

MONTANA TAXPAYER



MONTANA TAXPAYERS ASSOCIATION

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Upcoming Meetings

January 26 - EQC subcommittees
January 27 – EQC full committee
February 10 – Economic Affairs
February 16 – 17 – Revenue and Transportation
February 24 – Education and Local Government subcommittees
March 9 -10 - Legislative Finance
March 16 – 17 – EQC
March 23 – 24 – Energy and Telecommunications
March 23 – Law and Justice
March 24 – Legislative Council

For more information and details on these meetings, visit our Calendar on our website at: www.montax.org

MONTANA TAXES COMPARISONS WITH OTHER STATES

Dr. Douglas J. Young, Professor of Economics and the Extension Service, Montana State University, and the Montana Taxpayers Association recently updated their guide on comparisons of Montana taxes with surrounding states and national rankings.

Purpose

This guide summarizes Montana's state and local taxes, and compares them with other states in the region. It also lists Montana's rankings among all fifty states for various taxes. The guide is intended to provide clear and accurate information for individuals and businesses considering locating in Montana.

While rankings are useful to compare relative tax rates and burdens among the states, they can be misleading when looked at individually rather than as a group. That is due to the ability of some states to export or import more taxes to non-residents, such as Hawaii that generates large amounts of sales tax revenue from tourists. Other distortions can occur with per capita comparisons due to different compositions of the underlying population (i.e. Utah has a larger number of children than the national average). The authors of this guide believe the studies chosen; represent a reasonable comparison of relative tax rankings and burdens among the states.

What is a "Good" Tax System?

First, a good tax system is one that promotes economic opportunity. For some years Montanans have seen large numbers of young people leaving the state for better opportunities elsewhere, and most wouldn't mind an increase in our own salaries as well. To the extent that a tax system can improve that situation, or at least not discourage opportunity, it is desirable.

A second criterion for evaluating a tax system is fairness – this has to do with who bears the burden of paying taxes. It is very difficult to pin down exactly what constitutes a "fair" tax system. In fact, most people's definition of a fair tax is one that somebody else pays. And of course this accounts for the popularity of taxes on tourists. But even if it is hard to precisely define fairness, it is an important element in judging a tax system.

A third factor is low administrative and compliance costs. These are the costs borne by the government in collecting taxes, and also the costs borne by the private sector in complying with the tax code. This is particularly true about April 15 when everyone is acutely aware that the costs of complying with the tax code are not just the money we finally send in to the government.

A good system should also provide adequate revenues. In fact, if you think about it, revenues to fund government services are just about the ONLY good thing about taxes. Taxes themselves are more likely to discourage economic opportunity than to promote it, fairness is extremely difficult to achieve, and all taxes have substantial administrative and compliance costs. If it weren't for the roads, schools and other services that are provided by taxes, we could just go home and forget the whole thing. Wouldn't that be nice?

Another criterion is stability. You may recall that a few sessions ago, the legislature faced a large deficit, and therefore had to engage in some forms of budget cutting and/or tax increases. About half of that deficit resulted from shortfalls in the income tax, which in turn resulted

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primarily from the decline in the stock market and in turn taxable capital gains. It was great during the late 1990s, of course, when the revenues were pouring in, but when revenues fluctuate dramatically, it creates problems for managing the public finances.

Finally, predictability is also important for taxpayers and businesses. Without predictability, tax policy can create confusion and have negative effects on economic activity.

Another important question is whether taxes are important for economic growth and opportunity. The answer is – yes, but taxes are not the only influence or in most cases even the most important. Others important factors include: distance to markets, or historically for Montana, nearness to natural resources; regulatory climate, including not just what the regulations are, but how difficult or easy it is to deal with the administrative aspects.

Amenities is a very broad term encompassing the crime rate, the quality of the public services like schools, and even climate. Many of us here in Montana are very fond of the outdoor activities including hunting and fishing, hiking and skiing and so forth. But sometimes we have to remind ourselves that many people – maybe even a majority of people – prefer to have less than six months of winter! Well, public policy can't do much about the weather, but taxes are something that we can control.

Montana Taxes—Overall State & Local Tax Burden

Montana imposes taxes on property, natural resources, and corporate and personal income. Montana also taxes alcohol, tobacco, gasoline, and other selected items, but has no general sales tax. The overall tax burden—taking into account the various taxes levied by all levels of Montana government (state, counties, cities and towns, school districts, etc.) – is the 6th lowest in the nation on a per capita basis and 12th lowest as a percentage of income. Montana is slightly lower than average on a regional basis.

Table 1—Total State and Local Taxes

	Dollars Per Capita		Percent Of Income	
	Amount	U.S. Rank	Amount	U.S. Rank
California	\$4,078	11	10.3%	20
Colorado	\$3,758	19	9.5%	37
Idaho	\$3,014	39	10.0%	27
Montana	\$2,878	45	9.5%	39
Nevada	\$3,423	25	9.5%	38
North Dakota	\$3,170	34	9.4%	42
Oregon	\$3,271	29	9.6%	36
South Dakota	\$2,976	43	8.8%	45
Utah	\$3,122	37	10.9%	9
Washington	\$3,990	13	10.0%	24
Wyoming	\$3,802	18	10.1%	23
U.S. Average	\$3,763		10.1%	
Region Average	\$3,407		9.8%	

Source: Tax Foundation (2005) “America Celebrates Tax Freedom Day” Table 6.

Montana Property Taxes

Montana's taxes on commercial, residential and industrial property are lower than the U.S. average, but slightly higher than the region average. As in most other states, property taxes vary from school district to school district according to the local mill levy. The following two tables compare property taxes in the largest city of surrounding states for residential and industrial property. (Effective tax rates are property taxes divided by the market value of the property).

Table 2—Effective Property Tax Rates—Residential Property

State/Metropolitan Area	Median Home Price	Tax(\$)	Rank	Effective Tax Rate	Rank
California, Los Angeles	438,400	5,393	7	1.230%	30
Colorado, Denver	241,800	1,235	49	0.511%	54
Idaho, Boise	139,700	1,554	39	1.112%	37
Montana, Billings**	102,689	1,404	44	1.368%	26
Nevada, Las Vegas	269,900	3,035	17	1.124%	35
North Dakota, Fargo	124,200	2,503	25	2.016%	13
Oregon, Portland	206,700	4,601	11	2.226%	7
South Dakota, Sioux Falls	129,700	1,943	32	1.498%	23
Utah, Salt Lake City/Ogden	161,500	1,386	45	0.858%	45
Washington, Seattle	293,200	2,869	19	0.979%	42
Wyoming, Cheyenne**	111,208	740	55	0.665%	51
U.S. Average	195,515	\$2,781		1.427%	
Region Average	201,727	\$2,424		1.235%	

Sources of Median Sales Prices: Nat. Assoc. of REALTORS; Calculations by Minnesota Ctr for Public Finance Res.

**Estimated using the approximate two-year increase in regional median prices of existing homes of: South 12.4%; West 22.4%; Northeast 29.7%; Midwest 6.4%.

Table 3—Effective Property Tax Rates—Industrial Property

\$25,000,000 Land and Building—\$12,500,000 Machinery and Equipment—\$10,000,000 Inventories—\$2,500,000 Fixtures

State	Tax(s)	Effective Tax Rate	Rank
California	500,000	1.000%	42
Colorado	730,324	1.461%	29
Idaho	690,690	1.381%	32
Montana	696,935	1.394%	30
Nevada	455,346	0.911%	44
North Dakota	563,946	1.128%	38
Oregon	890,332	1.781%	23
South Dakota	520,129	1.040%	41
Utah	630,754	1.262%	36
Washington	396,448	0.793%	47
Wyoming	332,000	0.644%	48
U.S. Average	830,062	1.660%	
Region Average	581,537	1.163%	

National Taxpayers Conference—"50—State Property Tax Comparison Study" - Payable 2004

Montana Income Taxes

Montana has a modestly progressive personal income tax. The top tax rate of 6.9% is the 13th highest in the nation, but Montana is one of only 8 states that allows Federal taxes to be deducted on the state return. As a result, the top effective marginal rate is 5.0% for most high income taxpayers.¹

Table 4—Top Tax Rates on Ordinary Income

	Statutory Rate	Fed Tax Deductible?	Effective Marginal Rate ¹
California	9.3%	No	6.7%
Colorado	4.63%	No	3.3%
Idaho	7.8%	No	5.6%
Montana	6.9%	Limited²	5.0%
Nevada	No Income Tax		
North Dakota ³	5.54%	No	4.0%
Oregon	9.0%	Limited ²	6.5%
South Dakota	No Income Tax		
Utah	7.0%	Half ²	5.0%
Washington	No Income Tax		
Wyoming	No Income Tax		

¹ Effective marginal rate is the income tax burden on an additional dollar of ordinary income from living in the indicated state in comparison with living in a state with no income tax, taking account of the deductibility of state income taxes on Federal returns. Taxpayer is assumed to be in the 28% Federal bracket, top state bracket, itemizes deductions, and has exceeded the limit on deductions of Federal taxes. Effective rates are lower if the taxpayer is in a higher Federal bracket and/or has not exceeded the limit on deductions.

² Montana limits the amount of Federal taxes which can be deducted to \$10,000 for a married couple filing jointly. Oregon's limit is \$5,000. Utah allows 1/2 of total Federal taxes.

³ Rates shown are for short form filers. The top rate on the long form is 12% and Federal income taxes are deductible.

Source: Federation of Tax Administrators (January 1, 2005) and Doug Young

Capital Gains

Most states tax capital gains as ordinary income. However, several states provide special treatment, sometimes limited to gains realized from—or invested in—the state. Montana is unique in providing a *tax credit of 1% in 2005 and 2006, and 2% in succeeding years.*

Table 5—Taxation of Capital Gains

California	As Ordinary Income
Colorado	Exclude gains on CO property held > 5 years
Idaho	60% Exclusion on qualifying ID property
Montana	1% tax credit in 2005-06; 2% starting in 2007
Nevada	No Income Tax
North Dakota	30% Exclusion
Oregon	Max rate = 5% on farm property
South Dakota	No Income Tax
Utah	Exclude gain if 70% gross proceeds invested in UT small business corp.
Washington	No Income Tax
Wyoming	No Income Tax

Source: Doug Young from State Tax Administrators (7/03)

Total individual income taxes in Montana are below average on a per capita basis and average as a percentage of income.

Table 6—Average Individual Income Tax Burden—2002

	\$ Per Capita Amount	Rank	% of Income	Rank
California	\$944	10	2.9%	15
Colorado	\$772	18	2.3%	29
Idaho	\$627	30	2.6%	19
Montana	\$569	36	2.4%	28
Nevada	No Income Tax			
North Dakota	\$315	42	1.2%	42
Oregon	\$1,044	7	3.7%	4
South Dakota	No Income Tax			
Utah	\$692	23	2.9%	14
Washington	No Income Tax			
Wyoming	No Income Tax			
U.S. Average	\$704		2.3%	

Source: Minnesota Taxpayers Association, based on Census of Governments 2002

Montana Corporate License Tax

Montana imposes a corporate license tax on net income earned in Montana. Once again, Montana's rate is about average when compared to surrounding states.

Table 7—State Corporate Income Tax

	Rate	Apportionment Formula
California*	8.84%	Double wtd. Sales
Colorado	4.63%	3 Factor/Sales & Property
Idaho*	7.60%	Double wtd. Sales
Montana*	6.75%	3 Factor
Nevada		No State Income Tax
North Dakota*	2.6-7.0	3 Factor
Oregon*	6.60%	80% Sales, 10% Property & Payroll
South Dakota		No State Income Tax
Utah*(1)	5.00%	3 Factor
Washington		No State Income Tax
Wyoming		No State Income Tax

*State has adopted substantial portions of the UDITPA

For tax years beginning in 2006, taxpayers may elect to double weighted sales factor.

Source: Federation of Tax Administrators, January 1, 2005.

Sales Taxes

Montana has no general sales tax but levies selective (excise) taxes on gasoline, alcohol, tobacco, hotel and lodgings and other items. The combined impact of sales and excise taxes is among the lowest in the nation.

Table 8—Sales and Excise Taxes: FY2002

	Dollars Per Capita		Percent of Income	
	Amount	Rank	Amount	Rank
California	\$1,091	18	3.4%	33
Colorado	\$1,124	15	3.4%	31
Idaho	\$832	43	3.5%	29
Montana	\$407	49	1.7%	47
Nevada	\$1,608	3	5.5%	4
North Dakota	\$1,071	22	4.1%	17
Oregon	\$185	51	0.6%	51
South Dakota	\$1,219	10	4.6%	12
Utah	\$1,075	21	4.6%	13
Washington	\$1,859	1	5.9%	3
Wyoming	\$1,359	5	4.6%	11
U.S. Average	\$1,061		3.5%	
Region Average	\$1,075		3.8%	

Source: Minnesota Center for Public Financed Research, Bureau of the Census 2002
(Excludes Washington B&O tax.)

Total Tax Burden by Income Level

The estimated burden on a family of four of all personal taxes—income, property, general sales, and auto taxes—is provided in the tables below for three different income levels. Montana taxes are below average at all income levels.

Table 9(a) - Estimated Tax Burden: Income Level = \$25,000

	Income	Property	Sales	Auto	Total	Rank	% of Income
California	\$0	\$1,733	\$446	\$237	\$2,416	5	9.7%
Colorado	\$132	\$481	\$478	\$208	\$1,299	43	5.2%
Idaho	\$0	\$527	\$454	\$241	\$1,222	45	4.9%
Montana	\$336	\$620	\$0	\$279	\$1,235	44	4.9%
Nevada	\$0	\$779	\$394	\$323	\$1,497	39	6.0%
North Dakota	\$61	\$1,074	\$387	\$212	\$1,735	29	6.9%
Oregon	\$925	\$1,156	\$0	\$199	\$2,280	8	9.1%
South Dakota	\$0	\$809	\$568	\$208	\$1,586	37	6.3%
Utah	\$212	\$742	\$505	\$302	\$1,760	28	7.0%
Washington	\$0	\$1,127	\$545	\$296	\$1,968	14	7.9%
Wyoming	\$0	\$388	\$519	\$144	\$1,051	49	4.2%
U.S. Median	\$158	\$809	\$442	\$219	\$1,798		7.2%

Table 9(b) - Estimated Tax Burden: Income Level = \$75,000

	Income	Property	Sales	Auto	Total	Rank	% of Income
California	\$1,226	\$5,114	\$1,273	\$652	\$8,265	12	11.0%
Colorado	\$2,338	\$1,374	\$1,366	\$726	\$5,804	37	7.7%
Idaho	\$3,016	\$2,145	\$1,298	\$399	\$6,857	27	9.1%
Montana	\$2,758	\$1,771	\$0	\$692	\$5,222	44	7.0%
Nevada	\$0	\$2,227	\$1,126	\$599	\$3,951	48	5.3%
North Dakota	\$994	\$3,069	\$1,106	\$314	\$5,483	41	7.3%
Oregon	\$4,892	\$3,304	\$0	\$307	\$8,503	8	11.3%
South Dakota	\$0	\$2,312	\$1,624	\$342	\$4,278	47	5.7%
Utah	\$3,330	\$2,120	\$1,442	\$561	\$7,453	19	9.9%
Washington	\$0	\$3,220	\$1,556	\$701	\$5,477	42	7.3%
Wyoming	\$0	\$1,109	\$1,484	\$555	\$3,147	51	4.2%
U.S. Median	\$2,758	\$2,501	\$1,263	\$456	\$6,908		9.2%

Table 9(c) - Estimated Tax Burden: Income Level = \$150,000

	Income	Property	Sales	Auto	Total	Rank	% of Income
California	\$6,516	\$9,275	\$2,292	\$965	\$19,048	4	12.7%
Colorado	\$5,304	\$2,473	\$2,459	\$862	\$11,098	42	7.4%
Idaho	\$7,662	\$4,552	\$2,337	\$433	\$14,984	19	10.0%
Montana	\$8,388	\$3,189	\$0	\$796	\$12,373	37	8.2%
Nevada	\$0	\$4,009	\$2,027	\$771	\$6,806	48	4.5%
North Dakota	\$3,316	\$5,525	\$1,991	\$363	\$11,194	41	7.5%
Oregon	\$11,271	\$5,947	\$0	\$344	\$17,562	9	11.7%
South Dakota	\$0	\$4,161	\$2,924	\$372	\$7,457	47	5.0%
Utah	\$7,238	\$3,816	\$2,562	\$594	\$14,210	27	9.5%
Washington	\$0	\$5,796	\$2,801	\$984	\$9,581	43	6.4%
Wyoming	\$0	\$1,996	\$2,671	\$744	\$5,410	51	3.6%
U.S. Median	\$6,846	\$4,709	\$2,274	\$594	\$14,219		9.5%

Source: Tax Rates & Tax Burdens in the District of Columbia/A Nationwide Comparison, 2004

Note: Based on 2004 tax laws. Montana lowered income tax rates in 2005.

Special Session Legislative Fiscal Report, January 2006

The [Legislative Fiscal Report from the Special Session](#) is now available online. Next month's newsletter will provide an overview of the expenditures and anticipated revenues for the next biennium.