GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: **SB0371.01: Generally revise agriculture laws - MT made products**

Primary Sponsor: Cora Neumann   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 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
Expenditures				
General Fund (01)	$0	$374,257	$368,457	$373,370
Revenues				
General Fund (01)	($5,079,600)	($25,580,600)	($26,511,800)	($27,500,400)
Net Impact	($5,079,600)	($25,954,857)	($26,880,257)	($27,873,770)
General Fund Balance				

Description of fiscal impact

SB 371 creates a subtraction from Montana taxable income of 50% of the net income from the sale of Montana produced goods. This subtraction is estimated to reduce individual and corporate income tax liabilities and general fund revenue by approximately $5,079,600 in FY 2026, $25,580,600 in FY 2027, $26,511,800 in FY 2028 and $27,500,400 in FY 2029. The Department of Revenue will require an additional 4.00 FTE to administer and audit the subtractions in this bill.

FISCAL ANALYSIS

Assumptions

Department of Revenue

1. SB 371 creates a subtraction to Montana taxable income from the sale of Montana produced goods. The subtraction is equal to 50% of the net income from the sales of Montana-produced goods. Montana produced goods is broadly defined in Section 2 as, "articles identified by the vendor as planted, cultivated, grown, harvested, raised, collected, processed, or manufactured in the state."
2. It is assumed that this income tax subtraction could apply to income generated from the sale of all goods grown, produced, manufactured or sold in Montana. There are not any data sources that publish an estimate of this value, so this fiscal note uses a published estimate of Montana made food retail sales and scales it up into an estimate of the value of all "Montana produced goods" as defined in this bill.
3. According to the Economic Value and Impact of Local Food in Montana study published in 2022 by Highland Economics, retail sales of locally produced food in Montana totaled $158.5 million. This bill would also allow subtractions for income generated at the farm, producer, manufacturer and wholesaler level, even if the final product isn't sold to a consumer in Montana and applies to income generated from all goods produced in Montana, not just food.
4. Based on 2022 economic census by industry data, the share of retail food sales in Montana relative to total sales in the production and sale of goods that may be included in the definition of "Montana produced

goods" in this bill is about 5.6%. Dividing the $158.5 million from the previous assumption by this retail food share, the estimated total "Montana produced goods" sales/revenue that could qualify for this deduction in 2022 was approximately $2.830 billion.

5. According to the 2022 Census of Agriculture, Montana farms and ranches produced $4.54 billion in agricultural products and generated net cash income of $1.14 billion. This is an income return of about 25% on total production and sales. Applying this 25% net income to the $2.830 billion in Montana produced goods sales, it is assumed the net income on those sales were approximately $708 million in 2022.
6. It is assumed this income has and will continue to grow according to the personal consumption expenditures estimates for goods. It is also assumed that half of this income will be claimed as a subtraction on pass-through/individual income tax returns with a tax rate of 5.9% and half on corporate income tax returns with a tax rate of 6.75%. The following table shows the estimated local income subtractions and the resulting impact on tax revenue for tax years 2026 to 2029. As specified in the bill, the income subtraction amount is 50% of the net income from Montana-produced sales. The bill applies to tax years beginning after December 31, 2025.

TaxYear	Total Montana Produced Goods Sales	Income from Montana Good Sales	Income Subtractions on Returns (50%)	Reduction is Income Tax Liabilities	Fiscal Year General Fund Revenue Impact
2026	$3,212,412,000	$803,103,000	$401,551,500	$25,398,000	($5,079,600)
2027	$3,327,876,000	$831,969,000	$415,984,500	$26,311,000	($25,580,600)
2028	$3,454,855,000	$863,713,750	$431,856,875	$27,315,000	($26,511,800)
2029	$3,572,138,000	$893,034,500	$446,517,250	$28,242,000	($27,500,400)

7. It is assumed that taxpayers will adjust their estimated payments because of the proposed subtraction, with 20% of the TY 2026 change in tax liability impacting tax collections in FY 2026 and the remaining 80% of the revenue reduction occurring in FY 2027. The same distribution applies to all following tax years. Therefore, this bill is estimated to reduce general fund revenue by approximately $5,079,600 in FY 2026, $25,580,600 in FY 2027, $26,511,800 in FY 2028 and $27,500,400 in FY 2029.
8. Based on the broad definitions included in the bill, it is hard to know the full spectrum of goods (and possibly services) that may qualify for the income subtraction in the bill. Depending on the interpretation of "Montana made goods" by taxpayers and the department, actual impacts could vary significantly from the estimates in this fiscal note.

DOR Adminstrative Expense

9. The Department of Revenue will have to create rules and update forms for the proposed subtraction. Also, this will be a complicated subtraction that will require some detailed auditing and verification by the department. To achieve this and maintain consistent compliance, the department will need four additional tax examiners, beginning in FY 2027 when TY 2026 tax returns begin being filed. Total costs to the department for these FTE are $374,257 in FY 2027, $368,457 in FY 2028, and $373,370 in FY 2029. These costs are a general fund expense.

Fiscal Analysis Table

	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
Fiscal Impact				
FTE	0.00	4.00	4.00	4.00
TOTAL Fiscal Impact	**0.00**	**4.00**	**4.00**	**4.00**
Expenditures				
Personal Services	$0	$325,813	$329,941	$334,130
Operating Expenses	$0	$48,444	$38,516	$39,240
TOTAL Expenditures	**$0**	**$374,257**	**$368,457**	**$373,370**
Funding of Expenditures				
General Fund (01)	$0	$374,257	$368,457	$373,370
TOTAL Funding of Expenditures	**$0**	**$374,257**	**$368,457**	**$373,370**
Revenues				
General Fund (01)	($5,079,600)	($25,580,600)	($26,511,800)	($27,500,400)
TOTAL Revenues	**($5,079,600)**	**($25,580,600)**	**($26,511,800)**	**($27,500,400)**
Net Impact to Fund Balance (Revenue minus Funding of Expenditures)				
General Fund (01)	($5,079,600)	($25,954,857)	($26,880,257)	($27,873,770)

Technical Concerns

Department of Revenue

1. Vendor, small business, and net income are not defined in the bill. DOR will require draft rules for these terms.
2. Based on the broad definitions included in the bill, it is assumed that the subtraction would apply to all tiers of sales (production to wholesale to retail) including the assembly of a product using non-Montana materials as a Montana made good.
3. This bill appears to favor Montana products over out-of-state products, and could be challenged as a violation of the Commerce Clause, Equal Protection, and Due Process.

NO SPONSOR SIGNATURE 2/28

Sponsor's Initials | Date

Budget Director's Initials | 2/28/2025 Date