GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:	
HB0318 - Providing housing tax incentives (Howell, SJ)	
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

	FY 2024 Difference	FY 2025 Difference	FY 2026 Difference	FY 2027 Difference
Expenditures:				
General Fund	$48,254	$91,793	$93,013	$94,253
Revenue:				
General Fund	$0	($7,275,000)	($7,650,000)	($8,025,000)
Net Impact-General Fund Balance:	($48,254)	($7,366,793)	($7,743,013)	($8,119,253)

Description of fiscal impact: HB 318 would create a $1,250 refundable credit for landlords who rent dwellings to tenants in the Housing Choice Voucher Program. It is estimated that there are 5,500 to 6,100 dwellings for which this credit could be claimed in TY 2024 to TY 2026. This bill also would create a $1,000 refundable credit for converting a short-term rental into a long-term rental. It is assumed there will be about 400 of these credits claimed per year. In total, HB 318 could decrease income tax collections by an estimated $7,275,000 in FY 2025, $7,650,000 in FY 2026, and $8,025,000 in FY 2027.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. HB 318 creates two different refundable credits for landlords, one for renting to tenants in the Housing Choice Voucher Program, and one for converting a short-term rental into a long-term rental. Both credits have an applicability date of tax years beginning after December 31, 2023, and would be able to be claimed starting in tax year (TY) 2024.

Housing Choice Voucher Credit

2. The credit in Section 1 of the bill is a $1,250 refundable credit for each dwelling rented to a participant in the Housing Choice Voucher Program. The restrictions on the credit are that the rent may not be limited in benefit to the owner due to another rent assistance program, and the rental agreement must have been made at arm's length. This credit could be claimed multiple years if the dwelling continues meeting the criteria.
3. Based on data from the U.S. Department of Housing and Urban Development and Montana Housing, there are approximately 7,300 units under contract through the Housing Choice Voucher Program with 5,500 of them currently being rented. This is assumed to be the starting point for the number of units the credit will be claimed for in TY 2024 with some modest growth to 5,800 in TY 2025 and 6,100 in TY 2026.
4. The credit amount would be $1,250 per unit and the credits claimed in TY 2024 would result in a decrease income tax revenues in FY 2025.
5. The total estimated impact would be a decrease in general fund revenue of $6,875,000 in FY 2025, $7,250,000 in FY 2026, and $7,625,000 in FY 2027.

Housing Choice Voucher Credit Administrative Costs

6. Administration of this credit would be time intensive for the Department of Revenue due to the large number of claimants and the documentation that must be reviewed to substantiate each claim. This audit work would require an additional 1.00 FTE, in the form of a tax examiner beginning midway through FY 2024 at the effective date of the bill. The costs associated with this FTE would be $48,254 for FY 2024, $91,793 for FY 2025, $93,013 for FY 2026 and $94,253 for FY 2027.

Short-term to Long-term Rental Credit

7. The credit in Section 2 of the bill would be a $1,000 refundable credit for converting a short-term rental into a long-term rental. To qualify for the credit the dwelling must have been offered as a short-term rental for a period of at least 6 months and then rented as a long-term rental for the entire tax year the credit is claimed. The credit may only be claimed one time for each dwelling.
8. The revenue potential of a short-term rental is significantly higher than that of a long-term rental so it is assumed that this credit will not increase the number of short-term rentals converted to long-term rentals over what already occurs under current law. Therefore, this bill is not expected to impact lodging tax collections from what is projected under current law. If a significant number of short-term rentals were converted to long-term rentals, lodging tax collections would decrease, as long-term rentals are not subject to lodging taxes.
9. While this credit is not expected to increase the number of conversions of short-term rentals to long-term rentals, it is believed there is some natural transition in both directions between short-term and long-term rentals for various reasons, such as stability or ease of management.
10. Based on information and data the Department of Revenue has on short-term rentals, it is estimated that there are currently about 8,000 short-term rentals operating in Montana. Assuming a natural transition rate of 5% each year from short-term to long-term rentals, it is estimated that there would be approximately 400 dwellings per year that would qualify for this credit.
11. It is assumed that anyone who converts a dwelling from a short-term rental to a long-term rental and qualified for the credit would claim this refundable $1,000 credit. Therefore, it is estimated that a total of $400,000 per year in this credit will be claimed beginning with TY 2024. The corresponding income tax impacts will occur beginning in FY 2025 and decrease general fund revenue by $400,000 per year.

Short-term to Long-term Rental Credit Administrative Cost

12. The department expects to be able to administer this credit without significant additional costs, above the additional FTE requested Housing Choice voucher credit administrative costs section.

Fiscal Impact:	**FY 2024 Difference**	**FY 2025 Difference**	**FY 2026 Difference**	**FY 2027 Difference**
Department of Revenue				
FTE	0.50	1.00	1.00	1.00
Expenditures:				
Personal Services	$40,895	$83,096	$84,153	$85,225
Operating Expenses	$7,359	$8,697	$8,860	$9,028
TOTAL Expenditures	$48,254	$91,793	$93,013	$94,253
Funding of Expenditures:				
General Fund (01)	$48,254	$91,793	$93,013	$94,253
TOTAL Funding of Exp.	$48,254	$91,793	$93,013	$94,253
Revenues:				
General Fund (01) - HCVC	$0	($6,875,000)	($7,250,000)	($7,625,000)
General Fund (01) - ST-to-LT RC	$0	($400,000)	($400,000)	($400,000)
TOTAL Revenues	$0	($7,275,000)	($7,650,000)	($8,025,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($48,254)	($7,366,793)	($7,743,013)	($8,119,253)

Technical Notes:

Department of Revenue

1. It is unclear in Section 1(4) and Section 2(6) how the Department of Revenue would handle the refundable credits claimed by pass-through entities with nonresident owners who pay the composite tax. If the credit amount is greater than the composite tax paid, the department may not be able to distribute the refund to all the nonresident owners and would have to issue the refund to the entity. It would then be the entities responsibility to distribute it to the owners.

	1/31/23		1-30-23
Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*