



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: May 10, 2024

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

FROM: LFD Revenue Team

RE: FY 2024 April Year-to-Date Revenue Update

GENERAL FUND REVENUE SUMMARY

This monthly revenue update analyzes revenue collections through the end of April and is designed to apprise interested members of the legislature on year-to-date general fund revenue, recent economic trends, and the outlook for FY 2024 relative to the revenue estimate contained in HJ 2.

FY 2024 is on track to exceed the HJ 2 revenue estimate adopted by the Legislature. However, several factors complicate this analysis:

- When HJ 2 was adopted in November 2022, the estimate contained statewide 95 mills and TCA interest earnings for the general fund. The 2023 Legislative Session moved the statewide 95 mills and TCA interest earnings (highlighted in green in the following table) from the general fund to newly created state special revenue funds. If you compare FY 2024 general fund revenues through the end of April to FY 2023 through the same period, then revenues are \$523.4 million or 15.4% below FY 2023. This is in comparison to the estimate adopted in HJ 2, which projects a decline of 20.8%.
- For a more accurate picture of revenue growth, it makes sense to include both the state-levied 95 mills as well as TCA interest earnings. When these are included, FY 2024 revenues are \$70.8 million, or 2.3% above collections from last year at this time. This is above the projected decrease adopted in HJ 2 of 3.3%. However, the majority of the growth is attributable to a very large increase in partnership income tax collections, due to the passage of [SB 554](#) during the 2023 Legislative Session. More detail on this can be seen in the individual income tax section of this report (see pages 3 & 4).
- ***Compared to HJ 2, ongoing general fund and select state special revenue collections are currently \$174 million above HJ 2 and current trends indicate that FYE collections could end up roughly \$200 million above HJ 2. However, some of this increase will still likely be due to timing at FYE, and outstanding credits because of SB 554 will eventually be issued in future fiscal years, lowering income tax collections.***

Year-to-Date Revenues

General Fund, School Equalization, Debt & Liability Free Account Revenue Monitoring Report (\$ Millions)

| Revenue Source | Actual FY 2023 | HJ 2 FY 2024 | HJ 2 Est. % Change | April FY 2023 | April FY 2024 | YTD Difference | YTD % Change | YTD % Change |
|-------------------------------------|--------------------|--------------------|-----------------------|--------------------|--------------------|--------------------|-----------------|-----------------|
| Largest Seven Sources | | | | | | | | |
| Individual Income Tax | \$2,254.305 | \$2,054.152 | -8.9% | \$2,094.276 | \$2,130.836 | \$36.560 | 1.7% | |
| Property Tax (General Fund) | 355.982 | 15.861 | 23.8% | 212.540 | 8.644 | 20.107 | 9.5% | |
| Property Tax (School Equalization) | | 424.826 | | | 224.002 | | | |
| Corporate Income Tax | 309.884 | 275.821 | -11.0% | 236.694 | 246.370 | 9.676 | 4.1% | |
| Vehicle Taxes & Fees | 123.005 | 122.221 | -0.6% | 89.849 | 92.695 | 2.846 | 3.2% | |
| Oil & Natural Gas Taxes | 71.039 | 73.229 | 3.1% | 37.437 | 34.610 | (2.827) | -7.6% | |
| Insurance Tax | 106.196 | 105.838 | -0.3% | 87.049 | 76.449 | (10.601) | -12.2% | |
| Video Gaming Tax | 80.105 | 83.264 | 3.9% | 59.763 | 62.092 | 2.329 | 3.9% | |
| Other Business Taxes | | | | | | | | |
| Drivers License Fee | 6.601 | 5.919 | -10.3% | 5.065 | 4.751 | (0.314) | -6.2% | |
| Investment Licenses | 20.942 | 20.741 | -1.0% | 19.956 | 20.038 | 0.082 | 0.4% | |
| Lodging Facilities Sales Tax | 42.338 | 57.476 | 35.8% | 28.332 | 29.721 | 1.389 | 4.9% | |
| Public Contractor's Tax | 6.733 | 4.203 | -37.6% | 3.690 | 5.317 | 1.627 | 44.1% | |
| Railroad Car Tax | 4.012 | 5.496 | 37.0% | 3.133 | 3.152 | 0.019 | 0.6% | |
| Rental Car Sales Tax | 7.270 | 7.978 | 9.7% | 4.429 | 5.460 | 1.031 | 23.3% | |
| Retail Telecom Excise Tax | 8.436 | 5.631 | -33.3% | 5.646 | 5.305 | (0.341) | -6.0% | |
| Other Natural Resource Taxes | | | | | | | | |
| Coal Severance Tax | 20.879 | 18.420 | -11.8% | 13.060 | 12.218 | (0.843) | -6.5% | |
| Electrical Energy Tax | 4.004 | 3.536 | -11.7% | 2.601 | 3.058 | 0.457 | 17.6% | |
| Metal Mines Tax | 7.251 | 11.363 | 56.7% | 3.950 | 3.444 | (0.506) | -12.8% | |
| U.S. Mineral Leasing | 37.508 | 24.212 | -35.4% | 24.912 | 10.945 | (13.966) | -56.1% | |
| Wholesale Energy Trans Tax | 3.455 | 3.410 | -1.3% | 2.547 | 2.594 | 0.047 | 1.9% | |
| Other Interest Earnings | | | | | | | | |
| Coal Trust Interest Earnings | 18.105 | 18.857 | 4.2% | 12.914 | 13.768 | 0.854 | 6.6% | |
| TCA Interest Earnings (Now SSR) | 118.389 | 126.591 | 6.9% | 95.084 | 109.382 | 14.297 | 15.0% | |
| Other Consumption Taxes | | | | | | | | |
| Beer Tax | 3.188 | 3.329 | 4.4% | 2.318 | 2.205 | (0.113) | -4.9% | |
| Cigarette Tax | 20.797 | 26.889 | 29.3% | 15.233 | 17.305 | 2.072 | 13.6% | |
| Liquor Excise Tax | 32.705 | 32.298 | -1.2% | 22.113 | 22.580 | 0.468 | 2.1% | |
| Liquor Profits | 19.000 | 23.700 | 24.7% | - | - | - | - | |
| Lottery Profits | 22.657 | 15.508 | -31.6% | 14.278 | 6.368 | (7.909) | -55.4% | |
| Marijuana Tax | 29.423 | 30.681 | 4.3% | - | - | - | - | |
| Tobacco Tax | 5.358 | 5.320 | -0.7% | 4.016 | 3.740 | (0.276) | -6.9% | |
| Wine Tax | 2.528 | 2.696 | 6.6% | 1.902 | 1.856 | (0.046) | -2.4% | |
| Other Sources | | | | | | | | |
| All Other Revenue | 304.813 | 46.544 | -84.7% | 289.293 | 39.720 | (249.573) | -86.3% | |
| Highway Patrol Fines | 3.587 | 3.953 | 10.2% | 2.601 | 2.518 | (0.083) | -3.2% | |
| Nursing Facilities Fee | 3.542 | 2.942 | -16.9% | 2.158 | 2.154 | (0.004) | -0.2% | |
| Public Institution Reimbursements | 4.308 | 7.758 | 80.1% | 2.960 | 3.626 | 0.666 | 22.5% | |
| Tobacco Settlement | 3.466 | 3.327 | -4.0% | 0.157 | 2.999 | 2.842 | 1812.7% | |
| Ongoing GF Revenue Subtotal | 3,682.630 | 3,178.074 | -13.7% | 3,044.083 | 2,876.540 | (167.544) | -5.5% | |
| Ongoing GF & SSR Subtotal | 3,801.019 | 3,673.991 | -3.3% | 3,139.168 | 3,209.924 | 70.756 | 2.3% | |
| OTO Revenue & Transfers Subtotal | 260.789 | (55.500) | | 260.789 | | (260.789) | -100.0% | |
| Grand Total General Fund | \$3,943.420 | \$3,122.574 | -20.8% | \$3,399.957 | \$2,876.540 | (\$523.417) | -15.4% | |

MAJOR SOURCES

Individual Income Tax: Likely on target to exceed HJ 2. Current growth is stronger than expected due to SB 554, but outstanding credits could be issued in future fiscal years and lower future income tax collections.

While several factors complicate the analysis, individual income tax collections are now anticipated to exceed the HJ 2 estimate adopted by the 2023 Legislative Session of an 8.9% decline relative to FY 2023 actual collections. Individual income tax collections through the end of April are \$36.6 million or 1.7% above the year-to-date collections in FY 2023. While this is above the anticipated decline of 8.9% adopted in HJ 2, some of this growth may still be a timing issue associated with [SB 554](#) (more on this below). In addition, due to the passage of [SB 121](#), withholding growth rates are expected to continue to decline throughout the remainder of the fiscal year. The chart below shows the year-over-year individual income tax collections by type of revenue (account).

Individual Income Tax (\$ Millions)

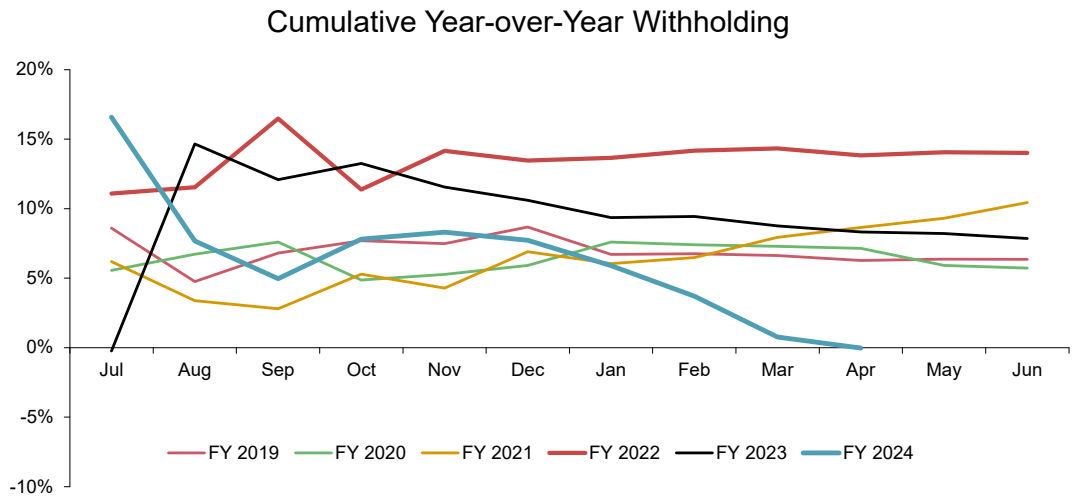
| Account | YTD 2024 | YTD 2023 | \$ Difference | % Difference |
|------------------------|-----------|-----------|---------------|--------------|
| Withholding | \$1,227.9 | \$1,228.2 | (\$0.3) | 0.0% |
| Estimated Payments | 350.0 | 437.8 | (87.7) | -20.0% |
| Current Year Payments | 356.5 | 398.7 | (42.2) | -10.6% |
| Audit, P&I, Amended | 57.1 | 57.8 | (0.7) | -1.2% |
| Refunds | (242.8) | (176.0) | (66.9) | 38.0% |
| Partnership Income Tax | 372.2 | 138.2 | 234.0 | 169.4% |
| Mineral Royalties | 9.9 | 9.6 | 0.3 | 3.6% |
| Total | 2,130.8 | 2,094.3 | 36.6 | 1.7% |

Withholding typically accounts for two-thirds of individual income tax and about 40% of total general fund revenue. Currently, withholding collections are practically identical to last year's collections. As shown in the following chart, withholding growth tends to be relatively variable in the first half of the year, but stabilizes in the second half of the fiscal year.

This year however, it is anticipated that withholding growth will continue to decline throughout the remainder of the current fiscal year due to the passage of [SB 121](#) in the 2023 Legislative Session.

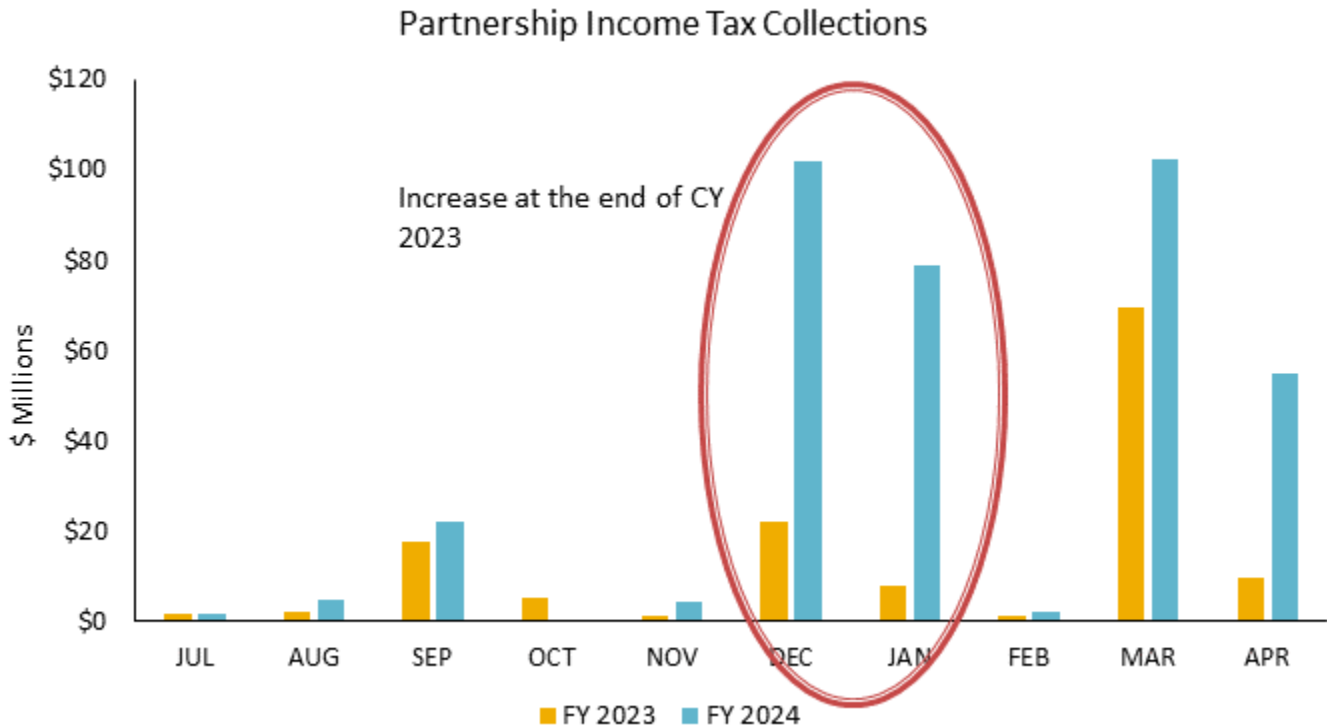
Prior to the passage of SB 121, the top marginal rate was set

to decrease from 6.75% to 6.5% on January 1, 2024. With the passage of SB 121, the top rate decreased instead to 5.9% on January 1, 2024. The reduced top marginal rate is reflected in the decreased withholding growth experienced from December through April. Furthermore, until January 1, 2024, the withholding tables still utilized the old top marginal rate of 6.9%, making the decrease above even more pronounced.



SB 554 (2023 Session)

The only source of growth other than mineral royalty withholding in individual income taxes through the end of April was partnership income taxes. Through April, these collections were up \$234.0 million, or 169.4% compared to last year. The strong growth began in December and was expected with the passage of [SB 554](#) in the 2023 Legislative Session. The figure below shows partnership income tax collections by month compared to last year.



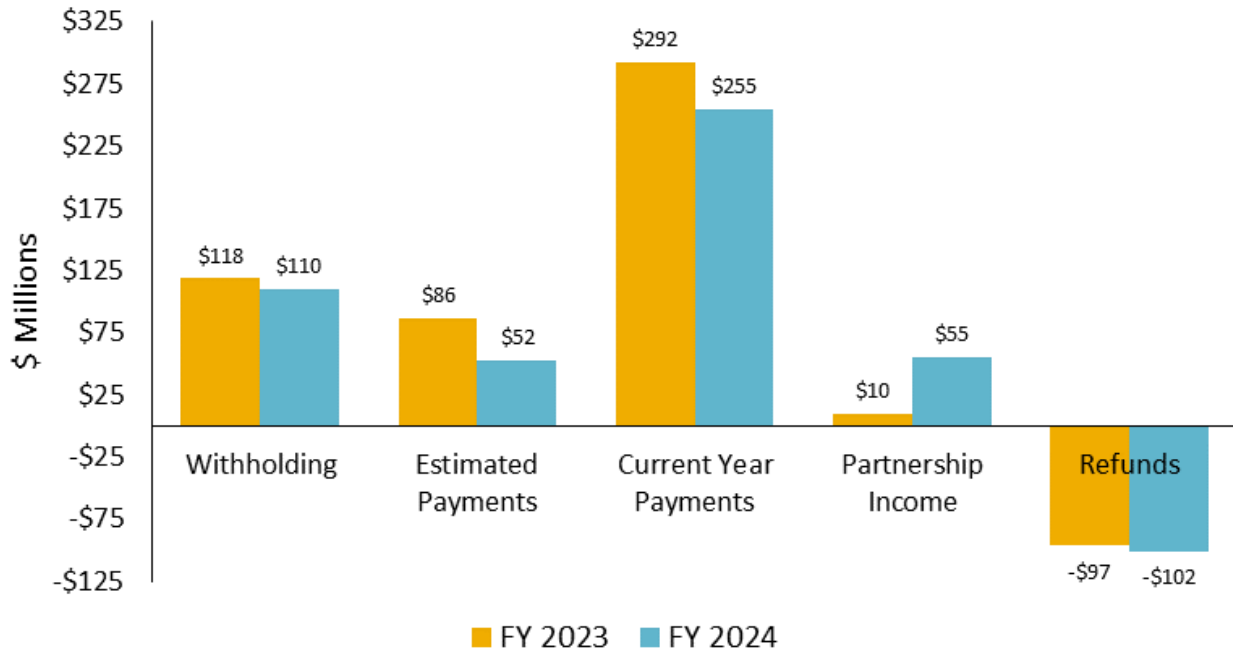
SB 554 created an optional pass-through entity tax (PTET). The fiscal note for this bill estimated that there would be no impact to the state in the long-term. However, it is possible that the timing and collection/issuing of both payments and PTET credits could be shifted from one fiscal year to the next.

At the federal level, state tax liabilities for a pass-through entity are classified as a business expense, and therefore not subject to the \$10,000 state and local tax (SALT) itemized deduction cap. As a result, it is likely that many taxpayers in Montana paid state liabilities as a pass-through entity at the end of CY 2023 to lower their federal tax liability, as indicated by the surge in December/January payments in the chart above.

Taxpayers that elect to pay state income tax through a pass-through entity are then issued a credit that they can claim when they file state income taxes. The increase in pass-through payments at the end of CY 2023 were approximately \$150 million above last year’s levels, however, based upon preliminary tax return extracts in April, only \$35 million in credits had been issued, though this number is likely to be revised upwards somewhat. ***This indicates that a material amount of credits will likely be shifted to future years, thereby lowering income tax collections, and may cause final FYE 2024 revenues to be much higher than anticipated.***

Finally, many pass-through entities will now make quarterly payments, and as a result the estimated payments account collections from the table above will likely decrease, as these collections will now show up in the partnership income tax account. This is reflected in April collections of estimated payments. The figure below shows final April collections for withholding, estimated payments, current year payments, partnership income tax payments, and refunds.

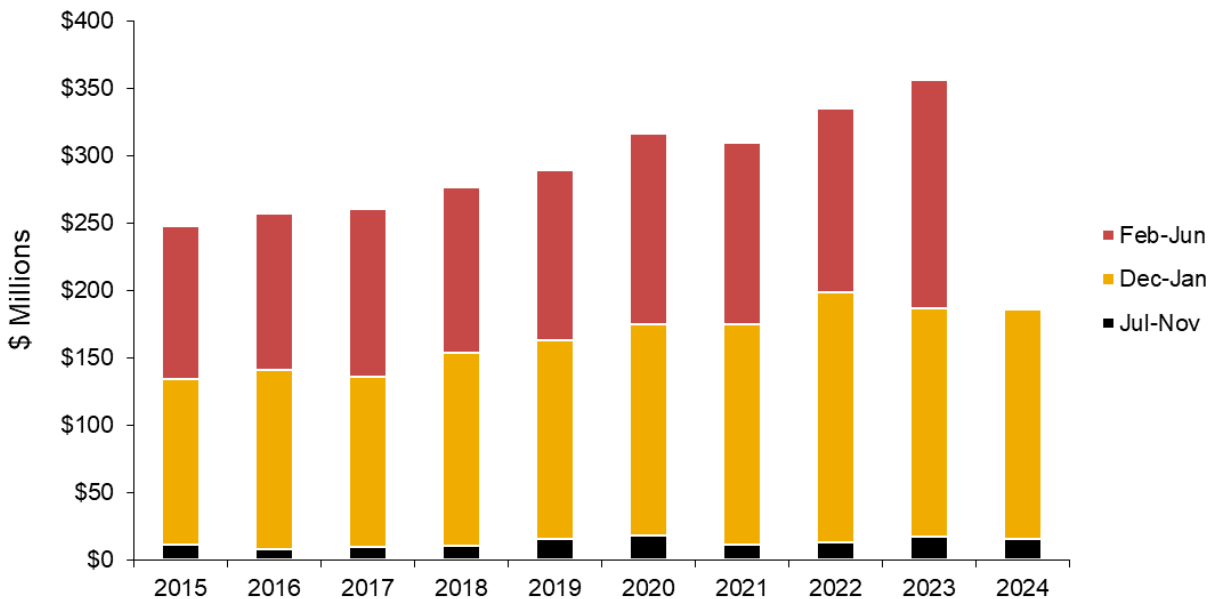
April Individual Income Tax Collections



Property Tax: On track to meet the HJ 2 estimate.

Property tax collections have increased by 9.5% or \$20.1 million compared to collections through the same period last year. In HJ 2, this source was expected to grow by 23.8%. Lower than anticipated collections from the November collections are due to a dispute over the number of mills owed to the state. Most counties levied 77.9 mills instead of 95. This difference is expected to be made up for in the May payment, when counties collect the mills missing from the November payment. Property tax collections are anticipated to be close to the estimate in HJ 2, as they are a source that can be estimated with far more certainty than others.

FY Property Tax Collections by Period

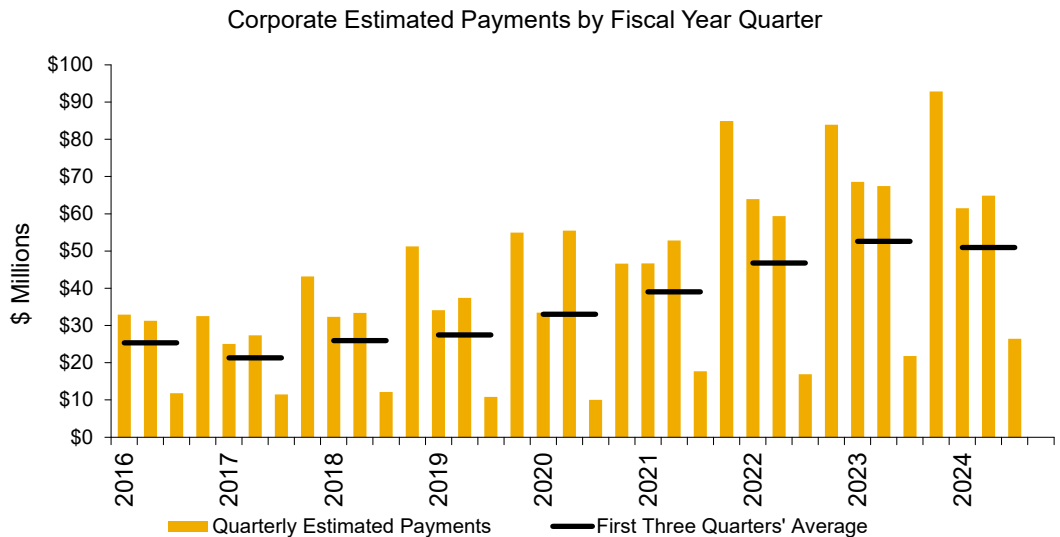


Corporate Income Tax: Anticipated to end up above HJ 2 estimate.

Corporate income tax collections through the end of April are 4.1% or \$9.7 million above this time in FY 2023. This is above the HJ 2 estimate which projected a decline of 11.0%. The chart below shows the year-over-year corporate income tax growth by account. As the chart shows, most of the growth has been in the corporation tax account, which are payments that come in with filed returns.

| Account | YTD 2024 | YTD 2023 | \$ Difference | % Difference |
|---------------------|--------------|----------------|---------------|--------------|
| Corporation Tax | \$78.2 | \$54.0 | \$24.2 | 44.8% |
| Estimated Payments | \$184.8 | \$189.8 | (5.0) | -2.6% |
| Refunds | (27.9) | (22.2) | (5.7) | 25.8% |
| Audit, P&I, Amended | 11.3 | 15.1 | (3.8) | -25.1% |
| Total | 246.4 | \$236.7 | \$9.7 | 4.1% |

The adjacent chart shows that estimated payments in the first three quarters of FY 2024 are below last year's levels but still strong. Estimated payments typically make up 80% of total corporate income tax collections, so they're the ultimate driver of where final collections end up. As of now, estimated payments are slightly below last year.



are only 2.6% below last year's strong levels, and coupled with the strong growth in payments with filed returns this source is expected to exceed the HJ 2 estimate.

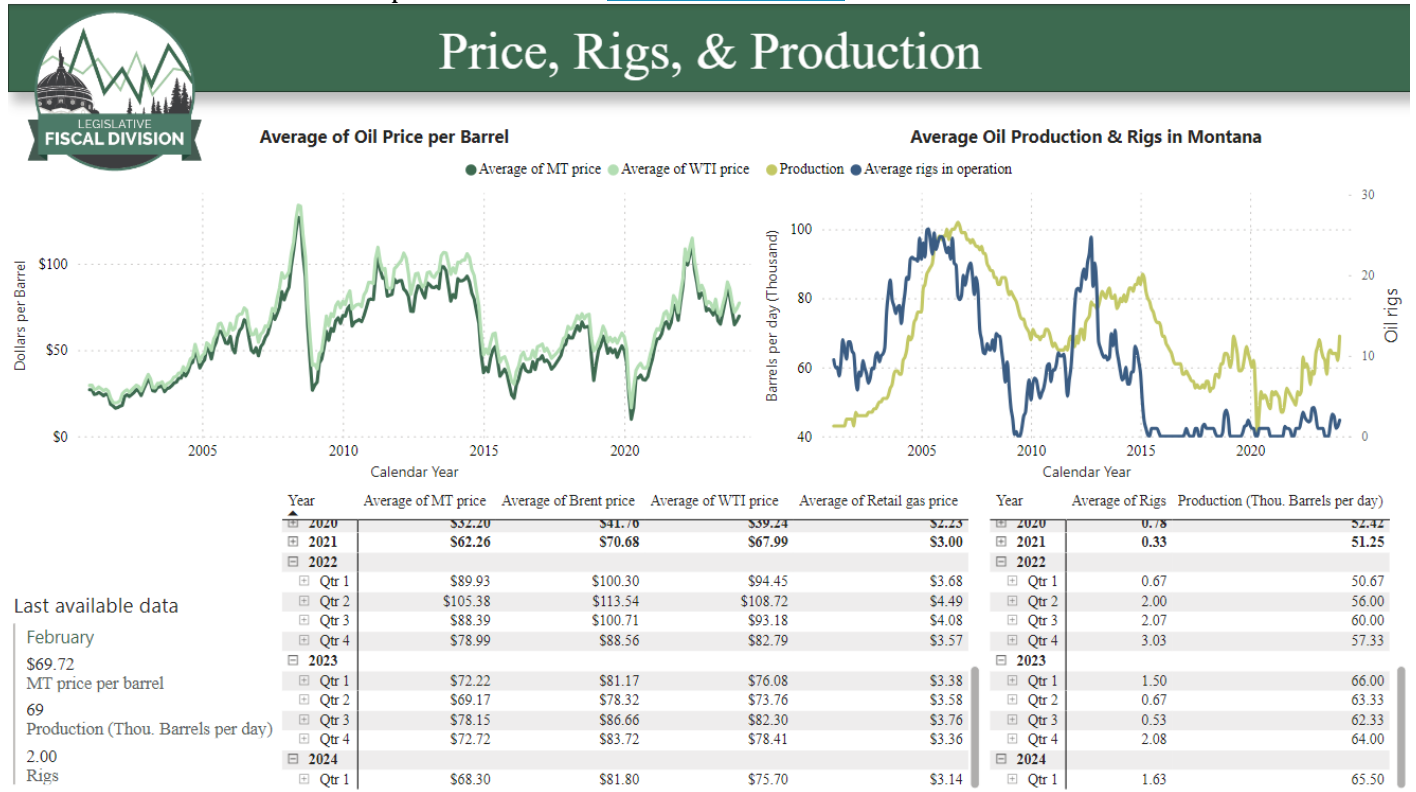
Vehicle Fees & Taxes: Anticipated to be slightly above HJ 2

Through the end of April, vehicle taxes & fees are up 3.2% or \$2.8 million from FY 2023 collections. This is above the estimated decrease of 0.6% in HJ 2. Growth in this source has primarily been driven by an increase in light vehicle registration revenues. Revenues posted to the accounting system for this source can be sporadic from month-to-month, but it is ultimately expected to come in near HJ 2.

Oil & Natural Gas Production Tax: Anticipated to be below the HJ 2 estimate.

Combined oil and gas production tax collections are 7.6% or \$2.8 million below FY 2023 collections. Compared to FY 2023, the first quarter for FY 2024 saw a price decrease in oil of about 12%, which accounts for most of this decrease. The second quarter payment for this fiscal year has now posted and there was a price decrease of about 8% year over year. Collections are expected to come in slightly below the estimate, as oil prices have continued to fall through the fiscal year. However, WTI price per barrel has been on the rise since March, and Montana prices normally follow the WTI price, though they are a bit lagged.

Although oil prices have been very volatile over the last three years, there has been an increase in the average number of oil rigs operating in Montana. The chart below shows the last available price per barrel in Montana and is from an interactive tool published on the [LFD's website here](#).



Insurance Tax: Expected to be slightly above the HJ 2 estimate.

Current insurance tax collections through April are 12.2% or \$10.6 million below FY 2023 collections through the same period. This appears to be a timing issue as typically a large quarterly payment is recorded in April but was not this year. Timing issues are not unusual with this source and collections will likely catch-up next month. This source is still expected to exceed the HJ 2 estimate.

Video Gaming Tax: On track to end up near the HJ 2 estimate.

Revenue from video gambling is currently \$2.3 million or 3.9% above collections from this time last year. In HJ 2 this source was expected to grow by 3.9%. After growth of 30.4% in FY 2021, this source appears to have settled in to a stable 3.0% to 5.0% growth rate per year.

OTHER KEY DIFFERENCES:

Lodging Facilities Sales Tax: Modest growth, but not anticipated to reach HJ 2

Lodging facilities sales tax collections through April are \$1.4 million or 4.9% above FY 2023. This is below the estimated growth of 35.8%. Collections are still higher than both FY 2022 and FY 2023, which were both strong years, and this is likely a plateauing of strong growth from the last few fiscal years.

Rental Car Sales Tax: On track to exceed HJ 2

Rental car sales tax collections through April are \$1.0 million or 23.3% above FY 2023. This is well above the estimated growth of 9.7%. There were particularly strong collections at the end of the summer last year and now again in April. This source is a sales tax on the base rental charges.

U.S. Mineral Leasing: Anticipated to end the year below the HJ 2 estimate.

Current U.S. mineral leasing collections through April are 56.1% or \$14.0 million below FY 2023 collections. The estimate contained in HJ 2 has a year-over-year decrease of 35.4% for this source. Possible contributions to this decrease are lower commodity prices from an early FY 2023 peak, specifically coal and oil, and/or decreases in production on federal lands.

Treasury Cash Account (TCA) Interest Earnings: Expected to end near HJ 2 estimate.

Current TCA interest earnings are 15.0% or \$14.3 million above FY 2023 collections through the same period. This source is affected by interest rates and the Treasury Cash Account's current cash balance. Monthly revenues from this source were higher in the beginning half of the fiscal year, due to larger cash balances. As various legislation enacted by the 2023 Legislative Session has taken effect, this balance has decreased compared to the early months of the fiscal year. As a result, growth in this account should continue to slow closer to the 6.9% growth contained in HJ 2.

Cigarette Tax: Anticipated to be below the HJ 2 estimate.

Cigarette tax revenues are currently 13.6% or \$2.1 million above this time last year. Revenue to this source was unusually low last April, however collections this month are similar to previous years. At the time when the HJ 2 estimate was developed this source had seen unusual pandemic related growth. It appears that this source is settling back down to its previous pattern of slow decline and will likely end up below the HJ 2 estimate by the end of the fiscal year.

Lottery Profits: Anticipated to meet or exceed the HJ 2 estimate.

Lottery profit collections are \$7.9 million or 55.4% below collections at this time last year. Last fiscal year ticket sales benefited from a record Powerball Jackpot in November. Large jackpots have a material impact on ticket sales, but often sales will drop afterwards due to jackpot fatigue. Currently ticket sales are strong, however the most recent quarterly transfer has not yet been recorded to the general fund, whereas last year it had. This source will likely meet or exceed the HJ 2 estimate by the end of the fiscal year.

Marijuana Tax: Near HJ 2, transfer to General Fund transfer occurs at FYE.

Total marijuana tax collections are about 6.5% or \$2.2 million above FY 2023 collections through April. This growth is consistent with the estimate of 4.3% growth contained in HJ 2. The transfer to the general fund occurs at the end of the fiscal year.