



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:

SB0506 - Increase and repeal termination of Montana charitable endowment tax credit (Hertz, Greg)

Status: As Introduced - Revised

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|-----------------------------------------------------------|--------------------------------------------------------|----------------------------------------------------------|
| <input type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	(\$571,000)	(\$593,000)	(\$5,014,000)
Net Impact-General Fund Balance:	\$0	(\$571,000)	(\$593,000)	(\$5,014,000)

Description of fiscal impact: SB 506 increases the maximum charitable endowment credit amount from \$10,000 to \$20,000 starting TY 2024. That change to the maximum credit has fiscal impacts of nearly \$600,000 per year relative to present law. The bill also eliminates the sunset of the endowment tax credit after TY 2025 (FY 2026). With present law credit claims in TY 2026 dropping to \$0 the continuation of the endowment credit past TY 2025 and the change in the maximum claimable credit, leads to reduction in revenue of just over \$5 million in FY 2027 and beyond.

FISCAL ANALYSIS

Assumptions:

- Under current law, Montana taxpayers are able to claim a personal income tax credit for actual or planned gifts to qualified endowments. Corporations are also able to claim a credit for actual gifts to qualified endowments. For taxpayers claiming the credit on their personal income tax return, the credit is equal to 40% of the resent value of the contribution. For corporate taxpayers, the credit is equal to 20% of the contribution. The credit is limited to \$10,000 per taxpayer per year. As the credit limit of \$10,000 per taxpayer, the maximum number of credits married households with two taxpayers can claim is \$20,000. The credit is non-refundable and cannot be carried forward or backward to other tax years. The credit is set to expire under current law after TY 2025.

2. SB 506 changes the endowment credit. First, it eliminates the termination date for the credit. Second, the maximum credit that each taxpayer can claim is increased from the \$10,000 maximum to \$20,000 each tax year. The changes made to the credit apply starting TY 2024.
3. In TY 2021, nearly 700 households claimed the charitable endowment credit on their personal income tax returns and claimed approximately \$3.814 million in credits.
4. Of these 695 households, only 55 claimed the maximum credit amount. The 55 households claiming the maximum credit amount also claimed \$920,000 in credits.
5. It is assumed that each of the 55 households who claimed the maximum credit amount under current law would also claim the maximum credit amount under SB 506.
6. Increasing the maximum credit amount from \$10,000 per taxpayer to \$20,000 would increase the total number of credits the 55 households could claim by an additional \$920,000.
7. As the charitable endowment credit is non-refundable, the actual tax liability reduction of the 55 households is limited to the taxpayer's tax liability after other non-refundable credits.
8. Limiting the total number of credits claimed to each taxpayer's tax liability after credits reduces the total number of credits that could have been claimed in TY 2021 to \$487,000.
9. The income tax revenue assumptions used for HJ 2 assume that the charitable endowment credit will increase by 13.2% in TY 2024 relative to TY 2021 and by 17.7% in TY 2025.
10. Based on the assumed growth rates, it is assumed that the credit would have been 22.1% above the TY 2021 credit amount in TY 2026 if the credit was not set to expire.
11. Based on the growth rates used in the revenue forecasts, and the TY 2021 estimate of \$487,000, it is assumed that the proposed bill will increase the number of credits claimed by \$551,000 ($\$487,000 \times 1.132$) in TY 2024 and \$573,000 in TY 2025.
12. Based on the income tax revenue assumptions used for the HJ 2 revenue estimates, it is assumed that \$4.367 million in charitable endowment credits would have been claimed in TY 2026 if the credit was not to expire.
13. With a growth factor of 22.1%, it is assumed that the total credits claimed in TY 2026 will increase by \$594,000 as a result of the higher maximum credit amount.
14. In total, personal income tax credits claimed in TY 2026 are assumed to increase by \$4.962 million.
15. SB 506 increases the maximum credit that corporations can claim from \$10,000 to \$20,000, starting TY 2024.
16. From TY 2013 through TY 2020, corporations claimed approximately \$32,000 in charitable endowment credits each year on average.
17. In TY 2017 through TY 2020, increasing maximum credit amount to \$20,000 would have increased the total number of credits claimed by \$20,000 if each corporation that claimed the maximum credit amount also claimed the higher maximum credit amount, subject to their actual tax liability during the year.
18. It is assumed that the changes made by SB 506 will increase the number of credits claimed by corporate taxpayers by \$20,000 in TY 2024 and TY 2025. It is also assumed that corporations will also claim \$52,000 in credits in TY 2026 as a result of this bill.
19. It is assumed that individual taxpayers and corporations will not change their withholdings or estimated payments in response to the changes made to the charitable endowment credit.
20. With no changes to withholding or estimated payments, it is assumed that claimed credits will reduce revenue in the following fiscal year when taxpayers file their returns.
21. SB 506 will reduce general fund revenue by \$571,000 ($\$551,000 + \$20,000$) in FY 2025, \$593,000 ($\$573,000 + \$20,000$) in FY 2026, and \$5,014,000 ($\$4,962,000 + \$52,000$) in FY 2027.
22. The changes made by SB 506 can be made as part of the department's annual change process. The Department of Revenue does not expect to incur any significant costs because of the bill.

	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>
<u>Fiscal Impact:</u>				
Department of Revenue				
FTE	0.00	0.00	0.00	0.00
<u>Expenditures:</u>				
Personal Services	\$0	\$0	\$0	\$0
TOTAL Expenditures	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Revenues:</u>				
General Fund (01)	\$0	(\$571,000)	(\$593,000)	(\$5,014,000)
TOTAL Revenues	<u>\$0</u>	<u>(\$571,000)</u>	<u>(\$593,000)</u>	<u>(\$5,014,000)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	(\$571,000)	(\$593,000)	(\$5,014,000)

Long-Term Impacts:

1. The extension of charitable endowment tax credit past the current law sunset, leads to the \$5 million cost relative to present law.

NO SPONSOR SIGNATURE

Sponsor's Initials	3/27/23 Date	 Budget Director's Initials	3-24-23 Date
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