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 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

	FY 2024 Difference	FY 2025 Difference	FY 2026 Difference	FY 2027 Difference
Expenditures:				
General Fund	($133,348)	$608,123	$297,878	$301,991
State Special Revenue	$0	$0	$0	$0
Revenue:				
General Fund	$0	($84,339,000)	($86,861,000)	($89,667,000)
State Special Revenue	$0	$231,000	$238,000	$246,000
Net Impact-General Fund Balance:	$133,348	($84,947,123)	($87,158,878)	($89,968,991)

Description of fiscal impact: HB 280 creates a "circuit breaker" income tax credit based on property taxes paid or rent equivalent property taxes paid. The Property Tax Assistance Program (PTAP), Montana Disabled Veteran Program (MDV), and Land Value Property Tax Assistance Program are repealed, as well as the Elderly Homeowner and Renter Credit. The 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. Overall program costs are close to $100 million for all fiscal years, with roughly $10 million offset by the elimination of the tax expenditures listed above.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. The most recent (TY 2021) Montana individual income tax return data is used for estimating the impact of the tax credits created by HB 280. 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 $63.446 million with 62,465 total claimants. Adjusted by the match rate of 78.16% the estimate for total homeowner credits is $81.176 million spread over 79,921 claimants. Average credit size is $1,016.
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 is $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 estimated sum of credits under the proposed program is estimated at $94.498 million with 97,512 households qualifying for the credit.
9. 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 $95.117 million in FY 2025, $97.963 million in FY 2026, and $101.128 million in FY 2027.
10. The existing three property tax assistance programs aimed at reducing taxable value for certain residential homes are repealed by HB 280. These programs are the PTAP, MDV, and the Land Value Property Tax Assistance Program. The TY 2022 statistics for these tax expenditures are shown in the table below.

Program	Participants	Reduction in Taxable Value	Reduction in State Revenue	Local Tax Shifts	Tax Benefit to Participants	Average Benefit
MDV	3,028	$9,573,247	$972,630	$4,970,760	$5,943,390	$1,963
PTAP	21,527	$28,007,306	$2,845,918	$15,292,524	$18,138,442	$843
Land Value	166	$703,290	$71,092	$294,711	$365,803	$2,204
Total	**24,721**	**$38,283,844**	**$3,889,640**	**$20,557,995**	**$24,447,635**	**$989**

11. In the table above, "Reduction in State Revenue" refers to both the general fund portion of state mills as well as the University mills. For TY 2022, total general fund increase from the repeal of these programs is roughly $3.660 million, and total state special revenue for the university system is about $229,929.
12. The Elderly Homeowner and Renter Credit is also repealed. This program is an income tax credit rather than a taxable value reduction program, so it is a transfer from the general fund to individuals. The general fund expenditure decreases from the repeal of this credit are $7,049,440 for TY 2021.
13. Total increase in general fund balance from the repeal of these programs is $10.709 million.
14. These expenditures are all repealed in TY 2024. These credits are grown yearly by "All Other Credits" growth factor contained in HJ 2. Positive general fund balances are $10.779 million in FY 2025, $11.102 million in FY 2026, and $11.461 million in FY 2027. The table below summarizes these component changes over time.

Fiscal Note Request – As Introduced *(continued)*

Fiscal Year	HB 280 Circuit Breaker	PTAP	MDV	Land Value	Elderly Homeowner & Renter Credit	Net Revenue Effect
2025	($95,118,000)	$2,695,000	$921,000	$67,000	$7,096,000	($84,339,000)
2026	($97,963,000)	$2,776,000	$949,000	$69,000	$7,308,000	($86,861,000)
2027	($101,128,000)	$2,866,000	$979,000	$72,000	$7,544,000	($89,667,000)

DOR Administrative Expense

15. The Property Assessment Division will require 1.50 FTE less beginning FY 2024 with the elimination of the taxable value assistance programs. The decision letter mailings savings are $17,472 annually.
16. The repeal of the Elderly Homeowner and Renter Credit reduces 2.00 FTE in the Business and Income Tax Division. However, the expected number of credit applicants for the Circuit Breaker Credit created by HB 280 will necessitate 12.00 additional FTE in the initial year, implying a net increase of 10.00 FTE for FY 2025 for the division. Subsequent years will require 8.00 FTE after filing history has been established.

Fiscal Impact:	**FY 2024 Difference**	**FY 2025 Difference**	**FY 2026 Difference**	**FY 2027 Difference**
Department of Revenue				
FTE	(1.50)	8.50	4.50	4.50
Expenditures:				
Personal Services	($98,448)	$527,467	$279,938	$283,379
Operating Expenses	($34,900)	$80,656	$17,940	$18,612
TOTAL Expenditures	($133,348)	$608,123	$297,878	$301,991
Funding of Expenditures:				
General Fund (01)	($133,348)	$608,123	$297,878	$301,991
State Special Revenue (02)	$0	$0	$0	$0
TOTAL Funding of Exp.	($133,348)	$608,123	$297,878	$301,991
Revenues:				
General Fund (01)	$0	($84,339,000)	($86,861,000)	($89,667,000)
State Special Revenue (02)	$0	$231,000	$238,000	$246,000
TOTAL Revenues	$0	($84,108,000)	($86,623,000)	($89,421,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	$133,348	($84,947,123)	($87,158,878)	($89,968,991)
State Special Revenue (02)	$0	$231,000	$238,000	$246,000

Effect on County or Other Local Revenues or Expenditures:

1. The repeal of PTAP, MDV, and the Land Value Property Tax Assistance Program has an associated increase of $38.284 million in taxable value for local governments in TY 2022. That represents a 1.06% increase in the total taxable base of the state. All else equal mills will be on average 1.06% lower as a result of HB 280.

R.K	1/26/23	RO	1-26-23
Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*