



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: HB0132: Exempt a portion of interest earnings from individual income tax

Primary Sponsor: Terry Falk 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	\$0	\$0	\$0
Revenues				
General Fund (01)	\$0	(\$14,200,000)	(\$14,801,000)	(\$15,352,000)
Net Impact	<u>\$0</u>	<u>(\$14,200,000)</u>	<u>(\$14,801,000)</u>	<u>(\$15,352,000)</u>
General Fund Balance				

Description of fiscal impact

HB 132 exempts a portion of taxable interest income from Montana's personal income tax starting TY 2026. The proposed exemption will reduce general fund revenue by \$14.28 million in FY 2027, which increases to \$15.352 million by FY 2029.

FISCAL ANALYSIS

Assumptions

Department of Revenue

- Under current law, interest income reported on IRS Form 1099 is generally considered taxable income at the federal level and by Montana's personal income tax.
- HB 132 exempts a portion of interest income reported on IRS Form 1099. Under the bill, the lesser of the taxpayer's taxable interest income or \$2,500 is exempted from Montana taxable income for single, head of household and married filing separate returns. For married taxpayers filing a joint return, the exemption is the lesser of the exempt interest income or \$5,000. The exemption is first available TY 2026.
- The exemption created by HB 132 is assumed to be only available to individual taxpayers. Trusts, estates, and pass-through entities paying taxes are assumed to not qualify for the exemption.
- Taxable interest income was reported on 241,625 full-year resident returns in TY 2023, with nearly \$856 million in taxable income reported.
- The Department of Revenue's income tax model was modified to incorporate the interest income exemption created by HB 132. The estimated income tax liability amounts under the proposed law were then compared to current law income tax liability forecasts.
- Based on the taxable interest income amounts reported in TY 2023 returns, the department's income tax model, and HJ 2 revenue assumptions, exempting a portion of taxable interest income from Montana's personal income tax in TY 2026 is expected to reduce the tax liability of full-year resident taxpayers by \$12 million. The tax liability reduction increases to \$13.15 million by TY 2029.

Figure 1			
Tax Liability Estimates Under Current Law and Proposed Law			
Tax Year	Tax Liability (In Millions)		
	Current Law	Proposed Law	Change in Revenue
2026	\$1,900.82	\$1,888.82	(\$12.01)
2027	\$1,947.47	\$1,935.08	(\$12.39)
2028	\$2,023.04	\$2,010.24	(\$12.79)
2029	\$2,099.80	\$2,086.65	(\$13.15)

7. As HB 132 makes relatively small changes to the taxable income of most taxpayers with taxable interest income, it is assumed that taxpayers will not change their withholding or estimated payments as a result of the proposed bill.
8. The change in the estimated tax liability of full-year resident taxpayers from the department’s income tax model were adjusted to account for missing returns, population growth, nonresident taxpayers and audit collections.
9. Based on the adjustments used for HJ 2, the proposed bill would reduce income tax revenue by \$14.28 million in FY 2027, which increases to \$15.352 million by FY 2029.

Figure 2	
Tax Revenue Change by Fiscal Year	
Fiscal Year	Change in Revenue (Millions of Dollars)
2026	\$0.000
2027	(\$14.280)
2028	(\$14.801)
2029	(\$15.352)

10. The bill’s proposed changes can be made as part of the department’s annual forms change process. The department does not expect to incur any significant additional costs because of this bill.

Fiscal Analysis Table

	<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>
<u>Fiscal Impact</u>				
<u>Expenditures</u>				
<u>Funding of Expenditures</u>				
<u>Revenues</u>				
General Fund (01)	\$0	(\$14,200,000)	(\$14,801,000)	(\$15,352,000)
TOTAL Revenues	\$0	(\$14,200,000)	(\$14,801,000)	(\$15,352,000)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u>				
General Fund (01)	\$0	(\$14,200,000)	(\$14,801,000)	(\$15,352,000)

Technical Concerns

Department of Revenue

1. The exemption created by HB 132 does not include an exemption amount for qualifying surviving spouse status. This fiscal note assumes the group would be covered under "individual." However, including this group in the exemption language would clarify the exemption amount this group would qualify for.

Sponsor's Initials

1/21/25

Date

Budget Director's Initials

1/17/2025

Date