GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2015 Biennium

Bill #	SB0108	**Title:**	Renew Montana charitable endowment tax credit
Primary Sponsor:	Brown, Taylor	**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	$0	$0	$0	$0
Revenue:				
General Fund	($2,010,000)	($2,128,000)	($2,259,000)	($2,398,000)
Net Impact-General Fund Balance:	($2,010,000)	($2,128,000)	($2,259,000)	($2,398,000)

Description of fiscal impact: This bill would extend the sunset date for the charitable endowment credit from the end of CY 2013 to the end of CY 2019. The net revenue reduction from extending the credit will be approximately $2 million per year beginning in FY 14 and will continue to grow in the future. *Revenue estimates do not include a revenue impact from expiration of the credit, so the revenue impact of this bill is already assumed in both the OBPP and LFD revenue estimates.*

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. Individuals and corporations are allowed a credit for a portion of contributions to a charitable endowment. Under current law, the credit is available through the end of CY 2013. This bill extends the credit for six years, through CY 2019.
2. Credits have varied over the course of the business cycle. In recent years, credits have ranged from a high of $3.4 million for TY 2006 to a low of $1.8 million for TY 2011. In the revenue estimates prepared by OBPP and the LFD, this credit is included in a group of credits that are forecast as a group. The following table shows the growth rates for this group of credits and the predicted charitable endowment credit

assuming it grows at the same rate as the group as a whole. The growth rate for CY 2016 is assumed to be the same as for CY 2015. The large growth rate for CY 2012 reflects a return to about the average amount of credits from the low level for CY 2011.

TY	**Growth Rate**	**Credits (million $)**
2011		$1.827
2012	29.30%	$2.362
2013	3.86%	$2.453
2014	5.89%	$2.597
2015	6.16%	$2.757
2016	6.16%	$2.927

3. Without the credit, taxpayers would be able to claim itemized deductions for the same amounts used as the basis of the credit. For individuals, the credit is 40% of the present value of the assets that will ultimately be transferred to the charity. For corporations, the credit is 20% of the value of the gift. For the last five tax years, 95% of credits were claimed by individuals and 5% were claimed by corporations. The following table shows donations implied by the forecast credits and the deductions that individuals and corporations would be able to claim for these deductions if the credit were not available.

	Donations (million $)		**Tax Impact of Deductions** (million $)		
	Individuals	Corporations	Individuals	Corporations	**Total**
2013	$5.826	$0.613	$0.402	$0.041	**$0.443**
2014	$6.169	$0.649	$0.426	$0.044	**$0.469**
2015	$6.549	$0.689	$0.452	$0.047	**$0.498**
2016	$6.952	$0.732	$0.480	$0.049	**$0.529**

4. Taxpayers who claim this credit will make smaller tax payments either in the year they make a donation or when they file returns the following spring. Donations are likely to be made later in the year, so the revenue reductions from the credit in one tax year will occur in the next higher numbered fiscal year. The following table shows fiscal year revenue reductions from the credit, net of the effect of taxpayers not being able to deduct contributions that are the basis of the credit.

FY	**Net Revenue Impact** (million $)
FY 2014	($2.010)
FY 2015	($2.128)
FY 2016	($2.259)
FY2017	($2.398)

5. The OBPP and LFD revenue estimates do not explicitly include a revenue impact from expiration of this credit. Therefore, this fiscal note should be interpreted as showing the revenue increase that would occur if the credit is not extended rather than the revenue reduction from this bill.
6. This bill will not impose any new costs on the Department of Revenue.

Department of Revenue Fiscal Impact:	FY 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Expenditures:				
TOTAL Expenditures	$0	$0	$0	$0
Funding of Expenditures:				
General Fund (01)	$0	$0	$0	$0
TOTAL Funding of Exp.	$0	$0	$0	$0
Revenues:				
General Fund (01)	($2,010,000)	($2,128,000)	($2,259,000)	($2,398,000)
TOTAL Revenues	($2,010,000)	($2,128,000)	($2,259,000)	($2,398,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($2,010,000)	($2,128,000)	($2,259,000)	($2,398,000)

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