

Memorandum

TO: Revenue Interim Committee

FROM: Finn McMichael, Economist – Tax Policy and Research

DATE: April 18, 2022

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 1 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 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 those ratios in other states, because of the broad-based nature of South Dakota's sales tax.

The following table shows two different revenue estimates for Montana based on South Dakota's sales tax. The first two columns 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 (\$85 million without motor vehicle sales vs. \$122 million with motor vehicle sales). The total revenue difference between the two estimates because of the exclusions is approximately \$63-\$64 million each year for FY 2023 and FY 2024. The total net revenue from a 1 percent general sales tax on almost all goods and services including motor vehicles, farm equipment and construction services is estimated to be approximately \$361 million for FY 2022, after subtracting 5 percent for noncompliance and 3 percent for a vendor allowance. These estimates can be multiplied by any theoretical tax rate up to 4 percent to get the estimated revenue from that tax rate.

Statewide Sales Tax Revenue Estimates				
Industry	Broad Tax Base (auto sales, building construction exempt)		Broad Tax Base (including auto sales and all construction)	
	FY2023	FY2024	FY2023	FY2024
Sector 11, Logging, fishing & hunting, ag support	\$7,135,371	\$7,258,120	\$7,135,371	\$7,258,120
Sector 21, Mining	\$23,178,582	\$24,514,990	\$23,178,582	\$24,514,990
Sector 22, Utilities	\$14,431,272	\$15,241,048	\$14,431,272	\$15,241,048
Sector 23, Construction	\$29,102,169	\$29,227,903	\$56,078,170	\$56,320,453
Sector 31-33, Manufacturing	\$23,411,688	\$24,306,381	\$23,411,688	\$24,306,381
Sector 42, Wholesale Trade	\$35,645,670	\$36,769,327	\$36,085,368	\$37,200,738
Sector 44-45, Retail Trade	\$85,444,600	\$87,554,131	\$121,733,709	\$123,159,361
Sector 48-49, Transportation & Warehousing	\$9,850,127	\$10,107,307	\$9,850,127	\$10,107,307
Sector 51, Information	\$11,964,528	\$12,135,592	\$11,964,528	\$12,135,592
Sector 52, Finance & Insurance	\$17,510,017	\$18,221,712	\$17,510,017	\$18,221,712
Sector 53, Real Estate & Rental & Leasing	\$12,981,150	\$13,166,749	\$12,981,150	\$13,166,749
Sector 54, Professional, Scientific, & Technical Services	\$14,446,789	\$14,653,344	\$14,446,789	\$14,653,344
Sector 56, Waste Management & Remediation Services	\$9,407,602	\$9,542,108	\$9,407,602	\$9,542,108
Sector 61, Educational Services	\$1,032,030	\$1,074,436	\$1,032,030	\$1,074,436
Sector 62, Health Care & Social Assistance	\$7,906,782	\$8,281,129	\$7,906,782	\$8,281,129
Sector 71, Arts, Entertainment, & Recreation	\$7,791,267	\$7,896,951	\$7,791,267	\$7,896,951
Sector 72, Accommodations & Foodservices	\$896,141	\$985,748	\$896,141	\$985,748
Sector 81, Other Services (except public administration)	\$15,638,248	\$15,861,838	\$15,638,248	\$15,861,838
Total Sales Tax Liability	\$327,774,034	\$336,798,814	\$391,478,840	\$399,928,005
Net Revenue after non-compliance/vendor allowance	\$302,043,772	\$310,360,108	\$360,747,751	\$368,533,657

Notable data sources and updates to the sales tax model:

The baseline sales data has been updated using the 2017 economic census data that became available over the last couple years. The personal consumption expenditure data used to project these 2017 sales estimates were then projected forward to future years using 2020 personal consumption expenditure data and forecasts from IHS Markit. The taxable sales ratios used to estimate taxable sales for each year from the total sales come from the FY 2021 South Dakota Sales and Use Tax Report.