GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

Bill #	HB0638	**Title:**	Provide for property tax fairness credit
Primary Sponsor:	Fern, Dave	**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 2022 Difference	FY 2023 Difference	FY 2024 Difference	FY 2025 Difference
Expenditures:				
General Fund	$0	$0	$55,323	$92,972
State Special Revenue	$0	$0	$0	$0
Revenue:				
General Fund	$0	$0	($26,954,910)	($47,272,148)
State Special Revenue	$0	$0	$17,414,000	$37,267,000
Net Impact-General Fund Balance:	$0	$0	($27,010,233)	($47,365,120)

Description of fiscal impact: HB 638 creates an income threshold based property tax (or rent-equivalent) income tax credit that is to be funded through the sale of abandoned property and a lodging sales tax distribution.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. HB 638 creates a "Property Tax Fairness" income tax credit for qualifying taxpayers based on a portion of property tax (or rent equivalent) paid on their homestead. A state special revenue account is funded from a distribution of lodging facility sales tax collections and from the sale of abandoned property.
2. The amount of the new credit is determined based on a multi-step process. First, taxpayers determine the property tax benefit base amount which is the taxpayer's property tax paid on their principal residence or the property tax rent-equivalent. For renters, the property tax rent-equivalent is 15% of gross rent.
3. There is a threshold for the potential maximum benefit ceiling determined by the taxpayer's income tax filing status. For single taxpayers, the maximum benefit ceiling is $2,050. The ceiling is $2,650 for joint filers with no more than one dependent. For joint filers with at least one dependent, or individual taxpayers with more than one dependent, the maximum benefit ceiling is set at $3,250.

4. Taxpayers are subject to an income limitation. The basis is 6% of the taxpayer's modified federal adjusted gross income, or income factor. If the income factor is above the benefit base ceiling amount, the taxpayer does not qualify for a credit. If their income factor is below the benefit ceiling, the taxpayer qualifies.
5. The initial credit is equal to half the difference between benefit base amount and their maximum qualifying income. This amount is subject to a second payment maximum based on age.
6. Taxpayers under age 62 can only claim the lower of $750 or the calculated credit. Taxpayers age 62 or older can claim the smaller of the qualified credit amount or $1,150.
7. Taxpayers who claim the credit cannot also claim the Elderly Homeowner / Renter credit.
8. To model this the credit for this fiscal note, full-year resident income tax returns for TY 2019 were matched to property tax records for the same year to determine the property taxes paid by each taxpayer household.
9. In total, 200,138 of the 484,058 taxpayer households were matched to class 4 residential property tax records.
10. Based on that match, 22,459 taxpayer households met the qualifications to receive the credit created by the proposed bill. The average credit amount for the 22,459 households was $346.
11. Of the 22,459 households that would qualify for the credit created in the bill, 4,582 would qualify for a larger Elderly Homeowner / Renter credit and would not claim this credit.
12. The remaining 17,877 taxpayer households would be eligible for $6,504,000 in credits.
13. Based on previous work matching income tax returns to property tax records, it is likely that not all households who paid property taxes and filed an income tax return were matched. It is assumed that 15% of taxpayer households who would qualify for the credit were not identified correctly and that the total number of credits claimed by taxpayers who paid property taxes is under-estimated by 15%.
14. These numbers need to be scaled up for the 15% of taxpayers for which not in the property tax -income tax match pool due, it is assumed that the actual number of credits that would have been claimed by taxpayers who paid property taxes in 2019 would have been $7,651,765 ($6,504,000 / (1.00-0.15)).
15. For taxpayers claiming the credit based on rent paid, TY 2019 income tax data for Elderly Homeowner/Renter claimants were used to estimate renter credits. Of the 4,603 taxpayers who reported rental income 1,499 would have also qualified for $258,941 in credits created by HB 638.
16. The Census Bureau reports there were 136,195 renter households in Montana in CY 2019, of these 24,012 were over the age of 65. The Elderly Homeowner/Renter credit and the Property Tax Fairness credit apply to renters over the age of 62. The Census Bureau estimates that 17.92% of the population over the age of 62 in Montana are under the age of 65. This factor is used to adjust for claimants between the ages of 62 and 65.
17. It is assumed that the same proportion of elderly renters and non-elderly renters would qualify for the credit.
18. Based on the above it is estimated that 6,979 households (1,499 x (1-0.1792) / (24,012 / 136,195)) would qualify for the rent provisions of the Property Tax Fairness credit and would have claimed $1,205,511($258,941 x (1-0.1792) / (24,012 / 136,195)) in TY 2019.

Tax Year 2019 Estimated Credits	Property Tax		Renters	
	Households	Credits	Households	Credits
Matches	17,877	$6,504,000	1,499	$258,941
Adjustments	15% Increase for Non-matches		62 Year Old Population	
Adjusted Estimates	21,032	$7,651,765	6,979	$1,205,511

19. Of the 1,499 taxpayer households who claimed the Elderly Homeowner/Renter credit and reported rental costs, 1,490 would have received a lower Property Tax Fairness credit. As such it is assumed that 1,490 of the households would continue to claim the Elderly Homeowner/Renter credit. The 1,490 households would have qualified for $253,375 in Property Tax Fairness credits.
20. Subtracting the potential claims by renters who would opt out of the new credit 5,489 (6,979 – 1,490), renters are expected to claim $952,136 ($1,205,511 - $253,375) in Property Tax Fairness credits.

21. The total number of households estimated to qualify for the Property Tax Fairness credit using TY 2019 data is 26,520, a combination of the 21,032 taxpayers who paid property taxes and the 5,489 taxpayers who paid rent. The sum of credits is estimated to be $8,603,900.
22. It is assumed that credit use will increase at the rate that all other (non-Elderly Homeowner -Renter) credits grow in the HJ 2 revenue estimates. That is 0.4% in TY 2020, 1.6% in TY 2021, 3.7% in TY 2022, 3.7% in TY 2023, and 4.7% in TY 2024.
23. That results $9,540,910 in claimed credits in TY 2023, the first year of the credit availability, and $10,007,145 in TY 2024. It is assumed that taxpayers will not change their withholding or estimated payments.
24. The HB 638 credit would reduce income tax revenue by $9,540,910 in FY 2024 and $10,007,145 in FY 2025.

Fiscal Year 2024 and 2025 Estimated Tax Revenue Change					
		Property Tax	Renters		Total
Fiscal Year	Tax Year	Owner Credits	Available Credits	Credits Claimed	Credits
2024	2023	$8,485,082	$1,336,797	$1,055,828	$9,540,910
2025	2024	$8,899,725	$1,402,123	$1,107,423	$10,007,148

25. HB 638 creates a state special revenue fund. The funds in the newly created "Property Tax Fairness" account are to be used to pay for the credit created by the bill. Any credits not covered by the funds in the account are to be paid from the general fund. Any revenue from the Lodging Sales tax that exceeds $30,589,000 in FY 2022 or $36,575,000 in FY 2023 is to be deposited into the new fund. In addition, any proceeds from the sale of abandoned property that exceed $12 million in FY 2022 and FY 2023 are to be deposited into the fund.
26. Based on HJ 2 assumptions, abandoned property revenue, and lodging sales tax are not forecast to exceed the thresholds in the bill.
27. Starting January 1, 2024 (FY 2024), all funds received from the sale of abandoned property is deposited into the state "Property tax fairness" special revenue fund. HJ 2 assumptions forecast abandoned property will generate $7,818,000 in revenue for FY 2024 and $8,196,000 in FY 2025.
28. It is assumed that half the abandoned property revenue collected in FY 2024 is generated before January 1, 2024 and the remaining half will be generated after January 1, 2024. The proposed bill would reduce general fund revenue by $3,909,000 in FY 2024 and $8,196,000 in FY 2025.
29. HB 638 changes the distribution of the accommodations sales tax. Under current law, 75% of the revenue collected by the tax is deposited into the general fund. Under HB 638, 25% is deposited into the general fund, while 50% is deposited into the "property tax fairness" fund starting January 1, 2024.
30. The HJ 2 estimates lodging sales tax general fund revenue is $40.515 million in FY 2024 and $43.604 million in FY 2025. It is assumed that half the lodging sales tax in FY 2024 is collected before January 1, 2024.
31. HB 6381 would reduce general fund revenue by $13.505 ($40.515 x .5 / .75 x .5) million in FY 2024 and $29.069 ($43.604 / .75 x .5) million in FY 2025.
32. The changes to the abandoned property and lodging sales tax distributions will generate $17,414,000 ($13,505,000 + $3,909,000) in FY 2024 and $37,265,000 ($29,069,000 + $8,196,000) in FY 2025 for the "Property tax fairness" account, while reducing general fund revenue by the same amount.

Funds Transferred from General Fund to Special Revenue Account			
Fiscal Year	Abandoned Property	Lodging Sales Tax	Total Revenue
2024	$3,909,000	$13,505,000	$17,414,000
2025	$8,196,000	$29,069,000	$37,265,000

33. As long as there are sufficient funds in the property tax fairness fund costs are deducted from the "fund". For FY 2024, the total number of Property Tax Fairness credits is estimated to be $9,540,910. This is less than the $17,414,000 deposited in the fund. The same applies in FY 2025, with an estimated $10,007,148 in credits claimed while $37,265,000 is deposited in the fund. As the revenue for the state special revenue account is

forecast to be greater than credits claimed, it is assumed that there will be no general fund expense in FY 2024 or FY 2025.

34. The department will need to hire a 1.00 FTE Band 5 Tax Examiner at the start of CY 2024 to support the program, at a cost of $42,323 in FY 2024 and $79,972 in FY 2025. The department will also be required to change income tax forms as a result of the new credit. The cost of updating the forms is estimated to be $13,000 in FY 2024 and $13,000 in FY 2025. The cost to the department is $55,323 in FY 2024 and $92,972 in FY 2025.

Department of Commerce

35. There is a 4% sales tax on lodging. Currently 75% of the tax is distributed to the general fund. The remaining 25% is distributed to accounts in various other agencies including Department of Commerce.
36. Under HB 638 25% of the tax would be distributed to the general fund, 50% to the property tax fairness account. While the language of the bill changes the method of determining the distribution of the remaining 25% there would be no actual changes to the amounts distributed to accounts in various other agencies including the Department of Commerce.

Fiscal Impact:	**FY 2022 Difference**	**FY 2023 Difference**	**FY 2024 Difference**	**FY 2025 Difference**
Department of Revenue				
FTE	0.00	0.00	1.00	1.00
Expenditures:				
Personal Services	$0	$0	$35,393	$71,658
Operating Expenses	$0	$0	$19,930	$21,314
TOTAL Expenditures	$0	$0	$55,323	$92,972
Funding of Expenditures:				
General Fund (01)	$0	$0	$55,323	$92,972
State Special Revenue (02)	$0	$0	$0	$0
TOTAL Funding of Exp.	$0	$0	$55,323	$92,972
Revenues:				
General Fund (01)	$0	$0	($26,954,910)	($47,272,148)
State Special Revenue (02)	$0	$0	$17,414,000	$37,267,000
TOTAL Revenues	$0	$0	($9,540,910)	($10,005,148)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	$0	$0	($27,010,233)	($47,365,120)
State Special Revenue (02)	$0	$0	$17,414,000	$37,267,000

Technical Notes:

Department of Revenue

1. In defining the benefit base amount, it is not clear what the benefit base amount would be for taxpayers who file married separately. For this fiscal note, it is assumed that married taxpayers for file separately on the same form are treated the same as taxpayers who file a joint return.
2. HB 638 states that $1 million must remain in the "property tax fairness" account. However, the bill does not state where the initial $1 million will originate from.
3. HB 638 transfers revenue from the sale of unclaimed property into the "property tax fairness" account. However, unclaimed property is not the property of the state. When unclaimed property is sold by the state,

the proceeds do go to the general fund. However, a person can still make a claim on the unclaimed property and are entitled to the monetary value of the reclaimed property. This means the state is still liable to the claimants of the unclaimed property. Because of this, the use of "proceeds from the sale of unclaimed property" to provide funds for the "property tax fairness" account is problematic.

NOT SIGNED BY SPONSOR

	3/24/21	KA	3-22-21
Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*