Tax Structure and Trends

Contents

Introduction

The Department of Revenue collects state taxes and values property for state and local property taxes. These taxes provide funding for state and local governments, local schools, and the state university system. This section puts the department's tax-related activities in context by giving an overview of state and local government finance in Montana, and by comparing Montana's tax system to those of other states.

This section starts with a brief introduction to state and local government finance in Montana. It gives a breakdown of spending by state and local governments, including school districts, and it shows the sources of funds for that spending. Next, it summarizes of all the taxes the Department of Revenue collects or administers. This is followed by a history of tax collections with taxes combined into four broad groups. The section ends with information comparing state and local taxes in Montana to taxes in other states.

Government Functions and Revenue Sources

Governments provide services to individuals, businesses, and other entities in their jurisdictions. Governments raise the revenue to pay for those services in a variety of ways.

In the United States, private businesses and non-profit groups provide many of the goods and services that people want. Businesses provide goods and services that can be sold to their customers at a profit. Nonprofit groups provide goods and services that donors and customers are willing to pay for or volunteers are willing to provide. Governments provide other services that lawmakers have concluded their constituents want and are willing to finance. Governments provide services, such as police and fire protection that are designed to benefit everyone in the community. Governments also provide services like road systems where the costs of charging individual users and excluding those who don't pay are prohibitive. In other cases, governments provide services such as sewer systems, where benefits, such as public health, are obtained only if everyone participates. Governments also provide services, such as the education of children, to ensure that they are available to everyone regardless of their ability to pay.

Governments pay for the services they provide by raising revenue from sources, such as the collection of taxes, user fees, interest, the selling of property and transfers from other governments.

Taxes are payments to a government that are not made in exchange for a good or service. Examples are income and property taxes. The amount of the tax generally depends on characteristics of the taxpayer, such as the taxpayer's income or the value of the taxpayer's property. Tax revenue may be earmarked for specific uses or deposited in the government's general fund.

Fees are payments that are made in exchange for goods or services. Tuition at a state college and charges for filing legal documents are fees. The amount of the fee generally depends on the service received, not on the person receiving it.

Governments also receive revenue from normal business transactions. For example, governments earn interest on investments and sell surplus property. Local governments operate utilities that may sell water, electricity, or natural gas.

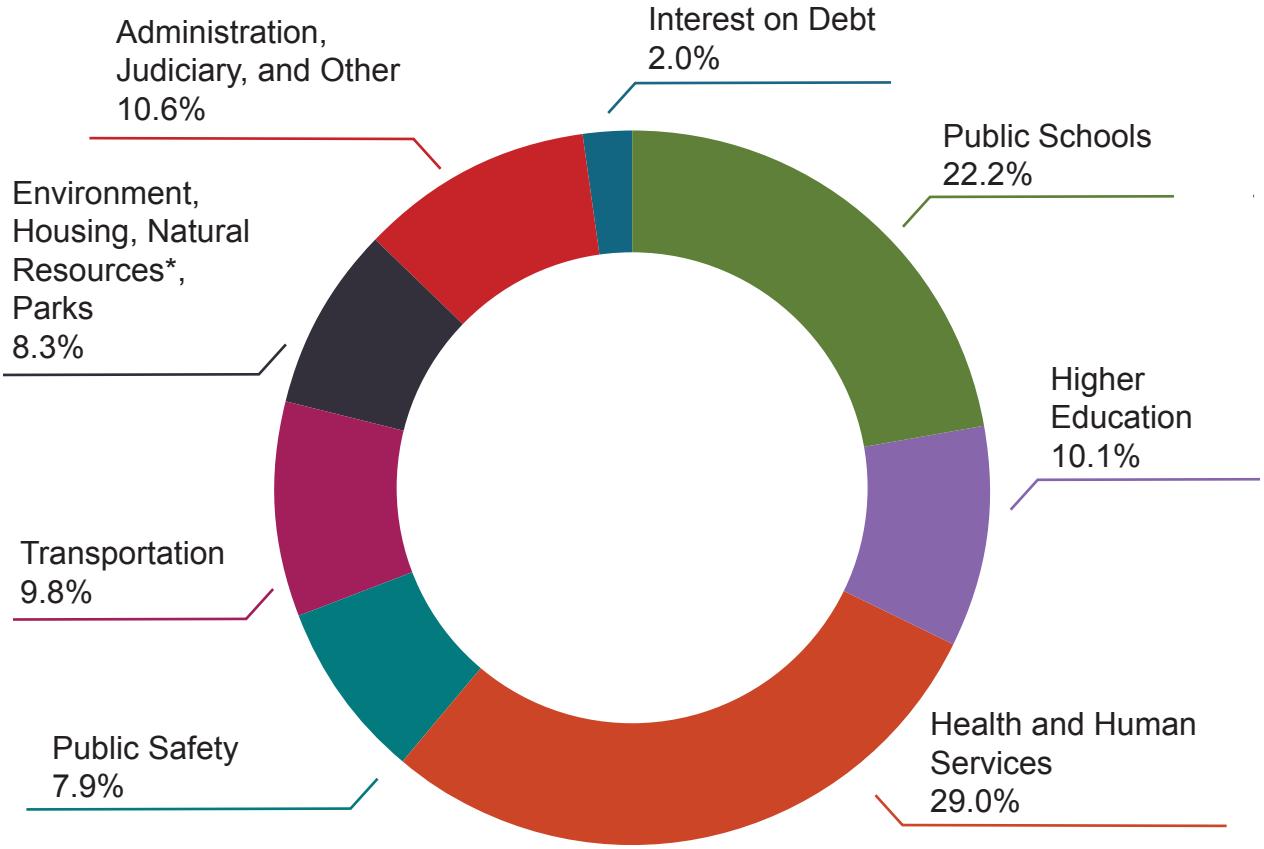
State and local governments also receive intergovernmental transfers from the federal government, and local governments receive transfers from state governments. These transfers include federal payments to states for Medicaid and state support for local school districts. In Montana, transfers include entitlement share payments from the state to local governments.

State and Local Government Finance in Montana

State and Local Spending

The chart below shows the percentage of state and local spending in Montana in each of eight general categories for the Fiscal Year ending June 30, 2018.[1] Education, including public schools and the university system, accounted for one-third of total spending. Health and human services accounted for a little less than one-third of total spending. This includes Medicaid, public health programs, and income support programs. Other categories account for smaller shares of total spending.

Detailed State and Local Spending in Montana - Fiscal Year 2018



**Natural Resources are aid for forests and grasslands; soil, water, and energy conservation; flood prevention and drainage; fish and wildlife management; and mine reclamation and safety.*

[1] *In this section, information on combined state and local spending, and state and local revenue from all sources is from the U.S. Census Bureau's annual survey of state and local governments. This is the only source for combined state and local data that is collected consistently across states. For comparisons between states, it is important to use combined state and local data because taxing and spending are divided between state and local governments differently in different states. The most recent fiscal year for which the Census Bureau has compiled data is 2018. Information on Montana state and local tax collections through Fiscal Year 2020 is from the state accounting system and Department of Revenue records.*

Somewhat more than half of total state and local government spending occurs at the state level, and somewhat less than half at the local level. The table on the next page shows the breakdown for Fiscal Year 2018. It shows direct spending to provide government services. It excludes state transfers of funds to local governments and school districts because those amounts are included in local spending.

State and Local Government Direct Expenditures on Government Services* - Fiscal Year 2018

	$ million	% of Total
State Direct Expenditures (Excludes Transfers to Local Governments and School Districts)	$5,482	57%
Local Expenditures	$4,167	43%
Total	$9,649	100%

**Excludes local government utilities and state liquor enterprise.*

The next two charts on the following page show state and local spending separately. The first chart shows state spending including transfers to local governments and school districts as well as direct spending. The second chart shows local spending.

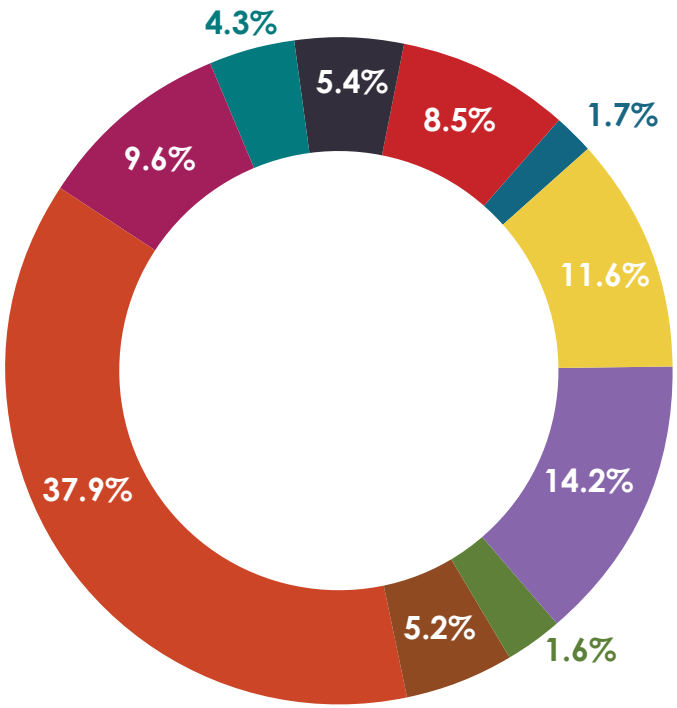
Almost 20 percent of state spending is transfers to local governments, school districts and public schools.

The transfers to local governments include the local share of state-collected taxes, primarily the oil and gas production tax and Entitlement Share payments. The local share of oil and gas tax was originally a local tax. In the 1990s, the Legislature combined state and local taxes on oil and gas production into a single state collected tax with revenue split between the state and local taxing jurisdictions. Before 2001, many revenue sources, including gambling taxes and motor vehicle license fees were divided among the state and local governments. HB 124, passed by the 2001 Legislature, moved collection of almost all these taxes and fees to the state and replaced the local revenue with formula-based Entitlement Share payments.

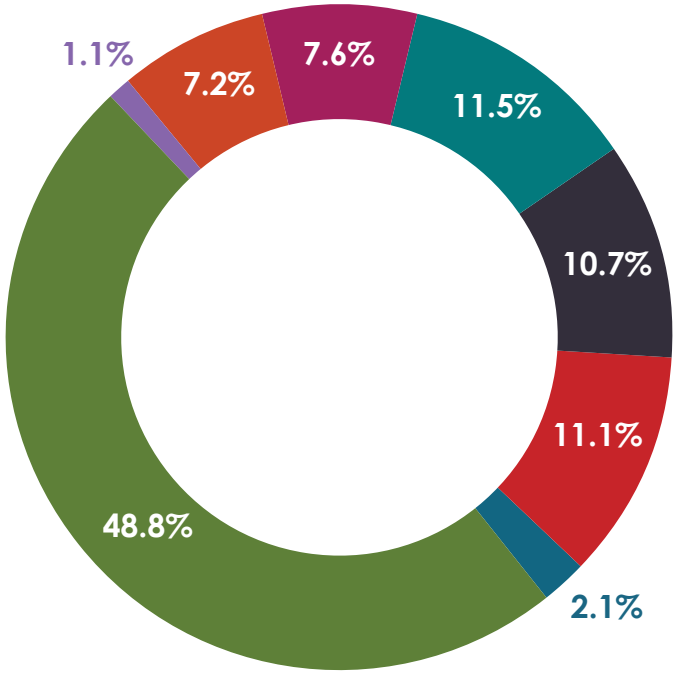
The transfers to school districts include direct state payments for education, along with school districts' shares of state-collected taxes and Entitlement Share payments.

Direct spending for public schools is primarily local accounting for almost half of local spending. Higher education spending is almost all at the state level accounting for about 14 percent of state spending. Health and human services spending is significant at both the state and local level accounting for 37.9 percent of state spending and 7 percent of local spending. Spending on other functions also occurs at both levels. This includes transportation, public safety and general government administration.

State Spending in Montana
Fiscal Year 2018



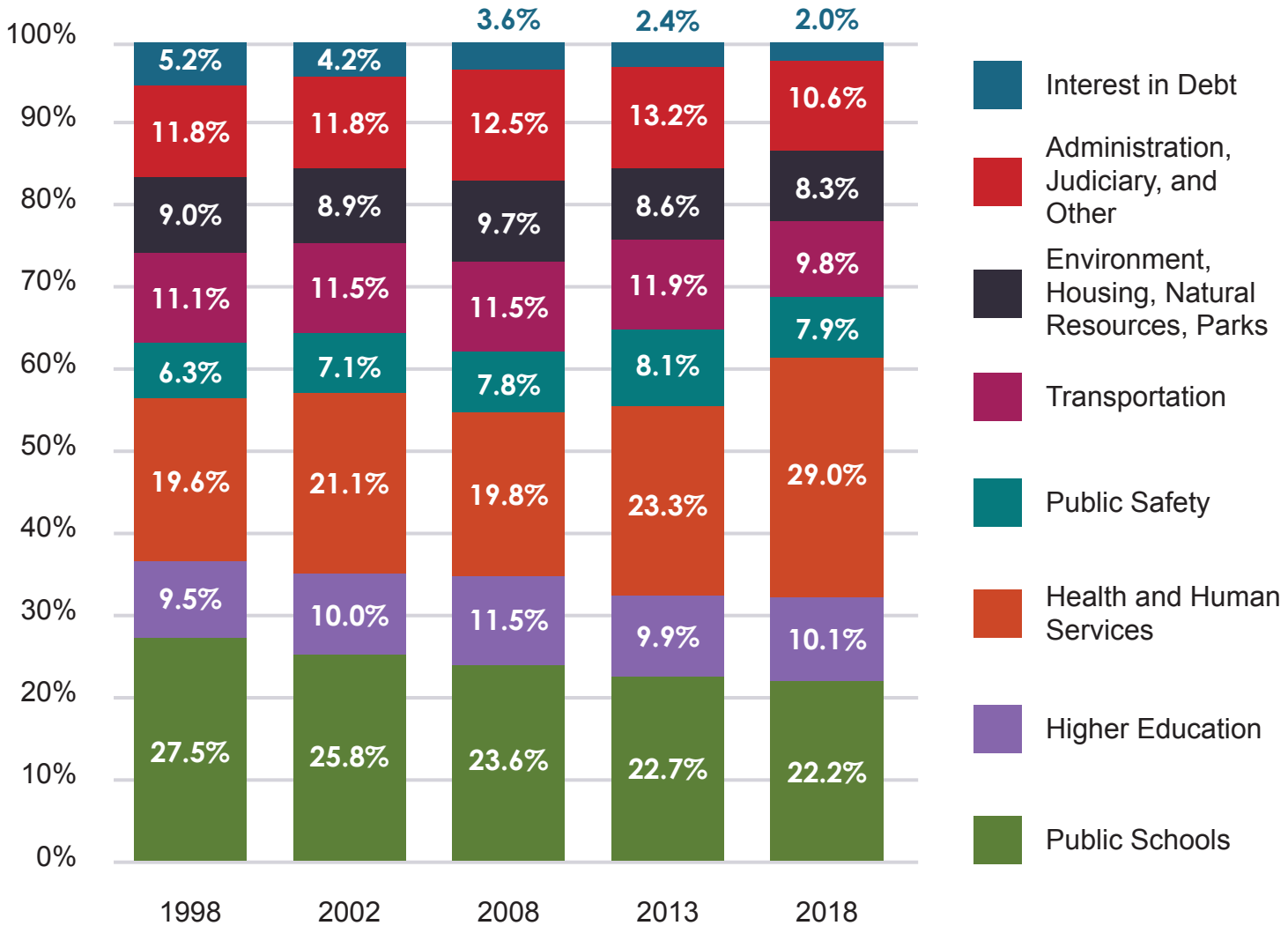
Local Spending in Montana
Fiscal Year 2018



Public Safety
Transportation
Public Schools
Health and Human Services
Transfers to Local Government
Transfers to School Districts*
Environment, Housing, Natural Resources, Parks
Higher Education
Interest on Debt
Administration, Judiciary, and Other

**Transfers include local share of state-collected taxes, which is primarily oil and natural gas production tax.*

Trends in Types of State and Local Spending in Montana Fiscal Years 1998-2018



**Census records for 2003 are unavailable.*

Over the past 20 years, spending at the state and local levels has shifted in several areas. The share of spending on public schools has declined from 27.5 percent in Fiscal Year 1998 to 23.6 percent in Fiscal Year 2008 and to 22.2 percent in Fiscal Year 2018. At the same time, the share of state and local government spending on public safety, and health and human services has increased, from 25.9 percent in Fiscal Year 1998 to 36.9 percent in Fiscal Year 2018. The chart above shows the percentage of state and local spending in Montana for each of the eight general spending categories for fiscal years 1998, 2002, 2008, 2013, and 2018.

State and Local Revenue

Governments provide several types of services to individuals, businesses, and other entities in their jurisdictions. The charts on the following page show the sources of funds to pay for state and local spending. The top left-hand chart shows state government revenue. The bottom left-hand chart shows revenue for local governments and school districts.

Transfers from the federal government are the largest source of state revenue, making up 44 percent of the total. This includes federal funding for Medicaid and other state programs and federal education funds that are passed on to school districts. State collected taxes at 42 percent of the total are the next largest source of state revenue.

Charges and fees make up 8 percent of state revenue. Of the 8 percent, approximately 85 percent of the charges and fees are university system tuition and fees. This category also includes income from state lands.

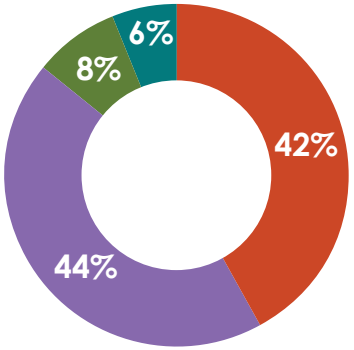
The remaining 6 percent is made up of interest earnings on trust funds and other state accounts totaling about 3 percent of state revenue, and 3 percent is from miscellaneous sources.

All additional transfers from the state government and local taxes make up 32 percent and 39 percent of local revenue respectively. Charges for local services make up 17 percent of local revenue. Transfers from the federal government and revenue from miscellaneous sources each account for 6 percent.

The remaining four charts show combined state and local revenue. Because state and local governments and school districts are combined in these charts, transfers between levels of government are not shown. The chart on the top middle of the page shows that revenue is almost evenly split between taxes and all other sources. The chart below shows total revenue with taxes broken down into five types and other revenue sources broken down into three types.

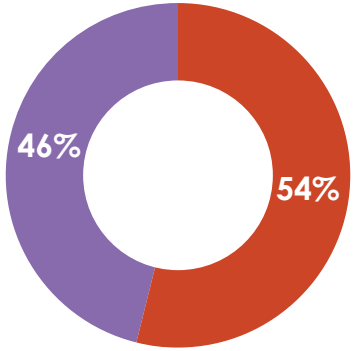
The charts on the right-hand side of the page show non-tax revenue on the top, and state and local tax revenue on the bottom.

FY 2018 State Revenue in Montana



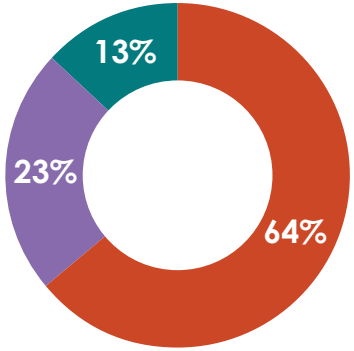
- State-Collected Taxes
- Transfers from Federal Gov.
- Charges for Tuition, Non-Utility Services
- Interest and Misc.

FY 2018 Tax and Nontax State and Local Revenue in Montana



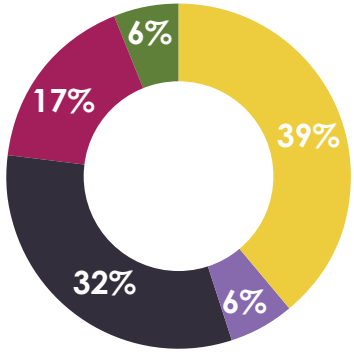
- Nontax Revenue
- Tax Revenue

FY 2018 State and Local Nontax Revenue in Montana



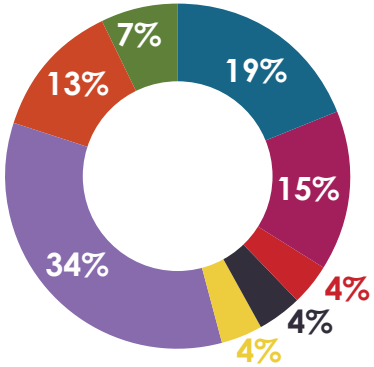
- Transfers from Federal Gov.
- Interest and Misc.
- Charges for Tuition, Utilities, Other Services

FY 2018 Local Revenue in Montana



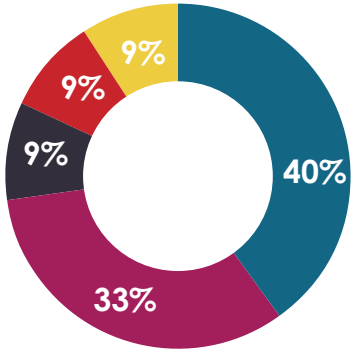
- Local Taxes
- Transfers from State Gov. and Local Share of State Taxes
- Transfers from Federal Gov.
- Charges for Tuition, Non-Util. Services
- Interest and Misc.

FY 2018 Detailed State and Local Revenue in Montana



- Property Tax
- Indiv. and Corp. Income Tax
- Severance and Other Taxes
- Sales and Excise Taxes
- Motor Fuel Taxes and Vehicle Registrations
- Charges for Tuition, Non-Util. Services
- Transfers from Federal Gov.
- Interest and Misc.

FY 2018 State and Local Tax Revenue in Montana

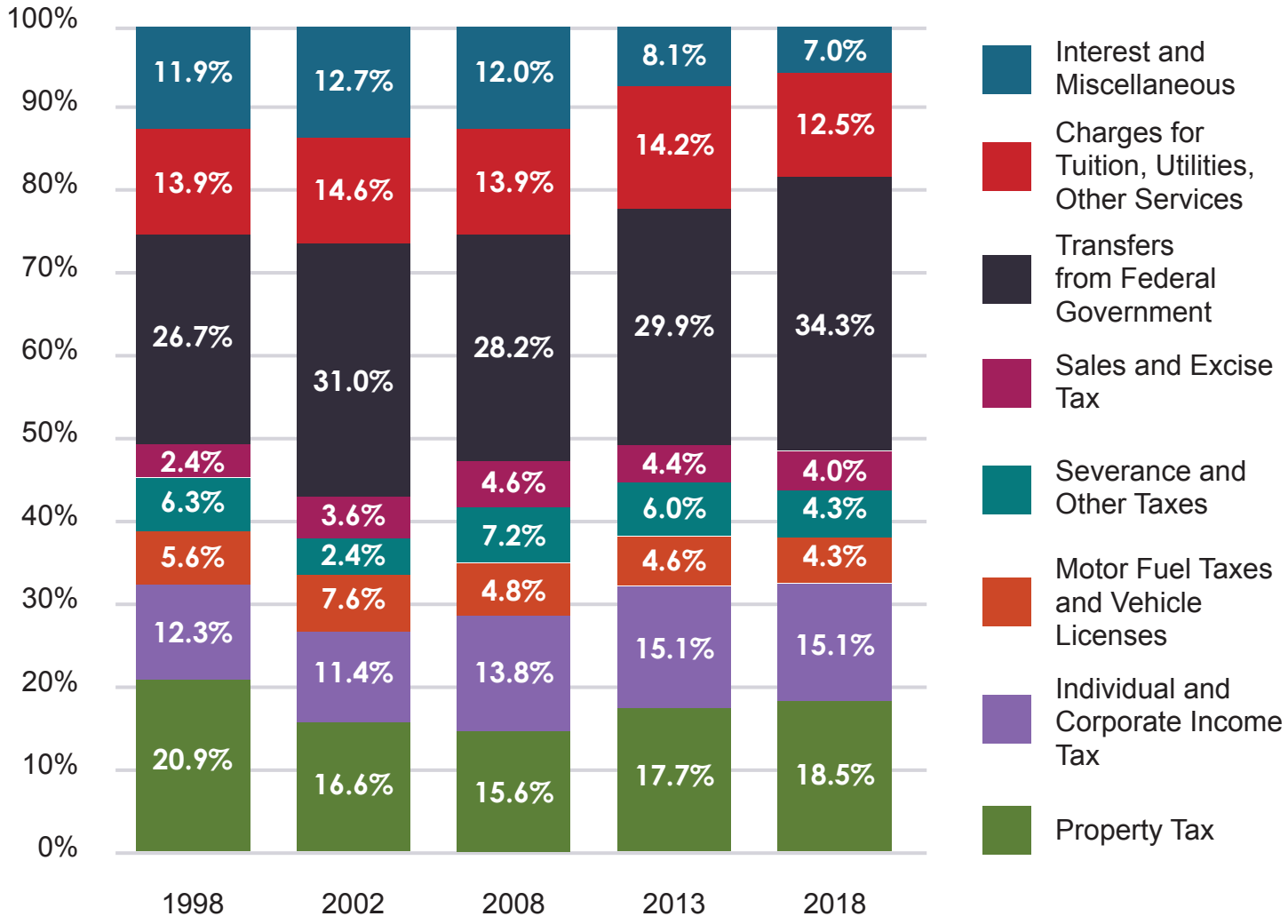


- Property Tax
- Indiv. and Corp. Income Tax
- Sales and Excise Taxes
- Severance and Other Taxes
- Motor Fuel Taxes and Vehicle Registrations

The sources of state and local revenue have changed in relative importance over time. This is shown in the following graph. Transfers from the federal government have varied over time, partly because state revenue tends to grow slowly, or even fall in a recession. At the same time, the federal transfers to state and local governments remain unchanged or are even increased. From 1998 to 2018, the share of state and local revenue coming from the federal government increased from 26.7 percent to 34.3 percent.

Changes in the other shares reflect both changes in the state economy and state and local legislative actions. For example, the share of severance and other taxes decreased from 1998 to 2002 as low oil and gas prices led to falling production. This share increased from 2002 to 2008 as higher prices and new technology led to increased production. As another example, the share of sales and excise taxes increased between 1998 and 2018, due in part to new taxes on lodging and rental cars.

Trends in State and Local Revenue Sources Fiscal Years 1998-2018



**Census records for 2003 are unavailable.*

Department of Revenue Tax Collections

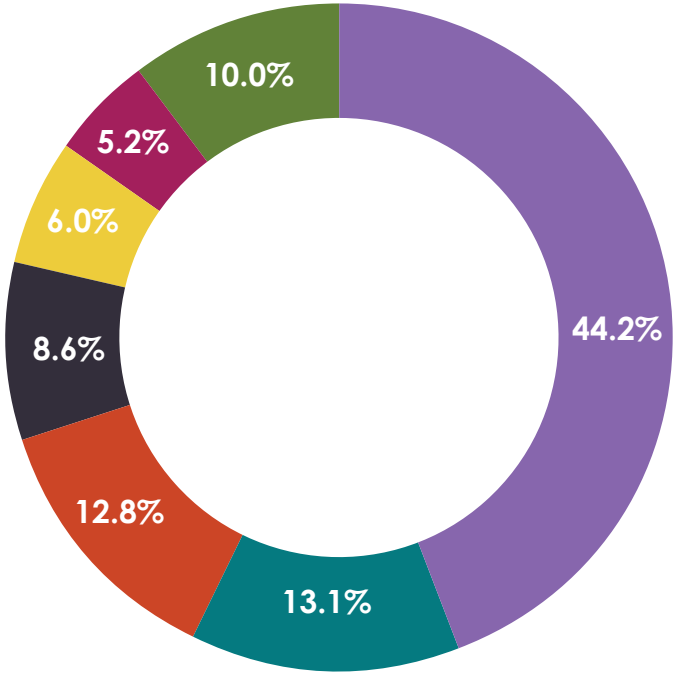
State and Local Taxes

The two pie graphs on the next page show state and local tax revenue.

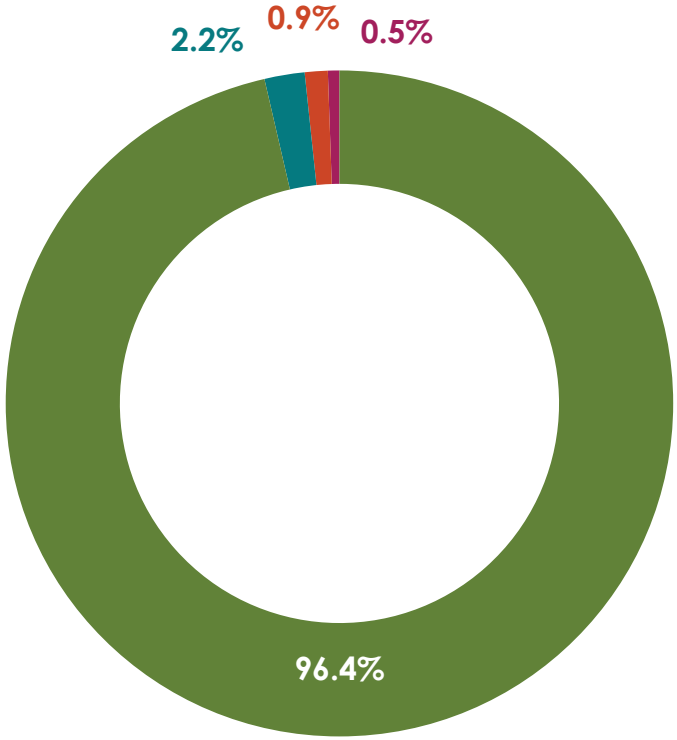
The state collects a wide variety of taxes. The largest source of state tax revenue is the individual income tax. In Fiscal Year 2018, severance and other taxes made up the second largest category, generating more than 13 percent of state tax revenue. The share of state taxes generated by sales and excise taxes decreased from 14.3 percent in 2016 to 12.8 percent in 2018. Statewide property taxes, which comprised 10 percent of revenue in 2018, are earmarked for public schools and the university system. Revenue from the 95 mills levied for schools (see the State Mill Rates section in the Property Tax chapter of this report) is deposited in the state general fund, where it covers about one-third of state funds transferred to school districts. Motor fuel taxes are earmarked for the highway system and other related uses.

Local government and school district tax collections come almost entirely from property taxes. Local option sales taxes collected by resort communities and local option vehicle taxes are each less than 1 percent of local tax collections.

State Taxes in Montana
Fiscal Year 2018



Local Taxes in Montana
Fiscal Year 2018



Severance and Other Taxes
Motor Vehicle Registrations
Motor Fuel Taxes
Individual Income Tax
Corporate Income Tax
Property Tax
Sales and Excise Taxes

The following table shows how each type of tax was allocated between state and local governments in the Fiscal Year ending June 30, 2020. For the state share, it shows the allocation between the state general fund and earmarked uses. Each column shows the allocation of one type of tax. The bottom row shows the percentage of total state and local tax revenue from each type of tax. The rest of each column shows the percentage of collections of each type of tax that went to local governments, school districts, the state general fund, and various earmarked state funds in Fiscal Year 2020.

For taxes collected by the state, the table shows the share distributed to local governments and school districts. However, it does not reflect the fact that half of revenue going into the state general fund is distributed to local governments and school districts.

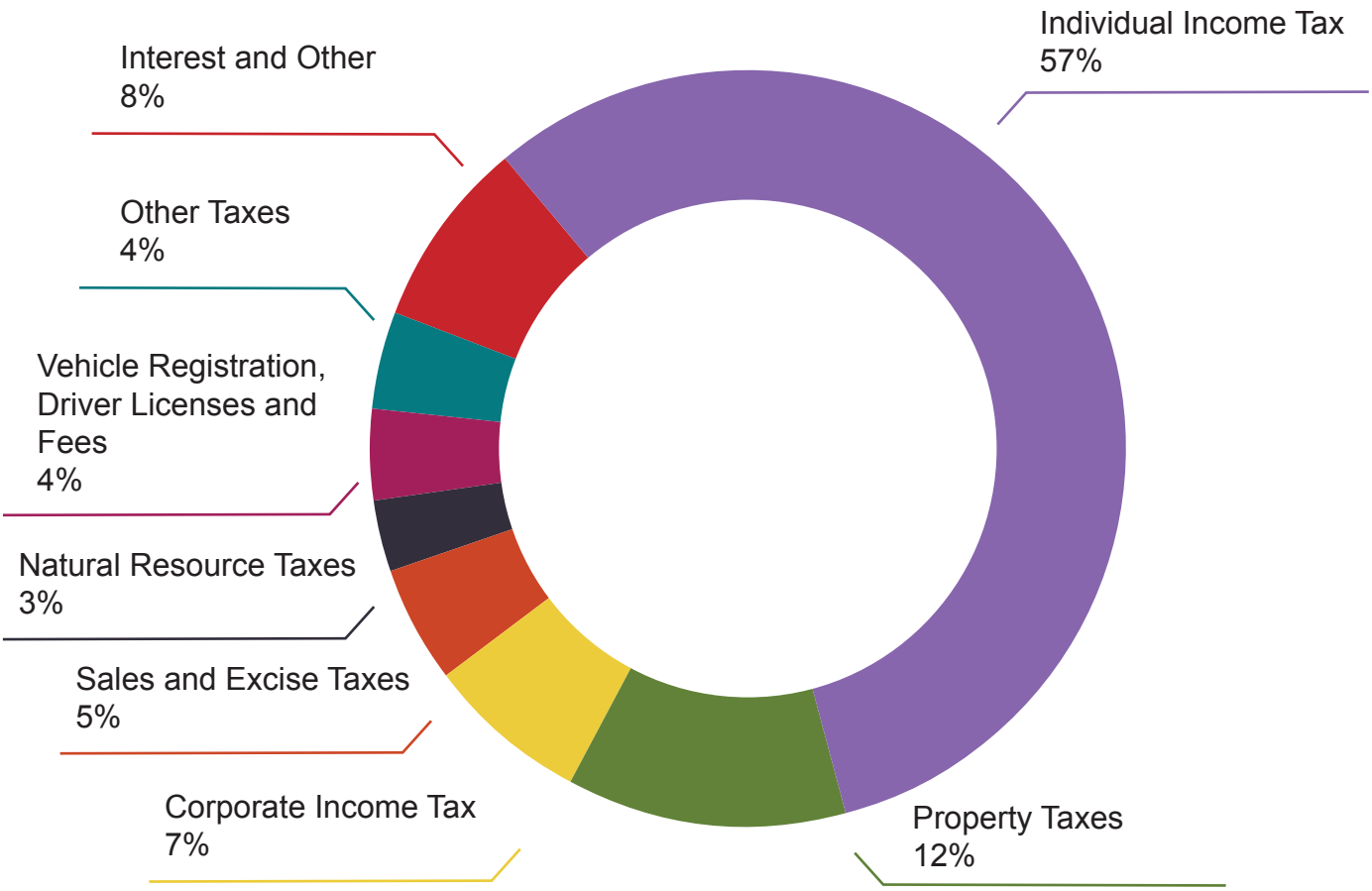
Allocation of Montana State and Local Taxes - Fiscal Year 2020

	Property Tax	Individual Income Tax	Severance and Other Taxes	Sales and Excise Taxes	Motor Fuel Taxes	Corporate Income Tax	Motor Vehicle Licenses
Local							
Governments and Special Districts	41.19%	-	15.80%	0.73%	-	-	-
Schools	41.00%	-	16.87%	-	-	-	-
State							
General Fund	16.75%	100.00%	38.41%	43.75%	-	100.00%	69.28%
University System	1.07%	-	0.79%	1.19%	-	-	-
Health and Human Services	-	-	-	20.90%	-	-	-
Regulation and Agency Operations	-	-	1.90%	14.77%	-	-	4.29%
Public Safety	-	-	2.12%	0.30%	0.05%	-	-
Transportation	-	-	-	0.39%	95.80%	-	23.24%
Environment	-	-	5.40%	0.31%	4.14%	-	-
State Buildings	-	-	3.51%	0.26%	-	-	-
Trust Funds (incl. Retirement)	-	-	15.19%	0.26%	-	-	0.15%
Parks, Recreation, Tourism	-	-	-	17.14%	-	-	3.04%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
% of Total from Each Tax	40.67%	31.20%	3.78%	13.12%	3.83%	4.06%	3.34%
Total From Each Tax ($ millions)	$1,868.578	$1,433.756	$173.492	$602.614	$176.158	$186.680	$153.430

The graph below shows the breakdown of general fund revenue for the Fiscal Year ending June 30, 2020, including taxes and non-tax revenue. Individual income tax is by far the largest single source of revenue for the general fund, accounting for over half of state general fund revenue. The second largest source is property tax from the 95 mill statewide school equalization levy, which accounted for 12 percent of general fund revenue.

All other revenue categories each accounted for less than 10 percent of general fund revenue. The Department of Revenue collects about 80 percent of state tax revenue. Other agencies that collect at least 1 percent of state tax revenue are the Department of Transportation (motor fuel taxes), the Commissioner of Securities and Insurance (insurance taxes), and the Department of Justice (gambling taxes).

State General Fund Revenue (Fiscal Year 2020) Total = $2.529 Billion



The table on the next page shows Department of Revenue collections of state taxes for Fiscal Years 2016 through 2020. This table only shows the state share for taxes where revenue is split between the state and local governments. Details on each tax can be found in later sections of this report.

Department of Revenue State Collections - Fiscal Years 2014-2020

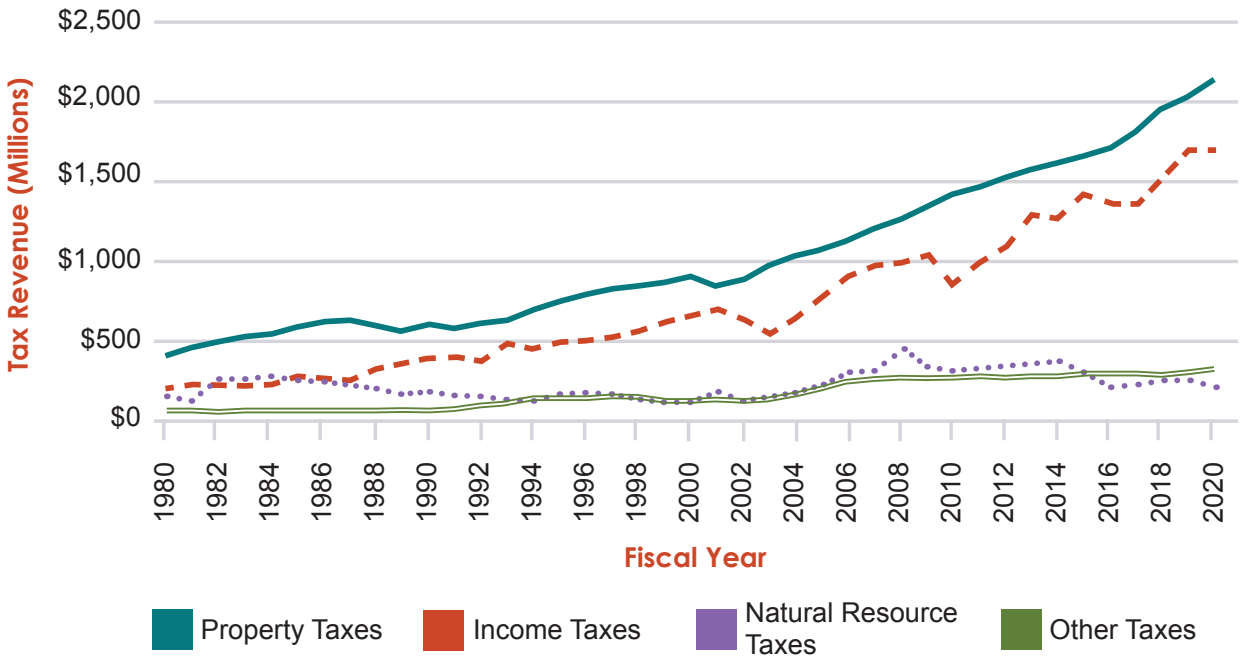
Individual Income Tax	2016	2017	2018	2019	2020
Income Tax Withheld	$904,652,951	$941,987,699	$998,390,078	$1,063,441,499	$1,122,338,145
Income Tax All Other	280,174,810	226,236,943	299,386,508	365,568,934	312,901,852
Subtotal	**1,184,827,762**	**1,168,224,644**	**1,297,776,586**	**1,429,010,433**	**1,435,239,997**
Corporate Income Tax	118,386,603	125,991,635	167,099,816	186,535,598	187,358,214
Property Tax	266,347,130	269,659,548	282,963,084	299,376,892	319,479,315
Natural Resources Taxes (State Portion)					
Bentonite Tax	286,081	266,623	291,255	261,049	180,636
Coal Severance Tax	60,358,548	58,808,035	60,097,399	60,028,161	46,754,498
Oil and Gas Production Tax	45,537,806	54,846,008	65,514,847	66,044,561	46,407,318
Resource Indemnity Trust Tax	2,335,153	2,622,658	2,531,336	2,923,403	2,269,192
Metalliferous Mines License Tax	5,691,074	6,698,782	8,700,599	9,551,676	12,065,538
Subtotal	**114,208,662**	**123,242,105**	**137,135,436**	**138,808,850**	**107,677,182**
Other Taxes, Licenses and Services					
Cigarette Tax	73,219,123	71,872,218	65,495,811	64,496,884	63,447,053
Telecommunications Excise Tax	16,774,868	15,602,798	13,725,924	13,223,885	11,788,418
Lodging Facility Use Tax	27,910,664	29,539,381	32,805,856	36,297,514	33,679,511
Inheritance/Estate Tax (Net)	62	-	-	-	735
Sales Tax - Accommodations	21,492,606	21,780,133	24,091,089	26,703,268	28,110,048
Nursing Facility Bed Tax	13,232,878	13,109,763	16,959,437	23,200,576	22,088,780
Hospital Utilization Fee	22,667,834	22,282,214	22,619,596	22,578,403	32,681,387
Emergency Telephone 911 System	13,120,489	13,020,367	13,003,639	13,558,898	13,752,387
Electrical Energy Production Tax	4,536,484	4,313,577	4,301,551	4,184,978	3,910,294
Abandoned Property	9,554,713	12,068,348	13,868,626	11,775,074	14,316,177
Tobacco Products Tax	13,131,013	13,268,717	12,864,522	12,702,208	12,185,252
Wholesale Energy Transaction Tax	3,516,131	3,463,834	3,628,180	3,490,244	3,350,982
Public Service Commission Tax	2,897,229	4,745,981	3,936,916	2,460,333	5,239,599
Sales Tax - Rental Vehicles Tax	4,269,438	4,536,234	4,958,598	5,907,633	5,572,444
Contractor's Gross Receipts Tax	2,397,493	3,078,111	4,266,687	3,597,205	6,728,555
Rail Car Tax	3,594,460	3,790,195	3,648,993	3,593,860	4,293,652
Consumer Counsel Tax	1,002,553	1,365,518	919,347	768,265	1,736,461
TDD Telecommunications Service Fee	1,334,146	1,352,174	1,365,782	1,386,037	1,421,675
Intermediate Care Utilization Fee	1,036,982	743,617	614,244	397,440	323,293
Other Taxes and Licenses	160,547	152,789	225,566	178,154	154,938
Subtotal	**235,849,713**	**240,085,969**	**243,300,363**	**250,500,859**	**264,781,641**
Liquor Taxes, Profits, and Licenses					
Liquor Profits and License Fees (to GF)	11,373,175	12,034,865	12,459,988	13,492,341	18,079,825
Liquor, Beer, and Wine Taxes	34,706,138	35,545,414	36,450,544	37,829,198	40,543,368
Subtotal	**46,079,313**	**47,580,279**	**48,910,532**	**51,321,540**	**58,623,194**
Total Collections	$1,965,699,183	$1,974,784,180	$2,177,185,818	$2,355,554,171	$2,373,159,543

Contact the department at (406) 444-6900 for a large-print copy of this table.

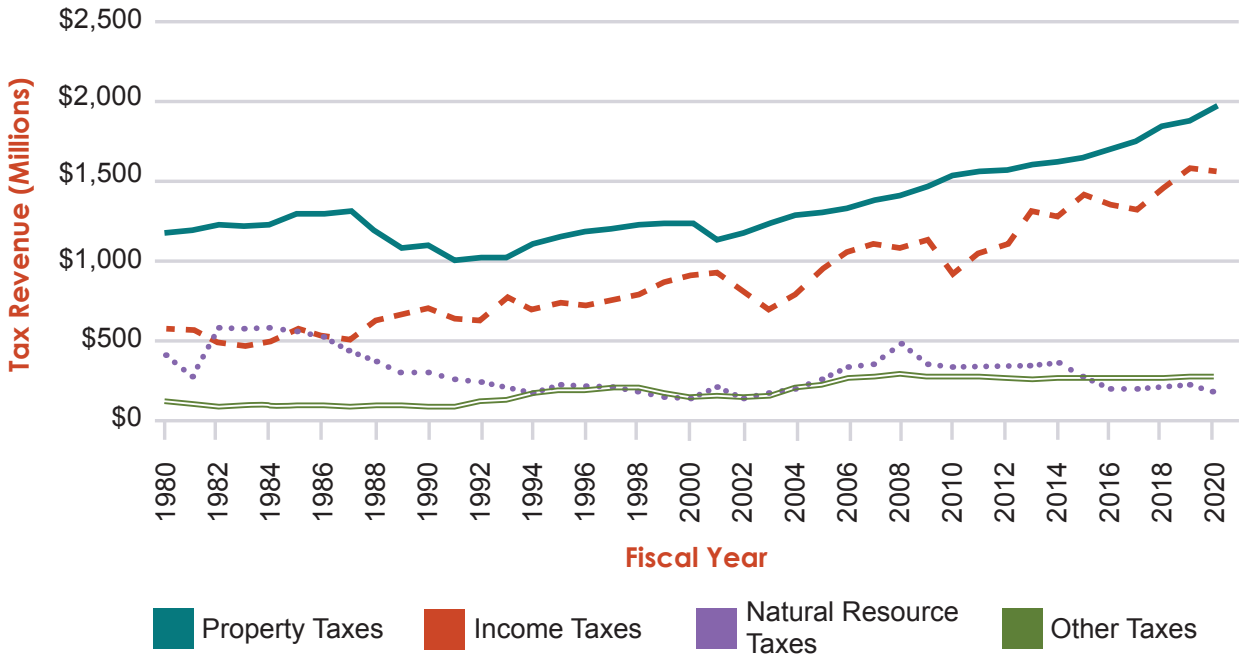
Montana Tax Trends

The two graphs below show total collections of taxes, divided into four categories, for Fiscal Years 1980 through 2020. The first shows the actual amount of collections each year. The second shows collections adjusted for inflation, with each year's collections shown in terms of their value in 2020.

DOR State and Local Taxes in Montana (1980-2020)
Four Types of Taxes Reported Separately

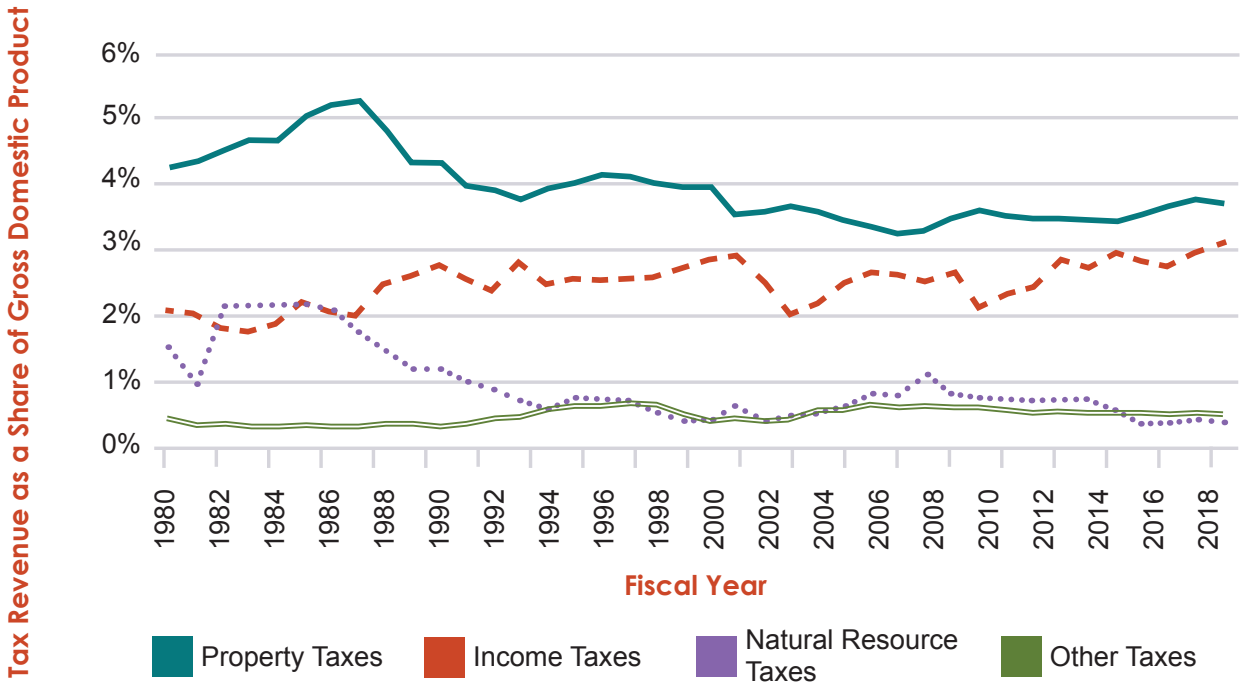


DOR State and Local Taxes in Montana (1980-2020)
Four Types of Taxes Reported Separately - Adjusted for Inflation

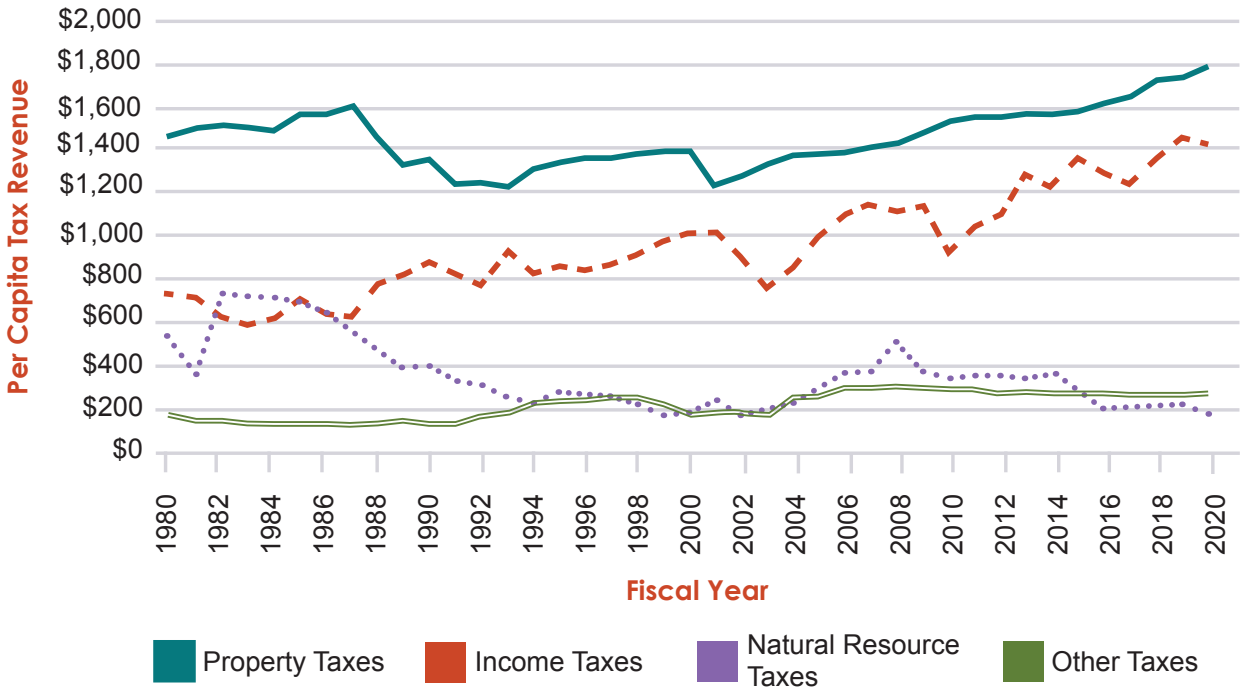


The two graphs below show total collection of taxes in Montana, divided into the same four categories, for Fiscal Years 1980 through 2020. The first graph shows the amount of collections for each tax type as a share of Montana's gross domestic product for the same period. The second shows the amount of revenue collected on a per capita basis. The second chart is also adjusted for inflation, with each year's collections shown in terms of their 2020 value.

DOR State and Local Taxes as a Share of GDP in Montana (1980-2019)
Four Types of Taxes Reported Separately



Per Capita DOR State and Local Taxes in Montana (1980-2020)
Four Types of Taxes Reported Separately - Adjusted for Inflation



Taxes and Spending in Montana and Other States

The following tables show how taxes are grouped in the graphs on the previous pages:

Property Tax

Taxes Based on Mill Levies
Special Improvement Districts (SID)
Rural Improvement Districts (RID)
Other Fees

Income Taxes

Individual Income Taxes
Corporate Income Taxes

Natural Resource Taxes

Coal Severance Tax	Miscellaneous Mines Net Proceeds Tax
Coal Gross Proceeds Tax	Bentonite Tax
Metal Mines License Tax	Oil and Natural Gas Severance Tax
Metal Mines Gross Proceeds Tax	Cement and Gypsum Taxes
Resource Indemnity and Groundwater Assessment Tax	

Other Taxes

Lodging Facility Use Tax	Marijuana Tax	Inheritance and Estate Tax
Accommodations Sales Tax	Opioid License Fee	Nursing Facility Bed Tax
Rental Vehicle Tax	Telephone Company Tax and Retail Telecommunication Tax	Intermediate Care Facility Utilization Fee
Cigarette Tax	Emergency Telephone System Fee	Invasive Species Fee
Tobacco Product Tax	TDD Telecommunications Fee	Hospital Facility Utilization Fee
Cigarette Seller Licenses	Electrical Energy Producers' Tax	Rail Car Tax
Liquor License Tax	Wholesale Energy Transaction Tax	
Liquor Excise Tax	Consumer Council Tax	
Beer Tax	Public Service Commission Tax	
Wine Tax	Unclaimed Property	
Alcoholic Beverage License Fees	Public Contractor's Gross Receipts Tax	

The charts on the next page show the mix of taxes in Fiscal Year 2018 for Montana, for the average of all 50 states, and for Idaho, North Dakota, South Dakota, and Wyoming. The charts on the following page show the mix of state and local spending for the same states.

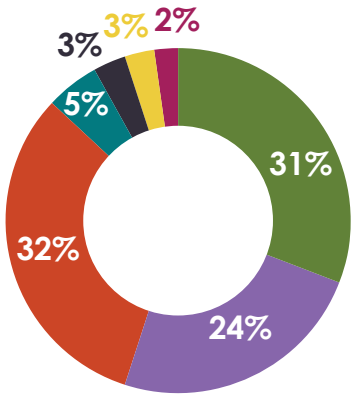
The chart in the upper left corner of the next page shows the average percentage of tax revenue from each tax type for all states. Property taxes, sales taxes, and individual income taxes together account for 87 percent of state and local tax revenue. This combination of taxes is often referred to as the "three-legged stool" of state and local taxation.

Compared to the average, Montana gets a much smaller share of tax revenue from sales and excise taxes and a somewhat larger share from each of the other types. Of the four neighboring states, only Idaho looks like the average state. In North Dakota, severance and other taxes were over 39 percent of total collections in Fiscal Year 2018. North Dakota's share of revenue from sales and excise taxes and property taxes were a little less than the 50-state average. South Dakota and Wyoming do not have individual income taxes and Wyoming does not have a corporate income tax. South Dakota compensates by receiving a somewhat higher proportion of tax revenue from property taxes and a much higher proportion from the sales tax. Wyoming receives a much higher-than-average proportion of tax revenue from the severance and other categories.

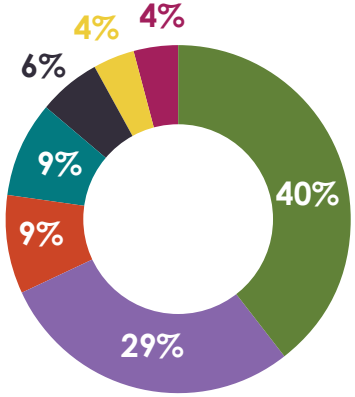
The mix of spending shows much smaller differences between states. All the states in the region devote an average share of spending to public schools. Montana, Idaho, and Wyoming devote the same proportion to higher education as the average state, while the proportion is slightly higher in North Dakota and South Dakota. Montana, Wyoming, and the Dakotas devote a smaller-than-average share of spending to health and human services while Idaho is close to the average. Transportation's share of spending is higher than average in all the states in the region.

State and Local Taxes in Fiscal Year 2018

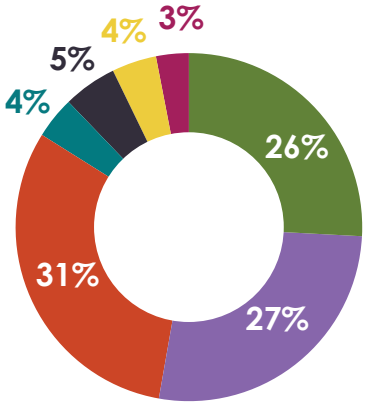
Average of all Fifty States



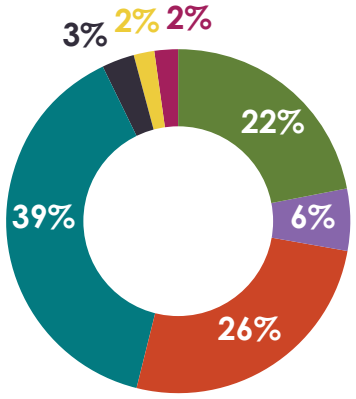
Montana



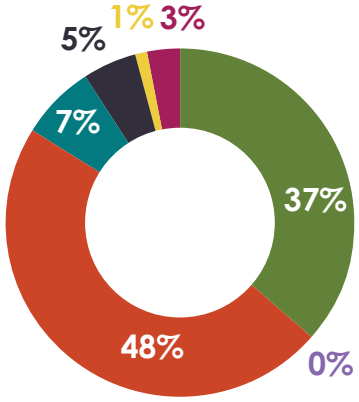
Idaho



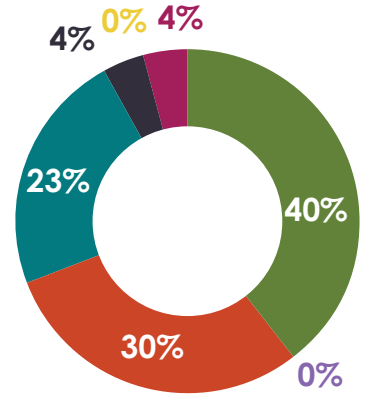
North Dakota



South Dakota



Wyoming

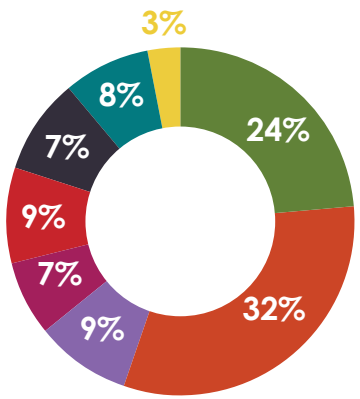


Severance and Other
Motor Vehicle Registrations
Motor Fuel
Individual Income
Sales and Excise
Corporate Income
Property

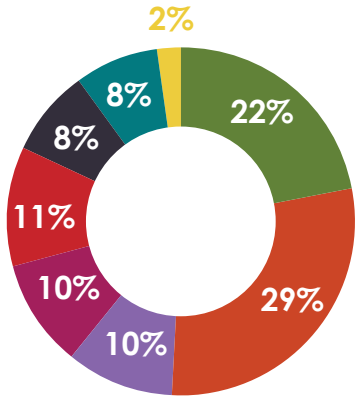
Comparison of State Taxes

State and Local Spending in Fiscal Year 2018

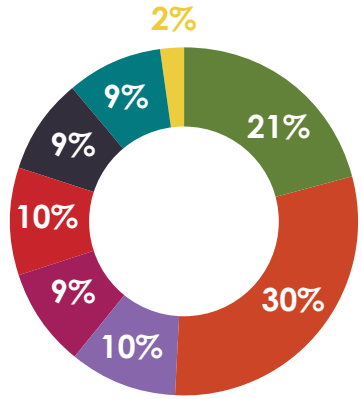
Average of all Fifty States



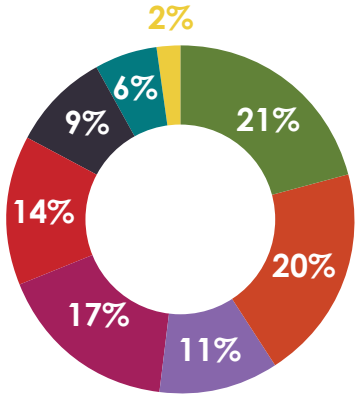
Montana



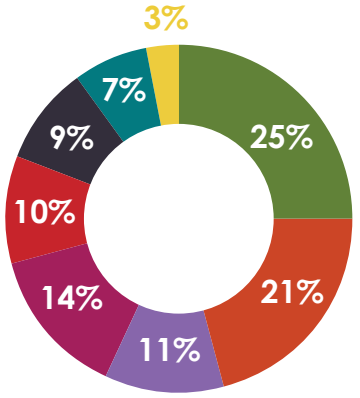
Idaho



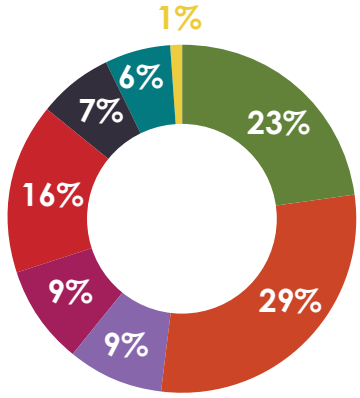
North Dakota



South Dakota



Wyoming



Public Safety
Transportation
Environment, Housing, Natural Resources, Parks
Health and Human Services
Public Schools
Interest on Debt
Higher Education
Administration, Judiciary, and Other

How Does Montana's State and Local Revenue System Measure Up?

There are many ways to evaluate state and local revenue systems. People and businesses care about different aspects of revenue systems because state and local taxes affect them differently. For example, a family with a large mortgage may benefit from itemized deductions for property taxes and home mortgage interest, while a family who live in an apartment would not. A business with large investment in buildings and fixed equipment may prefer a location with low property taxes even if it has a high sales tax, while a business with few fixed assets but large expenses for supplies may prefer the opposite.

To evaluate Montana's tax system, this report examines Montana's tax structure based on 10 principles that are generally considered important components of a high-quality tax system. The 10 principles are:

1. The elements of a tax system should be complementary to each other. This means individual state taxes should harmonize with each other, and state and local taxes should complement each other rather than conflict.

2. Revenue should be reliable at the state, local and individual level. At the state and local level, revenue should be adequate to government functions. There should not be wide fluctuations in government revenue from one year to the next. Taxpayers should not face frequent and significant changes in tax rates, structures or tax liabilities.

3. There should be a balanced mix of revenue sources. All taxes have strengths and weaknesses, and a system with multiple taxes is more likely to be able to offset the weaknesses of one with the strengths of another. Multiple taxes also allow lower rates for each tax.

4. Taxpayers in similar circumstances should pay similar taxes, a concept known as horizontal equity.

5. Lower-income taxpayers should not pay more in taxes than higher-income taxpayers, a concept known as vertical equity.

6. Taxes should be easy to understand and easy to comply with.

7. Taxes should be easy to administer in a fair, efficient, and effective manner.

8. A state's taxes should be competitive with taxes in other states and countries while financing a competitive level of infrastructure and public services. Competitiveness should be measured by the state's entire package of taxes and public services not by the special treatment given to specific groups of taxpayers.

9. The tax system minimizes its impacts on taxpayer decisions and state budgeting decisions and any such impacts should be explicit. Tax systems affect taxpayer decisions by imposing higher taxes on some activities than on others. Sometimes this is intentional, as with targeted tax credits, and sometimes it is a consequence of adopting certain types of taxes. Tax systems affect budgeting decisions primarily through earmarking of particular taxes.

10. The system of collecting revenue is transparent and accountable to taxpayers. The processes for setting and changing taxes should be public and accessible. Taxpayers should be aware of the taxes they pay and special provisions of the tax code should be reviewed regularly.

The rest of this section presents information on ways that Montana either conforms to or differs from each of the principles listed above. Where possible, it also compares Montana to the other states.

Complementary

There are several ways that state and local taxes can fail to be complementary: state and local governments may compete for the same tax base, the state may impose spending mandates on local governments, and the state may impose limits on local governments' ability to raise revenue.

In Montana, both the state and local governments levy property taxes, so there is some degree of competition for tax base. In the past, the state and local governments shared a variety of taxes. The 2001 Legislature replaced this with a system where these taxes are collected by the state. Local governments and school districts receive fixed entitlement share payments. The oil and natural gas production tax continues to be shared. Before 2003, the state and local shares were partly determined by property tax mill levies, but the 2003 Legislature made state and local shares fixed percentages.

The state mandates minimum and maximum spending levels for school districts, but also provides state funding.

The state imposes a limit on annual property tax revenue growth, but allows voter-approved levies to exceed the limit.

The state limits local government taxing authority to property taxes, a local sales tax in communities that qualify as resort areas, a local option gasoline tax, and a local option vehicle registration fee.

Reliable

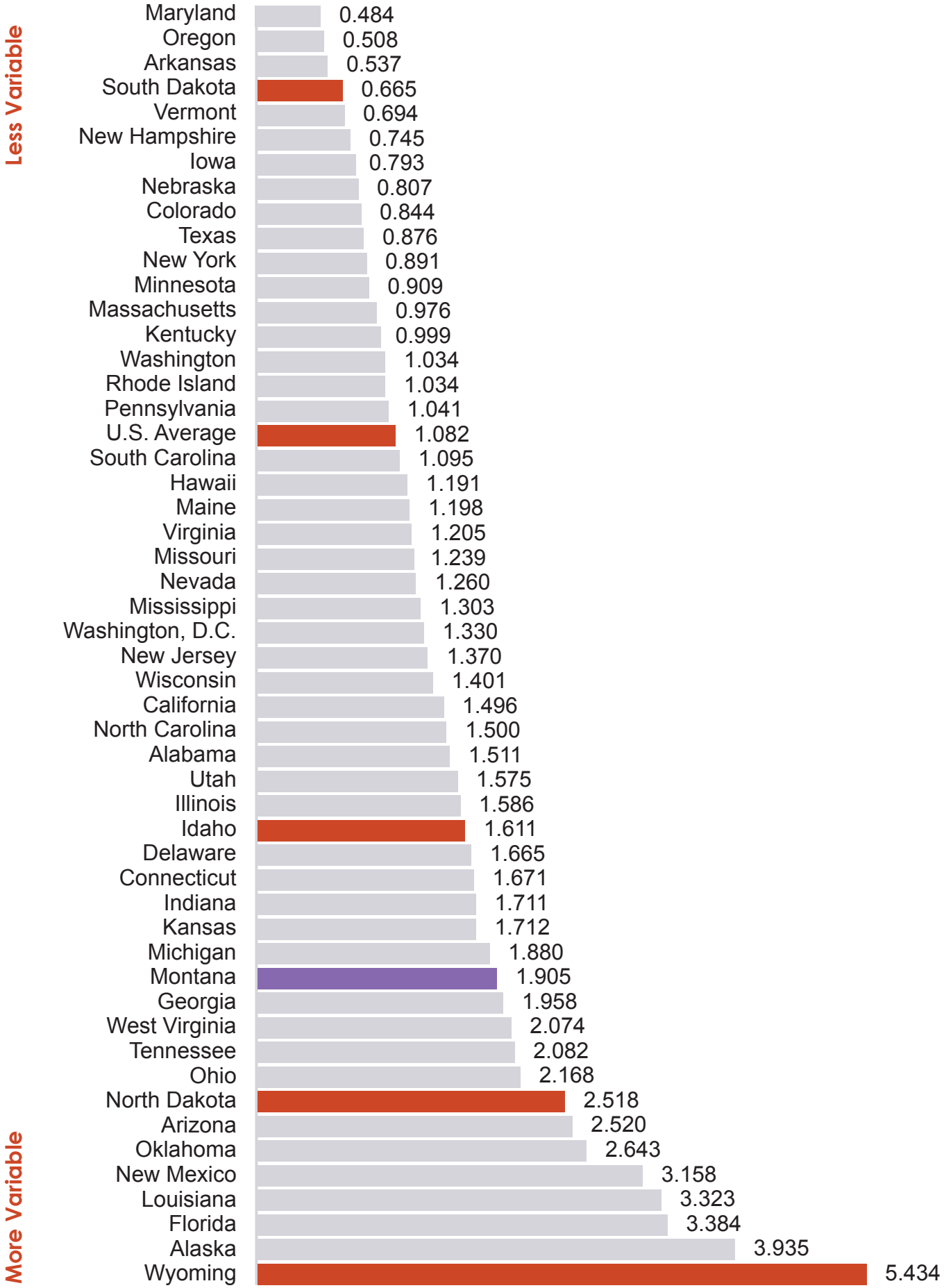
For a tax system to be reliable, revenue collected should not fluctuate too much over time.

The next graph compares states on the variability of state and local tax revenue. It shows states and Washington, D.C., ranked by a measure of the relative variability[2] of revenue growth over the period 2009 to 2018. Montana is highlighted in purple, and the four surrounding states and the U.S. average[3] are orange.

Montana ranks 39th, with higher-than-average relative variability. The stability of a state's revenue depends on its tax structure and how that structure interacts with the state's economy. In general, states with the most volatile taxes tend to have less diverse tax structures and are more dependent on volatile taxes such as corporation tax and severance taxes.

[2] *The coefficient of variation is a measure of relative variability. A higher CV indicates that the variation in annual growth rates is a larger percent of the average growth rate.*
[3] *In this section, U.S. averages are calculated from total revenue for all 50 states. The are not the average of the 50 state numbers.*

Variability of Revenue Growth (2009-2018)



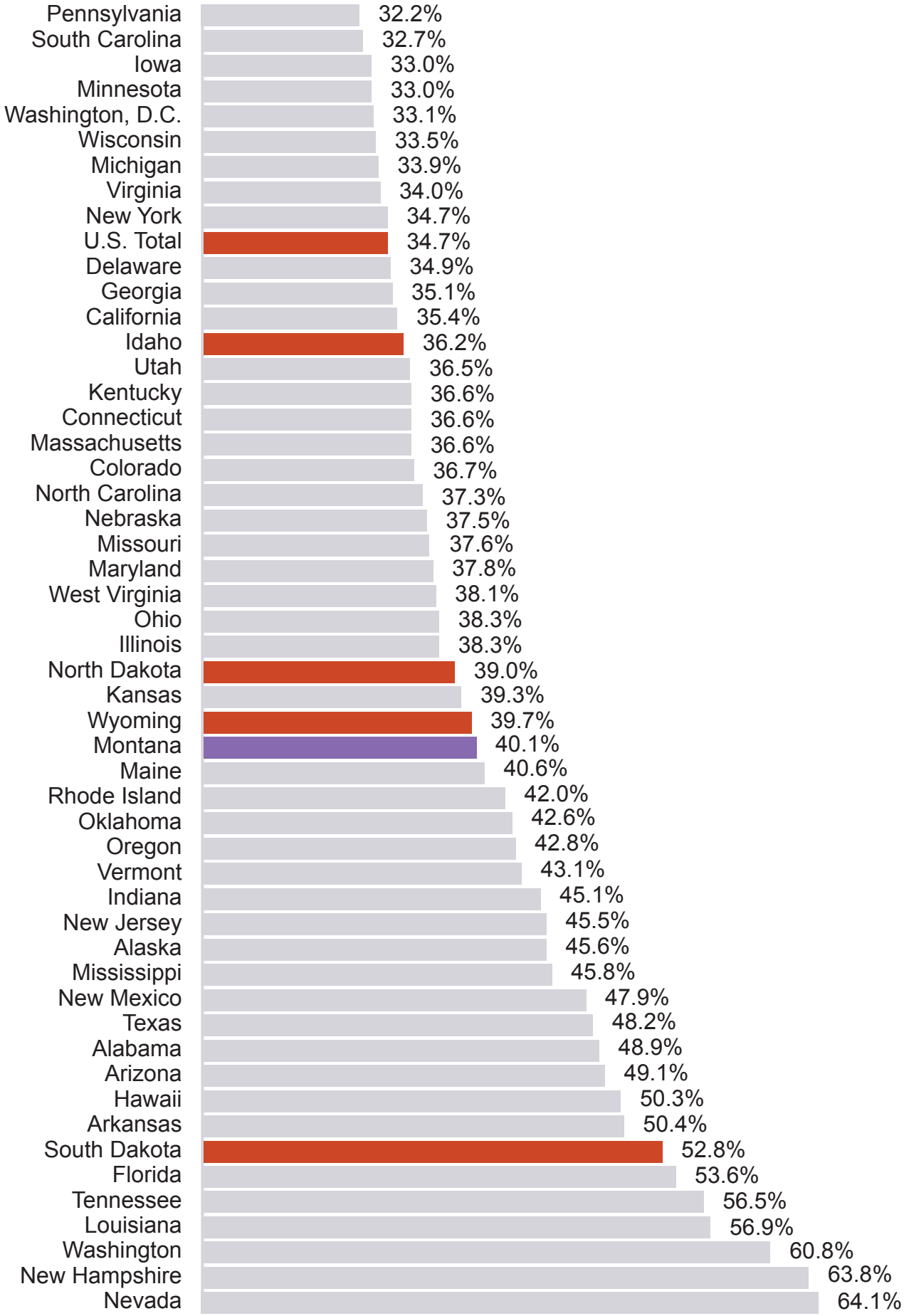
Balance

A balanced tax structure would generate revenue from multiple sources, so that the weakness of each tax can be balanced against the strengths of the other taxes. This balancing should reduce revenue volatility and minimize the economic distortions caused by each tax. An unbalanced tax system relies on one or two taxes for most of its revenue. The next two graphs compare states on their share of taxes from the largest tax type and from the two largest tax types.

The conventional view is that a balanced tax system would get most of its revenue from the "three-legged stool" of income, property, and sales taxes, but balance can be achieved in other ways. Despite not having a general sales tax, Montana has a relatively balanced tax system, as measured by the percent of revenue from one or two taxes with 40.1 percent from one tax and 68.9 percent from two taxes. In the past, Montana's selective sales and excises taxes and severance taxes together made up about the same share of revenue as general sales taxes did for other states, although this has decreased in recent years.

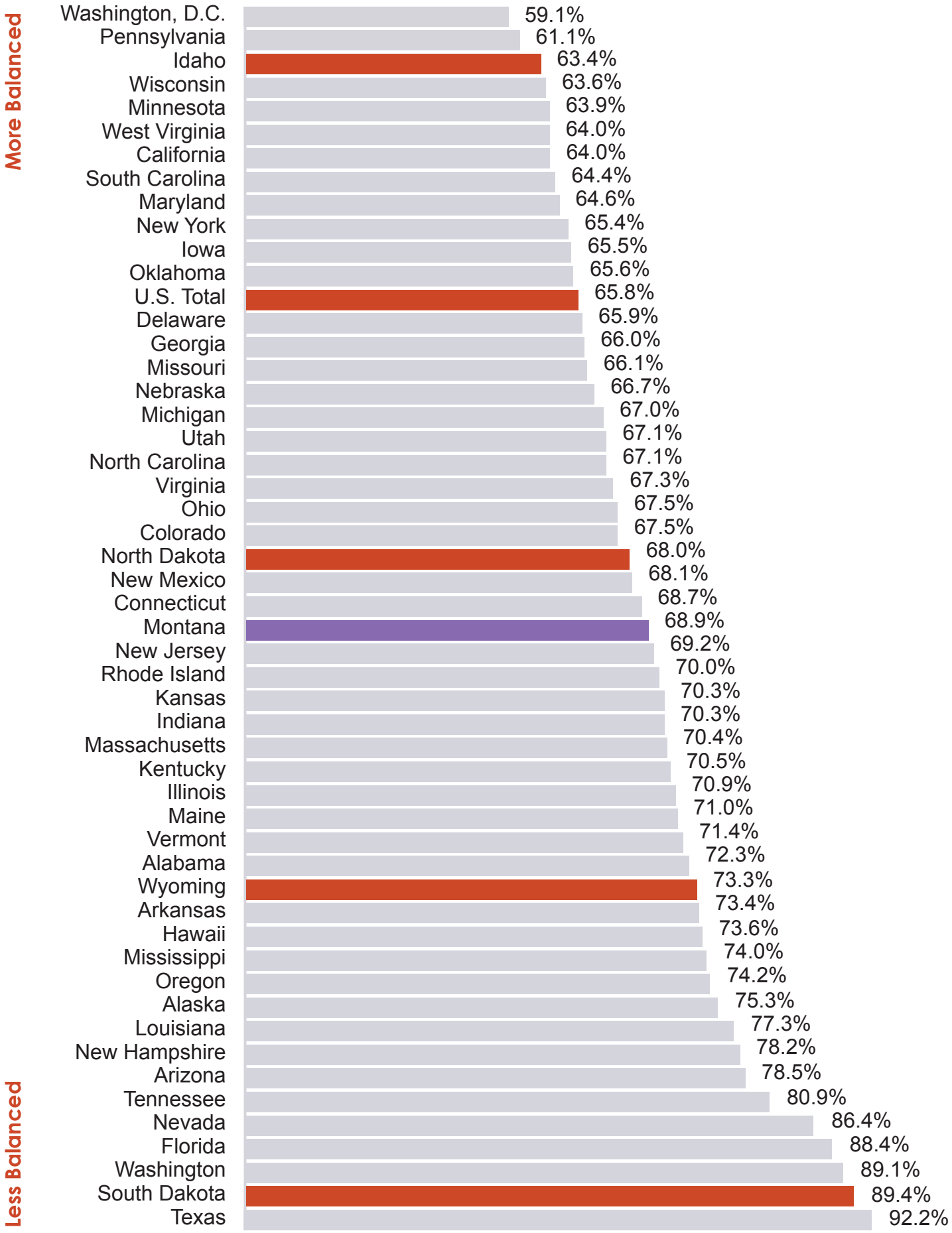
Percent of Revenue From One Tax

More Balanced



Less Balanced

Percent of Revenue From Two Taxes



Similar Circumstances and Similar Taxes

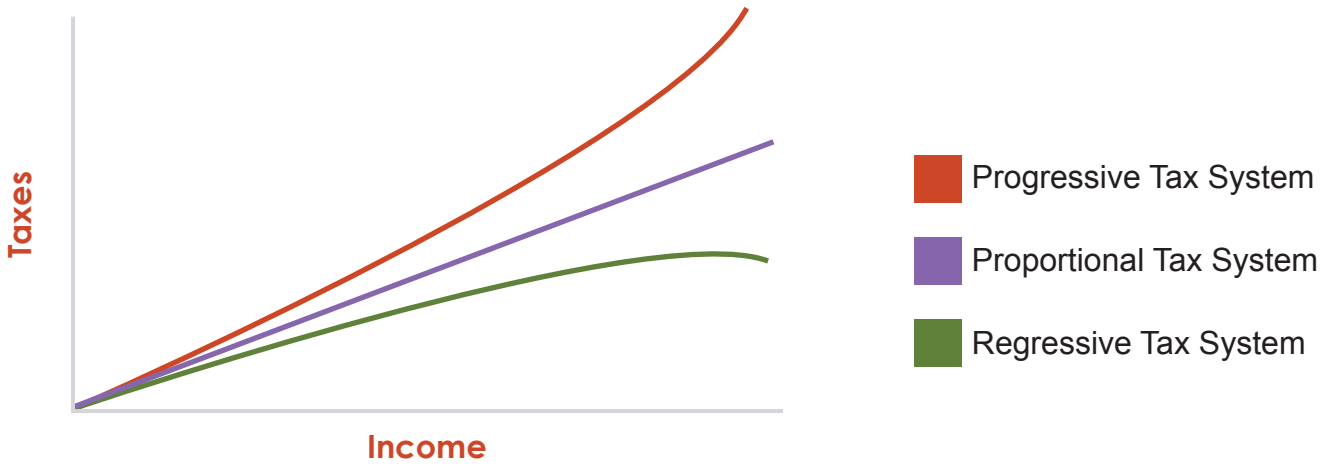
For most Montana taxes, taxpayers who have similar tax bases pay similar taxes. There are two exceptions. One is income tax where taxpayers with similar income may have very different tax liabilities if they differ in their ability to take advantage of the itemized deductions and tax credits that the state allows. For example, a taxpayer with a mortgage on a house can claim itemized deductions for mortgage interest and property taxes. This is likely to result in this taxpayer having lower income tax liability than an otherwise identical taxpayer who rents and cannot claim these deductions.

In general, the Montana property tax system is designed so that similar properties will have similar taxable values and any differences in taxes will be due to differences in local mills. In some cases, differences in local mills reflect differences in local services. For example, if residents of one town choose to have more parks and recreation facilities than residents of a similar town, the first town is likely to have higher property taxes to pay for the additional facilities. Differences in local mills may also reflect differences in the costs of providing local services. If the cost of living is higher in one area than another, school districts in the higher cost area may have to levy more mills so they can pay teachers higher salaries to induce them to live and work in the higher-cost area.

However, one of the main determinants of mill levies in a taxing jurisdiction is the amount of industrial and commercial property in the jurisdiction. Jurisdictions with large amounts of industrial and commercial property relative to the population tend to have low mill levies. Otherwise similar jurisdictions with little or no industrial or commercial property tend to have higher mill levies. This can result in similar properties with similar taxable values paying very different amounts of property tax for the same public services.

Taxes Paid Relative to Income

A tax system is defined to be proportional if the ratio of taxes to income is the same for taxpayers with different incomes. It is progressive if the ratio of taxes to income is higher for taxpayers with higher incomes and regressive if the ratio of taxes to income is lower for taxpayers with higher incomes. The graph below illustrates these concepts. The purple line shows a proportional tax system, where taxes are the same proportion of income at all income levels. The orange line shows a progressive tax system where taxpayers with higher incomes pay a higher percentage of their incomes in taxes. The green line shows a regressive tax system where taxpayers with lower incomes pay a higher percentage of their incomes in taxes.



The graph on the next page shows a measure of progressivity or regressivity, the Suits index, for each of the 50 states and the District of Columbia. The Suits index is positive for a progressive tax system, zero for a proportional tax system, and negative for a regressive tax system. A larger negative number indicates a more regressive tax system. The Suits index is always between -1 and 1. If all taxes were paid by the person with the highest income, the Suits index would be equal to 1. If all of taxes were paid by the person with the lowest income, the Suits index would be equal to -1.[4]

As the graph shows, most state tax systems are regressive—taxpayers with higher incomes pay a smaller portion of their income in taxes. While state income taxes often are progressive, property and sales taxes together generate more revenue than the income tax in all states except for Delaware and Oregon.

Property taxes are regressive because, while higher-income individuals typically have more expensive houses, taxpayers' personal real estate holdings generally do not increase proportionally with their income. Taxpayers with higher incomes are more likely to own business property, but property taxes, like other costs, generally are passed along to customers.

Sales taxes generally are regressive because services and other non-taxable purchases make up a larger percentage of higher-income taxpayers' spending, and because higher-income taxpayers typically spend a smaller fraction of their income. Higher-income taxpayers are more likely to be accumulating wealth by spending less than they receive, both in any year and over their lifetimes.

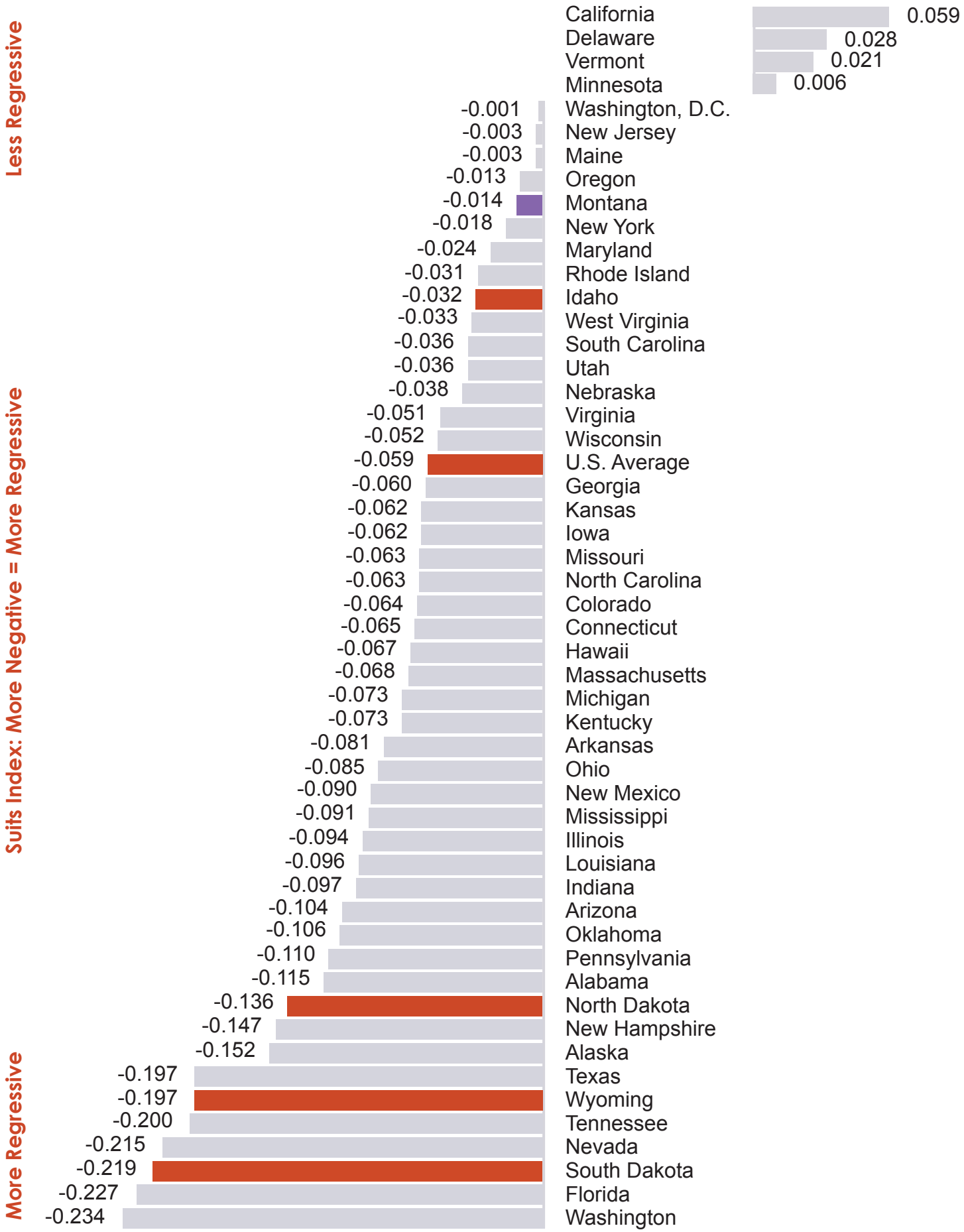
Montana has one of the least regressive tax systems as measured by the Suits index due in part to our lack of a general statewide sales tax.

The second graph compares the percentage of income going to state and local taxes for the fifth of taxpayers with the lowest incomes to the same percentage for all taxpayers. The number for a state is less than one if low-income taxpayers pay a smaller share of their income in state and local taxes than other taxpayers. It is more than one if low-income taxpayers pay a larger share of their income in state and local taxes.

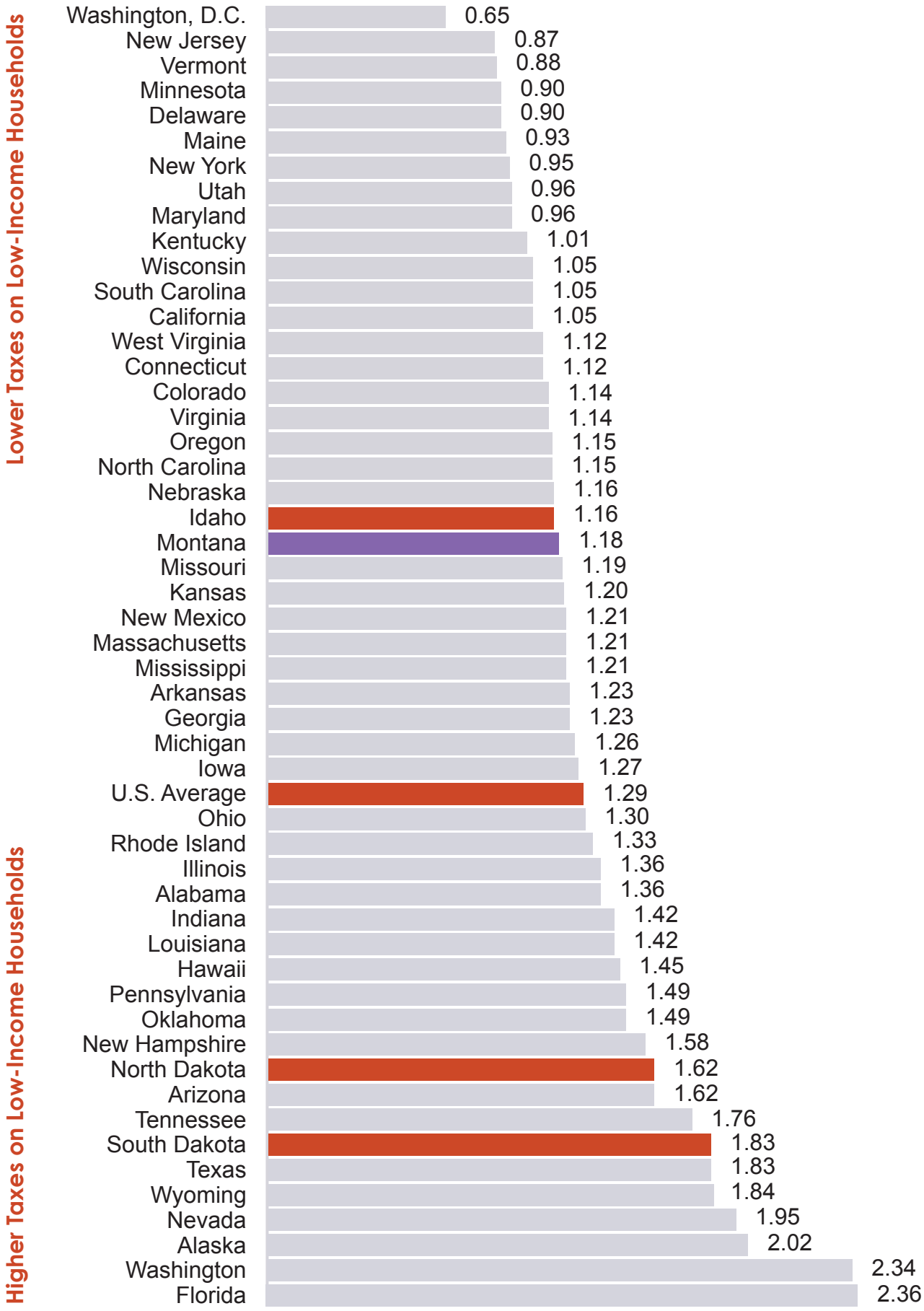
Montana low-income taxpayers pay 1.18 times as large a share of their income in state and local taxes as taxpayers as a whole. This is one of the lower ratios, and well below the national average of 1.29. There are nine states where the ratio is 1 or less.

[4] *Suits Indices in the graph are calculated from information in Meg Wiehe, Aidan Davis, Carl Davis, Matthew Gardner, Lisa Christensen Gee, and Dylan Grundman, Who Pays: A Distributional Analysis of the Tax Systems in All 50 States, 6th ed, Institute on Taxation and Economic Policy, 2018*

Regressivity of State Tax Systems



Taxes as Percent of Income
Low-Income Households Compared to All Households



Easy to Understand and Comply

Ideally, paying for public services would be as simple and straightforward as possible. The taxpayer would receive a bill, would easily be able to verify that the amount was correct, and would have a convenient way to pay.

Whether a state's tax system is easy to understand and easy to comply with depends on the types of taxes collected and on the details of the specific taxes. Some taxes are inherently harder to understand or harder to comply with. The way a tax is implemented can also make it easier or more difficult to understand and comply with. A state that relies more on taxes that are more complex will have a tax system that is harder to understand and comply with than a state that relies more on taxes that are less complex.

Characteristics of a tax that influence whether it is easy to understand and comply with include:

- Whether the taxpayer receives a bill or self-assesses (files a return),
- If the tax is self-assessed, the ease or difficulty of the process,
- If tax is billed, whether the taxpayer can easily verify that the tax assessment is correct, and
- How the tax is paid.

The process for resolving disputes between the taxpayer and the taxing jurisdiction also affects the ease of complying with a tax, but is generally similar between taxes and across states. In general, the taxpayer can request an informal review, proceed to a formal review with the department, an appeal before a quasi-judicial body such as the Montana Tax Appeals Board, and ultimately an appeal before state, and possibly federal courts.

One difference between taxes is who initiates the process. With taxes that are billed, the process generally begins with the taxpayer disagreeing with the taxing authority's assessment. With taxes that are self-assessed, the process generally begins when the taxing authority audits the taxpayer's return, disagrees with the self-assessed tax, and assesses additional tax.

Billed or Self-Assessed

Property taxes are generally billed to taxpayers, though some types of property are self-reported.

Sales taxes and excise taxes generally are assessed by the vendor as part of the ultimate taxpayer's bill for the taxable good or service.

Individual and corporate income taxes are self-assessed. So are the severance taxes and most business taxes.

Unlike most states, Montana does not have a general sales tax. Because of this, a taxpayer in Montana self-assesses a larger proportion of tax transactions than a taxpayer in the typical state. However, the effort required to self-assess taxes depends on the number of returns a taxpayer must file and the effort each return requires, not on the tax due with each return. A taxpayer in a state with a sales tax in addition to income and property taxes will have to file about the same number of returns as they would in Montana.

Ease or Difficulty of Self-Assessment

How difficult it is for taxpayers to file returns for a tax depends on the length and complexity of the return and on additional record-keeping the tax requires.

Personal Income Tax

The income tax is self-assessed. Taxpayers are required to complete and file an annual return. This requires some record-keeping, organization and planning. The ease of filing returns differs between taxpayers. Filing a return in simple for taxpayers with only wage and interest income reported on Forms W-2 or 1099, claiming a standard deduction, and claiming no credits. However, for taxpayers who have business income, itemize deductions, or claim a credit, there is a greater need to keep records, and completing a return takes more time and effort.

Like most states, Montana has tied its income tax closely to the federal income tax. For taxpayers who are required to file a federal income tax return, the closer the state return is to the federal return, the easier it is for taxpayers to file their state return. For many taxpayers, all the information on income and deductions used in calculating their state income tax is the same information they used on their federal returns. All states have some differences from federal law, such as in the income exemptions, itemized deductions, and credits allowed. Montana has more differences from federal law than its surrounding states.

One significant difference is that Montana is one of a few states that do not require married couples to make the same choice between a joint return and separate returns that they made for the federal income tax. Federal law provides different rate tables for joint and separate returns, and almost all married couples have lower federal tax liability if they file a joint return.

Montana has one rate table for all taxpayers. Most married couples with two incomes have lower state tax liability if they file separate returns, while married couples with one income generally have lower state tax liability if they file a joint return. Many couples file a joint federal return and separate state returns, making the process slightly more complex. In addition, many couples calculate their state tax both ways because it is not immediately obvious which will result in lower tax liability. This can significantly increase the time and effort required to file a state return.

Federal law prohibits states from taxing some types of income that the federal government taxes and many states have chosen to exempt some other types of income. States are also allowed to tax some income that the federal government has chosen to exempt. All state income taxes have a definition of taxable income that has some differences from the federal definition. As the following table shows, Montana has more differences than its surrounding states.

State Income Tax Components (Tax Year 2019)

	Idaho	Montana	North Dakota	South Dakota	Wyoming
Federal Income Type Used	Federal Taxable Income	Federal Adjusted Gross Income	Federal Taxable Income	No Income Tax	No Income Tax
Additions to Federal Income	6	14	3		
Subtractions from Federal Income	22	37	17		
Itemized Deductions	Federal Itemized Deductions	Additional Deductions Allowed	Federal Itemized Deductions		
Credits	16	29	25		

Taxpayers who itemize deductions must keep track of deductible expenditures and fill out additional schedules on their tax returns. States that either allow the same itemized deductions as federal law or do not allow any itemized deductions impose the smallest costs for additional record keeping and filing returns. A majority of states that have itemized deductions have at least one difference from federal law; they do not allow the itemized deduction for state income tax that federal law allows. Some states have more differences from federal law, either allowing additional deductions or not allowing some federal deductions. As the previous table shows, Montana has more differences from federal itemized deductions than its surrounding states.

Montana law also provides for a smaller standard deduction than federal law, which results in more taxpayers itemizing deductions on their state returns than on their federal returns. Forty-nine percent of Montana income tax returns itemize deductions while only 9 percent of federal returns filed from Montana itemize.

Tax credits reduce taxes for eligible taxpayers but require them to keep track of expenditures that are the basis of a credit and to fill out additional schedules. As the previous table shows, Montana has more credits than the other states. The additional work can vary greatly between credits. Only a subset of taxpayers claim any one credit, so the number of credits measures only one aspect of the additional compliance cost from tax credits.

For taxpayers who do not use them, these provisions do not make complying with the income tax more difficult. However, a majority of Montana taxpayers are affected by one or more of the differences from federal law. A little more than half of Montana married couples file separate returns on the same form while 95 percent of married couples file joint federal returns. A little more than half of Montana returns are subject to at least one of the state additions to or subtractions from Federal Adjusted Gross Income. About 51 percent itemize deductions and 22 percent claim at least one tax credit.

Corporation Income Tax

The corporate income tax also is tied to federal law. The Montana return begins with federal taxable income from the taxpayer's federal return. Montana has some adjustments to federal taxable income and most taxpayers are affected by at least one. In particular, taxpayers must add back any Montana corporation tax deducted in calculating federal taxable income. Montana also has a large number of tax credits for corporations but only about 2 percent of corporate returns claim a credit.

The most difficult state-specific aspect of the Montana return is the apportionment of the income of multi-state corporations to Montana. The form itself is not difficult but filling it out requires keeping records of the location of the corporation's sales, payroll, and property. However, a multi-state corporation has to make an apportionment calculation for each of the states where it pays corporation tax so the extra record-keeping is not all attributable to Montana.

Selective Sales and Excise Taxes and Severance Taxes

The returns for Montana's sales and excise taxes and severance taxes generally are relatively short and straightforward. Most are one page and ask the taxpayer to list either total or taxable sales, subtract a few deductions, and multiply the net amount by a tax rate. However, having the information to fill out the forms may require significant record keeping. Much of the information needed to fill out the tax forms is information that most businesses would be keeping anyway, such as total sales and various expenses, but some records may only be needed for taxes, such as which sales are taxable and which are exempt.

The ease of self-assessing can be partly judged by the fraction of returns with problems. For taxes where returns are filed by a business, the amount of returns with math errors or other inconsistencies ranges from about one in 10 to almost one in two. For comparison, the error rate on individual income tax returns is about one in four.

Ease of Verifying Tax Bills

Property Tax

Property taxpayers receive an annual statement showing the department's valuation of their property and an annual bill showing the calculation of tax. To verify the valuation, the taxpayer generally needs to contact the department and talk with an appraiser.

The tax on a property is calculated by multiplying the taxable value by state and local mill levies and adding any local fees. Few taxpayers understand the local budgeting processes that determine mill levies. This often leads taxpayers to expect a change in their property taxes based on their assessment notice, which turns out to be quite different from any change that the see when they ultimately receive their tax bills.

To verify that the correct mill levies and fees have been applied to the taxable value, the taxpayer generally needs to contact their county treasurer's office.

Selective Sales and Excise Taxes

These taxes are billed to the ultimate taxpayer as part of the bill for the taxed goods and services. Generally, the tax is stated separately. If the tax applies to the entire amount of the sale, it is straightforward for the taxpayer to check that the rate was applied correctly. If part of the sale is taxable and part is exempt, it may be difficult for a taxpayer to check whether the rate was applied only to taxable transactions.

Ease of Payment

Property Tax

Property tax payments are due twice a year. The need to make two significant cash payments requires planning by the taxpayer. Most homeowners who have a mortgage make monthly payments to a financial institution that then makes the biannual tax payments.

Personal Income Tax

Taxpayers are required to make payments during the year of at least 90 percent of the current year's tax liability or 100 percent of the previous year's tax liability. Any excess payments are refunded when the taxpayer files a return with any shortfall must be paid at that time. Payments during the year may be made by withholding or quarterly estimated payments. Most taxpayers who receive periodic payments can choose to have income tax withheld from these payments. Taxpayers who make estimated payments generally have to keep track of their income, calculate the amount to pay each quarter, and make sure that funds are available to make the payments. About eight in 10 individuals or couples have taxes withheld from wages or other periodic payments and about one in 10 make estimated payments. About one in 20 do both.

Corporation Income Tax

Corporations are required to make quarterly estimated payments during a tax year. Any excess or deficiency is made up when the corporation files its return. Making periodic tax payments generally will not be significantly different from making payments to suppliers or employees or paying dividends to shareholders. These are things businesses do routinely and making four additional payments a year should have minimal cost.

Selective Sales and Excise Taxes

The ultimate consumers pay these taxes as part of their payment for taxable goods and services. There generally is no additional effort involved.

Vendors who collect these taxes from their customers must calculate the tax, track the amount collected and remit it to the state periodically. The tax calculation generally can be automated as part of the billing process and is done as part of a transaction the vendor would be making anyway. Remitting the tax generally is no different from making the other types of payments that a business makes and should have minimal additional costs.

Severance Taxes

Severance tax payments are due with the taxpayer's periodic return. Making these periodic payments generally is no different from making other payment a business makes and should have minimal additional costs.

Easy to Administer Fairly, Efficiently, and Effectively

A tax that is easy to administer fairly, efficiently, and effectively will have a low cost for the tax agency to either assess the tax or process and verify tax returns. It will have few opportunities for taxpayers to evade the tax and it will not create disparities in how taxpayers are treated.

Cost to Access or Process Returns

The tax agency's cost to administer a tax depends on the number of taxpayers and the time and effort the agency must expend per taxpayer. The number of taxpayers varies between types of taxes. Taxes that are paid directly by most individuals or businesses have many returns. Taxes that are paid by a few taxpayers or that are collected from many taxpayers by a few vendors have fewer returns to process.

The time spent per taxpayer depends on the length of the return and the amount of information that must be recorded. It also depends on the time that must be spent verifying and correcting a typical return.

To some extent, there may be a trade-off between taxpayers' ease of compliance and the tax agency's ease of administration. For example, having a tax billed rather than self-assessed shifts most of the effort of calculating the tax from the taxpayer to the tax agency. Conversely, requiring taxpayers or third parties to provide additional information on sales or income would increase the effort required to comply with the tax but could reduce the auditing effort required to administer a tax effectively.

Property Tax

The property tax is a relatively expensive tax to administer, primarily because it is billed rather than self-assessed. Montana's property tax has some complexities that make it more expensive to administer than property taxes in some states but does not have some complications found in some other states.

The Department of Revenue assesses all property in the state, certifies the total taxable value for each taxing jurisdiction, and certifies the value of new property to be used in calculating each taxing jurisdiction's spending limits. Each local taxing jurisdiction calculates its mill levy or levies based on its budget and taxable value. The department calculates tax for each taxable property. The county treasurers print and mail property tax bills to each property owner.

These functions are common to the property tax systems in all states. In Montana, more of these functions are performed by the state and fewer are performed by local jurisdictions than in other states. Montana is one of the few states where all property assessment is a state function instead of a local function. In most states, a state agency oversees and supports local assessors and property that crosses county lines, such as railroads or pipelines, is assessed by the state.

Property assessment is a state function in Montana for a combination of historic and practical reasons. The 1972 Constitutional Convention made property assessment a state function after hearing widespread concerns about lack of uniformity in appraisals done by county assessors. Montana is one of 11 states with state-wide property taxes. In these states, it is important that assessments be uniform statewide as well as within local jurisdictions.

Identical properties need to have the same assessed value within a taxing jurisdiction to ensure that they pay the same taxes. However, the taxes on individual properties in a jurisdiction will be the same whether assessments are all at market value or are uniformly high or low. This is because property taxes are based on a taxpayer's share of taxable value in a jurisdiction, not on the absolute value of the taxpayer's property.

A taxpayer with 0.01 percent of the taxable value in a jurisdiction will pay property taxes equal to 0.01 percent of the taxing jurisdiction's revenue requirement. Millage rates are set by dividing a jurisdiction's revenue requirement by its taxable value. If, for example, all properties in a jurisdiction are over-assessed by 10 percent, the mills will be 10 percent lower than if assessments were at market value, and taxes will be the same as if assessments were at market value.

In states with only local property taxes, assessments need to be uniform within each local taxing jurisdiction, but do not need to be uniform across jurisdictions. If assessments are 10 percent higher than market value in Town A and 10 percent lower than market in Town B, taxpayers in both jurisdictions pay the same taxes as if both towns assessed at market value.

When the state levies property taxes, either assessments need to be uniform statewide or some adjustment needs to be made for differences between local assessment practices. Montana has made assessment a state function. Most of the other states with state property taxes provide state oversight for local assessors. Washington, for example, conducts annual sales-assessment ratio studies and uses the results to adjust state mills in each county to compensate for differences in local assessment practices.

While assessing property at the state level increases the state cost of administering the property tax it eliminates most local costs. It is not clear how state assessment affects the total of state and local costs.

The basis for property taxation is the market value of property. Determining the tax this way can be simple or complex. In some states, all property is assessed at its market value and the tax equals market value multiplied by a tax rate. In other states, property is assessed at a percent of its market value. The percentage may vary between classes of property, some types of property may be assessed on something other than market value, part of a property's value may be exempt from taxes, or different rates may apply to different properties.

When property is assessed at less than full market value, the ratio of assessed value to market value is called the assessment ratio. Property tax rates give the ratio of tax to taxable value. In Montana, they are expressed in mills, or dollars of tax per thousand dollars of taxable value. Some states express rates as a percent, or dollars of tax per hundred dollars of taxable value. Property tax rates may either be set in statute or determined annually by dividing a taxing jurisdiction's revenue requirement by its total taxable value.

The following table shows the number of states with uniform taxation of all property (except agricultural land, which is generally assessed on its value in its current use rather than its market value), and the number that treat classes of property differently either through different assessment ratios or different mill levies.

State with Uniform and Nonuniform Taxation of Property Classes*

One Assessment Ratio and Uniform Mills	15
One Assessment Ratio and Nonuniform Mills	12
Multiple Assessment Ratios and Uniform Mills	21 - including Montana
Multiple Assessment Rations and Nonuniform Mills	3

**Includes Washington, D.C.*
https://www.lincolninst.edu/research-data/data-toolkits/significant-features-property-tax/access-property-tax-database/property-tax-classification

More than half of states have some departure from uniform property taxation. The largest group, which includes Montana, has classes of property with different assessment ratios but uniform millage rates. Montana has the largest number of different assessment ratios–16, including two for business equipment depending on how much the taxpayer owns. Six states have uniform assessment ratios, but have at least one situation where a property class pays a different millage rate. Three states have classes with different assessment ratios and different millage rates. One state, California, does not base taxes on market value. Property taxes in California are based on purchase price partially adjusted for inflation. This is equivalent to having a different assessment ratio for property sold each year.

Montana's property tax does not have some features that make property tax administration more complex and more costly in other states. Some states have mill levies that apply to some classes of property and not to others. For example, in some states school district levies may be applied to residential property but not commercial property, or public safety levies may be applied to buildings but not land. This requires a layer of record keeping and a step in the tax calculation that are not required in Montana. Some states have caps on increases in the assessed value of individual properties. These caps take several forms, and in some cases require assessors to track several values for each property, such as current market value, purchase price adjusted for inflation, or purchase price adjusted by an arbitrary growth rate, and use the lowest. This also requires additional layers of record keeping and additional steps in the tax calculation that are not required in Montana. States can also have limits on tax rate or levies.

States with Limits on Property Tax Growth*

	States with Limits on Assessed Value Growth	States without Limits on Assessed Value Growth	Total
States with Limits on Tax Rates or Levies	17	29, including Montana	46
States without Limits on Tax Rates or Levies	2	3	5
Total	19	32	51

**Includes Washington, D.C.*
https://www.lincolninst.edu/research-data/data-toolkits/significant-features-property-tax/access-property-tax-database/property-tax-classification

Personal Income Tax

The provisions of the Montana income tax that make it more difficult for taxpayers to file returns also generally make it more expensive for the department to process and audit returns. Building the ability to handle separate returns filed on the same form and the large number of line items into the department's data processing system required significant up-front costs. They also require considerable extra work when the system is upgraded and somewhat increase the cost of processing each return and storing the information on it. The large number of state credits, and the differences from the federal definition of income and federal itemized deductions, create more line items on returns that must be verified and may need to be audited to ensure high compliance. The table on the next page contains a list of the tax credits and other tax expenditures currently in Montana's personal income tax rules in Tax Year 2019. Additional information on each of the tax expenditures listed on the next two pages, as well as tax expenditure information for other tax types, can be located in the Tax Expenditure section of this report.

Increased electronic filing has greatly improved the efficiency and reduced the cost of administration of income tax return process. However, the cost of processing paper tax returns continues to be significant and time consuming. The table below contains a breakdown on the number of personal income tax returns that are filed by Montana taxpayers. The share of e-file returns has increased from 55 percent of returns filed in Tax Year 2007 to more than 87 percent in 2019.

Income Tax Returns File in Montana

Tax Year	Total	Paper	E-File	% E-File
2007	511,235	230,490	280,745	54.9%
2008	542,625	219,182	323,443	59.6%
2009	533,161	193,843	339,318	63.6%
2010	522,381	165,237	357,144	68.4%
2011	526,902	123,179	403,723	76.6%
2012	535,682	109,058	426,624	79.6%
2013	547,558	103,101	444,457	81.2%
2014	552,189	93,924	458,265	83.0%
2015	562,647	88,524	474,123	84.3%
2016	571,114	81,333	489,781	85.8%
2017	568,961	78,196	490,765	86.3%
2018	579,865	81,938	496,180	85.6%
2019	584,897	72,643	510,141	87.2%

Individual Income Tax Expenditures - 2019	Number	Amount
Federal Income Tax Deduction	208,531	$64,294,384
Capital Gains Credit	73,591	$50,337,761
Credit for Other States' Taxes	14,972	$44,078,008
Medical Insurance Premium Deduction	100,332	$24,112,624
Medical and Dental Expenses Deduction	52,185	$11,793,947
Exempt Military Salary	5,167	$10,866,718
Elderly Homeowner/Renter Credit	15,229	$8,060,688
Unemployment Compensation Deduction	19,506	$4,928,741
Exempt Tips	21,799	$4,419,879
No Earned Income Tax Credit	66,342	$4,307,369
Partial Pension Exemption	45,396	$4,259,649
Energy Conservation Credit	6,747	$3,559,773
Qualified Endowment Credit	665	$2,905,212
Partial Interest Exclusion for Elderly Taxpayers	76,703	$1,986,593
Long Term Care Insurance Premium Deduction	9,751	$1,587,328
Montana Medical Care Savings Account Deduction	5,354	$1,308,343
Family Education Savings Account Deduction	4,596	$996,676
Alternative Energy Systems Credit	752	$538,901
Light Vehicle Registration Fee Deduction	32,295	$504,364
College Contribution Credit	2,495	$290,116
Expenses Incurred by Medical Marijuana Providers	60	$278,459
Apprenticeship Credit	233	$205,163
Adoption Credit	138	$158,271
Infrastructure Users Fee Credit	*	$133,930
Recycling Credit	83	$132,406
Third-Party Repayment of Health Care Professional's Student Loans Deduction	467	$112,249
Geothermal Heating System Credit	82	$96,633
Capital Gain Exclusion From Sale of Mobile Home Park	*	$86,430
Health Insurance for Uninsured Montanans Credit	75	$63,475
First Time Homebuyer Account Deduction	241	$48,249
Historic Property Preservation Credit	19	$47,131
Political Contribution Deduction	6,337	$47,111
Worker's Compensation Deduction	154	$34,837
Health Benefits Limited to Highly-Compensated Employees Deduction	124	$32,270
Small Business Investment Company Dividend Deduction	23	$19,051
Business Purchases of Recycled Material Deduction	103	$16,005
Elderly Care Credit	57	$13,665
Alternative Energy Production Credit	11	$13,131

Individual Income Tax Expenditures - 2019	Number	Amount
ABLE Account Deduction	108	$12,959
Alternative Fuel Credit	21	$10,001
Dependent Care Assistance Credit	14	$9,524
Unlocking State Lands Credit	*	$7,930
Per Capita Livestock Fee Deduction	552	$4,843
Child and Dependent Care Expenses Deduction	325	$2,674
National Guard Life Insurance Premiums Deduction	21	$2,090
Sales of Land to Beginning Farmers	*	$1,706
Innovative Education Credit	*	$1,601
Exempt Disability Retirement Income Deduction	28	$1,243
Mineral Exploration Credit	*	$1,116
Student Scholarship Organization Credit	*	$1,113
Empowerment Zone Credit	*	$7
Research Credit	*	$6
Biodiesel Credits	*	$2
Temporary Emergency Lodging Credit	0	$0

**Not disclosed due to confidentiality concerns*

Sales and Excise Taxes

Not having a general sales tax significantly reduces the cost of administering Montana's tax system. In states that have both a general sales tax and an income tax, the costs of administering the two taxes generally are in the same range. Sales tax is collected by almost all businesses making retail sales and many businesses making wholesale sales. Thus, there are a large number of sales tax returns to process. And, significant effort is required to verify that an individual taxpayer has applied the tax to the correct transactions and collected and remitted the correct amount of tax.

Montana's selective sales and excise taxes generally have a relatively small number of taxpayers, ranging from a few hundred up to about 10,000.

Severance Taxes

Most severance taxes have a small number of taxpayers and relatively simple returns. The Oil and Gas Production Tax is an exception. Part of the revenue from this tax is allocated to the county and school district where each well is located. This means that, in addition to the normal processing and verifying of returns, the department must calculate the distribution of revenue separately for each return.

Fairness of Administration

Whether a tax is administered fairly is a different question than whether the tax is fair. A tax may be unfair if, for example, it imposes wildly different taxes on taxpayers in similar circumstances. Administration of a tax may be unfair if, for example, the cost to comply is much higher for some taxpayers than for others, or if some group of taxpayers find it easy to evade the tax while others pay.

The property tax and the personal income tax are the two taxes that pose the greatest challenges for fairness in administration.

Property Tax

Two properties with the same value and in the same class should only have different property taxes if they face different local mill levies. This will be the case if the department's assessments of property value are uniform.

Assessing property values is a much more difficult and involved process than determining the tax base for other taxes. For most other taxes, the tax base is either the value of a market transaction, such as income earned or goods sold, or some physical quantity, such as tons of a mineral mined or packs of cigarettes sold.

For property tax, there is an observable, current market transaction only for a fraction of properties every year. For properties that have not sold recently, the department must estimate the price at which they would sell. Even for properties that have sold recently, the department has to estimate how much, if any, the value changed between the date when it sold last and the reappraisal date.

The department has several tools for making these estimates. For residential property the main tool is statistical modeling which uses the prices and characteristics of homes that have sold recently to estimate the value of other similar homes in the same neighborhood. Another tool is direct comparison with a limited number of similar properties that have sold recently. Other tools used for estimating the value of income-producing properties include estimates of the cost of constructing a similar building and estimating the present value of the stream of rent or other income that the property could produce.

For all these appraisal tools there is a trade-off between the effort and cost that goes into appraisal and the accuracy of the estimated value of individual properties. For example, statistical models do a good job of estimating the average value of a certain type of house in a certain neighborhood but may not pick up unique features that make the value of a particular house higher or lower than average. Collecting additional information and using it to build more sophisticated models can lead to more accurate individual appraisals but increases the cost of the appraisal process.

Personal Income Tax

The primary difficulty in administering the income tax fairly comes from differences in the ease of noncompliance for taxpayers in different circumstances. Taxpayers with income from wages and salaries, interest, corporate dividends, or pensions have their income reported to the IRS and the department and may have tax withheld from their payments. Taxpayers with income from a sole proprietor business or a pass-through entity do not have the same third-party reporting and withholding requirements. IRS research indicates that taxpayers whose income is not subject to third-party reporting or withholding under-report income and under-pay tax at much higher rates. Most credits and deductions also are based on information that is self-reported by the taxpayer with little or no third-party verification.

Maintaining acceptable compliance and fairness between taxpayers requires the department to audit and verify a sample of returns with items where there is no third-party verification and to search for non-filers. Increasing fairness of administration by reducing non-compliance by taxpayers with income, deduction, or credit items without third-party reporting is possible but only by imposing additional costs, either on the department for additional auditing or on taxpayers through additional reporting requirements.

Competitive

People and businesses consider taxes and government services among other factors such as location to natural resources and employment in deciding where to locate. State and local governments often compete by providing special tax treatment for specific industries or groups of residents. However, with their requirements to have a balanced budget, state and local governments can only cut taxes for one group by raising taxes for another or by cutting services. Governments can compete by giving special treatment to favored groups at the cost of higher taxes or fewer services for everyone else. They can also compete by efficiently providing a level of services that citizens want at the lowest possible cost.

Even without consciously competing, states make themselves more or less attractive to certain types of taxpayer because of their mix of taxes and the features of individual taxes. Taxpayers generally prefer the taxes they pay to be lower and may not care about taxes they do not pay. For example, retirees may be attracted by low property taxes, while young families may find large income tax exemptions for dependents attractive. Taxpayers may also be attracted by the quality of specific public services, such as schools or roads.

The next 12 tables show taxes per person and taxes per dollar of income received by state residents for the 50 states and the District of Columbia for the Fiscal Year ending June 30, 2018. Both tables show property taxes, sales and gross receipts taxes, individual and corporate income taxes, other taxes, and the total of all taxes. These tables show state and local taxes adjusted for the size of each state's population and the size of its economy. They also show the relative importance of each type of tax in each state.

These tables do not show taxes paid by a typical individual or the percent of income a typical individual pays in taxes. States differ in the shares of taxes paid by individuals and businesses and by residents and non-residents. Several organizations publish comparisons that attempt to adjust for these differences. The Tax Foundation[5] attempts to adjust for taxes each state receives from out-of-state taxpayers. Washington, D.C.[6],, compares taxes for hypothetical families in each state. The Institute on Taxation and Economic Policy[7] estimates taxes as a percent of income for income groups in each state.

Accountability

In an accountable tax system, taxpayers know what they pay and what their taxes buy. Taxpayers also know how taxing and spending decisions are made and have the opportunity to participate in and influence those decisions.

Taxes differ in how obvious they are to taxpayers and in how easy it is for taxpayers to compare the amount they are paying for public services to the amount they pay for other goods and services. With taxes that are billed or that require taxpayers to file a periodic return, taxpayers can easily see the total amount they pay for the period. In the case of property taxes, the bill can also tell taxpayers what they are paying for particular public services, such as roads, schools, and public safety. With sales and excise taxes, it is much less obvious to a taxpayer how much they are paying. Even when excise taxes are stated on a bill customers paying the bill are likely to be only vaguely aware of the amount of tax. When businesses are taxed with the intention that they pass the tax on to customers the ultimate taxpayers will be unaware of the tax. When businesses are taxed to pay for public services that the businesses use the cost will be passed on to customers in the same way as other costs of doing business.

In Montana, taxing and spending decisions are made by the Legislature, elected local officials, or by citizens voting for services they want. In addition, local property tax increases that exceed half the rate of inflation must be put to a vote.

Provisions of the tax code that have aims other than raising revenue should be explicit and should be reviewed regularly. Tax preferences are an alternative to spending as a way to accomplish legislative goals and they should be given the same type of scrutiny. One tool of that scrutiny is a tax expenditure report. Such a report should explain each tax expenditure's purpose and how it works, measure its revenue cost, and evaluate its effectiveness and cost-effectiveness in accomplishing its purpose. Montana is one of the states that produce a periodic tax expenditure report. It is the Shared Revenue section of this Biennial Report.

[5] *http://www.taxfoundation.org*
[6] *http://cfo.dc.gov*
[7] *http://www.itep.org/*

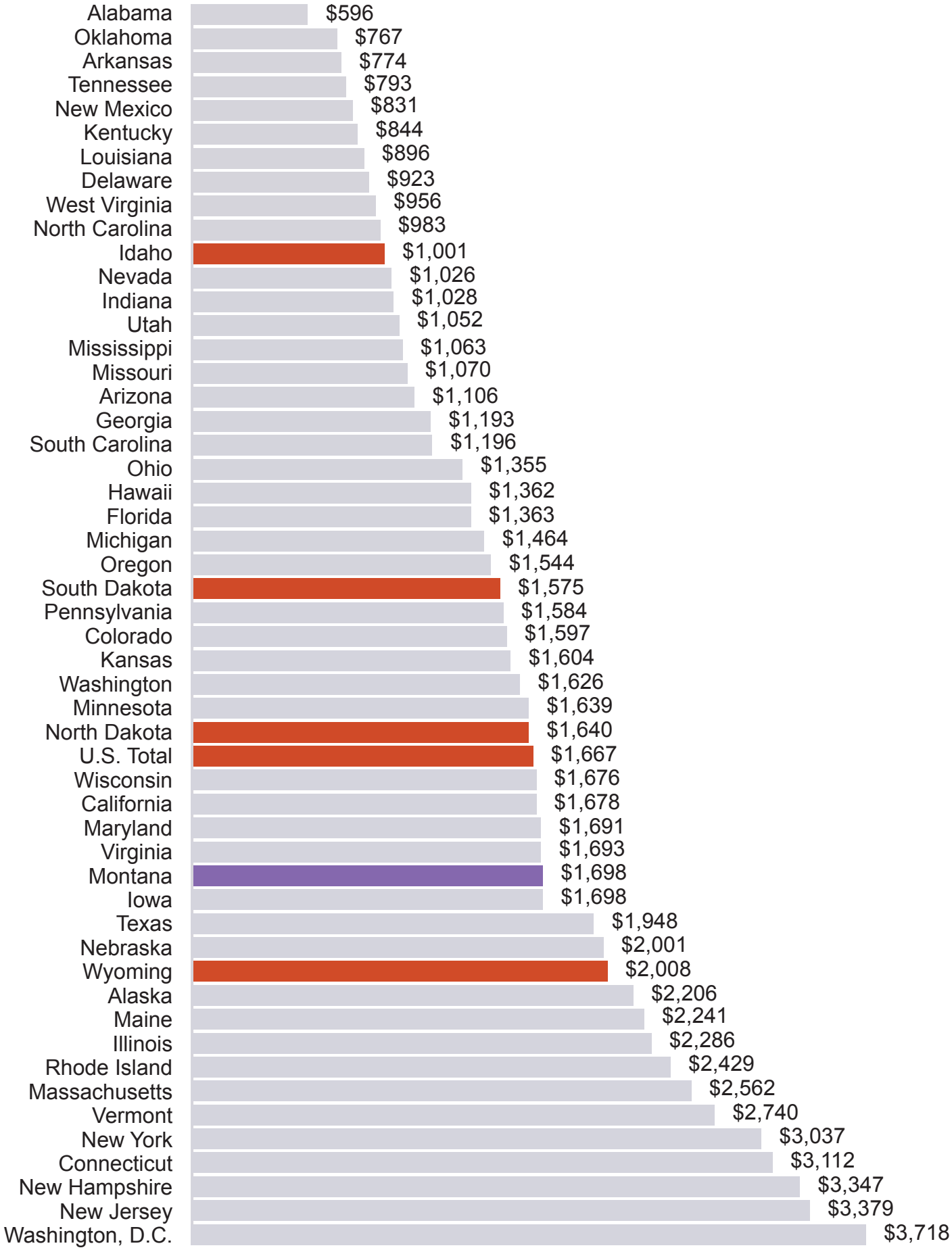
Taxes Per Person - Fiscal Year 2018

State	Property Tax $	Property Tax Rank	Sales and Gross Receipts $	Sales and Gross Receipts Rank	Individual and Corporate Income Tax $	Individual and Corporate Income Tax Rank	Other Taxes $	Other Taxes Rank	Total $	Total Rank
Average of All States	$1,667		$1,863		$1,468		$369		$5,366	
Alabama	$596	51	$1,718	28	$942	37	$260	39	$3,515	50
Alaska	$2,206	11	$849	47	$268	45	$1,518	3	$4,841	27
Arizona	$1,106	35	$1,846	19	$676	40	$133	50	$3,761	48
Arkansas	$774	49	$2,078	12	$1,079	33	$193	46	$4,124	37
California	$1,678	19	$1,950	16	$2,724	4	$452	17	$6,804	8
Colorado	$1,597	25	$1,900	18	$1,419	17	$265	38	$5,181	21
Connecticut	$3,112	4	$2,160	9	$2,948	3	$289	33	$8,509	3
Delaware	$923	44	$618	49	$1,965	9	$1,971	2	$5,478	16
Florida	$1,363	30	$2,098	11	$113	46	$341	29	$3,915	43
Georgia	$1,193	34	$1,355	44	$1,191	29	$120	51	$3,859	44
Hawaii	$1,362	31	$3,698	1	$1,820	11	$476	16	$7,357	6
Idaho	$1,001	41	$1,369	43	$1,162	31	$249	40	$3,782	46
Illinois	$2,286	9	$1,946	17	$1,411	18	$327	32	$5,970	12
Indiana	$1,028	39	$1,833	21	$1,064	34	$144	49	$4,069	39
Iowa	$1,698	15	$1,675	31	$1,409	19	$367	23	$5,149	22
Kansas	$1,604	24	$2,039	13	$1,323	25	$217	43	$5,182	20
Kentucky	$844	46	$1,451	41	$1,501	15	$172	47	$3,968	41
Louisiana	$896	45	$2,495	5	$775	38	$222	42	$4,388	32
Maine	$2,241	10	$1,679	30	$1,332	24	$267	36	$5,519	15
Maryland	$1,691	18	$1,746	26	$2,637	6	$443	18	$6,516	9
Massachusetts	$2,562	7	$1,373	42	$2,712	5	$350	25	$6,996	7
Michigan	$1,464	29	$1,498	38	$1,191	30	$269	35	$4,423	31
Minnesota	$1,639	22	$1,972	15	$2,348	7	$422	19	$6,380	10
Mississippi	$1,063	37	$1,729	27	$770	39	$211	44	$3,773	47
Missouri	$1,070	36	$1,490	40	$1,196	28	$204	45	$3,960	42
Montana	$1,698	16	$604	50	$1,382	21	$547	9	$4,231	34
Nebraska	$2,001	13	$1,559	35	$1,382	20	$397	21	$5,340	18
Nevada	$1,026	40	$2,962	3	$0	48	$630	7	$4,618	29
New Hampshire	$3,347	3	$757	48	$659	41	$485	14	$5,248	19
New Jersey	$3,379	2	$1,756	25	$1,945	10	$346	27	$7,427	5
New Mexico	$831	47	$1,977	14	$641	42	$677	6	$4,125	36
New York	$3,037	5	$2,364	6	$3,954	1	$513	11	$9,868	2

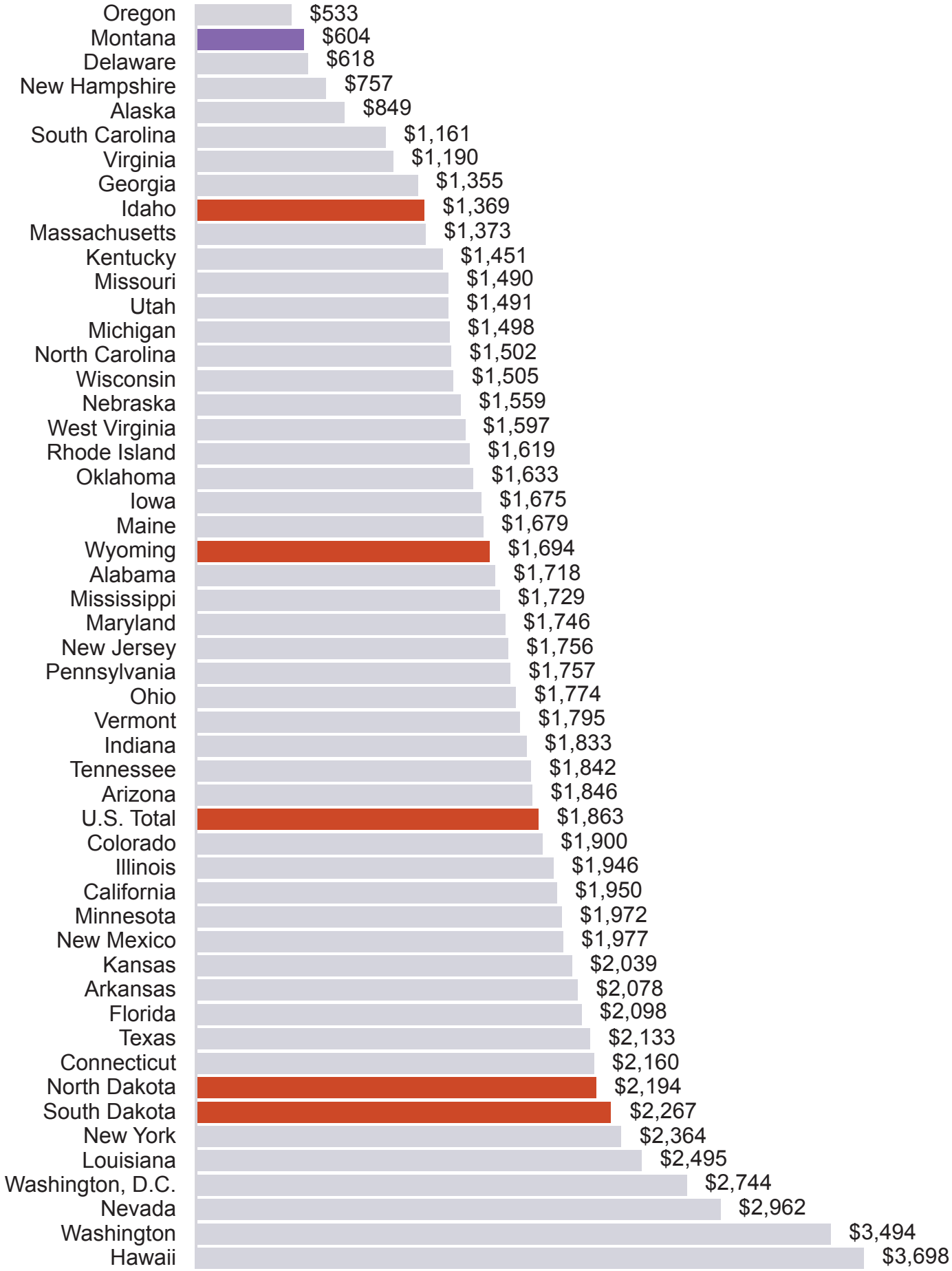
Taxes Per Person - Fiscal Year 2018

State	Property Tax		Sales and Gross Receipts		Individual and Corporate Income Tax		Other Taxes		Total	
	$	Rank	$	Rank	$	Rank	$	Rank	$	Rank
North Carolina	$983	42	$1,502	37	$1,273	26	$272	34	$4,030	40
North Dakota	$1,640	21	$2,194	8	$623	43	$3,115	1	$7,572	4
Ohio	$1,355	32	$1,774	23	$1,260	27	$247	41	$4,635	28
Oklahoma	$767	50	$1,633	32	$943	36	$491	12	$3,834	45
Oregon	$1,544	28	$533	51	$2,318	8	$522	10	$4,917	26
Pennsylvania	$1,584	26	$1,757	24	$1,645	13	$480	15	$5,466	17
Rhode Island	$2,429	8	$1,619	33	$1,366	23	$370	22	$5,783	13
South Carolina	$1,196	33	$1,161	46	$943	35	$359	24	$3,659	49
South Dakota	$1,575	27	$2,267	7	$37	47	$419	20	$4,297	33
Tennessee	$793	48	$1,842	20	$277	44	$347	26	$3,258	51
Texas	$1,948	14	$2,133	10	$0	48	$343	28	$4,425	30
Utah	$1,052	38	$1,491	39	$1,370	22	$167	48	$4,079	38
Vermont	$2,740	6	$1,795	22	$1,491	16	$327	31	$6,353	11
Virginia	$1,693	17	$1,190	45	$1,754	12	$338	30	$4,974	25
Washington	$1,626	23	$3,494	2	$0	48	$628	8	$5,748	14
Washington, D.C.	$3,718	1	$2,744	4	$3,743	2	$1,038	5	$11,243	1
West Virginia	$956	43	$1,597	34	$1,150	32	$490	13	$4,193	35
Wisconsin	$1,676	20	$1,505	36	$1,556	14	$266	37	$5,004	24
Wyoming	$2,008	12	$1,694	29	$0	48	$1,352	4	$5,054	23

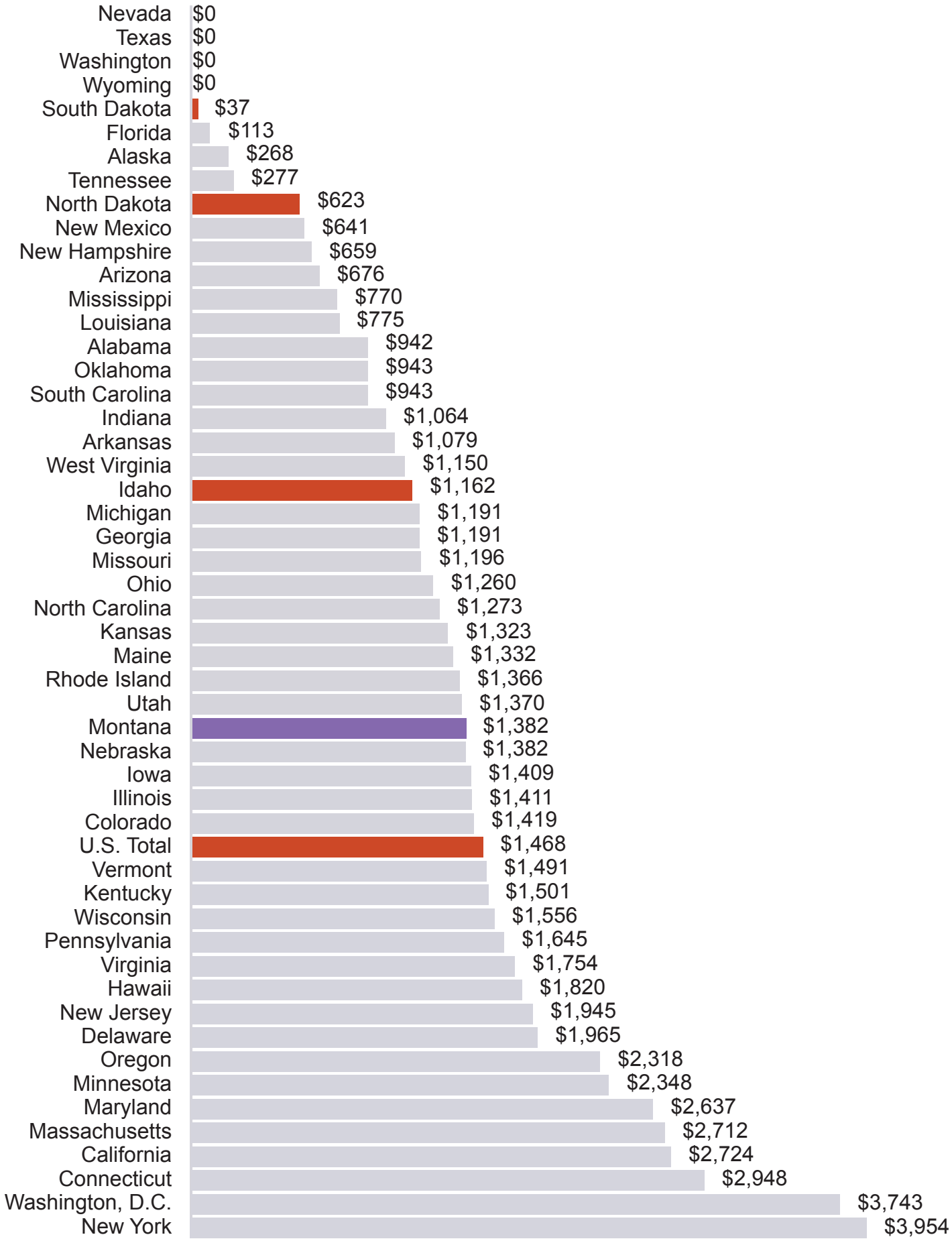
Property Taxes Per Person - FY 2018



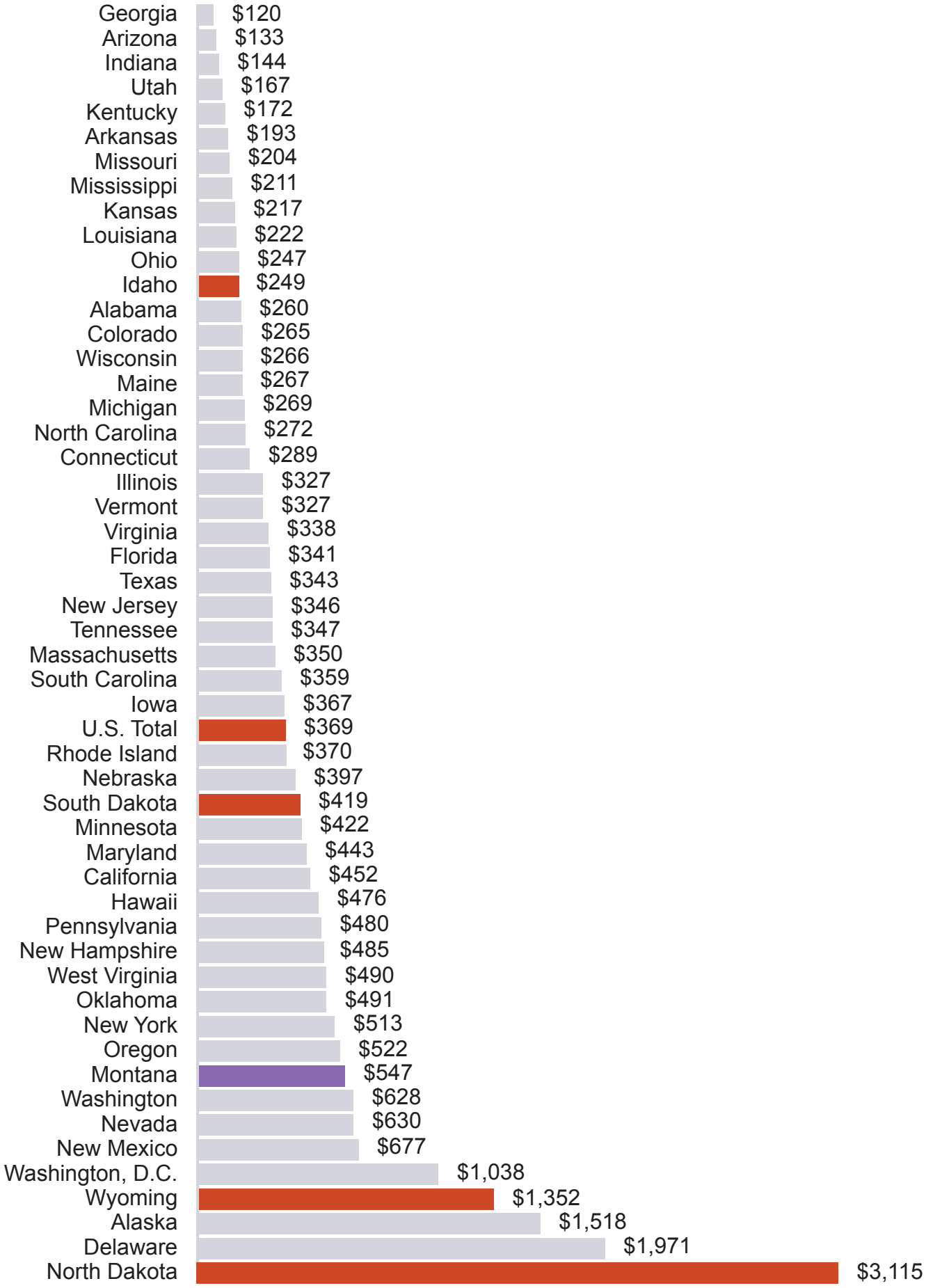
Sales and Gross Receipts Taxes Per Person - FY 2018



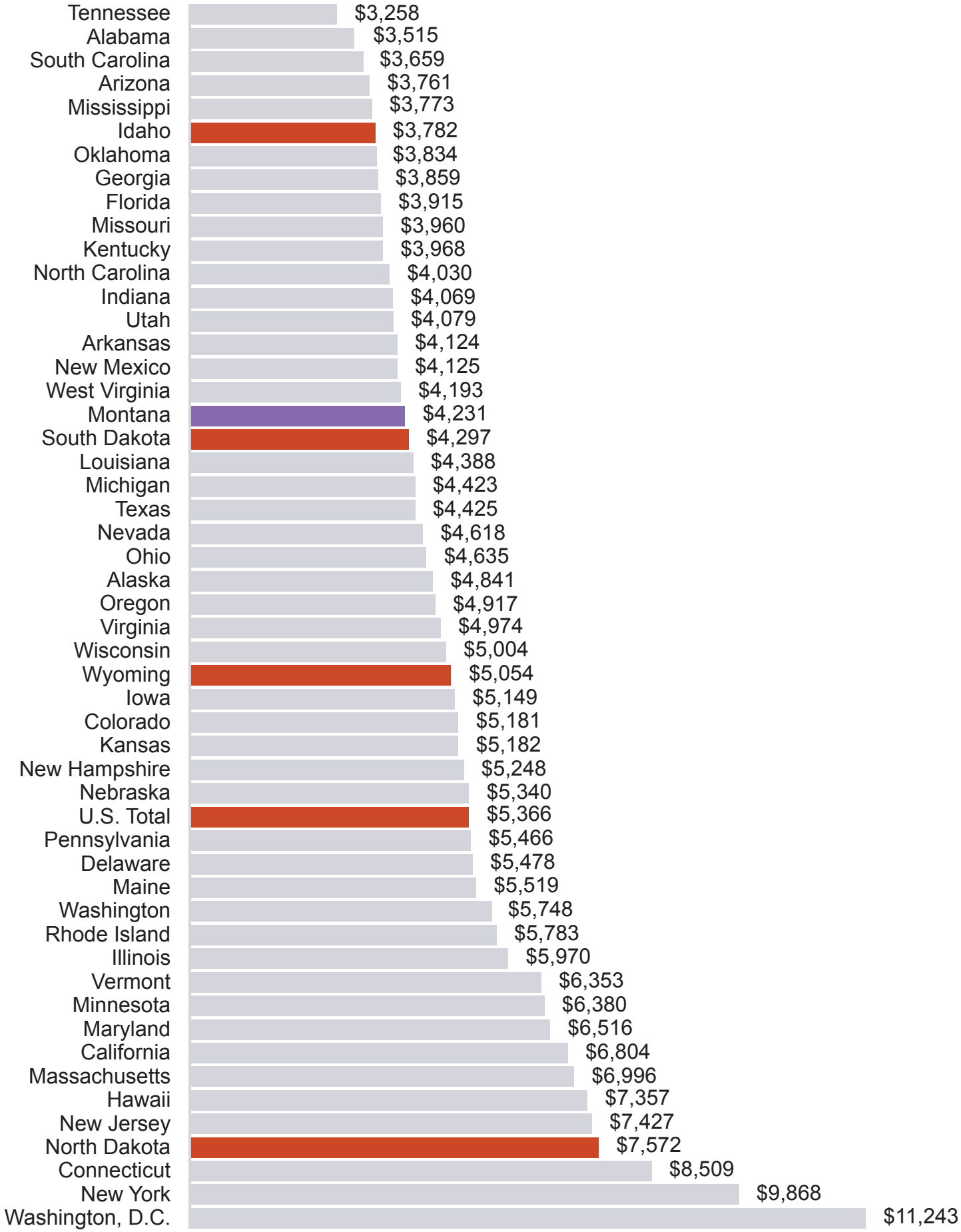
Individual and Corporate Income Taxes Per Person - FY 2018



Natural Resource and Other Taxes Per Person - FY 2018



Total State and Local Taxes Per Person - FY 2018



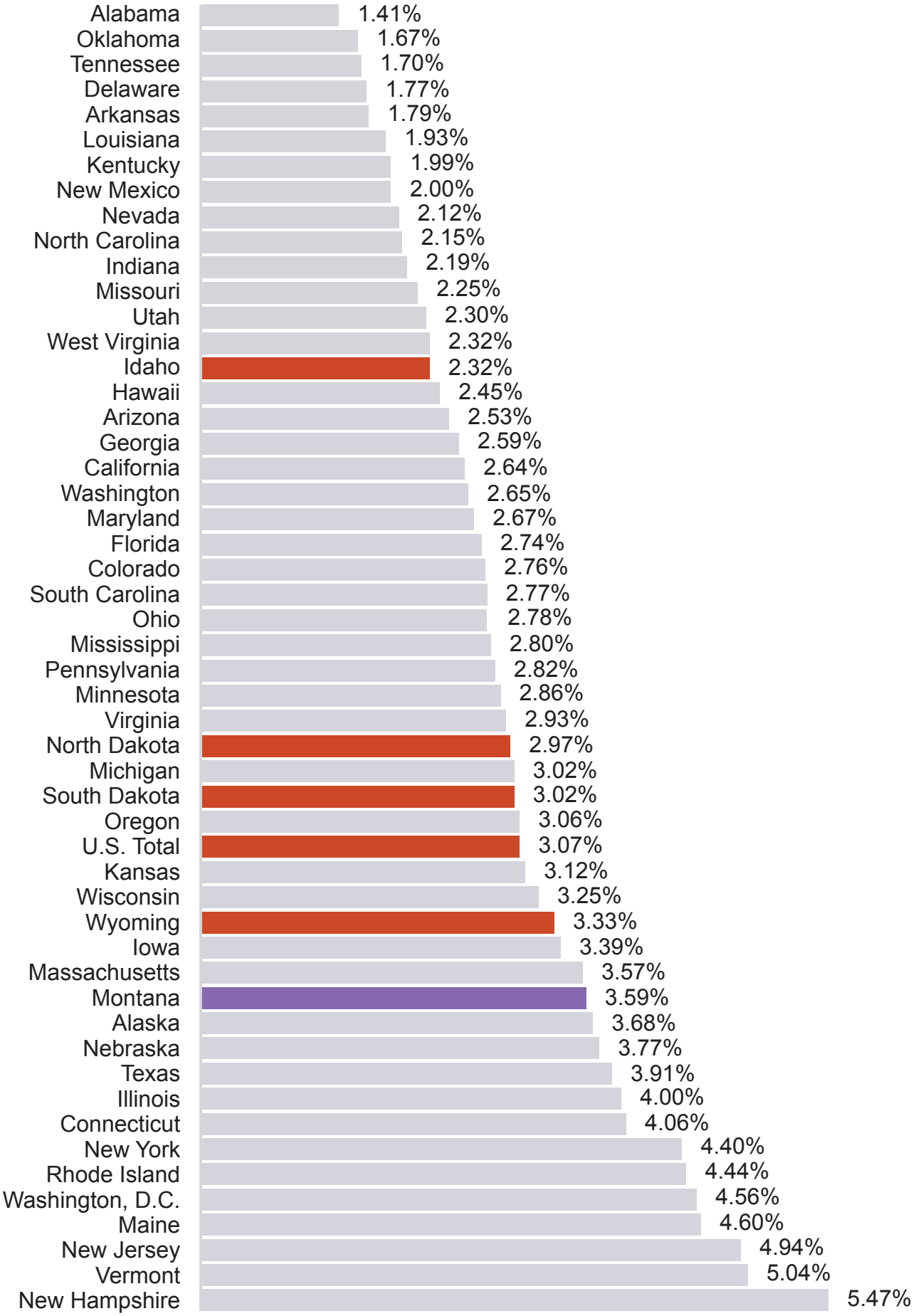
Taxes as a Percent of Personal Income - FY 2018

State	Property Tax %	Property Tax Rank	Sales and Gross Receipts %	Sales and Gross Receipts Rank	Individual and Corporate Income Tax %	Individual and Corporate Income Tax Rank	Other Taxes %	Other Taxes Rank	Total %	Total Rank
Average of All States	3.07%		3.43%		2.70%		0.68%		9.89%	
Alabama	1.41%	51	4.08%	12	2.24%	35	0.62%	28	8.35%	45
Alaska	3.68%	12	1.42%	47	0.45%	45	2.53%	3	8.08%	49
Arizona	2.53%	35	4.23%	10	1.55%	40	0.30%	50	8.61%	40
Arkansas	1.79%	47	4.81%	5	2.50%	29	0.45%	43	9.55%	25
California	2.64%	33	3.06%	35	4.28%	4	0.71%	23	10.69%	10
Colorado	2.76%	29	3.29%	29	2.45%	33	0.46%	42	8.96%	32
Connecticut	4.06%	8	2.82%	40	3.85%	7	0.38%	47	11.11%	8
Delaware	1.77%	48	1.19%	50	3.77%	9	3.78%	2	10.50%	12
Florida	2.74%	30	4.23%	11	0.23%	46	0.69%	26	7.88%	50
Georgia	2.59%	34	2.94%	37	2.59%	25	0.26%	51	8.38%	44
Hawaii	2.45%	36	6.65%	1	3.27%	11	0.86%	13	13.23%	4
Idaho	2.32%	37	3.18%	31	2.70%	23	0.58%	32	8.78%	37
Illinois	4.00%	9	3.41%	24	2.47%	31	0.57%	33	10.45%	13
Indiana	2.19%	41	3.91%	16	2.27%	34	0.31%	49	8.68%	38
Iowa	3.39%	15	3.34%	26	2.81%	18	0.73%	22	10.27%	15
Kansas	3.12%	18	3.96%	14	2.57%	27	0.42%	45	10.07%	17
Kentucky	1.99%	45	3.42%	23	3.53%	10	0.40%	46	9.34%	30
Louisiana	1.93%	46	5.38%	4	1.67%	39	0.48%	41	9.47%	28
Maine	4.60%	4	3.45%	20	2.74%	22	0.55%	36	11.33%	6
Maryland	2.67%	31	2.76%	42	4.16%	5	0.70%	24	10.29%	14
Massachusetts	3.57%	14	1.91%	46	3.78%	8	0.49%	40	9.75%	21
Michigan	3.02%	21	3.09%	34	2.46%	32	0.56%	35	9.13%	31
Minnesota	2.86%	24	3.45%	21	4.10%	6	0.74%	21	11.15%	7
Mississippi	2.80%	26	4.55%	7	2.03%	38	0.56%	34	9.94%	19
Missouri	2.25%	40	3.13%	32	2.51%	28	0.43%	44	8.31%	47
Montana	3.59%	13	1.28%	48	2.92%	15	1.16%	9	8.95%	33
Nebraska	3.77%	11	2.94%	38	2.60%	24	0.75%	18	10.05%	18
Nevada	2.12%	43	6.11%	2	0.00%	48	1.30%	6	9.53%	26
New Hampshire	5.47%	1	1.24%	49	1.08%	43	0.79%	17	8.58%	41
New Jersey	4.94%	3	2.57%	44	2.84%	17	0.51%	39	10.85%	9
New Mexico	2.00%	44	4.75%	6	1.54%	41	1.63%	5	9.92%	20
New York	4.40%	7	3.43%	22	5.73%	1	0.74%	20	14.31%	1

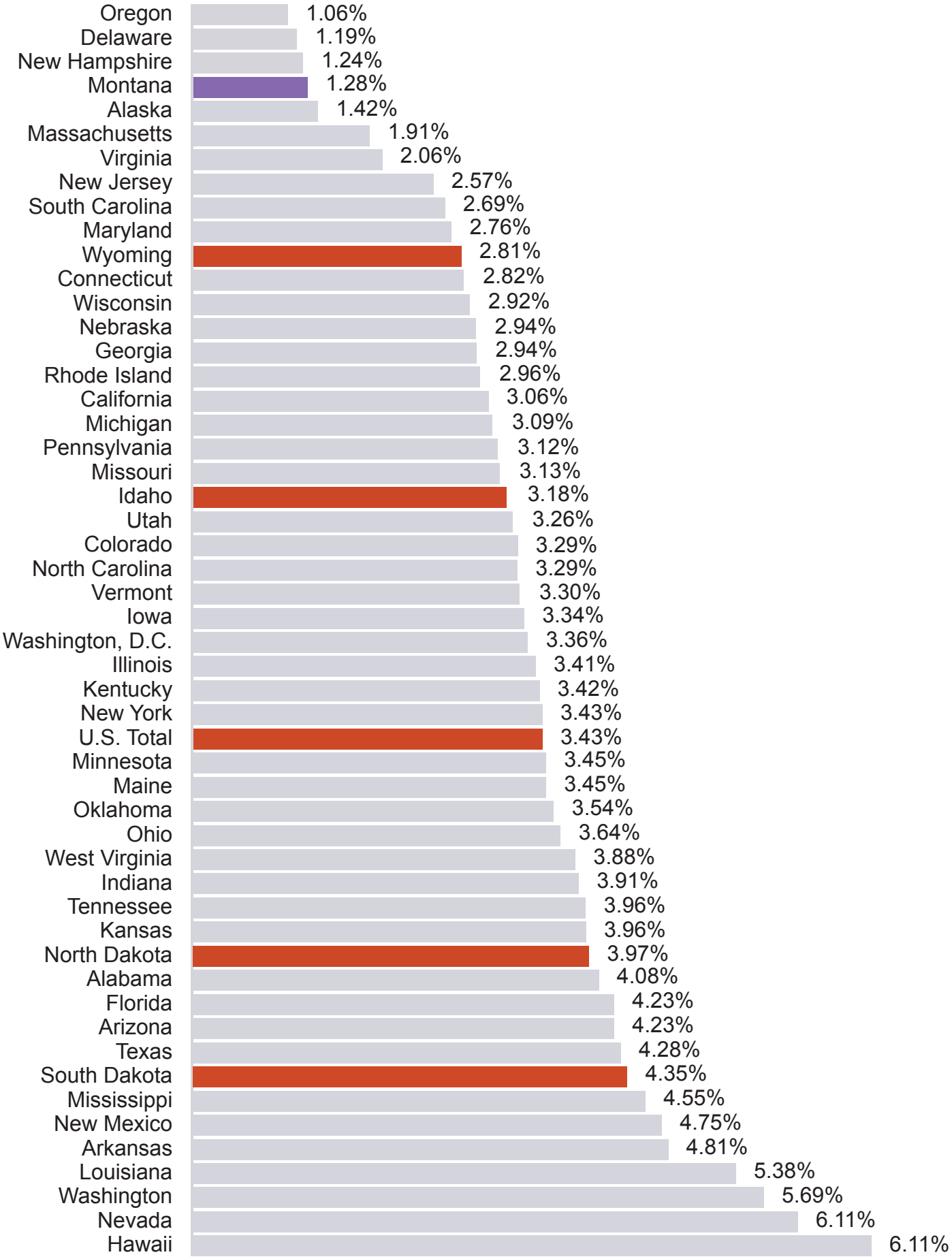
Taxes as a Percent of Personal Income - FY 2018

State	Property Tax		Sales and Gross Receipts		Individual and Corporate Income Tax		Other Taxes		Total	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
North Carolina	2.15%	42	3.29%	28	2.79%	20	0.59%	30	8.83%	36
North Dakota	2.97%	22	3.97%	13	1.13%	42	5.63%	1	13.69%	3
Ohio	2.78%	27	3.64%	18	2.58%	26	0.51%	38	9.51%	27
Oklahoma	1.67%	50	3.54%	19	2.05%	37	1.07%	10	8.32%	46
Oregon	3.06%	19	1.06%	51	4.59%	2	1.03%	11	9.73%	22
Pennsylvania	2.82%	25	3.12%	33	2.92%	16	0.85%	14	9.72%	23
Rhode Island	4.44%	6	2.96%	36	2.50%	30	0.68%	27	10.56%	11
South Carolina	2.77%	28	2.69%	43	2.19%	36	0.83%	15	8.48%	42
South Dakota	3.02%	20	4.35%	8	0.07%	47	0.80%	16	8.25%	48
Tennessee	1.70%	49	3.96%	15	0.60%	44	0.75%	19	7.01%	51
Texas	3.91%	10	4.28%	9	0.00%	48	0.69%	25	8.88%	35
Utah	2.30%	39	3.26%	30	3.00%	14	0.36%	48	8.93%	34
Vermont	5.04%	2	3.30%	27	2.74%	21	0.60%	29	11.68%	5
Virginia	2.93%	23	2.06%	45	3.04%	12	0.59%	31	8.62%	39
Washington	2.65%	32	5.69%	3	0.00%	48	1.02%	12	9.36%	29
Washington, D.C.	4.56%	5	3.36%	25	4.59%	3	1.27%	7	13.77%	2
West Virginia	2.32%	38	3.88%	17	2.79%	19	1.19%	8	10.18%	16
Wisconsin	3.25%	17	2.92%	39	3.02%	13	0.52%	37	9.71%	24
Wyoming	3.33%	16	2.81%	41	0.00%	48	2.24%	4	8.39%	43

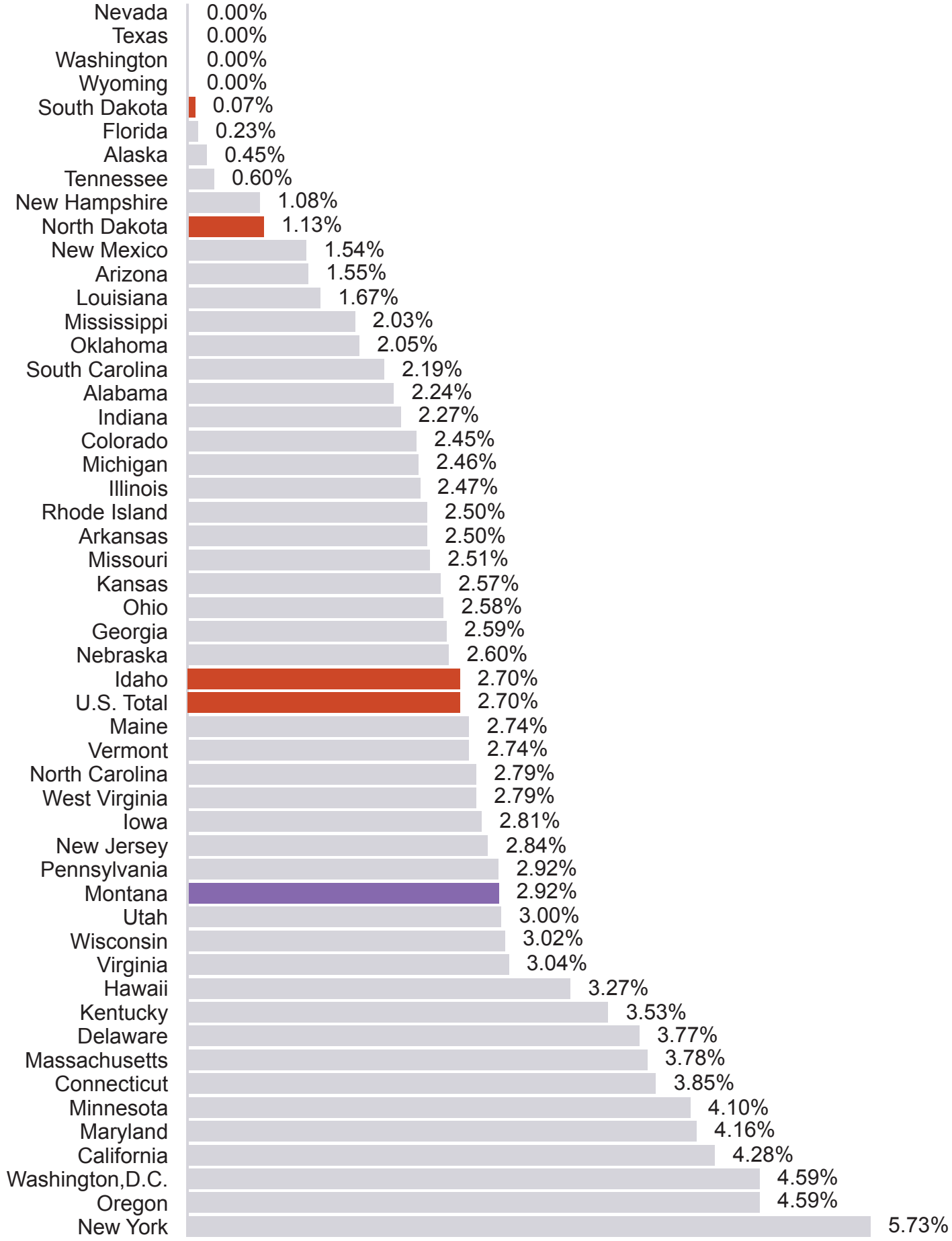
Property Taxes - Percent of Personal Income - FY 2018



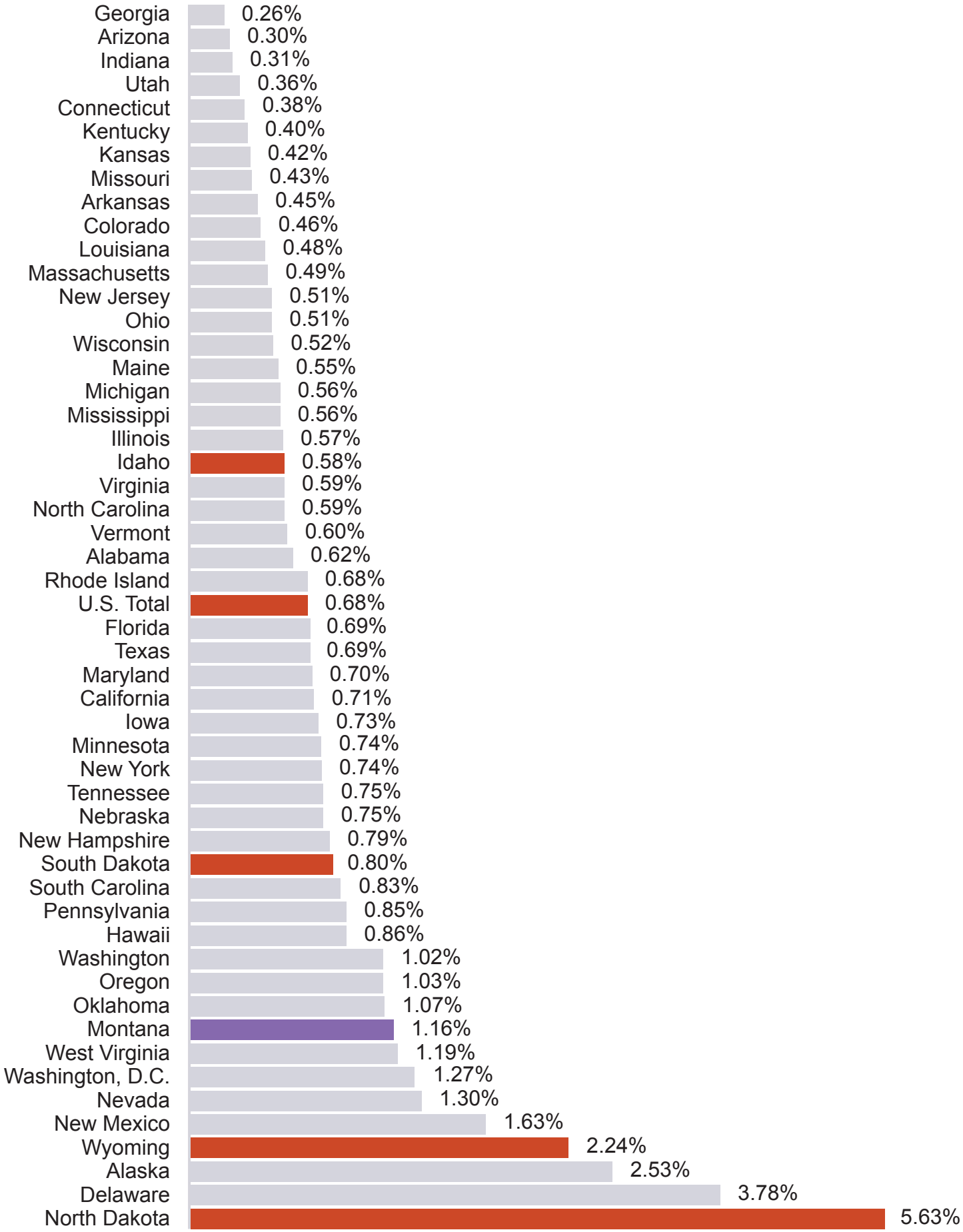
Sales and Gross Receipts Taxes - Percent of Personal Income - FY 2018



Individual and Corporate Income Taxes - Percent of Personal Income - FY 2018



Natural Resource and Other Taxes - Percent of Personal Income - FY 2018



State and Local Taxes - Percent of Personal Income - FY 2018