



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:

HB0268 - Establish a child tax credit through the individual income tax (Kassmier, Joshua)

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 Difference</u> | <u>FY 2025 Difference</u> | <u>FY 2026 Difference</u> | <u>FY 2027 Difference</u> |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Expenditures: | | | | |
| General Fund | \$0 | \$0 | \$0 | \$0 |
| Revenue: | | | | |
| General Fund | (\$6,648,000) | (\$33,240,000) | (\$33,240,000) | (\$33,240,000) |
| Net Impact-General Fund Balance: | <u>(\$6,648,000)</u> | <u>(\$33,240,000)</u> | <u>(\$33,240,000)</u> | <u>(\$33,240,000)</u> |

Description of fiscal impact: HB 268 creates a refundable Montana individual income tax child tax credit starting in TY 2024. The credit would be \$1,200 for children under 6 years of age. The credit applies to taxpaying households with federal adjusted gross income of \$50,000 or less. The proposed credit will reduce general fund revenue by \$6.648 million in FY 2024 and \$33.240 million in FY 2025, FY 2026, and FY 2027.

FISCAL ANALYSIS

Assumptions:**Department of Revenue**

- Under section 24 of the Internal Revenue Code (26 U.S.C 24), a taxpayer is allowed to claim a tax credit that is equal to \$2,000 for each qualifying child of the taxpayer against their federal personal income taxes. To qualify, the child must be below the age of 17 at the end of the year. The credit amount is reduced based on the taxpayer's modified adjusted gross income, with a phase-out for income above \$400,000 for a joint return and \$200,000 for all other returns. A portion of the credit is currently refundable. The credit amount, phase-out amounts and other portions of the credit are set to change starting TY 2026. The State of Montana does not have a similar child tax credit under current law.
- HB 268 creates a state child income tax credit, which would be available starting TY 2024. To qualify for the credit, taxpayers must file a resident tax return, qualify for the federal child tax credit, and have a Federal Adjusted Gross Income of \$50,000 or less.
- Taxpayers who claim a dependent on their return can claim a credit of \$1,200 for each child below the age of six by the end of the year. The credit is fully refundable.

4. In TY 2021, 131,094 full-year and partial-year taxpayer households claimed at least one dependent on their Montana personal income tax return. These households claimed a total of 246,818 dependents.
5. Of the 131,094 households that reported a dependent, 52,289 households met the Federal Adjusted Gross Income requirement of \$50,000. These households reported 93,017 dependents.
6. The Montana income tax return does not contain the age of the dependents.
7. According to Montana Census and Economic Information Center’s Population Projections, children between the ages of 0 and 5 will, on average, comprise 29.75% of the population between the ages of 0 and 18 during tax years 2024, 2025, 2026 and 2027.
8. It is assumed that 29.75% of the 93,017 dependents reported on qualified returns will be within the 0 to 5 age range to qualify for a credit. In total, 27,700 (93,017 X 29.75%) children are assumed to qualify for the credit.
9. With 27,700 children, and a credit of \$1,200 per child, a total of \$33,240,000 credits will be claimed yearly.
10. As this is a large credit that taxpayers will consistently qualify for, it is assumed that some taxpayers will change their withholding as a result of the new tax credit. It is assumed that 20% of the credits claimed in TY 2024 will reduce withholdings collections in FY 2024. The remaining 80% of credits will be claimed in FY 2025. It is assumed a similar distribution continues in future tax years.
11. With \$33,240,000 credits claimed each tax year, and with a 20% / 80% revenue distribution, the proposed credit will reduce general fund revenue by \$6.648 million in FY 2024 and \$33.240 million in FY 2025, FY 2026, and FY 2027.
12. The changes made by HB 268 can be made as part of the DOR annual change processes. The department does not expect to incur any significant additional costs because of this bill.

| <u>Fiscal Impact:</u> | <u>FY 2024 Difference</u> | <u>FY 2025 Difference</u> | <u>FY 2026 Difference</u> | <u>FY 2027 Difference</u> |
|---|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| 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) | (\$6,648,000) | (\$33,240,000) | (\$33,240,000) | (\$33,240,000) |
| TOTAL Revenues | <u>(\$6,648,000)</u> | <u>(\$33,240,000)</u> | <u>(\$33,240,000)</u> | <u>(\$33,240,000)</u> |
| <u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u> | | | | |
| General Fund (01) | (\$6,648,000) | (\$33,240,000) | (\$33,240,000) | (\$33,240,000) |

| | | | |
|--|-----------------------------------|---|---------------------------------|
|  _____ Sponsor's Initials | <u>1-24-2023</u> _____ Date |  _____ Budget Director's Initials | <u>1-24-23</u> _____ Date |
|--|-----------------------------------|---|---------------------------------|