



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: May 10, 2021

TO: House and Senate Tax Members
House Appropriations Members
Senate Finance and Claims Members

FROM: LFD Revenue Team

RE: FY 2021 General Fund Revenue Update #5

GENERAL FUND REVENUE SUMMARY

This is the fifth of six monthly revenue updates throughout the second half of FY 2021 designed to apprise interested members of the legislature on year-to-date general fund revenue collections, recent economic trends, and the outlook for FY 2021 relative to the revenue estimate contained in HJ 2.

FY 2021 general fund revenues through the end of April are \$321.4 million or 16.3% above FY 2020 revenues through the same period. Ongoing revenue growth, which excludes one-time-only revenues is currently 16.0% above the FY 2020 values through the same time period.

Using year-over-year growth as a metric for comparisons is not useful right now, due to the discrepancy in tax due dates. Tax Day this year was extended to May 17, while last year taxes were not due until July 15th. As a result, a significant amount of revenue was collected in June and July of CY 2020, whereas that will not be expected to occur this year.

YEAR-TO-DATE GENERAL FUND REVENUE

General Fund Revenue Monitoring Report (\$ Millions)

Revenue Source	Actual FY 2020	HJ 2 FY 2021	HJ 2 Est. % Change	April FY 2020	April FY 2021	YTD Difference	YTD % Change	YTD % Change
Largest Seven Sources								
Individual Income Tax	\$1,435.240	\$1,505.449	4.9%	\$1,217.729	\$1,474.282	\$256.554	21.1%	
Property Tax	308.610	313.430	1.6%	177.363	182.886	5.524	3.1%	
Corporate Income Tax	187.358	149.420	-20.2%	142.466	203.821	61.355	43.1%	
Vehicle Taxes & Fees	108.482	109.320	0.8%	82.973	87.582	4.609	5.6%	
Oil & Natural Gas Taxes	38.380	40.367	5.2%	23.700	15.113	(8.588)	-36.2%	
Insurance Tax	82.489	88.450	7.2%	66.421	69.700	3.279	4.9%	
Video Gaming Tax	57.447	60.320	5.0%	45.455	53.992	8.537	18.8%	
Other Business Taxes								
Drivers License Fee	4.410	4.041	-8.4%	3.436	3.534	0.098	2.9%	
Investment Licenses	15.711	16.385	4.3%	15.132	16.134	1.002	6.6%	
Lodging Facilities Sales Tax	25.058	21.494	-14.2%	17.638	18.145	0.507	2.9%	
Public Contractor's Tax	6.729	4.985	-25.9%	4.514	2.969	(1.545)	-34.2%	
Railroad Car Tax	4.294	4.305	0.3%	3.584	3.720	0.136	3.8%	
Rental Car Sales Tax	4.224	3.571	-15.5%	3.055	2.620	(0.434)	-14.2%	
Retail Telecom Excise Tax	11.788	11.004	-6.7%	7.428	6.111	(1.317)	-17.7%	
Other Natural Resource Taxes								
Coal Severance Tax	10.920	9.553	-12.5%	8.168	8.024	(0.144)	-1.8%	
Electrical Energy Tax	3.910	3.987	2.0%	3.032	2.222	(0.811)	-26.7%	
Metal Mines Tax	8.724	9.922	13.7%	4.614	5.925	1.311	28.4%	
U.S. Mineral Leasing	18.527	17.619	-4.9%	11.859	8.469	(3.390)	-28.6%	
Wholesale Energy Trans Tax	3.351	3.467	3.4%	2.567	2.090	(0.478)	-18.6%	
Other Interest Earnings								
Coal Trust Interest Earnings	21.600	17.896	-17.2%	15.833	11.426	(4.407)	-27.8%	
TCA Interest Earnings	18.597	2.392	-87.1%	16.321	2.801	(13.520)	-82.8%	
Other Consumption Taxes								
Beer Tax	3.167	3.119	-1.5%	2.270	2.404	0.134	5.9%	
Cigarette Tax	26.983	27.080	0.4%	21.813	21.881	0.069	0.3%	
Liquor Excise Tax	23.786	24.960	4.9%	17.599	20.623	3.024	17.2%	
Liquor Profits	18.080	15.800	-12.6%	-	-	-	-	
Lottery Profits	8.073	13.224	63.8%	4.658	6.061	1.403	30.1%	
Tobacco Tax	5.754	5.646	-1.9%	4.364	4.242	(0.122)	-2.8%	
Wine Tax	2.522	2.577	2.2%	1.869	2.011	0.142	7.6%	
Other Sources								
All Other Revenue	46.062	45.100	-2.1%	28.868	26.295	(2.573)	-8.9%	
Highway Patrol Fines	3.458	3.691	6.7%	2.633	2.505	(0.127)	-4.8%	
Nursing Facilities Fee	4.188	3.992	-4.7%	2.516	2.513	(0.003)	-0.1%	
Public Institution Reimbursements	12.745	12.555	-1.5%	9.080	9.717	0.637	7.0%	
Tobacco Settlement	2.654	12.517	371.6%	2.654	13.196	10.542	397.2%	
Ongoing Revenue Subtotal	2,529.221	2,557.797	1.1%	1,967.511	2,283.172	315.661	16.0%	
OTO Revenue & Transfers Subtotal	4.100	9.843		4.100	9.843	5.743		
Grand Total	\$2,533.321	\$2,567.639	1.4%	\$1,971.611	\$2,293.015	\$321.404	16.3%	

MAJOR SOURCES

Individual Income Tax: YTD Above Estimate, but Comparisons Difficult due to Tax Day Anomalies

Individual income tax collections through the end of April are \$256.6 million or 21.1% above the year-to-date collections in FY 2020, and currently far above the growth of 4.9% anticipated in HJ 2. Withholding growth continues to increase and is now 8.6% compared to 7.9% at the end of March.

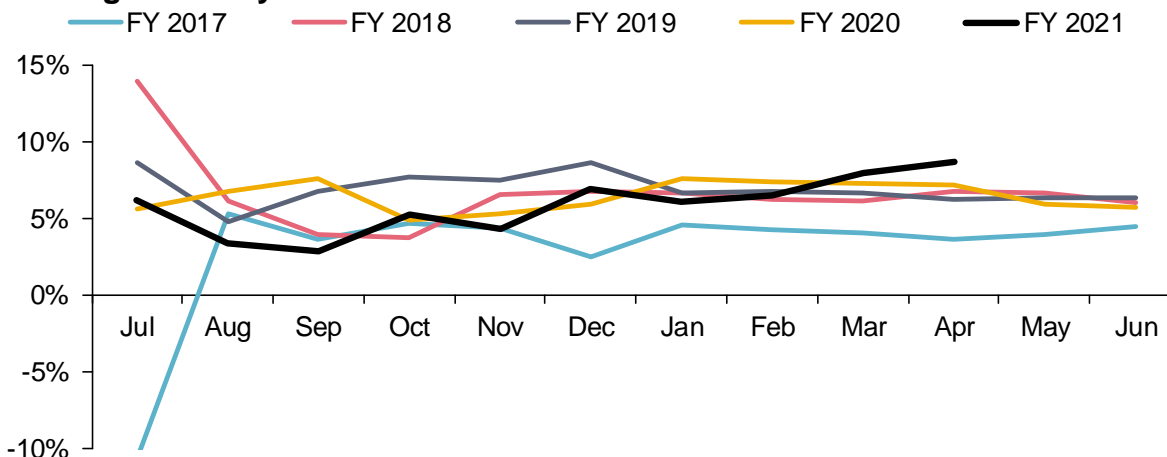
The significant growth in both estimated payments and current year payments is a product of the significant extension to Tax Day in CY 2020. In a typical April, the majority of current year payments are collected as well as one quarter of estimated payments. In CY 2020, these were both extended to July 15th. This year, quarterly estimated payments were made in April, but Tax Day was extended to May 17th. As a result, year-over-year growth rates are not indicative of where one would expect final collections to materialize, as a significant amount of income tax revenue was collected at the close of FY 2020 and into July of FY 2021.

Individual Income Tax (\$ Millions)

Account	YTD 2021	YTD 2020	\$ Difference	% Difference
Withholding	\$996.2	\$916.9	\$79.3	8.6%
Estimated Payments	346.3	235.7	110.6	46.9%
Current Year Payments	124.2	80.7	43.5	53.9%
Audit, P&I, Amended	42.3	37.5	4.8	12.7%
Refunds	(107.2)	(101.0)	(6.3)	6.2%
Partnership Income Tax	67.7	39.8	27.9	70.1%
Mineral Royalties	4.8	8.0	(3.2)	-39.8%
Total	1,474.3	1,217.7	256.6	21.1%

Withholding accounts for over two-thirds of individual income tax and about one-third of total general fund revenue and is continuing to show year-over-year growth compared to FY 2020 collections. As shown in the following chart, withholding growth tends to be relatively variable in the first half of the year, but typically stabilizes by February. This year however, growth has continued beyond February, likely due to the closures of businesses in the spring of CY 2020.

Cumulative year-over-year withholding growth has remained strong throughout the year



Property Tax: Currently Above Estimate

Property tax collections are above last year by \$5.5 million or 3.1%. Only one of two large property tax payments has been made, and the second property tax payment is due at the end of May. Property tax is still anticipated to come in close to the HJ 2 estimate.

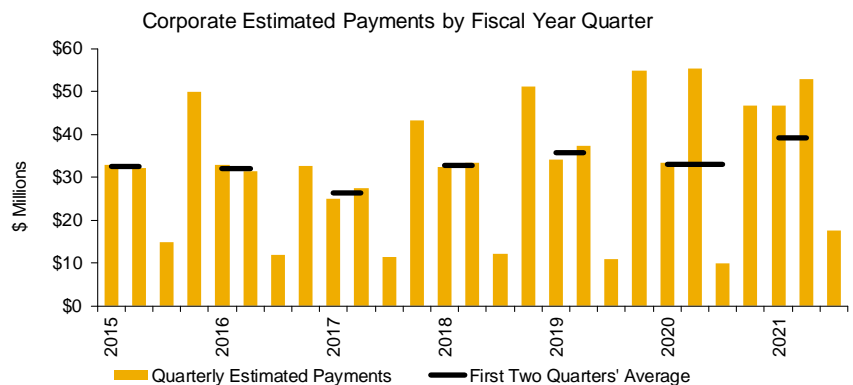
Corporate Income Tax: YTD Above Estimate

Corporate income tax collections through the end of April are 43.1% or \$61.4 million above this time in FY 2020. This is far above the expected decline of 20.2% contained in the HJ 2 estimate. In HJ 2 it was expected that corporations would take advantage of several provisions contained in multiple federal relief packages. These provisions allowed them to deduct funds received from the federal government as expenses, and this would offset any taxable income they would have reported. However, it is beginning to seem like many of Montana's larger corporations may not have seen any losses, and instead have had a strong year, buoyed by the large amount of federal funds sent to individuals, small businesses, and corporations.

Corporate Income Tax
(\$ Millions)

Account	YTD 2021	YTD 2020	\$ Difference	% Difference
Corporation Tax	\$65.5	\$36.9	\$28.6	77.3%
Estimated Payments	\$147.7	\$111.7	36.0	32.2%
Refunds	(17.3)	(13.9)	(3.4)	24.4%
Audit, P&I, Amended	7.9	7.8	0.2	2.1%
Total	\$203.8	\$142.5	\$61.4	43.1%

The adjacent chart shows that estimated payments in the first three quarters of FY 2021 have been larger than any prior years. Estimated payments typically make up 80% of total corporation income tax collections, so they're the ultimate driver of where final collections end up.



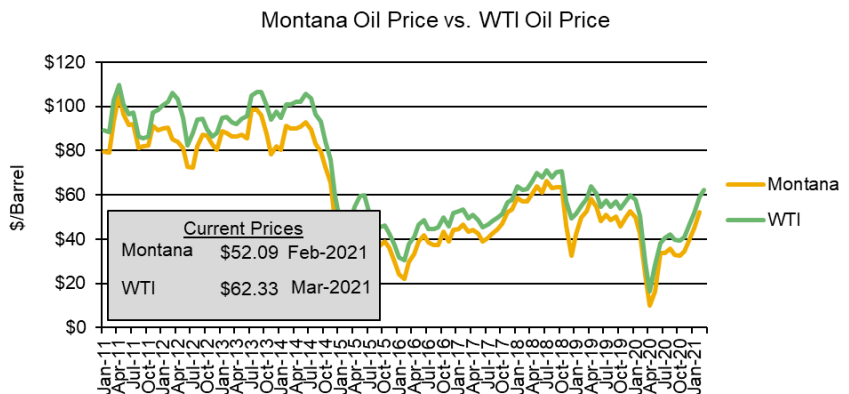
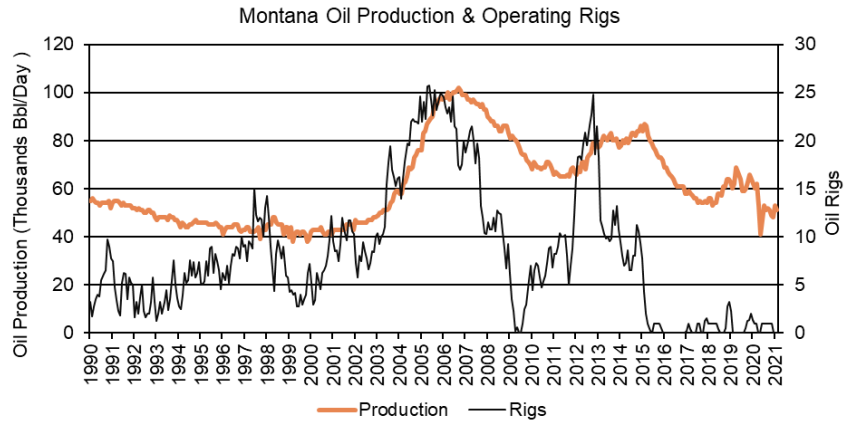
Vehicle Fees & Taxes: Above Estimate

Vehicle taxes and fees are 5.6% or \$4.6 million above collections at this time last year. In HJ 2, this source was expected to grow by 0.8%. This is a stable revenue source and it is likely that final collections will end up relatively close to or slightly above the HJ 2 estimate.

Oil & Natural Gas Production Tax: Currently Below Estimate

Oil and natural gas production tax collections remain well below (36.2% or \$8.6 million) collections at this time last year and are lower than the HJ 2 estimated 4.9% decline as well. The primary driver behind this is the combination of a substantial decline in oil prices in Q1 of FY 2021 compared to the same period of FY 2020, and a similar decline in production over this period as well.

Because there is a delay in when data and payments are collected and posted to the state accounting system, the effects of the price shock referenced above is still reflected in current collections. Recent higher prices will be reflected in tax collection data in a couple months and will likely push actual revenues closer to the HJ 2 estimate.



Insurance Tax: Currently Above Estimate

Current insurance tax collections are 4.9% or \$3.3 million above FY 2020 through April. This source has followed a steady pattern of growth over the past few years and is currently anticipated to come in near the HJ 2 estimate.

Video Gaming Tax: Currently Above Estimate

Revenue from video gambling is currently \$8.5 million or 18.8% above collections from the same time last year. The increase is primarily due to last year's shutdown of non-essential businesses due to COVID-19. Revenue from this source was originally forecast to remain fairly flat throughout the 2021 biennium. However, the source experienced strong growth through the first half of the fiscal year and will likely finish the year over the estimate.

OTHER KEY DIFFERENCES:

Coal Trust Interest Earnings: Currently Below Estimate

Year-to-date coal trust interest earnings are currently \$4.4 million, or 27.8% below collections from last year. In the last few months of FY 2020 the trust sold bonds that increased final collections above what would usually be expected. Those increased collections late in FY 2020 explain the year-to-date decline.

Metal Mines Tax: Currently Above Estimate

Revenue from the metal mines tax is currently \$1.3 million or 28.4% above collections last year, and well above the HJ 2 estimated increase of 13.7%. Tax collections were expected to rise slightly due to high palladium prices. Recently however, increased demand for both palladium and copper (which are heavily used in vehicle production) has pushed prices higher than were forecast in HJ 2. In the near term, prices will likely remain high, thus leading to higher metal mines tax collections.

U.S. Mineral Royalties: Currently Below Estimate

U.S. mineral royalties are down 28.6% or \$3.4 million compared to FY 2020 levels at this time. This source was expected to decline by 4.9% in HJ 2. The primary reason for the lower royalty revenue is due to declines in the coal industry, however, timing may also play a slight role in current revenue collections.

TCA Interest Earnings: Lower and Consistent with Estimate

Treasury cash account interest earnings are \$13.5 million or 82.8% below collections last year at this time, but slightly above the HJ 2 anticipated decline of 87.1%. The decline has been driven by short term interest rates that are near zero. Interest rates are expected to remain at these low levels so this source will likely finish close to the HJ 2 estimate.

Lodging Facilities Sales Tax: Currently Above Estimate

After a slow start due to impacts from COVID-19 travel restrictions, lodging facilities sales tax collections are performing strongly in the latter half of the fiscal year and are currently 2.9% or \$0.5 million above collections at this point last year. This source was expected to decline by 14.2%, so current collections are much stronger than expected, largely due to increases in tourism in the state. This source will likely finish close to or slightly higher than the HJ 2 estimate.

Liquor Excise Tax: Above Estimate

Liquor excise tax year-to-date collections are currently 17.2% or \$3.0 million above this time last year. The growth in this source is comparable to national patterns of liquor sales during the COVID-19 pandemic.

Tobacco Settlement: One Time Windfall and Consistent with Estimate

Year-to-date collections of \$13.2 million are \$10.5 million or 397.2% greater than this time last year. Due to a legal settlement in December the state received payment for all disputed payments withheld by tobacco companies since the inception of the settlement. Of the total recovery of \$53.7 million in withheld payments, the general fund received its typical disbursement of 11%, plus all interest accrued on the withheld payments. The state received the normal payment in mid-April adding an additional \$3.3 million to the general fund.