



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:

SB0124 - Revise corporate income tax apportionment (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 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>
Expenditures:				
General Fund	\$8,400	\$0	\$0	\$0
Revenue:				
General Fund	\$4,990,000	\$15,269,000	\$16,422,000	\$17,608,000
Net Impact-General Fund Balance:	<u>\$4,981,600</u>	<u>\$15,269,000</u>	<u>\$16,422,000</u>	<u>\$17,608,000</u>

Description of fiscal impact: SB 124 changes multi-state corporation income tax apportionment from a three factor with double-weighted sales apportionment, to single factor apportionment based on sales. The department would incur a small one-time cost to update associated forms in FY 2024. There are part-year revenue effects in FY 2024 of around \$4.4 million. Full year revenue (starting in FY 2025) is anticipated to increase corporation income tax by about \$10 million per year, and increase individual income tax revenue from ownership of pass-through entities by \$5.5 million per year starting in FY 2025. Individual income tax revenue is anticipated to growth by approximately \$1 million per year.

FISCAL ANALYSIS

Assumptions:**Department of Revenue**

- SB 124 changes Montana corporation income tax apportionment of multi-state businesses from double-weighted sales three-factor apportionment to single factor apportionment based on sales. A business's total net income would just be multiplied by the ratio of their receipts in Montana to their total receipts everywhere. The current law property and payroll factors will no longer apply.
- This change in apportionment would have an impact on multistate C-corporations and pass-through entities with non-resident owners who do business in Montana.

- The applicability date for this bill is tax years beginning after June 30, 2023. The bill would first apply for a few corporations and pass-throughs in TY 2023 and in TY 2024 for all the rest.

Corporate Income Tax Impact

- To estimate the impact of this change, corporate income tax returns from TY 2018, TY 2019, and TY 2020 were modeled with the current double-weighted sales apportionment factor and the proposed single sales apportionment factor.
- The following table shows the modeled tax liabilities for those three tax years.

Tax Year	Three-Factor with Double Weighted -Sales	Single-Sales Factor (SB 124)	Change due to SB 124	Percent Change
2018	\$173,498,000	\$182,484,000	\$8,986,000	5.2%
2019	\$187,166,000	\$194,092,000	\$6,926,000	3.7%
2020	\$232,699,000	\$237,280,000	\$4,581,000	2.0%
Average	\$197,787,667	\$204,618,667	\$6,831,000	3.6%

- Due to the high volatility of corporate income tax collections, the average of these three years is used to estimate the annual impact of this bill going forward. The impact of SB 124 is an increase in corporate income tax collections of 3.6% over the HJ 2 estimates for FY 2024 through FY 2027.
- This bill would apply to tax years beginning on or after July 1, 2023, which will be TY 2023 for about 20% of corporations and TY 2024 for the rest. Given this distribution of tax year filings, and the timing of estimated payments by corporations, it is assumed that revenue increases will begin in FY 2024 at 50% of the estimated annual impact with the full impact beginning in FY 2025.
- The following table shows the current HJ 2 estimates for corporate income tax collections and the estimated additional corporate income tax revenue as a result of SB 124.

Fiscal Year	HJ 2 Forecast	SB 124	Revenue Impact
2024	\$277,207,000	\$282,197,000	\$4,990,000
2025	\$271,356,000	\$281,125,000	\$9,769,000
2026	\$275,598,000	\$285,520,000	\$9,922,000
2027	\$280,764,000	\$290,872,000	\$10,108,000

Pass-through Entities Impact (Individual Income Tax)

- Estimating the impact of an apportionment factor shift on pass-through income (recorded as individual income tax) is significantly more complicated to estimate than the corporate income tax impact due to the tiers of various pass-through structures and the available data.
- Using TY 2019, TY 2020, and TY 2021 pass-through entity returns for multi-state entities paying the composite tax, the change from three-factor double-weighted sales to single-factor single weighted sales will increase individual income tax paid by these entities by about 3%.
- Applying that to the \$125.3 million pass-through income collections in FY 2022, the additional revenue under single sales would have been about \$3.8 million.
- The department does not have enough data to assess the impact of SB 124 on revenue collections from non-resident pass-through entity owners with Montana source income that do not pay composite tax. We assume that these taxpayers will have offsetting payments.
- Using the FY 2022 pass-through entity collections as the baseline and projecting the continued growth in pass-through income and composite tax, the department estimates that the additional income tax revenue from pass-through entities would be \$4.5 million in FY 2024 and increase \$1 million each year through FY 2027. Given the July 1, 2023, applicability date and timing of pass-through filing periods, this apportionment change

would not apply until TY 2024 for almost all pass-throughs. Therefore, the first significant revenue impact would take effect starting in FY 2025 when the composite taxes are paid for TY 2024.

14. The following table shows the estimated combined revenue impact for C corporations and pass-throughs.

Fiscal Year	Corporate Income Tax Revenue	Pass-through Entities (PIT) Revenue Impact	Total Revenue Impact
2024	\$4,990,000	\$0	\$4,990,000
2025	\$9,769,000	\$5,500,000	\$15,269,000
2026	\$9,922,000	\$6,500,000	\$16,422,000
2027	\$10,108,000	\$7,500,000	\$17,608,000

15. The department would incur administrative costs of \$8,400 in FY 2024 for contracted services form changes in the department’s data collection and imaging information system during the middle of the calendar year. These types of form changes are typically made annually at the end of the calendar year.

Fiscal Impact:	FY 2024	FY 2025	FY 2026	FY 2027
	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
Department of Revenue				
FTE	0.00	0.00	0.00	0.00
<u>Expenditures:</u>				
Personal Services	\$0	\$0	\$0	\$0
Operating Expenses	\$8,400	\$0	\$0	\$0
TOTAL Expenditures	\$8,400	\$0	\$0	\$0
<u>Funding of Expenditures:</u>				
General Fund (01)	\$8,400	\$0	\$0	\$0
TOTAL Funding of Exp.	\$8,400	\$0	\$0	\$0
<u>Revenues:</u>				
General Fund (01) - CIT	\$4,990,000	\$9,769,000	\$9,922,000	\$10,108,000
General Fund (01) - IIT	\$0	\$5,500,000	\$6,500,000	\$7,500,000
TOTAL Revenues	\$4,990,000	\$15,269,000	\$16,422,000	\$17,608,000
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$4,981,600	\$15,269,000	\$16,422,000	\$17,608,000

NO SPONSOR SIGNATURE
Sponsor's Initials

1/11/23
Date


Budget Director's Initials

1-11-23
Date