Revenue Outlook

2023 Biennium and Beyond

2023 Outlook

The 2023 Outlook will be presented to the LFC on Tuesday September 15th

It will be available on the web late today or on Monday the 14th

As usual, we will take the 2023 Outlook to legislators in preparation for session

A " Zoom tour" by region will be available to all legislators in late September and early October

This year on our "tour" I will be joined by Susan Fox to discuss the up coming legislative session and the preparations that are being made for a potential remote or hybrid session

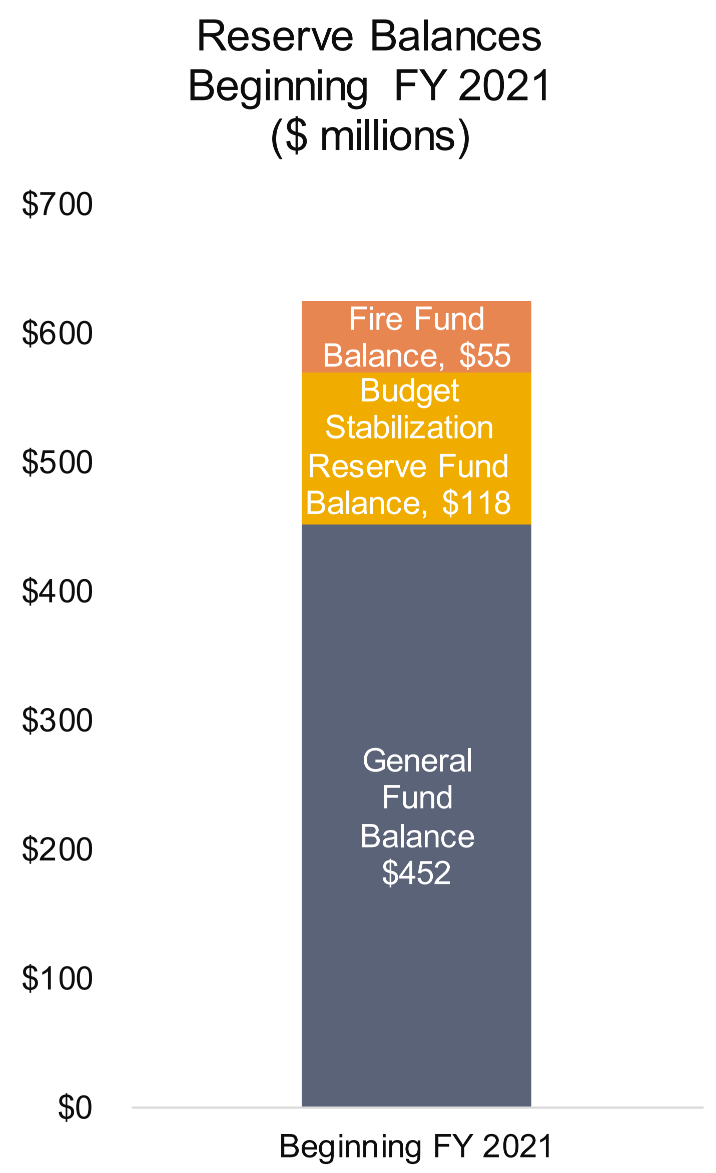
- Both general fund revenues and expenditures
- Balances in the general fund and other reserve fund
- Risks of revenues and expenditures
- Cost pressures

Beginning Fund Balances are Strong

Fund balances were strong going into FY 2020

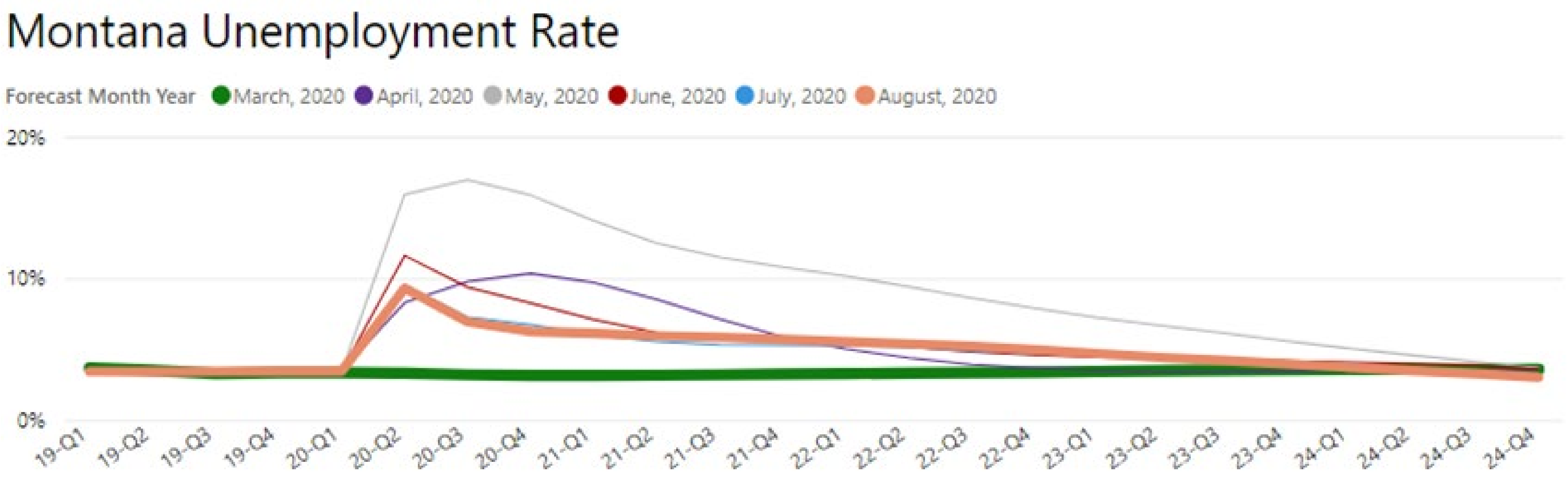
FY 2020 ended strong with less expenditures and more revenue than anticipated

Reserve fund balances at the beginning of FY 2021 are strong



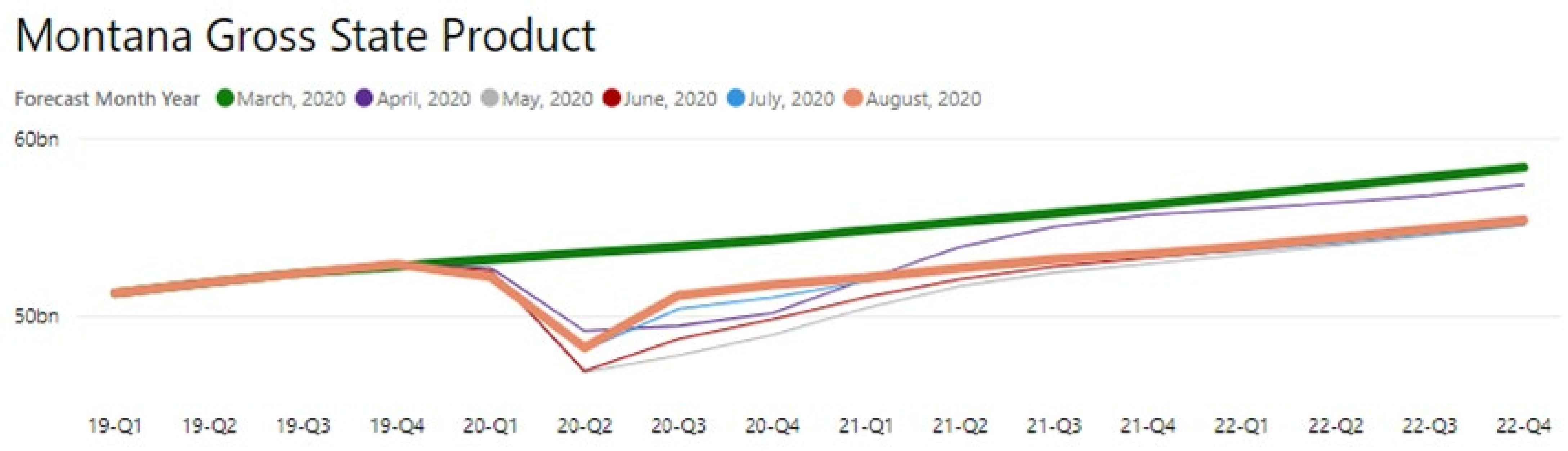
Economics

Economics Continue to Change



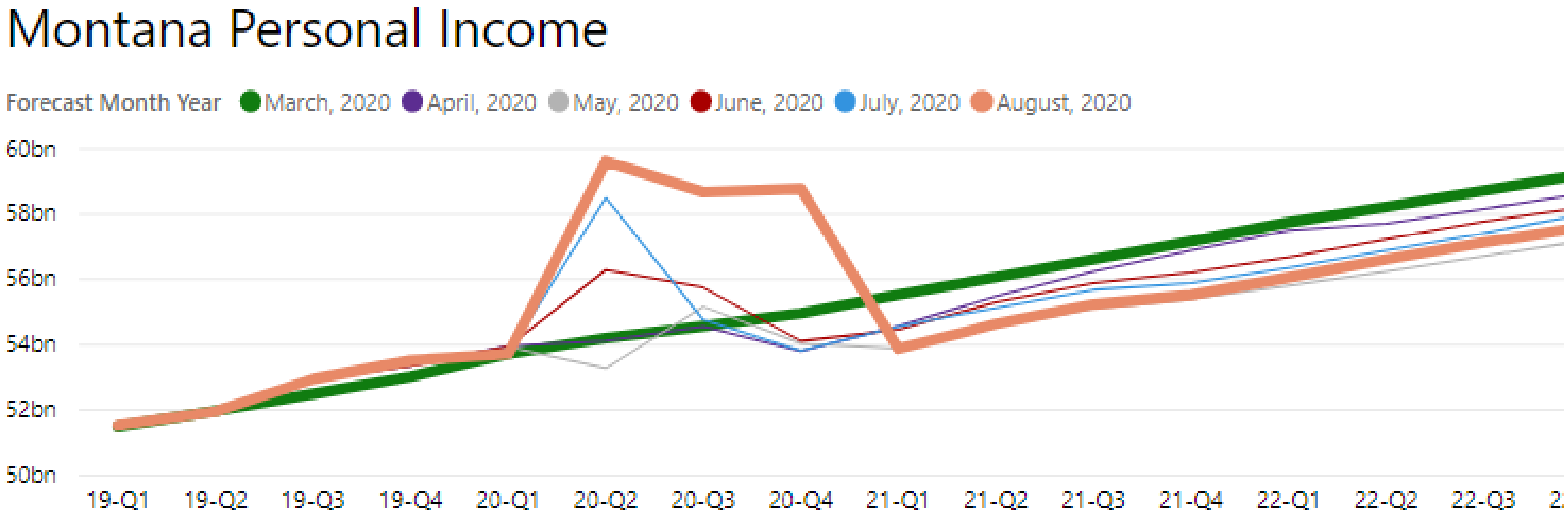
Economics Continue to Change

- Gross State Product: Gross domestic product is a monetary measure of the market value of all the final goods and services produced in a specific time period. Gross State product is the value created within a state.



Economics Continue to Change

- Personal Income: An individual's total earnings from wages, investment enterprises, and other ventures. It is the sum of all the incomes received by all the individuals or household during a given period.



Revenue Forecast

Individual Income Tax

- There is significant uncertainty in forecasting individual income taxes due:
- taxpayer behavior and the impacts of the CARES Act
- Potential for economic changes

August Assumption	September Assumption	September Baseline	Optimistic Forecast	Pessimistic Forecast
Taxpayers will maximize liquidity and opt to choose refunds as opposed to putting them towards future payments	Unchanged from August	Baseline includes a reduction of $30 million in FY 2021	Same as baseline	Same as baseline
The CARES Act suspended required minimum distributions from tax deferred retirement account.	Unchanged from August	Reduces tax liabiilty by approximately $20 million	Same as baseline	Same as baseline
The Federal Cares Act provides additional abilities for taxpayers to carryback Net-Operating Losses. In August it was assumed that this would reduce FY 2021 revenues by $58 million and FY 2022 revenues by $6.5 million	CY 2018 return data suggests that losses in this amount would reduce MT net business income to nearly $0. This seems unlikely	Reduction of $44 million in FY 2021 and $5 million in FY 2022	Reduction of $29 million in FY 2021 and $3 million in FY 2022	Same as August assumption
The Federal Cares Act provides additional abilities for taxpayers to offset non-business income with business losses. it was assumed that this would reduce FY 2021 revenues by $63 million and FY 2022 by $54 million	CY 2018 data suggests that nearly 2/3 of additional non-business income would need to be offset to reach the August assumption	Reduction of $47 million in FY 2021 and $41 million in FY 2022	Reduction of $32 million in FY 2021 and $27 million in FY 2022	Same as August assumption
CY 2018 income contained one-time money due to tax-payers shifting money into CY 2018 to take advantage of the federal tax reform late in CY 2017	Strong individual income tax collections in FY 2020 indicate that some of this may be ongoing	Some of the growth is ongoing. Increases FY 2021 & FY 2022 by $50 million.	$100 million is on-going before gradually decreasing down to $50 million	Assumes it was all one-time-only

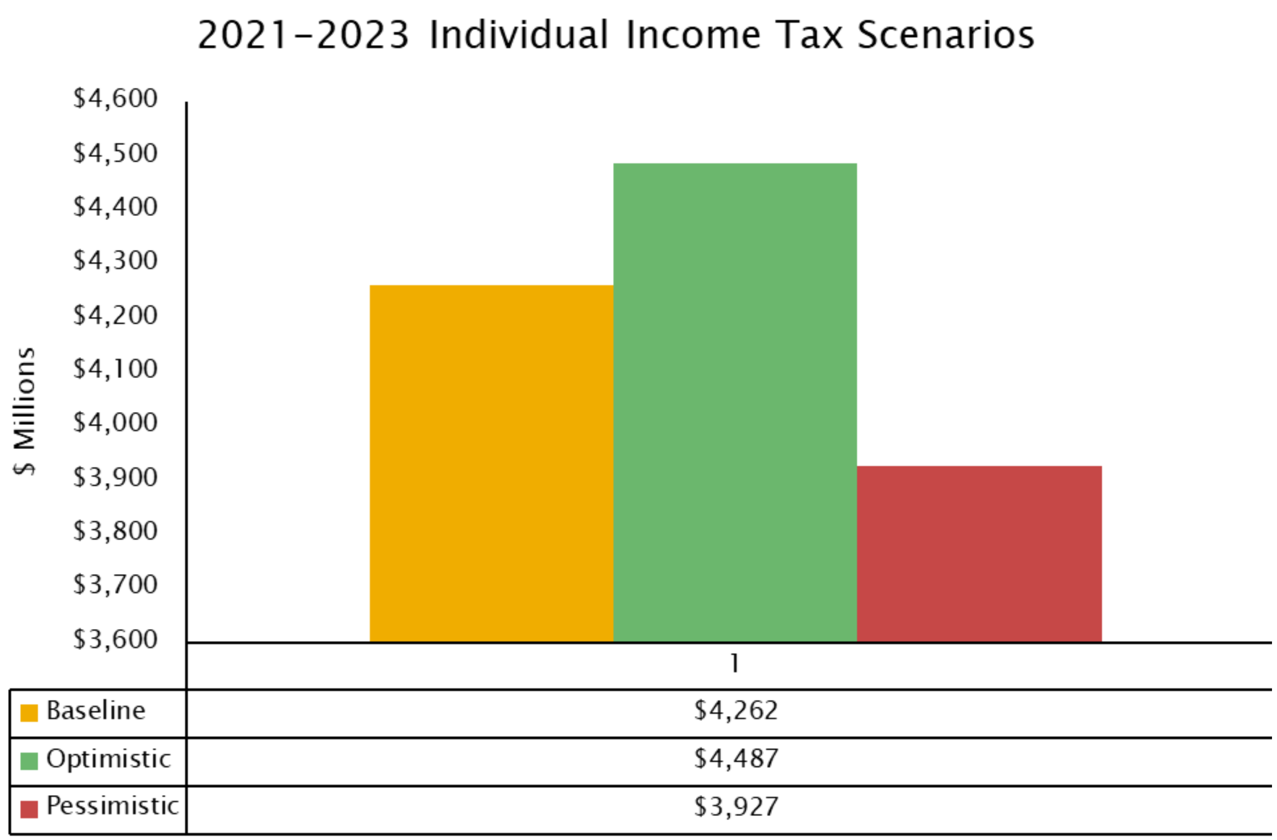
Key Modeling Assumptions and Changes from the August Revenue Update

A more detailed explanation of each provision and its impacts on the revenue forecasts is included as an Appendix

Individual Income Tax Variation

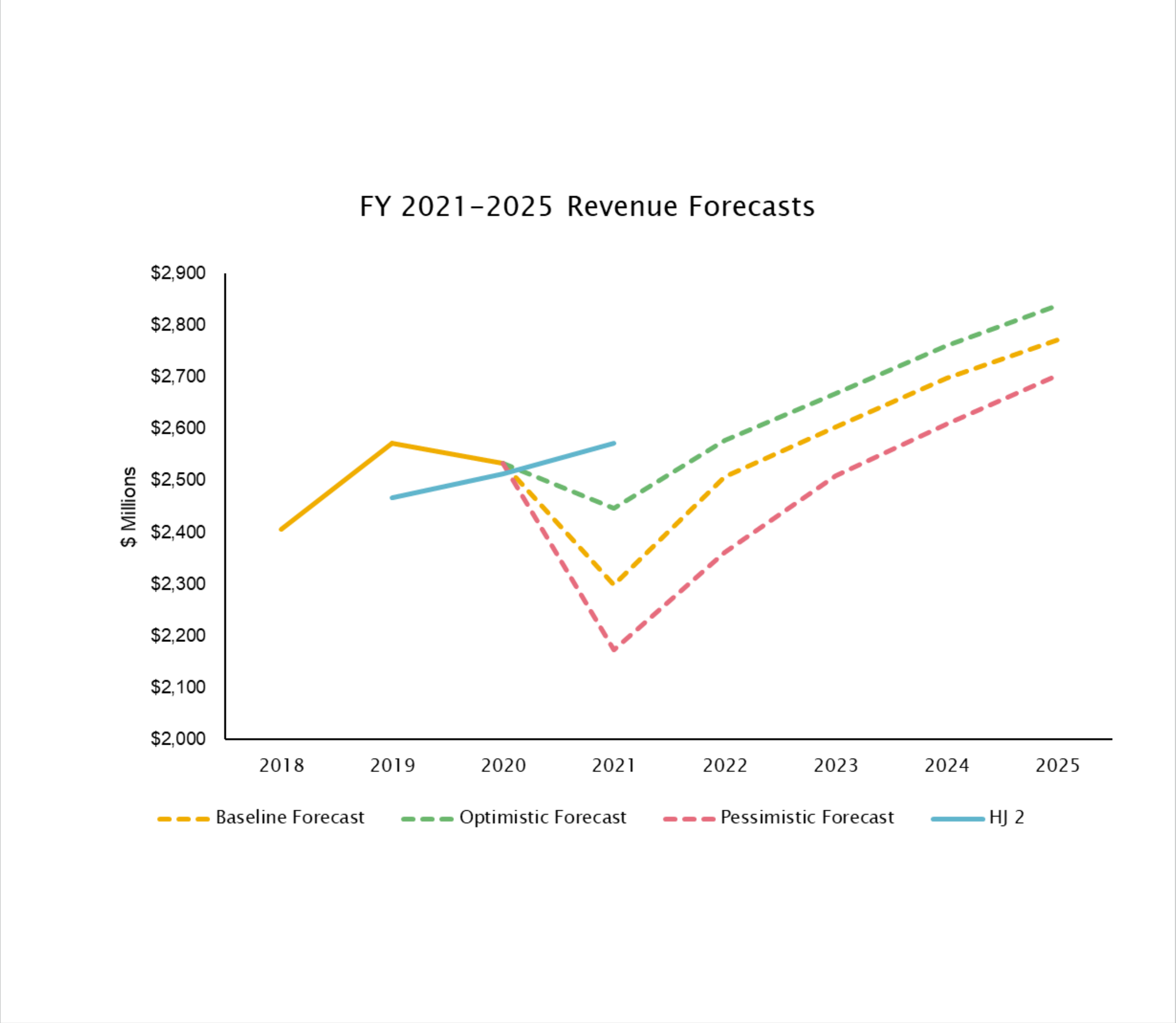
- Note that the variation between Optimistic and Pessimistic – at this time, does not vary the wage assumption. A wage assumption range will be included in the November Estimate update.

- Over the three-year period, the range of possibilities from individual income tax vary by $560 million.



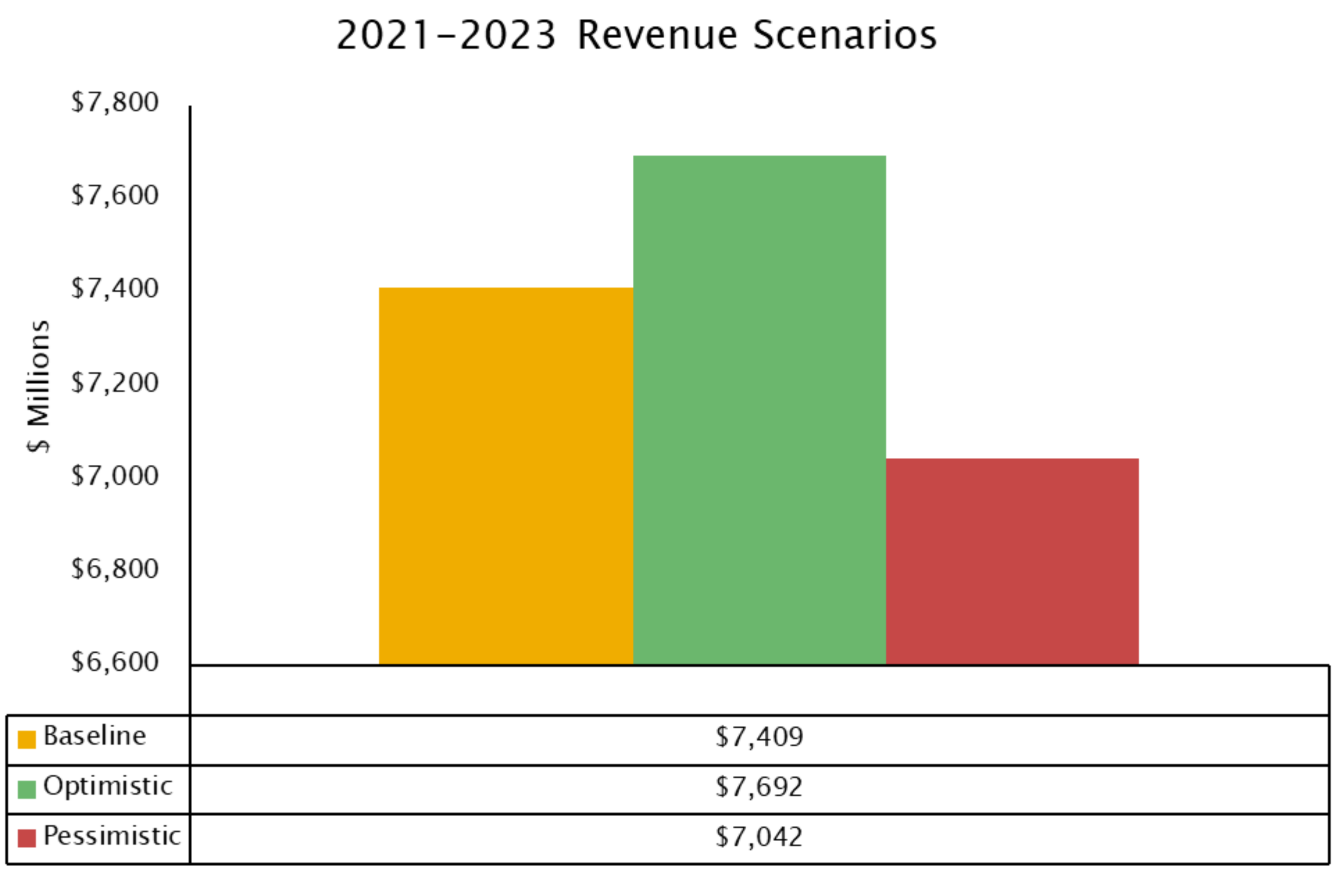
General Fund

- Note that there is a significant range of possible final collections, especially in FY 2021.
- The baseline forecast is $274 million below the previously adopted HJ 2 for FY 2021.
- Even in the optimistic scenario, collections fall short of HJ 2 by $127 million in FY 2021.

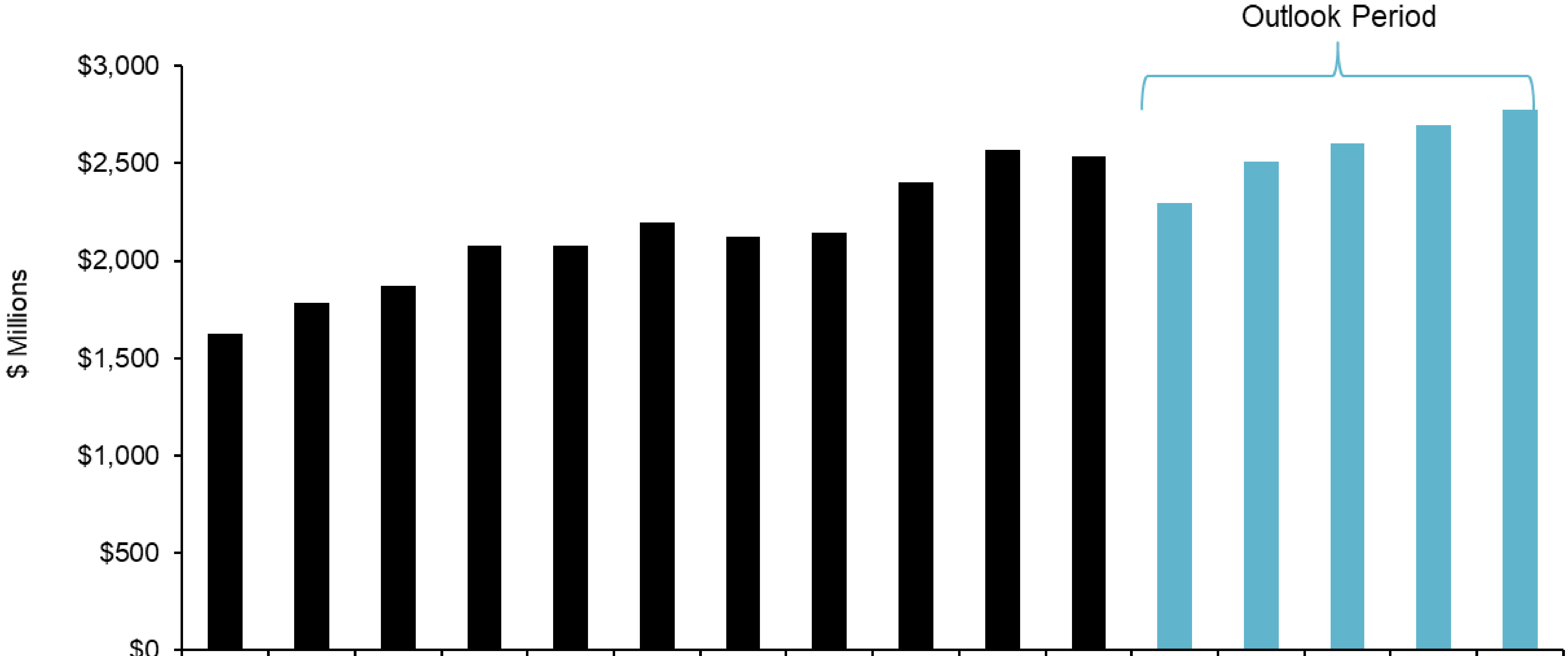


3 year Revenue Estimate

- Variation high (3-year totals vary by $650 million)
- Likelihood of a higher or lower actual revenue strong
- Wage variable when extrapolate in November is expected to widen this variation



General Fund Revenue ($ Millions) by Fiscal Year



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
GF	1,627	1,783	1,871	2,078	2,077	2,200	2,121	2,141	2,405	2,573	2,533	2,298	2,508	2,603	2,698	2,772
%	-10%	9.6%	5.0%	11.0%	0.0%	5.9%	-3.6%	1.0%	12.3%	7.0%	-1.5%	-9.3%	9.1%	3.8%	3.7%	2.8%

Wrap up

Uncertainty

- Economics
- Impacts of federal tax law changes
- Taxpayer behavior due to pandemic and federal tax law changes

Gaining Clarity

Calendar year 2019 tax returns in early November

Additional economic data throughout

April income tax collections

Appendix

Explanation of CARES Act Provisions and how
The LFD has incorporated them since June

Assumptions and Federal Tax Law Changes

Key assumptions in June

1. 2021 Biennium only - Taxpayers will maximize liquidity and choose to receive refunds as opposed to putting them towards future state tax payments. This trend is assumed for FY 2020 and 2021 but ends by FY 2022 as taxpayers return to prior patterns of pre-payment. This assumption will be revisited in the fall update. This impact could reduce revenues by as much as $30 million in each fiscal year.
2. 2021 Biennium only - In FY 2020 most taxpayers will pay quarterly payments based on 2019 income and will not adjust quarterly payments until September or December of 2020. Any prepayment of taxes in FY 2020 will reduce the amount owed in September and December of FY 2021
3. FY 2020 and 2021 – The CARES Act suspended required minimum distributions from tax deferred retirement accounts. As a result, the LFD assumed that retirement income would decrease in CY 2020, as wealthier individuals would take advantage of the provision and not withdraw income. This reduces retirement income by 15% in CY 2020, resulting in a decrease of approximately $20 million tax liability.
4. FY 2021 only – The CARES Act allows businesses to carryback 100% of any net-operating losses incurred in CY 2018, 2019, or 2020. For a loss incurred in any one year, the new prevision allows a carryback for that loss to any of the five preceding tax years. Prior to the CARES Act, losses could only be carried forward and were capped at 80% of taxable income. This is estimated to decrease collections by $75 million in FY 2021 and is based off numbers provided to the United States Senate from the Congressional Budget Office (CBO).

Revised Assumptions - 1

June

- Taxpayers will maximize liquidity and choose to receive refunds as opposed to putting them towards future state tax payments. This trend is assumed for FY 2020 and 2021 but ends by FY 2022 as taxpayers return to prior patterns of pre-payment.

September

- FY 20 income taxes were higher than anticipated in June so it appears that this may only affect FY 21
- Current baseline assumes taxpayers will opt for refunds in April of FY 21

Revised Assumptions - 2

June

In FY 2020 most taxpayers will pay quarterly payments based on 2019 income and will not adjust quarterly payments until September or December of 2020
i) Any prepayment of taxes in FY 2020 will reduce the amount owed in September and December of FY 2021

September

- Payments in June and July appear to true to this assumption
- New baseline assumption - Quarterly payments that were originally due in April were extended until July and booked in FY 21. These payments are now included in the baseline forecast for FY 21.

Revised Assumptions - 3

June

FY 2020 and 2021 – The CARES Act suspended required minimum distributions from tax deferred retirement accounts. As a result, the LFD assumed that retirement income would decrease in CY 2020, as wealthier individuals would take advantage of the provision and not withdraw income. This reduces retirement income by 15% in CY 2020, resulting in a decrease of approximately $20 million tax liability.

September

- Assumption continues unchanged

Revised Assumptions - 4

June

FY 2021 only – The CARES Act allows businesses to carryback 100% of any net-operating losses incurred in CY 2018, 2019, or 2020. For a loss incurred in any one year, the new prevision allows a carryback for that loss to any of the five preceding tax years. Prior to the CARES Act, losses could only be carried forward and were capped at 80% of taxable income. This is estimated to decrease collections by $75 million in FY 2021 and is based off numbers provided to the United States Senate from the Congressional Budget Office (CBO).

Revised in August to include second LOSS Limitation provision

- Significant uncertainty remains regarding the magnitude of this impact. Past data is only so useful in estimating business losses associated with FY 20.
- However, a $75 million dollar decrease in tax liability would require net business income in MT to approach $0.
- As a result, baseline is now assumed to decrease collections by approximately $44 million in FY 21 and $5 million in FY 22.

Revised Assumptions – 4 (CARES Loss Provision 2) Was not included until the August update

August

- FY 2021 & FY 2022-The CARES Act allows taxpayers to deduct the entirety of business losses against non-business income for tax years 2018 through 2020, and tax years 2018 through 2025 for farm losses. Prior to the CARES Act, taxpayers could deduct up to $250,000 ($500,000 for joint filers) of business losses against non-business income. This could decrease Montana collections by $63.0 million in FY 2021 and $54.0 million in FY 2022 (Based on CBO nationwide fiscal impact).

September

- Similar to the prior provision, significant uncertainty remains regarding the magnitude of this impact.
- Examining total non-business income above the $500,000 threshold indicates that nearly 2/3 of it would have business losses against it to reach the August estimates.
- The September baseline forecast assumes that this provision will reduce revenue by $47 million in FY 21 and $41 million in FY 22.

CARES Loss Provisions Summary

- Ultimately, extrapolating the federal impact to Montana tax liability may overstate the impact of these provisions.
- Montana's overall situation has fared better than the nation collectively, and may not have as many high income individuals and significant business losses as other states to take advantage of the CARES loss provisions.

- Baseline Forecast: Assumes only 75% of the Montana adjusted CBO estimate will be realized
- Optimistic Forecast: Assumes only 50% of the Montana adjusted CBO estimate will be realized
- Pessimistic Forecast: Assumes 100% of the Montana adjusted CBO estimate will be realized

- Moving forward to November, the estimated impacts may be further reduced. It is likely that federal stimulus money and state awarded business grants may prevent business losses from reaching these levels.

Base of Calendar Year 2018

June

- CY 2018 base data may have been overstated due to federal tax law change at the end of CY 2017.
- Forecast was trended to diminish the impact of one time income in the CY 2018 base

September

- CY 2018 base level might have continued, know more in November
- Strength of final FY 2020 collections suggests part of CY 2018 growth may be ongoing
  - Optimistic-Assumes $100 million will be ongoing in FY 2021 then decrease down to $50 million by the end of the forecast period
  - Baseline-Assumes $50 million will be ongoing in FY 2021 and FY 2022
  - Pessimistic-Assumes it was all one-time-only in FY 2020