



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2015 Biennium

Bill #	SB0378	Title:	Provide a state earned income tax credit
Primary Sponsor:	Kaufmann, Christine	Status:	As Introduced

- | | | |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input 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 2014 Difference</u>	<u>FY 2015 Difference</u>	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>
Expenditures:				
General Fund	\$29,790	\$53,235	\$54,221	\$55,225
Revenue:				
General Fund	(\$36,990,420)	(\$38,294,280)	(\$39,737,388)	(\$41,236,123)
Net Impact-General Fund Balance:	<u>(\$37,020,210)</u>	<u>(\$38,347,515)</u>	<u>(\$39,791,609)</u>	<u>(\$41,291,348)</u>

Description of fiscal impact: This bill would create a state earned income credit equal to 20% of the federal credit. It is estimated this bill would reduce general fund revenue by approximately \$37 million in FY 2014 with the reduction increasing in subsequent years.

FISCAL ANALYSIS

Assumptions:

1. This bill would provide an income tax credit equal to 20% of the federal earned income credit.
2. This fiscal note assumes that taxpayers who claim the federal credit would also claim the state credit.
3. For TY 2010, the IRS reports that 86,693 taxpayers with Montana addresses claimed earned income credits of \$141.891 million. For TY 2012 through TY 2014, this population is assumed to grow at the same rate as the estimated growth in taxpayer population in SJ 2. For TY 2015, the growth is assumed to be the same as total population growth, and for TY 2016, the growth is assumed to be the same as TY 2015.
4. This fiscal note assumes that the values of the average credit per taxpayer will grow at 2.16% per year, the average growth between TY 2002 and TY 2010. The state credits will be 20% of federal credit. The credit applies retroactively starting with TY 2013.
5. The following table summarizes the assumptions and estimated changes in state tax revenue as a result of SB 378.

Tax Year	Number of filers	% Change	Federal Credit Amount	Average Per Filer	% Change	State Credit
A TY 2010	86,693	-1.55%	166,770,000	1,924	-0.72%	NA
F TY 2011	88,400	1.97%	173,720,392	1,965	2.16%	NA
F TY 2012	88,992	0.67%	178,654,771	2,008	2.16%	NA
F TY 2013	90,185	1.34%	184,952,100	2,051	2.16%	36,990,420
F TY 2014	91,393	1.34%	191,471,402	2,095	2.16%	38,294,280
F TY 2015	92,837	1.58%	198,689,938	2,140	2.16%	39,737,988
F TY 2016	94,304	1.58%	206,180,616	2,186	2.16%	41,236,123

- Taxpayers would be unlikely to change their withholding in response to the credit. Credits would be claimed on tax returns filed in the spring following each tax year. Revenue would be reduced when taxpayers receive larger refunds or make smaller payments with their returns.
- Cost associated with changing the tax forms are estimated to be minimal.
- Due to the large number of taxpayers expected to claim the credit and compliance with federal credit, it is estimated 1.00 FTE will be needed for compliance activities. Since the bill is effective for TY 2013, it is assumed the department will hire the FTE half way through FY 2014.
- A review of similar bills from prior sessions shows that the size of the eligible population has increased more than the department anticipated. The department therefore assumes that the on-going FTE necessary to implement SB 378 is 0.50 FTE higher than included in previous fiscal notes addressing similar legislation.

Fiscal Impact:	FY 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Department of Revenue				
FTE	0.50	1.00	1.00	1.00
Expenditures:				
Personal Services	\$23,132	\$46,263	\$47,144	\$48,043
Operating Expenses	\$6,658	\$6,972	\$7,077	\$7,182
TOTAL Expenditures	\$29,790	\$53,235	\$54,221	\$55,225
Funding of Expenditures:				
General Fund (01)	\$29,790	\$53,235	\$54,221	\$55,225
TOTAL Funding of Exp.	\$29,790	\$53,235	\$54,221	\$55,225
Revenues:				
General Fund (01)	(\$36,990,420)	(\$38,294,280)	(\$39,737,388)	(\$41,236,123)
TOTAL Revenues	(\$36,990,420)	(\$38,294,280)	(\$39,737,388)	(\$41,236,123)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	(\$37,020,210)	(\$38,347,515)	(\$39,791,609)	(\$41,291,348)

Sponsor's Initials

Date

Budget Director's Initials

Date