



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2025 Biennium

<b>Bill information:</b>	
HB0526 - Repeal state tax on social security income (Fielder, Paul )	
<b>Status:</b>	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 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	(\$22,119,000)	(\$116,060,000)	(\$122,453,000)	(\$128,907,000)
<b>Net Impact-General Fund Balance:</b>	<u>(\$22,119,000)</u>	<u>(\$116,060,000)</u>	<u>(\$122,453,000)</u>	<u>(\$128,907,000)</u>

**Description of fiscal impact:** HB 526 expands the partial exemption of Social Security income from Montana individual income tax that is otherwise could be taxable with the flow-through of federal full taxable income and exempts all Social Security income from Montana individual income tax for all social security beneficiaries. The changes would first apply to TY 2024 . The proposed change would reduce general fund revenue by \$22,119,000 in FY 2024 (as people shift their withholding and estimated payments), \$116 million in FY 2025, \$122 million in FY 2026, and \$129 million in FY 2027.

### FISCAL ANALYSIS

**Assumptions:**

1. Taxation of Social Security benefits is somewhat complicated as federal law flows-through to Montana. Currently, under federal law, Social Security income is exempt if a taxpayer files a single or head of household return with a "combined" income (defined as federal adjusted gross income, plus non-taxable interest, plus one-half of social security benefits) under \$25,000. If a taxpayer's total income comes from Social Security benefits, up to \$50,000 could be exempt. If filing a joint return, the full exemption level is \$32,000 in "combined" income. If all a couple's income came from Social Security benefits up to \$64,000 in income could be exempt.

2. Based on the American Community Survey, in 2021, a median householder (single filer) over age 65 had a median income of nearly \$48,000. Social Security Administration data for Montana shows that in December 2021 the average retired worker’s Social Security benefits averaged nearly \$19,000 in annualized benefits. A two-person household with two workers would average \$38,000 in benefits. The current (CY 2023) maximum annualized social security benefit for a beneficiary at full retirement age is \$45,696.
3. HB 526 makes all social security income exempt from Montana personal income tax starting TY 2024.
4. Taxable social security income was reported on 112,312 Montana returns in TY 2021, with approximately \$1.495 billion in federal taxable income reported.
5. The Department of Revenue’s income tax model was modified to incorporate the social security income exemption created by HB 526. The estimated income tax liability amount under the proposed law were then compared to current law income tax liability forecasts.
6. Based on the social security income amounts reported on TY 2021 returns, and the department’s income tax model, exempting all social security income from state income tax in TY 2022 is expected to reduce the tax liability of full-year resident taxpayers by \$100 million in TY 2024. The tax liability reduction increases to \$115 million by TY 2027.

Tax Liability Estimates Under Current Law and Proposed Law			
Tax Year	Tax Liability (In Millions)		
	Current Law	Proposed Law	Change in Revenue
2024	\$1,832.79	\$1,732.75	(\$100.04)
2025	\$1,924.21	\$1,818.76	(\$105.45)
2026	\$2,050.05	\$1,939.08	(\$110.97)
2027	\$2,121.83	\$2,006.68	(\$115.15)

7. As HB 526 makes large changes to the taxable income of taxpayers with social security income, it is assumed that some of the taxpayers will change their withholding and estimated payment amounts.
8. It is assumed that withholding and estimated payments will change based on the assumptions used in the HJ 2 revenue forecast. The HJ 2 forecast assumes 80% of TY 2024 tax liability and 20% of TY 2025 tax liability payments will occur in FY 2025. This distribution applies to all fiscal years.
9. The change in the estimated tax liability of full-year resident taxpayers from the department’s income tax model were adjusted to account for the changes in withholding, estimated payments, nonresident taxpayers, income tax credits, and audit collections.
10. Based on the adjustments used for HJ 2, the proposed bill would reduce income tax revenue by \$22.119 million in FY 2024, \$116.06 million in FY 2025, \$122.453 million in FY 2026, and \$128.907 million in FY 2027.

Tax Revenue Change by Fiscal Year	
Fiscal Year	Change in Revenue (Millions of Dollars)
2024	(\$22.119)
2025	(\$116.060)
2026	(\$122.453)
2027	(\$128.907)

11. The bill’s proposed changes can be made as part of the Department of Revenue’s annual change process. The department does not expect to incur any significant additional costs because of this bill.

<b><u>Fiscal Impact:</u></b>	<b><u>FY 2024</u></b>	<b><u>FY 2025</u></b>	<b><u>FY 2026</u></b>	<b><u>FY 2027</u></b>
<b>Department of Revenue</b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>
<b>FTE</b>	0.00	0.00	0.00	0.00
<b><u>Expenditures:</u></b>				
Personal Services	\$0	\$0	\$0	\$0
<b>TOTAL Expenditures</b>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$0	\$0	\$0	\$0
<b>TOTAL Funding of Exp.</b>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b><u>Revenues:</u></b>				
General Fund (01)	<u>(\$22,119,000)</u>	<u>(\$116,060,000)</u>	<u>(\$122,453,000)</u>	<u>(\$128,907,000)</u>
<b>TOTAL Revenues</b>	<u>(\$22,119,000)</u>	<u>(\$116,060,000)</u>	<u>(\$122,453,000)</u>	<u>(\$128,907,000)</u>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	(\$22,119,000)	(\$116,060,000)	(\$122,453,000)	(\$128,907,000)

Paul C. Fields  
Sponsor's Initials

2/22/2023  
Date

[Signature]  
Budget Director's Initials

2-20-23  
Date