



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2025 Biennium

**Bill information:**

SB0258 - Establish social security income tax credit (Dunwell, Mary Ann )

**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>
<b>Expenditures:</b>				
General Fund	\$0	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	\$0	(\$16,846,000)	(\$15,871,000)	(\$15,567,000)
<b>Net Impact-General Fund Balance:</b>	<u>\$0</u>	<u>(\$16,846,000)</u>	<u>(\$15,871,000)</u>	<u>(\$15,567,000)</u>

**Description of fiscal impact:** SB 258 creates an income tax credit based on the taxes paid on Social Security income. The proposed credit would reduce general fund revenue by \$16.846 million in FY 2025, \$15.871 million in FY 2026, and \$15.567 million in FY 2027.

### FISCAL ANALYSIS

**Assumptions:****Department of Revenue**

- SB 258 creates a personal income tax credit that is equal to the Montana income tax paid by the taxpayer on their Social Security benefits and Tier 1 railroad retirement benefits. The maximum credit each taxpayer can receive is \$1,200, with the maximum credit amount decreasing if the taxpayer's Federal Adjusted Gross Income (AGI) is in excess of the phase-out income threshold. The phase-out threshold is \$65,000 for joint returns, \$55,000 for Head of Household returns and \$45,000 for all other returns.
- The tax credit created by SB 258 is available starting TY 2024.
- The SB 258 credit is based on a taxpayer's tax liability, it is assumed that the credit is non-refundable.
- SB 258 does not define how a taxpayer is to determine the taxes paid solely on Social Security income. It is assumed that taxpayers will determine the taxes paid on taxable Social Security income by determining the ratio between taxable Social Security income and the taxpayer's Federal AGI and then applying the ratio to

- the taxpayer’s tax liability before credits ((Taxable Social Security Income / Federal AGI) x Tax liability before credits).
5. As the credit amount listed in SB 258 refers to taxes paid on benefits received by the taxpayer, it is assumed that returns with two taxpayers receiving Social Security income would qualify for a \$1,200 credit for each taxpayer, with a combined \$50 (\$25 x 2) phase-out for taxpayers with incomes above the phase-out threshold.
  6. The Department of Revenue’s 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.
  7. Based on the model, creating a tax credit based on the taxes paid by the taxpayer on their Social Security income will reduce the income tax liability of full-year resident taxpayers by \$15.068 million in TY 2024. For TY 2025, TY 2026, and TY 2027, the proposed credit will reduce the income tax liability of resident taxpayers by \$14.184 million, \$13.869 million, and \$13.178 million, respectively.

Tax Liability Estimates Under Current Law and Proposed Law			
Tax Year	Tax Liability (Millions)		
	Current Law	SB 258	Change
2024	\$1,832.79	\$1,817.72	(\$15.068)
2025	\$1,924.21	\$1,910.03	(\$14.184)
2026	\$2,050.05	\$2,036.18	(\$13.869)
2027	\$2,121.83	\$2,108.65	(\$13.178)

8. The tax liability amounts reported for the income tax credit were adjusted using HJ 2 assumptions for non-full-year resident taxpayers and population increases.
9. It is assumed that taxpayers will not make changes to withholding or estimated payment amounts because of the new tax credit. Therefore, the new credit will reduce income tax revenue when taxpayers file their returns the fiscal year following the tax year.
10. Based on the estimated credit usage for full-year resident returns, and forecasted population growth and non-resident tax liabilities, the proposed credit will reduce general fund revenue by \$16.846 million in FY 2025, \$15.871 million in FY 2026, and \$15.567 million in FY 2027.
11. The changes made by the proposed bill can be made as part of the Department of Revenue annual change process. The department does not expect to incur any significant costs because of this bill.

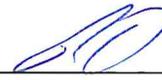
	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>
<b><u>Fiscal Impact:</u></b>				
<b>Department of Revenue</b>				
FTE	0.00	0.00	0.00	0.00
<b><u>Expenditures:</u></b>				
Personal Services	\$0	\$0	\$0	\$0
<b>TOTAL Expenditures</b>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$0	\$0	\$0	\$0
<b>TOTAL Funding of Exp.</b>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b><u>Revenues:</u></b>				
General Fund (01)	\$0	(\$16,846,000)	(\$15,871,000)	(\$15,567,000)
<b>TOTAL Revenues</b>	<u>\$0</u>	<u>(\$16,846,000)</u>	<u>(\$15,871,000)</u>	<u>(\$15,567,000)</u>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	\$0	(\$16,846,000)	(\$15,871,000)	(\$15,567,000)

**Technical Notes:**

1. The bill does not state if the credit is refundable or non-refundable. It is assumed that the credit is non-refundable.
2. The bill does not provide information on how the taxpayer is expected to determine the taxes paid on solely their Social Security income. The language of the bill could be modified to clarify this issue.
3. This bill does not make it clear if married taxpayers each reporting Social Security income qualify for a single credit or multiple credits. The language of the bill could be modified to clarify this issue.

  
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 Sponsor's Initials

2/10/23  
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 Date

  
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 Budget Director's Initials

2-9-23  
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 Date