



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2025 Biennium

**Bill information:**

SB0194 - Income tax credit for landlords who rent for below market rate (Dunwell, Mary Ann )

**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	\$93,348	\$91,793	\$93,013	\$94,253
<b>Revenue:</b>				
General Fund	\$0	(\$5,985,000)	(\$7,740,000)	(\$9,024,000)
<b>Net Impact-General Fund Balance:</b>	<u>(\$93,348)</u>	<u>(\$6,076,793)</u>	<u>(\$7,833,013)</u>	<u>(\$9,118,253)</u>

**Description of fiscal impact:** SB 194 would create an income tax credit of at least \$200 for property owners who rent dwellings out at below fair market rent. This credit is estimated to decrease income tax collections and the resulting general fund revenue by \$5,985,000 in FY 2025, \$7,740,000 in FY 2026, and \$9,024,000 in FY 2027. The Department of Revenue would require an additional 1.00 FTE to implement and administer the credit created in this bill.

### FISCAL ANALYSIS

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

- SB 194 would create an income tax credit for landlords renting dwellings at or below fair market rent. This non-refundable credit would be available to individual and corporate income taxpayers and applicable for tax years beginning after December 31, 2023 (TY 2024 and beyond).
- The credit amount would be \$200 for every \$100 under 110% of fair market rent that a taxpayer charges in monthly rent. Fair market rent is defined by the U.S. Department of Housing and Urban Development (HUD) as the 40<sup>th</sup> percentile of rent paid for rental housing units in an area. By this definition, 40% of rental housing units in an area, and Montana as a whole, are rented for under fair market rent.

3. Based on the U.S. Census Bureau’s *American Community Survey* there were approximately 137,000 rented housing units in Montana in 2021. The calculations use in this fiscal note, assumes rental unit growth matches Montana population growth estimates in HJ 2.
4. For a housing unit to qualify for this credit, it would have to be rented for at least \$100 below 110% of fair market rent. It is assumed on average this calculation ends up back at fair market rent. For example, 110% of a fair market rent of \$1,000 is \$1,100, minus \$100 equals the fair market rent of \$1000. Therefore, it is assumed 40% of the rented housing units in Montana meet the fair market rent requirement to qualify for this credit.
5. Additional requirements for a dwelling to qualify for the credit include: a lease agreement of at least a year, meeting the housing quality standards of housing choice voucher program, and not already in any other rent reduction program. The department could disallow a credit if the landlord and tenant have not dealt at arm’s length. To claim the credit, a taxpayer must submit a rent receipt or lease agreement, and any other supporting documentation required by the department. The taxpayer would file a new DOR form, specific to this credit, calculate the credit, and file the form with their income tax return.
6. Given the requirements outlined in the above, and the typical progressive utilization associated with a new credit, it is assumed that only 50% of the housing units that meet the fair market rent requirement will claim the credit in the first year (TY 2024). This utilization rate is expected to increase to 60% for TY 2025 and 65% for TY 2026 as more taxpayers become aware of the credit and utilization increases.
7. The following table shows the estimated total number of rented housing units in Montana, the number rented for less than fair market rent, the assumed utilization rate, and the estimated number of units that the credit will be claimed for.

Table 1. Estimating # of Qualifying Units	TY 2024	TY 2025	TY 2026
Total Rented Units in Montana	142,400	143,500	144,600
Units Rented Below Fair Market Rent	57,000	57,400	57,800
Assumed Utilization Rate	50%	60%	65%
Units Credit will be Claimed For	28,500	34,400	37,600

8. The credit amount claimed per unit would be \$200 if the rent collected is between \$100 and \$200 below 110% of fair market rent, \$400 if the rent collected is between \$200 and \$300 below 110% of fair market rent, and so on. It is expected that most qualifying units would only qualify for the minimum \$200 credit, with some qualifying for \$400, and a few qualifying for \$600 or more. The average credit amount claimed is assumed to be \$300 (60% claiming \$200, 30% claiming \$400, and 10% claiming \$600).
9. This credit would be non-refundable but could be carried-forward up to three years. Based on MeF Schedule E and individual income tax return data for taxpayers with rental property income, approximately 70% of landlord taxpayers have a tax liability that could be offset by this credit. Therefore, it is assumed the actual tax liability and tax revenue impact would start at 70% of the total credits claimed for TY 2024. This percentage is assumed to increase to 75% in TY 2025 and 80% in TY 2026 and each year thereafter, because the credit can be carried forward up to three years.
10. Due to the timing of tax years relative to fiscal years, credits claimed for tax TY 2024 would be applied when returns are filed, and impact income tax revenues in FY 2025. The following table shows the steps taken to calculate the tax revenue impact in each fiscal year from the number of units that it is estimated the credit will be claimed for.

Table 2. Estimating Tax Revenue Impact	FY 2024	FY 2025	FY 2026	FY 2027
Units Credit will be Claimed for	0	28,500	34,400	37,600
Average Credit per Unit	0	\$300	\$300	\$300
Total Estimated Credit Claimed	0	\$8,550,000	\$10,320,000	\$11,280,000
Tax Liability Impact % of Credit Claimed	0	70%	75%	80%
<b>Total Decrease in Tax Liability/Revenue</b>	<b>0</b>	<b>\$5,985,000</b>	<b>\$7,740,000</b>	<b>\$9,024,000</b>

11. This bill is estimated to decrease general fund revenues by \$5,985,000 in FY 2025, \$7,740,000 in FY 2026, and \$9,024,000 in FY 2027.

*DOR Administrative Costs*

12. The administration of this credit would be complicated and require administrative rules to clarify some provisions in the bill. Due to the complicated calculation of the credit, the department anticipates many questions and errors, which would generate desk audits. 1.00 FTE additional tax examiner would be necessary for the department to implement and administer this credit. The total costs associated with this 1.00 FTE would be \$93,348 in FY 2024, \$91,793 in FY 2025, \$93,013 in FY 2026, and \$94,253 in FY 2027.

13. This credit would require a new form to be created for the individual and corporate income tax returns, but these changes would be able to be made during the annual forms update process and not create a significant additional cost.

<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>
<b>FTE</b>	1.00	1.00	1.00	1.00
<b><u>Expenditures:</u></b>				
Personal Services	\$81,790	\$83,096	\$84,153	\$85,225
Operating Expenses	\$11,558	\$8,697	\$8,860	\$9,028
<b>TOTAL Expenditures</b>	<b><u>\$93,348</u></b>	<b><u>\$91,793</u></b>	<b><u>\$93,013</u></b>	<b><u>\$94,253</u></b>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$93,348	\$91,793	\$93,013	\$94,253
<b>TOTAL Funding of Exp.</b>	<b><u>\$93,348</u></b>	<b><u>\$91,793</u></b>	<b><u>\$93,013</u></b>	<b><u>\$94,253</u></b>
<b><u>Revenues:</u></b>				
General Fund (01)	\$0	(\$5,985,000)	(\$7,740,000)	(\$9,024,000)
<b>TOTAL Revenues</b>	<b><u>\$0</u></b>	<b><u>(\$5,985,000)</u></b>	<b><u>(\$7,740,000)</u></b>	<b><u>(\$9,024,000)</u></b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	(\$93,348)	(\$6,076,793)	(\$7,833,013)	(\$9,118,253)

  
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 Sponsor's Initials

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 Budget Director's Initials

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