

A Balanced Approach: A Call for New Revenue

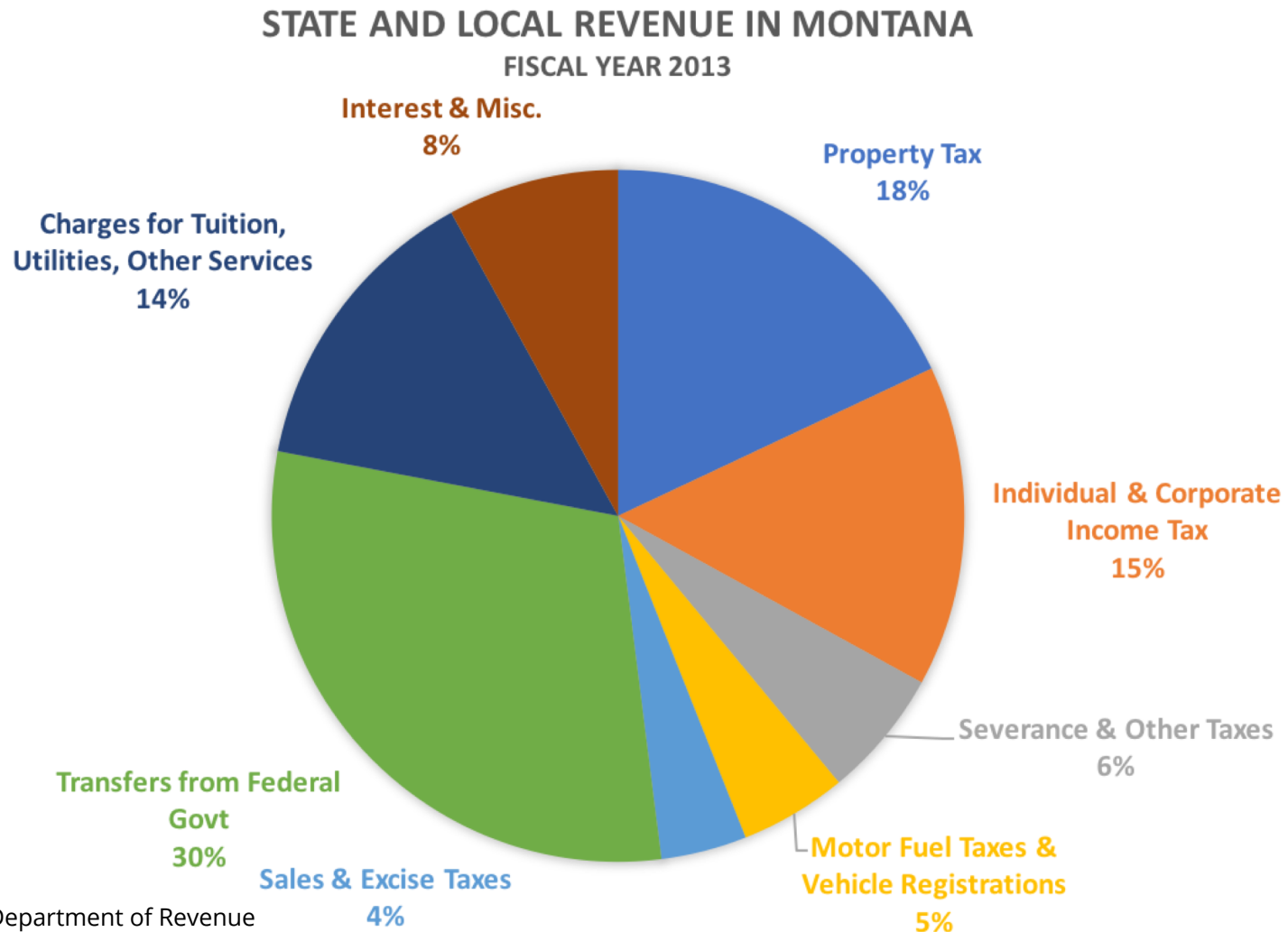


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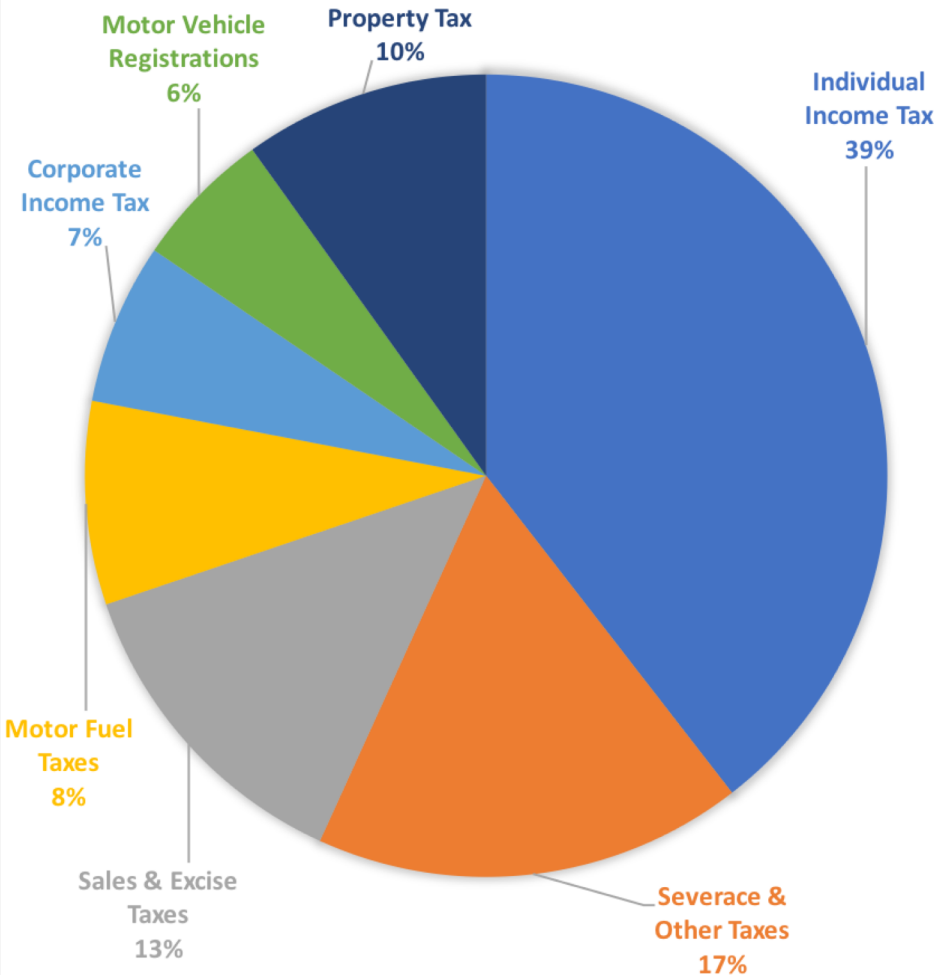
Montana Budget and Policy Center

The state and local governments rely heavily on federal transfers, along with a mixture of other revenue sources.

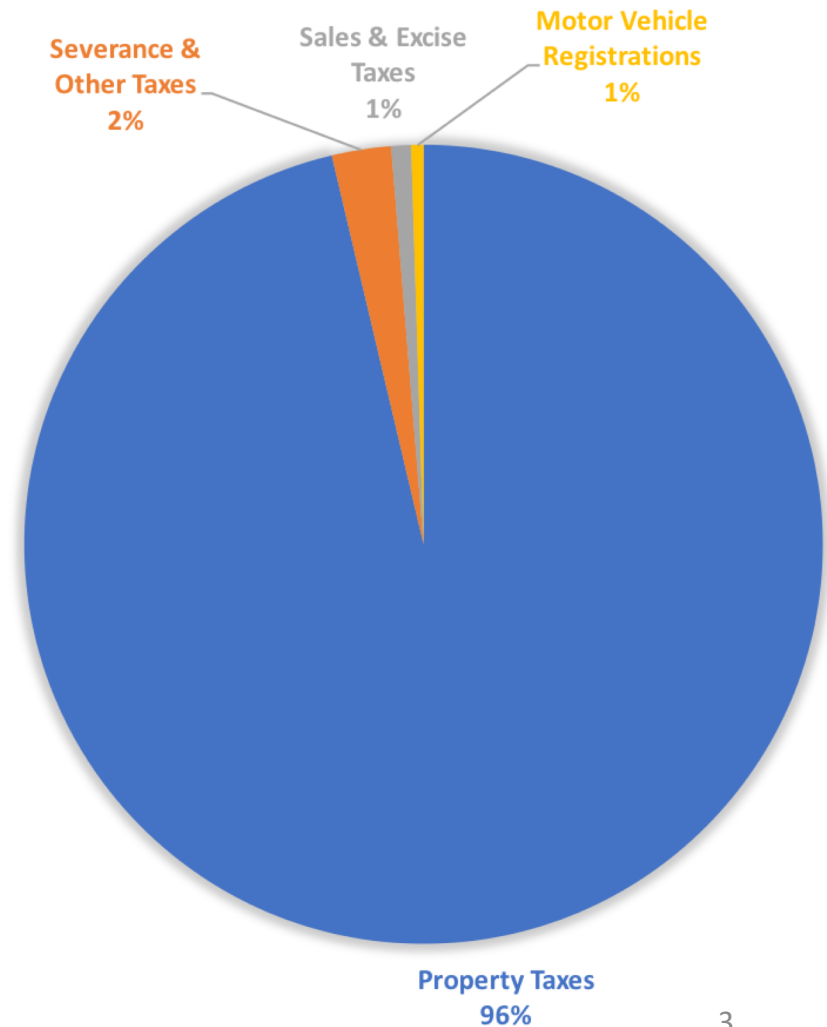


Montana's State Tax Structure Compared to Local Tax Structure

STATE TAXES IN MONTANA
FISCAL YEAR 2013

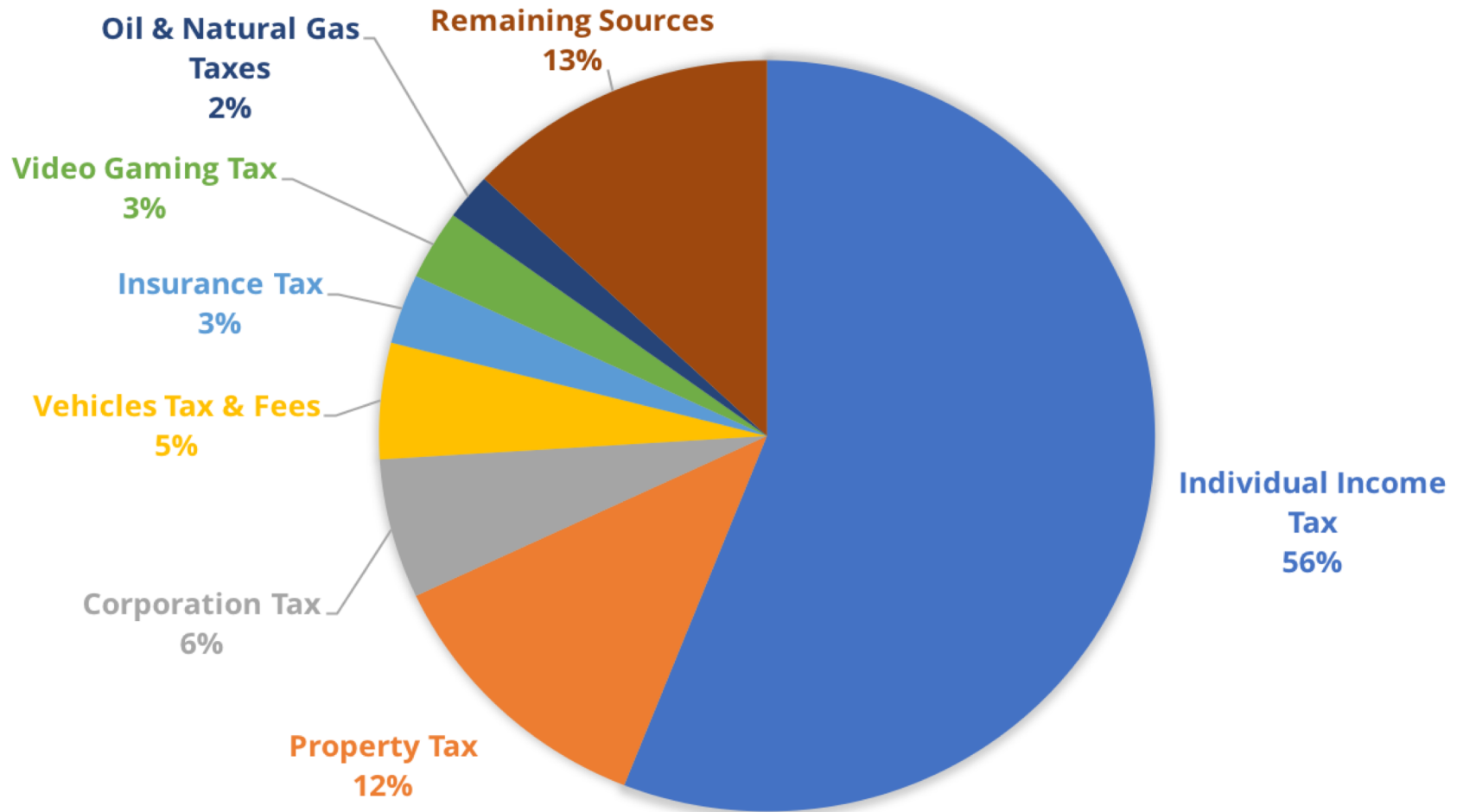


LOCAL TAXES IN MONTANA
FISCAL YEAR 2013



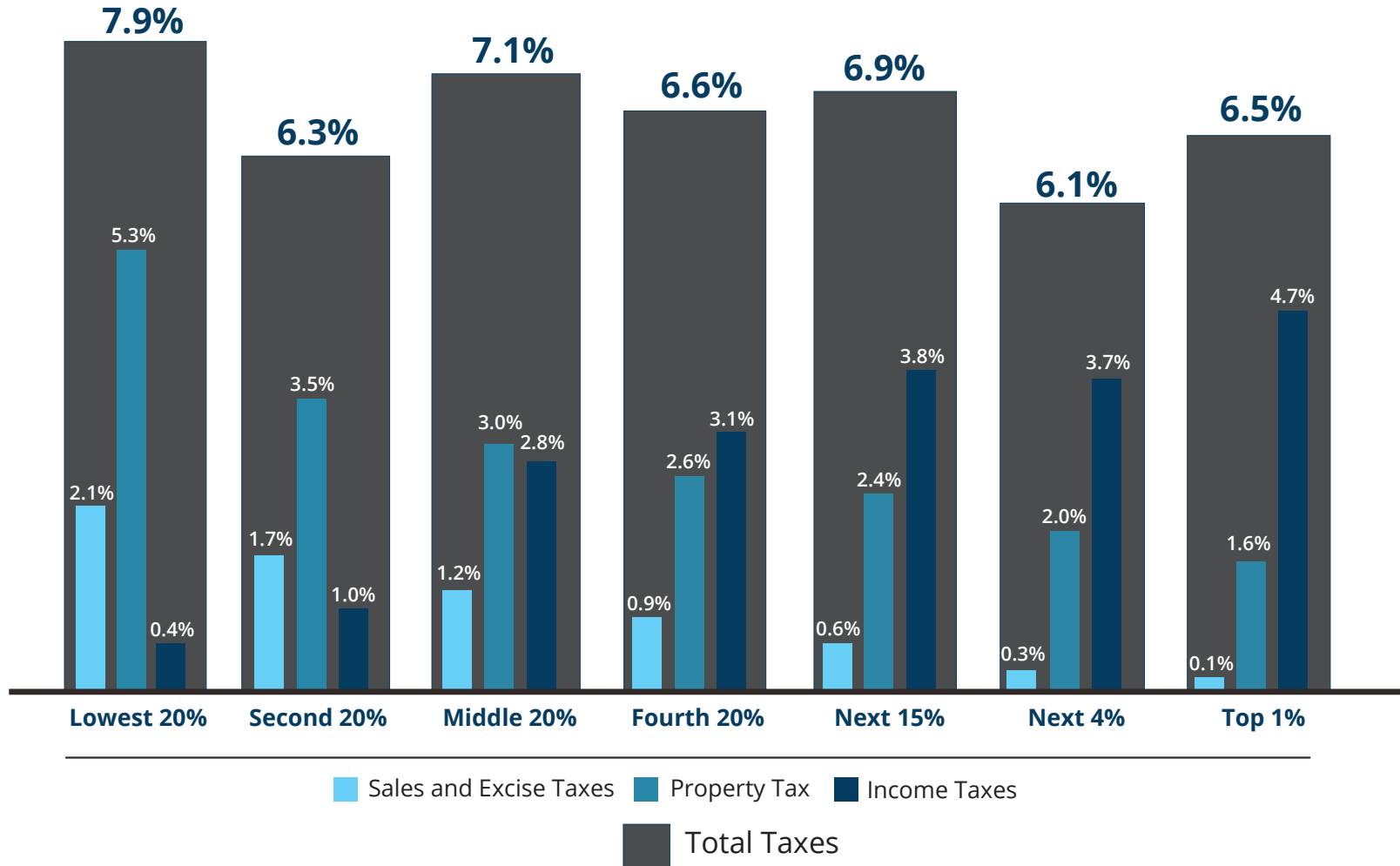
Individual income taxes comprise the largest share of *general fund* revenue.

FY2016 GENERAL FUND REVENUE - \$2,121.3
(IN MILLIONS)



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



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

Tax Cuts Passed by the Legislature in 2003...

- Reduced the number of income tax brackets (creating a flatter income tax)
- Lowered the top rate from 11% to 6.9%
- Reduced the income at which the top rate is effective, from \$82,400 to \$13,900.
- Cut the effective tax rate on income from investments
- Partially offset costs by capping the allowable deduction for federal income taxes paid

Effect of 2003 Tax Changes on Income Tax Brackets and Rates

Brackets adjusted for inflation to 2018

Before Bracket Collapse

Taxable Income	Marginal Tax Rate
\$0 to \$3,100	2.0%
\$3,100 to \$6,100	3.0%
\$6,100 to \$12,200	4.0%
\$12,200 to \$18,300	5.0%
\$18,300 to \$24,500	6.0%
\$24,500 to \$30,600	7.0%
\$30,600 to 42,800	8.0%
\$42,800 to \$61,200	9.0%
\$61,200 to \$107,000	10.0%
Over \$107,000	11.0%

After Bracket Collapse

Taxable Income	Marginal Tax Rate
\$0 to \$3,000	1.0%
\$3,000 to \$5,200	2.0%
\$5,200 to \$8,000	3.0%
\$8,000 to \$10,800	4.0%
\$10,800 to \$13,900	5.0%
\$13,900 to \$17,900	6.0%
Over \$17,900	6.9%

The Tax Cuts of 2003 Benefited the Wealthiest and Have Cost Our State

Here's what you need to know...



FACT

Today, someone making just a little over minimum wage has **the same top income tax rate** as a millionaire.



FACT

Households making **\$500,000 or more (less than 1% of households)** received **almost half of the benefit of those tax cuts.**

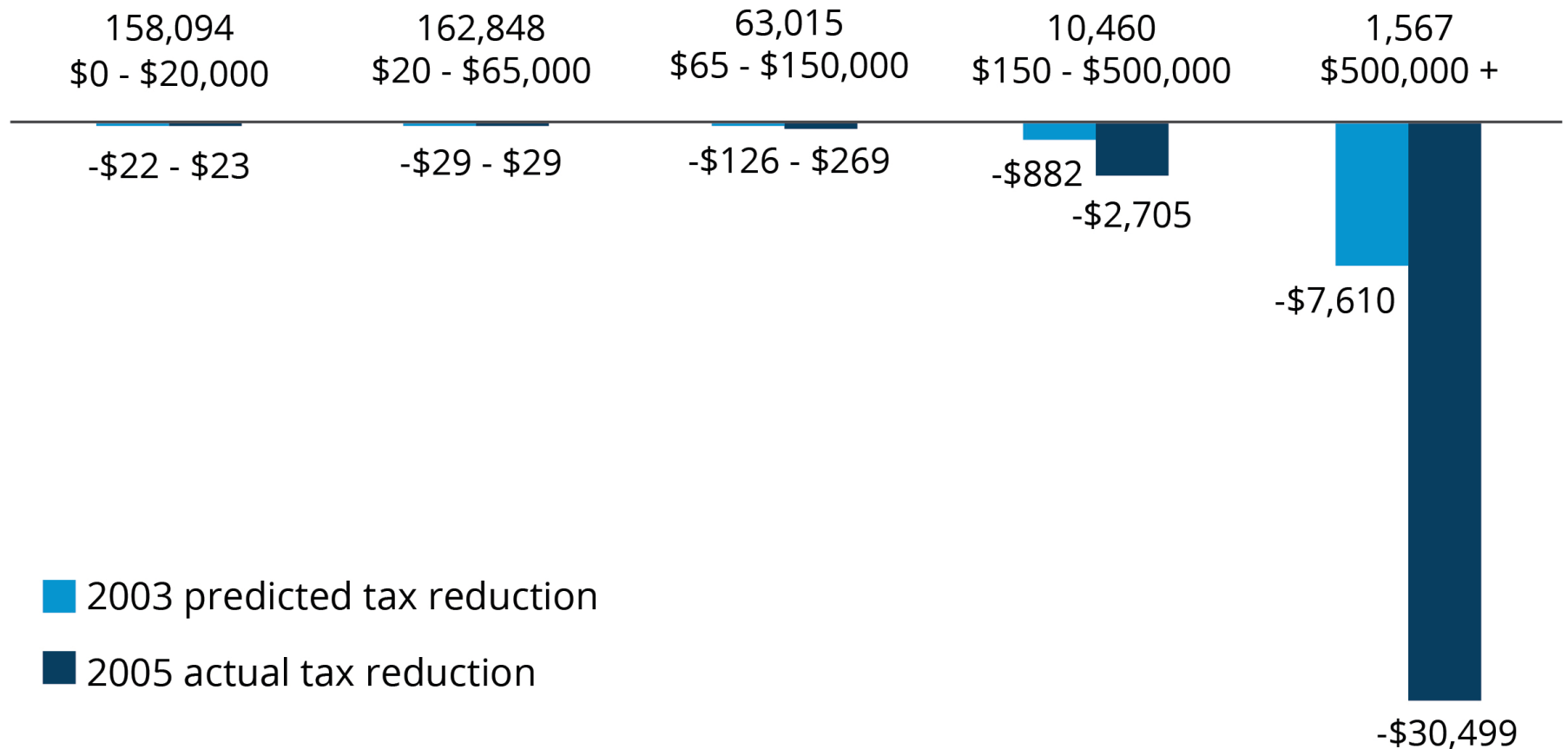


FACT

While most wealthy households saw dramatic tax cuts, nearly one in five **Montana taxpayers** actually saw their **taxes go up.**

Wealthiest Taxpayers Benefited Most from Bracket Collapse

Number of households and income range

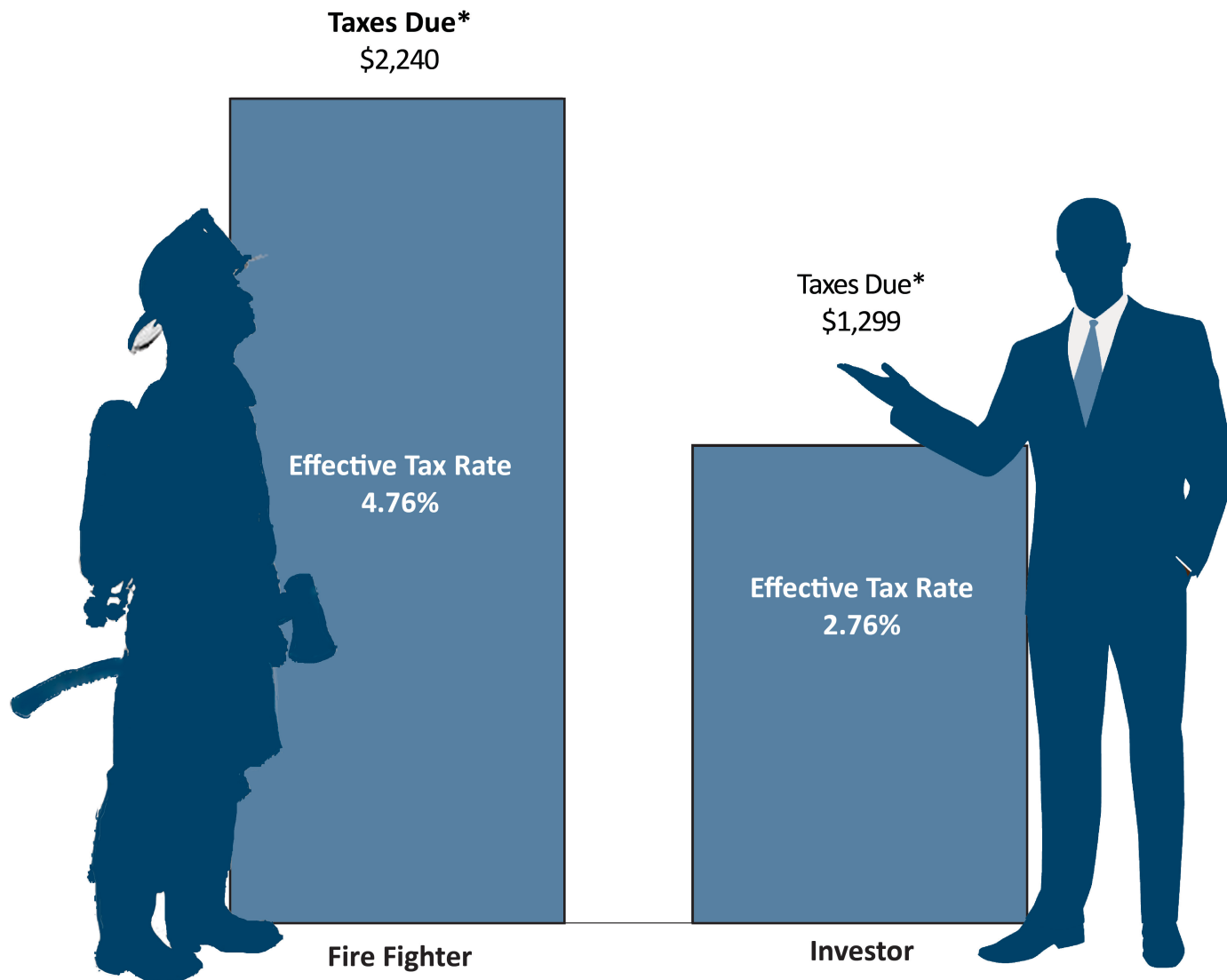


Source: Department of Revenue

Capital Gains Tax Credit

- Montana put in place a 2% tax credit for incomes from capital gains. This has the effect of **lowering the rate** on this type of income.
 - Capital gains = profits made from the sale of assets, like stocks and bonds.
- Montana is **one of only six states** that provides a broad tax break for capital gains income.
- **More than half** of the capital gains tax cut went to the wealthiest 1% (4,600 households, making more than \$371,000 annually). Most of these wealthy taxpayers take the credit year after year.
- The **vast majority of Montana households (85%)** do not benefit from the capital gains tax break.

Capital Gains Tax Credit Values Wealth Over Hard Work



** Montana income taxes paid on \$41,520 of income*

Source: Bureau of Labor Statistics and Montana Department of Revenue

What are some revenue options?

- Restore top tax bracket on high-income earners. A **1% surcharge on income above \$500,000** would:
 - Raise \$19 - \$50 million/year
 - Impact less than half of one percent of taxpayers
 - HB 330, HB 610, SB 350
- Pare back preferential tax treatment on capital gains (investments). **Eliminating the capital gains tax credit for households with incomes greater than \$1 million** would:
 - Raise \$11 million/year
 - Impact less than 400 taxpayers
 - HB 598
- **Close corporate or other tax loopholes** that benefit large multinational corporations or wealthy taxpayers.
 - SB 105, HB 452
- Consider increases and indexing certain **targeted excise taxes**.
 - SB 354, SB 328

What about a statewide sales tax?

- Sales taxes are **regressive**, with lower income families paying a greater share of their income in tax.
 - Low-income families pay almost **8 times more** and middle-income families pay **5 times more** of their income in sales taxes compared with higher-income households.
- Recent proposals are not to create a new revenue source but use a statewide sales tax to **replace** a current revenue source, costing upwards of **\$300 million in lost revenue per year**.



What about a statewide sales tax?

Montana can consider **updating and indexing** current excise taxes –

- **Lodging tax** on all hotels, motels, campgrounds, etc.
- **Rental car sales and use tax** on rental vehicle vendors
- Excise tax on **retail telecommunications services** (but does not include prepaid cell phone services)
- Excise tax on most **tobacco products** (but does not include vaping)
- Excise tax on **alcohol** entering the state for sale
- State tax on **sale of fuel**

Who Spends Money within Montana's Tourism Industry?

- **Montana residents spent \$2.87 billion** in annual resident travel within Montana.
 - 13,547,000 day trips
 - 4,013,000 overnight trips
 - Includes leisure, business, and other travel (with spending including fuel, restaurants, hotels, medical, and shopping)

Nearly half (46%) of travel industry spending in Montana is **resident travel** within the state.