

FISCAL NOTE

Bill #: HB6

Title: Reduce taxes by requiring refunds above certain levels

Primary Sponsor: Brad Molnar

Status: Introduced

Sponsor signature	Date	Dave Lewis, Budget Director	Date
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Fiscal Summary

	<u>FY2001 Difference</u>	<u>FY2002 Difference</u>	<u>FY2003 Difference</u>
Expenditures:			
General Fund	\$14,868	\$0	\$316,800
Revenue:			
General Fund	\$0	\$0	\$(3,251,000)
Net Impact on General Fund Balance:	(\$14,868)	\$0	\$(3,567,800)

<u>Yes</u>	<u>No</u>		<u>Yes</u>	<u>No</u>	
	X	Significant Local Gov. Impact	X		Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts

Fiscal Analysis

ASSUMPTIONS

Department of Revenue

Income tax Refund:

1. This bill is a referendum that if approved by the voters would take effect January 1, 2001.
2. The income tax refund portion of the bill applies to income tax collections beginning in tax year 2001.
3. The first refund of income tax collections will not occur until fiscal 2003.
4. The first refund amount is equal to the difference between actual income tax collections in tax year 2001, and actual collections in tax year 2000 adjusted for growth in the number of income tax returns and inflation.
5. Actual income tax collections in tax year 2000 are \$521.443 million; actual income tax collections in tax year 2001 are \$542.548 million (based on HJR1 forecasts of fiscal year collections).

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6. The number of income tax returns will grow by 1% between tax year 2000 and tax year 2001; the inflation rate for tax year 2001 over tax year 2000 is 2.40% (Wharton Econometrics Forecasting Associates).
7. The amount of the first refund issued in fiscal 2003 is \$3.251 million calculated as follows:

$$\$542.548 - (521.443 \times 1.01 \times 1.024) = \$3.251$$

Property Tax Refund:

8. The proposal would not have any impact on property tax revenue collections from state mills. This is because state mills are fixed and any increase in property tax revenues would be due to growth and/or mill levies approved by the voters.

Administrative Impacts – Individual Income Tax

9. The administrative impacts for this bill, with respect to the individual income tax are similar to the administrative impacts for HB5. Information Technology (IT) programming costs to accommodate the refund proposal would total \$16,800 in fiscal year 2003. Because the proposal is on-going, additional annual costs of \$3,600 would be incurred in each fiscal year after fiscal year 2003.
10. Administrative costs associated with the Customer Service Center (CSC) would total \$300,000. This is the cost that was incurred to provide refunds under HB171, the income tax refund program passed during the 1995 legislative session. These costs were required to cover warrant writing services, programming changes, salaries for staff to complete the return processing in time to issue the refunds, and other miscellaneous charges.

Administrative Impacts – Property Tax

11. The Department of Revenue does not wish to monitor the activities of local governments with respect to compliance with this proposal. However, should this be required then enforcement of the property tax aspects of this bill would require the addition of one auditor, one attorney, and one tax policy analyst to department staff.

Secretary of State

12. This legislative referendum will be presented to the electorate at the regularly scheduled statewide general election on November 7, 2000. A voter information pamphlet (VIP) will be prepared for LR-115 (HB540) and C-34 (SB23). It will be 40 pages in length. The Secretary of State and county election administrators have resources budgeted for the preparation, printing and distribution of an average size VIP. The average VIP in past years has been 40 pages.
13. A voter information pamphlet (VIP) will be printed for this issue. The VIP will be 12 pages in length for HB6. There will be 525,000 VIPs printed and circulated.
14. The cost to the Secretary of State for printing the VIP will be \$14,868. (12 pages * \$.00236/page * 525,000 VIPs).
15. The cost to the counties for distribution of the VIP will be \$52,643. (12 pages * .008356/page * 525,000 VIPs).
16. The Secretary of State will pay for the VIP through its proprietary fund.
17. There is a regularly scheduled statewide election in November 2000, therefore there will not be additional expenses to the state and county to hold the election

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FISCAL IMPACT:

	<u>FY2001 Difference</u>	<u>FY2002 Difference</u>	<u>FY2003 Difference</u>
Operating Expenses – Sec of State	\$14,868		
Operating Expenses – Dept of Rev			\$316,800
TOTAL	\$14,868	\$0	\$316,800
<u>Funding:</u>			
General Fund (01)	\$14,868	\$0	\$316,800
<u>Revenues:</u>			
General Fund (01)	\$0	\$0	(\$3,251,000)
<u>Net Impact to Fund Balance (Revenue minus Expenditure):</u>			
General Fund (01)	(\$14,868)	\$0	(\$3,567,800)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

1. The language of subsection 9 of section 2 of the proposal is confusing (see technical note #1) . An estimate on the impact to local governments cannot be made.
2. County election administrators have resources budgeted for the preparation, printing and distribution of an average size VIP. The average VIP in past years has been 40 pages. The cost to the counties for distribution of the VIP for this issue will be \$52,643. (12 pages * .008356/page * 525,000 VIPs).

TECHNICAL NOTES:

1. The language in subsection 9 of section 2 is unclear. For example, if the amount of property taxes actually collected is \$1,000,000, growth is 10%, inflation is 5%, and the mill levies approved by the voters is 100, then the maximum annual change in revenue from property taxes is $1,000,000 + .10 + .05 + 100 = 1,000,100.15$.
2. The CPI definition is unclear as to whether the index to be used is the index for all urban consumers or that for all urban wage earners and clerical workers.
3. The bill does not specify the time period over which inflation from one year to the next is to be measured. For example, is inflation measured by taking the CPI from June of the current year to June of the prior year?
4. When considering the costs of an electorate vote, any costs greater than \$194,203 which are distributed to the counties must be funded by the Legislature. (1-2-112, MCA).