



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: June 10, 2013

TO: Revenue & Transportation Interim Committee Members
House Tax Members
Senate Tax Members
House Appropriations Members
Senate Finance and Claims Members

FROM: Amy Carlson, Legislative Fiscal Analyst
Stephanie Morrison, Revenue Analyst
Nick Brown, Revenue Analyst

RE: Year-to-Date Revenue Collections

PURPOSE OF REPORT

This memo highlights the year-to-date collections through the end of May FY 2013. A brief explanation of the collection activity is given for each of the top seven sources, as well as for any other source that is significantly above or below estimate.

SUMMARY

General fund revenue collections continue to show strong growth over FY 2012 amounts, and are currently above the overall growth contained in SJ 2. Underlying economic indicators have improved, though a significant share of the increase appears to be due to revenue shifting as a result of the uncertainty regarding federal tax policy at the end of calendar year 2012.

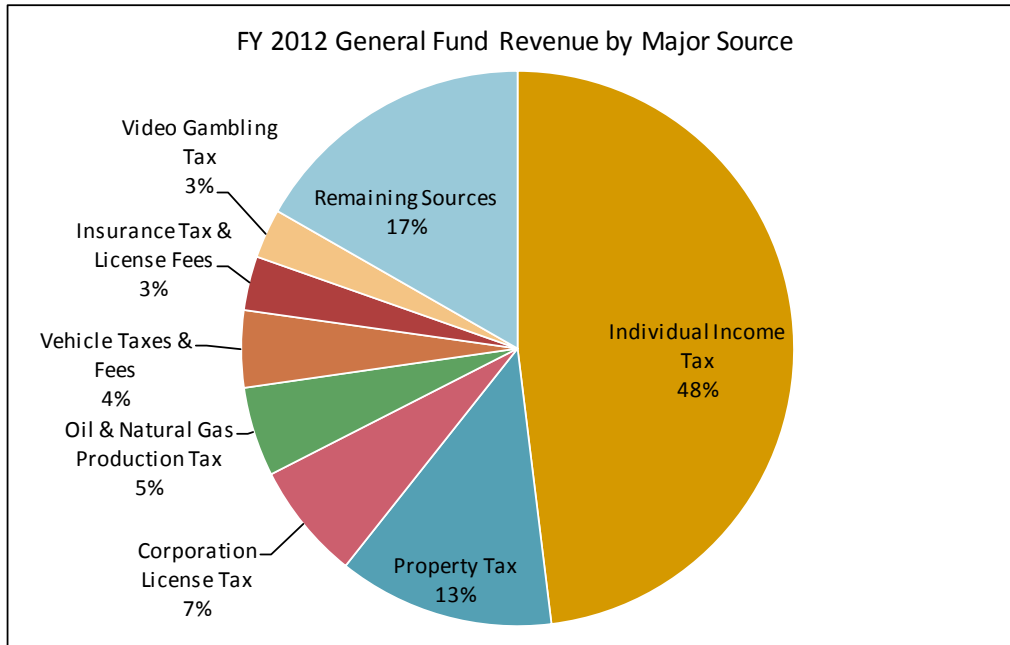
YEAR-TO-DATE GENERAL FUND REVENUE

FY 2013 general fund revenues through the end of May are \$174.1 million or 11.0% ahead of FY 2012 revenues through the same period; this increase is above the anticipated growth of 6.6%. The difference can almost entirely be attributed strong growth in individual income and corporate license tax collections. All major revenue sources and any other sources with significant differences will be discussed in further detail in the next section.

General Fund Revenue Monitoring Report (in Millions)							
Revenue Source	Actual FY 2012	SJ2 Estimate FY 2013	SJ2 Estimate % Change	5/31/2012 FY 2012	6/2/2013 FY 2013	YTD Difference	YTD % Change
Largest Seven Sources							
Individual Income Tax	\$898.851	\$983.953	9.5%	\$890.662	\$1,026.982	\$136.320	15.3%
Property Tax	236.662	241.741	2.1%	138.193	147.278	9.085	6.6%
Corporation Tax	127.771	150.658	17.9%	115.068	156.056	40.988	35.6%
Vehicle Taxes & Fees	99.954	100.833	0.9%	81.261	81.575	0.314	0.4%
Oil Severance Tax	97.560	98.750	1.2%	51.854	47.444	(4.410)	-8.5%
Insurance Tax	58.951	59.932	1.7%	46.573	46.901	0.328	0.7%
Video Gaming Tax	53.824	57.706	7.2%	39.463	42.784	3.321	8.4%
Other Business Taxes							
Drivers License Fee	4.369	3.867	-11.5%	3.803	3.961	0.158	4.2%
Estate Tax	0.060	0.000	-100.0%	0.058	0.001	(0.058)	-99.0%
Investment Licenses	6.961	7.210	3.6%	6.709	6.724	0.014	0.2%
Lodging Facilities Sales Tax	15.606	17.314	10.9%	12.060	12.616	0.556	4.6%
Public Contractor's Tax	(3.042)	1.140	-137.5%	(3.621)	(1.075)	2.545	-70.3%
Railroad Car Tax	2.273	2.157	-5.1%	2.273	2.150	(0.122)	-5.4%
Rental Car Sales Tax	3.420	3.539	3.5%	2.710	2.739	0.029	1.1%
Retail Telecom Excise Tax	21.459	22.606	5.3%	15.848	15.249	(0.599)	-3.8%
Other Natural Resource Taxes							
Coal Severance Tax	12.350	12.864	4.2%	10.398	10.377	(0.021)	-0.2%
Electrical Energy Tax	4.481	4.442	-0.9%	4.014	3.756	(0.257)	-6.4%
Metal Mines Tax	10.010	10.904	8.9%	5.103	5.155	0.052	1.0%
U.S. Mineral Royalties	31.057	36.989	19.1%	23.807	21.901	(1.906)	-8.0%
Wholesale Energy Trans Tax	3.427	4.038	17.8%	2.776	2.869	0.093	3.3%
Other Interest Earnings							
Coal Trust Interest Earnings	25.840	24.451	-5.4%	19.821	18.671	(1.150)	-5.8%
TCA Interest Earnings	2.654	2.779	4.7%	2.169	2.113	(0.055)	-2.6%
Other Consumption Taxes							
Beer Tax	2.956	3.052	3.2%	2.457	2.471	0.015	0.6%
Cigarette Tax	31.483	30.991	-1.6%	27.975	27.571	(0.404)	-1.4%
Liquor Excise Tax	17.037	18.206	6.9%	13.944	14.809	0.864	6.2%
Liquor Profits	9.500	10.604	11.6%	-	-	-	-
Lottery Profits	13.061	14.477	10.8%	5.822	7.142	1.319	22.7%
Tobacco Tax	5.709	5.821	2.0%	4.668	4.826	0.158	3.4%
Wine Tax	2.104	2.144	1.9%	1.748	1.813	0.065	3.7%
Other Sources							
All Other Revenue	47.258	32.595	-31.0%	38.833	23.973	(14.860)	-38.3%
Highway Patrol Fines	4.385	4.427	1.0%	3.600	3.388	(0.212)	-5.9%
Nursing Facilities Fee	5.077	4.876	-4.0%	3.792	3.775	(0.017)	-0.5%
Public Institution Reimbursement	14.562	16.332	12.2%	11.441	13.378	1.936	16.9%
Tobacco Settlement	3.322	3.552	6.9%	3.322	3.321	(0.001)	-0.0%
Largest Seven Subtotal	\$1,573.574	\$1,693.573	7.6%	\$1,363.074	\$1,549.021	\$185.946	13.6%
Remaining Sources Subtotal	297.380	301.377	1.3%	225.530	213.673	(11.856)	-5.3%
Grand Total	\$1,870.954	\$1,994.950	6.6%	\$1,588.604	\$1,762.694	\$174.090	11.0%

MAJOR SOURCES

In FY 2012, the largest seven revenue sources accounted for over 80% of total general fund revenue. This section will highlight current trends with each source and further revenue detail if applicable.



Individual Income Tax: High Growth Due in Part to Federal Tax Uncertainty

Individual income tax collections are \$136.3 million or 15.3% above last year; collections are exhibiting significantly stronger growth than the SJ 2 anticipated growth of 9.5%. Withholding tax collections growth through May is 6.9% above last year's collections; this growth is slightly below the growth of 7.5% through April.

The "April surprise" due to the uncertainty in federal tax policy at the end of CY 2012 appears to have come in even more strongly than anticipated; current year payments totaled \$161.6 million for the month of April, far exceeding the previous high of \$135.5 million in FY 2008. The extent to which increased current year payments may reflect last year's tax uncertainty rather than continued income growth cannot be estimated until CY 2012 return information is available; even then, the data will likely not provide a strong indicator of taxpayer behavior change versus normal growth.

	Individual Income Tax			
	YTD FY 2013	YTD FY 2012	Difference	% Difference
Withholding	\$692.6	\$647.8	\$44.8	6.9%
Estimated Payments	194.8	157.3	37.5	23.8%
Current Year Payments	197.2	142.7	54.5	38.2%
Audit, P&I, Amended	25.7	23.2	2.5	10.8%
Refunds	(233.2)	(225.0)	(8.2)	3.7%
Refund Accrual Reversal	124.8	121.9	2.9	2.4%
Partnership Income Tax	12.4	8.6	3.8	43.5%
Mineral Royalties	12.6	14.1	(1.4)	-10.1%
Total	\$1,027.0	\$890.7	\$136.3	15.3%

Property Tax: Likely to Outpace Estimates

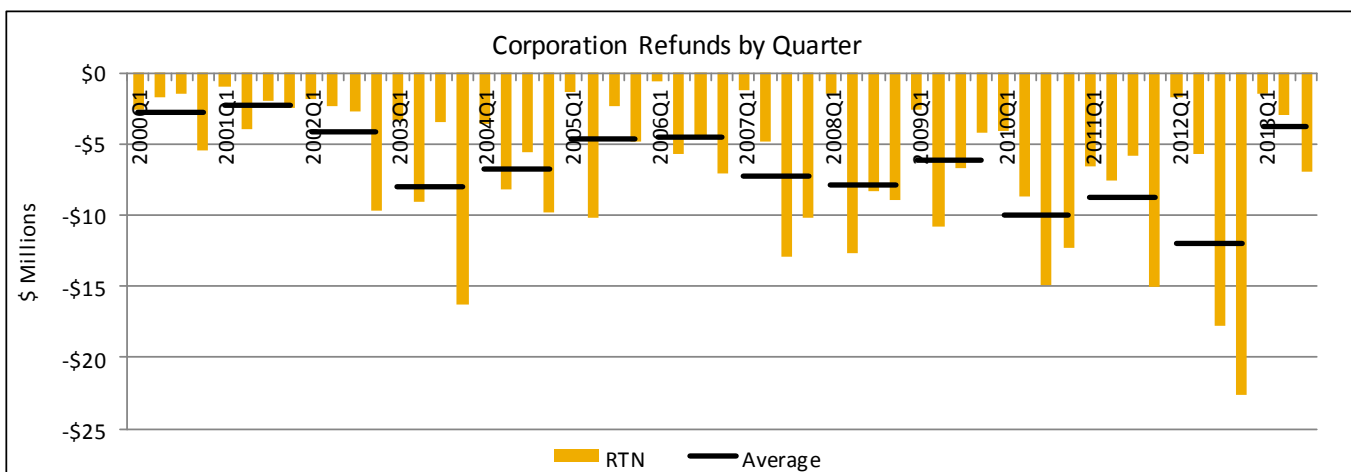
Property tax collections are \$9.1 million or 6.6% above last year; the SJ 2 anticipated growth is 2.1%. While detailed 2013 data is not yet available, the Department of Revenue has suggested that this growth may be from increases in industrial and centrally assessed facilities. This level of growth was not seen between calendar years 2011 and 2012; however, there are a number of new facilities, pipelines, and transmission lines that may be coming the source of increased collections.

Corporation License Tax: Stronger-than-Expected Growth

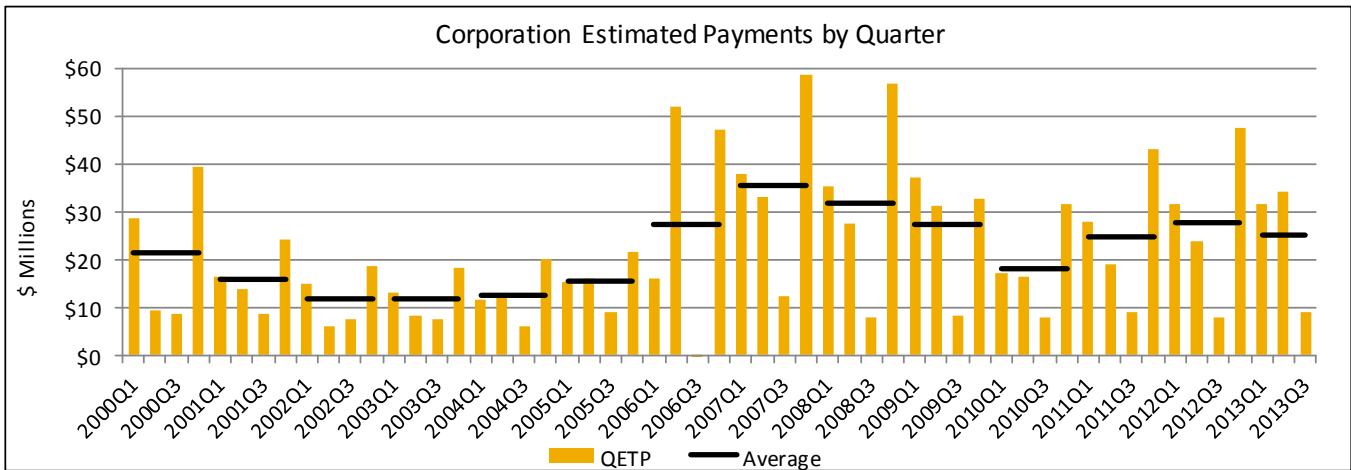
Corporation license tax collections are \$41.0 million or 35.6% above last year, primarily due to an increase in estimated payments and a reduction in refunds. Some of the increase in the corporation tax account is due to a large one-time payment from a corporation that reorganized as an LLC. The growth anticipated in SJ 2 for FY 2013 is 17.9%.

Corporation License Tax				
	YTD FY 2013	YTD FY 2012	Difference	% Difference
Corporation Tax	\$43.6	\$27.6	\$16.0	57.7%
Estimated Payments	102.1	86.9	15.2	17.5%
Refunds	(17.6)	(31.4)	13.8	-43.8%
Refund Accrual Reversal	12.8	9.0	3.7	41.3%
Audit, P&I, Amended	15.3	22.9	(7.6)	-33.3%
Total	\$156.1	\$115.1	\$41.0	35.6%

According to staff at the Department of Revenue, there were several unusually large refunds due to amended returns filed by 5 different corporations in FY 2012. These amended returns reflected changes in filing methods, factor changes and net operating loss carrybacks. These unusually large refunds totaled approximately \$11 million during the period June through February and approximately \$5 million for the period March through June. The refunds that the department has issued so far in FY 2013 and those that are pending so far, are similar to the amounts requested in FY 2012 if the unusually large refunds are excluded. The high level of refunds in FY 2012 are clearly shown in the graph below; moreover, the graph illustrates the difficulty in drawing conclusions about the FYE refund amounts before the last quarter of the fiscal year.

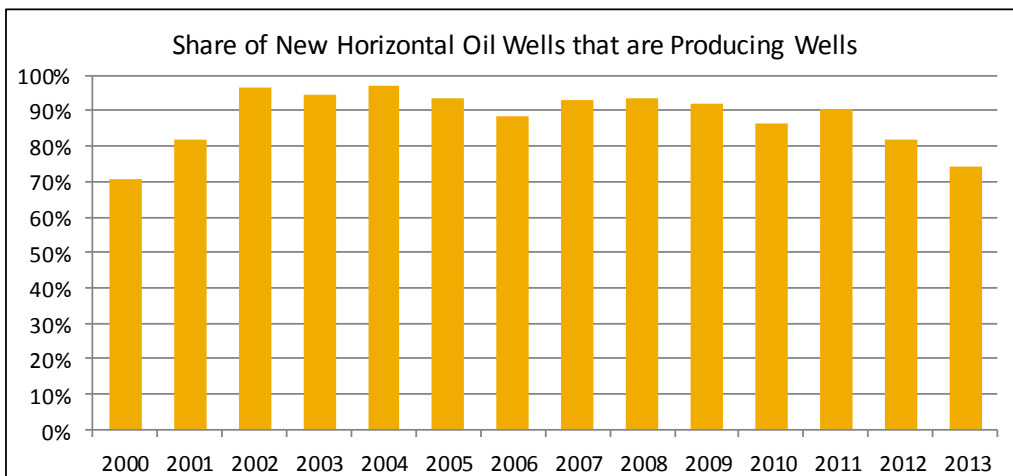


The majority of the increase in estimated payments is the result of 22 large taxpayers making higher estimated tax payments during December and January of FY 2013 than they did in December and January of FY 2012. Corporation estimated payments by quarter since FY 2000 are shown in the chart below.



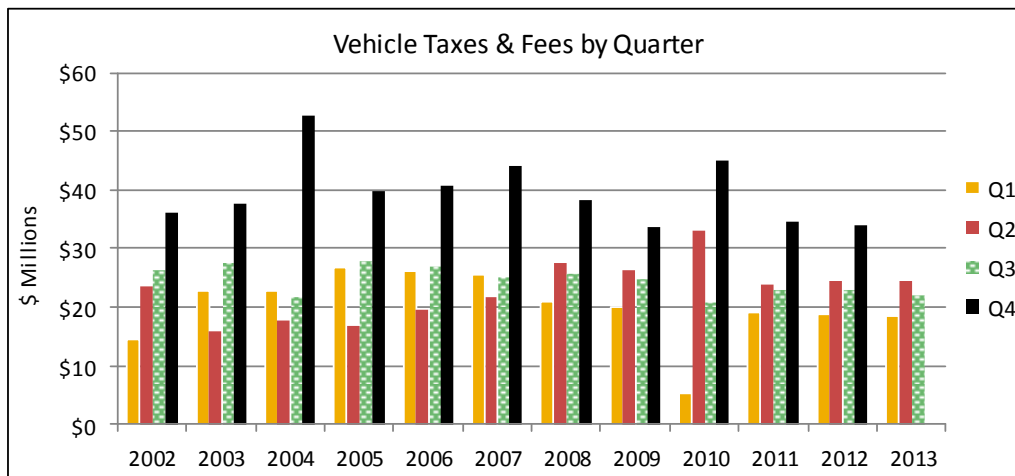
Oil & Gas Production Tax: Continuing Decline

Oil and natural gas production tax collections from the first two quarters of FY 2013 were \$4.4 million or 8.5% below last year; current growth is below estimated growth of 1.2%. The share of newly drilled horizontal wells that ultimately produce oil continues to decline as shown below. While this has a minimal effect on current collections due to the 18-month holiday, it may portend a decline in future collections if all else remains constant.



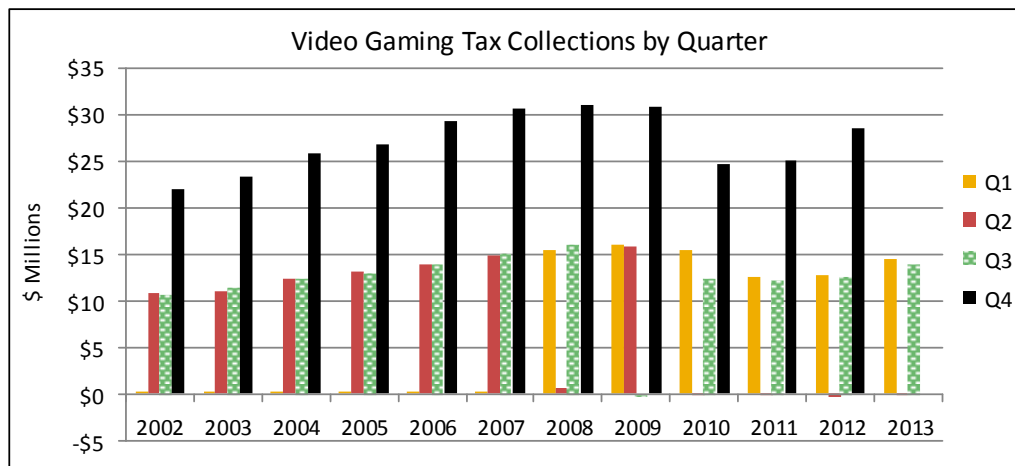
Vehicle Fees & Tax: Slightly Below Estimate

For the first time this year, vehicle fees and taxes above last year's amount, although only slightly: \$0.3 million or 0.4%. This is still below the SJ 2 expected revenue increase of 0.9% in FY 2013.



Video Gaming Tax: Stronger-than-Expected Growth

Video gaming tax collections are up \$3.3 million or 8.4% over last year, primarily due to the addition of video line games approved by the 62nd Legislature. The positive impact of this legislation is expected to continue with some modest improvement in overall machine play.



Insurance Tax: Slightly Below Estimate

Insurance tax collections are up \$0.3 million or 0.7% over last year. Estimated growth for FY 2013 is 1.7%.

OTHER KEY DIFFERENCES

U.S. Mineral Royalties: \$2.0 Million Less Expected Due to Federal Sequestration

The U.S. Department of Interior is cutting federal mineral payments to 35 states by about \$110 million this fiscal year as part of the automatic federal spending cuts that started in April. The reduction of \$0.5 million per month started in March. This reduction is likely to continue until the beginning of the new federal fiscal year in October, thereby reducing FY 2014 revenues as well.

All Other Revenue: Lower Than Last Year Due to Large Transfers in FY 2012

As addressed in previous reports, all other revenue collections are \$14.9 million below last year at this time mainly due to fund transfers in HB 604 and revised laws regarding stale-dated warrants in SB 335, both passed by the 62nd Legislature. In FY 2012, \$10.9 million was transferred to the general fund per HB 604, and the unusually high \$3.2 million in abandoned property transfer reflected the changes due to SB 335.