



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2021 Biennium

Bill # SB0266

Title: Revise taxation to promote new business and economic activity

Primary Sponsor: Blasdel, Mark

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	\$11,830	\$0	\$0	\$0
Revenue:				
General Fund	(\$338,000)	(\$760,000)	(\$937,000)	(\$1,127,000)
Net Impact-General Fund Balance:	<u>(\$349,830)</u>	<u>(\$760,000)</u>	<u>(\$937,000)</u>	<u>(\$1,127,000)</u>

Description of fiscal impact: SB 266 as amended in the House creates a nonrefundable income tax credit for employers who hire at least ten qualifying new employees. The estimated fiscal impact of this bill would be a decrease in general fund tax revenue of \$338,000 in FY 2020, \$760,000 in FY 2021, \$937,000 in FY 2022 and \$1,127,000 in FY 2023.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

- SB 266, as amended, would create a non-refundable income tax credit which can be carried forward up to 10 years and can be claimed by employers with qualifying net employee growth. Qualifying net employee growth is defined as hiring at least 10 new jobs during the first year the credit is claimed and at least 15 total jobs in any subsequent year to continue claiming the credit. The baseline for an employer's number of jobs to determine their job growth is their employment in CY 2018.
- A qualifying new employee is defined as an employee who is initially hired during the credit period and who is employed for at least 6 months during the year for which the credit is claimed. A qualifying new employee must also be earning an average annual wage of at least \$45,000, plus benefits.
- The amount of the credit is equal to 50% of the taxpayer's federal tax liability for the qualified new employees under 26 U.S.C 3111 (a) and (b). The total tax liability under 26 U.S.C 3111 (a) and (b) is 7.65% of the wages paid by the employer.

4. The tax credit claimed under this bill would be 3.825% of the wages or salary for each qualifying new employee hired in the credit period.
5. It is assumed that the tax credit would be claimed for a portion of new jobs in each industry based on the distribution of salaries (25th percentile, median, 75th percentile) in that industry and the likelihood of an employer in that industry hiring at least ten new employees in a given credit period and five more in a following credit period to continue claiming the credit.
6. The number of qualifying new jobs was estimated using data from the Montana Employment and Labor Force Projections report (2017-2027) from the Department of Labor and Industry (DLI) and the Quarterly Census of Employment and Wages. These estimates are based on current job growth estimates and does not include any marginal job growth as a result of the incentives created by this bill.
7. These estimates, along with the estimated mean wage for each occupation, the average tax credit amount for each qualifying new employee in the respective occupation and the estimated total tax credits claimed for qualified employees hired in TY 2019 are shown in Table 1 below. These estimates for the number of qualifying new employees in each occupation account for public-sector and non-profit organizations not having a tax liability to claim the credit against.

Occupation	Estimated Number of Qualifying New Employees per Year	Average Wage in Occupation 2019	Average Credit Per Qualifying Employee	Total Possible Tax Credit Tax Year 2019
Management	10	\$89,790	\$3,434	\$34,345
Healthcare Practitioners and Technical	200	\$74,780	\$2,860	\$572,067
Architecture and Engineering	40	\$71,170	\$2,722	\$108,890
Legal	10	\$66,960	\$2,561	\$25,612
Computer and Mathematical	40	\$63,720	\$2,437	\$97,492
Business and Financial Operations	70	\$61,230	\$2,342	\$163,943
Construction and Extraction	80	\$59,930	\$2,292	\$183,386
Installation, Maintenance, and Repair	40	\$58,170	\$2,225	\$89,000
Life, Physical, and Social Science	10	\$55,210	\$2,112	\$21,118
Transportation and Material Moving	30	\$47,380	\$1,812	\$54,369
Total	530			\$1,350,221

8. This bill would apply retroactively to tax years beginning after December 31, 2018. It is assumed that the tax credit would be claimed for all qualifying new employees hired starting with tax year TY 2019. It is assumed that tax credits claimed for TY 2019 would impact tax revenues in FY 2020 due to the timing of most tax returns.
9. This credit would be non-refundable and able to be carried forward up to 10 years. Some businesses do not have a tax liability or have a tax liability of less than the credit amount they would be able to claim, and these corporations would carry-over all or a portion of the credit to future tax years when they may have a tax liability (approximately 65% of corporations paid the minimum Montana corporate income tax of \$50 in TY 2016). It is assumed that in TY 2019, 50% of the potential total credit amount due to qualified new employees hired in that tax year would be paid out and result in a decrease in general fund tax revenue. That percentage is assumed to increase to 60% in TY 2020, 70% in TY 2021 and 80% in TY 2022, because the credit can be carried forward.
10. Due to the requirement of qualifying new employees working at least 6 months in the tax year that the credit is granted, it is assumed that employees hired more than 6 months into a given tax year would not be claimed until the following tax year. This means the impact on tax revenues from credits in TY 2019 would be half of the estimated tax credits claimed for qualifying new employees hired in TY 2019. This makes the estimated

decrease in tax revenue for FY 2020 approximately \$338,000. The total tax credits for FY 2021 would be a combination of the credits claimed for hires in the second half of TY 2019 and hires in the first half of TY 2020.

11. Using the HJ 2 forecast for Montana wage income growth rate of 4.6% per year, the estimated decrease in tax revenue would be \$760,000 in FY 2021, \$937,000 in FY 2022 and \$1,127,000 in FY 2023.
12. The DOR expects to incur one-time IT application costs of \$11,830 in FY 2020.

<u>Fiscal Impact:</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
Department of Revenue	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
FTE	0.00	0.00	0.00	0.00
<u>Expenditures:</u>				
Operating Expenses	\$11,830	\$0	\$0	\$0
TOTAL Expenditures	<u>\$11,830</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$11,830	\$0	\$0	\$0
TOTAL Funding of Exp.	<u>\$11,830</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Revenues:</u>				
General Fund (01)	(\$338,000)	(\$760,000)	(\$937,000)	(\$1,127,000)
TOTAL Revenues	<u>(\$338,000)</u>	<u>(\$760,000)</u>	<u>(\$937,000)</u>	<u>(\$1,127,000)</u>

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

General Fund (01)	(\$349,830)	(\$760,000)	(\$937,000)	(\$1,127,000)
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Long-Term Impacts:

1. While this tax credit can be earned through TY 2025 (through December 31, 2025), the carry forward provision would allow credits to be claimed through FY 2036.
2. Credits are assumed to grow with wage and salary growth through TY 2025, at a rate of approximately 4.6% per year. The fixed wage threshold of \$45,000 would result in more jobs qualifying for the credit each year, and the credits claimed would likely increase faster than the wage and salary growth rate.



Sponsor's Initials

Date



Budget Director's Initials



Date