Fiscal Note 2017 Biennium

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Bill #	HB0592	**Title:**	Provide for Montana earned income tax credit
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 2016 Difference	FY 2017 Difference	FY 2018 Difference	FY 2019 Difference
Expenditures:				
General Fund	$33,280	$60,282	$61,242	$62,219
Revenue:				
General Fund	($17,139,000)	($16,865,000)	($16,657,000)	($15,955,000)
Net Impact-General Fund Balance:	($17,172,280)	($16,925,282)	($16,718,242)	($16,017,219)

Description of fiscal impact: HB 592 creates a refundable earned income tax credit for qualified individual income taxpayers starting in tax year 2015 (TY 2015). The tax credit is equal to 10% of the federal earned income tax credit created under section 32 of the Internal Revenue Code (26 U.S.C. 32). HB 592 will reduce individual income tax revenue by approximately $34 million in the 2017 biennium. Administering the bill will cost the State of Montana approximately $61,000 each fiscal year.

FISCAL ANALYSIS

Assumptions:

1. Under section 32 of the Internal Revenue Code (26 U.S.C. 32), a taxpayer is allowed to claim a refundable income tax credit if their income from working was less than $52,428. The size of the credit varies depending on the taxpayer’s income, family size and filing status, with a credit of up to $496 for taxpayers without children and $6,143 for taxpayers with three or more qualifying children.
2. HB 592 creates a state earned income tax credit, which would be available in TY 2015. The newly created state tax credit would be 10% of the federal earned income tax credit created in 26 U.S.C. 32. The new credit would also be refundable. It would not be available to married taxpayers filing on separate tax forms.

3. Under current law, HJ 2 projects individual income tax revenue will increase to $1,108 million in FY 2015, $1,213 million in FY 2016 and $1,296 million in FY 2017. OBPP projects that individual income tax liabilities will increase to $1,385 million in FY 2018 and $1,461 million in FY 2019.
4. For TY 2015, the first year the state credit is available, the Department of Revenue's individual income tax model estimates that Montana residents will claim approximately $171.4 million in federal earned income tax credits. The 10% state credit would have Montana residents claiming up to $17 million worth of child tax credits in TY 2015.
5. As the credit is refundable, it is assumed that the entire tax credit will be paid to individual tax payers when they file their taxes (the fiscal year subsequent to the tax year).
6. It is assumed that taxpayers will not adjust their withholdings in response to the new tax credit.
7. After adjusting the forecast model to include a state earned income tax credit, individual income tax revenue for FY 2016 is projected to be $1,195.39 million, a reduction in tax revenue of approximately $17.14 million. The updated forecast model projects income tax revenue will decrease by $16.86 million in FY 2017, $16.66 million in FY 2018 and $15.95 million in FY 2019.

Fiscal Year	**2016**	**2017**	**2018**	**2019**
Present Law Income Tax	$1,212,526,000	$1,295,799,000	$1,384,695,000	$1,461,147,000
Income Tax Under HB 592 Child Tax Credit	$1,195,387,000	$1,278,934,000	$1,368,038,000	$1,445,192,000
Change	($17,139,000)	($16,865,000)	($16,657,000)	($15,955,000)

8. The Department of Revenue expects the proposed tax credit will require 1.00 additional FTE to audit income tax returns starting January 2016. The expenditures for the FTE are expected to be $33,280 in FY 2016, $60,282 in FY 2017, $61,242 in FY 2018 and $62,219 in FY 2019. The department will make any income tax form changes required by HB 592 as part of its annual updating process.

	FY 2016 Difference	**FY 2017 Difference**	**FY 2018 Difference**	**FY 2019 Difference**
Fiscal Impact:				
FTE	0.50	1.00	1.00	1.00
Expenditures:				
Personal Services	$26,789	$53,578	$54,437	$55,312
Operating Expenses	$3,193	$6,704	$6,805	$6,907
Equipment	$3,298	$0	$0	$0
TOTAL Expenditures	$33,280	$60,282	$61,242	$62,219
Funding of Expenditures:				
General Fund (01)	$33,280	$60,282	$61,242	$62,219
TOTAL Funding of Exp.	$33,280	$60,282	$61,242	$62,219
Revenues:				
General Fund (01)	($17,139,000)	($16,865,000)	($16,657,000)	($15,955,000)
TOTAL Revenues	($17,139,000)	($16,865,000)	($16,657,000)	($15,955,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($17,172,280)	($16,925,282)	($16,718,242)	($16,017,219)

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