

# FISCAL NOTE

**Bill #:** SB0173

**Title:** Revise and reform income taxes

**Primary  
Sponsor:** Alvin Ellis

**Status:** As Introduced

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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## Fiscal Summary

	<b><u>FY2002 Difference</u></b>	<b><u>FY2003 Difference</u></b>
<b>Expenditures:</b>		
General Fund	\$110,300	\$72,975
<b>Revenue:</b>		
General Fund	\$0	\$(4,024,000)
<b>Net Impact on General Fund Balance:</b>	<b>\$(110,300)</b>	<b>\$(4,096,975)</b>

<b><u>Yes</u></b>	<b><u>No</u></b>		<b><u>Yes</u></b>	<b><u>No</u></b>	
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 proposal applies to tax years beginning after December 31, 2001 (TY2002). There is no revenue impact from this proposal in fiscal year 2002.
2. This proposal revises and reforms the Montana individual income tax by tying Montana tax liability to federal taxable income (FTI). Based on a DOR computer simulation analysis, this proposal would increase total liability of full-year resident filers by \$4.659 million; liability of all filers, including part-year and nonresident filers, would increase by \$5.008 million.
3. This proposal repeals several credits, and also repeals the termination date of the charitable endowment credit. The impact of these features of the proposal is to decrease revenue by \$9.032 million in fiscal 2003, as shown in the following detail spreadsheet:

<b>Credit Repealed</b>	<b>FY2003 Impacts</b>		
	<b>Individual</b>	<b>Corporate</b>	<b>Total</b>
Energy Conservation Credit	128,000	0	128,000
Employee Disability Ins. Credit	124,000	10,000	134,000
Investment Credit	3,000	1,000	4,000
College Contribution Credit	198,000	7,600	205,600
Alternative Fuels Credit	3,200	3,000	6,200
Historic Bldg. Preservation Credit	7,800	1,500	9,300
Interest Differential Credit	n.a.	5,000	5,000
Geothermal Energy Credit	30,300	n.a.	30,300
Wind Energy Credit	3,600	0	3,600
Recycling Credit	124,000	96,000	220,000
<b>Sub-Total</b>	<b>621,900</b>	<b>124,100</b>	<b>746,000</b>
Repeal Termination Date of Charitable Endowment Credit	(9,138,000)	(640,000)	(9,778,000)
<b>Total Net Impact</b>	<b>(8,516,100)</b>	<b>(515,900)</b>	<b>(9,032,000)</b>

4. This bill also repeals the local option “new industry” property tax abatement provided for in MCA, 15-24-1401 and 1402. This acts to increase property tax revenue a total of \$800,000 for local governments.
5. This proposal would result in additional administrative expense for the Department of Revenue. Moving from an individual income tax system based on federal adjusted gross income (FAGI), in which married couples are allowed to file separately, to one based on federal taxable income (FTI) in which taxpayers would be required to file using the same filing status as was used for federal purposes, would require a complete re-write of the department’s IT4 database system. Administrative impacts are shown in the table below.

FISCAL IMPACT:

	<u>FY2002 Difference</u>	<u>FY2003 Difference</u>
<u>Expenditures:</u>		
Operating Expenses	\$81,075	\$72,975
Equipment	<u>29,225</u>	<u>0</u>
TOTAL	\$110,300	\$72,975
<u>Funding:</u>		
General Fund (01)	\$110,300	\$72,975
<u>Revenues:</u>		
General Fund (01)	\$0	\$(4,024,000)
<u>Net Impact to Fund Balance (Revenue minus Expenditure):</u>		
General Fund (01)	\$(110,300)	\$(4,096,975)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

Revenues to county and other local governments will increase as a result of the repeal of the property tax abatement provided for at MCA, 15-24-1401 and 1402. Local governments would have about \$800,000 in additional revenue beginning in fiscal 2003 from repealing this provision of current law.

LONG-RANGE IMPACTS:

This proposal applies to tax years beginning after December 31, 2001 (tax year 2002). Due to the transition section of the bill, taxpayers would be required to include any refunds of federal taxes received in tax year 2002 in income for that year. Taxpayers would not include refunds of federal taxes in income for tax years after 2002.

This bill also provides for annual indexing of the tax bracket boundaries for each of the new tax tables provided for in the bill. However, the indexing language does not provide for any change in the rate tables until tax year 2004. This means that the rate tables as shown in the bill draft will be in effect for both tax years 2002 and 2003. Because of this, taxpayer liabilities for tax year 2003 will be higher than they would be if indexing were to take effect for this tax year (because the rate tables are not indexed for tax year 2003, and because in the simulation program taxpayer incomes increase from tax year 2002 to 2003).

The simulation program indicates that for tax year 2003 eliminating federal refunds from the tax base while not indexing the tax rate tables for inflation results in a net impact of \$(2,347,000) for full-year residents; this increases to \$(2,523,000) when all filers are taken into account.

Impacts of this magnitude can be expected to continue in subsequent years, growing at approximately the same rate of growth as the individual income tax overall. The exact change in liabilities in future years will depend on many factors, including changes in federal tax law, changes in Montana incomes, and changes in the rate of inflation.

TECHNICAL NOTES:

This proposal is intended to reflect the interim Revenue and Taxation Committee's recommendation for simplifying the individual income tax. The R&T Committee proposal provided that the retirement exclusion provided for *married couples filing jointly* was to be phased out at federal adjusted gross income levels starting at \$60,000; for *all other filers* the retirement exclusion was to be phased out starting at federal adjusted gross income of \$30,000. The impacts shown here reflect the bill as drafted. If the bill is to be commensurate with the committee recommendation, the bill would need to be amended to provide for the retirement exclusion phase out to begin at federal adjusted gross income of \$30,000 for all filers other than married couples.