TAX STRUCTURE TRENDS

BIENNIAL REPORT • MONTANA DEPARTMENT OF REVENUE






Montana Department of
REVENUE

Introduction

The Department of Revenue collects state taxes and values property for state and local property taxes. These taxes provide funding for state and local government programs, local school districts, and the state university system. This section puts the department's tax-related activities in context by giving an overview of state and local government finance in Montana, and by comparing Montana's tax system to other states'.

This section starts with a brief introduction to state and local government finance in Montana. It gives a breakdown of spending by state and local governments in Montana, including school districts, and it shows the sources of funds for that spending. Next, it gives a summary of all the taxes the Department of Revenue collects or administers. This is followed by a history of tax collections, with taxes combined into four broad groups. The section ends with information comparing Montana's state and local taxes to state and local taxes in other states.

Government Functions and Revenue Sources

Governments provide several types of services to individuals, businesses, and other entities in their jurisdictions. Governments raise the revenue to pay for those services in a variety of ways.

In the United States, private businesses and non-profit groups provide many of the goods and services that people want. Businesses provide goods and services that can be sold to their customers at a profit. Non-profit groups provide goods and services that donors are willing to pay for or volunteers are willing to provide. Governments provide other services that lawmakers have concluded their constituents want and are willing to pay for. Governments provide services, like police and fire protection, that benefit the entire community rather than just individuals. Governments also provide services like road systems, where the costs of charging individual users and excluding those who don't pay are prohibitive. In other cases, governments provide services like sewer systems, where benefits - in this case public health - are obtained only if everyone participates. In some cases, governments provide services like public education to ensure that they are provided equally to those who could and could not afford them on their own.

Governments pay for these services by raising revenue in several ways: they collect taxes, they charge fees, they earn interest, they sell property, and they receive transfers from other governments.

- Taxes are payments to a government that are not made in exchange for any particular good or service. Examples are income taxes and property taxes. The amount of the tax generally depends on characteristics of the taxpayer, such as the taxpayer's income or the value of the taxpayer's property. Tax revenue may be earmarked for specific uses or deposited in the government's general fund.

- Fees are payments that are made in exchange for particular goods or services. Tuition at a state college and charges for filing legal documents are fees. The amount of the fee generally depends on the service received, not on the taxpayer. Some payments, such as for vehicle licenses, could be considered either taxes or fees.

- Governments also receive revenue from normal business transactions. For example, governments earn interest on investments and sell surplus property. Local governments operate utilities that may sell water, electricity, or natural gas.

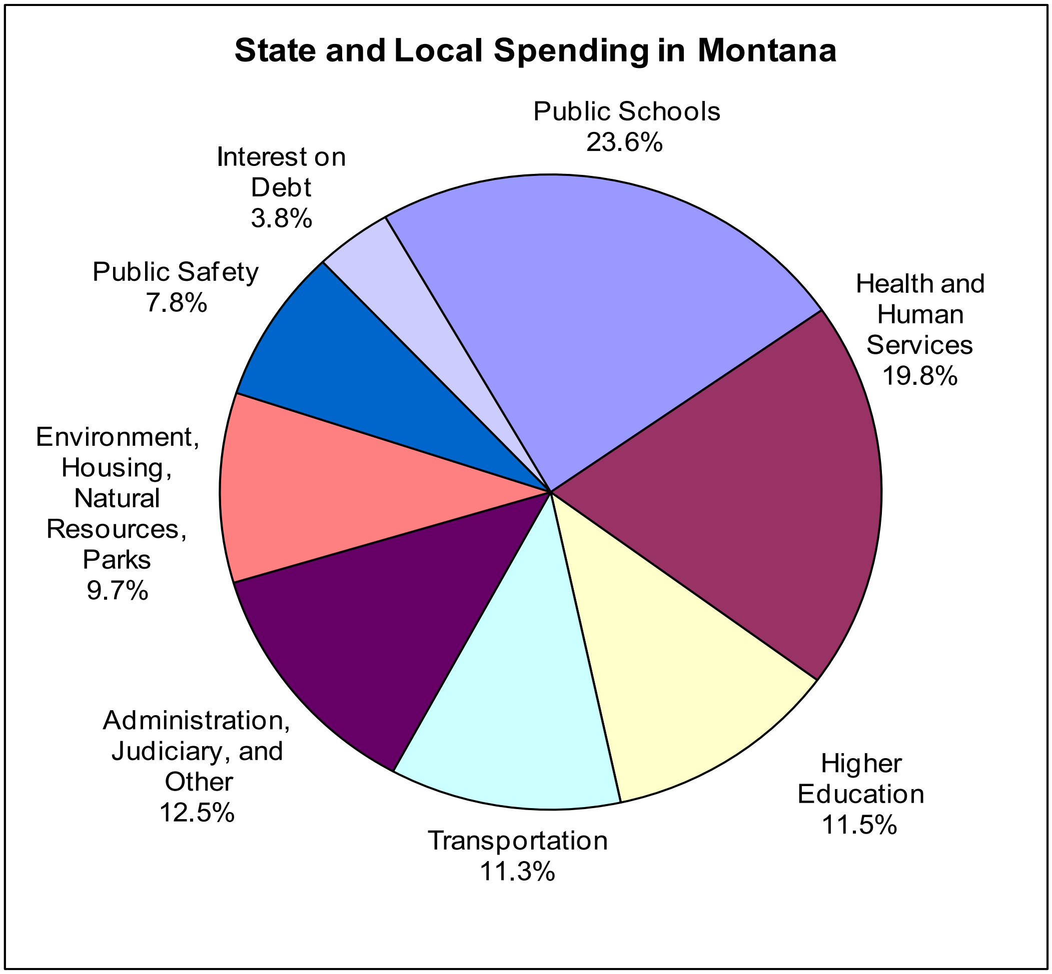
- State and local governments also receive intergovernmental transfers from the federal government, and local governments receive transfers from state governments. These transfers include federal payments to states for Medicaid and state support for local school districts. In Montana, transfers include the HB124 entitlement share payments to local governments, which replace local taxes brought to the state beginning in 2001.

State and Local Spending

The chart on the following page shows the percentage of state and local spending in Montana in each of eight general categories for the fiscal year ending June 30, 2008.[1] Education, including public schools and the university system, accounted for a little more than one-third of total spending. Health and human services accounted for about one-fifth of total spending. This includes Medicaid, public health programs, and income support programs. Other categories account for smaller shares of total spending.

A little more than half of total state and local government spending occurs at the state level, and a little less than half at the local level. The table at the bottom of the next page shows the breakdown for fiscal year 2008. It shows direct spending to provide government services, and excludes state transfers of funds to local governments and school districts.

[1] In this section, information on combined state and local spending and state and local revenue from all sources is from the U.S. Census Bureau's annual survey of state and local governments. This is the only source for combined state and local data that is collected consistently across states. For comparisons between states, it is important to use combined state and local data because taxing and spending are divided between state and local governments differently in different states. The most recent fiscal year for which the Census Bureau has compiled data is 2008. Information on Montana state and local tax collections through fiscal year 2010 is from the state accounting system and Department of Revenue records.



The next two charts on the following page show state and local spending separately. The left-hand chart shows state spending, including transfers to local governments and school districts as well as direct spending. The right-hand chart shows local spending.

Almost one-quarter of state spending is transfers to local governments and school districts.

The transfers to local governments include the local share of state-collected taxes, primarily the oil and gas production tax, and Entitlement Share payments. The local share of oil and gas tax was originally a local tax. In the 1990s, the legislature combined state and local taxes on oil and gas production into a single state-collected tax with revenue split between the state and local taxing jurisdictions. Before 2001, a large number of revenue sources, including gambling taxes and motor vehicle license fees, were split between the state and local governments. HB 124, passed by the 2001 Legislature, moved collection of almost all these taxes and fees to the state and replaced the local revenue with formula-based Entitlement Share payments.

The transfers to school districts include direct state payments for education along with school districts' shares of state-collected taxes and Entitlement Share payments.

Direct spending for public schools is primarily local. It accounts for almost half of local spending but is a very small share of state spending. Higher education spending is almost all at the state level, accounting for about 11.5% of state spending. Health and human services spending is primarily at the state level, accounting for 23% of state spending and 7% of local spending. Spending on other functions occurs at both levels.

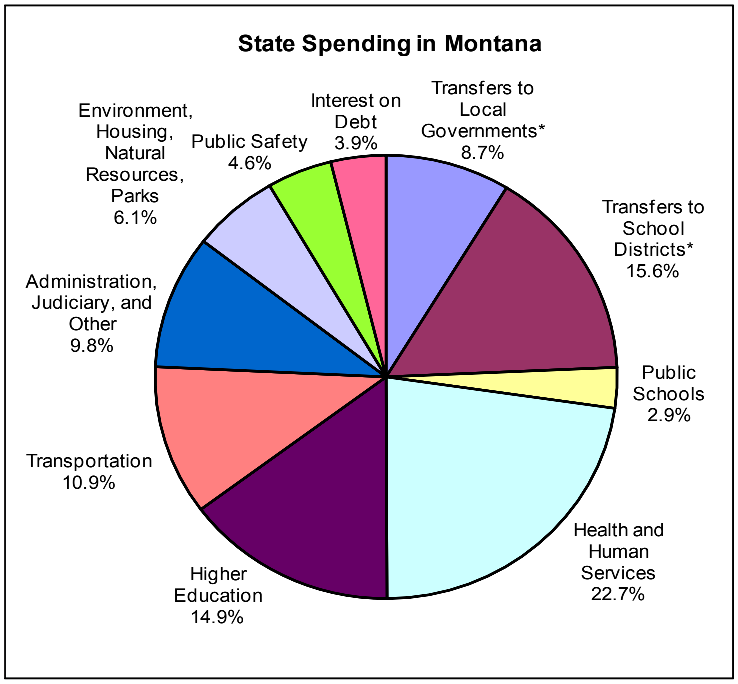
State and Local Revenue

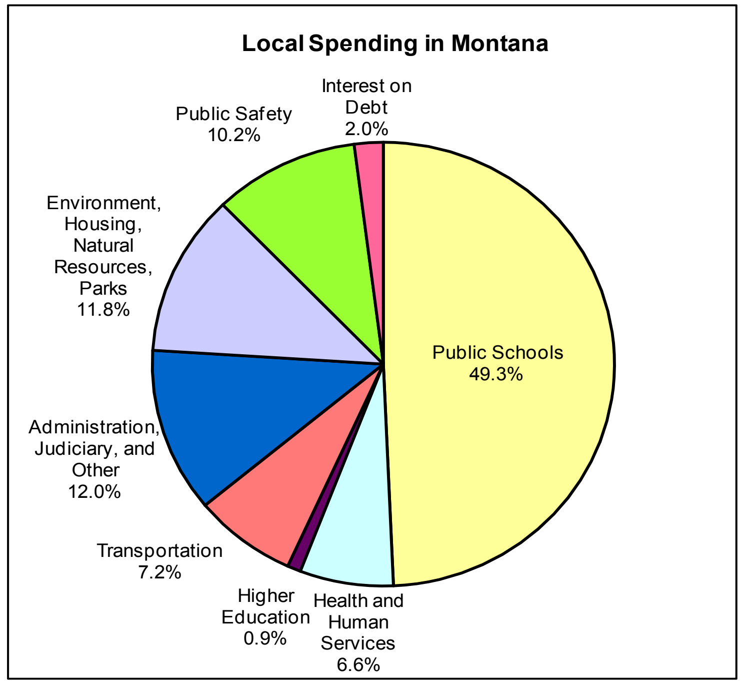
Two charts on the bottom of the next page show the sources of funds to pay for state and local spending. The bottom left-hand chart shows state government revenue, and the bottom right-hand chart shows revenue for local governments and school districts.

Taxes are the largest source of state revenue, but are a

State and Local Government Direct Expenditures on Government Services, FY 2008
(Excludes Local Government Utilities and State Liquor Enterprises)

	$ Million	% of Total
State Direct Expenditures		
(Excludes Transfers to Local Governments and School Districts)	$4,105	57%
Local Expenditures	$3,154	43%
Total	$7,250	

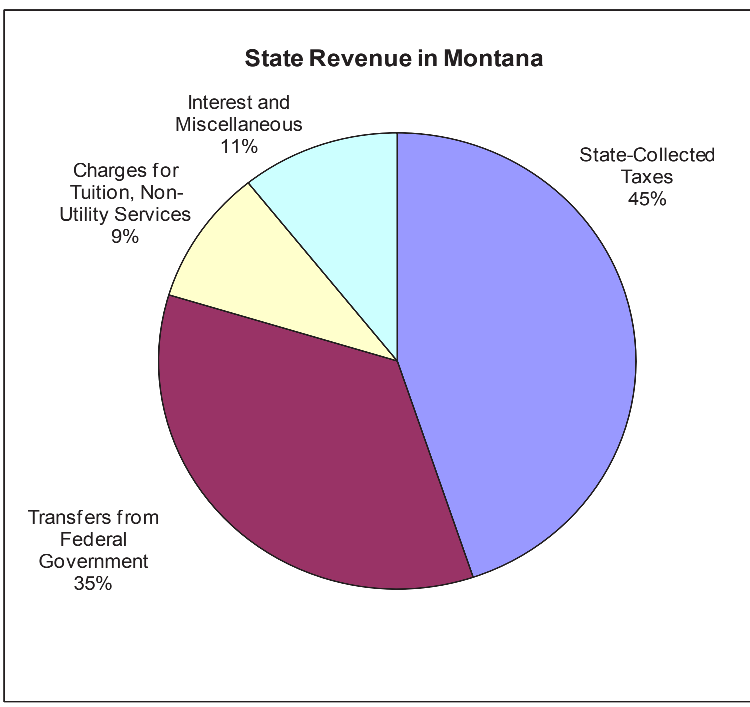


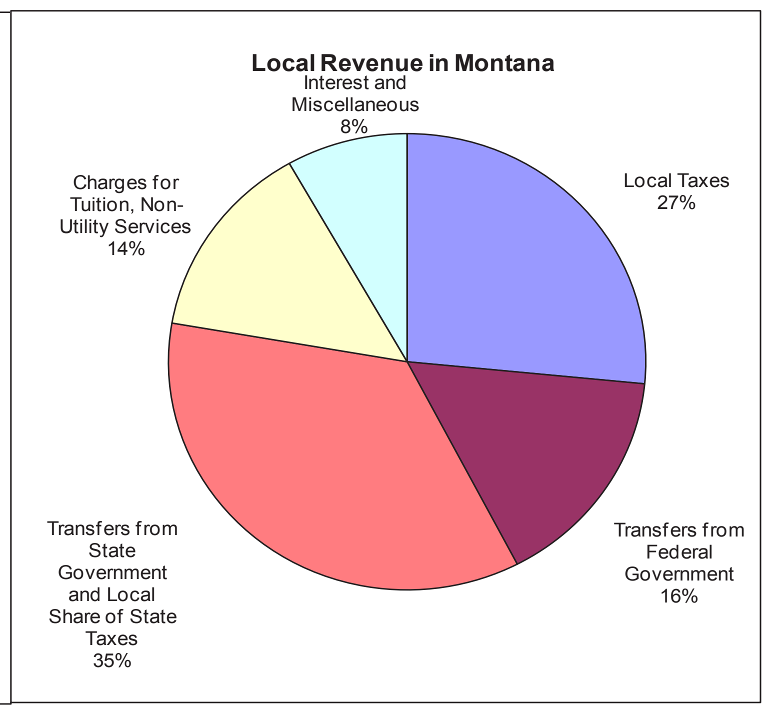


little less than half the total. Transfers from the federal government are 35% of state revenue. This includes federal funding for Medicaid and other state programs and federal education funds that are passed on to school districts. Charges and fees make up 9% of state revenue. Four-fifths of the charges and fees are university system tuition and fees. This category also includes income from state lands. Interest earnings on trust funds and other state accounts are about 5% of state revenue, and about 6% is from miscellaneous sources.

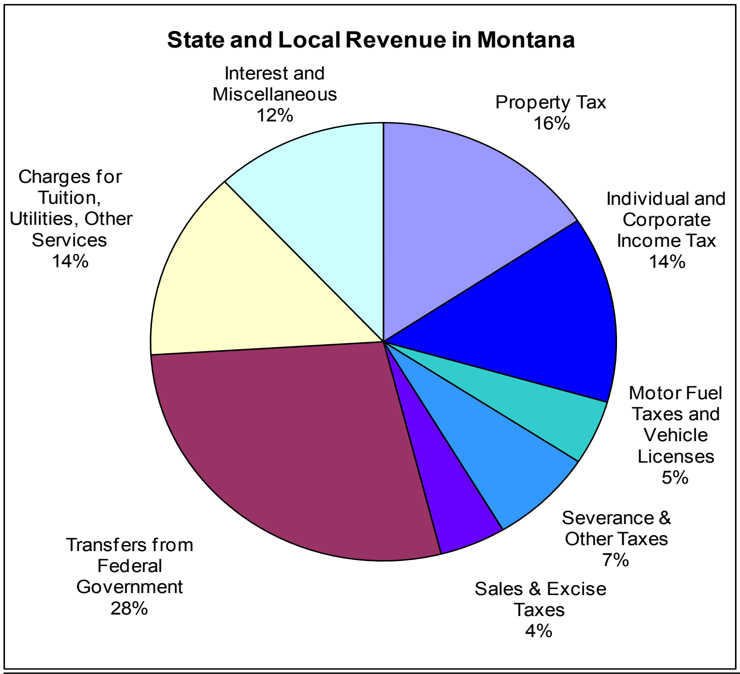
Transfers from the state and federal government, including the local share of state-collected taxes, are slightly more than half of local revenue. Local taxes are a little more than one-fourth of local revenue. Charges for local services make up 14% of local revenue. Revenue from miscellaneous sources, including interest, account for the remaining 8%.

The chart below shows combined state and local revenue, with taxes broken down into five categories. With state and local governments and school districts all





combined, transfers from the state to local governments and school districts cancel out. State and local government taxes are 46% of revenue, and transfers from the federal government are 28%. Charges for tuition and other services are 14% of state and local revenue, and interest earnings and miscellaneous are 12%.

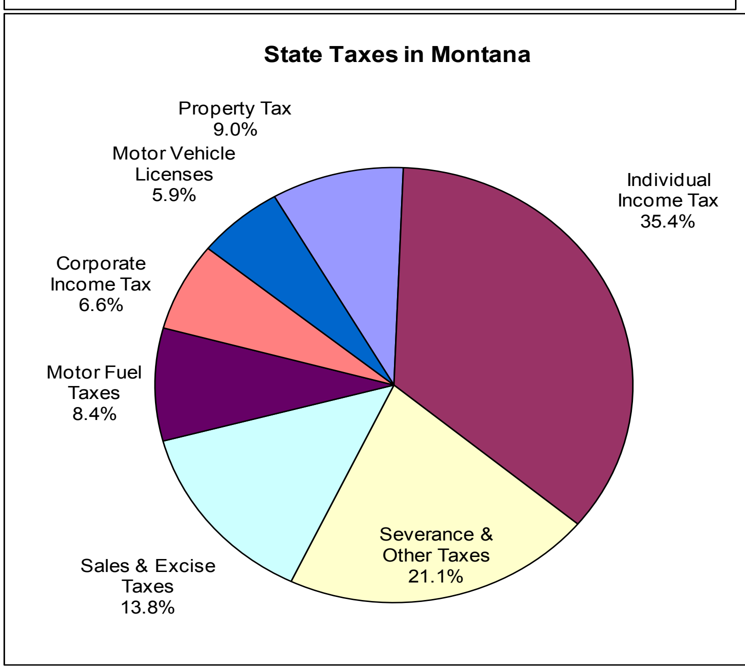


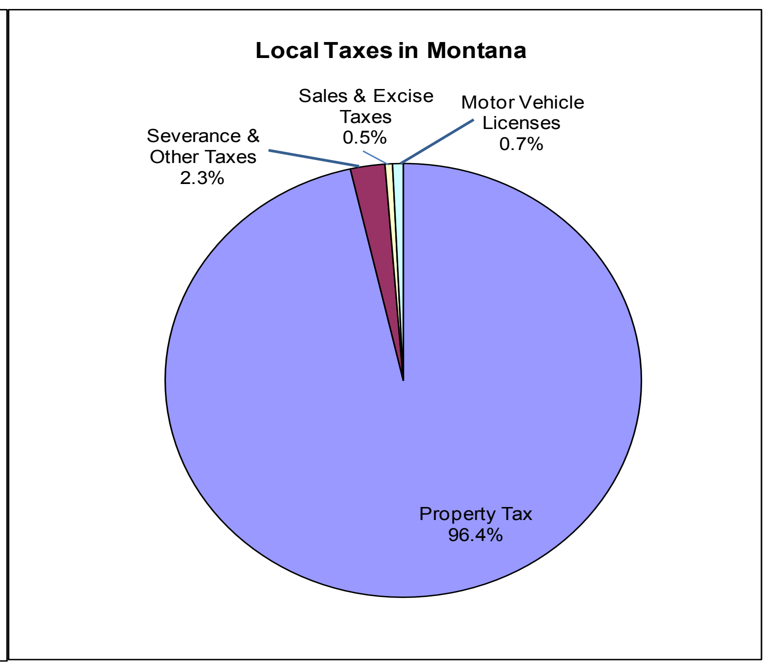
State and Local Taxes

The two pie graphs on the bottom of the page show state and local tax revenue.

The state collects a wide variety of taxes. The largest source of state tax revenue is the individual income tax. The second largest category is severance and other taxes. The oil and gas production tax is about two-thirds of this category, with the remainder composed of mining taxes and other miscellaneous taxes. While it is collected at the state level, about half of the oil and gas tax is distributed to local governments and school districts. Montana does not have a general sales tax, but selective sales taxes account for about 14% of state tax revenue. State-wide property taxes are earmarked for public schools and the university system. Revenue from the 95 mills levied for schools is deposited in the state general fund, where it covers about one-third of state funds transferred to school districts. Motor fuel taxes are earmarked for the highway system and a few, small, related uses.

Local government and school district tax collections come almost entirely from property taxes. The coal gross proceeds tax, which is the locally collected severance tax, was originally a property tax, but the legislature changed it to a flat rate tax on the value of production in 1975 so that all mines would pay the same rate. Local option sales taxes collected by resort communities and local option vehicle taxes are each less than 1% of local tax collections.



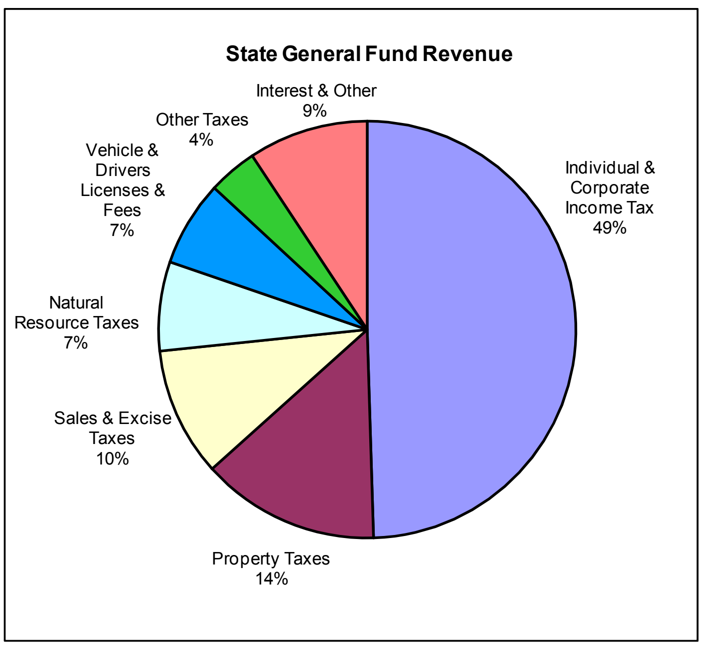


The following table shows how each type of tax was allocated between state and local governments in the fiscal year ending June 30, 2010. For the state share, it shows the allocation between the state general fund and earmarked uses. Each column shows the allocation of one type of tax. The bottom row shows the percentage of total state and local tax revenue from each type of tax. The rest of each column shows the percentage of collections of each type of tax that went to local governments, school districts, the state general fund, and various earmarked state funds in fiscal year 2008.

For taxes that are collected by the state, the table shows the share that is distributed to local governments and school districts. However, it does not reflect the fact that half of revenue going into the state general fund is distributed to local governments and school districts.

Allocation of Montana State and Local Taxes, FY 2010

	Property Tax	Individual Income Tax	Severance & Other Taxes	Sales & Excise Taxes	Motor Fuel Taxes	Corporate Income Tax	Motor Vehicle Licenses
Local							
Governments & Special Districts	39.7%	-	18.6%	0.9%	-	-	-
Schools	40.5%	-	20.9%	-	-	-	-
State							
General Fund	18.5%	100.0%	41.9%	47.6%	-	100.0%	74.0%
University System	1.2%	-	1.0%	1.0%	-	-	-
Health & Human Services	-	-	-	20.7%	-	-	-
Regulation & Agency Operations	-	-	1.2%	12.4%	-	-	3.1%
Public Safety	-	-	1.3%	3.1%	*	-	*
Transportation	-	-	-	0.1%	96.8%	-	20.4%
Environment	-	-	3.9%	0.6%	3.2%	-	-
State Buildings	-	-	2.1%	0.4%	-	-	-
Trust Funds (inc. Retirement)	-	-	9.1%	0.3%	-	-	0.2%
Parks, Recreation, Tourism	-	-	-	13.0%	-	-	2.3%
Total	100%	100%	100%	100%	100%	100%	100%
* less than 0.1%							
% of Total from Each Tax	39.0%	15.2%	6.6%	4.6%	23.2%	8.3%	2.9%



Department of Revenue Tax Collections

The table on the following page shows Department of Revenue collections of state taxes for fiscal years 2004 through 2010. For taxes where revenue is split between the state and local governments, this table shows only the state share. Details on each tax can be found in later sections of this report.

The Department of Revenue collects about 80% of state tax revenue. Other agencies that collect at least 1% of state tax revenue are the Department of Transportation (motor fuel taxes), the State Auditor's Office (insurance taxes), and the Department of Justice (gambling taxes).

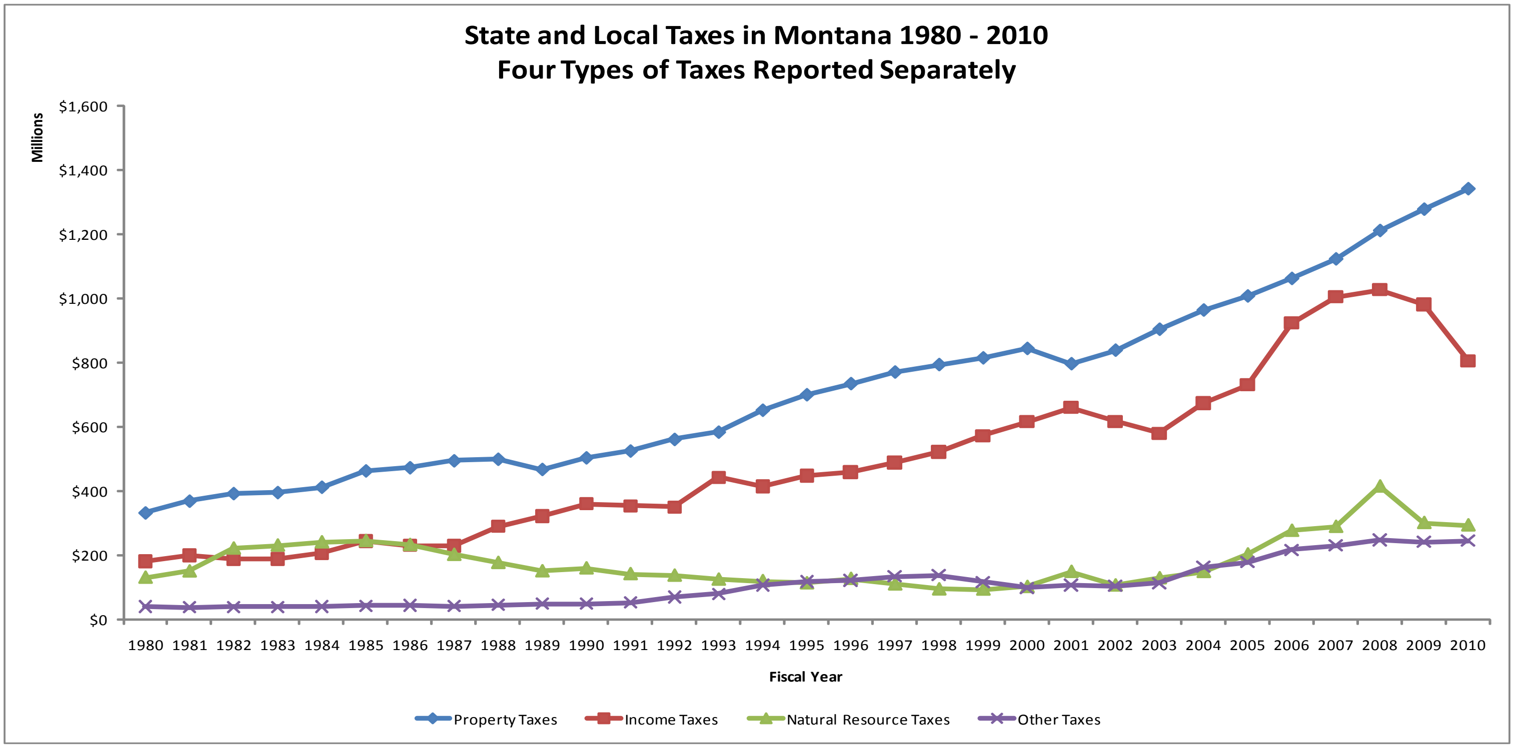
Department of Revenue State Collections - Fiscal Years 2004 - 2010

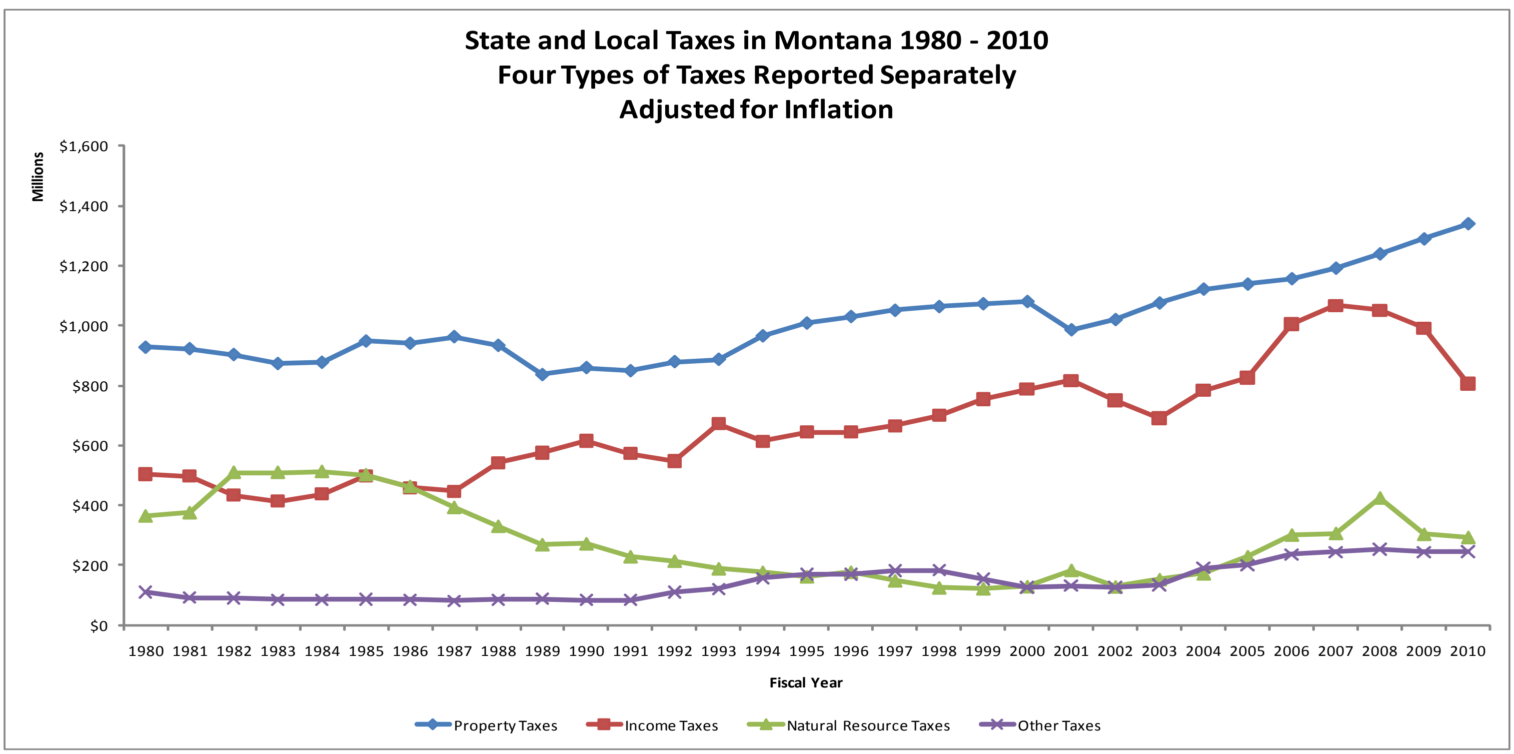
	2004	2005	2006	2007	2008	2009	2010
Individual Income Tax							
Income Tax Withheld	$ 457,863,199	$ 484,094,505	$ 542,603,278	$ 596,403,244	$ 657,958,558	$ 646,910,709	$ 644,991,064
Income Tax All Other	147,485,222	228,186,110	226,308,655	230,692,059	208,679,564	168,227,484	72,843,307
Subtotal	605,348,421	712,280,615	768,911,933	827,095,302	866,638,122	815,138,193	717,834,371
Corporation License Tax	67,722,940	98,213,717	153,675,069	177,503,707	160,341,787	166,357,514	87,906,411
Natural Resources Taxes (State Portion)							
Bentonite Tax	-	-	567,604	466,602	626,262	532,575	267,113
Coal Severance Tax	31,544,681	37,634,510	35,821,524	40,758,738	45,331,870	49,564,120	44,529,619
Oil and Gas Production Tax	47,712,085	73,748,303	107,271,911	109,507,727	169,447,392	113,398,654	107,641,181
Resource Indemnity Trust Tax	1,250,528	1,436,378	1,456,411	1,646,917	1,925,990	2,053,954	1,711,844
Metalliferous Mines License Tax	5,572,192	9,076,338	9,266,468	11,830,809	14,176,634	7,885,424	8,606,371
Subtotal	86,079,486	121,895,529	154,383,918	164,210,793	230,881,886	172,902,152	162,489,015
Other Taxes, Licenses and Services							
Cigarette Tax	41,582,823	54,765,356	80,180,236	83,380,418	83,882,748	79,905,894	77,071,487
Telecommunications Excise Tax	20,890,336	21,144,420	21,208,947	21,065,843	22,350,323	22,250,383	23,523,474
Telephone Company License Tax	28,634	31,657	16,594	-	-	-	-
Lodging Facility Use Tax	13,573,172	14,441,179	15,018,113	17,906,542	18,562,141	17,103,638	17,132,174
Inheritance/Estate Tax (Net)	11,431,103	4,190,613	1,773,169	838,865	122,148	217,097	90,544
Sales Tax - Accommodations	9,278,658	10,200,914	10,679,216	12,916,075	13,389,534	12,477,461	12,330,846
Nursing Facility Bed Tax	9,158,829	10,780,189	13,752,750	16,196,108	15,868,028	15,308,973	14,928,685
Hospital Utilization Fee	7,427,903	8,757,918	11,179,325	12,559,877	16,671,570	19,582,981	21,290,112
Emergency Telephone 911 System	5,388,386	5,733,140	6,427,739	5,960,166	12,986,143	13,249,845	13,801,647
Electrical Energy Production Tax	4,660,529	4,074,409	4,644,508	4,564,404	5,179,013	4,824,659	4,713,429
Abandoned Property	3,858,292	4,610,094	4,464,456	4,474,991	5,858,281	4,541,077	12,491,906
Tobacco Products Tax	3,625,893	6,452,429	9,118,757	9,810,138	9,872,434	10,479,063	11,210,117
Wholesale Energy Transaction Tax	3,292,659	3,370,263	3,813,495	3,651,024	3,856,112	3,864,771	3,556,056
Public Service Commission Tax	2,875,741	3,050,213	3,005,151	2,619,321	3,520,803	3,521,894	2,493,209
Sales Tax - Rental Vehicles Tax	2,485,989	2,565,554	2,755,072	2,976,235	3,157,239	2,904,340	2,807,415
Contractor's Gross Receipts Tax	2,120,485	1,410,831	4,274,649	5,566,958	5,062,659	5,929,999	6,969,395
Rail Car Tax	1,567,868	1,604,005	1,667,441	1,614,509	2,063,981	2,099,454	2,579,263
Consumer Counsel Tax	1,303,597	1,860,324	1,070,664	806,829	1,696,840	1,355,530	530,981
TDD Telecommunications Service Fee	1,086,929	1,147,153	1,185,297	1,259,944	1,320,796	1,389,821	1,361,947
Intermediate Care Utilization Fee	863,036	821,923	897,227	877,482	890,691	907,764	913,971
Other Taxes and Licenses	145,992	172,971	177,879	159,418	173,384	148,865	120,069
Subtotal	146,646,855	161,185,556	197,310,684	209,205,146	226,484,868	222,063,508	229,916,727
Liquor Taxes, Profits, and Licenses							
Liquor Profits and License Fees (to GF)	7,234,101	7,081,146	7,755,976	8,636,316	10,182,218	7,649,280	9,322,967
Liquor, Beer, and Wine Taxes	20,570,293	21,737,695	23,575,420	25,692,343	27,187,202	24,326,002	28,196,405
Subtotal	27,804,395	28,818,841	31,331,396	34,328,659	37,369,419	31,975,283	37,519,372
TOTAL COLLECTIONS	$ 933,602,096	$ 1,122,394,258	$ 1,305,613,000	$ 1,412,343,608	$ 1,521,716,082	$ 1,408,436,650	$ 1,235,665,896

The two graphs on the following page show total collections of taxes, divided into four categories, for fiscal years 1980 through 2010. The first shows the actual amount of collections each year. The second shows collections adjusted for inflation, with each year's collections shown in terms of their value in 2010.

The four categories are:

Property Taxes • Taxes based on mill levies • SID and RID fees • Other fees	Income Taxes • Individual Income Tax • Corporation License Tax
Natural Resource Taxes • Coal Severance Tax • Coal Gross Proceeds Tax • Metal Mines License Tax • Metal Mines Gross Proceeds Tax	• Miscellaneous Mines Net Proceeds Tax • Bentonite Tax • Oil and Natural Gas Production Tax • Resource Indemnity and Groundwater Assessment Tax • Cement and Gypsum Taxes
Other Taxes • Lodging Facility Use Tax • Accommodations Sales Tax • Rental Vehicle Tax • Cigarette Tax • Tobacco Products Tax • Cigarette Seller Licenses • Liquor License Tax • Liquor Excise Tax • Beer Tax • Wine Tax • Alcoholic Beverage License Fees • Telephone Company Tax and Retail Telecommunications Excise Tax	• Emergency Telephone System Fee • TDD Telecommunications Fee • Electrical Energy Producers' License Tax • Wholesale Energy Transaction Tax • Consumer Counsel Tax • Public Service Commission Tax • Unclaimed Property • Public Contractors' Gross Receipts Tax • Inheritance and Estate Taxes • Nursing Facility Bed Tax • Intermediate Care Facility Utilization Fee • Hospital Facility Utilization Fee • Rail Car Tax


State and Local Taxes in Montana 1980 - 2010
Four Types of Taxes Reported Separately
Millions
$1,600
$1,400
$1,200
$1,000
$800
$600
$400
$200
$0
1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010
Fiscal Year
Property Taxes
Income Taxes
Natural Resource Taxes
Other Taxes


State and Local Taxes in Montana 1980 - 2010
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Millions
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$800
$600
$400
$200
$0
1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010
Fiscal Year
Property Taxes
Income Taxes
Natural Resource Taxes
Other Taxes

Mix of Taxes and Spending in Montana and Other States

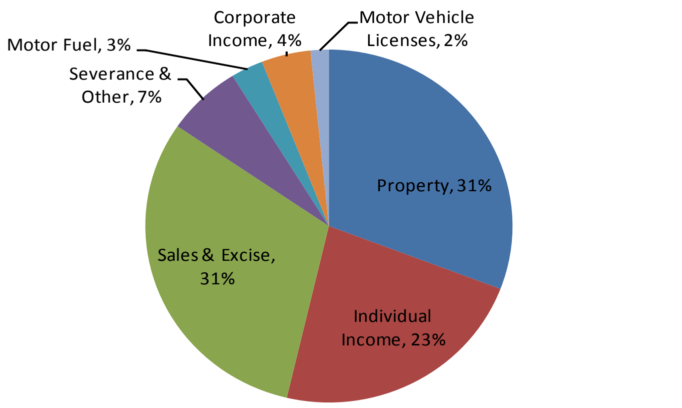
The charts on the next page show the mix of taxes in fiscal year 2008 for Montana, the average of all fifty states, Idaho, North Dakota, South Dakota, and Wyoming. The charts on the following page show the mix of state and local spending for the same states.

The chart in the upper left corner of the next page shows the average percentage of tax revenue from each type of tax for all states. Property taxes, sales taxes, and individual income taxes together account for 84% of state and local tax revenue. This combination of taxes is often referred to as the "three legged stool" of state and local taxation.

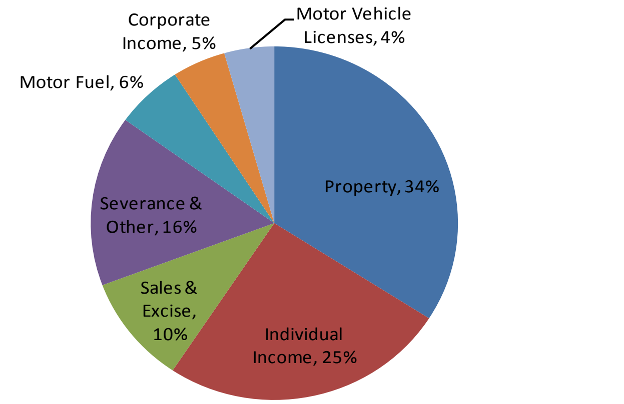
Compared to the average, Montana gets a much smaller share of tax revenue from sales and excise taxes and a somewhat larger share from each of the other types.

Of the four neighboring states, only Idaho looks like the average state. North Dakota receives about average proportions from property taxes and sales taxes but a much smaller than average proportion from the income tax. This is offset by a much higher than average proportion from the severance and other taxes category. South Dakota and Wyoming do not have individual income taxes and Wyoming does not have a corporate income tax. South Dakota compensates by receiving a somewhat higher proportion of tax revenue from property taxes and a much higher proportion from the sales tax. Wyoming receives a much higher-than-average proportion of tax revenue from the severance and other category.

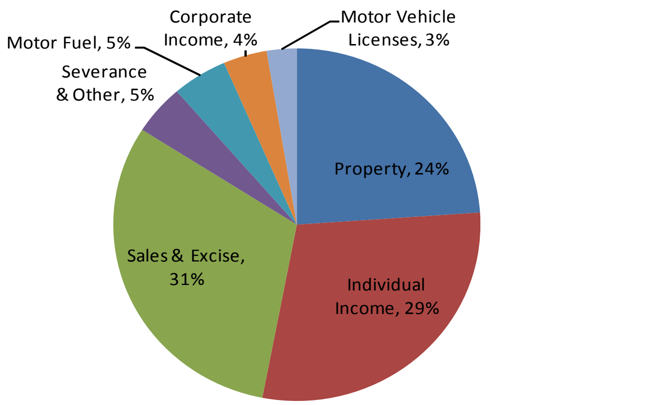
The mix of spending shows much smaller differences between states. All of the states in the region devote a slightly smaller-than-average share of spending to public schools but, except for Wyoming, a larger-than-average share of spending to higher education. Montana and the Dakotas devote a smaller-than-average share of spending to health and human services while Idaho and Wyoming are slightly higher than average. Transportation's share of spending is slightly higher than average in all the states in the region.



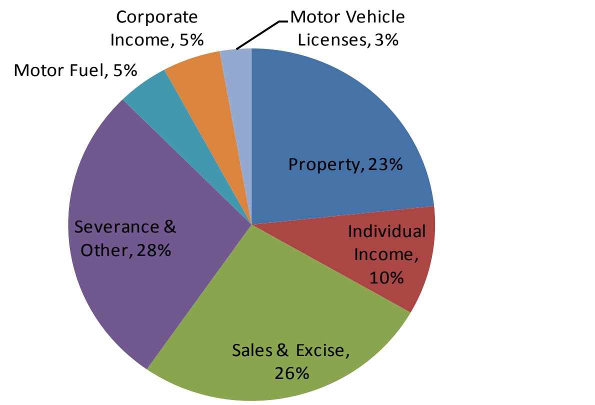
Average of all Fifty States



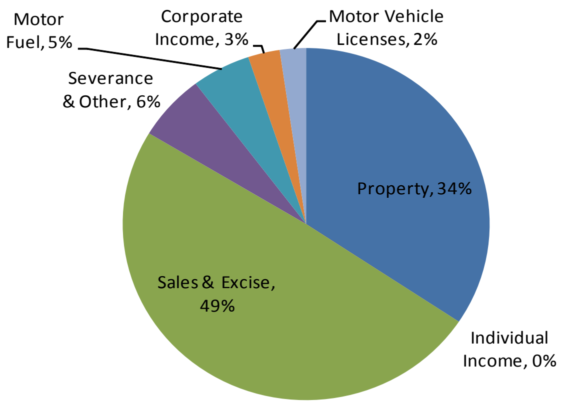
Montana



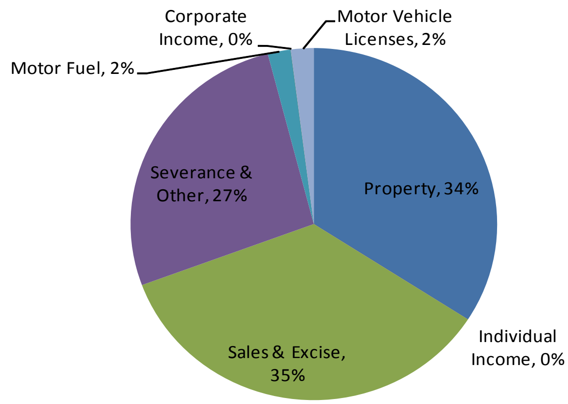
Idaho



North Dakota

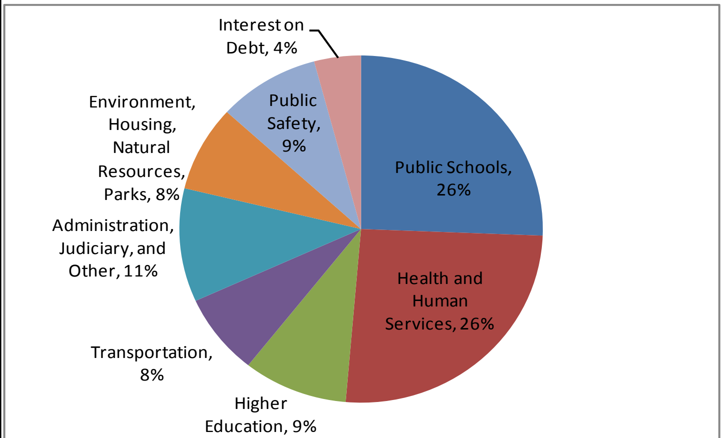


South Dakota

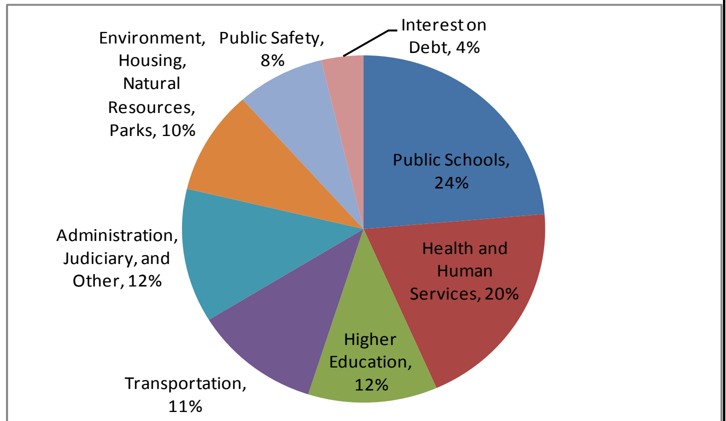


Wyoming

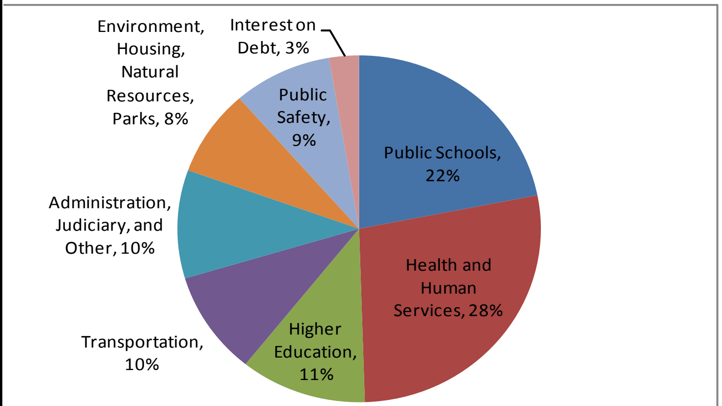
State and Local Spending in Montana and Surrounding States



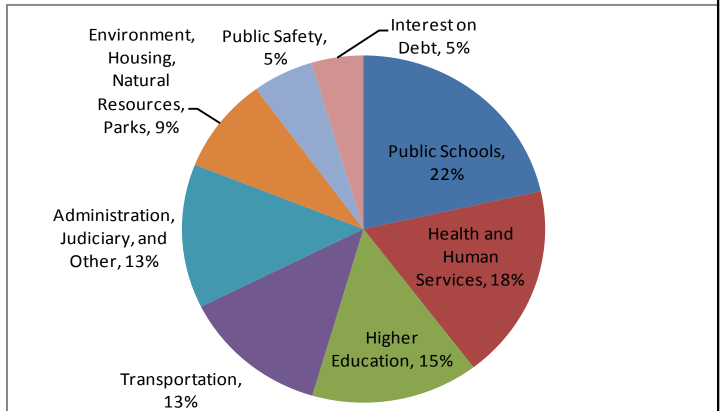
Average of all Fifty States



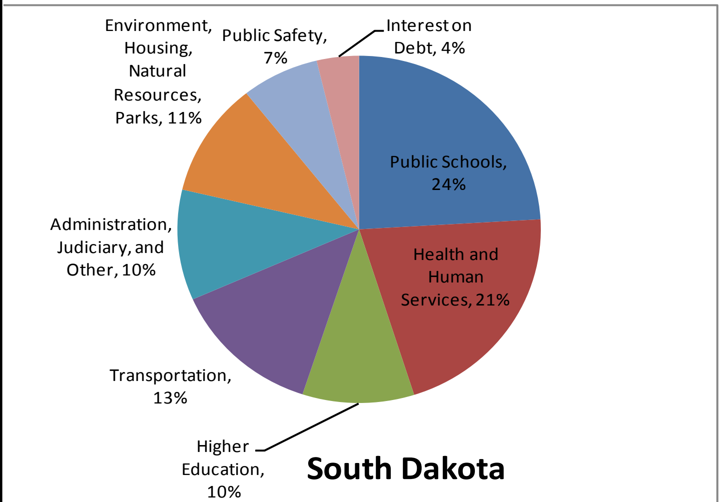
Montana



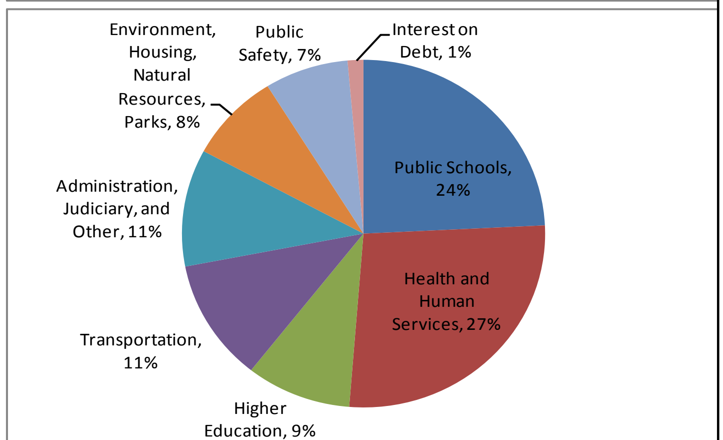
Idaho



North Dakota



South Dakota



Wyoming

There are many ways to compare state tax systems, and there is no single best comparison.[2] State taxes affect people and businesses differently, and a tax system that is attractive to one person or business may be unattractive to another. For example, a family with a large mortgage may benefit from itemized deductions for property taxes and home mortgage interest while a family that lives in an apartment would not. A business with a large investment in buildings and fixed equipment may prefer a location with low property taxes even if it has a high sales tax, while a business with few fixed assets but large expenses for supplies may prefer the opposite.

This section presents an analysis of Montana taxes based on the ideas in the National Conference of State Legislatures' (NCSL) *Principles of a High Quality State Revenue System*. The NCSL first published this document in 1992 and has updated it several times since then.[3] The NCSL's nine principles can be paraphrased as follows:

1. The elements are complementary rather than contradictory. Individual state taxes should harmonize with each other, and state and local taxes should complement each other rather than conflict.

2. Revenue should be reliable for both government and taxpayers. Revenue should be adequate to fund state and local government functions, and there should not be wide fluctuations in revenue from one year to the next. Taxpayers should not face frequent and significant changes in tax rates and structures.

3. There should be a balanced mix of revenue sources. All taxes have strengths and weaknesses, and a system with multiple taxes is more likely to be able to offset the weaknesses of one with the strengths of another. Multiple taxes also allow lower rates for individual taxes.

4. The revenue system should be fair. While there are many disagreements about tax fairness, there are a few widely accepted principles. Taxpayers in similar circumstances should pay similar taxes. The ratio of taxes to income should not fall as income rises. And, taxes on low-income people should be low.

5. Taxes should be easy to understand and easy to comply with.

6. Taxes should be easy to administer in a fair, efficient, and effective manner.

7. A state's taxes should be competitive with taxes in other states and countries while financing a competitive level of infrastructure and public services. Competitiveness should be measured by the state's entire package of taxes and public services, not by the special treatment given to specific groups of taxpayers.

8. A high quality revenue system minimizes its impacts on taxpayer decisions and state budgeting decisions, and any such impacts should be explicit. Tax systems affect taxpayer decisions by imposing higher taxes on some activities than on others. Sometimes this is intentional, as with itemized deductions and targeted tax credits, and sometimes it is an unintended consequence of adopting certain types of taxes. Tax systems affect budgeting decisions primarily through earmarking of particular taxes.

9. A high quality revenue system is accountable to taxpayers. The processes for setting and changing taxes should be public and accessible. Taxpayers should be aware of the taxes they pay, and special provisions of the tax code should be reviewed regularly.

For each of the NCSL's principles, the rest of this section presents information on ways that Montana either conforms to or differs from the principle. Where possible, it

[2] A number of organizations publish state tax comparisons that reflect the particular interests of that organization. For example, The Tax Foundation (www.taxfoundation.org) publishes an annual "State Business Tax Climate Index," The Institute on Taxation and Economic Policy (www.itepnet.org) periodically publishes "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," The Council on State Taxation (www.cost.org) publishes an annual report "Total State and Local Business Taxes," and the Office of the Chief Financial Officer of the District of Columbia(cfo.dc.gov) publishes an annual report "Tax Rates and Tax Burdens in the District of Columbia – A Nationwide Comparison."

[3] The latest version, updated in 2007, can be found on the NCSL website at http://www.ncsl.org/IssuesResearch/BudgetTax/PrinciplesofaHighQualityStateRevenueSystem/tabid/12673/Default.aspx.

also compares Montana to the other states.

Complementary

The Principles document lists several ways that state and local taxes can fail to be complementary: State and local governments may compete for the same tax base, the state may impose spending mandates on local governments, and the state may limit local governments' ability to provide the level of services that citizens want and are willing to pay for.

In Montana, both the state and local governments levy property taxes, so there is some degree of competition for tax base. Property taxes on oil and natural gas, coal, and bentonite have been replaced by taxes with fixed rates. The state collects taxes on oil and gas and bentonite and distributes a share to the counties where minerals were produced. Counties collect the coal gross proceeds tax and send a share to the state. In the past, the state and local governments shared a variety of other taxes, including gambling taxes, vehicle license fees, and the corporation license tax. The 2001 Legislature replaced this with a system where these taxes are paid to the state, and local governments and school districts receive fixed Entitlement Share payments.

The state places restrictions on local spending, but does not mandate specific spending levels. The state places minimum and maximum spending limits on school districts, but also provides direct funding to school districts and subsidizes property taxes for districts with low taxable value per student. The state places a limit on annual property tax revenue growth for each taxing jurisdiction, but allows increases above the limit from voter-approved levies.

The main restriction the state places on local governments is on the type of taxes they can levy. Almost all local tax revenue comes from property taxes. The few jurisdictions that qualify as resort communities or areas can levy a local option sales tax. Counties can levy a local option motor fuel tax of up to $0.02 per gallon to be used for road construction and maintenance, but none do. Counties can, and do, levy a limited local option tax on motor vehicles.

Reliable

The Principles document gives three aspects of reliability: revenue does not fluctuate too much, taxpayers are not subject to frequent rate and base changes, and revenue grows at about the same rate as desired spending.

The following graph compares the variability over time of state and local tax revenue across states. It shows states and the District of Columbia ranked by a measure of the relative variability[4] of revenue growth over the period 1993 to 2008. Montana is highlighted in blue, and the four surrounding states have darker shading than other states.

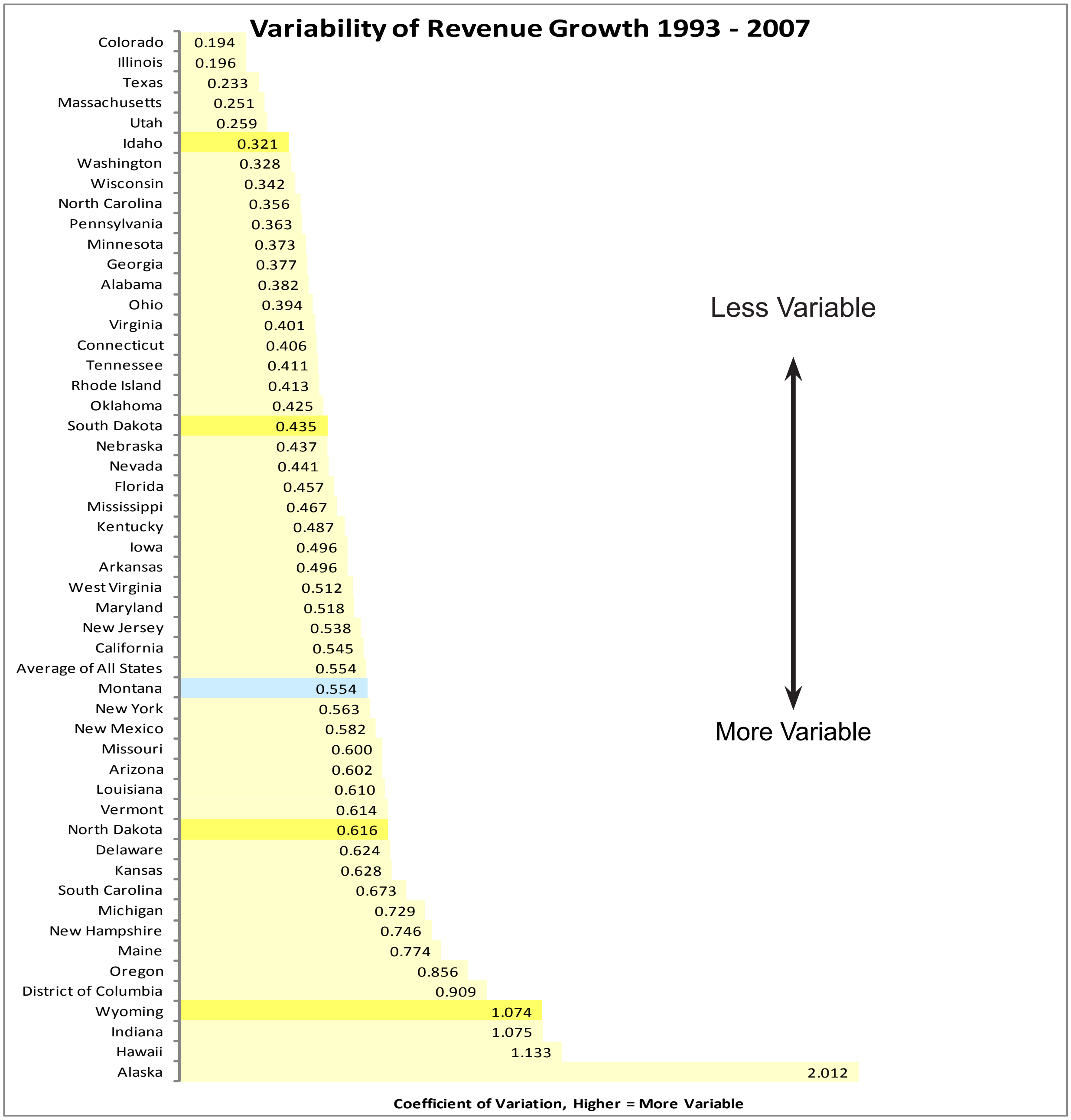
Montana ranks 32nd, with slightly higher-than-average variability. The stability of a state's revenue depends on its tax structure and on how that structure interacts with the state's economy. In general, states with the most volatile taxes tend to have less diverse tax structures and to be more dependent on volatile taxes such as corporation tax and severance taxes.

Balance

The Principles document states that "All taxes have their advantages and disadvantages, but reliance on a diverse assortment can cancel out their biases." An unbalanced tax system relies on one or two taxes for most of its revenue. The next set of graphs on the following page compare states on their share of taxes from the largest tax type and from the two largest tax types.

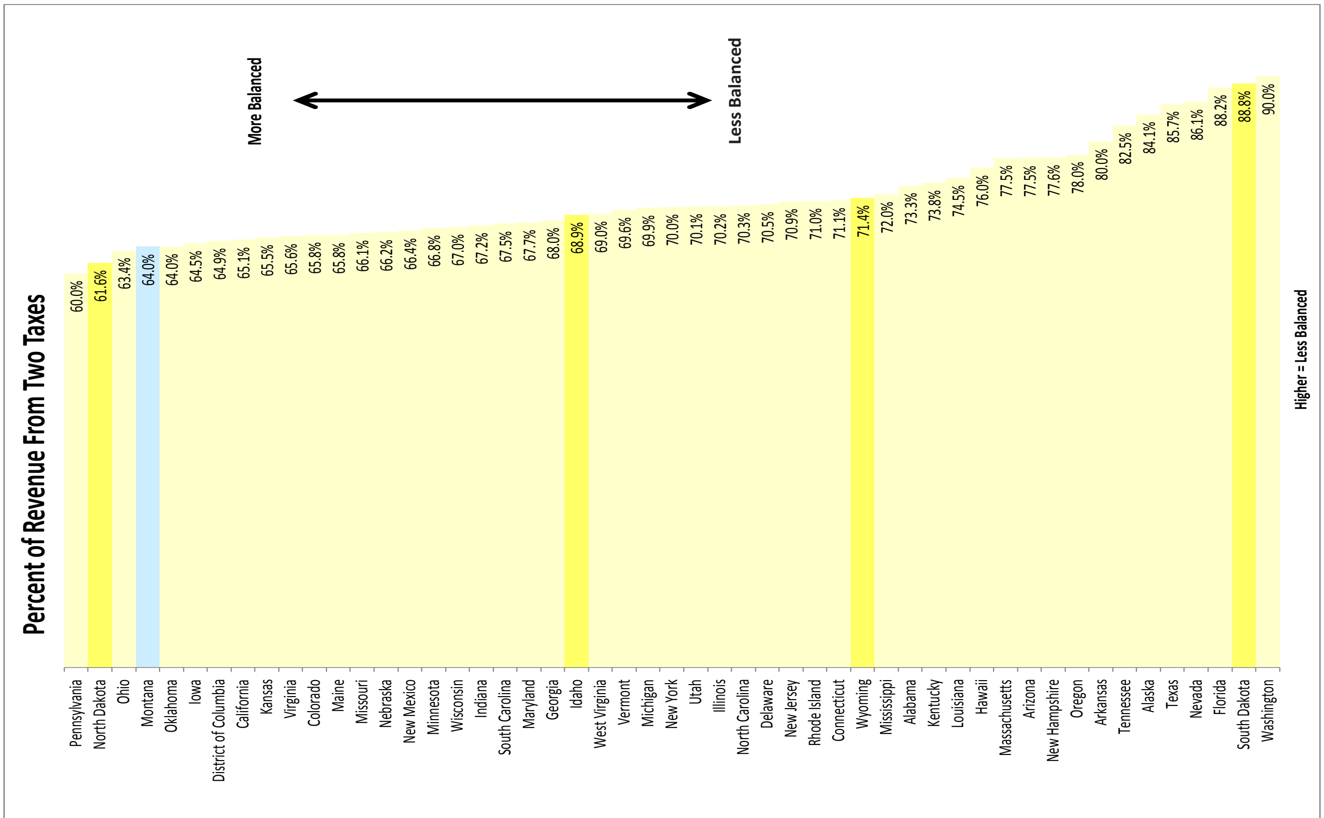
The conventional view is that a balanced tax system would get most of its revenue from the "three-legged stool" of income, property, and sales taxes, but balance can be achieved in other ways. Despite not having a general sales tax, Montana has one of the more balanced tax systems, as measured by the percent of revenue from one or two taxes, with 34% from one tax and 64% from two taxes. For Montana, selective sales and excise taxes and severance taxes together make up about the same share of revenue as general sales taxes do for other states

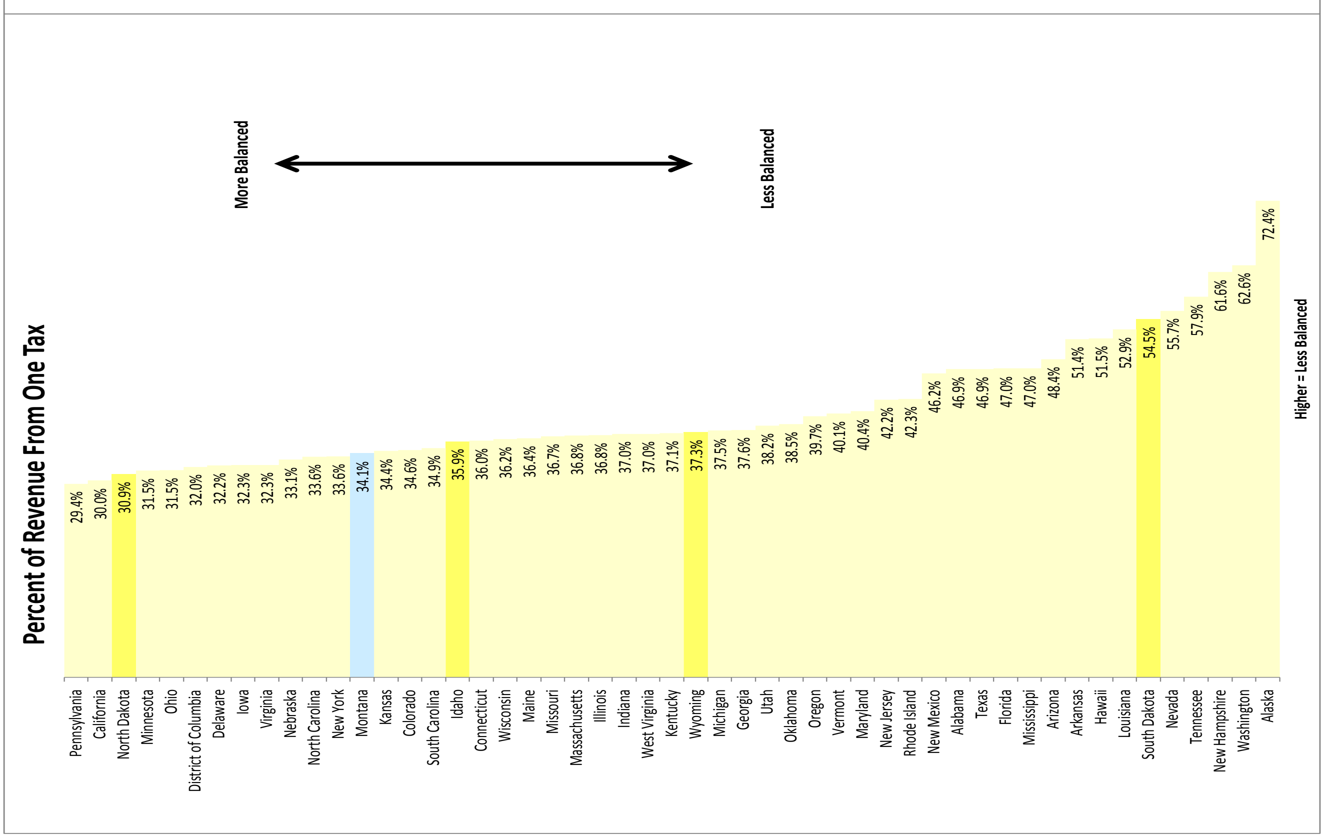
[4] The coefficient of variation is a measure of relative variability. A higher CV indicates that the variation in annual growth rates is a larger percentage of the average growth rate.



Equity

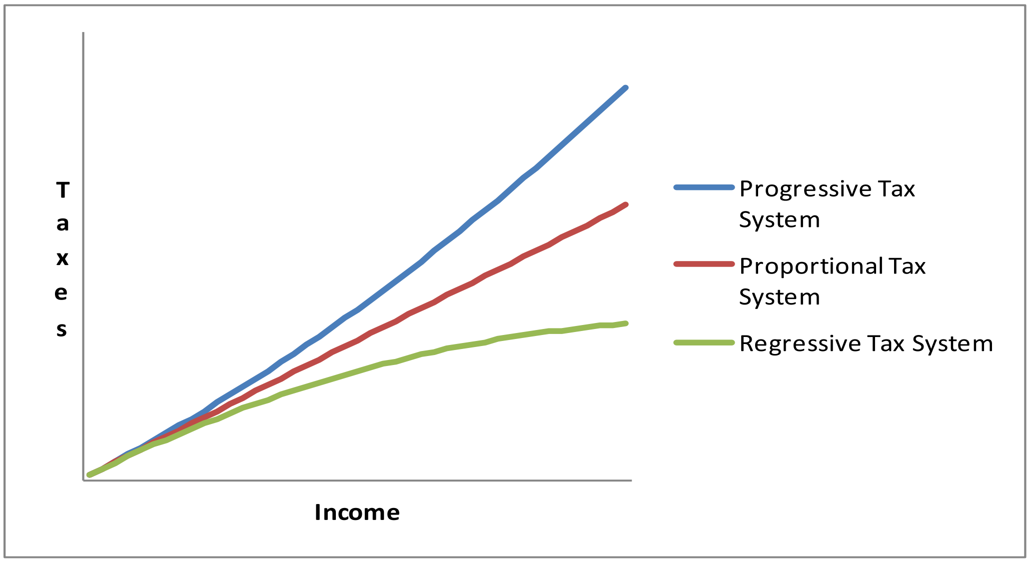
The Principles document recognizes that views on equity differ, but gives three minimal principles of tax equity: taxpayers in similar circumstances should pay similar taxes, regressivity should be minimized, and taxes on low-income individuals should be minimized. A tax system is defined to be proportional if the ratio of taxes to income is the same for taxpayers with different income. It is progressive if the ratio of taxes to income is higher for taxpayers with higher incomes and regressive if the ratio of taxes to income is lower for taxpayers with higher incomes.


Percent of Revenue From Two Taxes
More Balanced
Less Balanced
Higher = Less Balanced
Pennsylvania 60.0%
North Dakota 61.6%
Ohio 63.4%
Montana 64.0%
Oklahoma 64.0%
Iowa 64.5%
District of Columbia 64.9%
California 65.1%
Kansas 65.5%
Virginia 65.6%
Colorado 65.8%
Maine 65.8%
Missouri 66.1%
Nebraska 66.2%
New Mexico 66.4%
Minnesota 66.8%
Wisconsin 67.0%
Indiana 67.2%
South Carolina 67.5%
Maryland 67.7%
Georgia 68.0%
Idaho 68.9%
West Virginia 69.0%
Vermont 69.6%
Michigan 69.9%
New York 70.0%
Utah 70.1%
Illinois 70.2%
North Carolina 70.3%
Delaware 70.5%
New Jersey 70.9%
Rhode Island 71.0%
Connecticut 71.1%
Wyoming 71.4%
Mississippi 72.0%
Alabama 73.3%
Kentucky 73.8%
Louisiana 74.5%
Hawaii 76.0%
Massachusetts 77.5%
Arizona 77.5%
New Hampshire 77.6%
Oregon 78.0%
Arkansas 80.0%
Tennessee 82.5%
Alaska 84.1%
Texas 85.7%
Nevada 86.1%
Florida 88.2%
South Dakota 88.8%
Washington 90.0%


Percent of Revenue From One Tax
More Balanced
Less Balanced
Higher = Less Balanced
Pennsylvania 29.4%
California 30.0%
North Dakota 30.9%
Minnesota 31.5%
Ohio 31.5%
District of Columbia 32.0%
Delaware 32.2%
Iowa 32.3%
Virginia 32.3%
Nebraska 33.1%
North Carolina 33.6%
New York 33.6%
Montana 34.1%
Kansas 34.4%
Colorado 34.6%
South Carolina 34.9%
Idaho 35.9%
Connecticut 36.0%
Wisconsin 36.2%
Maine 36.4%
Missouri 36.7%
Massachusetts 36.8%
Illinois 36.8%
Indiana 37.0%
West Virginia 37.0%
Kentucky 37.1%
Wyoming 37.3%
Michigan 37.5%
Georgia 37.6%
Utah 38.2%
Oklahoma 38.5%
Oregon 39.7%
Vermont 40.1%
Maryland 40.4%
New Jersey 42.2%
Rhode Island 42.3%
New Mexico 46.2%
Alabama 46.9%
Texas 46.9%
Florida 47.0%
Mississippi 47.0%
Arizona 48.4%
Arkansas 51.4%
Hawaii 51.5%
Louisiana 52.9%
South Dakota 54.5%
Nevada 55.7%
Tennessee 57.9%
New Hampshire 61.6%
Washington 62.6%
Alaska 72.4%

The graph to the right illustrates these concepts. The red line shows a proportional tax system, where taxes are the same proportion of income at all income levels. The blue line shows a progressive tax system, where taxpayers with *higher* incomes pay a higher percentage of their income in taxes. The green line shows a regressive tax system, where taxpayers with *lower* incomes pay a higher percentage of their income in taxes.

The graph on the left side of the next page shows a measure of progressivity or regressivity, the Suits index, for each of the fifty states and the District of Columbia.[5] The Suits index is positive for a progressive tax system, zero for a proportional tax system, and negative for a regressive tax system. A larger negative number indicates a more regressive tax system.



As the graph shows, all state tax systems are regressive – taxpayers with higher incomes pay a smaller portion of their income in taxes. While state income taxes often are progressive, in all states except Delaware, property and sales taxes together generate more revenue than the income tax.

Property taxes are regressive because while higher-income earners typically have more expensive houses, taxpayers' personal real estate holdings generally do not increase proportionally with their income. Taxpayers with higher incomes are more likely to own business property, but property taxes, like other costs, generally are passed along to customers.

Sales taxes generally are regressive because services and other non-taxable purchases make up a larger percentage of higher-income taxpayers' spending and because higher-income taxpayers typically spend a smaller fraction of their income. Higher-income taxpayers are more likely to be accumulating wealth, i.e. saving, both in any year and over their lifetimes.

Montana has one of the less regressive tax systems as measured by the Suits index.

The right-hand graph on the next page compares the percentage of income going to state and local taxes for the lowest quintile of taxpayers in terms of income to the percentage for all taxpayers. The number for a state is less than one if low-income taxpayers pay a smaller share of their income in state and local taxes than taxpayers as a whole. It is more than one if low-income taxpayers pay a larger share of their income in state and local taxes.

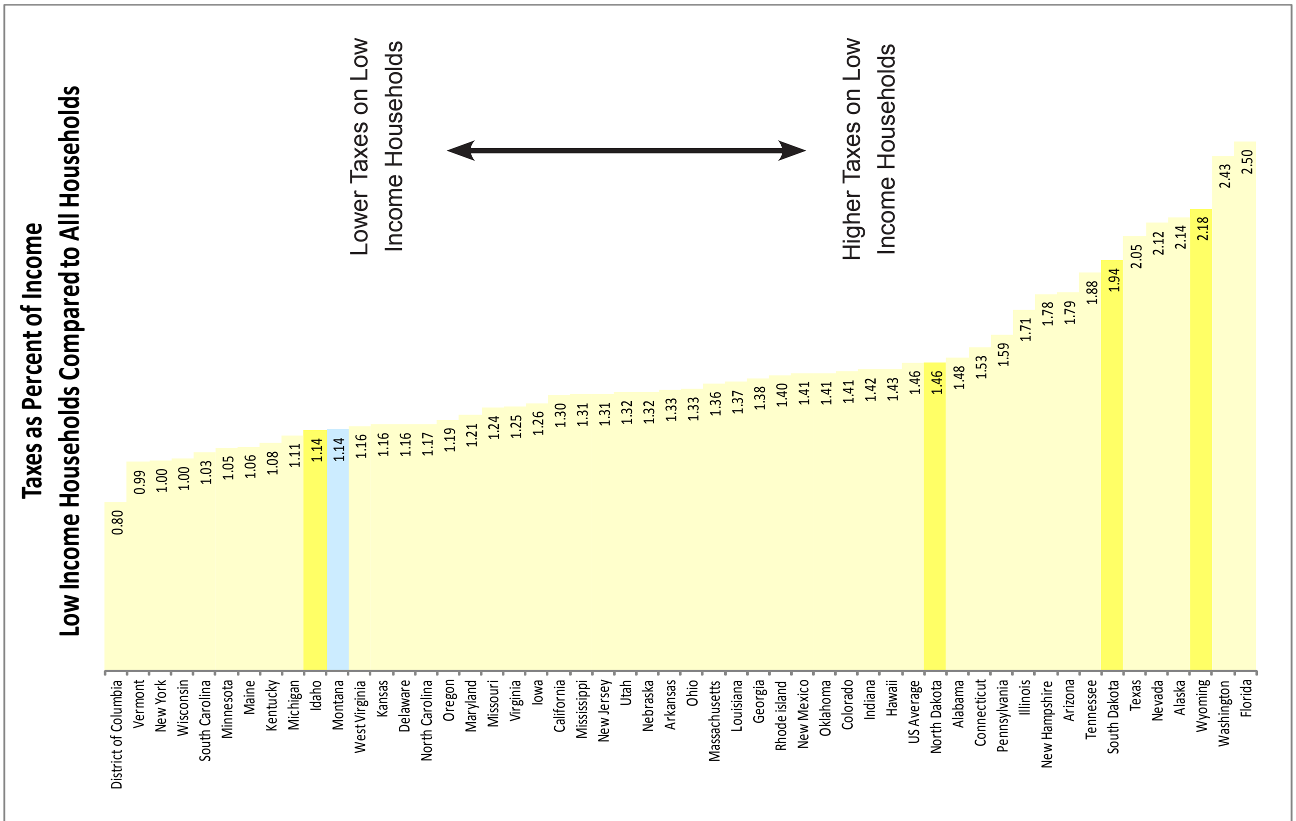
Montana low-income taxpayers pay 1.14 times as much a share of their income in state and local taxes as taxpayers as a whole. This is one of the lower ratios, and well below the national average of 1.46. There are four states where the ratio is 1 or less. The seven states with no income tax have the highest ratios, with low income taxpayers paying at least twice as much a share of their income in state and local taxes in six of the seven.

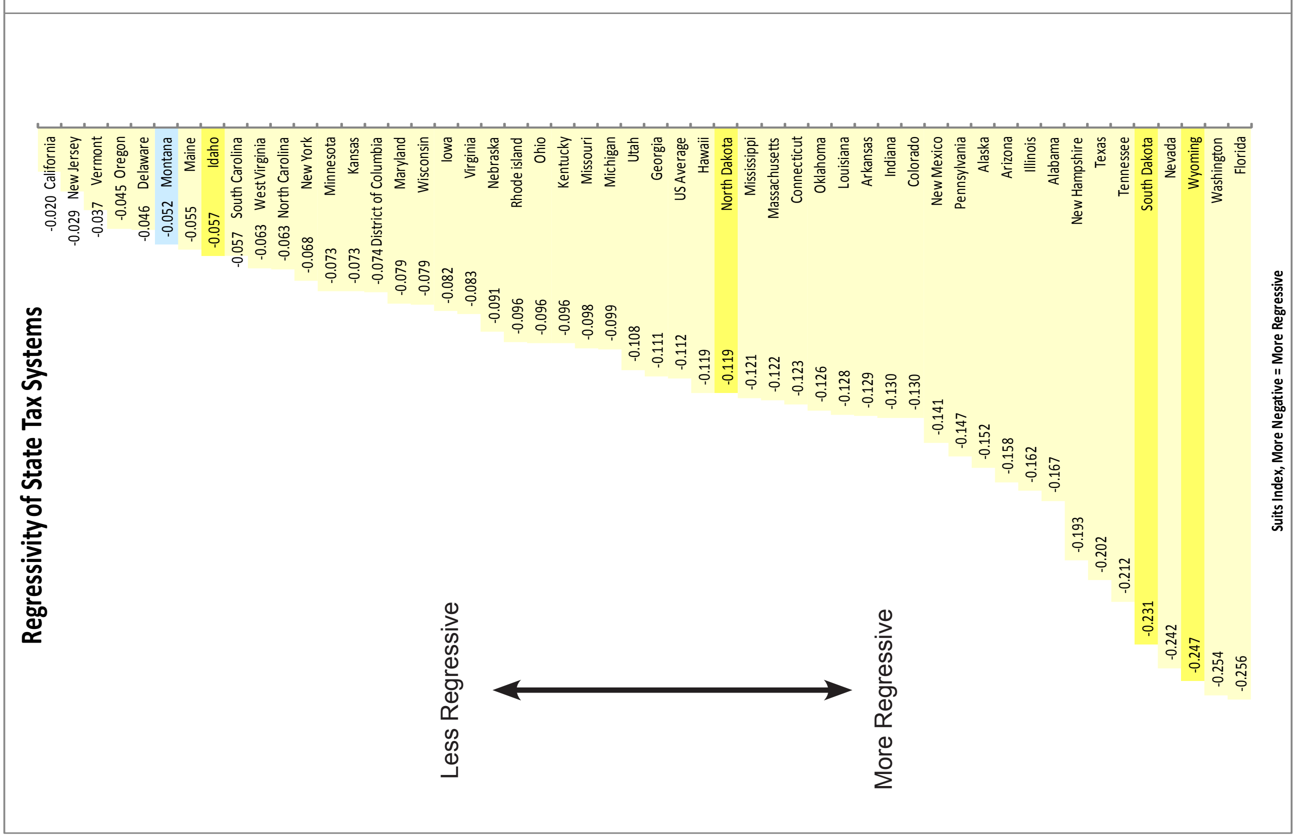
Simplicity

Two of the principles relate to the simplicity or complexity of a tax system: It should be easy for taxpayers to understand and comply with, and it should be easy to administer.

Rather than try to give a single measure of simplicity, this section explains how Montana compares to other states on a tax by tax basis. Overall, Montana's tax system may be simpler than many states because it does

[5] Both are calculated from information in Carl Davis, Kelly Davis, Matthew Gardner, Robert S. McIntyre, Jeff McLynch, and Alla Sapozhnikova, Who Pays: A Distributional Analysis of the Tax Systems in All 50 States, 3rd ed,, Institute on Taxation & Economic Policy, 2009.


Taxes as Percent of Income
Low Income Households Compared to All Households
Lower Taxes on Low Income Households
Higher Taxes on Low Income Households
District of Columbia 0.80
Vermont 0.99
New York 1.00
Wisconsin 1.00
South Carolina 1.03
Minnesota 1.05
Maine 1.06
Kentucky 1.08
Michigan 1.11
Idaho 1.14
Montana 1.14
West Virginia 1.16
Kansas 1.16
Delaware 1.16
North Carolina 1.17
Oregon 1.19
Maryland 1.21
Missouri 1.24
Virginia 1.25
Iowa 1.26
California 1.30
Mississippi 1.31
New Jersey 1.31
Utah 1.32
Nebraska 1.32
Arkansas 1.33
Ohio 1.33
Massachusetts 1.36
Louisiana 1.37
Georgia 1.38
Rhode Island 1.40
New Mexico 1.41
Oklahoma 1.41
Colorado 1.41
Indiana 1.42
Hawaii 1.43
US Average 1.46
North Dakota 1.46
Alabama 1.48
Connecticut 1.53
Pennsylvania 1.59
Illinois 1.71
New Hampshire 1.78
Arizona 1.79
Tennessee 1.88
South Dakota 1.94
Texas 2.05
Nevada 2.12
Alaska 2.14
Wyoming 2.18
Washington 2.43
Florida 2.50


Regressivity of State Tax Systems
Less Regressive
More Regressive
-0.020 California
-0.029 New Jersey
-0.037 Vermont
-0.045 Oregon
-0.046 Delaware
-0.052 Montana
-0.055 Maine
-0.057 Idaho
-0.057 South Carolina
-0.063 West Virginia
-0.063 North Carolina
-0.068 New York
-0.073 Minnesota
-0.073 Kansas
-0.074 District of Columbia
-0.079 Maryland
-0.079 Wisconsin
-0.082 Iowa
-0.083 Virginia
-0.091 Nebraska
-0.096 Rhode Island
-0.096 Ohio
-0.096 Kentucky
-0.098 Missouri
-0.099 Michigan
-0.108 Utah
-0.111 Georgia
-0.112 US Average
-0.119 Hawaii
-0.119 North Dakota
-0.121 Mississippi
-0.122 Massachusetts
-0.123 Connecticut
-0.126 Oklahoma
-0.128 Louisiana
-0.129 Arkansas
-0.130 Indiana
-0.130 Colorado
-0.141 New Mexico
-0.147 Pennsylvania
-0.152 Alaska
-0.158 Arizona
-0.162 Illinois
-0.167 Alabama
-0.193 New Hampshire
-0.202 Texas
-0.212 Tennessee
-0.231 South Dakota
-0.242 Nevada
-0.247 Wyoming
-0.254 Washington
-0.256 Florida
Suits Index, More Negative = More Regressive

not include a general sales tax. On the other hand, Montana's property and income tax systems are both more complex than most states'.

A tax system may be complex because its basic structure is complicated or because it has many special provisions. At its simplest, any tax just equals a tax rate multiplied by a tax base. A tax may become complex by having multiple rates applied to different parts of the base. Examples of multiple rates include the tiered rates in a typical income tax system, different assessment ratios for different classes of property in a property tax system, and different rates for different types of purchases subject to a sales or gross receipts tax. A tax may become complex by having a complicated base. A tax base may be conceptually simple, such as "property" or "income," but many tax bases are complicated in practice, with detailed definitions of what is included and excluded. States that have a sales tax make some very fine distinctions between taxable and exempt sales. For example, a bottle of liquid may be exempt bottled water if it is flavored with a fruit extract but has no sweeteners, a taxable soft drink if it is flavored with fruit juice containing sugar, and exempt juice if it is more than half fruit juice.[6] Most state definitions of taxable property and income are detailed lists of types of property and income that are taxable and those that are exempt. Itemized deductions allowed by most income tax systems reduce a taxpayer's taxable income based primarily on how the taxpayer spent their income rather than on how they earned it. Credits, which may be part of any type of tax, reduce a taxpayer's tax based on an action or characteristic of the taxpayer that may or may not be related to what is being taxed. For example, the federal government has an Earned Income Credit, which is based on the taxpayer's income, and a Child Credit, which is not.

No Sales Tax

Sales taxes are paid by buyers, but are collected by sellers on behalf of the state or local government imposing the tax. Compliance is simple for the ultimate taxpayers, who simply pay it as part of the bill for any taxable purchase. Sales taxes can be complex for sellers. They have to determine which items are taxable and which are exempt. When a merchant makes a sale for delivery to another jurisdiction, the buyer owes tax to their jurisdiction. The seller may or may not have a legal obligation to collect the tax. If not, the buyer has a legal obligation to pay, but often ignores or is not aware of this obligation. A merchant who collects tax for multiple jurisdictions must know the tax rate and which sales are taxable in each.

Montana does not have a general sales tax. This, in itself, makes Montana's tax system simpler than the systems in states that do. Montana does have selective sales and excises taxes on accommodations, rental cars, alcoholic beverages, cigarettes and tobacco, energy, and telecommunications. However, many states that have a sales tax have additional state or local taxes on some or all of these.

Property Tax

Some states have very simple property tax systems. Property is assessed at market value and the tax equals market value multiplied by a tax rate. Other states have more complicated systems where assessment value does not equal market value, part of a property's value may be exempt from taxes, or different rates may apply to different properties.

When property is assessed at less than full market value, the ratio of assessed value to market value is called the assessment ratio.

Property tax rates are expressed differently in different states. They may be expressed as a percent of taxable value, as dollars per $100 of taxable value (which is the same as percent), as dollars per $1,000 of taxable value, or as mills (which is the same as dollars per $1,000). Property tax rates may either be set in statute or determined annually by dividing a taxing jurisdiction's revenue requirement by its total taxable value.

The following table shows the number of states with uniform taxation of all property (except agricultural land which is generally assessed on its value in its current use rather than its market value), and the number that treat classes of property differently either through different assessment ratios or different mill levies.

More than half of states have some departure from uniform taxation. The largest group, which includes Montana, has classes of property with different assessment ratios, but uniform millage rates. Montana has the largest number of different assessment ratios - ten. Six states have uniform assessment, but have at least one

[6] This example is taken from the product definitions in the Streamlined Sales Tax Agreement. This agreement is intended to simplify sales taxes, partly by making these definitions uniform between states.

States with Uniform and Non-Uniform Taxation of Property Classes	
One Assessment Ratio and Uniform Mills	22
One Assessment Ratio and Non-Uniform Mills	6
Multiple Assessment Ratios and Uniform Mills	19, including Montana
Multiple Assessment Ratios and Non-Uniform Mills	3
Tax Not Based on Market Value	1

situation where a property class pays a different millage rate. Three states have classes with different assessment ratios and different millage rates. One state, California, does not base property taxes on market value. Property taxes in California are based on purchase price partially adjusted for inflation. This is equivalent to having a different assessment ratio for property sold each year.

Many states exempt part of the value of some types of property. The exemption can be for a fraction of a property's value, a fixed dollar amount, or a specified quantity of property. The following table shows the number of states that do and do not give partial exemptions.

Most of the states with a partial exemption have a homestead exemption, usually exempting the taxpayer's principle residence and the land it sits on, up to a maximum value or acreage. Four states, including Montana, exempt a fraction of the value. This is equivalent to a lower assessment ratio for homestead property but appears to be harder for taxpayers to understand.

Four states, including Montana, exempt a dollar amount of business personal property. Montana also exempts a fraction of the value of commercial and industrial real estate.

Nine states have some kind of cap on increases in assessed value. Montana does not.

These caps generally limit increases in assessed value to a fixed annual percentage, the rate of inflation, or the lower of the two. In some cases, assessors are required to track both market value and a formula-based value for each property.

All states have local property taxes to support local governments and school districts, and often to support special-function districts. Eleven states, including Montana, also have state-wide property taxes.

Identical properties need to have the same assessed value within a taxing jurisdiction to ensure that they pay the same taxes. However, the taxes on individual properties in a jurisdiction will be the same whether assessments are all at market value or are uniformly high or low. Millage rates are set by dividing a jurisdiction's revenue requirement by its taxable value. If all properties in a jurisdiction are over-assessed by 10%, the mills will be 10% lower than if assessments were at market value, and taxes will be the same.

In states with only local property taxes, assessments need to be uniform within each local taxing jurisdiction, but do not need to be uniform across jurisdictions. If assessments are 10% higher than market value in Town A and 10% lower than market in Town B, taxpayers in both jurisdictions pay the same taxes as if both towns assessed at market value.

States with Partial Property Tax Exemptions	
Partial Exemption	19, including Montana
No Partial Exemption	32

States with a Cap on Assessed Value Growth	
Cap	9
No Cap	42, including Montana

States with Both State and Local Property Taxes	
State and Local	11, including Montana
Local Only	40

When the state levies property taxes, either assessments need to be uniform statewide or some adjustment needs to be made for differences between local assessment practices. Montana has made assessment a state function. Most of the other states with state property taxes provide state oversight for local assessors. Washington conducts annual sales-assessment ratio studies and uses the results to adjust state mills in each county to compensate for differences in local assessment practices.

Montana appears to have a relatively complex property tax system. It has three of the four characteristics that make a property tax system more complex: taxing classes of property differently, partial property tax exemptions, and state-wide taxes. It does not have a cap on assessed value growth.

Income Tax

A state can take two approaches to income tax simplicity: It can have an inherently simple tax, or it can conform to the federal income tax. The first approach would have a simple definition of taxable income, with few or no exclusions, deductions, and credits. The second approach would be to conform as closely as possible to the federal definition of taxable income. The federal income tax is not simple, but since taxpayers already have to pay federal tax, conforming to the federal tax does not create any additional complications. No state fully conforms to the federal definition of taxable income, but states vary in how much they depart from it.

Federal law allows a married couple to file a joint return or separate returns. A joint return is the default choice, and a married couple will usually pay lower taxes by filing a joint return. Montana is one of eight states that do not follow federal law on this.

Most two-income couples pay less Montana tax if they file separate returns, and the Montana form is designed so that a couple can file separate returns or a joint return on the same form.

New Hampshire and Tennessee have income taxes that apply only to interest and dividend income. The other states with income taxes define adjusted gross income either by listing types of income that are included and expenses that may be deducted, as federal law does, or by starting with federal adjusted gross income and listing additions to and subtractions from this starting point. Montana follows the second approach.

In either case, the more differences between federal and state definitions of gross income, the more complex a state income tax will be for taxpayers. The following table compares counts of differences from federal adjusted gross income in a survey of state income taxes done by staff of the Wisconsin Legislature.[7]

Montana has the second highest number of differences from federal gross income. Some of these differences are exclusions of income that the federal government taxes but that federal law prevents the state from taxing. Others are additions of income, such as interest on municipal bonds issued in other states, which the state taxes but the federal government does not. Other additions and subtractions arise because married couples

States where Joint Return is Default for Married Couple	
Joint Return Default	35
Joint Return Not Default	8, including Montana

[7] Rob Reinhardt, Individual Income Tax Provisions in the States, Wisconsin Legislative Fiscal Bureau, 2009.

can file separate state returns when they file a joint federal return, and allocating income and expenses between spouses can result in different gross income than combining them.

states have more than one difference. Montana has the most differences from federal law, eight.

Exemptions, deductions, and a tiered rate structure are the features that can make an income tax progressive. A tiered rate structure with many rates can also make it more complex. State rate tables range from one rate to ten rates. The following table shows the number of states with each number of rates and the average number of rates. Only five states have more rate brackets than Montana.

Number of Differences from Federal Adjusted Gross Income States with Broad Income Taxes	
Fewest Differences	6
Most Differences	26
Average Number of Differences	14.6
Montana Differences	25

Federal law allows taxpayers to subtract either a standard deduction or itemized deductions from their adjusted gross income. For states, the simplest approaches are to allow the same itemized deductions as federal law or not to allow itemized deductions. The following table shows how many states follow each approach to itemized deductions.

Six states allow the same itemized deductions as federal law, and eleven have no itemized deductions. One allows taxpayers to take a standard deduction plus a percent of their federal itemized deductions.

Income tax credits reduce taxes, and in the case of refundable credits, make payments to taxpayers, based on taxpayers' actions or characteristics that often are unrelated to their income. In general, credits add complexity to a tax system. Montana has 29 income tax credits.

State Itemized Deductions	
Same as Federal	6 states
No Itemized Deductions	11 states
Standard Deduction plus Percent of Federal Itemized Deductions	1 state
Unique State Itemized Deductions or Federal Deductions Not Allowed	
1 Difference	10 states
2 Differences	6 states
3 Differences	5 states
4 Differences	1 state
5 Differences	1 state
6 Differences	1 state
7 Differences	1 state
8 Differences	1 (Montana)

Twenty-six states either do not allow one or more federal itemized deductions or have one or more state deductions not in federal law. Ten of these states have just one difference from federal law, generally not allowing the federal deduction for state income taxes. Sixteen

This is more than the average, but there are eleven states with more credits than Montana.

Number of Rate Brackets	
1 Bracket	8 States
2 Brackets	1 State
3 Brackets	7 States
4 Brackets	6 States
5 Brackets	5 States
6 Brackets	4 States
7 Brackets	4 States (Montana)
8 Brackets	1 States
9 Brackets	3 States
10 Brackets	1 State
Average	4.5

Competitive

People and businesses consider taxes and government services in deciding where to locate. Taxes and government services are seldom the deciding factor between states, but they do play a role. State and local governments often compete by providing special tax treatment for specific industries or groups of residents. Since state's must have a balanced budget, state and local governments can only cut taxes for one group by raising taxes for others or by cutting services. This makes the state or locality more attractive to the favored group, but less attractive to everyone else. Governments can compete without giving special treatment to favored groups by efficiently providing a level of services that citizens want at the lowest possible cost.

Number of Income Tax Credits	
No Credits	2 States
1 to 10 Credits	6 States
11 to 20 Credits	13 States
21 to 30 Credits	12 States (Montana)
31 to 40 Credits	8 States
41 to 50 Credits	0 States
More Than 50	3 States
Average	22.6

Even without consciously competing, states make themselves more and less attractive to certain types of taxpayers because of their mix of taxes and the features of individual taxes. Taxpayers generally want the taxes they pay to be lower, and may not care about taxes they do not pay. For example, retirees may be attracted by low property taxes, while young families may find large income tax exemptions for dependents attractive. Taxpayers may also be attracted by the quality of specific public services, such as schools or roads.

The tables and graphs on the following pages compare taxes for the 50 states and the District of Columbia for the fiscal year ending June 30, 2008. Since states with larger and wealthier populations tend to have larger total tax collections, these tables and graphs show state and local taxes adjusted for the size of each state's population and the size of its economy.

The first table, and the accompanying graphs, show taxes per person. The second table and the second set of graphs show taxes per dollar of income received by state residents. Both tables show property taxes, sales and gross receipts taxes, individual and corporate income taxes, other taxes, and the total of all taxes. Each table is followed by a graph for each tax type and a graph showing total taxes. The tables list states alphabetically. Each graph shows states sorted from lowest to highest taxes.

These tables do not show taxes paid by a typical individual or the percent of income a typical individual pays in taxes. States differ in the shares of taxes paid by individuals and businesses and by residents and non-residents. Several organizations publish comparisons that attempt to adjust for these differences. The Tax Foundation[8] attempts to adjust for taxes each state receives from out-of-state taxpayers. The District of Columbia[9] compares taxes for hypothetical families in each state. The Institute on Taxation and Economic Policy[10] estimates taxes as a percent of income for income groups in each state.

In an accountable tax system, taxpayers know what they pay and what their taxes buy. Taxpayers also know how taxing and spending decisions are made and have the opportunity to participate in and influence those decisions. In Montana, taxing and spending decisions are made by the legislature and elected local officials. In addition, local property tax increases that exceed half the rate of inflation must be put to a vote.

[8] http://www.taxfoundation.org/taxdata/show/336.html

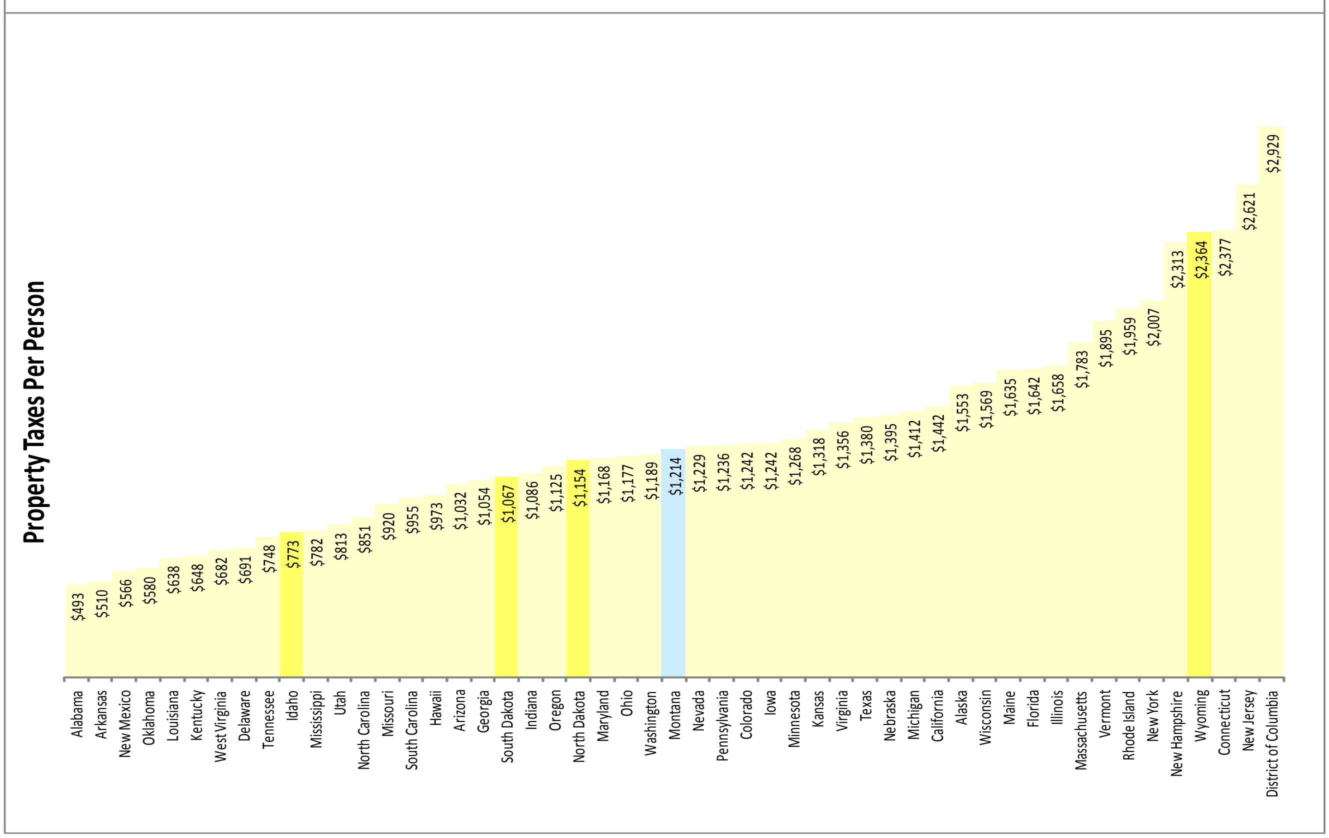
[9] http://cfo.dc.gov/cfo/cwp/view,a,1324,q,612643.asp

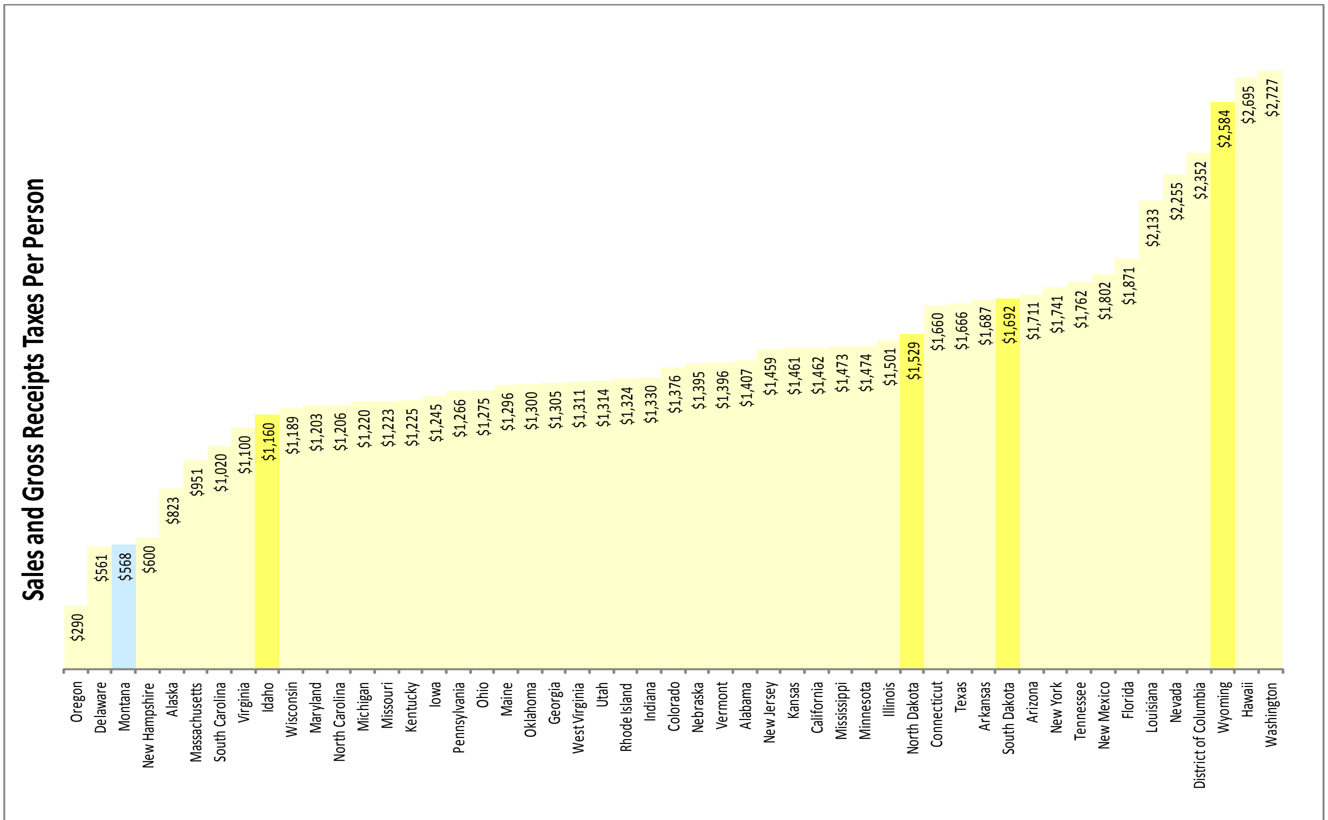
[10] http://www.itepnet.org/whopays3.pdf

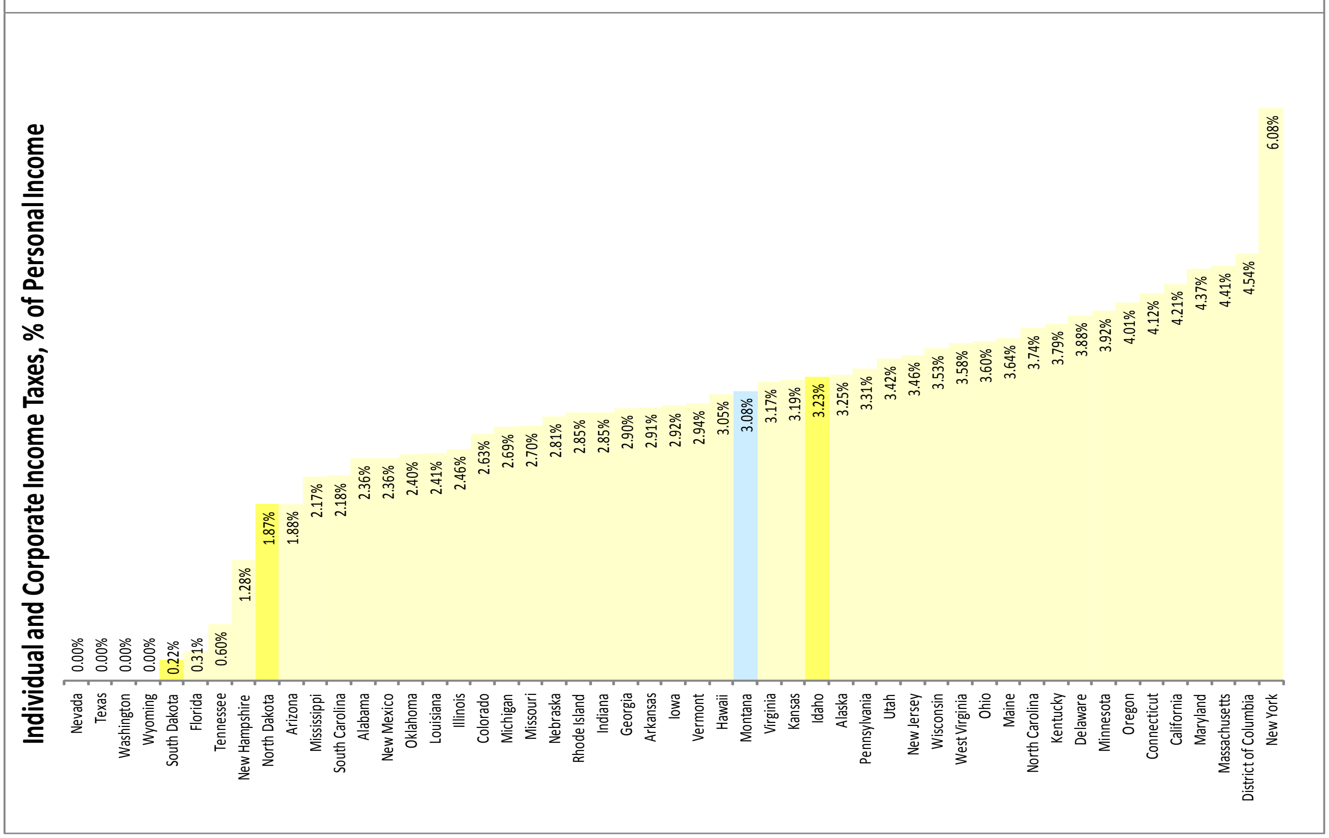
Taxes Per Person - FY 2008

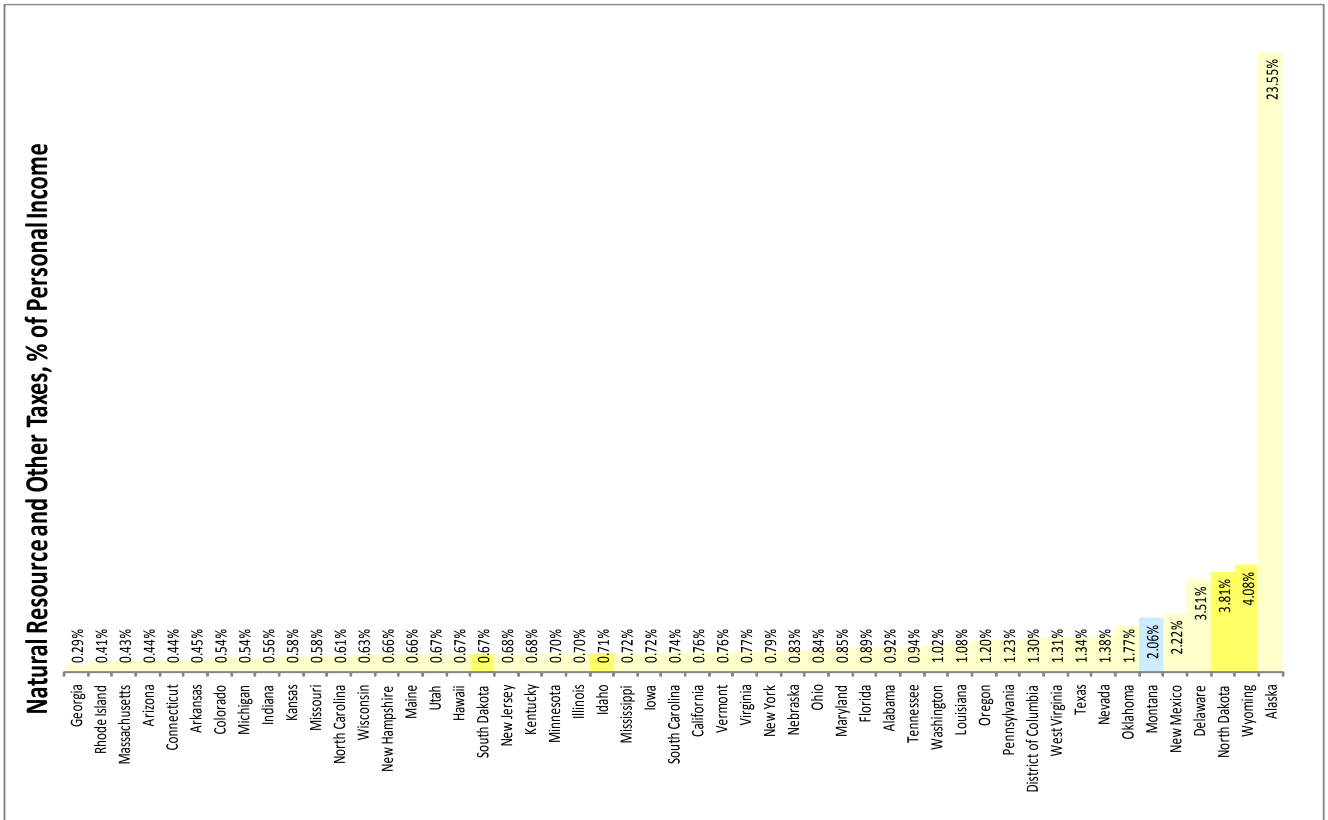
	Property $	Property Rank	Sales & Gross Receipts $	Sales & Gross Receipts Rank	Individual & Corporate Income $	Individual & Corporate Income Rank	Other $	Other Rank	Total $
Alabama	$420	51	$1,335	21	$748	38	$278	28	$2,782
Alaska	$1,431	13	$643	47	$1,213	15	$2,123	2	$5,410
Arizona	$896	36	$1,516	13	$672	41	$150	48	$3,234
Arkansas	$470	50	$1,653	9	$848	36	$144	49	$3,114
California	$1,027	29	$1,435	16	$1,698	6	$358	21	$4,517
Colorado	$1,106	24	$1,304	25	$990	26	$214	40	$3,614
Connecticut	$2,164	2	$1,422	17	$1,834	5	$264	31	$5,685
Delaware	$622	44	$517	50	$1,609	8	$1,495	3	$4,243
District of Columbia	$2,073	4	$2,148	4	$2,480	1	$1,062	4	$7,764
Florida	$1,276	17	$1,791	7	$133	46	$493	12	$3,693
Georgia	$958	34	$1,288	26	$956	30	$120	51	$3,321
Hawaii	$769	40	$2,478	1	$1,329	11	$274	29	$4,848
Idaho	**$846**	**38**	**$1,022**	**45**	**$971**	**28**	**$237**	**36**	**$3,076**
Illinois	$1,530	11	$1,400	18	$864	33	$287	26	$4,081
Indiana	$1,334	16	$1,215	32	$958	29	$134	50	$3,641
Iowa	$1,141	22	$1,124	41	$931	31	$254	32	$3,450
Kansas	$1,188	20	$1,385	19	$1,010	25	$209	42	$3,793
Kentucky	$576	47	$1,209	34	$1,198	17	$243	34	$3,225
Louisiana	$582	46	$2,066	5	$709	39	$349	22	$3,706
Maine	$1,681	10	$1,270	28	$1,184	18	$280	27	$4,415
Maryland	$1,064	27	$1,111	42	$1,909	4	$519	10	$4,603
Massachusetts	$1,683	9	$947	46	$1,918	3	$213	41	$4,761
Michigan	$1,339	15	$1,174	36	$850	35	$202	43	$3,565
Minnesota	$1,036	28	$1,443	15	$1,539	9	$345	23	$4,363
Mississippi	$716	42	$1,376	20	$542	43	$187	44	$2,822
Missouri	$854	37	$1,212	33	$888	32	$183	46	$3,137
Montana	**$1,118**	**23**	**$547**	**48**	**$974**	**27**	**$550**	**9**	**$3,189**
Nebraska	$1,267	18	$1,241	30	$1,025	21	$365	19	$3,898
Nevada	$1,007	30	$2,306	3	$0	48	$605	7	$3,917
New Hampshire	$2,120	3	$540	49	$475	44	$309	25	$3,443
New Jersey	$2,371	1	$1,224	31	$1,502	10	$362	20	$5,459
New Mexico	$491	49	$1,652	10	$773	37	$675	6	$3,591
New York	$1,890	6	$1,639	11	$2,472	2	$413	15	$6,413
North Carolina	$788	39	$1,164	37	$1,215	14	$218	39	$3,384
North Dakota	**$995**	**32**	**$1,311**	**23**	**$621**	**42**	**$787**	**5**	**$3,714**
Ohio	$1,099	25	$1,132	39	$1,300	13	$241	35	$3,773
Oklahoma	$504	48	$1,183	35	$855	34	$605	8	$3,147
Oregon	$998	31	$292	51	$1,633	7	$437	14	$3,360
Pennsylvania	$1,146	21	$1,150	38	$1,165	19	$495	11	$3,956
Rhode Island	$1,778	8	$1,324	22	$1,120	20	$186	45	$4,408
South Carolina	$915	35	$1,036	44	$698	40	$225	38	$2,874
South Dakota	**$973**	**33**	**$1,542**	**12**	**$78**	**47**	**$248**	**33**	**$2,842**
Tennessee	$679	43	$1,662	8	$185	45	$313	24	$2,838
Texas	$1,388	14	$1,457	14	$0	48	$391	17	$3,235
Utah	$728	41	$1,285	27	$1,018	22	$181	47	$3,211
Vermont	$1,850	7	$1,306	24	$1,012	24	$267	30	$4,435
Virginia	$1,208	19	$1,059	43	$1,301	12	$366	18	$3,934
Washington	$1,084	26	$2,418	2	$0	48	$446	13	$3,948
West Virginia	$586	45	$1,242	29	$1,012	23	$413	16	$3,252
Wisconsin	$1,440	12	$1,127	40	$1,205	16	$229	37	$4,002
Wyoming	**$1,921**	**5**	**$1,846**	**6**	**$0**	**48**	**$2,349**	**1**	**$6,116**

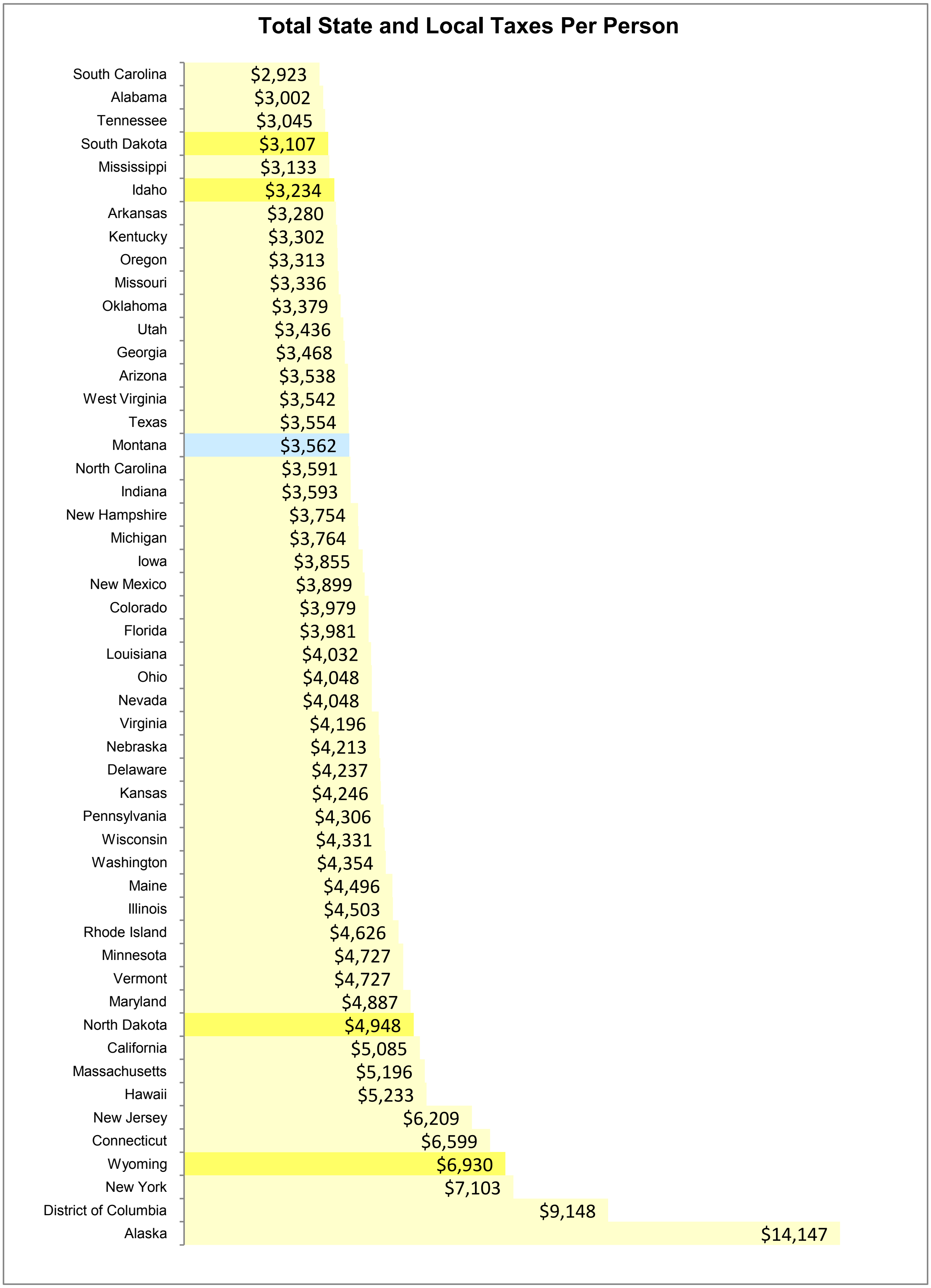
Sources: Taxes from annual survey of state and local government finances, Census Bureau, U.S. Department of Commerce
Population Census Bureau annual estimates of state population.


Property Taxes Per Person
Alabama $493
Arkansas $510
New Mexico $566
Oklahoma $580
Louisiana $638
Kentucky $648
West Virginia $682
Delaware $691
Tennessee $748
Idaho $773
Mississippi $782
Utah $813
North Carolina $851
Missouri $920
South Carolina $955
Hawaii $973
Arizona $1,032
Georgia $1,054
South Dakota $1,067
Indiana $1,086
Oregon $1,125
North Dakota $1,154
Maryland $1,168
Ohio $1,177
Washington $1,189
Montana $1,214
Nevada $1,229
Pennsylvania $1,236
Colorado $1,242
Iowa $1,242
Minnesota $1,268
Kansas $1,318
Virginia $1,356
Texas $1,380
Nebraska $1,395
Michigan $1,412
California $1,442
Alaska $1,553
Wisconsin $1,569
Maine $1,635
Florida $1,642
Illinois $1,658
Massachusetts $1,783
Vermont $1,895
Rhode Island $1,959
New York $2,007
New Hampshire $2,313
Wyoming $2,364
Connecticut $2,377
New Jersey $2,621
District of Columbia $2,929


Sales and Gross Receipts Taxes Per Person
Oregon $290
Delaware $561
Montana $568
New Hampshire $600
Alaska $823
Massachusetts $951
South Carolina $1,020
Virginia $1,100
Idaho $1,160
Wisconsin $1,189
Maryland $1,203
North Carolina $1,206
Michigan $1,220
Missouri $1,223
Kentucky $1,225
Iowa $1,245
Pennsylvania $1,266
Ohio $1,275
Maine $1,296
Oklahoma $1,300
Georgia $1,305
West Virginia $1,311
Utah $1,314
Rhode Island $1,324
Indiana $1,330
Colorado $1,376
Nebraska $1,395
Vermont $1,396
Alabama $1,407
New Jersey $1,459
Kansas $1,461
California $1,462
Mississippi $1,473
Minnesota $1,474
Illinois $1,501
North Dakota $1,529
Connecticut $1,660
Texas $1,666
Arkansas $1,687
South Dakota $1,692
Arizona $1,711
New York $1,741
Tennessee $1,762
New Mexico $1,802
Florida $1,871
Louisiana $2,133
Nevada $2,255
District of Columbia $2,352
Wyoming $2,584
Hawaii $2,695
Washington $2,727


Individual and Corporate Income Taxes, % of Personal Income
Nevada 0.00%
Texas 0.00%
Washington 0.00%
Wyoming 0.00%
South Dakota 0.22%
Florida 0.31%
Tennessee 0.60%
New Hampshire 1.28%
North Dakota 1.87%
Arizona 1.88%
Mississippi 2.17%
South Carolina 2.18%
Alabama 2.36%
New Mexico 2.36%
Oklahoma 2.40%
Louisiana 2.41%
Illinois 2.46%
Colorado 2.63%
Michigan 2.69%
Missouri 2.70%
Nebraska 2.81%
Rhode Island 2.85%
Indiana 2.85%
Georgia 2.90%
Arkansas 2.91%
Iowa 2.92%
Vermont 2.94%
Hawaii 3.05%
Montana 3.08%
Virginia 3.17%
Kansas 3.19%
Idaho 3.23%
Alaska 3.25%
Pennsylvania 3.31%
Utah 3.42%
New Jersey 3.46%
Wisconsin 3.53%
West Virginia 3.58%
Ohio 3.60%
Maine 3.64%
North Carolina 3.74%
Kentucky 3.79%
Delaware 3.88%
Minnesota 3.92%
Oregon 4.01%
Connecticut 4.12%
California 4.21%
Maryland 4.37%
Massachusetts 4.41%
District of Columbia 4.54%
New York 6.08%

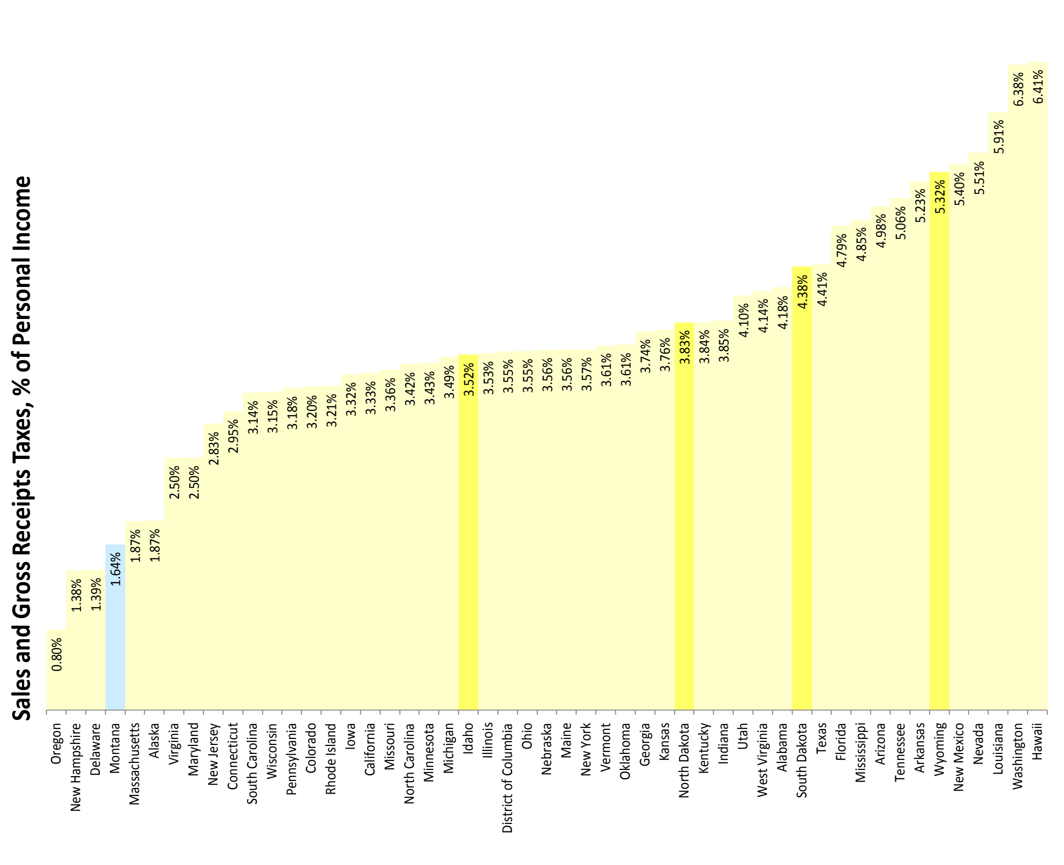

Natural Resource and Other Taxes, % of Personal Income
Georgia 0.29%
Rhode Island 0.41%
Massachusetts 0.43%
Arizona 0.44%
Connecticut 0.44%
Arkansas 0.45%
Colorado 0.54%
Michigan 0.54%
Indiana 0.56%
Kansas 0.58%
Missouri 0.58%
North Carolina 0.61%
Wisconsin 0.63%
New Hampshire 0.66%
Maine 0.66%
Utah 0.67%
Hawaii 0.67%
South Dakota 0.67%
New Jersey 0.68%
Kentucky 0.68%
Minnesota 0.70%
Illinois 0.70%
Idaho 0.71%
Mississippi 0.72%
Iowa 0.72%
South Carolina 0.74%
California 0.76%
Vermont 0.76%
Virginia 0.77%
New York 0.79%
Nebraska 0.83%
Ohio 0.84%
Maryland 0.85%
Florida 0.89%
Alabama 0.92%
Tennessee 0.94%
Washington 1.02%
Louisiana 1.08%
Oregon 1.20%
Pennsylvania 1.23%
District of Columbia 1.30%
West Virginia 1.31%
Texas 1.34%
Nevada 1.38%
Oklahoma 1.77%
Montana 2.06%
New Mexico 2.22%
Delaware 3.51%
North Dakota 3.81%
Wyoming 4.08%
Alaska 23.55%

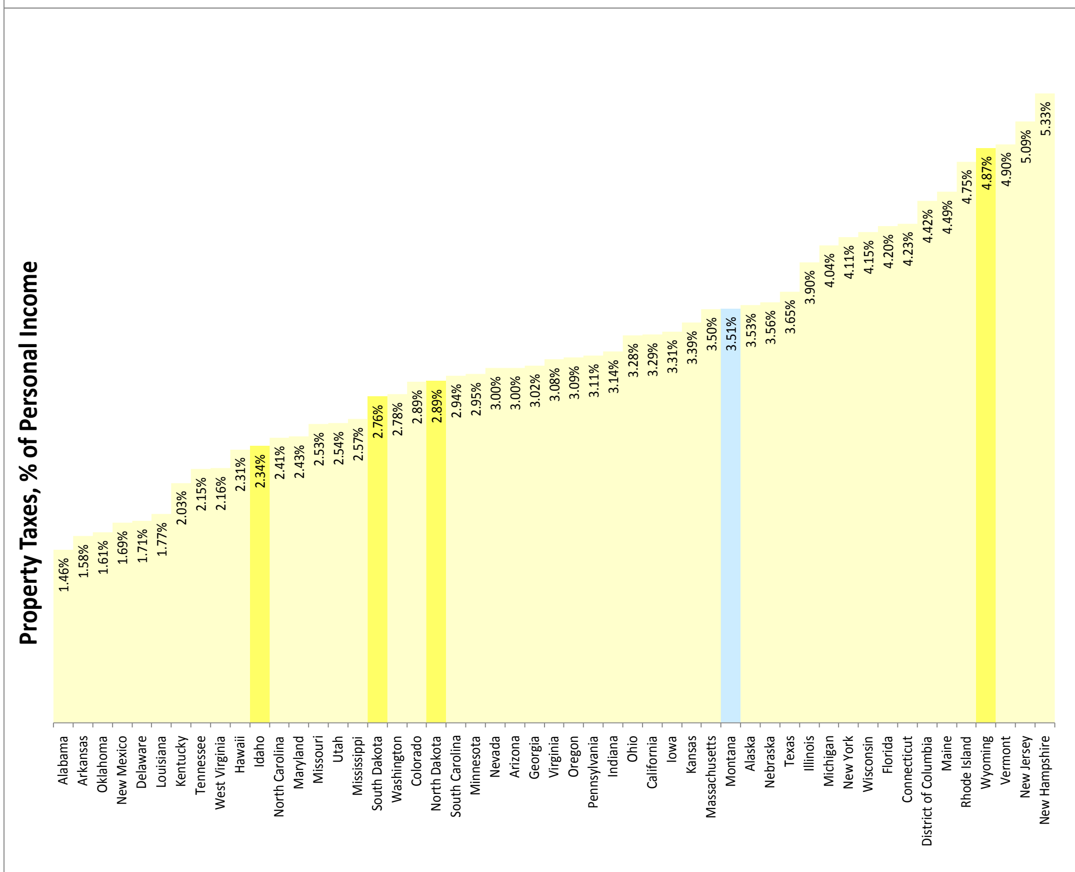

Total State and Local Taxes Per Person
South Carolina $2,923
Alabama $3,002
Tennessee $3,045
South Dakota $3,107
Mississippi $3,133
Idaho $3,234
Arkansas $3,280
Kentucky $3,302
Oregon $3,313
Missouri $3,336
Oklahoma $3,379
Utah $3,436
Georgia $3,468
Arizona $3,538
West Virginia $3,542
Texas $3,554
Montana $3,562
North Carolina $3,591
Indiana $3,593
New Hampshire $3,754
Michigan $3,764
Iowa $3,855
New Mexico $3,899
Colorado $3,979
Florida $3,981
Louisiana $4,032
Ohio $4,048
Nevada $4,048
Virginia $4,196
Nebraska $4,213
Delaware $4,237
Kansas $4,246
Pennsylvania $4,306
Wisconsin $4,331
Washington $4,354
Maine $4,496
Illinois $4,503
Rhode Island $4,626
Minnesota $4,727
Vermont $4,727
Maryland $4,887
North Dakota $4,948
California $5,085
Massachusetts $5,196
Hawaii $5,233
New Jersey $6,209
Connecticut $6,599
Wyoming $6,930
New York $7,103
District of Columbia $9,148
Alaska $14,147

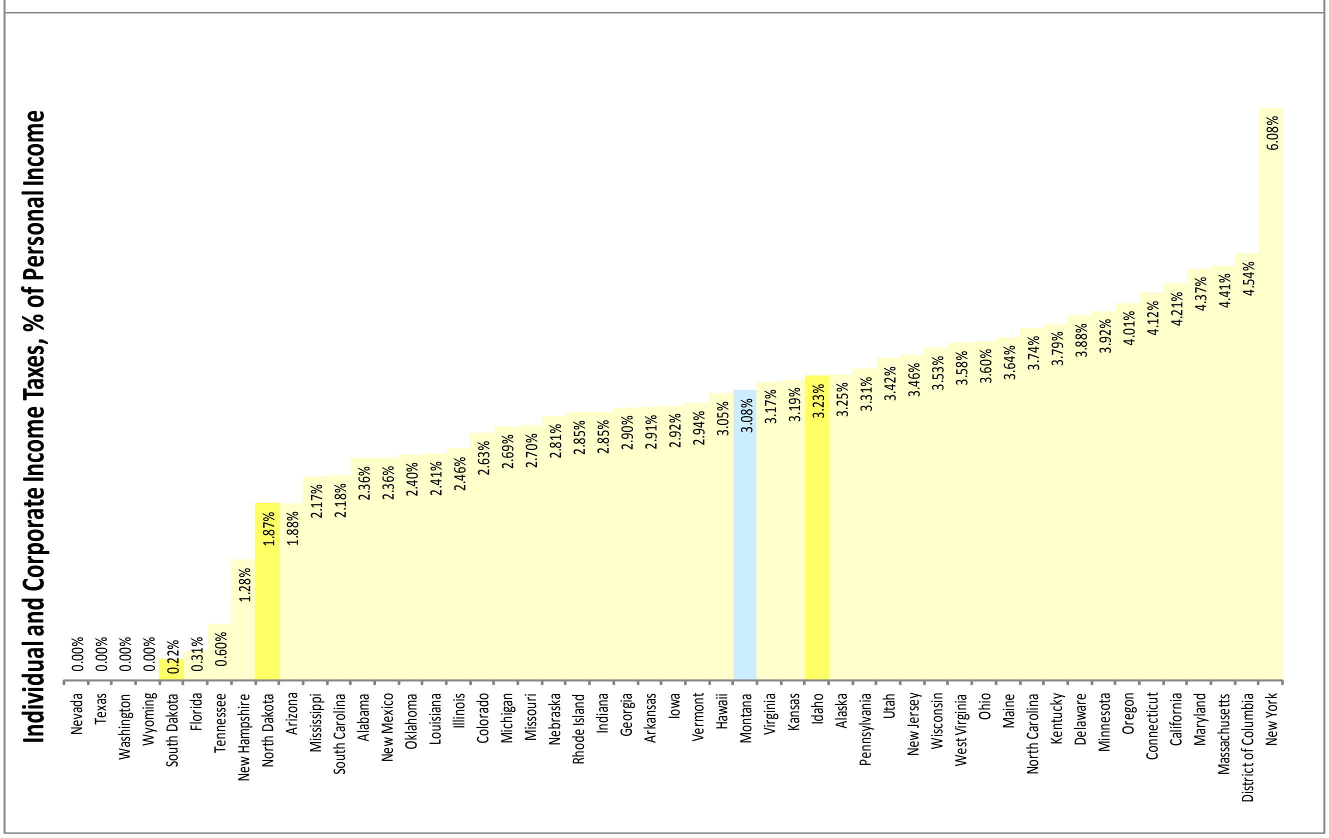
Taxes as a Percent of Personal Income - FY 2008

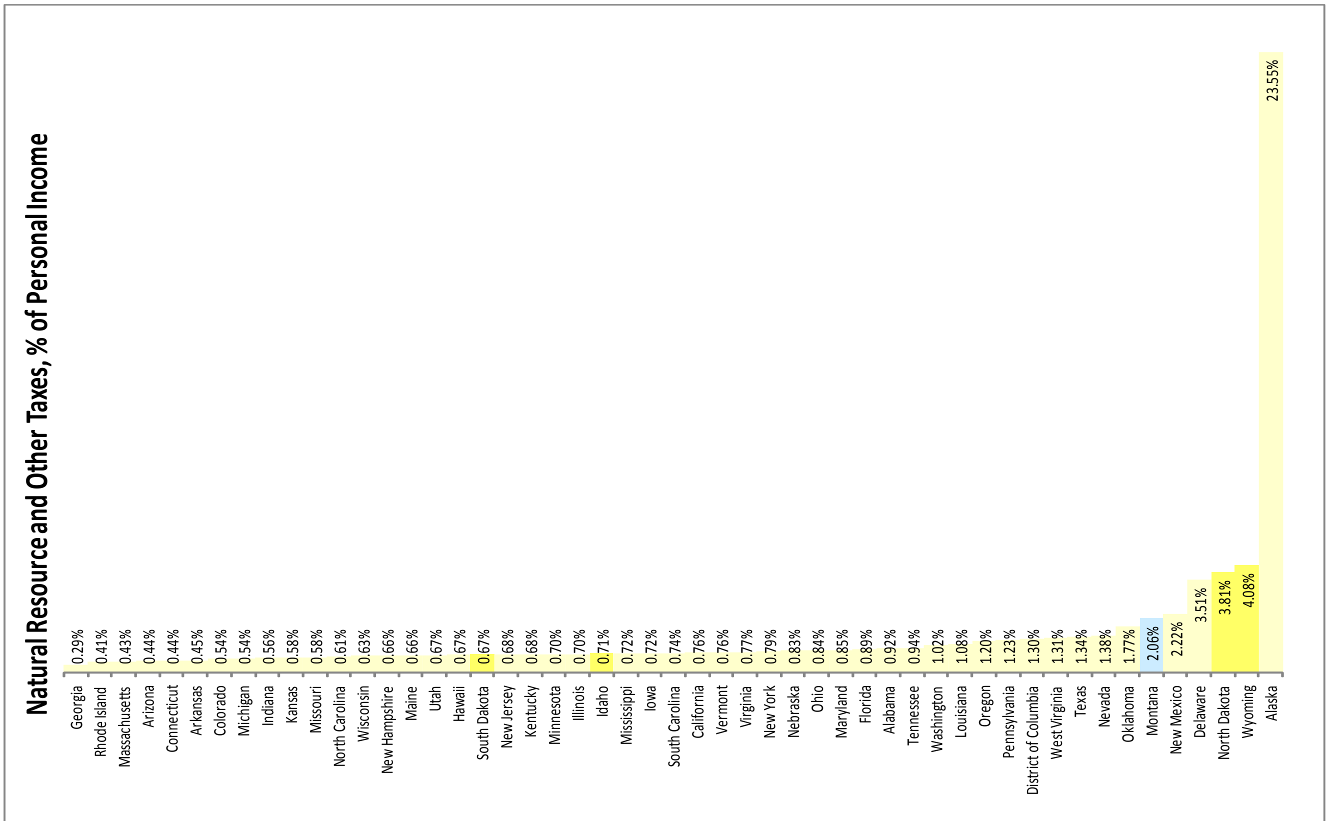
	Property		Sales & Gross Receipts		Individual & Corporate Income		Other		Total	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Alabama	1.4%	51	4.3%	14	2.4%	37	0.9%	22	9.0%	48
Alaska	3.7%	14	1.7%	48	3.2%	22	5.5%	1	14.1%	2
Arizona	2.8%	33	4.7%	11	2.1%	41	0.5%	48	10.0%	40
Arkansas	1.7%	48	5.8%	5	3.0%	26	0.5%	46	11.0%	23
California	2.6%	38	3.6%	32	4.3%	5	0.9%	23	11.3%	17
Colorado	2.8%	31	3.3%	39	2.5%	36	0.5%	44	9.2%	47
Connecticut	4.2%	8	2.8%	42	3.6%	15	0.5%	45	11.0%	20
Delaware	1.6%	49	1.3%	50	4.1%	7	3.8%	3	10.9%	25
District of Columbia	3.6%	18	3.7%	27	4.3%	4	1.8%	7	13.4%	5
Florida	3.4%	20	4.8%	9	0.4%	46	1.3%	12	10.0%	41
Georgia	3.0%	29	4.0%	20	3.0%	28	0.4%	51	10.3%	33
Hawaii	2.1%	44	6.7%	1	3.6%	14	0.7%	35	13.1%	6
Idaho	**2.8%**	**32**	**3.4%**	**38**	**3.2%**	**20**	**0.8%**	**27**	**10.1%**	**37**
Illinois	4.0%	12	3.6%	29	2.3%	39	0.7%	34	10.6%	28
Indiana	4.2%	10	3.8%	22	3.0%	25	0.4%	50	11.4%	16
Iowa	3.5%	19	3.4%	36	2.8%	31	0.8%	29	10.6%	29
Kansas	3.4%	21	4.0%	19	2.9%	29	0.6%	42	11.0%	21
Kentucky	2.0%	45	4.1%	17	4.1%	8	0.8%	26	10.9%	24
Louisiana	1.8%	46	6.3%	2	2.2%	40	1.1%	18	11.3%	18
Maine	5.2%	3	3.9%	21	3.7%	12	0.9%	25	13.7%	4
Maryland	2.4%	41	2.5%	45	4.3%	3	1.2%	14	10.5%	31
Massachusetts	3.6%	16	2.0%	46	4.1%	6	0.5%	49	10.3%	35
Michigan	4.1%	11	3.6%	33	2.6%	35	0.6%	41	10.8%	26
Minnesota	2.7%	34	3.7%	26	4.0%	9	0.9%	24	11.2%	19
Mississippi	2.6%	35	5.1%	8	2.0%	42	0.7%	37	10.4%	32
Missouri	2.6%	36	3.7%	24	2.7%	32	0.6%	43	9.7%	43
Montana	**3.6%**	**17**	**1.8%**	**47**	**3.1%**	**23**	**1.8%**	**8**	**10.3%**	**34**
Nebraska	3.7%	15	3.7%	28	3.0%	24	1.1%	17	11.5%	14
Nevada	2.6%	37	6.0%	4	0.0%	48	1.6%	9	10.1%	38
New Hampshire	5.3%	1	1.4%	49	1.2%	44	0.8%	28	8.7%	51
New Jersey	5.1%	4	2.6%	44	3.2%	19	0.8%	30	11.7%	10
New Mexico	1.7%	47	5.6%	6	2.6%	33	2.3%	5	12.3%	8
New York	4.3%	7	3.7%	23	5.6%	1	0.9%	20	14.6%	1
North Carolina	2.4%	40	3.6%	31	3.8%	11	0.7%	38	10.5%	30
North Dakota	**3.1%**	**24**	**4.1%**	**18**	**1.9%**	**43**	**2.4%**	**4**	**11.5%**	**13**
Ohio	3.3%	22	3.4%	37	3.9%	10	0.7%	36	11.4%	15
Oklahoma	1.5%	50	3.6%	30	2.6%	34	1.9%	6	9.6%	44
Oregon	3.0%	28	0.9%	51	4.9%	2	1.3%	13	10.0%	39
Pennsylvania	3.1%	23	3.1%	41	3.2%	21	1.3%	11	10.8%	27
Rhode Island	4.7%	5	3.5%	34	3.0%	27	0.5%	47	11.7%	9
South Carolina	3.0%	25	3.5%	35	2.3%	38	0.7%	33	9.6%	45
South Dakota	**3.0%**	**26**	**4.8%**	**10**	**0.2%**	**47**	**0.8%**	**31**	**8.8%**	**50**
Tennessee	2.1%	42	5.2%	7	0.6%	45	1.0%	19	8.8%	49
Texas	4.0%	13	4.2%	16	0.0%	48	1.1%	16	9.2%	46
Utah	2.5%	39	4.4%	13	3.5%	17	0.6%	40	11.0%	22
Vermont	5.3%	2	3.7%	25	2.9%	30	0.8%	32	12.6%	7
Virginia	3.0%	27	2.6%	43	3.2%	18	0.9%	21	9.8%	42
Washington	2.8%	30	6.3%	3	0.0%	48	1.2%	15	10.2%	36
West Virginia	2.1%	43	4.5%	12	3.6%	13	1.5%	10	11.7%	11
Wisconsin	4.2%	9	3.3%	40	3.5%	16	0.7%	39	11.6%	12
Wyoming	**4.4%**	**6**	**4.3%**	**15**	**0.0%**	**48**	**5.4%**	**2**	**14.1%**	**3**

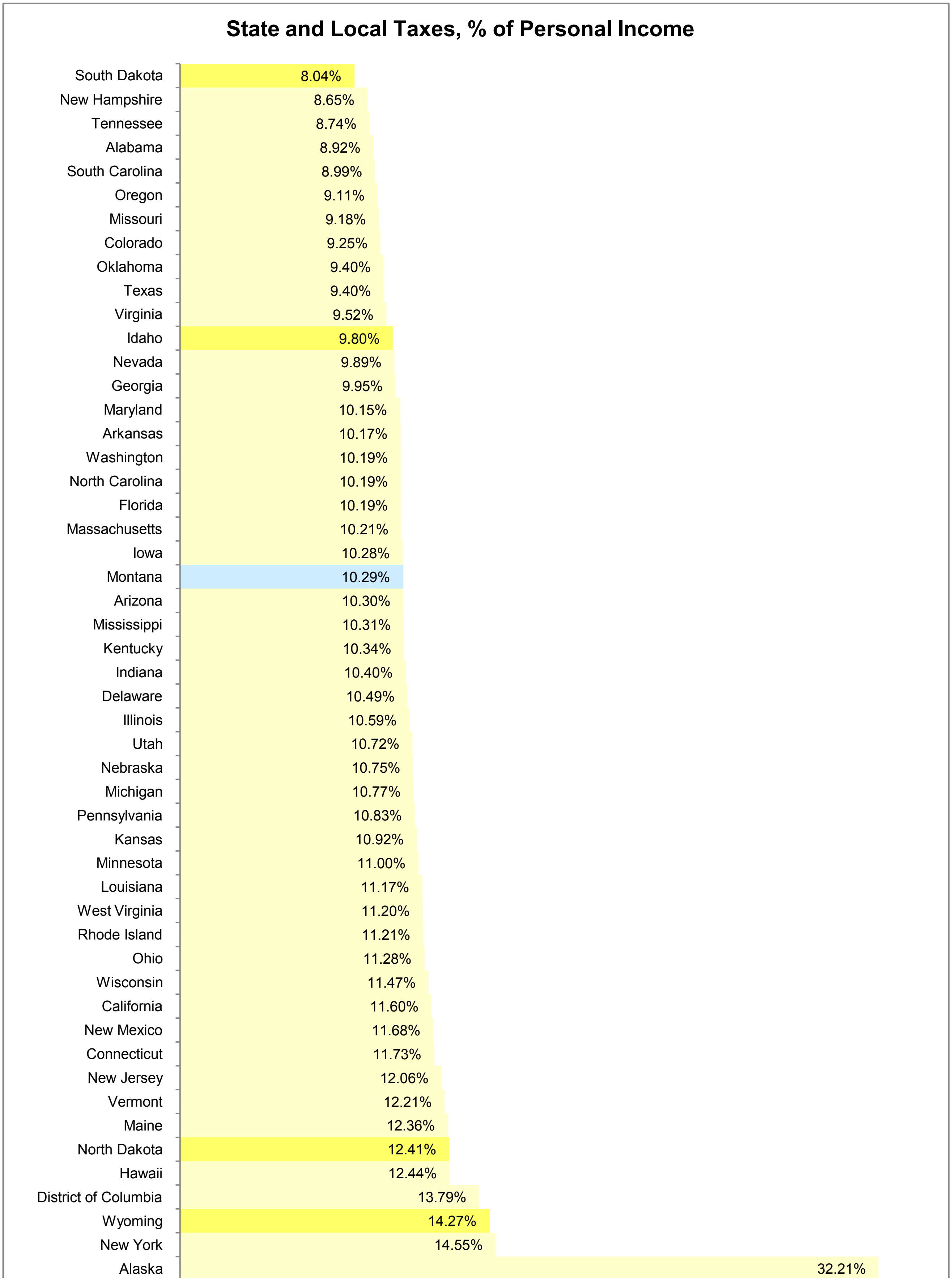
Sources: Taxes from annual survey of state and local government finances, Census Bureau, U.S. Department of Commerce. Personal Income from Regional Economic Accounts, Bureau of Economic Analysis, U.S Department of Commerce.


Sales and Gross Receipts Taxes, % of Personal Income
Oregon 0.80%
New Hampshire 1.38%
Delaware 1.39%
Montana 1.64%
Massachusetts 1.87%
Alaska 1.87%
Virginia 2.50%
Maryland 2.50%
New Jersey 2.83%
Connecticut 2.95%
South Carolina 3.14%
Wisconsin 3.15%
Pennsylvania 3.18%
Colorado 3.20%
Rhode Island 3.21%
Iowa 3.32%
California 3.33%
Missouri 3.36%
North Carolina 3.42%
Minnesota 3.43%
Michigan 3.49%
Idaho 3.52%
Illinois 3.53%
District of Columbia 3.55%
Ohio 3.55%
Nebraska 3.56%
Maine 3.56%
New York 3.57%
Vermont 3.61%
Oklahoma 3.61%
Georgia 3.74%
Kansas 3.76%
North Dakota 3.83%
Kentucky 3.84%
Indiana 3.85%
Utah 4.10%
West Virginia 4.14%
Alabama 4.18%
South Dakota 4.38%
Texas 4.41%
Florida 4.79%
Mississippi 4.85%
Arizona 4.98%
Tennessee 5.06%
Arkansas 5.23%
Wyoming 5.32%
New Mexico 5.40%
Nevada 5.51%
Louisiana 5.91%
Washington 6.38%
Hawaii 6.41%


Property Taxes, % of Personal Income
Alabama 1.46%
Arkansas 1.58%
Oklahoma 1.61%
New Mexico 1.69%
Delaware 1.71%
Louisiana 1.77%
Kentucky 2.03%
Tennessee 2.15%
West Virginia 2.16%
Hawaii 2.31%
Idaho 2.34%
North Carolina 2.41%
Maryland 2.43%
Missouri 2.53%
Utah 2.54%
Mississippi 2.57%
South Dakota 2.76%
Washington 2.78%
Colorado 2.89%
North Dakota 2.89%
South Carolina 2.94%
Minnesota 2.95%
Nevada 3.00%
Arizona 3.00%
Georgia 3.02%
Virginia 3.08%
Oregon 3.09%
Pennsylvania 3.11%
Indiana 3.14%
Ohio 3.28%
California 3.29%
Iowa 3.31%
Kansas 3.39%
Massachusetts 3.50%
Montana 3.51%
Alaska 3.53%
Nebraska 3.56%
Texas 3.65%
Illinois 3.90%
Michigan 4.04%
New York 4.11%
Wisconsin 4.15%
Florida 4.20%
Connecticut 4.23%
District of Columbia 4.42%
Maine 4.49%
Rhode Island 4.75%
Wyoming 4.87%
Vermont 4.90%
New Jersey 5.09%
New Hampshire 5.33%


Individual and Corporate Income Taxes, % of Personal Income
Nevada 0.00%
Texas 0.00%
Washington 0.00%
Wyoming 0.00%
South Dakota 0.22%
Florida 0.31%
Tennessee 0.60%
New Hampshire 1.28%
North Dakota 1.87%
Arizona 1.88%
Mississippi 2.17%
South Carolina 2.18%
Alabama 2.36%
New Mexico 2.36%
Oklahoma 2.40%
Louisiana 2.41%
Illinois 2.46%
Colorado 2.63%
Michigan 2.69%
Missouri 2.70%
Nebraska 2.81%
Rhode Island 2.85%
Indiana 2.85%
Georgia 2.90%
Arkansas 2.91%
Iowa 2.92%
Vermont 2.94%
Hawaii 3.05%
Montana 3.08%
Virginia 3.17%
Kansas 3.19%
Idaho 3.23%
Alaska 3.25%
Pennsylvania 3.31%
Utah 3.42%
New Jersey 3.46%
Wisconsin 3.53%
West Virginia 3.58%
Ohio 3.60%
Maine 3.64%
North Carolina 3.74%
Kentucky 3.79%
Delaware 3.88%
Minnesota 3.92%
Oregon 4.01%
Connecticut 4.12%
California 4.21%
Maryland 4.37%
Massachusetts 4.41%
District of Columbia 4.54%
New York 6.08%


Natural Resource and Other Taxes, % of Personal Income
Georgia 0.29%
Rhode Island 0.41%
Massachusetts 0.43%
Arizona 0.44%
Connecticut 0.44%
Arkansas 0.45%
Colorado 0.54%
Michigan 0.54%
Indiana 0.56%
Kansas 0.58%
Missouri 0.58%
North Carolina 0.61%
Wisconsin 0.63%
New Hampshire 0.66%
Maine 0.66%
Utah 0.67%
Hawaii 0.67%
South Dakota 0.67%
New Jersey 0.68%
Kentucky 0.68%
Minnesota 0.70%
Illinois 0.70%
Idaho 0.71%
Mississippi 0.72%
Iowa 0.72%
South Carolina 0.74%
California 0.76%
Vermont 0.76%
Virginia 0.77%
New York 0.79%
Nebraska 0.83%
Ohio 0.84%
Maryland 0.85%
Florida 0.89%
Alabama 0.92%
Tennessee 0.94%
Washington 1.02%
Louisiana 1.08%
Oregon 1.20%
Pennsylvania 1.23%
District of Columbia 1.30%
West Virginia 1.31%
Texas 1.34%
Nevada 1.38%
Oklahoma 1.77%
Montana 2.06%
New Mexico 2.22%
Delaware 3.51%
North Dakota 3.81%
Wyoming 4.08%
Alaska 23.55%


State and Local Taxes, % of Personal Income
South Dakota 8.04%
New Hampshire 8.65%
Tennessee 8.74%
Alabama 8.92%
South Carolina 8.99%
Oregon 9.11%
Missouri 9.18%
Colorado 9.25%
Oklahoma 9.40%
Texas 9.40%
Virginia 9.52%
Idaho 9.80%
Nevada 9.89%
Georgia 9.95%
Maryland 10.15%
Arkansas 10.17%
Washington 10.19%
North Carolina 10.19%
Florida 10.19%
Massachusetts 10.21%
Iowa 10.28%
Montana 10.29%
Arizona 10.30%
Mississippi 10.31%
Kentucky 10.34%
Indiana 10.40%
Delaware 10.49%
Illinois 10.59%
Utah 10.72%
Nebraska 10.75%
Michigan 10.77%
Pennsylvania 10.83%
Kansas 10.92%
Minnesota 11.00%
Louisiana 11.17%
West Virginia 11.20%
Rhode Island 11.21%
Ohio 11.28%
Wisconsin 11.47%
California 11.60%
New Mexico 11.68%
Connecticut 11.73%
New Jersey 12.06%
Vermont 12.21%
Maine 12.36%
North Dakota 12.41%
Hawaii 12.44%
District of Columbia 13.79%
Wyoming 14.27%
New York 14.55%
Alaska 32.21%

The principles document also stresses that provisions of the tax code that have aims other than raising revenue should be explicit and should be reviewed regularly, ideally every budget cycle. Tax preferences are an alternative to spending as a way to accomplish legislative goals, and they should be given the same type of scrutiny. One of the tools of that scrutiny is a tax expenditure report. Such a report should explain each tax expenditure's purpose and how it works, measure its revenue cost, and evaluate its effectiveness and cost-effectiveness in accomplishing its purpose.

Montana is one of 42 states that produces a periodic tax expenditure report. It is the last section of this Biennial Report. Only four states' reports include evaluations of effectiveness and cost-effectiveness. Montana is not one of the four, and the Montana Legislature does not review tax expenditures as part of the budget process.