



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2023 Biennium

**Bill #** SB0010

**Title:** Providing for circuit breaker income tax credit for property taxes paid

**Primary Sponsor:** Cohenour, Jill

**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	(\$93,000)	(\$1,103,378)	(\$1,038,093)	(\$1,041,591)
State Special Revenue	\$0	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	\$0	(\$36,287,000)	(\$38,006,000)	(\$39,863,000)
State Special Revenue	\$0	\$232,200	\$243,200	\$255,100
<b>Net Impact-General Fund Balance:</b>	<u>\$93,000</u>	<u>(\$35,183,622)</u>	<u>(\$36,967,907)</u>	<u>(\$38,821,409)</u>

**Description of fiscal impact:** SB 10 creates a “circuit breaker” income tax credit for property taxes (and rent equivalent) paid and replaces the Property Tax Assistance Program (PTAP), Montana Disabled Veteran Program (MDV), and the Land Value Property Tax Assistance exemptions, as well as the Elderly Homeowner/Renter (income tax) credit. The amount of the income tax credit allowed is equal to the property tax billed (or rent-equivalent property tax paid) in the tax year times 75% minus a tiered threshold amount.

The credit may be claimed on income tax returns filed in CY 2022 for property tax billed (rent-equivalent tax paid) in TY 2021.

### FISCAL ANALYSIS

#### Assumptions:

#### Department of Revenue

1. TY 2019 income tax information was used for estimating the property tax and rent-equivalent property tax circuit breaker credit.
2. Individual income tax returns with an itemized property tax deduction or a property tax amount filed for the elderly home owner/renter credit were matched with Class 4 Residential property tax data using unique

mailing addresses. Of the 187,596 income tax returns with property tax information, 158,634, or 84.56%, were matched with a property tax record.

3. It is assumed that the 15.44% of unmatched tax returns do not vary substantially from those matched, and credits will not be skewed by scaling the credit estimate by this ratio.
4. Income tax records, (regardless of known property tax status) were matched to 215,738 class 4 residential properties. Of these properties, 31,482 would qualify for a credit under SB 10.
5. The total credits for these taxpayers were estimated to be \$30.837 million, an average credit of \$979.53.
6. Because 15.44% of the property taxpayers were not matched the number must be scaled-up to all eligible property by dividing by 84.56%. This yields \$36.467 million in credits and 37,230 SB 10 claimants.
7. The renter equivalent property tax credit estimate is based on TY 2019 income tax data from the elderly homeowner renter credit. 3,922 taxpayers claimed the elderly renter credit in TY 2019 and would be eligible for \$1.829 million SB 10 in credits, an average credit of \$466.45 per recipient.
8. The Census Bureau publishes estimates of the number of all renters in Montana, and the number of renters over the age of 65. There were an estimated 136,195 renters in CY 2019, of which 24,012 (17.63%) were over the age of 65. The elderly renter credit is available for qualifying renters over the age of 62. It is assumed that 10% of the renter credit recipients were between the ages of 62 and 64. It is further assumed that the proportion of elderly renters receiving the credit would be the same as the non-elderly renters. Therefore, it is estimated that 20,021 renters would qualify for \$9.339 million in credits
9. Combining the renter and property tax credits, it is estimated 57,251 taxpayers will receive the new credit and the total credit would be worth \$45.806 million.
10. SB 10 eliminates the PTAP, MDV, Land Value Assistance Program, and the Elderly Homeowner /Renter program that ultimately offset the overall cost of the circuit breaker program. The repeal of the taxable value based tax assistance programs (PTAP, MDV, & LVAP) increase statewide taxable value by \$37 million. The TY 2019 tax expenditures for these programs, are presented below:

**TY 2019 Tax Expenditures**

<b>Program</b>	<b>General Fund</b>	<b>University (SSR)</b>
Property Tax Assistance Program	\$2,647,030	\$167,181
Montana Disabled Veteran Program	\$759,244	\$47,952
Land Value Assistance Program	\$65,605	\$4,143
Elderly Homeowner Renter Income Tax Credit	\$8,060,688	\$0
<b>Total</b>	<b>\$11,532,566</b>	<b>\$219,277</b>

11. The TY 2019 data is then used to project the revenue effects by SB 10 component and affected tax type by fiscal year. FY 2022 property taxes will be claimed on TY 2022 income tax forms filed in FY 2023:

**Change in Revenue SB 10 as Introduced**

<b>Tax Type</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
<b>Individual Income Tax</b>				
Homeowner Circuit Breaker Credits	\$0	(\$38,609,000)	(\$40,438,000)	(\$42,414,000)
Renter Circuit Breaker Credits	\$0	(\$9,888,000)	(\$10,356,000)	(\$10,862,000)
Elderly Owner Renter Credits	\$0	\$8,534,000	\$8,938,000	\$9,375,000
<b>Net Change in Individual Income Tax</b>	<b>\$0</b>	<b>(\$39,963,000)</b>	<b>(\$41,856,000)</b>	<b>(\$43,901,000)</b>
<b>Property Tax</b>				
Change in General Fund Property Tax	\$0	\$3,676,000	\$3,850,000	\$4,038,000
Change in SSR Property Tax	\$0	\$232,200	\$243,200	\$255,100

Department of Revenue Administrative Costs

12. Repealing the Property Tax Assistance, Montana Disabled Veterans, and Land Value Tax Assistance programs will eliminate the property assessment division’s (PAD) 30,000 annual program decision letters. The division would eliminate 1.00 FTE associated with administering these programs beginning in FY 2022. The associated saving is estimated to be \$93,000 in FY 2022, \$93,815 in FY 2023, \$94,794 in FY 2024, and \$95,788 in FY 2025.
13. Based on the number of eligible participant income tax returns, it is anticipating 2.00 FTE will be needed in the income and withholding tax (IWT) division to review returns beginning in January 2023 (halfway through FY 2023). Therefore, FY 2023 personal services costs will be half of the full year cost as the program is scaled-up. These anticipated to cost are \$111,960 in FY 2023, 218,399 in FY 2024, and 218,463 in FY 2025.

Office of Public Instruction

14. The changes in taxable value associated with SB 10 were added to the present law school funding model. The increase in taxable value due to the elimination of the PTAP, MDV and Land Value Assistance programs decreases state guarantee tax base aid (GTB) to school districts. The reductions in state GTB expense would be \$1,121,523 in FY 2023, \$1,161,698 in FY 2024 and \$1,164,266 in FY 2025.

<b>Fiscal Impact:</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
<b>Department of Revenue</b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>
<b>FTE</b>	(1.00)	0.50	1.00	1.00
<b>Expenditures:</b>				
Personal Services	(\$66,991)	\$26,673	\$122,588	\$124,047
Operating Expenses	(\$26,009)	(\$8,528)	\$1,017	(\$1,372)
<b>Office of Public Instruction</b>				
OPI --K-12 BASE Aid (GTB)	\$0	(\$1,121,523)	(\$1,161,698)	(\$1,164,266)
<b>TOTAL Expenditures</b>	<b><u>(\$93,000)</u></b>	<b><u>(\$1,103,378)</u></b>	<b><u>(\$1,038,093)</u></b>	<b><u>(\$1,041,591)</u></b>
<b>Funding of Expenditures:</b>				
General Fund (01) - DOR	(\$93,000)	\$18,145	\$123,605	\$122,675
General Fund (01) - OPI	\$0	(\$1,121,523)	(\$1,161,698)	(\$1,164,266)
<b>TOTAL Funding of Exp.</b>	<b><u>(\$93,000)</u></b>	<b><u>(\$1,103,378)</u></b>	<b><u>(\$1,038,093)</u></b>	<b><u>(\$1,041,591)</u></b>
<b>Revenues:</b>				
GF (01) - Income tax	\$0	(\$39,963,000)	(\$41,856,000)	(\$43,901,000)
GF (01) - Property tax	\$0	\$3,676,000	\$3,850,000	\$4,038,000
SSR (02) - Property Tax	\$0	\$232,200	\$243,200	\$255,100
<b>TOTAL Revenues</b>	<b><u>\$0</u></b>	<b><u>(\$36,054,800)</u></b>	<b><u>(\$37,762,800)</u></b>	<b><u>(\$39,607,900)</u></b>

**Net Impact to Fund Balance (Revenue minus Funding of Expenditures):**

General Fund (01)	\$93,000	(\$35,183,622)	(\$36,967,907)	(\$38,821,409)
State Special Revenue (02)	\$0	\$232,200	\$243,200	\$255,100

**Effect on County or Other Local Revenues or Expenditures:**

**Department of Revenue**

1. The elimination of the taxable value reductions due to the PTAP, MDV and Land Value programs will lead to a small shift in local taxes paid (the elderly homeowner renter credit does not influence property valuation). The increase in local taxable value would be approximately \$37 million statewide (around 1.2% of the

statewide tax base). Local Government and school mills would be reduced proportionally to offset growth in authorized local revenue in jurisdictions with this property.

**Office of Public Instruction**

2. The reduction in district school mills from the increase in taxable value due to the elimination of the PTAP, MVD and LVAP would be partially offset by the decrease in School GTB payments (see assumption # 14).

**Technical Notes:**

**Department of Revenue**

1. In section 3(4) of the bill, the procedure for allocating tax benefits proportionally between individuals that share a qualified rental residence creates compliance challenges. More guidance would help administration.
2. The credits as created by SB 10 are based on the amount of property tax billed, rather than the amount of property tax paid. Property tax adjudication processes can lead to final payments that are different than initial tax billing.

**NO SPONSOR SIGNATURE**

*Sponsor's Initials*

*Date*

*Budget Director's Initials*

*Date*

*KA*

*1/11/21*