



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2015 Biennium

Bill #	HB0393	Title:	Revise individual income tax for married taxpayers
Primary Sponsor:	Hoven, Brian	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 2014 Difference</u>	<u>FY 2015 Difference</u>	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	(\$20,728,000)	(\$14,620,000)	(\$15,155,000)	(\$15,760,000)
Net Impact-General Fund Balance:	<u>(\$20,728,000)</u>	<u>(\$14,620,000)</u>	<u>(\$15,155,000)</u>	<u>(\$15,760,000)</u>

Description of fiscal impact: HB 393 proposes a new tax rate structure for couples who choose married filing jointly status on their Montana income tax returns. It is estimated that this legislation would reduce general fund revenue by approximately \$15 million per year after the initial year, and would grow in subsequent years.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

- Currently, the state income tax has a tax structure in which the tax rate increases as a taxpayer's adjusted gross income increases. The table below shows the income brackets and tax rates that applied to a taxpayer's TY 2011 adjusted gross income.

<u>Income Bracket</u>	<u>Tax (Rate and marginal offset)</u>
\$0-\$2,700	1%
\$2,701-\$4,700	2% minus \$27
\$4,701-\$7,200	3% minus \$74
\$7,201-\$9,700	4% minus \$146
\$9,701-\$12,500	5% minus \$243
\$12,501-\$16,000	6% minus \$368
Over \$16,000	6.9% minus \$512

- Under current law, the rates will remain the same, but every year the income brackets will be adjusted for inflation. There are currently six different filing statuses from which a taxpayer must choose when filing their Montana income tax returns. The filing statuses are: single, married filing jointly, married filing separately on the same form, married filing separately on separate forms, married and spouse not filing, and head of household.
- HB 393 proposes a seventh tax status for individuals electing married filing jointly. The brackets for this tax status are essentially double the current income tax brackets. The following table shows the tax rate and the estimated inflation adjusted tax brackets for TY 2013 through TY 2016.

**Married Filing Jointly - Income Brackets and Marginal Tax Rates Under Current Law and HB 393
TY 2013 Through TY 2017**

Marginal Tax Rate	TY 2013		TY 2014		TY 2015		TY 2016		TY 2017	
	Current Law	HB 393	Current Law	HB 393	Current Law	HB 393	Current Law	HB 393	Current Law	HB 393
1.0%	To \$2,800	to \$5,600	to \$2,800	to \$5,600	to \$2,800	to \$5,600	to \$2,900	to \$5,800	to \$3,000	to \$5,900
2.0%	to \$4,900	to \$ 9,800	to \$5,000	to \$10,000	to \$5,100	to \$10,200	to \$5,200	to \$5,300	to \$5,300	to \$10,500
3.0%	to \$7,400	to \$14,800	to \$7,500	to \$15,000	to \$ 7,700	to \$15,400	to \$7,800	to \$15,600	to \$8,000	to \$15,900
4.0%	to \$10,000	to \$20,000	to \$10,200	to \$20,400	to \$10,400	to \$20,800	to \$10,600	to \$21,100	to \$10,800	to \$21,600
5.0%	to 12,900	to \$25,800	to \$13,200	to \$26,400	to \$13,400	to \$26,800	to \$13,600	to \$27,100	to \$13,900	to \$27,800
6.0%	to \$16,600	to \$33,200	to \$16,900	to \$33,800	to \$17,200	to \$34,400	to \$17,500	to \$34,900	to \$17,900	to \$35,800
6.9%	Over \$16,600	Over \$33,200	Over \$16,900	Over \$33,800	Over \$17,200	Over 34,400	Over \$17,500	Over 34,900	Over \$17,900	Over \$35,800

- The current income tax model was modified to incorporate the additional tax structure, and then the estimated revenue is compared to current law estimates.
- The estimated change in full year residents’ tax liability was multiplied by the ratio of full year residents tax liability to the estimated total liability contained in the revenue estimate. The following table shows the change in tax revenue (in millions) by tax year.

Tax Year	Change
TY 2013	(\$13.592)
TY 2014	(\$14.273)
TY 2015	(\$14.967)
TY 2016	(\$15.343)
TY 2017	(\$16.177)

- It is assumed that the estimated impact in TY 2013 will be realized when taxpayers file their returns in FY 2014. After the initial year, TY 2013, it is assumed that taxpayers will adjust their withholding and the impact will be realized evenly in the corresponding fiscal year and the subsequent fiscal year. The following table shows the estimated revenue impact by fiscal year.

Fiscal Year	Change in Revenue (\$ millions)
FY 2014	(\$20.728)
FY 2015	(\$14.620)
FY 2016	(\$15.155)
FY 2017	(\$15.760)

- DOR estimates the cost to implement HB 393 would be minimal and could be absorbed within current resources.

	<u>FY 2014</u> <u>Difference</u>	<u>FY 2015</u> <u>Difference</u>	<u>FY 2016</u> <u>Difference</u>	<u>FY 2017</u> <u>Difference</u>
<u>Fiscal Impact:</u>				
Department of Revenue				
<u>Expenditures:</u>				
Operating Expenses	\$0	\$0	\$0	\$0
TOTAL Expenditures	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Revenues:</u>				
General Fund (01)	(\$20,728,000)	(\$14,620,000)	(\$15,155,000)	(\$15,760,000)
TOTAL Revenues	<u>(\$20,728,000)</u>	<u>(\$14,620,000)</u>	<u>(\$15,155,000)</u>	<u>(\$15,760,000)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$20,728,000)	(\$14,620,000)	(\$15,155,000)	(\$15,760,000)

Sponsor's Initials

Date

Budget Director's Initials

Date