



MONTANA LEGISLATIVE BRANCH

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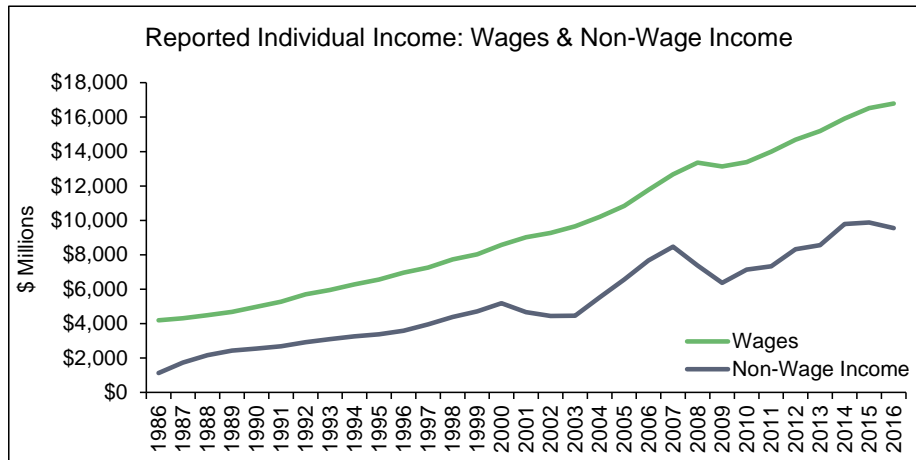
DATE: March 13, 2018

TO: Joint Subcommittee on the Changing Economy and Impacts to the Long-Term Viability of Montana's Tax Structure

FROM: Stephanie Morrison

RE: Individual Income Tax Research Options

Income reported on full year resident (FYR) individual income tax returns for tax years 1986 through 2016 is separated into two categories in the following chart: wage and non-wage income, which includes business and investment, retirement, and all remaining sources of income. Over the 30-year time period depicted, wage income grew at an average annual rate of 4.7%, while non-wage income grew at an average annual rate of 7.4%.



If these growth rates continue, non-wage income could overtake wage income in the late 2030's. To the extent that non-wage income may have a lower effective tax rate due to the capital gains income tax credit and various retirement income exemptions, the disproportionate growth in non-wage income may reduce future expectations of overall individual income tax revenue for a static resident population. Alternatively, the strong growth of non-wage income may be partially due to a growing population of retirees that includes out-of-staters moving to Montana. A growing population of resident taxpayers may lead to enhanced overall revenue collections, even after accounting for a potentially lower effective tax rate.

Dan Dodds, Senior Economist with Tax Policy & Research at the Department of Revenue, has researched the impact of differing population growth rates; his analysis is available online here: [Trends and Cycles in Montana Income Tax Data: Implications for Revenue Forecasting](#). His conclusion for a 6-year revenue forecast is that for most income types, differing population growth rates have little impact. However, for interest income and pension income, the forecast difference due to differing population growth rates was significant.

The committee may wish to explore the long-term impact of Montana's changing demographic structure on the outlook for individual income tax by directing staff to extend the forecast model from the current 6-year forecast to a 30-year forecast. While forecast revenue levels would be of little value on such an extended outlook, there may be value in understanding potential impacts of changing demographic trends. The analysis would incorporate different subpopulation growth rates and could be used to test various growth rate scenarios.