



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2025 Biennium

**Bill information:**

HB0816 - Revise distribution of surplus revenue (Kassmier, Joshua )

**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>
<b>Expenditures:</b>				
General Fund	\$124,866,000	\$47,112,000	\$0	\$0
<b>Revenue:</b>				
General Fund	(\$91,000)	(\$33,000)	\$0	\$0
<b>Net Impact-General Fund Balance:</b>	<u>(\$124,957,000)</u>	<u>(\$47,145,000)</u>	<u>\$0</u>	<u>\$0</u>

**Description of fiscal impact:** HB 816 provides a supplement to the income tax rebate provided in HB 192 and the property tax rebate provided in HB 222. The proposed supplements are expected to increase general fund expenditures by \$124,866,000 in FY 2024 and \$47,112,000 in FY 2025. The additional rebates will reduce general fund revenue by \$91,000 in FY 2024 and \$33,000 in FY 2025.

### FISCAL ANALYSIS

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

- HB 816 provides a supplemental individual income tax rebate and a separate supplemental property tax rebate.
- To qualify for the individual income tax rebate, taxpayers must also qualify for the income tax rebate provided for in HB 192. As the income tax rebates provided for in HB 816 depend on the passage of HB 192, it is assumed that HB 192 passes and becomes law.
- To qualify for the property tax rebate, taxpayers must also qualify for the property tax rebate provided for in HB 222. As the property tax rebates provided for in this bill depend on the passage of HB 222, it is assumed that HB 222 passes and becomes law.
- The HB 816 supplemental income tax rebate for each taxpayer is the quotient of \$100 million divided by 350,000 and rounded down to the nearest dollar. For non-joint returns, the supplemental rebate amount is

\$285 ( $\$100,000,000 / 350,000$ ) in TY 2023. For joint returns, the supplemental rebate is \$571 ( $(\$100,000,000 / 350,000) \times 2$ ).

5. The HB 816 supplemental tax rebate for property tax is \$100 million divided by 284,343, split over two tax years, and rounded to the nearest dollar. Therefore, the supplemental rebate is \$175 for TY 2023 and TY 2024.
6. The estimates in this fiscal note assume that both HB 192 and HB 222 have passed and been signed into law. Estimates for the fiscal impacts of HB 816 are calculated in total with HB 192 and HB 222 and compared against the fiscal estimates in HB 192 and HB 222 as if both bills were current law.

#### *Income Tax Rebate*

7. HB 192 creates an income tax rebate for full-year residents who filed a return in TY 2021. To qualify, taxpayers must have filed as a resident in TY 2020 and as a full-year resident in TY 2021 and could not be claimed as a dependent by another taxpayer for federal or Montana income tax purposes in TY 2021. The credit is equal to the lesser of \$1,250, or \$2,500 for joint returns, or the tax liability amount reported on line 20 of the taxpayer's 2021 Montana income tax return.
8. Through November 1, approximately 600,000 full-year resident Montana income tax returns had been filed for TY 2021. These returns reported approximately \$1.64 billion in tax liability after non-refundable credits on line 20 of the individual income tax return. Of the TY 2021 full-year resident tax returns, approximately 550,000 were filed by taxpayers who had also filed a timely resident return in Montana for TY 2020 and would be eligible for the credit. In addition, nearly 24,000 were claimed as a dependent on a different full-year resident return in TY 2021. 503,370 filers had non-zero tax liabilities after non-refundable credits reported on line 20 of their income tax return. The interaction of all these factors results in a total of approximately 460,125 income tax rebates.
9. Based on the filing status of the returns, and the tax liability amount reported on line 20 of the return, the 460,125 returns qualify for \$477,727,000 in income tax rebates.
10. HB 816 increases the maximum tax rebate for non-joint returns from the \$1,250 in HB 192 to \$1,535 ( $\$1,250 + \$285$ ). For joint returns, the maximum rebate increases from \$2,500 to \$3,071 ( $\$2,500 + \$571$ ).
11. With the new maximum rebate under HB 816, the total income tax rebates for the 460,125 returns that could qualify increase from \$477,727,000 to \$556,403,000. This is an increase in total income tax rebates of \$78,676,000 in FY 2025.
12. Taxpayers who receive the supplemental rebate and itemized their federal income tax deductions for TY 2021 may need to report a portion of the rebate as taxable income in TY 2023. Reporting this income in TY 2023 will increase the federal taxable income of qualified Montana taxpayers. 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 (state deductible) federal tax liability.
13. Based on the share of Montana taxpayers itemizing their federal deductions (9.1%) and average tax rates, federal tax liability is estimated to increase by \$859,000 in TY 2023 due to the additional income tax rebate provided for in HB 816. If Montana taxpayers who itemize their federal deductions also itemize their Montana income deductions, this increase in federal liability results in a \$58,000 decrease in Montana tax liability for FY 2024.
14. It is assumed that taxpayers will not change their withholdings or estimated payments as a result of the income tax rebate provided in HB 816.

#### *Property Tax Rebate*

15. 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 and HB 816.
16. The total combined property tax rebate authorized by HB 222 and HB 816 is \$675 ( $\$500 + \$175$ ) for both FY 2024 and FY 2025.
17. To be eligible for the tax rebate under HB 222 (and HB 816) 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 number of potential rebate claimants is therefore: 292,200 (311,861 – 16,997 – 2,664).
18. In FY 2024, rebates are distributed based on taxes paid in TY 2022. In TY 2022, 88.8% of households are estimated to have paid at least \$675 in taxes on their residence resulting in 259,521 households eligible for the full \$675 rebate. The remaining 32,679 households are expected to claim less than \$675. The estimate of average taxes paid by this group is \$375.17.
  19. In FY 2024, \$187.437 million (259,521 x \$675 + 32,679 x \$375.17) in property tax rebates are expected to be claimed.
  20. 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.
  21. 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 \$675 to 90.3% resulting in 263,837 households eligible to receive the full \$675 rebate. The remaining 28,363 households are expected to claim less than \$675. The estimated average tax paid by this group is \$385.78.
  22. That results in \$189.032 million (263,837 x \$675 + 28,363 x \$385.78) FY 2025 property tax rebates.
  23. Fiscal year estimates for HB 222 were \$141.247 million in FY 2024 and \$141.920 in FY 2025.
  24. Fiscal year estimates for HB 816 are therefore \$46.190 million in FY 2024 (\$187.437 million - \$141.247 million) and \$47.112 million in FY 2025 (\$189.032 million - \$141.920 million).

*Revenue effects of the rebates for taxpayers who itemize. -*

25. 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 with their increased federal tax liability. The same is true for taxes paid in TY 2023 and rebates received in TY 2024.
26. Based on the share of Montana taxpayers itemizing their federal deductions (9.1%) and average tax rates, HB 816 increases federal tax liability by \$0.5 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 is due to the additional rebate provided for in HB 816, results in a \$33,000 decrease in Montana tax liability for TY 2023 and TY 2024.
27. With \$78,676,000 in additional income tax rebates in FY 2024 and \$46,190,000 in additional property tax rebates in FY 2024, the combined expenditures for supplemental rebates from the general fund for HB 816 in FY 2024 are estimates to be \$124,866,000. The additional \$47,112,000 in property tax rebates will increase general fund expenditures by \$47,112,000 in FY 2025.
28. The additional reduction in income tax revenue as a result of the tax rebates is \$91,000 (\$58,000 + \$33,000) in FY 2024 and \$33,000 in FY 2025.

*Administrative Costs*

29. Administrative costs for implementing HB 816 are accounted for in HB 192 and HB 222. Passage of HB 816 is not expected to create additional implementation costs for the Department of Revenue.

<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>Department of Revenue</b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>
FTE	0.00	0.00	0.00	0.00
<b><u>Expenditures:</u></b>				
Transfers	<u>\$124,866,000</u>	<u>\$47,112,000</u>	<u>\$0</u>	<u>\$0</u>
<b>TOTAL Expenditures</b>	<b><u>\$124,866,000</u></b>	<b><u>\$47,112,000</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	<u>\$124,866,000</u>	<u>\$47,112,000</u>	<u>\$0</u>	<u>\$0</u>
<b>TOTAL Funding of Exp.</b>	<b><u>\$124,866,000</u></b>	<b><u>\$47,112,000</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>
<b><u>Revenues:</u></b>				
General Fund (01)	<u>(\$91,000)</u>	<u>(\$33,000)</u>	<u>\$0</u>	<u>\$0</u>
<b>TOTAL Revenues</b>	<b><u>(\$91,000)</u></b>	<b><u>(\$33,000)</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	(\$124,957,000)	(\$47,145,000)	\$0	\$0

**Technical Notes:**

1. New Section 2 (2)(b) appears to have a typo and should likely read “Subject to subsection (2)(d)” to mirror language in subsection (2)(a).

S/S  
Sponsor's Initials

3/13/23  
Date

[Signature]  
Budget Director's Initials

3-13-23  
Date