

Fiscal Note Request HB0495, As Introduced

(continued)

5. The bill also provides that any contribution to a fund held by a public or private nonprofit elementary or high school, or to a fund held by an organization whose sole purpose is to support the work of these schools is to be considered a “planned gift”. That is, under the provisions of this bill, taxpayers making cash donations to funds established for the support of public or private elementary or high schools will be treated the same as taxpayers who are limited to making non-cash donations to other qualified endowments, and will receive a tax credit equal to 40% of any cash donation, up to a maximum credit of \$10,000.
6. The provisions of this bill will increase the number of qualifying charitable endowments and the number of contributions made to charitable endowments, thereby reducing net revenue to the state general fund in future years. These contributions will grow over time as new endowments are established, and more people make contributions to them.
7. The Department of Revenue has no reliable means of precisely forecasting the number of new qualifying funds that will be created under the provisions of this bill, or the number of individuals, organizations, or businesses that will make cash or other contributions to these funds, or the size of these contributions. However, in order to put the potential impact on the state general fund in perspective, the following table shows the history of the charitable endowment tax credit for individual income taxpayers since 1997.

Table 1

Charitable Endowment Credit					
INDIVIDUAL INCOME TAX					
Tax Year	Number of Returns	% Change	Total Credit	% Change	Average Credit
1997	386		\$1,332,693		\$3,453
1998	890	131%	\$3,288,234	147%	\$3,695
1999	1,307	47%	\$5,660,049	72%	\$4,331
2000	1,765	35%	\$7,121,923	26%	\$4,035
2001	1,956	11%	\$7,550,411	6%	\$3,860
2002	709	-64%	\$1,694,781	-78%	\$2,390
2003	734	4%	\$2,179,696	29%	\$2,970

8. As the table shows, usage of the credit increased rapidly over the period 1997 (the first year of the credit) to 2001. During this period, the credit was equal to 50% of any planned gift (noncash) contribution up to a maximum credit of \$10,000. HB_377 (2001) reduced the credit to 40% (up to \$10,000); and SB_15 (2002 Special Session) further reduced the credit to 30% (up to \$6,600) for the period beginning January 1, 2002 through June 30, 2003. This acted to significantly reduce credit usage and the impact to the state general fund in tax years 2002 and 2003. HB_616 (2003) returned the credit amount to 40% (up to \$10,000) again beginning July 1, 2003. It is likely that credit usage will increase under current law in coming years reflecting this rise to a higher credit amount that can be taken.
9. The provisions of this bill are effective July 1, 2005 (FY 2006 and thereafter). For the purposes of this fiscal note, it is assumed that under current law, the charitable endowment credit would be \$2,280,485 in FYfiscal 2006 and \$2,371,705 in FY fiscal-year2007 (HJR,2). This bill will increase the amount of credit claimed under current law by 10% in fiscal 2006, by 15% in fiscal 2007, and by 20% in FYfiscal 2008 and thereafter. This reduces net general fund revenues by \$228,000 in FY_2006 and by \$356,000 in FY_2007.
10. There are no DOR administrative impacts associated with this bill.

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FISCAL IMPACT:

	<u>FY 2006</u> <u>Difference</u>	<u>FY 2007</u> <u>Difference</u>
<u>Revenues:</u>		
General Fund (01)	\$(228,000)	\$(356,000)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General Fund (01)	\$(228,356)	\$(356,000)

LONG-RANGE IMPACTS:

General fund revenues will be reduced by an estimated \$493,000 in FY2008 and subsequent fiscal years as more taxpayers utilize this [legislation](#).

TECHNICAL NOTES:

Department of Revenue (DOR)

1. Under current law, corporations may make donations that constitute either a “planned gift” (noncash donation) or a charitable donation (cash donation) to charitable endowments. The tax credit for a “planned gift” is 40% of the value of the gift up to \$10,000; but the tax credit for a cash contribution is 20% of the contribution up to a maximum of \$10,000. This bill, by redefining in MCA, 15-30-165 the definition of “planned gift” to include a cash contribution to schools or their trusts will allow corporations to make a cash donation to schools and/or their trusts and receive a tax credit equal to 40% of these contributions, whereas the credit for corporations for all other cash donations is 20% of the donation.