



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2025 Biennium

**Bill information:**

HB0307 - Provide for tax rebate (Schillinger, Jerry )

**Status:** As Introduced

- |   |  |  |
|---|--|--|
| <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	1,275,000,000	\$100,000,000	(\$8,000,000)	(\$8,000,000)	(\$8,000,000)
State Special Revenue	\$0	1,173,028,400	\$0	\$101,971,600	\$0
<b>Revenue:</b>					
General Fund	\$0	***unknown***	***unknown***	\$685,000	\$668,000
State Special Revenue	\$1,275,000,000	\$0	\$0	\$104,026,600	\$2,003,000
<b>Net Impact-General Fund Balance:</b>	<u>(\$1,275,000,000)</u>	<u>***unknown***</u>	<u>***unknown***</u>	<u>\$8,685,000</u>	<u>\$8,668,000</u>

**Description of fiscal impact:** HB 307 provides for income tax and property tax rebates and exempts these rebates from Montana personal income tax. The bill would transfer \$1.275 billion from the general fund to a state special revenue fund administered by the Department of Revenue (DOR) for an income tax rebate and a property tax rebate and associated administrative expenses. Rebates would total approximately \$1.172 billion and administrative costs are estimated at \$922,400. Any remaining appropriation is transferred to the coal trust fund in FY 2026. That transfer will generate roughly \$2 million in interest earnings for the school major maintenance fund and \$670,000 for the general fund in FY 2026 and FY 2027. HB 307 also contains a FY 2024 appropriation of \$100 million to the Department of Administration for paying down state bond debt. There will be an unknown impact to general fund revenues attributable to treasury cash account earnings due to uncertainty regarding the exact amount and timing of rebate and debt payment expenditures (see Technical Note #3).

### FISCAL ANALYSIS

**Assumptions:**

**Department of Revenue**

*Income Tax Rebate*

- The HB 307 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 \$3,500, or \$7,000 for joint returns, or the tax liability amount reported on line 20 of the taxpayer's 2021 Montana income tax return.
2. 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. Of the TY 2021 full-year resident approximately 550,000 were filed by taxpayers who had also filed a timely resident return in Montana for TY 2020 and would be eligible for the credit per section 2 (5). In addition, nearly 24,000 were claimed as a dependent on a different full-year resident return in TY 2021. 503,370 filers had non-zero tax liabilities after non-refundable credits reported on line 20 of their income tax return. The interaction of all these factors results in a total of approximately 460,125 income tax rebates.
  3. Based on the filing status of the returns, and the tax liability amount reported on line 20 of the return, the 460,125 returns qualify for \$889,613,000 in income tax rebates.
  4. Taxpayers who receive the rebate and itemized their federal income tax deductions for TY 2021 may need to report a portion of the rebate as taxable income in TY 2023. Reporting this income in TY 2023 will increase the federal taxable income of qualified Montana taxpayers. If the same taxpayers itemize their Montana income tax for the same year, they may have their Montana tax liability decrease as a result of their larger (state deductible) federal tax liability.
  5. Based on share of Montana taxpayers itemizing their federal deductions (9.1%) and average tax rates, federal tax liability is estimated to increase by \$9.715 million in TY 2023. If Montana taxpayers who itemize their federal deductions also itemize their Montana income deductions, this increase in federal liability results in a \$656,000 decrease in Montana tax liability for TY 2023.
  6. With no changes to withholding or estimated payments, the proposed income tax rebate will increase state expenditures by \$889,613,000 in FY 2024 and will reduce general fund revenue by \$656,000 in FY 2024.

*Individual Income Tax Rebate Administrative Costs*

7. The department will require 5.00 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 \$396,943.
8. An additional 1.00 FTE will be needed in FY 2024 for the call center for questions regarding the rebate program. The cost for this FTE is \$72,726.
9. The DOR will mount a \$75,000 informational media and mailing campaign on the rebate.
10. The department expects half of the rebates to be issued via direct deposit electronic fund transfer (EFT) at a cost of \$31,109 (230,063 EFTs at \$0.13522 per EFT). 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 operating expense for issuing income tax rebates is therefore \$222,949.
11. Total administrative costs for the income tax portion of the rebate are \$767,618.

*Property Tax Rebate*

12. The American Community Survey (ACS) published by the U.S. Census Bureau estimates there were 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.
13. 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.
14. These fully exempted properties do not pay *ad valorem* property taxes; therefore, they are not expected to be eligible for a property tax rebate. The estimated number of filers for the property tax rebate is therefore: 292,200 (311,861 – (16,997 + 2,664)).
15. HB 307 allows for a rebate of up to \$1,000 for taxes paid in TY 2021 and TY 2022. It is assumed that any property taxpayer who paid at least \$500 in TY 2022 will claim the full \$1,000 rebate. An estimated 91.90%

of households paid at least \$500 in property taxes in TY 2022, so 268,537 households are expected to claim the full \$1,000 rebate.

16. The 23,663 households that are expected to not receive a full \$1,000 rebate paid \$294.90 on average in TY 2022. These households are expected to claim an average rebate of \$589.80.
17. Total expected rebates are \$282.493 million (268,537 x \$1000 + 23,663 x \$589.80).
18. The property tax rebate is available for application until June 1, 2024. It is assumed half of property tax rebates will be issued during FY2024 (half in TY 2023 and half in TY 2024).
19. Like the income tax rebate, Montana taxpayers who itemized at the federal level in TY 2022 may need to report their property tax rebate as federal taxable income in the tax year they receive the rebate.
20. Based on the same assumptions of the share of Montana taxpayers itemizing their federal deductions (9.1%) and average tax rates, federal tax liability is estimated to increase by \$3.09 million in TY 2023. If Montana taxpayers who itemize their federal deductions also itemize their Montana income deductions, this increase in federal liability results in a \$100,000 decrease in Montana income tax liability for TY 2023 and TY 2024.

#### *Property Tax Rebate Administrative Costs*

21. The department will absorb costs associated with property eligibility verification. Automatic technological verification of eligible properties is expected to cover a significant enough proportion of properties that few applications will need individual inspection on the front end. Auditing will be assisted by the DOR Business and Income Tax Unit. No additional FTE for the property tax rebate is anticipated.
22. It is assumed all rebate applications will be made online and the DOR will not have printing and mailing costs associated with application forms.
23. The DOR assumes 20,000 denial letters will be sent. At \$0.66 per letter that amounts to \$13,200.
24. It is assumed half of property tax rebates will be mailed checks and the other half will be deposited through electronic fund transfer (EFT). Operating expense to issuing property tax rebates is estimated at \$154,782.
25. Total expected rebate plus administrative costs are greater than the appropriation for the property tax rebate program, by \$7.648 million. Since the Allocation for income tax rebates exceeds the income tax rebate program's total costs, it is assumed that those residual funds will be used to backfill the unfunded portions of the property tax rebates (See technical note #1).

#### *Summary*

26. Total rebates and associated administrative expenses for the income tax rebate are \$890,380,618.
27. Total rebates and associated administrative expenses for the property tax rebate are \$282,647,782.
28. Total DOR expenditures would be \$1,173,028,400 for FY 2024.
29. The total funding for the rebate programs is \$1.275 billion. The remaining \$101.985 million will be deposited to the coal trust fund at the beginning of FY 2026. This money would be deposited 75% to the school facilities trust fund and 25% to the permanent trust fund.
30. At the interest rate projection in HJ 2, the school facilities trust fund would generate an additional \$2.055 million in interest in FY 2026 and \$2.003 million in FY 2027. The permanent trust would generate general fund interest of \$685,000 in FY 2026 and \$668,000 in FY 2027.

#### **Department of Administration**

31. The state treasurer shall transfer \$1.275 billion from the general fund to the account established in 17-2-102 by July 1, 2023.
32. The department is granted a \$100,000,000 general fund appropriation in FY 2024 for the purposed of paying down state debt.
33. As drafted, HB 307 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. For purposes of this fiscal note, it is assumed that the \$100 million appropriation covers the costs of "paying off" general obligation debt that is currently callable with estimated debt service saving of \$8 million per year reflected in the fiscal note.

34. 17-1-508, MCA, requires analysis of the statutory appropriation relative to the guidance in 17-1-508(3), MCA, to be published in the fiscal note. In reviewing and establishing statutory appropriations, the legislature shall consider the following guidelines. Answer yes or no to each of the following guidelines regarding the statutory appropriation:

	<u>YES</u>	<u>NO</u>
a. The money is from a continuing, reliable, and estimable source.	X	
b. The use of the appropriation or the expenditure occurrence is predictable and reliable.	X	
c. The authority exists elsewhere.		X
d. An alternative appropriation method is available, practical, or effective.		X
e. It appropriates state general fund money for purposes other than paying for emergency services.	X	
f. The money is used for general purposes.		X
g. The legislature wishes to review expenditure and appropriation levels each biennium.		X
h. An expenditure cap and sunset date are excluded.		X

<u>Fiscal Impact:</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
<b>Department of Revenue</b>					
FTE	0.00	6.00	0.00	0.00	0.00
<b>Expenditures:</b>					
Personal Services	\$0	\$400,321	\$0	\$0	\$0
Operating Expenses	\$0	\$522,079	\$0	\$0	\$0
Income Tax Rebate	\$0	\$889,613,000	\$0	\$0	\$0
Property Tax Rebate	\$0	\$282,493,000	\$0	\$0	\$0
Debt Service	\$0	\$0	(\$8,000,000)	(\$8,000,000)	(\$8,000,000)
Transfers	\$1,275,000,000	\$0	\$0	\$101,971,600	\$0
<b>TOTAL Expenditures</b>	<b>\$1,275,000,000</b>	<b>\$1,173,028,400</b>	<b>(\$8,000,000)</b>	<b>\$93,971,600</b>	<b>(\$8,000,000)</b>
<b>Funding of Expenditures:</b>					
General Fund (01)	\$1,275,000,000	\$0	(\$8,000,000)	(\$8,000,000)	(\$8,000,000)
State Special Revenue (02)	\$0	\$1,173,028,400	\$0	\$101,971,600	\$0
Other	\$0	\$0	\$0	\$0	\$0
<b>TOTAL Funding of Exp.</b>	<b>\$1,275,000,000</b>	<b>\$1,173,028,400</b>	<b>(\$8,000,000)</b>	<b>\$93,971,600</b>	<b>(\$8,000,000)</b>
<b>Revenues:</b>					
General Fund (01)	\$0	***unknown***	***unknown***	\$0	\$0
General Fund (01)	\$0	\$0	\$0	\$685,000	\$668,000
State Special Revenue (02)	\$1,275,000,000	\$0	\$0	\$104,026,600	\$2,003,000
<b>TOTAL Revenues</b>	<b>\$1,275,000,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$104,711,600</b>	<b>\$2,671,000</b>
<b>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</b>					
General Fund (01)	(\$1,275,000,000)	***unknown***	***unknown***	\$8,685,000	\$8,668,000
State Special Revenue (02)	\$1,275,000,000	(\$1,173,028,400)	\$0	\$2,055,000	\$2,003,000
Other	\$0	\$0	\$0	\$101,971,600	\$0

**Technical Notes:**

**Department of Revenue**

1. This fiscal note assumes that the unused part of the \$1 billion allocated for individual income tax rebates could be used to cover the excess 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, property tax refunds would be issued on a first come first serve basis with the potential for approximately 7,648 households not being able to claim the rebate.
2. It is assumed the transfer of unused funds to the coal severance tax trust fund would flow through the sub-trust process contained in 17-5-703, MCA, as if they were severance tax collections.

**Office of Budget and Program Planning**

3. Like other appropriated or transferred funds, the short-term investment balance of the treasury cash account will fall as general funds are expended for income tax rebates, property tax rebates, and debt reduction. The timing and amount of these expenditures are unknown as of the writing of this fiscal note; therefore, the decline in treasury cash account interest earnings cannot be quantified with sufficient precision. Further, there is expectation of other legislative action that is likely to further draw down general fund, and by extension, treasury cash account balances during the 2025 biennium. The *General Fund Revenue Summary*, released by the Legislative Fiscal Division on January 13, 2023, notes under the TCA Interest Earnings section that,

“[treasury cash account earnings] will be directly impacted by any legislative action that reduces the general fund ending fund balance.”

4. New Section 9 of HB 307 only allows the \$100 million appropriation to the Department of Administration to be used for the payment of general obligation bonds. As drafted, HB 307 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.



Sponsor's Initials

1-31-23

Date



Budget Director's Initials

1-31-23

Date