



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2027 Biennium

Bill#/Title: HB0337.04 (001): Revise income tax laws to lower income taxes

Primary Sponsor: Brandon Ler Status: As Amended in Senate

☐ 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)	(\$20,805,000)	(\$190,644,000)	(\$266,916,000)	(\$277,562,000)
<b>Net Impact</b>	<u>(\$20,805,000)</u>	<u>(\$190,644,000)</u>	<u>(\$266,916,000)</u>	<u>(\$277,562,000)</u>
<b>General Fund Balance</b>				

### Description of fiscal impact

As amended on the Senate floor, HB 337 reverts to the version that passed out of the House (HB 337.02). The bill increases the income brackets for the state's personal income tax, while also lowering the top tax rate for non-capital gains income over two years (from 5.9% to 5.65% in TY 2026 and then to 5.4% in TY 2027). The Earned Income Tax Credit (EITC) is increased starting in TY 2026 to 20% (from 10%) of the federal EITC. Relative to the introduced bill, the amendments lower the thresholds, expand the EITC, and resolve the technical concerns regarding the implementation of the modified inflation factor. The changes to the individual income tax will reduce general fund revenue by \$20.805 million in FY 2026, and \$190.6 million in FY 2027, which increases to \$277.562 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%. The taxable income bracket for the 5.9% rate was set at \$21,100 for single and married filing separate filers, \$42,200 for joint filers and \$31,700 for head of household filers in tax year (TY) 2025. 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%. For TY 2025, the taxable income brackets for the 4.1% tax rate are also \$21,100 for single filers, \$42,200 for joint filers and \$31,700 head of household filers in TY 2025.
- As amended on the Senate floor, HB 337 increases the income thresholds under which taxable income is taxed at the higher marginal rates for non-capital gains income and net-long-term capital gains income. For TY 2026, the income bracket for single filers is increased to \$47,500. For head of household and joint filers, the income brackets are increased to \$71,250 and \$95,000, respectively. The same income thresholds also apply to the taxable portion of net long-term capital gains income and the 4.1% marginal tax rate.

3. For TY 2027, the amended bill increases the income thresholds under which taxable income is taxed at the higher marginal tax rates for non-capital gains income and net-long-term capital gains income again. That is in TY 2027, the income thresholds for single filers are increased (from \$47,500) to \$65,000. For head of household filers, the threshold is increased to \$97,500. Joint filers have their income threshold increased (from \$95,000) to \$130,000.
4. The amended bill also increases the state's Earned Income Tax Credit (EITC) from 10% of the federal credit to 20% starting TY 2026.
5. Under current law, the top marginal tax rate for non-net-long-term capital gains income is 5.9%.
6. HB 337 changes the top marginal tax rate, starting TY 2026. Under the proposed bill, the top rate is reduced from 5.9% to 5.65% in TY 2026 and to 5.4% starting TY 2027.
7. HB 337 also adjusts the tax brackets increase each tax year based on the modified inflation factor defined in the bill. This inflation adjustment begins starting TY 2028.
8. Based on the modified inflation factor, and the inflation factors used in HJ 2 revenue assumptions, it is assumed that the income thresholds for single filers will increase to \$66,400 in TY 2028 and \$67,800 in TY 2029.
9. 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.
10. Based on the department's income tax model, increasing the income brackets for the top marginal tax rates, and lowering the top tax rate for non-capital gains income would reduce the income tax liability of full-year resident taxpayers by \$130.735 million before credits for TY 2026. For tax years 2027, 2028 and 2029, the tax liability of residents would decrease by \$192.937 million, \$200.899 million, and \$208.890 million, respectively. With approximately 506,000 households, the average tax liability change for all full-year resident households is estimated to be -\$258 in TY 2026, -\$381 in TY 2027, -\$397 in TY 2028 and -\$413 in TY 2029.
11. 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.
12. Based on forecasted EITC amounts, increasing the Montana EITC credit share from 10% to 20% would increase the number of credits claimed to \$38.086 million in FY 2027. This is an increase of \$19.043 million relative to current law. By FY 2029, the number of EITC credits are estimated to be \$38.124 million.
13. As the proposed bill makes significant changes to the state's personal income tax, the department will need to update its withholding and estimated payment tables and guidelines. Because of this, it is assumed that the withholding and estimated payment amounts of Montana taxpayers will change as a result of the proposed bill, starting TY 2026.
14. The estimates used in HJ 2 assume that 80% of TY 2026 liability changes and 20% of TY 2027 tax liability change will occur in FY 2027. This distribution continues for all fiscal years.
15. It is assumed that the tax liability distribution changes made as a result of this bill will follow the pattern used in HJ 2 revenue forecasts.
16. The tax liability amounts from the proposed changes were also adjusted using HJ 2 revenue assumptions for non-filers, non-residents, population growth and audit collections.
17. 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.
18. Based on the adjustments used for HJ 2, the amended bill will reduce income tax revenue by \$20.805 million in FY 2026, which increases to \$190.644 million in FY 2027. The revenue reduction will continue in future fiscal years, reaching \$266.916 million in FY 2028, and \$277.562 million in FY 2029.
19. 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 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)	(\$20,805,000)	(\$190,644,000)	(\$266,916,000)	(\$277,562,000)
<b>TOTAL Revenues</b>	<b>(\$20,805,000)</b>	<b>(\$190,644,000)</b>	<b>(\$266,916,000)</b>	<b>(\$277,562,000)</b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u></b>				
General Fund (01)	(\$20,805,000)	(\$190,644,000)	(\$266,916,000)	(\$277,562,000)

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

- Several withholding tax types have their withholding rates either stipulated as a set rate in the MCA or tied to the top marginal tax rate. Significantly increasing the income tax brackets without also changing the withholding rates for these tax types will likely result in some taxpayers over-withholding.

**NOT SIGNED BY SPONSOR**

Sponsor's Initials

Date



Budget Director's Initials

4/22/2025

Date