



Reality Check
Montana Is Not a High Tax State
March 2013

Every year, organizations analyze states and cities across the nation and publish rankings that claim to measure which locations have the best business climates. Typically, these studies are structured so that the locations with the lowest taxes or least regulation receive the highest rankings.¹ On the other hand, they tend to ignore many more important factors that contribute to a strong business climate: an educated workforce, well-maintained infrastructure, and access to markets.² As a result, the rankings in these studies are often varied and irrelevant.

For example, according to the Tax Foundation's latest report, Montana has the 20th lowest taxes for mature companies and the 23rd lowest taxes for new companies.³ The report also ranks Montana as having the 3rd lowest taxes for mature corporate headquarters. Yet, not a single Fortune 1000 company has a headquarters in Montana.⁴ Conversely, New York ranks nearly last (49th) for mature corporate headquarters, indicating that they have one of the highest tax obligations in the country. Nevertheless, ninety-two Fortune 1000 companies have established their corporate headquarters there.⁵ Clearly, when companies decide where to locate, they are considering many more factors than the possible tax obligation of a particular location.

"The irony could hardly be greater. Just three or so weeks after the last of a half-dozen highly visible downtown Polson businesses — all within a few steps of one another — closed their doors for good, the Montana Policy Institute announced that the most business-friendly city in all of Montana is ... Polson."

--The Missoulian, September 25, 2012

Another example of a ranking with surprising results comes from the Montana Policy Institute. In a recent study, the Montana Policy Institute ranked Polson, with its empty storefronts throughout downtown, as the most business friendly location in the state. In that same report, Polson ranked very low in "community allure," despite being near some of the state's biggest recreation destinations, including Flathead Lake and the Mission Mountains. This is yet another excellent example of the disconnect between reality and rankings in many of these reports.

These things considered, it is with some hesitation that we publish Montana's rankings on tax collections. While perhaps interesting, they provide little to no information about what really makes Montana a great place to live and do business—its people, infrastructure, wide open spaces, and communities. However, we offer these rankings to dispel the often articulated myth that Montana is a "high tax state."

When comparing taxes across states, two measures are typically used: a per capita measure and a measure as a percentage of personal income. As Montanans, we pay less in total taxes per capita than most other states in the country. In fact, per capita, Montana ranks 33rd among all states in total taxes paid (Table 1). For the second measure, percentage of personal income, we rank 25th

Reality Check is a series of reports that focuses on dispelling myths related to the Montana budget and Montana taxes. The purpose of the Reality Check series is to provide the public, community advocates, and policy makers with accurate information, beyond the sound bytes, they need to effectively engage in important fiscal policy debates that help shape the health and safety of our communities.

(Table 2). The difference in these rankings stems from that fact that average incomes in Montana are lower than almost all other states. In other words, to achieve the same level of investment per person found in most other states, we would have to invest a higher percentage of our income and economy. Instead, we invest only an average amount of our income, leaving us with substantially less revenue to invest per person in the public infrastructure and the services that promote our health, safety, economic security and children’s futures.

Table 1: Montana Revenue Per Capita vs. National Averages, 2009

	Montana State & Local Revenue per Capita	National Average	Montana Ranking
Total Taxes	\$3,577	\$4,141	33
Individual Income	\$848	\$881	27
Property	\$1,308	\$1,381	24
General Sales	\$0	\$948	48
Selective Sales	\$548	\$464	18
Corporate Income	\$168	\$150	11

Source: State and Local Government Finance Data Query System, Tax Policy Center

Table 2: Montana Revenue as a Percent of Personal Income vs. National Averages, 2009

	Montana State & Local Revenue as a Percent of Personal Income	National Average	Montana Ranking
Total Taxes	10.3%	10.5%	25
Individual Income	2.4%	2.2%	24
Property	3.8%	3.5%	16
General Sales	0.0%	2.4%	48
Selective Sales	1.6%	1.2%	8
Corporate Income	0.5%	0.4%	11

Source: State and Local Government Finance Data Query System, Tax Policy Center

Endnotes

¹ Fisher, Peter, "Grading Places: What Do the Business Climate Rankings Really Tell Us?," Economic Policy Institute, June 2005, [http://www.epi.org/page/-/old/books/grading_places/grading_places_\(full_text\).pdf](http://www.epi.org/page/-/old/books/grading_places/grading_places_(full_text).pdf).

¹ Lynch, Robert, "Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development," Economic Policy Institute, March 2004, http://www.epi.org/publication/books_rethinking_growth/.

¹ Tax Foundation, "Location Matters: A Comparative Analysis of State Tax Costs on Business," 2012, http://www.taxfoundation.org/files/lm_2012_proof_08.pdf.

¹ CNN Money, "Fortune 500 Headquarters," 2011, <http://money.cnn.com/magazines/fortune/fortune500/2011/maps/index.html>. And Pavlo, Andrew, "Fortune 50/1000 Contact Information," Brown University, 2008, www.cs.brown.edu/~pavlo/fortune1000/.

¹ Pavlo, Andrew, "Fortune 50/1000 Contact Information," Brown University, 2008, <http://www.cs.brown.edu/~pavlo/fortune1000/>.