



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2027 Biennium

Bill#/Title: **HB0148: Repeal state tax on social security income**

Primary Sponsor: **Ron Marshall**

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**

	<b><u>FY 2026</u></b>	<b><u>FY 2027</u></b>	<b><u>FY 2028</u></b>	<b><u>FY 2029</u></b>
	<b><u>Difference</u></b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>
<b>Expenditures</b>				
General Fund (01)	\$0	\$0	\$0	\$0
<b>Revenues</b>				
General Fund (01)	(\$17,217,000)	(\$136,228,000)	(\$144,397,000)	(\$149,963,000)
<b>Net Impact</b>	<u>(\$17,217,000)</u>	<u>(\$136,228,000)</u>	<u>(\$144,397,000)</u>	<u>(\$149,963,000)</u>
<b>General Fund Balance</b>				

### **Description of fiscal impact**

HB 148 expands the partial exemption of Social Security income from Montana individual income tax that is otherwise taxable with the flow-through of federal full taxable income and exempts all Social Security income from Montana individual income tax for all social security beneficiaries. The changes would first apply to TY 2026. The proposed exemption will reduce general fund revenue by \$17,217,000 in FY 2026 (as people shift their withholding and estimated payments) which increases to \$149,963,000 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. HB 148 makes all social security income exempt from Montana's personal income tax starting TY 2026.
4. Taxable social security income was reported on approximately 123,000 full-year resident returns in TY 2023, with approximately \$1.92 billion in federal taxable income reported.

5. The Department of Revenue's income tax model was modified to incorporate the social security income exemption created by HB 148. The estimated income tax liability amount under the proposed law were then compared to current law income tax liability forecasts.
6. Based on the social security income amounts reported on TY 2023 full-year resident returns, and the department's income tax model, exempting all social security income from state income tax in TY 2026 is expected to reduce the tax liability of resident taxpayers by \$108.19 million. The tax liability reduction increases to \$120.6 million by TY 2029.

Figure 1			
Tax Liability Estimates Under Current Law and Proposed Law			
Tax Year	Tax Liability (In Millions)		
	Current Law	Proposed Law	Change in Revenue
2026	\$1,900.82	\$1,792.63	(\$108.19)
2027	\$1,947.47	\$1,835.01	(\$112.46)
2028	\$2,023.04	\$1,906.41	(\$116.63)
2029	\$2,099.80	\$1,979.22	(\$120.58)


7. As HB 148 makes large changes to the taxable income of taxpayers with social security income, it is assumed that some of the taxpayers will change their withholding and estimated payment amounts.
8. It is assumed that withholding and estimated payments will change based on the assumptions used in the HJ 2 revenue forecast. The HJ 2 forecast assumes 80% of TY 2026 tax liability and 20% of TY 2027 tax liability payments will occur in FY 2027. This distribution applies to all fiscal years.
9. The change in the estimates tax liability of full-year resident taxpayers from the department's income tax model were adjusted to account for the changes in withholding, estimated payments, missing filers, nonresident taxpayers, income tax credits and audit collections.
10. Based on the adjustments used for HJ 2, the proposed bill would reduce income tax revenue by \$17.217 million in FY 2026, which increases to \$149.96 million in FY 2029.

Figure 2	
Tax Revenue Change by Fiscal Year	
Fiscal Year	Change in Revenue (Millions of Dollars)
2026	(\$17.217)
2027	(\$136.228)
2028	(\$144.397)
2029	(\$149.963)

11. The bill's proposed changes can be made as part of the Department of Revenue's annual change process. The department does not expect to incur any significant additional costs because of the 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)	(\$17,217,000)	(\$136,228,000)	(\$144,397,000)	(\$149,963,000)
<b>TOTAL Revenues</b>	<b>(\$17,217,000)</b>	<b>(\$136,228,000)</b>	<b>(\$144,397,000)</b>	<b>(\$149,963,000)</b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u></b>				
General Fund (01)	(\$17,217,000)	(\$136,228,000)	(\$144,397,000)	(\$149,963,000)

  
Sponsor's Initials

1-21-25  
Date

  
Budget Director's Initials

1/21/2025  
Date