



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2027 Biennium

Bill#/Title: HB0306: Provide tax credit to landlords that rent for below market rate

Primary Sponsor: Denise Baum Status: As Introduced

☐ Included in the Executive Budget      ☒ Needs to be included in HB 2      ☐ Significant Local Gov Impact

☐ Significant Long-Term Impacts      ☒ Technical Concerns      ☐ Dedicated Revenue Form Attached

### FISCAL SUMMARY

	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>	<u>FY 2028</u> <u>Difference</u>	<u>FY 2029</u> <u>Difference</u>
<b>Expenditures</b>				
General Fund (01)	\$0	\$93,564	\$92,114	\$93,342
<b>Revenues</b>				
General Fund (01)	\$0	(\$6,279,000)	(\$8,122,500)	(\$9,456,000)
<b>Net Impact</b>	<u>\$0</u>	<u>(\$6,372,564)</u>	<u>(\$8,214,614)</u>	<u>(\$9,549,342)</u>
<b>General Fund Balance</b>				

#### Description of fiscal impact

HB 306 would create an income tax credit of at least \$200 for taxpayers renting dwellings below fair market rent. This credit is estimated to decrease income tax collections and the resulting general fund revenue by \$6,279,000 in FY 2025, \$8,122,500 in FY 2026, and \$9,456,000 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

1. HB 306 creates an income tax credit for landlords renting dwellings at or below fair market rent. This nonrefundable credit is available to individual and corporate income taxpayers and applicable for tax years beginning after December 31, 2025.
2. The credit amount is \$200 for every \$100 under 110% of fair market rent that a taxpayer charges in monthly rent. The estimates in this fiscal note assume the intent is that the credit amount is calculated on an annual basis based on average monthly rent relative to fair market rent. For example, a taxpayer would receive a \$200 total credit, not \$2,400 credit if their monthly rent is \$100 less than 110% of fair market rent.
3. Fair market rent is defined by the U.S. Department of Housing and Urban Development 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.
4. According to the American Community Survey published by the U.S. Census Bureau, there were approximately 145,500 rented housing units in Montana in 2023. For the calculations in this fiscal note, this number is increased each year by the Montana population growth rates used for HJ 2 revenue estimates.
5. For a housing unit to qualify for this credit, it must 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 \$1,000. Therefore, it is assumed 40% of the rented housing units in Montana meet the fair market rent requirement to qualify for this credit.
6. Additional requirements for a dwelling to qualify for the credit include being subject to a lease agreement of at least a year, meeting the housing quality standards laid out for the housing choice voucher program and not having the rent limited due to any other rent reduction program. The Department of Revenue may also disallow a credit if the landlord and tenant have not dealt at arm's length. To claim the credit, a taxpayer must submit a receipt or lease agreement, as well as any other supporting documentation requested by the department. The taxpayer will have to fill out a new form specifically for this credit to calculate the credit amount and file it with their income tax return.
  7. Given the requirements outlined in the above assumption, 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 2026). This utilization rate is expected to increase to 60% for TY 2027 and 65% for TY 2028 as more taxpayers become aware of the credit and utilization increases.
  8. 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 2026	TY 2027	TY2028
Total rented units	149,300	150,400	151,500
Rent units below fair market rent	59,700	60,200	60,600
Estimated utilization rate	50%	60%	65%
Units Credit will be Claimed on	29,900	36,100	39,400

9. The annual credit amount claimed per unit is \$200 if the monthly 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 per unit is assumed to be \$300 (60% claiming \$200, 30% claiming \$400, and 10% claiming \$600).
10. This credit is nonrefundable, but can 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 sufficient tax liability to claim 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 2026. This percentage is assumed to increase to 75% in TY 2027 and stay at 80% in TY 2028 and each year thereafter, because the credit can be carried forward.
11. Due to the timing of tax years relative to fiscal years, credits claimed for tax TY 2026 would be applied when returns are filed, and impact income tax revenues in FY 2027. The following table shows the steps taken to calculate the tax revenue impact in each fiscal year from the number of units for which it is estimated the credit will be claimed.

**Fiscal Note Request - As Introduced**
*(continued)*

Table 2. Estimating Tax Revenue Impact	FY 2026	FY 2027	FY 2028	FY 2029
Units Credit will be Claimed on	0	29,900	36,100	39,400
Average Credit per Unit	0	\$300	\$300	\$300
Total Estimated Credit Claimed	0	\$8,970,000	\$10,830,000	\$11,820,000
Tax Liability Impact % of Credit Claimed	0	70%	75%	80%
<b>Total Tax Liability/Revenue Impact</b>	<b>0</b>	<b>\$6,279,000</b>	<b>\$8,122,500</b>	<b>\$9,456,000</b>

12. This bill is estimated to decrease general fund revenues by \$6,279,000 in FY 2027, \$8,122,500 in FY 2028, and \$9,456,000 in FY 2029.

**Department of Revenue Administrative Costs**

13. The administration of this credit by the Department would be complicated and require administrative rules to clarify some of the provisions within 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 tax examiner would be necessary for the department to implement and administer this credit in FY 2027 when claims would begin. The total costs associated with this 1.00 FTE are \$93,564 in FY 2027, \$92,114 in FY 2028, and \$93,342 in FY 2029.

14. The credit would require a new form for individual and corporate income tax returns. These form changes would be made during the annual forms update process and not create significant additional costs.

**Fiscal Analysis Table**

<b>Department of Revenue</b>				
	<b>FY 2026 Difference</b>	<b>FY 2027 Difference</b>	<b>FY 2028 Difference</b>	<b>FY 2029 Difference</b>
<b><u>Fiscal Impact</u></b>				
FTE	0.00	1.00	0.00	0.00
<b>TOTAL Fiscal Impact</b>	<b>0.00</b>	<b>1.00</b>	<b>0.00</b>	<b>0.00</b>
<b><u>Expenditures</u></b>				
Personal Services	\$0	\$81,453	\$82,485	\$83,532
Operating Expenses	\$0	\$12,111	\$9,629	\$9,810
<b>TOTAL Expenditures</b>	<b>\$0</b>	<b>\$93,564</b>	<b>\$92,114</b>	<b>\$93,342</b>
<b><u>Funding of Expenditures</u></b>				
General Fund (01)	\$0	\$93,564	\$92,114	\$93,342
<b>TOTAL Funding of Expenditures</b>	<b>\$0</b>	<b>\$93,564</b>	<b>\$92,114</b>	<b>\$93,342</b>
<b><u>Revenues</u></b>				
General Fund (01)	\$0	(\$6,279,000)	(\$8,122,500)	(\$9,456,000)
<b>TOTAL Revenues</b>	<b>\$0</b>	<b>(\$6,279,000)</b>	<b>(\$8,122,500)</b>	<b>(\$9,456,000)</b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u></b>				
General Fund (01)	\$0	(\$6,372,564)	(\$8,214,614)	(\$9,549,342)

**Technical Concerns****Department of Revenue**

1. The bill does not define "monthly rent" as used in Section 1 (2) for the calculation of the credit. The estimates in this fiscal note assume the credit is an annual amount calculated on the average monthly rent relative to fair market rent. If the credit were calculated on a monthly basis, there would be an incentive for landlords to reduce their rent to \$0, assuming they have sufficient income tax liability to claim the credit against. The credit being calculated this way would have the potential to significantly distort the rental market and result in a fiscal impact of hundreds of millions.
2. As the bill is written, the credit applies against pass-through entity composite tax. The Department of Revenue would need to implement rules about how a credit is applied against the composite tax and how the carryforward would work, because typically credits are not able to be applied to the composite tax.



Sponsor's Initials

01-30-25

Date



Budget Director's Initials

1/30/2025

Date