



October 2012

## Policy Basics: Revenue Series

For generations, our tax dollars have served as shared investments in the programs and services that make our state a great place to live, work, and play. Tax dollars enable Montanans to work together for those things which we cannot achieve alone – a quality education for our children, the development and maintenance of infrastructure, public safety through police and fire protection, and clean air and water. These shared investments pave the way to a stronger economy where every Montanan can thrive.

This report, and every report in the Revenue Series, looks at how Montana raises tax dollars and who shares in the costs of our public investments.

## Introduction to Who Pays Montana's Taxes

One way to evaluate a tax system is to look at how that system affects different households based on how much income they make. An analysis of Montana's state and local taxes reveals that low-income Montanans pay higher taxes rates than those with higher incomes. In other words, Montana's tax system is regressive. In Montana, those with incomes below \$16,000 pay 6.1% of their income in state and local taxes, while those with income above \$434,000 pay 4.6% (Chart 1).

Chart 1 outlines the three main state and local taxes – income, property, and sales/excise—and how the cost of these taxes is distributed among taxpayers. Both property and sales/excise taxes are regressive. Conversely, income taxes are progressive. While the income tax is progressive, it does not offset the regressive effects of the property and sales/excise taxes. As a result, the entire system of state and local taxes is regressive. However, Montana's tax system would be substantially more regressive if it included a general sales tax.

Policy makers have several options to ease the regressivity of Montana's tax system. Such measures include:

- Repealing the capital gains credit,
- Restoring the income tax brackets,
- Disallowing a state income tax deduction for federal taxes paid,
- Implementing a state Earned Income Tax Credit,
- Reversing the shift of property taxes from commercial to residential property,
- Improving property tax relief programs,
- Updating the corporate minimum tax,
- Eliminating loss carrybacks for corporations.

### Key Terms

**Regressive Tax System** – a system in which lower-income households pay a larger portion of their income in taxes compared to those households with higher incomes.

**Progressive Tax System** – a system in which higher-income households pay a larger portion of their income in taxes compared to those households with lower incomes.

Each of these options will be discussed in the separate reports of MBPC's Revenue Series that explain each type of tax.

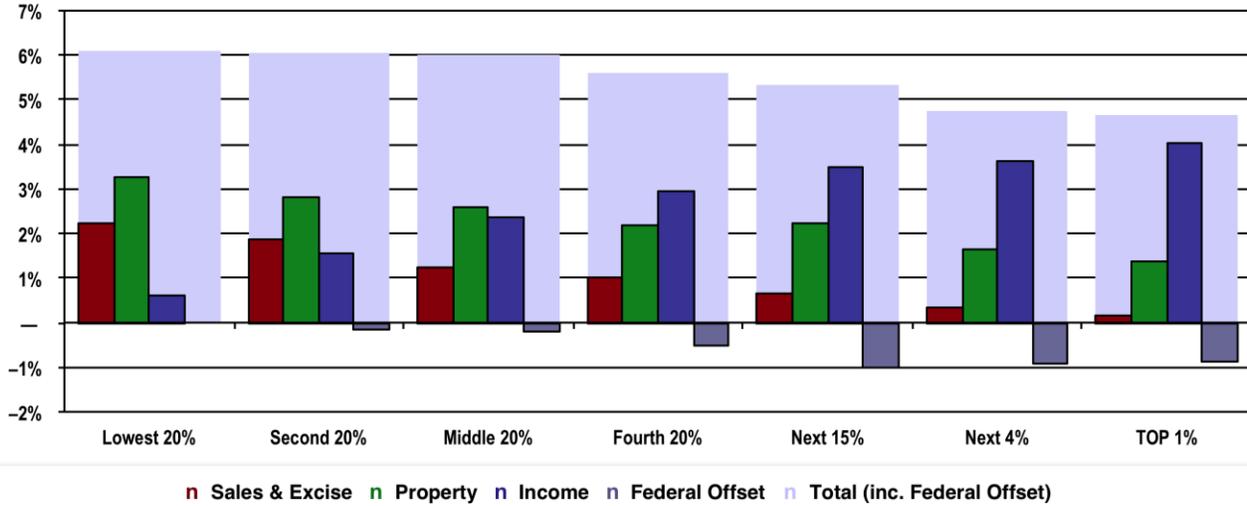
Policy Basics is a series of background reports on issues related to the Montana budget and Montana taxes. The purpose of the Policy Basics series is to provide the public, community advocates, and policy makers the tools they need to effectively engage in important fiscal policy debates that help shape the health and safety of our communities.

Chart 1: Montana's Low Income Families Pay the Highest Tax Rates

# Montana

## State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$16,000	\$16,000 – \$31,000	\$31,000 – \$47,000	\$47,000 – \$76,000	\$76,000 – \$151,000	\$151,000 – \$434,000	\$434,000 or more
Average Income in Group	\$8,700	\$22,500	\$37,500	\$60,300	\$101,900	\$231,900	\$1,097,200
<b>Sales &amp; Excise Taxes</b>	<b>2.2%</b>	<b>1.9%</b>	<b>1.3%</b>	<b>1.0%</b>	<b>0.6%</b>	<b>0.4%</b>	<b>0.1%</b>
General Sales—Individuals	—	—	—	—	—	—	—
Other Sales & Excise—Ind.	1.9%	1.6%	1.0%	0.8%	0.5%	0.3%	0.1%
Sales & Excise on Business	0.3%	0.3%	0.2%	0.2%	0.1%	0.1%	0.0%
<b>Property Taxes</b>	<b>3.3%</b>	<b>2.8%</b>	<b>2.6%</b>	<b>2.2%</b>	<b>2.2%</b>	<b>1.7%</b>	<b>1.4%</b>
Property Taxes on Families	2.7%	2.3%	2.1%	1.8%	1.8%	1.1%	0.5%
Other Property Taxes	0.5%	0.5%	0.4%	0.4%	0.4%	0.6%	0.9%
<b>Income Taxes</b>	<b>0.6%</b>	<b>1.5%</b>	<b>2.4%</b>	<b>2.9%</b>	<b>3.5%</b>	<b>3.6%</b>	<b>4.0%</b>
Personal Income Tax	0.6%	1.5%	2.3%	2.9%	3.5%	3.5%	3.8%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.3%
<b>TOTAL TAXES</b>	<b>6.1%</b>	<b>6.2%</b>	<b>6.2%</b>	<b>6.1%</b>	<b>6.4%</b>	<b>5.7%</b>	<b>5.5%</b>
Federal Deduction Offset	—	-0.2%	-0.2%	-0.5%	-1.0%	-0.9%	-0.9%
<b>TOTAL AFTER OFFSET</b>	<b>6.1%</b>	<b>6.1%</b>	<b>6.0%</b>	<b>5.6%</b>	<b>5.4%</b>	<b>4.8%</b>	<b>4.6%</b>

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.