



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

Bill #	HB0638	Title:	Provide for property tax fairness credit
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Primary Sponsor:	Fern, Dave	Status:	As Amended in House Committee
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|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input checked="" 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 2022 Difference</u>	<u>FY 2023 Difference</u>	<u>FY 2024 Difference</u>	<u>FY 2025 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$42,696	\$80,728
State Special Revenue	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	\$0	(\$9,059,515)	(\$9,502,228)
State Special Revenue	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance:	<u>\$0</u>	<u>\$0</u>	<u>(\$9,102,211)</u>	<u>(\$9,582,956)</u>

Description of fiscal impact: HB 638 as amended in the House Taxation Committee, creates an income threshold based property tax (or rent-equivalent) income tax credit.

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. As amended, the bill no longer uses a distribution of lodging facility sales tax, and abandoned property collections, to fund a state special revenue fund to pay for the credit.
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. Under the amended bill, taxpayers who claim the credit cannot also claim the Elderly Homeowner Renter credit, the Property Tax Assistance Program (PTAP), Montana Disabled Veterans Program (MDV), nor receive an intangible land value property exemption.
 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,
 12. 4,582 would qualify for a larger Elderly Homeowner Renter credit and would not claim this credit.
 13. In addition, 1,239 of the taxpayers were also qualified for and enrolled in either the PTAP, MDV or intangible land value property exemption program. Of these, 100 would qualify for a property tax fairness credit that is larger than their current property tax reduction. The remaining 1,139 individuals will remain in their current program and not claim the property tax fairness credit.
 14. The remaining 16,738 taxpayer households would be eligible for \$6,135,000 in credits.
 15. 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%.
 16. These numbers need to be scaled up for the 15% of taxpayers not in the property tax -income tax match pool. 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 \$7,217,647 ($\$6,135,000 / (1-.15)$).
 17. 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.
 18. 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.
 19. It is assumed that the same proportion of elderly renters and non-elderly renters would qualify for the credit.
 20. Based on the above it is estimated that 6,979 households ($1,499 \times (1-0.1792) / (24,012 / 136,195)$) would qualify for the rent provisions of the Property Tax Fairness credit and would have claimed \$1,205,511 ($\$258,941 \times (1-0.1792) / (24,012 / 136,195)$) in TY 2019.

	Tax Year 2019 Estimated Credits			
	Property Tax		Renters	
	Households	Credits	Households	Credits
Matches	16,738	\$6,135,000	1,499	\$258,941
Adjustments	15% Increase for Non-matches		62 Year Old Population	
Adjusted Estimates	19,692	\$7,217,647	6,979	\$1,205,511

21. 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.
22. 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.
23. The total number of households estimated to qualify for the Property Tax Fairness credit using TY 2019 data is 25,181, a combination of the 19,692 taxpayers who paid property taxes and the 5,489 taxpayers who paid rent. The sum of credits is estimated to be \$8,169,783.
24. 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.
25. That results in \$8,649,845 claimed credits in TY 2023, the first year of the credit availability, and \$9,059,515 in TY 2024. It is assumed that taxpayers will not change their withholding or estimated payments.
26. The HB 638 credit would reduce income tax revenue by \$9,059,515 in FY 2024 and \$9,502,228 in FY 2025.

Fiscal Year 2024 and 2025 Estimated Tax Revenue Change					
Fiscal Year	Tax Year	Property Tax	Renters		Total
		Owner Credits	Available Credits	Credits Claimed	Credits
2024	2023	\$8,003,687	\$1,336,797	\$1,055,828	\$9,059,515
2025	2024	\$8,394,805	\$1,402,123	\$1,107,423	\$9,502,228


27. 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.

Fiscal Impact:	FY 2022	FY 2023	FY 2024	FY 2025
	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
Department of Revenue				
FTE	0.00	0.00	1.00	1.00
<u>Expenditures:</u>				
Personal Services	\$0	\$0	\$35,766	\$72,414
Operating Expenses	\$0	\$0	\$6,930	\$8,314
TOTAL Expenditures	\$0	\$0	\$42,696	\$80,728
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$46,696	\$80,726
State Special Revenue (02)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	\$0	\$0	\$46,696	\$80,726
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	(\$9,059,515)	(\$9,502,228)
State Special Revenue (02)	\$0	\$0	\$0	\$0
TOTAL Revenues	\$0	\$0	(\$9,059,515)	(\$9,502,228)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	\$0	(\$9,106,211)	(\$9,582,954)
State Special Revenue (02)	\$0	\$0	\$0	\$0

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 that file separately on the same form are treated the same as taxpayers who file a joint return.



Sponsor's Initials

3/30/21

Date

KA

Budget Director's Initials

3-29-21

Date