FISCAL NOTE

Bill #:	HB377	**Title:**	Revise qualified endowment tax credit - 6-year extension
Primary Sponsor:	Roger Somerville	**Status:**	House 2nd Reading

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Sponsor signature Date Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY2002 Difference	FY2003 Difference
Revenue:		
General Fund	$0	$(5,465,000)
Net Impact on General Fund Balance:	**$0**	**$(5,465,000)**

Yes	No		Yes	No	
	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 terminate December 31, 2001. This bill extends the termination date to December 31, 2007, continuing the credit for an additional 6 years. There is no impact from this proposal in FY2002.

Individual Income Tax

2. Under current law, individual income taxpayers may take a credit only for "planned gifts" (which exclude gifts of cash); regular corporations, and pass-through entities such as subchapter-S corporations, may take a credit only for "outright" gifts (which include gifts of cash). Credits associated with outright gifts made by pass-through entities show up as credits against the individual income tax.
3. Currently, the individual income tax credit for contributions that constitute a "planned" gift is equal to 50% of the value of the gift, up to a maximum of $10,000; under this bill, this credit would be equal to *40%* of the value of the gift, up to a maximum of $10,000. Under current law, the credit for contributions that constitute an "outright" gift is equal to 50% of the value of the gift, up to a maximum of $10,000; under this bill, this credit would be equal to 20% of the value of the gift, up to a maximum of $10,000.

4. Based on a study of all charitable endowment credits taken for tax years 1997 and 1998, approximately 39% of all individual income tax credits are in the form of "planned" gifts, and 61% are in the form of "outright" gifts. Based on an examination of all tax year 1999 tax returns claiming a charitable endowment credit, reducing the credit percentage from 50% to 40% for planned gifts results in a reduction in credit of 19% for these types of gifts; reducing the credit percentage from 50% to 20% for outright gifts results in a reduction in total credit of 58% for these types of gifts. The weighted average reduction in total credit claimed for all individual income tax planned and outright gifts from current law is 43% [(.39 X .19) + (.61 X .58) = .43]. Under this amended bill, the individual income tax credit will be equal to 57% of what it otherwise would have been had the allowable credit remained at 50% up to $10,000 for both planned and outright gifts.
5. The fiscal year 2003 credit, had the allowable credit remained at 50% up to $10,000 for both planned and outright gifts, would have been $9.115 million (see HB377 fiscal note, introduced version). However, amending the bill to reduce the credit to 40% and 20% for planned and outright gifts, respectively, reduces the charitable endowment credit for fiscal 2003 to $5.196 million ($9.115 X .57 = $5.196 million).

Corporation License Tax

6. All of the credit on the corporation license tax side is in the form of an "outright" gift. This proposal reduces the credit for outright gifts from 50% to 20% of the contribution, but retains the maximum credit of $10,000. As discussed above in assumption #4, this acts to reduce the total credit taken by 58%. The total credit forecast for fiscal year 2003 had the allowable credit remained at 50% was $640,000 (see HB377 fiscal note, introduced version). Under the amendments to reduce the credit to 20% of the contribution, the total credit claimed for corporation license tax purposes is reduced to $269,000 in fiscal 2003 (640,000 X .42 = 269,000).
7. The total reduction in general fund revenue in fiscal 2003 under this proposal is $5,465,000 ($5,196,000 + $269,000 = $5,465,000).
8. There are no administrative impacts associated with this proposal.

FISCAL IMPACT:

	FY2002 Difference	FY2003 Difference
Revenues:		
General Fund (01)	$0	$(5,465,000)
Net Impact to Fund Balance (Revenue minus Expenditure):		
General Fund (01)	$0	$(5,465,000)

LONG-RANGE IMPACTS:

This proposal is forecast to reduce individual income tax collections by $10.914 million in the 2005 biennium; corporation license tax collections would be reduced an additional $0.538 million; for a total reduction in general fund revenue of $11.425 million. Similar impacts could be expected for the 2007 biennium. Under this proposal, the credit terminates December 31, 2007. There would be one year of impact in the 2009 biennium, in which general fund revenue would be reduced by about $5.726 million.

TECHNICAL NOTES:

1. Because the amended version of this bill changes the tax parameters associated with how the credit is calculated, the bill needs further amending to include an applicability section specifying that these changes apply to tax years beginning after December 31, 2001.