



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:

SB0489 - Revise capital gains tax law to support first responders and law enforcement (O'Brien, Shannon)

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	\$24,193,000	\$51,407,000	\$57,549,000
State Special Revenue	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$9,191,000	\$48,996,000	\$55,784,000	\$61,893,000
State Special Revenue	\$0	\$24,193,000	\$51,407,000	\$57,549,000
Net Impact-General Fund Balance:	<u>\$9,191,000</u>	<u>\$24,803,000</u>	<u>\$4,377,000</u>	<u>\$4,344,000</u>

Description of fiscal impact: SB 489 limits the Montana individual income tax 30% capital gains deduction to taxpayers with federal adjusted gross incomes under \$1 million. The increase in revenue relative to present law is directed to a state special revenue account. These state special revenue funds are to be appropriated to local jurisdictions in proportion to population for use in funding local law enforcement and first responder services. The proposed bill will increase general fund revenue by \$9.191 million in FY 2024, \$24.803 million in FY 2025, \$4,377,000 in FY 2026, and \$4,344,000 in FY 2027. The proposed bill also generates \$24.193 million in revenue for the state special revenue account in FY 2025, which increases to \$57.549 million in FY 2027.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

- Under current law, taxpayers with net-long-term capital gains can deduct 30% of the capital gains income from their Montana taxable income starting TY 2024.
- SB 489 limits the state's 30% capital gains deduction to taxpayers with a Federal Adjusted Gross Income of less than \$1 million.

3. The revenue generated by limiting the 30% capital gains deduction is to be deposited into a state special revenue account for first responders and law enforcement agencies. The department is to transfer the additional revenue on May 15th and November 15th starting in TY 2024.
4. The Department of Revenue’s income tax model was modified to include the capital gains deduction change 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.
5. Based on the department’s income tax model, limiting the state’s capital gains deduction to taxpayers with Federal Adjusted Gross Incomes of less than \$1 million will increase the income tax liability of full-year resident taxpayers by \$41.57 million in TY 2024, \$47.3 million in TY 2025, \$53.65 million in TY 2026, and \$53.74 million in TY 2027.

Tax Liability Estimates Under Current Law and Proposed Law			
Tax Year	Tax Liability (Millions)		
	Current Law	HB 489	Change in Revenue
2024	\$1,832.79	\$1,874.36	\$41.57
2025	\$1,924.21	\$1,971.51	\$47.30
2026	\$2,050.05	\$2,103.70	\$53.65
2027	\$2,121.83	\$2,175.57	\$53.74

6. As the proposed capital gains deduction limitation 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 will occur in FY 2025. This distribution continues for all fiscal years.
7. The tax liability from the proposed deduction change were also adjusted using HJ 2 assumptions for non-full-year resident taxpayers, audit and population.
8. Based on these HSB 489 is expected to increase income tax revenue by \$9.191 million in FY 2024, \$48.996 million in FY 2025, \$ 55.784 million in FY 2026, and \$61.893 million in FY 2027.
9. The DOR cannot determine what taxpayers would have paid in the absence of the changes made by SB 489 until taxpayers file their income tax returns the year following the calendar year.
10. Based on the receive date reported for each income tax return in TY 2021, it is assumed that half the revenue generated by the deduction change in TY 2024 will be reported on returns received before May 15th, while the other half will be received before November 1st. With this timing, half the additional revenue generated by SB 489 in TY 2024 will be transferred to the state special revenue account in FY 2025, while the second half will be transferred during FY 2026.
11. It is assumed that a total of \$48.388 million ($\$9,191,000 + (\$48,996,000 \times 0.8)$) in additional revenue will be generated due to the changes made in SB 489 in TY 2024. For tax years 2025 and 2026 total additional revenue is assumed to be \$54.426 million and \$60.671 million.

Tax Revenue Change by Tax Year	
Tax Year	Change in Revenue (Millions of Dollars)
2024	\$48.388
2025	\$54.426
2026	\$60.671

12. With half of the additional revenue for each TY applying the following FY and the other half applying an subsequent FY, \$24.194 million from TY 2024 will be transferred to the state special revenue account in FY 2025 and an additional \$24.194 million will be transferred in FY 2026. Similar distributions apply to the revenue from TY 2025 and TY 2026.

13. In total, \$24.194 million will be transferred from the general fund to the state special revenue fund in FY 2025, \$51.407 million (\$24,194,000 + (\$54,426,000 X 0.5)) in FY 2026, and \$57.549 million ((\$54,426,000 X 0.5) + (\$60,671,000 X 0.5)) in FY 2027.

State Special Revenue Transfers by Fiscal Year	
Fiscal Year	Revenue Transfers (Millions of Dollars)
2024	\$0.000
2025	\$24.194
2026	\$51.407
2027	\$57.549

14. The changes made by SB 489 can be made as part of the department’s annual change process. The Department of Revenue does not expect to incur any significant costs because of the bill.

<u>Fiscal Impact:</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
Department of Revenue	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
FTE	0.00	0.00	0.00	0.00
<u>Expenditures:</u>				
Transfers	\$0	\$24,194,000	\$51,407,000	\$57,549,000
TOTAL Expenditures	<u>\$0</u>	<u>\$24,194,000</u>	<u>\$51,407,000</u>	<u>\$57,549,000</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$24,194,000	\$51,407,000	\$57,549,000
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$24,194,000</u>	<u>\$51,407,000</u>	<u>\$57,549,000</u>
<u>Revenues:</u>				
General Fund (01)	\$9,191,000	\$48,996,000	\$55,784,000	\$61,893,000
State Special Revenue (02)	\$0	\$24,194,000	\$51,407,000	\$57,549,000
TOTAL Revenues	<u>\$9,191,000</u>	<u>\$73,190,000</u>	<u>\$107,191,000</u>	<u>\$119,442,000</u>

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	\$9,191,000	\$24,802,000	\$4,377,000	\$4,344,000
State Special Revenue (02)	\$0	\$24,194,000	\$51,407,000	\$57,549,000

Effect on County or Other Local Revenues or Expenditures:

1. Local Law enforcement and first responder agencies would see increased transfers-in relative to their service area’s population share and the funds available in the state special revenue fund.

NO SPONSOR SIGNATURE

3/1/23



2-28-23

Sponsor’s Initials

Date

Budget Director’s Initials

Date