



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:

HB0219 - Exempt certain military pensions and survivor benefits from income taxes (Kerns, Scot)

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 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	(\$800,000)	(\$4,762,000)	(\$7,604,000)	(\$9,123,000)
Net Impact-General Fund Balance:	<u>(\$800,000)</u>	<u>(\$4,762,000)</u>	<u>(\$7,604,000)</u>	<u>(\$9,123,000)</u>

Description of fiscal impact: HB 219 phases-in an increasing exemption of a portion of military retirement pay from Montana personal income tax. The exemption would reduce general fund revenue by \$800,000 in FY 2024, \$4,762,000 in FY 2025, \$7,604,000 in FY 2026, and \$9,123,000 in FY 2027.

FISCAL ANALYSIS

Assumptions:**Department of Revenue (DOR)**

1. Currently, tenure based military retirement income and survivor benefits are Montana taxable income.
2. HB 219 exempts a portion of military retirement pay and survivor benefits from income tax as of TY 2024.
3. The share of income that is exempted from taxation is phased-in based on the taxpayer's "taxable retirement income" and the tax year. A breakdown of the income exemption thresholds and exemption amounts are included in the following table.

Military Pension Income Threshold Amounts in HB 219				
Taxable Retirement Income	Tax Year			
	2024	2025	2026	2027
Less Than \$10,275	100%	100%	100%	100%
\$10,276 to \$26,025	50%	100%	100%	100%
\$26,026 to \$41,755	40%	70%	80%	100%
\$41,756 to \$65,425	30%	60%	70%	80%
\$65,426 to \$89,075	20%	30%	40%	50%
\$89,076 to \$129,563	10%	20%	30%	40%
\$129,564 to \$170,050	10%	20%	20%	20%
Above \$170,050	0%	0%	0%	0%

4. Although not defined in HB 219, it is assumed that “taxable retirement income” includes the taxable portion of IRA distributions, pension and annuity income, and Social Security income (See Technical Note #1). This income is reported on lines 4b, 5b, and 6b of Form 2 of the Montana 2021 income tax return.
5. Most retirement income is reported on 1099-R forms provided by the U.S. Treasury e-File (MeF) program. That data shows 7,983 Montana full-year resident filers, in TY 2021, received retirement income from the U.S. Department of Defense’s Defense Finance and Accounting Service. Since not all taxpayers file their returns through a MeF electronic filing provider, only about 90% of total reported taxable retirement income is reported electronically. Taxable military retirement income reported on MeF Montana Form 1099-R’s likely undercounts actual military retirement income by 10%. The 7,983 recipients of electronically recorded military retirement income reported \$215.7 million of such income in TY 2021. After adjusting for coverage, it is estimated that total Montana taxable military retirement income was about \$241.9 million, in TY 2021.
6. The DOR income tax model (with HJ 2 assumptions) was modified to incorporate the military income exemption changes made by HB 219. The estimated income and tax liability amounts under the proposed law were compared to current law income and tax liability forecasts.
7. Based on the income amounts reported on the 1099-R forms, and the Department of Revenue income tax model, exempting a portion of military retirement income starting in TY 2024 will reduce the tax liability of full-year resident taxpayers by \$3.288 million in TY 2024, \$5.791 million in TY 2025, \$6.942 million in TY 2026, and \$8.237 million in TY 2027.

Tax Liability Estimates Under Current Law and HB 219			
Tax Year	Tax Liability (Millions)		
	Current Law	HB 219	Change in Revenue
2024	\$1,832.790	\$1,829.503	(\$3.288)
2025	\$1,924.211	\$1,918.420	(\$5.791)
2026	\$2,050.048	\$2,043.106	(\$6.942)
2027	\$2,121.827	\$2,113.590	(\$8.237)

8. As HB 219 makes significant changes, some taxpayers will adjust their withholding and estimated payments. It is assumed that 80% of TY 2024 and 20% of TY 2025 tax liability changes will be collected in FY 2025. Similar timing is anticipated to continue in subsequent years.
9. The change in full-year resident the tax liability was converted to fiscal years based on the factors used in HJ 2 (FY 2024 and FY 2025) and HJ 2 consistent assumptions for FY 2026 and FY 2027.
10. After applying the conversion factors, income tax revenue is estimated to be reduced by \$800,000 in FY 2024, \$4.762 million in FY 2025, \$7.604 million in FY 2026, and \$9.123 million in FY 2027.
11. The changes made by HB 219 can be made as part of the department’s annual change processes at no additional expense.

<u>Fiscal Impact:</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
Department of Revenue	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
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)	(\$800,000)	(\$4,762,000)	(\$7,604,000)	(\$9,123,000)
TOTAL Revenues	<u>(\$800,000)</u>	<u>(\$4,762,000)</u>	<u>(\$7,604,000)</u>	<u>(\$9,123,000)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$800,000)	(\$4,762,000)	(\$7,604,000)	(\$9,123,000)

Technical Notes:

Department of Revenue

1. HB 219 refers to “taxable retirement income.” However, this term is not defined in the bill, or elsewhere in the MCA. A definition is needed to establish clearly what should be counted as “taxable retirement income.”
2. The bill does not definitively state if the income exemption phases-out completely above \$170,050. It is assumed that there is no income exemption if “taxable retirement income” is above this amount. This should be stated explicitly.

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<i>Sponsor's Initials</i>	<i>Date</i>	<i>Budget Director's Initials</i>	<i>Date</i>