



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2025 Biennium

**Bill information:**

HB0235 - Revise social security income taxation (Karlen, Jonathan )

**Status:** 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 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	(\$7,532,000)	(\$39,727,000)	(\$43,138,000)	(\$47,158,000)
<b>Net Impact-General Fund Balance:</b>	<u>(\$7,532,000)</u>	<u>(\$39,727,000)</u>	<u>(\$43,138,000)</u>	<u>(\$47,158,000)</u>

**Description of fiscal impact:** HB 235 further exempts an additional portion of Social Security income from Montana individual income tax that otherwise could be taxable with the flow-through of federal taxable income. The proposed change would reduce general fund revenue by \$7,532,000 in FY 2024, \$39,727,000 in FY 2025, \$43,138,000 in FY 2026, and \$47,158,000 in FY 2027.

### FISCAL ANALYSIS

**Assumptions:**

1. Taxation of Social Security benefits is somewhat complicated as federal law flows-through to Montana. Currently, under federal law, Social Security income is exempt if a taxpayer files a single or head of household return with a “combined” income (defined as federal adjusted gross income, plus non-taxable interest, plus one-half of social security benefits) under \$25,000. If a taxpayer’s total income comes from Social Security benefits, up to \$50,000 could be exempt. If filing a joint return, the full exemption level is \$32,000 in “combined” income. If all a couple’s income came from Social Security benefits up to \$64,000 in income could be exempt.
2. Based on the American Community Survey, in 2021, a median householder (single filer) over age 65 had a median income of nearly \$48,000. Social Security Administration data for Montana shows that in December 2021 the average retired worker’s Social Security benefits averaged nearly \$19,000 in annualized benefits. A

two-person household with two workers would average \$38,000 in benefits. The current (CY 2023) maximum annualized social security benefit for a beneficiary at full retirement age is \$45,696.

3. HB 235 increases the Social Security income exemption for Montana income tax purposes by \$15,000 (to \$40,000) for single or head of household filers, and by \$23,000 (to \$55,000) for taxpayers filing a joint return. The other thresholds would rise by those increments from present law. Under the HB 235's thresholds, the typical single filer with \$48,000 in income, of which \$19,000 was from Social Security benefits, would see their state income tax liability reduced by \$540 (to \$785). The Department of Revenue's individual income tax model, with HJ 2 assumptions, was modified to incorporate the taxable Social Security income changes made by HB 235. The estimates of income tax liability under the proposed law were then compared to current law income tax liability forecasts.
4. Based on these models, the proposed Social Security base amount changes reduce the tax liability of full-year resident taxpayers by \$34.064 million in TY 2024, \$36.848 million in TY 2025, \$40.355 million in TY 2026, and \$43.136 million in TY 2027, relative to present law.



Tax Liability Estimates Under Current Law and HB 235			
Tax Year	Tax Liability (Millions)		
	Current Law	HB 235	Change in Liability
2024	\$1,832.79	\$1,798.73	(\$34.064)
2025	\$1,924.21	\$1,887.36	(\$36.848)
2026	\$2,050.05	\$2,009.69	(\$40.355)
2027	\$2,121.83	\$2,078.69	(\$43.136)

5. Given the significant changes to the taxable income of taxpayers with Social Security income, it is assumed that some taxpayers will adjust their withholding and estimated payments.
6. The HJ 2 estimates covert tax year liability into fiscal year collections by assuming that 80% of prior tax year [TY 2024] liability and 20% of current tax year [TY 2025] tax liability changes will occur in the fiscal year [FY 2025]. This timing is assumed to continue in subsequent fiscal years.
7. The tax liability amounts from the proposed rate decrease are also adjusted using HJ 2 assumptions for other than full-year resident taxpayers, audit collections , and population increases.
8. Mirroring the adjustments used for HJ 2, HB 235 reduces income tax revenue by \$7.532 million in FY 2024, \$39.727 million in FY 2025, \$43.138 million in FY 2026, and \$47.158 million in FY 2027.

Tax Revenue Change by Fiscal Year under HB 235	
Fiscal Year	Change in Revenue (Millions)
2024	(\$7.532)
2025	(\$39.727)
2026	(\$43.138)
2027	(\$47.158)

9. The changes made by HB 235 can be made as part of the department's annual change processes. DOR does not expect to incur any significant additional costs because of this bill.

<b><u>Fiscal Impact:</u></b>	<b><u>FY 2024 Difference</u></b>	<b><u>FY 2025 Difference</u></b>	<b><u>FY 2026 Difference</u></b>	<b><u>FY 2027 Difference</u></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)	(\$7,532,000)	(\$39,727,000)	(\$43,138,000)	(\$47,158,000)
<b>TOTAL Revenues</b>	<u>(\$7,532,000)</u>	<u>(\$39,727,000)</u>	<u>(\$43,138,000)</u>	<u>(\$47,158,000)</u>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	(\$7,532,000)	(\$39,727,000)	(\$43,138,000)	(\$47,158,000)

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