



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:

HB0268 - Establish a child tax credit through the individual income tax (Kassmier, Joshua)

Status:	As Amended in House Committee
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| <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>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	(\$33,219,000)	(\$33,219,000)	(\$33,219,000)
Net Impact-General Fund Balance:	\$0	(\$33,219,000)	(\$33,219,000)	(\$33,219,000)

Description of fiscal impact: HB 268 creates a refundable Montana individual income tax child tax credit starting TY 2024. The credit would be \$1,200 for children under six years of age. The amendments in the House Taxation Committee added a credit phase-out between \$50,000 and \$56,000 in Federal Adjusted Gross Income. The Committee also added additional income criteria. To qualify for the new child tax credit, the household has to have earned income and less than \$10,200 in investment income. The proposed credit will reduce general fund revenue by \$33.219 million each fiscal year, starting in FY 2025.

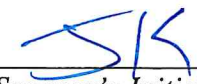

FISCAL ANALYSIS

Assumptions:

1. Under section 24 of the Internal Revenue Code (26 U.S.C 24), a taxpayer is allowed to claim a tax credit that is equal to \$2,000 for each qualifying child of the taxpayer against their federal personal income taxes. To qualify, the child must be below the age of 17 at the end of the year. The credit amount is reduced based on the taxpayer's modified adjusted gross income, with a phase-out for income above \$400,000 for a joint return and \$200,000 for all other returns. A portion of the credit is currently refundable. The credit amount, phase-out amounts and other portions of the credit are set to change starting TY 2026. The State of Montana does not have a similar child tax credit under current law.
2. As amended, HB 268 creates a state child income tax credit, which would be available starting TY 2024. To qualify for the credit, taxpayers must file a resident tax return and qualify for the federal child tax credit. In

- addition, taxpayers must also have proof of earned income, investment income of less than \$10,300 and have a valid social security number for each child claimed. The credit is fully refundable.
3. As amended, the tax credit is \$1,200 for each qualifying child below the age of six, with the credit decreasing by \$90 for each \$1,000 the taxpayer’s Federal Adjusted Gross Income (AGI) is above \$50,000. The credit phases-out for taxpayers with Federal AGI in excess of \$56,000.
 4. In TY 2021, 131,094 full-year and partial-year taxpayer households claimed at least one dependent on their Montana personal income tax return. These households claimed a total of 246,818 dependents.
 5. Of the 131,094 households that reported a dependent, 53,565 households met the income qualifications for the credit. These households reported 95,576 dependents and qualified for \$111,660,810 in child tax credits.
 6. The Montana income tax return does not contain the age of dependents.
 7. According to Montana Census and Economic Information Center’s Population Projections, children between the ages of zero and five will, on average, comprise 29.75% of the population between the ages of zero and 18 during TY 2024, TY 2025, TY 2026, and TY 2027. It is assumed that 29.75% of the \$111,660,810 in potential child tax credits will be associated with dependents who meet the age requirement for the credit.
 8. An estimated \$33.219 million (\$111,660,810 x 29.75%) in credits would be claimed, starting in TY 2024.
 9. As the credit is dependent on the income, and sources of income clearly determined when the taxpayer files their return, it is assumed that taxpayers will not change their withholding or estimated payments in advance.
 10. With no changes to withholding, or estimated payments, the credit will reduce income tax revenue when taxpayers file their returns the following fiscal year.
 11. With \$33.219 million in credits each tax year, and no changes to withholdings or estimated payments, the proposed credit will reduce general fund revenue by \$33.219 million every fiscal year starting FY 2025.
 12. The changes made by HB 268 as amended can be made as part of the DOR annual change process. The department does not expect to incur any significant additional costs because of this bill.

<u>Fiscal Impact:</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
Department of Revenue	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
FTE	0.00	0.00	0.00	0.00
<u>Expenditures:</u>				
Personal Services	\$0	\$0	\$0	\$0
TOTAL Expenditures	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Revenues:</u>				
General Fund (01)	\$0	(\$33,219,000)	(\$33,219,000)	(\$33,219,000)
TOTAL Revenues	<u>\$0</u>	<u>(\$33,219,000)</u>	<u>(\$33,219,000)</u>	<u>(\$33,219,000)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	(\$33,219,000)	(\$33,219,000)	(\$33,219,000)

 _____ Sponsor's Initials	<u>2/14/23</u> _____ Date	 _____ Budget Director's Initials	<u>2-13-23</u> _____ Date
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