



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: HB0220: Provide for a child tax credit

Primary Sponsor: Mary Caferro 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 Difference</u>	<u>FY 2027 Difference</u>	<u>FY 2028 Difference</u>	<u>FY 2029 Difference</u>
Expenditures				
General Fund (01)	\$0	\$0	\$0	\$0
Revenues				
General Fund (01)	\$0	(\$30,872,000)	(\$30,872,000)	(\$30,872,000)
Net Impact	<u>\$0</u>	<u>(\$30,872,000)</u>	<u>(\$30,872,000)</u>	<u>(\$30,872,000)</u>
General Fund Balance	<u>\$0</u>	<u>(\$30,872,000)</u>	<u>(\$30,872,000)</u>	<u>(\$30,872,000)</u>

Description of fiscal impact

Department of Revenue

HB 220 creates a refundable Montana individual income tax credit starting TY 2026. The credit would be \$1,200 for children under six years of age. The proposed credit will reduce general fund revenue by \$30.872 million each fiscal year, starting in FY 2027.

FISCAL ANALYSIS

Assumptions

Department of Revenue

1. Under section 24 of the Internal Revenue Code (26 U.S.C. 24), a taxpayer is allowed to claim a tax credit that is equal to \$2,000 for each qualifying child of the taxpayer against their federal personal income taxes in tax year (TY) 2023. To qualify, the child must be below the age of 17 at the end of the year. The credit amount is reduced based on the taxpayer's modified adjusted gross income, with a phase-out for income above \$400,000 for a joint return and \$200,000 for all other returns. A portion of the credit is currently refundable. The credit amount, phase-out amount and other portion of the credit are set to change starting TY 2026. The State of Montana does not have a similar child tax credit under current law.
2. HB 220 creates a state child income tax credit, which would be available starting TY 2026. To qualify for the credit, taxpayers must file a resident tax return, qualify for the federal child tax credit, and cannot have a Federal Adjusted Gross Income (AGI) in excess of \$56,000. The credit is fully refundable.
3. The tax credit is \$1,200 for each qualifying child below the age of six, with the credit decreasing by \$90 for each \$1,000 the taxpayer's AGI is above \$50,000. The credit is reduced to \$0 for taxpayers with an AGI in excess of \$56,000.
4. In TY 2023, 133,717 full-year and partial-year taxpayer households claimed at least one dependent on their Montana personal income tax return. These households claimed a total of 251,807 dependents.

Fiscal Note Request - As Introduced

(continued)

5. Of the 133,717 households that reported a dependent, 46,984 households met the qualifications for the credit. These households reported 84,223 dependents and qualified for \$98,007,150 in Montana child tax credits.
6. The Montana income tax return does not contain the age of dependents.
7. According to the Montana Census and Economic Information Center's Population Projections, children between the ages of zero and five will, on average, comprise 29.6% of the population between the ages of zero and 18 during TY 2026, 2027 and 2028.
8. The U.S Census Bureau's American Community Survey for 2023, children under the age of 5 are 6.5% more likely to live in a household below the poverty level.
9. Based on the Census and Economic Information Center's population data, and the U.S. Census Bureau's American Community Survey data, it is assumed that 31.5% (29.6% X 1.065) of the \$98,007,150 in potential child tax credits will be associated with dependents who meet the age requirement for the credit.
10. An estimated \$30.872 million (\$98,007,150 X 31.5%) in credits would be claimed, starting TY 2026.
11. As the credit is dependent on the income of the taxpayer and the age of the child, it is assumed that taxpayers will not change their withholding or estimated payments in advance.
12. With no changes to withholding, or estimated payments, the credit will reduce income tax revenue when taxpayers file their returns the following fiscal year.
13. With \$30.872 million in credits each tax year, and no changes to withholdings or estimated payments, the proposed credit will reduce general fund revenue by \$30.872 million every fiscal year starting FY 2027.
14. The changes made by HB 220 can be made as part of the DOR annual change process. The department does not expect to incur any significant additional costs because of this bill.

Fiscal Analysis Table

Department of Revenue				
	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
<u>Fiscal Impact</u>				
<u>Expenditures</u>				
<u>Funding of Expenditures</u>				
<u>Revenues</u>				
General Fund (01)	\$0	(\$30,872,000)	(\$30,872,000)	(\$30,872,000)
TOTAL Revenues	\$0	(\$30,872,000)	(\$30,872,000)	(\$30,872,000)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u>				
General Fund (01)	\$0	(\$30,872,000)	(\$30,872,000)	(\$30,872,000)

NOT SIGNED BY SPONSOR

Sponsor's Initials

Date

1/23/25

Budget Director's Initials

1/21/2025
Date