



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2027 Biennium

Bill#/Title: **HB0895.01: Provide exclusion from income for certain income from sale of a newly constructed residence**

Primary Sponsor: Lukas Schubert 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</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>
<b>Expenditures</b>				
General Fund (01)	\$0	\$93,564	\$92,114	\$93,342
<b>Revenues</b>				
General Fund (01)	\$0	(\$515,000)	(\$537,000)	(\$559,000)
<b>Net Impact</b>	<u>\$0</u>	<u>(\$608,564)</u>	<u>(\$629,114)</u>	<u>(\$652,342)</u>
<b>General Fund Balance</b>				

### Description of fiscal impact

HB 895 creates an income exemption for sale of a newly constructed single-family residence or duplex constructed and sold by the taxpayer if the sale price is less than 85% of the county median residential property value. The exemption will reduce general fund revenue by \$515,000 in FY 2027, \$537,000 in FY 2028 and \$559,000 in FY 2029. The exemption will increase department expenditures by \$93,564 in FY 2027, \$92,114 in FY 2028 and \$93,342 in FY 2029.

### FISCAL ANALYSIS

#### Assumptions

1. HB 895 creates an income exemption for the state's personal income tax and corporate income tax. The exemption is available for the sale of a newly constructed single-family residence or duplex constructed and sold by the taxpayer to a third party. To qualify for the exemption, the sale price of the property must be less than 85% of the county median residential property value, as determined by the Department of Revenue. The exemption is equal to 50% of the gross income generated by the sale of the property(see technical notes).
2. The exemption created by the bill is available in tax years beginning after December 31, 2025.
3. Based on Department of Revenue property tax records, there were 120 residential property tax sales that would have qualified for this exemption in calendar year (CY) 2022. The total value of the property sales was \$13,952,000. For CY 2023 and 2024, the total number of qualifying sales were 140 and 124, respectively. The value of the sales in CY 2023 were \$17,480,000. For CY 2024, the combined value of the qualifying sales was \$15,589,000.
4. From 2015 through 2024, the average annual increase in the Consumer Price Index for shelter was 4.12%.
5. It is assumed that the value of qualified sales will increase by 4.12% each year.

6. With \$15,589,000 in sales for CY 2024, and an assumed growth rate of 4.12% each year, total qualified sales will increase to \$16,231,000 in CY 2025, \$16,900,000 in CY 2026, \$17,596,000 in CY 2027, and \$18,321,000 in CY 2028.
7. The exemption created by HB 895 is 50% of gross income. With \$16,900,000 in gross income in CY 2026, it is assumed that taxpayers will be able to exempt \$8,450,000 ( $\$16,900,000 \times 50\%$ ) in income. For CY 2027 and 2028, the total amount of income exempted is assumed to be \$8,798,000 and \$9,160,500, respectively.
8. The exemption is available for the state's personal income tax and the state's corporate income tax.
9. The top marginal tax rate for Montana's personal income tax is 5.9%, while the state's corporate income tax rate is 6.75%.
10. It is assumed that the average tax rate the exempted income would have been taxed at is 6.1% (75% at 5.9% and 25% at 6.75%).
11. With \$8,450,000 in exempt income, and an assumed tax rate of 6.1%, the proposed income exemption will reduce income tax revenue by \$515,000 ( $\$8,450,000 \times 0.061$ ) in CY 2026. The tax revenue reduction for CY 2027 is expected to be \$537,000. For CY 2028, the income exemption is expected to reduce income tax revenue by \$559,000.
12. It is assumed that the CY sales will reduce general fund collections the following fiscal year (FY), when taxpayers file their tax returns.
13. HB 895 is expected to reduce general fund revenue by \$515,000 in FY 2027, \$537,000 in FY 2028 and \$559,000 in FY 2029.
14. The department will require an additional 1.00 FTE to administer this exemption. The additional Tax Examiner will be required to review this exemption and the supporting documentation. The cost of this FTE is \$93,564 in FY 2027, \$92,114 in FY 2028 and \$93,342 in FY 2029.

## Fiscal Analysis Table

	<u>FY 2026 Difference</u>	<u>FY 2027 Difference</u>	<u>FY 2028 Difference</u>	<u>FY 2029 Difference</u>
<b><u>Fiscal Impact</u></b>				
FTE	0.00	1.00	1.00	1.00
<b>TOTAL Fiscal Impact</b>	<b>0.00</b>	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>
<b><u>Expenditures</u></b>				
Personal Services	\$0	\$81,453	\$82,485	\$83,532
Operating Expenses	\$0	\$9,153	\$9,629	\$9,810
Equipment	\$0	\$2,958	\$0	\$0
<b>TOTAL Expenditures</b>	<b>\$0</b>	<b>\$93,564</b>	<b>\$92,114</b>	<b>\$93,342</b>
<b><u>Funding of Expenditures</u></b>				
General Fund (01)	\$0	\$93,564	\$92,114	\$93,342
<b>TOTAL Funding of Expenditures</b>	<b>\$0</b>	<b>\$93,564</b>	<b>\$92,114</b>	<b>\$93,342</b>
<b><u>Revenues</u></b>				
General Fund (01)	\$0	(\$515,000)	(\$537,000)	(\$559,000)
<b>TOTAL Revenues</b>	<b>\$0</b>	<b>(\$515,000)</b>	<b>(\$537,000)</b>	<b>(\$559,000)</b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u></b>				
General Fund (01)	\$0	(\$608,564)	(\$629,114)	(\$652,342)

**Technical Concerns**

1. It is unclear if the exemption for personal income tax is for the gross or net income earned from the sale of the qualified property. The corporate income tax section sets the exemption under the calculation of net income, so this fiscal note assumes that the exemption is based on gross income from the sale of the qualified property. The department will either need to make rules defining what income qualifies, or the bill should be amended to clarify what income qualifies for the exemption.

**NOT SIGNED BY SPONSOR**\_\_\_\_\_  
Sponsor's Initials\_\_\_\_\_  
Date\_\_\_\_\_  
Budget Director's Initials

4/1/2025

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Date