# 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: June 10, 2025

TO: Legislative Finance Committee

FROM: Sam Schaefer and Josh Poulette

RE: H.R.1 Provisions and Impacts to Montana's Budget

**Tax Provisions Impact**

The Federal House Resolution 1 (H.R.1), which passed the US House of Representatives on May 22 includes multiple tax provisions that will impact Montana 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 following tax provisions in H.R.1 would have a retroactive effective date of January 1, 2025.

- Make permanent and increase standard deduction: The standard deduction levels created in the TCJA would be made permanent and increase for TY 2025 by $1,000 for single filers and $2,000 for joint filers.

- Enhanced deduction for seniors: Under the current version of H.R.1, an additional deduction of $4,000 is allowed for those individuals who are 65 or older. There is a phaseout of this deduction based on the taxpayer's income level.

- Car loan interest deduction: This provision would allow 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.

- No tax on tips: This provision would allow a deduction equal to the amount of qualified tips received during the tax year, even for taxpayers who do not itemize their deductions.

- No tax on overtime: This provision would allow 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 would be allowed for all taxpayers who qualify, regardless of if they elect the standard deduction or choose to itemize their deductions.

The provisions outlined above will impact federal taxable income, and as of now it is the LFD's understanding that they will therefore impact Montana taxable income. The table below contains LFD's estimates of the impacts to Montana's individual income tax collections from the provisions outlined above. Note that these estimates are preliminary, and 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 | ($31.0) |
| Additional Deduction for Seniors | ($24.0) |
| Car Loan Interest Deduction | ($12.5) |
| No Tax on Tip Income | ($5.0) |
| No Tax on Overtime | ($50.0) |
| | |
| Estimated Total | ($122.5) |

**Federal Funding Impact**

H.R. 1, if enacted, will also impact 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).

<u>Medicaid:</u>

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

- Work requirements for certain Medicaid expansion adults beginning December 31, 2026. 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 October 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 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

- 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 October 1, 2026

- Reduces the federal matching rate for Medicaid expansion from 90% to 80% for states who cover individuals without a documented immigration status (excluding certain children/pregnant women) under Medicaid or state-based programs, effective October 1, 2027

These changes would likely have the net effect of lowering the state's Medicaid member months in a given year 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.

Preliminary analysis from State Health & Value Strategies at Princeton University/Manatt Health estimates the 1-year impact (FFY 2028) for Montana of these Medicaid changes between -$423 million (-$353 million of which is federal funds, with -$70 million state funds) and -$581 million (-$505 million of which is federal funds, with -$76 million state funds). This analysis also estimates a reduction in Medicaid enrollees of 30,514 for Montana in FFY 2028, 26,670 of which are Medicaid expansion adult enrollees.

<u>SNAP:</u>

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 15% state match, which equates to a cost of $25.9 million additional state funds per year. This provision begins October 1, 2027.

- Increased state match for SNAP administration upon enactment of the bill. This provision would cost $8.4 million additional state funds per year for Montana

**Potential Changes in the U.S. Senate**

H.R. 1 has moved to the U.S. Senate, where committee will consider reconciliation legislation. The budget reconciliation bill will then return to the House, where it must be approved as-is before being transmitted to the President. The White House and Congressional leadership have an end-date goal of July 4, 2025.

The Senate may consider changes to any of the items mentioned in this memo. Changes to Medicaid and SNAP are likely to be deliberated, as are many of the tax provisions, including the SALT deduction. A simple majority (51 votes) in the Senate is needed to pass a reconciliation bill like H.R. 1. Republicans hold 53 seats in the Senate.

## Additional Reading

"Preliminary Analysis of the Distributional Effects of the One Big Beautiful Bill Act" https://www.cbo.gov/publication/61422

"State Implications of One Big Beautiful Bill" https://taxfoundation.org/blog/big-beautiful-bill-state-implications-snap-medicaid-no-tax-on-overtime-tips/

"House Budget Bill Medicaid Proposals: State-by-State Estimates of Impacts on Expenditures and Enrollment" House Budget Bill Medicaid Proposals: State-by-State Estimates of Impacts on Expenditures and Enrollment