

# SB 252 and 253: Tax Expenditures Should Be In Budget-Balancing Toolbox



February 9, 2011

## Summary

Tax expenditures should be on the table with appropriations as lawmakers seek to balance the budget.

Tax expenditures quietly drain the state of millions of dollars in revenue every year. In fiscal year 2009 alone, we lost \$375 million in tax expenditures, which amounted to 20% of the state's general fund budget that year.

Tax expenditures can serve worthwhile purposes that advance significant economic and public policy goals, but they should be reevaluated regularly in light of changing economic realities and policy priorities and weighed against other spending in determining if or where cuts should be made.

### SB 252 would:

- Temporarily reduce 14 individual income tax credits by 10% for tax years 2011 and 2012.
- Result in \$8.7 million in additional state revenue over the next biennium.
- Include most of the tax credits listed in the Individual Income Tax section of the Montana Code.

See Attached Table 1 for a list of tax credits affected by SB252.

### SB 253 would:

- Eliminate 17 tax credits that can be taken against individual income taxes, corporate license taxes, or both.
- Raise \$16 million in additional state revenue over the next biennium, and an estimated \$37 million for the 2015 biennium. Since this bill eliminates the credits, it will create an ongoing revenue stream for the state.
- Pick and choose various credits from individual and corporate taxes.
- Not include the costly capital gains credit. The capital gains credit alone is expected to cost Montana \$68 million in the 2013 biennium, with 62% of the credit going to the 1% of taxpayers making over \$400,000 per year.

See Attached Table 1 for a list of tax credits affected by SB253.

## Frequently Asked Questions

### What are tax expenditures?

Tax expenditures are often described as "silent spending." They come in the form of preferences such as tax deductions, exemptions, deferrals, exclusions, credits or lower tax rates given to certain groups of individuals or businesses. Tax expenditures are considered a form of spending because they allocate funds for specific public purposes, but not through direct appropriations. They are often called "tax breaks" or "loopholes."

### Are all tax expenditures bad?

No. Tax expenditures are not inherently good or bad policy. However, tax expenditures should be on the table with budget cuts as lawmakers seek to balance the budget.

### Who do tax expenditures benefit?

Individual income tax expenditures disproportionately benefit the highest income taxpayers of the state. Those at the highest end of the income scale get far more benefit from tax expenditures. For example, taxpayers with income over \$70, 332 are approximately 20% of all Montana taxpayers but receive 66% of the benefit from tax expenditures.

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<b>Table 1: List of Credits and Whether Included in SB252 and 253</b>		
<b>Credit</b>	<b>in 252?</b>	<b>in 253?</b>
Capital Gains Credit	Y	
Credit for Other States' Taxes		
Credit for College Contributions	Y	
Charitable Endowment Credit	Y	
Energy Conservation Credit		Y
Alternative Fuel Vehicle Conversion Credit	Y	Y
Rural Physician's Credit		
Health Insurance for Uninsured Montanans Credit	Y	
Elderly Care Credit	Y	
Credit for Investment in Recycling Equipment		Y
Oilseed Crushing and Biodiesel Production Credit		Y
Biodiesel Blending and Storage Credit		Y
Contractors Gross Receipts Tax Credit		Y
Geothermal Systems Credit		Y
Alternative Energy Systems Credit		Y
Alternative Energy Production Credit		Y
Dependent Care Assistance Credit	Y	
Historic Property Preservation Credit	Y	Y
Infrastructure Users Fee Credit		Y
Empowerment Zone Credit	Y	Y
Increasing Research Activities Credit	Y	
Mineral Exploration Incentive Credit		Y
Adoption Credit	Y	
Elderly Homeowner/Renter Credit	Y	
Film Employment Credit		Y
Film Expenditures Credit		Y
Insure Montana Small Business Health Insurance Credit	Y	
Temporary Emergency Lodging Credit	Y	
New and Expanded Industry Credit		Y

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