



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:

HB0816 - Revise distribution of surplus revenue (Kassmier, Joshua)

Status: As Amended in Senate Committee

- | | | |
|---|--|--|
| <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 2023</u> <u>Difference</u>	<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	\$35,000,000	\$46,190,000	\$47,112,000	\$0	\$0
State Special Revenue	\$0	\$13,713,000	\$0	\$20,594,383	\$0
Revenue:					
General Fund	\$0	(\$33,000)	\$0	\$20,594,383	\$0
State Special Revenue	\$35,000,000	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance:	<u>(\$35,000,000)</u>	<u>(\$46,223,000)</u>	<u>(\$47,112,000)</u>	<u>\$20,594,383</u>	<u>\$0</u>

Description of fiscal impact: As amended in the Senate Finance and Climes Committee, HB 816 provides a supplemental property tax rebate in FY 2024 and FY 2025. The bill also appropriates an additional \$35 million to the Montana Surplus Rebate Account for income tax rebates. It also provides clarifying language for the administration of the HB 192 and HB 222 income tax and property tax rebates.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

- As amended, HB 816 now provides for a supplemental property tax rebate and statutorily appropriates \$35 million to the Montana Surplus Rebate Account. The bill now also provides clarifying language for the HB 222 property tax rebates and defines "properly reported" for the HB 192 income tax rebates.

Property Tax Rebate

- As amended HB 816 provides a supplemental property tax rebate. To qualify for the rebate, taxpayers must also qualify for the property tax rebate provided for in HB 222. The supplemental rebate amount is the amount appropriated in the bill (\$100 million) divided by 284,343 over two years. Based on the \$100 million appropriated, the supplemental rebate is estimated to be \$175 in TY 2023 and TY 2024.

3. The U.S. Census Bureau's *American Community Survey* (ACS) reports there were 521,916 housing units in Montana in CY 2021. The ACS also reports that 448,949 of those housing units were occupied and that 311,861 housing units are owner-occupied (69.46% of all housing units). These 311,861 are the households that are potentially eligible for a rebate under HB 222 and HB 816.
4. The HB 222 and HB 816 property tax rebate is \$675 (\$500 + \$175) for both FY 2024 and FY 2025.
5. To be eligible for the tax rebate under HB 222 (and HB 816) homeowners need to have property tax liability for the residence. In TY 2022, DOR fully exempted 16,997 mobile homes with less than \$10,000 in assessed value, and 2,664 households were enrolled in the Montana Disabled Veteran program and received a full exemption. The estimated number of potential claimants is: 292,200 (311,861 – 16,997 – 2,664).
6. In FY 2024, rebates are to be distributed based on taxes paid in TY 2022. In TY 2022, 88.8% of households are estimated to have paid at least \$675 in taxes on their residence resulting in 259,521 households receiving the full \$675 rebate. The remaining 32,679 households are expected to claim less than \$675. The estimate of average taxes paid by this group is \$375.17.
7. In FY 2024, \$187.437 million (259,521 x \$675 + 32,679 x \$375.17) in rebates are expected to be claimed.
8. In TY 2023, cyclical class 4 residential reappraisal is anticipated to raise valuations. TY 2022 assessed values were increased by the estimated county reappraisal growth presented to the Revenue Interim Committee meeting in November 2022.
9. Local jurisdiction taxes are held mostly constant as mills adjust to maintain revenue consistent with 15-10-420, MCA. These mills are then applied to the TY 2023 assessed values to arrive at expected taxes in TY 2023. That increases percentage of households paying at least \$675 to 90.3% resulting in 263,837 households eligible to receive the full \$675 rebate. The remaining 28,363 households are expected to claim less than \$675. The estimated average tax paid by this group is \$385.78.
10. That results in \$189.032 million (263,837 x \$675 + 28,363 x \$385.78) FY 2025 property tax rebates.
11. Fiscal year estimates for HB 222 were \$141.247 million in FY 2024 and \$141.920 in FY 2025.
12. Fiscal year estimates for HB 816 are therefore \$46.190 million in FY 2024 (\$187.437 million - \$141.247 million) and \$47.112 million in FY 2025 (\$189.032 million - \$141.920 million).
13. Taxpayers who receive a rebate and itemized their federal income tax deductions for TY 2022 may need to report a portion as taxable income in TY 2023. Reporting this income in TY 2023 will increase their federal taxable liability. If the same taxpayers itemize their Montana income tax for the same year, they may have their Montana tax liability decrease as a result of their larger federal tax liability. This is also the case for taxes paid in TY 2023.
14. Based on the share of Montana taxpayers itemizing their federal deductions (9.1%) and average tax rates, HB 816 increases federal tax liability by \$0.5 million in both TY 2023 and TY 2024. If Montana taxpayers who itemize their federal deductions also itemize their Montana income deductions, this increases in federal liability as a result of the additional rebate provided for in HB 816 results in a \$33,000 decrease in Montana tax liability in TY 2023.

Montana Surplus Rebate Account Appropriation

15. HB 192 appropriated \$480 million for the DOR to issue and administer the HB 192 income tax rebates.
16. As amended, HB 816 appropriates an additional \$35 million from the general fund to the Montana Surplus Rebate account created by HB 192 in FY 2023. This totals \$515 million appropriated to the Montana Surplus Rebate account in order to provide for these income tax rebates.
17. As of April 26, 2023, the DOR estimates that \$493,713,000 in rebates will be issued to Montana taxpayers.
18. The statutory appropriation in HB 816 provides for \$13,713,000 (\$493,713,000 - \$480,000,000) in additional income tax rebates in FY 2024
19. With \$493,713,000 in rebates, and \$692,617 in department administration costs, the DOR estimates that \$20,594,383 (\$515,000,000 - \$493,713,000 - \$692,617) will be transferred from the special revenue account to the general fund in FY 2026.

Language Clarifications

- 20. The amended bill also changes Section 2, Chapter 44, Laws of 2023 (HB 192) to define the term “properly reported” to mean “the amount reported on line 20 of the 2021 Montana individual income tax return filed by the due date for filing that return, including any extensions authorized pursuant to 15-30-2604(1)(b) and (3), or an amended 2021 Montana individual income tax return filed on or before May 1, 2023.”
- 21. Setting an amended filing deadline for TY 2021 returns does not change the estimated rebate amounts. However, the proposed deadline prevents future changes in the estimated rebate amount as a result of future income tax return changes.
- 22. As now amended, HB 816 further specifies the criteria used to determine *property taxes assessed and paid* that apply to the HB 222 (and HB 816) property tax rebate. This is expected to have little fiscal impact.

Combined Costs

- 23. The Senate Finance and Claims Amendments to HB 816 transfers \$35 million from the general fund to a state special revenue account in FY 2023. The additional \$35 million in statutory appropriations allows \$13.713 million in additional income tax rebates to be made relative to current law. The remaining funds in the account (currently estimated to be \$20,594,383) would be transferred to the state general fund in FY 2026.
- 24. As a result of the additional property tax rebates, general fund expenditures will increase by \$46,190,000 in FY 2024 and \$47,112,000 in FY 2025. Lastly, general fund revenue will decrease by \$33,000 in FY 2024.

DOR Administrative Costs

- 25. Administrative costs for implementing HB 816 are accounted for in HB 222. Passage of HB 816 is not expected to create additional implementation costs for the Department of Revenue.
- 26. 17-1-508, MCA, requires analysis of the statutory appropriation relative to the guidance in 17-1-508(3), MCA, to be published in the fiscal note.

In reviewing and establishing statutory appropriations, the legislature shall consider the following guidelines. Answer yes or no to each of the guidelines regarding the statutory appropriation:	Yes	No
a. The money is from a continuing, reliable, and estimable source.	X	
b. The use of the appropriation or the expenditure occurrence is predictable and reliable.	X	
c. The authority exists elsewhere.		X
d. An alternative appropriation method is available, practical, or effective.		X
e. It appropriates state general fund money for purposes other than paying for emergency services.	X	
f. The money is used for general purposes.		X
g. The legislature wishes to review expenditure and appropriation levels each biennium.		X
h. An expenditure cap and sunset date are excluded.		X

Fiscal Impact:	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
Department of Revenue					
FTE	0.00	0.00	0.00	0.00	0.00
<u>Expenditures:</u>					
Transfers	\$35,000,000	\$59,903,000	\$47,112,000	\$0	\$0
TOTAL Expenditures	\$35,000,000	\$59,903,000	\$47,112,000	\$0	\$0
<u>Funding of Expenditures:</u>					
General Fund (01)	\$35,000,000	\$46,190,000	\$47,112,000	\$0	\$0
State Special Revenue (02)	\$0	\$13,713,000	\$0	\$20,594,383	\$0
TOTAL Funding of Exp.	\$35,000,000	\$59,903,000	\$47,112,000	\$20,594,383	\$0
<u>Revenues:</u>					
General Fund (01)	\$0	(\$33,000)	\$0	\$20,594,383	\$0
State Special Revenue (02)	\$35,000,000	\$0	\$0	\$0	\$0
TOTAL Revenues	\$35,000,000	(\$33,000)	\$0	\$20,594,383	\$0
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>					
General Fund (01)	(\$35,000,000)	(\$46,223,000)	(\$47,112,000)	\$20,594,383	\$0
State Special Revenue (02)	\$35,000,000	(\$13,713,000)	\$0	(\$20,594,383)	\$0

 _____ Sponsor's Initials	<u>5/1/23</u> _____ Date	 _____ Budget Director's Initials	<u>5-1-23</u> _____ Date
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