



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:

HB0280 - Providing for circuit breaker income tax credit for property taxes paid (Karlen, Jonathan)

Status: As Amended in House Committee

- | | | |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> 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	\$891,418	\$578,728	\$586,175
State Special Revenue	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	(\$79,602,000)	(\$81,983,000)	(\$84,631,000)
State Special Revenue	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance:	\$0	(\$80,493,418)	(\$82,561,728)	(\$85,217,175)

Description of fiscal impact: HB 280 as amended in the House Taxation Committee creates a “circuit breaker” income tax credit based on property taxes paid or rent equivalent property taxes paid. The circuit breaker credit is equal to 75% of property taxes or rent equivalent taxes minus a graduated “threshold” amount based on a taxpayer’s household income for tax years beginning 2024. The House Taxation Committee amends a taxpayer may claim either the circuit breaker credit or the Elderly Homeowner/ Renter Credit. The credit is limited to households with income less than \$130,000. Total program cost is an average of \$82 million annually and with around 87,000 households likely to qualify for a credit.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. The most recent (TY 2021) Montana individual income tax return data is used to estimate the impact of the tax credits created by HB 280, as amended. Returns with an itemized property tax deduction or elderly homeowner property tax credits were matched by mailing address with class 4 residential property tax data.
2. Of the 211,610 households with itemized property tax deductions, 165,392 were successfully matched. This is a match rate of 78.16%. It is assumed that the unmatched properties (21.94%) do not differ significantly in

- income or property characteristics from the matched households and that an equal percentage of non-itemizers will also not be matched successfully.
3. All income tax returns were matched with property tax records generating a total of 229,677 unique properties matched income and property record.
 4. From this dataset, homeowner credits are estimated at \$56.100 million with 58,385 total claimants. Adjusted by the match rate of 78.16% the estimate for total homeowner credits is \$71.777 million spread over 74,700 claimants. The estimated average credit is around \$961.
 5. To estimate the number of renters who would use this credit, the participants who claimed the Elderly Homeowner and Renter Credit for rent equivalent property tax paid had their credit amounts simulated under HB 280. Those credits amounted to \$2.733 million and had 3,609 claimants. Average credit amount was \$757.
 6. The *American Community Survey* administered by the U.S. Census publishes estimates of renter households by age. In 2021 approximately 20.52% of renters are 62 years or older in age (the age necessary to qualify for the Elderly Homeowner and Renter Credit).
 7. It is assumed that non-elderly renters have similar rents and incomes to those 62 or older. Dividing the estimates from the current participants in the Elderly Homeowner and Renter Credit by the proportion that are elderly yields the estimate for the total renter population. That results in 17,591 estimated claimants with total credits of \$13.322 million.
 8. The sum of credits under the proposed program is estimated at \$85.099 million with 92,291 households qualifying for the credit.
 9. HB 280 allows for taxpayers to take either the circuit breaker credit or the Elderly Homeowner and Renter Credit. If all taxpayers were better under the circuit breaker, the elimination of the Elderly Homeowner and Renter Credit would save \$7.049 million.
 10. There are 5,314 taxpayers expected to be better off under the Elderly Homeowner and Renter Credit, and the total difference between their credit size is approximately \$1.033 million. This is an additional revenue reduction due to the program.
 11. Total program costs are estimated at \$79.083 million ($\$85.099 - \$7.049 + \1.033), with about 87,000 households claiming the circuit breaker credit.
 12. The HB 280 credit would first apply to TY 2024, which corresponds with FY 2025 revenue. The estimated credit claims are grown by the “All Other Credits” growth factors contained in HJ 2. That results in fiscal year tax credits of \$79.602 million in FY 2025, \$81.983 million in FY 2026, and \$84.631 million in FY 2027.

DOR Administrative Expense

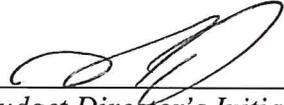
13. The expected number of credit applicants for the Circuit Breaker Credit created by HB 280 will necessitate an additional 12.00 FTE in the Business and Income Tax Division for the initial year. Subsequent years will require 8.00 FTE after filing history has been established.

<u>Fiscal Impact:</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
Department of Revenue				
FTE	0.00	12.00	8.00	8.00
<u>Expenditures:</u>				
Personal Services	\$0	\$752,758	\$507,848	\$513,951
Operating Expenses	\$0	\$138,660	\$70,880	\$72,224
TOTAL Expenditures	\$0	\$891,418	\$578,728	\$586,175
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$891,418	\$578,728	\$586,175
State Special Revenue (02)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	\$0	\$891,418	\$578,728	\$586,175
<u>Revenues:</u>				
General Fund (01)	\$0	(\$79,602,000)	(\$81,983,000)	(\$84,631,000)
State Special Revenue (02)	\$0	\$0	\$0	\$0
TOTAL Revenues	\$0	(\$79,602,000)	(\$81,983,000)	(\$84,631,000)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	(\$80,493,418)	(\$82,561,728)	(\$85,217,175)
State Special Revenue (02)	\$0	\$0	\$0	\$0



 Sponsor's Initials

 Date



 Budget Director's Initials

2-13-23

 Date