



# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

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**Director**  
AMY CARLSON

DATE: July 11, 2025

TO: Revenue Interim Committee

FROM: Sam Schaefer

RE: H.R.1 Tax Provisions and Impacts to Montana's Revenue Collections

The Federal House Resolution 1 (H.R.1) was signed into law on July 4, 2025. Included in this legislation are multiple tax provisions that will impact Montana's individual income tax collections. In addition to making permanent many of the provisions from the Tax Cuts and Jobs Act (TCJA) which was passed in December of 2017, new provisions were added that will ultimately reduce Montana's tax liabilities.

The starting point for Montana taxable income is Federal Adjusted Gross Income (FAGI). Then, after applying either the federal standard deduction or itemizing deductions, a taxpayer may include Montana-specific additions/subtractions to arrive at Montana taxable income.

The LFD provided a memo on June 10 which contained estimates from the version of the bill that was passed by the US House of Representatives. The US Senate amended the bill, and this memo provides estimates for the final version of the bill that was signed into law. *Differences between the House and final version are italicized.*

The following tax provisions in H.R.1 have a retroactive effective date of January 1, 2025.

- Increased standard deduction: The standard deduction increases for tax year 2025 by \$750 for single filers and \$1,500 for joint filers. *The original house version increased the standard deduction by \$1,000 for single filers and \$2,000 for joint filers.*
- Enhanced deduction for seniors: An additional deduction of \$6,000 is allowed for those individuals who are 65 or older. *The Senate amended the House version which originally allowed a \$4,000 deduction for seniors.* This deduction has a phaseout based on a taxpayer's income level. This deduction is allowed through tax year 2028.
- Car loan interest deduction: This provision allows individuals, even those who do not itemize their deductions, the ability to deduct interest from an automobile loan. It must be a vehicle purchased for personal use. The deduction is capped at \$10,000 per tax year and phases out based on the taxpayer's income level. *In the Senate version it appears that the deduction is only applicable to new cars.* This deduction is allowed through tax year 2028.

- No tax on tips: This provision allows a deduction equal to the amount of qualified tips received during the tax year, even for taxpayers who do not itemize their deductions. *The Senate amended the House version to provide a phaseout based on income levels and capped the deduction at \$25,000.* This deduction is allowed through tax year 2028.
- No tax on overtime: This provision allows a deduction for qualified overtime compensation received during the taxable year. The term “qualified overtime compensation” means “...overtime compensation paid to an individual that is in excess of the regular rate at which such individual is employed.” As with previous provisions, this deduction is allowed for all taxpayers who qualify, regardless of if they elect the standard deduction or choose to itemize their deductions. *The Senate amended the House version to provide a phaseout based on income levels and capped the deduction at \$12,500 (\$25,000 in the case of a joint return).* This deduction is allowed through tax year 2028.

The following tax provision has an effective date of January 1, 2026:

- Charitable deduction for those who do not itemize: The final version of HR 1 includes a permanent provision that was added by the Senate that allows for a charitable contribution deduction for those who do not itemize. The deduction is up to \$1,000 (\$2,000 in the case of a joint return).

The table below contains LFD’s estimates on the impacts to Montana’s individual income tax collections from the provisions outlined above. Note that there is limited Montana-specific data on auto-loan interest and overtime hours.

Provision in H.R.1	Estimated Annual Impact (\$Millions)
Additional Standard Deduction	(\$23.4)
Additional Deduction for Seniors	(\$35.6)
Car Loan Interest Deduction	(\$6.6)
No Tax on Tip Income	(\$4.0)
No Tax on Overtime	(\$37.0)
<i>Charitable Contribution (Begins in TY 2026)</i>	(\$7.5)
Estimated Total	(\$114.2)