GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill #	HB0108		**Title:**	Follow Federal Practice of Withholding for Retirement Fund Withdrawals
Primary Sponsor:	R. Erickson		**Status:**	As Introduced

- ☐ Significant Local Gov Impact
- ☐ Include in HB 2
- ☐ Technical Concerns
- ☐ Included in the Executive Budget
- ☐ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Expenditures:				
General Fund	$1,425	$1,425	$1,425	$1,425
Revenue:				
General Fund	$150,000	$150,000	$0	$0
Net Impact-General Fund Balance:	$148,575	$148,575	($1,425)	($1,425)

Description of Fiscal Impact:
This bill would require withholding for income taxes when a taxpayer makes a withdrawal from a tax-advantaged account such as an IRA and federal taxes are withheld. There would be no change in tax liability, but fewer taxpayers would end up paying income taxes late because they failed to set aside funds from a withdrawal.

FISCAL ANALYSIS

Assumptions:

1. Distributions from tax-deferred accounts such as IRAs, retirement funds, and deferred compensation accounts are subject to federal and state income tax. Under current law, when an individual makes certain types of lump-sum withdrawals from a tax-deferred account, the account manager is required to withhold 20% of the amount withdrawn to cover the recipient's federal income tax liability. There is no corresponding requirement to withhold for Montana income taxes.
2. This bill would require account managers to withhold 30% of any amount withheld for federal taxes to cover the recipient's Montana income tax liability for distributions made after December 31, 2007. No state withholding would be required if the recipient elects to have no federal withholding.
3. This bill would not change income tax liability and would have a very small effect on the amount of income tax collected.

4. Each year, taxpayers who receive lump-sum distributions and do not keep funds to pay the tax on the distribution have about $300,000 in income tax liability that they are unable to pay in full when they file their next return. Most of these taxpayers do pay their tax, but end up paying it late, often in installments.
5. With withholding, about $300,000 in taxes that would have been paid in later years would be paid in the year they are due. This would results in $300,000 of additional revenue in CY 2008, split evenly between FY 2008 and FY 2009, but no change in revenue in later years.
6. Employment in Montana is approximately 436,000. Nationally, 63% of employees are covered by some type of pension plan. From 2000 through 2005, the Montana Public Employee Retirement System had an average ratio of lump sum disbursements to active members of 10.8%. This gives an estimate of the number of annual Montana lump sum disbursements of 29,665 (436,000 x 63% x 10.8%). In about half of disbursements, funds will be rolled over to another tax-deferred account or the recipient will elect to forgo withholding. Thus, the Department of Revenue will process about 15,000 withholding statements and payments each year. Additional general fund operating costs would be $1,425 per year.

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Fiscal Impact:				
Expenditures:				
Operating Expenses	$1,425	$1,425	$1,425	$1,425
Funding of Expenditures:				
General Fund (01)	$1,425	$1,425	$1,425	$1,425
Revenues:				
General Fund (01)	$150,000	$150,000	$0	$0
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	$148,575	$148,575	($1,425)	($1,425)

Sponsor's Initials *Date* *Budget Director's Initials* *Date*