



## Fiscal Note 2023 Biennium

**Bill #** SB0159

**Title:** Personal Income Tax Relief Act

**Primary Sponsor:** Hertz, Greg

**Status:** As Amended in House Committee

- 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 2022</u> <u>Difference</u>	<u>FY 2023</u> <u>Difference</u>	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>
<b>Expenditures:</b>				
General Fund	\$0	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	(\$5,962,000)	(\$31,271,000)	(\$33,114,000)	(\$34,876,000)
<b>Net Impact-General Fund Balance:</b>	<u>(\$5,962,000)</u>	<u>(\$31,271,000)</u>	<u>(\$33,114,000)</u>	<u>(\$34,876,000)</u>

**Description of fiscal impact:** SB 159, as amended in the House Taxation committee, reduces the top individual income tax rate from 6.9% to 6.75%, and provides contingent coordination language related to the passage of SB 399 and the American Rescue Plan Act.

### FISCAL ANALYSIS

**Assumptions:**

**Department of Revenue**

1. Under current law, Montana's personal income tax rate increases as taxable incomes increase, with seven different tax rates. The top tax rate is currently 6.9% and in tax year 2020 it applied to all taxable income above \$18,700.
2. The House Taxation committee amendments to SB 159 change the top individual income tax rate from 6.9% to 6.75%. The rate reduction applies starting TY 2022. The amendments also include new contingent termination language pertaining to the American Rescue Plan Act. The amended bill also includes a new section which terminates the changes made to 15-30-2103, MCA, starting January 1, 2024 if SB 399 is passed and approved.
3. The Department of Revenue's income tax model was modified to include the changes made by the proposed bill. The estimated income tax liability amounts under the proposed law were then compared to current law income and tax liability forecasts. These estimates are based on HJ 2 as amended on March 29, 2021.

- Based on the department’s income tax model, reducing the top marginal tax rate from 6.9% to 6.75% in TY 2022 would reduce the income tax liability of full-year resident taxpayers by \$27.855 million. For TY 2023, TY 2024, and TY 2025, the tax liability of residents would decrease by \$28.947 million, \$30.421 million, and \$32.033 million, respectively.

Tax Liability Estimates Under Current and Proposed Law			
Tax Year	Tax Liability (Millions)		
	Current Law	Proposed Law	Change in Revenue
2022	\$1,503.522	\$1,475.667	(\$27.855)
2023	\$1,559.709	\$1,530.762	(\$28.947)
2024	\$1,633.925	\$1,603.504	(\$30.421)
2025	\$1,717.608	\$1,685.575	(\$32.033)

- As the proposed bill makes large changes to the tax liability of some taxpayers, it is assumed that some of the taxpayers will change their withholding and estimated payments amounts as a result of the proposed bill. The estimates used in HJ 2 assume that 80% of TY 2022 liability changes and 20% of TY 2023 tax liability changes will occur in FY 2023. This distribution continues for all fiscal years.
- It is assumed that the liability distribution changes follow the pattern used in HJ 2.
- The tax liability amounts from the department’s model were also adjusted using HJ 2 assumptions for non-full-year resident taxpayers, audit assumptions and income tax credits.
- Based on the updated adjustments used for HJ 2, SB 159 would reduce income tax revenue by \$5.962 million in FY 2022, \$31.271 million in FY 2023, \$33.114 million in FY 2024, and \$34.876 million in FY 2025.

Tax Revenue Change by Fiscal Year	
Fiscal Year	Change in Revenue (Millions of Dollars)
2022	(\$5.962)
2023	(\$31.271)
2024	(\$33.114)
2025	(\$34.876)

- The changes made by the proposed bill can be made as part of the department’s annual change process. The department does not expect to incur any additional costs because of this bill.

	FY 2022	FY 2023	FY 2024	FY 2025
<b><u>Fiscal Impact:</u></b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>
FTE	0.00	0.00	0.00	0.00
<b><u>Expenditures:</u></b>				
TOTAL Expenditures	\$0	\$0	\$0	\$0
<b><u>Funding of Expenditures:</u></b>				
TOTAL Funding of Exp.	\$0	\$0	\$0	\$0
<b><u>Revenues:</u></b>				
General Fund (01)	(\$5,962,000)	(\$31,271,000)	(\$33,114,000)	(\$34,876,000)
TOTAL Revenues	(\$5,962,000)	(\$31,271,000)	(\$33,114,000)	(\$34,876,000)
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	(\$5,962,000)	(\$31,271,000)	(\$33,114,000)	(\$34,876,000)

**Technical Notes:**

1. The amended bill includes coordination instructions with SB 399 and contingent termination conditions related to the American Rescue Plan Act (ARPA). If implemented, the ARPA effective dates and contingent terminations would defer the fiscal impacts of the tax rate reductions. This fiscal note assumes that none of the contingent termination conditions are met.

**NO SPONSOR SIGNATURE**

_____	_____	KA	4-22-21
<i>Sponsor's Initials</i>	<i>Date</i>	<i>Budget Director's Initials</i>	<i>Date</i>