



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2027 Biennium

Bill#/Title: **SB0546.01 R: Provide income based tax credit**

Primary Sponsor: **Dave Fern**

Status:

**As Introduced**

**(Revised)**

☐ 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	\$0	\$0	\$0
<b>Revenues</b>				
General Fund (01)	\$0	(\$167,388,000)	(\$163,490,000)	(\$159,139,000)
<b>Net Impact</b>	<u>\$0</u>	<u>(\$167,388,000)</u>	<u>(\$163,490,000)</u>	<u>(\$159,139,000)</u>
<b>General Fund Balance</b>				

### Description of fiscal impact

SB 546 creates a non-refundable tax credit for Montana personal income tax. The credit is based on the taxpayers Montana taxable income and filing status. The proposed bill will reduce general fund revenue by \$167.388 million in FY 2027, \$163.490 million in FY 2028 and \$159.139 million in FY 2029.

### FISCAL ANALYSIS

#### Assumptions

- SB 546 creates a non-refundable personal income tax credit, which is available starting tax year (TY) 2026. The proposed credit is equal to 4.7% of the taxpayer's taxable income, if their taxable income is at, or below, \$1,000 for single filers, \$1,500 for head of household filers, and \$2,000 for joint filers. Taxpayers with incomes above the initial credit income thresholds may still claim a credit. However, the initial credit percentage of 4.7% is reduced by 0.094% for each \$1,000 increase in taxable income relative to the initial \$1,000 amount for single filers. For head of household filers, and joint filers, the credit percentage reduction remains at 0.094%, but the income thresholds increase by \$1,500 and \$2,000, respectively, instead of the \$1,000 income threshold for single filers.
- The credit is non-refundable and cannot be carried forward or back. In addition, taxpayers who are claimed as a dependent by another taxpayer on their federal or Montana returns cannot claim the credit. Trusts are also ineligible for the credit.
- The Department of Revenue's income tax model, with HJ 2 revenue assumptions, was modified to include the credit created by the proposed bill. The estimated income tax liability amounts for each tax year under the proposed bill were then compared to current law income tax liability forecasts.
- Based on the department's income tax model, the proposed credit would reduce the income tax liability of full-year resident taxpayers by \$146.561 million after credits for TY 2026. For tax years 2027 and 2028, the tax liability of residents would decrease by \$142.614 million and \$138.237 million, respectively. With

approximately 506,000 households, the average tax liability change for all full-year resident households is estimated to be -\$290 in TY 2026, -\$282 in TY 2027, and -\$273 in TY 2028.

5. The credit is not restricted to resident taxpayers. In addition, HJ 2 revenue assumptions include adjustments to personal income tax revenue as a result of population growth.
6. The credit amounts for full-year resident taxpayers were adjusted based on HJ 2 population, non-filers, and non-resident adjustment factors to determine the total revenue impact of the proposed credit.
7. It is assumed that taxpayers will not adjust their withholding or estimated payment amounts as a result of the proposed credit. With no changes to withholdings or estimated payments, the proposed credit will reduce general fund revenue when taxpayers file their returns the following year.
8. With population and non-resident adjustments, and no changes to withholding or estimated payments, the proposed credit will reduce general fund revenue by \$167.388 million in FY 2027, \$163.490 million in FY 2028 and \$159.139 million in FY 2029.
9. 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 significant costs because of this bill.

#### 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>
<b><u>Fiscal Impact</u></b>				
<b><u>Expenditures</u></b>				
<b><u>Funding of Expenditures</u></b>				
<b><u>Revenues</u></b>				
General Fund (01)	\$0	(\$167,388,000)	(\$163,490,000)	(\$159,139,000)
<b>TOTAL Revenues</b>	<b>\$0</b>	<b>(\$167,388,000)</b>	<b>(\$163,490,000)</b>	<b>(\$159,139,000)</b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u></b>				
General Fund (01)	\$0	(\$167,388,000)	(\$163,490,000)	(\$159,139,000)

#### Technical Concerns

1. Section 1 of the bill states "A qualified taxpayer is allowed a fixed, one-time credit." This language could be interpreted as either one credit each tax year, or one credit over the entire life of each taxpayer. This fiscal note assumes that the one-time credit is referring to one credit being allowed each tax year. However, clarification of this language should be made to make it clear as to how the credit should be administered.
2. In Section 1(5)(a) of the bill, there is a definition of "nonqualified taxable income." However, there is no reference to nonqualified taxable income in the bill. It is unclear as to what this definition is referring to.



Sponsor's Initials



Date



Budget Director's Initials

4/7/2025

Date