Fiscal Note 2027 Biennium

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Bill#/Title:	**HB0154: Establish a housing fairness tax credit**		
Primary Sponsor:	Jonathan Karlen	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)	$0	$1,086,143	$1,067,338	$755,146
State Special Revenue (02)	$0	$0	$0	$0
SEPTR	$0	$11,000	$12,000	$12,000
Revenues				
General Fund (01)	$0	($94,076,000)	($98,636,000)	($98,636,000)
State Special Revenue (02)	$0	$0	$0	$0
SEPTR	$0	$11,000	$12,000	$12,000
Net Impact	$0	($95,162,143)	($99,703,338)	($99,391,146)
General Fund Balance				

Description of fiscal impact
Department of Revenue
HB 154 creates a new income tax credit called the Housing Fairness tax credit. The credit is equal to 75% of property taxes paid, or rent equivalent taxes paid, minus a calculated value based on household income. The credit is limited to households with incomes less than $150,000. Taxpayers may claim either the Housing Fairness tax credit or the Elderly Homeowner and Renter credit. HB 154 also removes the ability of properties enrolled in the Intangible Land Value Assistance Program to also participate in either the Montana Disabled Veterans program or the Property Tax Assistance Program. Total estimated program cost is about $94 million in FY 2027 with about 86,400 households qualifying for a credit.

FISCAL ANALYSIS

Assumptions
Department of Revenue
1. HB 154 would create a new tax credit for property taxes paid or renter equivalent property taxes paid, for qualifying taxpayers. The value of the credit is limited subject to minimum tenure requirements. Graduated household income thresholds phase-out the amount of credit a taxpayer is eligible for as household income rises.
2. The credit is equal to 75% of property taxes paid or rent equivalent taxes paid, minus an adjustment factor based on household income. The subtraction is determined by applying a graduated set of income thresholds based on household income. The first $20,000 generates a 1% income offset; $20,001 to $40,000 a 2.5% of income offset; $40,001 to $60,000 a 3.5% of income offset; on $60,001 to $80,000 a 5.5% of

income offset; on $80,001 to $100,000 a 7.5% if income offset ; and on household income above $100,000, 9.5%. This effectively zeros out the credit for otherwise qualifying households with incomes over $150,000.

3. incurred for system changes. An ongoing 1.00 FTE would be required for the maintenance of commercial and industrial property aggregation

DOR Administrative Expense

4. The expected number of applications and complexity of calculation will require a new unit within the income tax division with a manager, leads, and auditors. The department will require 12.00 FTE to staff this unit, beginning FY 2027.
5. As compliance efforts are refined and taxpayer familiarity increases, the personnel needed will decrease to 8.00 FTE beginning in FY 2029.

Impact of the Intangible Land Value Tax Assistance Program Change.

6. HB 154 also limits participation in the Property Tax Assistance Program or Montana Disabled Veterans tax assistance programs if the property is enrolled in the Intangible Land Value tax assistance program.
7. In TY 2024 there were 231 properties granted the Intangible Land Value exemption. Of these properties, 50 also were granted the Property Tax Assistance Program exemption, and 0 were granted the Montana Disabled Veterans exemption.
8. Of the 50 properties with both exemptions, 34 are better off under the Intangible Land Value program, and 16 are better off under the Property Tax Assistance Program.
9. After eliminating the option that yields lower benefit to the taxpayer, total taxable value would be about $88,000 higher under HB 154 than current law. This implies increased school equalization revenue of about $8,000 and increased university system mill collections of $500.
10. These taxable value changes and associated state mill revenue are increased by the residential reappraisal estimates contained in HJ 2.
11. Total SEPTR increased collections are expected to be $11,000 in FY 2027, $12,000 in FY 2028, and $12,000 in FY 2029. Increased university system revenues are estimated at $1,000 for all fiscal years.

Housing Fairness Credits – Impact of Elderly Homeowner and Renter Credit Provisons

12. Taxpayers who take the Housing Fairness credit may not also take the Elderly Homeowner and Renter credit. Total Elderly Homeowner and Renter Credit amounts in TY 2023 were $7.596 million for homeowners and $2.443 million for renters or $10.039 million total. This is a reduction in tax credits since they are no longer claimed.
13. About 2,800 homeowners and 1,500 renters receive a larger tax credit through the Elderly Homeowner and Renter Credit than the Housing Fairness credit. The sum of their Elderly Homeowner and Renter credits is $2.918 million. This is added back into the fiscal impact total.
14. Based on TY 2024 values, the total number of Housing Fairness credit claimants is estimated to be 86,400 and total credits are estimated at $87.751 million.
15. Credits are grown by one third the rate of expected appreciation in class 4 residential property contained in HJ 2. This is a rough approximation in the growth in taxes paid by residential property with the credit extending to potentially 75% of the increase in taxes.
16. HB 154 applies to TY 2026, meaning the first fiscal effect is in FY 2027. Expected total credits are $94.077 million in FY 2027, $98.637 million in FY 2028, and $98.637 million in FY 2029.

Housing Fairness Credits – Impact of Renters on Credit Claims

17. There is no information source on incomes or rental costs except for the Elderly Homeowner and Renter credit, which is available to taxpayers 62 years or older.
18. HB 154 credits were simulated for the population that claimed the Elderly Homeowner and Renter credit in 2023. Total credits for the 3,893 elderly renters were estimated at $3.853 million, for an average credit amount of $990.

19. The American Community Survey administered by the U.S. Census Bureau publishes estimates of renter households by age. In 2023 approximately 20.77% of Montana renters are 62 years or older in age.
20. It is assumed that non-elderly renters have similar income and rental agreements to the sample of elderly credit claimants. Dividing the estimates of the HB 154 credit by 0.2077 yields a total credit estimate for the renter population of $18.549 million with 18,700 claimants.
21. This puts the total number of potential credit claimants at 90,700 for a total credit amount of $94.9 million.

Housing Fairness Income Tax Credits - Homeowner Estimates.

22. Properties that applied for and received property tax rebates in CY 2024 were matched to TY 2023 income tax returns to estimate homeowner Housing Fairness credits. If a match could not be found for 2023, 2022 income tax returns were used.
23. There were 225,735 properties that successfully matched to a rebate claimant geocode.
24. Taxes for TY 2024 were simulated by multiplying mill values by taxable value of each property with an adjustment of $200 to account for taxes that are not mill-based.
25. This process resulted in an estimated 65,700 properties that would qualify for a credit and claims worth $70.292 million. This is an average credit of $1,070.
26. Properties not qualifying for the credit either have too much income, since the credit is only available to households with income under $150,000, or too much income relative to their property tax burden.
27. 12,991 of the matched properties did not file an income tax return in 2023 or 2022, it is assumed that this is due to them having no income tax liability.
28. The income definition for the Housing Fairness credit includes income that is either deductible from taxable income, like business or capital losses, or income that is non-taxable, such as Roth IRA distributions. It is possible for non-filers to have significant income in these categories. Without knowledge about the income fort these sources for non-filer properties, a credit cannot be estimated normally.
29. It is assumed that half of these properties occupied by non-filers would file an income tax return claiming the Housing Fairness credit, for 90% of the average credit of homeowners who filed an income tax return.
30. This adds an additional 6,300 properties with a total credit amount of $6.031 million.

Fiscal Analysis Table

Department of Revenue	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
Fiscal Impact				
FTE	0.00	12.00	12.00	8.00
TOTAL Fiscal Impact	**0.00**	**12.00**	**12.00**	**8.00**
Expenditures				
Personal Services	$0	$950,811	$962,790	$687,666
Operating Expenses	$0	$109,836	$115,548	$78,480
Equipment	$0	$35,496	$0	$0
Transfers	$0	$0	$0	$0
University 6 mill	$0	$1,000	$1,000	$1,000
TOTAL Expenditures	**$0**	**$1,097,143**	**$1,079,338**	**$767,146**
Funding of Expenditures				
General Fund (01)	$0	$1,086,143	$1,067,338	$755,146
State Special Revenue (02)	$0	$0	$0	$0
SEPTR	$0	$11,000	$12,000	$12,000
TOTAL Funding of Expenditures	**$0**	**$1,097,143**	**$1,079,338**	**$767,146**

Revenues				
General Fund (01)	$0	($94,076,000)	($98,636,000)	($98,636,000)
State Special Revenue (02)	$0	$0	$0	$0
SEPTR	$0	$11,000	$12,000	$12,000
TOTAL Revenues	**$0**	**($94,065,000)**	**($98,624,000)**	**($98,624,000)**
Net Impact to Fund Balance (Revenue minus Funding of Expenditures)				
General Fund (01)	$0	($95,162,143)	($99,703,338)	($99,391,146)
State Special Revenue (02)	$0	$0	$0	$0
SEPTR	$0	$0	$0	$0

Effect on County or Other Local Revenues or Expenditures

Department of Revenue

1. The increased taxable value of approximately $88,000 from the changes to the Intangible Land Value program has minor tax shifting implications for local jurisdictions. Total taxable value will be 0.002% higher under HB 154 and mills will be lower be a proportionate amount.

MACO

1. Treasurers are required to add this program to an existing notice. No additional fiscal impact is anticipated.

Technical Concerns

Department of Revenue

1. The residency (tenure) requirements in New Section 2 (1)(b) and New Section 2 (2) are in conflict.

NOT SIGNED BY SPONSOR

Sponsor's Initials Date

Budget Director's Initials

1/20/2025

Date