



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:

SB0104 - Exempt retired military pensions from state income tax (Fuller, John)

Status: As Amended in House Committee

- 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 | (\$831,000) | (\$4,350,000) | (\$4,547,000) | (\$4,741,000) |
| Net Impact-General Fund Balance: | <u>(\$831,000)</u> | <u>(\$4,350,000)</u> | <u>(\$4,547,000)</u> | <u>(\$4,741,000)</u> |

Description of fiscal impact: SB 104 exempts a portion of certain military retirement pay from Montana personal income tax. The exemption would reduce general fund revenue by \$831,000 in FY 2024, \$4,350,000 in FY 2025, \$4,547,000 in FY 2026, and \$4,741,000 in FY 2027.

FISCAL ANALYSIS

Assumptions:**Department of Revenue (DOR)**

- Currently, tenure based military retirement income and survivor benefits are Montana taxable income.
- As amended, SB 104 exempts the lesser of 50% of military retirement pay and survivor benefits or the taxpayers "Montana source wage income" from income tax starting in TY 2024. For the bill, "Montana source wage income" is the taxpayers wages, salary tips and other compensation for services performed in the state, and net income from a trade, business, profession, or occupation carried out in the state, and net income from farming activities carried on in the state.
- As amended, the exemption created by SB 104 is set to expire at the end of TY 2029.
- Most retirement income is reported on 1099-R forms provided by the U.S. Treasury e-File (MeF) program. That data shows 7,983 Montana full-year resident filers, in TY 2021, received retirement income from the U.S. Department of Defense's Defense Finance and Accounting Service. Since not all taxpayers file their returns through a MeF electronic filing provider, only about 90% of total reported taxable retirement income is reported electronically. Taxable military retirement income reported on MeF Montana Form 1099-R's

likely undercounts actual military retirement income by 10%. The 7,983 recipients of electronically recorded military retirement income reported \$215.7 million of such income in TY 2021. After adjusting for coverage, it is estimated that total Montana taxable military retirement income was about \$241.9 million, in TY 2021.

- The DOR income tax model (with HJ 2 assumptions) was modified to incorporate the military income exemption in SB 104 as amended. The estimated income and tax liability under SB 104 were compared to current law income and tax liability. The comparisons show that exempting a portion of military retirement income starting in TY 2024 would reduce full-year resident tax liability as follows:

| Tax Liability Under Current Law and SB 104 as Amended | | | |
|---|--------------------------|-------------|-------------------|
| Tax Year | Tax Liability (Millions) | | Change in Revenue |
| | Current Law | SB 104 | |
| 2024 | \$1,832.790 | \$1,829.375 | (\$3.415) |
| 2025 | \$1,924.211 | \$1,920.644 | (\$3.568) |
| 2026 | \$2,050.048 | \$2,046.337 | (\$3.711) |
| 2027 | \$2,121.827 | \$2,117.981 | (\$3.846) |

- As SB 104 makes significant changes, some taxpayers will adjust their withholding and estimated payments. It is assumed that 80% of TY 2024 and 20% of TY 2025 tax liability changes will be collected in FY 2025. Similar timing is anticipated to continue in subsequent years.
- The change in full-year resident the tax liability was converted to fiscal years based on the factors used in HJ 2 (FY 2024 and FY 2025) and HJ 2 consistent assumptions for FY 2026 and FY 2027.
- After applying the conversion factors, income tax revenue is estimated to be reduced by \$831,000 in FY 2024, \$4.35 million in FY 2025, \$4.547 million in FY 2026, and \$4.741 million in FY 2027.
- The changes made by SB 104 can be made as part of the DOR annual change process at no additional expense.

| | <u>FY 2024</u> | <u>FY 2025</u> | <u>FY 2026</u> | <u>FY 2027</u> |
|--|--------------------|----------------------|----------------------|----------------------|
| <u>Fiscal Impact:</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 |
| Expenditures: | | | | |
| Personal Services | \$0 | \$0 | \$0 | \$0 |
| TOTAL Expenditures | \$0 | \$0 | \$0 | \$0 |
| Funding of Expenditures: | | | | |
| General Fund (01) | \$0 | \$0 | \$0 | \$0 |
| TOTAL Funding of Exp. | \$0 | \$0 | \$0 | \$0 |
| Revenues: | | | | |
| General Fund (01) | (\$831,000) | (\$4,350,000) | (\$4,547,000) | (\$4,741,000) |
| TOTAL Revenues | (\$831,000) | (\$4,350,000) | (\$4,547,000) | (\$4,741,000) |
| Net Impact to Fund Balance (Revenue minus Funding of Expenditures): | | | | |
| General Fund (01) | (\$831,000) | (\$4,350,000) | (\$4,547,000) | (\$4,741,000) |

NO SPONSOR SIGNATURE 2/27/23 [Signature] 2-27-23
 Sponsor's Initials Date Budget Director's Initials Date