



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2027 Biennium

Bill#/Title: HB0537.01: Provide for a birth day tax credit for the birth of a child

Primary Sponsor: Lukas Schubert

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</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	\$187,129	\$184,229	\$186,685
<b>Revenues</b>				
General Fund (01)	\$0	(\$23,761,000)	(\$23,741,000)	(\$23,721,000)
<b>Net Impact</b>	<u>\$0</u>	<u>(\$23,948,129)</u>	<u>(\$23,925,229)</u>	<u>(\$23,907,685)</u>
<b>General Fund Balance</b>				

### Description of fiscal impact

HB 537 creates new a refundable income tax credit for the birth of a dependent child. The credit is only available in the year of the birth of a qualifying child. The credit is capped at \$3,000, and cannot exceed your total federal, state, and payroll tax liability. The credit phases-out by \$150 per \$1,000 in federal taxable income above \$120,000 for married couples (\$60,000 for the remaining filing statuses).

The proposed credit would reduce general fund individual income tax revenue by about \$23,741,000 each fiscal year starting in FY 2027. The proposed bill would also require general fund expenditures for processing and compliance activity (2.00 FTE) at a cost of \$187,129 in FY 2027, \$184,229 in FY 2028 and \$186,685 in FY 2029.

### FISCAL ANALYSIS

#### Assumptions

#### Department of Revenue

1. HB 537 creates a new refundable income tax credit for resident Montana taxpayers for the birth of the taxpayer's child. The credit is equal to the lesser of \$3,000 or the taxpayer's combined Montana income tax liability, Federal income tax liability, and contributions under the Federal Insurance Contributions Act for the tax year the credit is claimed. The credit amount phases-out by \$150 for every \$1,000 in Federal Adjusted Gross Income (AGI) in excess of \$120,000 for joint returns and \$60,000 for all other returns. The credit is first available starting tax year (TY) 2026.
2. The Montana Department of Health and Human Services (DPHHS) reports 11,174 babies born to Montana residents in calendar year 2022. The Montana demographic projections of births in Montana as produced by S&P Global as of February 2025 project a very stable number of births over the next seven years.
3. The birth projections are 11,820 babies born to Montana residents in TY 2026, 11,830 in TY 2027, and 11,820 in TY 2028 who may qualify for the credit.

4. Based on 2022 and 2023 Montana personal income tax returns, there were approximately 6,750 full-year resident households in the state that filed returns both years and reported an increase in the number of dependents on their return by one. While there is a about a 3% rate of multiple birth, these single dependent households were used to estimate the value of average tax credit claims. The federal income tax and payroll taxes for each of the 6,750 resident households were estimated. Based the income reported on the returns, and the estimated state, federal, and payroll taxes for these taxpayers, approximately 80% of the households would have qualified for a credit. The average credit amount for these 6,750 households was \$2,009.
5. It is assumed that the average credit claimed for each live birth each year will be \$2,009.
6. With 11,820 births to residents, and an average credit of \$2,009, it is estimated that \$23,761,000 will be claimed in TY 2026, \$23,741,000 in TY 2027 and \$23,721,000 in TY 2028.
7. As the credit will only be available to each taxpayer for a single year, it is assumed that taxpayers will not change their withholdings or estimated payments.
8. With no changes to estimated payments, or withholdings, the proposed credit will reduce general fund revenue when the taxpayers file their return the following year.
9. The proposed bill will reduce general fund revenue by \$23,761,000 in FY 2027, \$23,741,000 in FY 2028 and \$23,721,00 in FY 2029.
10. Administering this credit will require the department to manually review each credit to ensure each child meets the qualifications and to ensure the calculation of the credit is correct. The department will require 2.00 FTE to review the credits. The cost of the two 2 additional FTE is \$187,129 in FY 2027, \$184,229 in FY 2028 and \$186,685 in FY 2029.

### Fiscal Analysis Table

	<b><u>FY 2026 Difference</u></b>	<b><u>FY 2027 Difference</u></b>	<b><u>FY 2028 Difference</u></b>	<b><u>FY 2029 Difference</u></b>
<b><u>Fiscal Impact</u></b>				
FTE	0.00	2.00	2.00	2.00
<b>TOTAL Fiscal Impact</b>	<b>0.00</b>	<b>2.00</b>	<b>2.00</b>	<b>2.00</b>
<b><u>Expenditures</u></b>				
Personal Services	\$0	\$162,907	\$164,971	\$167,065
Operating Expenses	\$0	\$18,306	\$19,258	\$19,620
Equipment	\$0	\$5,916	\$0	\$0
<b>TOTAL Expenditures</b>	<b>\$0</b>	<b>\$187,129</b>	<b>\$184,229</b>	<b>\$186,685</b>
<b><u>Funding of Expenditures</u></b>				
General Fund (01)	\$0	\$187,129	\$184,229	\$186,685
<b>TOTAL Funding of Expenditures</b>	<b>\$0</b>	<b>\$187,129</b>	<b>\$184,229</b>	<b>\$186,685</b>
<b><u>Revenues</u></b>				
General Fund (01)	\$0	(\$23,761,000)	(\$23,741,000)	(\$23,721,000)
<b>TOTAL Revenues</b>	<b>\$0</b>	<b>(\$23,761,000)</b>	<b>(\$23,741,000)</b>	<b>(\$23,721,000)</b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u></b>				
General Fund (01)	\$0	(\$23,948,129)	(\$23,925,229)	(\$23,907,685)

**Technical Concerns****Department of Revenue**

1. Section 1 of the bill states that the credit is the lesser of \$3,000 or the total of "Montana income taxes due in the tax year" plus "federal income taxes due in the tax year" and the taxpayer's employee contributions to the Federal Insurance Contributions Act. The term "taxes due" typically refers to the money that taxpayers pay when their total tax liability is greater than the tax payments made by the taxpayer during the year. Using this definition means that a taxpayer who lowers their Federal or Montana withholding would also increase their credit amount, even though their tax liability remained unchanged. It is unlikely that the credit is designed to work this way. Using the department's rule authority, the department will likely define "taxes due" as either "tax liability before credits" or "tax after nonrefundable tax credits." However, clarification of this definition in the bill would be preferable to the use of rules.

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Sponsor's Initials**NOT SIGNED BY SPONSOR**

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Budget Director's Initials

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2/24/2025

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Date