GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title:	**SB0538.01: Provide income tax deduction for qualified business income**		
Primary Sponsor:	Greg Hertz	Status:	As Introduced

☐ Included in the Executive Budget ☐ Needs to be included in HB 2 ☐ Significant Local Gov Impact

☒ Significant Long-Term Impacts ☐ Technical Concerns ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2025 Difference	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
Expenditures					
General Fund (01)	$0	$0	$0	$0	$0
Revenues					
General Fund (01)	($8,137,000)	($54,605,000)	$0	$0	$0
Net Impact General Fund Balance	($8,137,000)	($54,605,000)	$0	$0	$0

Description of fiscal impact
SB 538 eliminates Montana's income tax add-back for the federal Qualified Business Income deduction starting tax year 2025. The proposed bill will reduce general fund revenue by $8.137 million in FY 2025 and $54.605 million in FY 2026.

FISCAL ANALYSIS

Assumptions

1. Under current federal law, taxpayers are allowed to deduct up to 20% of qualified business income from a sole proprietorship, partnership, S corporation and some trusts when determining their federal taxable income and their federal income tax liability. This deduction is set to expire at the end of tax year (TY) 2025.
2. Current Montana law requires taxpayers to add-back any Qualified Business Income (QBI) deducted from their federal taxable income when determining their Montana taxable income.
3. SB 538 eliminates the current QBI deduction add-back required when determining a taxpayer's Montana taxable income. The elimination of the add-back applies retroactively, starting TY 2025.
4. The Department of Revenue's income tax model, with HJ 2 revenue assumptions, was modified to include the changes made by the proposed bill. The estimated income tax liability amounts for each tax year under the proposed bill where then compared to current law income tax liability forecasts.
5. Based on the department's income tax model, eliminating the QBI deduction add-back would reduce the income tax liability of full-year resident taxpayers by $41.685 million before credits for TY 2025. As the deduction is set to expire at the federal level in TY 2026, the proposed bill will have no impact on tax years after 2025 under current law. With approximately 506,000 households, the average tax liability change for all full-year resident households is estimated to be $82 in TY 2026.
6. As the proposed bill makes significant changes to the taxable income of taxpayers claiming the QBI

deduction, it is assumed that some taxpayers will change their withholdings and estimated payments as a result of the changes made by the bill.

7. The estimates used in HJ 2 assume that 80% of TY 2025 liability changes and 20% of TY 2026 tax liability changes will occurring in FY 2026. This distribution continues for all fiscal years.
8. It is assumed that the tax liability distribution changes made as a result of the exemption base change follows the pattern used in HJ 2 revenue forecasts.
9. The tax liability amounts from the proposed rate decrease were also adjusted using HJ 2 assumptions for missing filers, non-full-year resident taxpayers, audit assumptions, and population increases.
10. Based on the adjustments used for HJ 2, the proposed bill will reduce income tax revenue by $8.137 million in FY 2025 and $54.605 million in FY 2026.
11. The changes made by the proposed bill can be made as part of the Department of Revenue annual change process. The Department of Revenue does not expect to incur any significant costs because of this bill.

Fiscal Analysis Table

	FY 2025 Difference	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
Fiscal Impact					
Expenditures					
Funding of Expenditures					
Revenues					
General Fund (01)	($8,137,000)	($54,605,000)	$0	$0	$0
TOTAL Revenues	**($8,137,000)**	**($54,605,000)**	**$0**	**$0**	**$0**
Net Impact to Fund Balance (Revenue minus Funding of Expenditures)					
General Fund (01)	($8,137,000)	($54,605,000)	$0	$0	$0

Significant Long-Term Impacts

1. Under current law, the QBI deduction is set to expire at the end of TY 2025. If this deduction is continued at the federal level, the changes made by this bill will result in reduced Montana income tax collections after TY 2025.

NO SPONSOR SIGNATURE 3/28/25

Sponsor's Initials | Date | Budget Director's Initials | 3/28/2025 Date