



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2025 Biennium

**Bill information:**

HB0222 - Provide rebates of property taxes paid on a principal residence (Welch, Tom )

**Status:** As Amended in House 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 2024<br/>Difference</u> | <u>FY 2025<br/>Difference</u> | <u>FY 2026<br/>Difference</u> | <u>FY 2027<br/>Difference</u> |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| <b>Expenditures:</b>                    |                               |                               |                               |                               |
| General Fund                            | \$141,776,785                 | \$142,366,241                 | \$0                           | \$0                           |
| <b>Revenue:</b>                         |                               |                               |                               |                               |
| General Fund                            | (\$100,000)                   | (\$100,000)                   | \$0                           | \$0                           |
| <b>Net Impact-General Fund Balance:</b> | <u>(\$141,876,785)</u>        | <u>(\$142,466,241)</u>        | <u>\$0</u>                    | <u>\$0</u>                    |

**Description of fiscal impact:** HB 222 as amended in the House Taxation Committee, provides a rebate of up to \$500 for Montana property taxes paid in TY 2022 and again for taxes paid in TY 2023. The House Appropriations Committee amendments add coordination instructions (see Assumption #10). The Department of Revenue (DOR) would contact potential rebate qualifying applicants each year directly with a mailing. DOR estimates that there would be 292,200 households eligible each year. It is anticipated that rebates for TY 2023 taxes paid would be slightly higher as more taxpayers would receive the full \$500 rebate.

### FISCAL ANALYSIS

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

1. The U.S. Census Bureau's *American Community Survey* (ACS) reports there were 521,916 housing units in Montana in CY 2021. The ACS also reports that 448,949 of those housing units were occupied and that 311,861 housing units are owner-occupied (69.46% of all housing units). These 311,861 are the households that are potentially eligible for a rebate under HB 222.
2. However, to be eligible for the tax rebate homeowners need to have property tax liability for the residence. In TY 2022, DOR fully exempted 16,997 mobile homes with less than \$10,000 in assessed value, and 2,664 households were enrolled in the Montana Disabled Veteran program and received a full exception. The estimated number of potential rebate claimants is therefore: 292,200 (311,861 – 16,997 – 2,664).

3. FY 2024, rebates are distributed based on taxes paid in TY 2022. In TY 2022, 91.9% of households are estimated to have paid at least \$500 in taxes on their residence resulting in 268,537 households receiving the full \$500 rebate. The remaining 23,663 households are expected to claim less than \$500. The estimate of average taxes paid by this group is \$294.90.
4. In FY 2024, \$141.247 million (268,537 x \$500 + 23,663 x \$294.90) in rebates are expected to be claimed.
5. In TY 2023, cyclical class 4 residential reappraisal is anticipated to raise valuations. TY 2022 assessed values were increased by the estimated county reappraisal growth presented to the Revenue Interim Committee meeting in November 2022.
6. Local jurisdiction taxes are held mostly constant as mills adjust to maintain revenue consistent with 15-10-420, MCA. These mills are then applied to the TY 2023 assessed values to arrive at expected taxes in TY 2023. That increases percentage of households paying at least \$500 to 92.9% resulting in 271,550 households eligible to receive the full \$500 rebate. The remaining 20,650 households are expected to claim less than \$500. The estimated average tax paid by this group is \$297.58.
7. That results in \$141.920 million (271,550 x \$500 + 20,650 x \$297.58) FY 2025 property tax rebates.
8. Taxpayers who receive a rebate and itemized their federal income tax deductions for TY 2022 may need to report a portion as taxable income in TY 2023. Reporting this income in TY 2023 will increase their federal taxable liability. If the same taxpayers itemize their Montana income tax for the same year, they may have their Montana tax liability decrease as a result of their larger federal tax liability. The same is true for taxes paid in TY 2023 and rebates received in TY 2024.
9. Based on share of Montana taxpayers itemizing their federal deductions (9.1%) and average tax rates, federal tax liability is estimated to increase by \$1.55 million in both TY 2023 and TY 2024. If Montana taxpayers who itemize their federal deductions also itemize their Montana income deductions, this increase in federal liability results in a \$100,000 decrease in Montana tax liability for TY 2023 and TY 2024.
10. The House Appropriations Committee added coordination instructions to HB 222 as follows:  
COORDINATION SECTION. SECTION 8. COORDINATION INSTRUCTION. (1) IF [THIS ACT] IS PASSED AND APPROVED AND DOES NOT PROVIDE FOR A PROPERTY TAX REBATE OF \$500, AND IF ANY OF THE FIVE BILLS IDENTIFIED IN SUBSECTION (2) ARE NOT PASSED AND APPROVED, THEN THE AMOUNT OF THE PROPERTY TAX REBATE IN [SECTION 2] IN [THIS ACT] IS REDUCED BY \$250. (2) THE FIVE BILLS ARE: (A) HOUSE BILL NO. 192; (B) HOUSE BILL NO. 212; (C) HOUSE BILL NO. 221; (D) HOUSE BILL NO. 251; AND (E) HOUSE BILL NO. 267.

*DOR Administrative Costs*

11. In each of the two fiscal years, DOR is tasked with mailing notices to potential claimants. DOR will send a notice to all unique mailing addresses with improvements (residences). There were 344,359 properties fitting that criteria in TY 2022. It is assumed the same number of notices will be sent out for TY 2023 rebates.
12. Notice mailing costs are estimated at \$0.66 each, for a total of \$227,277 in both FY 2024 and FY 2025.
13. DOR assumes 20,000 claimants will not be eligible and require a denial letter from the department. At \$0.66 per letter, these letters result in FY 2024 costs of \$13,200. In the subsequent year (FY 2025) it is assumed DOR will have to issue half as many denials. FY 2025 costs for 10,000 letters at \$0.66 per letter is \$6,600.
14. It is assumed that half of the 292,200 rebates will file for electronic fund transfer (EFT), and the other half will receive a mailed check. The cost of printing and mailing checks is \$0.83386 per rebate and the cost of EFT is \$0.13522 per rebate. The cost of this rebate administration is \$141,583 in both years.
15. DOR will require 1.00 FTE for a customer service representative in the call center in FY 2024 and FY 2025.
16. DOR will spend \$75,000 on an information campaign raising awareness of the rebate in FY 2024.
17. Total administrative costs are \$529,785 in FY 2024 and \$446,241 in FY 2025.

| <b>Fiscal Impact:</b>   | <b>FY 2024</b>           | <b>FY 2025</b>           | <b>FY 2026</b>           | <b>FY 2027</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>  |                          |                          |                          |                          |
| <b>FTE</b>  | 1.00                     | 1.00                     | 0.00                     | 0.00                     |
| <b><u>Expenditures:</u></b>   |                          |                          |                          |                          |
| Personal Services   | \$61,168                 | \$62,085                 | \$0                      | \$0                      |
| Operating Expenses  | \$468,617                | \$384,156                | \$0                      | \$0                      |
| Transfers   | \$141,247,000            | \$141,920,000            | \$0                      | \$0                      |
| <b>TOTAL Expenditures</b>   | <b>\$141,776,785</b>     | <b>\$142,366,241</b>     | <b>\$0</b>               | <b>\$0</b>               |
| <b><u>Funding of Expenditures:</u></b>  |                          |                          |                          |                          |
| General Fund (01)   | \$141,776,785            | \$142,366,241            | \$0                      | \$0                      |
| <b>TOTAL Funding of Exp.</b>  | <b>\$141,776,785</b>     | <b>\$142,366,241</b>     | <b>\$0</b>               | <b>\$0</b>               |
| <b><u>Revenues:</u></b>   |                          |                          |                          |                          |
| General Fund (01)   | (\$100,000)              | (\$100,000)              | \$0                      | \$0                      |
| <b>TOTAL Revenues</b>   | <b>(\$100,000)</b>       | <b>(\$100,000)</b>       | <b>\$0</b>               | <b>\$0</b>               |
| <b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b> |                          |                          |                          |                          |
| General Fund (01)   | (\$141,876,785)          | (\$142,466,241)          | \$0                      | \$0                      |

TCS

Sponsor's Initials

2/3/23

Date

[Signature]

Budget Director's Initials

2-2-23

Date