SENATE BILL NO. 546

INTRODUCED BY D. FERN, P. FLOWERS

A BILL FOR AN ACT ENTITLED: "AN ACT REVISING THE CALCULATION OF INCOME TAX LIABILITIES FOR CERTAIN TAXPAYERS; ESTABLISHING AN INCOME-BASED TAX CREDIT SUBJECT TO A COMPLETE PHASEOUT WHEN INCOME INCREASES; PROVIDING DEFINITIONS; AMENDING SECTION 15-30-2303, MCA; AND PROVIDING A DELAYED EFFECTIVE DATE AND AN APPLICABILITY DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

NEW SECTION. **Section 1. Income-based tax credit -- reduction percentage.** (1) A qualified taxpayer is allowed a ~~fixed, one-time~~ credit calculated pursuant to this section ~~that is multiplied by a~~ AGAINST A QUALIFIED taxpayer's Montana taxable income AND based on filing status.

(2) The credit amount is equal to 4.7% of ~~Montana taxable income for taxpayers with less than~~:

(a) THE FIRST $2,000 of Montana taxable income on a joint income tax return and for every surviving spouse;

(b) THE FIRST $1,500 of Montana taxable income on a head of household income tax return;

(c) THE FIRST $1,000 of Montana taxable income on an individual income tax return other than a surviving spouse or head of household who is not a married individual; and

(d) THE FIRST $1,000 of Montana taxable income for every income tax return of a married individual who does not make a joint return.

(3) The total credit amount available of 4.7% is reduced by 0.094% of credit for every ADDITIONAL:

(a) $2,000 of Montana taxable income on a return provided for in subsection (2)(a);

(b) $1,500 of Montana taxable income on a return provided for in subsection (2)(b);

(c) $1,000 of Montana taxable income on a return provided for in subsection (2)(c); and

(d) $1,000 of Montana taxable income on a return provided for in subsection (2)(d).

(4) ~~The credit is not available for each increment of Montana taxable income during the phaseout provided for in subsection (3).~~ (A) TO CALCULATE THE CREDIT, THE TAXPAYER'S MONTANA TAXABLE INCOME MUST BE

USED TO DETERMINE IF THE RATE PROVIDED IN SUBSECTION (2) OR THE PHASEOUT RATE APPLICABLE TO THE TAXPAYER'S TOTAL MONTANA TAXABLE INCOME IN SUBSECTION (3) APPLIES. IF THE TAXPAYER'S MONTANA TAXABLE INCOME:

(I) IS LESS THAN THE LIMITS IN SUBSECTION (2), THE RATE PROVIDED IN SUBSECTION (2) MUST BE MULTIPLIED BY THE TAXPAYER'S TOTAL MONTANA TAXABLE INCOME; OR

(II) IS GREATER THAN THE LIMITS PROVIDED IN SUBSECTION (2), THE PHASEOUT RATE DETERMINED UNDER SUBSECTION (3) APPLICABLE TO THE TAXPAYER'S TOTAL MONTANA TAXABLE INCOME MUST BE MULTIPLIED BY THE TAXPAYER'S TOTAL MONTANA TAXABLE INCOME TO DETERMINE THE AMOUNT OF THE CREDIT.

(B) There is no credit if Montana taxable income exceeds the applicable phaseout amount.

(C) The credit amount may not exceed the taxpayer's income tax liability and may not be carried forward or carried back.

(D) THE DEPARTMENT SHALL PUBLISH THE AMOUNT OF CREDIT AVAILABLE BASED ON MONTANA TAXABLE INCOME.

(5) As used in this section, the following definitions apply:

~~(a) "Nonqualified taxable income" has the same meaning as provided in 15-30-2103.~~

~~(b)~~(A) (i) "Qualified taxpayer" means an individual who files a Montana individual income tax return.

(ii) The term does not include:

(A) an individual who was claimed as a dependent by another taxpayer for federal or Montana income tax purposes for the year of the credit; or

(B) a trust.

~~(c)~~(B) "Total credit amount" means a fixed single credit amount of one calculated rate that is phased downward as income increases and that is based on total Montana taxable income.

Section 2. Section 15-30-2303, MCA, is amended to read:

"**15-30-2303. Tax credits subject to review by interim committee.** (1) The following tax credits must be reviewed during the biennium commencing July 1, 2021, and during each biennium commencing 8 years thereafter:

(a) the credit for donations to innovative educational programs provided for in 15-30-2334, 15-30-

3110, and 15-31-158;

(b) the credit for donations to a student scholarship organization provided for in 15-30-2335, 15-30-3111, and 15-31-159; ~~and~~

(c) the adoption tax credit provided for in 15-30-2321; and

(d) the income-based tax credit provided for in [section 1].

(2) The following tax credits must be reviewed during the biennium commencing July 1, 2023, and during each biennium commencing 8 years thereafter:

(a) the credit for infrastructure use fees provided for in 17-6-316;

(b) the credit for contributions to a qualified endowment provided for in 15-30-2327 through 15-30-2329, 15-31-161, and 15-31-162;

(c) the credit for property to recycle or manufacture using recycled material provided for in Title 15, chapter 32, part 6; and

(d) the credit for preservation of historic buildings provided for in 15-30-2342 and 15-31-151.

(3) The following tax credits must be reviewed during the biennium commencing July 1, 2025, and during each biennium commencing 8 years thereafter:

(a) the residential property tax credit for the elderly provided for in 15-30-2337 through 15-30-2341;

(b) the credit for unlocking state lands provided for in 15-30-2380;

(c) the job growth incentive tax credit provided for in 15-30-2361 and 15-31-175; and

(d) the credit for trades education and training provided for in 15-30-2359 and 15-31-174.

(4) The following tax credits must be reviewed during the biennium commencing July 1, 2027, and during each biennium commencing 8 years thereafter:

(a) the credit for hiring a registered apprentice or veteran apprentice provided for in 15-30-2357 and 15-31-173;

(b) the earned income tax credit provided for in 15-30-2318;

(c) the media production and postproduction credits provided for in 15-31-1007 and 15-31-1009; and

(d) the credit for contractor's gross receipts provided for in 15-50-207.

(5) The revenue interim committee shall review the tax credits scheduled for review and make recommendations in accordance with 5-11-210 at the conclusion of the full review to the legislature about whether to eliminate or revise the credits. The committee shall also review any tax credit with an expiration date or termination date that is not listed in this section in the biennium before the credit is scheduled to expire or terminate.

(6) The revenue interim committee shall review the credits using the following criteria:

(a) whether the credit changes taxpayer decisions, including whether the credit rewards decisions that may have been made regardless of the existence of the tax credit;

(b) to what extent the credit benefits some taxpayers at the expense of other taxpayers;

(c) whether the credit has out-of-state beneficiaries;

(d) the timing of costs and benefits of the credit and how long the credit is effective;

(e) any adverse impacts of the credit or its elimination and whether the benefits of continuance or elimination outweigh adverse impacts; and

(f) the extent to which benefits of the credit affect the larger economy. (Subsection (3)(c) terminates December 31, 2028--sec. 4, Ch. 391, L. 2023; subsection (3)(d) terminates December 31, 2028--sec. 2, Ch. 576, L. 2023; subsection (1)(c) terminates December 31, 2031--sec. 6, Ch. 493, L. 2023.)"

NEW SECTION. **Section 3. Codification instruction.** [Section 1] is intended to be codified as an integral part of Title 15, chapter 30, and the provisions of Title 15, chapter 30, apply to [section 1].

NEW SECTION. **Section 4. Effective date.** [This act] is effective January 1, 2026.

NEW SECTION. **Section 5. Applicability.** [This act] applies to income tax years beginning after December 31, 2025.

- END -