



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2027 Biennium

Bill#/Title: **SB0321.01: Provide tax credits for children and child care**

Primary Sponsor: Josh Kassmier

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>
<b>Expenditures</b>				
General Fund (01)	\$0	\$296,088	\$291,966	\$295,886
<b>Revenues</b>				
General Fund (01)	\$0	(\$64,376,000)	(\$66,167,000)	(\$67,860,000)
<b>Net Impact</b>	<u>\$0</u>	<u>(\$64,672,088)</u>	<u>(\$66,458,966)</u>	<u>(\$68,155,886)</u>
<b>General Fund Balance</b>				

### Description of fiscal impact

SB 321 creates three new income tax credits: a child tax credit, a child-care worker credit and an employer dependent care expense credit. All three credits combined will reduce general fund revenue by \$64.376 million in FY 2027, \$66.167 million in FY 2028 and \$67.860 million in FY 2029. The bill will also increase expenditures by \$296,088 in FY 2027, \$291,966 in FY 2028 and \$295,886 in FY 2029.

### FISCAL ANALYSIS

#### Assumptions

#### Department of Revenue

1. SB 321 creates three new refundable income tax credits. The first is a refundable child tax credit, available to taxpayers with a qualifying child and who meet certain income requirements. The second is a refundable tax credit for resident child-care workers. The third refundable credit is available to businesses in the state that provide business-supported dependent care assistance to their employees. Each of these three credits is available starting tax year (TY) 2026.

#### Child Tax Credit

2. 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.
3. SB 321 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, have proof of earned income, and have less than \$10,300 in investment income. The credit is fully refundable.

4. The tax credit is \$1,200 for each qualifying child below the age of six, with the credit decreasing by \$50 for each \$1,000 the taxpayer's AGI is above \$80,000 for joint returns and \$40,000 for single or head of household returns. There is no phase-out stipulated for married filing separately or qualifying surviving spouse returns. For these returns, it is assumed the credit remains at \$1,200 regardless of income.
5. The credit amount and the income threshold amounts are adjusted each year based on an inflation factor based on the federal Consumer Price Index (CPI).
6. 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.
7. Of the 133,717 households that reported a dependent, 70,107 households met the income and federal tax credit qualifications for the credit. These households reported 131,260 dependents and qualified for \$134,665,600 in child tax credits.
8. The Montana income tax return does not contain the age of dependents to determine which dependents meet the age qualification.
9. 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.
10. 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.
11. 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% ( $29.6\% \times 1.065$ ) of the \$134,665,600 in potential child tax credits will be associated with dependents who meet the age requirement for the credit.
12. An estimated \$42.420 million ( $\$134,665,600 \times 31.5\%$ ) in credits would be claimed in TY 2026.
13. HJ 2 revenue assumptions assume that the federal inflation factor will increase by 2.3% in calendar year (CY) 2026 and 2.0% in CY 2027.
14. It is assumed that the total number of credits claimed will increase by 2.3% in TY 2027 and 2% in TY 2028.
15. Based on the inflation factors, it is assumed that \$43.396 million ( $\$42,420,000 \times 1.023$ ) in credits will be claimed in TY 2027 and \$44.264 million in TY 2028.
16. As the credit is dependent on the income of the taxpayer, it is assumed that taxpayers will not change their withholding or estimated payments in advance.
17. With no changes to withholding or estimated payments, the credit will reduce income tax revenue when taxpayers file their returns the following fiscal year.
18. The proposed child tax credit will reduce general fund revenue by \$42.420 million in FY 2027, \$43.396 million in FY 2028 and \$44.264 million in FY 2029.

#### ***Child-Care Worker Credit***

19. SB 321 also creates a personal income tax credit for qualified resident child-care workers starting TY 2026. To qualify for the credit, a taxpayer must be a child-care worker who was employed for at least 6 months of the tax year and worked a minimum of 20 hours a week.
20. To qualify as a child-care worker, a taxpayer must be listed in the Department of Public Health and Human Service's (DPHHS) Child Care Under the Big Sky system (CCUBS) who also "owns or is employed in a licensed or registered day-care center, day-care facility, family day-care home, or group day-care home as those terms are defined in 52-2-703" or "works as an early childhood teacher, early childhood assistant, school-age teacher, or director or owner of a center of facility" as defined in the bill.
21. The credit is \$1,600 per taxpayer, is fully refundable and is to be adjusted each year for inflation.
22. According to DPHHS, the total number of people who meet the definition of a child-care worker in CCUBS is currently 4,775.
23. It is assumed that the 1,009 providers in the CCUBS who were listed as either a trainee or a substitute provider would not meet the 6 month or 20 hours a week requirement to claim this credit.
24. Based on 4,775 total providers, and 1,009 who are assumed to not qualify for the credit, a total of 3,766

- taxpayers are assumed to claim the \$1,600 credit in TY 2026. In total, \$6,026,000 ( $\$1,600 \times 3,766$ ) credits are assumed to be claimed in TY 2026.
25. According to the Montana Department of Labor and Industry occupation projections, preschool teachers and childcare workers are forecasted to grow by 0.8% each year.
  26. It is assumed that the child-care worker credit will grow each year by the federal inflation factor in HJ 2 and by the projected child-care worker growth rate of 0.8% each year.
  27. Based on \$6.026 million credits in TY 2026, and inflation growth of 2.3% in TY 2027, and 0.8% occupation growth, the total number of credits claimed in TY 2027 are assumed to be \$6,214,000 ( $\$6,026,000 \times 1.008 \times 1.023$ ). For TY 2028, it is assumed that \$6,389,000 in credits will be claimed.
  28. It is assumed that taxpayers will not change their withholding or estimated payment amounts as a result of this credit.
  29. With no changes in withholding or estimated payments, the proposed credit will reduce general fund revenue by \$6.026 million in FY 2027, \$6.214 million in FY 2028 and \$6.389 million in FY 2029.

#### ***Dependent Care Assistance Credit***

30. SB 321 also creates a refundable income tax credit for businesses that incurred expenses providing qualified dependent care assistance to its employees during the tax year. The credit is available to businesses, including sole proprietorships, C-corporations and S-corporations.
31. Section 3(7) of the bill allows S-corporations to pass dependent care credits claimed through to owners but does not do so for partnerships. It is assumed that partnerships will not be able to pass-through any credits claimed through to their owners.
32. The credit is equal to \$5,000 of the qualified dependent care assistance actually provided on behalf of each employee. The credit is fully refundable. The credit is also adjusted each year based on the same inflation factor used for the previous two credits.
33. The definitions for the credit, including dependent care assistance, are based on the definitions contained in 26 U.S.C. 129(e).
34. In TY 2022, approximately 5,130 taxpayers with Modernized eFile (MEF) W-2 records with a Montana address reported qualified dependent care expenses, with approximately \$15,597,000 in total expenses.
35. It is assumed that taxpayers will claim credits equal to the qualified dependent care expenses reported on each taxpayer's W-2.
36. The national CPI reports daycare costs increasing by 3.93% on average over the past 5 years. It is assumed that qualified dependent care expenses will increase by 3.93% each year, starting TY 2023.
37. With \$15,597,000 in expenses in TY 2022, and an assumed growth rate of 3.93%, it is assumed that there will be \$18,197,210 in potential credits in TY 2026, which increases to \$18,912,360 in TY 2027 and \$19,655,616 in TY 2028.
38. It is assumed that a third of the credits claimed by businesses will be claimed by C-corporations and the other two thirds will be claimed by other business types.
39. It is assumed that preventing partnerships from passing through the credit to its owners will reduce the number of credits claimed by non-C-corporation businesses by 10%.
40. Overall, it is assumed that \$6,065,737 ( $\$18,197,210 \times (1/3)$ ) in credits will be claimed by C-corporations in TY 2026, which increases to \$6,304,120 in TY 2027 and \$6,551,872 in TY 2028.
41. Other business types will claim \$10,918,326 ( $\$18,197,210 \times (2/3) \times 0.9$ ) credits in TY 2026, \$12,608,240 in TY 2027 and \$13,103,744 in TY 2028.
42. Businesses can deduct the cost of employee fringe benefits as a business expense when determining their tax liability. However, a taxpayer cannot claim an expense that is also claimed as part of this dependent care credit. Because of this, taxpayers who claim this credit will have their Montana income tax liability increase, which offsets part of this credit.
43. It is assumed that any business expenses will be taxed at the state's top marginal tax rates for each business type. For C-corporations, it is assumed a tax rate of 6.75% will apply, while a tax rate of 5.9% will apply to all other businesses.

- 44. With \$6,065,737 in credits in 2027, and a tax rate of 6.75%, the tax liability of C-corporations before credits will increase by \$409,437 as a result of this bill, which increases to \$425,528 in TY 2027 and \$442,251 in TY 2028.
- 45. For all other business types, their tax liability will increase by \$644,181 (\$10,918,326 X 0.059) in TY 2026, \$669,498 in TY 2027 and \$695,809 in TY 2028.
- 46. The net impact of the proposed tax credit is a reduction in after-credit tax liabilities of \$15,930,000 (\$6,065,737 + \$10,918,326 - \$409,437 - \$644,181) in TY 2026, \$16,557,000 in TY 2027 and \$17,207,000 in TY 2028.
- 47. It is assumed the tax liability reduction will reduce general fund revenue the following fiscal year, when taxpayers file their returns.
- 48. Overall, the proposed credit will reduce general fund revenue by \$15,930,000 in FY 2027, \$16,557,000 in FY 2028 and \$17,207,000 in FY 2029.

**Combined Credit**

- 49. In FY 2027, \$42,420,000 in child credits, \$6,026,000 in child-care credits and \$15,930,000 in dependent care expenditure credits are assumed to be claimed. The total number of credits claimed for FY 2027 are estimated to be \$64,376,000. For FY 2028 and 2029, the combined cost of credits is estimated to be \$66,167,000 and \$67,860,000, respectively.

**Department Costs**

- 50. Each of the proposed credits will require the department to review the verification of payments, expenses, and qualifications. As a result, the department requires 1.00 FTE for each of the 3 new credits. The 3.00 FTE will increase department costs by \$296,088 in FY 2027, \$291,966 in FY 2028 and \$295,886 in FY 2029.

**Fiscal Analysis Table**

	<b>FY 2026 Difference</b>	<b>FY 2027 Difference</b>	<b>FY 2028 Difference</b>	<b>FY 2029 Difference</b>
<b>Fiscal Impact</b>				
FTE	0.00	3.00	3.00	3.00
<b>TOTAL Fiscal Impact</b>	<b>0.00</b>	<b>3.00</b>	<b>3.00</b>	<b>3.00</b>
<b>Expenditures</b>				
Personal Services	\$0	\$259,755	\$263,079	\$266,456
Operating Expenses	\$0	\$27,459	\$28,887	\$29,430
Equipment	\$0	\$8,874	\$0	\$0
<b>TOTAL Expenditures</b>	<b>\$0</b>	<b>\$296,088</b>	<b>\$291,966</b>	<b>\$295,886</b>
<b>Funding of Expenditures</b>				
General Fund (01)	\$0	\$296,088	\$291,966	\$295,886
<b>TOTAL Funding of Expenditures</b>	<b>\$0</b>	<b>\$296,088</b>	<b>\$291,966</b>	<b>\$295,886</b>
<b>Revenues</b>				
General Fund (01)	\$0	(\$64,376,000)	(\$66,167,000)	(\$67,860,000)
<b>TOTAL Revenues</b>	<b>\$0</b>	<b>(\$64,376,000)</b>	<b>(\$66,167,000)</b>	<b>(\$67,860,000)</b>
<b>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</b>				
General Fund (01)	\$0	(\$64,672,088)	(\$66,458,966)	(\$68,155,886)

**Significant Long-Term Impacts**

**Department of Revenue**

- 1. The dependent care credit in section 3 of this bill provides a fully refundable credit that is equal to the expenditures of the business, up to \$5,000. Refundable credits that are equal to the expenditures made for

the credit can have their use and costs increase significantly over time, due to the credit covering a large portion of any additional expenditures.

**Technical Concerns**

**Department of Revenue**

1. The child tax credit created in section 1 of this bill creates a credit phase-out based on the taxpayer's federal adjusted gross income. The phase-out stipulates that the income amounts are \$40,000 for a single or head of household taxpayer, or \$80,000 for a married taxpayer filing jointly. However, married filing separately and qualifying surviving spouse are also possible federal filing statuses. Without any reference to these filing options in the phase-out section, it is assumed that there will be no phase-out of the credit for these taxpayers.
2. The credit created in section 3 of this bill allows S-corporation taxpayers to pass-through credits to their owners. However, no mention is made of partnerships. It is unclear if partnerships will be allowed to pass-through their credits to their owners.
3. Rulemaking authority for the childcare worker credit will be needed to address reporting and documentation for business credit.



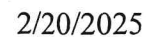
Sponsor's Initials



Date



Budget Director's Initials



Date