



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

Bill # SB0394

Title: Revise capital gains and provide property tax relief

Primary Sponsor: O'Brien, Shannon

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	\$3,564,000	\$12,473,000	\$13,316,000	\$14,189,000
Net Impact-General Fund Balance:	<u>\$3,564,000</u>	<u>\$12,473,000</u>	<u>\$13,316,000</u>	<u>\$14,189,000</u>

Description of fiscal impact: SB 394 changes the qualification requirements for the individual income tax capital gains and Elderly Homeowner-Renter credits.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

- Under current law, taxpayers with capital gains income are able to claim a 2% non-refundable income tax credit on the income. The state also has an income tax credit for taxpayers who are at least 62 years old and paid qualifying property taxes or the rent equivalent.
- SB 394 changes the income tax credit for capital gains income. Under the proposed bill, taxpayers with Montana adjusted gross income (MAGI) above \$1,000,000 would not be able to claim the credit. For taxpayers with a MAGI below \$1,000,000 the threshold would be limited to the lower of the taxpayer's net capital gains or their Montana taxable income (MTI). The change applies starting tax year (TY) 2022.

Capital Gains Credit Changes

- Under SB 394, the \$1,000,000 income threshold would be increased each tax year by the inflation factor use to adjust Montana income tax brackets (15-30-2101, MCA).
- Based on the inflation adjustments in HJ 2 the income threshold will apply to MAGI above \$1,100,000 in TY 2022, \$1,129,000 in TY 2023, \$1,154,000 in TY 2024, and \$1,179,000 in TY 2025.

5. The Department of Revenue’s income tax HJ 2 model was modified to include the changes in SB 394. The income tax liability under SB 394 then compared to the current law income tax liability.
6. Limiting the capital gains tax credit in TY 2022 increases tax liability for full-year resident taxpayers by \$16.732 million. For TY 2023, TY 2024, and TY 2025, tax liabilities are estimated to increase by \$16.882 million, \$17.296 million, and \$17.997 million, respectively.

Tax Liability Estimates -- Current Law and SB 394			
Tax Liability (Millions)			
Tax Year	Current Law	SB 394	Change
2022	\$1,395.682	\$1,412.414	\$16.732
2023	\$1,454.546	\$1,471.428	\$16.882
2024	\$1,521.477	\$1,538.774	\$17.296
2025	\$1,598.520	\$1,616.517	\$17.997

7. As the proposed change to the capital gains income credit makes significant changes to taxpayer tax liability, based on their income, it is assumed that some taxpayers will adjust their withholding and estimated payments. The estimates used in HJ 2 assume that 80% of TY 2022 liability changes and 20% of TY 2023 tax liability changes will occur in FY 2023. This distribution is used for all fiscal years.
8. The tax liability due to the proposed change in the credit was also adjusted based on the HJ 2 assumptions for non-full-year resident taxpayers, audits, and population increases.
9. Based on the HJ 2 adjustments, the proposed change to the capital gains credit will increase income tax revenue by \$3.564 million in FY 2022, \$18.578 million in FY 2023, \$19.194 million in FY 2024, and \$19.842 million in FY 2025.

Changes to the Montana Elderly Homeowner-Renter Credit

10. SB 394 also changes Montana’s Elderly Homeowner-Renter credit in several ways. First, the income exemption amount is increased from \$6,300 to \$12,700 of gross household income. Second, the household income reduction change table is modified. The updated table is provided in the figure below. Third, the gross income household phase-out of the credit is changed so that the credit is reduced by 1% for each \$150 increase in household income above \$30,000. Fourth, the maximum credit amount is increased from \$1,000 to \$1,700.

Household Income Reduction Table					
Current Law			SB 394		
Income		Multiplier	Income		Multiplier
More Than:	Less Than:		More Than:	Less Than:	
	\$2,000	0		\$5,000	0
\$2,000	\$3,000	0.006	\$5,000	\$7,500	0.006
\$3,000	\$4,000	0.016	\$7,500	\$10,000	0.016
\$4,000	\$5,000	0.024	\$10,000	\$12,500	0.024
\$5,000	\$6,000	0.028	\$12,500	\$15,000	0.028
\$6,000	\$7,000	0.032	\$15,000	\$17,500	0.032
\$7,000	\$8,000	0.035	\$17,500	\$20,000	0.035
\$8,000	\$9,000	0.039	\$20,000	\$22,500	0.039
\$9,000	\$10,000	0.042	\$22,500	\$25,000	0.042
\$10,000	\$11,000	0.045	\$25,000	\$27,500	0.045
\$11,000	\$12,000	0.048	\$27,500	\$30,000	0.048
\$12,000		0.05	\$30,000		0.05

11. The change to the Elderly Homeowner - Renter credit first applies in TY 2022.
12. In TY 2019, there were 15,250 taxpayer households that claimed approximately \$8 million in an Elderly Homeowner - Renter credits.

13. Using the Elderly Homeowner - Renter credit schedules provided by the 15,250 households claiming the credit, the department estimates the proposed changes would increase the credits claimed by households to approximately \$14.841 million in TY 2019.
14. Applying the HJ 2 and LFD extended forecast growth rate assumptions for the credit results in the following tax year impacts:

Elderly Homeowner Renter Credit Amounts (\$ Millions)				
Tax Year	Current Law	Growth	SB 394	Change
2019	\$8.058		\$14.841	\$0.000
2020	\$7.790	-3.3%	\$14.346	\$0.000
2021	\$7.521	-3.4%	\$13.852	\$0.000
2022	\$7.253	-3.6%	\$13.357	(\$6.104)
2023	\$6.984	-3.7%	\$12.862	(\$5.878)

15. As the credit is not based on an income source, it is assumed that taxpayers will not change withholding or estimated payments as a result of the Elderly Homeowner / Renter credit changes.
16. As taxpayers file their TY 2022 returns in FY 2023, the proposed credit change will reduce income tax revenue by \$6.104 million in FY 2023, \$5.878 million in FY 2024, and \$5.652 million in FY 2025.

Elderly Homeowner Renter Credit Amounts				
Fiscal Year	Current Law	Growth	SB 394	Change in Revenue
2021	\$7.790		\$7.790	\$0.000
2022	\$7.521	-3.4%	\$7.521	\$0.000
2023	\$7.253	-3.6%	\$13.357	(\$6.104)
2024	\$6.984	-3.7%	\$12.862	(\$5.878)
2025	\$6.715	-3.8%	\$12.368	(\$5.652)

Combined effects

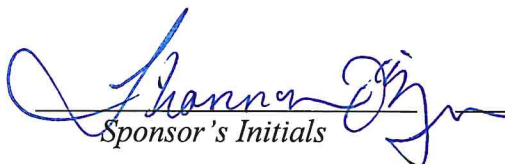
17. When the revenue impacts associated with the changes made to the capital gains tax credit and Elderly Homeowner - Renter credit are combined, it is estimated that the proposed bill will increase income tax revenue by \$3.564 million in FY 2022, \$12.473 million in FY 2023, \$13.316 million in FY 2024, and \$14.189 million in FY 2025.

Tax Revenue Change under SB 394 by Fiscal Year (\$ Millions)			
Fiscal Year	Capital Gains Credit Change	Elderly Homeowner / Renter Credit Change	Combined Change
2022	\$3.564	\$0.000	\$3.564
2023	\$18.578	(\$6.104)	\$12.473
2024	\$19.194	(\$5.878)	\$13.316
2025	\$19.842	(\$5.652)	\$14.189

DOR Administrative Expenses

18. 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 additional costs because of this bill.

<u>Fiscal Impact:</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
Department of Revenue				
FTE	0.00	0.00	0.00	0.00
<u>Expenditures:</u>				
Personal Services	\$0	\$0	\$0	\$0
TOTAL Expenditures	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Revenues:</u>				
General Fund (01)	\$3,564,000	\$12,473,000	\$13,316,000	\$14,189,000
TOTAL Revenues	<u>\$3,564,000</u>	<u>\$12,473,000</u>	<u>\$13,316,000</u>	<u>\$14,189,000</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$3,564,000	\$12,473,000	\$13,316,000	\$14,189,000


Mar 30, 2021
KA
3-29-21
 Sponsor's Initials Date Budget Director's Initials Date