



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2027 Biennium

Bill#/Title: SB0173: Provide income tax relief for property taxes paid

Primary Sponsor: Dave Fern 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>
<b>Expenditures</b>				
General Fund (01)	\$836,563	\$821,840	\$648,535	\$657,189
<b>Revenues</b>				
General Fund (01)	(\$39,143,000)	(\$42,240,000)	(\$44,249,000)	(\$45,558,000)
<b>Net Impact</b>	<u>(\$39,979,563)</u>	<u>(\$43,061,840)</u>	<u>(\$44,897,535)</u>	<u>(\$46,215,189)</u>
<b>General Fund Balance</b>				

#### Description of fiscal impact

SB 173 creates a new refundable income tax credit available to renters under the age of 62 based on spending greater than 30% of income on rental costs. Qualifications, definitions, and credit phase-outs are subject to the provisions of the elderly homeowner and renter credit in 15-30-2340, MCA, without the age requirement. SB 173 also increases the maximum elderly homeowner and renter credit from \$1,150 to \$1,700 and indexes the phase-out credit multiplier brackets of the program to an inflationary factor. There are special provisions which allow qualifying teachers to exclude certain income when calculating the credit. An additional 38,000 renters are expected to qualify under the new credit.

### FISCAL ANALYSIS

#### Assumptions

#### Department of Revenue

##### Description of Programs

1. SB 173 creates a refundable income tax credit named the Workforce Renter's tax credit that mirrors many aspects of the elderly homeowner and renter credit, except that this new credit is applicable to renters under the age of 62.
2. Renters may claim the Workforce Renter's credit if their household income is less than \$45,000 and they pay more than 30% of their household income in rent.
3. The calculation methods of the elderly homeowner and renter credit apply to this new credit, but the credit maximum for the new SB 173 credit is \$1200 for households paying 40% or less of household income as rent and \$1750 for households paying more than 40% of income as rent.
4. The maximum credit for the elderly homeowner and renter program is increased from \$1,150 to \$1,700.
5. The credit multiplier table for the two programs that provides a phase-out of credit amount for household incomes above \$35,000 will be indexed to inflation based on inflation as compared to June 2023.

*Elderly Homeowner and Renter Credit Changes*

6. Based on Tax Year (TY) 2023 returns, the elderly homeowner and renter credit cap of \$1,150 resulted in a total credit amount of \$10.038 million. Increasing the cap to \$1,700 increases total credits to \$12.416 million.
7. This implies an increase in total credits of \$2.378 million.

*Workforce Renter's Credit*

8. The *American Community Survey* administered by the U.S. Census provides estimates on percentage of income spent on rental cost by income level. These groupings are split into households earning less than \$20,000; households earning between \$20,000 and \$35,000; and households earning between \$35,000 and \$50,000.
9. These census estimates also include elderly renters that already qualify for the elderly homeowner and renter credit. It is assumed the elderly have approximately equal income and rental costs as non-elderly. Approximately 20.77% of renters are 62 or older, so all categories of incomes are reduced by 20.77% to exclude those already qualifying for a renter credit.
10. The table below details assumptions about these groups of potentially eligible claimants that forms the basis of the credit calculation.

Census Group	Census Estimated Renters Qualifying	Qualifying after Elderly Reduction	Assumed Income	Assumed Rent
Less than \$20,000	21,813	17,282	\$15,000	\$10,000
\$20,000 - \$35,000	16,268	12,889	\$30,000	\$11,000
\$35,000 to \$50,000	10,147	8,039	\$40,000	\$12,000

11. The credit per household is estimated at \$1,486 for households earning less than \$20,000 per year, \$780 for households earning between \$20,000 and \$35,000 per year, and \$129 for households earning between \$35,000 and \$50,000 per year.
12. The estimated sum of tax credits for the Workforce Renter's credit is \$36.765 million with approximately 38,000 claimants.

*Inflationary Factor Effects*

13. Credit phase-out brackets must be updated for inflation beginning Tax Year 2026. Using HJ 2 estimates for Consumer Price Index changes, the inflationary factors are expected to be approximately 4.9% in TY 2026, 8.1% in TY 2027, and 10.4% in TY 2028.
14. Currently, 66% of elderly homeowner and renter credit claimants are in the 100% bracket, and this bracket is responsible for 90% of total credit amounts.
15. The inflation factors will increase the number of participants in the 100% bracket over time and increase the maximum household income allowed for credit qualification.
16. The transition of households from the phase-out brackets to 100% credit eligibility produces a much sharper increase in credit amounts than transitions between the phase-out brackets and newly eligible properties at the 10% credit allowance.
17. Simulated TY 2023 elderly homeowner and renter credit amounts under the new inflationary brackets yield growth in TY 2026 of 6.3%, in TY 2027 of 10.4%, and in TY 2028 13.0%. It is assumed that both the elderly homeowner credit and the new Workforce Rental credit will grow by these rates.
18. The combined Workforce Renter's credit and elderly homeowner and renter total credit amounts are estimated at \$49.181 million in TY 2025, \$52.278 million in TY 2026, \$54.287 million in TY 2027, and \$55.596 million in TY 2028.
19. Current HJ 2 elderly homeowner and renter credits are estimated at \$10.038 million in all years. The difference between the estimates in assumption 18 and \$10.038 million form the revenue differences in the fiscal summary table.

DOR Estimated Costs

- 20. The DOR currently administers the elderly homeowner and renter credit program with 4.0 FTE covering just under 17,000 claimants.
- 21. The calculation and verification of income under the definitions of the elderly homeowner and renter credit program require significant staff time to verify and frequently requires multiple interactions with taxpayers, especially first-time credit claimants.
- 22. It will require an additional 9.00 FTE to administer the approximately 38,000 expected applicants for the new credit. This includes a manager, leads, and auditors.
- 23. Beginning FY 2028 the department will reduce to the 9.00 FTE to additional to 7.00 FTE to operate the program once filing status is normalized and history of credits is established.

**Office of Public Instruction**

- 24. SB 169 provides for an income exclusion for "Qualifying teacher[s]" employed during the tax year for which the workforce renter's credit is claimed by an elementary or secondary school accredited by the board of public education.

**Fiscal Analysis Table**

Department of Revenue	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
<b><u>Fiscal Impact</u></b>				
FTE	9.00	9.00	7.00	7.00
<b>TOTAL Fiscal Impact</b>	<b>9.00</b>	<b>9.00</b>	<b>7.00</b>	<b>7.00</b>
<b><u>Expenditures</u></b>				
Personal Services	\$727,564	\$736,763	\$581,132	\$588,519
Operating Expenses	\$82,377	\$85,077	\$67,403	\$68,670
Equipment	\$26,622	\$0	\$0	\$0
<b>TOTAL Expenditures</b>	<b>\$836,563</b>	<b>\$821,840</b>	<b>\$648,535</b>	<b>\$657,189</b>
<b><u>Funding of Expenditures</u></b>				
General Fund (01)	\$836,563	\$821,840	\$648,535	\$657,189
<b>TOTAL Funding of Expenditures</b>	<b>\$836,563</b>	<b>\$821,840</b>	<b>\$648,535</b>	<b>\$657,189</b>
<b><u>Revenues</u></b>				
General Fund (01)	(\$39,143,000)	(\$42,240,000)	(\$44,249,000)	(\$45,558,000)
<b>TOTAL Revenues</b>	<b>(\$39,143,000)</b>	<b>(\$42,240,000)</b>	<b>(\$44,249,000)</b>	<b>(\$45,558,000)</b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u></b>				
General Fund (01)	(\$39,979,563)	(\$43,061,840)	(\$44,897,535)	(\$46,215,189)

**Technical Concerns**

Department of Revenue

1. The retroactive applicability places constraints on normal Department of Revenue form development timeframe and information outreach to the public.

NO SPONSOR SIGNATURE

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Sponsor's Initials

\_\_\_\_\_  
Date

1/29/25

\_\_\_\_\_  
Budget Director's Initials

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Date

