Fiscal Note 2015 Biennium

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Bill #	HB0595		**Title:**	Creating a tax credit for contributions to individual development accounts
Primary Sponsor:	Jacobson, Tom		**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	$28,000	$0	$0	$0
Revenue:				
General Fund	($31,978)	($95,933)	($163,955)	($200,000)
Net Impact-General Fund Balance:	($59,978)	($95,933)	($163,955)	($200,000)

Description of fiscal impact: HB595 creates an income tax credit equal to 40% of donations to a qualified entity for distribution to individual development accounts established under the federal Assets for Independence Act. The total credits must not exceed $400,000 in each two calendar year period. Credits must be pre-approved on a first-come, first-served basis by the Department of Revenue, subject to the $400,000 limit. The department will incur $28,000 in expenses to implement the bill and general fund revenues are estimated to be reduced in FY 2014 by approximately $32,000, by $96,000 in FY 2015, by $164,000 in FY 2016 and by $200,000 in FY 2017.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. HB 595 creates a credit for certain charitable contributions which can be used to reduce individual income taxes or corporate license taxes. The credit is equal to 40% of a pre-approved charitable contribution to a qualified entity for distribution to individual development accounts established under the federal Assets for Independence Act. The credit is not refundable if it exceeds the taxpayer's tax liability; however, it can be

carried forward for up to three additional succeeding years and used to reduce the taxpayer's tax liability in those years.

2. The total amount of credits that can be claimed is $400,000 every two calendar years. The credits must be approved by the Department of Revenue (DOR) in advance. Approval of credits depends upon whether the total credit limit of $400,000 has been reached and must be on a first-come, first-served basis. The DOR must make the approval (or denial) within 30 days after receiving the request from the taxpayer. The taxpayer must make the contribution to the qualified entity within 30 days of receiving notice of approval by the department. If the taxpayer does not make the contribution within the 30 days, the department may not include the preapproved amount in calculation of the total amount of credits and the taxpayer may not receive the credit.
3. The credit would be effective for tax years beginning after December 31, 2012. The credit ends after December 31, 2021, although a credit carried over from a prior year could still be taken and used against taxes.
4. This is a new credit for Montana. However, ten other states have credits somewhat similar to the proposed credit. Based on information from Oregon concerning its credit of this type – in the most recent fiscal year about 800 full-time resident filers made charitable contributions of this type and the average contribution was $8,817 (the *2013-15 Tax Expenditure Report*, State of Oregon and *Oregon Personal Income Tax Statistics: Characteristics of Filers, Tax Year 2010*, 2012 Edition, Oregon DOR). However, the distribution of credits (and donations) is heavily weighted by income level. The top 20% of taxpayers by income made 56% of the number of donations (450), but contributed 97.7% of the total donations (and credits claimed). The next 20% of taxpayers by income made 14% of donations (110) and contributed 1% of the donations (and credits received) and the balance of donations (1.3%) were made by the lower 60%, by income, of filers. Applying the same proportions reported by Oregon to the number of Montana full-year residents for 2011, indicates about 271 credits would be claimed in Montana.
5. The overall distribution of income in Montana tends to be lower than Oregon's. The top 20% of Oregon's taxpayers have an income level of $77,000 or more. The top 10% of Montana 2011 taxpayers by adjusted gross income starts at an income level that is roughly comparable. Therefore, for purposes of this fiscal note, the number of credits claimed in Montana is assumed to be half of 271, or 136.
6. The Oregon credit is more attractive than the credit proposed in this bill because it is equal to the lesser of $75,000 or 75% of the amount donated, and the total amount for all contributions is capped at $10 million. HB 595 proposes a credit equal to 40% of the contribution. If the average contribution is assumed to be the same as in Oregon, $8,817, then the total amount of contributions would be $1,199,112 (136 times $8,817) and the total amount of credits claimed would be $479,645. However, since the credit is a lesser percent of the contribution (40% versus 75%), the average contribution is assumed to decrease proportionally to the credit percentage, or $4,702 ($8,817 times 40/75). If the average contribution is $4,702, then the total amount of contributions would be $639,551 (136 times $4,702) and the total amount of credits claimed would be $255,820 ($639,551 times .40).
7. The Oregon credit was enacted in 1999 and is relatively well-known. The proposed credit is new and will not be well-known. For purposes of this fiscal note, it is assumed that a quarter of the maximum estimated annual cost of the credit, or $63,955, will be incurred in the first tax year if HB 595 is passed. As the credit becomes better known and used, the total amount of credits claimed is assumed to double to $127,910. In subsequent tax years the full amount allowed of the credit, $400,000 every two calendar years, is assumed to be claimed or $200,000 each calendar year.
8. The total amount of the credit allowed under this bill is $400,000, or less than the estimated cost after the first two years based upon the assumptions above. The full amount of the allowed credit is assumed to reduce state revenues by the balance of the maximum amount of $400,000 in FY 2016 and FY 2017, or $200,000 per fiscal year.
9. The first year the credit would be claimed by taxpayers is on 2013 corporate or individual income tax returns filed in the spring of 2014 (which is in FY 2014); or if the taxpayer took the automatic extension, on a return

filed in the fall of 2014 (FY 2015). For purposes of this fiscal note, the revenue loss due to the credit for its first tax year is assumed to be incurred half in FY 2014 and half in FY 2015. Subsequent tax year revenue reductions due to the credit are also split accordingly by fiscal year.

10. Therefore, the revenue reduction due to the credit for FY 2014 is $31,978 ($63,955 times 0.5). The balance of the first year credit will affect FY 2015 revenues, as well as half of the second tax year estimated credit, or a revenue reduction of $95,933 ($63,955 times 0.5 plus $127,910 times 0.5).
11. The balance of the second year credit will affect FY 2016 revenues, as well as half of the third tax year estimated credit, or a revenue reduction of $163,955 ($127,910 times 0.5 plus $200,000 times 0.5). The balance of the third year credit will affect FY 2017 revenues, as well as half of the fourth tax year estimated credit, or a revenue reduction of $200,000 ($200,000 times 0.5 plus $200,000 times 0.5).
12. The DOR will incur operating costs of $28,000 in FY 2014 for modifying the department's integrated tax system, form design, and related changes to implement this bill.

Fiscal Impact:	**FY 2014 Difference**	**FY 2015 Difference**	**FY 2016 Difference**	**FY 2017 Difference**
Department of Revenue				
Expenditures:				
Operating Expenses	$28,000	$0	$0	$0
TOTAL Expenditures	$28,000	$0	$0	$0
Funding of Expenditures:				
General Fund (01)	$28,000	$0	$0	$0
TOTAL Funding of Exp.	$28,000	$0	$0	$0
Revenues:				
General Fund (01)	($31,978)	($95,933)	($163,955)	($200,000)
TOTAL Revenues	($31,978)	($95,933)	($163,955)	($200,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($59,978)	($95,933)	($163,955)	($200,000)

Long-Term Impacts:

1. As noted above, the credit terminates for current year credits as of December 31, 2021. Unused credits can be carried over to the three additional years past the termination date.

Technical Notes:

1. Under current law, charitable contributions can be deducted from income for those who itemize deductions. It is not known whether this bill will affect those deductions.
2. The department will be required to adopt administrative rules regarding how it will administer the credit and how taxpayers can apply for and receive the credits.

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