



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2025 Biennium

**Bill information:**

SB0253 - Revise contractor's gross receipts tax (Hertz, Greg )

**Status:** As Amended in Senate Committee

- 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>
<b>Expenditures:</b>				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$0	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	(\$4,300,289)	(\$4,396,357)	(\$4,499,155)	(\$4,606,823)
State Special Revenue	\$0	\$0	\$0	\$0
<b>Net Impact-General Fund Balance:</b>	<u>(\$4,300,289)</u>	<u>(\$4,396,357)</u>	<u>(\$4,499,155)</u>	<u>(\$4,606,823)</u>

**Description of fiscal impact:** SB 253, as amended, raises the value of contracts that are exempt from the contractor's gross receipts tax from \$5,000 to \$80,000 and adds a credit of 2% of wages paid on contracts subject to the tax. The exemption of more contracts and the addition of the wage credit will reduce net contractors' gross receipts revenue to zero.

### FISCAL ANALYSIS

**Assumptions:**

- From FY 2018 to FY 2022, public contracts between \$5,000 and \$80,000 contributed, on average, 2.27% of total contractor's gross receipts revenue before credits. This ratio was applied to HJ 2 forecasts of contractor's gross receipts revenue, which is after credits, to estimate the amount that would be exempt from taxation under SB 253. It is assumed that these smaller contracts receive the same amount in credits as larger contracts as a proportion of the contract value.
- Table 1 contains the HJ 2 forecasts and the expected forgone contractor's gross receipts revenue.

Table 1.

<b>Fiscal Year</b>	<b>HJ 2 Total Contractor's Gross Receipts Revenue</b>	<b>Total Revenue from Contracts &lt;\$80,000</b>
2024	\$4,300,289	\$97,502
2025	\$4,396,357	\$99,680
2026	\$4,499,155	\$102,011
2027	\$4,606,832	\$104,452


3. The amendment to SB 253 allows 2% of wages paid in Montana for construction projects subject to the contractor's gross receipts tax to be credited against the tax in addition to other credits currently available.
4. Data released in the U.S. Census Bureau's 2017 Economic Census for Construction contains summary statistics for Montana construction activity. Included in the statistics are the gross value of construction work in the state and the total wages paid as part of that work. For Montana, in 2017, construction worker wages constituted approximately 15% of the gross value of construction work in the state.
5. The total value of contracts subject to the tax under SB 253 is multiplied by this ratio to estimate the dollar amount of each contract associated with the payment of wages. The estimation of wages paid is multiplied by 2% to determine the approximate amount of credits these contracts will be eligible for under the amended bill.
6. Table 2 contains the total value of taxable contracts, the 15% of the total value that is expected to be paid in wages, and the 2% of the wages that would be available to credit against the tax.

Table 2.

<b>Fiscal Year</b>	<b>Value of Taxable Contracts</b>	<b>Wage cost (15%)</b>	<b>Wage Credit (2%)</b>
2024	\$1,589,669,246	\$235,271,048	\$4,705,421
2025	\$1,625,182,410	\$240,526,997	\$4,810,540
2026	\$1,663,183,431	\$246,151,148	\$4,923,023
2027	\$1,702,987,849	\$252,042,202	\$5,040,844

7. As illustrated in Table 1, HJ 2 forecasts of contractor's gross receipts tax revenue after credits currently available are \$4,300,289 in FY 2024, \$4,396,357 in FY 2025, \$4,499,155 in FY 2026, and \$4,606,832 in FY 2027. The expected 2% wage credit exceeds expected tax liability, so contractors will have their entire gross receipts tax refunded to them but nothing more. The fiscal impact is a reduction in general fund revenue equal to the HJ 2 forecast of contractor's gross receipts revenue.
8. If the total of allowable credits is more than a contractor's tax liability, the excess amount is not refundable. Contractors can only be refunded up to the amount equal to the 1% gross receipts tax paid.
9. Changes to forms and processes are minimal and will be absorbed by the Department of Revenue.

	<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>
<b><u>Fiscal Impact:</u></b>				
<b><u>Expenditures:</u></b>				
Personal Services	\$0	\$0	\$0	\$0
Operating Expenses	\$0	\$0	\$0	\$0
<b>TOTAL Expenditures</b>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$0	\$0	\$0	\$0
<b>TOTAL Funding of Exp.</b>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b><u>Revenues:</u></b>				
General Fund (01)	(\$4,300,289)	(\$4,396,357)	(\$4,499,155)	(\$4,606,823)
State Special Revenue (02)	\$0	\$0	\$0	\$0
<b>TOTAL Revenues</b>	<u>(\$4,300,289)</u>	<u>(\$4,396,357)</u>	<u>(\$4,499,155)</u>	<u>(\$4,606,823)</u>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	(\$4,300,289)	(\$4,396,357)	(\$4,499,155)	(\$4,606,823)
State Special Revenue (02)	\$0	\$0	\$0	\$0

<i>Sponsor's Initials</i>	<i>Date</i>	 <i>Budget Director's Initials</i>	<i>2-24-23</i> <i>Date</i>
---------------------------	-------------	---	-------------------------------