



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: SB0323.01: Revise individual income tax rates and earned income credit

Primary Sponsor: Josh Kassmier 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)	(\$18,189,000)	(\$166,989,000)	(\$304,297,000)	(\$316,746,000)
Net Impact	<u>(\$18,189,000)</u>	<u>(\$166,989,000)</u>	<u>(\$304,297,000)</u>	<u>(\$316,746,000)</u>
General Fund Balance				

Description of fiscal impact

SB 323 reduces the top personal income tax rate for non-capital gains income from 5.9% to 5.4% in tax year 2026 and 4.9% starting tax year 2027. The top tax rate for capital gains income is also reduced from 4.1% to 3.9% starting tax year 2026. SB 323 also increases the state's EITC rate from 10% of the federal credit to 15%. The proposed bill will reduce general fund revenue by \$18.189 million in FY 2026, which increases to \$316.764 million by FY 2029.

FISCAL ANALYSIS

Assumptions

Department of Revenue


- Under current law, Montana's personal income tax applies two tax rates to taxable non-net long-term capital gains income. These tax rates are 4.7% and 5.9%. Montana's personal income tax also applies two tax rates to taxable net long-term capital gains income, with rates of 3% and 4.1%. Montana's personal income tax also has a refundable tax credit that is equal to 10% of the federal Earned Income Tax Credit (EITC).
- SB 323 reduces the top tax rate for non-capital gains income from 5.9% in tax year (TY) 2025 to 5.4% in TY 2026 and 4.9% starting TY 2027. The bill also reduces the top tax rate applied to net-long-term capital gains income from 4.1% in TY 2025 to 3.9% starting TY 2026. The state's EITC is also increased from 10% of the federal credit to 15% starting 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, reducing the top marginal tax rates for non-capital gains income and capital gains income would reduce the income tax liability of full-year resident taxpayers by \$114.296 million before credits for TY 2026. For tax years 2027, 2028 and 2029, the tax liability of residents would decrease by \$229.476 million, \$238.775 million, and \$248.253 million, respectively. With

- approximately 506,000 households, the average tax liability change for all full-year resident households is estimated to be \$226 in TY 2026, \$453 in TY 2027, \$472 in TY 2028 and \$491 in TY 2029.
5. HJ 2 revenue estimates assumed that \$19.043 million in Montana EITC credits will be claimed FY 2027. For FY 2028 and FY 2029 approximately \$19.062 million credits are assumed to be claimed each year under current law.
 6. Based on forecasted EITC amounts, increasing the Montana EITC credit share from 10% to 15% would increase the number of credits claimed to \$28.565 million in FY 2027. This is an increase of \$9.522 million relative to current law. By fiscal year 2029, the number of EITC credits are estimated to be \$28.593 million.
 7. As the proposed tax rate change makes large 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.
 8. 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.
 9. 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.
 10. It is assumed that taxpayers will not make changes to withholding or estimated payment amounts because of the EITC changes. Based on this assumption, the EITC changes will reduce income tax revenue when taxpayers file their returns the following tax and fiscal year.
 11. Based on the adjustments used for HJ 2, the proposed bill reduces income tax revenue by \$18.189 million in FY 2026, \$166.989 million in FY 2027, \$304.297 million in FY 2028, and \$316.764 million in FY 2029.
 12. 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.

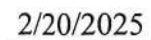
Fiscal Analysis Table

	<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>
<u>Fiscal Impact</u>				
<u>Expenditures</u>				
<u>Funding of Expenditures</u>				
<u>Revenues</u>				
General Fund (01)	(\$18,189,000)	(\$166,989,000)	(\$304,297,000)	(\$316,746,000)
TOTAL Revenues	<u>(\$18,189,000)</u>	<u>(\$166,989,000)</u>	<u>(\$304,297,000)</u>	<u>(\$316,746,000)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u>				
General Fund (01)	<u>(\$18,189,000)</u>	<u>(\$166,989,000)</u>	<u>(\$304,297,000)</u>	<u>(\$316,746,000)</u>


Sponsor's Initials


Date


Budget Director's Initials


Date