



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 Amended in House Committee

- |   |  |  |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact     | <input type="checkbox"/> Needs to be included in HB 2  | <input type="checkbox"/> Technical Concerns              |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> 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>
<b>Expenditures:</b>				
General Fund	\$0	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	(\$569,000)	(\$3,339,000)	(\$5,176,000)	(\$6,313,000)
<b>Net Impact-General Fund Balance:</b>	<u>(\$569,000)</u>	<u>(\$3,339,000)</u>	<u>(\$5,176,000)</u>	<u>(\$6,313,000)</u>

**Description of fiscal impact:** HB 219, as once amended in the House Taxation committee, exempts a portion of military retirement pay from Montana personal income tax and clarifies that the basis for the income thresholds is the taxpayer's federal taxable income. The exemption would reduce general fund revenue by \$569,000 in FY 2024, \$3,339,000 in FY 2025, \$5,176,000 in FY 2026, and \$6,313,000 in FY 2027.

### FISCAL ANALYSIS

**Assumptions:****Department of Revenue**

- Under current law, military retirement pay based on length of service and survivor benefits are considered a part of Montana and federal taxable income.
- As once amended in the House Taxation committee, HB 219 exempts a portion of military retirement pay and military survivor benefits from Montana personal income tax, starting TY 2024. The share of income that is exempt from taxation is determined based on the taxpayer's federal taxable income and the current tax year. A breakdown of the income exemption thresholds and exemption amounts are included in the following table.


Military Pension Income Threshold Amounts				
Federal Taxable 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 \$150,000	10%	20%	20%	20%
Above \$150,000	0%	0%	0%	0%

3. Based on 1099-R forms provided to the department by the U.S. Treasury Modernized e-File (MeF) program, there were 7,983 Montana taxpayers identified as receiving retirement income from the U.S. Department of Defense’s Defense Finance and Account Service who filed a full-year resident income tax return in TY 2021.
4. The Department of Revenue only receives digital copies of Form 1099-R through the MeF program. However, not all taxpayers file their returns through a MeF electronic filing provider.
5. Based on total taxable retirement income on Montana returns, and the total taxable income reported on Montana MeF 1099-R forms, about 10% of all taxable retirement income is not included in MeF records.
6. It is assumed that the aggregate taxable military retirement income reported on Montana 1099-R forms undercounts actual military retirement income by 10%.
7. The 7,983 taxpayers reported approximately \$215.7 million in taxable military retirement income in TY 2021.
8. The Department of Revenue 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.
9. 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 \$2.339 million in TY 2024, \$3.92 million in TY 2025, \$4.817 million in TY 2026, and \$5.641 million in TY 2027.

Tax Liability Estimate Current Law and Amended Bill			
Tax Liability (Millions)			
Tax Year	Current Law	Proposed Law	Change
2024	\$1,832.790	\$1,830.452	(\$2.339)
2025	\$1,924.211	\$1,920.291	(\$3.920)
2026	\$2,050.048	\$2,045.231	(\$4.817)
2027	\$2,121.827	\$2,116.186	(\$5.641)

10. As HB 219 makes large changes to the taxable income of some taxpayers with military retirement income, it is assumed that some of the taxpayers will change their withholding and estimated payment amounts as a result of the proposed bill. It is assumed that 80% of TY 2024 tax liability changes and 20% of TY 2025 tax liability changes will occur in FY 2025. It is assumed a similar distribution continues in previous and future fiscal years.
11. The change in the estimated tax liability of full-year resident taxpayers from the income tax model were adjusted based on the factors used in HJ 2 revenue and consistent assumptions for FY 2026 and FY 2027.
12. The tax liability estimates were scaled-up by 10% to account for 1099-R forms not in the MeF system.
13. Based on the adjustments used for HJ 2, and the 10% adjustment, income tax revenue would be reduced by \$569,000 in FY 2024, \$3,339,000 in FY 2025, \$5,176,000 in FY 2026, and \$6,313,000 in FY 2027.
14. The changes made by HB 219 can be made as part of annual processes and DOR does not expect to incur any significant additional costs because of this bill.

	<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>
<b><u>Fiscal Impact:</u></b>				
<b>Department of Revenue</b>				
FTE	0.00	0.00	0.00	0.00
<b><u>Expenditures:</u></b>				
Personal Services	\$0	\$0	\$0	\$0
<b>TOTAL Expenditures</b>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$0	\$0	\$0	\$0
<b>TOTAL Funding of Exp.</b>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b><u>Revenues:</u></b>				
General Fund (01)	(\$569,000)	(\$3,339,000)	(\$5,176,000)	(\$6,313,000)
<b>TOTAL Revenues</b>	<u>(\$569,000)</u>	<u>(\$3,339,000)</u>	<u>(\$5,176,000)</u>	<u>(\$6,313,000)</u>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	(\$569,000)	(\$3,339,000)	(\$5,176,000)	(\$6,313,000)

Sponsor's Initials	Date	 Budget Director's Initials	1-30-23 Date
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