



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill # HB0154

Title: Review income tax credits

Primary Sponsor: Hollandsworth, Roy

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

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	\$0	\$0	\$48,315,779
Net Impact-General Fund Balance:	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$48,315,779</u>

Description of fiscal impact: HB 154 sets termination dates for 25 personal income and corporate income tax credits. Under current law, none of the 25 tax credits have termination dates. The Revenue and Transportation Interim Committee (RTIC) would review five or six of the credits each interim and make recommendations to the Legislature as to whether the credits should be extended. This bill effectively sunsets these credits in two year tranches. All the credits, if none were extended, would expire by TY 2025. The Legislature would have to amend statutes of the RTIC reviewed credits in order to extend the termination dates. Each extended credit would be reviewed every eight years under the sunset provisions of this bill. The elimination of the first tranche of tax credits in CY 2018 is estimated to increase general fund revenue by \$48,315,779 in FY 2019. Once fully implemented, the elimination of tax credits in future years (TY 2025) will result in the elimination of approximately \$100 million in tax credits increasing general fund revenue by a like amount.

FISCAL ANALYSIS

Assumptions:

- Under current law, a majority of tax credits available through the personal income tax and corporate income tax do not have an expiration date. HB 154 sets termination dates for 25 of the personal and corporate income tax credits.

2. HB 154 does not change any of the 25 credits. It is therefore assumed that the most recent costs, revenues and numbers of credits for each of the 25 credits examined will be consistent with future years’ costs, revenues and numbers of credits after being adjusted for the estimated growth rates for the credits.
3. HJ 2 projects that the elderly homeowner/renter credit will not increase from FY 2014 through FY 2017. OBPP estimated growth rates project that the elderly homeowner/renter tax credit will not increase from FY 2018 through FY 2019.
4. HJ 2 also projects that all other tax credits will increase by 15.4% in FY 2014, 5.0% in FY 2015, 5.4% in FY 2016 and 4.5% in FY 2017. OBPP estimated growth rates also project that all other tax credits will increase by 4.3% in FY 2018 and 4.3% in FY 2019.
5. HB 154 sets a termination date of December 31, 2017, for six tax credits, with each of the six tax credits listed in the table below. The total credit amounts claimed for the six credits for FY 2013 were \$38,370,751, while the total credit amounts for the six credits through the personal income tax for FY 2014 were \$40,990,696. Tax credit amounts for the corporate income tax are not available for FY 2014.

December 31, 2017 Credits								
Credit	MCA	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
		Total	Total	Total	Total	Total	Total	Total
Other States Tax Credit	15-30-2302	\$23,668,111	\$27,082,006	\$28,436,106	\$29,971,656	\$31,320,381	\$32,670,289	\$34,078,378
Alternative Energy Systems Credit	15-32-201 - 15-32-203	\$347,322	\$632,607	\$664,237	\$700,106	\$731,611	\$763,143	\$796,035
Energy Conservation Tax Credit	15-30-2319, 15-32-109	\$4,510,918	\$4,536,016	\$4,762,817	\$5,020,009	\$5,245,909	\$5,472,008	\$5,707,852
Elderly Homeowner / Renter Credit	15-30-2337 - 15-30-2341	\$9,536,171	\$8,396,128	\$8,396,128	\$8,396,128	\$8,396,128	\$8,396,128	\$8,396,128
Elderly Care Tax Credit	15-30-2366	\$52,714	\$74,466	\$78,189	\$82,412	\$86,120	\$89,832	\$93,704
College Contribution Tax Credit	15-30-2326	\$255,515	\$269,473	\$282,947	\$298,226	\$311,646	\$325,078	\$339,089
Total		\$38,370,751	\$40,990,696	\$43,040,231	\$45,364,403	\$47,405,801	\$47,716,478	\$49,411,185

6. The six tax credits HB 154 sets to expire on December 31, 2017, are projected to have a combined value of \$47,716,478 in FY 2018, and \$49,411,185 in FY 2019, based on the projected growth rates provided by HJ 2 and the OBPP.
7. The elderly homeowner/renter credit is a refundable credit, which means that any credits claimed result in a direct reduction in income tax revenue. The other five tax credits set to expire at the end of TY 2017 are not refundable, which means tax revenue will not decrease in proportion to the size of the tax credit claimed.
8. Based on individual income tax records for TY 2012, it is estimated that the six income tax credits resulted in a decrease in income tax revenue collections of \$37,793,286 for FY 2013. For TY 2013, the same six credits resulted in a decrease of \$40,120,179 for the general fund during FY 2014.

December 31, 2017 Credits								
Credit	MCA	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
		Tax Revenue	Tax Revenue	Tax Revenue	Tax Revenue	Tax Revenue	Tax Revenue	Tax Revenue
Other States Tax Credit	15-30-2302	\$23,627,096	\$27,036,165	\$28,387,973	\$29,920,924	\$31,267,365	\$32,614,989	\$34,020,695
Alternative Energy Systems Credit	15-32-201 - 15-32-203	\$454,210	\$481,721	\$505,807	\$533,121	\$557,111	\$581,123	\$606,169
Energy Conservation Tax Credit	15-30-2319, 15-32-109	\$3,921,946	\$3,925,959	\$4,122,257	\$4,344,859	\$4,540,377	\$4,736,068	\$4,940,192
Elderly Homeowner / Renter Credit	15-30-2337 - 15-30-2341	\$9,536,171	\$8,396,128	\$8,396,128	\$8,396,128	\$8,396,128	\$8,396,128	\$8,396,128
Elderly Care Tax Credit	15-30-2366	\$25,036	\$32,052	\$33,655	\$35,472	\$37,068	\$38,666	\$40,332
College Contribution Tax Credit	15-30-2326	\$228,827	\$248,154	\$260,562	\$274,632	\$286,990	\$299,360	\$312,262
Total		\$37,793,286	\$40,120,179	\$41,706,382	\$43,505,135	\$45,085,041	\$46,666,333	\$48,315,779

9. Based on HJ 2 and OBPP growth rates, the elimination of the six tax credits at the end of TY 2017 would result in an increase in income tax collections, and general fund revenue, of \$48,315,779 for FY 2019.
10. HB 154 also sets an expiration date of December 31, 2019, for five individual and corporate income tax credits, which are listed in the table below. When combined, the five tax credits had a combined value of \$31,969,505 for FY 2013 and \$28,540,296 for FY 2014. Based on forecasted growth rates, the five tax

credits will have a combined value of \$35,913,403 in FY 2019. The elimination of the five credits in TY 2019 has the potential to increase general fund revenue by \$39,075,852 in FY 2021.

December 31, 2019 Credits								
Credit	MCA	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
		Total Value	Total Value	Total Value	Total Value	Total Value	Total Value	Total Value
Geothermal System Credit	15-32-115	\$344,548	\$313,920	\$329,616	\$347,415	\$363,049	\$378,696	\$395,018
Historic Building Preservation Credit	15-30-2342	\$199,776	\$492,477	\$517,101	\$545,024	\$569,550	\$594,098	\$619,704
Capital Gains Tax Credit	15-30-2301	\$31,235,460	\$27,523,134	\$28,899,291	\$30,459,852	\$31,830,546	\$33,202,442	\$34,633,468
Adoption Credit	15-30-2364	\$189,721	\$210,765	\$221,303	\$233,254	\$243,750	\$254,256	\$265,214
Refund Income Tax / Prop Tax	15-30-2336	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total		\$31,969,505	\$28,540,296	\$29,967,311	\$31,585,546	\$33,006,895	\$34,429,492	\$35,913,403

11. HB 154 sets an expiration date of December 31, 2021, for six individual and corporate income tax credits, which are listed in the table below. When combined, the six tax credits had a combined value of \$475,292 for FY 2013 and \$300,396 for FY 2014. Based on forecasted growth rates, the six tax credits will have a combined value of \$378,000 in FY 2019. The elimination of the five credits in TY 2021 has the potential to increase general fund revenue by \$447,503 in FY 2023.

December 31, 2021 Credits								
Credit	MCA	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
		Total Value	Total Value	Total Value	Total Value	Total Value	Total Value	Total Value
Alternative Energy Production Credit	15-32-401 - 15-32-407	\$11,734	\$56	\$59	\$62	\$65	\$68	\$70
Recycling Tax Credit	15-32-603 - 15-32-601	\$448,755	\$289,907	\$304,402	\$320,840	\$335,278	\$349,728	\$364,802
Alternative Fuel Credit	15-30-2320, 15-31-137	\$14,778	\$8,183	\$8,592	\$9,056	\$9,464	\$9,872	\$10,297
Mineral and Coal Exploration Credit	15-32-507 - 15-32-509	\$25	\$0	\$0	\$0	\$0	\$0	\$0
Oilseed Crushing and Biodiesel Production Credit	15-32-701, 15-32-702	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Biodiesel Blending and Storage Credit	15-32-703	\$0	\$2,250	\$2,363	\$2,490	\$2,602	\$2,714	\$2,831
Total		\$475,292	\$300,396	\$315,416	\$332,448	\$347,408	\$362,382	\$378,000

12. HB 154 sets an expiration date of December 31, 2023, for six individual and corporate income tax credits, which are listed in the table below. When combined, the six tax credits had a combined value of \$781,033 for FY 2013 and \$274,269 for FY 2014. Based on forecasted growth rates, the six tax credits will have a combined value of \$345,124 in FY 2019. The elimination of the five credits in TY 2023 has the potential to increase general fund revenue by \$444,560 in FY 2023.

December 31, 2023 Credits								
Credit	MCA	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
		Total Value	Total Value	Total Value	Total Value	Total Value	Total Value	Total Value
Dependent Care Assistance Credits	15-30-2373	\$95,590	\$13,525	\$14,201	\$14,968	\$15,642	\$16,316	\$17,019
Infrastructure User Fee Credit	17-6-309(2), 17-6-316	\$326,294	\$21,203	\$22,263	\$23,465	\$24,521	\$25,578	\$26,681
Research Activities Tax Credit	15-30-2358, 15-31-150	\$172,564	\$73,983	\$77,682	\$81,877	\$85,561	\$89,249	\$93,096
Empowerment Zone Credit	15-30-2356	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Insurance for uninsured Montana's Credit	15-30-2368	\$186,585	\$165,558	\$173,836	\$183,223	\$191,468	\$199,720	\$208,328
Emergency Lodging Credit	15-30-2381	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total		\$781,033	\$274,269	\$287,982	\$303,534	\$317,193	\$330,864	\$345,124

13. The Department of Revenue does not expect to incur any additional costs as a result of HB 154.

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
<u>Fiscal Impact:</u>				
Department of Revenue				
<u>Expenditures:</u>				
TOTAL Expenditures	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Revenues:</u>				
General Fund (01)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$48,315,779</u>
TOTAL Revenues	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$48,315,779</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$48,315,779</u>

Long-Term Impacts:

1. HB 154 sets 17 tax credits to expire after FY 2019. In FY 2014, these 17 tax credits had the potential to reduce general fund revenue by \$29,114,961. Based on HJ 2 and OBPP growth rates, the expiration of the 17 tax credit has the potential to increase general fund collections by \$47 million in FY 2025. When combined with the six credits set to expire in 2017, the expiration of the combined 25 credits could be nearly \$100 million in FY 2025.

Technical Notes:

1. The elimination of the Alternative Fuel Credit in 15-30-2320, MCA, will also impact the small business corporation and partnership credit for alternative fuel conversion in 15-31-137 MCA. However, this section of code is not mentioned in HB 154.

Sponsor's Initials

Date

Budget Director's Initials

Date