

Income Tax: Recent Policy Changes and Impacts

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Megan Moore

megan.moore@legmt.gov

406-444-4496

Sam Schaefer

sam.schaefer@legmt.gov

406-444-1787



Individual Income Tax Changes

Bills changed structure, rates, deductions, and credits

| Bill | Purpose |
|-------------------------------|--|
| SB 159 (2021) | Reduced top marginal rate |
| SB 399 (2021) | Structural changes, rate revisions, repeal of deductions/credits |
| HB 221 (2023) | Revised tax rates for net-long term capital gains |
| SB 121 (2023) | Reduced top marginal rate, increased EITC |
| SB 550 (2023) | Clarified SB 399, extended Medical Savings Accounts |

Individual: Structural Changes

Before 2024

- Federal adjusted gross income
 - MT-specific standard/itemized deductions, personal exemptions
- Single tax rate schedule
- May use different state and federal filing status

2024 and After

- Federal taxable income
 - Use federal standard/itemized deductions, no personal exemptions
- Tax rate schedules for single, married, head of household
- Must use federal filing status

FAGI vs. Federal Taxable

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a Form W-2, see instructions.

Attach Sch. B if required.

Standard Deduction for—

- Single or Married filing separately, \$13,850
- Married filing jointly or Qualifying surviving spouse, \$27,700
- Head of household, \$20,800
- If you checked any box under Standard Deduction, see instructions

| | | | | |
|-----------|---|-----------|-----------|-----------------|
| 1a | Total amount from Form(s) W-2, box 1 (see instructions) | | 1a | |
| b | Household employee wages not reported on Form(s) W-2 | | 1b | |
| c | Tip income not reported on line 1a (see instructions) | | 1c | |
| d | Medicaid waiver payments not reported on Form(s) W-2 (see instructions) | | | |
| e | Taxable dependent care benefits from Form 2441, line 26 | | | |
| f | Employer-provided adoption benefits from Form 8839, line 29 | | | |
| g | Wages from Form 8919, line 6 | | | |
| h | Other earned income (see instructions) | | | |
| i | Nontaxable combat pay election (see instructions) | | | |
| z | Add lines 1a through 1h | | | |
| 2a | Tax-exempt interest | 2a | b | Taxable amount |
| 3a | Qualified dividends | 3a | b | Ordinary income |
| 4a | IRA distributions | 4a | b | Taxable amount |
| 5a | Pensions and annuities | 5a | b | Taxable amount |
| 6a | Social security benefits | 6a | b | Taxable amount |
| c | If you elect to use the lump-sum election method, check here (see instructions) | | | |
| 7 | Capital gain or (loss). Attach Schedule D if required. If not required, check here | | 7 | |
| 8 | Additional income from Schedule 1, line 10 | | 8 | |
| 9 | Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income | | 9 | |
| 10 | Adjustments to income from Schedule 1, line 26 | | 10 | |
| 11 | Subtract line 10 from line 9. This is your adjusted gross income | | 11 | |
| 12 | Standard deduction or itemized deductions (from Schedule A) | | 12 | |
| 13 | Qualified business income deduction from Form 8995 or Form 8995-A | | 13 | |
| 14 | Add lines 12 and 13 | | 14 | |
| 15 | Subtract line 14 from line 11. If zero or less, enter -0-. This is your taxable income | | 15 | |

Federal taxable income includes the federal standard deduction or itemized deductions



Individual: Deductions and Credits

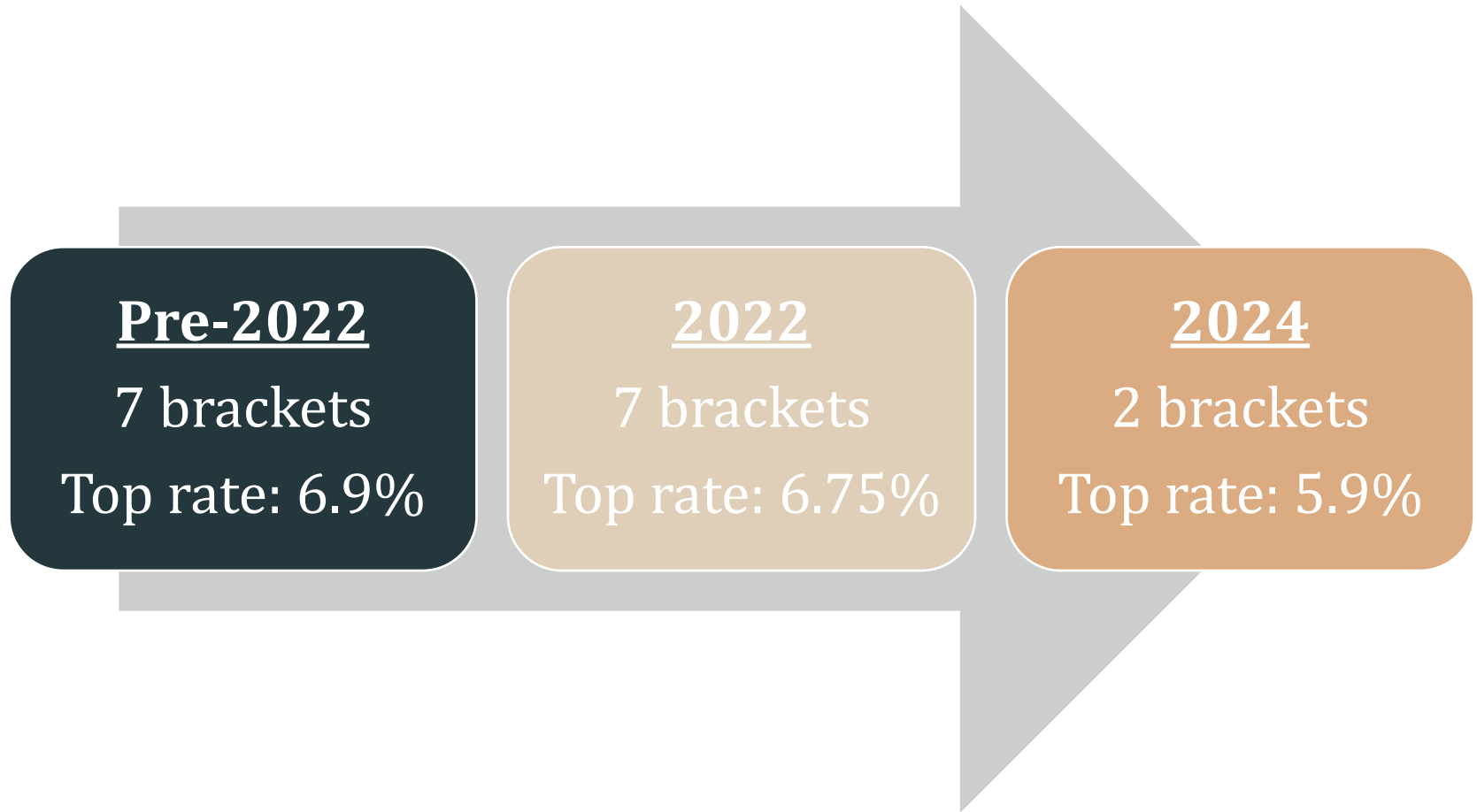
Before 2024

- Deductions for unemployment, tips, worker's comp, interest income for 65+, pension/IRA
- Many tax credits repealed in 2022

2024 and After

- Most deductions repealed
- Age 65+: \$5,500 subtraction
- Partial military retiree income exemption ([SB 104](#))

Individual: Tax Rates

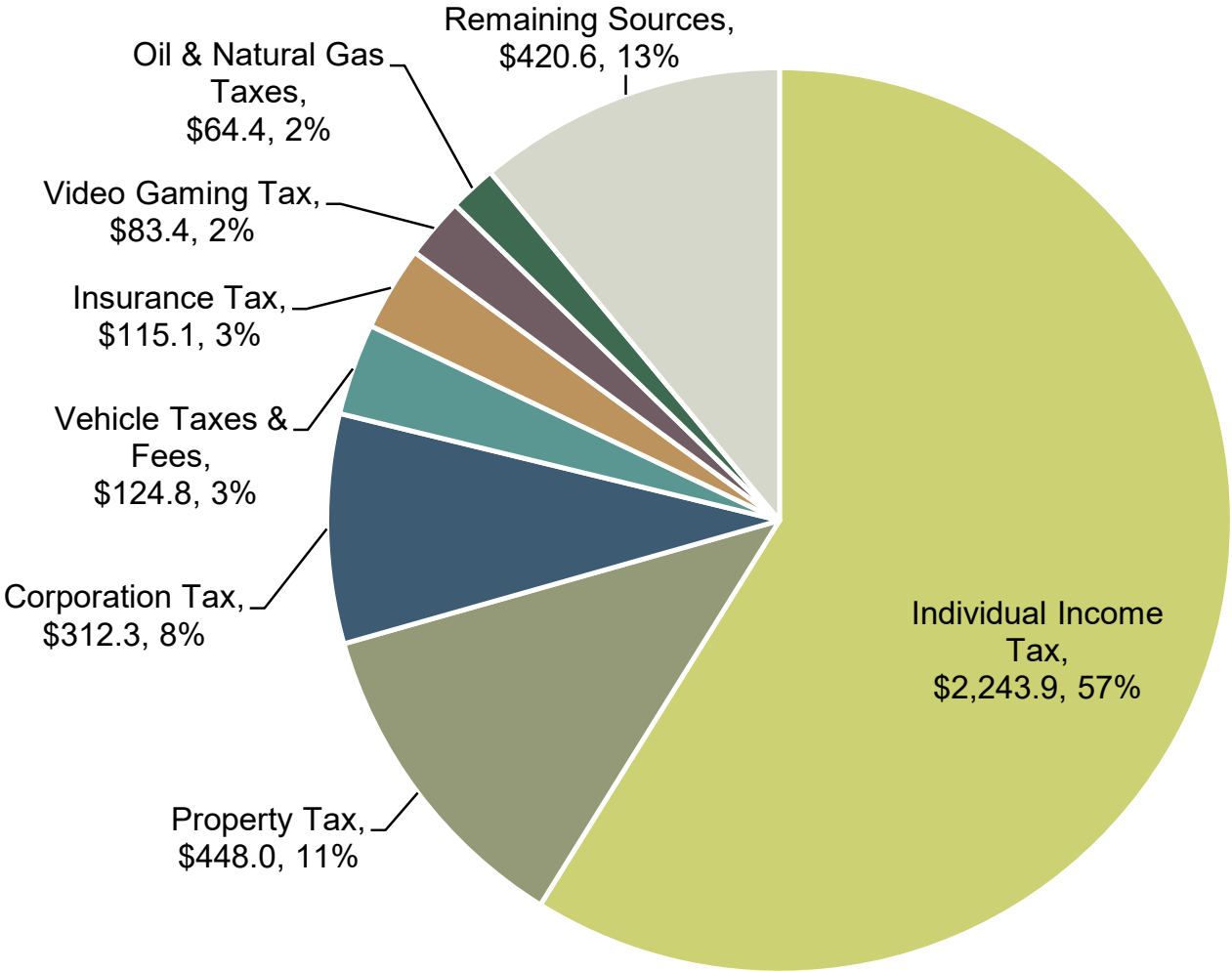


Business Income Tax Changes

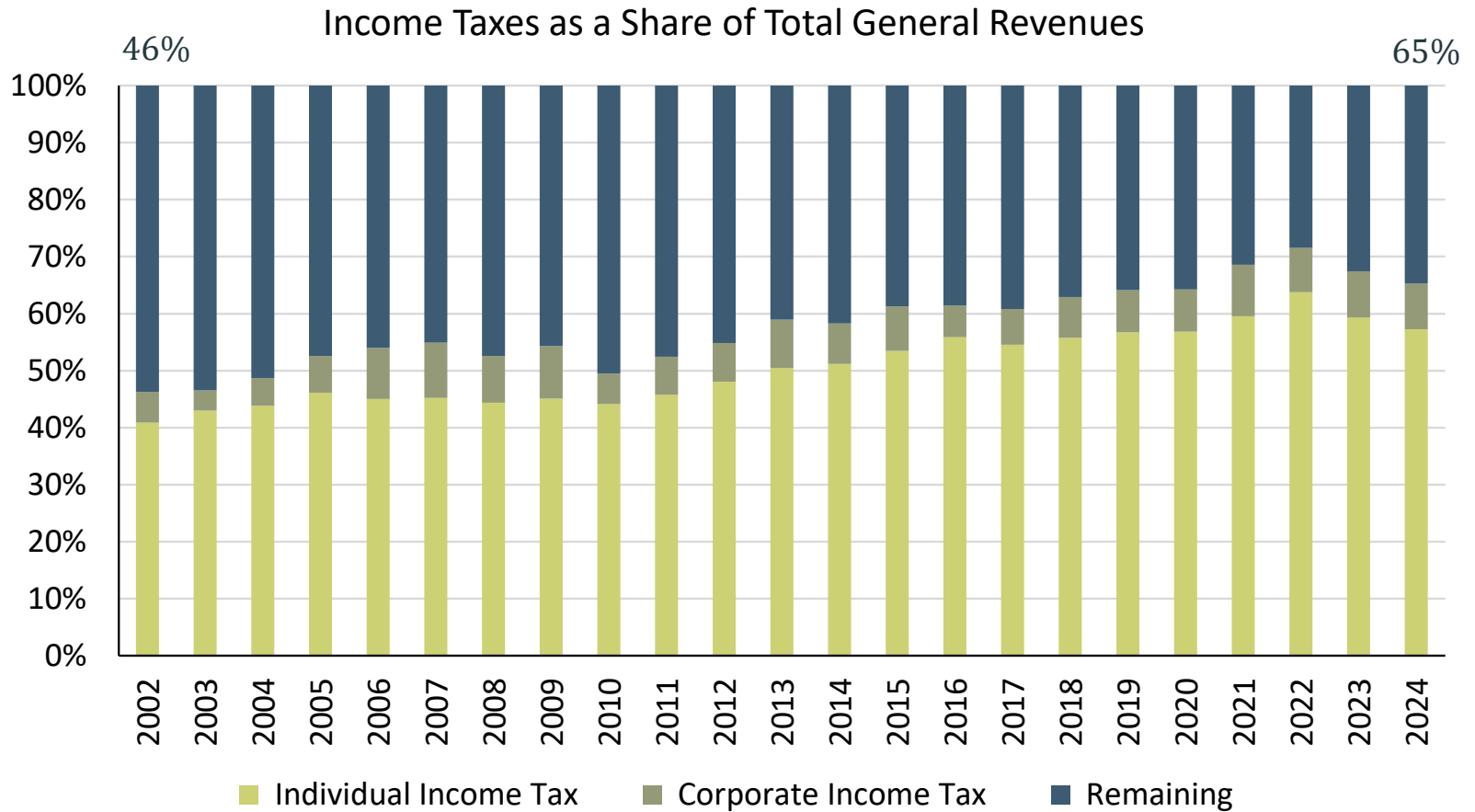
Bills revised corporate apportionment and created an optional pass-through entity tax

| Bill | Purpose |
|-------------------------------|--|
| SB 376 (2021) | Adopted double weighted sales factor apportionment |
| SB 124 (2023) | Adopts single sales factor apportionment for 2025 |
| SB 246 (2023) | Eliminated inclusion of tax havens for water's edge election |
| SB 554 (2023) | Provided for optional pass-through entity tax |

FY 2024 Ongoing General Revenues = \$3,810 million



Income tax revenue



Income Taxes are Volatile

Individual & Corporate Income Tax Annual Growth



Other Large Revenue Sources more Stable

Video Gaming and Vehicles Taxes Annual Growth



Pass-Through revenue impact

- SB 554 provided for an optional pass-through entity tax
- Taxpayers can elect to pay income tax from pass through businesses through their entity
- Taxpayers must report their pass-through income when they file their individual return, but since the tax has already been paid, they are issued a credit.
- The timing of when the credit is used can impact FY collections from one year to the next, but ultimately is revenue neutral in the long-term.



What is TCJA?



Tax Cuts and Jobs Act (2017)



Federal changes to individual and corporate income tax



Included permanent changes and changes that expire in 2025



Montana linked to federal taxable income after TCJA enactment:
expiration/changes may affect Montana income tax

TCJA Expiring Provisions That May Affect Montana Income Tax

Deductions/Exemptions

- Standard deduction returns to \$6,350 (half current)
- Itemized deduction expirations
 - \$10,000 SALT limit
 - Mortgage interest limit of \$750k (back to \$1M)
- Personal exemptions return: \$4,050 per family member

Bonus Depreciation

Depreciating equipment more quickly reduces taxes

- 2025: 40%
- 2026: 20%
- 2027: 0%

Questions?