



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill # HB0169

Title: Revise individual income tax laws

Primary Sponsor: Wittich, Art

Status: As Amended in House Committee

- 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

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	(\$50,232,000)	(\$51,691,000)	\$0	\$0
Net Impact-General Fund Balance:	<u>(\$50,232,000)</u>	<u>(\$51,691,000)</u>	<u>\$0</u>	<u>\$0</u>

Description of fiscal impact: As amended, this bill would create a temporary credit for property tax on a taxpayer's residence and would temporarily reduce income tax rates for 2015 and 2016. This would reduce general fund revenue by \$50.2 million in FY 2016 by \$51.7 million in FY 2017.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. This bill would create a non-refundable credit of up to \$100 for property tax on a taxpayer's primary residence. Taxpayers who take the credit must reduce their itemized deduction for property taxes by the amount of the credit. This credit would only be available for tax years 2015 and 2016.
2. For tax years 2015 and 2016, this bill would set income tax, before credits, equal to 97.5% of the tax calculated from the rate table.
3. The Census Bureau estimates that there are approximately 271,000 owner-occupied housing units in Montana. About 11,000 of these property owners have incomes that are too low to pay income tax. About another 10,000 have incomes low enough that they would pay less than \$100 in income tax.
4. Full credits of \$100 would be claimed by 250,000 taxpayers, and 10,000 taxpayers would claim partial credits averaging \$50. Total credits would be \$25.5 million per year.

5. The income tax forecasting model was modified to reflect the temporary rate reduction and lower property tax deductions for taxpayers who claim the credit. The modified model predicts tax liability that is lower than the baseline by \$24.732 million for 2015, and by \$26.191 million for 2016.
6. Few taxpayers would adjust their withholding or estimated payments because of the credits and temporary rates in this bill. Most would receive larger refunds or make smaller payments when they file their returns. Thus, the revenue reductions for TY 2015 would occur in FY 2016, and the revenue reductions for TY 2016 would occur in FY 2017. The following table shows the combined revenue impact of the credit (assumption #4) and rate reductions (assumption #5).

Change in General Fund Revenue	
(\$ million)	
<u>FY 2016</u>	<u>FY 2017</u>
(\$50.232)	(\$51.691)

7. The department would make changes to tax returns and instructions as part of the normal annual update process with no additional costs.

<u>Fiscal Impact:</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
Department of Revenue	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
<u>Expenditures:</u>				
TOTAL Expenditures	\$0	\$0	\$0	\$0
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	\$0	\$0	\$0	\$0
<u>Revenues:</u>				
General Fund (01)	(\$50,232,000)	(\$51,691,000)	\$0	\$0
TOTAL Revenues	(\$50,232,000)	(\$51,691,000)	\$0	\$0

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	(\$50,232,000)	(\$51,691,000)	\$0	\$0
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Technical Notes:

Department of Revenue

1. Experience with previous property tax credits suggests that questions regarding eligibility will arise. In the past, issues have included eligibility for taxpayers who have had a change of residence during the year, hold dwellings under joint ownership, dwellings on large parcels, and dwellings held under indirect ownership through a business entity. Administrative rules will be needed to address with these issues. Bill language recognizing these issues and providing guidance could make the implementation process clearer.
2. Section 1 allows for a \$100 tax credit for taxes imposed and paid on a residential dwelling for tax years 2015 and 2016, but the title indicates that the tax credit is for TY 2016 only.

Sponsor's Initials

Date

Budget Director's Initials

Date