



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: **HB0845.02 (001): Increase IRC 529 education savings income tax deduction**

Primary Sponsor: **Julie Darling** Status: **As Amended in House 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 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)	(\$202,000)	(\$212,000)	(\$223,000)	(\$234,000)
Net Impact	<u>(\$202,000)</u>	<u>(\$212,000)</u>	<u>(\$223,000)</u>	<u>(\$234,000)</u>
General Fund Balance				

Description of fiscal impact

As amended in the House Taxation Committee, HB 845 increases the allowable exemption for contributions to a Family Education Savings Account from \$3,000 to \$4,500. The exemption now would be adjusted for inflation. HB 845 would reduce general fund revenue by \$202,000 in FY 2026, and grow to \$234,000 by FY 2029.

FISCAL ANALYSIS

Assumptions

1. Under current law, taxpayers who contribute to a Family Education Savings Account (FESA) can exempt up to \$3,000 of their contributions from their Montana taxable income. The \$3,000 income exemption amount applies to each taxpayer, which allows taxpayers filing a joint return to exempt up to \$6,000 in income.
2. As amended, HB 845 increases the income exemption amount for contributions to a FESA from \$3,000 per taxpayer to \$4,500 starting in tax year (TY) 2025. The income exemption amount is increased each year by an inflation factor based on the consumer price index in June 2024.
3. The amendment added the omitted reference to 15-30-2120, MCA, eliminating the original technical concern.
4. In TY 2023, 5,675 full-year resident taxpayer returns exempted \$19,202,170 in contributions to a FESA account from their Montana taxable income.
5. Of the 5,675 households who exempted contributions to a FESA account, 2,153 exempted the maximum amount of \$3,000 for single or head of household returns or \$6,000 for joint and married filing on the same form returns.
6. In total, the 2,153 households exempted \$11,718,000 in total income.
7. It is assumed that the 2,153 would have increased their income exemptions by 50% of the exemption increase on average if the maximum exemption amount was increased to \$4,500 in TY 2023.
8. With a 50% increase, it is assumed that households claiming an income exemption of \$3,000 would have exempted \$3,750 ($\$3,000 + (\$1,500 \times 50\%)$) on average. For households claiming an income exemption of

\$6,000, it is assumed that they would have exempted \$7,500 (\$6,000 + (\$3,000 X 50%)) on average if the income exemption limit was \$4,500.

9. In total, increasing the income exemption amount to \$4,500 is assumed to increase the total amount of income exempted for the 2,153 households by \$2,929,500 in TY 2023.
10. HJ 2 revenue assumptions assume that donations to a FESA account will increase by 2.65% in TY 2024 relative to their 2023 levels. The revenue assumptions assume continued growth of 3.71% in TY 2025, and 4.6% in TY 2026, TY 2027 and TY 2028.
11. It is assumed that the \$2,929,500 amount for TY 2023 will increase by the assumed growth rates in the HJ 2 revenue assumptions, reaching \$3,118,696 in TY 2025, \$3,262,156 in TY 2026, \$3,412,216 in TY 2027 and \$3,569,177 in TY 2028.
12. The adjusted income exemption amounts are also adjusted for population growth and non-resident tax filers, based on the adjustments used in HJ 2 revenue forecasts.
13. After adjusting for population growth, and non-resident filers, the total additional income exempted as a result of HB 845 increases to \$3,426,783 in TY 2025, \$3,598,004 in TY 2026, \$3,777,594 in TY 2027, and \$3,967,979 in TY 2028.
14. It is assumed that the additional income exempted by HB 845 will be taxed at the state's top non-capital gains tax rate of 5.9%.
15. Applying a tax rate of 5.9% to the additional exempted income reduces income tax collections for TY 2025 by \$202,000. For TY 2026, TY 2027 and TY 2028, the proposed bill will reduce income tax collections by \$212,000, \$223,000, and \$234,000, respectively.
16. It is assumed that taxpayers will not adjust their withholding or estimated payments as a result of the increased income exemptions.
17. With no changes to withholding or estimated payments, the proposed bill will reduce general fund revenue by \$202,000 in FY 2025, which increases to \$234,000 in FY 2029.
18. The changes made by HB 845 can be made as part of the Department of Revenue's annual change process. The department does not expect to incur any significant 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>
<u>Fiscal Impact</u>				
<u>Expenditures</u>				
<u>Funding of Expenditures</u>				
<u>Revenues</u>				
General Fund (01)	(\$202,000)	(\$212,000)	(\$223,000)	(\$234,000)
TOTAL Revenues	<u>(\$202,000)</u>	<u>(\$212,000)</u>	<u>(\$223,000)</u>	<u>(\$234,000)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u>				
General Fund (01)	<u>(\$202,000)</u>	<u>(\$212,000)</u>	<u>(\$223,000)</u>	<u>(\$234,000)</u>



Sponsor's Initials



Date



Budget Director's Initials

4/2/2025

Date