FISCAL NOTE

Bill #:	HB0439	**Title:**	Disallow double credit for foreign income tax payment
Primary Sponsor:	Wiseman, B	**Status:**	As Introduced

Sponsor signature Date David Ewer, Budget Director Date

Fiscal Summary

	FY 2006 Difference	**FY 2007 Difference**
Expenditures:		
General Fund	$0	$0
Revenue:		
General Fund	$0	$369,000
Net Impact on General Fund Balance:	$0	$369,000

- ☐ Significant Local Gov. Impact
- ☐ Included in the Executive Budget
- ☐ Dedicated Revenue Form Attached
- ☒ Technical Concerns
- ☒ Significant Long-Term Impacts
- ☐ Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

1. Under current law, Montana residents are allowed a tax credit against individual income taxes for taxes paid to other states or foreign countries. Under this bill, Montana residents would not be allowed to take a credit against state individual income taxes for taxes paid to foreign countries to the extent that a deduction or credit for the taxes imposed by the foreign country was claimed for federal income tax purposes.
2. The amount of credit claimed against Montana individual income tax for taxes paid to other states or foreign counties totaled $14,013,510 for tax year 2002 and $14,479,498 for tax year 2003. The Department of Revenue has no means of distinguishing the amount of this credit that is claimed for taxes paid to a foreign country from taxes paid to other states, but it is believed that the vast majority of this credit (97%) is attributable to taxes paid to other states. About 3% of the above amounts, or about $420,000 in tax year 2002 and about $434,000 in tax year 2003 is attributable to taxes paid to foreign countries. It is assumed that the total amount of these taxes is either deducted or taken as a credit for federal income tax purposes. Therefore, the entire amount would not be allowed as a credit against Montana individual income taxes.
3. It is further assumed that not all of the credit available is actually being used to reduce tax liability and tax revenue, as some of the credit is claimed by individuals with no state tax liability. This assumption

reduces the impact to the state general fund by about 85% of the total credit available. Under the above assumptions, disallowing this credit increases state tax liability an estimated $369,000 each year ($434,000 x 85% = $369,000).

4. Individual income tax revenue is deposited 100% to the state general fund.
5. This bill applies to tax years beginning after December 31, 2005 (tax year 2006 and thereafter). All of the credit associated with tax year 2006 will be claimed on tax returns filed FY 2007. This bill results in an increase in revenues of $369,000 in FY 2007 and each fiscal year thereafter.
6. There are no administrative impacts to the Department of Revenue associated with this bill.

FISCAL IMPACT:

	FY 2006 Difference	FY 2007 Difference
Revenues:		
General Fund (01)	$0	$369,000
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):		
General Fund (01)	$0	$369,000

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
None.

LONG-RANGE IMPACTS:
Individual income tax (general fund) revenues are estimated to increase $369,000 in each fiscal year beginning with FY 2008.

TECHNICAL NOTES:
1. The purpose of this bill is not clear. Current law and administrative rules allow taxpayers to deduct foreign taxes from their income or use them as a credit against tax liability, but not both. (15-30-121(1)(a), MCA, 15-30-124, MCA and ARM 42.4.402(2)(c)). This bill would prevent taxpayers who claimed a federal deduction or credit for foreign taxes from claiming a state credit. Taxpayers could still claim a state deduction for foreign taxes, but the resulting reduction in state tax liability is smaller.