GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title:	**HB0868.01: Revise taxation of net long-term capital gains**		
Primary Sponsor:	Scott Rosenzweig	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

	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
Expenditures				
General Fund (01)	$0	$0	$0	$0
Revenues				
General Fund (01)	$2,050,000	$15,898,000	$13,847,000	$14,954,000
Net Impact	$2,050,000	$15,898,000	$13,847,000	$14,954,000
General Fund Balance				

Description of fiscal impact

HB 858 changes the tax rates applied to net long-term capital gains, starting tax year 2026. The proposed changes would increase general fund revenue by $2.05 million in FY 2026, which increases to $15.898 million in FY 2027, $13.847 million in FY 2028 and $14.954 million in FY 2029.

FISCAL ANALYSIS

Assumptions

1. 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.
2. HB 868 changes the number of tax rates that apply to net long-term capital gains from 3% and 4.1% to 2%, 4%, 4.5% and 5%. The new rates apply starting TY 2026. The income thresholds for each of the new rates in TY 2026 are $25,000, $125,000, and $1,000,000 for single filers. For head of household filers, the income thresholds are $37,500, 187,500 and $1,500,000. For joint returns, the income thresholds for TY 2026 are $50,000, $250,000 and $2,000,000.
3. The income brackets for net long-term capital gains income are adjusted each year based on the inflation factor defined in 15-30-2101, MCA.
4. 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 where then compared to current law income tax liability forecasts.
5. Based on the department's income tax model, changing the tax rates applying to net long-term capital gains will increase the income tax liability of full-year resident taxpayers by $12.9 million before credits for TY 2026. For tax years 2027, 2028 and 2029, the tax liability of residents would increase by $10.7 million, $11.6 million, and $12.5 million, respectively. With approximately 506,000 households, the average tax

liability change for all full-year resident households is estimated to be $25 in TY 2026, $21 in TY 2027, $23 in TY 2028 and $25 in TY 2029.

6. As the proposed tax rate change makes changes to the tax liability of some taxpayers, it is assumed that some of the taxpayers will change their withholding and estimated payment amounts 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 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, non-resident taxpayers, audit assumptions and population increases.
9. Based on the adjustments used for HJ 2, the proposed bill increases income tax revenue by $2.05 million in FY 2026, $15.898 million in FY 2027, $13.847 million in FY 2028, and $14.954 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

	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
Fiscal Impact				
Expenditures				
Funding of Expenditures				
Revenues				
General Fund (01)	$2,050,000	$15,898,000	$13,847,000	$14,954,000
TOTAL Revenues	**$2,050,000**	**$15,898,000**	**$13,847,000**	**$14,954,000**
Net Impact to Fund Balance (Revenue minus Funding of Expenditures)				
General Fund (01)	$2,050,000	$15,898,000	$13,847,000	$14,954,000

Technical Concerns

1. The inflation factor used to adjust the capital gains tax rate is the inflation factor defined in 15-30-2101, MCA. This inflation factor uses June 2023 as its base year. This results in a large single year inflation adjustment when the new tax brackets are adjusted for inflation for TY 2027.

Sponsor's Initials	3-31-25	Budget Director's Initials	3/30/2025
	Date		Date