



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: **HB0904.01: Revise capital gains taxation**

Primary Sponsor: **Pete Elverum**

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)	\$3,558,000	\$27,700,000	\$25,194,000	\$27,342,000
Net Impact	<u>\$3,558,000</u>	<u>\$27,700,000</u>	<u>\$25,194,000</u>	<u>\$27,342,000</u>
General Fund Balance				

Description of fiscal impact

HB 904 limits the net long-term capital gains income that qualifies for the net long-term capital gains tax rates to the first \$1,000,000 of income for joint and surviving spouse returns and \$500,000 for all other returns. The proposed bill would increase general fund revenue by \$3.558 million in FY 2026, \$27.700 million in FY 2027, \$25.194 million in FY 2028, and \$27.342 million in FY 2029.

FISCAL ANALYSIS

Assumptions

- Under current law, net long-term capital gains are taxed at either 3% or 4.1%, depending on the taxpayer's taxable income and taxable net long-term capital gains. The income brackets for tax year (TY) 2025 are set at \$21,100 for single filers, \$42,200 for joint filers and \$31,700 for head of household filers.
- HB 904 limits the income that qualifies for the net long-term capital gains tax rates to the first \$1,000,000 in taxable income for joint and surviving spouse returns, and \$500,000 for all other returns.
- The changes made by HB 904 apply starting tax year (TY) 2026.
- The Department of Revenue's income tax model, with HJ 2 revenue assumptions, was modified to include the changes made 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 changes to the tax rates applying to net long-term capital gains will increase the income tax liability of full-year resident taxpayers by \$22.361 million before credits for TY 2026. For tax years 2027, 2028, and 2029, the tax liability of residents would increase by \$19.513 million, \$21.122 million, and \$23.038 million, respectively. With approximately 506,000 households, the average tax liability change for all full-year resident households is estimated to be \$44 in TY 2026, \$39 in TY 2027, \$42 in TY 2028 and \$46 in TY 2029.
- As the proposed tax rate change makes changes to the tax liability of some taxpayers, it is assumed that the impacted taxpayers will change their withholding and estimated payments as a result of the proposed bill.

- The estimates used in HJ 2 assume that 80% of TY 2026 liability changes and 20% of TY 2027 tax liability changes will be occurring in FY 2027. This distribution continues for all fiscal years.
7. It is assumed that the tax liability distribution changes made as a result of the tax rate change follows the pattern used in HJ 2 revenue forecasts.
 8. The tax liability amounts from the proposed rate decrease were also adjusted using HJ 2 assumptions for non-filers, nonresident taxpayers, audit assumptions, and population increases.
 9. Based on the adjustments used for HJ 2, the proposed bill increases income tax revenue by \$3.558 million in FY 2026, \$27.7 million in FY 2027, \$25.194 million in FY 2028, and \$27.342 million in FY 2029.
 10. 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 Difference</u>	<u>FY 2027 Difference</u>	<u>FY 2028 Difference</u>	<u>FY 2029 Difference</u>
<u>Fiscal Impact</u>				
<u>Expenditures</u>				
<u>Funding of Expenditures</u>				
<u>Revenues</u>				
General Fund (01)	\$3,558,000	\$27,700,000	\$25,194,000	\$27,342,000
TOTAL Revenues	\$3,558,000	\$27,700,000	\$25,194,000	\$27,342,000
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u>				
General Fund (01)	\$3,558,000	\$27,700,000	\$25,194,000	\$27,342,000


Sponsor's Initials

2 April 2025
Date


Budget Director's Initials

4/1/2025
Date