



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: **HB0859.01: Provide income tax credits for contributions to a community improvement organization**

Primary Sponsor: Shane Klakken Status: As Introduced

☐ Included in the Executive Budget ☒ Needs to be included in HB 2 ☐ Significant Local Gov Impact
☐ Significant Long-Term Impacts ☒ Technical Concerns ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	<u>FY 2026 Difference</u>	<u>FY 2027 Difference</u>	<u>FY 2028 Difference</u>	<u>FY 2029 Difference</u>
Expenditures				
General Fund (01)	\$97,604	\$96,038	\$97,322	\$98,629
Revenues				
General Fund (01)	\$0	(\$2,000,000)	(\$2,400,000)	(\$2,880,000)
Net Impact	<u>(\$97,604)</u>	<u>(\$2,096,038)</u>	<u>(\$2,497,322)</u>	<u>(\$2,978,629)</u>
General Fund Balance				

Description of fiscal impact

HB 859 creates a non-refundable tax credit for up to \$3,000 per taxpayer for contributions to nonprofit community improvement organizations. The credit is limited to an aggregate total of \$2 million for TY 2026 and \$5 million for TY 2027 and subsequent years. Credit claims are estimated to reach the \$2 million cap in FY 2026 but not increase up to the \$5 million cap in the timeframe of this fiscal note. General fund revenues are estimated to be reduced by \$2 million in FY 2027, \$2.4 million in FY 2028 and \$2.88 million in FY 2029. The Department of Revenue will require an additional 1.00 FTE to manage the credit reservation portal and audit the credit claims.

FISCAL ANALYSIS

Assumptions

1. HB 859 creates a tax credit for charitable contributions to a community improvement organization. The tax credit is a one-for-one credit equal to the amount of the contribution up to a maximum of the lesser of \$3,000 or 10% of the taxpayer's Montana taxable income. The credit is non-refundable but may be carried forward up to 3 years if it exceeds the taxpayer's tax liability in the year it is received.
2. There is a total aggregate cap on the amount of credits that may be claimed of \$2 million for TY 2026 and \$5 million in TY 2027 and subsequent tax years. However, if the cap is reached for TY 2027 or subsequent years then it will be increased by 20% for following years. The credit may be claimed by individual or corporate income taxpayers.
3. Contributions to a "Community improvement organization" qualify for the credit, which is defined in the bill as a tax-exempt 501(c)(3) organization that performs fundraising or fund distribution to enhance, remodel, or support a public facility that is owned by the state or local government. The definition excludes organizations with paid employees or board members, which limits the number and size of non-profit organizations that can receive contributions qualifying for the credit.

4. The IRS maintains an Exempt Organizations Business Master File with 501(c)(3) organizations by state and classified by the type of organization. Analysis was done using this list for Montana and filtered on the code for fund raising/fund distributing (S12) or the code for Community Improvement, Capacity Building (S99), and attempting to exclude organizations reporting compensation or other benefits being paid to employees.
5. Based on the publicly available reported contribution amounts to these organizations and the credit limitation of \$3,000 per taxpayer, it is assumed that the total credits claimed would approximately reach the credit cap of \$2 million for TY 2026. This would correlate to approximately 700 taxpayers claiming the credit. Then, as awareness and interest in the credit spreads, it is assumed that the credits claimed will increase 20% for TY 2027 and TY 2028 but the \$5 million cap will not be reached within the timeframe of this fiscal note.
6. Tax returns for TY 2026 are generally filed in early 2027, and it is assumed that the \$3,000 credit would not cause taxpayers to change estimated payments, so the TY 2026 credits are estimated to decrease income tax collections and general fund revenue in FY 2027, TY 2027 credits impact revenues in FY 2028 and so on. Therefore, this bill is estimated to reduce general fund revenue by approximately \$2 million in FY 2027, \$2.4 million in FY 2028 and \$2.88 million in FY 2029.
7. The Department of Revenue will likely have to develop and use a similar credit reservation portal as the one for the Student Scholarship Organization (SSO) and Innovative Educational Program (IEC) credits to allocate the aggregate allowable amount of credits on a first-come first-served basis. To manage this portal and audit the credits claimed, the department will require an additional 1.00 FTE beginning in FY 2026 when the reservation portal for the credits will begin. Total costs to the department for this FTE are \$97,604 in FY 2026, \$96,038 in FY 2027, \$97,322 in FY 2028 and \$98,629 in FY 2029. These costs will be funded through the general fund.

Fiscal Analysis Table

	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
<u>Fiscal Impact</u>				
FTE	1.00	1.00	1.00	1.00
TOTAL Fiscal Impact	1.00	1.00	1.00	1.00
<u>Expenditures</u>				
Personal Services	\$85,493	\$86,585	\$87,693	\$88,819
Operating Expenses	\$12,111	\$9,453	\$9,629	\$9,810
TOTAL Expenditures	\$97,604	\$96,038	\$97,322	\$98,629
<u>Funding of Expenditures</u>				
General Fund (01)	\$97,604	\$96,038	\$97,322	\$98,629
TOTAL Funding of Expenditures	\$97,604	\$96,038	\$97,322	\$98,629
<u>Revenues</u>				
General Fund (01)	\$0	(\$2,000,000)	(\$2,400,000)	(\$2,880,000)
TOTAL Revenues	\$0	(\$2,000,000)	(\$2,400,000)	(\$2,880,000)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u>				
General Fund (01)	(\$97,604)	(\$2,096,038)	(\$2,497,322)	(\$2,978,629)

Technical Concerns

1. The bill does not specify that the Department of Revenue needs to approve/audit the entities receiving the contributions to make sure they are eligible for the contribution to qualify for the credit. This could lead to compliance issues.



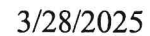
Sponsor's Initials



Date



Budget Director's Initials



Date