GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2021 Biennium

Bill #	HB0775		**Title:**	Expanding empowerment zone tax credit incentives
Primary Sponsor:	Morigeau, Shane A		**Status:**	As Introduced

☐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

	FY 2020 Difference	FY 2021 Difference	FY 2022 Difference	FY 2023 Difference
Expenditures:				
General Fund	$0	$0	$0	$0
Revenue:				
General Fund	($35,000)	($206,000)	($500,000)	($784,000)
Net Impact-General Fund Balance:	($35,000)	($206,000)	($500,000)	($784,000)

Description of fiscal impact: HB 775 expands the empowerment zone credit for taxpayers filing a personal income tax return to include counties that are considered high-poverty. The proposed bill will reduce general fund revenue by $35,000, and $784,000 by FY 2023.

FISCAL ANALYSIS

Assumptions:

Department of Revenue (DOR)

1. Under current law, individuals and businesses filing an income tax return can claim a credit for each new employee the employer hires in a designated empowerment zone. To claim the credit, the taxpayer must be certified by the Department of Labor and Industry (DLI). The credit for each qualifying employee is $500 during the first year of employment, $1,000 in the second year and $1,500 for the third and final year. The credit is not refundable, but can be carried forward seven years and back three.
2. HB 775 expands the employees eligible for the credit to include employees in a high-poverty county if the taxpayer using the credit has not received any of the grants in Title 39, Chapter 11, Title 53, Chapter 2, Part 12, or Title 90, Chapter 1, Part 2, for any of the employees the credit is claimed.
3. The definition change in HB 775 applies to taxpayers paying personal income tax, and not corporate income tax. This fiscal note applies the change to empowerment zone credits as if they only apply to sole-proprietorships and pass-through entities. These taxpayers would claim the credits through individual income tax filings.

4. There were 26 counties in Montana that had 14% or more of their population living in poverty as of CY 2017
5. From CY 2015 to CY 2017, DLI estimates that approximately 1,410 workers in 900 businesses worked for the same employer in all 12 quarters but were not employed by the same employer in CY 2014.
6. Of the 900 businesses identified by the DLI, 520 were matched to sole-proprietorship or pass-through entity tax returns. It is assumed that the 380 businesses not matched to a personal income tax return will not qualify for the credit. The 520 businesses employed 836 employees in CY 2015 through CY2017 that were not employed in 2014.
7. With 836 employees, the 520 businesses would qualify for $418,000 in credits during the first tax year, $836,000 in the second year of the credit and $1,254,000 during the third and final year of the credit.
8. It is assumed that a similar number of new employees will be added by businesses in high-poverty counties during all future years.
9. The empowerment zone credit is not refundable. Because of this, the credit is limited to the taxpayer's tax liability. The 520 businesses were matched to personal income tax records to calculate the total number of credits that could be claimed each tax year. Based on reported tax liabilities, $279,000 of the $418,000 credits could be claimed in the first year. For the second and third year of the credits, $532,000 and $757,000 in credits, respectively, could be used to reduce tax liabilities.
10. The credit is limited to businesses that do not receive other grants. It is assumed that only half of the credits would be claimed, as disqualifying grants and/or knowledge of the credit will likely limit the credit's use.
11. With half of the potential credits being claimed each year, $139,500 will be claimed by taxpayers with new employees for the first year of the credit, $266,000 for the second year and $378,500 in the third year.
12. The credit is first available TY 2019.
13. However, as this credit requires the DLI to certify the employer before they can claim the credit, and the changes to the credit will not occur until the tax year is partially over, it is assumed that only a quarter of the credits that would have been claimed in TY 2019 will be claimed.
14. With $139,500 in potential credits for the first year, and 25 percent claiming the credit, it is assumed that $35,000 in credits will be claimed in tax year 2019. In tax year 2020 the total number of credits claimed will increase to include the $66,500 in credits claimed for the employees in their second year of employment and $139,500 for the first year of new employees who qualify for the credit, resulting in $206,000 in credits. By TY 2021 and TY 2022, the use of these credits will increase to $500,000 and $784,000 respectively.
15. It is assumed that taxpayers will not change their withholdings or estimated payments because of the changes made by HB 775.
16. With no changes in withholding or estimated payments, the proposed bill will reduce income tax revenue by $35,000 in FY 2020, $206,000 in FY 2021, $500,000 in FY 2022 and $784,000 in FY 2023.
17. The department does not expect significant costs due to SB 775.

Department of Commerce

18. The Department of Commerce would need to coordinate with the Department of Revenue to ensure that the taxpayer did not receive grants for the same jobs under Title 39, Chapter 11, MCA, (Primary Sector Business Training Act) or Title 90, Chapter 1, Part 2, MCA, (Big Sky Economic Development Program).
19. There is no fiscal impact to the Department of Commerce

Office of the Secretary of State (SOS)

20. This bill has a tribal notification requirement. The bill will have minimal postage and administrative costs for the Office. The Office of the Secretary of State does not receive general fund appropriations for operations, but has agreed to absorb the notice responsibility created by this bill

Fiscal Impact:	FY 2020 Difference	FY 2021 Difference	FY 2022 Difference	FY 2023 Difference
Department of Revenue				
FTE	0.00	0.00	0.00	0.00
Expenditures:				
TOTAL Expenditures	$0	$0	$0	$0
Funding of Expenditures:				
General Fund (01)	$0	$0	$0	$0
TOTAL Funding of Exp.	$0	$0	$0	$0
Revenues:				
General Fund (01)	($35,000)	($206,000)	($500,000)	($784,000)
TOTAL Revenues	($35,000)	($206,000)	($500,000)	($784,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($35,000)	($206,000)	($500,000)	($784,000)

Long-Term Impacts:

1. The proportional use of these credits will likely expand once more firms and individuals learn of their eligibility and the requirements of the credit, if participation is higher than assumed, the costs could accumulate more rapidly than stated in this fiscal note
2. The net cost is limited to some extent by the rate of employment growth in qualifying areas and the tenure of employees with qualifying firms; however, since the credit's limitations apply to employers, the natural rotation of employees between firms could increase credit claims without increasing total employment in the qualifying area. This over time could substantially increase the costs of this bill.

Technical Notes:

Department of Revenue

1. HB 775 expands the availability of the empowerment zone credits with personal income tax in high poverty areas (counties) outside of empowerment zones. However, the bill only changes 15-30-2356, MCA. As the bill does not change the definition in 15-31-134, MCA, C-corporations claiming the credit will be limited to the old criteria.

		TL	4/5/19
Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*