



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2025 Biennium

<b>Bill information:</b>	
HB0192 - Use surplus revenue for income tax and property tax refunds and payment of bonds (Mercer, Bill )	
<b>Status:</b>	As Introduced - Revised

- |   |  |  |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact     | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input checked="" 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 2023</u> <u>Difference</u>	<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	\$100,000,000	\$900,000,000	\$0	\$0	\$0
State Special Revenue	\$0	\$749,909,765	\$0	\$150,386,000	\$0
<b>Revenue:</b>					
General Fund	***unknown***	(\$352,000)	\$0	\$150,386,000	\$0
State Special Revenue	\$0	\$900,000,000	\$0	\$0	\$0
<b>Net Impact-General Fund Balance:</b>	<u>(\$100,000,000)</u>	<u>(\$900,352,000)</u>	<u>\$0</u>	<u>\$150,386,000</u>	<u>\$0</u>

**Description of fiscal impact:** HB 192 transfers \$900 million from an unknown funding source (the funding source of the transfer is unclear though assumed to be general fund for fiscal note purposes, see technical note #2) to a state special revenue fund administered by the Department of Revenue for an income tax rebate and a property tax rebate, and exempts these rebates from Montana personal income tax. HB 192 also appropriates \$100 million from the general fund to the Board of Examiners to pay down indebtedness (see technical notes #3 and 4). Due to the size and timing of expenditures resulting from HB 192, there will be an unknown impact to general fund revenues attributable to treasury cash account earnings in FY 23 beyond. Total expected rebates are approximately \$748.779 million and total department costs for implementation are \$1.131 million.

### FISCAL ANALYSIS

**Assumptions:**

**Department of Revenue**

*Income Tax*

- The proposed bill creates an income tax rebate for full-year residents who filed a return in tax year (TY) 2021. To qualify, taxpayers must have filed as a full-year resident in TY 2020 and TY 2021 and could not be claimed as a dependent by another taxpayer for federal or Montana income tax purposes in TY 2021. The credit is

- equal to the lesser of \$1,250, or \$2,500 for joint returns, or the tax liability amount reported on line 20 of the taxpayer's 2021 Montana income tax return.
2. It is assumed that head of household filers are eligible for a rebate under Section 2. (See technical note #7).
  3. Through November 1, approximately 600,000 full-year resident Montana income tax returns had been filed for TY 2021. These returns reported approximately \$1.64 billion in tax liability after non-refundable credits on line 20 of the individual income tax return.
  4. Of the approximately 600,000 full-year resident TY 2021 returns, approximately 550,000 were filed by taxpayers who had also filed a timely resident return in TY 2020. In addition, 26,615 had taxpayers who were claimed as a dependent on a different full-year resident return in TY 2021.
  5. Of the 600,000 examined returns, 503,370 had non-zero tax liabilities after line 20 non-refundable credits.
  6. In total, 460,125 TY 2021 met the qualifications for the HB 192 income tax rebate and had a tax liability, therefore would qualify for \$477,727,000 in income tax rebates.
  7. Taxpayers receiving a rebate and who itemized their federal income tax deductions in TY 2021 may need to report a portion of the rebate as taxable income in TY 2023. This will increase the federal taxable income of qualified Montana taxpayers in TY 2023. If the same taxpayers itemize their Montana income tax for the same year, they may have their Montana tax liability decrease due to deducting the increase in federal tax liability.
  8. It is assumed that the share of Montana taxpayers that itemize their federal deduction is the same share of the rebate that will be taxed at the federal level in TY 2023.
  9. According to the IRS, 9.1% of Montana taxpayers itemized their deductions in TY 2019. That results in \$43,473,157 ( $\$477,727,000 \times 9.1\%$ ) in rebates will be taxed at the federal level in TY 2023.
  10. Based on IRS data, the average effective federal tax rate in Montana for 2019 was 12%. The \$43.5 million in will increase the federal tax liability of Montana residents by \$5,216,779 in TY 2023 ( $\$43,473,157 \times 12\%$ ).
  11. Taxpayers who itemize their federal deductions assumed to also itemize their Montana income tax deductions. This increases Montana federal income tax deduction in TY 2023 by \$5,216,779, at the state's top rate of 6.75% that results in a reduction of Montana income tax liability of \$352,000 in Ty 2023
  12. It is assumed that taxpayers will not change their withholdings or estimated payments due to HB 192.

#### *DOR Individual Income Tax Administrative Costs*

13. The DOR will require 4.00 FTE in FY 2024 for developing the process of issuing rebates and then executing that process and auditing returns. Total costs associated with these FTE are \$323,584.
14. The department expects half of the rebates to be issued via direct deposit electronic fund transfer (EFT). 230,063 EFTs at \$0.13522 per EFT = \$31,109. The other half of rebates will be issued via mailed check. Mailing 230,063 checks at \$0.83386 per check costs \$191,840. Total estimated expense for issuing income tax rebates is therefore \$222,949.
15. With no changes to withholdings or estimated payments, the proposed rebate will increase state expenditures by \$478,273,533 in FY 2024 and will reduce general fund revenue by \$352,000 in FY 2024.

#### *Property Tax*

16. The American Community Survey (ACS) published by the U.S. Census Bureau estimates there are 521,916 housing units in Montana in CY 2021. Of these housing units 448,949 are estimated to be occupied, for an occupancy rate of 86.02%. Of those 448,949 housing units, 311,861 are estimated to be owner-occupied (69.46%). These are the households that are potentially eligible for a rebate under HB 192.
17. In TY 2022, the department fully exempted 16,997 mobile homes with less than 10,000 in value. It is assumed these were all owner-occupied. The department granted full exemptions to 2,664 homes enrolled in the Montana Disabled Veteran Property tax assistance program.
18. These fully exempted properties do not pay *ad valorem* property taxes; therefore, they are not eligible for a property tax rebate.
19. The estimated number of filers is therefore:  $292,200(311,861 - (16,997 + 2,664))$ .
20. HB 192 allows for a rebate of up to \$1,000 for taxes paid in TY 2021 and TY 2022. It is assumed that anyone who paid at least \$500 in TY 2022 will claim the full \$1,000 rebate. As 91.32% of households paid at least \$500 in property taxes in TY 2022, 263,925 households are expected to claim the full \$1,000 rebate.

21. The 28,275 households that are expected to not receive a full \$1,000 rebate paid \$252 on average in TY 2022. These households are expected to claim an average rebate of \$504.
22. Total expected rebates are \$271.052 million (263,925 x \$1000 + 28,275 x \$504).

*DOR Property Tax Administrative Costs*

23. The department will absorb costs associated with property eligibility verification. Auditing will be assisted by the DOR's business and income tax unit. No additional FTE for the property tax rebate is anticipated.
24. Printing and postage of property letters verification or denial letters is estimated at \$192,852.
25. Property tax rebates will be mailed checks, 292,200 rebates at \$0.83386 per mailing = \$243,654.
26. DOR costs associated with issuing the property tax rebate are \$436,506. The property tax rebates will cost \$271,489,000.
27. The expected rebate plus administrative costs are greater than the amount allotted to the property tax rebate by \$21.489 million. Since the money allocated to the individual income tax rebate portion of HB 192 is greater than the expected rebate amount for that rebate, it is assumed this money would backfill the unfunded property tax rebate costs (See technical note #6).
28. Separately, the department will require 1.00 FTE customer service representative for the call center for FY 2024 to help with the temporary increase in workload.

*Summary of DOR Portion of the Rebate Program*

29. Individual income tax rebate expenditure is estimated at \$478.273 million.
30. Property tax rebate expenditure is estimated at \$271.489 million.
31. The department will require 1.00 FTE in customer service in the call center for FY 2024
32. The department will require 4.00 FTE in to process income tax rebates in FY 2024.
33. The department will spend \$75,000 in advertising the rebate through media campaign, and mailings.
34. Total Department of Revenue estimated expenditures for HB 192 are \$749.614 million.
35. The total amount allocated to the department is \$900 million. The remaining \$150.386 million will be deposited back in the state general fund in FY 2026.

<b><u>Fiscal Impact:</u></b>	<b><u>FY 2023</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>Difference</b>	<b>Difference</b>	<b>Difference</b>	<b>Difference</b>	<b>Difference</b>
<b>FTE</b>	0.00	5.00	0.00	0.00	0.00
<b><u>Expenditures:</u></b>					
Personal Services	\$0	\$338,520	\$0	\$0	\$0
Operating Expenses	\$0	\$792,245	\$0	\$0	\$0
Transfers	\$100,000,000	\$748,779,000	\$0	\$150,386,000	\$0
<b>TOTAL Expenditures</b>	<b>\$100,000,000</b>	<b>\$749,909,765</b>	<b>\$0</b>	<b>\$150,386,000</b>	<b>\$0</b>
<b><u>Funding of Expenditures:</u></b>					
General Fund (01)	\$100,000,000	\$900,000,000	\$0	\$0	\$0
State Special Revenue (02)	\$0	\$0	\$0	\$150,386,000	\$0
<b>TOTAL Funding of Exp.</b>	<b>\$100,000,000</b>	<b>\$900,000,000</b>	<b>\$0</b>	<b>\$150,386,000</b>	<b>\$0</b>
<b><u>Revenues:</u></b>					
General Fund (01)	***Unknown***	(\$352,000)	\$0	\$150,386,000	\$0
State Special Revenue (02)	\$0	\$900,000,000	\$0	\$0	\$0
<b>TOTAL Revenues</b>	<b>\$0</b>	<b>\$899,648,000</b>	<b>\$0</b>	<b>\$150,386,000</b>	<b>\$0</b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>					
General Fund (01)	(\$100,000,000)	(\$900,352,000)	\$0	\$150,386,000	\$0
State Special Revenue (02)	\$0	\$900,000,000	\$0	(\$150,386,000)	\$0

**Technical Notes:**

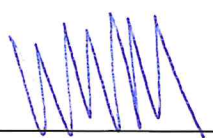
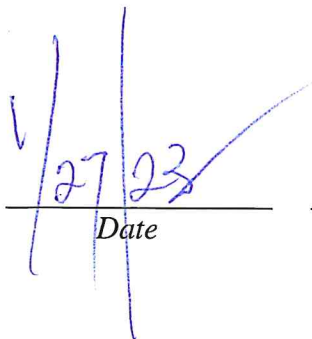

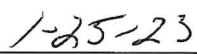
**Office of Budget and Program Planning**

1. New Section 1 is missing a reference to 17-2-102, MCA in the establishment of a state special revenue fund.
2. New Section 1 does not include a funding source for the transfer. This fiscal note assumes general fund but as drafted could be interpreted that the state treasurer may transfer from any state fund, or more likely not at all.
3. New Section 9 appropriates general fund to the Board of Examiners. It is unclear if this is a legal appropriation, nor how an appropriation to the Board of Examiners would be administered. Further, the appropriation is only valid through FY 23, leaving insufficient time to implement provisions of the bill.
4. It is unclear what “pay down indebtedness” means in New Section 9. As drafted, HB 192 would not allow retiring of any additional debt beyond what is currently allowable under present law. Appropriate language allowing for redemption, defeasing, and/or other language associated with the ordinary course of retiring existing debt needs to be included.
5. Termination of the entire act on December 31, 2025, will likely result in no or few non-callable debts being able to be retired due to the termination of the appropriation or pledge for any bonded obligations not callable under current law.

**Department of Revenue**

6. This fiscal note assumes that the \$650 million allocated for individual income tax rebates could be partially used to cover the excess expected liability for the property tax refund, though the “must” associated with the language in New Section 1 would be problematic to implement as such. An amendment clarifying that possibility is suggested if that is the intent of the sponsor. If not, the property tax refund will likely be issued on a first come first serve basis with approximately 21,500 households not being able to claim the \$1,000 because of an insufficient allocation.

7. Section 2 (1)(b) does not contemplate the head of household filing status. This fiscal note assumes head of household filers would receive the same rebate amount as a single filer, but the bill should explicitly state this to avoid ambiguity. If head of households are not eligible for rebates, total income tax rebates will be approximately \$451.805 million, which is about \$26 million less than the estimate of this fiscal note.
8. The current language of Section 2 (5) does not address how to handle amended returns. Additional clarifying language should be included. This fiscal note assumes taxpayers will not amend their returns to increase their rebate.

 _____ <i>Sponsor's Initials</i>	 _____ <i>Date</i>	 _____ <i>Budget Director's Initials</i>	 _____ <i>Date</i>
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