



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:

HB0345 - Exclusion from federal taxable income for medical savings accounts (Hamilton, Jim)

Status: As Introduced

- | | | |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input 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	\$0	\$0	\$0
Revenue:				
General Fund	\$0	(\$1,404,000)	(\$1,446,000)	(\$1,491,000)
Net Impact-General Fund Balance:	\$0	(\$1,404,000)	(\$1,446,000)	(\$1,491,000)

Description of fiscal impact: HB 345 allows taxpayers to deduct from their taxable income any qualified deposits and income from a Montana Medical Savings Account. The proposed bill will reduce general fund revenue by \$1,404,000 in FY 2025, \$1,446,000 in FY 2026, and \$1,491,000 in FY 2027.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. Under current law, taxpayers can deduct from their Montana Adjusted Gross Income any deposits into a qualified Montana Medical Savings Account. In addition, interest and income from the account can also be deducted as long as the income is spent on qualified medical expenses. The maximum amount that each taxpayer can deduct each year is \$4,500. This deduction is set to expire starting TY 2024.
2. HB 345 allows taxpayers to deduct qualified deposits and income from Medical Savings Accounts from the Federal Taxable Income when estimating their Montana Taxable Income starting TY 2024.
3. Under HB 345 the maximum each account holder can contribute to each qualified account is \$4,500 in 2023, with the maximum amount set to increase each year by multiplying the \$4,500 for TY 2023 by the Consumer Price Index (CPI) for June of the previous year by the CPI for June 2018 and rounding to the nearest \$500 increment.

4. Based on CPI forecast used in HJ 2 revenue estimates, it is assumed that the maximum amount that can be deposited into a qualified account and deducted from taxable income each year is \$4,500 in TY 2023 and \$5,500 in TY 2024, TY 2025, and TY 2026.
5. The Department of Revenue HJ 2 based income tax model was modified to make the HB 345 changes to Medical Savings Account deposits treatment (e.g., exclude them) from Montana Taxable Income starting in TY 2024. The estimated income tax liability was then compared to current law tax liability forecast.
6. Allowing taxpayers to exempt deposits into qualified Medical Savings Accounts from Montana taxable income starting in TY 2024 will reduce the income tax liability of full-year resident taxpayers by \$1.4 million before credits. For TY 2025, TY 2026, and TY 2027, the tax liability of residents would decrease by \$1.45 million, \$1.49 million, and \$1.53 million, respectively.

Tax Liability Estimates Under Current Law and HB 345			
Tax Year	Tax Liability (Millions)		
	Current Law	HB 345	Change
2024	\$1,832.79	\$1,831.39	(\$1.40)
2025	\$1,924.21	\$1,922.77	(\$1.45)
2026	\$2,050.05	\$2,048.56	(\$1.49)
2027	\$2,121.83	\$2,120.30	(\$1.53)

7. As the tax liability change is relatively small and is not directly tied to withholding, or estimated payments, it is assumed that the change in tax liabilities each year will reduce income tax revenue the following fiscal year.
8. With no changes to withholding or estimated payment amounts, the proposed bill will reduce general fund revenue by \$1.4 million in FY 2025, \$1.45 million in FY 2026, and \$1.49 million in FY 2027.
9. The changes made by HB 345 can be implemented as part of the department’s annual change process. The Department of Revenue 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>
<u>Expenditures:</u>				
Personal Services	\$0	\$0	\$0	\$0
TOTAL Expenditures	\$0	\$0	\$0	\$0

<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	\$0	\$0	\$0	\$0

<u>Revenues:</u>				
General Fund (01)	\$0	(\$1,404,000)	(\$1,446,000)	(\$1,491,000)
TOTAL Revenues	\$0	(\$1,404,000)	(\$1,446,000)	(\$1,491,000)

<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	(\$1,404,000)	(\$1,446,000)	(\$1,491,000)

NOT SIGNED BY SPONSOR

Sponsor's Initials

Date



Budget Director's Initials

2-2-23

Date