585013
Actual	2004	-0.059883	0.114598	1.130548
Actual	2005	0.074153	0.058485	0.008979
Actual	2006	0.075457	0.132697	-0.052201
Actual	2007	0.091469	0.136850	-0.036424
Actual	2008	0.068756	0.124118	0.069102
Forecast	2009	-0.059370	-0.012549	0.468247
Forecast	2010	0.013504	0.042443	0.162398
Forecast	2011	0.099033	0.116671	0.007596

Total Tax = Licenses + Portfolio - Portfolio Expenses

GF Tax = Licenses

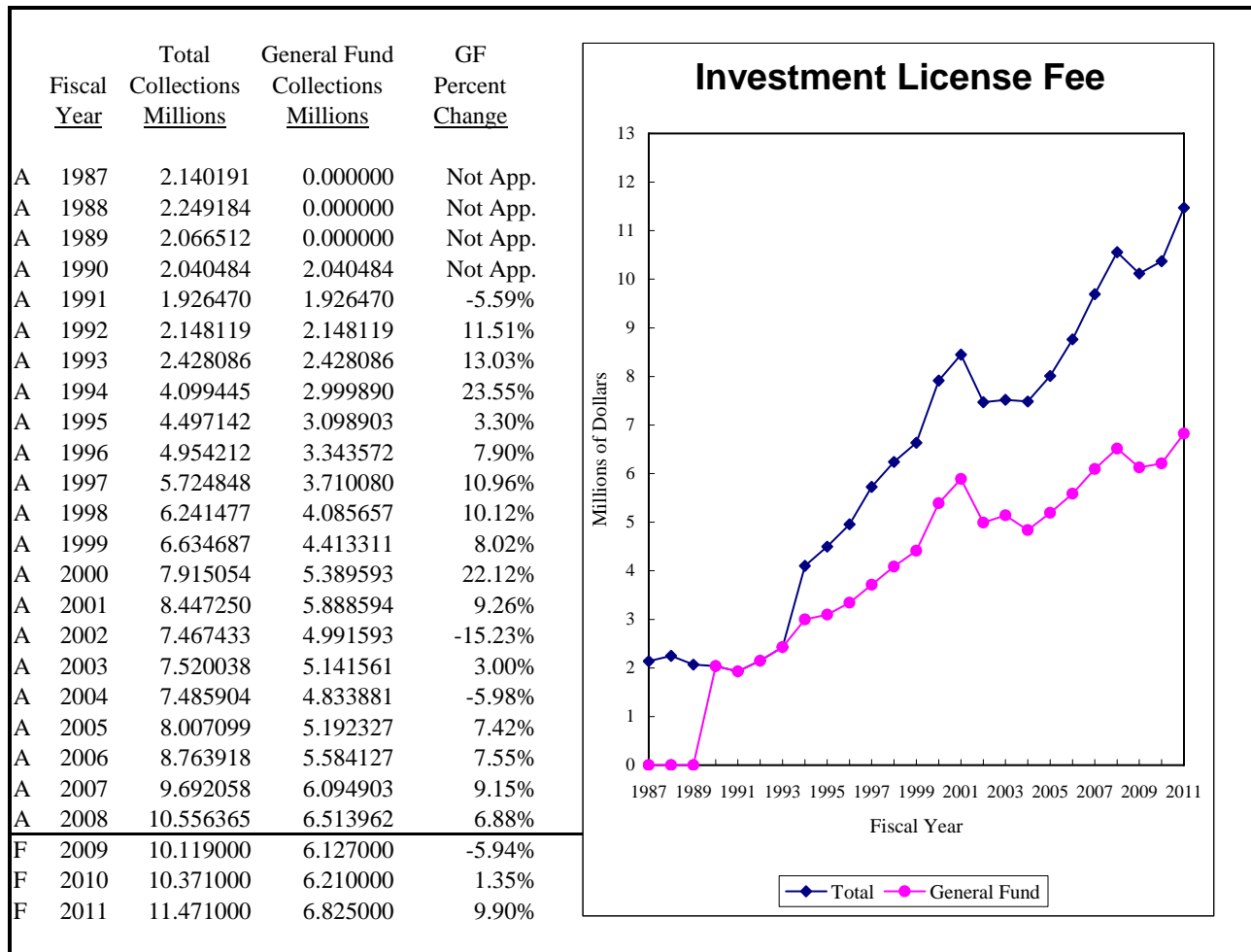
GF Transfer = Portfolio - Portfolio Expenses

Legislative Fiscal Division

Revenue Estimate Profile

Investment License Fee

Revenue Projection:



Data Source(s): State Auditor

Contacts: State Auditor

Legislative Fiscal Division

Revenue Estimate Profile

Lodging Taxes

Revenue Description: The state imposes two taxes on room charges collected by lodging facilities and campgrounds – a lodging sales tax and a lodging facility use tax. The taxes only apply for rooms used for lodging.

The 3 percent lodging sales tax began June 1, 2003 and applies to hotels, motels, campgrounds, resorts, dormitories, condominium inns, dude ranches, guest ranches, hostels, public lodging houses, and bed and breakfast facilities. Exempt are facilities: 1) for health care; 2) owned by non-profit corporations for use by people under 18-years of age for camping; 3) whose average daily charge is less than 60 percent of the amount the state of Montana reimburses for lodging; or 4) rented for 30 days or more. Sales to the U.S. government are also exempt from the sales tax. All facilities subject to the tax must obtain a seller's permit before engaging in business subject to the sales tax within Montana. The vendor must pay the tax due by the last day of the month following a calendar quarter. Vendors are allowed to claim and keep five percent of the tax as an allowance, not to exceed \$1,000 a quarter. The Department of Revenue may require a retailer to post security up to twice the average tax liability to be used to recover taxes, interest, and penalties owed.

The 4 percent lodging facility use tax applies to facilities containing individual sleeping rooms or suites, providing overnight lodging for periods of less than 30 days to the general public for compensation. This includes hotels, motels, campgrounds, resorts, dormitories, condominium inns, dude ranches, guest ranches, hostels, public lodging houses, or bed and breakfasts. Exempt are: 1) non-profit or religious corporation facilities used primarily by persons under 18 years of age for camping; 2) facilities whose average daily charge does not exceed 60 percent of the amount the state of Montana reimburses for lodging; or 4) rented for 30 days or more. All facilities must be registered with the Department of Revenue. Any of the tax paid by state employees is returned to the fund that paid the tax. Since general fund pays a portion of the tax, a portion is returned to the general fund. This amount is also shown in the "All Other Revenue" profile.

Statutory Reference:

Tax Rate (MCA) – 15-65-111 (lodging facility use tax), 15-68-102 (lodging sales tax)

Tax Distribution (MCA) – 15-65-121 (lodging facility use tax), 15-68-820 (lodging sales tax)

Date Due – Lodging facility use tax is due before the end of calendar quarter (15-65-112). The lodging sales tax is due the last day of the month following the calendar quarter (15-68-502(1)).

Applicable Tax Rate(s): The lodging sales tax is 3.0 percent of the sales price. The lodging facility use tax is 4.0 percent of room charges.

Distribution:

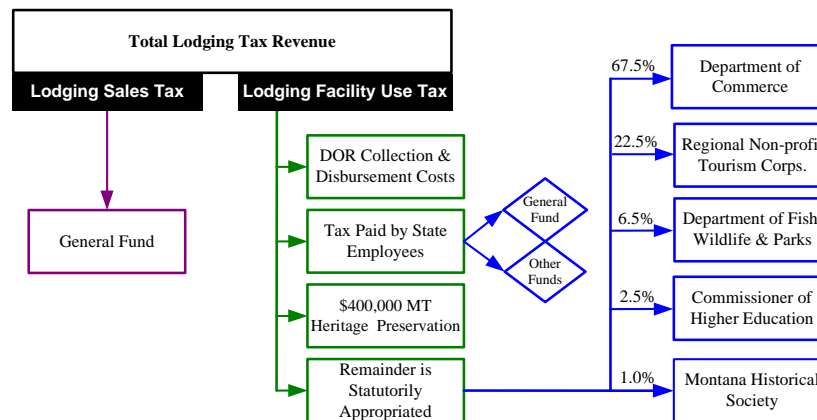
1. Sales Tax: 100% general fund
2. Lodging Facility Use Tax: The revenue is first distributed: 1) to the Department of Revenue in the amount appropriated for collection and disbursement costs; 2) to the various funds from which payments of the tax paid by state employees were made, including the general fund; and 3) \$400,000 to the Montana heritage preservation and development fund which is statutorily appropriated for restoring and maintaining historic properties. After these distributions, the remainder is distributed and statutorily appropriated:
 - 67.5% to the Department of Commerce for tourism promotion and promotion of the state as a location for the production of motion pictures and television commercials.
 - 22.5% to regional nonprofit tourism corporations.
 - 6.5% to the Department of Fish, Wildlife and Parks for maintenance of state park facilities.
 - 2.5% to the university system for the establishment and maintenance of a Montana travel research program.
 - 1.0% to the Montana Historical Society to install and maintain roadside historical signs and historic sites.

Legislative Fiscal Division

Revenue Estimate Profile

Lodging Taxes

Distribution Chart:



Collection Frequency: The owner of a facility collects the tax and remits it quarterly to the Department of Revenue.

% of Total General Fund Revenue:

A small portion for reimbursement of lodging facility taxes paid by state employees is included in “All Other General Fund Revenue”

FY 2004 – 0.67% FY 2007 – 0.70%

FY 2005 – 0.67% FY 2008 – 0.68%

FY 2006 – 0.63%

Revenue Estimate Methodology:

Data

Data from the state accounting system (SABHRS) is used to prepare the estimate for the two lodging facility taxes. Additional data, such as the consumer price index projections, provided by the Global Insight, and non-residential tourism expenditures, provided by the Institute for Tourism and Recreation Research, is used to evaluate the results of the methodology.

Total lodging taxes are made up of two separate taxes, the lodging facility use tax, which is deposited into state special revenue accounts to fund state tourism activities, and the lodging sales tax, which is deposited into the general fund. The same base, in the form of a proxy for taxable room charges, is used as the starting point both sources, and both taxes are estimated using a single proxy of the taxable room charges in Montana.

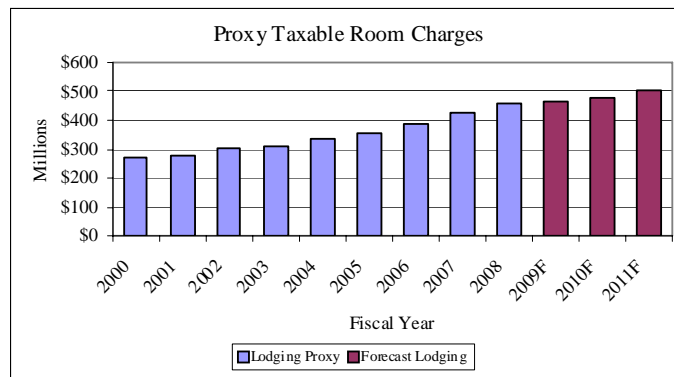
Analysis

Because the lodging taxes exhibit relatively consistent growth from year to year, the projection of the proxy for lodging receipts is estimated using a linear trend regression model. The trend is based on the proxy taxable room charges, beginning in fiscal 1988 when the tax was first assessed. The results of the model are depicted in the figure below.

Legislative Fiscal Division

Revenue Estimate Profile

Lodging Taxes



The statistics of fit show that a linear trend accurately measures the rate of growth in the number of taxable room charges in Montana. The regression model utilizes three independent variables. The main variable of the model is the passage of time, and two dummy variables (variables with a value of 0 or 1) serve to reduce extreme variations in the data series (1992 and 2003). The model provides an R^2 rating of 0.993. This means that the linear trend explains 99.3 percent of the variability of the number of taxable room charges in Montana, when all other impacts are held constant.* The model produces an estimated increase in taxable room charges equal to approximately 3.0 percent per fiscal year. The model predicts taxable room charges of \$464.2 million, \$480.0 million, and \$500.1 million in fiscal years 2009 through 2011, respectively.

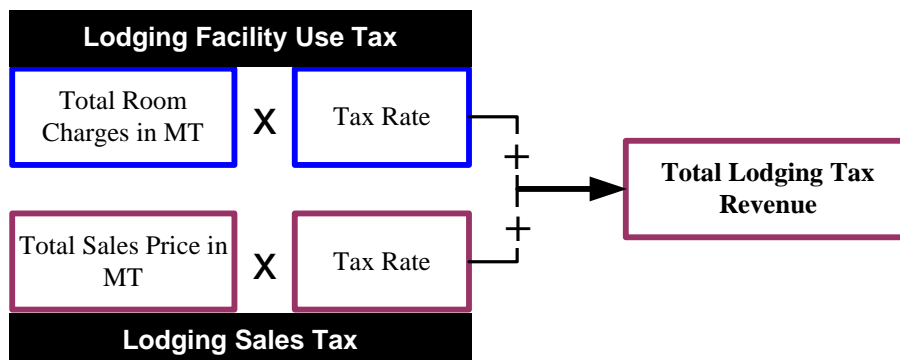
After the projections for the taxable room charges are determined, the amounts are reduced by ratio to account for the difference apparent in the taxable room receipts of the lodging facility use tax and lodging sales tax. Finally, the estimates for each of the taxes are determined by multiplying the estimates of taxable room charges by the tax rate. Revenue from the two taxes is then added together to create the gross fiscal year estimates of the lodging facility taxes.

Adjustments

Several adjustments are required before the revenues of the lodging facility use tax are distributed. A portion of the collections is distributed to the DOR to cover the expenses associated with administration of the tax and reimbursements are provided to the general fund and other funds for the tax paid by state employees who stay in lodging facilities in connection with their jobs. After the gross lodging facility use tax estimates are adjusted, the remainder of the revenues flow to the statutorily designated agencies.

*For additional information concerning the statistics of fit for the model used for this projection, contact the Legislative Fiscal Division.

Forecast Methodology



Legislative Fiscal Division

Revenue Estimate Profile

Lodging Taxes

Revenue Estimate Assumptions

	t	Total Tax	GF Tax	Accom.	Accom.	Lodging	Lodging	DOR
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Sales</u>	<u>Tax Rate</u>	<u>Sales</u>	<u>Tax Rate</u>	<u>Admin.</u>
				<u>Millions</u>	<u>Rate</u>	<u>Millions</u>	<u>Rate</u>	<u>Millions</u>
Actual	2000	11.052773	0.000000	271.801250	4.0000%			0.114927
Actual	2001	11.161741	0.000000	277.905225	4.0000%			0.114525
Actual	2002	11.862436	0.000000	303.947925	4.0000%			0.126368
Actual	2003	12.612664	2.271237	309.012625	4.0000%			0.103338
Actual	2004	22.848038	9.278658	333.172100	4.0000%	0.000000	3.0000%	0.137254
Actual	2005	24.636260	10.200914	353.688925	4.0000%	0.000000	3.0000%	0.141371
Actual	2006	25.519386	10.679216	388.458725	4.0000%	0.000000	3.0000%	0.029122
Actual	2007	30.620373	12.916075	427.346325	4.0000%	0.000000	3.0000%	0.149981
Actual	2008	31.743967	13.389534	458.652725	4.0000%	0.000000	3.0000%	0.149107
Forecast	2009	31.906000	13.339000	464.158529	4.0000%	0.000000	3.0000%	0.154480
Forecast	2010	32.998000	13.796000	480.041143	4.0000%	0.000000	3.0000%	0.133709
Forecast	2011	34.401000	14.382000	500.450516	4.0000%	0.000000	3.0000%	0.133752

	t	Higher Ed.	DOC	Sites &	Regional	FWP	MT.	All Other
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Signs</u>	<u>Millions</u>	<u>Millions</u>	<u>Heritage</u>	<u>Entities</u>
				<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2000	0.263447	7.113045	0.105379	2.371015	0.684960	0.400000	0.000000
Actual	2001	0.267061	7.210657	0.106824	2.403552	0.694358	0.400000	-0.035236
Actual	2002	0.283388	7.651483	0.113892	2.550494	0.736809	0.400000	0.000002
Actual	2003	0.288449	6.088121	0.115511	2.596040	0.749968	0.400000	0.000000
Actual	2004	0.325804	8.796686	0.130321	2.932227	0.847088	0.400000	0.000000
Actual	2005	0.347350	9.378433	0.138940	3.126144	0.903108	0.400000	0.000000
Actual	2006	0.360276	9.727458	0.144110	3.242486	0.936718	0.400000	0.000000
Actual	2007	0.428858	11.579164	0.171543	3.859721	1.115031	0.400000	0.000000
Actual	2008	0.445134	12.018595	0.178053	4.006198	1.157346	0.400000	0.000000
Forecast	2009	0.450000	12.158000	0.180000	4.053000	1.171000	0.400000	0.000000
Forecast	2010	0.467000	12.601000	0.187000	4.200000	1.213000	0.400000	0.000000
Forecast	2011	0.487000	13.153000	0.195000	4.384000	1.267000	0.400000	0.000000

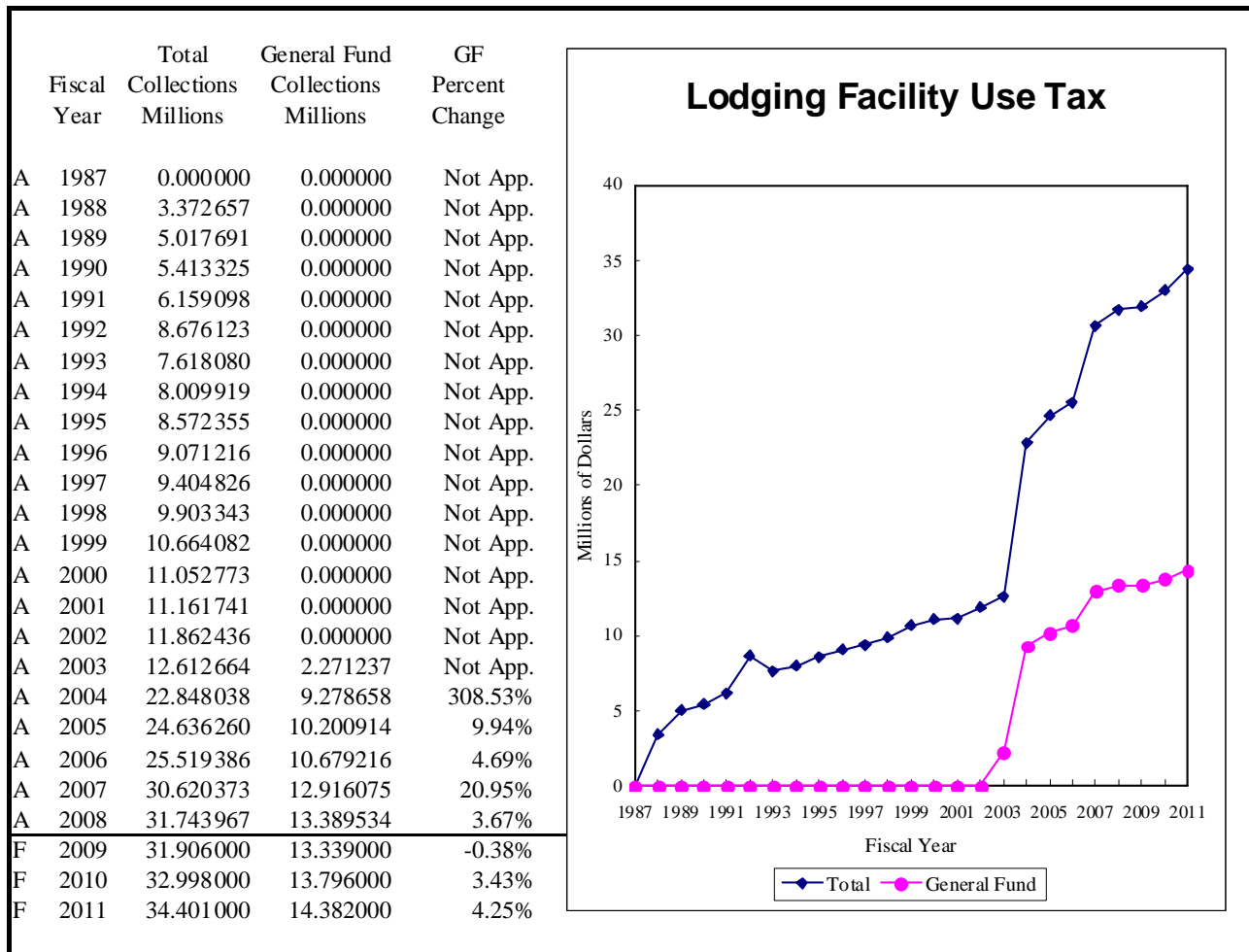
Total Tax = Accom. Sales * Accom. Tax Rate + Lodging Sales * Lodging Tax Rate
GF Tax = Lodging Sales * Lodging Tax Rate

Legislative Fiscal Division

Revenue Estimate Profile

Lodging Taxes

Revenue Projection:



Data Source(s): UM Institute for Tourism and Recreation Research, SABHRS, Global Insight

Contacts: Department of Revenue

Legislative Fiscal Division

Revenue Estimate Profile

Motor Vehicle Fee

Revenue Description: The state assesses a variety of motor vehicle fees, such as fees for the filing of motor vehicle liens, fees for new license plates, title fees, and annual and permanent registration fees. The fees vary according to the type of vehicle (i.e., motor vehicle, snowmobile, etc.) and the type of license plate (regular, personal, military, etc.). There are also Gross Vehicle Weight (GVW) fees on trucks and pickups, as well as special fees for senior citizen transportation, veteran services, the highway patrol pension fund, salaries for the highway patrol, motorcycle safety, electronic commerce applications, and an optional \$4 registration fee on light vehicles for state parks and fishing access sites.

Effective January 1, 2004, all fees on motorcycles and quadricycles, trailers, travel trailers, snowmobiles, off-highway vehicles, and watercraft are one-time only and permanent, except upon change of ownership. Fees on other vehicles are annual. Light vehicles older than ten years old may be licensed permanently, at the option of the owner. New license plate fees increased from \$2 to \$5. The registration fees on campers and pontoons and rubber rafts are eliminated. Beginning January 1, 2005, the registration fees on all light vehicles increased, as did permanent fees on recreational trailers, off-highway vehicles, snowmobiles, recreational vehicles, and motorcycles. Beginning January 2006, motor homes 11 years or older may be permanently registered and the registration fee for certain vehicles increased \$5 to fund Highway Patrol salaries.

Due to changes enacted by HB 671 and SB 285 in the 2005 legislature, registration fee revenue reported by counties on the county collection report are now being recorded as vehicle taxes. Therefore, revenue shown for this source shows a large decline in FY 2006 from FY 2005, but revenue increases by a like amount in the "Vehicle Tax" revenue source. Due to enactment of HB 90 by the 2007 legislature, lien filing fee increases are extended through June 2016 and certificate of title fee increases are extended through June 2018.

Statutory Reference:

Tax Fee rate – multiple, but generally in Title 61, chapter 3. Permanent registration 61-3-562

Tax Distribution (MCA) – all fees in Title 61 are distributed to the general fund unless stated otherwise (61-3-108)

Applicable Tax Rate(s): Various

Distribution: Most motor vehicle fees are allocated to the general fund. The following fees are distributed to the Motor Vehicle Information Technology Systems state special revenue account: 1) \$4 of the \$8 recording lien fee (including boats, snowmobiles, and off highway vehicles); 2) \$5.00 of the \$10.00 certificate of ownership fees for watercraft, snowmobiles, off-highway vehicles and all other vehicles; 3) \$5.00 of the \$10.00 duplicate certificate of ownership fee; and 4) all of the \$10.00 fee for the issuance of a new certificate of title following the release of a lien. Other distributions to other state special revenue accounts (and county general fund) are: 1) \$10 of the \$30 donation fee for collegiate license plates to the student academic scholarship fund or foundation of the named institution; 2) the annual donation fee of \$20 for motorcycle or quadricycles specialty license plates for grants to chronically or critically ill children; 3) \$5 of the \$15 administrative fee for generic specialty license plates to the county general fund; 4) all of the \$15 surcharge for sponsoring a generic patriotic license plate for the construction, maintenance, operation, and administration of state veterans' cemeteries; and 5) with the enactment of SB 285 by the 2005 legislature, the optional \$4 fee for parks is deposited in a state special account rather than the general fund. With the enactment of HB 671 by the 2005 legislature, revenue from the newly enacted temporary registration fees of \$3 and \$8 are deposited in a non-budgeted enterprise fund.

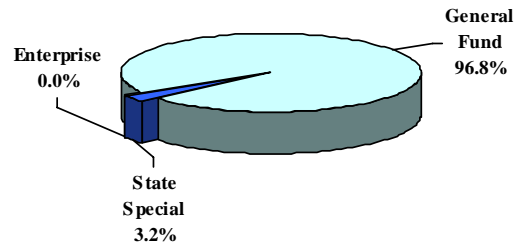
Legislative Fiscal Division

Revenue Estimate Profile

Motor Vehicle Fee

Distribution Chart:

Based on Actual Fiscal 2008



Collection Frequency: The various fees are generally collected on a monthly basis.

% of Total General Fund Revenue:

FY 2004 – 2.22%	FY 2007 – 1.03%
FY 2005 – 2.00%	FY 2008 – 1.07%
FY 2006 – 1.24%	

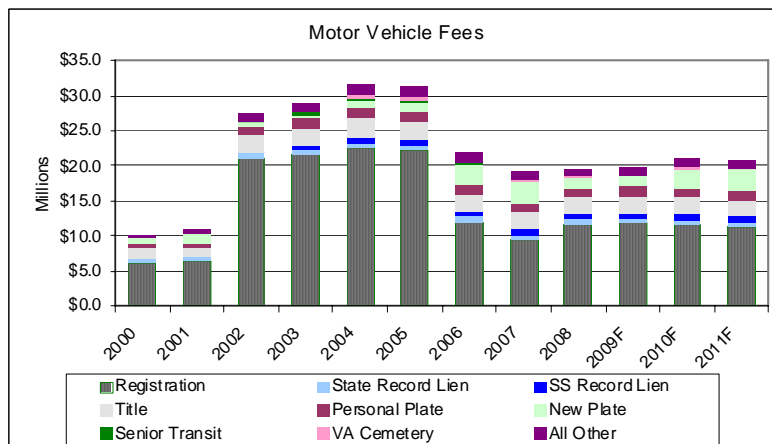
Revenue Estimate Methodology:

Data

The data used to estimate the motor vehicle (MV) fees are obtained from the state accounting system (SABHRS) and Global Insight. No adjustments are required on the raw data in preparation for analysis.

Analysis

MV fees are currently imposed at different rates on eight major categories. Included in the fees assessed on motor vehicles in Montana are registration fees, two types of record liens, title fees, personal and new plate fees, senior transit fees, and veteran's administration fees. The ninth category is made up of other miscellaneous fees assessed on motor vehicles. As shown in the figure below, the collection of motor vehicle fees has been highly variable since fiscal 2000. The figure below also shows the impact of the reduction and subsequent change in classifying vehicle registration fee revenue as vehicle tax revenue in fiscal 2006 and fiscal 2007. This change in the vehicle registration fees is the combined impact of SB 285 and HB 671, both implemented in the 2005 session. However, since registration fee revenues are now recorded as vehicle taxes, the net change to total revenues is zero.



Legislative Fiscal Division

Revenue Estimate Profile

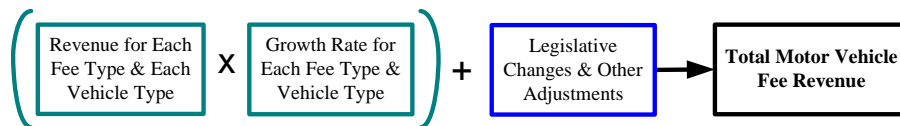
Motor Vehicle Fee

With constant fees, the future change in MV fees results from change in the vehicle stock in Montana. Because fee payments are directly connected to the number of vehicles in the state, estimates for the MV fees are made by applying estimated growth rates to the previous year revenue. Growth rates for the stock of Montana vehicles are derived by first obtaining Global Insight estimates for the national vehicle stock, new car sales nationwide, and for Montana. A ratio is then developed to project the stock of Montana vehicles. An average of the Montana stock in the current and previous years is used in this estimate from which growth between two years is calculated. The growth rate is applied to the base year (fiscal 2008 less one-time amounts due to HB 737) revenues of each fee category and projected forward at the same rate for all estimated fiscal years. The estimated tax collections of each category are then combined to create the total estimates for the MV fees.

Adjustments

In past years, adjustments to MV fees have been required as a result of legislative actions. House Bill 737 enacted by the 2007 Legislature requires that new license plates be issued every four years beginning January 1, 2010. Estimates provided by the Department of Justice add \$1.4 million in FY 2010 and \$1.6 million in FY 2011. The legislation also required new license plates be issued every four years beginning January 1, 2008. Revenue impacts from this legislation are added to FY 2009.

Forecast Methodology



Revenue Estimate Assumptions

	t	Total Tax	GF Tax	GF Fee	GF Fee	GF Fee	GF Fee	GF Fee
	Fiscal	Millions	Millions	Registration	Record	Titles	Personal	VA Cemetery
				Millions	Millions	Millions	Millions	Millions
Actual	2000	11.715716	11.715716	6.233271	0.629295	1.292338	0.727670	
Actual	2001	12.548251	12.548251	6.367734	0.635889	1.290092	0.712995	
Actual	2002	27.456893	27.271180	21.180491	0.727958	2.352977	1.269593	
Actual	2003	28.906484	28.352232	21.712218	0.696408	2.441699	1.353633	
Actual	2004	31.602204	30.723879	22.576638	0.737269	2.660438	1.492359	
Actual	2005	31.361863	30.639532	22.230804	0.716784	2.607814	1.508333	
Actual	2006	21.903344	21.195081	12.084778	0.688231	2.368829	1.418129	0.232542
Actual	2007	19.140771	18.401116	9.452480	0.698724	2.495408	1.364480	0.230726
Actual	2008	19.615843	18.994862	11.677087	0.719099	2.463826	1.335999	0.192623
Forecast	2009	19.888000	19.227000	11.867038	0.660715	2.503905	1.357732	0.195756
Forecast	2010	20.621000	19.969000	11.708933	0.651912	2.470545	1.339643	0.193148
Forecast	2011	20.408000	19.771000	11.435553	0.636691	2.412863	1.308365	0.188638

	t	GF Fee	GF Fee	GF Fee	GF Fee	GF Fee	Non GF Fee	Adjustments
	Fiscal	New Plate	Computer	\$.25	Other	Transit	Lien	Millions
		Millions	Millions	Millions	Millions	Millions	Millions	Millions
Actual	2000	0.856821	1.304458	0.299821	0.372042			
Actual	2001	1.536103	1.335946	0.304236	0.365256			
Actual	2002	0.524575	-0.001199	0.024150	1.083974	0.108661	0.185713	
Actual	2003	0.491723	0.000000	0.000000	1.221468	0.435083	0.554252	
Actual	2004	0.909985	0.000000	0.000000	1.558960	0.394115	0.878325	
Actual	2005	1.191590	0.000000	0.000000	1.468208	0.372536	0.722331	0.000000
Actual	2006	2.865422	0.000000	0.000000	1.334543	0.202607	0.708263	0.000000
Actual	2007	3.102155	0.000000	0.000000	1.057143	0.000000	0.739655	0.000000
Actual	2008	1.492825	0.000000	0.000000	1.113403	0.000000	0.620981	0.000000
Forecast	2009	1.510934	0.000000	0.000000	1.131515	0.000000	0.660715	0.000000
Forecast	2010	2.488859	0.000000	0.000000	1.116440	0.000000	0.651912	0.000000
Forecast	2011	2.699529	0.000000	0.000000	1.090373	0.000000	0.636691	0.000000

Legislative Fiscal Division

Revenue Estimate Profile

Motor Vehicle Fee

	t	GF Fee Registration	GF Fee Record	GF Fee Titles	GF Fee Personal	GF Fee New Plate	GF Fee Other	GF Fee VA Cemetery
	Fiscal	Growth Rate	Growth Rate	Growth Rate	Growth Rate	Growth Rate	Growth Rate	Growth Rate
Actual	2000	3.22%	-0.05%	2.11%	4.87%	84.19%	-8.50%	
Actual	2001	2.16%	1.05%	-0.17%	-2.02%	79.28%	-1.82%	
Actual	2002	232.62%	14.48%	82.39%	78.06%	-65.85%	196.77%	
Actual	2003	2.51%	-4.33%	3.77%	6.62%	-6.26%	12.68%	
Actual	2004	3.98%	5.87%	8.96%	10.25%	85.06%	27.63%	
Actual	2005	-1.53%	-2.78%	-1.98%	1.07%	30.95%	-5.82%	37.89%
Actual	2006	-45.64%	-3.98%	-9.16%	-5.98%	140.47%	-9.10%	-57.21%
Actual	2007	-21.78%	1.52%	5.34%	-3.78%	8.26%	-20.79%	-0.78%
Actual	2008	23.53%	2.92%	-1.27%	-2.09%	-51.88%	5.32%	-16.51%
Forecast	2009	1.63%	1.63%	1.63%	1.63%	1.63%	1.63%	1.63%
Forecast	2010	-1.33%	-1.33%	-1.33%	-1.33%	-1.33%	-1.33%	-1.33%
Forecast	2011	-2.33%	-2.33%	-2.33%	-2.33%	-2.33%	-2.33%	-2.33%

	t	GF Fee New Plate	GF Fee Computer	GF Fee \$0.25	GF Fee Other	GF Fee Transit	Non GF Fee Lien
	Fiscal	Growth Rate	Growth Rate	Growth Rate	Growth Rate	Growth Rate	Growth Rate
Actual	2000	84.19%	2.83%	5.40%	-8.50%		
Actual	2001	79.28%	2.41%	1.47%	-1.82%		
Actual	2002	-65.85%	-100.09%	-92.06%	196.77%		
Actual	2003	-6.26%	-100.00%	-100.00%	12.68%	300.40%	-4.33%
Actual	2004	85.06%			27.63%	-9.42%	5.87%
Actual	2005	30.95%			-5.82%	-5.48%	-2.78%
Actual	2006	140.47%			-9.10%	-45.61%	-3.98%
Actual	2007	8.26%			-20.79%	-100.00%	1.52%
Actual	2008	-51.88%			5.32%		2.92%
Forecast	2009	1.21%			1.63%		1.63%
Forecast	2010	64.72%			-1.33%		-1.33%
Forecast	2011	8.46%			-2.33%		-2.33%

Total Tax = Registration + Record + Titles + Personal + New Plate + VA Cemetery + Other + Transit + Lien

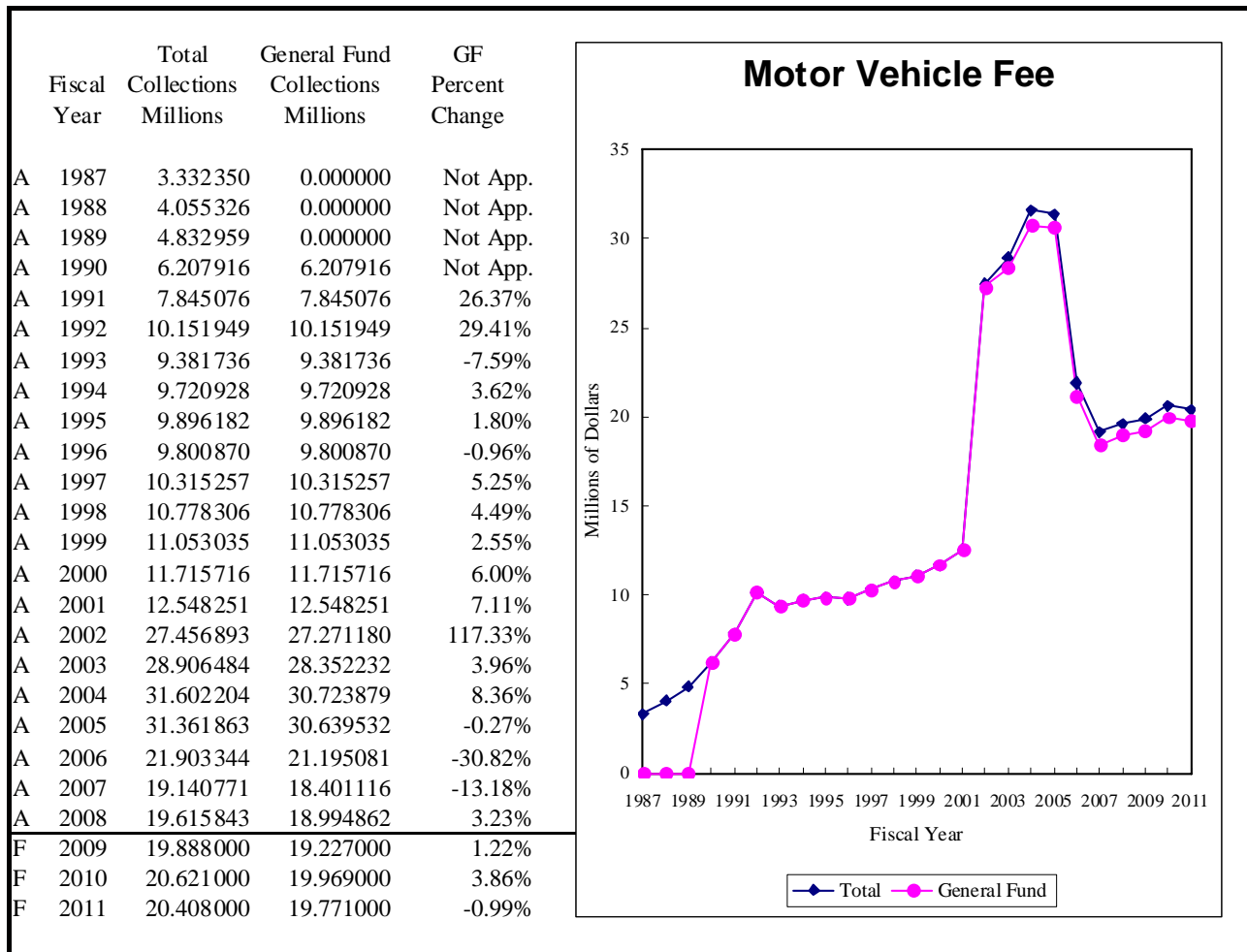
GF Tax = Total Tax - Lien

Legislative Fiscal Division

Revenue Estimate Profile

Motor Vehicle Fee

Revenue Projection:



Data Source(s): SABHRS, Department of Justice

Contacts: Department of Justice

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 a license is required once the bid is awarded.

Statutory Reference:

Tax Rate (MCA) – 15-50-205

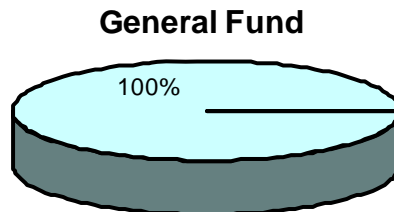
Tax Distribution MCA) – 15-50-311

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

Applicable Tax Rate(s): A 1.0 percent 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 2005 – 0.09%

FY 2008 – 0.26%

FY 2006 – 0.25%

Revenue Estimate Methodology:

Data

Data for the public contractor's tax are obtained from the state accounting system (SABHRS), the Department of Transportation (DOT), and the Department of Revenue (DOR) and are used to make the public contractors gross receipts tax (PCGRT) estimate. SABHRS data are utilized for total fiscal year tax collections. The DOT provides estimates of highway contracts for future biennia. The DOR provides information on the amounts of credits and refunds paid in each fiscal year.

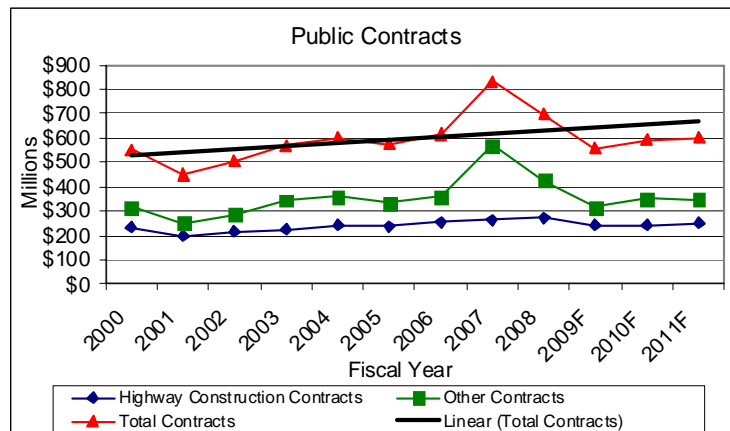
Several steps are involved in preparing the data for analysis. After collecting the SABHRS total collection data, net tax collections are increased to account for the reductions of refunds and credits, creating a proxy for gross tax collections. From there, the gross tax data must be disaggregated into two contract classifications, highway and all other contracts. This is done by reducing the gross tax by the total amount of highway/road contracts, also obtained through SABHRS. Historically, highway contracts have

Legislative Fiscal Division

Revenue Estimate Profile

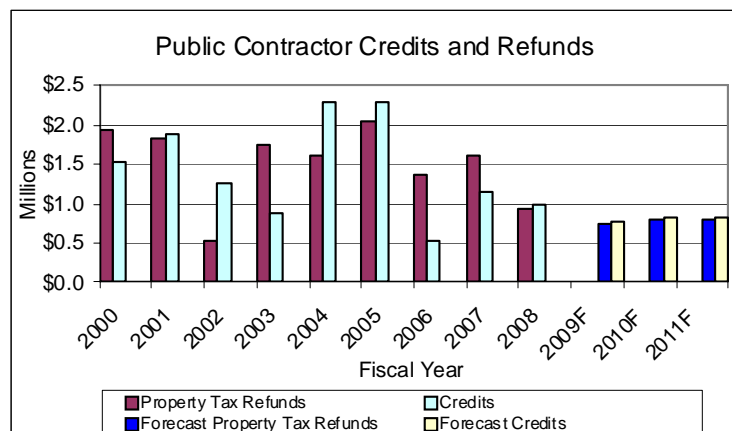
Public Contractors Tax

been responsible for almost 42 percent of the gross tax collections.



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 slow rate of growth inherent in the aggregated public contracts, approximately 2.1 percent annually.

The DOR provides historical data of refund and credit activity for the analysis. The PCGRT revenue has been highly variable over time. However, the variability is not caused by volatility in the number of contracts but instead by inconsistencies in processing payment of refunds and credits. As apparent in the figure below, the DOR deferred some of the refund and credit processing in fiscal years 2002 and 2003, creating a processing backlog. Consequently, processing for those years was postponed to fiscal years 2004 and 2005, exaggerating the credit and refund amounts.



PCGRT refunds are made up primarily of refund claims against the class 8-business property tax. Changes in the property tax rate, such as in fiscal 2000 when the rate was reduced from 6 percent to 3 percent, affect the amount of refunds. Credits are authorized for both individual income tax and the corporation license tax. The credit series as observed in the figure above is a combination of both individual and corporation credits.

Analysis

Analysis of the PCGRT shows a growth of Montana highway contracts at 3.4 percent annually. However, highway contract growth is highly reliant on federal appropriations for highway construction in the state. Each biennium, the DOT legislative budget shows the amount of contracts that are expected in the upcoming biennium. Highway contracts through the DOT are expected to be \$242.1 million, \$242.9 million, and \$252.0 million in fiscal 2009 through fiscal 2011, respectively. While annual

Legislative Fiscal Division

Revenue Estimate Profile

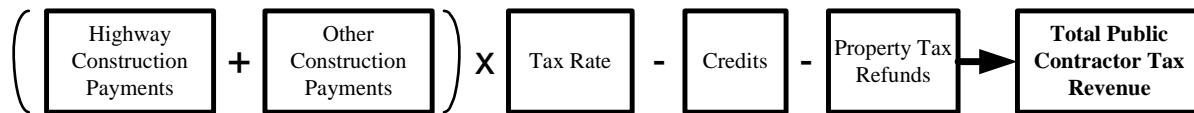
Public Contractors Tax

growth for “other” contracts has been approximately 1.0 percent historically, growth in other public contracts is expected to decline, -6.5 percent annually, for the estimated period and is expected to average \$338.4 million through the three year period. Next, the annual contract amounts are summed. Finally, the tax rate is applied to the amount of total contracts to determine the gross collections of the PCGRT.

Adjustments

The final step in estimating the PCGRT is to reduce the gross collections by two adjustments, income tax credits and property tax refunds. According to the DOR, the backlog in processing has been eliminated, and net collections should appear more consistent in the future. Consequently, growth of the refund and credit activity should become more stable. Total credits are expected to average \$817,000 each fiscal year from 2009 through 2011. Property tax refunds are estimated by developing a relationship between total business property taxes paid and the contractor refunds. This technique produces estimates of property tax refunds that amount to \$743.356, \$791,711, and \$798,095 for fiscal years 2009 through 2011, respectively.

Forecast Methodology



Revenue Estimate Assumptions

	t	Total Tax	GF Tax	Gross Tax	Credits	Tax	DOT	Other
	Fiscal	Millions	Millions	Millions	& Refunds	Rate	Contracts	Contracts
					Millions		Millions	Millions
Actual	2000	2.162223	2.162223	5.516069	3.444985	0.010000	234.875465	316.731435
Actual	2001	0.791615	0.791615	4.502749	3.711134	0.010000	200.507963	249.766937
Actual	2002	3.267321	3.267321	5.054973	1.787652	0.010000	217.749022	287.748278
Actual	2003	3.081553	3.081553	5.706437	2.624885	0.010000	226.113524	344.530176
Actual	2004	2.120485	2.120485	6.004105	3.883620	0.010000	241.630131	358.780369
Actual	2005	1.410831	1.410831	5.752099	4.341269	0.010000	239.291109	335.918791
Actual	2006	4.274649	4.274649	6.157650	1.883218	0.010000	254.388458	361.376542
Actual	2007	5.566958	5.566958	8.335687	2.769423	0.010000	263.661410	569.907290
Actual	2008	5.062659	5.062659	6.964229	1.901570	0.010000	271.911053	424.511847
Forecast	2009	4.058000	4.058000	5.582192	1.524207	0.010000	242.080004	316.139227
Forecast	2010	4.322000	4.322000	5.945307	1.623356	0.010000	242.875429	351.655273
Forecast	2011	4.357000	4.357000	5.993250	1.636446	0.010000	251.975429	347.349580

Total Tax = (DOT Contracts + Other Contracts) * Tax Rate - Credits & Refunds

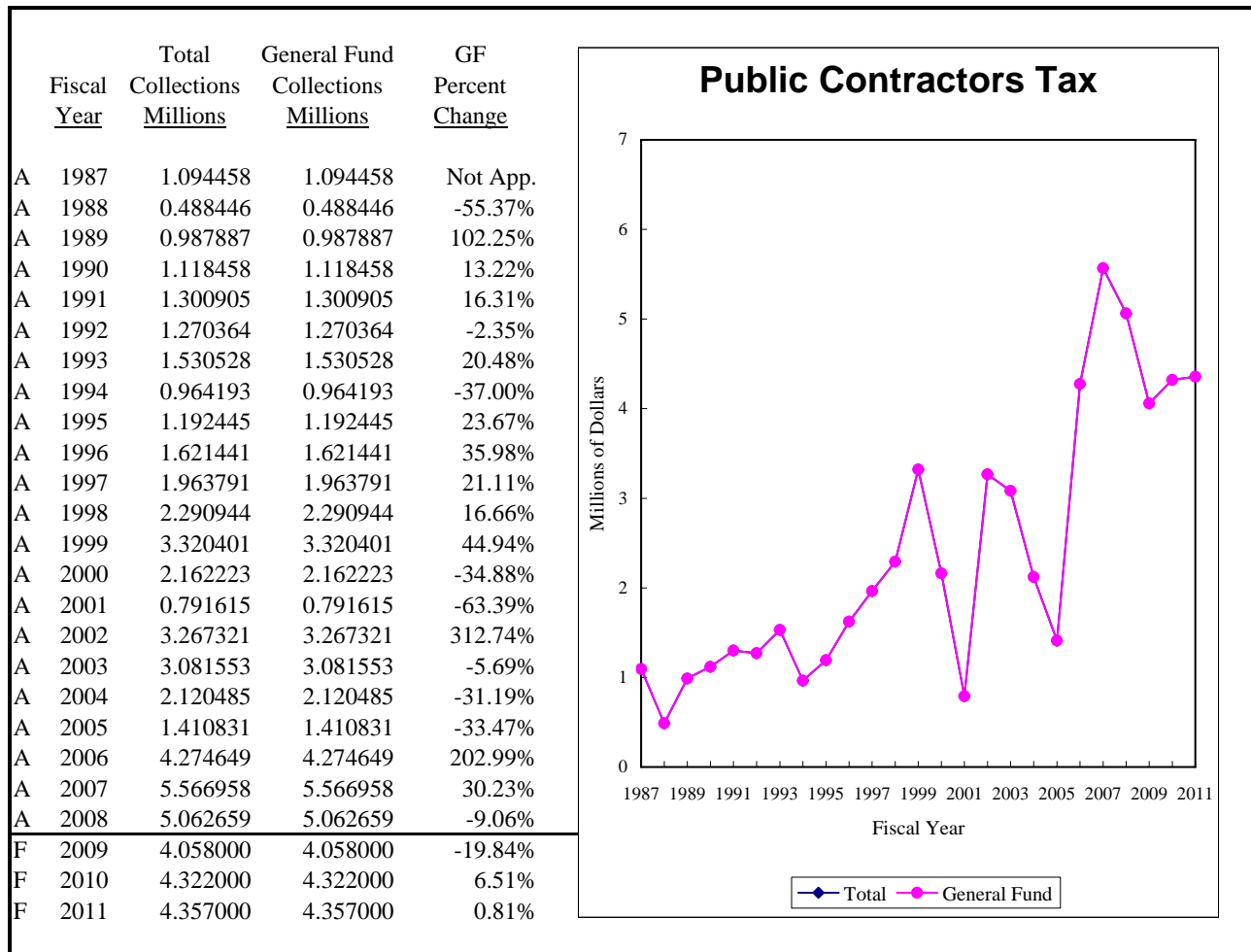
GF Tax = Total Tax

Legislative Fiscal Division

Revenue Estimate Profile

Public Contractors Tax

Revenue Projection:



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

Contacts: Department of Revenue, Department of Transportation

Legislative Fiscal Division

Revenue Estimate Profile

Railroad Car Tax

Revenue Description: All railroad property is subject to taxation as defined in the federal Railroad Revitalization and Regulatory Reform Act of 1976. The Railroad car tax applies to the rolling stock owned by railroad companies. The railroad car tax rate the average property tax rate for commercial and industrial property. Railroad car companies, which operate in several states, pay taxes on the portion of the property value allocated to Montana, based on the ratio of the car miles traveled within Montana to the total number of car miles traveled in all states, as well as time spent in the state relative to time spent in other states.

Statutory Reference:

Tax Rate (MCA) - 15-23-214(1)

Tax Distribution (MCA) – 15-23-215

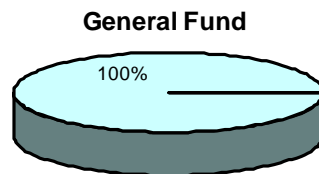
Date Due – Report due to the Department of Revenue April 15th of each year for the previous calendar year (15-23-103(2), 15-23-212). The department calculates the tax due by the third Monday in October (15-23-214(1)). One-half of the tax is due by November 30th and one-half is due by May 31st (15-23-214(3), 15-16-102(1)).

Applicable Tax Rate(s): The tax rate is equal to the previous year's average statewide tax rate for commercial and industrial property. This is multiplied by the statewide average mill levy for commercial and industrial property. The most current tax year rates are:

- | | |
|----------------|----------------|
| * 2004 – 3.88% | * 2007 – 3.55% |
| * 2005 – 3.81% | * 2008 – 3.52% |
| * 2006 – 3.74% | |

Distribution: All revenue from this tax is deposited into the general fund.

Distribution Chart:



Collection Frequency: Semi-annually

% of Total General Fund Revenue:

FY 2004 – 0.11%	FY 2007 – 0.09%
FY 2005 – 0.10%	FY 2008 – 0.11%
FY 2006 – 0.10%	

Revenue Estimate Methodology:

Data

Data from the Department of Revenue (DOR) are used to estimate railcar tax collections. Additionally, SABHRS data are used to check the estimates against the historic values. DOR provides data on the value of national railroad car fleet, Montana's rolling stock, and railroad car tax assessed by company. DOR also provides the historic observations of the average mill levy and applicable tax rate.

Legislative Fiscal Division

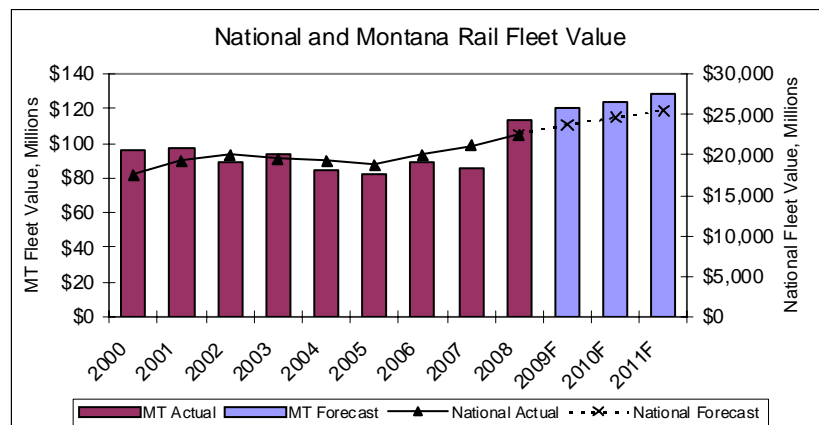
Revenue Estimate Profile

Railroad Car Tax

Analysis

Although the railcar tax appears quite volatile, most of the volatility is caused by shifts in average mill levies and tax rates, both of which are controlled in large part by factors outside of the growth in rail shipments. Furthermore, a large part of the volatility can be traced to litigation brought by rail companies and settled in federal legislation. In 1993, some rail companies protested tax rates. Tax payments were reduced for four years. Then, in 1997, the litigation was settled and the companies were required to make both past and current payments. Railroad properties are taxed as class 12 properties. To calculate total railroad car tax collections (class 12 property), the market value of the Montana fleet is multiplied by the average mill levy and tax rate.

The estimate of the railroad car tax is based on the market value of the rail fleet in Montana. Before the market value can be ascertained, some preliminary estimates must be developed. As illustrated in the figure below, the market value of Montana's fleet is based on a relationship with market value of the U.S. fleet. Consequently, an estimate for the value of the national fleet is developed using the average rate of growth in the U.S. fleet value, based on a four-year pattern of growth. That rate is then applied to the last year of actual fleet value available. Next, a measure of the apportionment of Montana fleet value is developed in percent terms. The apportionment is then applied to the estimate for the national fleet market value to determine the Montana railroad fleet market value. Since the mid 1990's, the market value of Montana's rail fleet has been about 0.50 percent of the nation's fleet. However in recent years, Montana's proportion of rail fleet market value has diminished slightly. For the purpose of estimating future railroad car tax collections, the most recent ratio of Montana market fleet value to national fleet value is used, 0.50 percent. This process provides estimates for the market value of Montana rolling stock of approximately \$124.3 million in fiscal 2009 through fiscal 2011.



After the Montana market fleet value is determined, the average commercial and industrial mill levy and tax rate must be calculated. The rate of the mill levy is calculated from the average of statewide commercial and industrial mill levies. The average mill levy is expected to increase because counties are able to raise levies at a rate equal to half of the annual rate of inflation. Furthermore, the increasing costs of school budgets will further force the average mill levy to increase. The calculated mill levy estimates are 0.524 percent in fiscal 2009, 0.542 percent in fiscal 2010, and 0.539 percent in fiscal 2011.

The tax rate for the railroad property is created from a weighted average of five property classes: class 4, 7, 8, 9, and 13. Class 4 property tax, which is the residential and commercial property tax, is weighted more heavily than the other classes. The estimated tax rate will be 3.4 percent through the years analyzed.

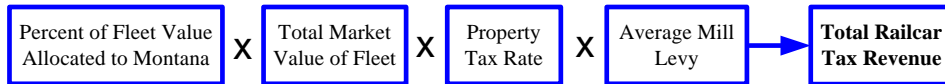
Finally, the rail car tax estimates are completed by multiplying the Montana market value by the average mills and the tax rate.

Legislative Fiscal Division

Revenue Estimate Profile

Railroad Car Tax

Forecast Methodology



Revenue Estimate Assumptions

	<u>t</u> <u>Fiscal</u>	<u>Total Tax</u> <u>Millions</u>	<u>GF Tax</u> <u>Millions</u>	<u>Total MV</u> <u>of Fleet</u> <u>Millions</u>	<u>MT</u> <u>Allocation</u> <u>Percent</u>	<u>MT MV</u> <u>of Fleet</u> <u>Millions</u>	<u>Tax</u> <u>Rate</u>	<u>Mills</u>
Actual	2000	2.100600	2.100600	17582.615541	0.005439	95.626964	0.060800	0.363540
Actual	2001	1.555747	1.555747	19335.425780	0.005021	97.074849	0.042700	0.380060
Actual	2002	1.489813	1.489813	20065.083606	0.004468	89.657366	0.042100	0.400980
Actual	2003	1.484264	1.484264	19527.799607	0.004791	93.549116	0.040200	0.419254
Actual	2004	1.567868	1.567868	19231.928074	0.004369	84.019893	0.038800	0.474429
Actual	2005	1.604005	1.604005	18767.654718	0.004404	82.645528	0.038100	0.487040
Actual	2006	1.667441	1.667441	20014.411877	0.004450	89.055569	0.037400	0.509510
Actual	2007	1.614509	1.614509	21120.423358	0.004063	85.817421	0.035500	0.515710
Actual	2008	2.063981	2.063981	22553.069786	0.005048	113.858954	0.035200	0.520320
Forecast	2009	2.166000	2.166000	23772.248659	0.005048	120.002311	0.034400	0.524788
Forecast	2010	2.295000	2.295000	24626.184487	0.005048	124.312979	0.034100	0.541558
Forecast	2011	2.336000	2.336000	25480.120316	0.005048	128.623647	0.033700	0.539179

Total Tax = Total MV of Fleet * MT Allocation * Tax Rate * Mills

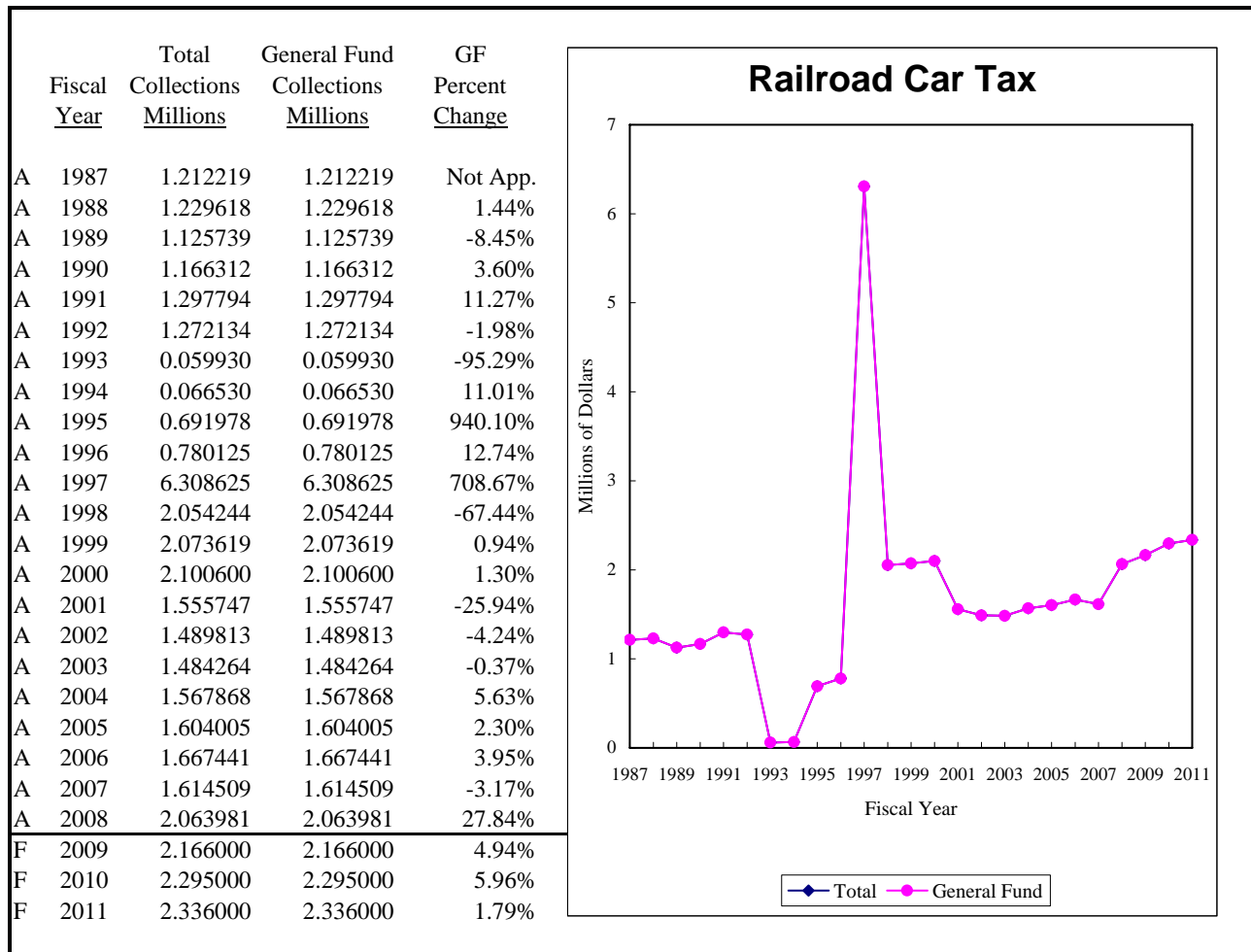
GF Tax = Total Tax

Legislative Fiscal Division

Revenue Estimate Profile

Railroad Car Tax

Revenue Projection:



Data Source(s): SABHRS, Department of Revenue

Contacts: Railroad Car Companies, Department of Revenue

Legislative Fiscal Division

Revenue Estimate Profile

Rental Car Sales Tax

Revenue Description: Beginning July 1, 2003, a new four percent sales tax is imposed on the base rental charge for rental vehicles. The base rental charge includes use charges for time and mileage, insurance, accessory equipment, and charges for additional or underage drivers. It does not include price discounts, charges for operating an airport concession, motor fuel, intercity drop charges, and government taxes. A rental vehicle is one that is used by a person other than the owner by arrangement and for consideration. Included are light vehicles, motorcycles, motor-driven cycles, quadricycles, motorboats and sailboats, and off-highway vehicles. Sales to the U.S. government are exempt from the sales tax. All facilities subject to the tax must obtain a seller's permit before engaging in business subject to the sales tax within Montana. The Department of Revenue may require a retailer to post security up to twice the average tax liability to be used to recover taxes, interest, and penalties owed. Vendors are allowed to claim and keep five percent of the tax as an allowance, not to exceed \$1,000 a quarter.

Statutory Reference:

Tax Rate (MCA) - 15-68-102(1b)

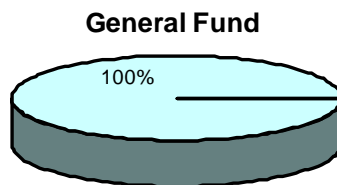
Tax Distribution MCA) - 15-68-820

Date Due - before the last day of the month following the calendar quarter (15-68-502(1))

Applicable Tax Rate(s): A four percent sales tax is imposed on the base rental charge for rental vehicles.

Distribution: All revenue from this tax is deposited into the general fund.

Distribution Chart:



Collection Frequency: The vendor must pay the tax due by the last day of the month following a calendar quarter.

% of Total General Fund Revenue:

FY 2004 - 0.18%

FY 2007 - 0.16%

FY 2005 - 0.17%

FY 2008 - 0.16%

FY 2006 - 0.16%

Revenue Estimate Methodology:

Data

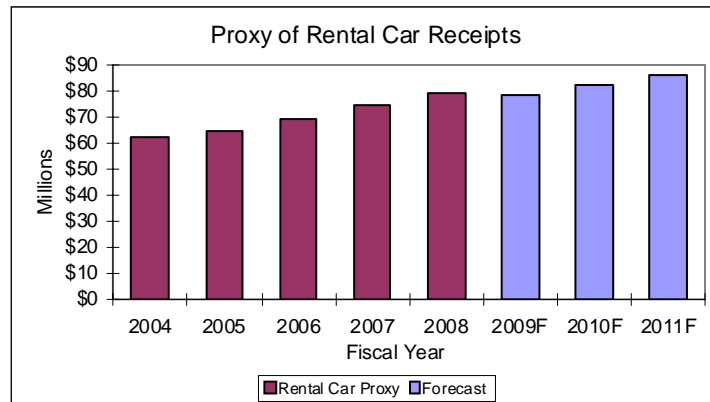
The estimate of the rental car sales tax requires data from two sources, the state accounting system (SABHRS) and the Institute for Tourism and Recreation Research (ITRR). The SABHRS data includes the historic tax collection observations and the ITRR data is used as an indicator for the historic growth associated with the tourism industry.

Before analysis can begin on the rental car tax, a proxy value for rental car expenditures must be developed. This calculation is made by dividing historic tax receipts, provided through SABHRS, by the current tax rate.

Legislative Fiscal Division

Revenue Estimate Profile

Rental Car Sales Tax



Analysis

Because the rental car sales tax is a new tax with only five collection observations, neither a trend nor a regression model provides acceptable results for estimating future tax collections. Because there is strong connection between the use of lodging facilities and rental cars, and given the apparent correlation between the taxes, the LFD uses the growth rate of the lodging facilities tax to project future rental car receipts.

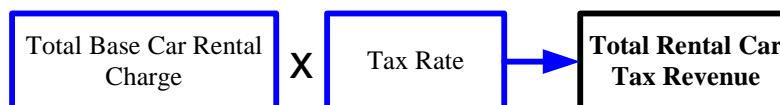
The lodging facilities tax is projected with a linear trend model of the proxy of taxable room charges. The statistics of fit show that a linear trend accurately measures the rate of growth in the value of the proxy of taxable lodging receipts in Montana. The model produces an R^2 rating of 0.993. This means that the linear trend explains 99.3 percent of the variability of the taxable lodging receipts, when all other impacts are held constant.* The growth rate is then applied to the most recent base (fiscal 2008) of the proxy of rental car receipts.

Adjustment and Distribution

The final step in development of the rental car sales tax projection is to reduce the projection by credits and audits. Credits may be requested by vendors for tax payments on dollars that are later recognized as bad debt. Additionally, a credit is allowed if a similar tax has been levied and paid in another state on property that was leased outside this state but used in the state. Additionally, the DOR may audit the accounts of vendors who pay the rental car sales tax, and both positive and negative adjustments may be made to the total collections. To date, no credits or audits have occurred.

*For additional information concerning the statistics of fit for the model used for this projection, contact the Legislative Fiscal Division.

Forecast Methodology



Revenue Estimate Assumptions

Legislative Fiscal Division

Revenue Estimate Profile

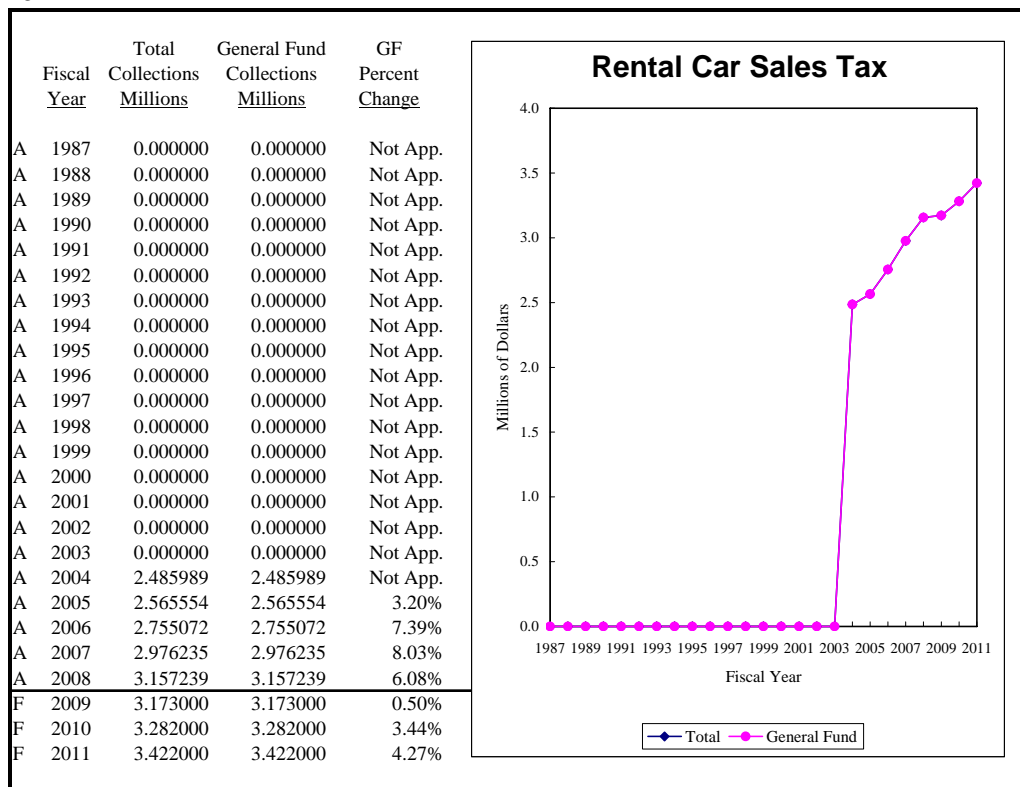
Rental Car Sales Tax

	t	Total Tax	GF Tax	Taxable	Tax	Credits	Audits
	Fiscal	Millions	Millions	Sales	Rate	Millions	Millions
				Millions	Percent		
Actual	2000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Actual	2001	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Actual	2002	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Actual	2003	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Actual	2004	2.485989	2.485989	62.149725	0.040000	0.000000	0.000000
Actual	2005	2.565554	2.565554	64.138850	0.040000	0.000000	0.000000
Actual	2006	2.755072	2.755072	68.876800	0.040000	0.000000	0.000000
Actual	2007	2.976235	2.976235	74.405875	0.040000	0.000000	0.000000
Actual	2008	3.157239	3.157239	78.930975	0.040000	0.000000	0.000000
Forecast	2009	3.173000	3.173000	79.333049	0.040000	0.000000	0.000000
Forecast	2010	3.282000	3.282000	82.047667	0.040000	0.000000	0.000000
Forecast	2011	3.422000	3.422000	85.536006	0.040000	0.000000	0.000000

Total Tax = Taxable Sales * Tax Rate - Credits + Audits

GF Tax = Total Tax

Revenue Projection:



Data Source(s): SABHRS, Department of Revenue

Contacts: Rental Car Companies

Legislative Fiscal Division

Revenue Estimate Profile

Telecommunications Excise Tax

Revenue Description: The retail telecommunications excise tax is levied on the sales price of retail telecommunications services originating or terminating in the state. It is paid by the retail purchaser and collected by the provider.

Statutory Reference:

Tax Rate (MCA) – 15-53-130

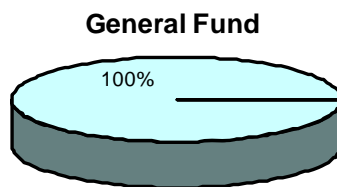
Tax Distribution (MCA) – 15-53-156

Date Due – 60 days after the end of the calendar quarter (15-53-139)

Applicable Tax Rate(s): The current tax rate of 3.75% is applied to the sales price of retail telecommunications services. Sales price includes payment for services such as distribution, supply, transmission, and delivery, but excludes federal taxes, relocation of service, equipment repair, prepaid calling cards, and other items. Gross receipts from the provision of internet services are also exempt. Credits previously allowed for costs of advanced telecommunications infrastructure improvements were repealed in House Bill 96 by the 2003 legislature.

Distribution: After retaining an allowance for refunds, all proceeds are deposited into the general fund.

Distribution Chart:



Collection Frequency: Quarterly

% of Total General Fund Revenue:

FY 2004 - 1.51%

FY 2007 - 1.14%

FY 2005 - 1.38%

FY 2008 - 1.15%

FY 2006 - 1.24%

Revenue Estimate Methodology:

Data

Data from quarterly reports produced by DOR provide a history of retail telecommunications sales for each individual company. CPI data is obtained from Global Insight.

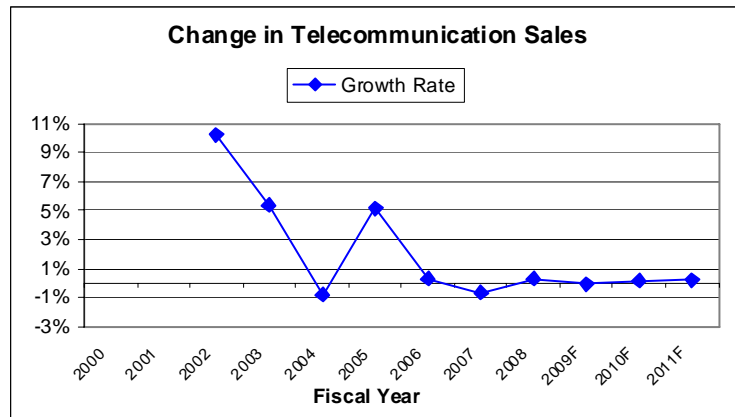
Analysis

The total retail telecommunication sales are reported by the DOR. The ratio of the growth rate in sales from the previous fiscal year to the CPI rate as report by Global Insight for that year is multiplied by the CPI rate for the current year. The resulting growth rate is applied to the sales of the previous year. Yearly estimated taxable sales are multiplied by the tax rate to derive gross tax revenue from this source.

Legislative Fiscal Division

Revenue Estimate Profile

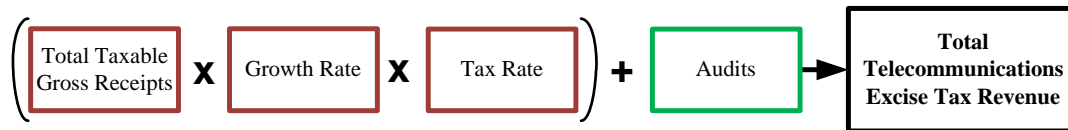
Telecommunications Excise Tax



Adjustments and Distribution

Once gross tax revenue for each fiscal year is determined, the value is adjusted by audits. In the 2001 biennium, audits are expected to total \$1.65 million and the revenue will appear in each of the years of analysis. Next, the applicable distribution percentage, 100 percent to the general fund, is applied.

Forecast Methodology



Revenue Estimate Assumptions

	t	Total Tax	GF Tax	Taxable	Tax	Credits	Audits
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Sales</u>	<u>Rate</u>	<u>Millions</u>	<u>Millions</u>
				<u>Millions</u>	<u>Percent</u>		
Actual	2000	6.366299	6.366299	182.127040	0.037500	0.000000	0.000000
Actual	2001	18.838200	18.838200	465.259867	0.037500	0.429045	1.820000
Actual	2002	19.593501	19.593501	512.754187	0.037500	0.252198	0.617417
Actual	2003	20.804524	20.804524	540.397200	0.037500	0.004069	0.543698
Actual	2004	20.890335	20.890335	536.138960	0.037500	0.052757	0.837881
Actual	2005	21.144420	21.144420	563.779627	0.037500	0.000000	0.002684
Actual	2006	21.208947	21.208947	565.571920	0.037500	0.000000	0.000000
Actual	2007	21.065843	21.065843	561.755813	0.037500	0.000000	0.000000
Actual	2008	22.350323	22.350323	563.407947	0.037500	0.000000	1.222525
Forecast	2009	21.614000	21.614000	563.038351	0.037500	0.000000	0.500000
Forecast	2010	21.701000	21.701000	564.038307	0.037500	0.000000	0.550000
Forecast	2011	21.798000	21.798000	565.285396	0.037500	0.000000	0.600000

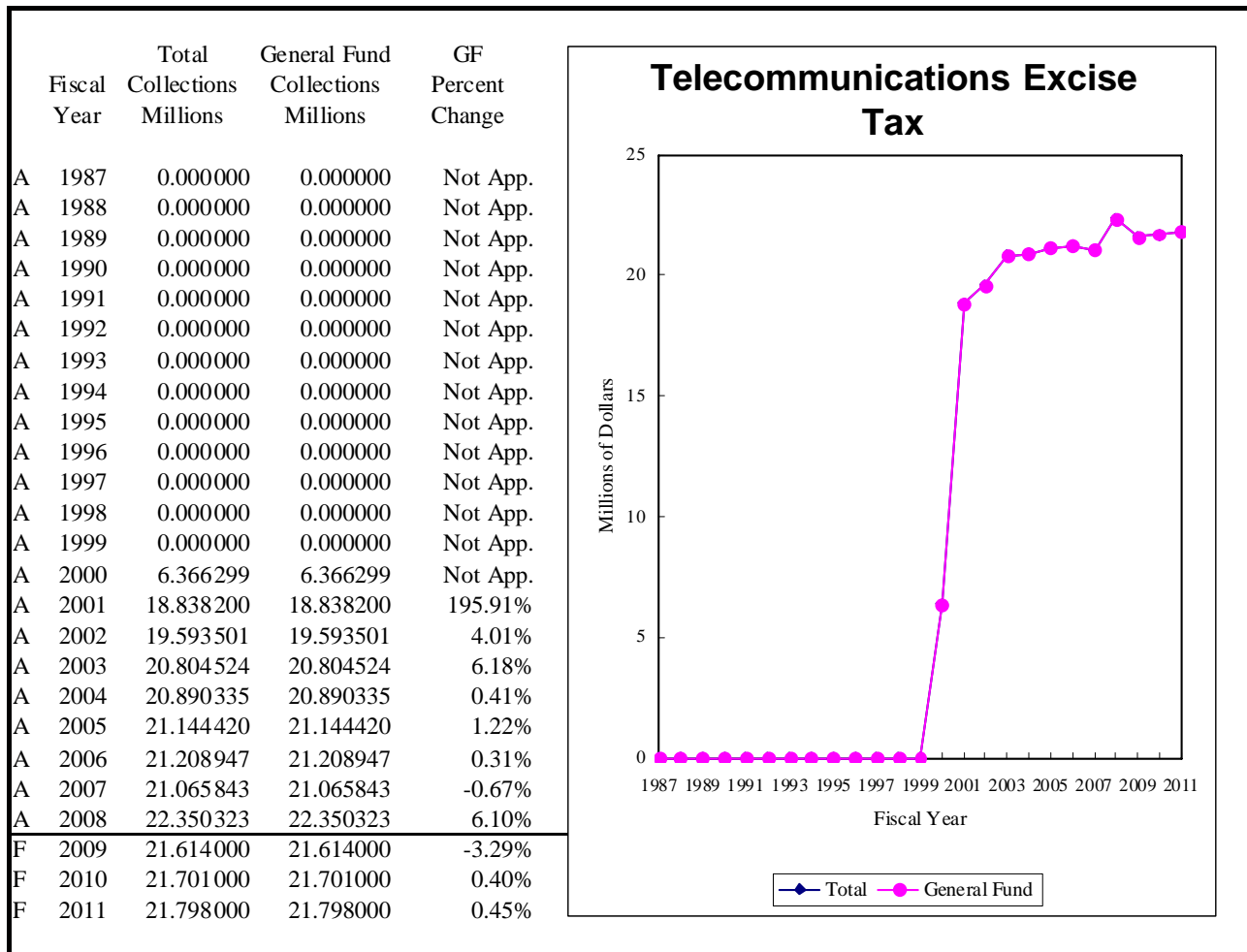
Total Tax = Taxable Sales * Tax Rate - Credits + Audits
 GF Tax = Total Tax

Legislative Fiscal Division

Revenue Estimate Profile

Telecommunications Excise Tax

Revenue Projection:



Data Source(s): SABHRS, Department of Revenue

Contacts: Major Telecommunications Companies

Legislative Fiscal Division

Revenue Estimate Profile

Vehicle Tax

Revenue Description: Light vehicles, motorcycles and quadricycles, snowmobiles, buses, trucks, truck tractors having a manufacturer's rated capacity of more than 1 ton, motor homes, and certain trailers and travel trailers are taxed under a fee schedule that varies by age and weight.

Before January 1, 2001 light vehicles were taxed on an ad valorem basis. As a result of Referendum (LR) 115 (HB540), passed by the electorate in November 2000, light vehicles pay a fee-in-lieu of tax (FILT). The fee is \$195 for light vehicles of age between zero and four years, \$65 for vehicles between five and ten years of age, and \$6 for vehicles over ten years old. Owners of vehicles greater than ten years old may pay \$87.50 (plus other applicable fees) for a permanent registration.

Effective January 1, 2003, the fee schedule on heavy trucks is reduced by 1/6th for calendar 2003, by 1/3rd for calendar 2004 and by 1/2 for calendar 2005. These changes were enacted by HB 247 in the 2003 legislative session. The fee schedule for truck varies by age and weight capacity.

Effective January 1, 2004, the fees-in-lieu-of-tax on motorcycles and quadricycles, trailers and travel trailers, snowmobiles, watercraft, off-highway vehicles are one-time payments, except upon change of ownership. These one-time fees in calendar 2004 doubled in calendar 2005 and thereafter.

Due to changes enacted by HB 671 and SB 285 in the 2005 legislature, registration fee revenue reported by counties on the county collection report are now being recorded as vehicle taxes. Therefore, revenue shown for this source shows a large increase in FY 2006 from FY 2005, but revenue decreases by a like amount in the "Motor Vehicle Fee" revenue source.

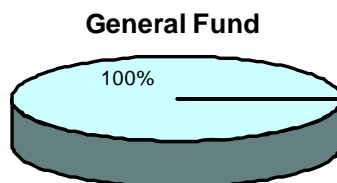
Statutory Reference:

- Tax Rate (MCA) – watercraft one-time (23-2-516), snowmobiles one-time (23-2-626), OHV one-time (23-2-803), vehicle registrations (61-3-321), vehicles greater than 1 ton (61-3-529)
- Tax Distribution (MCA) – watercraft (23-2-518), snowmobiles (23-2-619(7)), OHV (23-2-803), vehicle registrations (61-3-321(16)), motorcycles and quadricycles registrations (61-3-509), motor homes registrations (61-3-509), vehicles greater than 1 ton registrations (61-3-509)
- Date Due – County treasurers remit the revenue to the Department of Revenue every 30 days (15-1-504 & 61-3-509).

Applicable Tax Rate(s): Varies

Distribution: All fees-in-lieu-of-tax are deposited in the general fund.

Distribution Chart:



Collection Frequency: Monthly

% of Total General Fund Revenue:

FY 2004 – 6.05%	FY 2007 – 5.51%
FY 2005 – 5.23%	FY 2008 – 5.26%
FY 2006 – 5.39%	

Legislative Fiscal Division

Revenue Estimate Profile

Vehicle Tax

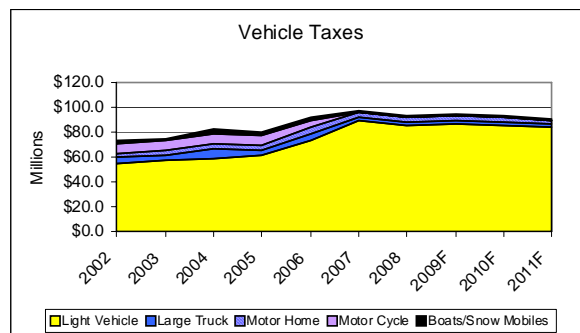
Revenue Estimate Methodology:

Data

The data used to estimate the motor vehicle tax are obtained from the state accounting system (SABHRS) and Global Insight (both national and state projections). No adjustments are required on the raw data in preparation for analysis.

Analysis

Vehicle taxes are currently imposed at different rates on five categories of vehicles (tax schedule varies by age and weight) including light vehicles, large trucks, motor homes, motor cycles (including tri-cycles), and boats and snowmobiles. As shown in the figure below, the taxes have increased at a slow rate since fiscal 2002. The figure below also shows greater rate of growth for light vehicle taxes in fiscal 2006 and fiscal 2007. This growth results from the legislative impacts of SB 285 and HB 671, both implemented in the 2005 session. In fiscal 2008, vehicle taxes began to show a decline, which is expected to continue through fiscal 2010.

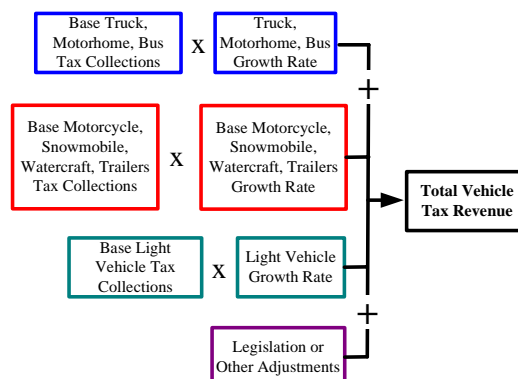


With constant tax rates, the future change in vehicle tax revenue results from change in the vehicle stock in Montana. Because tax payments are directly connected to the number of vehicles in the state, estimates for the revenues are made by applying estimated growth rates to the previous year revenue. Growth rates for the stock of Montana vehicles are derived by first obtaining Global Insight estimates for the national vehicle stock and new car sales nationwide and for Montana. A ratio is then developed to project the stock of Montana vehicles. An average of the Montana stock in the current and previous years is used in this estimate from which growth between two years is calculated. For the estimated period, growth is expected to increase in FY 2009, but decline in the following years. The growth rate is applied to the base year (fiscal 2008) revenues of each tax category and projected forward at the same rate for all estimated fiscal years. The estimated tax collections of each category are then combined to create the total estimates for vehicle tax revenue.

Adjustments

In past years, adjustments to vehicle taxes have been required as a result of legislative actions. For these estimates, no adjustments are required.

Forecast Methodology:



Legislative Fiscal Division

Revenue Estimate Profile

Vehicle Tax

Revenue Estimate Assumptions:

	<u>t</u> <u>Fiscal</u>	<u>Total Tax</u> <u>Millions</u>	<u>GF Tax</u> <u>Millions</u>	<u>Non-GF Tax</u> <u>Millions</u>	<u>Legislation</u> <u>Millions</u>
Actual	2000				
Actual	2001				
Actual	2002	73.091930	73.127444	-0.035514	
Actual	2003	75.185832	75.185331	0.000501	
Actual	2004	83.606576	83.606576	0.000000	
Actual	2005	80.132416	80.132416	0.000000	0.000000
Actual	2006	92.097303	92.097303	0.000000	0.000000
Actual	2007	98.070390	98.070390	0.000000	0.000000
Actual	2008	93.493069	93.493069	0.000000	0.000000
Forecast	2009	95.014000	95.014000	0.000000	0.000000
Forecast	2010	93.748000	93.748000	0.000000	0.000000
Forecast	2011	91.559000	91.559000	0.000000	0.000000

	<u>t</u> <u>Fiscal</u>	<u>Large</u> <u>Truck</u> <u>Millions</u>	<u>Motor</u> <u>Home</u> <u>Millions</u>	<u>Light</u> <u>Vehicle</u> <u>Millions</u>	<u>Boats/</u> <u>Snow</u> <u>Millions</u>	<u>MCO</u> <u>Registration</u> <u>Millions</u>	<u>District</u> <u>Courts</u> <u>Millions</u>
Actual	2000						
Actual	2001						
Actual	2002	5.383664	3.607418	54.602101	2.075694	7.458568	-0.035514
Actual	2003	5.116869	3.342342	56.961345	2.195942	7.568832	0.000000
Actual	2004	8.562457	4.484770	58.457160	3.980061	8.122128	0.000000
Actual	2005	4.433347	3.834690	60.940073	2.369148	8.555157	0.000000
Actual	2006	5.576714	5.235701	73.979874	2.325379	4.979634	0.000000
Actual	2007	3.024446	3.999998	89.574793	1.470374	0.000780	0.000000
Actual	2008	2.778853	3.742792	85.624489	1.346935	0.000000	0.000000
Forecast	2009	2.824057	3.803676	87.017343	1.368846	0.000000	0.000000
Forecast	2010	2.786432	3.753000	85.858011	1.350609	0.000000	0.000000
Forecast	2011	2.721374	3.665375	83.853398	1.319075	0.000000	0.000000

	<u>t</u> <u>Fiscal</u>	<u>Large</u> <u>Truck</u> <u>Rate</u>	<u>Motor</u> <u>Home</u> <u>Rate</u>	<u>Light</u> <u>Vehicle</u> <u>Rate</u>	<u>Boats/</u> <u>Snow</u> <u>Rate</u>	<u>MCO</u> <u>Registration</u> <u>Rate</u>
Actual	2000					
Actual	2001					
Actual	2002					
Actual	2003	0.028648	-0.049556	-0.073481	0.043208	0.057931
Actual	2004	0.111999	0.673378	0.341805	0.026260	0.812462
Actual	2005	-0.041554	-0.482234	-0.144953	0.042474	-0.404746
Actual	2006	0.149314	0.257902	0.365352	0.213977	-0.018475
Actual	2007	0.064856	-0.457665	-0.236015	0.210799	-0.367684
Actual	2008	-0.046674	-0.081203	-0.064302	-0.044101	-0.083951
Forecast	2009	0.016267	0.016267	0.016267	0.016267	0.016267
Forecast	2010	-0.013323	-0.013323	-0.013323	-0.013323	-0.013323
Forecast	2011	-0.023348	-0.023348	-0.023348	-0.023348	-0.023348

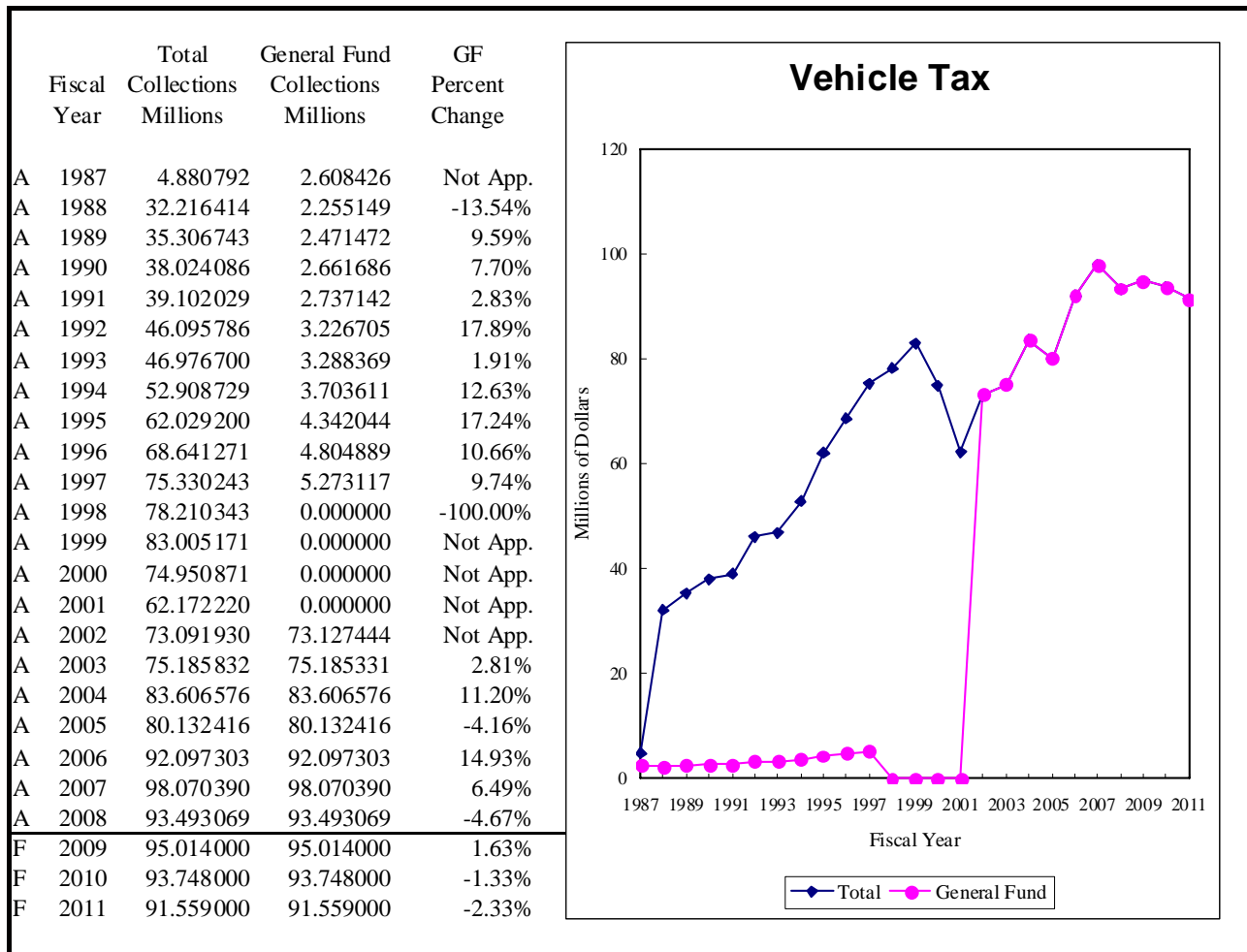
Total Tax = Large Trucks + Motor Home + Light Vehicle + Boats/Snow + MCO Registration
GF Tax = Total Tax

Legislative Fiscal Division

Revenue Estimate Profile

Vehicle Tax

Revenue Projection:



Data Source(s): Department of Justice, SABHRS

Contacts: Department of Justice