

Business Taxes

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Public Contractors Tax

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Telephone License Tax



Legislative Fiscal Division



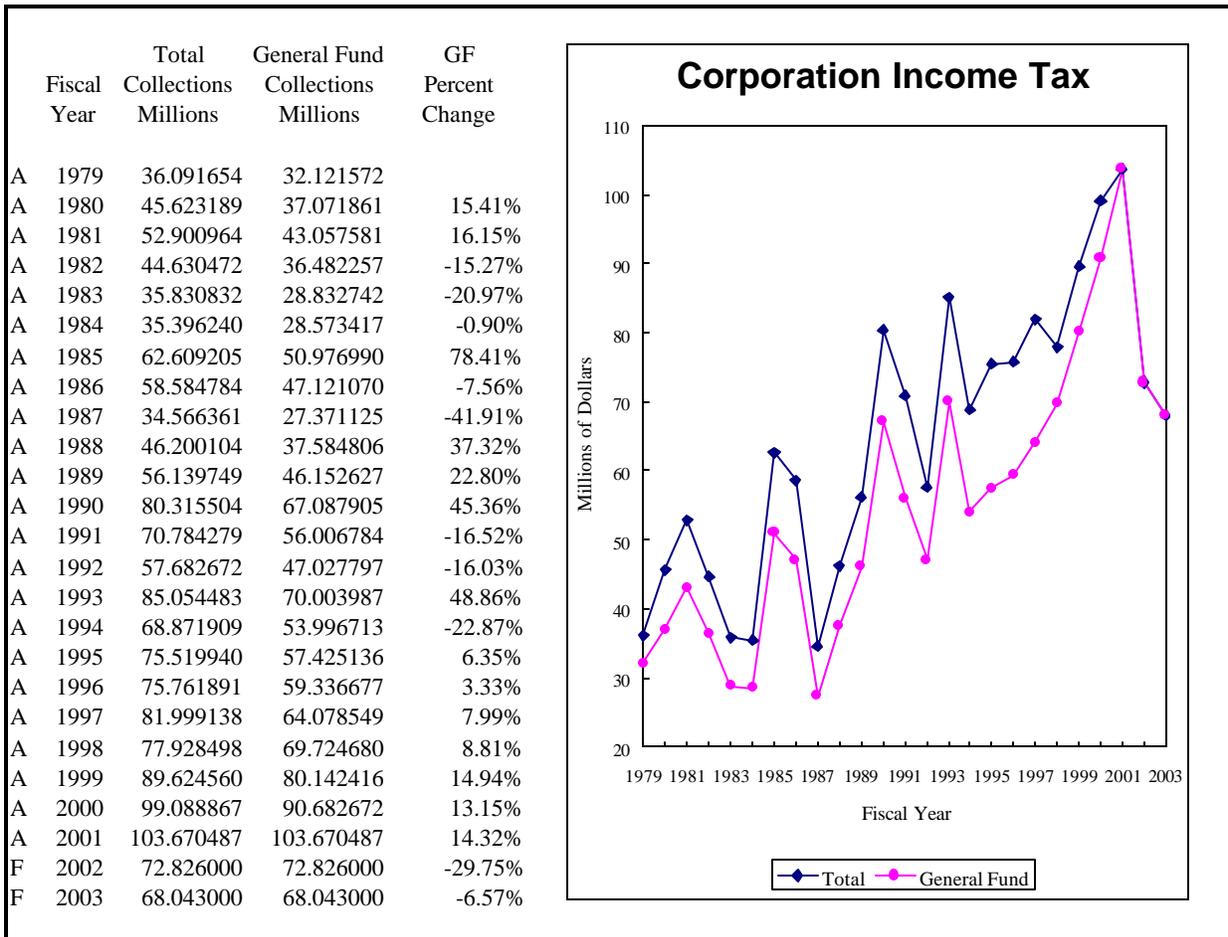
CORPORATION INCOME TAX

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. The revenue from Montana's corporation license tax is correlated closely with profits from corporations in the rest of the country. Additional factors that affect corporation license tax receipts include tax credits and the audit efforts by the Department of Revenue. As with individual income tax, all forecasts are adjusted for allowable credits.

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: All corporation taxes are distributed to the general fund.

Revenue Projection:



**LFD
COMMENT**

Corporation income tax is coming in significantly below the HJR 2 projection. Consequently, the projections for this source have been adjusted to better match actual collections. There is a considerable difference between the corporation income tax projections produced by the LFD and those given in the executive's revenue estimates. The executive projects fiscal 2002 revenues from this source at \$70.1 million as compared to the LFD \$72.8 million and fiscal 2003 revenues at \$66.6 million as compared to \$68.0 million.

The LFD uses a model, which regresses Montana corporation income against U.S. pre-tax corporation profits to project collections for this source. For the LFD projection, the most recent U.S. profits were used, with data obtained from the Wharton Econometric Forecasting Service's April 2002 publication. When compared to May 2002 actual collections and anticipated collections through the end of the fiscal year, this projection appears accurate.

The executive projection was determined using year-to-date revenues through May and adding an estimated June collection of \$13.0 million. The executive uses a forecasting model that includes previous year collections as a variable to predict revenues for fiscal 2003.

Both the executive and LFD projections include a number of adjustments. Among these are an addition for unusual audit payments and a reduction for the bonus depreciation provision included in the Job Creation and Workers Assistance Act of 2002. The LFD additionally increased the fiscal 2002 projection by \$ 4.9 million for a one-time estimated payment received in February 2002.

Corporation Income Tax (in millions)						
	Fiscal Year	Forecast	Adjustments			Total G.F.
			Unusual Audits	Bonus Depreciation	One-time Payment	
LFD	2002	\$67.162	\$3.750	(\$2.986)	\$4.900	\$72.826
	2003	\$68.594	4.500	(5.051)		68.043
Executive	2002	\$70.075	3.000	(3.000)		70.075
	2003	\$67.110	4.500	(5.000)		66.610

(in millions)	Fiscal 2002			Fiscal 2003		
	HJR	Exec	LFD	HJR	Exec	LFD
Estimates	\$81.543	\$70.075	\$72.826	\$82.854	\$66.610	\$68.043
Difference	-	(11.468)	(8.717)	-	(16.244)	(14.811)

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 a fee. The fees are collected by Department of Justice, Motor Vehicle Division staff or county treasurers and are forwarded to the state treasurer for deposit. The fees included in this source are from regular driver's licenses, commercial driver's licenses, motorcycle endorsements, and duplicate driver's licenses.

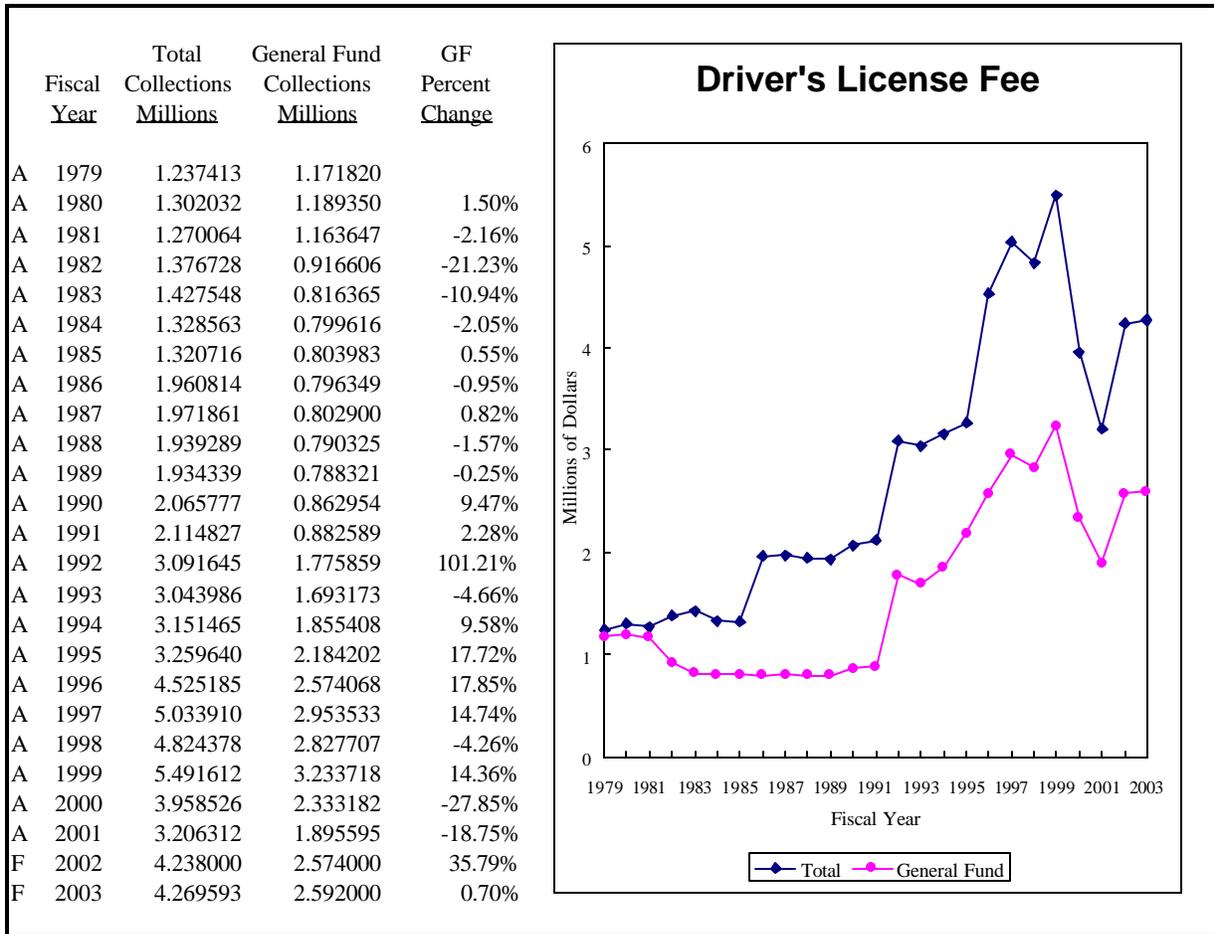
Applicable Tax Rate(s): Driver's license fees are:

- driver's license, except a commercial driver's license - \$4.00 per year or fraction of a year
- motorcycle endorsement - \$0.50 per year or fraction of a year
- commercial driver's licenses:
 - interstate - \$5.00 per year or fraction of a year
 - intrastate - \$3.50 per year or fraction of a year
 - duplicate license - \$5.00

Distribution: The distribution of license fee revenue varies by the type of license. The table below 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				
Recipient	Driver's License	Duplicate License	Motorcycle Endorsement	Commercial Driver's License
Montana Highway Patrol	16.70%	25.00%	0.00%	0.00%
Counties or DOJ	2.50%	3.75%	3.34%	2.50%
Traffic Education Account	26.25%	8.75%	63.46%	0.00%
General Fund	<u>54.55%</u>	<u>62.50%</u>	<u>33.20%</u>	<u>97.50%</u>
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Revenue Projection:



(in millions)	Fiscal 2002			Fiscal 2003		
	HJR	Exec	LFD	HJR	Exec	LFD
Estimates	\$2.178	\$2.667	\$2.574	\$2.194	\$2.323	\$2.592
Difference	-	0.489	0.396	-	0.129	0.398

ESTATE TAX

Revenue Description: An inheritance tax is 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. The tax is due 18 months after the death of the decedent. 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.

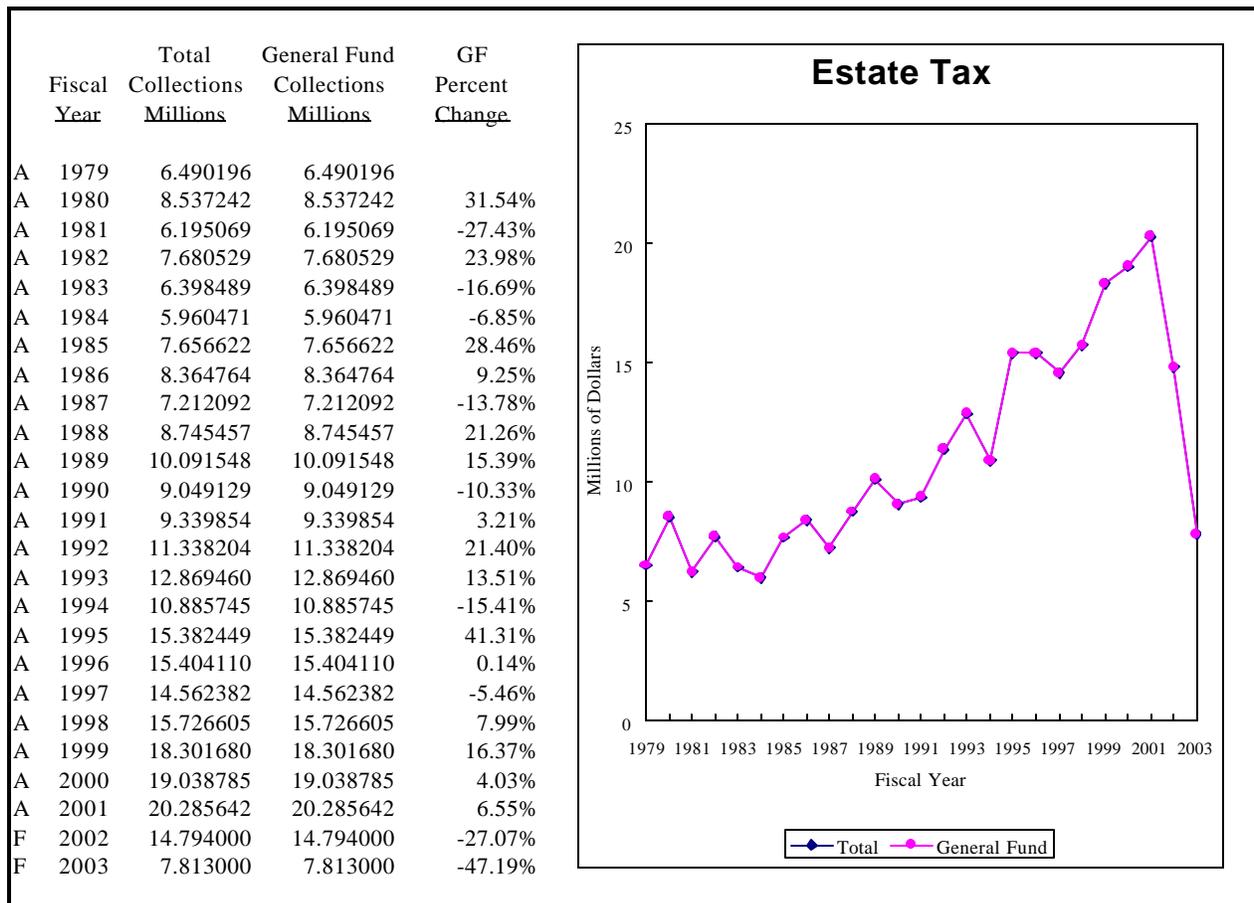
Due to passage of Legislative Referendum 116 by the electorate in November 2000, the state inheritance tax was repealed. Although the act was effective immediately, it applies to deaths occurring after December 31, 2000. Thus, inheritance tax revenue will continue to produce revenue during the 2003 biennium, but the amount of revenue will decrease each year. The estate tax remains in existence.

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 several large estates.

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.

Revenue Projection:



**LFD
COMMENT**

Estate tax collections are approximately 14 percent below the HJR 2 projection. The LFD projections differ from the executive by \$1.4 million for the biennium, with the largest difference in fiscal 2003. The LFD used two assumptions in reducing the projections for estate taxes. First, reduced individual wealth has been demonstrated by a reduction in fiscal 2002 estate tax collections. Second, revenues will be adversely affected by the federal government's passage of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRR).

The estimates for the 2003 biennium include adjustments for the changes in Montana legislation. The LFD assumes that the reduced revenues, 12.5 percent, are a reflection of changes in individual wealth and will continue to be a factor through fiscal 2003. Additionally, the effects of the EGTRR, passed by Congress after the 2001 session, reduced the 2003 projection further (\$0.9 million as determined by the DOR). The primary difference between the LFD and executive estimates is the base estimate, from which both sets of adjustments were made. The LFD base was determined with a trend model, while the executive base was produced with a complex regression model.

Estate Tax (in millions)					
	Fiscal Year	Base Estimates	All Other Adjustments*	Federal Estate	Total G.F.
LFD	2002	\$19.872	(\$5.078)	\$0.000	\$14.794
	2003	20.871	(\$12.146)	(0.913)	7.812
Executive	2002	22.385	(\$7.603)	(0.026)	14.756
	2003	21.975	(\$11.502)	(1.174)	9.299

*Montana legislative impacts, repeal of Montana inheritance tax, and changes in timing of collections.

(in millions)	Fiscal 2002			Fiscal 2003		
	HJR	Exec	LFD	HJR	Exec	LFD
Estimates	\$17.118	\$14.756	\$14.794	\$10.097	\$9.299	\$7.813
Difference	-	(2.362)	(2.324)	-	(0.798)	(2.284)

FOREIGN CAPITAL DEPOSITORY TAX

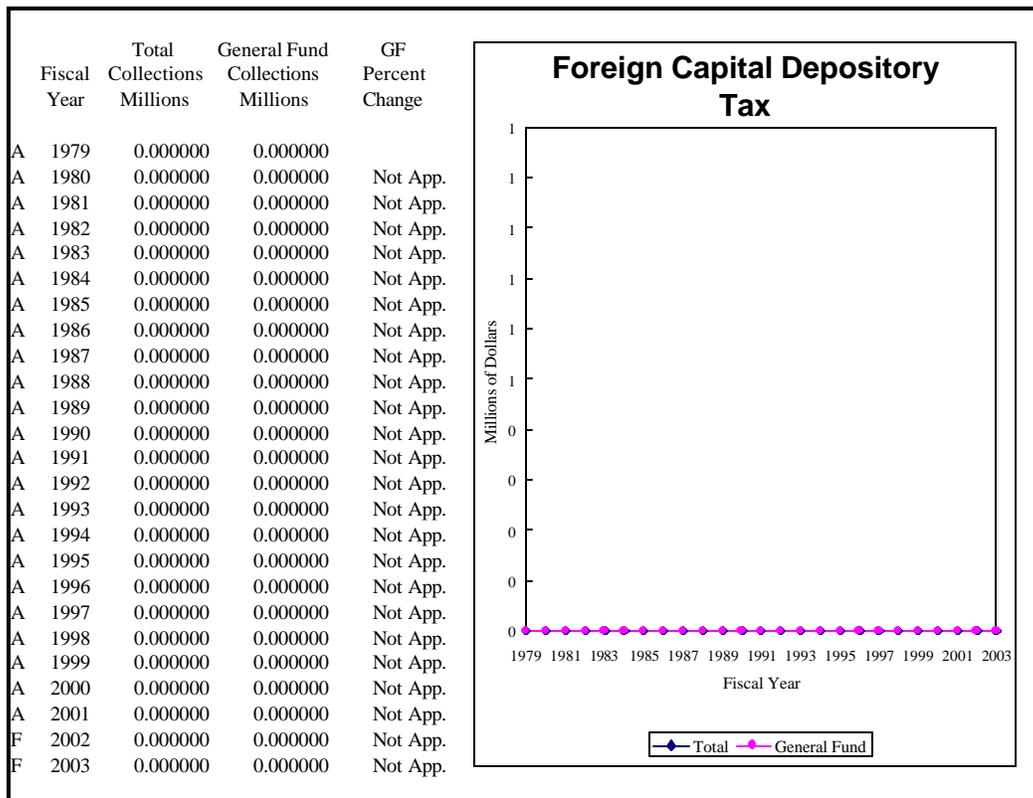
Revenue Description: The legislature has authorized the chartering of foreign capital depositories in Montana. Only a person who is not a citizen or resident of the United States may use the services of the depository. There are no citizenship requirements imposed on the owner of the depository, but the depository must be chartered in Montana. The initial fee associated with a state charter is \$50,000, and the annual fee is \$10,000, both of which are deposited in a foreign capital depository special revenue account. A depository may accept a minimum of \$200,000 in currency, cash to exchange for precious metals, and tangible personal property. Other services may be provided such as foreign currency exchange, safe deposit boxes, storage of assets, bond sales, and performance of trust and related fiduciary services. The enabling legislation terminates September 30, 2012.

A foreign capital depository is exempt from the corporation license tax, but must pay a tax based on the average value of assets on deposit or in a safe deposit box. The tax is assessed on a six-month period and is due June 15 and December 15. The amount of tax collected on June 15 is divided equally among individual income tax payers as a tax credit.

Applicable Tax Rate(s): The tax is 0.375 percent of the average balance of assets over a six-month period. The total annual tax is 0.75 percent.

Distribution: Tax proceeds are deposited into the general fund.

Revenue Projection:



(in millions)	Fiscal 2002			Fiscal 2003		
	HJR	Exec	LFD	HJR	Exec	LFD
Estimates	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
Difference	-	0.000	0.000	-	0.000	0.000

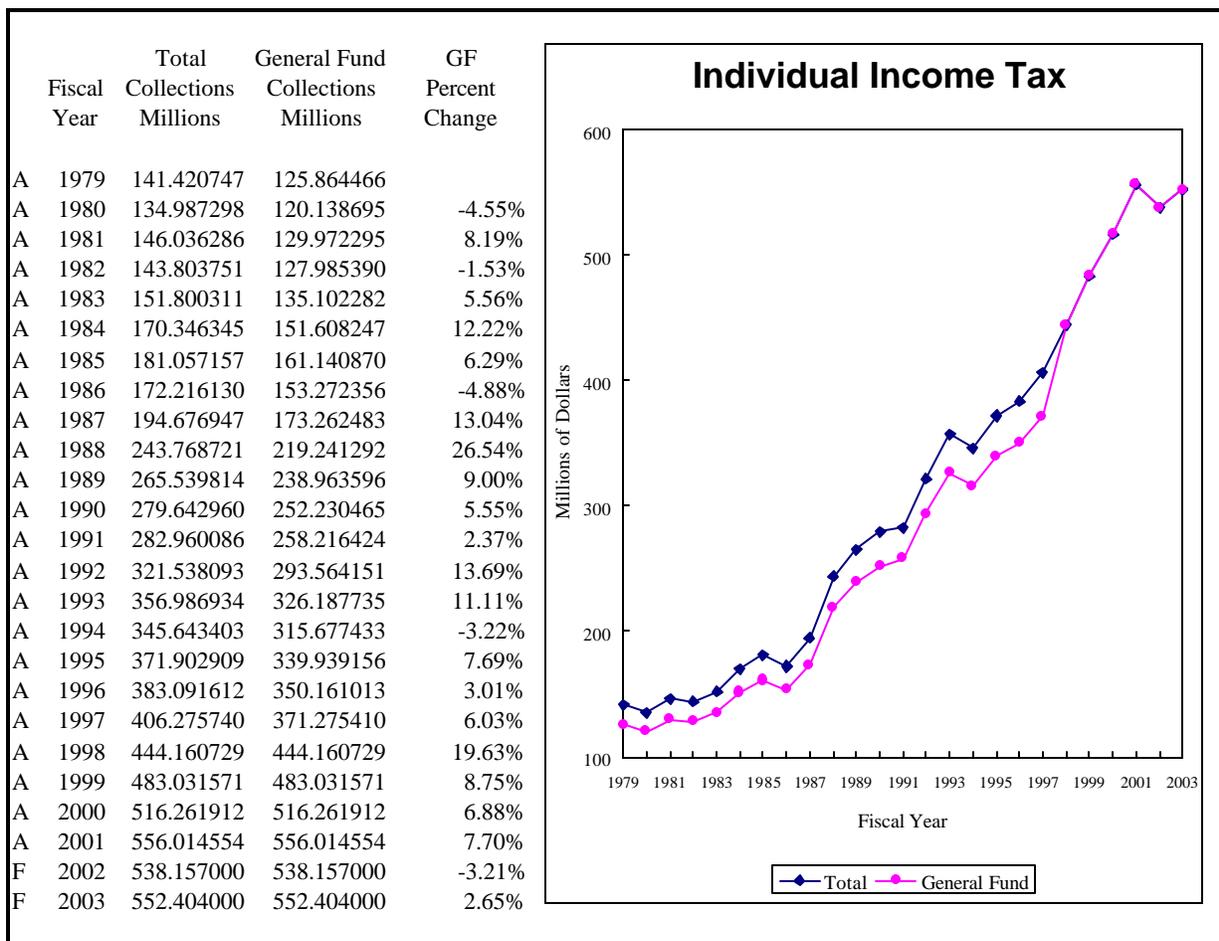
INDIVIDUAL INCOME TAX

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.

Applicable Tax Rate(s): Tax rates vary from 2.0% to 11.0%, 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.

Distribution: All proceeds are deposited into the general fund.

Revenue Projection:



LFD COMMENT

Individual income tax revenues in fiscal 2002 are well below the \$575.0 million estimate adopted in the 2001 legislative session. The executive estimate of income tax revenue for fiscal 2002 is \$541.6 million. The LFD estimate is slightly lower at \$538.2 million. The projections for fiscal 2003 are \$551.2 million by the executive compared to \$552.4 million by the LFD.

Both estimates of fiscal 2002 were derived in essentially the same manner. Data on year-to-date withholdings, estimated payments, current year payments, refunds, and accruals were compared with year-to-date and final fiscal 2001 collections. The LFD estimate was based on data through the end of May 2002 while the executive estimate was based on data through May 13, 2002. The table below contains a comparison of these forecast components for fiscal 2002.

**LFD
COMMENT
Continued**

As of the end of May 2002, withholding collections were up by 3.4 percent compared with collections through May 2001. The LFD estimate assumes this growth will hold true for all of fiscal 2002. The executive growth rate for withholding collections is slightly higher at 3.5 percent.

The final estimated payment in fiscal 2002 is due June 15. Through May, estimated payments were down

\$14.0 million, or 10.3 percent, compared with estimated payments through May of last year. The LFD estimate assumes that final fiscal 2002 estimated payments will remain 10.3 percent below last year. The executive assumes that estimated collections will be \$20 million below last year's level, based on a 5-year history of withholding collections through April.

At the end of May 2002, current year payments (which include payments for calendar year 2001 liabilities, extensions, audits, and penalty and interest) were \$108.9 million, \$12.4 million below current year payments through May 2001. Current year payments in June 2001 were \$4.9 million. The LFD estimate adds this amount to the end of the May 2002 amount to derive current year payments for fiscal 2002. The executive estimate assumes an additional \$5.5 million will be collected in June.

Refunds as of June 5, 2002 were \$139.9 million, nearly \$3.0 million above total fiscal 2001 refunds of \$137.2 million. Refunds in fiscal 2001 contained a fiscal year end payable accrual of \$6.7 million. The Department of Revenue (DOR) has indicated that at fiscal year end 2002 it will reduce the refund accrual to about \$100,000. This is a change in DOR's accounting policy and will result in a one time increase in income tax collections. The LFD fiscal 2002 refund estimate assumes that the June 5 refund total will remain constant through the end of the year. The executive estimate is based upon a May 13 refund total \$121.8 million plus an additional \$13.7 million to be paid out for the remainder of the year.

The last component of the individual income tax estimate is an accrual for withholding collections expected to be paid within 60 days beyond the end of the fiscal year. The LFD estimate assumes an accrual of \$14.9 million while the executive estimate assumes an accrual of \$15.0 million. The accrual in fiscal 2001 was \$14.4 million.

An estimate of fiscal 2003 collections of individual income tax revenue was also calculated. The LFD estimate adjusts the revised fiscal 2002 estimate for the one-time refund accrual change and grows the adjusted fiscal 2002 estimate by 4 percent yielding an estimate of \$552.4 million. The executive estimate of fiscal 2003 collections is \$551.2 million, an amount that is 3.1 percent above their adjusted fiscal 2002 estimate.

Individual Income Tax Calculations (in millions)

	Fiscal 2002				
	Fiscal 2001	LFD	Percent Change	Executive	Percent Change
Withholding	391.453	404.841	3.4%	405.005	3.5%
Estimated	161.146	144.516	-10.3%	141.200	-12.4%
Current Year Pays	126.125	113.770	-9.8%	115.907	-8.1%
Refunds	(137.168)	(139.923)	2.0%	(135.538)	-1.2%
Accruals	14.458	14.953	3.4%	15.000	3.7%
Total	556.014	538.157	-3.2%	541.574	-2.6%

(in millions)	Fiscal 2002			Fiscal 2003		
	HJR	Exec	LFD	HJR	Exec	LFD
Estimates	\$574.995	\$541.574	\$538.157	\$593.138	\$551.249	\$552.404
Difference	-	(33.421)	(36.838)	-	(41.889)	(40.734)

INSURANCE TAX & LICENSE FEES

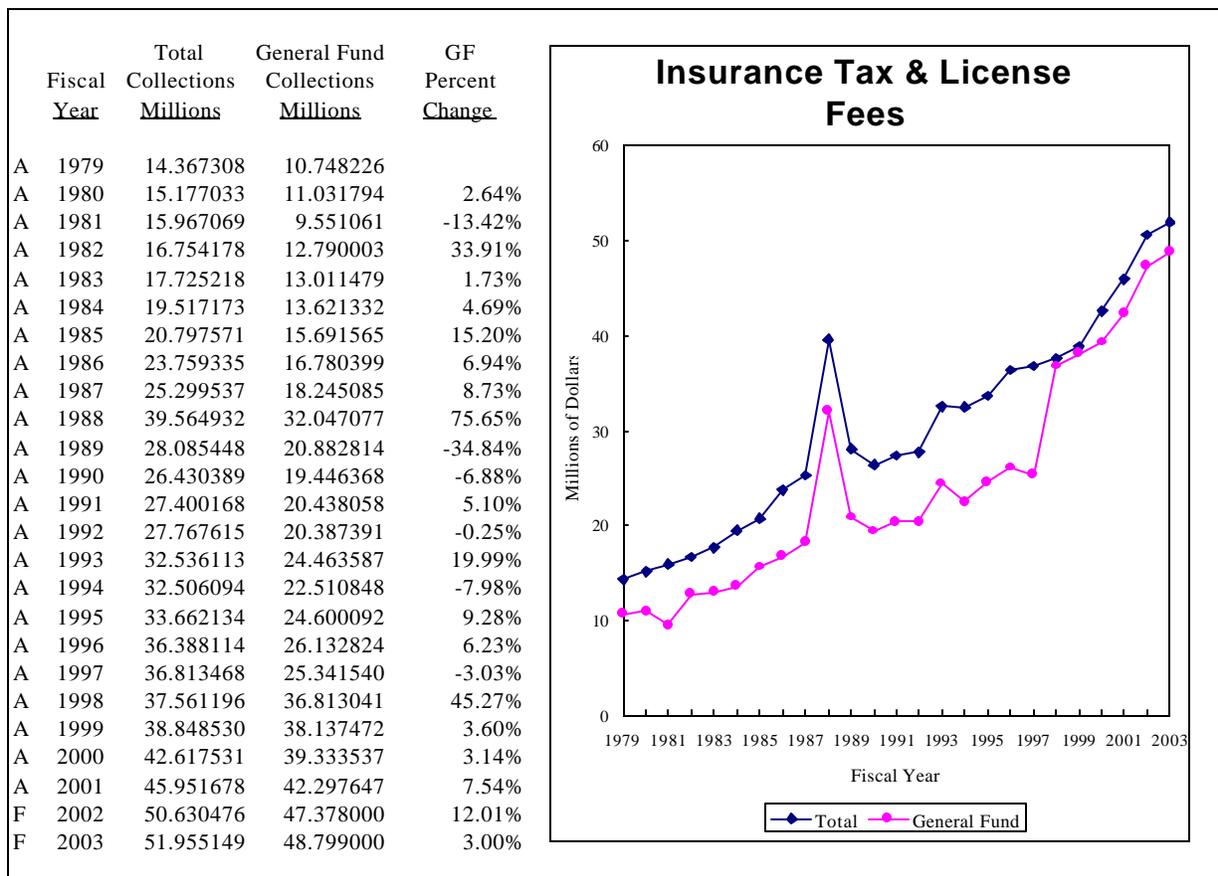
Revenue Description: The insurance premiums tax is levied on the net premiums or gross underwriting profit for each insurance company operating in Montana. Gross underwriting profit is essentially insurance premium income. In addition, various insurance fees and licenses are also collected.

Applicable Tax Rate(s): The current tax rate is 2.75% of net premiums on policies sold in Montana. In addition, for each Montana resident insured under any individual or group disability or health insurance policy, all insurers are required to pay \$0.70 to the State's Insurance Commissioner. This fee is used to fund the voluntary 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.

Distribution: The majority of insurance tax and license fee proceeds are deposited into the general fund.

Revenue Projection:



**LFD
COMMENT**

Insurance collections are 10 percent above projections and both the LFD and executive have increased the projections. For fiscal 2002, the LFD and executive estimates are very close, but for fiscal 2003 the LFD projection is \$1.9 million higher.

The legislative estimate is based on actual collections through May 2002 for three revenue components: genetics fee, premium taxes on fire insurance, and other premium taxes. For the insurance projection, the percentage of collections through this period in fiscal 2001 was used to inflate May year-to-date collections for fiscal 2002 to \$47.4 million. A three percent growth rate was applied to the fiscal 2002 projection to produce the fiscal 2003 estimate of \$48.8 million. The executive estimates are also based on collections through May 2002 with the fiscal 2003 estimate being derived from a regression analysis of tax liability from 1993 through 2002. The executive analysis produces estimates of \$47.0 million for fiscal 2002 and \$46.9million for fiscal 2003.

(in millions)	Fiscal 2002			Fiscal 2003		
	HJR	Exec	LFD	HJR	Exec	LFD
Estimates	\$42.666	\$47.033	\$47.378	\$44.050	\$46.890	\$48.799
Difference	-	4.367	4.712	-	2.840	4.749

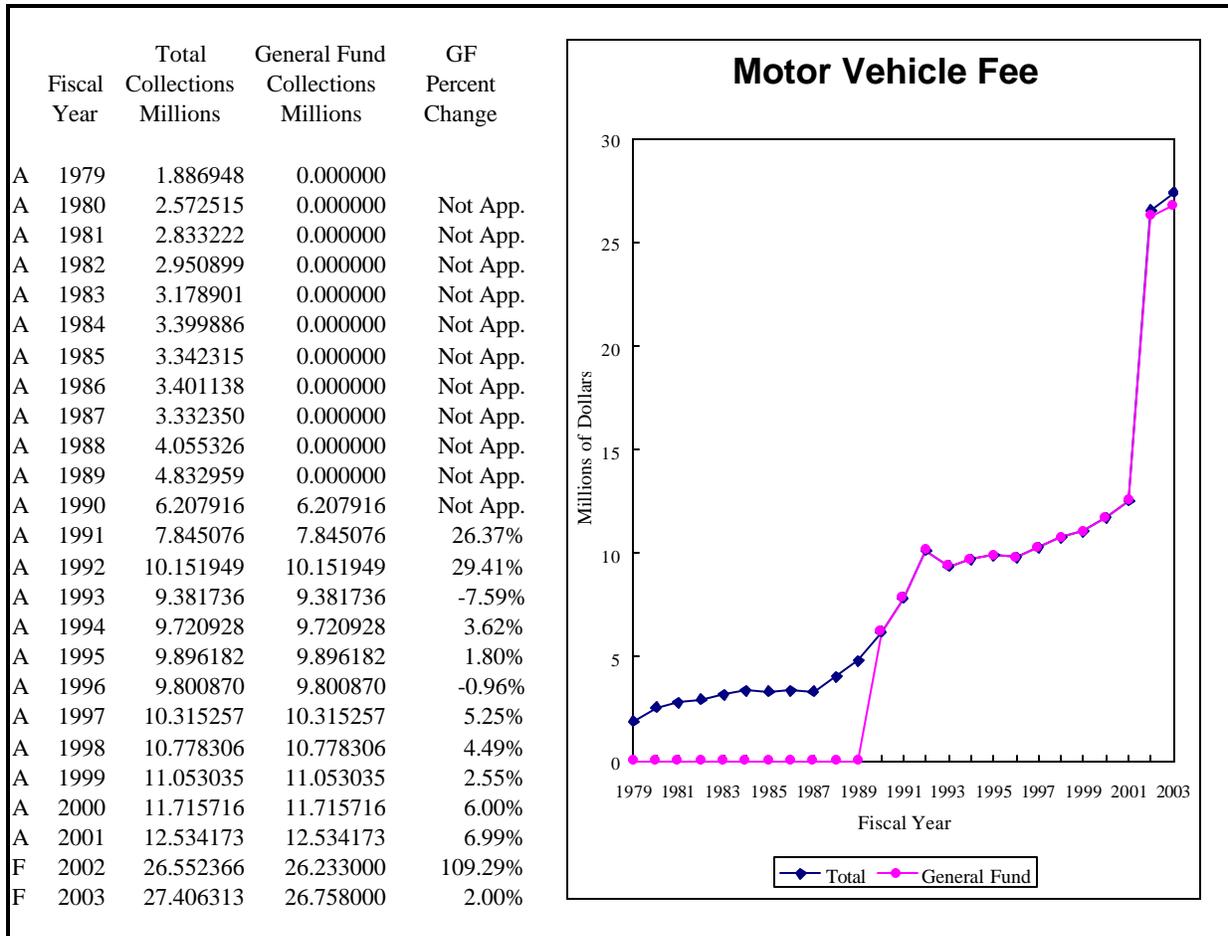
MOTOR VEHICLE FEE

Revenue Description: In accordance with statute, the state assesses a variety of motor vehicle fees, such as fees for the filing of motor vehicle liens, fees for new license plates, and title 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.). With the enactment of House Bill 124, motor vehicle fees that had been collected and retained by counties are now deposited in the state general fund.

Applicable Tax Rate(s): Various

Distribution: Motor vehicle fees are allocated to the general fund and state special revenue accounts.

Revenue Projection:



(in millions)	Fiscal 2002			Fiscal 2003		
	HJR	Exec	LFD	HJR	Exec	LFD
Estimates	\$25.182	\$26.196	\$26.233	\$25.692	\$26.720	\$26.758
Difference	-	1.014	1.051	-	1.028	1.066

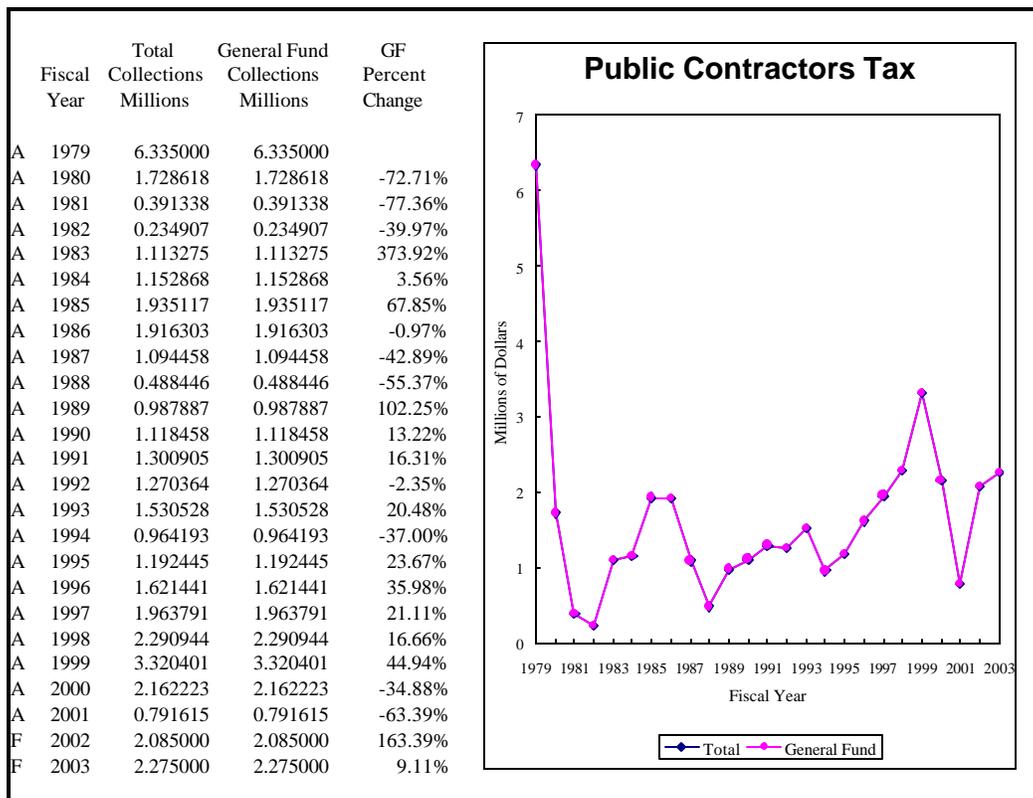
PUBLIC CONTRACTORS TAX

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.

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.

Revenue Projection:



(in millions)	Fiscal 2002			Fiscal 2003		
	HJR	Exec	LED	HJR	Exec	LED
Estimates	\$2.441	\$1.856	\$2.085	\$2.478	\$1.983	\$2.275
Difference	-	(0.585)	(0.356)	-	(0.495)	(0.203)

RAILROAD CAR TAX

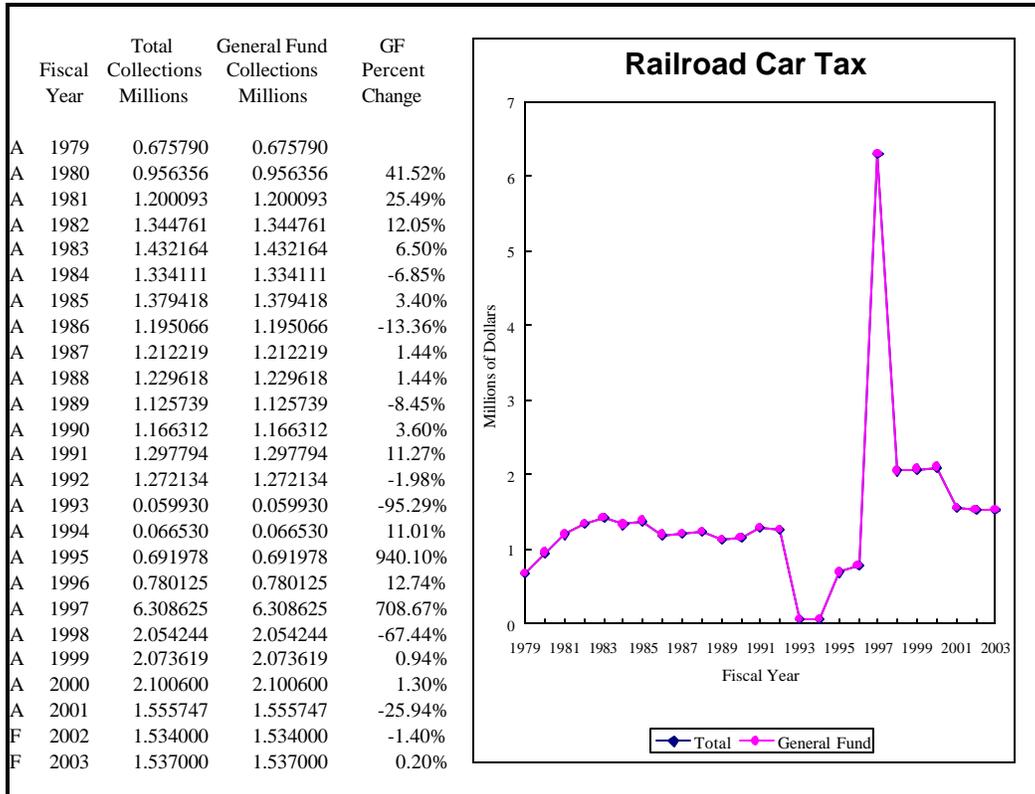
Revenue Description: All railroad property is subject to taxation as defined in the Railroad Revitalization and Regulatory Reform Act of 1976. The tax rate for class twelve property is the lesser of 12.0% or the average statutory tax rate for commercial and industrial property. Railroad car companies, 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.

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 95.0 percent of the average statewide mill levy for commercial and industrial property. The most current tax year rates are:

- o 2000 – 4.27%
- o 2001 – 4.16%
- o 2002 – 4.07%

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

Revenue Projection:



(in millions)	Fiscal 2002			Fiscal 2003		
	HJR	Exec	LED	HJR	Exec	LED
Estimates	\$1.688	\$1.534	\$1.534	\$1.718	\$1.629	\$1.537
Difference	-	(0.154)	(0.154)	-	(0.089)	(0.181)

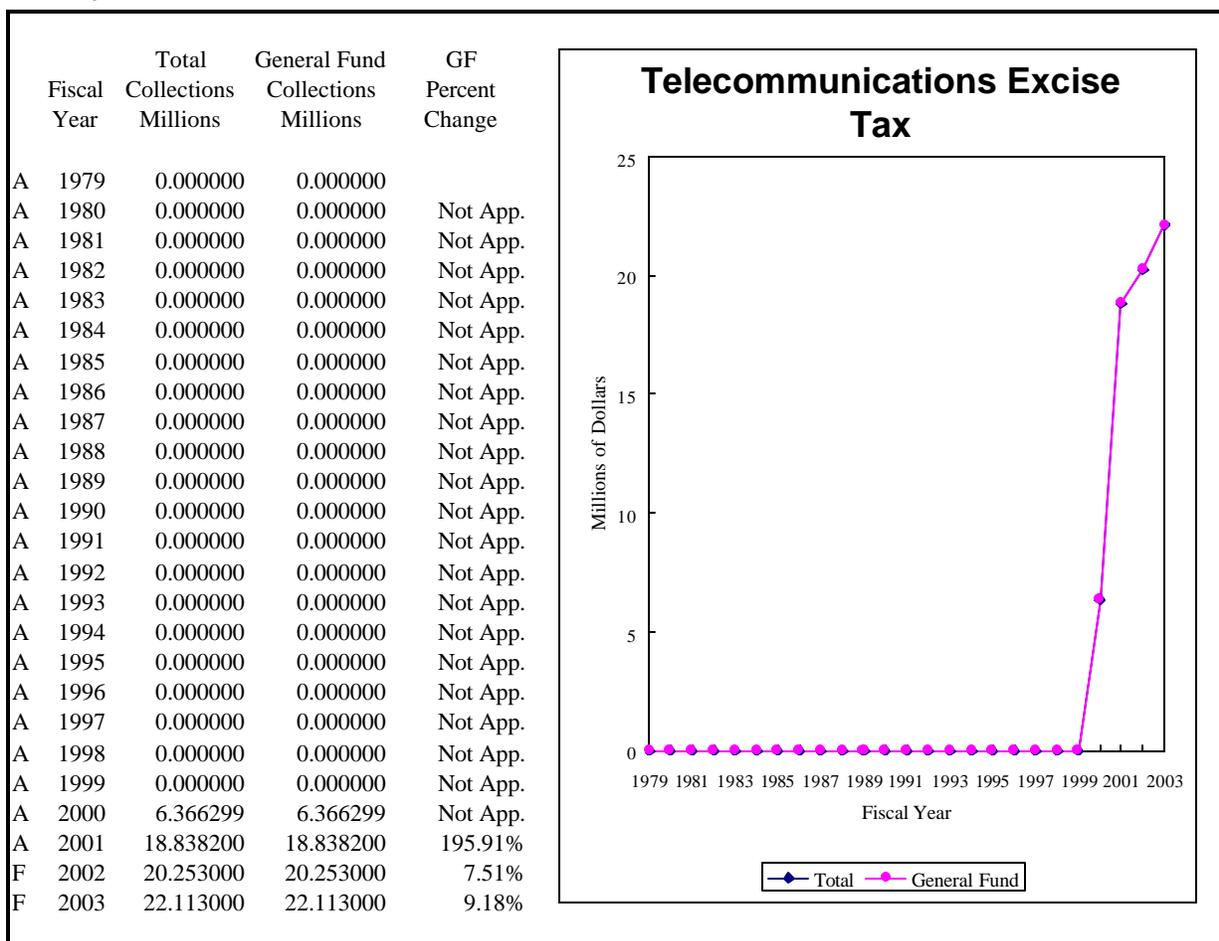
TELECOMMUNICATIONS EXCISE TAX

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.

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. A credit is allowed for 20 percent of the costs of advanced telecommunications infrastructure improvements in the state up to a yearly maximum credit of \$2.0 million for all providers. However, Senate Bill 494 suspended the credits for the 2003 biennium.

Distribution: All proceeds are deposited into the general fund.

Revenue Projection:



(in millions)	Fiscal 2002			Fiscal 2003		
	HJR	Exec	LFD	HJR	Exec	LFD
Estimates	\$20.253	\$20.060	\$20.253	\$21.113	\$21.910	\$22.113
Difference	-	(0.193)	0.000	-	0.797	1.000

TELEPHONE LICENSE TAX

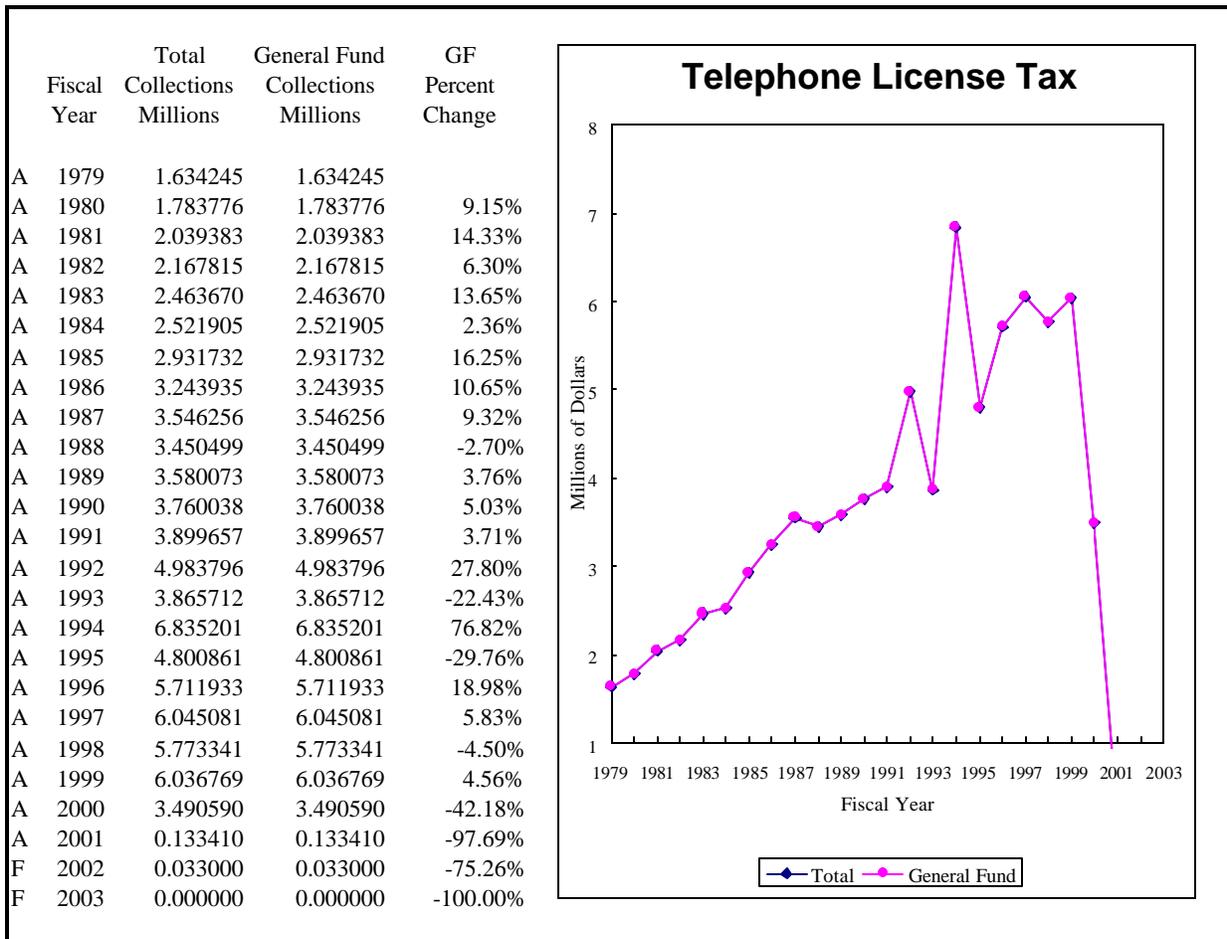
Revenue Description: The telephone license tax was repealed by the 1999 legislature (HB 128) and replaced by a new retail telecommunications excise tax effective January 1, 2000. This new tax is estimated as a separate general fund revenue source.

For the first half of fiscal 2000 (July 1999 through December 1999), the telephone license tax was levied on the gross income earned by any telephone business within the state, including the transmission of telephone messages by line or by microwave equipment.

Applicable Tax Rate(s): An exemption was allowed for the first \$250 of gross income earned each quarter. The tax rate of 1.8% was applied to the adjusted gross income level. Gross income was dependent on the quantity of services provided and the price of the services offered.

Distribution: All proceeds were deposited into the general fund.

Revenue Projection:



(in millions)	Fiscal 2002			Fiscal 2003		
	HJR	Exec	LFD	HJR	Exec	LFD
Estimates	\$0.000	\$0.000	\$0.033	\$0.000	\$0.000	\$0.000
Difference	-	0.000	0.033	-	0.000	0.000