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Revenue and Transportation Interim Committee
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TAX CUTS AND JOBS ACT STATE IMPACTS: INDIVIDUAL INCOME TAX

The Tax Cuts and Jobs Act (TCJA), enacted in 2017, made changes to the federal individual and corporate income taxes. Montana conforms with certain provisions of federal tax law. This analysis summarizes the effects of the new law on Montana's individual income tax; a separate document will summarize the impacts of corporate income tax changes.

The Montana individual income tax starting point is federal adjusted gross income, and state-specific deductions, exemptions, and tax credits are then applied. Montana law provides for standard deductions, personal exemptions, and tax rates that are not linked to federal law so changes to those in the TCJA do not directly affect Montana income taxes. The TCJA did, however, makes changes to certain above-the-line deductions, itemized deductions, and deductions for small businesses that pass income through to the business owners. The following table summarizes the changes in the TCJA, whether Montana conforms to the change, and the impact on Montana individual income taxpayers and on state revenue.[1]

Most of the changes summarized below that are not related to business activities expire on December 31, 2025, which means that federal individual income tax law will revert to pre-TCJA provisions for tax year 2026 without federal action.

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[1] Changes to federal tax credits for which there is no corresponding Montana credit, such as the child tax credit, are not included in this analysis.

Summary of Federal Changes and State Conformity

Category	Summary	State Conformity	State Taxpayer Impact	State Revenue Impact	Notes
Personal exemption	Repeal of personal exemptions	No	None	None	State-specific personal exemption: $2,400. Federal change expires 12/31/25.
Income	Non-corporate taxpayers subject to the transition tax for post-1986 untaxed earnings will include the earnings as income on the Form 1040	Yes	Increases taxable income	Increase	One-time effect
Income	Alimony received for orders after 12/13/18 is not included as taxable income	Yes	Decreases taxable income	De minimis	Largely offset by repeal of alimony deduction.
Capital gains	Defer tax on prior capital gains until no later than 12/31/26 if the gain is invested in an Opportunity Zone	Yes	Timing – shifts taxable income to later years	Short term decrease	
Capital gains	Investor may increase basis to FMV on date of sale if investment is held for 10 years in Opportunity Fund; basis also increases for investments held for 5 years and 7 years	Yes	Decreases taxable income	Decrease	
Above-the-line deductions	Repeal of deduction for alimony payments	Yes	Increases taxable income	De minimis	Alimony payments for orders before 12/31/18 still deductible. Largely offset by exclusion from income for recipient.

Category	Summary	State Conformity	State Taxpayer Impact	State Revenue Impact	Notes
Above-the-line deductions	Repeal of deduction for moving expenses	Yes	Increases taxable income	Increase	Moving expense deduction still allowed for active duty military who move pursuant to a military order. Expires 12/31/25.
Above-the-line deductions	Deduction for qualified tuition and related expenses expired 12/31/16 and not renewed by TCJA	Yes	Increases taxable income	Increase	
Standard Deduction	Increased standard deduction	No	None	None	State-specific 20% standard deduction with minimums/maximums based on filing status: • Single and Married Filing Separately: \$2,000/\$4,510 • Married Filing Jointly and Head of Household: \$4,000/\$9,020. Federal change expires 12/31/25.
Itemized deductions	Lower eligibility for medical expenses itemized deduction from 10% of AGI to 7.5% of AGI	Yes	Increases itemized deduction	Decrease in tax years 2017 and 2018	Expires 12/31/18.

Category	Summary	State Conformity	State Taxpayer Impact	State Revenue Impact	Notes
Itemized deductions	Charitable contribution itemized deduction limit for cash contributions increased to 60% (from 50%) of AGI	Yes	Increases itemized deduction	Decrease	Expires 12/31/25.
Itemized deductions	$750,000 limit on itemized deduction for mortgage interest and home equity loans and prohibition on deduction for home equity loans not used to improve the home that secures the loan	Yes	Decreases itemized deduction	Increase	Limit does not affect home acquisition debt taken out before 12/16/17 if purchase closed before 4/1/18. Expires 12/31/25.
Itemized deductions	$10,000 limit on state and local tax itemized deduction (for state income and property taxes)	Yes	Decreases itemized deduction	Increase	Expires 12/31/25.
Itemized deductions	Itemized deduction for gambling losses and gambling expenses is limited to the amount of winnings	Yes	Decreases itemized deduction	Increase	Expires 12/31/25.
Itemized deductions	Repeal of miscellaneous itemized deductions such as unreimbursed employee expenses, tax preparation fees, investment interest expenses, personal casualty and theft losses	Yes	Decreases itemized deduction	Increase	Expires 12/31/25.

Category	Summary	State Conformity	State Taxpayer Impact	State Revenue Impact	Notes
Itemized deductions	Repeal of limit on certain itemized deductions if AGI is greater than $313,800 MFJ, $261,500 Single	Yes	Increases itemized deduction	Decrease	Expires 12/31/25.
529 Education Accounts	Allows use of accounts for tuition at elementary or secondary public, private, or religious school	No	None	None	Montana has a Family Education Savings Account program that uses the federal definition of "qualified higher education expenses." TCJA did not amend that definition so the federal change does not impact the state.
529 ABLE Accounts	Allows ABLE account beneficiary to contribute additional amount equal to the lesser of the beneficiary's gross income or the poverty line for a single-person household	Yes	Decreases taxable income	De minimis	Few taxpayers with ABLE accounts. Previous contribution limit was the annual gift tax exclusion ($15,000 in 2018). Expires 12/31/25.
529 ABLE Accounts	Allows tax-free rollover from 529 Education Account to 529 ABLE Account	No	None	None	Limited to annual contribution limit (excluding beneficiary contribution amount). Expires 12/31/25.

Category	Summary	State Conformity	State Taxpayer Impact	State Revenue Impact	Notes
Business deductions	Increases Section 179 expensing limit from $510,000 to $1 million with phase-out increase from $2,030,000 to $2.5 million and expansion of eligible property[2]	Yes	Timing – shifts deduction earlier, decreases taxable income in short term	Timing – short-term decrease	Indexed for inflation after tax year 2018.
Business deductions	Section 168(k) 100% bonus depreciation in first year for certain property placed into service 9/27/17- 12/31/22 (then decreases 20 percentage points each year until 2026)	Yes	Timing – shifts deduction earlier, decreases taxable income in short term	Timing – short-term decrease	Expires 12/31/26.
Business deductions	Deduction of up to 20% of qualified business income (QBI) from partnerships, sole proprietorships, and other pass-throughs	May benefit from clarification			Deduction varies based on income/whether the business provides personal services such as medical practices, law firms, consulting, athletes.[3] Expires 12/31/25.

[2] Property newly eligible under the TCJA includes depreciable tangible property used to furnish lodging and improvements made to nonresidential real property such as roofs, heating, ventilation and air conditioning, fire protection, and security systems. Section 179 – 2018 Tax Reform: Election to Expense Property, H&R Block.
[3] Single/joint filers with taxable income less than $157,500/$315,00 get the full 20% deduction. Single/joint filers with taxable income greater than $207,500/$415,000 get no deduction if their pass-through business is a personal service firm. Those with incomes in between are eligible for a partial deduction that phases out for owners of personal service firms. Howard Gleckman, "Navigating the TCJA's Pass-Through Deduction," TaxVox.

Category	Summary	State Conformity	State Taxpayer Impact	State Revenue Impact	Notes
Business deductions	Limits net interest expense deduction to 30% of adjusted taxable income plus business interest income for businesses with average gross receipts of greater than $25 million; carryfoward for deduction above limit	Yes	Increases taxable income	Increase	$25 million gross receipts threshold means likely to impact more corporate taxpayers than pass-throughs.
Business deductions	Repeals deduction for qualified production activities for manufacturing and certain other activities such as construction, engineering, architecture, computer software production, and agricultural processing	Yes	Increases taxable income	Increase	
Net operating loss	Net operating losses limited to 80% of taxable income, removes carryback provision, indefinite carryfoward	Yes	May increase taxable income	Timing – short-term increase, longer-term decrease	Longer-term decrease because taxpayers may use previously "wasted" deductions and carryforward indefinitely losses limited under this provision.
Net operating loss	Business losses for noncorporate taxpayers may only reduce nonbusiness income by $250,000 ($500,000 for MFJ), excess is treated as a NOL carryforward	Yes	May increase taxable income	Timing – short-term increase, longer-term decrease	Longer term decrease because taxpayers may use previously "wasted" deductions and carryforward losses limited under this provision. Expires 12/31/25.