Fiscal Note 2019 Biennium

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Bill #	SB0156	**Title:**	Provide for Montana earned income tax credit
Primary Sponsor:	Cohenour, Jill	**Status:**	As Amended in Senate Committee

☐ 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 2018 Difference	FY 2019 Difference	FY 2020 Difference	FY 2021 Difference
Expenditures:				
General Fund	$0	$0	$0	$38,788
Revenue:				
General Fund	$0	$0	($4,615,000)	($4,509,000)
Net Impact-General Fund Balance:	$0	$0	($4,615,000)	($4,547,788)

Description of fiscal impact: SB 156 as amended, would create a state earned income credit equal to 3% of the federal credit. This would reduce general fund revenue by $4.6 million in FY 2020 with the revenue reduction shrinking over time.

FISCAL ANALYSIS

Assumptions:
Department of Revenue
1. This bill would create a state earned income credit equal to 3% of the recipient's federal earned income credit. The credit would first be available for 2019. The first revenue impact would occur when recipients file 2019 tax returns in FY 2020.
2. The IRS reports that $172.795 million in earned income credits were claimed from Montana addresses for 2014. If all Montana residents claiming the federal credit also claimed the state credit, state credits would have been $5.184 million for 2014.
3. Income tax revenue is projected to grow at an average rate of 4.4% from 2014 through 2020 due to growing incomes and population growth. Population growth will tend to increase credits, but growing incomes will reduce the proportion of the population that is eligible for the credit because the federal credit formula does not include an inflation adjustment. Simulations with the income tax forecasting model produce an average annual decrease in credits of 2.3%. Applying this average rate of decrease, credits would be $4.615 million

for 2019, and $4.509 million for 2020. General fund revenue would be reduced by these amounts in FY 2020 through FY 2021.

4. The department would require an additional 1.00 FTE auditor position to audit returns claiming the earned income credit. This position would begin January 2021, which is the middle of FY 2021. Personal services costs would be $35,431 in FY 2021. One-time costs to set up a new employee would be $3,307 in FY 2021. Annual operating costs would be $3,375 for the second half of FY 2021 (and $7,538 for FY 2022). The total cost for this additional position would be $38,788 in FY 2021.

5. Changes to forms and instructions and to the department's information processing systems would be made as part of the normal annual update process with no additional costs.

Fiscal Impact: Department of Revenue	FY 2018 Difference	FY 2019 Difference	FY 2020 Difference	FY 2021 Difference
FTE	0.00	0.00	0.00	1.00
Expenditures:				
Personal Services	$0	$0	$0	$31,746
Operating Expenses	$0	$0	$0	$3,735
Equipment	$0	$0	$0	$3,307
TOTAL Expenditures	$0	$0	$0	$38,788
Funding of Expenditures:				
General Fund (01)	$0	$0	$0	$38,788
TOTAL Funding of Exp.	$0	$0	$0	$38,788
Revenues:				
General Fund (01)	$0	$0	($4,615,000)	($4,509,000)
TOTAL Revenues	$0	$0	($4,615,000)	($4,509,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	$0	$0	($4,615,000)	($4,547,788)

Long-Term Impacts:
1. As long as the federal credit formula is unchanged, state credits would continue to decrease slowly over time. If Congress makes changes to the federal formula, there would be corresponding changes to the amount of state credits.
2. The FY 2021 1.00 FTE auditor working half of FY 2021 would become a full 1.00 FTE expenditure starting in FY 2022 at an annual cost of approximately $72,000.

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