



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2025 Biennium

**Bill information:**

HB0363 - Revise individual income taxes to provide for new uppermost tax rate (Carter, Robert)

**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>
<b>Expenditures:</b>				
General Fund	\$0	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	\$5,360,000	\$28,175,000	\$30,601,000	\$34,873,000
<b>Net Impact-General Fund Balance:</b>	<u>\$5,360,000</u>	<u>\$28,175,000</u>	<u>\$30,601,000</u>	<u>\$34,873,000</u>

**Description of fiscal impact:** HB 363 creates a new top marginal tax rate of 7% starting TY 2024. The proposed bill will increase general fund revenue by \$5.36 million in FY 2024, which increases to \$34.873 million by FY 2027.

### FISCAL ANALYSIS

**Assumptions:****Department of Revenue**

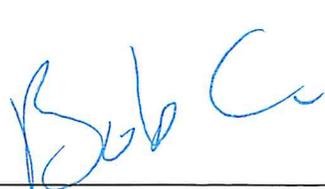
- Under current law, Montana personal income tax is scheduled to begin taxing incomes at two rates starting TY 2024. The first rate is 4.7% and the second rate is 6.5%.
- HB 363 creates a third tax rate starting in TY 2024. The new tax rate is 7% and applies to income above \$500,000 for joint filers, \$375,000 for Head of Household returns, and \$250,000 for all other returns.
- The Department of Revenue income tax model was modified to include the changes made by the HB 363. The estimated tax liability for each tax year under the proposed bill were compared to current law income tax liability forecasts.
- Based on the income tax model, a third marginal tax rate of 7% starting TY 2024 would increase the income tax liability of full-year resident taxpayers by \$24.24 million before credits. For TY 2025, TY 2026, and TY 2027, the tax liability of residents would increase by \$25.78 million, \$30.11 million, and \$30.78 million, respectively.

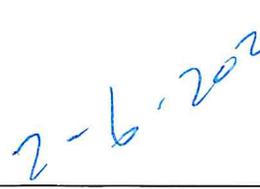
Tax Liability Estimates Under Current Law and Proposed Law			
Tax Year	Tax Liability (Millions)		
	Current Law	Proposed Law	Change in Revenue
2024	\$1,832.79	\$1,857.03	\$24.24
2025	\$1,924.21	\$1,950.00	\$25.78
2026	\$2,050.05	\$2,080.16	\$30.11
2027	\$2,121.83	\$2,152.61	\$30.78

- As the proposed tax rate change makes large changes to the tax liability of some taxpayers, it is assumed that taxpayers will change their withholding and estimated payments as a result of the changes made by the bill. The estimates used in HJ 2 assume that 80% of TY 2024 liability changes and 20% of TY 2025 tax liability changes occur in FY 2025. This distribution continues for subsequent fiscal years. It is assumed that the tax liability distribution changes made HB 363 follow the pattern used in HJ 2 revenue forecasts.
- The tax liability amounts from the proposed tax rate were also adjusted using HJ 2 assumptions for non-full-year resident taxpayers, audit assumptions, and population.
- Based on these adjustments, HB 363 would increase general fund revenue by \$5.36 million in FY 2024, \$28.175 million in FY 2025, \$30.601 million in FY 2026, and \$34.873 million in FY 2027.
- The changes made by the proposed bill can be made as part of the department’s annual change process. The Department of Revenue does not expect to incur any significant costs because of this bill.

<b>Fiscal Impact:</b>	<b>FY 2024 Difference</b>	<b>FY 2025 Difference</b>	<b>FY 2026 Difference</b>	<b>FY 2027 Difference</b>
<b>FTE</b>	0.00	0.00	0.00	0.00
<b>Expenditures:</b>				
Personal Services	\$0	\$0	\$0	\$0
<b>TOTAL Expenditures</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Funding of Expenditures:</b>				
General Fund (01)	\$0	\$0	\$0	\$0
<b>TOTAL Funding of Exp.</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Revenues:</b>				
General Fund (01)	\$5,360,000	\$28,175,000	\$30,601,000	\$34,873,000
<b>TOTAL Revenues</b>	<b>\$5,360,000</b>	<b>\$28,175,000</b>	<b>\$30,601,000</b>	<b>\$34,873,000</b>

<b>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</b>				
General Fund (01)	\$5,360,000	\$28,175,000	\$30,601,000	\$34,873,000

  
 \_\_\_\_\_  
 Sponsor's Initials

  
 \_\_\_\_\_  
 Date

  
 \_\_\_\_\_  
 Budget Director's Initials

  
 \_\_\_\_\_  
 Date