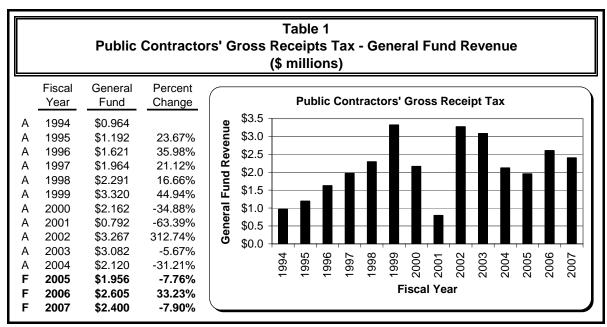
PUBLIC CONTRACTORS' GROSS RECEIPTS TAX

Revenue Description

Section 15-50-101, MCA, provides for a 1% tax on the gross receipts contractors receive for construction work within the state for federal, state, or local governments. Contractors may use the amount of gross receipts tax paid as an offset, or credit, against either their corporation license tax or their individual income tax. In addition, any personal property taxes paid on property located within Montana and used in the contractor's business may be used to obtain a refund of contractors' gross receipts taxes paid. Any tax not credited or refunded is general fund revenue.

Historical and Projected Revenues

Table 1 shows historical and forecast public contractors' gross receipts tax general fund revenue for FY 1994 through FY 2007.



The FY 1999 general fund revenue growth of 45% and the FY 2000 general fund revenue reduction of 35% are due to processing credits and refunds that normally would have occurred in FY 1999, but were moved to FY 2000. This increases revenue collections in FY 1999 by \$400,000 and decreases collections in FY 2000 by the same amount. An undeterminable amount of refunds attributable to FY 2002 and FY 2003 were not processed during the year, causing general fund revenue to increase significantly in these years. During FY 2004 and FY 2005, the Department of Revenue is processing the backlog of credits and refunds.

In FY 2005 through FY 2007, two significant factors will affect this tax revenue: (1) the amount of credits and refunds will be above average in FY 2005 as the Department of Revenue will still be processing the backlog, and (2) the Department of Transportation (DOT) contracts are estimated to increase through FY 2006 and then decrease in FY 2007.

Forecast Methodology and Projection Calculation

There are three steps to calculate the public contractors' gross receipt tax: 1) forecast gross tax receipts; 2) forecast total credits and refunds; and 3) subtract credits and refunds from gross receipts to obtain the general fund revenue.

Gross Tax Receipts

Public contractors' gross tax receipt collections depend foremost on the volume of public contracts being let in any year. These contracts stem from allocations of federal highway funds, forest service construction contracts, state and federal building programs, etc.

Table 2 shows actual and projected contractors' gross receipt payments for FY 1994 through FY 2007 from DOT and other contractors. DOT projects payments from the department to be \$3.0 million in FY 2005, \$3.4 million in FY 2006, and \$2.9 million in FY 2007. Other contractor payments grew from \$1.7 million in FY 1994 to \$3.9 million in FY 1999. Since FY 1999, however, other contract payments fluctuated. Other contractor payments for FY 2005 through FY 2007 are estimated at the average level observed from FY 1999 through FY 2004, which is \$3.1 million.

	Table 2							
	Gross Receipts Payments FY 1994 through FY 2007							
Gr	oss	Department of						

FY	Gross Receipt	•	Department of Transportation		Other Contractor
A 1994	\$3,136,003	=	\$1,431,612	+	\$1,704,391
A 1995	\$3,737,970	=	\$1,406,977	+	\$2,330,993
A 1996	\$4,190,369	=	\$1,709,662	+	\$2,480,707
A 1997	\$4,475,513	=	\$1,697,389	+	\$2,778,124
A 1998	\$4,967,149	=	\$1,733,207	+	\$3,233,942
A 1999	\$5,901,753	=	\$2,006,456	+	\$3,895,297
A 2000	\$5,516,069	=	\$2,348,755	+	\$3,167,314
A 2001	\$4,502,749	=	\$2,005,080	+	\$2,497,669
A 2002	\$5,054,973	=	\$2,177,490	+	\$2,877,483
A 2003	\$5,706,437	=	\$2,376,404	+	\$3,330,033
A 2004	\$6,099,524	=	\$2,539,021	+	\$3,040,063
F 2005	\$6,138,940	=	\$3,004,297	+	\$3,134,643
F 2006	\$6,513,550	=	\$3,378,907	+	\$3,134,643
F 2007	\$5,999,088	=	\$2,864,445	+	\$3,134,643

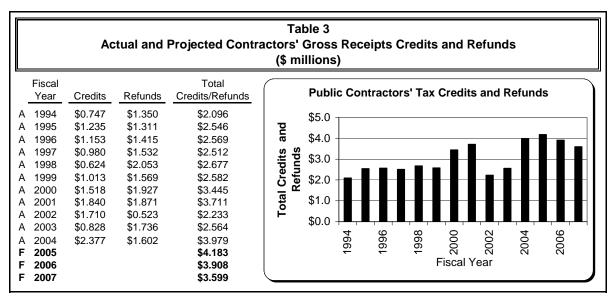
Tax Credits and Refunds

Public contractors may or may not be able to utilize the contractors' gross receipts tax as a credit offset against individual income taxes, depending on their profit and

loss situation each year. Corporation license tax credits also vary significantly from year to year, and are very difficult to predict with any great accuracy. Total credits for public contractors' gross receipts tax is the sum of individual income tax and corporation license tax credits.

Companies may receive personal property tax and overpayment refunds on the gross receipts tax that they pay. The bulk of these refunds are for class 8 business equipment property and automobiles. The amount of property tax refunds in any year is influenced by changes in the level of property used in the state and by the property tax rates. Property tax refunds starting in FY 2002 should reflect a decrease in refunds from normal trends as a result of SB 200 (1999), HB 540 (1999), and HB 4 (2000 special session). SB 200 reduced the taxable valuation rate applied to personal property by half, from 6% to 3%, beginning January 1, 2000. HB 540 and HB 4 eliminated the 1.4% ad valorem tax and the 1.5% "new car" sales tax, beginning January 1, 2001, and replaced these two ad valorem taxes with a three-tier flat fee. With the processing fluctuations between years, it is impossible to detect any trends and the impact of legislation reducing the business equipment and vehicle property taxes.

Table 3 shows actual credits and refunds processed for FY 1994 through FY 2004 and projections for FY 2005 through FY 2007. Credits estimated for FY 2006 to FY 2007 are 60% of gross receipts shown in Table 2. The average of the total credits and refunds during this period is 57.2% without the unprocessed backlog. FY 2005 has an extra \$500,000 of refunds, which is approximately half of the unprocessed individual income tax credits and none of the unprocessed property tax refunds at the beginning of the fiscal year. The assumption is that at fiscal year end there will always be some refunds to process, and the accounting procedures will not change to accrue these refunds.



Net General Fund Revenue

General fund revenue is the gross tax collections minus tax credits and refunds. As shown in Table 4, public contractors' gross receipts tax general fund revenue is estimated at \$1.956 million in FY 2005, \$2.605 million in FY 2006, and \$2.400 million in FY 2007.

Table 4 Public Contractors' Gross Receipts Tax General Fund Revenue							
Fiscal Year	Gross Tax Collections		Total Credits/Refunds	=	General Fund Collections		
F 2005 F 2006 F 2007	\$6.139 \$6.514 \$5.999	- - -	\$4.183 \$3.908 \$3.599	= = =	\$1.956 \$2.605 \$2.400		