Fiscal Note 2027 Biennium

GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Bill#/Title: **SB0225: Provide income tax credit for renters**

Primary Sponsor: Shane Morigeau   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

	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
Expenditures				
General Fund (01)	$340,327	$333,313	$337,689	$342,140
Revenues				
General Fund (01)	($13,073,000)	($13,073,000)	($13,073,000)	($13,073,000)
Net Impact General Fund Balance	($13,413,327)	($13,406,313)	($13,410,689)	($13,415,140)

Description of fiscal impact

SB 225 creates a new refundable income tax credit available to renters under the age of 62 based on spending more than 4% of income on rent equivalent property tax. Mathematically this works out to spending more than 26.67% of household income on rent. Qualifications, definitions, and credit phase-outs are subject to the provisions of the elderly homeowner and renter credit contained in 15-30-2337 through 2341, MCA. The credit is limited capped at $500 and is available for households earning less than $45,000 annually. Taxpayers may not claim both the SB 225 credit and the elderly homeowner and renter credit. An additional 39,000 renters are expected to qualify for this new credit. The bill first applies to tax tear 2025 rent paid and would first be claimed in the spring of CY 2026 (FY 2026). SB 225 has a sunset after tax year 2028, FY 2029 would be the fiscal year of credit claims. Becauee of the verification requirements the Department of Revenue would need 4.00 FTE and associated costs to implement this program.

FISCAL ANALYSIS

Assumptions

Department of Revenue

1. SB 225 creates a new refundable income tax credit named the Renter's Credit for households with gross household incomes under $45,000, and pay more than 4% of gross household income in rent-equivalent property tax.
2. Rent-equivalent property tax is defined in 15-30-2337, MCA, as 15% of gross rent.
3. Based on the relationship of 4% income to 15% of gross rent, the credit is available to households spending more than 26.67% (4/15) of household income on rent.
4. The credit is roughly equal to an annual $100 in credit for each $50 per month increment of rent that exceeds 26.67% of income, up the maximum credit amount of $500.
5. The credit phases out for household incomes greater than $35,000.

6. The American Community Survey administer by the U.S. Census Bureau provides estimates of the percentage of income spent on rent by income level. The categories are split into households earning less than $20,000; households earning between $20,000 and $25,000; and households earning between $35,000 and $50,000. This fiscal note refers to these as group one, group two, and group three respectively.
7. The credit is only available to households earning $45,000 or less. Group three expected participation is reduced by 1/3 to reflect that households earning between $45,001 and $50,000 are not eligible for the credit.
8. These estimates of renters also include elderly renters that currently qualify for the elderly homeowner and renter credit. It is assumed that the elderly have approximately equal income and rental costs as non-elderly. Approximately 20.77% of renters are 62 or older, so all categories of income have expected claimants reduced by 20.77% to exclude those already qualifying for an income tax renter credit.
9. It is assumed the average income of households in group one is $15,000; for group two, average income is $30,000; and for group three, the average income is $40,000.
10. Within each income group, estimates are aggregated in households spending between 20%-29% of income on housing and households spending more than 30% of income on housing.
11. Since the credit is available to households spending more than 26.67% of income as rent, the expected number of qualified taxpayers in the 20%-29% group is reduced by 70%.
12. The Census Bureau categorizes households spending more than 30% of income on rent in one bucket. The credit calculation is highly sensitive to assumptions about the distribution of rental spending of this category.
13. It is assumed that 50% of households in group one pay an average of $500 per month in rent and 50% of households pay an average of $600 per month in rent.
14. For group two it is assumed that 67% of households pay $875 per month in rent on average and that 33% of households pay $1,100 per month on average.
15. For group three it is assumed that 75% of households pay $1,150 per month in rent on average and that 25% of households pay $1,400.
16. An average credit is calculated for each of these groups from the assumed income and rent equivalent property tax, and then multiplied by the eligible renters to arrive at the credit total.
17. The following table shows the various categories and assumptions these credit estimates are based on
18. An estimated 39,000 renters are estimated to be qualified for the credit, with total credits of $13.073 million. The average expected credit is $338.
19. The HJ 2 forecast estimates the elderly homeowner and renter credit to remain flat for the forecast window so the estimate for the SB 225 is constant for all years.

Assumed Demographics of Income and Rent							
Census Group	**Rent to Income Range**	**Eligible Renters**	**Assumed Income**	**Assumed Monthly Rent**	**Rent as % of Income**	**Average Credit**	**Credit Total**
Group 1	27 to 29 percent	730	15,000	350	28%	30	$22,000
Group 1	30 to 40 percent	8,700	15,000	500	40%	300	$2,610,000

Group 1	40+ percent	8,700	15,000	600	48%	480	$4,176,000
Group 2	27 to 29 percent	880	30,000	700	28%	60	$53,000
Group 2	30 to 40 percent	8,650	30,000	875	35%	375	$3,244,000
Group 2	40+ percent	4,330	30,000	1,100	44%	500	$2,165,000
Group 3	27 to 29 percent	1,240	40,000	933	28%	24	$30,000
Group 3	30 to 40 percent	4,050	40,000	1,150	35%	141	$571,000
Group 3	40+ percent	1,350	40,000	1,400	43%	150	$203,000

DOR Costs

20. The department currently administers the elderly homeowner and renter credit program with 4.00 FTE covering nearly 17,000 participants. The calculation and verification of income under the definitions of the elderly homeowner and renter credit program require significant staff time to verify and frequently requires multiple interactions with taxpayers, especially first-time credit claimants.
21. The smaller relative value of the credits authorized by SB 225 as compared to the elderly homeowner and renter credit necessitates less compliance efforts despite the higher level of estimated participants (more than twice as many) means the department assumes that an additional 4.00 FTE will be needed to administer this new credit.

Fiscal Analysis Table

Department of Revenue				
	FY 2026 Difference	**FY 2027 Difference**	**FY 2028 Difference**	**FY 2029 Difference**
Fiscal Impact				
FTE	4.00	4.00	4.00	4.00
TOTAL Fiscal Impact	**4.00**	**4.00**	**4.00**	**4.00**
Expenditures				
Personal Services	$291,883	$295,501	$299,173	$302,900
Operating Expenses	$36,612	$37,812	$38,516	$39,240
Equipment	$11,832	$0	$0	$0
TOTAL Expenditures	**$340,327**	**$333,313**	**$337,689**	**$342,140**
Funding of Expenditures				
General Fund (01)	$340,327	$333,313	$337,689	$342,140
TOTAL Funding of Expenditures	**$340,327**	**$333,313**	**$337,689**	**$342,140**
Revenues				
General Fund (01)	($13,073,000)	($13,073,000)	($13,073,000)	($13,073,000)
TOTAL Revenues	**($13,073,000)**	**($13,073,000)**	**($13,073,000)**	**($13,073,000)**
Net Impact to Fund Balance (Revenue minus Funding of Expenditures)				
General Fund (01)	($13,413,327)	($13,406,313)	($13,410,689)	($13,415,140)

SW
Sponsor's Initials

2-4-25
Date

RO
Budget Director's Initials

2/4/2025
Date