



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

Bill #	HB0240	Title:	Revise state income tax deduction for certain dependents
Primary Sponsor:	Tschida, Brad	Status:	As Introduced

- | | | |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> 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	\$0	\$601,549	\$631,112	\$664,349
Net Impact-General Fund Balance:	<u>\$0</u>	<u>\$601,549</u>	<u>\$631,112</u>	<u>\$664,349</u>

Description of fiscal impact: HB 240 changes the definition of dependent for state individual income tax. The proposed bill will increase general fund revenue by \$601,549 in FY 2023. The change in revenue increases to \$664,349 by FY 2025.

FISCAL ANALYSIS

Assumptions:

- Under current law, taxpayers are able to exempt a portion of their income from the state's personal income tax based on the number of dependents they claim.
- HB 240 changes the definition of a dependent. Under the proposed bill, a son, daughter, grandson, granddaughter, stepson, or stepdaughter can only be claimed by the taxpayer if the individual's permanent residence is the same as the taxpayer's during the tax year. In addition, the listed dependents cannot be claimed as a dependent if the individual has reached the age of majority and is registered to vote using an address different from that of the taxpayer. The changes made by HB 240 apply starting tax year (TY) 2022.
- In TY 2019, there were approximately 250,000 dependents claimed on Montana income tax returns.
- Of the 250,000 dependents claimed, approximately 24,000 also filed an income tax return in the same year.
- Of the 24,000 dependents who filed a return, 3,953 reported a different address on their income tax returns as the taxpayer who claimed them as a dependent.

6. It is assumed that the number of dependents that taxpayers would have been able to claim in TY 2019 would have been reduced by 3,953 under the proposed bill.
7. In TY 2019, the income exemption allowed for each dependent was \$2,510.
8. Excluding 3,953 dependents from returns would increase taxable income by \$9,922,030 (\$2,510 x 3,953).
9. The average effective tax rate of full-year resident taxpayers in Montana was approximately 5.55% in tax year 2019. It is assumed that the \$9.9 million in newly taxable income would have been taxed at the average effective rate of 5.55%. This would have increased Montana income tax liabilities by \$550,673 (5.55% x \$9,922,030) in TY 2019.
10. HJ 2 revenue estimates assumed that individual income tax liabilities will decrease by 0.4% in TY 2020. Starting in TY 2021, liabilities are anticipated to increase by 5.4% in 2021, 4.1% in 2022, 4.9% in 2023 and 5.3% in 2024 as forecasted in HJ 2. Based on these growth rates, tax liability increases \$601,549 in TY 2022, \$631,112 in 2023, and \$664,349 in 2024.
11. As the proposed changes are made to taxable income when filing a return, it is assumed that no changes will be made to withholding or estimated payments. Taxpayers will pay the difference when they file returns in April, the following fiscal year.
12. The proposed bill will increase general fund revenue by \$601,549 in FY 2023, \$631,112 in FY 2024, and \$664,349 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 cost 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	\$0	\$0	\$0	\$0
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	\$0	\$0	\$0	\$0
<u>Revenues:</u>				
General Fund (01)	\$0	\$601,549	\$631,112	\$664,349
TOTAL Revenues	\$0	\$601,549	\$631,112	\$664,349
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	\$601,549	\$631,112	\$664,349

NOT SIGNED BY SPONSOR

Sponsor's Initials

2/3/21
Date

KA
Budget Director's Initials

2/1/21
Date