Fiscal Note 2015 Biennium

GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Bill #	HB0153		**Title:**	Provide income tax credits for employing and retaining veterans
Primary Sponsor:	Gibson, Steve		**Status:**	As Introduced

- ☐ 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 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Expenditures:				
General Fund	$38,000	$0	$0	$0
Revenue:				
General Fund	$0	($59,143)	($236,740)	($236,917)
Net Impact-General Fund Balance:	($38,000)	($59,143)	($236,740)	($236,917)

Description of fiscal impact: The bill proposes a new non-refundable credit for employers to use against their corporate or individual income tax liability for hiring qualified unemployed veterans and retaining them for specified periods. The credit is estimated to reduce general fund revenue. The estimated cost of implementing the credit for the Department of Revenue is $38,000 in FY 2014.

FISCAL ANALYSIS

Assumptions:

1. This bill establishes a new credit for employers to use against their state individual or corporate income taxes as applicable. In order to receive the credit, the employer must hire and employ a qualifying veteran. Qualifying veterans are those who have been unemployed for more than 4 weeks immediately preceding the date employment begins. They must have been discharged or released from military service not more than 2 years before the date employment begins, unless the veteran is disabled. A disabled veteran, who has been discharged within the 10 years before the hiring date and who has been unemployed for 4 weeks or more, is also qualified.
2. The credit is $100 plus an amount equal to 5% of the wages paid by the taxpayer to a qualifying veteran during the 18 consecutive months immediately following the date the veteran was first employed. Total cost of the credit is capped at $1,200.

3. The credit is not refundable, so if the taxpayer has no tax liability, they may not claim a refund. If the credit is not used up, the taxpayer may not carry forward the credit and use against future tax liability or carry it back and use against past tax liabilities.
4. According to the U.S. Census Bureau's *2011 American Community Survey*, an estimated 2,954 veterans were unemployed in Montana. The U.S. Bureau of Labor Statistics estimated that in 2011 approximately one-quarter of all unemployed veterans are Gulf War-era II veterans (those with post-9/11 service) and that 6.8% of unemployed veterans are Gulf War-era II veterans ages 18-24. Applying the national ratio to Montana results in an estimated 200 unemployed Gulf War-era II veterans ages 18-24 (2,954 times 6.8%). Considering the provisions of the bill, this age group is the most likely group providing potential employees for employers who will use this credit. However, in light of their age and the educational benefits available to them, a large share of these potential hires will instead go back to school. Half, or 100, of these potential employees are assumed to be hired by employers who will claim the credit. There are other veterans who may be hired by employers who will take this credit, including qualified veterans over age 24 and unemployed disabled veterans who left the service in the prior ten years. An equal number is assumed to be hired from these groups, bringing the total estimated number of qualified veteran hires and associated employer credits to 200.
5. There is a federal tax credit available to employers, the Work Opportunity credit, which also provides credits to employers who hire qualified veterans. The qualifying criteria for the federal credit are not the same as the proposed state credit, but both are designed to encourage employers to hire from the population of unemployed veterans. The Montana Department of Labor and Industry, tracks the number of certifications for the credit, and since 11/22/2011, there have been 216 veteran certifications. The number 216 represents certifications that the veteran is a qualified hire under the federal requirements for the work opportunity credit, not the number of credits received; however, the volume of certifications suggests the above estimate that 200 credits will be claimed by employers is reasonable.
6. The credit is capped at $1,200 and is equal to $100 plus 5% of the wages paid to the qualifying veteran during the 18 consecutive months following the date the veteran is first employed. The qualifying veteran must work at least 2,080 hours in the 18 month period in order for the employer to claim the credit. However, $1,200 cap means that the cost of the credit stops increasing if the average wage paid the employee is over $10.58 per hour.
7. At the current state minimum wage of $7.80 per hour, the cost of the credit would be $911.20. In 2011, about 6.5% of workers in Montana were minimum wage workers. However, many jobs in the state offer a higher starting wage even for entry level work, and many of the qualified unemployed veterans will bring experience and skills that qualify for higher pay. If it is assumed that 6.5% of the qualified veteran hires start at the state minimum wage and the balance start at a wage higher than $10.58 per hour. Therefore, the weighted average cost of the credit is $1,181.
8. Using the November 2012 IHS forecast of CPI to update the state minimum wage for future fiscal years yields an estimated state minimum wage of $8.04 in FY 2015, $8.17 in FY 2016, and $8.30 in FY 2017. Assuming the same percentage weights as above, the weighted average cost of the credit in FY 2015 is $1,183, in FY 2016 is $1,184, and in FY 2017 is $1,185. If 200 credits are claimed each year, the estimated cost of the credit in FY 2015 is $236,571, in FY 2016 is $236,740 and in FY 2017 is $236,917.
9. The credit cannot be claimed by the employer until the employee has worked at least 2,080 hours in the first 18 months after being hired. The credit can be claimed by the employer for the first tax year ending on or after the end of the 18 month employment period. The law becomes effective upon approval and passage and applies to tax years beginning on or after January 1, 2013.
10. Based upon the above facts, if the bill becomes law in April 2013, an employer who hired an unemployed qualified veteran in January 2013 would have fulfilled the criteria to claim the credit in July 2014 - 18 months later. The employer must use the credit in the first tax year after the end of the 18 month period, so the credit would be claimed on its 2014 corporate or individual income tax return filed in the spring of 2015 (which is in FY 2015); or if the taxpayer took the automatic extension, on its return filed in the fall of 2015

(which is in FY 2016). For purposes of this fiscal note, it is assumed that a quarter of the estimated annual cost of the credit, or $59,143, will be incurred in FY 2015. As the credit becomes better known and used, the credit is assumed to reduce state revenues by the full estimated amount in FY 2016 and in each fiscal year thereafter.

11. The Department of Revenue will incur a one-time cost of $2,000 in FY 2014 for designing the new form for the credit and contracted service costs of $36,000 for associated computer system development and testing.
12. The Department of Revenue may adopt rules to implement and administer the provisions of this law.

Fiscal Impact:

Expenditures:				
Operating Expenses	$38,000	$0	$0	$0
TOTAL Expenditures	$38,000	$0	$0	$0
Funding of Expenditures:				
General Fund (01)	$38,000	$0	$0	$0
TOTAL Funding of Exp.	$38,000	$0	$0	$0
Revenues:				
General Fund (01)	$0	($59,143)	($236,740)	($236,917)
TOTAL Revenues	$0	($59,143)	($236,740)	($236,917)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($38,000)	($59,143)	($236,740)	($236,917)

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