



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

Bill # HB0279

Title: Revise laws related to tax credit scholarship and innovative education programs

Primary Sponsor: Berglee, Seth

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	\$67,131	\$49,296	\$50,035	\$50,786
State Special Revenue	\$1,500,000	\$1,875,000	\$2,344,000	\$2,930,000
Revenue:				
General Fund	(\$4,500,000)	(\$5,475,000)	(\$6,664,000)	(\$8,114,000)
State Special Revenue	\$1,500,000	\$1,875,000	\$2,344,000	\$2,930,000
Net Impact-General Fund Balance:	(\$4,567,131)	(\$5,524,296)	(\$6,714,035)	(\$8,164,786)

Description of fiscal impact: HB 279 changes two income tax credits, the Student Scholarship Organization, and the Educational Improvement Account credits. The bill increases the maximum claimable credits from \$150 to \$200,000 and extends the sunset on the programs from TY 2023 to TY 2026.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. Under current law, taxpayers are allowed to claim a \$150 non-refundable income tax credit if the taxpayer donates to a Student Scholarship Organization (SSO) provided for in 15-20-3111, MCA, or to the Innovative Educational Program (IEP) provided for in 15-30-3110, MCA. The total amount of credits that can be claimed for donations to each organization is limited to \$3 million each year. If the \$3 million credit cap is reached, the credit cap is increased by 10% the following tax year (TY). Both credits are set to expire at the end of TY 2023. Since they were created, a total of \$94,188 in credits were claimed for the SSO credit and the IEP credit, which is \$23,547 on average each year.
2. HB 279 makes several significant changes to the credits. First, the maximum amount of credits each taxpayer can claim is increased from \$150 to \$200,000. This applies to both the SSO credit and the IEP credit. Second,

credits can now be carried forward for up to three years. Third, the credit caps are increased by 20%, if 80% of the credit cap was reached the previous tax year. Finally, the termination dates for both credits is changed from December 31, 2023 to December 31, 2026.

3. For the SSO credits, it is assumed that the \$3 million cap in credits will be reached in TY 2021, the first tax year the changes made by HB 279 are in place. It is assumed the credit will be increased by 20% each year in the initial years of the credit. For the IEP credit it is assumed that the credit’s use will start at half the level of the SSO credit and will increase 25% per year until reaching the cap, after which it too would rise with the 20% escalator.
4. In total, it is estimated that \$4.5 million in credits will be claimed in TY 2021, \$5.474 million in TY 2022, \$6.664 million in TY 2023 and \$8.114 million in TY 2024.

Tax Year	Total Credits Claimed		
	Credit Type		
	Student Scholarship Organization	Educational Improvement Account	Total
2021	\$3,000,000	\$1,500,000	\$4,500,000
2022	\$3,600,000	\$1,875,000	\$5,475,000
2023	\$4,320,000	\$2,344,000	\$6,664,000
2024	\$5,184,000	\$2,930,000	\$8,114,000

5. Credits are assumed to be claimed when taxpayers file their returns. Revenue will be affected when taxpayers file their returns by April 15th or adjust their tax year estimated payments by April 15th – the fiscal year subsequent to the tax year.
6. The department will be required to update the education donation portal to manage the new credit requirements. The changes will require 240 developer hours to make the changes, at a cost of \$15,600. The department will also require an additional 0.50 FTE Tax Examiner to administer the credit and monitor the carryforward provision. That additional position will increase department expenditures by \$51,531 in FY 2022, \$49,296 in FY 2023, \$49,877 in FY 2024, and \$50,467 in FY 2025.

Office of Public Instruction

7. The Office of Public Instruction would require 1.00 FTE to distribute the funds in the Educational Improvement Account. The agency is allowed up to five percent (5%) of the funds deposited into the IEP Innovative Educational Improvement state special revenue account for administrative costs which would be used to cover the costs of this FTE.

<u>Fiscal Impact:</u>	<u>FY 2022 Difference</u>	<u>FY 2023 Difference</u>	<u>FY 2024 Difference</u>	<u>FY 2025 Difference</u>
FTE (Dept. of Revenue)	0.50	0.50	0.50	0.50
FTE (Office of Public Instruction)	1.00	1.00	1.00	1.00
<u>Expenditures:</u>				
Personal Services (DOR)	\$40,864	\$41,287	\$41,906	\$42,535
Operating Expenses (DOR)	\$23,309	\$8,009	\$8,129	\$8,251
Equipment (DOR)	\$2,958	\$0	\$0	\$0
Personal Services (OPI)	\$82,214	\$82,214	\$83,447	\$84,699
Transfers (Ed. Improvement Acct.)	\$1,417,786	\$1,792,786	\$2,260,553	\$2,845,301
TOTAL Expenditures	\$1,567,131	\$1,924,296	\$2,394,035	\$2,980,786
<u>Funding of Expenditures:</u>				
General Fund (01)	\$67,131	\$49,296	\$50,035	\$50,786
State Special Revenue (02)	\$1,500,000	\$1,875,000	\$2,344,000	\$2,930,000
TOTAL Funding of Exp.	\$1,567,131	\$1,924,296	\$2,394,035	\$2,980,786
<u>Revenues:</u>				
General Fund (01)	(\$4,500,000)	(\$5,475,000)	(\$6,664,000)	(\$8,114,000)
State Special Revenue (02)	\$1,500,000	\$1,875,000	\$2,344,000	\$2,930,000
TOTAL Revenues	(\$3,000,000)	(\$3,600,000)	(\$4,320,000)	(\$5,184,000)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$4,567,131)	(\$5,524,296)	(\$6,714,035)	(\$8,164,786)
State Special Revenue (02)	\$0	\$0	\$0	\$0

NOT SIGNED BY SPONSOR

Sponsor's Initials

2/10/21
Date

KA
Budget Director's Initials

2/8/21
Date