

Fiscal Note Request HB0799, As Introduced

(continued)

- b. record or cause the recording of a security agreement at the same time the taxpayer records the instrument conveying title to the foreign property to the taxpayer; and
 - c. report the certified calculated gain and provide a copy of the recorded security agreement to the Department of Revenue.
6. “Certified calculated gain” means the gain that the transferor will realize on an exchange of Montana real estate for foreign property, and is certified in writing by the transferor.
 7. Under the bill, at the taxpayer’s request and upon payment of the Montana taxes attributable to the Montana source gain, the Department of Revenue will provide the taxpayer with an acknowledgment of satisfaction of the obligations secured by the security agreement required under the bill.
 8. The bill applies to transfers of Montana real estate that occur after June 30, 2005.
 9. The revenue impact of this proposal is likely to be very small initially, but will grow over time as the gain on traded properties is realized. The staff of the federal Joint Committee on Taxation publishes estimates of tax expenditures associated with various federal exclusions, deductions and deferrals, including an estimate of the revenue impact associated with deferral of gain on exchanges of like-kind property (Section 1031 exchanges). The federal expenditure associated with these deferrals is estimated to grow from \$1.7 billion in federal fiscal year 2005 to \$1.9 billion by federal fiscal year 2009. Allocating these impacts proportionally to Montana based on relative tax bases and tax rates results in an estimated impact to Montana of about \$1 million, annually, once the impact of the bill has had sufficient time to become fully implemented. Consequently, it is estimated that this bill will raise an additional \$25,000 in state general fund beginning with FY 2007, and then grow to increasing general fund revenues by about \$1 million a year over the course of the next several years. To the extent that 1031 exchange activity is proportionally more prevalent in Montana than the rest of the nation, this impact could be larger.
 10. There are no administrative impacts to the Department of Revenue associated with this bill.

FISCAL IMPACT:

	<u>FY 2006</u> <u>Difference</u>	<u>FY 2007</u> <u>Difference</u>
<u>Revenues:</u>		
General Fund (01)	\$0	\$25,000
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General Fund (01)	\$0	\$25,000

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

None.

LONG-RANGE IMPACTS:

Over time, this bill is expected to increase state general fund revenues by over \$1 million annually.