



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: SB0203: Revise income tax brackets to lower income taxes

Primary Sponsor: Mike Yakawich

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 2025</u> <u>Difference</u>	<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	\$0	\$0	\$0	\$0
Revenues					
General Fund (01)	(\$28,318,000)	(\$218,066,000)	(\$221,861,000)	(\$235,618,000)	(\$246,999,000)
Net Impact	<u>(\$28,318,000)</u>	<u>(\$218,066,000)</u>	<u>(\$221,861,000)</u>	<u>(\$235,618,000)</u>	<u>(\$246,999,000)</u>
General Fund Balance					

Description of fiscal impact

SB 203 increases the width of income brackets that apply to Montana's personal income tax rates. For TY 2025, the income bracket for the state's top tax rate (5.9%) starting point is increased from \$21,100 to \$100,000 for taxpayers filing as single taxpayers, twice that for married filing jointly taxpayers and 1.5 times that for head of household filers. The proposed changes will reduce general fund revenue by \$28.318 million in FY 2025, as taxpayers adjust their withholding and estimated payments. As the first full fiscal year of the income tax law change takes effect, the cost rises to \$218 million in FY 2026 which gradually increases to \$247 million by FY 2029.

FISCAL ANALYSIS

Assumptions

Department of Revenue

- Under current law, Montana's personal income tax applies two tax rates to taxable non-net long-term capital gains income. These tax rates are 4.7% and 5.9%. The taxable income bracket for the 5.9% rate is current set at \$21,100 for single and married filing separate filers, \$42,200 for joint filers and \$31,700 for head of household filers in tax year (TY) 2025. Montana's personal income tax also applies two tax rates to taxable net long-term capital gains income, with rates of 3.0% and 4.1%. For TY 2025, the taxable income brackets for the 4.1% tax rate are also \$21,000 for single filers, \$42,200 for joint filers and \$31,700 head of household filers in TY 2025.
- SB 203 increases the income thresholds before taxable income is taxed at the higher marginal rates of either 5.9% or 4.1%. The changes apply retroactively to TY 2025. Under the proposed bill taxable ordinary taxable income below \$100,000 for single filers in TY 2025 is taxed at 4.7%, while income above \$100,000 is taxed at 5.9%. For head of household and joint filers, the income threshold is \$150,000 and \$200,000,

- respectively. The same income thresholds also apply to the taxable portion of net long-term capital gains income and the 4.1% marginal tax rate.
3. The income brackets created by SB 203 are also to be increased each TY, starting TY 2026, with a modified inflation factor. This inflation factor is the June CPI of the previous tax year divided by the June CPI of TY 2024.
 4. The Department of Revenue's income tax model, with HJ 2 revenue assumptions, was modified to include the changes made by the proposed bill. The estimated income tax liability amounts for each tax year under the proposed bill were then compared to current law income tax liability forecasts.
 5. Based on the department's income tax model, increasing the income brackets for the top marginal tax rates in TY 2025 would reduce the income tax liability of full-year resident taxpayers by \$171.1 million before credits. For tax years 2026, 2027, 2028 and 2029, the tax liability of residents would decrease by \$176.2 million, \$183.3 million, \$191.9 million, and \$200.3 million, respectively.
 6. As the proposed bill makes significant changes to the TY 2025 tax structure, it is assumed that the department will provide updated withholding and estimated payment tables and guidelines. Because of this, it is assumed that the withholding and estimated payment amounts of Montana taxpayers will change as a result of the proposed bill, starting TY 2025.
 7. The estimates used in HJ 2 assume that 80% of TY 2025 liability changes and 20% of TY 2026 tax liability change will occur in FY 2026. This distribution continues for all fiscal years.
 8. It is assumed that the tax liability distribution changes made as a result of this bill will follow the pattern used in HJ 2 revenue forecasts.
 9. The tax liability estimated above are adjusted using HJ 2 revenue assumptions to account for non-filers, nonresidents, population growth and audit collections.
 10. Based on the HJ 2 adjustments SB 203 will reduce income tax revenue by \$28.318 million in FY 2025, \$218.066 million in FY 2026. The revenue reduction will continue in future fiscal years, reaching \$221.861 million in FY 2027, \$235.618 million in FY 2028, and \$247 million in FY 2029.

Fiscal Analysis Table

Department of Revenue					
	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>
	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
<u>Fiscal Impact</u>					
<u>Expenditures</u>					
<u>Funding of Expenditures</u>					
<u>Revenues</u>					
General Fund (01)	(\$28,318,000)	(\$218,066,000)	(\$221,861,000)	(\$235,618,000)	(\$246,999,000)
TOTAL Revenues	<u>(\$28,318,000)</u>	<u>(\$218,066,000)</u>	<u>(\$221,861,000)</u>	<u>(\$235,618,000)</u>	<u>(\$246,999,000)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u>					
General Fund (01)	<u>(\$28,318,000)</u>	<u>(\$218,066,000)</u>	<u>(\$221,861,000)</u>	<u>(\$235,618,000)</u>	<u>(\$246,999,000)</u>

Technical Concerns

Department of Revenue

1. Based on the retroactive applicability date, the department would have a short time to communicate the updated brackets to taxpayers and software venders. This could result in some taxpayers over-withholding and other tax processing issues.
2. Several withholding tax types have their withholding rates either stipulated as a set rate in the MCA or tied to the top marginal tax rate. Significantly increasing the income tax brackets without also changing the withholding rates for these tax types will likely result in some taxpayers over-withholding.

Mike Jakawich 1-30-25
Sponsor's Initials Date

 1/30/2025
Budget Director's Initials Date