

ACCOMMODATIONS TAXES

Revenue Description

Montana imposes a 4% lodging facility use tax on accommodations charges of hotels, motels, and campgrounds. Beginning June 1, 2003, Montana imposes an additional 3% sales tax on accommodations charges. Revenue from the accommodations sales tax is deposited in the general fund. Revenue from the lodging facilities use tax is allocated to tourism promotion activities.

Historical and Projected Revenue

Table 1 shows collections of the lodging facility use tax and the accommodations sales tax as recorded on the state accounting system for FY 1994 through FY 2004 and forecasts through FY 2007.

Table 1				
Accommodations Taxes				
(\$ millions)				
Fiscal Year	Lodging Facility Use Tax	Percent Change	Sales Tax	Percent Change
A 1994	\$8.349	3.97%		
A 1995	\$8.685	4.02%		
A 1996	\$9.198	5.91%		
A 1997	\$9.510	3.39%		
A 1998	\$10.008	5.24%		
A 1999	\$10.774	7.65%		
A 2000	\$11.120	3.21%		
A 2001	\$11.287	1.50%		
A 2002	\$11.965	6.01%		
A 2003	\$12.169	1.70%	\$0.571	NA
A 2004	\$13.703	12.60%	\$9.279	NA
F 2005	\$14.046	2.50%	\$10.113	8.99%
F 2006	\$14.882	5.95%	\$10.715	5.95%
F 2007	\$15.859	6.57%	\$11.419	6.57%

Fiscal Year	Lodging Facility Use Tax (\$ millions)	Accommodations Sales Tax (\$ millions)
1994	8.349	0
1995	8.685	0
1996	9.198	0
1997	9.510	0
1998	10.008	0
1999	10.774	0
2000	11.120	0
2001	11.287	0
2002	11.965	0
2003	12.169	0.571
2004	13.703	9.279
2005	14.046	10.113
2006	14.882	10.715
2007	15.859	11.419

From FY 1994 to FY 2004, lodging facility use tax revenue grew at an average annual rate of 5.1% with considerable year-to-year variation. It is forecast to continue to grow at about the same average rate with the year-to-year variations continuing. The new sales tax on accommodations was collected for one month in FY 2003. FY 2004 is the first year with full year collections. The two taxes have the same tax base and are forecast to grow at the same rate.

Forecast Methodology and Projection Calculation

Accommodations tax collections are forecast using a statistical forecasting model. The model predicts the annual growth rate of collections based on the previous year's growth rates of collections and national spending on recreation. These growth rates are applied to actual lodging facility use tax collections for FY 2004 to forecast lodging facility use tax collections for FY 2005 through FY 2007. Sales tax collections are forecast to be a constant percentage of lodging facility use tax collections.

Lodging facility use tax is paid quarterly. Revenue recorded in the state accounting system for a fiscal year equals actual collections for the first three quarters and the Department of Revenue's estimate of collections for the last quarter of the fiscal year. In the last three fiscal years, actual collections for the last quarter have been significantly different from estimated collections. The difference between estimated and actual fourth quarter revenue is shown on the accounting system the next fiscal year as prior year revenue.

Table 2 shows revenue recorded in the state accounting system for FY 2001 through FY 2004, actual collections for FY 2001 through FY 2004, and the growth rate of actual collections.

Table 2			
Lodging Facility Use Tax Collections			
(\$ millions)			
Fiscal Year	Recorded Revenue With 4th Quarter Estimated	Actual Collections	Percent Change
2001	11.287	11.285	1.50%
2002	11.965	12.312	9.09%
2003	12.169	12.562	2.04%
2004	13.703	13.440	6.98%

Statistical models were estimated to measure relationships between actual collections and national measures of economic activity related to tourism and lodging from FY 1994 through FY 2004. The model that fit the data best predicts the growth rate of collections based on the last year's growth rates of collections and national consumer spending on recreation. Historically, when collections and national recreation spending have grown faster in one year, collections have tended to grow slower the next year. The model predicts that this will continue.

Table 3 shows details of the model. The first row shows the average growth rate of collections for FY 1995 through FY 2004. The second and third rows show the average values of the two variables used to predict collections growth each year, the previous year's growth rates for collections and national recreation spending. The model predicts that if collections and national recreation spending grew at their average rates of 4.6% and 7.34% last year, collections will grow by 4.90% this year, which is the same as the average rate for FY 1995 through FY 2004.

Table 3		
Lodging Facility Use Tax Forecasting Model		
	Average Growth Rates	Model Coefficient
Collections Growth Rate	4.90%	
Previous Year's Collections Growth Rate	4.60%	-0.6612
Previous Year's US Recreation Spending Growth Rate	7.34%	-1.1486

The coefficients in the right-hand column show the amount by which the predicted growth rate changes when the explanatory variables change. For every percentage point that last year's collections growth rate exceeded 4.60%, the model predicts that this year's collections growth rate will be 0.6612% lower than 4.90%. For every percentage point that last year's growth rate of national recreation spending exceeded 7.34%, the model predicts that this year's collections growth rate will be 1.1486% lower than 5.11%.

In FY 2004, actual collections shown in Table 2 grew by 6.98% and national recreation spending grew by 6.31%. Collections in FY 2005 are forecast to grow by 4.51% ($4.90\% - 0.6612 \times (6.98\% - 4.60\%) - 1.1486 \times (6.31\% - 7.43\%)$). The first row of Table 4 shows actual growth rates for collections and national recreation spending for FY 2004 and the resulting forecast growth rate for tax collections in FY 2005. The second and third rows show the model's forecasts of collections growth for FY 2005 and FY 2006, Global Insight's forecast of national recreation spending growth for FY 2005 and FY 2006, and the resulting tax collections growth rate forecasts for FY 2006 and FY 2007.

Table 4			
Forecast Lodging Facility Use Tax Growth Rates			
Fiscal Year	Previous Year's Collections Growth Rate	Previous Year's US Recreation Spending Growth Rate	Accommodations Tax Growth Rate
F 2005	6.98%	6.31%	4.51%
F 2006	4.51%	6.48%	5.95%
F 2007	5.95%	5.11%	6.57%

Table 5 shows actual collections for the lodging facility use tax and the accommodations sales tax for FY 2004 and forecasts for FY 2005 through FY 2007. Lodging facility use tax collections are forecast by applying the growth rates in Table 4 to the actual FY 2004 collections.

Table 5 Forecast Accommodations Tax Collections (\$ millions)			
Fiscal Year	Lodging Facility Use Tax Growth Rate	Lodging Facility Use Tax	Sales Tax
A 2004		13.440	9.279
F 2005	4.51%	14.046	10.113
F 2006	5.95%	14.882	10.715
F 2007	6.57%	15.859	11.419

The lodging facility use tax and the accommodations sales tax are imposed on the same accommodations charges. The lodging facility use tax rate is 4% and the accommodations sales tax rate is 3%. Sales tax collected by accommodations operators should be 75% of lodging facility use tax collections. Accommodations operators may retain a vendor allowance of the lesser of 5% of sales tax collected or \$1,000 per quarter. Larger hotels and motels will be at the \$1,000 limit, and total vendor allowances are projected to be 4% of total collections. As shown in Table 5, sales tax remittances to the state are projected to be 72% (96% of 75%) of lodging facility use tax collections.

All accommodations sales tax revenue is deposited in the general fund.

Lodging facility use tax revenue is distributed as follows:

1. The Department of Revenue retains lodging facility use tax revenue equal to the department's appropriation for administering the tax and makes refunds to state agencies for the tax that they paid on employee's business travel.
2. The Montana Heritage Preservation and Development account receives \$0.400 million.
3. The remainder is allocated
 - a. 1% to the Historical Society for roadside historic sites and signs,
 - b. 2.5% to the university system for tourism research,
 - c. 6.5% to the Department of Fish, Wildlife and Parks for parks maintenance,
 - d. 67.5% to the Department of Commerce for statewide tourism promotion, and
 - e. 22.5% to regional tourism promotion agencies.

Table 6 shows the allocation of lodging facility use tax for FY 2005 through FY 2007.

Table 6 Lodging Facility Use Tax Allocation (\$ millions)									
Fiscal Year	Revenue	DOR Tax Administration	State Agency Reimbursement	Mt Heritage Preservation Development Account	Historical Society - Sites & Signs	University System - Travel Research	DFWP - Parks Maintenance	Commerce - Travel Promotion	Regional Travel Promotion
F 2005	14.046	0.141	0.117	0.400	0.134	0.335	0.870	9.037	3.012
F 2006	14.882	0.146	0.120	0.400	0.142	0.355	0.924	9.596	3.199
F 2007	15.859	0.150	0.124	0.400	0.152	0.380	0.987	10.250	3.417