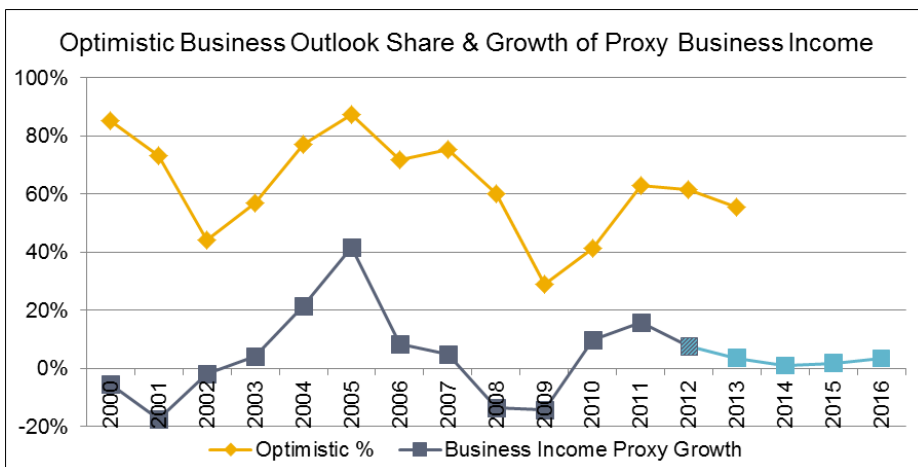


Large and small business activity plays a key role in corporation income, and the business (Schedule C) and rents, royalties, and partnership (Schedule E) portions of individual income. These income sources in turn impact corporation and individual income taxes. Individual and corporation taxes accounted for 51% and 8% of FY 2014 general fund revenue, respectively, with Schedule C and E income accounting for an average of 12% of total individual income since 2000.

The Chamber of Commerce relies on various surveys to provide information on businesses' outlook for growth in coming years. While corporation and individual income tax revenue estimates do not use this information as a basis for forecasting revenue, it is interesting to compare businesses' outlook with business-related income. The chart below depicts the Minneapolis Federal Reserve Bank's business outlook survey results since 2000 and the growth of proxy business income in Montana. The proxy for business income is the sum of Schedules C and E income, and a proxy for corporation tax income (which is calculated as corporation tax liability divided by the corporation tax rate of 6.75%).



2014 Survey Results

- Very Optimistic:
- Somewhat Optimistic:
- Somewhat Pessimistic:
- Very Pessimistic:
- Total Optimistic:
- Total Pessimistic:

The share of Federal 9th District survey respondents who are at least somewhat optimistic tracks fairly well with the growth of the proxy for business-related income. The value of the survey results lies in the immediacy of the data; individual income data is lagged by one year, while corporation income data is lagged by two years.

The 2014 survey results may indicate whether the estimated growth of business-related income is lower than the relative optimism would suggest (potentially leading to upside revenue risk; i.e., revenues may be above forecast) or higher than the relative optimism would suggest (downside revenue risk).

Notes:

Potential Question

- The business outlook survey covers the 9th District of the Federal Reserve. Although state-specific results are available, the number of Montana responses may not give a representative view of the overall Montana business outlook. What reasons might cause the outlook in Montana to be different from the 9th District outlook?