



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

Bill # SB0159

Title: Personal Income Tax Relief Act

Primary Sponsor: Hertz, Greg

Status: As Amended

- 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	(\$14,297,000)	(\$75,035,000)	(\$80,105,000)	(\$84,739,000)
Net Impact-General Fund Balance:	<u>(\$14,297,000)</u>	<u>(\$75,035,000)</u>	<u>(\$80,105,000)</u>	<u>(\$84,739,000)</u>

Description of fiscal impact: SB 159, as amended, will reduce general fund revenue by \$14.297 million in FY 2022 and \$75.035 million in FY 23. The revenue reduction changes to \$84.739 million by FY 2025.

FISCAL ANALYSIS

Assumptions:

- Under current law, Montana's personal income tax rate increases as taxable incomes increase, with seven different tax rates. The top tax rate is currently 6.9% and in tax year 2020 it applied to all taxable income above \$18,700.
- The amended bill changes the top tax rate from 6.9% to 6.5%. The rate reduction applies starting tax year 2022.
- The Department of Revenue's income tax model was modified to include the changes made by the proposed bill. The estimated income tax liability amounts under the proposed law were then compared to current law income and tax liability forecasts.
- Based on the department's income tax model, reducing the top marginal tax rate from 6.9% to 6.5% in tax year 2022 would reduce the income tax liability of full-year resident taxpayers by \$67.121 million. For tax years 2023, 2024 and 2025, the tax liability of residents would decrease by \$70.100 million, \$73.662 million and \$77.719 million, respectively.

Figure 1			
Tax Liability Estimates Under Current and Proposed Law			
Tax Year	Tax Liability (Millions)		
	Current Law	Proposed Law	Change in Revenue
2022	\$1,395.682	\$1,328.562	(\$67.121)
2023	\$1,454.546	\$1,384.446	(\$70.100)
2024	\$1,521.477	\$1,447.815	(\$73.662)
2025	\$1,598.520	\$1,520.801	(\$77.719)

5. As the proposed bill makes large changes to the tax liability of some taxpayers, it is assumed that some of the taxpayers will change their withholding and estimated payments amounts as a result of the proposed bill. The estimates used in HJ 2 assume that 80% of tax year 2022 liability changes and 20% of tax year 2023 tax liability changes will occur in FY 2023. This distribution continues for all fiscal years.
6. It is assumed that the tax liability distribution changes made as a result of the proposed bill follows the pattern used in HJ 2 revenue forecasts.
7. The tax liability amounts from the department’s model were also adjusted using HJ 2 assumptions for non-full-year resident taxpayers, audit assumptions and income tax credits.
8. Based on the adjustments used for HJ 2, the proposed bill would reduce income tax revenue by \$14.297 million in FY 2022, \$75.035 million in FY 2023, \$80.105 million in FY 2024, and \$84.739 million in FY 2025.

Figure 2	
Tax Revenue Change by Fiscal Year	
Fiscal Year	Change in Revenue (Millions of Dollars)
2022	(\$14.297)
2023	(\$75.035)
2024	(\$80.105)
2025	(\$84.739)

9. The changes made by the proposed bill can be made as part of the department’s annual change process. The department does not expect to incur any additional costs because of this bill.

	<u>FY 2022 Difference</u>	<u>FY 2023 Difference</u>	<u>FY 2024 Difference</u>	<u>FY 2025 Difference</u>
<u>Fiscal Impact:</u>				
FTE	0.00	0.00	0.00	0.00
<u>Expenditures:</u>				
TOTAL Expenditures	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Funding of Expenditures:</u>				
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Revenues:</u>				
General Fund (01)	<u>(\$14,297,000)</u>	<u>(\$75,035,000)</u>	<u>(\$80,105,000)</u>	<u>(\$84,739,000)</u>
TOTAL Revenues	<u>(\$14,297,000)</u>	<u>(\$75,035,000)</u>	<u>(\$80,105,000)</u>	<u>(\$84,739,000)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$14,297,000)	(\$75,035,000)	(\$80,105,000)	(\$84,739,000)

NO SPONSOR SIGNATURE

Sponsor's Initials

3.16
Date

Budget Director's Initials

KA

3-15-21
Date