MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

Room 110 Capitol Building * P.O. Box 201711 * Helena, MT 59620-1711 * (406) 444-2986 * FAX (406) 444-3036

Director
AMY CARLSON

DATE: September 8, 2025

TO: Revenue Interim Committee and the Legislative Finance Committee

FROM: Amy Carlson, Sam Schaefer, and Joshua Poulette

RE: H.R.1 and other Federal Actions: Impacts to Montana's Finances

Federal action in H.R. 1 has been studied over the summer and the impacts to Montana continue to be better understood. Revenue impacts have been estimated, but expenditure impacts from H.R. 1 continue to evolve. Without further action by Congress, federal sequestration associated with H.R. 1 will also impact federal funding to the states. If federal fiscal year 2026 budget reductions proposed by the President or other federal budget impacts negotiated this fall are passed, additional impacts to Montana are anticipated.

This document updates work previously published by the Fiscal Division and informs the legislature of our current understanding of federal action impacts on Montana. The structure of this memo includes three impacts of 1) H.R. 1: a) Revenue, b) Funding, and c) Sequestration and 2) Update on the federal fiscal year (FFY) 2026 budget progress.

1) Three areas of impact from H.R. 1 – One Big Beautiful Bill Act

a) General Revenue Impacts from H.R. 1

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 reduce Montana's tax liabilities. The table below contains LFD's estimates on the impacts to Montana's individual income tax collections.

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)
Charitable Contribution (Begins in TY 2026)	($7.5)
Estimated Total	($114.2)

Note that there is limited Montana-specific data on auto-loan interest and overtime hours. Furthermore, unlike the other provisions which are retroactive to January 1, 2025, the additional deduction for charitable contributions begins in tax year 2026.

HB 337 (2025 Session) will lower individual income tax rates and widen income tax brackets at the beginning of calendar years 2026 and 2027. The lowered rates and widened brackets will likely decrease the estimates in the table above by small amounts, but some of this impact will be muted by growth in incomes.

b) H.R. 1 Federal Funding Impact

H.R. 1 impacts federal funding, or federal revenues, in several programs that currently make up significant portions of Montana's budget. The most significant impacts are in the state's Medicaid program and Supplemental Nutrition Assistance Program (SNAP). H.R. 1 also includes the Rural Health Transformation Program (RHTP), which makes available (upon an accepted application) to each state $100 million per year for 5 years (FFY 2026-2030), plus additional amounts to be determined by CMS.

H.R. 1 Federal Funding Impact by State Fiscal Year to Montana		
	SFY 2026	SFY 2027
Medicaid	Little or no impact	Lower state and federal fund spend tied to lower enrollment (work requirements and other eligibility impacts start January 2027)
SNAP	Tighter work requirements could reduce enrollment and state and federal fund spend, impact expected to be modest	Increased state match for administration: anticipated to be in the range of $6-8.4 million (more state funds required, less federal funds)
RHTP*	Addition of $100.0 million federal funds	Addition of $100.0 million federal funds
*Assumes successful application. Could be significantly higher than $100.0 million per year.		

Medicaid:

Significant changes to Medicaid in H.R. 1 include:

- Work requirements for certain Medicaid expansion adults beginning January 1, 2027. Montana's Medicaid expansion program already includes similar work requirements, although a modification to the program permitting these requirements has never been approved by the federal Centers for Medicare and Medicaid Services (CMS). Montana's DPHHS intends to submit for approval of this change during summer 2025, and approval and finalization of such a change is expected to take 6-12 months

- Requiring redeterminations of eligibility for Medicaid expansion adults every 6 months beginning January 1, 2027 (current practice is every 12 months)

- Banning new or increased provider taxes, effective on enactment. Montana currently has provider taxes that draw federal Medicaid match on nursing homes, inpatient hospital services, and outpatient hospital services. HB 56 (2025 session), which was signed by the Governor on May 5, 2025, adds a new provider tax/fee on ambulance services. It is unclear if the provisions of H.R. 1 would permit the fee in HB 56 to draw Medicaid match

    - Provider tax thresholds are capped at 5.5% beginning October 1, 2027, and phasing down to 3.5% in 2032 and beyond. This provision does not apply to nursing homes. Montana's Hospital Utilization Fee (HUF) provider taxes are in the range of 2.1%, so would not be impacted by this provision in 2032

- Requires states to impose cost sharing for certain services on expansion adults with over 100% FPL beginning October 1, 2028. Cost sharing may not exceed $35 per service or 5% of the individual's income

- Changes the retroactive eligibility date for Medicaid from 90 days prior to enrollment to 30 days prior to enrollment beginning January 1, 2027

These changes will likely have the net effect of lowering the state's Medicaid member-months (number of people on Medicaid in a given month) due to tightened eligibility requirements, especially for the Medicaid expansion population.

This shift could lower the amount of matching federal funds associated with Montana's hospital utilization fees (inpatient and outpatient) as the ratio of persons served by hospitals shifts away from the 9:1 match associated with Medicaid expansion services and toward the ~1.8:1 match generated by services provided to traditional Medicaid enrollees. H.R. 1 also prevents the state from raising the current provider taxes (hospital and nursing home utilization fees) or establishing new taxes/fees with a similar structure at some future date.

SNAP:

Significant changes to SNAP in H.R. 1 include:

- A state match requirement for benefits tied to payment error rate. Montana's error rate is between 7-8%, so SNAP benefits would require a 10% state match, which equates to a cost of $16.9 million in additional state funds per year based on FFY 2024 expenditure levels. This provision begins October 1, 2027.

- Increased state match for SNAP administration starting October 1, 2026. This provision would cost $8.4 million in additional state funds per year for Montana based on FFY 2024 expenditure levels

- Changes to work requirements in SNAP, effective upon enactment: Changes the exceptions for ABAWD (Able Bodied Adults Without Dependents) SNAP work requirements by increasing the age ABAWDs must continue working from 54 to 64. Also changes the definition of "dependent child" from under 18 years old to under 14. Exempts individuals who are "Indians, Urban Indians, California Indians, and other Indians" who are eligible for Indian Health Services

Rural Health Transformation Program:

- Effective October 1, 2025 - Establishes a rural health transformation program that will provide $50.0 billion in grants to states ($10 billion per year from FFY 2026-2030) to be used for payments to rural health care providers. Half of this amount will be distributed by formula across states; the other half will be distributed by CMS based on state rural populations and needs

- Assuming a successful application, states will receive a minimum of $100.0 million per year for 5 years – FFY 2026-2030. Initial support is expected to begin at the start of CY 2026.

- Montana could receive significantly more than $500.0 million over this five-year period, assuming a successful application, depending on how CMS distributes the second $25.0 billion in the RHTP

c) PAYGO from H.R. 1 sequestration impact resulting from H.R. 1

The Congression Budget Office estimates H.R. 1 increases federal deficits by $3.4 trillion over 10 years. Absent a bypass or other type of fix, H.R. 1 will trigger Pay-As-You-Go[1] sequestration across-the-board cuts in January 2026.

Federal sequestration law requires certain reductions in the federal budget. Many large areas of federal spending, such as Medicaid and Social Security, are exempt. Some federal funding areas subject to sequestration would impact the states. Key areas of reduction include: Social Services Block Grant, Promoting Safe and Stable Families, Maternal, Infant, and Early Childhood Home Visiting, fish and wildlife funding, and some highway funding.

The Legislative Fiscal Division will continue to report on this topic as further information becomes available.

2) Adoption of the Federal Fiscal Year (FFY) 2026 Budget

The President has proposed significant budget reductions that, if implemented, will impact states for FY 2026 and beyond[2]. Congress has started its process of evaluating the proposed budget and building a budget or other spending vehicle for the upcoming federal fiscal year. The FFY begins on October 1, and action on the FFY 2026 budget is anticipated in the next few weeks.

Notable proposed eliminations in the “skinny budget” include the Low-Income Home Energy Assistance Program, Community Services Block Grant, and the Community Development Block Grant.

The Legislative Fiscal Division will continue to report on this topic as further information becomes available.

[1] Pay-As-You-Go Act was passed in 2010. Statutory PAYGO sequestrations have not been implemented and have been avoided 8 times since 2010.
[2] The White House “Skinny Budget” proposal was released May 2, 2025.