Fiscal Note 2009 Biennium

Bill #	HB0564		**Title:**	Revise and reduce income taxes
Primary Sponsor:	McGillvray, Tom		**Status:**	As Amended in House Committee

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

FISCAL SUMMARY

	FY 2007 Difference	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Expenditures:					
General Fund	$20,820	$0	$0	$0	$0
Revenue:					
General Fund	$0	($40,616,000)	($28,766,000)	($30,597,000)	($32,621,000)
Net Impact-General Fund Balance	($20,820)	($40,616,000)	($28,766,000)	($30,597,000)	($32,621,000)

Description of fiscal impact:

This bill would reduce income tax rates and index the limit on the itemized deduction for federal taxes for inflation. These changes would reduce general fund revenue by about $30 million per year, and the revenue reduction would grow over time.

FISCAL ANALYSIS

Assumptions:

1. Section 1 of this bill amends 15-30-103, MCA, by reducing each rate in the income tax rate table by 0.2% (for example, the rate for the lowest bracket goes from 1% to 0.8%).
2. Section 2 of this bill amends 15-30-121(1)(b), MCA, to provide that the limit on itemized deductions for federal taxes be adjusted for inflation each year.
3. The income tax revenue forecasting model was modified to reflect the changes in this bill and run with the HJR 2 assumptions. Tax liability was reduced by $26.128 million in 2007, $27.809 million in 2008, $29.645 million in 2009, $31.472 million in 2010, and $33.677 million in 2011.
4. The Department of Revenue would modify withholding tables to reflect the changes in this bill, and high income taxpayers with non-wage income would modify their estimated payments. These changes would affect revenue collections beginning in FY 2008.

5. In general, the fiscal year revenue impact of an ongoing change in income tax liability is 47.9% of the tax liability reduction for the calendar year ending in the middle of the fiscal year and 52.1% of the tax liability reduction for the calendar year beginning in the middle of the fiscal year (HJR 2). This would give general fund revenue reductions of $13.613 million in FY 2007, $27.004 million in FY 2008, $28.766 million in FY 2009, $30.597 million in FY 2010, and $32.621 million in FY 2011.
6. However, since withholding and estimated payments will only be reduced after the end of FY 2007, the revenue impact from reduced liability in FY 2007 will occur when taxpayers file their 2007 returns in the spring of 2008. Thus, the revenue reduction in FY 2008 will be $40.616 million ($13.613 million + $27.004 million).
7. Changes to income tax forms required by this bill would be made as part of normal annual update processes. The Department of Revenue would incur costs of $20,820 in FY 2007 to mail notification of updated withholding tables to about 40,000 businesses.

	FY 2007 Difference	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Expenditures:					
Operating Expenses	$20,820	$0	$0	$0	$0
TOTAL Expenditures	$20,820	$0	$0	$0	$0
Funding of Expenditures:					
General Fund (01)	$20,820	$0	$0	$0	$0
TOTAL Funding of Exp.	$20,820	$0	$0	$0	$0
Revenues:					
General Fund (01)	$0	($40,616,000)	($28,766,000)	($30,597,000)	($32,621,000)
TOTAL Revenues	$0	($40,616,000)	($28,766,000)	($30,597,000)	($32,621,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):					
General Fund (01)	($20,820)	($40,616,000)	($28,766,000)	($30,597,000)	($32,621,000)

Long-Range Impacts:

1. The revenue reductions from this bill would grow over time as income grows.

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*