



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2025 Biennium

<b>Bill information:</b>	
HB0221 - Revise income tax rates for net-long term capital gains (Welch, Tom )	
<b>Status:</b>	As Introduced

- |  |  |  |
|--|--|--|
| <input type="checkbox"/> Significant Local Gov Impact                | <input type="checkbox"/> Needs to be included in HB 2  | <input type="checkbox"/> Technical Concerns              |
| <input checked="" 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	(\$2,961,000)	(\$15,796,000)	(\$18,553,000)	(\$22,652,000)
<b>Net Impact-General Fund Balance:</b>	<u>(\$2,961,000)</u>	<u>(\$15,796,000)</u>	<u>(\$18,553,000)</u>	<u>(\$22,652,000)</u>

**Description of fiscal impact:** HB 221 replaces the present law 30% net long-term capital gains deduction set to take effect in TY 2024 with two separate capital gains tax rates: 3.0% and 4.1%. Due to timing of estimated payments the estimated reduction of general fund revenue is \$2.961 million in FY 24. The full-year effects begin in FY 2025 with the estimated impact increasing to \$22.652 million in FY 2027.

### FISCAL ANALYSIS

#### Assumptions:

#### **Department of Revenue**

- Under current law in TY 2024 taxpayers can deduct 30% of their net long-term capital gains when calculating their Montana taxable income.
- Starting in TY 2024 HB 221 would replace the present law net long-term capital gains deduction with separate net long-term capital gains tax rates of 3.0% and 4.1%. The rate at which capital gains income is taxed is based on both the amount of taxable net long-term capital gains and taxable non-capital gains income. The marginal tax rates under HB 221 differ based on the taxpayer's filing status. For joint returns, income below \$41,000 minus nonqualified income is taxed at the 3.0% rate, while all other income is taxed at 4.1%. For head of household returns, income below \$30,750 minus nonqualified income is taxed at 3.0%, while all other income is taxed at 4.1%. All other returns with income below \$20,500 minus nonqualified income are taxed at 3.0% and all other income at 4.1%.
- The income thresholds for the different capital gains tax rates are adjusted each year for inflation.

4. The department’s present law (HJ 2 assumptions) income tax model was modified to include the changes made by HB 221. The income tax liability for each tax year under HB 221 were then compared to current law income tax liability forecasts.
5. The modeled differences show reductions in tax liability of full-year resident taxpayers of \$13.390 million in TY 2024, \$15.297 million in TY 2025, \$19.656 million in TY 2026, and \$19.582 million in TY 2027.

<b>Tax Liability Estimates Under Current Law and HB 221</b>			
Tax Year	Tax Liability (Millions)		Change in Revenue
	Current Law	HB 221	
2024	\$1,832.79	\$1,819.40	(\$13.39)
2025	\$1,924.21	\$1,908.91	(\$15.30)
2026	\$2,050.05	\$2,030.39	(\$19.66)
2027	\$2,121.83	\$2,102.24	(\$19.58)

6. It is assumed the liability changes in HB 221 will induce some taxpayers to change their withholding and estimated payments. The HJ 2 income tax estimates assume that fiscal year (FY 2025) payments of tax liability are collected with 80% due to the prior tax year liability (TY 2024) and 20% the ongoing tax year (TY 2025) liability (FY 2025).
7. The tax year liability due to HB 221 is adjusted for HJ 2 assumptions for non-full-year resident taxpayers, audits, and population. With these HJ 2 conforming adjustments to resident tax liability, HB 221 is estimated to reduce income tax receipts by \$2.961 million in FY 2024, \$15.796 million in FY 2025, \$18.553 million in FY 2026, and \$22.652 million in FY 2027.

*DOR Administrative Costs*

8. The changes made by this bill can be made as part of the department’s annual change processes.

<b><u>Fiscal Impact:</u></b>	<b><u>FY 2024</u></b>	<b><u>FY 2025</u></b>	<b><u>FY 2026</u></b>	<b><u>FY 2027</u></b>
	<b><u>Difference</u></b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>	<b><u>Difference</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>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$0	\$0	\$0	\$0
<b>TOTAL Funding of Exp.</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b><u>Revenues:</u></b>				
General Fund (01)	(\$2,961,000)	(\$15,796,000)	(\$18,553,000)	(\$22,652,000)
<b>TOTAL Revenues</b>	<b>(\$2,961,000)</b>	<b>(\$15,796,000)</b>	<b>(\$18,553,000)</b>	<b>(\$22,652,000)</b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	(\$2,961,000)	(\$15,796,000)	(\$18,553,000)	(\$22,652,000)

**Technical Notes:**

**Department of Revenue and The Office of Budget and Program Planning**

1. The revenue effects presented in this fiscal note are based on HJ 2 revenue projections. The Governor’s budget includes the changes made by this bill and SB 121. If SB 121 is implemented, the revenue impact of this bill will change. The following table has the estimated revenue impact of this bill if the changes made by SB 121 were implemented.

Tax Revenue Change by Fiscal Year Relative to SB 121 as Introduced	
Fiscal Year	Change in Revenue (Millions)
2024	\$0.534
2025	\$2.780
2026	\$2.452
2027	\$0.897



Sponsor’s Initials

1/17/23

Date



Budget Director’s Initials

1-16-23

Date