



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:

SB0514 - Provide for individual income tax refunds of surplus revenue (Molnar, Brad)

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 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	(\$382,775,000)	\$0	\$0	\$0
Net Impact-General Fund Balance:	<u>(\$382,775,000)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Description of fiscal impact: SB 514 creates a refundable income tax credit for TY 2023 that is equal to the difference in the taxpayer's tax liability in TY 2021 and TY 2022 if social security income and military pension income was exempt from Montana's personal income tax during those years. The credit also includes the change in tax liability for TY 2022 if the state's top tax rate was 5.9% instead of 6% and 6.75%. The proposed credit will reduce general fund revenue by \$382,775,000 in FY 2024.

FISCAL ANALYSIS

Assumptions:**Department of Revenue**

- SB 514 creates an income tax credit available during TY 2023. The credit is equal to the difference in Montana income tax liabilities under current law for TY 2021 and TY 2022 relative to the taxpayer's tax liabilities under the following conditions: all social security income is exempt from Montana's personal income tax in TY 2021 and TY 2022, military pension or military retirement income received in TY 2021 and TY 2022 is exempt from Montana's personal income tax and Montana's current top marginal tax rates above 5.9% , are reduced (from 6.75% and 6%) to 5.9% in TY 2022. The credit is available to resident taxpayers and is fully refundable.
- As the credit is equal to the difference in the taxpayer's tax liability in 2021 and 2022 under current law relative to the taxpayer's tax liability if Social Security income, military retirement income were exempt from

taxation in TY 2021 and TY 2022, and if the top marginal tax rate was reduced to 5.9% in TY 2023, the Department of Revenue’s income tax model was used to generate income tax liability estimates for full-year resident and partial-year resident income tax returns for TY 2021 and TY 2022 both under current law and with the proposed changes in place. The difference between the two is the estimate of tax credit in TY 2023.

- The estimated tax liability after credits of the resident taxpayers under current law and with the proposed credit changes in SB 514 is provided in the table below.

After Credit Tax Liability of Resident Taxpayers			
Tax Year	Current Law	SB 514 Changes	Change in Tax Liability
2021	\$1,762,276,000	\$1,669,727,000	(\$92,549,000)
2022	\$1,765,739,000	\$1,475,513,000	(\$290,226,000)
Combined	\$3,528,015,000	\$3,145,240,000	(\$382,775,000)

- Overall, the tax liability of resident taxpayer is estimated to be \$92,549,000 lower with the proposed changes in TY 2021 and \$290,226,000 lower in TY 2022. The increase in credits for TY 2022 is a result of the tax rate reduction that applies for this tax year only. The combined reduction for the two years is \$382,775,000.
- It is assumed that taxpayers will claim \$382,775,000 in credits in TY 2023.
- As taxpayers will have to calculate their credit amount when filing their TY 2023 returns, it is assumed that taxpayers will not change their withholding or estimated payments. With no changes, the \$382,775,000 in credits will be claimed when taxpayers file their returns in FY 2024.
- The changes made by SB 514 can be made as part of the annual forms change process. The department does not expect to incur significant additional costs because of this 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 Revenue				
<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)	(\$382,775,000)	\$0	\$0	\$0
TOTAL Revenues	<u>(\$382,775,000)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$382,775,000)	\$0	\$0	\$0

NO SPONSOR SIGNATURE

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