



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2021 Biennium

Bill # SB0018

Title: Establish workforce housing tax credits

Primary Sponsor: MacDonald, Margaret (Margie)

Status: As Amended in House 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

	<u>FY 2020</u> <u>Difference</u>	<u>FY 2021</u> <u>Difference</u>	<u>FY 2022</u> <u>Difference</u>	<u>FY 2023</u> <u>Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Other	\$80,756	\$164,742	\$167,213	\$169,721
Revenue:				
General Fund	\$0	\$0	\$0	(\$3,230,200)
Other	\$161,510	\$164,740	\$149,600	\$152,600
Net Impact-General Fund Balance:	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$3,230,200)</u>

Description of fiscal impact: SB 18 creates an allocable non-refundable housing tax credit administered by the Department of Commerce (Montana Board of Housing) in conjunction with federal low-income housing tax credits. The credit can be claimed by corporations, pass-through entities, and individuals on income or insurance premiums tax returns. Department of Commerce costs would be offset by program fees. Tax credits will be allocated during tax years 2020 through 2024. The credits, once approved, are for the year of issue and the subsequent five years. The credits can be carried-forward for up to five years. The bill terminates after TY 2024, while credits would be claimable through TY 2034 (FY 2035).

FISCAL ANALYSIS

Assumptions:

Department of Revenue

- Under federal law, taxpayers can claim a credit for their income taxes for building qualified low-income housing. Under current Montana law, taxpayers who claim the federal low-income housing credit cannot claim a similar credit on their Montana income taxes.

2. SB 18 creates a non-refundable workforce housing tax credit that can be claimed by corporations and pass-through entities and their shareholders for their Montana income tax. The credit can only be claimed for qualified projects that have been approved by the Montana Board of Housing. The credit is equal to the federal low-income housing credit provided for in Internal Revenue Code, 26 U.S.C. 42. The unused tax credits can be carried forward for up to five years. The state credit will follow many of the same rules as the federal credit, and any differences or additional requirements would be addressed in administrative rules.
3. The credit would apply to tax years (TY) after December 31, 2019 (TY 2020).
4. However, credits cannot be claimed until a project is completed and certified. Projects are assumed to take two years to be completed and initial credits claimed.
5. These credits would apply to tax liability reported on income tax forms first due April 2023 (FY 2023).
6. Income tax revenue would be reduced by \$3,230,213 in FY 2023 if all the credits issued in TY 2020 are claimed and not carried forward
7. The Department of Revenue does not expect to incur any additional costs as a result SB 18.

State Auditor’s Office

8. The tax credit can be applied against insurance premium tax liabilities, this credit use is unknown.

Department of Commerce (DOC)

9. The Montana Board of Housing would administer the tax credits in conjunction with the federal program it currently administers. The new credits would become available for tax years beginning January 1, 2020 (TY 2020). Credits in TY 2022 are reduced due to a planned reduction in the level of federal credits.
10. Federal credits are adjusted for inflation and increase around 2% annually. TY 2017 credits are used as a starting point to estimate TY 2022.

SB 18 as Amended	TY 2020	TY 2021	TY 2022	TY 2023	TY 2024
Initial Credit Issuance	\$3,230,213	\$3,294,817	\$2,992,059	\$3,051,900	\$3,112,938
Board of Housing Fees	\$161,510	\$164,740	\$149,600	\$152,600	\$155,650

11. TY 2020 Credits will be awarded in FY 2020 in conjunction with federal credits

Board of Housing Expenditures

12. The Board would charge an administrative fee of approximately 5% of the annual credit awarded. Administrative fees are not a direct reduction in credits available. The fees would offset expenditures.
13. Based on the current federal affordable housing tax credit program, it is assumed the Board would require 1.00 FTE at pay band 6 to administer the program. Costs are reduced by one-half in FY 2020 are \$40,378 and \$82,371 for FY 2021 and beyond. Operating expenses are estimated at \$40,378 for FY 2020 and \$82,371 for FY 2021. Annual costs are inflated by 1.5% thereafter.

Fiscal Impact:	FY 2020	FY 2021	FY 2022	FY 2023
Department of Commerce	Difference	Difference	Difference	Difference
FTE	0.50	1.00	1.00	1.00
Expenditures:				
Personal Services	\$40,378	\$82,371	\$83,607	\$84,861
Operating Expenses	\$40,378	\$82,371	\$83,607	\$84,861
TOTAL Expenditures	\$80,756	\$164,742	\$167,213	\$169,721
Funding of Expenditures:				
Other	\$80,756	\$164,742	\$167,213	\$169,721
TOTAL Funding of Exp.	\$80,756	\$164,742	\$167,213	\$169,721
Revenues:				
Department of Revenue				
General Fund (01)	\$0	\$0	\$0	(\$3,230,200)
Department of Commerce				
Other	\$161,510	\$164,740	\$149,600	\$152,600
TOTAL Revenues	\$161,510	\$164,740	\$149,600	(\$3,077,600)

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	\$0	\$0	\$0	(\$3,230,200)
Other	\$80,754	(\$2)	(\$17,613)	(\$17,121)

Long-Term Impacts:

Department of Revenue

- The total credits for FY 2023 are estimated to be \$3.2 million. However, the Board of Housing estimates that the number of credits is going to increase to \$15.7 million by TY 2026. This proposed bill will reduce general fund revenue by significant amounts past FY 2023. The following table presents timing of credits issued, potential tax year claims and potential long-term fiscal year revenue reductions. Approximately \$94 million in credits will be issued.

Timing of SB 18 Housing Tax Credits as Amended in Senate Tax																	
Initial Issue	Credit Issue Period															Total Credits	
	TY 2020	TY 2021	TY 2022	TY 2023	TY 2024	TY 2025	TY 2026	TY 2027	TY 2028	TY 2029	TY 2030	TY 2031	TY 2032	TY 2033	TY 2034		TY 2035
TY 2020	3,230,200	3,230,200	3,230,200	3,230,200	3,230,200	3,230,200											19,381,200
TY 2021		3,294,800	3,294,800	3,294,800	3,294,800	3,294,800	3,294,800										19,768,800
TY 2022			2,992,100	2,992,100	2,992,100	2,992,100	2,992,100	2,992,100									17,952,600
TY 2023				3,051,900	3,051,900	3,051,900	3,051,900	3,051,900	3,051,900	3,051,900							18,311,400
TY 2024					3,112,900	3,112,900	3,112,900	3,112,900	3,112,900	3,112,900	3,112,900						18,677,400
Credits	\$3,230,200	\$6,525,000	\$9,517,100	\$12,569,000	\$15,681,900	\$15,681,900	\$12,451,700	\$9,156,900	\$6,164,800	\$3,112,900							\$94,091,400
Initial Issue	Potential Credits Claimed Assuming a Two-year Project Completion Period and 100% Utilization															Potential Claims	
	TY 2020	TY 2021	TY 2022	TY 2023	TY 2024	TY 2025	TY 2026	TY 2027	TY 2028	TY 2029	TY 2030	TY 2031	TY 2032	TY 2033	TY 2034		TY 2035
TY 2020			3,230,200	3,230,200	3,230,200	3,230,200	3,230,200	3,230,200									19,381,200
TY 2021				3,294,800	3,294,800	3,294,800	3,294,800	3,294,800	3,294,800								19,768,800
TY 2022					2,992,100	2,992,100	2,992,100	2,992,100	2,992,100	2,992,100							17,952,600
TY 2023						3,051,900	3,051,900	3,051,900	3,051,900	3,051,900	3,051,900						18,311,400
TY 2024							3,112,900	3,112,900	3,112,900	3,112,900	3,112,900	3,112,900					18,677,400
Claims	\$0	\$0	\$3,230,200	\$6,525,000	\$9,517,100	\$12,569,000	\$15,681,900	\$15,681,900	\$12,451,700	\$9,156,900	\$6,164,800	\$3,112,900					\$94,091,400
Potential Fiscal Year Claims																	
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034	FY 2035	
FY Claims				\$3,230,200	\$6,525,000	\$9,517,100	\$12,569,000	\$15,681,900	\$15,681,900	\$12,451,700	\$9,156,900	\$6,164,800	\$3,112,900				\$94,091,400

MEK
Sponsor's Initials

2-13-19
Date

TZ
Budget Director's Initials

2/13/19
Date