



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

Bill # HB0631

Title: Increase state earned income tax credit

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	\$0	(\$12,342,000)	(\$12,393,000)	(\$12,361,000)
Net Impact-General Fund Balance:	<u>\$0</u>	<u>(\$12,342,000)</u>	<u>(\$12,393,000)</u>	<u>(\$12,361,000)</u>

Description of fiscal impact: HB 631 would increase the Montana Earned Income Tax Credit rate from 3% of the federal credit to 10%.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

- Under current law, taxpayers filing a Montana income tax return are able to claim an income tax credit that is equal to 3% of the federal Earned Income Tax Credit (EITC) that was claimed on the taxpayer's federal return.
- HB 631 increases the Montana credit amount from 3% of the federal EITC to 10%.
- The changes made by HB 631 apply starting tax year 2022.
- Under current law, the department's income tax model estimates 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.
- Based on the EITC forecast, 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			
Credits Claimed (Millions)			
Tax Year	Current Law	Proposed Law	Change in Credits
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

- It is assumed that taxpayers will not make changes to withholding or estimated payment amounts because of the EITC changes. Based on this assumption, the EITC change will reduce income tax revenue when taxpayers file their returns the following fiscal year reducing general fund revenue by \$12.342 million in FY 2023, \$12.393 million in FY 2024, and \$12.361 million in FY 2025.
- 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 significant additional costs because of this bill.

Fiscal Impact:	FY 2022	FY 2023	FY 2024	FY 2025
	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
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)	\$0	(\$12,342,000)	(\$12,393,000)	(\$12,361,000)
TOTAL Revenues	<u>\$0</u>	<u>(\$12,342,000)</u>	<u>(\$12,393,000)</u>	<u>(\$12,361,000)</u>
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	\$0	(\$12,342,000)	(\$12,393,000)	(\$12,361,000)

 EK-C 3/17/21 KA 3-17-21
 Sponsor's Initials Date Budget Director's Initials Date