



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

Bill # HB0111

Title: Revise income tax law to exempt military pensions

Primary Sponsor: Fuller, John

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	\$0
Revenue:				
General Fund	(\$8,157,030)	(\$7,225,880)	(\$7,699,601)	(\$8,068,326)
Net Impact-General Fund Balance:	<u>(\$8,157,030)</u>	<u>(\$7,225,880)</u>	<u>(\$7,699,601)</u>	<u>(\$8,068,326)</u>

Description of fiscal impact: HB 111 exempts 50% of certain military retirement pay from Montana individual income tax. The exemption would reduce general fund revenue by \$8,157,030 in FY 2022, \$7,225,880 in FY 2023, \$7,699,601 in FY 2024 and \$8,068,326 in FY 2025.

FISCAL ANALYSIS

Assumptions:

Department of Revenue (DOR)

- Under current law, military disability payments are exempt from federal and state taxation, but retirement pay based on length of service and survivor benefits are generally taxable.
- HB 111 exempts 50% of military retirement pay and military survivor benefits from the state income tax beginning with tax year (TY) 2021.
- Based on 1099-R forms provided to the department by the U.S. Treasury Modernized e-File (MeF) program, there were 6,425 Montana taxpayers identified as receiving retirement income from the U.S. Department of Defense's Defense Finance and Accounting Service who filed TY 2019 full-year resident income tax returns.
- The department only receives digital copies of form 1099-R through the MeF program. However, not all taxpayers file their returns through a MeF electronic filing provider.
- Based on total taxable retirement income on Montana's returns and the total taxable income reported on Montana's MeF 1009-R forms, approximately 10% of all taxable retirement income is not in the MeF records.

6. It is assumed that the aggregate taxable military retirement income reported on Montana’s 1099-R forms undercounts actual military retirement income by 10%.
7. The 6,425 taxpayers reported approximately \$170 million in taxable military retirement income in TY 2019.
8. The department’s income tax model (with HJ 2 assumptions) was modified to incorporate the military income exemption changes made by HB 111. The estimated income and tax liability under the proposed law were compared to current law income and tax liability forecasts.
9. The change in the estimated tax liability of full-year resident taxpayers from the department’s income tax model were adjusted based on the adjustment factors used in estimating HJ 2 revenue estimates and HJ 2 consistent assumptions for FY 2024 and FY 2025.
10. The tax liability change was scaled-up 10% to account for 1099-R forms not included in the MeF file.
11. It is assumed that taxpayers will be unable to change their withholding and estimated payments before the end of FY 2021. Therefore, the tax liability reduction for TY 2021 will occur in FY 2022.
12. Based on the adjustments used for HJ 2, and the 10% adjustment, income tax revenue would be reduced by \$8,157,030 in FY 2022, \$7,225,880 in FY 2023, \$7,699,601 in FY 2024 and \$8,068,326 in FY 2025.
13. 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 significant additional costs because of this bill.

<u>Fiscal Impact:</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
<u>Department of Revenue</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
FTE	0.00	0.00	0.00	0.00
<u>Expenditures:</u>				
Personal Services	\$0	\$0	\$0	\$0
TOTAL Expenditures	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Revenues:</u>				
General Fund (01)	(\$8,157,030)	(\$7,225,880)	(\$7,699,601)	(\$8,068,326)
TOTAL Revenues	<u>(\$8,157,030)</u>	<u>(\$7,225,880)</u>	<u>(\$7,699,601)</u>	<u>(\$8,068,326)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$8,157,030)	(\$7,225,880)	(\$7,699,601)	(\$8,068,326)

Technical Notes:

1. The proposed bill includes the new military income exemption in the same subsection as the state’s current partial pension exemption. The inclusion of this exemption in the same subsection makes it unclear as to how the two exemptions interact with each other. Clarifying language as to how the two exemptions apply would make it easier to understand.

NOT SIGNED BY SPONSOR 1/12/21 KJ 1/11/21
 Sponsor’s Initials Date Budget Director’s Initials Date