FISCAL NOTE

Bill #: SB5

Title: Reduce and simplify income taxes

Primary Sponsor: Alvin Ellis

Status: As Amended

Sponsor signature Date

Dave Lewis, Budget Director Date

Fiscal Summary

	FY2001 Difference	FY2002 Difference	FY2003 Difference
Revenue:			
General Fund	($14,000,000)	($27,712,000)	($27,712,000)
Net Impact on General Fund Balance:	($14,000,000)	($27,712,000)	($27,712,000)

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

Fiscal Analysis

ASSUMPTIONS:

1. This proposal applies to tax years beginning after December 31, 2000 (tax year 2001).
2. Under this proposal, state individual income tax liability would be based on federal taxable income. Taxpayers would make adjustments to federal taxable income for the following items:

    1) interest income on non-Montana state and local government obligations,
    2) interest income on obligations of the US government,
    3) railroad retirement,
    4) an exclusion for exempt retirement (up to $3,600),
    5) exempt tribal income,
    6) income from active duty military service,
    7) current law contributions to the Family Education Savings Account,
    8) current law contributions to the First-Time Homebuyer's Account, and
    9) current law contributions to the Medical Savings Account,

to arrive at adjusted federal taxable income. Adjusted federal taxable income would then be applied to one of four new rate tables provided for in the bill to arrive at state tax liability before credits. Taxpayers would be allowed to take all or any of the current law tax credits to arrive at tax liability after credits.

3. Based on the above tax base, the rate tables provided for in the bill are designed to reduce total tax liability by $27,712,000 annually, beginning with tax year 2001. This impact will be felt in its entirety first in fiscal year 2002.
4. In response to this legislation, the Department of Revenue will issue revised withholding tables designed to capture the standard deduction and personal exemption values inherent in federal law. These new withholding tables will take effect January 1, 2001 effectively reducing withholding payments relative to current law and current withholding tables.
5. Taxpayers who make quarterly estimated tax payments also would adjust their payments to reflect the lower liabilities provided for under this proposal, beginning January 1, 2001.
6. The effect of assumptions 2 and 3 is to reduce withholding and estimated payments for the period January 1, 2001 through June 30, 2001 (fiscal 2001) by approximately half of the total liability reduction provided for in this bill, or by approximately $14million.

Administrative Impacts

If this bill is passed during the Special Session there is no incremental cost for systems development to support the revised income tax. All systems costs would be covered under the development of the income tax portion of POINTS Phase II funded by HB15. Special Session passage would fit extremely well with the POINTS development schedule.

By contrast, if this bill fails in the Special Session and is taken up and passed in the regular Legislative Session in 2001, the income tax portion of POINTS Phase II would already be largely developed under present law. That investment would have to be scrapped and redeveloped under the new law at a cost of as much as $3,000,000.

FISCAL IMPACT:

	FY2001 Difference	FY2002 Difference	FY2003 Difference
Revenues:			
General Fund (01)	($14,000,000)	($27,712,000)	($27,712,000)
Net Impact to Fund Balance (Revenue minus Expenditure):			
General Fund (01)	($14,000,000)	($27,712,000)	($27,712,000)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

This bill has no impact on local government expenditures or revenues.

LONG-RANGE IMPACTS:

This bill will continue to reduce general fund revenue an estimated $27,712,000 in all fiscal years following those shown above also.