



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2025 Biennium

**Bill information:**

SB0547 - Revise capital gains tax law to fund teacher salary increases (O'Brien, Shannon )

**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	\$0	\$0	\$51,382,743	\$52,482,767
<b>Revenue:</b>				
General Fund	\$9,191,000	\$48,996,000	\$55,784,000	\$61,893,000
<b>Net Impact-General Fund Balance:</b>	<u>\$9,191,000</u>	<u>\$48,996,000</u>	<u>\$4,401,257</u>	<u>\$9,410,233</u>

**Description of fiscal impact:** SB 547 revises the capital gains adjustment to taxable income for the purpose of funding increases in teacher salaries by creating an additional quality educator payment. SB 547 would increase general fund revenue by \$9.0 relative to HJ 2 revenue forecasts in FY 2024 and \$49.0 million in FY 2025, \$4.4 million in FY 2026 and \$9.4 million in FY 2027. Teacher incentive payments would begin in FY 2026.

### FISCAL ANALYSIS

**Assumptions:**

- Under HJ 2 revenue forecast assumptions, a deduction of 30% of net long-term capital gains is set to begin in TY 2024.
- SB 547 limits the 30% capital gains deduction to taxpayers with a Federal Adjusted Gross Income of less than \$1 million for the tax year. The Department of Revenue is required in SB 547 to report the revenue generated by this limitation to the Education Interim Committee. The changes to the deduction apply starting TY 2024.
- The Department of Revenue income tax model was modified to include the capital gains deduction change made by the proposed bill. The estimated income tax liability amounts for each tax year under the proposed bill were then compared to current HJ 2 income tax liability forecasts.

- Based on the Department of Revenue income tax model, limiting the state capital gains deduction to taxpayers with Federal Adjusted Gross Income of less than \$1 million will increase the income tax liability of full-year resident taxpayers by \$41.57 million in TY 2024, \$47.3 million in TY 2025, \$53.65 million in TY 2026, and \$53.74 million in TY 2027.

Tax Liability Estimates Under Current Law and Proposed Law			
Tax Year	Tax Liability (Millions)		
	Current Law	Proposed Law	Change in Revenue
2024	\$1,832.79	\$1,874.36	\$41.57
2025	\$1,924.21	\$1,971.51	\$47.30
2026	\$2,050.05	\$2,103.70	\$53.65
2027	\$2,121.83	\$2,175.57	\$53.74

- As the proposed capital gains deduction limitation makes large changes to the tax liability of some taxpayers, it is assumed that some of the taxpayers will change their withholding and estimated payments. The estimates used in HJ 2 assume that 80% of TY 2024 liability changes and 20% of TY 2025 tax liability changes will occur in FY 2025. This distribution continues for all fiscal years.
- The tax liability from the proposed deduction change were also adjusted using HJ 2 assumptions for non-full-year resident taxpayers, audit, and population.
- Based on these SB 547 is expected to increase income tax revenue by \$9.191 million in FY 2024, \$48.996 million in FY 2025, \$55.784 million in FY 2026, and \$61.893 million in FY 2027.

Tax Revenue Change by Fiscal Year	
Fiscal Year	Change in Revenue
	(Millions of Dollars)
2024	\$9.191
2025	\$48.996
2026	\$55.784
2027	\$61.893

- The changes made by SB 547 can be made as part of the Department of Revenue annual change process. The Department of Revenue does not expect to incur any significant costs because of the bill.

**Office of Public Instruction (OPI)**

- Section 20-9-306, MCA, is amended in SB 547 to adjust the calculation of total quality educator payment associated with what is termed the *teacher incentive* portion to be calculated at two times the total number of full-time equivalent qualified educators. Current statute provides that districts seeking the *teacher incentive* is limited to one additional quality educator payment for teachers that were in the first 3 years of the teacher's teaching career in the previous year.
- Section 20-9-324, MCA, or incentives for school districts meeting legislative goal for competitive base pay of teachers in public school districts, is amended to increase one of the qualifiers. The change required that to be included in the program, a teacher's base pay must be 11 times as much as the quality educator payment amount provided in 20-9-306(16), MCA. This is changed from the current statute which is set at 10 times the quality educator payment amount.
- The number of FTE (including special education cooperatives) generating the quality educator payment is estimated to be:

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
School District FTE	13,365.497	13,365.497	13,365.497	13,365.497	13,365.497
Special Ed Coop FTE	165.709	165.709	165.709	165.709	165.709
<b>Total FTE</b>	<b>13,531.206</b>	<b>13,531.206</b>	<b>13,531.206</b>	<b>13,531.206</b>	<b>13,531.206</b>

12. The *teacher incentive* program began with legislation (HB 143) introduced during the 2021 legislative session. There have been two years of activity since the creation of the program. The following table is a summary of the current program for FY 2023 and FY 2024.

	Districts	FTE qualified	Total District FTE	Distributions
FY2023	109	488	3,841	\$1,695,558
FY2024	100	504	3,982	\$1,795,991

13. SB 547 provides a delayed effective date set to begin for FY 2026 for the first FTE payments. The OPI assumes that qualified FTE of FY 2025 will contribute to the distributions of FY 2026. The following table illustrates the estimated outcome should only the qualifying districts of FY 2024 contribute to the changes under SB 547.

	Districts	FTE qualified	Total District FTE	QEC Rate FY2026	Distributions
FY2026	100	504	3,982	\$3,783 X 2	\$30,127,812
FY2027	100	504	3,982	\$3,865 X 2	\$30,780,860

14. Although assumption 13 provides inconclusive evidence for estimating the total FTE that will contribute to the changes of SB 547, it is assumed that a much greater number of districts will make available a base pay that is 11 times that of the quality educator component (QEC) rate to teachers of their districts. This is assumed based on the state average teacher salary in FY 2022 of \$50,700.
15. As an example, the removal of the limitation of incentive pay for teachers in the first three years of their teaching career and the bill doubling the incentive over currently distributed incentive pay would contribute the following in FY 2023:
- QEC share (No Incentive) of average teacher pay is roughly estimated as \$3,472 of \$50,700 or 6.8%.
  - QEC share (SB 547) of average teacher pay is roughly estimated as \$10,416 of \$50,700 or 20.5%.
16. Additional consideration has been given to situations in which currently no new teachers have been hired and the base teacher salary is currently set to provide 11 times the QEC payment. Currently, the OPI has no better quantitative method for estimating the costs associated with SB 547 therefore for purposes of this fiscal note it is assumed that 50% of statewide FTE will contribute to the amended provisions set forth in the bill.

	Total District FTE	QEC Rate FY2026	Distributions
FY 2026	13,531 / 2 = 6,766	\$3,783 X 2	\$51,191,556
FY 2027	13,531 / 2 = 6,766	\$3,865 X 2	\$52,301,180

17. The net state cost will be reduced by the amount of incentive funding provided under current law estimated in assumption 12.
18. These incentive payments are included in the quality educator payment in the BASE Aid funding formula. This would increase the school district budget limits by like amounts. Additionally, there would be a general fund increase for guaranteed tax base retirement to districts of approximately \$2.0 million per year beginning in FY 2026.

	<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><u>Expenditures:</u></b>				
Local Assistance (QEC)	\$0	\$0	\$49,495,998	\$50,505,189
Local Assistance (Retirement)	\$0	\$0	\$1,886,745	\$1,977,578
<b>TOTAL Expenditures</b>	<b>\$0</b>	<b>\$0</b>	<b>\$51,382,743</b>	<b>\$52,482,767</b>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$0	\$0	\$51,382,743	\$52,482,767
<b>TOTAL Funding of Exp.</b>	<b>\$0</b>	<b>\$0</b>	<b>\$51,382,743</b>	<b>\$52,482,767</b>
<b><u>Revenues:</u></b>				
General Fund (01)	\$9,191,000	\$48,996,000	\$55,784,000	\$61,893,000
<b>TOTAL Revenues</b>	<b>\$9,191,000</b>	<b>\$48,996,000</b>	<b>\$55,784,000</b>	<b>\$61,893,000</b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	\$9,191,000	\$48,996,000	\$4,401,257	\$9,410,233

**Effect on County or Other Local Revenues or Expenditures:**

1. School districts budget limits would increase by approximately \$50.0 million per year. The quality educator component is 100% paid by the state, so there would not be additional cost to local taxpayers.
2. Property taxpayers would have increased costs of \$2.0 million for additional county retirement.

**Technical Notes:**

1. Changes to section 20-9-306, MCA, in SB 547 do not specify what year the FTE is to be included. The current statute indicates that the incentive is for full-time equivalent teachers that were in the first 3 years of the teacher's teaching career in the previous year. Recognition of "previous year" aligns the payment with current budget creation practice and alleviates ambiguity in the calculations.

NO SPONSOR SIGNATURE

3/29/23  
Date

RO  
Budget Director's Initials

3.29.23  
Date