A Balanced Approach: A Call for New Revenue

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

STATE AND LOCAL REVENUE IN MONTANA
FISCAL YEAR 2013

- Interest & Misc.: 8%
- Property Tax: 18%
- Charges for Tuition, Utilities, Other Services: 14%
- Individual & Corporate Income Tax: 15%
- Severance & Other Taxes: 6%
- Motor Fuel Taxes & Vehicle Registrations: 5%
- Transfers from Federal Govt: 30%
- Sales & Excise Taxes: 4%

Source: Montana Department of Revenue
Montana’s State Tax Structure Compared to Local Tax Structure

STATE TAXES IN MONTANA
FISCAL YEAR 2013

- Property Tax: 10%
- Individual Income Tax: 39%
- Motor Vehicle Registrations: 6%
- Corporate Income Tax: 7%
- Motor Fuel Taxes: 8%
- Sales & Excise Taxes: 13%
- Severance & Other Taxes: 17%

LOCAL TAXES IN MONTANA
FISCAL YEAR 2013

- Property Taxes: 96%
- Sales & Excise Taxes: 1%
- Motor Vehicle Registrations: 1%
- Severance & Other Taxes: 2%

Source: Montana Department of Revenue
Individual income taxes comprise the largest share of general fund revenue.

Source: Legislative Fiscal Division
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

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

<table>
<thead>
<tr>
<th>Before Bracket Collapse</th>
<th>After Bracket Collapse</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Taxable Income</strong></td>
<td><strong>Marginal Tax Rate</strong></td>
</tr>
<tr>
<td>$0 to $3,100</td>
<td>2.0%</td>
</tr>
<tr>
<td>$3,100 to $6,100</td>
<td>3.0%</td>
</tr>
<tr>
<td>$6,100 to $12,200</td>
<td>4.0%</td>
</tr>
<tr>
<td>$12,200 to $18,300</td>
<td>5.0%</td>
</tr>
<tr>
<td>$18,300 to $24,500</td>
<td>6.0%</td>
</tr>
<tr>
<td>$24,500 to $30,600</td>
<td>7.0%</td>
</tr>
<tr>
<td>$30,600 to $42,800</td>
<td>8.0%</td>
</tr>
<tr>
<td>$42,800 to $61,200</td>
<td>9.0%</td>
</tr>
<tr>
<td>$61,200 to $107,000</td>
<td>10.0%</td>
</tr>
<tr>
<td>Over $107,000</td>
<td>11.0%</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Number of Households</th>
<th>2003 Predicted Tax Reduction</th>
<th>2005 Actual Tax Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 - $20,000</td>
<td>158,094</td>
<td>-$22 - $23</td>
<td>-$22 - $23</td>
</tr>
<tr>
<td>$20 - $65,000</td>
<td>162,848</td>
<td>-$29 - $29</td>
<td>-$29 - $29</td>
</tr>
<tr>
<td>$65 - $150,000</td>
<td>63,015</td>
<td>-$126 - $269</td>
<td>-$126 - $269</td>
</tr>
<tr>
<td>$150 - $500,000</td>
<td>10,460</td>
<td>-$882 - $2,705</td>
<td>-$882 - $2,705</td>
</tr>
<tr>
<td>$500,000 +</td>
<td>1,567</td>
<td>-$7,610</td>
<td>-$7,610</td>
</tr>
</tbody>
</table>

Source: Department of Revenue

-$30,499
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

Taxes Due*
$2,240

Effective Tax Rate
4.76%

Fire Fighter

Taxes Due*
$1,299

Effective Tax Rate
2.76%

Investor

* 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.