



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 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

	<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	\$0	\$0	\$80,756	\$164,742
Revenue:				
General Fund	\$0	\$0	\$0	(\$2,992,000)
Other	\$0	\$0	\$161,512	\$164,742
Net Impact-General Fund Balance:	\$0	\$0	\$0	(\$2,992,000)

Description of fiscal impact: SB 18 creates a 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 their shareholders on their income or insurance premiums tax return. The proposed bill will reduce general fund revenue by approximately \$3 million in FY 2023. Department of Commerce costs would be offset by program fees.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. 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.

3. The credit would apply to tax years (TY) after December 31, 2021.
4. The Montana Board of Housing estimates that \$2,992,000 in credits will be issued for TY 2022 in FY 2022.
5. These credits would apply to tax liability reported on income tax forms due April 2023 (FY 2023).
6. The this will reduce income tax revenue by \$2,992,000 in FY 2023 if all the credits are claimed.
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 by insurance companies against their insurance premium tax liabilities. The extent of the use of these credits in this manner is unknown but assumed to be minimal.

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, 2022.
10. Federal credits are adjusted for inflation and increase around 2% annually. 2017 credits are used as a starting point to estimate 2022 credits as the federal credits were temporary increased for 2018-2021.

<u>Year</u>	<u>Est Credit</u>	<u>Est Fees</u>
2017	\$2,710,000	
2018	\$3,105,000	
2019	\$3,167,000	
2020	\$3,230,000	
2021	\$3,295,000	
2022	\$2,992,000	\$149,603
2023	\$3,052,000	\$152,594

11. TY 2022 credits will be awarded in FY 2022 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. The new FTE estimated costs for one-half of FY 2022 are \$40,378 and \$82,371 for FY 2023 and beyond.
14. Operating expenses are estimated at \$40,378 for FY 2022 and \$82,371 for FY 2023.

Fiscal Note Request – As Introduced

(continued)

<u>Fiscal Impact:</u>	<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>
Department of Commerce				
FTE	0.00	0.00	0.50	1.00
Expenditures:				
Personal Services	\$0	\$0	\$40,378	\$82,371
Operating Expenses	\$0	\$0	\$40,378	\$82,371
TOTAL Expenditures	\$0	\$0	\$80,756	\$164,742
Funding of Expenditures:				
Other	\$0	\$0	\$80,756	\$164,742
TOTAL Funding of Exp.	\$0	\$0	\$80,756	\$164,742
Revenues:				
Department of Revenue				
General Fund (01)	\$0	\$0	\$0	(\$2,992,000)
Department of Commerce				
Other	\$0	\$0	\$161,512	\$164,742
TOTAL Revenues	\$0	\$0	\$161,512	(\$2,827,258)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	\$0	\$0	\$0	(\$2,992,000)
Other	\$0	\$0	\$80,756	\$0

Long-Term Impacts:

1. The program and accompanying general fund revenue reductions would grow with federal program tax credits which are adjusted annually for inflation.

Technical Notes:

Department of Commerce

1. The bill should be clarified as to which federal year tax credits the first state year will be matched.

Not signed
Sponsor's Initials

Date

Tom Curran
Budget Director's Initials

11/7/19
Date