



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 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 2022 Difference</u>	<u>FY 2023 Difference</u>	<u>FY 2024 Difference</u>	<u>FY 2025 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	(\$3,804,000)	(\$23,610,000)	(\$44,417,000)	(\$66,142,000)
Net Impact-General Fund Balance:	<u>(\$3,804,000)</u>	<u>(\$23,610,000)</u>	<u>(\$44,417,000)</u>	<u>(\$66,142,000)</u>

Description of fiscal impact: As amended, HB 162 phases-out the taxation of social security income from the calculation of taxable income for Montana personal income tax starting in TY 2022.

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.
- As amended, HB 162 exempts a portion of the social security income from Montana personal income tax starting in TY 2022. For tax years 2022, 2023, 2024 and 2025, taxpayers are able to exempt 20%, 40%, 60% and 80% of their social security benefits, respectively. The amended bill exempts all social security income from Montana's personal income tax starting TY 2026.
- Social security income taxable at the federal level was reported on 104,780 returns in tax year 2019, with approximately \$1.284 billion 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, \$282.8 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.

5. The Department of Revenue’s income tax model was modified to incorporate the Social Security income exemptions made by HB 162 as amended. The estimated income and tax liability amount under the proposed law were then compared to current law income and tax liability forecasts.
6. Based on the Social Security income amounts reported on tax year 2019 returns, and the department’s income tax model, exempting 20% of federal taxable Social Security income from state income tax in 2022 is expected to reduce the tax liability of full-year resident taxpayers by \$17.859 million. As the phase-out amount increases, the impact to tax liabilities increases as well. By tax year 2025, when the phase out has increased to 80% of Social Security income, the tax liability reduction increases to \$74.19 million.

Tax Liability Under Current Law and HB 163 as Amended			
Tax Year	Tax Liability (In Millions)		
	Current Law	Proposed Law	Change
2022	\$1,395.68	\$1,377.82	(\$17.86)
2023	\$1,454.55	\$1,418.89	(\$35.65)
2024	\$1,521.48	\$1,467.22	(\$54.26)
2025	\$1,598.52	\$1,524.33	(\$74.19)

7. As the amended version of HB 162 makes significant changes to the taxable income of taxpayers with social security income, it is assumed that some of the taxpayers will change withholding and estimated payments.
8. It is assumed that withholding and estimated payments will change based on the assumptions used in the HJ 2 revenue forecast , that is, 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.
9. 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.
10. Based on the adjustments used for HJ 2, HB 162 as amended would reduce income tax revenue by \$3.804 million in FY 2022. Starting FY 2023, the revenue loss increases to \$23.610 million. By FY 2025, the revenue loss increases to \$66.142 million.

Tax Revenue Change by Fiscal Year under HB 162 as Amended (Millions \$)			
FY 2022	FY 2023	FY 2024	FY 2025
(\$3.804)	(\$23.610)	(\$44.417)	(\$66.142)

11. 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>Fiscal Impact:</u>	<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>
Department of Revenue				
FTE	0.00	0.00	0.00	0.00
<u>Expenditures:</u>				
Personal Services	\$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)	(\$3,804,000)	(\$23,610,000)	(\$44,417,000)	(\$66,142,000)
TOTAL Revenues	<u>(\$3,804,000)</u>	<u>(\$23,610,000)</u>	<u>(\$44,417,000)</u>	<u>(\$66,142,000)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$3,804,000)	(\$23,610,000)	(\$44,417,000)	(\$66,142,000)

Long-Term Impacts:

- As amended, HB 162 continues to increase the portion of Social Security income that is exempt, with 100% of the income exempt starting in TY 2026. Based on the fiscal note for the introduced bill and the average growth in taxable social security income, the fully exempt amount results in a revenue reduction on the order of \$110 million at full exemption.

Paul C Fielder 3/25/21 KA 3-25-21
 Sponsor's Initials Date Budget Director's Initials Date