PUBLIC CONTRACTORS' GROSS RECEIPTS TAX

Revenue Description

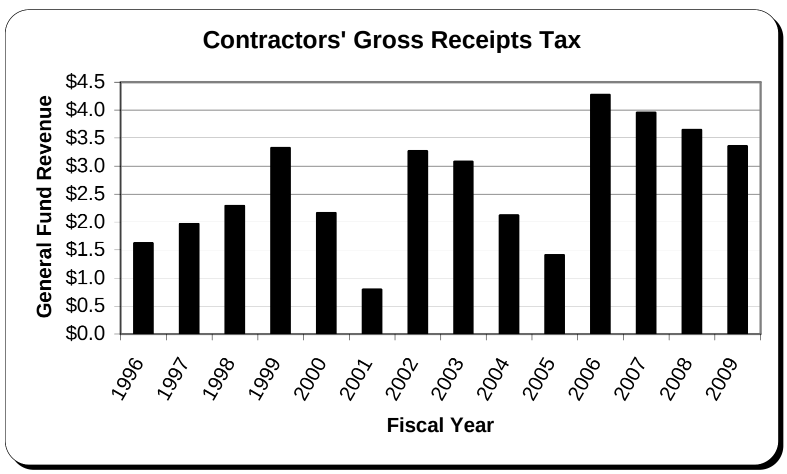
Section 15-50-205, MCA, provides for a 1% tax on the gross receipts contractors receive for construction work within the state for federal, state, or local governments. Contractors may use the amount of gross receipts tax paid as an offset, or credit, against either their corporation license tax or their 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 actual general fund revenue from the contractors' gross receipts tax for FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

Table 1
Contractors' Gross Receipts Tax - General Fund
($ millions)

Fiscal Year	General Fund	Percent Change
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	312.70%
A 2003	3.082	-5.66%
A 2004	2.120	-31.21%
A 2005	1.411	-33.45%
A 2006	4.275	202.99%
F 2007	**3.956**	-7.46%
F 2008	**3.647**	-7.81%
F 2009	**3.354**	-8.04%



Variation in revenue is largely the result of refund processing fluctuations. The general fund revenue decline of 35% in FY 2000 is largely due to processing refunds that normally would have been processed in FY 1999, but were processed in FY 2000. This increased revenue collections in FY 1999 by $400,000 and decreased collections in FY 2000 by $400,000. Likewise, a large number of refunds attributable to FY 2002 and FY 2003 were not processed during those years. In FY 2004 and FY 2005, the backlog was processed, again decreasing general fund revenue in those years. In FY 2006, no significant backlog existed to be processed; consequently, general fund revenue increased by 203%. In FY 2007, the Department of Revenue (DOR) expects the entire FY 2006 backlog to be processed. DOR also expects approximately the same annual backlog amounts for FY 2007 through FY 2009, and that these amounts will be fully processed in the year following.

General fund revenue is forecast to decrease for FY 2007 through FY 2009 due to decreasing Montana Department of Transportation (MDT) contracts and SB 323 (2005 Session) credit carry forwards. First, the MDT contracts are estimated to decrease through the next three fiscal years. Second, SB 323 that allows public contractors to carry forward individual income or corporate license tax credits for up to five years is estimated to reduce general revenue by $350,000 per year beginning in FY 2007.

Forecast Methodology and Projection Calculation

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

Step 1: Forecast Gross Tax Receipts

Public contractors' gross tax receipt collections depend on the volume of public contracts. 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 1996 through FY 2009 from MDT and other contractors. MDT projects its payments to be $3.441 million in FY 2007, $2.918 million in FY 2008, and $2.422 million in FY 2009. Other contractor payments historically fluctuate; therefore, other contractor payments for FY 2007 through FY 2009 are estimated at the average level observed from FY 2005 through FY 2006, which is $3.258 million.

Table 2
Gross Receipts Payments
FY 1996 - FY 2009

FY	Gross Receipts		Department of Transportation		Other Contractor
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
A 2005	$5,579,071	=	$2,351,284	+	$3,227,787
A 2006	$6,160,311	=	$2,872,062	+	$3,288,249
F 2007	**$6,699,473**	=	**$3,441,454**	+	**$3,258,018**
F 2008	**$6,176,173**	=	**$2,918,155**	+	**$3,258,018**
F 2009	**$5,679,866**	=	**$2,421,848**	+	**$3,258,018**

Step 2: Forecast Total Tax Credits and Refunds

Companies are allowed individual income and corporation license tax credits to offset the contractors' gross receipts tax paid. 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.

Companies may also receive personal property tax and overpayment refunds for contractors' gross receipts tax paid. The bulk of property tax refunds are derived from class 8 business equipment property and automobiles. The amount of property tax refunds in a year is influenced by changes in the amount of property used in the state and by property tax rates. Beginning in FY 2002, property tax refunds decreased as a result of SB 200 (1999 Session), HB 540 (1999 Session), and HB 4 (2000 Special Session). SB 200 reduced the taxable valuation rate applied to personal property by one-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. However, with 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 from FY 1996 through FY 2006 and forecast amounts for FY 2007 through FY 2009.

Table 3
Credits and Refunds (millions)

	Fiscal Year	Gross Receipts	Credits		Refunds		Total Cred./Ref.	% of Gross Receipts Credits	% of Gross Receipts Refunds
A	1996	$4.190	$1.153	+	$1.415	=	$2.569	28%	34%
A	1997	$4.476	$0.980	+	$1.532	=	$2.512	22%	34%
A	1998	$4.967	$0.624	+	$2.053	=	$2.677	13%	41%
A	1999	$5.902	$1.013	+	$1.569	=	$2.582	17%	27%
A	2000	$5.516	$1.518	+	$1.927	=	$3.445	28%	35%
A	2001	$4.503	$1.840	+	$1.871	=	$3.711	41%	42%
A	2002	$5.055	$1.710	+	$0.523	=	$2.233	34%	10%
A	2003	$5.706	$0.828	+	$1.736	=	$2.564	15%	30%
A	2004	$6.100	$2.377	+	$1.602	=	$3.979	39%	26%
A	2005	$5.579	$2.300	+	$2.045	=	$4.346	41%	37%
A	2006	$6.160	$0.518	+	$1.365	=	$1.883	8%	22%
	Average FY 1996 - FY 2006								**28%**
F	**2007**	$6.699	**$0.868**	**+**	**$1.876**	**=**	**$2.744**	**13%**	**28%**
F	**2008**	$6.176	**$0.800**	**+**	**$1.729**	**=**	**$2.530**	**13%**	**28%**
F	**2009**	$5.680	**$0.736**	**+**	**$1.590**	**=**	**$2.326**	**13%**	**28%**

DOR expects credits to be approximately $868,000 in FY 2007. This number represents the sum of the FY 2006 credits plus $350,000 to adjust for the impacts of SB 323. Credits make up approximately 13% of total receipts in FY 2007. Credits are forecast to continue to equal 13% of total receipts for FY 2008 and FY 2009. Refunds make up an average of 28% of total receipts for FY 1996 through FY 2006. This percentage assumes that at fiscal year end there will always be some refunds to process, and that the accounting procedures will not change to accrue these refunds. This percentage is used to forecast refunds for FY 2007 through 2009. Total refunds and credits are forecast to be $2.744 million in FY 2007, $2.530 million in FY 2008, and $2.326 million in FY 2009.

Step 3: Calculate General Fund Revenue

General fund revenue equals gross tax collections minus tax credits and refunds. As shown in Table 4, public contractors' gross receipts tax general fund revenue is forecast to be $3.956 million in FY 2007, $3.647 million in FY 2008, and $3.354 million in FY 2009.

Table 4
Public Contractors' Gross Receipts Tax
General Fund Revenue

Fiscal Year	Gross Tax Collections	-	Total Credits/Refunds	=	**General Fund Revenue**
F 2007	$6.699	-	$2.744	=	**$3.956**
F 2008	$6.176	-	$2.530	=	**$3.647**
F 2009	$5.680	-	$2.326	=	**$3.354**

Data Sources

Gross tax receipts, tax credits, property refunds, and net general fund collections by month, were obtained from DOR and some information is available on SBAS Report 63 receipts tax collections from their agency for FY 2007 through FY 2009.