



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: SB0549.03 (001): Provide income tax credit for K-12 education expenses

Primary Sponsor: Jeremy Trebas Status: As Amended in Senate Committee

☐ 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>
Expenditures				
General Fund (01)	\$0	\$250,381	\$245,574	\$248,798
Revenues				
General Fund (01)	\$0	(\$30,903,000)	(\$30,903,000)	(\$30,903,000)
Net Impact	<u>\$0</u>	<u>(\$31,153,381)</u>	<u>(\$31,148,574)</u>	<u>(\$31,151,798)</u>
General Fund Balance				

Description of fiscal impact

SB 549, as amended, creates a non-refundable personal income tax credit for qualified primary and secondary education expenses. Approximately 65,000 households are expected to claim this credit each tax year, with \$30,903,000 in credits claimed each year, starting FY 2027. General fund expenditures will increase by \$250,381 in FY 2027, \$245,574 in FY 2028 and \$248,798 in FY 2029.

FISCAL ANALYSIS

Assumptions

1. As amended, SB 549 creates a non-refundable personal income tax credit for primary and secondary education expenses. The credit is equal to the lesser of the qualified education spending by the taxpayer during the tax year, or \$1,250. The credit is refundable, and the taxpayer can claim the credit even if they have no Montana taxable income. Parents and guardians of a student can claim the credit, while teachers are also allowed to claim the credit for any qualified spending they make as part of their profession.
2. The credit is available starting tax year (TY) 2026.
3. Qualified education expenses include school tuition, instructional materials and services, online educational programs, tutoring, educational therapies, recognized assessment and advanced placement examines, services provided by a public school in the state, transportation to another allowable educational service, fees paid to a cooperative educational program, and consumable education supplies (paper, pens, markers, etc.).
4. A qualified education provider includes public schools, an accredited educational provider, and a nonaccredited provider or tutor that provides notification to the student's parents or legal guardian of their lack of accreditation.
5. The Montana Office of Public Instruction (OPI) reported in 2024 that there were 8,584 students attending private school in Montana for the 2023-2024 school year.

6. Over the previous three school years, the number of nonpublic school students has not experienced significant growth, with 8,634 students in the 2021-2022 school year and 8,906 during the 2022-2023 school year.
7. It is assumed that the number of nonpublic school students will remain unchanged from the 2023-2024 school year numbers for future school years.
8. It is assumed that there is an average of 1.75 non-public school students in each household.
9. With 8,584 students, and 1.75 students per household, it is assumed that 4,905 households with nonpublic school students will claim the credit each year.
10. As the cost of tuition is an allowable expense, it is assumed that any taxpayer with a nonpublic school student will claim the entire \$1,250 credit.
11. With 4,905 households, and an average credit of \$1,250, a total of \$6,131,000 ($\$1,250 \times 4,905$) in potential credits could be claimed by households with nonpublic school students each year.
12. Based on actual tax liabilities for the approximately 125,000 households claiming a dependent in TY 2023, households had an average tax liability large enough to claim nearly 2/3 of the \$1,250 credit.
13. With \$6.131 million in potential credits, and an assumed credit usability of 2/3, it is estimated that \$4,087,000 ($\$6,131,000 \times (2/3)$) in credits will be claimed each tax year.
14. OPI also reports 148,585 public school students during the 2023-2024 school year. The number of students in public schools has also remained relatively unchanged over the past 3 years, with 149,198 students in 2021-2022 and 150,573 in 2022-2023.
15. It is assumed that the number of public school students will remain unchanged from the 2023-2024 school year numbers for future school years.
16. In 2020, the state of Iowa reported approximately \$100 million in qualified expenditures associated with their Tuition and Textbook income tax credit. According to the Digest of Education Statistics, the public school enrollment for this state in the fall of 2020 was 506,656. Based on these amounts, the average qualified spending per public school student in the state was \$197 ($\$100,000,000 / 506,656$).
17. In 2023, the state of Minnesota reported nearly \$180 million in qualifying education expenses deducted under their K-12 Education Subtraction. The Digest of Education Statistics reports public school enrollment for this state of 870,019 in the fall of 2022. Based on reported spending and public school enrollment, the average qualified spending per student in this state was \$207.
18. Based on the average qualified education spending reported in these two states, it is assumed that the average qualified expenditures per public student in Montana will be \$200 each tax year.
19. With 148,585 public school students, and an average credit of \$200, a total of \$29,717,000 ($\$200 \times 148,585$) in credits could be claimed by public school parents each tax year.
20. Based on actual tax liabilities for the approximately 125,000 households claiming a dependent in TY 2023, households had an average tax liability large enough to claim approximately 80% of a \$200 credit for the education spending of each of their dependents.
21. With \$29.717 million in potential credits, and an assumed credit usability of 80%, it is assumed that \$23,774,000 ($\$29,717,000 \times 0.8$) in credits will be claimed each tax year.
22. Finally, SB 549 also allows teachers to include their qualified education spending when determining their tax credit.
23. In TY 2023, 10,470 taxpayers claimed the Educator Expense above the line deduction on their Montana income tax returns. These taxpayers claimed an average of \$277 in qualified expenses.
24. Based on this deduction, it is assumed that 10,470 taxpayers will also claim teaching expenses for this credit and will claim an average of \$300 in credits.
25. With 10,470 teachers, and \$300 in additional credits on average, it is assumed that teachers could claim up to \$3,141,000 ($\$300 \times 10,470$) in additional credits.
26. Based on their 2023 tax liabilities, the 10,470 teachers would be able to use \$3,042,000 of their potential credits.
27. It is assumed that teachers will claim \$3,042,000 in additional credits each tax year.

28. The total number of credits claimed each tax year is estimated to be \$30,903,000 (\$4,087,000 + \$23,774,000 + \$3,042,000), starting TY 2026.
29. It is assumed that taxpayers will not change their withholding or estimated payments in response to this credit.
30. With no change in withholding or estimated payments, taxpayers will receive the credit when they file their tax returns the following fiscal year.
31. With \$30,903,000 in credits claimed each year, and taxpayers first claiming the credit for TY 2026, the proposed bill will reduce general fund revenue by \$30,903,000 in FY 2027, FY 2028 and FY 2029.
32. The department estimates that approximately 75,000 returns will claim the credit created by this bill. With this credit being fully refundable, the department will require 3.00 FTE to review the credits and ensure the credit is claimed for appropriate expenses. The 3 FTE will cost the department \$250,381 in FY 2027, \$245,574 in FY 2028 and \$248,798 in FY 2029.

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>				
FTE	0.00	3.00	3.00	3.00
TOTAL Fiscal Impact	0.00	3.00	3.00	3.00
<u>Expenditures</u>				
Personal Services	\$0	\$214,048	\$216,687	\$219,368
Operating Expenses	\$0	\$27,459	\$28,887	\$29,430
Equipment	\$0	\$8,874	\$0	\$0
TOTAL Expenditures	\$0	\$250,381	\$245,574	\$248,798
<u>Funding of Expenditures</u>				
General Fund (01)	\$0	\$250,381	\$245,574	\$248,798
TOTAL Funding of Expenditures	\$0	\$250,381	\$245,574	\$248,798
<u>Revenues</u>				
General Fund (01)	\$0	(\$30,903,000)	(\$30,903,000)	(\$30,903,000)
TOTAL Revenues	\$0	(\$30,903,000)	(\$30,903,000)	(\$30,903,000)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u>				
General Fund (01)	\$0	(\$31,153,381)	(\$31,148,574)	(\$31,151,798)

Sponsor's Initials

Date

Budget Director's Initials

4/9/2025

Date