



## **Fiscal Note Request SB0362, As Introduced**

(continued)

would be some remaining revenue from the individual income tax in FY 2008 and FY 2009 as taxpayers file their tax year 2007 returns either on April 15, 2008 or on extension in the fall of 2008. But withholding and quarterly estimated tax payments would end January 1, 2008. Ostensibly, a general retail sales tax would be in place to replace the revenue reduction associated from repealing the individual income tax. HJR2 projects that income tax revenue will be \$632.984 million in FY 2007 and growing at 4.1% per year. If this rate of growth continues, the sales tax would need to raise \$658.936 million in FY 2008 and \$685.953 million in FY 2009.

Combined federal and state taxes for Montanans would increase significantly under any proposal to replace the individual income tax with a general retail sales tax on a dollar for dollar basis. Because state income taxes are deductible for federal income tax purposes, but state sales taxes are not, it is estimated that federal income tax liabilities of Montanans would increase by as much as \$130-140 million per year under this proposal. (The federal American Jobs Creation Act of 2004 provided that taxpayers may deduct either their state individual income tax or their state sales tax, but this provision applies only to tax years 2004 and 2005, and terminates before the elimination of the state sales tax and replacing it with a state retail sales tax that would occur under SB361 and SB362).

This bill would realign the Department of Revenue to reflect administration of a general retail sales and use tax and no administration of an individual income tax. The net impact on Department administrative expenses is uncertain, but would most likely not change substantially with costs of administering the income tax replaced by costs of administering the sales tax.

### **Department of Fish, Wildlife and Parks:**

If the electors of Montana vote for eliminating the Montana individual income tax, Fish Wildlife and Parks will no longer receive contributions from taxpayers for nongame wildlife programs through the voluntary checkoff box on the state income tax return. In FY 2004, \$26,600 was generated for this program. Beginning in calendar year 2008, DFWP will lose approximately \$26,600 annually for nongame wildlife programs in Montana.

### **Child and Family Services Division:**

1. Child and Family Services collected \$33,969 in FY 2004 in a state special revenue fund from income tax check off contributions to the Child Abuse Prevention Fund on Individual Income Tax Forms line 50. This program is authorized by Section 52-7-10, MCA.
2. It is assumed that this fund will no longer receive this revenue.
3. This revenue supports two contracts for Child Abuse Prevention and would reduce those contracts by the same amount.

### **Child Support Enforcement Division:**

1. The figures used in this fiscal note are based on actual figures from FY 2004. It is assumed that they fairly represent what would happen in future fiscal years.
2. The Child Support Enforcement Division (CSED) makes collections from individual income tax refunds of non-custodial parents who owe child support and uses these collections to reduce obligations of custodial parents and to the division.
3. Total collections from state tax offsets in FY 2004 were \$655,471. Of this amount, \$145,481 was sent to other states where custodial parents lived and \$45,567 was retained by the Department of Revenue as offset collection fees. The remaining collections of \$464,423 were distributed to families or processed as a Temporary Assistance for Needy Families (TANF) collection.

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4. The TANF portion of the \$464,423 would be approximately \$67,717. The federal match rate (FMAP) would be applied to this number and the state share would be kept by CSED to help fund operating expenses. The state share will be 29.29% in FY 2006 and 29.92% in FY 2007. It is expected to be in this range in future fiscal year, so that the state share will be about \$20,000.
5. General fund would be necessary to pay for the expenditures previously paid for with these state special revenue funds.

### TECHNICAL NOTES:

1. This bill repeals language dealing with confidentiality of individual taxpayers' income tax records, particularly the information that the Department of Revenue may provide to the Legislative Fiscal Division, the Budget Director, and other agencies. It is not clear how this repealing these provisions effective January 1, 2008 would affect either previously existing tax records or income tax returns for tax year 2007, which will be filed after January 1, 2008.
2. The Child Support Enforcement Division would no longer have individual income tax returns as a source of income verification for the determination of support order amounts and modification requests. Although federal income tax returns would be available, they would have to be voluntarily provided by the non-custodial parent, as CSED is not authorized to access this information from the federal government.