



# SALES TAX MODELING

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MARA Committee

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# BACKGROUND

- During past legislative sessions and during the interim, the LFD receives requests on the fiscal impact of a statewide sales tax.
- These requests sometimes focus on certain items (ie food services and accommodations) while others are more broadly based.
- The LFD did not always have an up-to-date model to answer these questions.
- A formal request was made this interim for a sales tax analysis, and a sales tax model was created to address this request.
- Moving forward, this model is one of many pieces that could be part of the overall revenue module of the MARA data model.

# KEY DATA ELEMENTS

- Montana specific Personal Consumption Expenditure (PCE) estimates from S&P Global.
  - Estimates range across a broad range of services and goods.
  - State-by-state PCE statistics from the Bureau of Economic Analysis (BEA) come from the residence of the household making the transaction
  - PCE statistics correct for state expenditures made by nonresidents, including travel and tourism
- Estimates for nonresident spending come from the [Institute for Tourism & Recreation Research](#) (ITRR) from the University of Montana.
  - Spending data from the ITRR study are gathered via on-site surveys of nonresident travelers at airports, gas stations, and rest areas in MT.

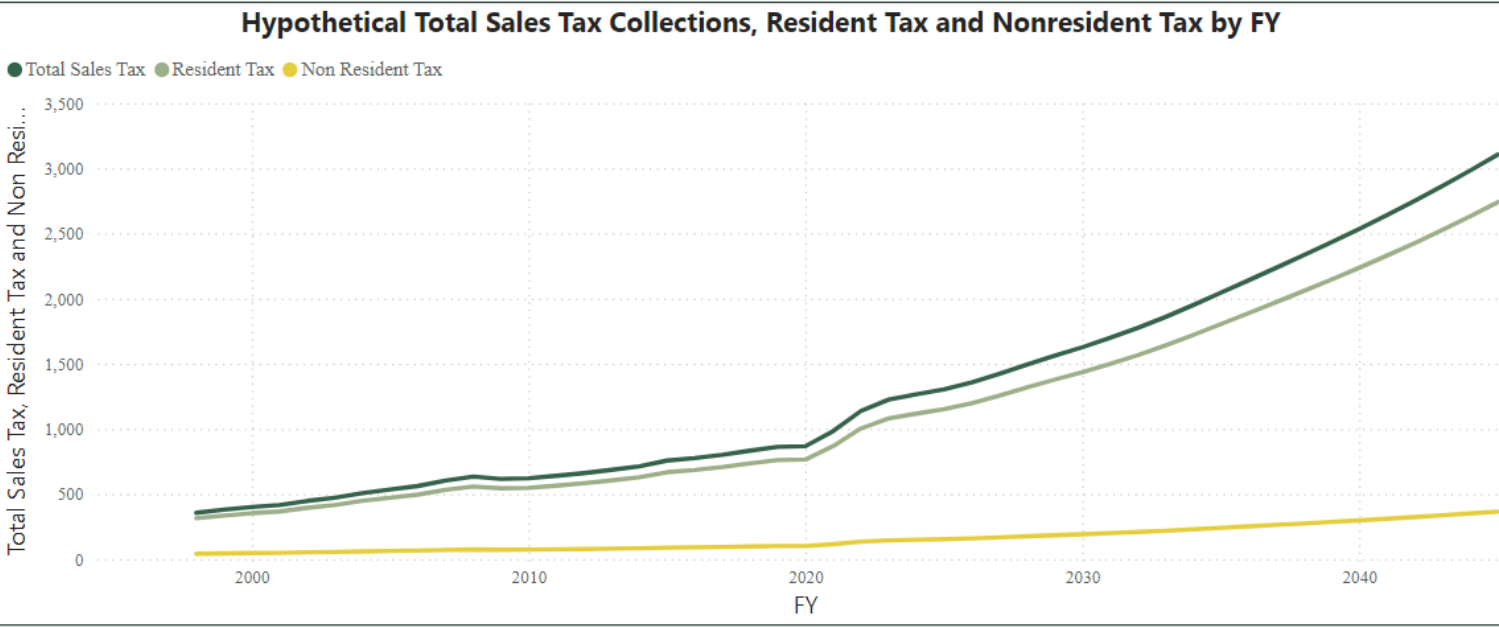
# MODEL



## Sales Tax

**Tax Rate**

- 3.00%
- 3.10%
- 3.20%
- 3.30%
- 3.40%
- 3.50%
- 3.60%
- 3.70%
- 3.80%
- 3.90%
- 4.00%



**\$1,305**  
FY 2025 Revenue (Millions)

**Sector**

- Personal Consumption Expenditures, Goods-Durable, Recreational Goods & Vehicles (Millions \$)
- Personal Consumption Expenditures, Goods-Nondurable, Clothing and Footwear (Millions \$)
- Personal Consumption Expenditures, Goods-Nondurable, Food & Beverages Purchased for Off-Premises Consumption (Millions \$)
- Personal Consumption Expenditures, Goods-Nondurable, Gasoline & Other Energy (Millions \$)
- Personal Consumption Expenditures, Goods-Nondurable, Other (Millions \$)

- Model allows the user to select a tax rate up to 4.0%.
- Model allows the user to choose which goods or services would be subject to taxation.
- Model estimates current FY collections under chosen parameters as well as a forecast moving forward for both resident and nonresident spending.
- Model assumes that the nonresident spending patterns grow proportionally to Montana resident spending habits.

# EXAMPLE

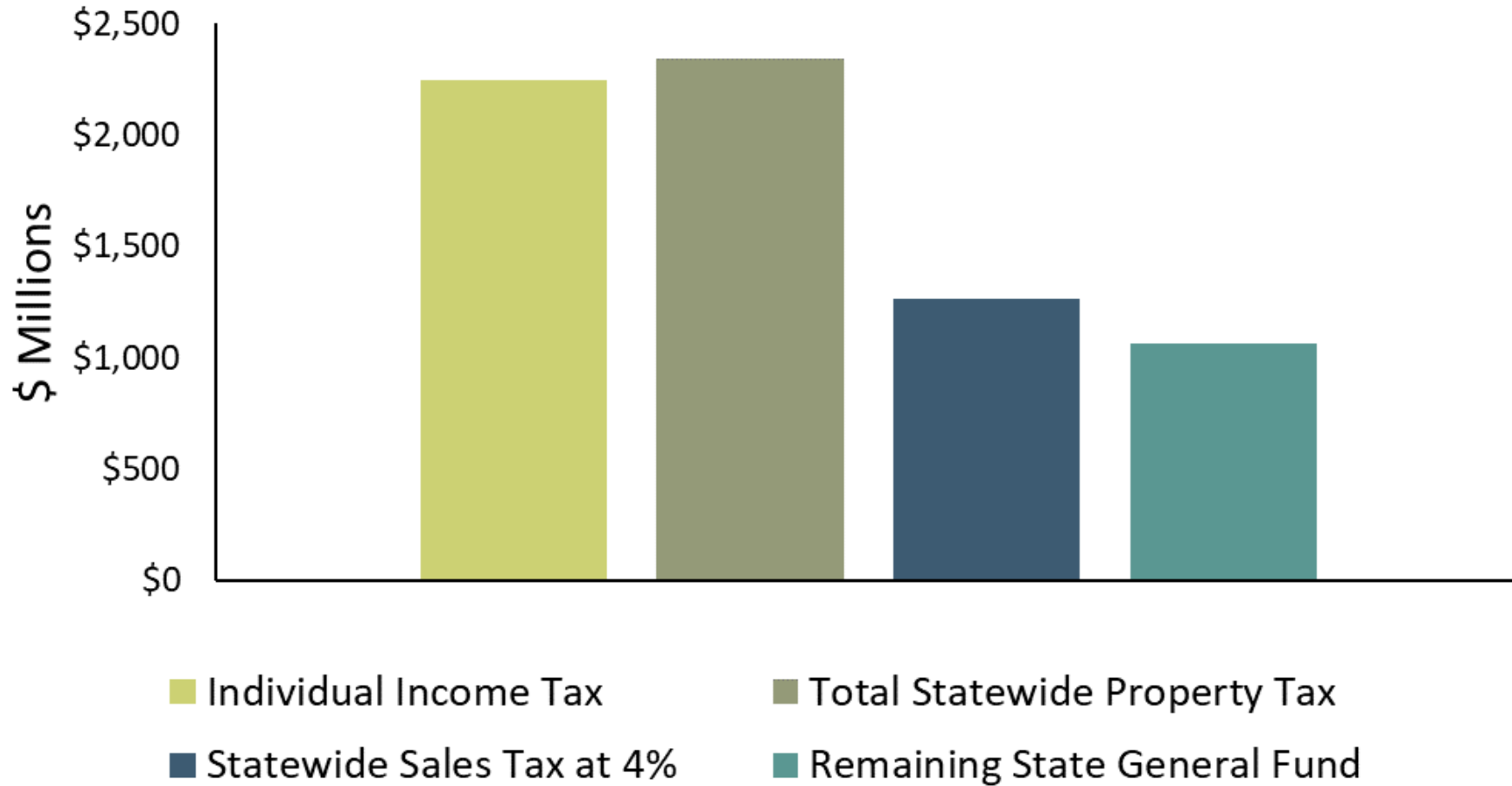
- Under the selected goods and services in the table and with a 4% statewide sales tax, an estimated \$1.31 billion would be collected.
- Collections from residents are estimated to be \$1.15 billion.
- Collections from nonresidents are estimated to be \$153 million.

Goods	Include
Durable, Furnishings & Durable Household Equipment	yes
Durable, Motor Vehicles & Parts	yes
Durable, Other	yes
Durable, Recreational Goods & Vehicles	yes
Nondurable, Clothing & Footwear	yes
Nondurable, Groceries	
Nondurable, Gasoline & Other Energy	
Nondurable, Other	yes
<b>Services</b>	
Financial & Insurance	
Food Services & Accommodations	yes
Health Care	
Housing & Utilities	
Other	yes
Recreation	yes
Transportation	yes



# COMPARISON TO OTHER TAXES

Hypothetical 4% Sales Tax Compared to Other Statewide Taxes  
(FY 2024)



# Some States Offer Credits To Offset Sales Taxes

- Maine has a sales tax fairness credit which starts with a base credit amount, increases the credit for dependents, then phases out as individuals earn more income.
- Minnesota offers a credit similar to the Federal Earned Income Tax Credit (EITC). It is called the Working Family Credit (WFC) and is a refundable credit intended to help offset the burden of other state and local taxes for low-income individuals and families.

# Sales Tax Fairness Credit Modeled After Maine Example

- Joint and head of household filers have a base credit amount of \$450
- Other filer types have a base credit amount of \$300
- Each dependent increases the credit by \$100
- For joint and head of household filers, the credit reduces by \$15 for every \$750 of income above \$30,000.
- For other filers, the credit reduces by \$10 for every \$500 of income above \$20,000.

Estimated Montana Impact Based on CY 2022  
Individual Income Tax Returns

FAGI	Credit Total	Average Credit
Negative FAGI	\$2,812,500	\$391
\$0 to \$10,000	\$19,796,750	\$338
\$10,000 to \$20,000	\$20,080,900	\$363
\$20,000 to \$30,000	\$15,665,186	\$304
\$30,000 to \$40,000	\$8,095,750	\$157
Over \$40,000	\$4,612,141	\$16
Total	\$71,063,226	\$140



# Working Families Credit Modeled After Minnesota Example

- A taxpayer's working family credit equals four percent of the first \$8,750 of earned income
- The credit is then increased by:
  - \$925 for a taxpayer with one qualifying child
  - \$2,100 for a taxpayer with two qualifying children; or
  - \$2,500 for a taxpayer with three or more qualifying children
- The credit is then reduced by 12% of total earned income in excess of the two phaseout thresholds:
  - \$35,000 for a married taxpayer filing a joint return; or
  - \$29,500 for all other filers

Estimated Montana Impact Based on CY 2022  
Individual Income Tax Returns

FAGI	Credit Total	Average Credit
\$0 to \$10,000	\$21,830,342	\$332
\$10,000 to \$20,000	\$33,458,175	\$605
\$20,000 to \$30,000	\$34,083,293	\$662
\$30,000 to \$40,000	\$18,189,036	\$353
\$40,000 to \$50,000	\$5,302,270	\$122
Over \$50,000	\$654,445	\$19
Total	\$113,517,562	\$223