



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2023 Biennium

Bill # HB0654

Title: Increase funding for higher education

Primary Sponsor: Olsen, Andrea

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	\$0	\$4,600,000	\$4,600,000	\$4,600,000
<b>Revenue:</b>				
General Fund	\$825,543	\$4,327,491	\$4,597,128	\$4,866,341
<b>Net Impact-General Fund Balance:</b>	<u>\$825,543</u>	<u>(\$272,509)</u>	<u>(\$2,872)</u>	<u>\$266,341</u>

**Description of fiscal impact:** HB 654 creates a new income tax rate of 7.1%. The bill also creates a \$4.6 million general fund appropriation for FY 2023 which is intended to be included as part of the base budget moving forward.

### FISCAL ANALYSIS

#### Assumptions:

#### **Department of Revenue**

- Under current law, Montana's personal income tax has seven tax rates, with the top rate of 6.9% applying to taxable income above \$18,700 in tax year (TY) 2020.
- HB 654 creates a new 7.1% income tax rate for taxable income above \$500,000.
- The new tax rate applies to tax years beginning after January 1, 2022. It is assumed that the new rate applies to TY 2022 (see technical note #1).
- The inflation adjustments assumed in HJ 2 forecasts are used to adjust the brackets for inflation. The tax rate applies to taxable income above \$545,300 in TY 2022, above \$560,600 in TY 2023, above \$573,300 in TY 2024, and above \$584,300 in TY 2025.
- The Department of Revenue's present law income tax model was modified to include the changes made by the proposed bill. The estimated income tax liability under HB 654 were then compared to current law tax liability forecasts.

- Based on the income tax model, the new top marginal tax rate of 7.1% would increase the income tax liability of full-year resident taxpayers by \$3.876 million in TY 2022. For TY 2023, TY 2024 and TY 2025, the tax liability of residents would increase by \$4.023 million, \$4.227 million, and \$4.478 million, respectively.

Tax Liability Estimates Under Current Law and HB 654			
Tax Liability (Millions)			
Tax Year	Current Law	HB 654	Change in Revenue
2022	\$1,395.682	\$1,399.558	\$3.876
2023	\$1,454.546	\$1,458.569	\$4.023
2024	\$1,521.477	\$1,525.704	\$4.227
2025	\$1,598.520	\$1,602.998	\$4.478

- As the proposed tax rate change makes changes to the tax liability of some taxpayers, it is assumed that some of these taxpayers will change their withholding and estimated payment amounts as a result of the proposed bill. The estimates used in HJ 2 assume that 80% of TY 2022 liability change and 20% of TY 2023 tax liability change will be received in FY 2023. This distribution timing is assumed to continue for future fiscal years.
- It is assumed that the tax liability distribution changes made as a result of the top tax rate increase follows the pattern used in HJ revenue forecasts.
- The tax liability amounts from the proposed rate increase were also adjusted using HJ 2 assumptions for non-full-year resident taxpayers, audit assumptions and population increases.
- Based on the adjustments used for HJ 2, the proposed bill increases income tax revenue by \$825,543 in FY 2022, \$4.327 million in FY 2023, \$4.597 million in FY 2024, and \$4.866 million in FY 2025.

*DOR Administrative Costs*

- 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.

**Office of the Commissioner of Higher Education**

- The bill appropriates general fund resources for distribution to the Montana University System for FY 2023, with the intention that the appropriation will be contained in the base budget moving forward.

	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
<u>Fiscal Impact:</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
<b><u>Department of Revenue</u></b>				
FTE	0.00	0.00	0.00	0.00
<b><u>Expenditures:</u></b>				
Appropriation OCHE	\$0	\$4,600,000	\$4,600,000	\$4,600,000
<b>TOTAL Expenditures</b>	<b>\$0</b>	<b>\$4,600,000</b>	<b>\$4,600,000</b>	<b>\$4,600,000</b>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$0	\$4,600,000	\$4,600,000	\$4,600,000
<b>TOTAL Funding of Exp.</b>	<b>\$0</b>	<b>\$4,600,000</b>	<b>\$4,600,000</b>	<b>\$4,600,000</b>
<b><u>Revenues:</u></b>				
General Fund (01)	\$825,543	\$4,327,491	\$4,597,128	\$4,866,341
<b>TOTAL Revenues</b>	<b>\$825,543</b>	<b>\$4,327,491</b>	<b>\$4,597,128</b>	<b>\$4,866,341</b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	\$825,543	(\$272,509)	(\$2,872)	\$266,341

**Technical Notes:**

**Department of Revenue**

1. The applicability date should be changed from January 1, 2022 to December 31, 2021 if the new tax rate is intended to apply starting TY 2022.

**AUTHORIZED BY SPONSOR**

_____	<u>3/25/21</u>	<u>KJ</u>	<u>3-25-21</u>
<i>Sponsor's Initials</i>	<i>Date</i>	<i>Budget Director's Initials</i>	<i>Date</i>