



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

Bill #	HB0363	Title:	Provide for tax on digital advertising services
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Primary Sponsor:	Trebas, Jeremy	Status:	As Introduced
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- Significant Local Gov Impact
 Needs to be included in HB 2
 Technical Concerns
 Included in the Executive Budget
 Significant Long-Term Impacts
 Dedicated Revenue Form Attached

FISCAL SUMMARY

	<u>FY 2022 Difference</u>	<u>FY 2023 Difference</u>	<u>FY 2024 Difference</u>	<u>FY 2025 Difference</u>
Expenditures:				
General Fund	\$500,959	\$101,966	\$105,799	\$107,152
Revenue:				
General Fund	\$4,149,000	\$20,861,000	\$21,433,000	\$22,005,000
Net Impact-General Fund Balance:	<u>\$3,648,041</u>	<u>\$20,759,034</u>	<u>\$21,327,201</u>	<u>\$21,897,848</u>

Description of fiscal impact: HB 363 creates a 10% tax on digital advertising receipts in Montana for each entity with global digital advertising revenue of at least \$25 million.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

- HB 363 creates a tax on digital advertising receipts generated from Montana clients. The tax would be 10% of all digital advertising revenue attributed to Montana for each taxpayer with annual global digital advertising revenue of at least \$25 million.
- The estimate of Montana digital advertising receipts is based on U.S. digital advertising revenue multiplied by Montana's share of total US gross domestic product (GDP) in the North American Industry Classification System (NAICS) category for professional and technical services industry, which includes marketing and advertising.
- US digital advertising revenue is estimated to be approximately \$145 billion in CY 2022, increasing to \$157 billion in CY 2025. Montana's share of US GDP in the marketing and advertising industry is around 0.151%.

- It is assumed that at least 95% of digital advertising revenue is generated by taxpayers with at least \$25 million in global digital advertising revenue so the digital advertising revenue apportioned to Montana is multiplied by 95% to get the estimated taxable digital advertising revenue under this bill. These calculations and estimated tax revenue by calendar year are shown in the table below.

Calendar Year	US Digital Ad Revenue (millions)	MT Share of US Ad GDP	MT Digital Ad Revenue (millions)	Taxable Digital Ad Revenue (millions)	Digital Ad Tax Revenue (millions)
2022	\$145,000	0.151%	\$218.383	\$207.464	\$20.746
2023	\$149,000	0.151%	\$224.407	\$213.187	\$21.319
2024	\$153,000	0.151%	\$230.432	\$218.910	\$21.891
2025	\$157,000	0.151%	\$236.456	\$224.633	\$22.463

- This bill is effective January 1, 2022 and requires taxpayers to file their returns by April 15th of the following year. Taxpayers with expected digital advertising revenue of more than \$1 million are required to make quarterly estimated payments.
- Based on these requirements and the timing relative to fiscal years, it is assumed that 20% of the CY 2022 tax revenue would be collected in FY 2022 and the remaining 80% collected in FY 2023. This distribution would apply to future years as well. Tax revenue from this bill would be deposited in the general fund.
- This bill is estimated to increase general fund revenue by \$4,149,000 in FY 2022, \$20,861,000 in FY 2023, \$21,433,000 in FY 2024, and \$22,005,000 in FY 2025.

Administrative Costs

- To implement and administer this bill, the department would need to hire 1.00 FTE additional tax examiner and would incur a one-time cost of \$400,000 in contracted services to create a new tax type within the department's integrated revenue information system. Total estimated costs to the department are \$500,959 in FY 2022, \$101,966 in FY 2023, \$105,799 in FY 2024, and \$107,152 in FY 2025.

Fiscal Impact:	FY 2022	FY 2023	FY 2024	FY 2025
	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
Department of Revenue				
FTE	1.00	1.00	1.00	1.00
Expenditures:				
Personal Services	\$90,292	\$91,457	\$92,639	\$93,838
Operating Expenses	\$410,667	\$10,509	\$13,160	\$13,314
TOTAL Expenditures	\$500,959	\$101,966	\$105,799	\$107,152
Funding of Expenditures:				
General Fund (01)	\$500,959	\$101,966	\$105,799	\$107,152
TOTAL Funding of Exp.	\$500,959	\$101,966	\$105,799	\$107,152
Revenues:				
General Fund (01)	\$4,149,000	\$20,861,000	\$21,433,000	\$22,005,000
TOTAL Revenues	\$4,149,000	\$20,861,000	\$21,433,000	\$22,005,000
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	\$3,648,041	\$20,759,034	\$21,327,201	\$21,897,848

Technical Notes:

1. HB 363 may have legal implications related to the Internet Tax Freedom Act and the department may incur additional litigation costs should litigation occur.

JRT
Sponsor's Initials

02-17-2021
Date

KL
Budget Director's Initials

2/17/21
Date