



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2027 Biennium

Bill#/Title: **HB0827.02 (001): Revise social security income taxation**

Primary Sponsor: Melody Cunningham Status: As Amended in Senate Committee

☐ 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)	(\$2,964,000)	(\$23,514,000)	(\$25,617,000)	(\$27,432,000)
<b>Net Impact</b>	<u>(\$2,964,000)</u>	<u>(\$23,514,000)</u>	<u>(\$25,617,000)</u>	<u>(\$27,432,000)</u>
<b>General Fund Balance</b>				

### Description of fiscal impact

As amended in the Senate Taxation Committee, HB 827 provides an additional exemption from Montana individual income tax to the current federal partial exemption of Social Security income that is otherwise taxable with the flow-through of federal taxable income. The Senate Taxation Committee amendment reduced the incremental exemption. The proposed change will reduce general fund revenue by \$2,964,000 in FY 2026, \$23,514,000 in FY 2027, \$25,617,000 in FY 2028 and \$27,432,000 in FY 2029.

### FISCAL ANALYSIS

#### Assumptions

#### Department of Revenue

1. Taxation of Social Security benefits is somewhat complicated as federal law flows-through to Montana. Currently, under federal law, Social Security income is exempt if a taxpayer files a single or head of household return with a "combined" income (defined as federal adjusted gross income, plus non-taxable interest, plus one-half of social security benefits) under \$25,000. If a taxpayer's total income comes from Social Security benefits, up to \$34,000 could be exempt. If filing a joint return, the full exemption level is \$44,000 in "combined" income.
2. Based on the American Community Survey, in 2023, a median householder (single filer) over age 65 had a median income of nearly \$53,576. Social Security Administration data for Montana shows that in November 2023 the average retired worker's Social Security benefits averaged nearly \$20,868 in annualized benefits. A two-person household with two workers would average \$41,700 in benefits. The current (CY 2025) maximum annualized social security benefit for a beneficiary at full retirement age is \$48,216.
3. As amended in the Senate Taxation Committee, HB 827 changes the exemption base amount for Montana's income tax to \$32,500 (from \$25,000) for individuals filing a single, head of household, or married filing separately income tax return and \$48,500 (from \$32,000) for taxpayers filing a joint or surviving spouse return.

4. The changes to Montana taxable Social Security income applies starting tax year (TY) 2026.
5. The Department of Revenue's income tax model was modified to incorporate the taxable Social Security income changes made by HB 827. The estimated income tax liability amounts under the proposed law were then compared to current law income tax liability forecasts.
6. Based on the Department of Revenue's income tax model, the proposed Social Security base amount changes will reduce the tax liability of full-year resident taxpayers by \$18.624 million in TY 2026, \$19.872 million in TY 2027, \$21.252 million in TY 2028 and \$22.663 million in TY 2029.
7. As the proposed bill makes significant changes to the taxable income of taxpayers with Social Security income, it is assumed that some taxpayers will change their withholdings and estimated payments as a result of the changes made by the bill.
8. The estimates used in HJ 2 assume that 80% of TY 2026 liability changes and 20% of TY 2027 tax liability changes will occur in FY 2027. This distribution continues for all fiscal years.
9. It is assumed that the tax liability distribution changes made as a result of the exemption base change follows the pattern used in HJ 2 revenue forecasts.
10. The tax liability amounts from the proposed rate decrease were also adjusted using HJ 2 assumptions for missing filers, non-full-year resident taxpayers, audit assumptions, and population increases.
11. Based on the adjustments used for HJ 2, the proposed bill reduces income tax revenue by \$2.964 million in FY 2026, \$23.514 million in FY 2027, \$25.617 million in FY 2028 and \$27.432 million in FY 2029.
12. The changes made by the proposed bill can be made as part of the Department of Revenue annual change process. The Department of Revenue 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)	(\$2,964,000)	(\$23,514,000)	(\$25,617,000)	(\$27,432,000)
<b>TOTAL Revenues</b>	<b>(\$2,964,000)</b>	<b>(\$23,514,000)</b>	<b>(\$25,617,000)</b>	<b>(\$27,432,000)</b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u></b>				
General Fund (01)	(\$2,964,000)	(\$23,514,000)	(\$25,617,000)	(\$27,432,000)

myc  
Sponsor's Initials

4/22/25  
Date

RO  
Budget Director's Initials

4/22/2025  
Date