



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

Room 110 Capitol Building * P.O. Box 201711 * Helena, MT 59620-1711 * (406) 444-2986 * FAX (406) 444-3036

Director
AMY CARLSON

DATE: March 13, 2018

TO: Joint Subcommittee on the Changing Economy and Impacts to the Long-Term Viability of Montana's Tax Structure

FROM: Stephanie Morrison & Sam Schaefer

RE: Approximate Combined Taxes on \$1 Million Sales by Selected Industries

This memo and the corresponding analysis is provided in response to a specific request of the Joint Subcommittee to get a general sense of the types of state and local taxes collected on \$1 million in sales by different industry.

Limitations

The analysis is based on a variety of data sources, includes many assumptions, and excludes some tax types for which reliable data is limited (such as fuel and vehicle taxes). The aggregated taxes by industry shown in this report are typically approximated, not exact values.

Data Sources

State accounting data for FY 2017; US Census e-commerce data; individual and corporation return and property tax data from the Department of Revenue; USDA agricultural data; Bureau of Labor Statistics occupational data; and various state and national industry groups

Key Assumptions

Oil: sales equals production value; accounts for 75% of the natural resource sector wages; business tax on profits determined from corporation tax return data; property tax is class 15 pipelines; industry tax is production tax. Note that the effective production tax rate of 10.9% is based on the most recent year of available data, which includes a historically low level of holiday production. An effective production tax rate of 7.3% occurred in 2005 when the share of holiday production peaked. On sales of \$1 million, the potential difference in rates would generate a difference of \$36,000 in state and local revenue.

Coal: sales equals production value; accounts for 12% of the natural resource sector wages; business tax on profits not disclosed for coal due to there being fewer than 10 companies; property tax is coal gross proceeds; industry tax is severance tax, which has an effective rate of about 12%.

Wheat: accounts for 23.8% of agricultural sector wages; business tax on profits determined from corporation tax return data; property tax is 12% of class 3 ag land and 13% of class 8 business equipment tax; industry tax is 43% of checkoff fees.

Lodging: sales determined from lodging tax; accounts for 15% of the lodging and food services sector wages; business tax on profits determined from corporation tax return data; general fund property tax is assumed to be \$6,000 per \$1 million in sales (estimated average based on lodging facilities use tax and property taxable value data); industry taxes include lodging sales and facility use taxes, and a local option tax of 3% on 20% of the sales.

Food Services: sales determined from industry group reporting by state; accounts for 85% of the lodging and food services sector wages; business tax on profits determined from corporation tax return data; general fund property tax is assumed to be \$1,000 per \$1 million in sales (estimated average based on industry group data and property taxable value data); industry taxes include the alcohol taxes allocated to the lodging and food services sector, and a local option tax of 3% on 5% of the sales.

Hospital: patient service revenue determined from industry group reporting by state; accounts for \$60 million of healthcare and social services sector wages; industry taxes include the temporary community benefit assessment and hospital utilization fees.

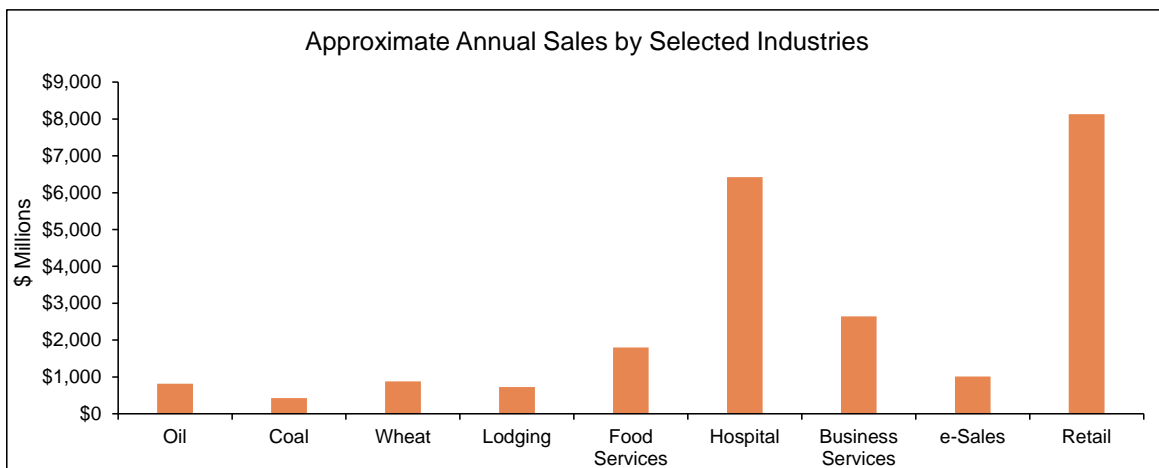
Business Services: sales approximated from BLS data; accounts for 100% of professional, technical and business services sector wages; business tax on profits determined from corporation tax return data; property tax is 100% of class 4 commercial tax as allocated to the professional, technical and business services sector based on corporation tax liability.

E-Commerce: sales assumed to be 10% of retail sales; business tax on profits determined from corporation tax return data and individual tax on wages assumed to be the same.

Retail: IHS estimate for retail sales excluding motor vehicles, parts & gas stations, with subsequent reduction of lodging and food services sales; accounts for 100% of retail sales sector wages; business tax on profits determined from corporation tax return data; general fund property tax is assumed to be the same as the food services industry—\$1,000 per \$1 million in sales; industry taxes include alcohol taxes allocated to the retail sector, tobacco taxes, and lottery profits.

Findings

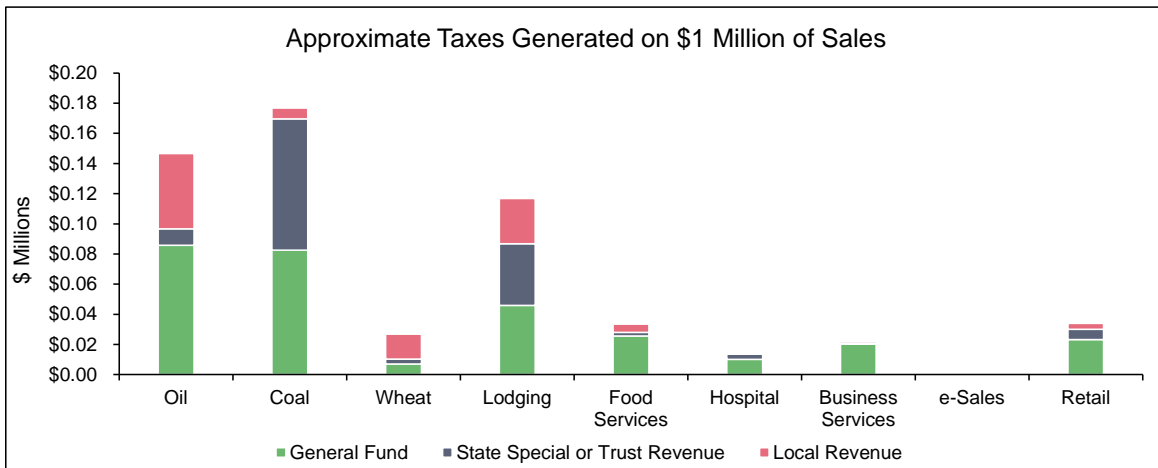
The chart below shows approximate annual sales by selected industry, and illustrates the relatively high sales in the hospital services and retail industries.



The table below summarizes approximate combined taxes by selected industry:

Approximate Combined Tax on \$1 Million Sales by Selected Industries (\$ Millions)										
Tax Type	Fund	Oil	Coal	Wheat	Lodging	Food Services	Hospital	Business Services	e-Sales	Retail
Individual Tax on Wages	01	\$0.033	\$0.010	\$0.002	\$0.003	\$0.008	\$0.009	\$0.016	\$0.000	\$0.007
Business Tax on Profits	01	0.004	-	0.001	0.007	0.008	-	0.004	0.000	0.007
Property Tax	01	0.000	0.044	0.004	0.006	0.001	-	0.000	-	0.001
	02	0.000	-	0.000	0.000	0.000	-	0.000	-	0.000
Industry-Specific Taxes	Local	0.001	-	0.017	0.024	0.004	-	0.001	-	0.004
	01	0.049	0.029	-	0.030	0.009	0.001	-	-	0.008
	02/09	0.011	0.087	0.003	0.040	0.002	0.004	-	-	0.007
	Local	0.049	0.007	-	0.006	0.002	-	-	-	-
Total		\$0.147	\$0.177	\$0.027	\$0.117	\$0.033	\$0.014	\$0.021	\$0.000	\$0.034
Fund Type										
General Fund		0.086	0.083	0.007	0.046	0.026	0.010	0.020	0.000	0.023
State Special or Trust Revenue		0.011	0.087	0.003	0.041	0.002	0.004	0.000	-	0.007
Local Revenue		0.050	0.007	0.017	0.030	0.006	-	0.001	-	0.004
Total		\$0.147	\$0.177	\$0.027	\$0.117	\$0.033	\$0.014	\$0.021	\$0.000	\$0.034

The following chart depicts the combined taxes by selected industry, and shows the varying impact of industry specific taxes. In contrast to the chart of approximate annual sales shown on the previous page, the chart below shows the higher effective tax rates on extraction and lodging industries.



Combining the information on total sales with taxes generated per \$1 million of sales produces the approximate total taxes generated by selected industry.

