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TOP STORY

Montana revenue officials expect an average \$46M annual funding loss to federal tax breaks

By TOM LUTEY tlutey@billingsgazette.com Dec 24, 2017 Updated 19 hrs ago

Federal tax cuts passed into law this week are likely to cut into Montana state revenue by \$46 million a year, Montana's Department of Revenue reported Friday.

Corporate income tax breaks, individual income tax deductions and the potential elimination of federal royalty payments would cut state revenue by \$46.3 million in tax year 2018, Revenue Director Mike Kadas said.

Over the next four years, the annual loss would swell to \$76.2 million in 2019, before sliding to \$67.3 million in 2021. Revenue economists have been closely monitoring the state impacts of the tax cuts, as Montana struggles with a revenue decline.

The final tax bill passed by Congress on Wednesday was better for the state revenue picture than the one passed by the U.S. Senate two weeks earlier. DOR economists estimate the Senate version would have pulled \$122 million a year from the state revenue stream. Reconciling that bill with one passed earlier by the House, shaved the state's loss.

"We've got better information now. So, we're able to improve our modeling," Kadas said. "Probably the one thing that made the most difference was the pass-through income deduction going from 23 percent to 20."

Pass-through businesses do not pay corporate income tax. Instead, the owner reports business income as personal income on a 1040 tax form. Pass-through businesses include sole proprietorships, limited liability companies, partnerships and small corporations taxed as partnerships. The broad pass-through category includes start-up small businesses, as well as real estate partnerships and farms.

The state estimates the new pass-through deduction will trim state tax revenue by about \$30 million a year. U.S. Sen. Steve Daines, the Montana Republican lawmaker who pushed for the deduction, said he did so to assure pass-through businesses weren't disadvantaged by tax cuts offered to corporations.

In Montana, pass-through businesses appear on roughly 381,170 tax returns. Many of those filers have no income to report, but the minority do report significant amounts of income. A 20 percent deduction on their reported income will be felt by the state, Kadas said.

Corporate income tax cuts are expected to initially cut as much as \$18 million from state tax revenue, but slide to a \$4.6 million loss in tax year 2021.

The state conversation about lost revenue is set against the backdrop of underperforming revenue collections. Montana's Legislature met in early November to patch a \$227 million hole in a two-year state budget, now only six months old and already struggling.

In addition to income losses related to corporate and pass-through businesses, revenue officials expect to lose nearly \$6 million a year in insurance premium taxes affected by the elimination of the federal mandate that Americans buy health insurance. The individual mandate was done away with in the tax bill.

Congress suspended rules requiring federal government cuts to prevent tax breaks from contributing to the federal deficit. As a result, a royalty loss of \$24 million, which the Department of Revenue had earlier expected, is no longer an issue.

It's estimated the new tax cuts would add \$1.4 trillion to the national debt over the next 10 years if government services aren't cut.

