

Fiscal Note Request HB0784, As Introduced

(continued)

software development, or music recordings; b) film production (with certain exclusions), provided at least 50% of the total compensation relating to the production of the film is compensation for specified production services performed in the United States; c) production of electricity, natural gas, or water in the United States; d) construction or substantial renovation of real property in the United States including residential and commercial buildings and infrastructure such as roads, power lines, water systems, and communications facilities; or e) engineering and architectural services performed in the United States and relating to construction of real property.

5. This deduction will reduce federal tax receipts \$2.1 billion in federal fiscal year 2005, by \$3.1 billion in federal fiscal year 2006, and by \$4.4 billion in federal fiscal year 2007 (Joint Committee on Taxation).
6. Assuming that the new deduction will have the same proportional impact on Montana taxable income as on federal taxable income and converting from federal fiscal years to state fiscal years, the new federal deduction would reduce revenue by \$2.093 million in FY 2006 and \$1.956 million in FY 2007.
7. This bill would prevent the revenue loss associated with the new federal deduction. If this bill is not passed, revenue will be reduced by \$2.093 million in FY 2006 and by \$1.956 million in FY 2007.

FISCAL IMPACT:

	<u>FY 2006</u> <u>Difference</u>	<u>FY 2007</u> <u>Difference</u>
<u>Revenues:</u>		
General Fund (01)	\$2,093,000	\$1,956,000
 <u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General Fund (01)	\$2,093,000	\$1,956,000

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

None.

LONG-RANGE IMPACTS:

When the new federal deduction is fully phased-in in federal fiscal year 2011, the resulting loss of state revenue would be \$5 million, and it would continue to grow over time. This bill would eliminate that ongoing revenue loss.