

## Memorandum

To: HJ 35 Subcommittee  
Gene Walborn, Department of Revenue Director  
Ed Caplis, Tax Policy and Research

From: Finn McMichael, Tax Policy and Research

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Subject: Revenue Impact of Statewide Sales Tax – Modeled after South Dakota

### Statewide Sales Tax Revenue Estimates

This memorandum contains revenue estimates for a statewide sales tax of 4 percent on a broad tax base, similar to that of South Dakota. The estimates below were generated by applying taxable sales ratios from South Dakota to the economic census forecasted sales for Montana for each category of goods and services. South Dakota has a broad tax base with the sales tax applying to almost all final goods and services (no business to business sales). The few exceptions are motor vehicle sales, farm equipment and construction services because South Dakota has separate excise taxes on those goods and services. There are some other small exceptions in agriculture, health care, finance and educational services that are reflected in the taxable sales ratios for those respective industries. The taxable sales ratios from South Dakota used to create these estimates for Montana are higher for many categories of goods and services than the previous ratios, which were a combination of taxable sales ratios from other states. This is the reason the estimates in this memorandum are higher than some previous estimates.

The following table shows two different revenue estimates for Montana based on South Dakota's sales tax. The first two columns in the table below include exemptions for motor vehicle sales, farm equipment and construction of buildings while the last two columns include those goods and services in the tax base. The inclusion/exclusion of motor vehicle sales has a significant impact on the revenue estimates as can be seen in the difference in the retail trade industry estimates (\$346 million without motor vehicle sales vs. \$495 million with motor vehicle sales). The total revenue difference between the two estimates because of the exclusions is approximately \$246 million for FY 2021 and \$251 million for FY 2022. The total revenue from a 4 percent general sales tax on almost all goods and services including motor vehicles, farm equipment and construction services is estimated to be approximately \$1.49 billion for FY 2022.

Statewide Sales Tax Revenue Estimates				
Industry	Broad Tax Base (auto sales, building construction exempt)		Broad Tax Base (including auto sales and all construction)	
	FY2021	FY2022	FY2021	FY2022
Sector 11, Logging, fishing & hunting, ag support	26,783,774	27,404,143	26,783,774	27,404,143
Sector 21, Mining	128,714,256	129,279,115	128,714,256	129,279,115
Sector 22, Utilities	32,719,887	33,058,235	32,719,887	33,058,235
Sector 23, Construction	156,329,693	158,847,171	246,809,975	250,784,515
Sector 31-33, Manufacturing	81,628,833	83,606,809	81,628,833	83,606,809
Sector 42, Wholesale Trade	68,212,931	70,338,704	94,380,831	97,514,661
Sector 44-45, Retail Trade	346,088,076	355,491,458	495,077,350	506,917,099
Sector 48-49, Transportation & Warehousing	64,610,664	66,851,559	64,610,664	66,851,559
Sector 51, Information	29,716,359	30,897,856	29,716,359	30,897,856
Sector 52, Finance & Insurance	75,485,560	79,362,135	75,485,560	79,362,135
Sector 53, Real Estate & Rental & Leasing	25,030,261	26,025,444	25,030,261	26,025,444
Sector 54, Professional, Scientific, & Technical Services	38,193,322	39,711,856	38,193,322	39,711,856
Sector 56, Waste Management & Remediation Services	23,615,732	24,554,674	23,615,732	24,554,674
Sector 61, Educational Services	3,446,722	3,617,874	3,446,722	3,617,874
Sector 62, Health Care & Social Assistance	27,398,456	28,995,571	27,398,456	28,995,571
Sector 71, Arts, Entertainment, & Recreation	37,136,031	38,698,946	37,136,031	38,698,946
Sector 72, Accommodations & Foodservices	149,077,654	157,949,432	149,077,654	157,949,432
Sector 81, Other Services (except public administration)	32,423,256	33,712,378	32,423,256	33,712,378
Total Sales Tax Liability	1,346,611,468	1,388,403,358	1,612,248,923	1,658,942,300
Net Revenue after non-compliance/vendor allowance	\$1,244,473,407	\$1,283,379,482	1,490,821,042	1,534,205,148

One of the advantages of a sales tax is that non-resident visitors of the state who purchase goods and services also pay the tax, which reduces the amount of taxes that are paid by residents of the state. In 2019, the Institute for Tourism and Recreation Research at the University of Montana<sup>1</sup> estimated that non-resident travelers to Montana spent approximately \$3.76 billion in Montana during 2019. The department's revenue model estimates that total sales in Montana to be \$100.6 billion in FY 2019, resulting in non-resident spending comprising approximately 3.7 percent of total sales in the state. Assuming the proportion of spending remains consistent, non-resident travelers could pay approximately \$44-\$55 million in sales taxes for FY 2021 and FY 2022.

\*Note that the data used to create the estimates in this memo are primarily from prior to the Covid-19 pandemic, and these estimates do not account for the economic impacts of the pandemic. These estimates represent a "typical" year, and sales tax collections during the pandemic would likely be lower.

<sup>1</sup> "2019 Nonresident Visitation, Expenditures and Economic Impact Estimates," Kara Grau, Institute for Tourism and Recreation Research, University of Montana, May 2020