



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

Bill # HB0424

Title: Revise individual income tax laws

Primary Sponsor: Kerr-Carpenter, Emma

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	\$8,259,000	\$30,899,000	\$33,610,000	\$36,340,000
Net Impact-General Fund Balance:	<u>\$8,259,000</u>	<u>\$30,899,000</u>	<u>\$33,610,000</u>	<u>\$36,340,000</u>

Description of fiscal impact: HB 424 creates a new income tax bracket of 8.9% for taxable incomes of greater than \$500,000. The bill also increases the state's Earned Income Tax Credit (EITC) from 3% of the federal credit to 10%. Both changes would first apply to tax year (TY) 2022.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. HB 424 changes the state's personal income tax in two ways. First, a new income tax bracket is created, where taxable income above \$500,000 is taxed at 8.9% rate. Second, the state's Earned Income Tax Credit (EITC) is increased from 3% of the federal EITC to 10%.
2. The changes made by HB 424 apply to tax years beginning after December 31, 2021.
3. The tax bracket thresholds are adjusted for inflation. Based on inflation adjustments assumed in the HJ 2 forecast, the new tax rate would apply to taxable incomes above \$545,300 in TY 2022, \$560,600 in TY 2023, \$573,300 in TY 2024 and \$584,300 in TY 2025.
4. The income tax model was modified to include the changes in HB 424. The modeled amounts were then compared to current law income forecast of tax liability.

- The new top marginal tax rate of 8.9% in TY 2022 would increase the income tax liability of full-year resident taxpayers by \$38.777 million before the EITC. For tax years 2023, 2024 and 2025, the tax liability of residents would increase by \$40.231 million, \$42.268 million, and \$44.777 million, respectively.

Tax Liability Estimates under Current Law and HB 424			
(\$ Millions)			
Tax Year	Current Law	HB 424	Change
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

- Under current law it is estimated that taxpayers will claim approximately \$5.289 million in Montana EITC credits in TY 2022. This decreases slightly to \$5.281 million by TY 2025.
- Increasing the Montana EITC credit share from 3% to 10% would increase the number of credits claimed to \$17.631 million in TY 2022. This is an increase of \$12.342 million relative to current law. By TY 2025, the number of EITC credits are estimated to be \$17.605 million.

Earned Income Tax Credit Estimates			
(\$ Millions)			
Tax Year	Current Law	HB 424	Change
2022	\$5.289	\$17.631	\$12.342
2023	\$5.311	\$17.704	\$12.393
2024	\$5.297	\$17.658	\$12.361
2025	\$5.281	\$17.605	\$12.323

- As the proposed tax rate change makes large changes to the tax liability of some taxpayers, it is assumed that some taxpayers will change their withholding and estimated payments. The estimates used in HJ 2 assume that 80% of TY 2022 liability and 20% of TY 2023 tax liability will be received in FY 2023. It is assumed this distribution holds with the change in the tax rate.
- The HJ 2 adjustments for less than full-year resident taxpayers, audits and population increases are applied to estimated resident liability .
- It is assumed that EITC taxpayers will not make changes to withholding or estimated payments. EITC changes reduce tax liability when taxpayers file returns the following fiscal year.
- Based on the adjustments used for HJ 2, the proposed bill increases income tax revenue by \$8.259 million in FY 2022, \$30.899 million in FY 2023, \$33.610 million in FY 2024, and \$36.340 million in FY 2025.

DOR Expenses

- The changes due to HB 424 can be made as part of the department’s annual change process. The department does not expect to incur any significant additional cost due to HB 424 because of this bill.

Fiscal Impact:	FY 2022 Difference	FY 2023 Difference	FY 2024 Difference	FY 2025 Difference
Department of Revenue				
FTE	0.00	0.00	0.00	0.00
Expenditures:				
Personal Services	\$0	\$0	\$0	\$0
TOTAL Expenditures	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Funding of Expenditures:				
General Fund (01)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Revenues:				
General Fund (01)	\$8,259,000	\$30,899,000	\$33,610,000	\$36,340,000
TOTAL Revenues	<u>\$8,259,000</u>	<u>\$30,899,000</u>	<u>\$33,610,000</u>	<u>\$36,340,000</u>
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	\$8,259,000	\$30,899,000	\$33,610,000	\$36,340,000

EK-C
Sponsor's Initials

2/23/21
Date

KA
Budget Director's Initials

2/22/21
Date