



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

Bill # HB0397

Title: Establish workforce housing tax credits

Primary Sponsor: Kassmier, Joshua

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 2022</u> <u>Difference</u>	<u>FY 2023</u> <u>Difference</u>	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Other	\$72,125	\$73,568	\$75,039	\$78,070
Revenue:				
General Fund	\$0	\$0	\$0	(\$1,442,500)
Other	\$72,125	\$73,568	\$75,039	\$78,070
Net Impact-General Fund Balance:	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$1,442,500)</u>

Description of fiscal impact: HB 397 creates an income tax credit that is equal to 50% of the federal low-income housing tax credit. The credit can be claimed by corporations, pass-through entities, and individuals on their income or insurance premium tax returns.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

- Under federal law, taxpayers can claim a credit on 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.
- HB 397 creates a non-refundable workforce housing tax credit that can be claimed by corporations, pass-through entities and their shareholders for the Montana income tax. The credit can only be claimed for qualified projects that have been approved by the Montana Board of Housing. Once approved, the credits are for the year of issue and an additional five subsequent years. The credit is equal to 50% of 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 projects starting in TY 2022 and would end after TY 2026.
4. The credit could only be claimed after a qualified project is completed and certified. Projects are assumed to take two years to be completed. Because of the timing lag it is assumed that no income tax credits would be claimed during the first two years the credit would be available in law. The first credits are assumed to be claimed in TY 2024.
5. The Board of Housing estimates that \$2.885 million in federal credits will be provided in CY 2022.
6. With a two-year completion time, the \$2.885 million federal credits will be claimed in TY 2024.
7. With a state credit equal to 50% of the federal credit, this will equal \$1.443 million in state credits.
8. The tax credits will reduce income tax liabilities when the taxpayers file their returns in April, 2025 – or FY 2025.

DOR Costs

9. The changes made by HB 397 can be made as part of the department’s annual change process. The department does not expect to incur any significant additional costs because of this bill.

Department of Commerce/Board of Housing

10. HB 397 creates a state tax credit that follows the federal tax credit that is used to help expand the supply of affordable housing. The Montana Board of Housing would issue eligibility statements to qualifying projects upon certification of approved costs.
11. The state credit will follow many of the same rules as the Federal credit, with any differences or additional requirements outlined in administrative rules.
12. The amount of state credits available will not exceed 50% of the value of federal credits available for what are referred to as “9% competitive credits”.
13. Credits become available for tax years beginning January 1, 2022.
14. The 2022 annual federal credits are estimated to be \$2,885,000, so state credits would not exceed \$1,442,500.
15. The 2022 Federal credits are used as a starting point and accumulate over the six-year credit period.
16. The 2022 state credits will be awarded in CY 2021 in conjunction with 2022 Federal credits.
17. Annual credits are taken for the initial year and five subsequent years with annual credit claims reflecting overlapping series of credits as outlined in the following table:

Year Claimed	Offer Year of Credit					Annual Claims	FY Claimed
	2022	2023	2024	2025	2026		
2024	1,442,500					\$1,442,500	FY 2025
2025	1,442,500	1,471,350				\$2,913,850	FY 2026
2026	1,442,500	1,471,350	1,500,777			\$4,414,627	FY 2027
2027	1,442,500	1,471,350	1,500,777	1,530,793		\$5,945,420	FY 2028
2028	1,442,500	1,471,350	1,500,777	1,530,793	1,561,408	\$7,506,828	FY 2029
2029	1,442,500	1,471,350	1,500,777	1,530,793	1,561,408	\$7,506,828	FY 2030
2030		1,471,350	1,500,777	1,530,793	1,561,408	\$6,064,328	FY 2031
2031			1,500,777	1,530,793	1,561,408	\$4,592,978	FY 2032
2032				1,530,793	1,561,408	\$3,092,201	FY 2033
2033					1,561,408	\$1,561,408	FY 2034

18. The Board of Housing would charge an effective 5% administrative fee for state credits. This administrative fee is approximately half of the fee charged for federal credits. The fees are deposited in a Board of Housing proprietary fund. Administrative fees are part of project costs so they would not be a direct reduction in credits available.

Basis for Fees HB 397	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Initial Credits	\$1,442,500	\$1,471,350	\$1,500,777	\$1,530,793	\$1,561,408
BOH Administrative Fee	\$72,125	\$73,568	\$75,039	\$76,540	\$78,070

BOH Expenses

19. Based on the federal affordable housing tax credit program currently administered by the Board, it is assumed the Board would require 0.50 FTE, pay band 6 position to address the duties and responsibilities mandated in the bill. The personal services costs and operating expenses split 50/50 and total \$72,125 in FY 2022, \$73,568, in FY 2023, \$75,039 in FY 2024 and \$76,540 in FY 2024.

	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
<u>Fiscal Impact:</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
Department of Commerce/Board of Housing				
FTE (BOH)	0.50	0.50	0.50	0.50
<u>Expenditures:</u>				
Personal Services	\$36,063	\$36,784	\$37,520	\$39,035
Operating Expenses	\$36,063	\$36,784	\$37,520	\$39,035
TOTAL Expenditures	\$72,126	\$73,568	\$75,039	\$78,070
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
BOH Proprietary	\$72,126	\$73,568	\$75,039	\$78,070
TOTAL Funding of Exp.	\$72,126	\$73,568	\$75,039	\$78,070
<u>Revenues:</u>				
General Fund (DOR)	\$0	\$0	\$0	(\$1,442,500)
BOH Proprietary	\$72,126	\$73,568	\$75,039	\$78,070
TOTAL Revenues	\$72,126	\$73,568	\$75,039	(\$1,364,430)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	\$0	\$0	(\$1,442,500)
BOH Proprietary	\$0	\$0	\$0	\$0

Long-Term Impacts:

Department of Commerce

1. Assumption #17 lays out the anticipated timing of tax credit claims over the term of the credit (FY 2025-FY 2034) as proposed in HB 397.

Technical Notes:

Department of Revenue

1. The bill proposal states the total amount of tax credits is 50% of the federal low-income housing credit. However, the bill does not state how the credit is allocated among the direct or indirect owners and whether the 50% limit applies to each credit recipient.

JK

Sponsor's Initials

2-18-21

Date

KA

Budget Director's Initials

2/17/21

Date