



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

Bill # SB0010

Title: Providing for circuit breaker income tax credit for property taxes paid

Primary Sponsor: Cohenour, Jill

Status: As Amended in Senate 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	\$125,364	\$212,985	\$215,702	\$218,463
Revenue:				
General Fund	(\$30,061,000)	(\$31,324,000)	(\$32,959,000)	(\$34,720,000)
Net Impact-General Fund Balance:	<u>(\$30,186,364)</u>	<u>(\$31,536,985)</u>	<u>(\$33,174,702)</u>	<u>(\$34,938,463)</u>

Description of fiscal impact: SB 10, as twice amended in the Senate Taxation Committee, creates a circuit breaker income tax credit for property taxes paid. The amount of the income tax credit allowed is equal to the property tax billed (or rent-equivalent property tax paid) in the tax year times 75% minus the tiered threshold amount. The second amendment to SB 10 retains the changes of the first amendment which restored the Land Value, the Property Tax Assistance, and the Disabled Veterans property tax assistance programs. The second amendment reduces the credit relative to the previous versions by increasing the tiered threshold rates. Taxpayers can begin receiving the income tax credit beginning in tax year (TY) 2021, or FY 2022. SB 10, as twice amended, allows a taxpayer to only claim the new circuit breaker credit, or the Elderly Homeowner/Renter Credit, but not both. Additionally, SB 10 stipulates property taxpayers may only participate in one of the three residential property tax assistance programs; the Property Tax Assistance Program (PTAP), the Montana Disabled Veterans Program (MDV), or the Land Value Property Tax Assistance Program.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

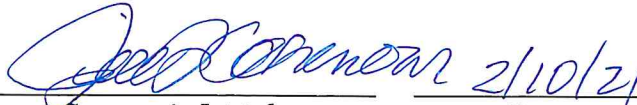
1. TY 2019 income tax information was used for estimating the property tax and rent-equivalent property tax circuit breaker credit.

2. 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.
3. 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.
4. Income tax records (regardless of known property tax status), were then matched to 215,738 Class 4 residential properties. Of these 215,738 properties, 20,774 would qualify for a credit under the provisions of SB 10 and receive a larger credit than they would have under the Elderly Homeowner Credit.
5. The total value of the credit for these property tax payers was estimated to be \$22.293 million, or an average credit of \$1,073.
6. 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 to yield an estimate of \$26.363 million in total credits for an estimated 24,567 property taxpayers.
7. To estimate the renter equivalent property tax credit, TY 2019 income tax data from the Elderly Renter Credit was examined. There were 2,688 taxpayers who claimed the Elderly Renter Credit in TY 2019 and would have been eligible for a credit under the provisions of SB 10 (regardless 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 \$1.194 million, for an average credit of \$444 per recipient.
8. The United States Census publishes estimates of the number of total renters in Montana, and the number of renters in Montana that are over the age of 65. There were an estimated 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 over the age of 62. The United States Census 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.
9. In analyzing the Elderly Renter Credit data, 343 taxpayers would have been better off taking the new circuit breaker relative to taking the Elderly Renter Credit, and 2,345 would presumably continue to take the Elderly Renter Credit. Therefore, it is estimated that 10,179 renters would qualify, and total credits to renters would be equal to \$4.940 million.
10. Combining the renter and property tax credits, it is estimated 34,746 taxpayers would have received the new credit in TY 2019 and the total credit amount would have been equal to \$31.303 million.
11. These values are projected based on the estimated growth of all other individual income tax credits assumed in the HJ 2 revenue estimates.
12. Additionally, an estimated 2,452 fewer taxpayers would have taken the Elderly Homeowner/Renter Credit, lowering the total credit amount by \$1.678 million.
13. The estimated percent change in the Elderly Homeowner/Renter Credit in HJ 2 is used to project these values into the forecast period.
14. Based on the previously estimated number of returns, it is anticipating 3.00 FTE will be needed in the Business and Income Tax division beginning in January 2022 to review these returns. However, FY 2022 will only be half the costs of the full year as the program is scaled up. Anticipated costs are \$125,364 in FY 2022, \$212,985 in FY 2023, \$215,702 in FY 2024 and \$218,463 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	1.50	3.00	3.00	3.00
<u>Expenditures:</u>				
Personal Services	\$93,363	\$188,958	\$191,222	\$193,521
Operating Expenses	\$32,001	\$24,027	\$24,480	\$24,942
TOTAL Expenditures	\$125,364	\$212,985	\$215,702	\$218,463
<u>Funding of Expenditures:</u>				
General Fund (01)	\$125,364	\$212,985	\$215,702	\$218,463
TOTAL Funding of Exp.	\$125,364	\$212,985	\$215,702	\$218,463
<u>Revenues:</u>				
General Fund (01)	(\$30,061,000)	(\$31,324,000)	(\$32,959,000)	(\$34,720,000)
TOTAL Revenues	(\$30,061,000)	(\$31,324,000)	(\$32,959,000)	(\$34,720,000)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$30,186,364)	(\$31,536,985)	(\$33,174,702)	(\$34,938,463)

Technical Notes:

1. New Section 3 (4) - States, "If two or more individuals share a qualified rental residence, each individual may claim the credit based on the proportional share that the individual pays of the gross rent." Administering this new provision may prove to be challenging, and further clarification would be beneficial.
2. Under the provisions of SB 10, the credit is based on the amount of property tax billed rather than the amount of property tax paid. The Department of Revenue sends assessed market values to taxpayers, and taxpayers are afforded the opportunity to challenge that valuation. Bills are sent to taxpayers by Counties after the certification of value, but a taxpayer's challenge to the department valuation may be ongoing. A property tax bill could be received after taxpayer files an appeal; taxes paid under protest can be refunded. In other words, where a person challenges their assessed value and there is pending review/hearings/litigation around that value, the amount of the bill may end up being more than the amount the taxpayer actually pays in property taxes.


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Sponsor's Initials Date Budget Director's Initials Date