



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:

SB0121 - Reduce top marginal income tax rate and increase EITC (Beard, Becky)

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	(\$28,266,000)	(\$159,433,000)	(\$168,477,000)	(\$179,742,000)
Net Impact-General Fund Balance:	<u>(\$28,266,000)</u>	<u>(\$159,433,000)</u>	<u>(\$168,477,000)</u>	<u>(\$179,742,000)</u>

Description of fiscal impact: SB 121 reduces the top personal income tax rate from 6.5% to 5.9% and increases the state EITC rate from 3% of the federal credit to 10%. The proposed bill will reduce general fund revenue by \$28.266 million in FY 2024, \$159.433 million in FY 2025, \$168.447 million in FY 2026, and \$179.742 million by FY 2027.

FISCAL ANALYSIS

Assumptions:**Department of Revenue**

- Under current law, Montana personal income tax is scheduled to begin taxing incomes at two rates starting TY 2024. The first rate is 4.7% and the second rate is 6.5%. In addition, Montana qualifying resident taxpayers can claim a credit that is equal to 3% of the federal Earned Income Tax Credit (EITC) claimed when filing federal income taxes.
- SB 121 reduces the top rate that is set to go into effect starting TY 2024 from the current 6.5% to 5.9%. The proposed bill also increases Montana EITC credit from 3% of the federal credit to 10% of the federal credit.
- The changes made by SB 121 apply to tax years beginning after December 31, 2023.
- The Department of Revenue income tax model was modified to include the changes made by the proposed bill. The estimated income tax liability amounts for each tax year under the proposed bill were then compared to current law income tax liability forecasts.

- Based on the DOR income tax model, reducing the top marginal tax rate from 6.5% to 5.9% starting TY 2024 would reduce the income tax liability of full-year resident taxpayers by \$127.84 million before credits. For TY 2025, TY 2026, TY 2027, the tax liability of residents would decrease by \$134.93 million, \$145.23 million, and \$150.57 million, respectively.

Tax Liability Estimates Under Current Law and SB 121			
<u>Tax Liability (Millions)</u>			
Tax Year	Current Law	SB 121	Change in Revenue
2024	\$1,832.79	\$1,704.95	(\$127.84)
2025	\$1,924.21	\$1,789.28	(\$134.93)
2026	\$2,050.05	\$1,904.82	(\$145.23)
2027	\$2,121.83	\$1,971.26	(\$150.57)

- Under current law, the income tax model estimates that taxpayers will claim approximately \$4.749 million in Montana EITC credits in TY 2024. This decreases slightly to \$4.748 by TY 2027.
- Based on forecasted EITC amounts, increasing the Montana EITC credit share from 3% to 10% of the federal credit would increase the number of credits claimed to \$15.836 million in TY 2024. This is an increase of \$11.088 million relative to current law. By TY 2027, the number of EITC credits are estimated to be \$15.815 million.

Earned Income Tax Credit Estimates			
<u>Credits Claimed (Millions)</u>			
Tax Year	Current Law	Proposed Law	Change in Credits
2024	\$4.749	\$15.836	\$11.088
2025	\$4.748	\$15.823	\$11.075
2026	\$4.748	\$15.815	\$11.067
2027	\$4.748	\$15.815	\$11.067

- As the proposed tax rate change makes large changes to the tax liability of some taxpayers, it is assumed that some of the taxpayers will change their withholding and estimated payments. The estimates used in HJ 2 assume that 80% of TY 2024 liability changes and 20% of TY 2025 tax liability changes occur in FY 2025. This distribution continues for subsequent fiscal years. It is assumed that the tax liability distribution changes made as a result of the tax rate change follows the pattern used in HJ 2 revenue forecasts.
- The tax liability amounts from the proposed rate decrease were also adjusted using HJ 2 assumptions for non-full-year resident taxpayers, audit assumptions, and population increases.
- It is assumed that taxpayers will not make changes to withholding or estimated payment amounts because of the EITC changes. Therefore, EITC changes reduce income tax revenue when taxpayers file their returns the fiscal year following the tax year.
- Based on the adjustments the SB 121 combined fiscal year income tax revenue reductions are outline din the following table: by \$28.266 million in FY 2024, \$159.433 million in FY 2025, \$168.477 million in FY 2026, and \$179.742 million in FY 2027.

SB 121 Revenue Change by Fiscal Year	
Fiscal Year	Change in Revenue (Millions)
2024	(\$28.266)
2025	(\$159.433)
2026	(\$168.477)
2027	(\$179.742)

- The changes made by the proposed bill can be made as part of the department’s annual change processes. DOR does not expect to incur any significant 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 of Revenue				
FTE	0.00	0.00	0.00	0.00
<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)	(\$28,266,000)	(\$159,433,000)	(\$168,477,000)	(\$179,742,000)
TOTAL Revenues	<u>(\$28,266,000)</u>	<u>(\$159,433,000)</u>	<u>(\$168,477,000)</u>	<u>(\$179,742,000)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$28,266,000)	(\$159,433,000)	(\$168,477,000)	(\$179,742,000)



Sponsor's Initials

1-12-23

Date



Budget Director's Initials

1-11-23

Date