



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: **SB0093: Revise income taxes related to retired military members**

Primary Sponsor: **John Fuller**

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 Difference</u>	<u>FY 2027 Difference</u>	<u>FY 2028 Difference</u>	<u>FY 2029 Difference</u>
Expenditures				
General Fund (01)	\$0	\$0	\$0	\$0
Revenues				
General Fund (01)	\$0	\$0	\$0	(\$536,000)
Net Impact	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$536,000)</u>
General Fund Balance				

Description of fiscal impact

SB 93 changes personal state income tax on military pensions, retirement, and survivor benefits. The proposed changes are estimated to reduce general fund revenue by \$536,000 in FY 2029.

FISCAL ANALYSIS

Assumptions

Department of Revenue (DOR)

- Under current law, taxpayers in Montana can exempt the lesser of 50% of their military retirement pay and survivor benefits, or the taxpayer's "Montana source wage income" from Montana's personal income tax starting tax year (TY) 2024. The exemption is limited to taxpayers who became residents of the state after June 30, 2023, or who were a resident of the state before receiving military pension or military retirement income and have remained a resident. The exemption can only be claimed for five consecutive years after the taxpayer meets the exemption limitation. The exemption is set to expire at the end of TY 2033.
- SB 93 makes several changes to the military retirement income exemption. The proposed bill changes the residency requirement date from after June 30, 2023, to on or after September 11, 2001. The bill also removes the five consecutive year limitation. Finally, the bill eliminates the exemption expiration date.
- According to the HJ 2 revenue estimate, all taxpayers with military retirement income who meet the income qualifications are assumed to claim the exemption in TY 2024. These taxpayers will continue claiming the exemption through TY 2028. After TY 2028, the number of taxpayers expected to continue claiming the credit decreases by 80% because of the five-year limitation on the use of the exemption.
- Based on TY 2023 income tax returns, and Modernized e-File System (MeF) data, approximately 8,215 households in Montana received a 1099-R from the U.S. Department of Defense's Defense Finance and Accounting Service. These households reported approximately \$261.2 million in military pension and retirement income.

5. The DOR income tax model (with HJ 2 assumptions) was modified to include the exemption of military retirement income under current law. The model assumes all 8,215 households will claim the exemption starting TY 2024 and will continue doing so until TY 2028. Starting TY 2029, the number of households claiming the exemption, and the total income exempted, is assumed to decrease by 80%.
6. Incorporating the changes made by SB 93 into the model, with all taxpayers continuing to claim the exemption past TY 2028, the estimated income and tax liability under SB 93 were compared to the estimated current law income and tax liability amounts. The changes are estimated to reduce income tax liability of full-year resident taxpayers by \$3,153,000 in TY 2029.
7. Since SB 93 makes significant changes, some taxpayers will adjust their withholding and estimated payments. It is assumed 80% of TY 2028 and 20% of TY 2029 tax liability changes will be collected in FY 2029. Similar timing is anticipated to continue in subsequent years.
8. The change in full-year resident tax liability was converted to fiscal years based on the factors used in HJ 2.
9. It is assumed 10% of the households who qualify for the exemption file through a system other than the MeF program. Based on this, the fiscal year revenue estimates are increased by 10% to account for the missing data.
10. After applying the conversion factors, and missing filer factor, income tax revenue is estimated to be reduced by \$536,000 in FY 2029.
11. The changes made by SB 93 can be made as part of the DOR annual change process at no additional expense.

Fiscal Analysis Table

	<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>
<u>Fiscal Impact</u>				
<u>Expenditures</u>				
<u>Funding of Expenditures</u>				
<u>Revenues</u>				
General Fund (01)	\$0	\$0	\$0	(\$536,000)
TOTAL Revenues	\$0	\$0	\$0	(\$536,000)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u>				
General Fund (01)	\$0	\$0	\$0	(\$536,000)

Significant Long-Term Impacts

1. SB 93 increases the number of taxpayers who are assumed to qualify for the credit starting TY 2029. The bill also eliminates the expiration of this credit in TY 2033. These changes are expected to reduce personal income tax collections by \$5.9 million in FY 2031 and \$7.3 million in FY 2032 and by similar amounts in future years.

Submitted
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Sponsor's Initials

1/13/25

Date

Budget Director's Initials

1/13/2025

Date

