FISCAL NOTE

Bill #: SB0043 **Title:** Investment tax credit

Primary Sponsor: Sam Kitzenberg **Status:** Introduced

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Sponsor signature Date Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY2002 Difference	FY2003 Difference
Expenditures:		
General Fund	$ 0	$62,909
Revenue:		
General Fund	$ 0	$(8,348,000)
Net Impact on General Fund Balance:	**$ 0**	**$(8,410,909)**

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. This bill applies to tax years beginning after December 31, 2001.
2. The state of Idaho has an investment credit nearly identical to the one proposed in SB43. In Idaho, taxpayers are allowed an investment credit of 3% of qualified investments (same property as current proposal qualifies) up to 50% of the taxpayer's liability, with a 7-year carryover period. (The SB43 proposal differs in that the taxpayer may not claim a credit greater than 45% of liability.)
3. In Idaho, over the period 1997 to 1999, corporations claimed an annual average of $24.5 million in tax credits, and individuals claimed an annual average of $8.4 million in investment credits.
4. Based on U.S. Census data from 1992, Montana's total investment expenditure has been on average about 53 percent of Idaho's total investment expenditure (US Bureau of the Census).
5. The ratio of investment tax credit claimed in Montana to that claimed in Idaho will be the same as the ratio of total investment expenditure in Montana to total investment expenditure in Idaho.

6. Based on the previous assumptions, the average annual amount of investment credit anticipated under this bill is $12.985 million for corporations, and $4.452 million for individuals.
7. The impact on individual income tax will first occur in fiscal year 2003, and will reflect a full year's impact.
8. The impact on corporation license tax will first occur in May and June of 2003, when approximately 30% of corporate tax returns are filed. The impact on corporate license tax revenue in fiscal 2003 will be $3.896 million ($12.985 x 0.30).
9. The significance of the credit amounts would impose additional auditing requirements on the Department of Revenue. The DOR employs a selective audit technique to target the tax returns which are audited that would increase corporate administrative audit expenses $28,790 in fiscal 2003 ($20,246 for personal services – 0.5FTE; $2,899 for operating expenses; and $5,645 for equipment).
10. This proposal would require an increase in individual administrative audit expense of $23,966 in fiscal 2003 ($15,422 for personal services – 0.5FTE; $2,899 for operating expenses; and $5,645 for equipment).
11. Additional information technology expense of $10,000 would be required in fiscal 2003 to provide for writing and revising code, quality assurance, and placing revisions in production for form changes; and to ensure compatibility and effective interfacing with the new POINTS application.

FISCAL IMPACT:

	FY2002 Difference	FY2003 Difference
FTE		
Expenditures:		
Personal Services	$ 0	$28,085
Operating Expenses		15,798
Equipment		11,443
Benefits		7,583
Transfers		0
TOTAL	$ 0	$62,909
Funding:		
General Fund (01)		$62,909
Revenues:		
General Fund – Individual Income Tax (01)		$(4,452,000)
General Fund – Corporation License Tax (01)		(3,896,000)
Total General Fund	$ 0	$(8,348,000)
Net Impact to Fund Balance (Revenue minus Expenditure):		
General Fund (01)		$(8,410,909)
State Special Revenue (02)		
Federal Special Revenue (03)		
Other		

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
It is likely that at least some of the corporate investment tax credit would apply to financial institutions. Because 80% of the revenue from financial institutions is distributed back to local governments, any reduction in the corporate tax liability of financial institutions due to the credit proposed in this bill would result in reduced revenue to local governments.

LONG-RANGE IMPACTS:
Because of the delayed implementation date of this bill, the full impact of this proposal for both the individual income tax and corporation license tax will not occur until fiscal 2004. It is estimated that in fiscal 2004 the credit provided for in this bill will reduce corporation tax revenue by $12,985,000; and will reduce individual income tax liabilities by $4,452,000; for a total reduction in revenue of $17,437,000. Impacts of this magnitude will continue in subsequent fiscal years.