



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

Bill # SB0181

Title: Corporate Tax Modernization Act

Primary Sponsor: Hertz, Greg

Status: As Introduced

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	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$10,302,000	\$14,180,000	\$14,512,000	\$14,877,000
Net Impact-General Fund Balance:	<u>\$10,302,000</u>	<u>\$14,180,000</u>	<u>\$14,512,000</u>	<u>\$14,877,000</u>

Description of fiscal impact: SB 181 would change the apportionment process for corporate income tax from the current three-factor apportionment to a single-sales apportionment factor that only uses the receipts factor to apportion worldwide income to Montana.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. The current law three-factor apportionment places an equal weight on a multi-state corporation's property, payroll, and receipts factors when apportioning their worldwide income to Montana.
2. SB 181 changes the apportionment formula for corporate income tax to a single-sales apportionment factor.
3. This bill would no longer use the property and payroll factors. A corporation's worldwide income would be multiplied by their receipts factor in the calculation of their Montana apportioned income.
4. To estimate the impact of this change, corporate income tax returns from tax years 2016, 2017 and 2018 were modeled with the current apportionment factor and just the receipts factor as proposed in this bill.
5. The following table shows the current tax liability and modeled tax liability for those three tax years.

Tax Year	Current Law	Receipts Factor	Percent Change
2016	\$128,640,009	\$137,154,094	6.6%
2017	\$132,975,046	\$139,473,912	4.9%
2018	\$168,705,666	\$191,578,371	13.6%

6. Due to the high volatility of corporate income tax, the average of the three years in the table above is used to estimate the annual impact of this bill going forward. It is assumed that corporate income tax collections will be 8.4% higher each year than the current HJ 2 corporation income tax estimates each year.
7. SB 181 applies to tax years beginning on or after July 1, 2021, which will be TY 2021 for about 20% of corporations and TY 2022 for the rest. Given this applicability date, and the timing of tax years for most corporations, it is assumed that the revenue increase will begin in FY 2022 at 75% of the estimated annual impact and then the full impact will begin in FY 2023.
8. The following table shows the current HJ 2 estimates for corporate income tax collections and the estimated additional revenue as a result of this bill. Corporate income tax revenue is deposited in the general fund.

Fiscal Year	HJ2 Forecast	Proposed Law	Revenue Impact
2022	\$163,528,000	\$173,830,000	\$10,302,000
2023	\$168,808,000	\$182,988,000	\$14,180,000
2024	\$172,756,000	\$187,268,000	\$14,512,000
2025	\$177,104,000	\$191,981,000	\$14,877,000

9. This bill is expected to increase general fund revenue by \$10,302,000 in FY 2022, \$14,180,000 in FY 2023, \$14,512,000 in FY 2024, and \$14,877,000 in FY 2025.
10. The department does not expect to incur significant additional administrative costs from this bill.

	<u>FY 2022</u> <u>Difference</u>	<u>FY 2023</u> <u>Difference</u>	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>
<u>Fiscal Impact:</u>				
Department of Revenue				
FTE	0.00	0.00	0.00	0.00
<u>Expenditures:</u>				
Personal Services	\$0	\$0	\$0	\$0
TOTAL Expenditures	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Revenues:</u>				
General Fund (01)	\$10,302,000	\$14,180,000	\$14,512,000	\$14,877,000
TOTAL Revenues	<u>\$10,302,000</u>	<u>\$14,180,000</u>	<u>\$14,512,000</u>	<u>\$14,877,000</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$10,302,000	\$14,180,000	\$14,512,000	\$14,877,000

NO SPONSOR SIGNATURE

Sponsor's Initials

Date

LA

Budget Director's Initials

2/10/21

Date