Fiscal Note 2027 Biennium

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Bill#/Title: **HB0337.01: Revise income tax laws to lower income taxes**

Primary Sponsor: Brandon Ler | 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

	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
Expenditures				
General Fund (01)	$0	$0	$0	$0
Revenues				
General Fund (01)	($26,593,000)	($215,932,000)	($281,588,000)	($297,971,000)
Net Impact General Fund Balance	($26,593,000)	($215,932,000)	($281,588,000)	($297,971,000)

Description of fiscal impact

HB 337 increases the income brackets for the state's personal income tax, for single filers to $70,000 for TY 2026 and then to $100,000 in TY 2027. These thresholds are doubled for married filers and increased by 1.5 times the single rate for head of household filers. The top tax rate is reduced to from 5.9% to 5.65% in TY 2026 and to 5.4% in TY 2027. The top tax rate for non-capital gains income is also lowered . The changes to the personal income tax will reduce general fund revenue by $26.593 million in FY 2026 as taxpayers reduce their withholding and estimated payments for the first half of TY 2026 (before returns are filed in April 2027 (FY 2027)), the FY 2027 reduction is nearly $216 million which increases to $297.971 million in FY 2029.

FISCAL ANALYSIS

Assumptions

Department of Revenue

1. Under current law, Montana's personal income tax applies two tax rates to taxable non-net long-term capital gains income. These tax rates are 4.7% and 5.9%. The taxable income bracket for the 5.9% rate was set at $21,100 for single and married filing separate filers, $42,200 for joint filers and $31,700 for head of household filers in tax year (TY) 2025. Montana's personal income tax also applies two tax rates to taxable net long-term capital gains income, with rates of 3% and 4.1%. For TY 2025, the taxable income brackets for the 4.1% tax rate are also $21,100 for single filers, $42,200 for joint filers and $31,700 head of household filers in TY 2025.
2. HB 337 increases the income thresholds under which taxable income is taxed at the higher marginal rates for non-capital gains income and net-long-term capital gains income. For TY 2026, the income bracket for single filers is increased to $70,000. For head of household and joint filers, the income brackets are increased to $105,000 and $140,000, respectively. The same income thresholds also apply to the taxable portion of net long-term capital gains income and the 4.1% marginal tax rate.

3. For TY 2027, the bill increases the income thresholds under which taxable income is taxed at the higher marginal tax rates for non-capital gains income and net-long-term capital gains income again. That is in TY 2027, the income thresholds for single filers are increased (from $70,000) to $100,000. For head of household filers, the threshold is increased to $150,000. Joint filers have their income threshold increased (from $140,000) to $200,000.
4. Under current law, the top marginal tax rate for non-net-long-term capital gains income is 5.9%.
5. HB 337 changes the top marginal tax rate, starting TY 2026. Under the proposed bill, the top rate is reduced from 5.9% to 5.65% in TY 2026 and to 5.4% starting TY 2027.
6. HB 337 also has the non-net-long-term capital gains income brackets increase each tax year based on the inflation factor defined in 15-30-2101, MCA. This inflation adjustment is made starting TY 2028.
7. The inflation factors used in HJ 2 revenue assumptions,have the income thresholds for single filers increasing to $110,700 in TY 2028 and $113,100 in TY 2029.
8. The Department of Revenue's income tax model, with HJ 2 revenue assumptions, was modified to include the changes made by the proposed bill. The estimated income tax liability amounts for each tax year under the proposed bill where then compared to current law income tax liability forecasts.
9. Based on the department's tax model, increasing the income brackets for the top marginal tax rates, and lowering the top tax rate for non-capital gains income would reduce the income tax liability of full-year resident taxpayers by $167.1 million before credits for TY 2026. For tax years 2027, 2028 and 2029, the tax liability of residents would decrease by $218.7 million, $231.5 million, and $241 million, respectively. With approximately 506,000 households, the average tax liability change for all full-year resident households is estimated to be -$330 in TY 2026, -$432 in TY 2027, -$458 in TY 2028 and -$476 in TY 2029.
10. As the proposed bill makes significant changes to the state's personal income tax, the department will need to update its withholding and estimated payment tables and guidelines. Because of this, it is assumed that the withholding and estimated payment amounts of Montana taxpayers will change as a result of the proposed bill, starting TY 2026.
11. The estimates used in HJ 2 assume that 80% of TY 2026 liability changes and 20% of TY 2027 tax liability change will occur in FY 2027. This distribution continues for all fiscal years.
12. It is assumed that the tax liability distribution changes made as a result of this bill will follow the pattern used in HJ 2 revenue forecasts.
13. The tax liability amounts from the proposed changes were also adjusted using HJ 2 revenue assumptions for non-filers, non-residents, population growth and audit collections.
14. Based on the adjustments used for HJ 2, the proposed bill will reduce income tax revenue by $26.593 million in FY 2026, which increases to $215.932 million in FY 2027. The revenue reduction will continue in future fiscal years, reaching $281.588 million in FY 2028, and $297.971 million in FY 2029.
15. The bill's proposed changes can be made as part of the Department of Revenue's 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
Fiscal Impact				
Expenditures				
Funding of Expenditures				
Revenues				
General Fund (01)	($26,593,000)	($215,932,000)	($281,588,000)	($297,971,000)
TOTAL Revenues	**($26,593,000)**	**($215,932,000)**	**($281,588,000)**	**($297,971,000)**
Net Impact to Fund Balance (Revenue minus Funding of Expenditures)				
General Fund (01)	($26,593,000)	($215,932,000)	($281,588,000)	($297,971,000)

Technical Concerns
Department of Revenue

1. Section 2 of the bill creates a "modified inflation factor." However, this modified inflation factor is not used to make any adjustments to any of the parameters of the bill. It is likely that this "modified inflation factor" is supposed to replace the use of the "inflation factor" reference on page 5 line 18. However, the text on this line was not updated to refer to the modified inflation factor. If this is the case, this bill will need to be amended to reference the correct factor.
2. Section 2 of the bill eliminates the reference to subsection (3) in the net-long-term capital gains section of 15-30-2103, MCA starting TY 2027. The elimination of this reference will prevent the income brackets defined in this section from being updated annually by the inflation factor referenced in subsection (3).
3. Several withholding tax types have their withholding rates either stipulated as a set rate in the MCA or tied to the top marginal tax rate. Significantly increasing the income tax brackets without also changing the withholding rates for these tax types will likely result in some taxpayers over-withholding.

	2-5-2025		2/5/2025
Sponsor's Initials	Date	Budget Director's Initials	Date