



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2023 Biennium

**Bill #** HB0162

**Title:** Eliminate state tax on social security income

**Primary Sponsor:** Fielder, Paul

**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

	<u>FY 2022 Difference</u>	<u>FY 2023 Difference</u>	<u>FY 2024 Difference</u>	<u>FY 2025 Difference</u>
<b>Expenditures:</b>				
General Fund	\$0	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	(\$17,423,000)	(\$91,384,000)	(\$97,003,000)	(\$101,031,000)
<b>Net Impact-General Fund Balance:</b>	<u>(\$17,423,000)</u>	<u>(\$91,384,000)</u>	<u>(\$97,003,000)</u>	<u>(\$101,031,000)</u>

**Description of fiscal impact:** HB 162 eliminates social security income from the calculation of taxable income for Montana personal income tax starting in TY 2022. The exemption of social security income is forecast to reduce general fund revenue by \$17.423 million in FY 2022. The decrease in general fund revenue increases to \$101.031 million by FY 2025.

### FISCAL ANALYSIS

#### Assumptions:

#### **Department of Revenue (DOR)**

- Under current law, a portion of a taxpayer's social security income may be subject to state personal income tax based on the taxpayer's level of total Montana taxable income.
- HB 162 makes all social security income exempt from Montana personal income tax starting TY 2022.
- Social Security income was reported on 104,780 Montana returns in TY 2019, with approximately \$1,284 million in federal taxable income reported. Of the 104,780 Montana returns reporting social security income for federal purposes, 47,282 were able to exempt at least some of the income from Montana tax. In total, \$283.8 million was exempted from Montana income tax. An additional 10,059 returns had Montana additions to income that made \$18.1 million in social security income that was not taxable at the federal level, taxable in Montana. The effect of HB 162 if it had applied to TY 2019 taxes would have been an exemption of \$1,018.3 million in Montana social security income.

4. The Department of Revenue’s income tax model was modified to incorporate the social security income exemption made by HB 162. The estimated income and tax liability amount under the proposed law were then compared to current law income and tax liability forecasts.
5. Based on the social security income amounts reported on TY 2019 returns, and the department’s income tax model, exempting social security income from state income tax in TY 2022 is expected to reduce the tax liability of full-year resident taxpayers by \$81.80 million. The tax liability reduction increases to \$91.60 million by TY 2025.



Tax Liability Estimates under Current Law and HB 162			
Tax Liability (Million \$)			
Tax Year	Current Law	Proposed Law	Change in Liability
2022	\$1,395.680	\$1,313.890	(\$81.800)
2023	\$1,454.550	\$1,369.390	(\$85.160)
2024	\$1,521.480	\$1,433.400	(\$88.080)
2025	\$1,598.520	\$1,506.920	(\$91.600)

6. As HB 162 makes large changes to the taxable income of taxpayers with social security income, it is assumed that some of the taxpayers will change their withholding and estimated payments.
7. It is assumed that withholding and estimated payments will change based on the assumptions used in the HJ 2 revenue forecast. The HJ 2 forecast assumes 80% of TY 2022 tax liability and 20% of TY 2023 tax liability payments will occur in FY 2023. This distribution applies to all fiscal years.
8. The change in the estimated tax liability of full-year resident taxpayers from the department’s income tax model were adjusted to account for the changes in withholding, estimated payments, non-resident taxpayers, income tax credits and audit collections.
9. Based on the adjustments used for HJ 2, the proposed bill would reduce income tax revenue by \$17.423 million in FY 2022. Starting FY 2023, the revenue loss increases significantly to \$91.384 million. By FY 2025, the revenue loss increases to \$101.031 million.

Tax Revenue Change by Fiscal Year under HB 162			
(Millions \$)			
FY 2022	FY 2023	FY 2024	FY 2025
(\$17.423)	(\$91.384)	(\$97.003)	(\$101.031)

10. The bills proposed changes can be made as part of the department’s annual change processes. The department does not expect to incur any significant additional costs because of this bill.

	<u>FY 2022</u> <u>Difference</u>	<u>FY 2023</u> <u>Difference</u>	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>
<b><u>Fiscal Impact:</u></b>				
<b>Department of Revenue</b>				
FTE	0.00	0.00	0.00	0.00
<b><u>Expenditures:</u></b>				
Personal Services	\$0	\$0	\$0	\$0
<b>TOTAL Expenditures</b>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$0	\$0	\$0	\$0
<b>TOTAL Funding of Exp.</b>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b><u>Revenues:</u></b>				
General Fund (01)	(\$17,423,000)	(\$91,384,000)	(\$97,003,000)	(\$101,031,000)
<b>TOTAL Revenues</b>	<u>(\$17,423,000)</u>	<u>(\$91,384,000)</u>	<u>(\$97,003,000)</u>	<u>(\$101,031,000)</u>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	(\$17,423,000)	(\$91,384,000)	(\$97,003,000)	(\$101,031,000)

 _____ Sponsor's Initials	1/28/2021 _____ Date	 _____ Budget Director's Initials	1/20/21 _____ Date
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