



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

Bill # SB0376

Title: Corporate tax modernization through double-sales factor apportionment

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	\$2,355,000	\$3,241,000	\$3,317,000	\$3,400,000
Net Impact-General Fund Balance:	<u>\$2,355,000</u>	<u>\$3,241,000</u>	<u>\$3,317,000</u>	<u>\$3,400,000</u>

Description of fiscal impact: SB 376 would change the corporate income tax apportionment factor weighting from the current three-factor apportionment method to three-factor apportionment in which the sales factor is double-weighted.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

- SB 376 changes the apportionment formula for corporate income tax from an equal-weighted three-factor basis – to the use of the same three factors, but where the sales factor is double-weighted.
- The current law three-factor apportionment places an equal weight of one-third on a multi-state corporation's property, payroll and receipts factors when allocating their worldwide income to Montana. This bill would result in the property and payroll factors being weighted at one-fourth each and the receipts factor being weighted at one-half when calculating the apportionment factor.
- 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 the double-weighted sales apportionment factor, as is proposed in this bill.
- The following table shows the current tax liability and modeled tax liability for those three tax years.

Tax Year	Current Law	Double-Sales Factor	Percent Change
2016	\$128,640,009	\$130,626,682	1.5%
2017	\$132,975,046	\$134,316,613	1.0%
2018	\$168,705,666	\$174,115,443	3.2%

- 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 increase by approximately 1.9% over the current HJ 2 estimates each year.
- This bill 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.
- 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	\$165,883,000	\$2,355,000
2023	\$168,808,000	\$172,049,000	\$3,241,000
2024	\$172,756,000	\$176,073,000	\$3,317,000
2025	\$177,104,000	\$180,504,000	\$3,400,000

- This bill would increase general fund revenue by an estimated \$2,355,000 in FY 2022, \$3,241,000 in FY 2023, \$3,317,000 in FY 2024, and \$3,400,000 in FY 2025.
- The department does not expect to incur significant additional administrative costs because of this bill.

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	0.00	0.00	0.00	0.00
Expenditures:				
Personal Services	\$0	\$0	\$0	\$0
TOTAL Expenditures	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Funding of Expenditures:				
General Fund (01)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Revenues:				
General Fund (01)	\$2,355,000	\$3,241,000	\$3,317,000	\$3,400,000
TOTAL Revenues	<u>\$2,355,000</u>	<u>\$3,241,000</u>	<u>\$3,317,000</u>	<u>\$3,400,000</u>
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	\$2,355,000	\$3,241,000	\$3,317,000	\$3,400,000

NO SPONSOR SIGNATURE 3/22
 Sponsor's Initials Date

KA
 Budget Director's Initials

3-22-21
 Date