



# Policy Basics: An Introduction into Who Pays Taxes in Montana

November 2018

Our tax dollars serve as shared investments in the programs and services that make our state a great place to live, work, and play. Tax dollars enable Montanans to work together for those things, which we cannot achieve alone – a quality education for our children, the development and maintenance of infrastructure, public safety through police and fire protection, and clean air and water. These shared investments pave the way to a stronger economy where every Montanan can thrive.

One way to evaluate a tax system is to look at how that system affects different households based on how much income they make. An analysis of Montana's state and local taxes reveals that low-income Montanans pay higher taxes rates than those with higher incomes. In other words, Montana's tax system is regressive. In Montana, those with incomes below \$18,000 pay 7.9 percent of their income in state and local taxes, while those with income above \$448,500 pay 6.5 percent.

The chart on the second page outlines the three main state and local taxes – income, property, and sales/excise - and how the cost of these taxes is distributed among taxpayers. Both property and sales/excise taxes are **regressive**. Conversely, income taxes are often **progressive**. While the income tax is progressive, it does not offset the regressive effects of the property and select excise taxes on a state and local level. Montana's tax system would be substantially *more* regressive if it included a general sales tax. However, even without a sales tax, Montana's low- and moderate-income families are facing a higher overall tax rate than wealthier households.

## Key Terms

**Regressive Tax System** – a system in which lower-income households pay a larger portion of their income in taxes compared to those households with higher incomes.

**Progressive Tax System** – a system in which higher-income households pay a larger portion of their income in taxes compared to those households with lower incomes.

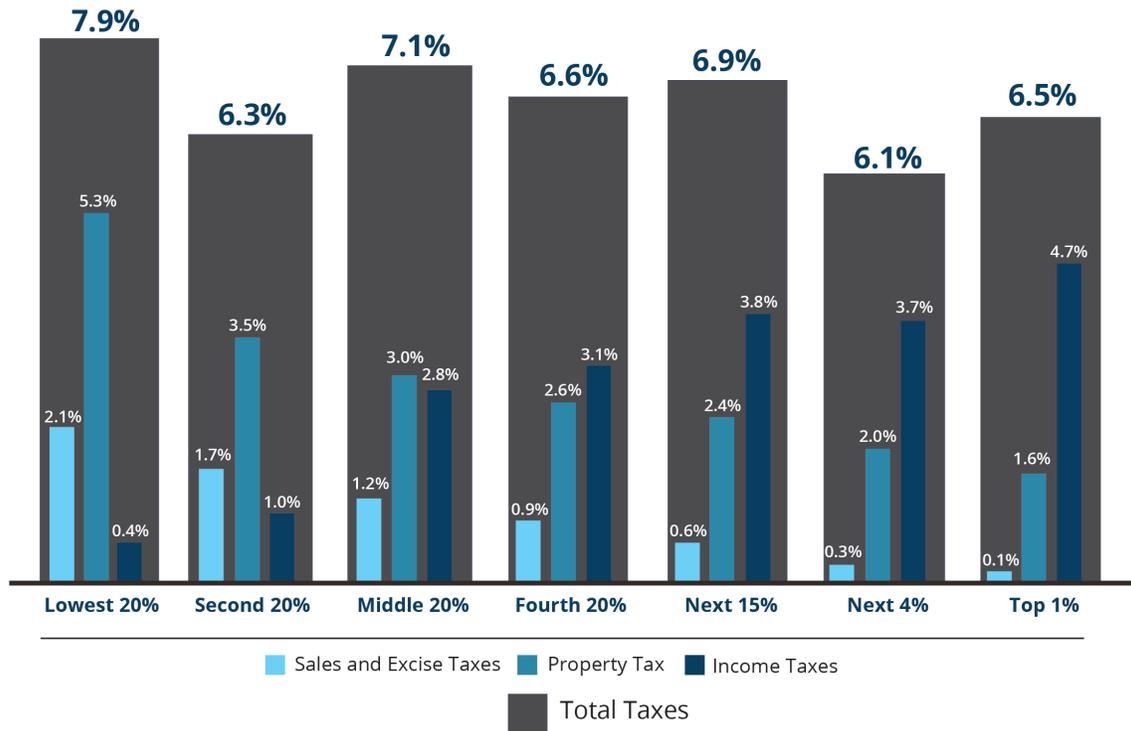
Policymakers have several options to ease the regressivity of Montana's tax system. Such measures include:

- Repealing the capital gains tax credit;
- Restoring a top income tax bracket on wealthiest households;
- Capping the state deduction for estates and trusts for federal income taxes paid;
- Capping itemized deduction for high-income households;
- Expanding the state Earned Income Tax Credit;
- Reversing the shift of property taxes from commercial to residential property;
- Improving property tax relief programs targeted to low- and moderate-income households;
- Updating the corporate minimum tax;
- Eliminating loss carrybacks for corporations; and
- Eliminating water's edge election that benefits multi-national corporations.

Each of these options is discussed in the separate reports of MBPC's Policy Basics revenue series that explain each type of tax – individual income, corporate income, and capital gains.

# Montana's Low- and Middle-Income Families Pay the Highest Tax Rate

State and local taxes as a share of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	TOP 20%		
					Next 15%	Next 4%	Top 1%
<b>Income Range</b>	0 - \$18,000	\$18,001- \$35,800	\$35,801- \$56,500	\$56,501 - \$92,200	\$92,201 - \$185,400	\$185,401 - \$448,500	\$448,501 +
<b>Average Income in Group</b>	\$9,700	\$26,800	\$42,800	\$73,600	\$123,200	\$261,900	\$1,126,400
<b>Sales &amp; Excise Taxes</b>	2.1%	1.7%	1.2%	.9%	.6%	.3%	.1%
General Sales - Individual	0%	0%	0%	0%	0%	0%	0%
Other Sales & Excise Taxes - Ind.	1.7%	1.4%	0.9%	0.7%	0.4%	0.2%	0.1%
Sales & Excise on Business	0.4%	0.3%	0.3%	0.2%	0.1%	0.1%	0.0%
<b>Property Taxes</b>	5.3%	3.5%	3.0%	2.6%	2.4%	2.0%	1.6%
Home, Rent, Car - Individuals	4.6%	2.9%	2.5%	2.1%	1.9%	1.2%	0.4%
Other Property Taxes	0.7%	0.6%	0.6%	0.5%	0.5%	0.8%	1.2%
<b>Income Taxes</b>	0.5%	1.0%	2.8%	3.1%	3.9%	3.8%	4.8%
Personal Income Taxes	0.4%	1.0%	2.8%	3.1%	3.8%	3.7%	4.7%
Corporate Income Tax	0%	0%	0.1%	0%	0.1%	0.1%	0.1%
<b>Total Taxes after Offset</b>	7.9%	6.3%	7.1%	6.6%	6.9%	6.1%	6.5%

Source: Institute on Taxation and Economic Policy. "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States, 6th Edition." October, 2018.