



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

Bill # HB0650

Title: Establish business income and venture capital credits

Primary Sponsor: Hamilton, Jim

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 Difference</u>	<u>FY 2023 Difference</u>	<u>FY 2024 Difference</u>	<u>FY 2025 Difference</u>
Expenditures:				
General Fund	\$52,874	\$54,430	\$55,087	\$55,755
Revenue:				
General Fund	\$0	(\$662,500)	(\$906,250)	(\$1,231,250)
Net Impact-General Fund Balance:	<u>(\$52,874)</u>	<u>(\$716,930)</u>	<u>(\$961,337)</u>	<u>(\$1,287,005)</u>

Description of fiscal impact: HB 650 creates two new income tax credits: a credit for small business investor capital and a small business investment credit.

FISCAL ANALYSIS

Assumptions:

1. HB 650 creates two income tax credits, one a small business investor capital credit and the other a small business investment credit. Both credits are available starting tax year (TY) 2022 and terminate after TY 2036. Both credits can be claimed on investments made during TY 2022 through TY 2029.
2. The small business investor capital credit is a credit against individual income tax and is equal to 30% of the investment made by an investor of at least \$25,000 in a startup firm developing new products in certain fields. Individual taxpayers would be limited to \$75,000 in credits each tax year, with a lifetime limit of \$750,000 in total credits. The credit is non-refundable and can be carried forward for seven succeeding tax years.
3. The number of taxpayers who would qualify for this credit is unknown. However, there is likely to be a small number of taxpayers who would make investments eligible for the credit each year.
4. It is assumed that there would be the equivalent of 10 individuals claiming a credit for direct investments of \$50,000 each tax year, resulting in \$500,000 of credits claimed each tax year starting TY 2022.

5. The small business investment credit allows a qualifying Montana business to claim an income tax credit that is a percentage of the cash investment received from an investor during the year. The credit must be claimed, or transferred, during the tax year in which the investment was received. The credit is nonrefundable but can be carried forward for two years.
6. The credit is only available for cash investments of at least \$150,000 during the tax year. The credit is equal to 50% of the cash investment for the first \$500,000 investment, 20% on the next \$250,000 in cash investment, and 10% of the next \$250,000 in cash investment. The maximum credit amount for each cash investment is \$325,000 ($\$500,000 \times 0.5 + \$250,000 \times 0.2 + \$250,000 \times 0.1$).
7. The maximum amount of small business investment credits that can be claimed each tax year is \$4,000,000.
8. It is assumed that one business will claim, or transfer, the full credit the first year that the credit is available in 2022.
9. It is assumed that the number of business claiming the credit will increase by one each tax year as investors and businesses learn about the credit.
10. For TY 2022, 2023 and 2024, it is assumed that one, two and three business will claim the credit, or transfer the credit to another business, each tax year respectively.
11. It is unlikely that a small business would have an individual income tax liability of \$325,000 in a single tax year. The ability of taxpayers to transfer the credit to other businesses make it more likely that the full credit amounts will be claimed. For each credit, it is assumed that 50% of the credit will be claimed the first year and 25% will be claimed the following two years.
12. With the small business investment credit first available in TY 2022, it is assumed that \$162,500 will be claimed during TY 2022. With two taxpayers claiming the credit in TY 2023, and 25% of the credit from TY 2022 carried forward, \$406,250 credits will be claimed in TY 2023. For TY 2023, it is assumed that there will be three taxpayers claiming the tax credit, two taxpayers from the previous tax year carrying forward 25% of their credit and one taxpayer from TY 2022 carrying forward the remaining 25% of their credit. The six taxpayers in TY 2024 would claim a total of \$731,250 credit for the tax year.

Small Business Investment Credits Claimed			
Tax Year	Number of Businesses		
	Claiming the Credit	Total Eligible Credits	Total Credits Claimed
2022	1	\$325,000	\$162,500
2023	2	\$650,000	\$406,250
2024	3	\$975,000	\$731,250

13. When combined, the two tax credits will reduce income tax revenue by \$662,500 ($\$162,500 + \$500,000$) in TY 2022, \$906,250 in TY 2023, and \$1,231,250 in TY 2024.
14. It is assumed that taxpayers will not change their withholding or estimated payments because of the proposed tax credits.
15. With no changes in withholding or estimated payments, the two credits will reduce general fund revenue by \$662,500 in FY 2023, \$906,250 in FY 2024, and \$1,231,250 in FY 2025.

DOR Administrative Cost

16. Administering the credits, reviewing applications, and updating department rules for the new credits will require an additional 0.25 FTE in FY 2022, and 0.50 FTE starting FY 2023. The cost of the FTE auditor will be \$29,774 in FY 2022, \$54,430 in FY 2023, \$55,087 in FY 2024, and \$55,755 in FY 2025. The department will also need to develop new forms and update its tax processing software at a cost of \$23,100 in FY 2022.

Fiscal Impact:	FY 2022 Difference	FY 2023 Difference	FY 2024 Difference	FY 2025 Difference
Department of Revenue				
FTE	0.25	0.50	0.50	0.50
Expenditures:				
Personal Services	\$22,960	\$46,421	\$46,927	\$47,441
Operating Expenses	\$29,914	\$8,009	\$8,160	\$8,314
TOTAL Expenditures	\$52,874	\$54,430	\$55,087	\$55,755
Funding of Expenditures:				
General Fund (01)	\$52,874	\$54,430	\$55,087	\$55,755
TOTAL Funding of Exp.	\$52,874	\$54,430	\$55,087	\$55,755
Revenues:				
General Fund (01)	\$0	(\$662,500)	(\$906,250)	(\$1,231,250)
TOTAL Revenues	\$0	(\$662,500)	(\$906,250)	(\$1,231,250)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	(\$52,874)	(\$716,930)	(\$961,337)	(\$1,287,005)

Long-Term Impacts:

Department of Revenue

- The credits created in this bill continue through TY 2036. If additional qualifying investments are made in future tax years, the proposed credits will reduce general fund revenue by similar amounts.

Technical Notes:

Department of Revenue

- It is assumed that the two credits are applicable to pass-through entities, as Chapter 30 is referenced in section two and three of the bill. However, the standard language of attributing the credit to the owners is not included in the two sections.

NOT SIGNED BY SPONSOR

_____ 3/24/21 _____ KA _____ 3-23-21
 Sponsor's Initials Date Budget Director's Initials Date