

FISCAL NOTE

Bill #: HB328

Title: Remove termination date on qualified endowment tax credit

Primary Sponsor: Roger Somerville

Status: Introduced

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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Fiscal Summary

	<u>FY2002 Difference</u>	<u>FY2003 Difference</u>
Revenue:		
General Fund	\$0	\$(9,755,000)
Net Impact on General Fund Balance:	\$0	\$(9,755,000)

<u>Yes</u>	<u>No</u>		<u>Yes</u>	<u>No</u>	
	X	Significant Local Gov. Impact		X	Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts
	X	Dedicated Revenue Form Attached	X		Family Impact Form Attached

Fiscal Analysis

ASSUMPTIONS:

1. Under current law, the credit for contributions by corporations to a qualified endowment provided for in 15-31-161, MCA, and the qualified endowments credit for individual income tax purposes provided for in 15-30-165 and 166, MCA is set to terminate December 31, 2001. This bill would repeal the termination date, thereby continuing the credit in its current law state for tax years 2002 and beyond. There is no impact from this proposal in fiscal year 2002.
2. The current law credit for individual income tax purposes has been in effect beginning with tax year 1997. The following table shows actual growth in this credit over the period tax year 1997 through tax year 1999, and forecast growth for the period tax years 2000 through 2004.

Impact of Re-Enacting Charitable Endowment Credit Individual Income Tax
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	CY	FY	Current Law Credit (From Tax Returns)	Proposed Law Credit (From Tax Returns)	Percent Change	Impact of Repealing Termination Date	Impact After Unused Credit Adjustment
Actual	1997	1998	1,332,693	1,332,693		0	0
Actual	1998	1999	3,288,234	3,288,234	146.74%	0	0
Actual	1999	2000	5,660,049	5,660,049	72.13%	0	0
Forecast	2000	2001	7,641,066	7,641,066	35.00%	0	0
Forecast	2001	2002	8,978,253	8,978,253	17.50%	0	0
Forecast	2002	2003	0	9,696,513	8.00%	(9,696,513)	(9,114,722)
Forecast	2003	2004	0	10,084,373	4.00%	(10,084,373)	(9,479,311)
Forecast	2004	2005	0	10,286,061	2.00%	(10,286,061)	(9,668,897)

3. Following implementation, the credit grew by 147% in the first year after implementation, and by 72% in the second year following implementation. Under this bill, the credit *as reported on individual income tax returns* will grow by 35% in fiscal 2001; by 17.5% in fiscal 2002; and by 8% in fiscal 2003. These growth rates reflect a continuation of the decline in the annual growth rate for fiscal 2000 of 50% in each succeeding year through fiscal 2005.

4. This credit is nonrefundable; that is, the credit can be used to reduce tax liabilities only to the extent of tax liabilities and no more. Each year 6% of the amount of the credit reported on individual income tax returns reflects credit in excess of actual liabilities, and is therefore unused credit. The credit cannot be carried forward or backward.

5. Based on the above assumed growth rates, and on the 6% of reported credit that cannot be used to reduce liabilities, this proposal will reduce individual income tax (state general fund) collections by \$9,115,000 in fiscal year 2003.

6. The following table shows the actual amount of credit claimed for corporation license tax purposes for fiscal years 1998 through 2000, and the forecast of credit amount claimed for fiscal years 2001 through 2003 under this proposal. The credit grew by 325% in the first fiscal year following implementation, and by 47% in the second fiscal year following implementation. The credit will grow by 20% in fiscal 2001, by 10% in fiscal 2002, and by 5% in fiscal 2003.

Corporation License Tax Charitable Endowment Credit			
	FY	Credit	Percent Change
A	1998	\$73,749	
A	1999	\$313,675	325.33%
A	2000	\$462,002	47.29%
F	2001	\$554,402	20.00%
F	2002	\$609,843	10.00%
F	2003	\$640,335	5.00%

7. This proposal will reduce corporation license tax collections (state general fund) by \$640,000 in fiscal 2003.

8. There are no administrative impacts associated with this proposal.

FISCAL IMPACT:

	<u>FY2002 Difference</u>	<u>FY2003 Difference</u>
<u>Revenues:</u>		
General Fund (01)	\$0	\$(9,755,000)
<u>Net Impact to Fund Balance (Revenue minus Expenditure):</u>		
General Fund (01)	\$0	\$(9,755,000)

LONG-RANGE IMPACTS:

This proposal is forecast to reduce individual income tax collections by \$19.148 million in the 2005 biennium; corporation license tax collections would be reduced an additional \$1.28 million; for a total reduction in general fund revenue of \$20.428 million.