



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: **HB0652.01: Eliminate state income taxes on veterans retirement**

Primary Sponsor: **Nelly Nicol**

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) | (\$1,825,000) | (\$14,451,000) | (\$15,434,000) | (\$16,665,000) |
| Net Impact | <u>(\$1,825,000)</u> | <u>(\$14,451,000)</u> | <u>(\$15,434,000)</u> | <u>(\$16,665,000)</u> |
| General Fund Balance | | | | |

Description of fiscal impact

HB 652 expands the exemption of military retirement income and survivor benefits from Montana individual income tax. The bill also removes the residency and income requirements. The proposed changes will reduce general fund revenue by \$1.825 million in FY 2026, 14.451 million in FY 2027, and increase to \$16.665 million by FY 2029.

FISCAL ANALYSIS

Assumptions

Department of Revenue

1. Under current law, taxpayers in Montana can exempt the lesser of 50% of their military retirement income and survivor benefits, or the taxpayer's "Montana source wage income" from Montana's personal income tax starting tax year (TY) 2024. The exemption is limited to taxpayers who became residents of the state after June 30, 2023, or who were a resident of the state before receiving military retirement income or survivor benefits and have remained a resident. The exemption can only be claimed for five consecutive years after the taxpayer meets the exemption limitation. The exemption is set to expire at the end of TY 2033.
2. HB 652 exempts all military retirement income and survivor benefits from Montana's personal income tax starting TY 2026. The current military retirement and survivor benefits exemption is replaced by this new exemption.
3. Under HJ 2 revenue estimates, it was assumed all taxpayers with military retirement income who met the income qualifications for the current law exemption will claim the exemption in TY 2024. It was assumed these taxpayers will continue claiming the exemption through TY 2028. After TY 2028, the number of taxpayers expected to continue claiming the exemption is assumed to decrease by 80% for future tax years, until the exemption expires in TY 2034.

4. Based on TY 2023 income tax returns, and Modernized e-File System (MeF) data, approximately 8,215 households in Montana received a Form 1099-R from the U.S. Department of Defense's Defense Finance and Accounting Service. These households reported approximately \$261.2 million in military pension and retirement income.
5. The department's income tax model (with HJ 2 assumptions) was modified to include the exemption of the military retirement income and survivor benefits under current law. The model assumes all 8,215 households who meet the income qualifications will claim the current law exemption starting TY 2024 and will continue doing so until TY 2028. Starting TY 2029, the number of households claiming the exemption, and the total income exempted, is assumed to decrease by 80%.
6. The DOR income tax model was also modified to incorporate the changes made by HB 652, with all taxpayers with military pension or retirement income claiming the new exemption starting TY 2026. The estimated income and tax liability under HB 652 were compared to the estimated current law income and tax liability amounts. The changes are estimated to reduce income tax liability of full-year resident taxpayers by \$10.321 million in TY 2026, which increases to \$14.865 million in TY 2029.
7. As HB 652 makes significant changes, some taxpayers will adjust their withholding and estimated payments. It is assumed 80% of TY 2026 and 20% of TY 2027 tax liability changes will be collected in FY 2027. Similar timing is anticipated to continue in subsequent years.
8. The change in full-year resident tax liability was converted to fiscal years based on the factors used in HJ 2.
9. It is assumed 10% of the households who qualify for the exemption file through a system other than the MeF program. Based on this, the fiscal year revenue estimates are increased by 10% to account for the missing data.
10. After applying the conversion factors, and missing filer factor, general fund revenue will decrease by \$1.825 million in FY 2026, \$14.451 million in FY 2027, \$15.434 million in FY 2028 and \$16.665 million in FY 2029.
11. The changes made by HB 652 can be made as part of the DOR annual change process at no additional expense.

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) | (\$1,825,000) | (\$14,451,000) | (\$15,434,000) | (\$16,665,000) |
| TOTAL Revenues | (\$1,825,000) | (\$14,451,000) | (\$15,434,000) | (\$16,665,000) |
| <u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u> | | | | |
| General Fund (01) | (\$1,825,000) | (\$14,451,000) | (\$15,434,000) | (\$16,665,000) |


Sponsor's Initials

Date


Budget Director's Initials

2/27/2025

Date