



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: SB0157: Provide income tax deduction up to 150% for charitable donations

Primary Sponsor: Daniel Emrich

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>
Expenditures				
General Fund (01)	\$0	\$93,564	\$92,114	\$93,342
Revenues				
General Fund (01)	(\$4,631,000)	(\$36,497,000)	(\$37,162,000)	(\$37,290,000)
Net Impact	<u>(\$4,631,000)</u>	<u>(\$36,590,564)</u>	<u>(\$37,254,114)</u>	<u>(\$37,383,342)</u>
General Fund Balance				

Description of fiscal impact

SB 157 creates a personal income tax deduction for taxpayers who make qualified charitable contributions during the tax year. The proposed deduction will reduce general fund revenue by \$4.361 million in FY 2026, which increases to \$37.29 million in FY 2029. SB 157 will increase general fund expenditures by \$93,564 in FY 2027, \$92,114 in FY 2028 and \$93,342 in FY 2029.

FISCAL ANALYSIS

Assumptions

Department of Revenue

1. Under current law, taxpayers are able to deduct qualified charitable contributions from their taxable income when determining their federal and Montana income tax if they itemize their deductions. The amount a taxpayer can deduct is typically limited to no more than 60% of their Federal Adjusted Gross Income (AGI). However, depending on the type of property given or who is receiving the contribution, the deduction can be limited to less than 60% of Federal AGI.
2. Starting tax year (TY) 2024, Montana's personal income tax is based on Federal Taxable Income (TI), which includes any charitable itemized deductions claimed by the taxpayer when estimating their Federal TI.
3. SB 157 creates an income deduction when determining Montana TI from Federal TI. If the taxpayer itemized their deductions when determining their federal income tax liability, the new deduction is 50% of the amount deducted by the taxpayer on their federal schedule A. If the taxpayer did not itemize their deductions on their federal income tax return, then the new deduction is 150% of the charitable contributions the taxpayer could have claimed on the federal schedule A if they had itemized their deductions.
4. Trusts and estates would also be able to claim the additional deduction when determining their tax liability.
5. The proposed deduction applies starting TY 2026.

6. For TY 2022, approximately 830 estate and trust returns reported a charitable contribution deduction. In total these taxpayers reported more than \$300 million in charitable deductions.
7. Based on TY 2023 Montana income tax returns, approximately 133,750 households itemized their deductions and deducted at least some charitable contributions. In total, these taxpayers deducted more than \$750 million in charitable contributions from their Montana taxable income.
8. The Department of Revenue does not have information on the charitable contributions of the approximately 290,000 households who claimed the standard deduction in TY 2023. In TY 2020, however, there was an above the line deduction that taxpayers who claimed the standard deduction could use to deduct up to \$300 in charitable contributions. In total, nearly 40,500 households claimed the standard deduction and deducted charitable contributions. The average deduction amount for all taxpayers claiming the standard deduction was nearly \$34. As this deduction was capped at \$300, it is assumed that these taxpayers would have claimed an average of \$50 in charitable contributions without the cap.
9. It is assumed that \$50 in charitable contributions would have been claimed, on average, for tax returns without any charitable contribution information in TY 2023.
10. Based on the charitable contributions reported on TY 2022 and TY 2023 returns, the assumed deduction amount in the previous assumption, and the department's income tax model, creating a new charitable contribution deduction in TY 2026 is expected to reduce the tax liability of full-year resident taxpayers and estates and trusts by \$29.1 million in TY 2026, 2027, 2028 and 2029.
11. As the proposed deduction could have significant impacts on the tax liability of some taxpayers, it is assumed that taxpayers will change their withholdings and estimated payments as a result of the proposed bill.
12. It is assumed that withholding and estimated payments will change based on the assumptions used in the HJ 2 revenue forecast. The HJ 2 forecast assumes 80% of TY 2026 tax liability and 20% of TY 2027 tax liability payments will occur in FY 2027. This distribution applies to all fiscal years.
13. The change in the estimated tax liability of full-year resident taxpayers from the department's income tax model were adjusted to account for the changes in withholding, estimated payments, missing filers, nonresident taxpayers, income tax credits and audit collections.
14. Based on the adjustments used for HJ 2, the proposed bill would reduce income tax revenue by \$4.631 million in FY 2026, which increases to \$36.497 million in FY 2027, \$37.162 million in FY 2028, and \$37.29 million in FY 2029.
15. A large number of taxpayers are expected to claim this deduction. Because of this, the department requires 1.0 additional FTE to review the new deduction for eligibility and compliance. The required FTE will increase department expenditures by \$93,564 in FY 2027, \$92,114 in FY 2028 and \$93,342 in FY 2029.

Fiscal Analysis Table


Department of Revenue				
	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
<u>Fiscal Impact</u>				
FTE	0.00	1.00	1.00	1.00
TOTAL Fiscal Impact	0.00	1.00	1.00	1.00
<u>Expenditures</u>				
Personal Services	\$0	\$81,453	\$82,485	\$83,532
Operating Expenses	\$0	\$9,153	\$9,629	\$9,810
Equipment	\$0	\$2,958	\$0	\$0
TOTAL Expenditures	\$0	\$93,564	\$92,114	\$93,342
<u>Funding of Expenditures</u>				
General Fund (01)	\$0	\$93,564	\$92,114	\$93,342

Fiscal Note Request - As Introduced

(continued)

TOTAL Funding of Expenditures	<u><u>\$0</u></u>	<u><u>\$93,564</u></u>	<u><u>\$92,114</u></u>	<u><u>\$93,342</u></u>
Revenues				
General Fund (01)	<u>(\$4,631,000)</u>	<u>(\$36,497,000)</u>	<u>(\$37,162,000)</u>	<u>(\$37,290,000)</u>
TOTAL Revenues	<u><u>(\$4,631,000)</u></u>	<u><u>(\$36,497,000)</u></u>	<u><u>(\$37,162,000)</u></u>	<u><u>(\$37,290,000)</u></u>
Net Impact to Fund Balance (Revenue minus Funding of Expenditures)				
General Fund (01)	<u><u>(\$4,631,000)</u></u>	<u><u>(\$36,590,564)</u></u>	<u><u>(\$37,254,114)</u></u>	<u><u>(\$37,383,342)</u></u>

NO SPONSOR SIGNATURE

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Sponsor's Initials	Date	Budget Director's Initials	Date