



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 Amended in Senate Committee

- 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	\$125,364	\$212,985	\$215,702	\$218,463
State Special Revenue	\$0	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	(\$40,578,000)	(\$42,306,000)	(\$44,539,000)	(\$46,945,000)
<b>Net Impact-General Fund Balance:</b>	<u>(\$40,703,364)</u>	<u>(\$42,518,985)</u>	<u>(\$44,754,702)</u>	<u>(\$47,163,463)</u>

**Description of fiscal impact:** SB 10 creates a “circuit breaker” income tax credit for property taxes (or rent equivalent) paid. 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. Taxpayers can begin claiming the income tax credit beginning in tax year (TY) 2021. The proposed amendment preserves 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. If the amendment is adopted, taxpayers may only claim the new circuit breaker credit, or the Elderly Homeowner/Renter Credit, but not both. Additionally, SB 10 stipulates property taxpayers may only participate in one of the three residential property tax assistance programs: the Property Tax Assistance Program (PTAP); the Montana Disabled Veterans Program (MDV); or the Land Value Property Tax Assistance Program.

### 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 Homeowner/Renter Credit were matched with Class 4 Residential property tax data using unique

**Fiscal Note Request – As Introduced, with Proposed Amendment**

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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 then matched to 215,738 class 4 residential properties. Of these 215,738 properties, 28,505 would qualify for a credit under the provisions of SB 10 and receive a larger credit than they would have under the Elderly Homeowner Credit.
5. The total value of the credit for these property taxpayers was estimated to be \$29.626 million, an average credit of \$1,039.
6. Because 15.44% of the property taxpayers were not matched in the income tax file, it is necessary to divide the credit size and number of recipients by 84.56% to scale up the credit for all eligible property to yield an estimate of \$35.035 million in total credits for an estimated 33,709 property taxpayers.
7. To estimate the renter equivalent property tax credit, TY 2019 income tax data from the Elderly Renter Credit was examined. There were 3,922 taxpayers who claimed the Elderly Renter Credit in TY 2019 and would have been eligible for a credit under the provisions of SB 10 (regardless of if the new circuit breaker credit would have been more than the existing credit). It is further estimated the credit these taxpayers would have received totaled \$1.829 million, for an average credit of \$466 per recipient.
8. The United States Census publishes estimates of the number of total renters in Montana, and the number of renters in Montana that are 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. The United States Census estimates 17.92% of the Montana population over 62 is under 65, and for fiscal note purposes it is assumed this is true of the Elderly Renter Credit recipients as well. It is further assumed that the proportion of elderly renters receiving the credit would be the same as the non-elderly renters.
9. In analyzing the Elderly Renter Credit data, 770 taxpayers would have been better off taking the new circuit breaker relative to taking the Elderly Renter Credit, and 3,152 would continue to take the Elderly Renter Credit. Therefore, it is estimated that 15,130 renters would qualify, and total credits to renters would be equal to \$7.533 million.
10. Combining the renter and property tax credits, it is estimated 48,839 taxpayers would have received the new credit in TY 2019 and the total credit amount would have been equal to \$42.568 million. These values are estimated to grow by the estimated growth of all other credits projected in HJ 2.
11. Additionally, an estimated 4,460 fewer taxpayers would have taken the Elderly Homeowner/Renter Credit, lowering the total credit amount by \$2.552 million.
12. The estimated percent change in the Elderly Homeowner/Renter Credits in HJ 2 is used to project these values into the forecast period.

*Administrative Expense*

13. Based on the previously estimated number of returns, it is anticipating 3.00 FTE will be needed in the Business and Income Tax division beginning January 1, 2022 to review these returns. However, FY 2022 will only be half the costs of the full year as the program is scaled-up. These anticipated to cost are \$125,364 in FY 2022, \$212,985 in FY 2023, \$215,702 in FY 2024 and \$218,463 in FY 2025.

**Fiscal Note Request – As Introduced, with Proposed Amendment**

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<b><u>Fiscal Impact:</u></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>	1.50	3.00	3.00	3.00
<b><u>Expenditures:</u></b>				
Personal Services	\$93,363	\$188,958	\$191,222	\$193,521
Operating Expenses	\$32,001	\$24,027	\$24,480	\$24,942
<b>TOTAL Expenditures</b>	<b>\$125,364</b>	<b>\$212,985</b>	<b>\$215,702</b>	<b>\$218,463</b>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01) - DOR	\$125,364	\$212,985	\$215,702	\$218,463
<b>TOTAL Funding of Exp.</b>	<b>\$125,364</b>	<b>\$212,985</b>	<b>\$215,702</b>	<b>\$218,463</b>
<b><u>Revenues:</u></b>				
GF (01) - Income tax	(\$40,578,000)	(\$42,306,000)	(\$44,539,000)	(\$46,945,000)
<b>TOTAL Revenues</b>	<b>(\$40,578,000)</b>	<b>(\$42,306,000)</b>	<b>(\$44,539,000)</b>	<b>(\$46,945,000)</b>

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

General Fund (01)	(\$40,703,364)	(\$42,518,985)	(\$44,754,702)	(\$47,163,463)
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**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.
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

2/1/21  
Date

KA  
Budget Director's Initials

1/30/21  
Date