Fiscal Note 2009 Biennium

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

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Bill #	SB0061	**Title:**	Adopt federal standard deduction for state income taxes
Primary Sponsor:	Cobb, J.	**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

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Revenues:				
General Fund (01)	$ (28,639,000)	$ (24,332,000)	$ (26,010,000)	$ (27,336,000)
Net Impact-General Fund Balance	$ (28,639,000)	$ (24,332,000)	$ (26,010,000)	$ (27,336,000)

Description of Bill:

This bill would raise the standard deduction for Montana income tax so it was equal to the standard deduction for federal income tax. This would reduce revenue to the general fund from the individual income tax beginning in FY 2008.

FISCAL ANALYSIS

Assumptions:

1. This bill would amend 15-30-122, MCA, to make the standard deduction for the Montana income tax the same as the federal standard deduction, beginning with tax year 2007. The federal standard deduction is higher than the maximum state standard deduction for all taxpayers. Thus, this change would reduce tax liability for taxpayers who choose the standard deduction, and some taxpayers who would itemize deductions under current law would find it advantageous to choose the standard deduction under this bill.
2. The computer model used to forecast future income tax liability was modified to reflect the changes in this bill and run with the inputs used to derive the HJR 2 forecast. The differences in calendar year tax liability for all taxpayers are shown in the following table.

Calendar Year	Difference in Tax Liability ($ million)
2007	-22.087
2008	-23.827
2009	-25.662
2010	-26.926
2011	-28.416

3. The Department of Revenue would change withholding tables to reflect the change in tax liability, but few taxpayers would change their estimated payments because of this change in the standard deduction. However the change in withholding tables would not be done until mid-year of CY 2007, which is the beginning of FY 2008, so the January through June 2007 reduction in revenues to the state would be reflected in FY 2008 revenues. The reduction in tax liability from non-wage income for each calendar year will result in higher refunds and less tax being paid with returns filed in the spring of the next fiscal year.
4. About 55% of income tax is from wage and salary income, and about 45% is from other types of income.
5. In FY 2008, the reduction in general fund revenue will be the reduction in liability for CY 2007 plus 55% of the reduction in liability for the first half of CY 2008 or $28.639 million ($22.087 million + 55% x ½ x $23.827 million).
6. The reduction in revenue for later years is the reduction in tax on non-wage income in the previous calendar year plus the reduction in tax on wages in the second half of the previous calendar year plus the reduction in tax on wages in the first half of the current calendar year. The reduction in general fund revenue is $24.332 million in FY 2009, $26.010 million in FY 2010, and $27.336 million in FY 2011.
7. Changes to tax forms and processing required by this bill would be made as part of normal annual updates. The Department of Revenue would have no additional costs because of this bill.

Fiscal Impact	**FY 2008 Difference**	**FY 2009 Difference**	**FY 2010 Difference**	**FY 2011 Difference**
Revenues:				
General Fund (01)	$ (28,639,000)	$ (24,332,000)	$ (26,010,000)	$ (27,336,000)

Effect on County or Other Local Revenues or Expenditures:

1. None

Long-Range Impacts:

1. The revenue reduction from this bill would continue to grow over time after FY 2011.

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