



## Fiscal Note 2027 Biennium

Bill#/Title: **SB0549.01: Provide income tax credit for K-12 education expenses**

Primary Sponsor: Jeremy Trebas

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	\$250,381	\$245,574	\$222,311
<b>Revenues</b>				
General Fund (01)	\$0	(\$45,078,000)	(\$45,078,000)	(\$45,078,000)
<b>Net Impact</b>	<u>\$0</u>	<u>(\$45,328,381)</u>	<u>(\$45,323,574)</u>	<u>(\$45,300,311)</u>
<b>General Fund Balance</b>				

### Description of fiscal impact

#### Department of Revenue

SB 549 creates a fully-refundable personal income tax credit for qualified primary and secondary education expenses. Approximately 75,000 households are expected to claim this credit each tax year, with \$45,078,000 in credits claimed each year, starting FY 2027. General fund expenditures will increase by \$250,381 in FY 2027, \$245,574 in FY 2028 and \$248,798 in FY 2029.

### FISCAL ANALYSIS

#### Assumptions

#### Department of Revenue

1. SB 549 creates a refundable personal income tax credit for primary and secondary education expenses. The credit is equal to the lesser of the qualified education spending by the taxpayer during the tax year, or \$1,250. The credit is refundable, and the taxpayer can claim the credit even if they have no Montana taxable income. Parents and guardians of a student can claim the credit, while teachers are also allowed to claim the credit for any qualified spending they make as part of their profession.
2. The credit is available starting tax year (TY) 2026.
3. Qualified education expenses include school tuition, instructional materials and services, online educational programs, tutoring, educational therapies, recognized assessment and advanced placement examines, services provided by a public school in the state, transportation to another allowable educational service, fees paid to a cooperative educational program, and consumable education supplies (paper, pens, markers, etc.).
4. A qualified education provider includes public schools, a home school that complies with 20-5-109, MCA, an accredited educational provider, and a nonaccredited provider or tutor that provides notification to the student's parents or legal guardian of their lack of accreditation.

5. The Montana Office of Public Instruction (OPI) reported in 2024 that there were 17,108 private and homeschool children in Montana for the 2023-2024 school year.
6. Over the past four school years, the number of nonpublic school students has not experienced significant growth, with 17,468 students in the 2020-2021 school year and 16,002 and 16,372 during the 2021-2022 and 2022-2023 school years, respectively.
7. It is assumed that the number of nonpublic school students will remain unchanged from the 2023-2024 school year numbers for future school years.
8. It is assumed that there is an average of 1.75 non-public school students in each household.
9. With 17,108 students, and 1.75 students per household, it is assumed that 9,776 households with nonpublic school students will claim the credit each year.
10. As the cost of tuition is an allowable expense, it is assumed that any taxpayer with a nonpublic school student will claim the entire \$1,250 credit.
11. With 9,776 households, and an average credit of \$1,250, a total of \$12,220,000 ( $\$1,250 \times 9,776$ ) credits will be claimed by households with nonpublic school students each year.
12. OPI also reports 148,585 public school students during the 2023-2024 school year. The number of students in public schools has also remained relatively unchanged over the past 3 years, with 149,198 students in 2021-2022 and 150,573 in 2022-2023.
13. It is assumed that the number of public school students will remain unchanged from the 2023-2024 school year numbers for future school years.
14. In 2020, the state of Iowa reported approximately \$100 million in qualified expenditures associated with their Tuition and Textbook income tax credit. According to the Digest of Education Statistics, the public school enrollment for this state in the fall of 2020 was 506,656. Based on these amounts, the average qualified spending per public school student in the state was \$197 ( $\$100,000,000 / 506,656$ ).
15. In 2023, the state of Minnesota reported nearly \$180 million in qualifying education expenses deducted under their K-12 Education Subtraction. The Digest of Education Statistics reports public school enrollment for this state of 870,019 in the fall of 2022. Based on reported spending and public school enrollment, the average qualified spending per student in this state was \$207.
16. Based on the average qualified education spending reported in these two states, it is assumed that the average qualified expenditures per public student in Montana will be \$200 each tax year.
17. With 148,585 public school students, and an average credit of \$200, a total of \$29,717,000 ( $\$200 \times 148,585$ ) in credits will be claimed by public school parents each tax year.
18. Finally, SB 549 also allows teachers to include their qualified education spending when determining their tax credit.
19. In TY 2023, 10,470 taxpayers claimed the Educator Expense above the line deduction on their Montana income tax returns. These taxpayers claimed an average of \$277 in qualified expenses.
20. Based on this deduction, it is assumed that 10,470 taxpayers will also claim teaching expenses for this credit and will claim an average of \$300 in credits.
21. With 10,470 teachers, and \$300 in additional credits on average, it is assumed that teachers will claim \$3,141,000 ( $\$300 \times 10,470$ ) in additional credits.
22. The total number of credits claimed each tax year is estimated to be \$45,078,000 ( $\$12,220,000 + \$29,717,000 + \$3,141,000$ ), starting TY 2026.
23. It is assumed that taxpayers will not change their withholding or estimated payments in response to this credit.
24. With no change in withholding or estimated payments, taxpayers will receive the credit when they file their tax returns the following fiscal year.
25. With \$45,078,000 in credits claimed each year, and taxpayers first claiming the credit for TY 2026, the proposed bill will reduce general fund revenue by \$45,078,000 in FY 2027, FY 2028 and FY 2029.
26. The department estimates that approximately 75,000 returns will claim the credit created by this bill. With this credit being fully refundable, the department will require 3.00 FTE to review the credits and ensure the

**Fiscal Note Request - As Introduced***(continued)*

credit is claimed for appropriate expenses. The 3 FTE will cost the department \$250,381 in FY 2027, \$245,574 in FY 2028 and \$248,798 in FY 2029.

**Fiscal Analysis Table**

	<b><u>FY 2026 Difference</u></b>	<b><u>FY 2027 Difference</u></b>	<b><u>FY 2028 Difference</u></b>	<b><u>FY 2029 Difference</u></b>
<b><u>Fiscal Impact</u></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><u>Expenditures</u></b>				
Personal Services	\$0	\$214,048	\$216,687	\$219,368
Operating Expenses	\$0	\$27,459	\$28,887	\$2,943
Equipment	\$0	\$8,874	\$0	\$0
<b>TOTAL Expenditures</b>	<b>\$0</b>	<b>\$250,381</b>	<b>\$245,574</b>	<b>\$222,311</b>
<b><u>Funding of Expenditures</u></b>				
General Fund (01)	\$0	\$250,381	\$245,574	\$222,311
<b>TOTAL Funding of Expenditures</b>	<b>\$0</b>	<b>\$250,381</b>	<b>\$245,574</b>	<b>\$222,311</b>
<b><u>Revenues</u></b>				
General Fund (01)	\$0	(\$45,078,000)	(\$45,078,000)	(\$45,078,000)
<b>TOTAL Revenues</b>	<b>\$0</b>	<b>(\$45,078,000)</b>	<b>(\$45,078,000)</b>	<b>(\$45,078,000)</b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u></b>				
General Fund (01)	\$0	(\$45,328,381)	(\$45,323,574)	(\$45,300,311)

**NO SPONSOR SIGNATURE****3/31**

Sponsor's Initials

Date



Budget Director's Initials

3/30/2025

Date