



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2021 Biennium

Bill # SB0189

Title: Establish a carbon tax and distribute revenue

Primary Sponsor: Barrett, Dick

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

|   | <u>FY 2020</u><br><u>Difference</u> | <u>FY 2021</u><br><u>Difference</u> | <u>FY 2022</u><br><u>Difference</u> | <u>FY 2023</u><br><u>Difference</u> |
|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| <b>Expenditures:</b>                    |                                     |                                     |                                     |                                     |
| General Fund                            | \$33,200                            | \$140,775,643                       | \$140,818,899                       | \$122,484,937                       |
| State Special Revenue                   | \$0                                 | \$0                                 | \$0                                 | \$0                                 |
| <b>Revenue:</b>                         |                                     |                                     |                                     |                                     |
| General Fund                            | \$70,342,000                        | \$140,683,000                       | \$140,683,000                       | \$104,011,000                       |
| State Special Revenue                   | \$0                                 | \$0                                 | \$0                                 | \$0                                 |
| <b>Net Impact-General Fund Balance:</b> | <u>\$70,308,800</u>                 | <u>(\$92,643)</u>                   | <u>(\$135,899)</u>                  | <u>(\$18,473,937)</u>               |

**Description of fiscal impact:** SB 189, as amended, creates a \$10 tax per ton of carbon dioxide equivalent emissions beginning January 1, 2020. The money raised by this tax is deposited into the general fund and is intended to pay for a refundable income tax credit distributed to all Montana resident taxpayers. Carbon tax revenues and associated income tax credits are expected to decline after FY 2022.

### FISCAL ANALYSIS

#### Assumptions:

#### **Department of Revenue (DOR)**

- SB 189 as amended, establishes a carbon tax on certain large emitters and redirects the carbon tax collections to a refundable income tax credit for Montana residents.

#### *Carbon Tax*

- Facilities currently report emission levels of carbon dioxide equivalents (CO<sub>2</sub>e) to the Environmental Protection Agency (EPA). Average emissions from Montana electrical generating units for CY 2016 and CY 2017 provide the basis for estimating future emissions. Average emissions for electrical generating units in Montana in CY 2016 and CY 2017 were 16,299,778 tons of CO<sub>2</sub>e.

3. The change in emissions estimated for this bill is based on an analysis of a similar tax in Australia where there was a tax of \$20 per ton of CO<sub>2</sub>e emitted. An annual reduction in CO<sub>2</sub>e emissions of 8.2% was achieved by the Australian tax (O’Gorman and Jotzo, 2014). A proportional impact of a tax of \$10 per ton of CO<sub>2</sub>e is assumed to will reduce emissions by 4.1% annually.
4. Colstrip Units 1 and 2 are scheduled to shut down no later than July 1, 2022, and these two units are assumed to operate at full capacity until then. Revised estimates of CO<sub>2</sub>e emissions show that emissions will fall by approximately 30% when the Colstrip Units 1 and 2 shut down on the assumed date of July 1, 2022.
5. It is assumed that the carbon offsets of Section 6 (2)(b) will not be utilized during the time period in question. If they are utilized associated tax collections and refunds will be lower.
6. Montana CO<sub>2</sub>e emissions are projected at 15.631 million metric tons in calendar year (CY) 2020, 15.631 million tons in CY 2021, 13.594 million tons in CY 2022, and 11.557 million tons in CY 2023. Emissions are assumed to be constant throughout the year.
7. The tax would be collected quarterly beginning after January 1, 2020. Fiscal year emissions are those emitted in the first half of the calendar year in question and the second half of the preceding calendar year. However, FY 2021 and FY 2022 have the same level of emissions because of the timing of the shutdown of Colstrip units 1 and 2.
8. Taxable CO<sub>2</sub>e emissions are estimated to be 7.816 million metric tons in FY 2020, 15.631 million tons in FY 2021, 15.631 million tons in FY 2022, and 11.557 million tons in FY 2023.
9. It is assumed that the large emission source taxpayers will take full advantage of the credits contained in Sections 13 and 14, reducing their tax liability by 10% each year.
10. These tax collections would be deposited in the general fund. Tax collections are estimated at \$70.342 million in FY 2020, \$140.683 million in FY 2021, \$140.683 million in FY 2022, and \$104.011 million in FY 2023.

*Income Tax Credit*

11. The first year the income tax credit is available is TY 2020, which corresponds to FY 2021.
12. Tax credit amounts are calculated by dividing the carbon tax collections in the preceding calendar year by the current Montana population.
13. Population estimates from HJ 2 are 1,075,766 in CY 2020, 1,082,130 in CY 2021, 1,088,288 in CY 2022, and 1,094,193 in CY 2023.
14. Estimated credits are approximately \$130 for FY 2021, \$129 for FY 2022, and \$112 for FY 2023.
15. It is assumed that all Montana residents will take advantage of the income tax credit.
16. Fiscal year distribution of credits is equal to the preceding calendar year carbon tax collections: \$0 in FY 2020, \$140.683 million in FY 2021, \$140.683 million in FY 2022, and \$122.347 million in FY 2023.
17. Associated updates to the integrated tax system and form development will cost \$33,200.
18. The department will require 2.00 FTE to address the increased number of expected filings and eligibility verification. These FTE would start January 1, 2021, corresponding with the first credit filings.

**Fiscal Note Request – As Amended in Senate Committee**

*(continued)*

| <b><u>Fiscal Impact:</u></b>  | <b>FY 2020</b>      | <b>FY 2021</b>       | <b>FY 2022</b>       | <b>FY 2023</b>       |
|---|---------------------|----------------------|----------------------|----------------------|
| <b>Department of Revenue (DOR)</b>  |                     |                      |                      |                      |
| FTE (DOR)   | 0.00                | 2.00                 | 2.00                 | 2.00                 |
| <b><u>Expenditures:</u></b>   |                     |                      |                      |                      |
| Personal Services (DOR)   | \$0                 | \$71,983             | \$120,451            | \$122,257            |
| Operating Expenses (DOR)  | \$33,200            | \$20,660             | \$15,448             | \$15,680             |
| Transfers - Income Tax Credits  | \$0                 | \$140,683,000        | \$140,683,000        | \$122,347,000        |
| <b>TOTAL Expenditures</b>   | <b>\$33,200</b>     | <b>\$140,775,643</b> | <b>\$140,818,899</b> | <b>\$122,484,937</b> |
| <b><u>Funding of Expenditures:</u></b>  |                     |                      |                      |                      |
| General Fund (01)   | \$33,200            | \$140,775,643        | \$140,818,899        | \$122,484,937        |
| <b>TOTAL Funding of Exp.</b>  | <b>\$33,200</b>     | <b>\$140,775,643</b> | <b>\$140,818,899</b> | <b>\$122,484,937</b> |
| <b><u>Revenues:</u></b>   |                     |                      |                      |                      |
| General Fund - Carbon Tax   | \$70,342,000        | \$140,683,000        | \$140,683,000        | \$104,011,000        |
| <b>TOTAL Revenues</b>   | <b>\$70,342,000</b> | <b>\$140,683,000</b> | <b>\$140,683,000</b> | <b>\$104,011,000</b> |
| <b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b> |                     |                      |                      |                      |
| General Fund (01)   | \$70,308,800        | (\$92,643)           | (\$135,899)          | (\$18,473,937)       |

**Long-Term Impacts:**

- Carbon tax revenues are expected to decline after FY 2022, while expenditures for the income tax credit would reduce in a like manner the following year.

**Technical Notes:**

- The definition in Section 3(3) is overly broad and sweeps in government entities. SB 189 imposes a tax on the federal government, which is likely unconstitutional (see *McCulloch v Maryland*, 17 U.S. 316 (1819)).

**NO SPONSOR SIGNATURE**

|                           |             |                                   |             |
|---------------------------|-------------|-----------------------------------|-------------|
|                           |             | TL                                | 2/26/19     |
| <i>Sponsor's Initials</i> | <i>Date</i> | <i>Budget Director's Initials</i> | <i>Date</i> |