



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2015 Biennium

Bill #	HB0611	Title:	Create housing incentive fund that includes tax credit for donations
Primary Sponsor:	McChesney, Bill	Status:	As Introduced

- | | | |
|---|---|---|
| <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 checked="" type="checkbox"/> Significant Long-Term Impacts | <input checked="" type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2014 Difference</u>	<u>FY 2015 Difference</u>	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>
Expenditures:				
General Fund	\$27,000	\$0	\$0	\$0
State Special Revenue	\$2,000,000	\$4,000,000	\$5,000,000	\$5,000,000
Revenue:				
General Fund	(\$800,000)	(\$1,600,000)	(\$2,000,000)	(\$2,000,000)
State Special Revenue	\$2,000,000	\$4,000,000	\$5,000,000	\$5,000,000
Net Impact-General Fund Balance:	<u>(\$827,000)</u>	<u>(\$1,600,000)</u>	<u>(\$2,000,000)</u>	<u>(\$2,000,000)</u>

Description of fiscal impact: This bill allows for donations (up to \$5 million) to the housing incentive fund to be used by the Board of Housing to address a variety of affordable housing needs which are enumerated in the bill. Each donation will be entitled to a tax credit of 40% (up to \$2 million).

FISCAL ANALYSIS

Assumptions:

Department of Commerce (DOC):

1. The Board of Housing will manage the approval of each donation and tax credit that can be taken by a specific contributor as well as administer the program.
2. Based on similar programs currently administered by the board, it is assumed the board would require 2.00 FTE to address the duties and responsibilities mandated in the bill. 1.00 pay band 6 FTE would be required to serve as a program specialist and 1.00 pay band 4 would be required to serve in an administrative support capacity. For the 2.00 new FTEs, the estimated costs for FY 2014 are \$100,331 and \$100,187 for FY 2015. FY 2016 and FY 2017 costs are inflated 1.50% annually.
3. For the purposes of this fiscal note, it is assumed the board's operating expenses would also increase. Staff would be expected to approve each donation and tax credit that can be taken by a specific contributor, rank project applications, monitor grant awards and contracts, and periodically visit project sites. Operating expenses are estimated to be \$52,015 in FY 2014 and \$45,846 in FY 2015. FY 2016 and FY 2017 costs are inflated 1.50% annually.

- The department will work closely with DOR to share information on who has the authority to utilize the credit so they may do tax compliance.

Department of Revenue (DOR):

- This bill would allow a credit against individual income tax or corporate license tax for contributions to the new housing incentive fund. The credit would be 40% of the amount contributed. Total credits would be limited to \$2 million per year. A taxpayer claiming a credit greater than their tax liability would be allowed to carry unused credits forward for up to ten years.
- Credits would first be available for tax year 2013. The first donations would be made in the fall of 2013, and the first credits would be claimed on returns for TY 2013 filed in the spring of CY 2014. Donations and the resulting credit claims would be made in the same fiscal year, beginning in FY 2014.
- Use of a new credit is difficult to predict. This fiscal note assumes that the Board of Housing will market the housing incentive program and credit to individuals and corporations in parts of the state with tight housing markets and that credits will ultimately reach the limit of \$2 million per year. Use of a new credit often increases over the first several years, so this fiscal note assumes that credits will be 40% of the limit in the first year and 80% in the second year. Thus credits would be \$800,000 in FY 2014, \$1.6 million in FY 2015, and \$2 million per year beginning in FY 2016.
- Donations to the housing incentive fund would be 2.5 times the credits claimed or \$2 million in FY 2014, \$4 million in FY 2015, and \$5 million per year beginning in FY 2016.
- The department would need to add additional lines to the individual income tax and corporate license tax returns. This would also require modifications to the department’s data capture and data processing systems. Contracted services costs for these changes would be \$27,000 in FY 2014.
- Costs for processing credit forms would be less than \$10,000 and would be absorbed in the department’s existing budget.

Fiscal Impact:	FY 2014	FY 2015	FY 2016	FY 2017
	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
Department of Commerce				
FTE	2.00	2.00	2.00	2.00
Expenditures:				
Personal Services	\$100,331	\$100,187	\$101,690	\$103,215
Operating Expenses - DOC	\$52,015	\$45,846	\$46,533	\$47,231
Operating Expenses - DOR	\$27,000	\$0	\$0	\$0
Grants	\$1,847,654	\$3,853,967	\$4,851,777	\$4,849,554
TOTAL Expenditures	<u>\$2,027,000</u>	<u>\$4,000,000</u>	<u>\$5,000,000</u>	<u>\$5,000,000</u>
Funding of Expenditures:				
General Fund (01)	\$27,000	\$0	\$0	\$0
State Special Revenue (02)	\$2,000,000	\$4,000,000	\$5,000,000	\$5,000,000
TOTAL Funding of Exp.	<u>\$2,027,000</u>	<u>\$4,000,000</u>	<u>\$5,000,000</u>	<u>\$5,000,000</u>
Revenues:				
Income & Corp. Tax GF(01)	(\$800,000)	(\$1,600,000)	(\$2,000,000)	(\$2,000,000)
State Special Revenue (02)	\$2,000,000	\$4,000,000	\$5,000,000	\$5,000,000
TOTAL Revenues	<u>\$1,200,000</u>	<u>\$2,400,000</u>	<u>\$3,000,000</u>	<u>\$3,000,000</u>
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	(\$827,000)	(\$1,600,000)	(\$2,000,000)	(\$2,000,000)
State Special Revenue (02)	\$0	\$0	\$0	\$0

Long-Term Impacts:

1. This bill would sunset December 31, 2022. Credits claimed for 2022 could be carried forward ten years.

Technical Notes:

Department of Revenue

1. Section 3(5) should refer to TY 2013 instead of TY 2012. Section 6 makes this bill first apply for TY 2013.
2. Section 1(6) requires the Board of Housing to file a form with the DOR with information about each donor at the time a donation is made. Section 3(8) requires each taxpayer claiming a credit to attach a form from the Board of Housing to their tax return. This double notification may be un-necessary. For the DOR to check that taxpayers claiming the credit were eligible, it would be sufficient for the Board of Housing to maintain a list of donors, with amounts and identifying information, and to transmit that list electronically to the DOR at the end of each year. This would also reduce the department’s costs.
3. A pass-through entity is treated as either an S-corporation or a partnership for taxation of income. Listing additional legal forms of business organization in Section 3(4) may be unnecessary and possibly confusing. Also, the phrase “in proportion to their respective interests in the pass-through entity” may be difficult to quantify for some businesses. For example, in a partnership, a partner’s share of past contributions to capital, share of income, and share of assets if the partnership dissolves may all be different. The following language may be clearer: ‘If the credit allowed under this section is claimed by a small business corporation, as defined in 15-30-3301, or a partnership, the credit must be attributed to shareholders or partners using the same proportions used to report the corporation’s or partnership’s income or loss for Montana income tax purposes.’

Sponsor’s Initials

Date

Budget Director’s Initials

Date



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Dedication of Revenue 2015 Biennium

17-1-507-509, MCA.

- a) **Are there persons or entities that benefit from this dedicated revenue that do not pay? (please explain)**

Yes, this bill allows for donations (up to \$5 million) to the housing incentive fund to be used by the Board of Housing to address a variety of affordable housing needs which are enumerated in the bill. Each donation will be entitled to a tax credit of 40% (up to \$2 million).

- b) **What special information or other advantages exist as a result of using a state special revenue fund that could not be obtained if the revenue were allocated to the general fund?**

A state special revenue account should be established for the program proposed in HB 611 because all expenditures and revenues related to the programs activities would be contained in a single accounting entity.

New section 1 of HB 611 states:

“There is a housing incentive account in the state special revenue fund, to be known as the housing incentive fund. Contributions to the fund are eligible for a tax credit as provided in [sections 2 and 3].”

The purpose of the account is to provide funding to address a variety of affordable housing needs which are enumerated in the bill.

- c) **Is the source of revenue relevant to current use of the funds and adequate to fund the program activity that is intended? Yes / No (if no, explain)**

Yes, to the extent allowed in the bill.

- d) **Does the need for this state special revenue provision still exist? ___Yes ___No (Explain)**

Yes. A state special revenue account should be established for the program proposed in HB 611 because all expenditures and revenues related to the programs activities would be contained in a single accounting entity.

- e) **Does the dedicated revenue affect the legislature’s ability to scrutinize budgets, control expenditures, or establish priorities for state spending? (Please Explain)**

No. While legislatively appropriated in HB 2, the funds in question are audited by the Office of the Legislative Auditor with any findings being presented to the Legislative Audit Committee.

- f) **Does the dedicated revenue fulfill a continuing, legislatively recognized need? (Please Explain)**

Yes. A state special revenue account should be established for the program proposed in HB 611 because all expenditures and revenues related to the programs activities would be contained in a single accounting entity.

g) How does the dedicated revenue provision result in accounting/auditing efficiencies or inefficiencies in your agency? (Please Explain. Also, if the program/activity were general funded, could you adequately account for the program/activity?)

Yes. A state special revenue account should be established for the program proposed in HB 611 because all expenditures and revenues related to the programs activities would be contained in a single accounting entity.

New section 1 of HB 611 states:

“There is a housing incentive account in the state special revenue fund, to be known as the housing incentive fund. Contributions to the fund are eligible for a tax credit as provided in [sections 2 and 3].”

The funds deposited in the state special revenue account may be used only for implementing the provisions proposed in the bill.