



**Dan Bucks**  
Director

# Montana Department of Revenue



**Brian Schweitzer**  
Governor

## MEMORANDUM

To: Revenue and Transportation Interim Committee  
From: Dan Bucks, Director  
Date: September 26, 2011  
Subject: Class 8 - SB 372 "Trigger" Calculation and Example

SB 372 provides a two-step rate reduction for class 8 business equipment. Applicable January 1, 2012, the first step reduces the tax rate from three percent to two percent on the first \$2 million of business equipment market value owned by an individual or business. Applicable for tax year 2014, if a certain condition (the "trigger") has been met, the second step increases the amount subject to the rate reduction from \$2 million to \$3 million and further reduces the tax rate to 1.5 percent.

"The adjusted taxable market value and rate in subsection (3)(a)(i) apply for class eight property unless in any year beginning with fiscal year 2013 the revenue collected from individual income tax and corporation income tax exceeds the revenue collected from individual income tax and corporation income tax in the previous fiscal year by more than 4%. In that case, for tax years beginning after the next December 31, the taxable market value and rate in subsection (3)(a)(ii) apply."

And

"For the purpose of making the determination required in subsection (4)(a), the department of administration (DOA) shall certify to the secretary of state, by August 1 of each year in which class eight property is not taxed pursuant to subsection (3)(a)(ii), the amount of unaudited individual income tax and corporation income tax revenue in the prior fiscal year as recorded when that fiscal year statewide accounting, budgeting, and human resource system records are closed in July."

The Department of Revenue has determined this language to mean: if the revenue collected from the total of individual income tax and corporation license tax in fiscal year 2013 exceeds the revenue collected from the total of individual income tax and corporation license tax in fiscal year 2012, by more than 4 percent, then the taxable market value (\$3 million) and rate (1.5 percent) in subsection (3)(a)(ii) apply as of January 1, 2014. The formula below illustrates this calculation.

If  $(\text{Revenue}_{\text{FY 2013}} - \text{Revenue}_{\text{FY 2012}}) / \text{Revenue}_{\text{FY 2012}} > 4$  percent, then the new threshold (\$3 million) and associated tax rate (1.5 percent) are applicable as of January 1, 2014.

REVENUE & TRANSPORTATION COMMITTEE  
September 26 & 27, 2011  
September 26, Exhibit 8

This determination is based on three factors: "beginning with fiscal year 2013" refers to the year of revenue collection; "corporation income tax" refers to the corporation license tax; and the "exceeds" refers to the comparison of the total of individual income and corporation license from one year to the next; as presented in the following example.

This example simulates the "trigger" calculation using actual revenue from fiscal year 2010 and fiscal year 2011 to clearly present the calculation methodology that will occur starting in August of 2013.

+++++ Example +++++

Fiscal Year 2011:

Individual Income FY 2011		\$816,089,973
Corporation License FY 2011	+	<u>\$119,045,890</u>
Total FY 2011		\$935,135,863

Fiscal Year 2010:

Individual Income FY 2010		\$717,834,371
Corporation License FY 2010	+	<u>\$ 87,900,911</u>
Total FY 2010		\$805,735,282

Difference:

Total FY 2011		\$935,135,863
Total FY 2010	-	<u>\$805,735,282</u>
Difference		\$129,400,581

Percent Increase:

$$\text{Difference} / \text{Total FY 2010} \quad \$129,400,581 / \$805,735,282 = 16\%$$

Percent Increase

**16%**

Are the "Trigger" specifications met?

Is 16% > 4%?

**Yes**

+++++ Example +++++