



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: HB0942.01: Establish a child income tax credit

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)	\$0	(\$26,227,000)	(\$26,830,000)	(\$27,367,000)
Net Impact	<u>\$0</u>	<u>(\$26,227,000)</u>	<u>(\$26,830,000)</u>	<u>(\$27,367,000)</u>
General Fund Balance				

Description of fiscal impact

HB 942 creates a refundable Montana individual income tax credit starting TY 2026. The credit would be \$1,000 for children under six years of age. The proposed credit will reduce general fund revenue by \$26.227 million in FY 2027, which increases to \$27.367 million by FY 2029.

FISCAL ANALYSIS

Assumptions

- Under section 24 of the Internal Revenue Code (26 U.S.C. 24), a taxpayer is allowed to claim a tax credit that is equal to \$2,000 for each qualifying child of the taxpayer against their federal personal income taxes in tax year (TY) 2023. To qualify for the federal credit, the child must be below the age of 17 at the end of the year. The credit amount is reduced based on the taxpayer's modified adjusted gross income, with a phase-out for income above \$400,000 for a joint return and \$200,000 for all other returns. A portion of the credit is currently refundable. The credit amount, phase-out amount and other portion of the credit are set to change starting TY 2026. The State of Montana does not have a similar child tax credit under current law.
- HB 942 creates a state child income tax credit, which would be available starting TY 2026. To qualify for the credit, taxpayers must file a resident tax return, qualify for the federal child tax credit, and have proof of earned income. The credit is fully refundable.
- The tax credit is \$1,000 for each qualifying child below the age of six, with the credit decreasing by \$100 for each \$1,000 the taxpayer's AGI is above \$65,000 for joint returns and \$35,000 for single or head of household returns. There is no phase-out stipulated for married filing separately or qualifying surviving spouse returns. For these returns, it is assumed the credit remains at \$1,000 regardless of income (see technical note).
- The credit amount and the income threshold amounts are adjusted each year based on an inflation factor based on the federal Consumer Price Index (CPI).

5. In TY 2023, 133,717 full-year and partial-year taxpayer households claimed at least one dependent on their Montana personal income tax return. These household claimed a total of 251,807 dependents.
6. Of the 133,717 households that reported a dependent, 49,572 households met the income and federal tax credit qualifications for the credit. These households reported 92,907 dependents and met the income qualifications for \$83,259,000 in potential child tax credits.
7. The Montana income tax return does not contain the age of dependents to determine which dependents meet the age qualification.
8. According to the Montana Census and Economic Information Center's Population Projections, children between the ages of zero and five will, on average, comprise 29.6% of the population between the ages of zero and 18 during TY 2026, 2027 and 2028.
9. The U.S Census Bureau's American Community Survey for 2023, children under the age of 5 are 6.5% more likely to live in a household below the poverty level.
10. Based on the Census and Economic Information Center's population data, and the U.S. Census Bureau's American Community Survey data, it is assumed that 31.5% (29.6% X 1.065) of the \$83,259,000 in potential child tax credits will be associated with dependents who meet the age requirement for the credit.
11. An estimated \$26.227 million (\$83,259,000 X 31.5%) in credits would be claimed in TY 2026.
12. HJ 2 revenue assumptions assume that the federal inflation factor will increase by 2.3% in calendar year (CY) 2026 and 2.0% in CY 2027.
13. It is assumed that the total number of credits claimed will increased by 2.3% in TY 2027 and 2% in TY 2028.
14. Based on the inflation factors, it is assumed that \$26.830 million (\$26,227,000 X 1.023) in credits will be claimed in TY 2027 and \$27.367 million in TY 2028.
15. As the credit is dependent on the income of the taxpayer, it is assumed that taxpayers will not change their withholding or estimated payments in advance.
16. With no changes to withholding or estimated payments, the credit will reduce income tax revenue when taxpayers file their returns the following fiscal year.
17. The proposed child tax credit will reduce general fund revenue by \$26.227 million in FY 2027, \$26.830 million in FY 2028 and \$27.367 million in FY 2029.
18. The changes made by HB 942 can be made as part of the DOR annual change process. The department does not expect to incur any significant additional costs because of this bill.

Fiscal Analysis Table

	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>
	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
<u>Fiscal Impact</u>				
<u>Expenditures</u>				
<u>Funding of Expenditures</u>				
<u>Revenues</u>				
General Fund (01)	\$0	(\$26,227,000)	(\$26,830,000)	(\$27,367,000)
TOTAL Revenues	\$0	(\$26,227,000)	(\$26,830,000)	(\$27,367,000)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u>				
General Fund (01)	\$0	(\$26,227,000)	(\$26,830,000)	(\$27,367,000)

Technical Concerns

1. The child tax credit created in this bill has a credit phase-out based on the taxpayer's federal adjusted gross income. The phase-out only appears to apply to single or head of household taxpayer, and married taxpayers filing jointly. However, federal filing status include married filing separately, and qualifying surviving spouse. Without a reference to these two additional filing options in the phase-out section, the fiscal note assumes there is no phase-out of the credit for these taxpayers.



Sponsor's Initials

2 Apr 2025

Date



Budget Director's Initials

4/2/2025

Date