GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: **HB0839.01: Provide income tax credit for certain long-time residents**

Primary Sponsor: Lukas Schubert

Status: As Introduced

☐ Included in the Executive Budget ☒ Needs to be included in HB 2 ☐ Significant Local Gov Impact

☐ Significant Long-Term Impacts ☒ Technical Concerns ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
Expenditures				
General Fund (01)	$0	$470,449	$460,380	$466,366
Revenues				
General Fund (01)	$0	($56,096,000)	($53,766,000)	($51,327,000)
Net Impact	$0	($56,566,449)	($54,226,380)	($51,793,366)
General Fund Balance				

Description of fiscal impact

HB 839 creates a nonrefundable income tax credit for taxpayers with less than $100,000 in income and who have resided in the state for the prior 10 years. The credit would reduce general fund revenue by $56.096 million in FY 2027, $53.766 million in FY 2028 and $51.327 million in FY 2029. The bill would increase general fund expenditures by approximately $470,000 per year.

FISCAL ANALYSIS

Assumptions

1. HB 839 creates a nonrefundable income tax credit for taxpayers who have resided in the state for the prior 10 years. The credit is available to taxpayers with less than $100,000 in qualifying income. The credit is $500 for each taxpayer on the return who meets the residency and income qualifications. Taxpayers filing jointly that both meet the residency and income qualifications would be eligible for a credit of $1,000. The credit is available starting tax year (TY) 2026.
2. Income as defined in 15-30-2337, MCA, is used to determine the income qualification for the credit.
3. For purposes of this credit, a taxpayer is considered to be a resident of the state if they have resided in Montana each year for at least 7 months of the year.
4. The credit is nonrefundable and cannot be carried to another tax year.
5. Based on income tax returns for TY 2013 through 2022, approximately 150,000 individual taxpayers in TY 2023 were identified as meeting the residency requirement.
6. The Department of Revenue's income tax model, with HJ 2 revenue assumptions, was modified to include the proposed tax credit. The estimated income tax liability amounts for each tax year under the proposed bill were then compared to current law income tax forecasts.
7. Based on income tax returns for TY 2013 through 2023, and the department's income tax model, the proposed income tax credit will reduce the income tax liability of resident taxpayers by $53.9 million in TY 2026, $51.5 million in TY 2027 and $49 million in TY 2028.

8. For TY 2026, revenue assumptions project a population increase of 4% relative to TY 2023, which increases to 4.3% in TY 2027 and 4.8% in TY 2028.
9. The tax revenue impacts from the department's income tax model were increased based on the forecasted population growth used in HJ 2 revenue assumptions. With $53.9 million in credits in TY 2026, and 4% population growth, the total number of credits claimed in TY 2026 are estimated to be $56.096 million. For TY 2027 and TY 2028, the total credits claimed are assumed to be $53.766 million and $51.327 million.
10. It is assumed that taxpayers will not change their withholding or estimated payments as a result of the proposed income tax credit.
11. With no changes in withholding or estimated payments, HB 839 will reduce general fund revenue by $56.096 million in FY 2027, $53.766 million in FY 2028 and $51.327 million in FY 2029.
12. With up to 100,000 in returns claiming this credit, the income definition, and verification of the residency requirements, the department will require an additional 6.00 FTE to administer this credit. These positions will increase department expenditures by $470,449 in FY 2027, $460,380 in FY 2028 and $466,366 in FY 2029.

Fiscal Analysis Table

	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
Fiscal Impact				
FTE	0.00	6.00	6.00	6.00
TOTAL Fiscal Impact	**0.00**	**6.00**	**6.00**	**6.00**
Expenditures				
Personal Services	$0	$397,783	$402,606	$407,506
Operating Expenses	$0	$54,918	$57,774	$58,860
Equipment	$0	$17,748	$0	$0
TOTAL Expenditures	**$0**	**$470,449**	**$460,380**	**$466,366**
Funding of Expenditures				
General Fund (01)	$0	$470,449	$460,380	$466,366
TOTAL Funding of Expenditures	**$0**	**$470,449**	**$460,380**	**$466,366**
Revenues				
General Fund (01)	$0	($56,096,000)	($53,766,000)	($51,327,000)
TOTAL Revenues	**$0**	**($56,096,000)**	**($53,766,000)**	**($51,327,000)**
Net Impact to Fund Balance (Revenue minus Funding of Expenditures)				
General Fund (01)	$0	($56,566,449)	($54,226,380)	($51,793,366)

Technical Concerns

Department of Revenue

1. The 10-year, 7-month residency requirement for this credit is not the same residency requirement for filing a personal income tax return. Because of this, verifying the residency requirements of this tax credit is likely to be very difficult.
2. Using the income definition in 15-30-2337, MCA, creates an apparent "marriage penalty" because it uses federal adjusted gross income. Federal adjusted gross income cannot be figured separately unless the taxpayers files separately from their spouse. So, married joint filers would need less income than single, head of household, married filing separately, and qualifying surviving spouse filers to claim the credit.

Office of Budget and Program Planning

3. There is a legislative legal review note assocated wtih HB 839 adressing "a potential constitutional conformity question as to whether this legislation conflicts with the Equal Protection Clause of the Fourteenth Amendment of the U.S. Constitution".

LS	3/26/25		3/25/2025
Sponsor's Initials	Date	Budget Director's Initials	Date