



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

Bill # HB0672

Title: Provide for property tax circuit breaker funded by revised capital gains credit

Primary Sponsor: Hamilton, Jim

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>
Expenditures:				
General Fund	\$0	\$0	\$0	\$114,243
State Special Revenue	\$0	\$0	\$0	\$33,782,454
Revenue:				
General Fund	\$0	\$0	\$0	(\$2,368,935)
State Special Revenue	\$0	\$10,316,410	\$11,581,759	\$11,884,285
Net Impact-General Fund Balance:	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$2,483,178)</u>

Description of fiscal impact: HB 672 creates a property tax circuit breaker income tax credit and modifies the state's capital gains income tax credit.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

- HB 672 creates a new property tax circuit breaker, while also changing the state's capital gains tax credit.
- Under current law, taxpayers are able to claim a non-refundable income tax credit that is equal to 2% of their net capital gains for the tax year.

Capital Gains Credit Changes

- HB 672 changes the income tax credit for capital gains income. Under the proposed bill the credit is limited to the taxpayer's Montana source net capital gains or their Montana taxable income (MTI). The credit is also reduced to 1% of the qualifying gains if the taxpayer has a Montana adjusted gross income (MAGI) that is more than \$750,000. The change made to the capital gains credit applies starting tax year (TY) 2022.
- Under HB 672, the \$750,000 income threshold would be increased each tax year by the inflation factor listed in 15-30-2101, MCA.

5. Based on the inflation adjustments in HJ 2, it is assumed that the income threshold will apply to MAGI above \$825,000 in TY 2022, \$847,000 in TY 2023, \$866,000 in TY 2024 and \$884,000 in TY 2025.
6. The DOR income tax model was modified to include the capital gains credit changes made by the HB 672. The estimated tax liability under HB 672 were compared to current law tax liability forecast .
7. Based on the modeling, changing the capital gains tax credit in TY 2022 would increase the income tax liability of full-year resident taxpayers by \$10.522 million. For TY 2023, TY 2024, and TY 2025, the estimated change in tax liabilities is \$10.573 million, \$10.798 million, and \$11.228 million, respectively.
8. The tax liability from the proposed capital gains credit were adjusted with the HJ 2 assumptions for non-full-year resident taxpayers, audits, and population. With the adjustments, the tax liability estimates for TY 2022 increases to \$11.463 million. Income tax liabilities are estimated to increase to \$12.441 million by TY 2025.

Tax Liability Estimates under Current Law and HB 672				
Tax Year	Current Law	Tax Liability (Million \$)		
		HB 672	Change in Revenue	After Adjustments
2022	\$1,395.682	\$1,406.205	\$10.522	\$11.463
2023	\$1,454.546	\$1,465.119	\$10.573	\$11.595
2024	\$1,521.477	\$1,532.275	\$10.798	\$11.916
2025	\$1,598.520	\$1,609.748	\$11.228	\$12.441

9. The additional revenue created by the capital gains income tax credit change is to be deposited into a special revenue fund for the property tax circuit breaker created by HB 672. Each year, the department is to deposit the additional revenue into the special revenue account on May 15th and November 15th.
10. It is assumed that 90% of the income tax liability change for TY 2022 will occur before May 15th and will be deposited into the account during FY 2023 and the remaining 10% will be deposited on November 15th, during FY 2024. It is assumed that this pattern continues in future tax years.
11. Based on the estimated change in income tax revenue due to the capital gains credit change, the proposed special revenue account will receive \$10.316 million in FY 2023, \$11.582 million in FY 2024, and \$11.884 million in FY 2025. By May 15th, 2026, the proposed special revenue account will have \$33.782 million in the account.

Tax Revenue Change by Fiscal Year (Million \$)	
Fiscal Year	Change in Revenue
2022	\$0.000
2023	\$10.316
2024	\$11.582
2025	\$11.884

Property Tax Circuit Breaker (income tax credit)

12. HB 672 also creates a property tax circuit breaker income tax credit. Under the proposed bill, taxpayers are able to claim a credit equal to 75% of the qualifying property tax billed, or rent-equivalent property tax paid, in the tax year minus the threshold amount defined in the bill. The property tax credit is refundable and applies starting TY 2024.
13. TY 2019 income tax information to estimate the property tax circuit breaker credit.
14. Individual income tax returns with an itemized property tax deduction or a property tax amount filed for the Elderly Homeowner - Renter Credit were matched with class 4 residential property tax data using unique mailing addresses. Of the 187,596 income tax returns with property tax information, 158,634, or 84.56%, were matched with a property tax record.
15. It is assumed that the 15.44% of unmatched tax returns do not vary substantially from those matched, and credits will not be skewed by scaling the credit estimate by this ratio.

16. Income tax records, (regardless of known property tax status) were then matched to 215,738 Class 4 Residential properties. Of these 215,738 properties, 24,149 would qualify for a credit under the provisions of HB 672 and receive a larger credit than they would have under the Elderly Homeowner Credit.
17. The total value of the credit for these property taxpayers was estimated to be \$25.547 million, an average credit of \$1,058.
18. Because 15.44% of the property taxpayers were not matched in the income tax file, it is necessary to divide the credit size and number of recipients by 84.56% to scale up the credit for all eligible property which yields an estimate of \$30.211 million in total credits for 28,558 property taxpayers.
19. To estimate the renter equivalent property tax credit, TY 2019 income tax data from the Elderly Renter Credit was examined. There were 3,344 taxpayers who claimed the Elderly Renter Credit in TY 2019 and would have been eligible for a credit under the provisions of HB 673 (regardless of if the new circuit breaker credit would have been more than the existing credit). It is further estimated the credit these taxpayers would have received totaled \$1.479 million an average credit of \$442 per recipient.
20. The Census Bureau publishes estimates of the number of renters in Montana, and the number of renters over the age of 65. That estimate shows 136,195 renters in CY 2019, of which 24,012 (17.63%) were over the age of 65. The Elderly Renter Credit is available for qualifying renters who are at least 62 years old. The Census Bureau estimates 17.92% of the Montana population over 62 is under 65, and for fiscal note purposes it is assumed this is true of the Elderly Renter Credit recipients as well. It is further assumed that the proportion of elderly renters receiving the credit would be the same as the non-elderly renters.
21. In analyzing the Elderly Renter Credit data, 405 taxpayers would have been better off taking the new circuit breaker than taking the Elderly Renter Credit, and 2,939 would presumably continue to take the Elderly Renter Credit. Therefore, it is estimated that 12,640 renters would qualify, and total credits to renters would be equal to \$6.087 million.

Combined Effects

22. Combining the renter and property tax credits, it is estimated 41,198 taxpayers would have receive the new credit in TY 2019 and the total credit amount would have been equal to \$36.298 million.
23. Additionally, an estimated 3,147 fewer taxpayers would have taken the Elderly Homeowner/Renter Credit, lowering the total credit amount by \$2.038 million.
24. In total, an estimated \$34.26 million (\$36,298,272 - \$2,038,341) in credits would have been claimed in TY 2019.
25. It is assumed that the total number of property tax credits claimed will increase at the same rate as the growth of all other credits in the HJ 2 revenue forecast.
26. Based on HJ 2 growth rates, it is estimated that \$40.168 million in credits will be claimed in TY 2024 and \$42.196 million would be claimed in TY 2025.
27. It is assumed that all of the property tax credits claimed for TY 2024 will be claimed in FY 2025 and taxpayers will not change their withholding or estimated payment amounts as a result of this credit.
28. With no changes in withholding or estimated payment amounts, \$40.168 million in credits will be claimed in FY 2025.
29. With an estimated \$40.168 million in credits claimed in FY 2025 and a balance of \$33.782 million in the property tax circuit breaker account, it is estimated that the fund will have an insufficient amount of revenue to cover the cost of the property tax credit.
30. HB 672 stipulates that if there are insufficient funds in the state special revenue account, the property tax credit amount is to be reduced to 90% of its calculated amount.
31. With a 10% reduction in the credit, the total number of credits claimed in TY 2024 and FY 2025 is forecasted to be \$36.151 million (\$40.168 million x 0.9).
32. It is assumed that the remaining credit balance of \$2.369 million (\$36.151 million - \$33.782 million) will be deducted from the state's general fund.
33. When combined, the changes to both credits are forecast to increase state special revenue by \$10.316 million in FY 2023, \$11.582 million in FY 2024 and \$11.884 million in FY 2025. State special revenue expenditures

are also expected to increase by \$33.782 million in FY 2025. General fund revenue is expected to decrease by \$2.369 million.

DOR Administrative expense

34. To administer the property tax circuit breaker income tax credit, the department requires 3.00 FTE additional auditing technicians starting in FY 2025 at a cost of \$114,243 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	0.00	3.00
Expenditures:				
Personal Services	\$0	\$0	\$0	\$93,094
Operating Expenses	\$0	\$0	\$0	\$21,149
Transfers	\$0	\$0	\$0	\$33,782,454
TOTAL Expenditures	\$0	\$0	\$0	\$33,896,697
Funding of Expenditures:				
General Fund (01)	\$0	\$0	\$0	\$114,243
State Special Revenue (02)	\$0	\$0	\$0	\$33,782,454
TOTAL Funding of Exp.	\$0	\$0	\$0	\$33,896,697
Revenues:				
General Fund (01)	\$0	\$0	\$0	(\$2,368,935)
State Special Revenue (02)	\$0	\$10,316,410	\$11,581,759	\$11,884,285
TOTAL Revenues	\$0	\$10,316,410	\$11,581,759	\$9,515,350
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	\$0	\$0	\$0	(\$2,483,178)
State Special Revenue (02)	\$0	\$10,316,410	\$11,581,759	(\$21,898,169)

Long-Term Impacts:

Department of Revenue

1. The property tax income tax credit and the changes to the capital gains tax credit are set to expire at the end of TY 2030.
2. The ongoing annual funding of the circuit breaker is not fully funded by the state special revenue account. It is assumed that the credit will reduce future income tax revenue.

Technical Notes:

Department of Revenue

1. HB 672 states that the department is to transfer the additional revenue generated by the capital gains tax credit changes into the property tax circuit breaker special revenue account two times each year. However, it is unclear how the department is to determine what constitutes the additional revenue.

NOT SIGNED BY SPONSOR

 Sponsor's Initials Date 3/30/21 Budget Director's Initials KA Date 3-29-21