



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:

HB0285 - Increase earned income tax credit and link to inflation (Kerr-Carpenter, Emma)

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>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	(\$88,369,000)	(\$90,231,000)	(\$92,269,000)	(\$96,226,000)
Net Impact-General Fund Balance:	<u>(\$88,369,000)</u>	<u>(\$90,231,000)</u>	<u>(\$92,269,000)</u>	<u>(\$96,226,000)</u>

Description of fiscal impact: HB 285 increases the Montana Earned Income Tax Credit (EITC) percentage to 60% of the federal EITC in TY 2023. The percentage changes in future tax years, depending on changes in the PCE price index. The proposed bill will reduce general fund revenue by \$88.369 million in FY 2024, and \$96.226 million by FY 2027.

FISCAL ANALYSIS

Assumptions:**Department of Revenue**

- Under current law, taxpayers are able to claim an income tax credit that is equal to 3% of the federal Earned Income Tax Credit (EITC) when filing their Montana personal income tax return.
- HB 285 makes several changes to Montana EITC credit. First, the credit percentage is increased from 3% to 60% starting TY 2023. After TY 2023, the credit percentage is adjusted each year based on an inflation factor defined in the bill (See Technical Note #1). The new percentage factor estimated for the current tax year is used as the base amount the following tax year when re-estimating the percentage with the new tax year inflation factor. The credit is limited to the maximum federal EITC amount that can be claimed.

3. For this fiscal note the inflation factor used for the EITC percentage change is interpreted to be the Personal Consumption Expenditure (PCE) price index amount of the June of the previous tax year divided by the PCE price index amount of June 2023 (see Technical Note #1).
4. According to the S&P Global U.S. October 2022 forecast (used to establish the estimates in HJ 2), the PCE price index change is forecasted to grow 6.3% in calendar year (CY) 2022, 3.5% in CY 2023, 2.1% in CY 2024, and 2% in CY 2025 and CY 2026.
5. Based those PCE growth rates, the inflation factor in HB 285 is approximated to be 1.000 (1/1) for TY 2024 1.021for TY 2025 ((1 x 1.021) / 1), and 1.04142 for TY 2026((1.021 x 1.02) / 1.).
6. It is assumed that the credit percentage defined in Section 1(2)(a) will be adjusted each year with the inflation factor by multiplying the state EITC percentage by the inflation factor.
7. Based on the inflation factors reported in assumption 5, and a baseline percentage of 60% in TY 2023, the estimated percentage factor for each tax year is estimated to be: 60% in TY 2023, 60% (0.6 X 1) in TY 2024, 61.3% (0.6 X 1.021) in TY 2025, and 63.8% (61.3% X 1.04142) in TY 2026.
8. Under current law, HJ 2 revenue forecasts assume \$4.651 million in Montana EITC will be claimed in TY 2023, and \$4.749 million in TY 2024. The revenue forecast also estimates that \$4.748 million Montana EITC credits will be claimed in both TY 2025 and TY 2026.

Earned Income Tax Credit Estimates						
Tax Year	Total Federal EITC	Current Law EITC \$	Credits Claimed (Millions)			Change in Revenue
			Current Law Percentage	HB 285 EITC	HB 285 Percentage	
2023	\$155.033	\$4.651	3%	\$93.020	60.0%	(\$88.369)
2024	\$158.300	\$4.749	3%	\$94.980	60.0%	(\$90.231)
2025	\$158.267	\$4.748	3%	\$97.017	61.3%	(\$92.269)
2026	\$158.267	\$4.748	3%	\$100.974	63.8%	(\$96.226)

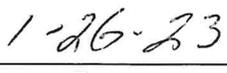
9. In total, \$155.033 million in EITC credits are projected to be claimed in TY 2023 under HB 285, which increases to \$158.3 million in TY 2024, \$158.267 in TY 2025, and \$158.267 million in TY 2026.
10. Based on federal EITC forecast amounts, and the estimated percentage of federal EITC, a total of \$93.020 million Montana EITC credits will be claimed under the proposed law in TY 2023. The total credits claimed increases to \$94.980 million in TY 2024, \$97.017 million in TY 2025, and \$100.974 million in TY 2026.
11. It is assumed that taxpayers will not make changes to their withholdings or estimated payment amounts because of the EITC changes. The EITC change will reduce income tax revenue when taxpayers file their returns the following fiscal year.
12. That results in HB 285 Montana EITC credits reducing general fund revenue by \$88.369 million in FY 2024, \$90.231 million in FY 2025, \$92.269 million in FY 2026, and \$96.226 million in FY 2027.
13. The changes made by HB 285 can be implemented as part of the department’s annual change process. The DOR does not expect to incur any significant additional costs because of this bill.

	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
<u>Fiscal Impact:</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
Department of Revenue				
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)	(\$88,369,000)	(\$90,231,000)	(\$92,269,000)	(\$96,226,000)
TOTAL Revenues	<u>(\$88,369,000)</u>	<u>(\$90,231,000)</u>	<u>(\$92,269,000)</u>	<u>(\$96,226,000)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$88,369,000)	(\$90,231,000)	(\$92,269,000)	(\$96,226,000)

Technical Notes:

Office of Budget and Program Planning

1. The EITC percentage adjustment and the inflation factor calculations are unclear as the bill is currently written. For instance, Section 1 (5) (b) uses common references to two different price indexes, the Bureau of Economic Analysis's PCE index (Base 2012=100) and the Bureau of Labor Statistics Consumer Price Index (Base 1982-1984 =100). Using those indexes would generate a different result than those presented in this fiscal note.

 <hr/> Sponsor's Initials	 <hr/> Date	 <hr/> Budget Director's Initials	 <hr/> Date
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