



# **Montana Taxes: almost, but not quite flat**

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Low- and middle-income families in Montana pay a slightly higher share of their income in state and local taxes than do the richest families in Montana, according to a new study by the Institute on Taxation & Economic Policy.

“State and local governments are being called upon to take on more and more responsibilities,” said Robert S. McIntyre, ITEP’s tax policy director and lead author of the study, titled *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. “Fortunately, when it comes to paying for services, Montana has a fair tax system.”

## **Montana’s Tax Code: Much Flatter Than Most (Regressive) States**

When all Montana taxes are totaled up, the study found that:

- The state and local tax rate on the best off one percent of Montana taxpayers—with average incomes of \$573,000—is 7.2% before accounting for the tax savings from federal itemized deductions. After the federal offset, the effective tax rate is 5.2%.
- Middle-income Montana taxpayers—those earning between \$22,000 and \$35,000—pay 7.0%. After the offset, the rate is 6.8%, somewhat higher than the effective rate on the very wealthy.
- Montana families earning less than \$12,000—the poorest fifth of Montana non-elderly taxpayers—pay 6.1% of their income in Montana state and local taxes, slightly higher than the best-off Montana residents.

“Montana’s progressive income tax offsets the regressivity of its property tax, while its excise taxes are low enough to be only slightly burdensome,” McIntyre said. “Taxes ought to be based on people’s ability to pay them, which means that the share of income paid in taxes should rise as income grows. Montana has less far to go than most states in achieving that goal.”

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## **Few Legislated Changes Since 1989**

The study also examined the impact of changes in the regressivity of Montana taxes since 1989, when the last cycle of state government shortfalls began. As it turns out, there was no income-based pattern to Montana's tax changes over that period.

"That Montana lawmakers did little to their tax structure since 1989 was good news when it comes to progressivity," said McIntyre. "The state's tax system is far from perfect, but its very low sales and excise taxes and its progressive income tax are a model that other states could consider emulating."

### **Two pages of tables detailing the Montana findings of the study follow**

The Institute on Taxation and Economic Policy is a nonpartisan Washington-based research group. The full *Who Pays?* report is available in PDF format at [www.itepnet.org](http://www.itepnet.org). Printed copies can be ordered by calling ITEP at 202-737-4315.

*Who Pays?* examines the tax systems of all 50 states and the District of Columbia, using the Institute on Taxation & Economic Policy Microsimulation Tax Model. The ITEP Model is similar in methodology and data sources to the elaborate computer models used by the U.S. Treasury and the congressional Joint Committee on Taxation, except that the ITEP Model adds state-by-state estimating capabilities.

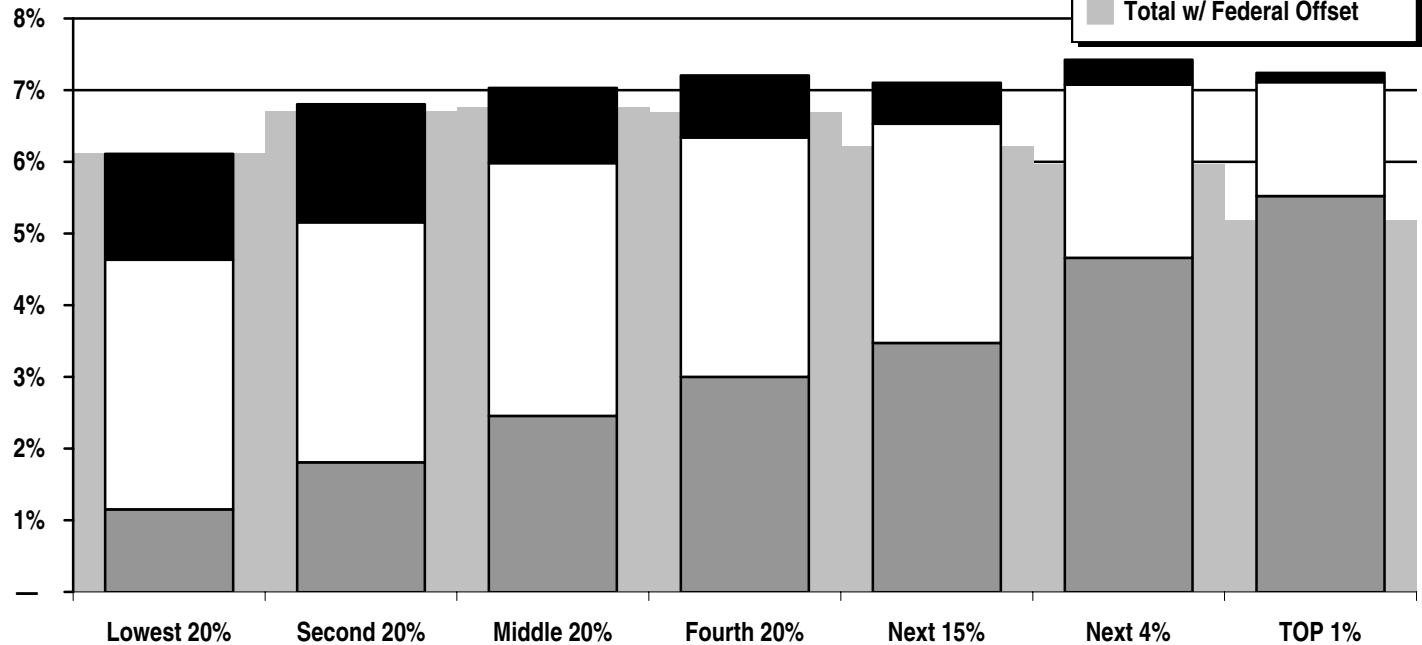
The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes.

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# Montana

## State & Local Taxes in 2002

Shares 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%
Income Range	Less than \$12,000	\$12,000 – \$22,000	\$22,000 – \$35,000	\$35,000 – \$59,000	\$59,000 – \$102,000	\$102,000 – \$264,000	\$264,000 or more
Average Income in Group	\$7,400	\$16,400	\$28,600	\$45,500	\$72,600	\$146,000	\$573,000
<b>Sales &amp; Excise Taxes</b>	<b>1.5%</b>	<b>1.6%</b>	<b>1.1%</b>	<b>0.9%</b>	<b>0.6%</b>	<b>0.3%</b>	<b>0.1%</b>
General Sales—Individuals	—	—	—	—	—	—	—
Other Sales & Excise—Ind.	1.2%	1.4%	0.9%	0.7%	0.5%	0.3%	0.1%
Sales & Excise on Business	0.2%	0.2%	0.2%	0.2%	0.1%	0.1%	0.0%
<b>Property Taxes</b>	<b>3.5%</b>	<b>3.3%</b>	<b>3.5%</b>	<b>3.3%</b>	<b>3.1%</b>	<b>2.4%</b>	<b>1.6%</b>
Property Taxes on Families	3.2%	3.0%	3.2%	2.9%	2.4%	1.6%	0.9%
Other Property Taxes	0.3%	0.3%	0.3%	0.4%	0.6%	0.8%	0.7%
<b>Income Taxes</b>	<b>1.2%</b>	<b>1.8%</b>	<b>2.5%</b>	<b>3.0%</b>	<b>3.5%</b>	<b>4.7%</b>	<b>5.5%</b>
Personal Income Tax	1.1%	1.7%	2.4%	2.9%	3.4%	4.6%	5.3%
Corporate Income Tax	0.1%	0.1%	0.0%	0.1%	0.0%	0.1%	0.2%
<b>TOTAL TAXES</b>	<b>6.1%</b>	<b>6.8%</b>	<b>7.0%</b>	<b>7.2%</b>	<b>7.1%</b>	<b>7.4%</b>	<b>7.2%</b>
Federal Deduction Offset	—	-0.1%	-0.3%	-0.5%	-0.9%	-1.5%	-2.1%
<b>TOTAL AFTER OFFSET</b>	<b>6.1%</b>	<b>6.7%</b>	<b>6.8%</b>	<b>6.7%</b>	<b>6.2%</b>	<b>6.0%</b>	<b>5.2%</b>

Note: Table shows 2002 tax law at 2000 income levels.

# Montana Tax Trends

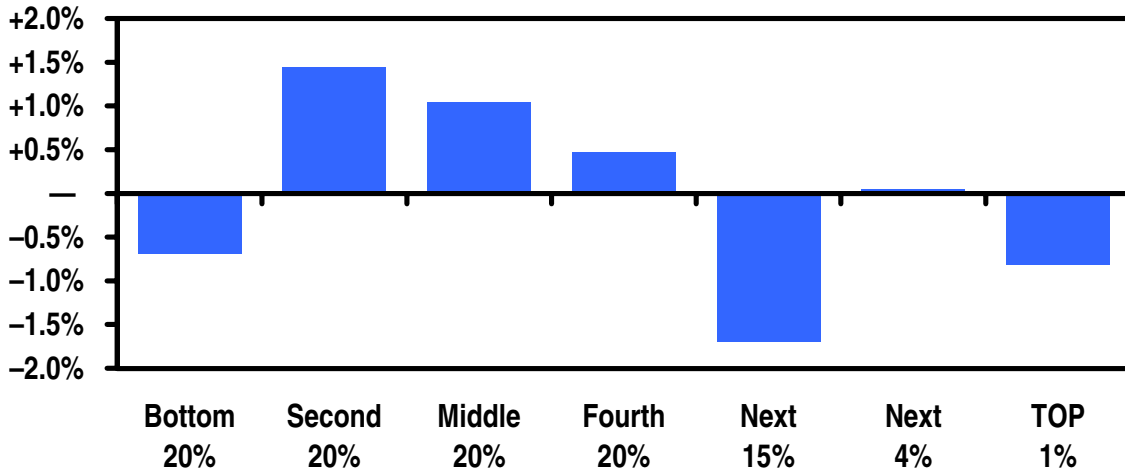
## Progressive Features

- ✓ No general sales tax
- ✓ Graduated rates
- ✓ Tax brackets, exemptions and standard deduction indexed

## Regressive Features

- ✗ Deduction for federal income taxes paid

### Changes in Taxes as Shares of Income, 1989 – 2002

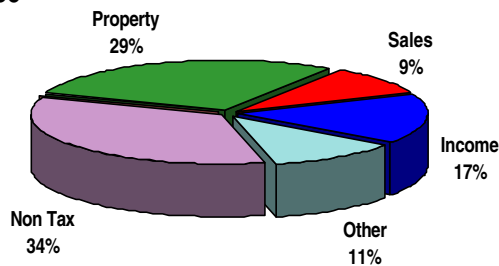


	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
<b>Sales &amp; Excise</b>	+0.1%	+0.3%	+0.2%	+0.2%	+0.1%	+0.1%	+0.0%
<b>Property</b>	-1.2%	+0.9%	+0.9%	+0.3%	-1.7%	-0.6%	-0.7%
<b>Income</b>	+0.3%	+0.3%	+0.1%	+0.2%	+0.1%	+0.7%	+0.0%
<b>Federal Offset</b>	—	-0.1%	-0.1%	-0.2%	-0.2%	-0.1%	-0.1%
<b>Overall Change</b>	-0.7%	+1.4%	+1.0%	+0.5%	-1.7%	+0.1%	-0.8%

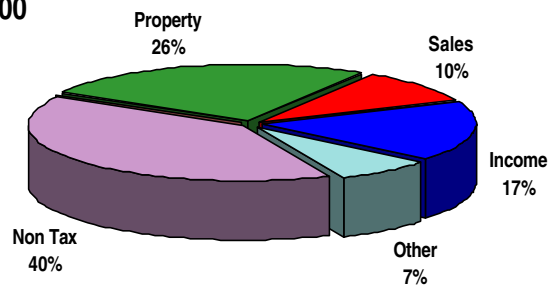
Changes in the federal tax structure have a direct effect on Montana because the state allows a deduction for itemizers for federal income taxes paid.

## Composition of Revenues

1989



2000



Source: Government Finances, US Department of Census