



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2023 Biennium

**Bill #** SB0386

**Title:** Providing an income tax credit for property taxes paid and revising rates

**Primary Sponsor:** Flowers, Pat

**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>
<b>Expenditures:</b>				
General Fund	\$113,802	\$212,685	\$215,702	\$218,463
<b>Revenue:</b>				
General Fund	(\$21,802,000)	\$11,968,000	\$13,012,000	\$13,943,000
<b>Net Impact-General Fund Balance:</b>	<u>(\$21,915,802)</u>	<u>\$11,755,315</u>	<u>\$12,796,298</u>	<u>\$13,724,537</u>

**Description of fiscal impact:** SB 386 creates a circuit breaker income tax credit for property taxes paid and creates a new top marginal income tax bracket of 8.9% for taxable incomes above \$500,000. 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 income tax credit can first be claimed on tax year (TY) 2021, for tax filings in FY 2022. Taxpayers may only claim the new circuit breaker credit or the Elderly Homeowner/Renter Credit, not both. Additionally, 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**

#### *Property Tax "Circuit Breaker" Credit*

1. TY 2019 income tax information was used for estimating the property tax (or 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 386 and receive a larger credit than they would have under the Elderly Homeowner Credit.
  5. The credits for these property taxpayers were 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 which yields an estimated \$26.363 million in credits for 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 386 (without regard to if the new circuit breaker credit being worth more than the existing credit). It is further estimated that these taxpayers would have received \$1.194 million, or an average credit of \$444 per recipient.
  8. The Census Bureau 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 calendar year (CY) 2019, of which 24,012 (17.63%) were over the age of 65. The Elderly Renter Credit is available for qualifying renters 62 and older. The Census Bureau estimates 17.92% of the Montana population 62 and over is under 65. 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. When compared to the circuit breaker credit, Elderly Renter Credit data shows 343 taxpayers receive more benefit taking the circuit breaker while 2,345 claimants would likely continue to take the Elderly Renter Credit. So, 10,179 renters would qualify for the circuit breaker and claim \$4.940 million in renter credits.
  10. The sum of renter and property tax credits, based on TY 2019 data, shows that 34,746 taxpayers could claim \$31.303 million in new credits. This value was projected using the HJ 2 “all other” credits growth assumption.
  11. Additionally, an estimated 2,452 fewer taxpayers would have taken the Elderly Homeowner/Renter Credit, lowering total credits claimed by \$1.678 million.
  12. The estimated percent change in the Elderly Homeowner - Renter Credits in HJ 2 is used to project these values into the forecast period.

*Change to the Top Marginal Individual Income Tax Bracket*

13. SB 386 creates a new income tax bracket, where taxable income above \$500,000 is taxed at 8.9%.
14. The changes made by SB 386 apply to tax years beginning after December 31, 2021(TY 2020).
15. Using the inflation adjustments assumed in the HJ 2 forecast, the new tax rate would apply to taxable income above \$545,300 in TY 2022, \$560,600 in TY 2023, \$573,300 in TY 2024, and \$584,300 in TY 2025.
16. The present law income tax model maintained by the Department of Revenue was modified with the changes in SB 386. The income tax liability from the modified and current law models were compared. A new 8.9% top marginal tax rate would increase the income tax liability of full-year resident taxpayers by \$38.777 million in TY 2022, by \$40.231 million in TY 2023, \$42.268 million in TY 2024 and \$44.777 million in TY 2025:

Income Tax Liability Estimates under Current Law and SB 386			
Tax Year	Tax Liability (Millions)		Change in Revenue
	Current Law	SB 386	
2022	\$1,395.682	\$1,434.459	\$38.777
2023	\$1,454.546	\$1,494.777	\$40.231
2024	\$1,521.477	\$1,563.745	\$42.268
2025	\$1,598.520	\$1,643.297	\$44.777

17. As the proposed tax rate change makes large changes to the tax liability of some taxpayers, it is assumed that some of the taxpayers will change their withholding and estimated payment amounts as a result of the proposed bill. The HJ 2 estimate assumes that 80% of TY 2022 liability and 20% of TY 2023 tax liability will occur in FY 2023. This distribution is assumed to apply to all fiscal years thereafter.
18. The liability increases resulting from the proposed rate increase were also adjusted with the HJ 2 assumptions for part-year resident taxpayers, audits, and population growth. With these adjustments, SB 386 increases income tax revenue by \$8.259 million in FY 2022, \$43.292 million in FY 2023, \$45.971 million in FY 2024, and \$48.663 million in FY 2025.

*Department of Revenue Administrative Costs*

19. Based on the estimated number of returns, it is anticipating 3.00 FTE will be needed in the Business and Income Tax division beginning January 1, 2022 to review these returns. However, FY 2022 will only be half the costs of the full year as the program is scaled-up. These anticipated costs are \$125,364 in FY 2022, \$212,985 in FY 2023, \$215,702 in FY 2024, and \$218,463 in FY 2025.

<u><b>Fiscal Impact:</b></u>	<u><b>FY 2022</b></u>	<u><b>FY 2023</b></u>	<u><b>FY 2024</b></u>	<u><b>FY 2025</b></u>
<b>Department of Revenue</b>	<b>Difference</b>	<b>Difference</b>	<b>Difference</b>	<b>Difference</b>
<b>FTE</b>	1.50	3.00	3.00	3.00
<b><u>Expenditures:</u></b>				
Personal Services	\$93,363	\$188,958	\$191,222	\$193,521
Operating Expenses	\$20,439	\$23,727	\$24,480	\$24,942
<b>TOTAL Expenditures</b>	<u>\$113,802</u>	<u>\$212,685</u>	<u>\$215,702</u>	<u>\$218,463</u>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$113,802	\$212,685	\$215,702	\$218,463
<b>TOTAL Funding of Exp.</b>	<u>\$113,802</u>	<u>\$212,685</u>	<u>\$215,702</u>	<u>\$218,463</u>
<b><u>Revenues:</u></b>				
General Fund (01)	(\$21,802,000)	\$11,968,000	\$13,012,000	\$13,943,000
<b>TOTAL Revenues</b>	<u>(\$21,802,000)</u>	<u>\$11,968,000</u>	<u>\$13,012,000</u>	<u>\$13,943,000</u>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	(\$21,915,802)	\$11,755,315	\$12,796,298	\$13,724,537

**NO SPONSOR SIGNATURE**

<i>Sponsor's Initials</i>	3.23 <i>Date</i>	KA <i>Budget Director's Initials</i>	3-23-21 <i>Date</i>
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