



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:

SB0550 - Generally revise income tax laws and clarify income tax reform provisions (Hertz, Greg)

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	(\$316,250)	(\$1,720,250)	(\$1,761,250)	(\$1,806,250)
Net Impact-General Fund Balance:	(\$316,250)	(\$1,720,250)	(\$1,761,250)	(\$1,806,250)

Description of fiscal impact: SB 550 makes several changes to Montana’s personal income tax language. It also extends and expands the Montana Medical Savings Account personal income tax exemption.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. SB 550 extends the income exemption for Montana’s Medical Savings Account deposits, which was set to expire in TY 2024. The bill also expands the eligible tax-free Montana Medical Savings Account spending categories. Under SB 550, the account can be used for fees associated with a direct patient care (DPC) agreement and to any expenses paid by the taxpayer to a Health Care Sharing Ministry that meets the requirements of 50-4-111, MCA. The bill also eliminates new first-time home buyer savings accounts after TY 2023. Finally, the bill clarifies the tax rates used for calculating a composite tax return and withholding of lottery winnings.

Montana Medical Savings Account

2. Under current law, taxpayers are able to 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.
3. SB 550 allows taxpayers to deduct qualified deposits and income from Medical Savings Accounts from their Federal Taxable Income when estimating their Montana Taxable Income starting TY 2024.
 4. Under SB 550, the maximum each account holder can contribute to each qualified account is \$4,500 in TY 2024, with the limit increasing each year by the relative change in the Consumer Price Index (CPI) for June of the previous year by the CPI for June 2023 and rounding to the nearest \$100 increment.
 5. Based on federal inflation factors used in HJ 2 revenue assumptions, 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 2024, \$4,700 in TY 2025, \$4,800 in TY 2026 and \$4,900 in TY 2027.
 6. The Department’s income tax model was modified to exclude projected Medical Savings Account deposits from Montana Taxable Income starting TY 2024. The estimated income tax liability for each year under the proposed bill were then compared to current law income tax liability forecasts.
 7. Based on the income tax model, allowing taxpayers to exempt deposits into qualified Medical Savings Accounts starting TY 2024 will reduce the income tax liability of full-year resident taxpayers by \$1.4 million before credits. For tax years 2025, 2026 and 2027, the tax liability of residents would decrease by \$1.44 million, \$1.49 million, and \$1.53 million, respectively.

Figure 1			
Tax Liability Estimates with Continuation of Montana MSA			
Tax Liability (Millions)			
Tax Year	Current Law	Proposed Law	Change in Revenue
2024	\$1,832.79	\$1,831.39	(\$1.40)
2025	\$1,924.21	\$1,922.77	(\$1.44)
2026	\$2,050.05	\$2,048.56	(\$1.49)
2027	\$2,121.83	\$2,120.30	(\$1.53)

8. Starting TY 2023, SB 550 also allows taxpayer spending on DPC agreements and expenses paid to a Health Care Sharing Ministry that meets the requirements in 50-4-111, MCA to be qualified spending from a Montana Medical Savings Account.
9. It is assumed that 5,000 Montana patients will participate in a DPC program each tax year starting in TY 2023.
10. It is assumed that the average annual fee for participating in a DPC is \$1,000.
11. With 5,000 patients, and an average annual fee of \$1,000, it is assumed that Montana taxpayers will spend an average of \$5,000,000 on DPC fees each year.
12. It is assumed that 7,500 taxpayers in Montana are a member of a Health Care Sharing Ministry in Montana that qualifies for the exclusion created by SB 550.
13. The average cost of membership to a Health Care Sharing Ministry is \$2,400 a year per member.
14. With an average membership of 7,500, and an average annual cost of \$2,400 per member, it is assumed that Montana taxpayers will spend \$18,000,000 each year on qualified Health Care Sharing Ministry fees.
15. In total, taxpayers are assumed to spend a total of \$23,000,000 in newly qualified Medical Savings Account expenditures in tax years 2023, 2024, 2025 and 2026.
16. It is assumed that a quarter of the newly qualified expenditures will be excluded from taxable income.
17. It is assumed this income would have been taxed at an average rate of 5.5%.
18. With a reduction in taxable income of \$5.75 million, and a tax rate of 5.5%, the Medical Savings Account expansion is assumed to reduce income tax revenue by \$316,250 in tax years 2023, 2024, 2025 and 2026.
19. Expanding the Montana Medical Savings account program and extending the program beyond TY 2023 is estimated to reduce income tax revenue by \$316,250 in TY 2023, \$1,720,250 in TY 2024, \$1,761,250 in TY 2025 and \$1,806,250 in TY 2026.

Figure 2			
Tax Liability Change with MSA Continuation and Expansion			
Change in Tax Liability			
Tax Year	Continuation	Expansion	Change in Revenue
2023	\$0	(\$316,250)	(\$316,250)
2024	(\$1,404,000)	(\$316,250)	(\$1,720,250)
2025	(\$1,445,000)	(\$316,250)	(\$1,761,250)
2026	(\$1,490,000)	(\$316,250)	(\$1,806,250)

20. The change in tax liabilities is assumed to decrease income tax revenue when taxpayers file their returns the following tax year.

21. The proposed changes to Montana Medical Savings Accounts will reduce general fund revenue by \$316,250 in FY 2024, \$1,720,250 in FY 2025, \$1,761,250 in FY 2026 and \$1,806,250 in FY 2027.

Montana First Time Homebuyer Account

22. SB 550 limits the establishment of a Montana first-time homebuyer account to before January 1, 2024.

23. As deposits to first-time homebuyer accounts would no longer be exempt from taxable income starting January 1, 2024, the proposed change is not expected to have any impact to personal income tax liabilities.

All Other Provisions

24. All other provisions in SB 550 are not expected to have significant revenue impact.

25. The changes made by HB 926 can be made as part of the annual change processes and the Department does not expect to incur 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
Expenditures:				
Personal Services	\$0	\$0	\$0	\$0
TOTAL Expenditures	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Funding of Expenditures:				
General Fund (01)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Revenues:				
General Fund (01)	(\$316,250)	(\$1,720,250)	(\$1,761,250)	(\$1,806,250)
TOTAL Revenues	<u>(\$316,250)</u>	<u>(\$1,720,250)</u>	<u>(\$1,761,250)</u>	<u>(\$1,806,250)</u>
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	(\$316,250)	(\$1,720,250)	(\$1,761,250)	(\$1,806,250)

NO SPONSOR SIGNATURE 3/28/23
 Sponsor's Initials Date

[Signature] 3-28-23
 Budget Director's Initials Date