



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill # SB0555

Title: Refundable income tax credit for statewide school mills

Primary Sponsor: Essmann, Jeff

Status: As Introduced

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|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
Expenditures:				
General Fund	\$1,263,991	\$538,470	\$0	\$0
Revenue:				
General Fund	(\$49,640,765)	(\$92,365,992)	\$0	\$0
Net Impact-General Fund Balance	<u>(\$50,904,756)</u>	<u>(\$92,904,462)</u>	<u>\$0</u>	<u>\$0</u>

Description of fiscal impact:

This bill provides a one-time credit against income tax or corporation license tax based on state property taxes for education paid on agricultural land, residential real estate, and timber land. Credits would be paid in two installments, with \$50 million paid in FY 2008 and \$92 million paid in FY 2009. The provisions of this bill are void unless both SB 529 and SB 554 are passed.

FISCAL ANALYSIS

Assumptions:

1. This bill provides a one-time credit against individual income tax or corporation license tax for taxpayers who paid property taxes on class 3 (agricultural land), class 4 (residential and commercial real estate), and class 10 (timber land) property due in May and November 2007. The credit will be 104% of statewide school and university (101 mills) and college of technology (1.5 mills) taxes paid on these properties.
2. Taxpayers are to apply for the credit on a form filed with their 2007 tax returns. The entire amount of the credit is to be sent to the taxpayer rather than applied against the taxpayer's tax liability. Half of the credit

- amount is to be paid on May 1, 2008 and half on October 15, 2008. For taxpayers who file returns after May 1, either because they are filing on extension or have a tax year different from the calendar year, the credit is to be paid on the later of October 15 or 45 days after the return is filed.
3. The property taxes due in May 2007 were for the second half of tax year 2006. Actual calendar year 2006 statewide taxable value of property in classes 3, 4, and 10 is \$1,331,638,931. One-half of the statewide school and university taxes in tax year 2006 generated by these classes of property is \$67,247,766 ($1/2 \times 0.101 \times \$1,331,638,931$).
 4. The actual 2006 taxable value of class 3, 4, and 10 property in the five counties with colleges of technology is \$507,110,676. One-half of the college of technology taxes in tax year 2006 generated by these classes of property is \$380,333 ($1/2 \times .0015 \times \$507,110,676$).
 5. Property taxes due in November 2007 are for the first half of tax year 2007. The HJR 2 projection of tax year 2007 statewide taxable value of class 3, 4, and 10 property is \$1,380,781,133. Half of statewide school and university taxes for tax year 2007 on this property is \$69,729,447 ($1/2 \times .101 \times \$1,380,781,133$).
 6. Applying the HJR 2 statewide growth rates for taxable value of classes 3, 4, and 10 to the actual 2006 taxable values in the five counties with colleges of technology provides an estimated calendar year 2007 taxable value of \$527,618,614. Half of community college taxes for 2007 on this property is \$395,714 ($1/2 \times .0015 \times \$527,618,614$).
 7. The total amount of property taxes to be used as the basis for this credit is \$137,753,260 ($\$67,247,766 + \$380,333 + \$69,729,447 + \$395,714$).
 8. Taxpayers will submit valid claims for 99% of which they are eligible. Total credits claimed will be \$141,830,757 ($99\% \times 104\% \times \$137,753,260$).
 9. Taxpayers who file returns before May 1 will claim 70% of credits. Half of their credits, or 35% of the total, will be paid in FY 2008. Taxpayers who file after May 1 will claim 30% of credits. Their credits plus half of the credits claimed by taxpayers who file before May 1 will be paid in FY 2009. Credit payments will be \$49,640,765 in FY 2008 ($35\% \times \$141,830,757$) and \$92,189,992 in FY 2009 ($65\% \times \$141,830,757$). Since these payments are a refund of tax credits, they will be recorded as reductions to general fund revenue.
 10. The full amount of credit payments must be included in recipients' gross income for federal income taxes, resulting in higher taxes for tax year 2008. Taxpayers will pay these additional federal taxes when they file their 2008 returns in calendar year 2009. Individuals who receive a credit payment and take an itemized deduction for federal income taxes will have more federal income taxes to deduct on their tax year 2009 state income tax returns.
 11. To estimate the impact on state income tax collections, the income tax forecasting model was run with the 2008 federal adjusted gross income of taxpayers with an itemized deduction for property taxes increased by the product of their property tax deduction and the ratio of school mills to the average mill levy on residential property, 101/546. This change reduced tax year 2008 income tax liability by \$0.176 million. Revenue will be reduced by this amount when taxpayers file their tax year 2008 income tax returns in FY 2009.
 12. The Department of Revenue would need to process about 450,000 refund claims. Each of the qualified claimants would be sent two refund checks and a Form 1099G.
 13. The department would hire 40 contract employees to process refund forms and three temporary call center employees to answer taxpayer questions for the last six months of FY 2008. Personal services costs for the three state employees would be \$44,106, and contract services costs for the 40 contract employees would be \$343,875. The department would need to rent space for these employees at a cost of \$75,000. Furniture, computers, and other equipment would cost \$238,100. Operating costs for supplies, telephone and network connections, and training would be \$50,540.
 14. The department would need to have data processing system modifications made at a cost of \$200,000 and would need to develop a credit application form, at a cost of \$2,500.

15. The cost for issuing refund checks would be \$309,879 in each of FY 2008 and FY 2009, and the cost of issuing Form 1099Gs would be \$228,600 in FY 2009.
16. Total personal services costs would be \$44,106 in FY 2008. Total operating costs would be \$981,785 in FY 2008 and \$538,470 in FY 2009, and equipment costs would be \$238,100 in FY 2008.

Fiscal Impact:

FTE	1.50	0.00	0.00	0.00
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Expenditures:

Personal Services	\$44,106	\$0	\$0	\$0
Operating Expenses	\$981,785	\$538,470	\$0	\$0
Equipment	\$238,100	\$0	\$0	\$0
TOTAL Expenditures	\$1,263,991	\$538,470	\$0	\$0

Funding of Expenditures:

General Fund (01)	\$1,263,991	\$538,470	\$0	\$0
TOTAL Funding of Exp.	\$1,263,991	\$538,470	\$0	\$0

Revenues:

General Fund (01)	(\$49,640,765)	(\$92,365,992)	\$0	\$0
TOTAL Revenues	(\$49,640,765)	(\$92,365,992)	\$0	\$0

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	(\$50,904,756)	(\$92,904,462)	\$0	\$0
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Technical Notes:

1. Property tax bills show the amounts of tax from the state education mill levies separately, but for taxpayers with property in several classes, there is no breakdown of tax by class. The department will need to identify taxpayers with property in classes 3, 4, and 10 and one or more other classes and verify that they have calculated their credits correctly. This will be difficult, because taxpayers are not required to provide social security numbers or taxpayer identification numbers for property tax purposes. The department would need to match income and corporation license tax returns with property tax records based on names and addresses. When this has been tried in the past, no more than 70% of records have been successfully matched.
2. Even with the additional staff in Assumption 14, it would be virtually impossible to process all refund requests sent with income tax returns mailed by April 15 before May 1.

Sponsor's Initials

Date

Budget Director's Initials

Date