



# Policy Basics: Who Pays Taxes in Montana

March 2021

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 things we cannot achieve alone like 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 more robust economy where every Montanan can have a chance to succeed.

One way to evaluate a tax system is to look at how that system affects different households based on their income. An analysis of Montana's state and local taxes reveals that Montanans living on lower incomes pay higher tax rates than those with higher incomes. In other words, Montana's tax system is regressive. In Montana, those with incomes below \$18,000 pay 7.8 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 regressivity 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 families living and lower and moderate incomes face 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.

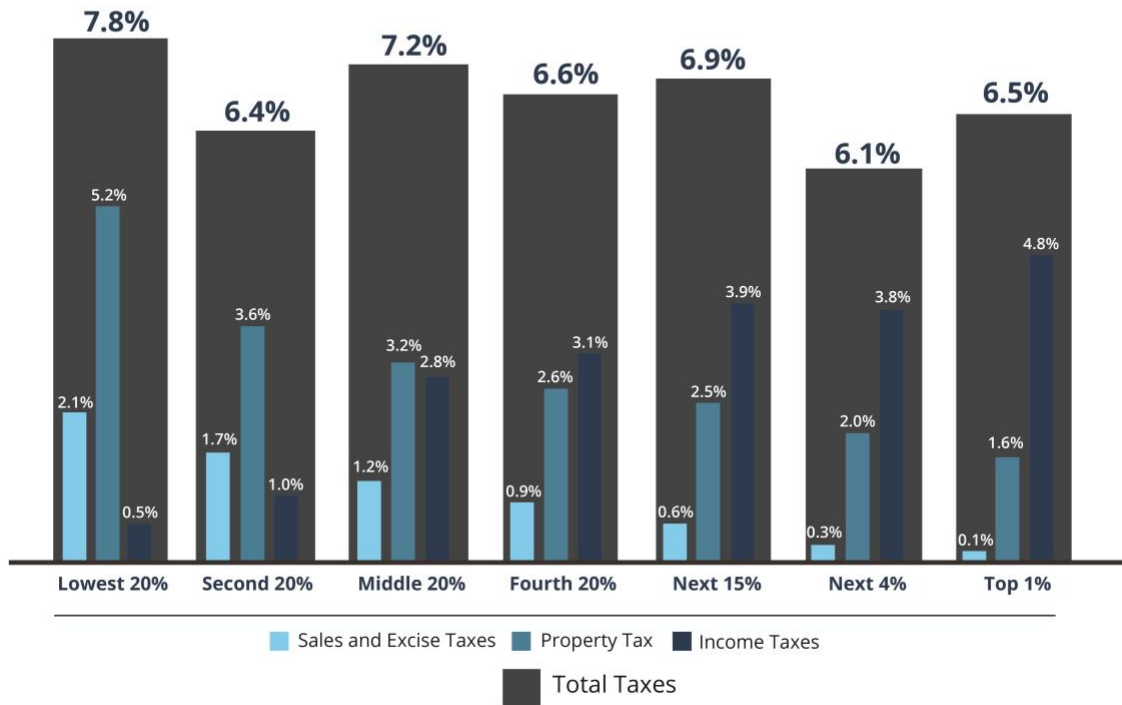
Policymakers have several options to ease the regressivity of Montana's tax system. Such measures include:

- 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 deductions for high-income households;
- Expanding the state Earned Income Tax Credit;
- Eliminating property tax exemptions benefitting large corporations;
- Improving property tax relief programs targeted to households living on lower and moderate incomes;
- Updating the corporate minimum tax;
- Eliminating carryback of corporate net operating losses;
- Eliminating water's edge election that benefits multi-national corporations; and
- Decoupling from federal business tax breaks.

MPBC has a series of policy basics reports that explain a variety of taxes and how they work in Montana including individual income taxes, corporate income taxes, capital gains taxes, and property taxes.

# Montana Families Living on Low and Moderate Incomes 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>	5.2%	3.6%	3.2%	2.6%	2.5%	2.0%	1.6%
Home, Rent, Car - Individuals	4.5%	3.1%	2.6%	2.1%	2.0%	1.2%	0.4%
Other Property Taxes	0.6%	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>	7.8%	6.4%	7.2%	6.6%	6.9%	6.1%	6.5%

Source: Institute on Taxation and Economic Policy, "Update to Who Pays, 6th edition," January, 2021.