

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.

Table 1		
Public Contractors' Gross Receipts Tax - General Fund Revenue		
(\$ millions)		
<u>Fiscal Year</u>	<u>General Fund</u>	<u>Percent Change</u>
A 1994	\$0.964	
A 1995	\$1.192	23.67%
A 1996	\$1.621	35.98%
A 1997	\$1.964	21.12%
A 1998	\$2.291	16.66%
A 1999	\$3.320	44.94%
A 2000	\$2.162	-34.88%
A 2001	\$0.792	-63.39%
A 2002	\$3.267	312.74%
A 2003	\$3.082	-5.67%
A 2004	\$2.120	-31.21%
F 2005	\$1.956	-7.76%
F 2006	\$2.605	33.23%
F 2007	\$2.400	-7.90%

Fiscal Year	Revenue (\$ millions)
1994	0.964
1995	1.192
1996	1.621
1997	1.964
1998	2.291
1999	3.320
2000	2.162
2001	0.792
2002	3.267
2003	3.082
2004	2.120
2005	1.956
2006	2.605
2007	2.400

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 have 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			
<u>FY</u>	<u>Gross Receipt</u>	<u>Department of Transportation</u>	<u>Other Contractor</u>
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.

Table 3			
Actual and Projected Contractors' Gross Receipts Credits and Refunds			
(\$ millions)			
<u>Fiscal Year</u>	<u>Credits</u>	<u>Refunds</u>	<u>Total Credits/Refunds</u>
A 1994	\$0.747	\$1.350	\$2.096
A 1995	\$1.235	\$1.311	\$2.546
A 1996	\$1.153	\$1.415	\$2.569
A 1997	\$0.980	\$1.532	\$2.512
A 1998	\$0.624	\$2.053	\$2.677
A 1999	\$1.013	\$1.569	\$2.582
A 2000	\$1.518	\$1.927	\$3.445
A 2001	\$1.840	\$1.871	\$3.711
A 2002	\$1.710	\$0.523	\$2.233
A 2003	\$0.828	\$1.736	\$2.564
A 2004	\$2.377	\$1.602	\$3.979
F 2005			\$4.183
F 2006			\$3.908
F 2007			\$3.599

Public Contractors' Tax Credits and Refunds

Fiscal Year	Total Credits and Refunds (\$ millions)
1994	2.096
1995	2.546
1996	2.569
1997	2.512
1998	2.677
1999	2.582
2000	3.445
2001	3.711
2002	2.233
2003	2.564
2004	3.979
2005	4.183
2006	3.908
2007	3.599

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					
<u>Fiscal Year</u>	<u>Gross Tax Collections</u>	-	<u>Total Credits/Refunds</u>	=	<u>General Fund Collections</u>
F 2005	\$6.139	-	\$4.183	=	\$1.956
F 2006	\$6.514	-	\$3.908	=	\$2.605
F 2007	\$5.999	-	\$3.599	=	\$2.400