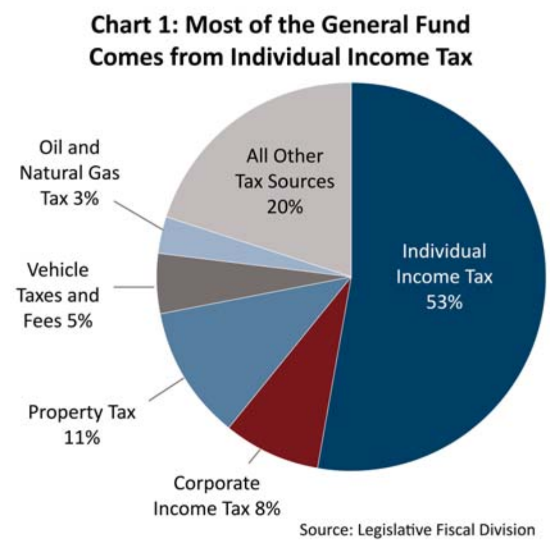
Policy Basics
Montana Corporate Income Taxes
Fall 2016

Introduction to Montana's Corporate Income Tax



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 to achieve things which we could not do alone - educate our children, build and maintain infrastructure, provide public safety through police and fire protection, keep our air and water clean, and pave the way to a stronger and more inclusive economy. Corporations that operate in Montana (whether they own property, pay staff, or sell products) are required to pay a tax as a percentage of their net income earned in Montana. In turn, corporations benefit greatly from our shared investments. For example, corporations hire workers educated through Montana's public schools and colleges, utilize infrastructure like roads and water systems, and benefit from Montana's public safety and legal system.

Montana, these shared investments are managed through the state's "general fund." Taxes make up the vast majority (96%) of the revenue for the General Fund, and the individual income tax is the single largest source of revenue for the general fund, comprising just over half of the state's tax revenue (Chart 1.) [1,2] In general, taxes paid by corporations are paid through the corporate income tax. However, depending on how the entity is structured, business income may actually be reported through the individual income tax.

Specifically, if the business is structured as a C corporation in order to receive the legal benefits associated with such a status (including limited liability for debts and business actions and access to capital markets), its taxes would be classified as corporate taxes. All other businesses, including sole proprietorships, partnerships, limited liability corporations, and S-corporations, report income on individual returns, and this amount is reflected in both pass-through income and business income, which comprises less than 15 percent of total individual income.[3] Taxes on business income make up just 3.5% of total income subject to individual income taxes.

Nationally, corporate taxes as a percent of the economy have declined over the last several decades. In the 1950's corporate taxes as a percent of the national economy averaged nearly 5%.[4] Over the last decade, that rate has dropped to 2%.[5] Likewise in Montana, corporate taxes have been declining since the late 1970s, making up a smaller and smaller portion of total state taxes (Chart 2).[6] In 1981, corporate income tax made up 11% of total Montana taxes, wheras in 2013 that number was down to six percent.

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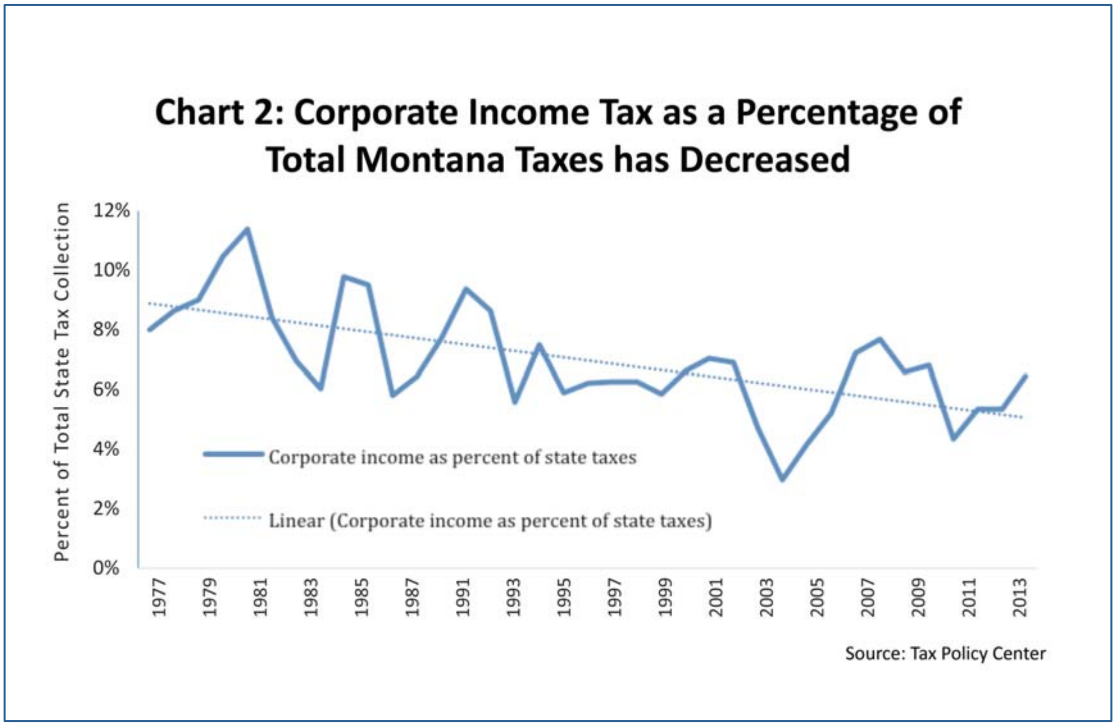
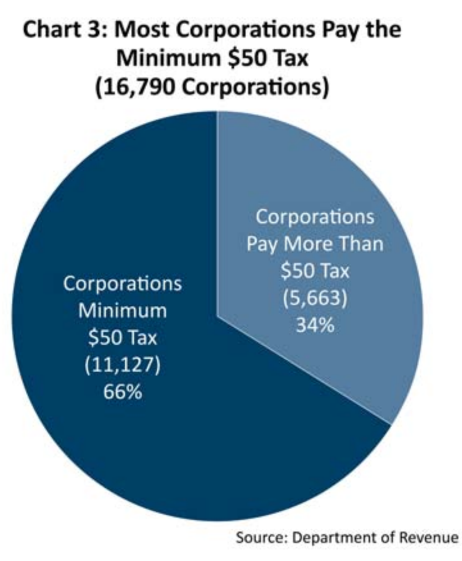


Most Montana Corporations Pay the $50 Minimum

In 2012, Montana had over 16,000 C corporations, and only a third of them paid more than the $50 minimum corporate tax (Chart 3). According to Montana's tax code, corporations pay either 6.75% of their net income earned in Montana or $50, whichever is greater.[7] In 2012, over 11,000 (or 66 percent) of C corporations filed a return where the minimum tax was paid.

The phenomenon of corporations paying little to no state taxes has been well-documented nationally. A recent national study found that 90 profitable Fortune 500 companies paid no state income taxes in at least one year between 2008-2012.[8] Of the 269 corporations that disclose all federal, state, and local taxes, the combined tax rate for state taxes paid was less than half of the actual average tax rate in these states.[9]



Many profitable corporations are able to avoid paying state corporate income taxes because of:

- Federal credits and deductions with which Montana automatically complies;
- State level tax loopholes for which corporations have successfully lobbied; and
- Creative accounting utilized by corporations.[10]

The minimum corporate tax in Montana has been $50 since 1969.[11] Had this tax kept up with inflation, today's minimum amount would be $327.[12] Updating the corporate minimum tax to account for past inflation and making sure it automatically adjusts for future inflation would modernize our tax system and slow the decline in corporate income taxes. Increasing the corporate minimum tax to $327 would raise at least $3 million in additional revenue per year.[13] As costs rise for providing the basic public services, infrastructure, and education that benefit corporations, the contributions of those corporations should rise too.

Some Good News: Montana Has Been a Leader in Combined Reporting

Combined reporting is an important policy tool that prevents corporations from utilizing a variety of tax avoidance strategies. Montana has been a leader in this area by using combined reporting for decades. A majority of states with corporate income taxes now utilize combined reporting.[14]

What is Combined Reporting?

Many large companies consist of a parent company and its subsidiaries. Combined reporting requires a parent company to add its income and its subsidiaries' incomes for the purposes of state corporate income taxes. Montana then taxes its share of the total income based on the level of activity in Montana. States without combined reporting are vulnerable to a wide array of tax avoidance strategies by corporations. The tax avoidance strategies usually involve artificially shifting profits to subsidiaries that are in states without corporate income taxes or that do not tax a specific type of subsidiary.

Combined reporting ensures that corporations pay their fair share of taxes in Montana based on their corporate activity in Montana. In addition, it improves fairness for smaller Montana-based companies. Local companies do not have subsidiaries across the country to which they can shift profits. Without combined reporting, large, multistate companies could engage in tax avoidance strategies that give them a competitive advantage over smaller, local businesses.

Outdated Tax Havens List Limits the Effectiveness of Combined Reporting

Montana requires worldwide combined reporting, which means that corporations with common ownership must report all income worldwide, unless they make a "water's edge election." The water's edge election allows multinational corporations to only report their income from the United States, rather than their worldwide income. In exchange, these companies agree to pay a 7% tax rate, rather than the normal rate of 6.75%.

There are some limits to the water's edge exclusion of international income. If a subsidiary is located in a country that is a known tax haven, the corporation may not exclude that subsidiary's income even under the water's edge election. In order for this exception to be useful and avoid inappropriate income shifting, the list of tax havens must be updated regularly in Montana law. The 2015 Montana Legislature failed to pass Senate Bill 167) that would have expanded the list of known tax havens and tighten other rules regarding the water's edge election. If passed, the bill would have raised roughly $1.2 million per year and improved fairness for local companies.[15]

The water's edge election creates an uneven playing field for Montana-based businesses without an international presence, as it allows multinational businesses the opportunity to shift profits overseas without paying state corporate tax reflecting actual operations in the state. Tax haven abuse has grown exponentially over the past several decades, as more and more corporations have become international in scope and the industry of tax attorneys and accountants specializing in international tax planning has expanded. A recent report by Congressional Research Service estimates the overall loss of revenue to the United States as a result of offshore tax shelters at around $100 billion per year.[16] The number of corporations that filed a water's edge election in Montana increased 226% from 2007 to 2012.[17] A proposal to eliminate the water's edge election has been proposed in the past several sessions (Senate Bill 166 in 2015), which would raise approximately $8 million in additional revenue.[18]

Net Operating Loss Carryback Worsens Montana's Fiscal Challenges in Downturns

The net operating loss carryback, a relatively obscure and costly feature of the income tax code, allows businesses experiencing an operating loss in the most recent tax year to file amended tax returns for the three previous years, deducting the current year's loss against any profits earned in those previous years.[19] The corporation can elect to receive a refund or apply the refund to the next year's tax liability. Montana is one of only 17 states that still allow the net operating loss (NOL) carryback deduction.[20] Unlike Montana, many of these states limit the amount of losses that companies can carryback.[21] For example, Idaho limits losses that can be carried back to $100,000 in the preceding two years. [22]

The NOL is particularly harmful during economic downturns. Individuals and corporations earn less during downturns and, in turn, tax revenue to the state decreases. Allowing businesses to receive a refund for previously paid taxes serves only to further compound Montana's revenue problems during downturns. As a result, the state may struggle to fund essential public services like education, healthcare, prescription drug and child care assistance at a time when many Montanans need them the most. Eliminating the NOL carryback would bring in much-needed revenue, decrease the volatility of corporate tax revenues, and avoid unnecessary, self-inflicted fiscal damage for the state.

If the NOL carryback were eliminated, businesses could still utilize the NOL carryforward. This provision allows businesses to carry their net operating losses forward and deduct them against future profits, providing tax relief for corporations during difficult times, but not at the expense of fiscal responsibility.

Corporate Tax Expenditures

Tax expenditures are often described as ''silent spending.'' They come in the form of preferences such as tax deductions, exemptions, deferrals, exclusions, credits, or lower tax rates given to individuals or businesses. Tax expenditures are considered a form of spending because they allocate funds for specific public purposes, but not through direct appropriations. These expenditures are commonly referred to as tax loopholes or incentives. They have a significant impact on state revenue as they reduce or eliminate revenue that would have otherwise been collected. Tax expenditures are not inherently good or bad policy. However, just like other state spending, they should be reviewed and evaluated on a regular basis to evaluate whether they are meeting the intended goals.

The Department of Revenue creates a report of tax expenditures each biennium. However, there is no requirement that tax expenditures are reviewed regularly by the Legislature. Corporate tax expenditures cost Montana between $11 and 16 million per year.[23] For more information about tax expenditures see Montana Budget and Policy Center's 2011 report, Flying Under the Radar: Time to Evaluate Tax Expenditures.

A Costly and Ineffective Tax Expenditure: The Domestic Production Deduction

Montana currently allows a tax break for corporations, which does nothing to promote business in the state. Montana bases its tax code on the federal tax code, meaning that deductions allowed at a federal level are automatically given at a state level unless specifically disallowed by the state. The "domestic production deduction" is a tax expenditure the federal government passed for certain activities such as filmmaking, mining, and construction that occur anywhere in the United States. However, this means that corporations receive a deduction for these activities when paying Montana state taxes, even if the production actually occurred in another part of the country.

This deduction, which has never been voted on by state lawmakers, reduced the income tax revenue to the general fund by $5.2 million in 2013. Non-residents of Montana claim the vast majority of the value of this deduction.[24] For more information about the domestic production deduction, see Montana Budget and Policy Center's 2011 report, Montana Can Bypass a Costly and Ineffective Federal Tax Break for Corporations.

Reforms for a Stronger Montana

All Montanans want a strong economy where small businesses can thrive, where workers can support their families, and where our children can stay in Montana and find meaningful work. To create a more inclusive and prosperous economy for future generations, we must continue to invest in our education systems, in our infrastructure, and in the health and safety of our communities. The corporate income tax is one way that we pool our resources to make sure that those investments happen. The following reforms would modernize Montana's corporate income tax system and strengthen our ability to invest in a stronger and more inclusive economy:

- Adjusting the corporate minimum tax for inflation;
- Repealing the net operating loss carryback;
- Expanding the list of tax havens under the water's edge provisions (or eliminating the election);
- Requiring the review or sunset of tax expenditures; and
- Decoupling from the federal domestic production deduction.

[1] Montana Legislative Fiscal Division. "Report to Revenue and Transportation Interim Committee Members." Fiscal Year 2015. http://leg.mt.gov/content/Committees/Interim/2015-2016/Revenue-and-Transportation/Meetings/June-2016/lfd-general-fund-trends-6.pdf

[2] Montana Department of Revenue. "Biennial Report: July 1, 2012- June 30, 2014." December 2014. https://revenue.mt.gov/Portals/9/publications/biennial_reports/2012-2014/BiennialReport-2012-2014.pdf and Legislative Fiscal Division. "2019 Outlook for the General Fund Budget." June 16, 2016. http://leg.mt.gov/content/Publications/fiscal/interim/2016financemty_june/2019-Outlook-Updated-Version.pdf

[3] Montana Department of Revenue. "Biennial Report: July 1, 2012- June 30, 2014." December 2014. https://revenue.mt.gov/Portals/9/publications/biennial_reports/2012-2014/BiennialReport-2012-2014.pdf.

[4] Office of Management and Budget. "Historical Tables: Budget of the U.S. Government Fiscal Year 2017." Accessed September 4, 2011. https://www.whitehouse.gov/sites/default/files/omb/budget/fy2017/assets/hist.pdf

[5] Tax Policy Center. "Source of Revenue as a Share of GDP." Accessed October 4, 2016. http://www.taxpolicycenter.org/statistics/source-revenue-share-gdp

[6] State and Local Finance Initiative Data Query System. Urban Institute. Accessed September 4, 2016. http://slfdqs.taxpolicycenter.org/pages.cfm

[7] Montana Department of Revenue. "Biennial Report: July 1, 2012- June 30, 2014." December 2014. https://revenue.mt.gov/Portals/9/publications/biennial_reports/2012-2014/BiennialReport-2012-2014.pdf. Because of privacy restrictions, data is not available on which corporations paid the minimum of $50.

[8] Robert S. Mc. Intyre, Matthew Gardner, and Richard Phillips. "90 Reasons We Need State Corporate Tax Reform." Citizens for Tax Justice and the Institute on Taxation and Economic Policy. March 2014. http://ctj.org/90reasons/90ReasonsFull.pdf

[9] Robert S. Mc. Intyre, Matthew Gardner, and Richard Phillips. "90 Reasons We Need State Corporate Tax Reform," Citizens for Tax Justice and the Institute on Taxation and Economic Policy, March 2014, http://ctj.org/90reasons/90ReasonsFull.pdf

[10] Robert S. Mc. Intyre, Matthew Gardner, and Richard Phillips. "90 Reasons We Need State Corporate Tax Reform," Citizens for Tax Justice and the Institute on Taxation and Economic Policy, March 2014, http://ctj.org/90reasons/90ReasonsFull.pdf

[11] Montana Department of Revenue. "Biennial Report: July 1, 2012- June 30, 2014." December 2014. https://revenue.mt.gov/Portals/9/publications/biennial_reports/2012-2014/BiennialReport-2012-2014.pdf

[12] U.S. Bureau of Labor Statistics. "CPI Inflation Calculator." September 4, 2012. http://www.bls.gov/data/inflation_calculator.htm

[13] This is a conservative estimate of the amount of revenue an increase in the minimum corporate tax would generate, as it is calculated using the number of corporations currently paying the minimum $50 tax. It does not include corporations currently paying between $51-$327 who would also be affected by the increase. MBPC calculation using Montana Department of Revenue. "Biennial Report: July 1, 2012- June 30, 2014." December 2014. https://revenue.mt.gov/Portals/9/publications/biennial_reports/2012-2014/BiennialReport-2012-2014.pdf

[14] Michael Mazerov. "A Majority of States Have Now Adopted a Key Corporate Tax Reform — "Combined Reporting." Center on Budget and Policy Priorities. April 3, 2009. http://www.cbpp.org/cms/index/cfm?fa+view&id=246

[15] Governor's Office of Budget and Program Planning. "SB 0167 Fiscal Note 2017 Biennium." January 26, 2015. http://leg.mt.gov/bills/2015/FNPDF/SB0167_1.pdf

[16] J. Gravelle. "Tax Havens: International Tax Avoidance and Evasion." Congressional Research Service. January 15, 2015

[17] Montana Department of Revenue. "Biennial Report: July 1, 2012- June 30, 2014." December 2014. https://revenue.mt.gov/Portals/9/publications/biennial_reports/2012-2014/BiennialReport-2012-2014.pdf

[18] Governor's Office of Budget and Program Planning. "Fiscal Note 2017 Biennium: SB 166." January 23, 2015. http://leg.mt.gov/bills/2015/FNPDF/SB0166_1.pdf

[19] Montana Annotated Code 15-31-119.

[20] Montana Department of Revenue. "Biennial Report: July 1, 2012- June 30, 2014." December 2014. https://revenue.mt.gov/Portals/9/publications/biennial_reports/2012-2014/BiennialReport-2012-2014.pdf

[21] Michael Mazerov. "Minority of States Still Granting Net Operating Loss "Carryback" Deductions Should Eliminate Them Now." Center on Budget and Policy Priorities. May 11, 2009. http://www.cbpp.org/cms/index/cfm?fa+view&id=2760

[22] Montana Department of Revenue. "Biennial Report: July 1, 2012- June 30, 2014." December 2014. https://revenue.mt.gov/Portals/9/publications/biennial_reports/2012-2014/BiennialReport-2012-2014.pdf

[23]The water's edge election expenditure amount is an estimate from $8-13 million. Montana Department of Revenue. "Biennial Report: July 1, 2012- June 30, 2014." December 2014. https://revenue.mt.gov/Portals/9/publications/biennial_reports/2012-2014/BiennialReport-2012-2014.pdf

[24] "An individual can claim the deduction based on income from production activities carried out by a sole-proprietor business or the taxpayer's share of income from production activities carried out by a pass-through entity." Montana Department of Revenue. "Biennial Report: July 1, 2012- June 30, 2014." December 2014. https://revenue.mt.gov/Portals/9/publications/biennial_reports/2012-2014/BiennialReport-2012-2014.pdf

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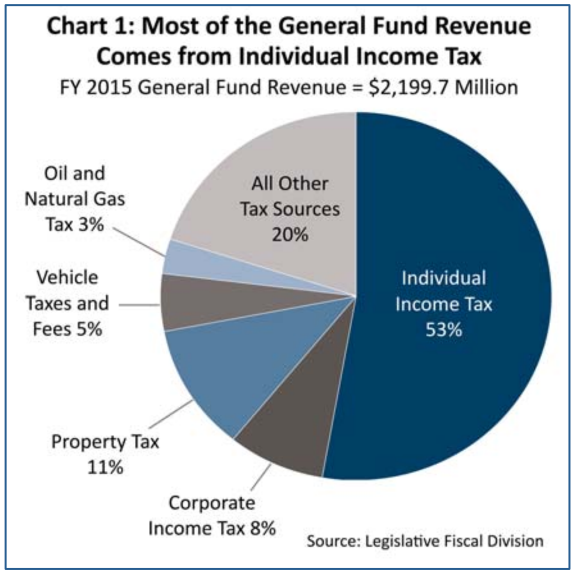
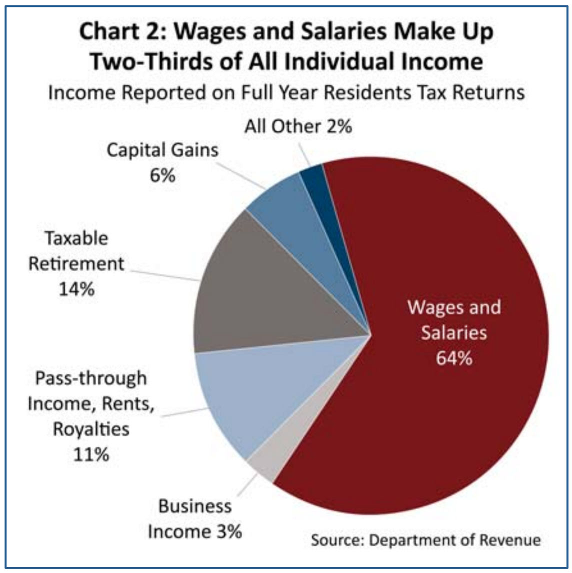


For generations, our tax dollars have served as shared investments in the programs and services that make our state a great place to live, work, and play. Tax dollars enable Montanans to work together for those things which we could not achieve alone - educate our children, build and maintain infrastructure, provide public safety through policy and fire protection, keep our air and water clean, and pave the way to a strong economy where every Montanan can thrive.

In Montana, these shared investments are managed through the state's "general fund." Taxes make up the vast majority (96%) of the revenue for the General Fund,[1] and the individual income tax is the single largest source of revenue for the general fund, comprising just over half of the state's tax revenue (Chart 1).



Taxes paid on wages, salaries, and tips made up almost two-thirds (64%) of income subject to individual income tax (Chart 2).[2] In general, taxes paid by corporations are paid through the corporate income tax. However, depending on how the entity is structured, business income may actually be reported through the individual income tax. Specifically, if the business is structured as a C corporation in order to receive the legal benefits associated with such a status (including limited liability for debts and business actions and access to capital markets), its taxes would be classified as corporate taxes.

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2003 Changes to the Montana Income Tax Significantly Cut Taxes for Wealthiest Households

In 2003, the Montana Legislature made significant and harmful changes to our income tax system. That year, legislators passed a bill that greatly altered Montana's tax system, providing a significant tax cut for wealthiest households.[4] The changes made in 2003 included collapsing the income tax brackets and creating a tax cut for capital gains income. Both of these provisions make our tax system more **regressive**, giving a greater tax cut to high-income households, and cost the state nearly a billion dollars in revenue that could have been used to invest in our future.

Bracket Collapse Disproportionately Benefits Wealthiest

Prior to the tax cuts implemented in 2003, Montana had ten different income brackets, with each higher income bracket paying a slightly larger share of their income in taxes (Appendix A).[5] In this old structure, the lowest income bracket paid 2% of their income in taxes, while the highest bracket (applying to incomes over $102,000, adjusted for 2015) paid 11% of that income in taxes.[6]

The changes in 2003 reduced the total number of income brackets to six. In 2015, the top bracket now includes all households making over $17,100.[7] That means someone earning just above the minimum wage now faces the same top marginal tax rate as someone making $1 million. As a result of the 2003 tax cuts, the wealthiest households experienced the greatest tax reductions. For those with incomes of over $500,000, the top 0.4% of taxpayers, the average tax reduction was $30,499. For the bottom 81% of Montana taxpayers, the average tax cut was just $23 (Chart 3).[8]

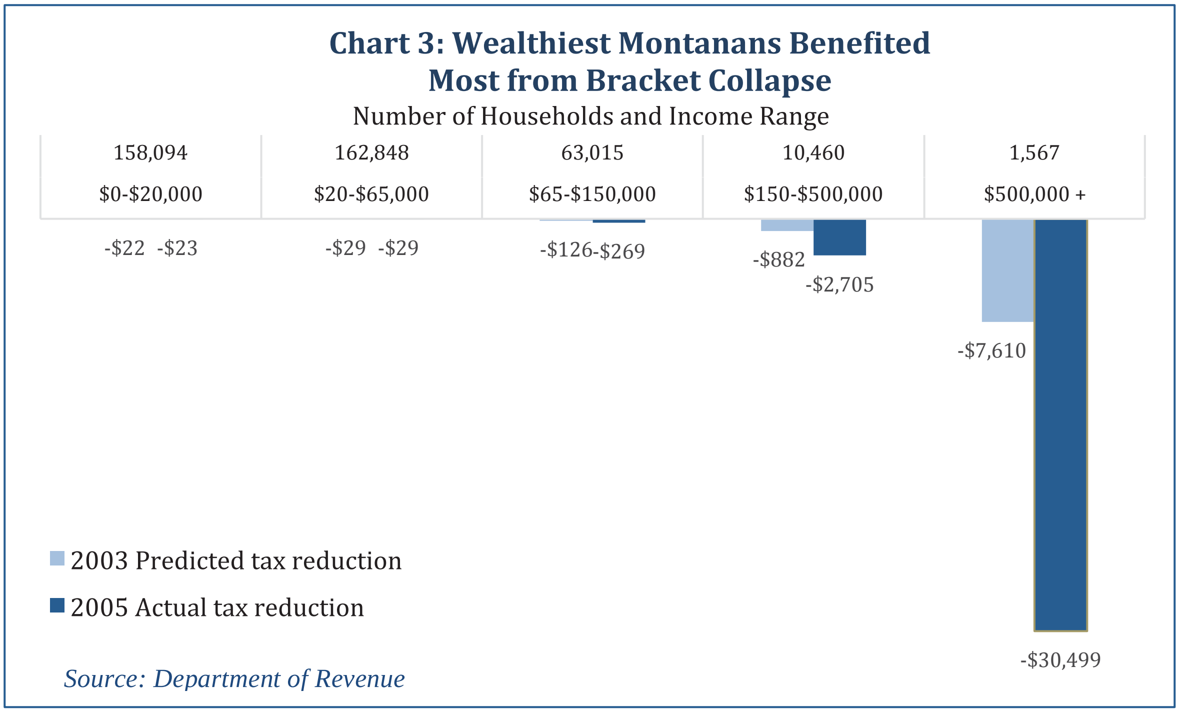
Key Terms

Progressive – refers to a tax or a tax system in which higher-income households pay a larger portion of their income in taxes compared to those households with lower incomes.

Regressive – refers to a tax or tax system in which lower-income households pay a larger portion of their income in taxes compared to those households with higher incomes.

As a whole, the bracket collapse has created a more regressive income tax structure. In fact, while our individual income tax remains slightly progressive, it is not progressive enough to offset the regressivity of our property taxes and selective sales and excise taxes.[9] In other words, **when looking at the entire tax system in Montana, lower-income taxpayers pay a larger portion of their income in taxes compared to those with higher incomes.**

The changes made have also had a negative impact on Montana's revenue streams. In the past decade, it is estimated that the state has *lost one billion dollars* in revenue due to the bracket collapse.[10] This lost revenue could have been used to educate our children, keep our communities safe, and protect our land and water instead of reducing taxes for those who need it the least. For further information about the income tax bracket collapse, see Montana Budget and Policy Center's report, The Montana We Could Be: Tax cuts, aimed at the rich, take a toll.



Capital Gains Credit Favors Wealth Over Work

Currently, Montana is one of only nine states that offer significant tax breaks for capital gains.[11] The capital gains credit has proven to be unaffordable, is unfair to Montanans who earn income through wages, and has not benefited the Montana economy.[12]

The capital gains credit lowers the effective tax rate for people who earn income through investments compared to those who earn income from wages. This creates a tax system that favors wealth over work. Eighty seven percent of the benefits from the credit go to the top 20% of taxpayers, with half of the capital gains tax cut going to the wealthiest 4,500 taxpayers (households with income over $365,000).[13,14]

Nearly all middle and lower income Montanans do not benefit from the credit because they are much more likely to earn their income on the job rather than through the sale of large assets. In 2013, over 85% of Montana taxpayers – more than 468,000 taxpayers – did not receive any benefit from the capital gains credit.[15] In fact, the assets owned by most Montanans - primary residences and retirement funds – are not treated as capital gains income when they are sold.

Key Term

Capital Gains – Capital gains are income from the sale of an asset, such as stocks, bonds, vacation homes, art, a business, etc. Capital gains income is only "realized" when the asset is sold for a profit. As long as the investor continues to own the asset, any increase in value is not considered income. Capital gains are taxed only when the asset is sold. The first $500,000 in capital gains from primary residences is not taxed. Likewise, profits from the sale of an individual retirement account are not treated as capital gains.

Economic theory and experience teach us that treating capital gains more favorably than wages will not help the economy. In fact, the lost tax revenue could actually prevent growth by forcing state budget cuts. The capital gains credit cost Montana an estimated $29 million in 2013.[16] These vital dollars could have been used to fund growth-oriented services like education, healthcare and environmental protections. For further information see Montana Budget and Policy Center's report, Ending Preferential Treatment of Capital Gains Income.

Montana Taxes Families Experiencing Poverty

In Montana, our income tax system makes it even harder for many low-income, working families to provide for their basic needs. By all measures, our income tax structure places one of the highest burdens in the nation on families living in poverty. Montana begins taxing a two-parent family with two children at a lower annual income than nearly all other states in the country.[17] We begin taxing such a family when their income reaches $13,480 per year (about 55 percent of the federal poverty level).[18]

Key Term

Income Tax Threshold – The income tax threshold is the amount of family income at which a household first begins to owe income taxes.

We also tax the income of workers living in poverty at a higher rate than most other states. Montana single parent families with two children have a higher tax liability than all states except Georgia, Hawaii, and Alabama. This family would owe an average of $174 per year in Montana.[19] Most states do not impose income taxes on families living below the federal poverty line.[20] In fact, twenty-six states (and the District of Columbia) have enacted state earned-income tax credits to supplement the income of working families who fall below the poverty line.[21] Montana could substantially improve the tax treatment of low-income families by implementing a state Earned Income Tax Credit. For more information see Montana Budget and Policy Center's report, Investing in Montana's Working Families: A Montana Earned Income Tax Credit (EITC).

Deduction for Federal Taxes Paid

Montana is one of just six states that still has a deduction for federal income taxes paid, a deduction that disproportionately benefits the highest income earners in the state and costs the state much-needed revenue.[22] In 2013, this deduction cost nearly $67 million.[23]

The deduction for federal taxes paid is an unusual tax break that allows taxpayers to deduct the federal taxes they pay from their Montana taxable income. The deduction is only available to those who utilize itemized deductions and is capped at $5,000 for single ($10,000 for married) taxpayers.[24] This deduction was implemented in 1933 and no longer makes sense for Montana.[25]

Eliminating this deduction would impact a little more than one-third of taxpayers overall, with over two-thirds of the tax increase going to the top 20% of taxpayers. Halving the deduction from $5,000 to $2,500 per spouse is another option that would generate $27,200,000 in revenue for the state.[26]

Conclusion: Reforms for a Stronger Montana

Our income tax system is one of the primary ways that we pool our resources to make investments in public services and infrastructure that help make our communities stronger, safer, healthier, and more prosperous. The following reforms would greatly strengthen Montana's income tax system:

- Repealing and reducing the capital gains tax credit;
- Restoring a top marginal bracket limited to highest-income households;
- Eliminating the deduction for federal taxes paid; and
- Implementing a refundable state Earned Income Tax Credit.

Montana needs a modern income tax system that makes continued investment in our communities and economy, paving the way for a more prosperous future for our children and grandchildren.

Appendix A: Effects of 2003 Tax Changes on Income Tax Brackets and Rates

Income Tax Rates

Brackets Adjusted for Inflation to 2015

Before Bracket Collapse		After Bracket Collapse	
Taxable Income	Marginal Tax Rate	Taxable Income	Marginal Tax Rate
$0 to $2,900	2.0%	$0 to $2,800	1.0%
$2,900 to $5,800	3.0%	$2,800 to $5,000	2.0%
$5,800 to $11,500	4.0%	$5,000 to $7,600	3.0%
$11,500 to $17,300	5.0%	$7,600 to $10,300	4.0%
$17,300 to $23, 100	6.0%	$10,300 to $13,300	5.0%
$23,100 to $28,900	7.0%	$13,300 to $17,100	6.0%
$28,900 to $40,400	8.0%	Over $17,100	6.9%
$40,400 to $57,700	9.0%		
$57,700 to $101,000	10.0%		
Over $101,000	11.0%		

Source: Department of Revenue

[1] Montana Legislative Fiscal Division. "Report to Revenue and Transportation Interim Committee Members." Fiscal Year 2015. http://leg.mt.gov/content/Committees/Interim/2015-2016/Revenue-and-Transportation/Meetings/June-2016/lfd-general-fund-trends-6.pdf

[2] Montana Department of Revenue. "Biennial Report: July 1, 2012- June 30, 2014," December 2014. https://revenue.mt.gov/Portals/9/publications/biennial_reports/2012-2014/BiennialReport-2012-2014.pdf
[3] Montana Department of Revenue. "Biennial Report: July 1, 2012- June 30, 2014." December 2014. https://revenue.mt.gov/Portals/9/publications/biennial_reports/2012-2014/BiennialReport-2012-2014.pdf
[4] Income Tax Reduction with Revenue from Limited Sales Tax, SB 407. Montana Legislature. 58th Session. 2003. http://leg.mt.gov/css/default.asp
[5] These brackets correspond to varying amounts of taxable income. Taxable income is income after deductions and exemptions have been subtracted.
[6] Institute on Taxation and Economic Policy. 2015. On File with author.
[7] This figure is adjusted each year for inflation. Montana Department of Revenue. "2015 Montana Form 2: Individual Income Tax Forms and Instructions." Accessed September 4, 2016. https://revenue.mt.gov/Portals/9/individuals/forms/Form_2_booklet_2015.pdf
[8] Montana Department of Revenue. "The Revenue and Taxpayer Impacts of the Income Tax Provisions of SB 407." December 2006. http://revenue.mt.gov/Portals/9/committees/2011_legislative_session/rev-tax-imp-sb407.pdf
[9] Institute on Taxation and Economic Policy. "Who Pays? A Distributional Analysis of the Tax Systems in all 50 States. Montana: State and Local Taxes in 2015." January 2015. http://www.itep.org/whopays/states/montana.php
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Policy Basics
Introduction to Who Pays Montana's Taxes
Fall 2016

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.

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 $19,000 pay 6.1 percent of their income in state and local taxes, while those with income above $435,000 pay 4.7 percent (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. Montana's tax system would be substantially more regressive if it included a general sales tax. However, even without a sales tax, Montana's low- and moderate-income families are facing a higher overall tax rate than wealthier households.

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

- Repealing the capital gains credit;
- Restoring a top income tax bracket on wealthiest households;
- 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; and
- Eliminating water's edge election for multi-national corporations, or regularly updating list of known tax havens.

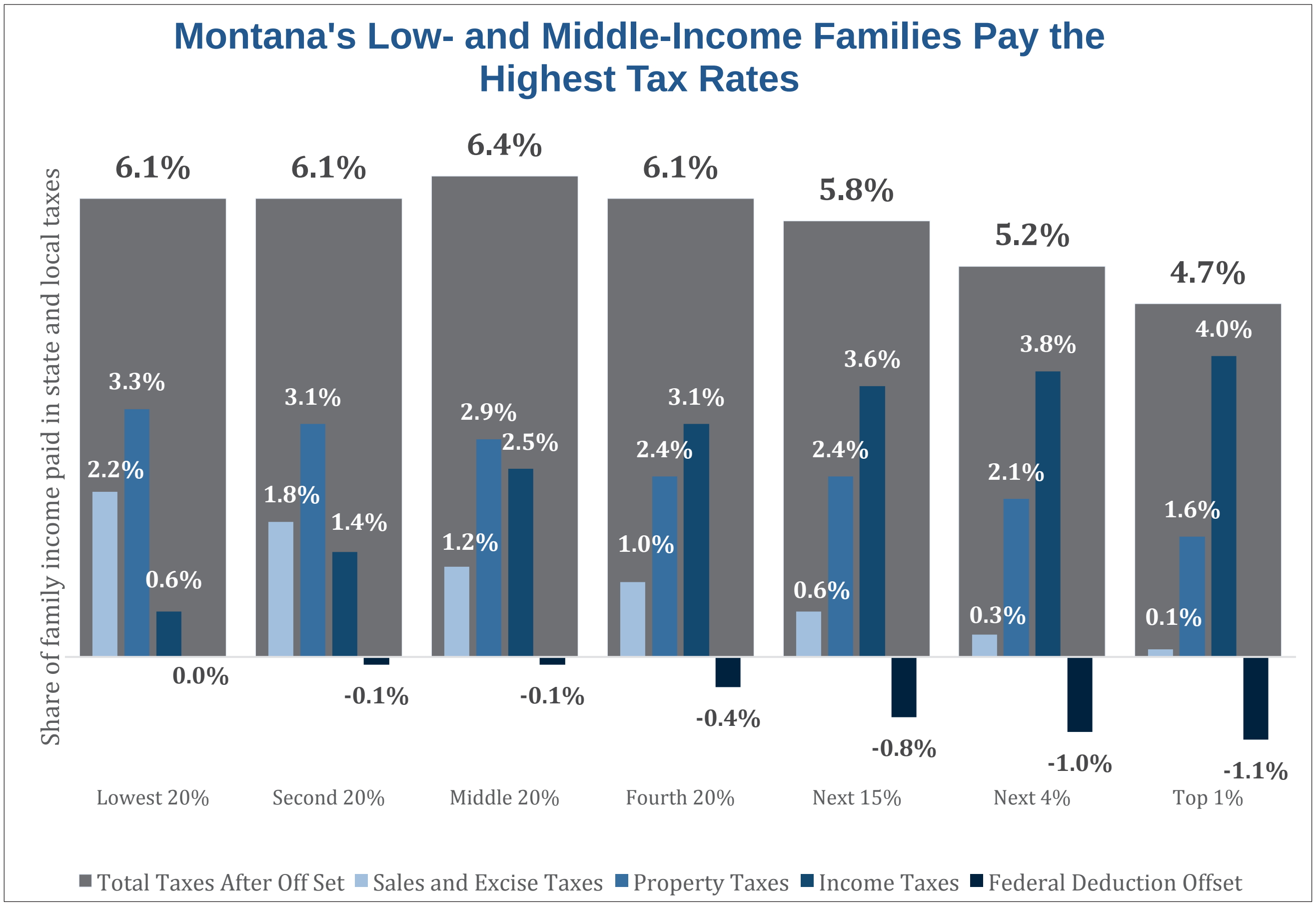
Key Terms

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 is 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, 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.



Source: Institute of Taxation and Economic Policy, 2015 data

Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	Top 1%
Income Range	Less than $19,000	$19000-$34000	$34,000-$54,000	$54,000-$86,000	$86,000-$157,000	$157,000-$435,000	$435,000+
Average income in group	$10,500	$25,700	$42,300	$67,300	$111,300	$240,600	$1,047,500
Sales and Excise Taxes	2.2%	1.8%	1.2%	1.0%	0.6%	0.3%	0.1%
General Sales - Individuals	-	-	-	-	-	-	-
Other Sales and Excise - Ind.	1.8%	1.5%	1.0%	0.8%	0.5%	0.3%	0.1%
Sales and Excise on Business	0.3%	0.3%	0.3%	0.2%	0.1%	0.1%	0.0%
Property Taxes	3.3%	3.1%	2.9%	2.4%	2.4%	2.1%	1.6%
Property Taxes on Families	2.9%	2.5%	2.3%	1.9%	1.8%	1.2%	0.6%
Other Property Taxes	0.5%	0.6%	0.6%	0.5%	0.5%	0.8%	1.1%
Income Taxes	0.6%	1.4%	2.5%	3.1%	3.6%	3.8%	4.0%
Personal Income Tax	0.6%	1.3%	2.4%	3.1%	3.5%	3.7%	3.8%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
Total Taxes	6.1%	6.2%	6.6%	6.5%	6.6%	6.2%	5.8%
Federal Deduction Offset	0.0%	-0.1%	-0.1%	-0.4%	-0.8%	-1.0%	-1.1%
Total Taxes After Offset	6.1%	6.1%	6.4%	6.1%	5.8%	5.2%	4.7%

U.S. Lodging Tax Study

Released: June 2016

Premises of the Study

Funding

This study was funded by the American Hotel & Lodging Educational Foundation.

Purpose of the Study

The purpose of this study is to provide current information by state on how lodging tax is structured, the total lodging tax collections for each state, and the lodging tax in the largest cities in each state. This report was prepared for the American Hotel & Lodging Association.

Recent lodging tax data collections have focused solely on the largest cities in the country, which does not cover information in all states. The information included in this study will be helpful to tourism agencies and lodging properties as they undergo comparative analysis. As concerns grow over expanding lodging tax rates, the lodging industry and other tourism businesses can use this data to determine the resulting impact.

The effective date of this study is December 2015. It is important to note that some of the municipalities herein have changed their lodging taxes since that time.

Methodology

Data were collected from AH&LA Partner State Associations (PSAs) at the request of the American Hotel & Lodging Association (AH&LA). In an online survey questionnaire, each state was asked to provide tax data for up to seven of their largest cities, based on hotel room supply.

Follow-up was completed with the PSAs that did not respond. Data were verified by the PSAs and spot checked for accuracy. Not all states have a PSA or may not have been able to provide the requested data. In these instances, we used alternate approaches for data collection, including contacting respective local government jurisdictions, local CVBs, etc.

Understanding that some lodging taxes might be collected at the special district level (e.g. for a local development area), the assumption was made that lodging taxes levied by such localized jurisdictions were included where applicable.

Information Collected

The following information was collected from each PSA or other reliable source:

- Terminology utilized by each state for their respective lodging taxes (i.e. room tax, bed tax, lodging tax, transient occupancy tax, etc.).
- Method of imposing lodging taxes in each state (i.e. state, county, local, or a combination).
- Current lodging tax rates for an average of five major cities per state. This included the tax breakdowns by state, multi-county, county, city, sub-city, and sales tax. Data was also collected if there were other applicable taxes on a lodging stay, such as an additional percentage or flat per room charge.

Lodging Tax Defined

As defined by AH&LA, a "Lodging Tax" is a tax on paid overnight stays at a lodging property. It is usually collected by the lodging operator from the overnight guest, and then passed on to the appropriate level of government. Lodging taxes were created to offset the burden on the local and state governments for paying the full cost of marketing to attract travelers to their area and to provide tourist services. In areas with a lodging tax, the traveler now pays a part of the cost of attracting them to the area and funding services specifically for travelers.

Lodging Tax Data Tables

State Lodging Tax

A state lodging tax is a tax levied at the state level on lodging only, not general sales tax. For the purposes of this study, a lodging tax is considered to be any tax or assessment which is charged exclusively on room rentals.

The state lodging tax for all fifty states is listed in the table below. Only twenty-three of the fifty states collect a state lodging tax. Of those twenty-three states which collect a state lodging tax, the average tax is 5%. Georgia is the only state that charges a flat dollar based tax. Connecticut has the highest state lodging tax percentage. However, this is their comprehensive lodging tax statewide.

State	State Lodging Tax
Georgia	$5
Connecticut	15%*
Hawaii	9%
New Hampshire	9%
Vermont	9%
Delaware	8%
Maine	8%
Montana	7%
Illinois	6%
Iowa	6%
Pennsylvania	6%
Rhode Island	6%
Texas	6%
Massachusetts	6%
New Jersey	5%
Alabama	4%
Arkansas	2%
Idaho	2%
South Carolina	2%
South Dakota	2%
Kentucky	1%
Nebraska	1%
Oregon	1%
Alaska	0%
Arizona	0%
California	0%
Colorado	0%
District of Columbia	0%
Florida	0%
Indiana	0%
Kansas	0%
Louisiana	0%
Maryland	0%
Michigan	0%
Minnesota	0%

State	State Lodging Tax
Mississippi	0%
Missouri	0%
Nevada	0%
New Mexico	0%
New York	0%
North Carolina	0%
North Dakota	0%
Ohio	0%
Oklahoma	0%
Tennessee	0%
Utah	0%
Virginia	0%
Washington	0%
West Virginia	0%
Wisconsin	0%
Wyoming	0%

* This is the total statewide lodging tax. Cities do not have the option for local or special district lodging taxes.

NCSL Task Force on State and Local Taxation
Principles for the Taxation of Online Travel Companies and Short-Term Rental Marketplaces

With the emergence of the digital economy, state and local tax codes ~~continue to have difficulty keeping~~must keep up with ~~rapidly advancing technology~~ new forms of commerce, including ~~. One challenge states and localities face is~~ the taxation of online travel companies (OTCs) and short-term rental (STR) marketplaces.~~,~~ OTCs and STRs ~~which~~ act as intermediaries between costumers and operators of short-term lodging, such as hotels, motels, inns, ~~and~~ bed and breakfasts, and private residences (such as apartments, condominiums, and houses, or individual rooms within such residences available for short-term rental).

Online Travel Companies

NCSL recognizes that the OTC business model is to contract with the businesses in the lodging industry to market rooms, allowing those businesses to fill rooms they otherwise might not. The OTCs sell the rooms to consumers/customers at a retail price that is equal to or higher than what the customer would pay if they purchased the same room directly from that business. The OTCs then remit to the business a pre-negotiated contracted wholesale rate for the room and taxes ~~due~~ collected on the wholesale rate, retaining the difference as profit (the compensation for marketing the room). The OTCs have complete control over the transaction, including the collection and remittance of taxes.

States and localities contend that this business model of only remitting taxes on the wholesale price OTCs pay the lodging business, rather than on the retail room rate the customer is paying (as is the norm for traditional lodging), results in a shortage of revenue remitted from the sales/occupancy taxes charged. In addition, a higher effective tax rate is imposed on hotels that remit taxes based on the retail rate customers are paying. The OTC business model also raises concerns about transparency and clarity of charges to the customer. As courts continue to hear lawsuits regarding OTC tax remittance practices, states continue to examine possible legislative statutory solutions to ensure codes are clear and factor the relatively new role OTC~~'~~s play in the marketplace.

Short-Term Rental Marketplaces

NCSL recognizes that the STR marketplace business model is to act as an intermediary between customers and property owners, and that STR marketplaces do not own the properties that are listed on their websites. For the property owner who occasionally rents out a room on a marketplace, registering, collecting, and remitting tax can be a burdensome process that discourages voluntary compliance. Ensuring full compliance on the part of property owners also imposes significant administrative costs on state and local governments. The expansion of STR marketplaces that act as financial intermediaries provides the opportunity for a solution that eases burdens on property owners and supports compliance with tax laws in a simple and efficient way.

The best option to create a system of tax parity is to ensure that all types of short-term lodging entities and providers are required to collect and remit applicable taxes—in this case, hotel, lodging, bed, and other related taxes (and in some states and localities, sales tax).

State and local governments can solve challenges with taxes on these short-term rentals for both owners and taxpayers by clarifying that STR marketplaces are responsible for collecting and remitting applicable taxes on short-term rentals facilitated through those marketplaces when they act as a financial intermediary. Clarifying that lodging marketplaces are responsible for collecting and remitting applicable taxes is a simple and efficient solution which ensures that legally-owed taxes are collected and remitted in the least burdensome manner.

Principles of Taxation

The National Conference of State Legislatures' Executive Committee Task Force on State and Local Taxation has studied online travel companies and short-term rental marketplaces and has developed the following principles that states should consider when addressing taxation of lodging accommodations:

1. To promote tax parity, states should consider legislation that requires short-term rental marketplaces that act as a financial intermediary to collect and remit applicable taxes on short-term rentals facilitated through those marketplaces, similar to the way applicable taxes are collected on accommodations booked from an OTC.

~~1.~~2. To promote transparency for taxpayers, states should consider legislation that requires online travel companies, ~~and~~ hotel websites, and short-term rental marketplaces to:

A) Publicly and explicitly display the charges, and resort fees, ultimately leading to the final price to the user.

B) Require that taxes, fees, and service charges be separately stated instead of bundling them together.

C) If a business does not comply with 2~~1~~. (A) or (B) then impose tax on the entire bill.

~~C)~~ Require OTCs and STR marketplaces to provide sufficient information to the tax authorities to ensure that taxes due have been appropriately collected and remitted. Tax authorities should also be able to audit pertinent records held by OTCs and STR marketplaces as is the case for all other state and local taxes.

3. To ensure full collection of taxes that are due and to promote equity and fairness in the tax code, states should consider requiring OTCs to remit taxes based on the rental price paid by the user. Similarly, states should consider legislation in which taxes are imposed on the full amount the renter pays to rent a property via an STR marketplace, including any service fees or charges levied by the STR marketplace as part of the cost of renting the property. The proper tax base is the full amount the renter pays to rent the property.

~~2.~~4. To ensure that taxation is efficient, states should consider:

A) Imposing any tax on online travel companies and short-term rental marketplaces through statutory impositions and not through administrative regulation or confidentially-negotiated agreements between private companies and state or local governments; and~~;~~

B) Carefully devising definitions so that there is clarity to buyers and sellers of hotel rooms and other short-term lodging.

Adopted by the NCSL Executive Committee Task Force on State and Local Taxation ~~August 12, 2013~~ [new date].

Supreme Court to Hear Online Sales Tax Collection Case –

Billings Gazette – January 13, 2018

JESSICA GRESKO Associated Press WASHINGTON

The Supreme Court agreed Friday to wade into the issue of sales tax collection on internet purchases in a case that could force consumers to pay more for certain purchases and allow states to recoup what they say is billions in lost revenue annually.

Under previous Supreme Court rulings, when internet retailers don't have a physical presence in a state, they can't be forced to collect sales tax on sales into that state. Consumers who purchase from out-of-state retailers are generally supposed to pay the state taxes themselves, but few do.

A total of 36 states and the District of Columbia had asked the high court to revisit the issue, which doesn't affect internet giant Amazon.com because it collects state sales tax nationwide. But the case does affect other online retailers including Overstock.com, home goods company Wayfair and electronics retailer Newegg, who are part of the case the Supreme Court accepted.

Large brick-and-mortar retailers like Walmart and Target have long bemoaned the fact that they have to collect sales tax on online purchases because they have physical stores nationwide. Meanwhile, smaller online retailers, who don't have vast networks of stores, don't have to collect the tax where they don't have a physical presence.

States say the court's previous rulings have also hurt them. According to one estimate cited by the states in a brief they filed with the high court, they'll lose out on nearly $34 billion in 2018 if the Supreme Court's previous rulings stand. The Government Accountability Office, which provides nonpartisan reports to Congress, wrote in a report last year that state and local governments would have been able to gain between $8.5 billion and $13 billion in 2017 if they could require out-of-state sellers to collect tax on sales into the state.

The Supreme Court first adopted its physical presence rule on sales tax collection in a case dealing with catalog retailers in 1967, a year that states pointed out in their brief was "two years before the moon landing and decades before" the first online retail transaction. The high court last considered the issue in 1992.

The National Retail Federation, which represents both internet and brick and-mortar sellers, said Friday it welcomed the Supreme Court's decision to take the case.

MONTANA TAXPAYERS ASSOCIATION

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PROPERTY TAXES

MILL LEVY INCREASES OVER TIME

The following charts show the increase in the number of mills levied by selected cities and counties from 2000-2016. The charts show the number of mills levied in total by each county, and a city located in that county. In Silver Bow County, the total is for the consolidated city-county government. The increase includes both increases from voted levies, increases from permissive levies, and increases from inflationary adjustments.

The average increase in mill levies for counties is 52%.

The average increase in mill levies for cities is 68%.

There also charts that show mill levy increases in a few selected school districts over a shorter period of time. That increase was about 10% compared to a 7% increase for counties and a 13% increase for cities.

The increase in Statewide taxable value from 2004 -2017 was about 53%.

The combination of mill levy increases and taxable value increases account for significant property tax increases in dollars to taxpayers.

While owners of cyclically appraised property were somewhat protected from the increases in taxable value due to legislative action, that action also contributed, in part, to the need for mill levy increases by local taxing units.

The point of this information is to create awareness of an impending property tax revolt by taxpayers who are reaching the breaking point due to ever increasing property tax burdens.

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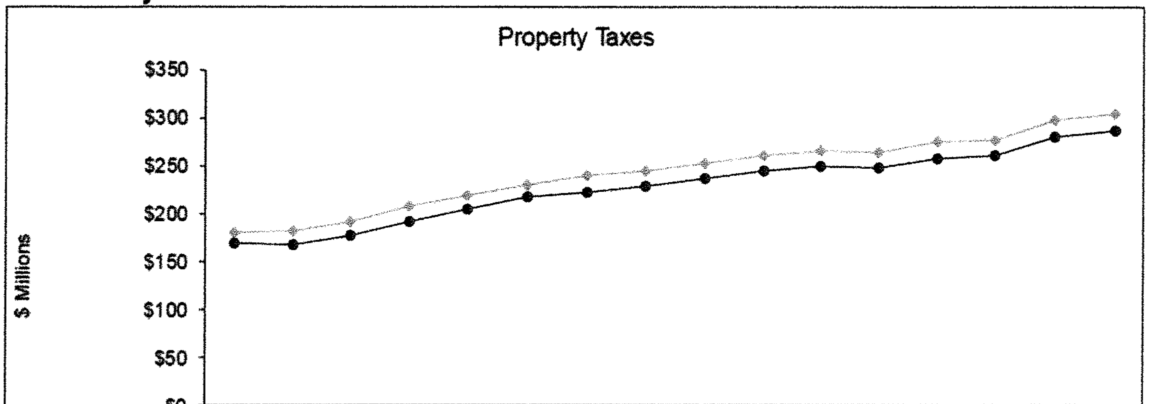
Property Tax **Property Tax**

Revenue Projection



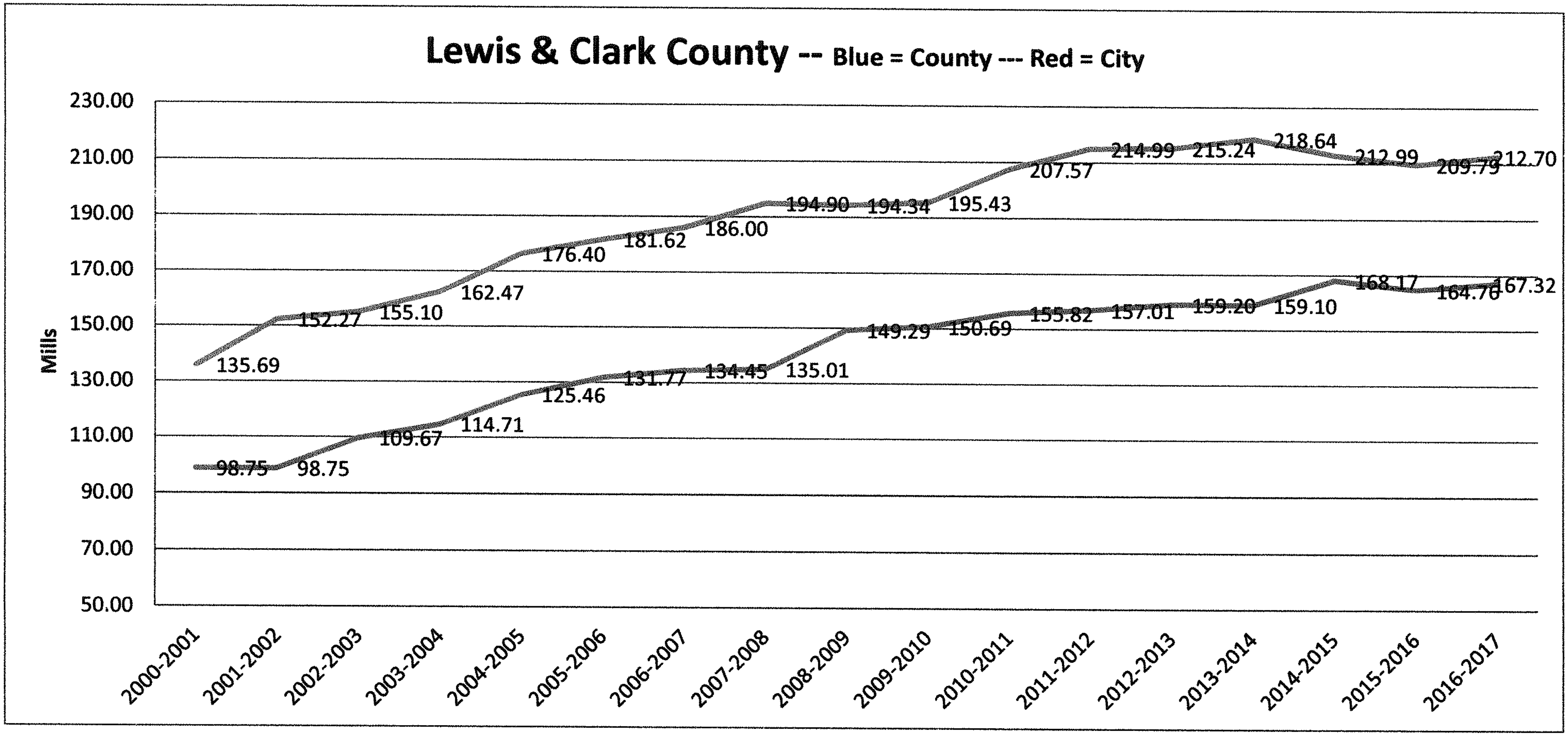
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total	181	183	192	207	218	230	239	245	253	260	266	265	275	277	298	305
General Fund	170	167	178	191	205	217	223	229	237	245	250	248	257	260	280	286
GF Growth	-1.3%	-1.3%	6.2%	7.5%	7.4%	5.9%	2.5%	3.1%	3.2%	3.4%	2.3%	-1.0%	3.7%	1.2%	7.5%	2.3%

This chart shows the dollars collected by the State from the 95 school mills and the 6 university mills. **Increases were 53% from 2004-17.**

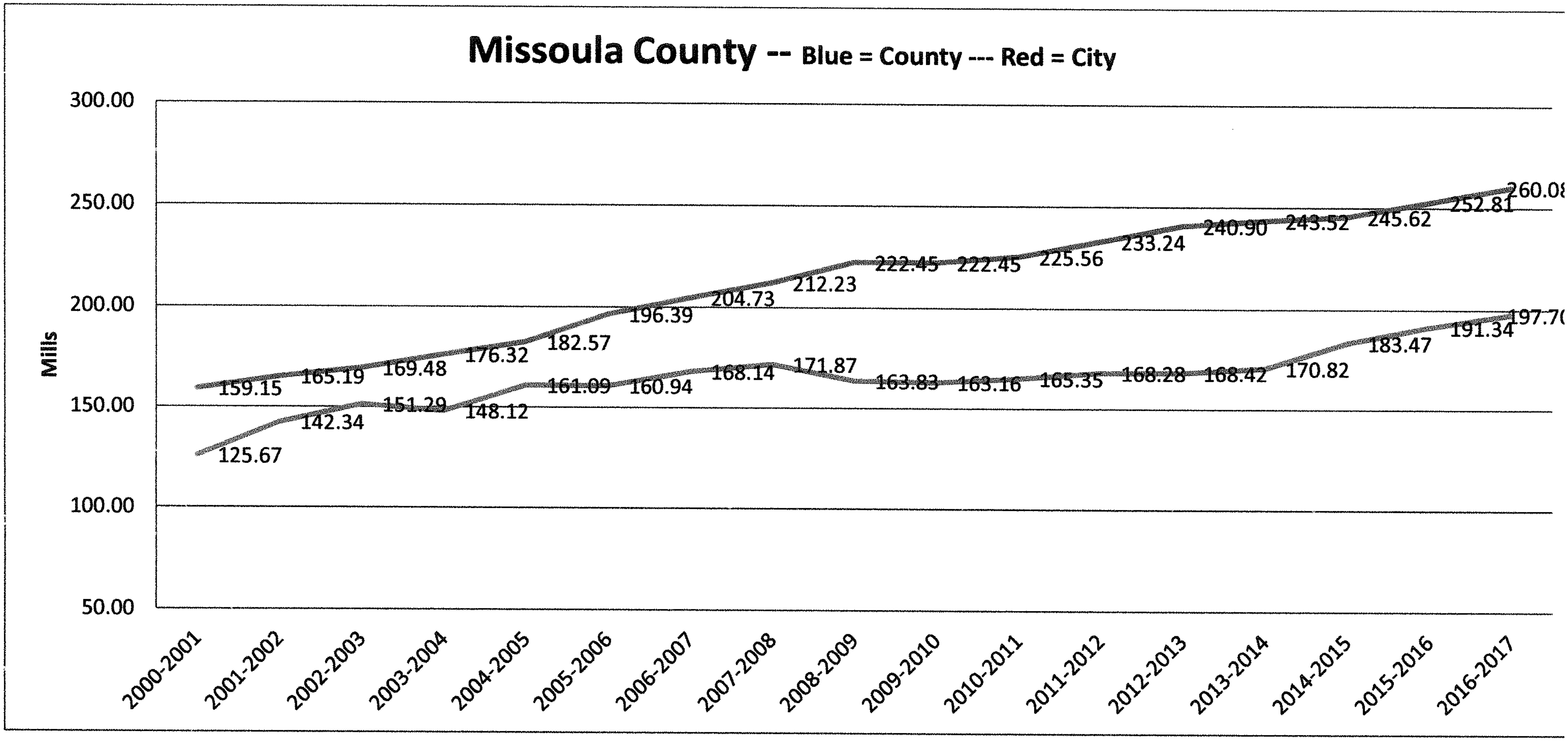
The increase in dollar collections is solely due to increases in taxable value of the total property in Montana.

Taxable value increases are due to new property coming onto the roles, and increases in appraised value of existing property.

Tax rate adjustments were made to certain classes of property during this time. Residential, commercial, ag land, and timberland tax rates were reduced through 2015 to mitigate reappraisal and class 8 business equipment rates were adjusted in 2011 and 2013.

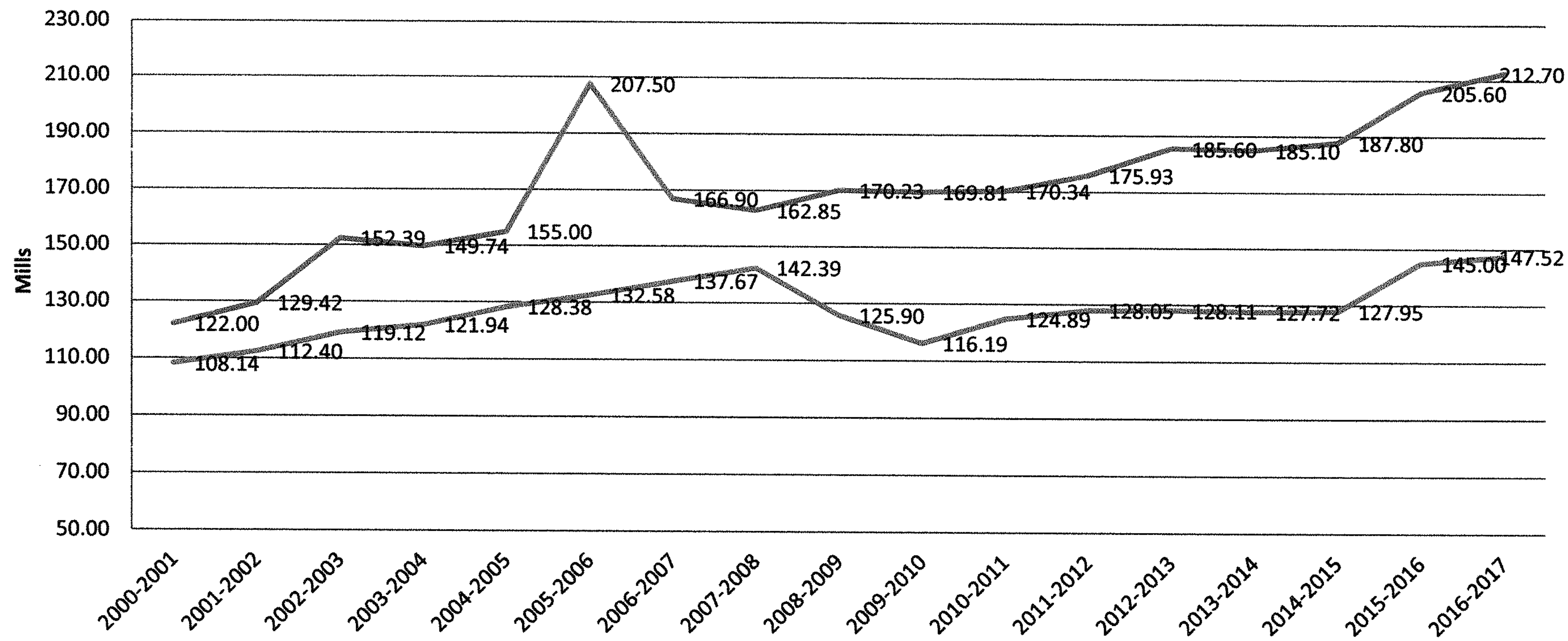


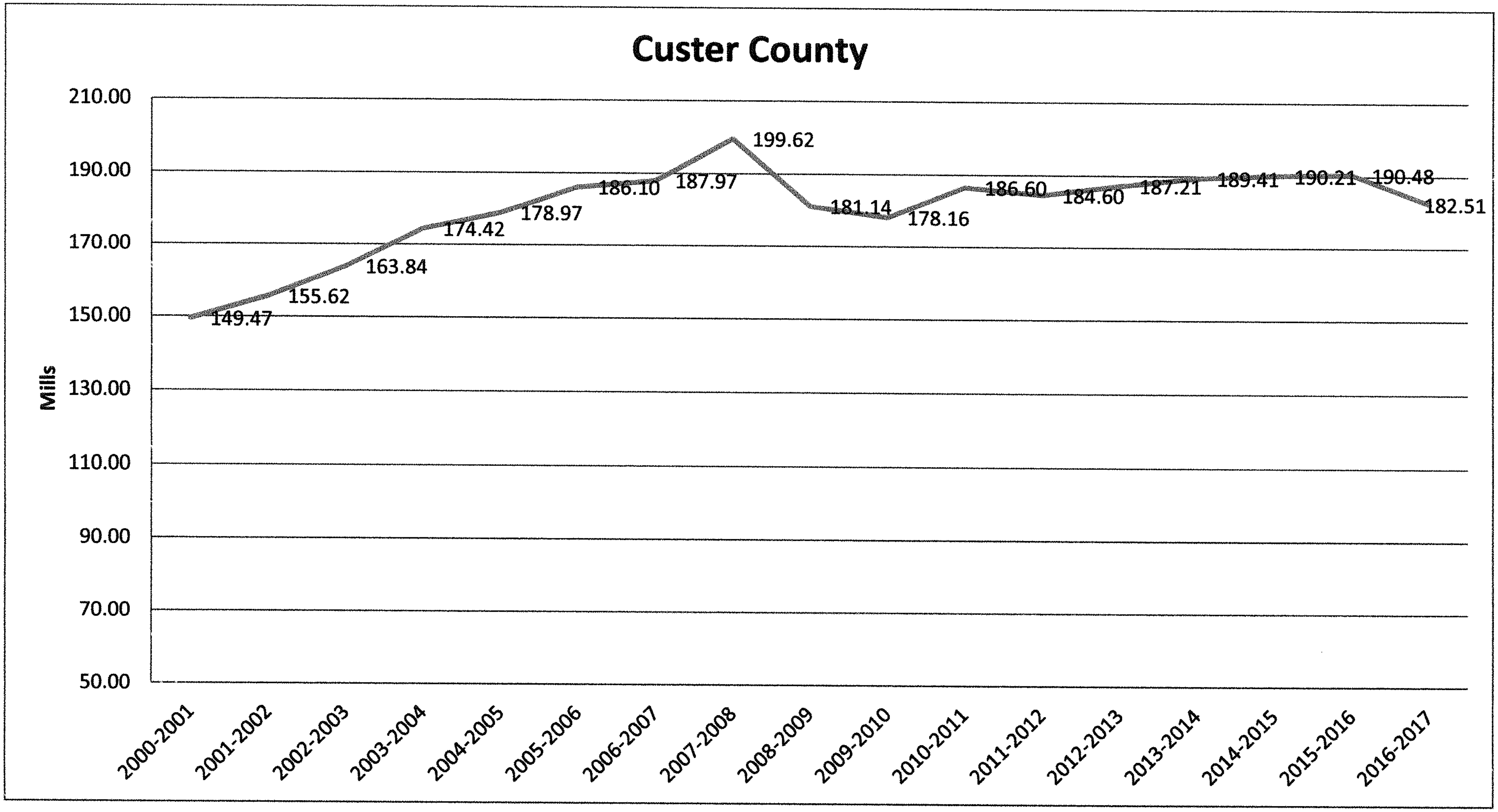
Lewis & Clark County -- Blue = County --- Red = City
Mills
230.00
210.00
190.00
170.00
150.00
130.00
110.00
90.00
70.00
50.00
2000-2001
2001-2002
2002-2003
2003-2004
2004-2005
2005-2006
2006-2007
2007-2008
2008-2009
2009-2010
2010-2011
2011-2012
2012-2013
2013-2014
2014-2015
2015-2016
2016-2017
135.69
152.27
155.10
162.47
176.40
181.62
186.00
194.90
194.34
195.43
207.57
214.99
215.24
218.64
212.99
209.79
212.70
98.75
98.75
109.67
114.71
125.46
131.77
134.45
135.01
149.29
150.69
155.82
157.01
159.20
159.10
168.17
164.76
167.32



Missoula County -- Blue = County --- Red = City
Mills
300.00
250.00
200.00
150.00
100.00
50.00
159.15
165.19
169.48
176.32
182.57
196.39
204.73
212.23
222.45
222.45
225.56
233.24
240.90
243.52
245.62
252.81
125.67
142.34
151.29
148.12
161.09
160.94
168.14
171.87
163.83
163.16
165.35
168.28
168.42
170.82
183.47
191.34
2000-2001
2001-2002
2002-2003
2003-2004
2004-2005
2005-2006
2006-2007
2007-2008
2008-2009
2009-2010
2010-2011
2011-2012
2012-2013
2013-2014
2014-2015
2015-2016
2016-2017

Flathead County -- Blue = County --- Red = City





Custer County
Mills
210.00
190.00
170.00
150.00
130.00
110.00
90.00
70.00
50.00
149.47
155.62
163.84
174.42
178.97
186.10
187.97
199.62
181.14
178.16
186.60
184.60
187.21
189.41
190.21
190.48
182.51
2000-2001
2001-2002
2002-2003
2003-2004
2004-2005
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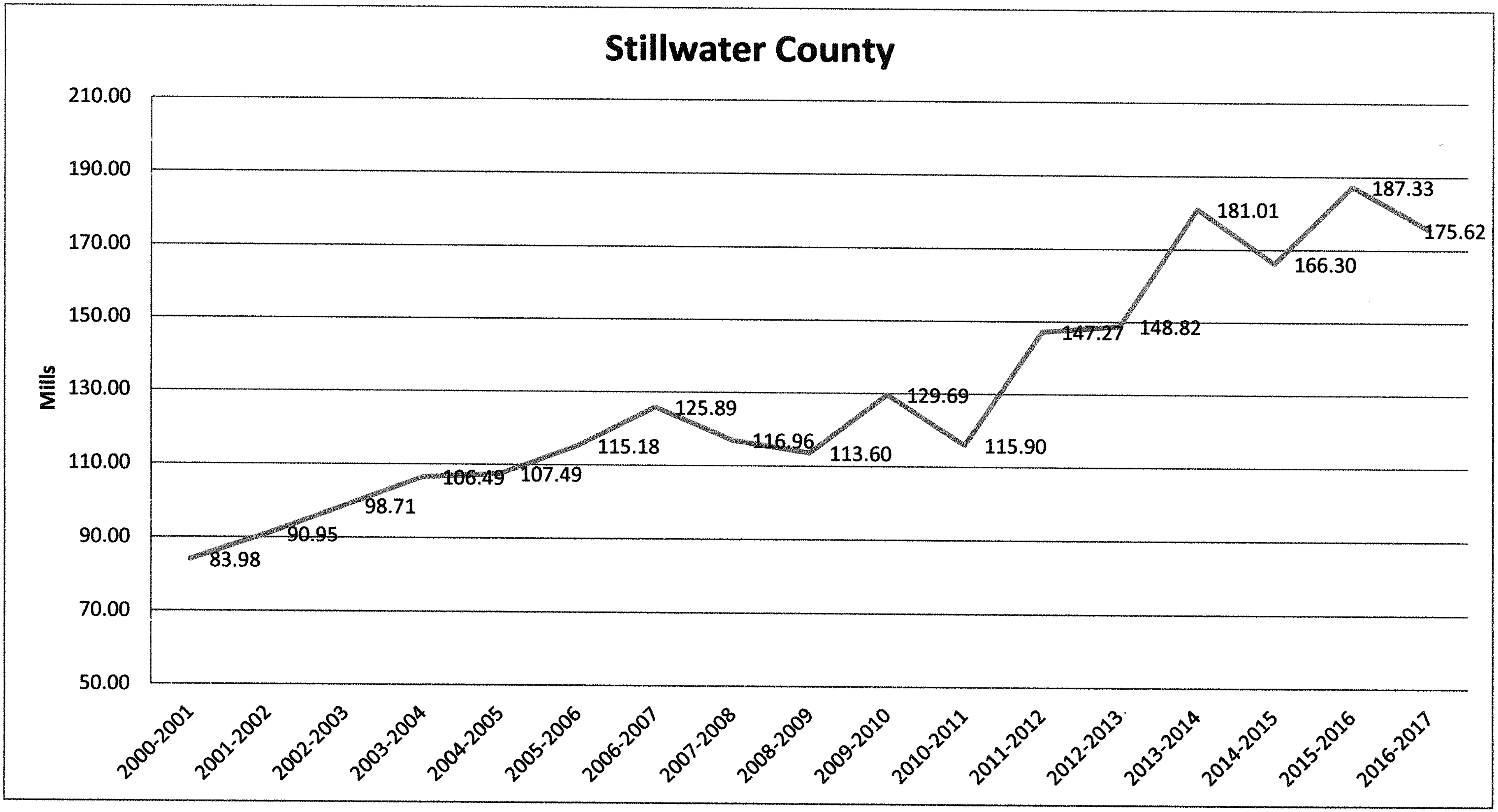
2013-2014
2014-2015
2015-2016
2016-2017


Stillwater County
Mills
210.00
190.00
170.00
150.00
130.00
110.00
90.00
70.00
50.00
83.98
90.95
98.71
106.49
107.49
115.18
125.89
116.96
113.60
129.69
115.90
147.27
148.82
181.01
166.30
187.33
175.62
2000-2001
2001-2002
2002-2003
2003-2004
2004-2005
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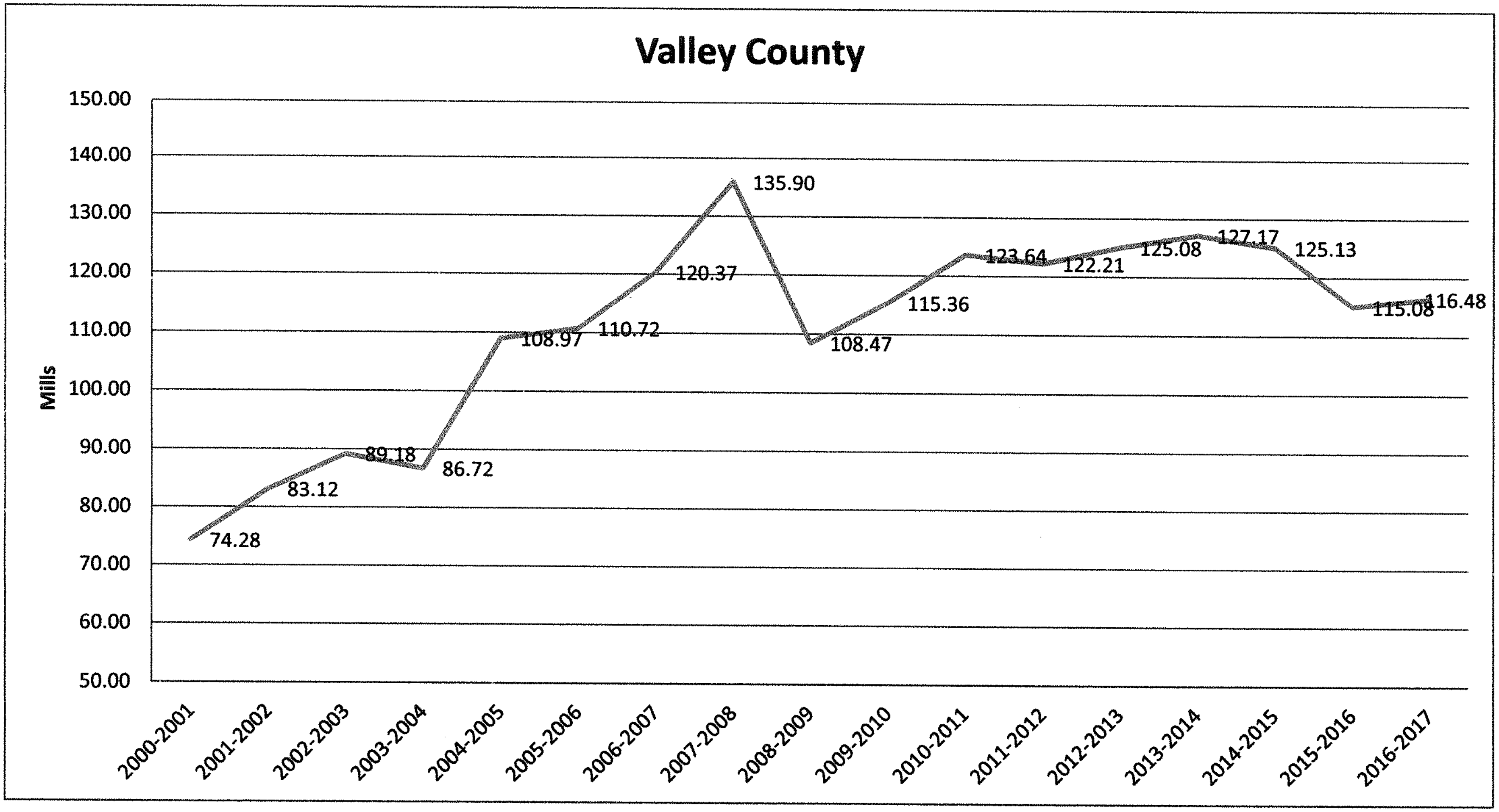
2014-2015
2015-2016
2016-2017


Valley County
Mills
150.00
140.00
130.00
120.00
110.00
100.00
90.00
80.00
70.00
60.00
50.00
74.28
83.12
89.18
86.72
108.97
110.72
120.37
135.90
108.47
115.36
123.64
122.21
125.08
127.17
125.13
115.08
116.48
2000-2001
2001-2002
2002-2003
2003-2004
2004-2005
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2010-2011
2011-2012
2012-2013
2013-2014
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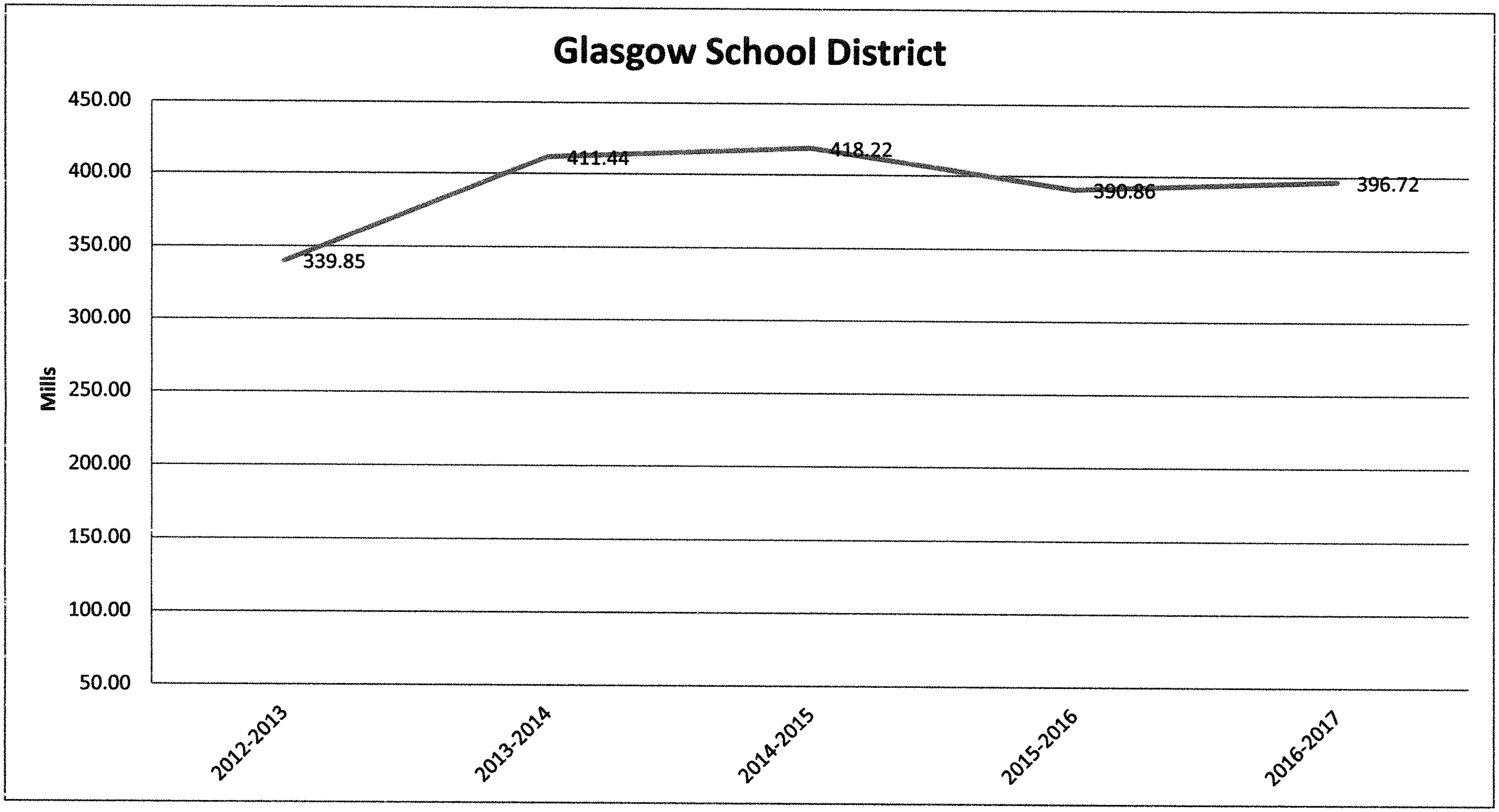
2015-2016
2016-2017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250.00
200.00
150.00
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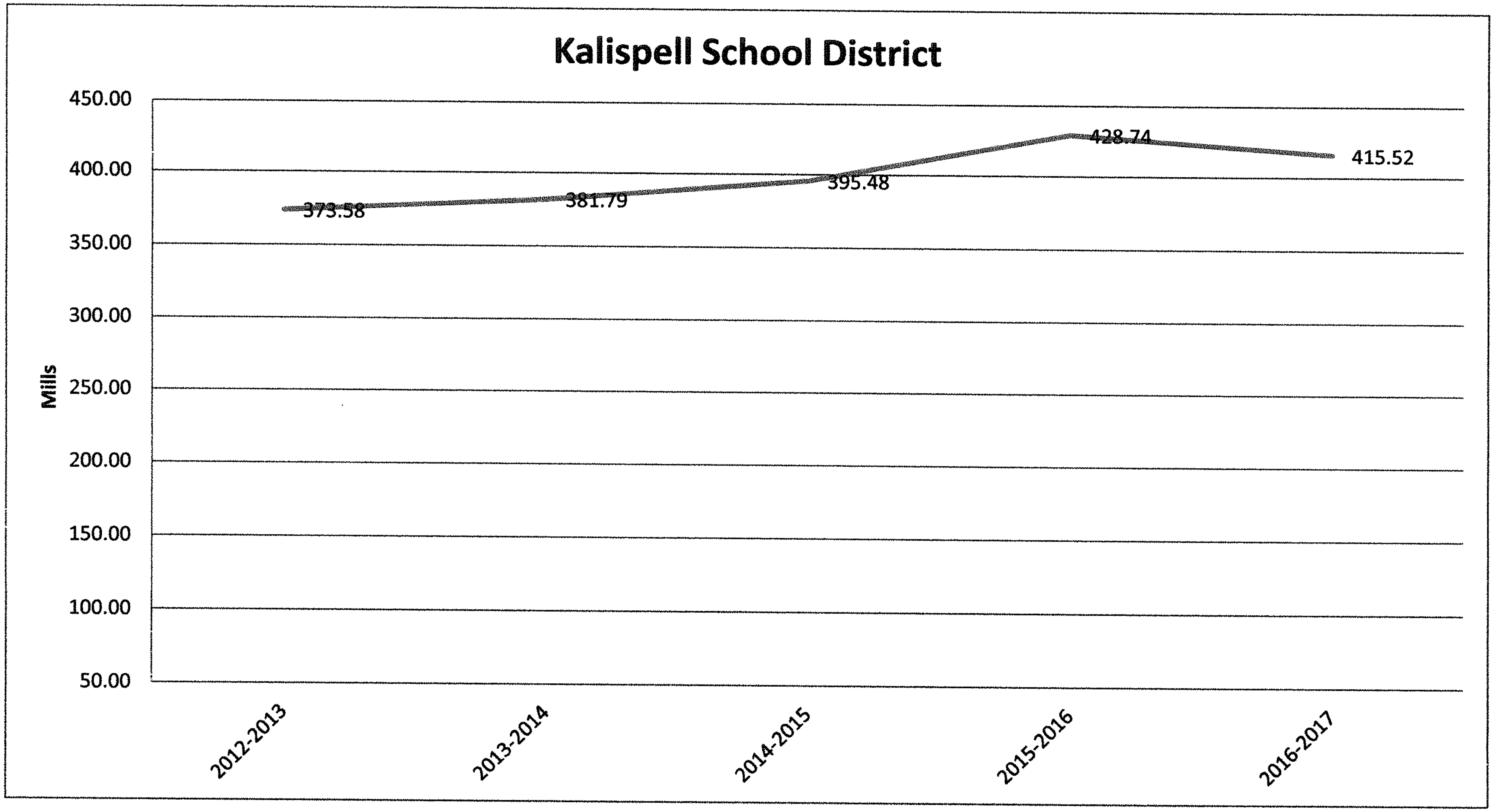
418.22
390.86
396.72
2012-2013
2013-2014
2014-2015
2015-2016
2016-2017



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200.00
150.00
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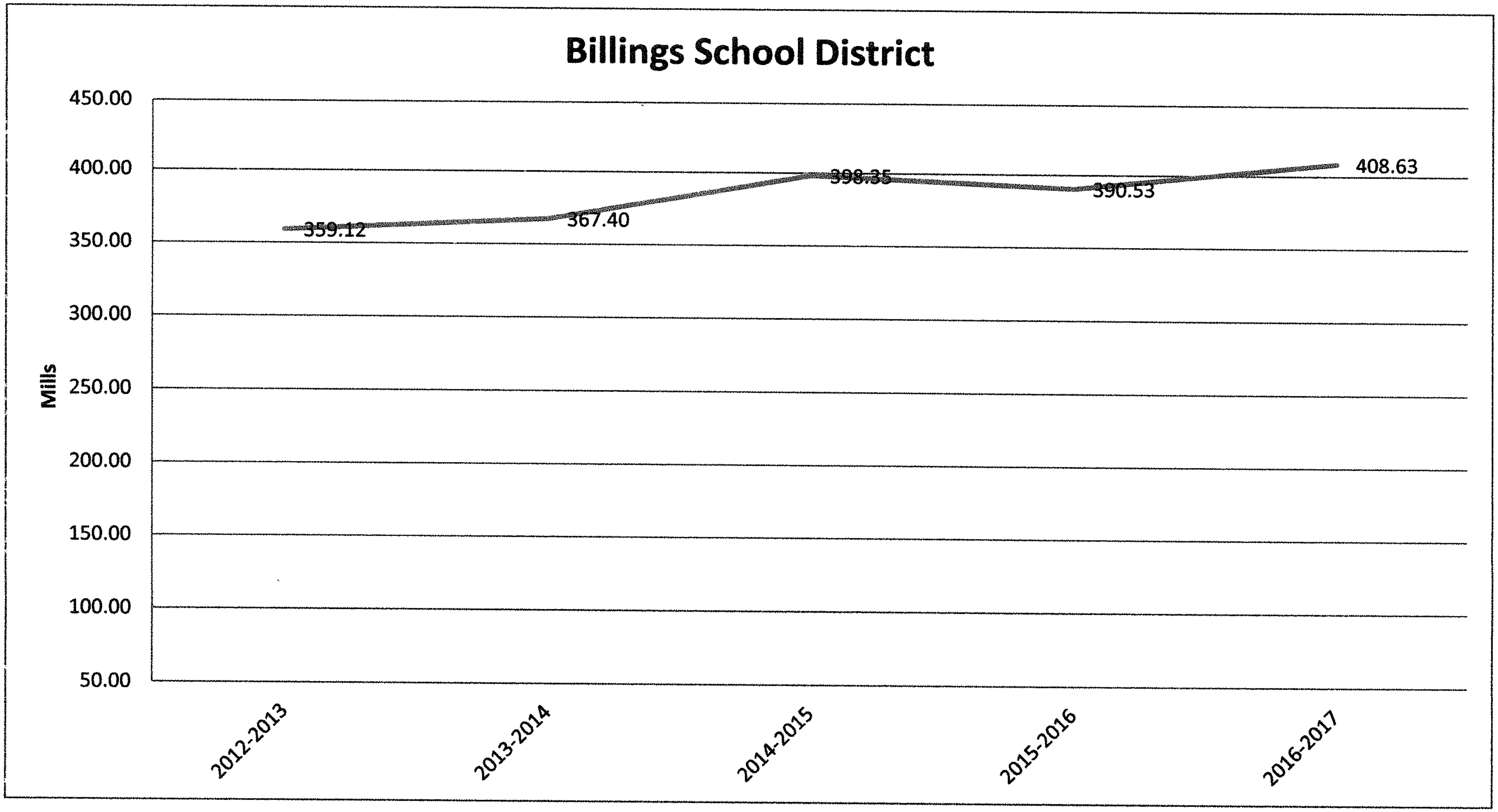
381.79
395.48
428.74
415.52
2012-2013
2013-2014
2014-2015
2015-2016
2016-2017


Billings School District
Mills
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200.00
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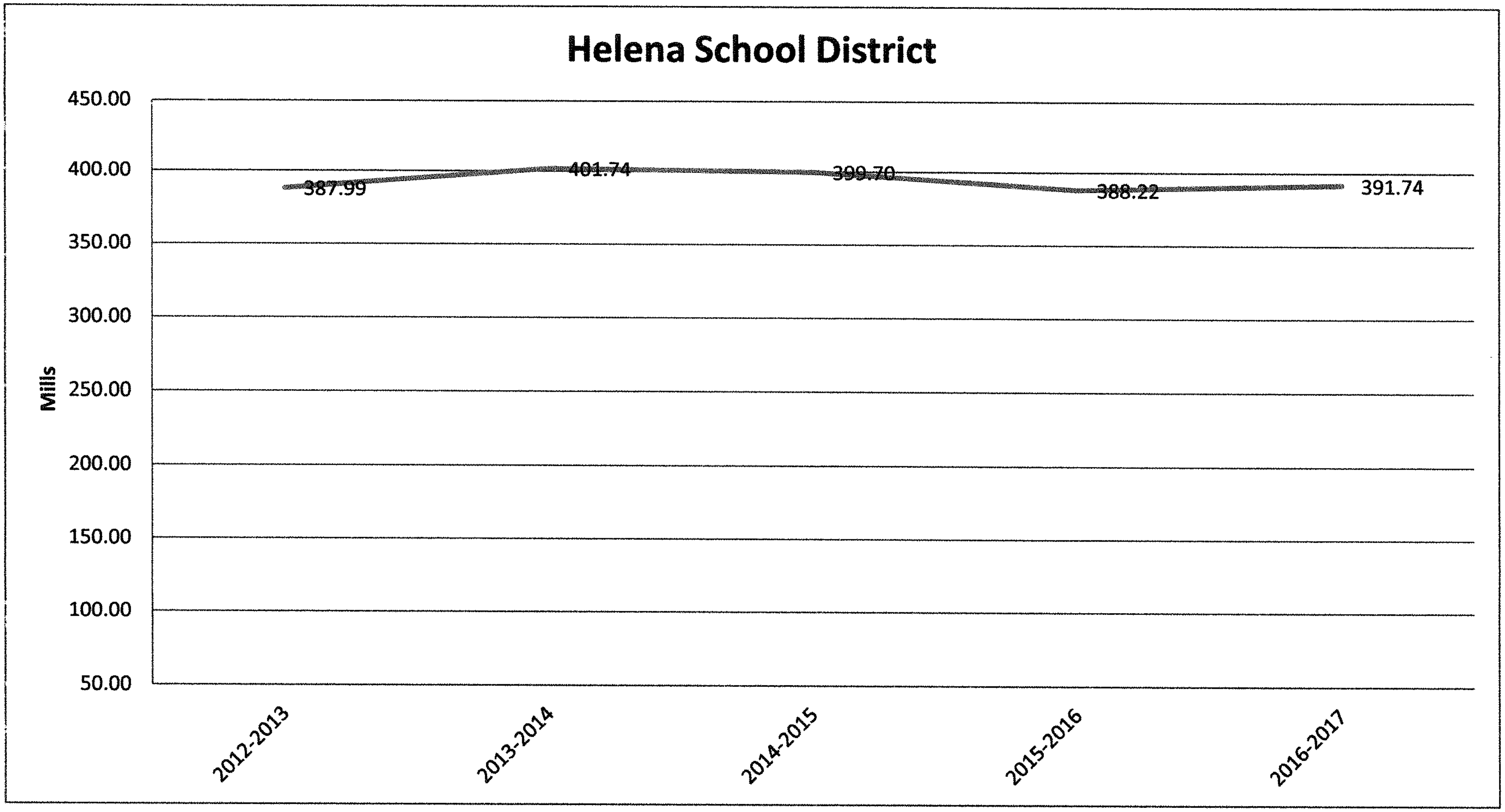
2012-2013
2013-2014
2014-2015
2015-2016
2016-2017


Helena School District
Mills
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200.00
150.00
100.00
50.00
387.99
401.74
399.70
388.22
391.74
2012-2013
2013-2014
2014-2015
2015-2016
2016-2017

MONTANA TAXPAYERS ASSOCIATION

Montana Taxpayers Association SINCE 1921 montax.org

Bob Story, Executive Director

506 North Lamborn Helena, MT 59601 (406) 442-2130 - - - (406-6233) - cell rstory@montax.org

MONTANA SELECTIVE SALES TAX PLAN 2003

During the interim between the 2001 Session and the 2003 Session, the Governor established two working groups to look at the competitiveness of Montana's income tax system with those of surrounding states. At that time the top tax rate in Montana was 11%. The goal of the one working group was to reform the income tax system and lower the effective tax rates to a more competitive level. A second working group was formed to look at a method of generating replacement revenue to offset the diminished revenue result from reforming the income tax system and providing an income tax cut.

The revenue source that was developed by the second working group was a limited sales tax. That tax consisted of a 4% sales tax on prepared meals, alcohol by the drink, rental cars, recreation, entertainment, and souvenirs. It also proposed a 3% sales tax on accommodations. There was also a provision for a local option sales tax of up to 3% on the same taxable items.

The following pages show some of the analysis done in 2002 relating to anticipated revenue, the portion of the tax paid by Montanan's, and the effects of a consumption tax on federal tax obligations of Montana taxpayers. Federal tax impacts may be different now with the new Federal Income Tax law that limits State and Local tax deductions.

The proposal was contained as part of SB 409 in the 2003 session. That bill passed with most of the income tax reform surviving, and most of the replacement revenue failing. The only portion of the replacement revenue that became law was the 4% rental car tax and a 3% sales tax on accommodations. The rental car tax now generates about $3.5 million per year and the accommodations tax generates between $22-23 million per year.

Potential Replacement Revenue
Net Revenue 2005

Taxed Sales	$ Million
Prepared Food	$1,061.679
Drinks	$224.291
Accommodations	$367.660
Rental Cars	$73.053
Rental of Recreational Equipment	$6.373
Guided Recreation and Sightseeing	$76.557
Admissions (Except for movies and amateur athletics)	$22.317
Recreation Fees	$67.243
Total Taxable Sales	$1,889.174
Tax at 4% (95% Compliance)	$72.169
- Vendor Allowance	($3.196)
- Administration Cost	($1.546)
Net Revenue Available for Tax Shift	**$67.427**

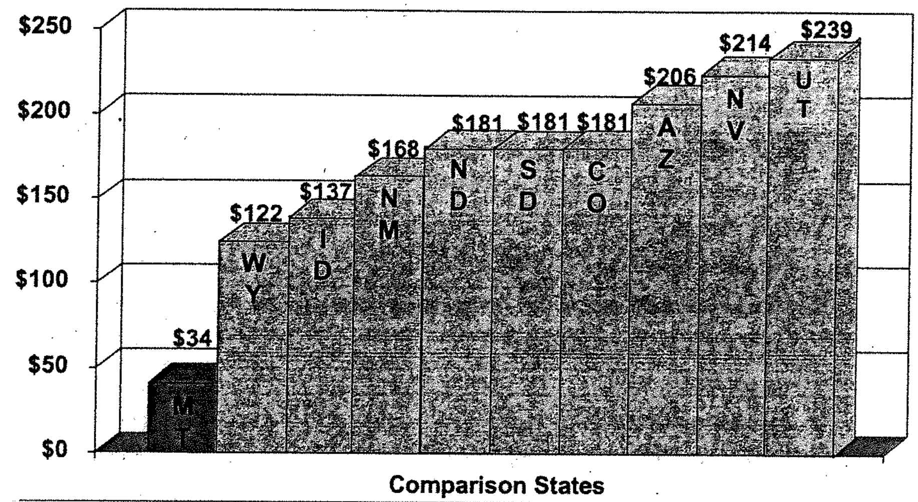
Montana Department of Revenue Revised 12/09/02

Items Taxed in a One Week Vacation

- Car rented in largest city in state and driven 1,000 miles
- $80 per night on lodging
- $100 per day on meals
- $100 per day on other taxable purchases

Montana Department of Revenue Revised 12/09/02

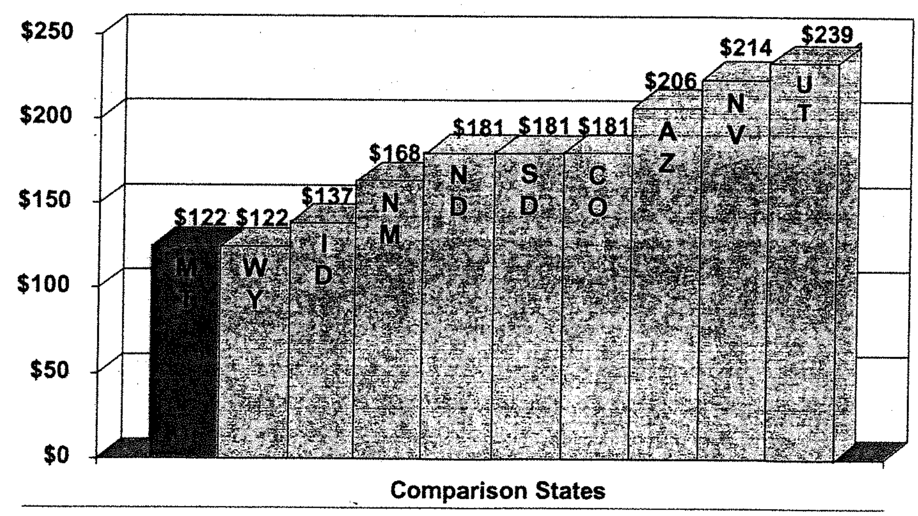
Current Tax Law – Tax Revenue Collected from Tourists on a Vacation



Montana Department of Revenue

Revised 12/09/02

Proposed Tax Law – Tax Revenue Collected on a Vacation



Montana Department of Revenue

Revised 12/09/02

Calculations of Quarterly Replacement Revenue Vendor Allowance

	---------Examples--------- A	B	C
Sales	$1,000,000	$200,000	$250
Multiplied by Tax Rate	4%	4%	4%
Tax Collected	$40,000	$8,000	$8
Multiplied by Vendor Allowance Rate	5%	5%	5%
Calculated Vendor Allowance Before Max./Min. Adjustment	$2,000	$400	$0.40
Maximum Allowance	$1,000	$1,000	$1,000
Actual Vendor Allowance*	**$1,000**	**$400**	**$8**

*Vendor keeps all replacement revenue collected until the total collections exceed $10.

Montana Department of Revenue — Revised 12/09/02

Shift of Tax Burden to Nonresidents
Calendar Year 2005

Component	Montana Residents	Nonresidents	Total
State Income Tax Cut	($62 million)	($5 million)	($67 million)
Limited Sales Tax	$38 million	$29 million	$67 million
State Tax Change	**($24 million)**	**$24 million**	- 0 -
Fed. Income Tax Increase	$11 million	- 0 -	$11 million
Combined State and Federal Tax Change	**($13 million)**	**$24 million**	**$11 million**

Nonresidents pay 7% of the income tax, but will pay approximately 44% of replacement revenue. Does not include any reductions in federal tax that may arise due to deductibility of sales taxes paid by businesses.

Montana Department of Revenue — Revised 12/09/02

Local Option Tourist Tax

- Local voters could adopt up to a 3% local option tax
- Same taxable items as limited sales tax
- Voter approved
- Counties and cities/towns in the economic region where a local option tax has been enacted would share 30% of the tax proceeds
- Would assist communities in economic development and in property tax relief
  - At least 10% must go to property tax relief

Feedback

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Mail: Montana Department of Revenue
Director's Office
Tax Reform Feedback
P.O. Box 5805
Helena, MT 59604-5805

For more information on tax reform, visit the state's website at www.discoveringmontana.com

Click on the icon that says Official website – Governor's Tax Plan