TAX STRUCTURE AND TRENDS

BIENNIAL REPORT - THE 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 governments, local schools, 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' tax systems.

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.

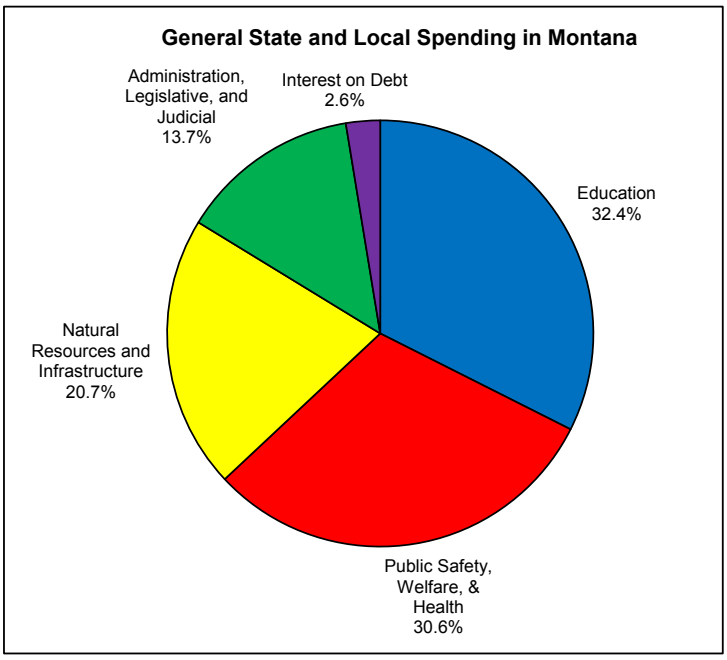
In the United States, private businesses and nonprofit groups provide many of the goods and services that people want. Businesses provide goods and services that can be sold to their customers at a profit. Non-profit groups provide goods and services that donors are willing to pay for or volunteers are willing to provide. Governments provide other services that lawmakers have concluded their constituents want and are willing to finance. 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 of children to ensure that they are available to everyone regardless of their ability to pay.

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 a particular good or service. Examples are income 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.

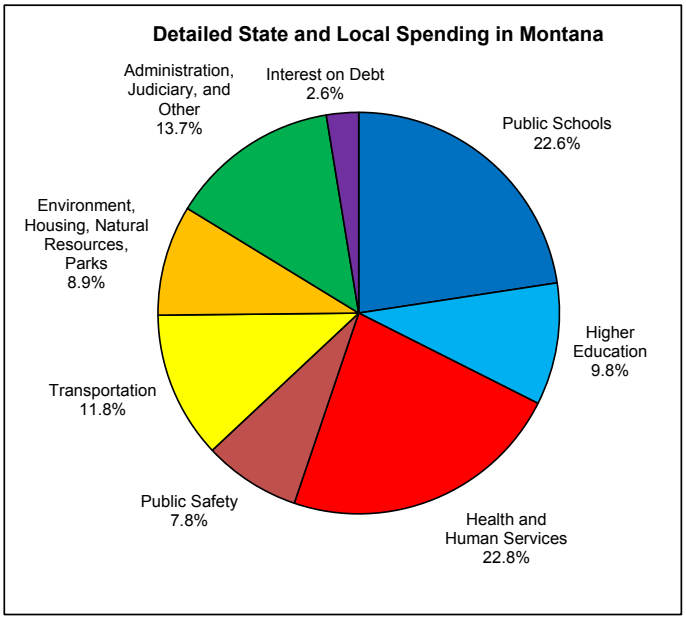
Governments also receive revenue from normal business transactions. For example, governments earn interest on investments and sell surplus property. Local governments operate utilities that may sell water, electricity, or natural gas. State and local governments also receive intergovernmental transfers 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 have replaced local taxes brought to the state since 2001.



State and Local Spending

The chart on the right shows the percentage of state and local spending in Montana in each of eight general categories for the fiscal year ending June 30, 2011.[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 over half of total state and local government spending occurs at the state level, and a little less than half at the local level. The next table shows the breakdown for fiscal year 2011. It shows direct spending to provide government services, and excludes state transfers of funds to local governments and school districts.



State and Local Government Direct Expenditures on Government Services, FY 2011
(Excludes Local Government Utilities and State Liquor Enterprise)

	$ million	% of Total
State Direct Expenditures (Excludes Transfers to Local Governments and School Districts)	$4,729	58%
Local Expenditures	$3,377	42%
Total	**$8,106**	**100%**

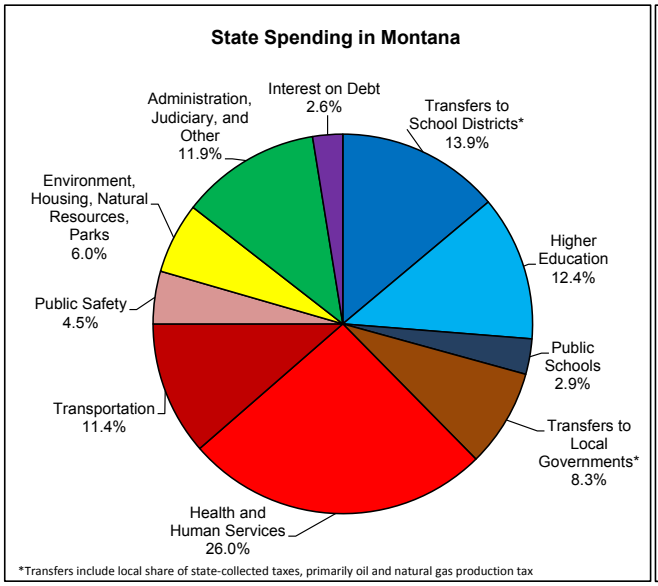
The two graphs on the following page show state and local spending separately. The left-hand chart shows state spending, including transfers to local governments and school districts as well as direct spending. The right-hand chart shows local spending. Almost one-quarter of state spending is transfers to local governments and school districts.

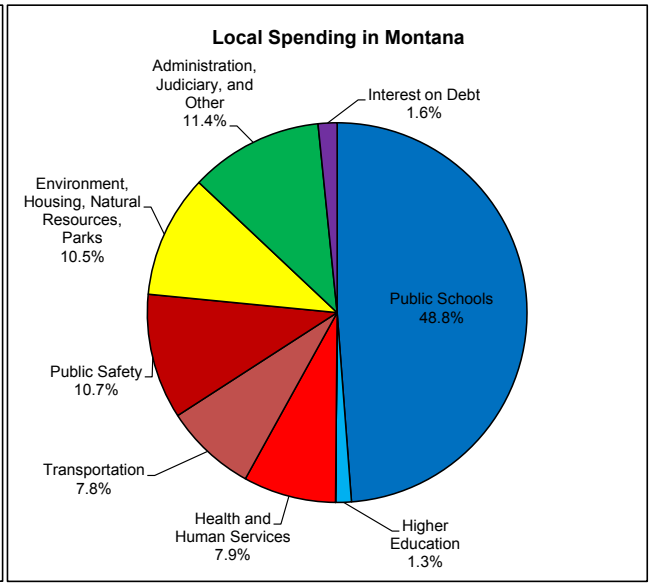
The transfers to local governments include the local share of state-collected taxes, primarily the oil and gas production tax and Entitlement Share payments. The local share of oil and gas tax was originally a local tax. In the 1990s, the legislature combined state and local taxes on oil and gas production 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.

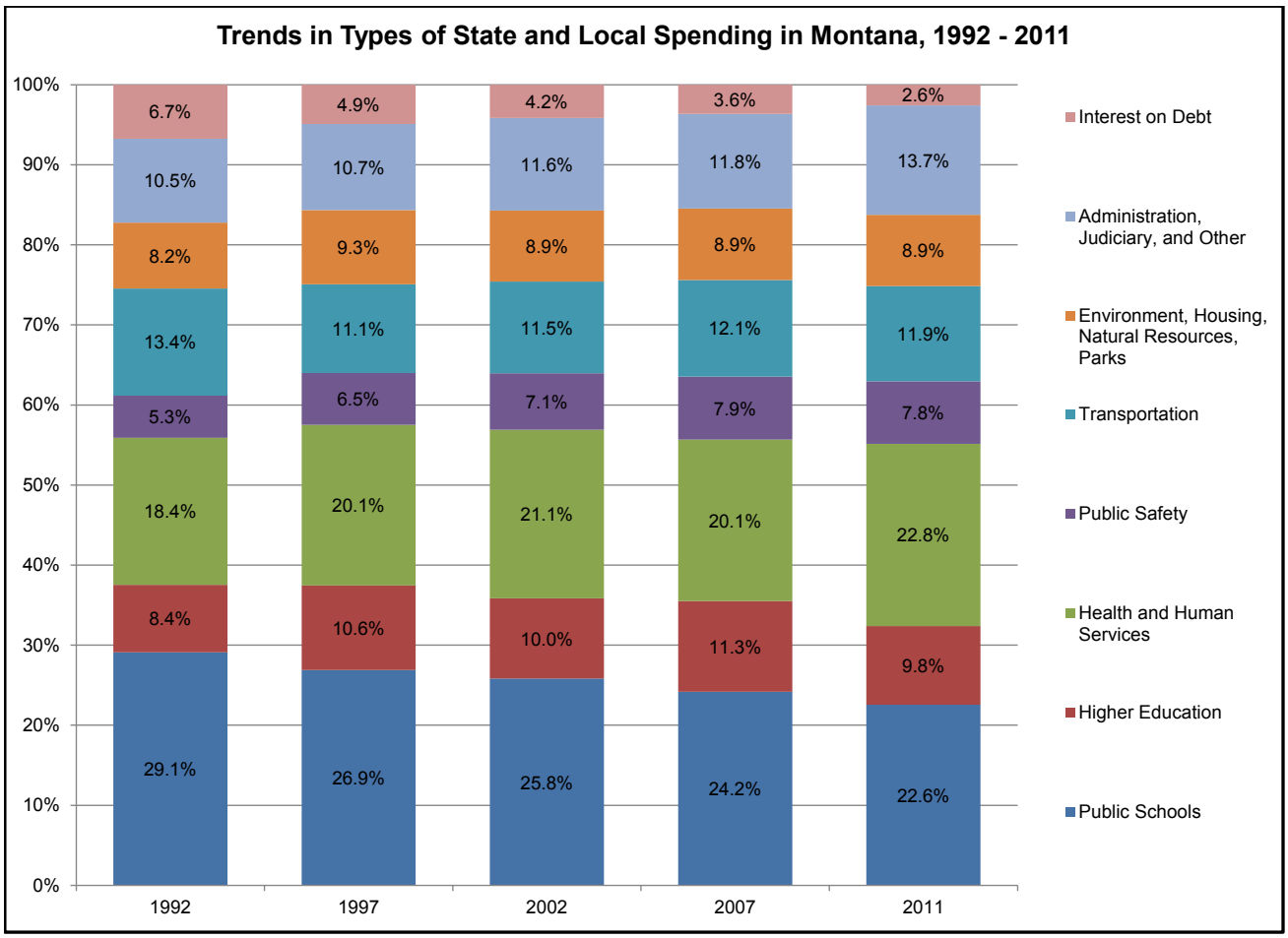
Direct spending for public schools is primarily local, accounting for almost half of local spending. Higher education spending is almost all at the state level, accounting for about 12 percent of state spending. Health and human services spending is significant at both the state and local level, accounting for 26 percent of state spending and 8 percent of local spending. Spending on other functions also occurs at both levels. This includes transportation, public safety and general government administration.

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 2011. Information on Montana state and local tax collections through fiscal year 2011 is from the state accounting system and Department of Revenue records.





Over the past 20 years, the types of spending at the state and local levels has shifted in several areas. The share of spending on public schools has declined, from 29 percent in fiscal year 1992, to 26 percent in fiscal 2002 and to 22.6 percent in fiscal 2011. At the same time, the share of state and local government spending on public safety, and health and human services had increased from 23.7 percent in fiscal 1992 to 30.6 percent in fiscal 2011. The chart below shows the percentage of state and local spending in Montana for each of the eight general spending categories for fiscal years 1992, 1997, 2002, 2007 and 2011.



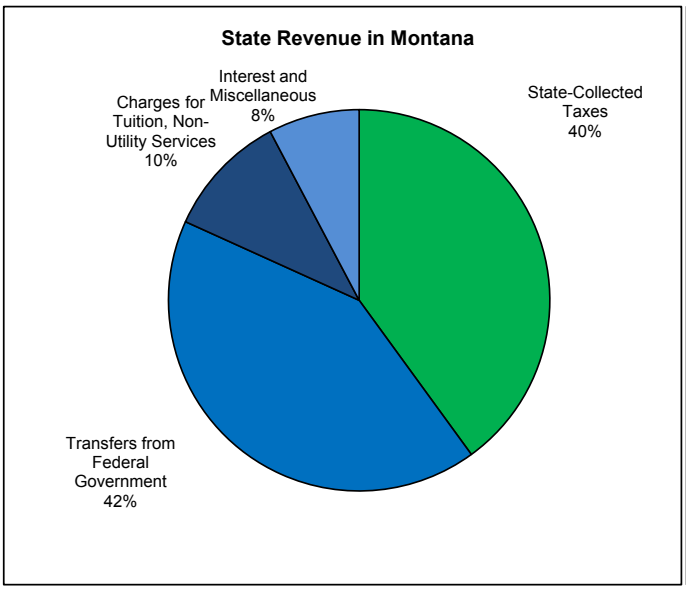
State and Local Revenue
The charts on the following page show the sources of funds to pay for state and local spending. The top left-hand chart shows state government revenue, and the top right-hand chart shows revenue for local governments and school districts.

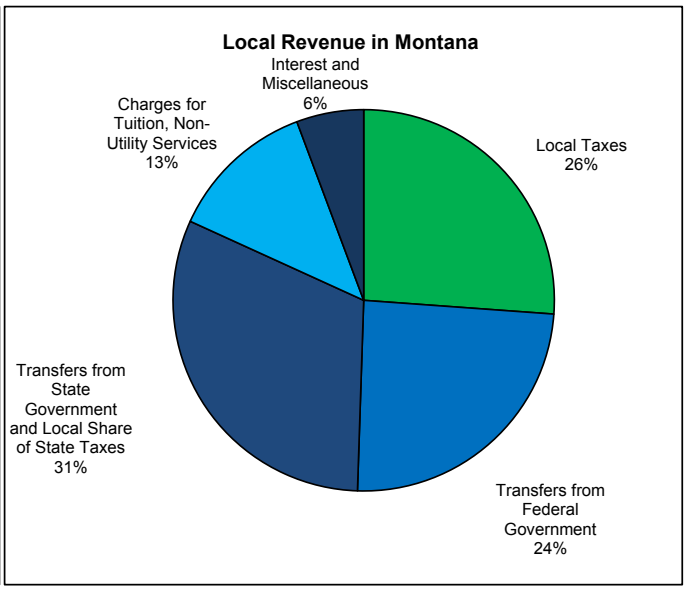
Transfers from the federal government are the largest source of state revenue, making up 42 percent of the total. This includes federal funding for Medicaid and other state programs and federal education funds that are passed on to school districts. Taxes, at 40 percent of the total, are the next largest source of state revenue.

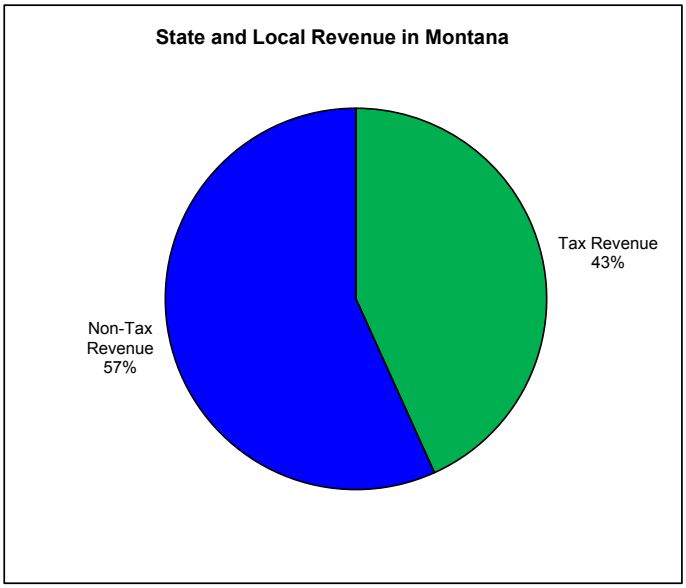
Charges and fees make up 10 percent of state revenue. Four-fifths of the charges and fees are university system tuition and fees. This category also includes income from state lands. Interest earnings on trust funds and other state accounts are about 4 percent of state revenue and about 4 percent is from miscellaneous sources.

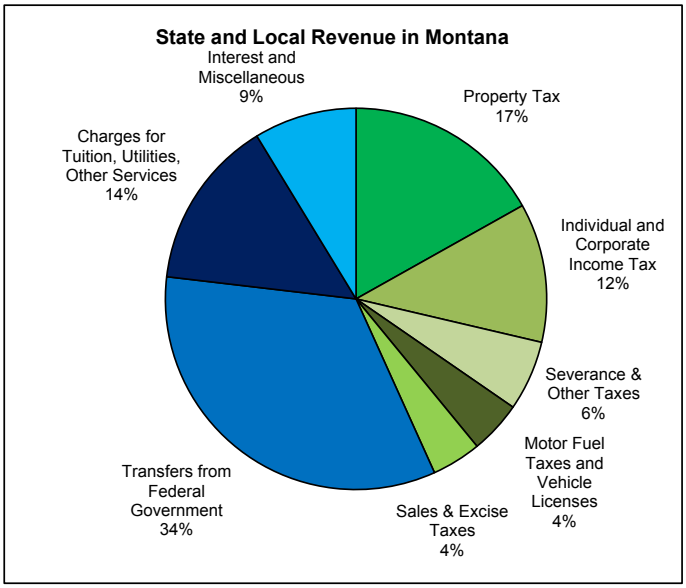
Transfers from the state and federal government, including the local share of state-collected taxes, are slightly more than half of local revenue. Local taxes are a little more than one-fourth of local revenue. Charges for local services make up 13 percent of local revenue. Revenue from miscellaneous sources, including interest, account for the remaining 6 percent.

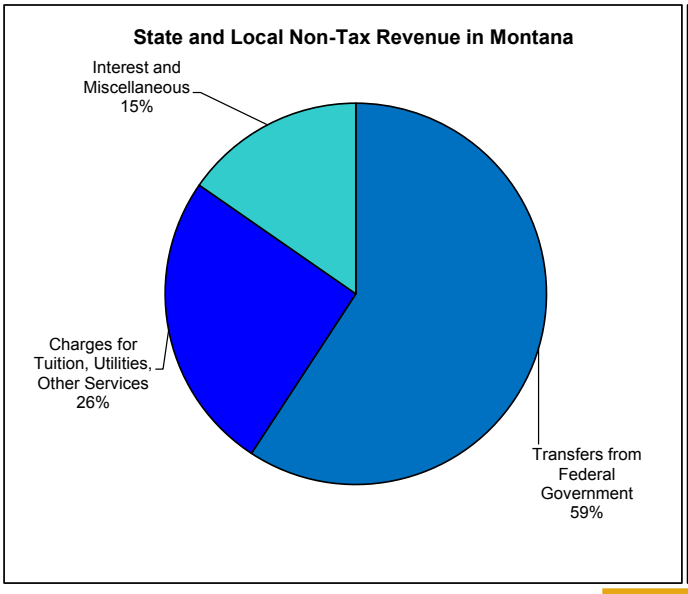
The remaining four charts on the next page show combined state and local revenue, with taxes broken down into five categories. Because state and local governments and school districts are combined in these charts, transfers from the state to local governments and school districts cancel out each other. State and local government taxes are 43 percent of revenue and transfers from the federal government are 34 percent. Charges for tuition and other services are 14 percent of state and local revenue, and interest earnings and miscellaneous are 9 percent.

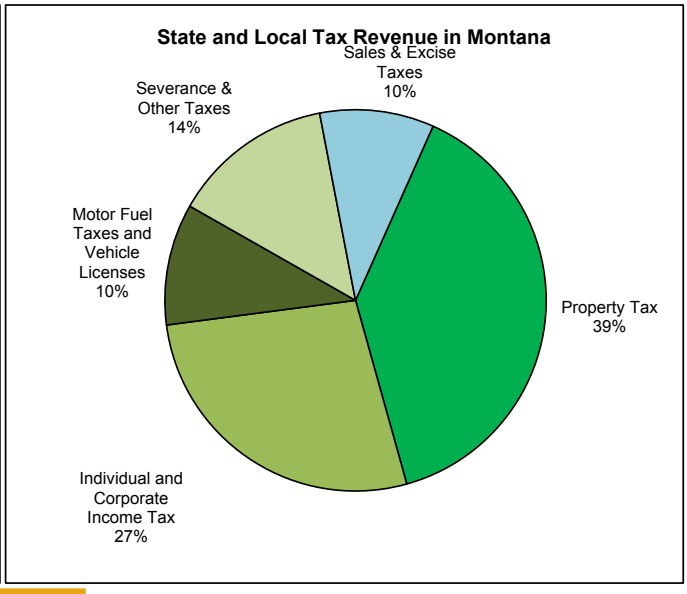

State Revenue in Montana
Interest and Miscellaneous 8%
Charges for Tuition, Non-Utility Services 10%
State-Collected Taxes 40%
Transfers from Federal Government 42%


Local Revenue in Montana
Interest and Miscellaneous 6%
Charges for Tuition, Non-Utility Services 13%
Local Taxes 26%
Transfers from State Government and Local Share of State Taxes 31%
Transfers from Federal Government 24%

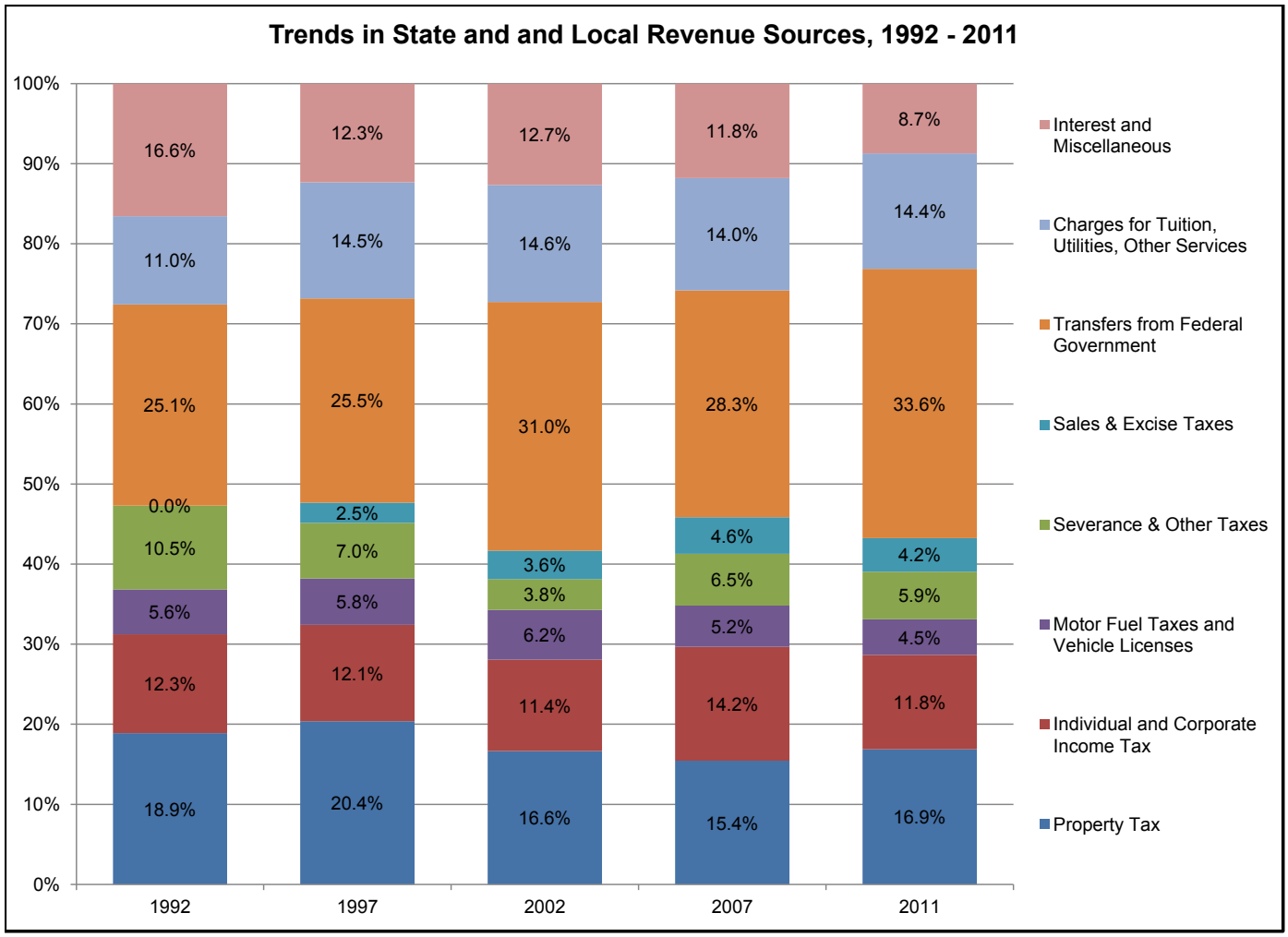

State and Local Revenue in Montana
Tax Revenue 43%
Non-Tax Revenue 57%


State and Local Revenue in Montana
Interest and Miscellaneous 9%
Property Tax 17%
Charges for Tuition, Utilities, Other Services 14%
Individual and Corporate Income Tax 12%
Severance & Other Taxes 6%
Motor Fuel Taxes and Vehicle Licenses 4%
Transfers from Federal Government 34%
Sales & Excise Taxes 4%


State and Local Non-Tax Revenue in Montana
Interest and Miscellaneous 15%
Charges for Tuition, Utilities, Other Services 26%
Transfers from Federal Government 59%


State and Local Tax Revenue in Montana
Sales & Excise Taxes 10%
Severance & Other Taxes 14%
Motor Fuel Taxes and Vehicle Licenses 10%
Property Tax 39%
Individual and Corporate Income Tax 27%

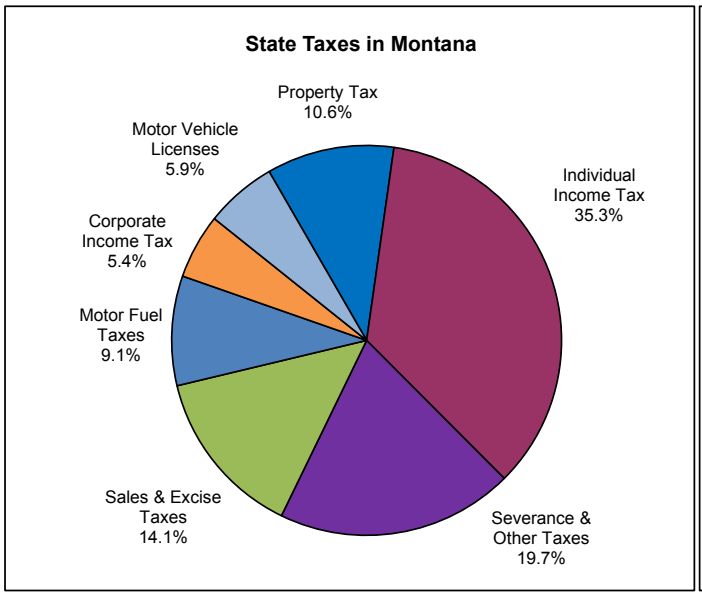
The sources of state and local revenue have changed in relative importance over time. This is shown in the following graph. Transfers from the federal government have become a larger share of state and local revenue. In fiscal year 2011, transfers from the federal government accounted for 33.6 percent of Montana's state and local revenue. In fiscal years 1992 and 1997 transfers from the federal government only comprised 25.1 percent and 25.5 percent of state and local revenue, approximately 8 percentage points below the fiscal year 2011 levels. At the same time, interest and miscellaneous revenue sources comprised 8.7 percent of state and local government revenues in Montana during fiscal year 2011, below their 1992 and 2002 levels of 16.6 percent and 12.7 percent.

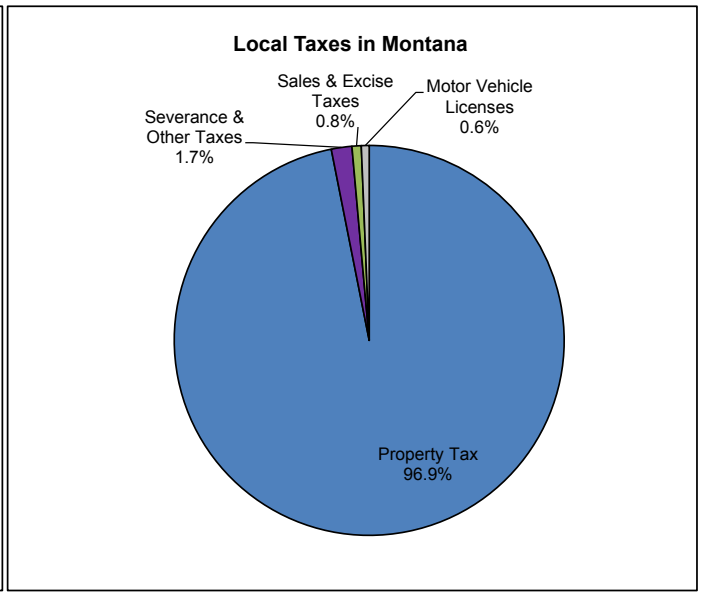


State and Local Taxes

The two pie graphs on the next 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 second 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 percent of state tax revenue. Statewide 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 percent 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, 2014. 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 2014.

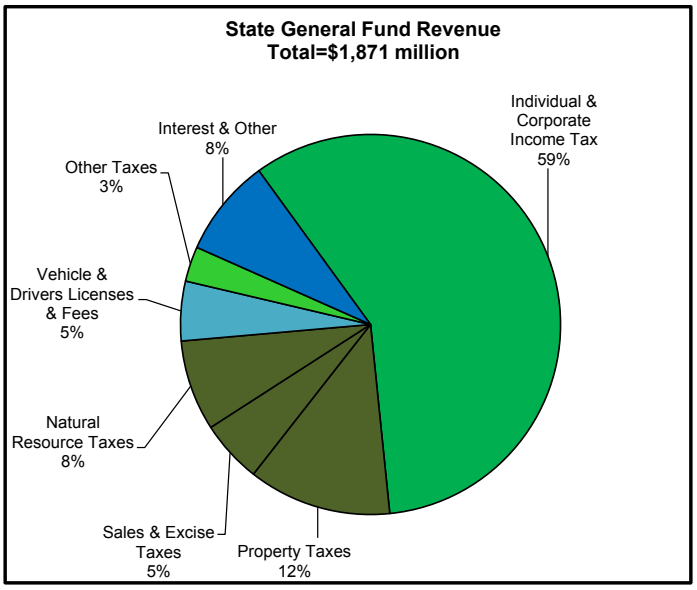
For taxes that are collected by the state, the table shows the share that is distributed to local governments and school districts. However, it does not reflect the fact that half of revenue going into the state general fund is distributed to local governments and school districts.

Allocation of Montana State and Local Taxes, FY 2014

	Property Tax	Individual Income Tax	Severance & Other Taxes	Sales & Excise Taxes	Motor Fuel Taxes	Corporate Income Tax	Motor Vehicle Licenses
Local							
Governments & Special Districts	41.61%	-	16.98%	0.97%	-	-	-
Schools	39.07%	-	19.70%	-	-	-	-
State							
General Fund	18.16%	100.00%	43.68%	45.12%	-	100.00%	67.84%
University System	1.16%	-	1.06%	1.19%	-	-	-
Health & Human Services	-	-	-	22.10%	-	-	-
Regulation & Agency Operations	-	-	0.83%	14.03%	-	-	4.45%
Public Safety	-	-	1.22%	1.77%	0.04%	-	-
Transportation	-	-	-	0.02%	96.71%	-	24.62%
Environment	-	-	4.23%	0.32%	3.25%	-	-
State Buildings	-	-	2.31%	0.35%	-	-	-
Trust Funds (inc. Retirement)	-	-	9.98%	0.28%	-	-	0.18%
Parks, Recreation, Tourism	-	-	-	13.85%	-	-	2.91%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
% of Total from Each Tax	**37.15%**	**28.12%**	**7.81%**	**13.41%**	**5.73%**	**3.93%**	**3.85%**
Total From Each Tax ($ millions)	**$1,405.252**	**$1,063.630**	**$295.250**	**$507.233**	**$216.720**	**$148.471**	**$145.759**

Department of Revenue Tax Collections

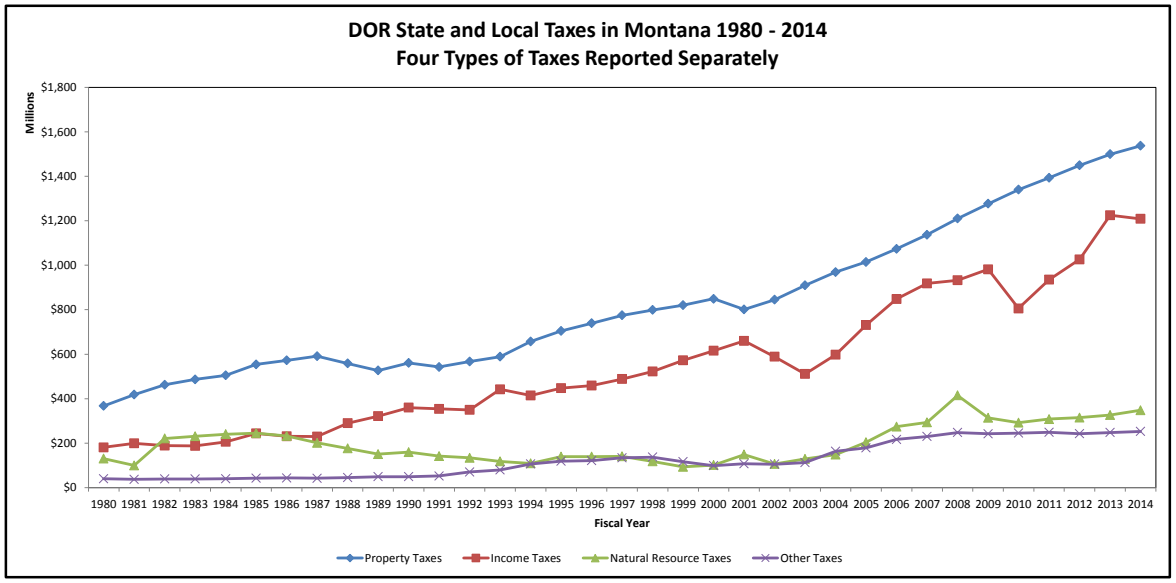
The table below shows Department of Revenue collections of state taxes for fiscal years 2008 through 2014. For taxes where revenue is split between the state and local governments, this table shows only the state share. Details on each tax can be found in later sections of this report. The Department of Revenue collects about 80 percent of state tax revenue. Other agencies that collect at least 1 percent of state tax revenue are the Department of Transportation (motor fuel taxes), the Commissioner of Securities and Insurance (insurance taxes), and the Department of Justice (gambling taxes).

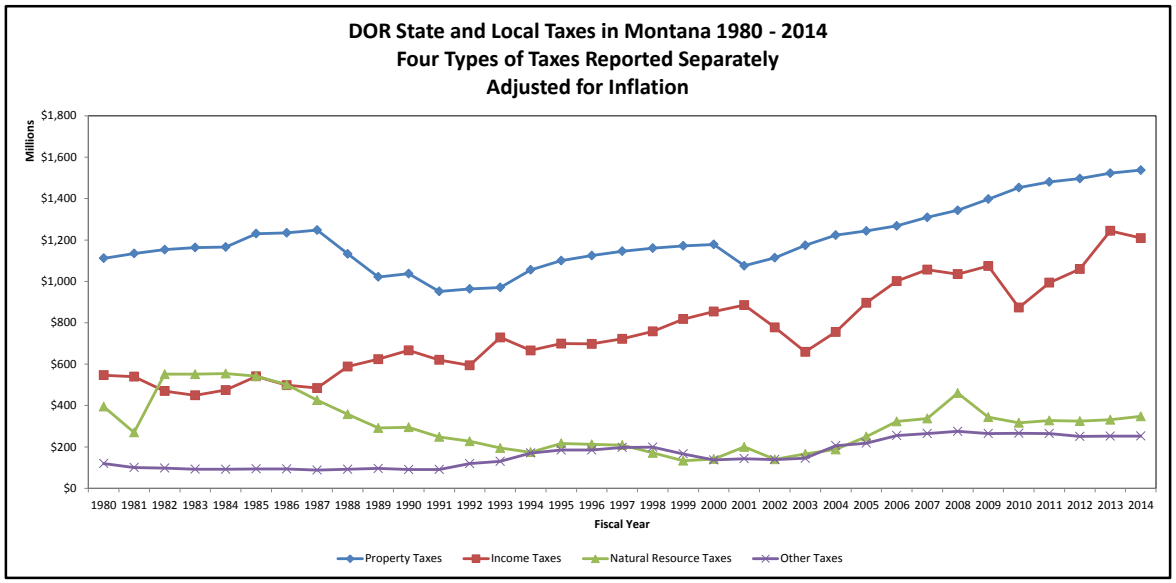


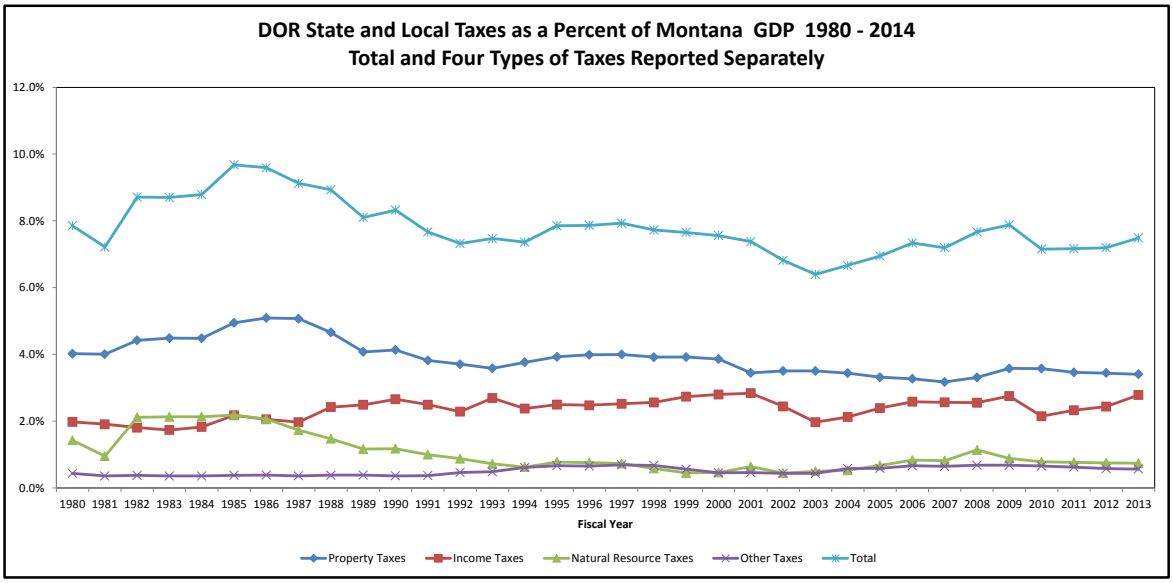
Department of Revenue State Collections - Fiscal Years 2008 - 2014

	2008	2009	2010	2011	2012	2013	2014
Individual Income Tax							
Income Tax Withheld	$ 657,958,558	$ 646,910,709	$ 644,991,064	$ 685,192,810	$ 734,240,351	$ 783,631,123	$ 816,681,159
Income Tax All Other	208,679,564	168,227,484	72,843,307	130,897,162	164,610,850	264,158,862	246,603,249
Subtotal	866,638,122	815,138,193	717,834,371	816,089,973	898,851,201	1,047,789,985	1,063,284,408
Corporation License Tax	160,341,787	166,357,514	87,906,411	119,045,890	127,774,092	176,985,849	145,709,288
Natural Resources Taxes (State Portion)							
Bentonite Tax	626,262	532,575	267,113	410,025	494,248	352,050	172,039
Coal Severance Tax	45,331,870	49,564,120	44,529,619	54,970,717	52,742,627	56,573,818	57,676,184
Oil and Gas Production Tax	169,447,392	113,398,654	107,641,181	112,529,043	110,123,693	120,794,398	135,766,496
Resource Indemnity Trust Tax	1,925,990	2,053,954	1,711,844	2,146,960	2,343,678	2,112,327	2,278,971
Metalliferous Mines License Tax	14,176,634	7,885,424	8,606,371	10,653,330	9,936,518	13,222,539	10,457,348
Subtotal	230,881,886	172,902,152	162,489,015	180,300,050	175,146,517	192,703,082	206,178,999
Other Taxes, Licenses and Services							
Cigarette Tax	83,882,748	79,905,894	77,071,487	74,090,938	75,533,075	74,790,040	73,839,772
Telecommunications Excise Tax	22,350,323	22,250,383	23,523,474	22,049,967	21,459,017	20,651,872	19,656,770
Lodging Facility Use Tax	18,562,141	17,103,638	17,132,174	19,718,227	22,257,882	23,332,178	24,486,047
Inheritance/Estate Tax (Net)	122,148	217,097	90,544	43,165	59,718	1,676	3,741
Sales Tax - Accommodations	13,389,534	12,477,461	12,330,846	14,240,586	15,606,496	16,719,931	17,725,159
Nursing Facility Bed Tax	15,868,028	15,308,973	14,928,685	14,609,167	14,294,205	13,719,662	13,929,619
Hospital Utilization Fee	16,671,570	19,582,981	21,290,112	21,819,469	21,238,158	21,703,642	22,179,418
Emergency Telephone 911 System	12,986,143	13,249,845	13,801,647	13,376,568	13,212,111	13,062,990	13,009,356
Electrical Energy Production Tax	5,179,013	4,824,659	4,713,429	4,332,363	4,481,361	5,066,602	4,279,845
Abandoned Property	5,858,281	4,541,077	12,491,906	7,276,154	7,188,318	8,827,032	12,882,668
Tobacco Products Tax	9,872,434	10,479,063	11,210,117	11,492,465	12,024,144	12,386,794	12,562,721
Wholesale Energy Transaction Tax	3,856,112	3,864,771	3,556,056	3,945,547	3,427,411	3,558,221	3,112,284
Public Service Commission Tax	3,520,803	3,521,894	2,493,209	4,739,380	2,461,936	2,608,068	4,910,861
Sales Tax - Rental Vehicles Tax	3,157,239	2,904,340	2,807,415	3,149,201	3,419,763	3,523,211	3,521,324
Contractor's Gross Receipts Tax	5,062,659	5,929,999	6,969,395	6,803,285	(3,041,921)	(137,587)	887,078
Rail Car Tax	2,063,981	2,099,454	2,579,263	2,130,192	2,273,412	2,178,957	2,418,072
Consumer Counsel Tax	1,696,840	1,355,530	530,981	1,243,187	1,523,517	1,063,563	1,444,344
TDD Telecommunications Service Fee	1,320,796	1,389,821	1,361,947	1,350,111	1,325,236	1,317,336	1,430,128
Intermediate Care Utilization Fee	890,691	907,764	913,971	931,535	882,024	951,767	906,220
Other Taxes and Licenses	173,384	148,865	120,069	122,424	127,592	152,681	151,784
Subtotal	226,484,868	222,063,508	229,916,727	227,463,929	219,753,456	225,478,635	233,337,211
Liquor Taxes, Profits, and Licenses							
Liquor Profits and License Fees (to GF)	10,182,218	7,649,280	9,322,967	9,363,108	9,559,079	10,584,631	10,560,209
Liquor, Beer, and Wine Taxes	27,187,202	24,326,002	28,196,405	28,699,909	30,266,107	31,438,970	32,471,220
Subtotal	37,369,419	31,975,283	37,519,372	38,063,017	39,825,185	42,023,600	43,031,429
TOTAL COLLECTIONS	$ 1,521,716,082	$ 1,408,436,650	$ 1,235,665,896	$ 1,380,962,859	$ 1,461,350,452	$ 1,684,981,151	$ 1,691,541,335

The three graphs on the next page show total collections of taxes, divided into four categories, for fiscal years 1980 through 2014. 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 2014. The third shows taxes as a percent of Montana GDP.


DOR State and Local Taxes in Montana 1980 - 2014
Four Types of Taxes Reported Separately
Millions
$1,800
$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 2011 2012 2013 2014
Fiscal Year
Property Taxes
Income Taxes
Natural Resource Taxes
Other Taxes


DOR State and Local Taxes in Montana 1980 - 2014
Four Types of Taxes Reported Separately
Adjusted for Inflation
Millions
$1,800
$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 2011 2012 2013 2014
Fiscal Year
Property Taxes
Income Taxes
Natural Resource Taxes
Other Taxes


DOR State and Local Taxes as a Percent of Montana GDP 1980 - 2014
Total and Four Types of Taxes Reported Separately
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
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 2011 2012 2013
Fiscal Year
Property Taxes
Income Taxes
Natural Resource Taxes
Other Taxes
Total

The following table shows how taxes are grouped in the previous three graphs:

Property Tax	**Income Taxes**
●Taxes Based on Mill Levies	●Individual Income Taxes
●Special Improvement Districts (SID)	●Corporate Income Taxes
●Rural Improvement Districts (RID)	
●Other Fees	
Natural Resource Taxes	
●Coal Severance Tax	●Miscellaneous Mines Net Proceeds Tax
●Coal Gross Proceeds Tax	●Bentonite Tax
●Metal Mines License Tax	●Oil and Natural Gas Severance Tax
●Metal Mines Gross Proceeds Tax	●Cement and Gypsum Taxes
●Resource Indemnity and Groundwater Assessment Tax	
Other Taxes	
●Lodging Facility Use Tax	●Emergency Telephone System Fee
●Accommodations Sales Tax	●TDD Telecommunications Fee
●Rental Vehicle Tax	●Electrical Energy Producers' Tax
●Cigarette Tax	●Wholesale Energy Transaction Tax
●Tobacco Product Tax	●Consumer Council Tax
●Cigarette Seller Licenses	●Public Service Commission Tax
●Liquor License Tax	●Unclaimed Property
●Liquor Excise Tax	●Public Contactor's Gross Receipts Tax
●Beer Tax	●Inheritance and Estate Tax
●Wine Tax	●Nursing Facility Bed Tax
●Alcoholic Beverage License Fees	●Intermediate Care Facility Utilization Fee
●Telephone Company Tax and Retail Telecommunication Tax	●Hospital Facility Utilization Fee ●Rail Car Tax

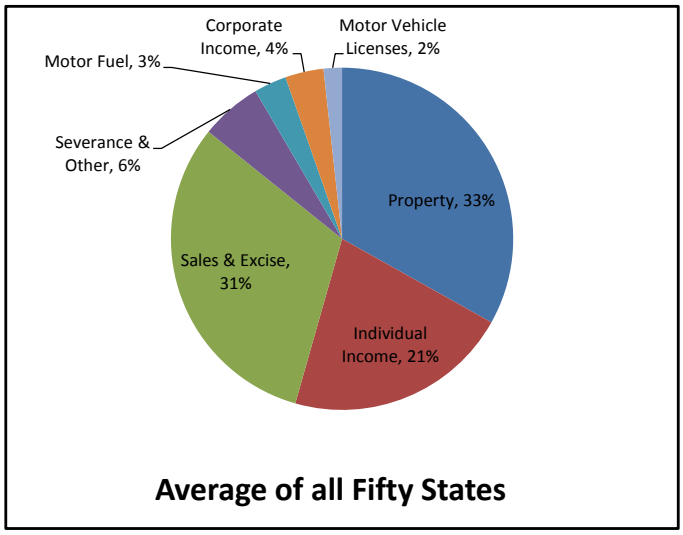
The charts on the next page show the mix of taxes in fiscal year 2011 for Montana, the average of all 50 states, Idaho, North Dakota, South Dakota, and Wyoming. The charts on the following page show the mix of state and local spending for the same states.

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 percent of state and local tax revenue. This combination of taxes is often referred to as the “three legged stool” of state and local taxation.

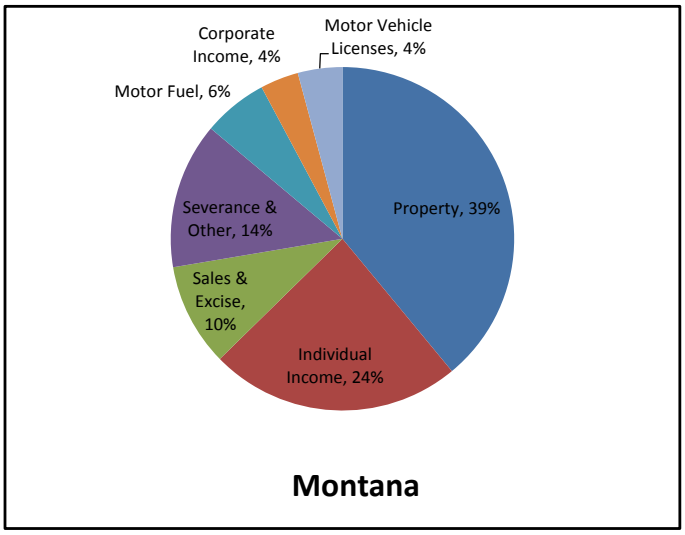
Compared to the average, Montana gets a much smaller share of tax revenue from sales and excise taxes and a somewhat larger share from each of the other types. Of the four neighboring states, only Idaho looks like the average state. North Dakota receives about average proportions from property taxes 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. Except for Wyoming, the states in the region devote 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.

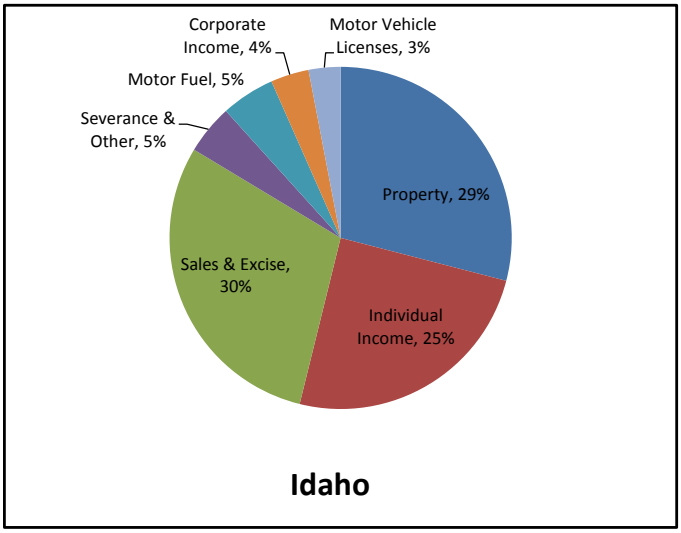
State and Local Taxes



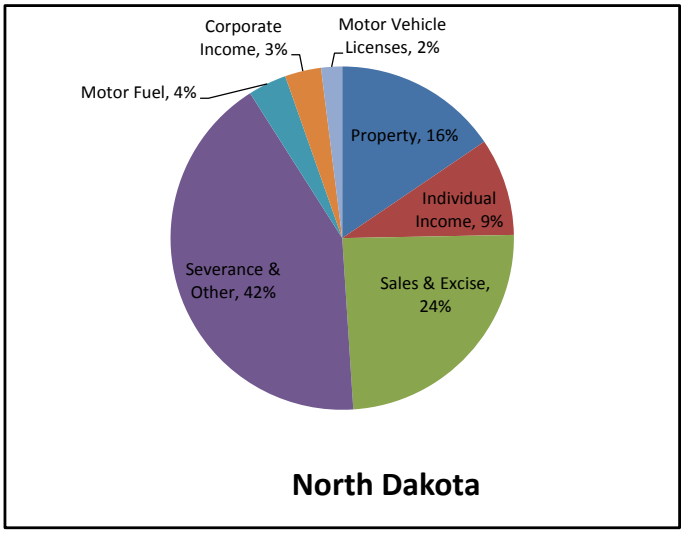
Average of all Fifty States



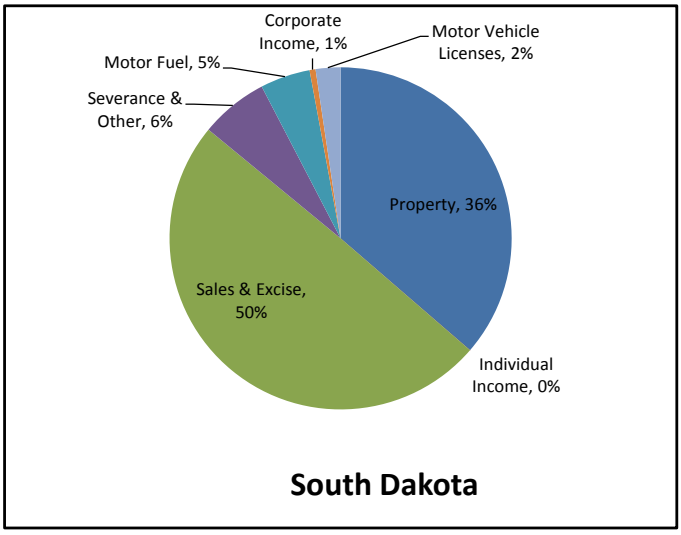
Montana



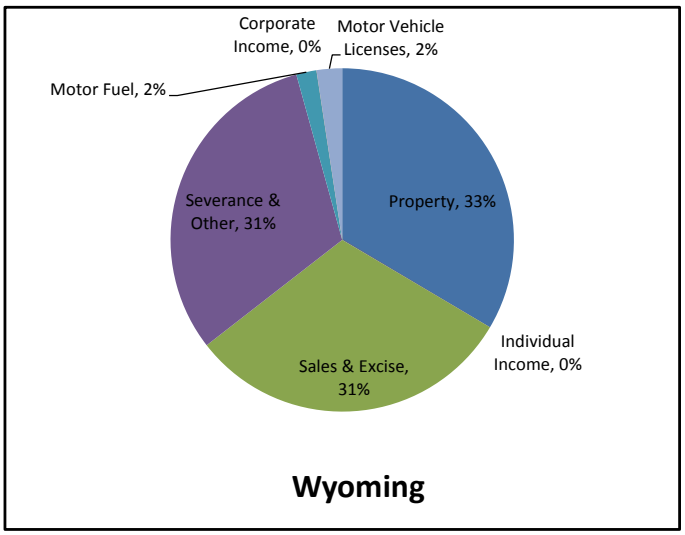
Idaho



North Dakota

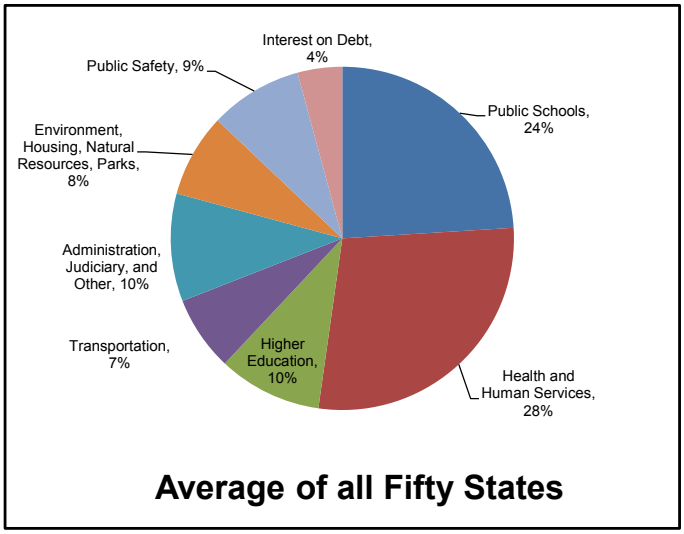


South Dakota

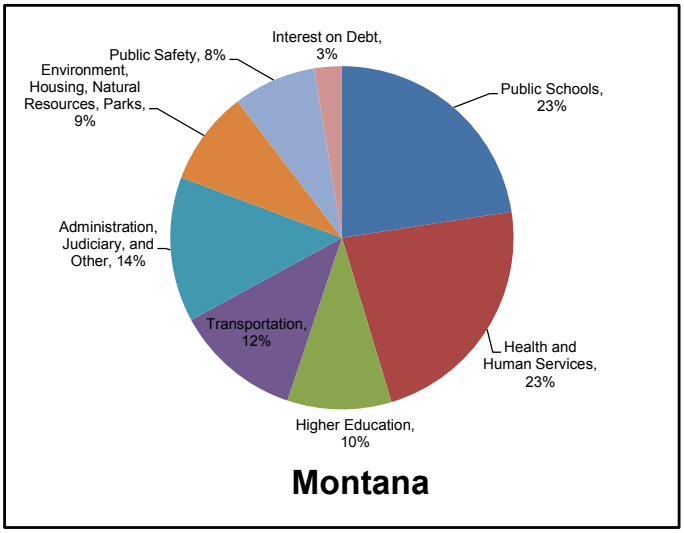


Wyoming

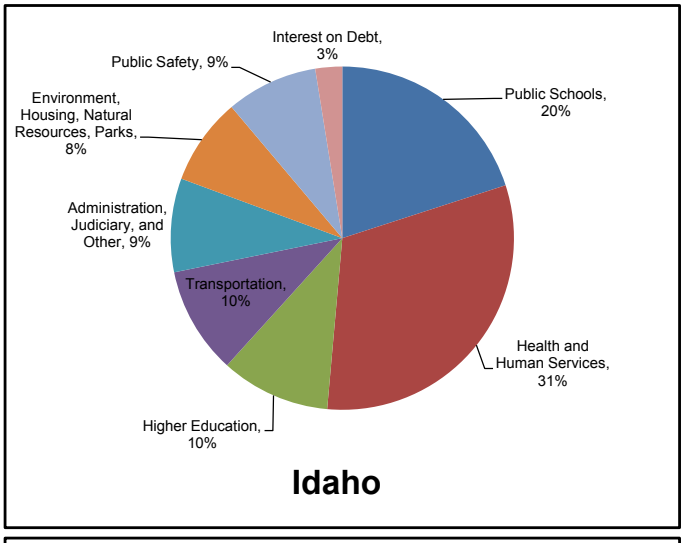
State and Local Spending



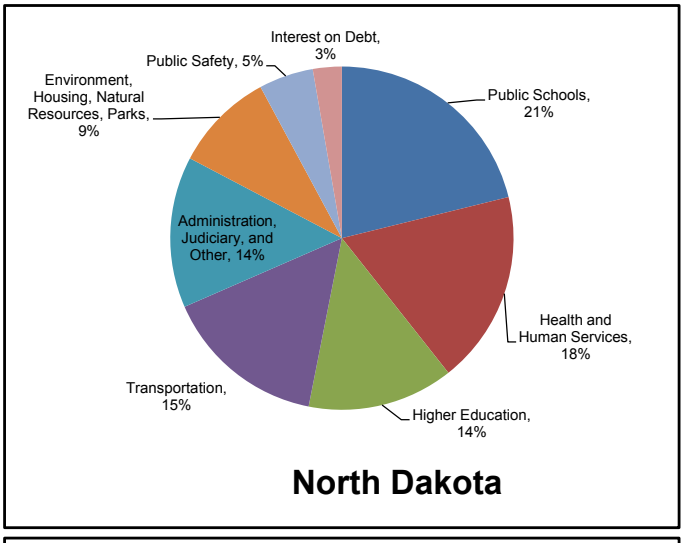
Average of all Fifty States



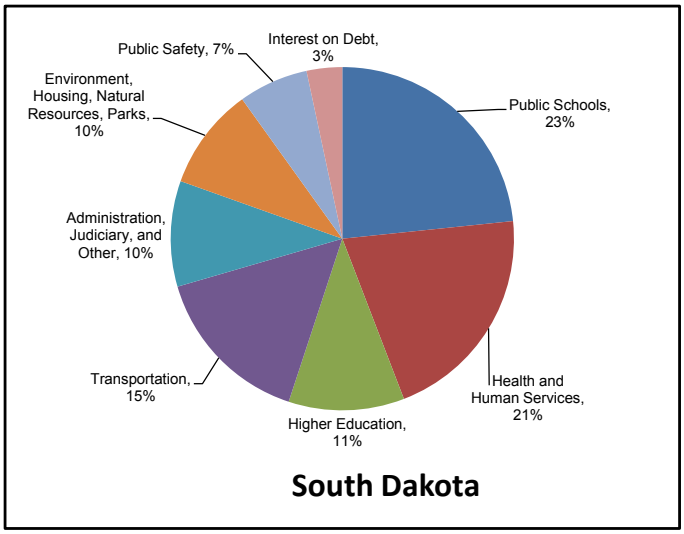
Montana



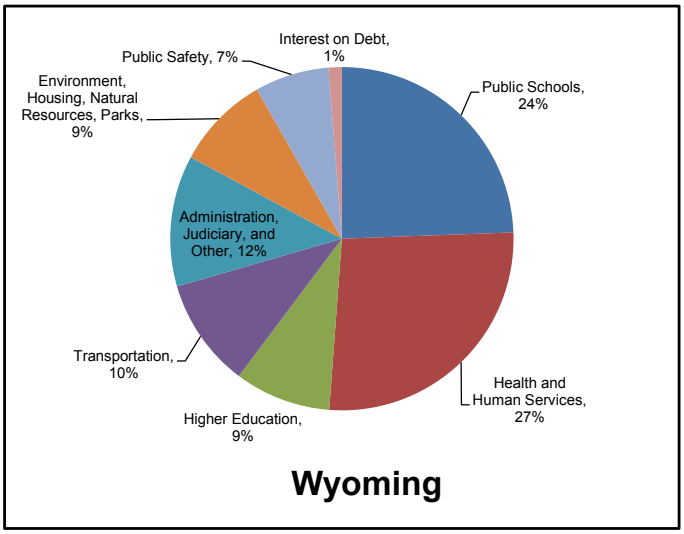
Idaho



North Dakota



South Dakota



Wyoming

How Does Montana's State and Local Revenue System Measure Up?
There are many ways to evaluate state and local revenue systems. People and businesses care about different aspects of revenue systems because state and local taxes affect them differently: 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 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.[2] The NCSL's nine principles can be stated 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 be higher for low income taxpayers than for higher income taxpayers. 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 targeted tax credits, and sometimes it is a 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 also compares Montana to the other states. [3]

2 The latest version, updated in 2007, can be found on the NCSL website at http://www.ncsl.org/research/fiscal-policy/principles-of-a-high-quality-state-revenue-system.aspx.

3 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) produces 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."

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 impose limits on local governments' ability to raise revenue.

In Montana, both the state and local governments levy property taxes, so there is some degree of competition for tax base. In the past, the state and local governments shared a variety of taxes. 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 oil and natural gas production tax continues to be shared. Before 2003, the state and local shares were partly determined by property tax mill levies, but the 2003 Legislature made state and local shares fixed percentages.

The state mandates minimum and maximum spending levels for school districts, but also provides state funding.

The state imposes a limit on annual property tax revenue growth, but allows voter-approved levies to exceed the limit.

The state limits local government taxing authority to property taxes, a local sales tax in communities that qualify as resort areas, a local option gasoline tax, and a local option vehicle registration fee.

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 graph on the following page compares states on the variability of state and local tax revenue. 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 2011. Montana is highlighted in blue, and the four surrounding states and the U.S. average[5] have darker shading than other states.

Montana ranks 39th, with somewhat higher-than-average relative variability. The stability of a state's revenue depends on its tax structure and 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.

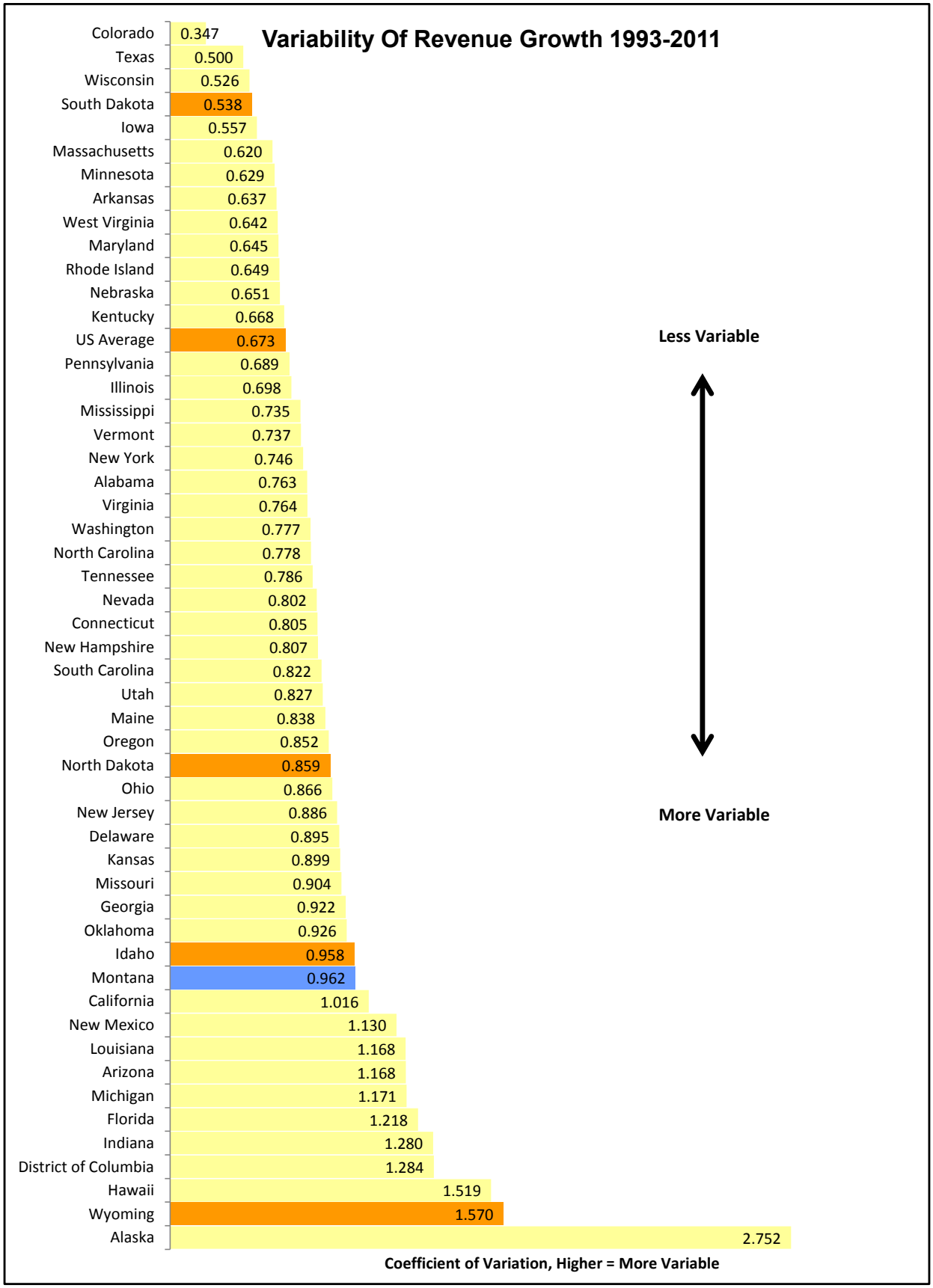
Balance
The Principles document states that "All taxes have their advantages and disadvantages, but reliance on a diverse assortment can cancel out their biases." An unbalanced tax system relies on one or two taxes for most of its revenue. The next two graphs compare states on their share of taxes from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

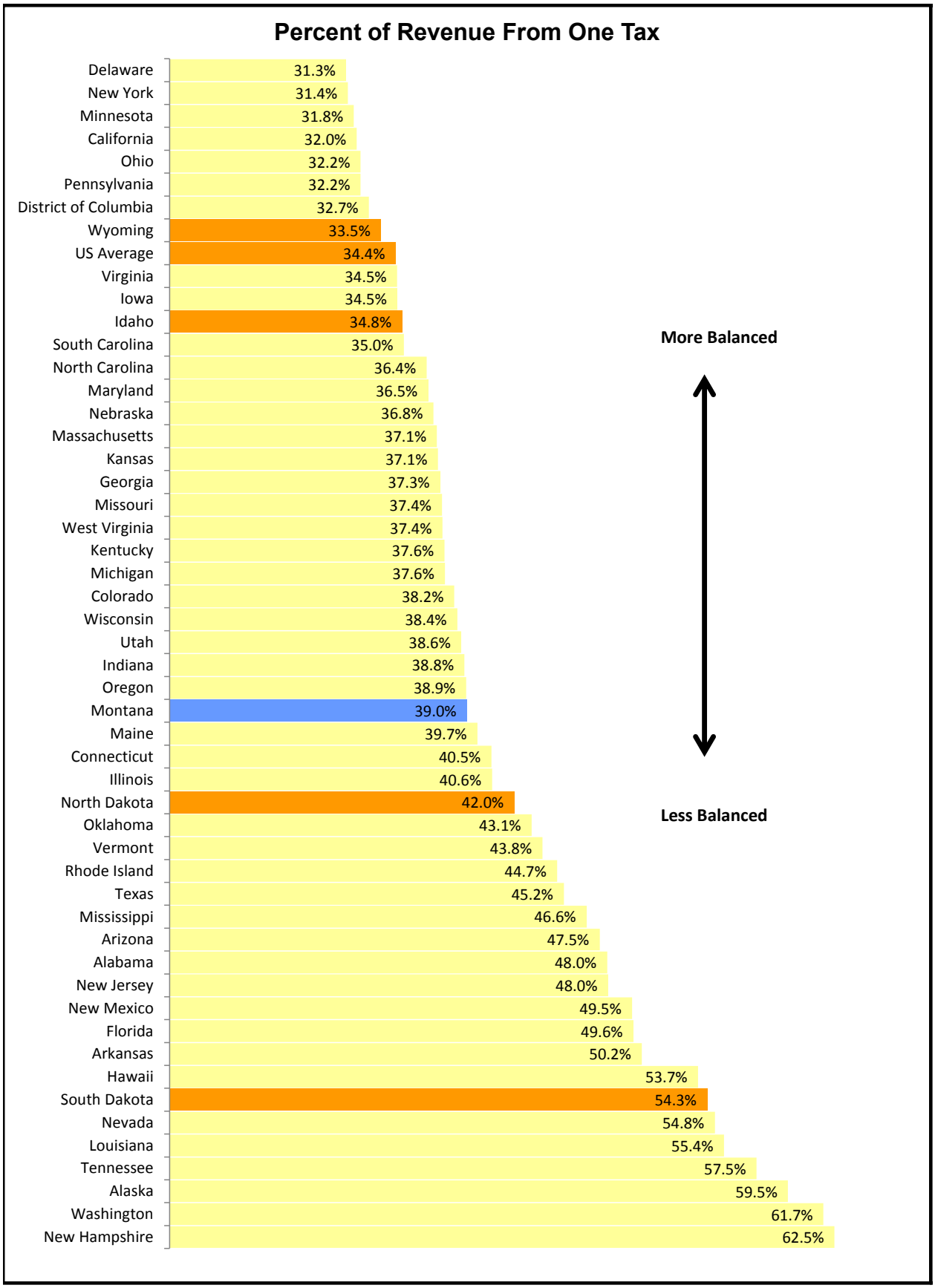
The conventional view is that a balanced tax system would get most of its revenue from the "three-legged stool" of income, property, and sales taxes, but balance can be achieved in other ways. Despite not having a general sales tax, Montana has one of the more balanced tax systems, as measured by the percent of revenue from one or two taxes, with 40 percent from one tax and 62 percent from two taxes. For Montana, selective sales and excises taxes and severance taxes together make up about the same share of revenue as general sales taxes do for other states.

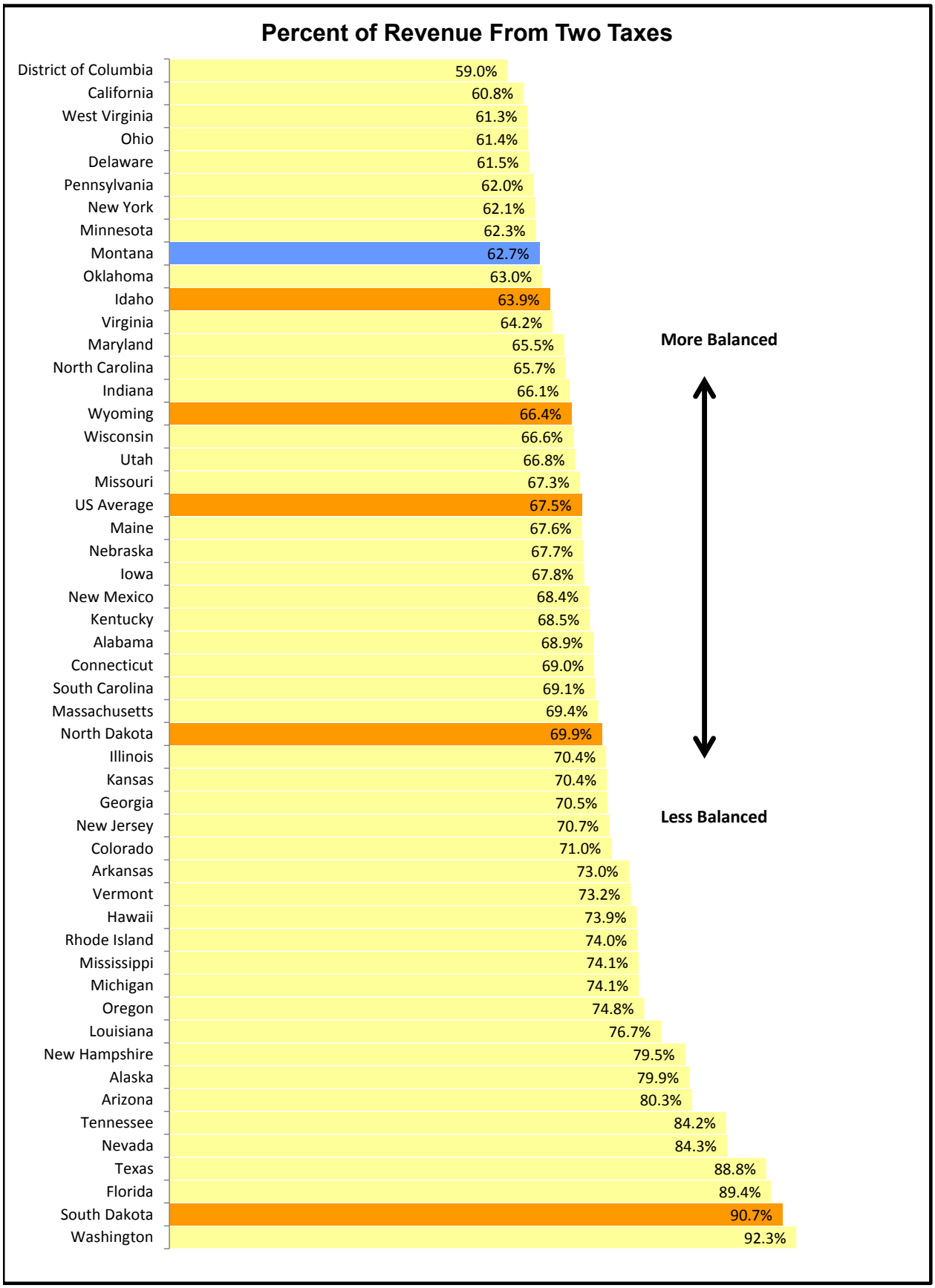
Equity
The Principles document recognizes that views on equity differ, but gives three minimal principles of tax equity: taxpayers in similar circumstances should pay similar taxes, regressivity should be minimized, and taxes on low-income individuals should be minimized.

A tax system is defined to be proportional if the ratio of taxes to income is the same for taxpayers with

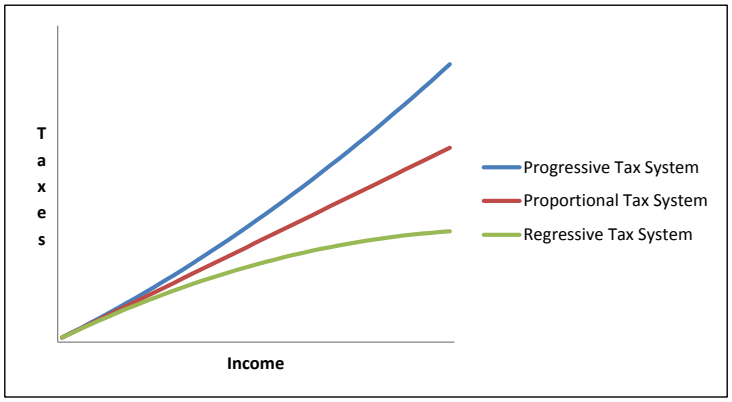
4 The coefficient of variation is a measure of relative variability. A higher CV indicates that the variation in annual growth rates is a larger percentage of the average growth rate.
5 In this section, U.S. averages are calculated from total revenue for all fifty states. They are not the average of the fifty state numbers.


Variability Of Revenue Growth 1993-2011
Colorado 0.347
Texas 0.500
Wisconsin 0.526
South Dakota 0.538
Iowa 0.557
Massachusetts 0.620
Minnesota 0.629
Arkansas 0.637
West Virginia 0.642
Maryland 0.645
Rhode Island 0.649
Nebraska 0.651
Kentucky 0.668
US Average 0.673
Pennsylvania 0.689
Illinois 0.698
Mississippi 0.735
Vermont 0.737
New York 0.746
Alabama 0.763
Virginia 0.764
Washington 0.777
North Carolina 0.778
Tennessee 0.786
Nevada 0.802
Connecticut 0.805
New Hampshire 0.807
South Carolina 0.822
Utah 0.827
Maine 0.838
Oregon 0.852
North Dakota 0.859
Ohio 0.866
New Jersey 0.886
Delaware 0.895
Kansas 0.899
Missouri 0.904
Georgia 0.922
Oklahoma 0.926
Idaho 0.958
Montana 0.962
California 1.016
New Mexico 1.130
Louisiana 1.168
Arizona 1.168
Michigan 1.171
Florida 1.218
Indiana 1.280
District of Columbia 1.284
Hawaii 1.519
Wyoming 1.570
Alaska 2.752
Less Variable
More Variable
Coefficient of Variation, Higher = More Variable


Percent of Revenue From One Tax
Delaware 31.3%
New York 31.4%
Minnesota 31.8%
California 32.0%
Ohio 32.2%
Pennsylvania 32.2%
District of Columbia 32.7%
Wyoming 33.5%
US Average 34.4%
Virginia 34.5%
Iowa 34.5%
Idaho 34.8%
South Carolina 35.0%
North Carolina 36.4%
Maryland 36.5%
Nebraska 36.8%
Massachusetts 37.1%
Kansas 37.1%
Georgia 37.3%
Missouri 37.4%
West Virginia 37.4%
Kentucky 37.6%
Michigan 37.6%
Colorado 38.2%
Wisconsin 38.4%
Utah 38.6%
Indiana 38.8%
Oregon 38.9%
Montana 39.0%
Maine 39.7%
Connecticut 40.5%
Illinois 40.6%
North Dakota 42.0%
Oklahoma 43.1%
Vermont 43.8%
Rhode Island 44.7%
Texas 45.2%
Mississippi 46.6%
Arizona 47.5%
Alabama 48.0%
New Jersey 48.0%
New Mexico 49.5%
Florida 49.6%
Arkansas 50.2%
Hawaii 53.7%
South Dakota 54.3%
Nevada 54.8%
Louisiana 55.4%
Tennessee 57.5%
Alaska 59.5%
Washington 61.7%
New Hampshire 62.5%
More Balanced
Less Balanced


Percent of Revenue From Two Taxes
District of Columbia 59.0%
California 60.8%
West Virginia 61.3%
Ohio 61.4%
Delaware 61.5%
Pennsylvania 62.0%
New York 62.1%
Minnesota 62.3%
Montana 62.7%
Oklahoma 63.0%
Idaho 63.9%
Virginia 64.2%
Maryland 65.5%
North Carolina 65.7%
Indiana 66.1%
Wyoming 66.4%
Wisconsin 66.6%
Utah 66.8%
Missouri 67.3%
US Average 67.5%
Maine 67.6%
Nebraska 67.7%
Iowa 67.8%
New Mexico 68.4%
Kentucky 68.5%
Alabama 68.9%
Connecticut 69.0%
South Carolina 69.1%
Massachusetts 69.4%
North Dakota 69.9%
Illinois 70.4%
Kansas 70.4%
Georgia 70.5%
New Jersey 70.7%
Colorado 71.0%
Arkansas 73.0%
Vermont 73.2%
Hawaii 73.9%
Rhode Island 74.0%
Mississippi 74.1%
Michigan 74.1%
Oregon 74.8%
Louisiana 76.7%
New Hampshire 79.5%
Alaska 79.9%
Arizona 80.3%
Tennessee 84.2%
Nevada 84.3%
Texas 88.8%
Florida 89.4%
South Dakota 90.7%
Washington 92.3%
More Balanced
Less Balanced

different incomes. 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. The graph below 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 incomes in taxes. The green line shows a regressive tax system, where taxpayers with lower incomes pay a higher percentage of their incomes 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 50 states and the District of Columbia. 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. The Suits index is always between -1 and 1. If all taxes were paid by the person with the highest income, the Suits index would be equal to 1, and if all of taxes were paid by the person with the lowest income, the Suits index would be equal to -1.[6]

As the graph shows, almost 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, property and sales taxes together generate more revenue than the income tax in all states except for Delaware.

Property taxes are regressive because, while higher-income individuals 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.

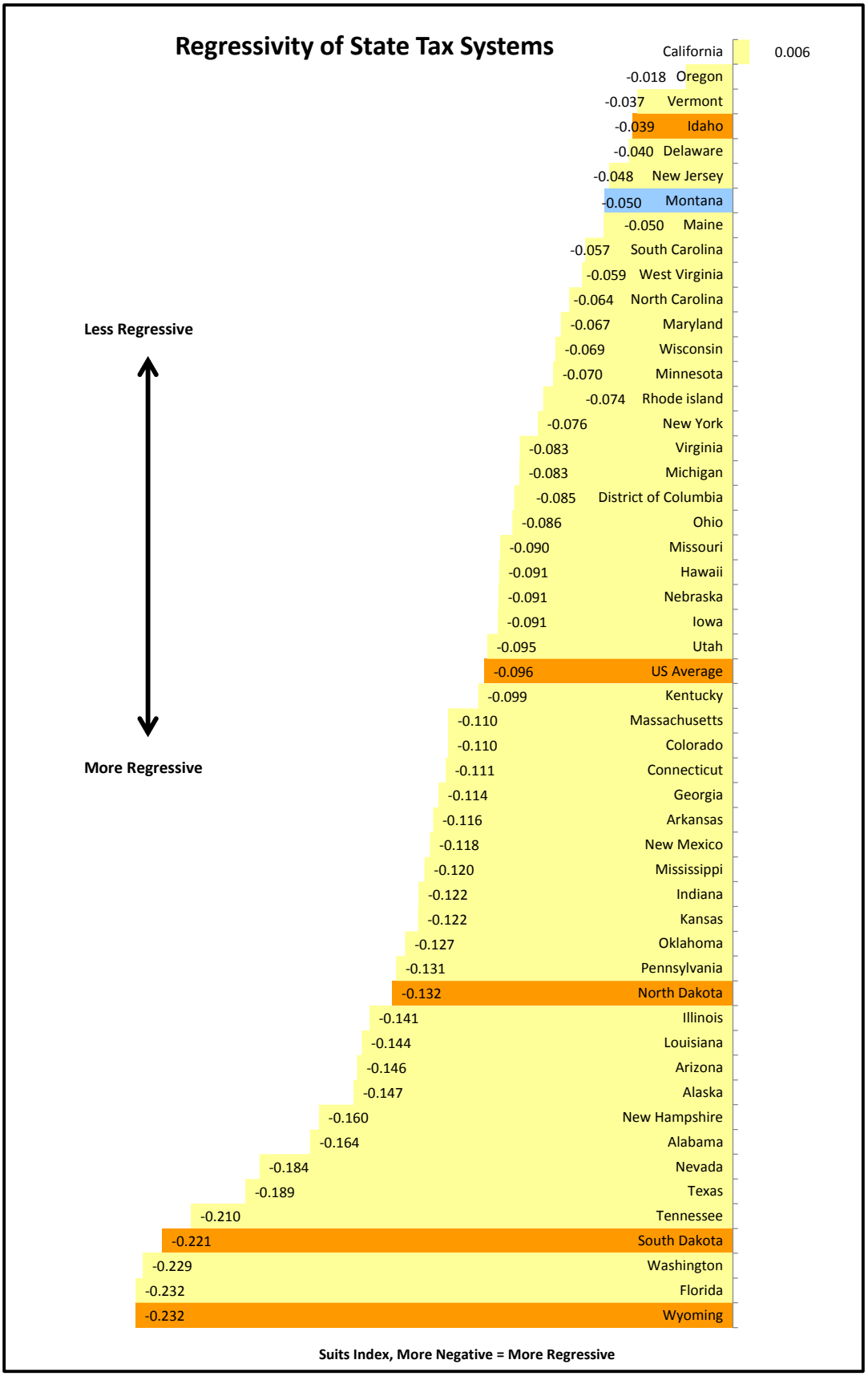
Sales taxes generally are regressive because services and other non-taxable purchases make up a larger percentage of higher-income taxpayers' spending and because higher-income taxpayers typically spend a smaller fraction of their income. Higher-income taxpayers are more likely to be accumulating wealth,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

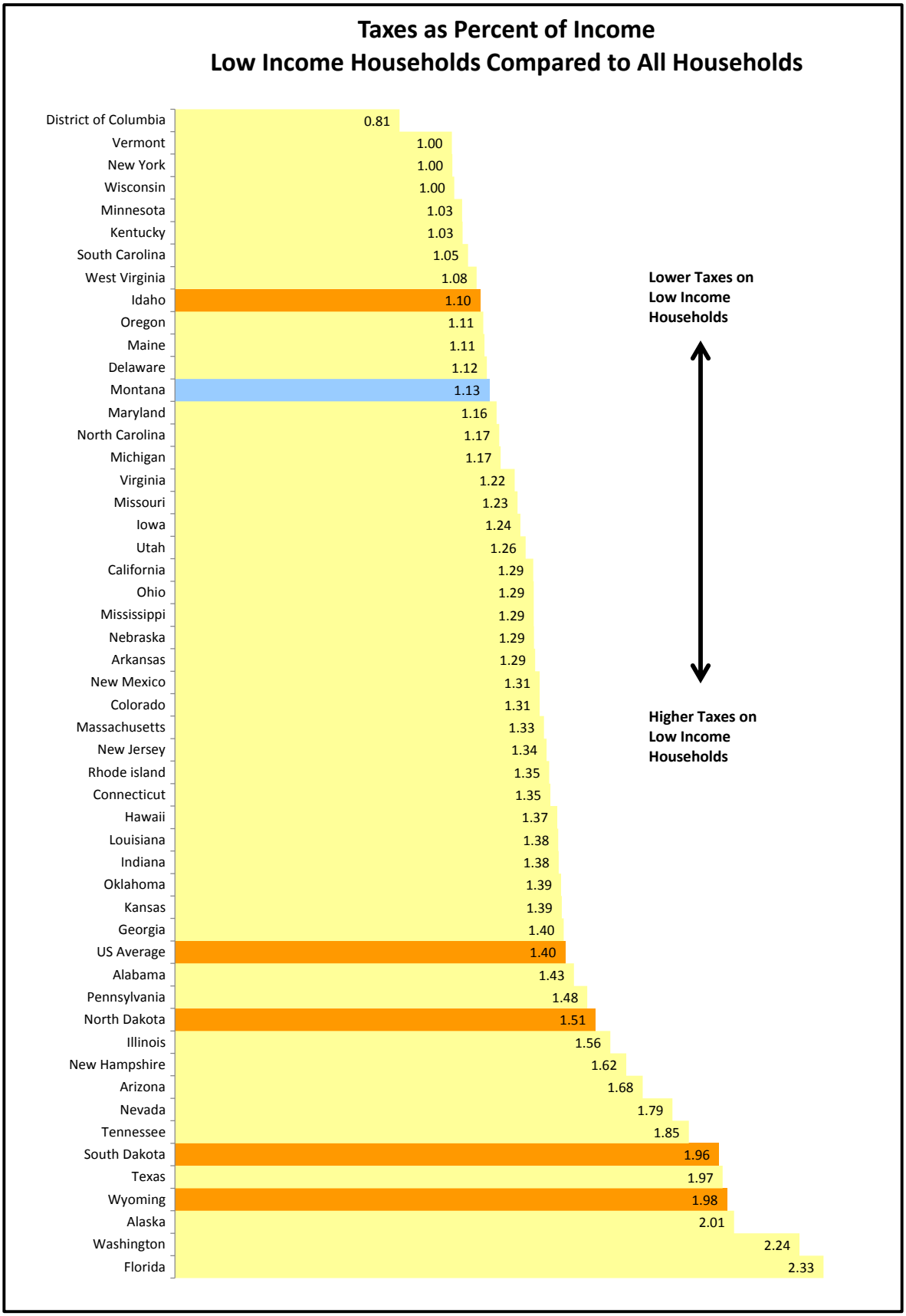
Montana has one of the least regressive tax systems as measured by the Suits index.

The right-hand graph on the next page compares the percentage of income going to state and local taxes for the fifth of taxpayers with the lowest incomes 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 other taxpayers. 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 1.13 times as large 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 1.40. There are four states where the ratio is 1 or less. The seven states with no income tax have some of the highest ratios, with low income taxpayers paying at least twice as large a share of their income in state and local taxes in three of the seven.

6 Suits Indices in the graph 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, 4th ed, Institute on Taxation & Economic Policy, 2013.


Regressivity of State Tax Systems
Less Regressive
More Regressive
California 0.006
-0.018 Oregon
-0.037 Vermont
-0.039 Idaho
-0.040 Delaware
-0.048 New Jersey
-0.050 Montana
-0.050 Maine
-0.057 South Carolina
-0.059 West Virginia
-0.064 North Carolina
-0.067 Maryland
-0.069 Wisconsin
-0.070 Minnesota
-0.074 Rhode island
-0.076 New York
-0.083 Virginia
-0.083 Michigan
-0.085 District of Columbia
-0.086 Ohio
-0.090 Missouri
-0.091 Hawaii
-0.091 Nebraska
-0.091 Iowa
-0.095 Utah
-0.096 US Average
-0.099 Kentucky
-0.110 Massachusetts
-0.110 Colorado
-0.111 Connecticut
-0.114 Georgia
-0.116 Arkansas
-0.118 New Mexico
-0.120 Mississippi
-0.122 Indiana
-0.122 Kansas
-0.127 Oklahoma
-0.131 Pennsylvania
-0.132 North Dakota
-0.141 Illinois
-0.144 Louisiana
-0.146 Arizona
-0.147 Alaska
-0.160 New Hampshire
-0.164 Alabama
-0.184 Nevada
-0.189 Texas
-0.210 Tennessee
-0.221 South Dakota
-0.229 Washington
-0.232 Florida
-0.232 Wyoming
Suits Index, More Negative = More Regressive


Taxes as Percent of Income
Low Income Households Compared to All Households
District of Columbia 0.81
Vermont 1.00
New York 1.00
Wisconsin 1.00
Minnesota 1.03
Kentucky 1.03
South Carolina 1.05
West Virginia 1.08
Idaho 1.10
Oregon 1.11
Maine 1.11
Delaware 1.12
Montana 1.13
Maryland 1.16
North Carolina 1.17
Michigan 1.17
Virginia 1.22
Missouri 1.23
Iowa 1.24
Utah 1.26
California 1.29
Ohio 1.29
Mississippi 1.29
Nebraska 1.29
Arkansas 1.29
New Mexico 1.31
Colorado 1.31
Massachusetts 1.33
New Jersey 1.34
Rhode island 1.35
Connecticut 1.35
Hawaii 1.37
Louisiana 1.38
Indiana 1.38
Oklahoma 1.39
Kansas 1.39
Georgia 1.40
US Average 1.40
Alabama 1.43
Pennsylvania 1.48
North Dakota 1.51
Illinois 1.56
New Hampshire 1.62
Arizona 1.68
Nevada 1.79
Tennessee 1.85
South Dakota 1.96
Texas 1.97
Wyoming 1.98
Alaska 2.01
Washington 2.24
Florida 2.33
Lower Taxes on Low Income Households
Higher Taxes on Low Income Households

Easy to Understand and Comply
Ideally, paying for public services would be as simple and straightforward as possible. The taxpayer would receive a bill, would easily be able to verify that the amount was correct, and would have a convenient way to pay.

Whether a state's tax system is easy to understand and easy to comply with depends on the types of taxes collected as well as on the details of the specific taxes. Some taxes are inherently harder to understand or harder to comply with. The way a tax is implemented can also make it easier or more difficult to understand and comply with. A state that relies more on taxes that are hard to understand and comply with will have a tax system that is harder to understand and comply with than a state that relies more on taxes that are inherently easy to understand and comply with.

Characteristics of a tax that influence whether it is easy to understand and comply with include:

- Whether the taxpayer receives a bill or self-assesses (files a return),
- If the tax is self-assessed, the ease or difficulty of the process,
- If tax is billed, whether the taxpayer can easily verify that the tax assessment is correct, and
- How the tax is paid.

The process for resolving disputes between the taxpayer and the taxing jurisdiction also affects the ease of complying with a tax, but is generally similar between taxes and across states. In general, the taxpayer can request an informal review, proceed to a formal review with the department, an appeal before a quasi-judicial body such as the state tax appeals board, and ultimately an appeal before state, and possibly federal, courts. One difference between taxes is who initiates the process. With taxes that are billed, the process generally begins with the taxpayer disagreeing with the taxing authority's assessment. With taxes that are self- assessed, the process generally begins when the taxing authority audits the taxpayer's return, disagrees with the self-assessed tax, and assesses additional tax.

Billed or Self-Assessed
The property tax is billed to taxpayers, though some types of property are self-reported.

Sales taxes and excise taxes generally are assessed by the vendor as part of the ultimate taxpayer's bill for the taxable good or service.

Individual and corporate income taxes are self-assessed. So are the severance taxes and most business taxes.

Unlike the typical state, Montana does not have a general sales tax. Because of this, a taxpayer in Montana self-assesses a larger proportion of tax transactions than a taxpayer in the typical state. However, the effort required to self-assess taxes depends on the number of returns a taxpayer must file and the effort each return requires, not on the tax due with each return. A taxpayer in a state with a sales tax in addition to income and property taxes will have to file about the same number of returns as they would in Montana.

Ease or Difficulty of Self-Assessment
How difficult it is for taxpayers to file returns for a tax depends on the length and complexity of the return and on additional record keeping the tax requires.

Personal Income Tax
The income tax is self-assessed. Taxpayers are required to complete and file an annual return. This requires some degree of record keeping, organization and planning. The ease of filing returns differs between taxpayers. For taxpayers whose income is all in forms for which they receive a W-2 or 1099 at the end of the year, such as wages or interest, and who take the standard deduction and do not claim any credits, filling out a return can be fairly simple. For taxpayers who have business income, itemize deductions, or claim a credit, there is a greater need to keep records, and completing a return takes more time and effort.

Like most states, Montana has tied its income tax closely to the federal income tax. For taxpayers who are required to file a federal income tax return, the closer the state return is to the federal return, the easier it is for taxpayers to file their state return. Montana's income tax return is modeled on the federal return, and for

many taxpayers, all of the information on income and deductions used in calculating their state income tax is the same information they used on their federal returns.

All states have some differences from federal law – in types of income that are taxed or exempt and in the itemized deductions and credits allowed. Montana has more differences from federal law than most states.[7] One significant difference is that Montana is one of a few states that do not require married couples to make the same choice between a joint return and separate returns that they made for the federal income tax. Federal law provides different rate tables for joint and separate returns, and almost all married couples have lower federal tax liability if they file a joint return. Montana has one rate table for all taxpayers. Most married couples with two incomes have lower state tax liability if they file separate returns, while married couples with one income generally have lower state tax liability if they file a joint return. Many couples file a joint federal return and separate state returns, which makes the process slightly more complex. In addition, many couples calculate their state tax both ways because it is not immediately obvious which will result in lower tax liability. This can significantly increase the time and effort required to file a state return.

Federal law prohibits states from taxing some types of income that the federal government taxes, and many states have chosen to exempt some other types of income. States are also allowed to tax some income that the federal government has chosen to exempt. All state income taxes have a definition of adjusted gross income that has some differences from the federal definition. As the following table shows, Montana has more differences than most other states.

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

Taxpayers who itemize deductions need to keep track of deductible expenditures and to fill out additional schedules on their tax returns. States that either allow the same itemized deductions as federal law or do not allow any itemized deductions impose the smallest costs for additional record keeping and filing returns. A majority of states that have itemized deductions have at least one difference from federal law – they do not allow the itemized deduction for state income tax that federal law allows. Some states have more differences from federal law, either allowing additional deductions or not allowing some federal deductions. As the following table shows, Montana has more differences from federal itemized deductions than any other state.

State Itemized Deductions	
Same as Federal	6 states
No Itemized Deductions	11 states
Standard Deduction plus Percent of Federal Itemized Deductions	1 state
1 difference from Federal Deductions	10 states
2 or 3 differences from Federal Deductions	11 states
4 to 7 differences from Federal Deductions	4 states
8 differences from Federal Deductions	1 state (Montana)

Tax credits reduce taxes for eligible taxpayers but require them to keep track of expenditures that are the basis of a credit and to fill out additional schedules. As the following table shows, Montana has more credits than most states, but there are states with many more credits than Montana. The additional work can vary greatly between credits, and only a subset of taxpayers claim any one credit, so the number of credits measures only one aspect of the additional compliance cost from tax credits.

7 Comparisons in this section are based on a review of 2012 state tax returns and instructions and on information in Individual Income Tax Provisions in the States, Wisconsin Legislative Fiscal Bureau, January, 2011.

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**

Complying with the income tax is not more difficult for taxpayers who do not use these provisions. However, a majority of Montana taxpayers are affected by one or more of the differences from federal law. About half of Montana married couples file separate returns on the same form while 95 percent of married couples file joint federal returns. Almost half of Montana returns are subject to at least one of the state additions to or subtractions from federal adjusted gross income. About 60 percent itemize deductions and almost 10 percent claim at least one tax credit.

Corporation Income Tax

The corporate income tax also is tied to federal law. The Montana return begins with federal taxable income from the taxpayer's federal return. Montana has some adjustments to federal taxable income, and most taxpayers are affected by at least one. In particular, taxpayers must add back any Montana corporation tax deducted in calculating federal taxable income. Montana also has a large number of tax credits for corporations, but only about three percent of corporate returns claim a credit.

The most difficult state-specific aspect of the Montana return is the apportionment of the income of multi-state corporations to Montana. The form itself is not difficult, but filling it out requires keeping records of the location of the corporation's sales, payroll, and property. However, a multi-state corporation has to make an apportionment calculation for each of the states where it pays corporation tax, so the extra record keeping is not all attributable to Montana.

Selective Sales and Excise Taxes and Severance Taxes

The returns for Montana's sales and excise taxes and severance taxes generally are relatively short and straightforward. Most are one page, and ask the taxpayer to list either total or taxable sales, subtract a few deductions, and multiply the net amount by a tax rate. However, having the information to fill out the forms may require significant record keeping. Much of the information needed to fill out the tax forms is information that most businesses would be keeping anyway, such as total sales and various expenses, but some records may only be needed for taxes, such as which sales are taxable and which are exempt.

The ease of self- assessing can be partly judged by the fraction of returns with problems. For taxes where returns are filed by a business, the fraction of returns with math errors or other inconsistencies ranges from about one in ten to almost one in two. For comparison, the error rate on individual income tax returns is about one in four.

Ease of Verifying Tax Bills

Property Tax

Property tax payers receive an annual statement showing the department's valuation of their property and an annual bill showing the calculation of tax. To verify the valuation, the taxpayer generally needs to contact the department's county office and talk with an appraiser. Montana has a more complicated tax calculation than many states, and it can be difficult to understand. For residential and commercial real estate, a percentage of the assessed value is exempted. Then an assessment ratio is applied to give taxable value. The assessment ratio differs between classes of property, and, for residential, commercial, and forest real estate, it changes every year.

To verify that the correct mill levies and fees have been applied to the taxable value, the taxpayer generally needs to contact the county treasurer's office.

Selective Sales and Excise Taxes
These taxes are billed to the ultimate taxpayer as part of the bill for the taxed goods and services. Generally, the tax is stated separately. If the tax applies to the entire amount of the sale, it is straightforward for the taxpayer to check that the rate was applied correctly. If part of the sale is taxable and part is exempt, it may be difficult for a taxpayer to check whether the rate was applied only to taxable transactions.

Ease of Payment

Property Tax
Property tax payments are due twice a year. The need to make two significant cash payments requires planning on the part of the taxpayer. Most homeowners who have a mortgage make monthly payments to a financial institution that then makes the biannual tax payments.

Personal Income Tax
Taxpayers are required to make payments during the year of at least 90 percent of the current year's tax liability or 100 percent of the previous year's tax liability. Any excess payments are refunded when the taxpayer files a return, and any shortfall must be paid at that time. Payments during the year may be made by withholding or quarterly estimated payments. Most taxpayers who receive periodic payments can choose to have income tax withheld from these payments. Taxpayers must complete a form W-4 to begin the withholding process or to adjust the amount withheld. After that, withholding is automatic for the taxpayer, but adds another step to the payroll process for employers and other payers. Taxpayers who make estimated payments generally have to keep track of their income, calculate the amount to pay each quarter, and make sure that funds are available to make the payments. About nine in ten individuals or couples have taxes withheld from wages or other periodic payments, and about one in ten make estimated payments. About one in twenty do both.

Corporation Income Tax
Corporations are required to make quarterly payments during a tax year. Any excess or deficiency is made up when the corporation files its return. Making periodic tax payments generally will not be significantly different from making payments to suppliers or employees or paying dividends to shareholders. These are things businesses do routinely, and making four additional payments a year should have minimal cost.

Selective Sales and Excise Taxes
The ultimate consumers pay these taxes as part of their payment for taxable goods and services. There generally is no additional effort involved.

Vendors who collect these taxes from their customers must calculate the tax, track the amount collected and remit it to the state periodically. The tax calculation generally can be automated as part of the billing process, and is done as part of a transaction the vendor would be making anyway. Remitting the tax generally is no different from making the other types of payments that a business makes and should have minimal additional costs.

Severance Taxes
Severance tax payments are due with the taxpayer's periodic return. Making these periodic payments generally is no different from making other payments a business makes and should have minimal additional costs.

Easy to Administer Fairly, Efficiently, and Effectively

Cost to Assess or Process Returns
A tax that is easy to administer fairly, efficiently, and effectively will have a low cost for the tax agency to either assess the tax or process and verify tax returns. It will have few opportunities for taxpayers to evade the tax, and it will not create disparities in how taxpayers are treated.

The tax agency's cost to administer a tax depends on the number of taxpayers and the time and effort the agency must expend per taxpayer. The number of taxpayers varies among types of taxes. Taxes that are

paid directly by most individuals or businesses have many returns. Taxes that are paid by a few taxpayers or that are collected from many taxpayers by a few vendors have fewer returns to process.

The time spent per taxpayer depends on the length of the return and the amount of information that must be recorded. It also depends on the time that must be spent verifying and correcting a typical return.

To some extent, there may be a tradeoff between taxpayers' ease of compliance and the tax agency's ease of administration. For example, having a tax billed rather than self-assessed shifts most of the effort of calculating the tax from the taxpayer to the tax agency. Conversely, requiring taxpayers or third parties to provide additional information on sales or income would increase the effort required to comply with the tax, but could reduce the auditing effort required to administer a tax effectively.

Property Tax

The property tax is a relatively expensive tax to administer, primarily because it is billed rather than self-assessed. Montana's property tax has some complexities that make it more expensive to administer than property taxes in some states, but does not have some complications found in some other states.

The Department of Revenue assesses all property in the state, certifies the total taxable value for each taxing jurisdiction, and certifies the value of new property to be used in calculating each taxing jurisdiction's spending limits under Section 15-10-420, MCA. Each local taxing jurisdiction calculates its mill levy or levies based on its budget and taxable value. The department calculates tax for each taxable property, and then county treasurers print and mail property tax bills to each property owner. This process is relatively expensive. The budget for the Property Assessment Division is almost twice as large as the budget for the Business and Income Tax Division, which administers the individual and corporate income taxes and all the excise and selective sales taxes other than alcohol taxes.

These functions are common to the property tax systems in all states. In Montana, more of these functions are performed by the state and fewer are performed by local jurisdictions than in other states. Montana is the only state where all property assessment is a state function. In most states, property assessment is mostly or entirely a local function. In most states, a state agency oversees and supports local assessors, and in most states, property that crosses county lines, such as railroads or pipelines, is assessed by the state.

Property assessment is a state function in Montana for a combination of historic and practical reasons. The 1972 Constitutional Convention made property assessment a state function after hearing widespread concerns about lack of uniformity in appraisals done by county assessors. Montana is one of eleven states with state wide property taxes, and in these states it is important that assessments be uniform statewide as well as within local jurisdictions.

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, for example, all properties in a jurisdiction are over- assessed by 10 percent, the mills will be 10 percent lower than if assessments were at market value, and taxes will be the same as if assessments were at market value.

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 percent higher than market value in Town A and 10 percent lower than market in Town B, taxpayers in both jurisdictions pay the same taxes as if both towns assessed at market value.

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.

While assessing property at the state level increases the state cost of administering the property tax, it eliminates most local costs. It is not clear how state assessment affects the total of state and local costs.

The basis for property taxation is the market value of property. Determining the tax from market value can be simple or complex. In some states, all property is assessed at its market value and the tax equals market value multiplied by a tax rate. In other states, property is assessed at a percent of its market value, the percent may vary between classes of property, some types of property may be assessed on something other than 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 give the ratio of tax to taxable value. In Montana, they are expressed in mills, or dollars of tax per thousand dollars of taxable value. Some states express rates as a percent, or dollars of tax per hundred dollars of taxable value. 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.

State 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	

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 – 10, including two for business equipment depending on how much the taxpayer owns. Six states have uniform assessment ratios, but have at least one 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 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.

States With Partial Property Tax Exemptions

Partial Exemption	19	- including Montana
No Partial Exemption	32	

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.

Having multiple classes of property with multiple assessment ratios requires some additional costs for record keeping and data processing. It also requires the department to make sure that each parcel is classified correctly. The partial exemptions for residential and commercial real property add a step to the

calculation of taxes, but the cost is relatively low.

Montana's property tax does not have some features that make property tax administration more complex and more costly in other states. Some states have mill levies that apply to some classes of property and not to others. For example, school district levies may be applied to residential property, but not commercial property, or, public safety levies may be applied to buildings, but not to land. This requires a layer of record keeping and a step in the tax calculation that are not required in Montana. Some states have caps on increases in the assessed value of individual properties. These caps take several forms, and in some cases require assessors to track several values for each property, such as current market value, purchase price adjusted for inflation, or purchase price adjusted by an arbitrary growth rate, and use the lowest. This also requires additional layers of record keeping and additional steps in the tax calculation that are not required in Montana.

States With Cap on Assessed Value Growth	
Cap	9
No Cap	42 - including Montana

Personal Income Tax

The provisions of the Montana income tax that make it more difficult for taxpayers to file returns also generally make it more expensive for the department to process and audit returns. Building the ability to handle separate returns filed on the same form and the large number of line items into the department's data processing system required significant up-front costs. They also require considerable extra work when the system is upgraded and somewhat increase the cost of processing each return and storing the information on it. The large number of state credits and the differences from the federal definition of income and federal itemized deductions create more line items on returns that must be verified and may need to be audited to ensure high compliance.

Sales and Excise Taxes

Not having a general sales tax significantly reduces the cost of administering Montana's tax system. In states that have both a general sales tax and an income tax, the costs of administering the two taxes generally are in the same range. Sales tax is collected by almost all businesses making retail sales and many businesses making wholesale sales. Thus, there is a large number of sales tax returns to process. And, significant effort is required to verify that an individual taxpayer has applied the tax to the correct transactions and collected and remitted the correct amount of tax.

Montana's selective sales and excise taxes generally have a relatively small number of taxpayers, ranging from a few hundred up to about 10,000. Processing and verifying individual returns can take significant resources. Some of these taxes have relatively high rates of errors on returns and verifying that the tax was applied to the correct sales can be time consuming.

Severance Taxes

Most severance taxes have a small number of taxpayers and relatively simple returns. The oil and gas production tax is an exception. Part of the revenue from this tax is allocated to the county and school district where each well is located. This means that, in addition to the normal process of processing and verifying returns, the department must calculate the distribution of revenue separately for each return.

Opportunities for Non-Compliance or Gamesmanship by Taxpayers

The more opportunities a tax has for non-compliance or gamesmanship the more expensive it will be to administer efficiently and effectively because the tax agency will have to spend more time auditing taxpayers, searching for non-filers and non-payers, and dealing with questionable appeals.

Property Tax

Taxpayers are responsible for reporting business equipment annually. The department attempts to identify new construction, but taxpayers are also asked to self-identify new construction or other changes to real

estate. The only real opportunity for non-compliance for most property is a failure to report business equipment or new construction.

The appeals process offers some opportunities for gamesmanship. Taxpayers who appeal their assessments merely have to assert that the assessment is too high. They do not have to provide an alternative valuation. This essentially places the burden of proof on the department to explain and defend its valuation. There is also a procedural asymmetry. The department must argue that its valuation is correct, while the taxpayer argues that one or more components of the department's assessment result in a value that is too high. There is no party questioning whether the department's value might be too low. This can give taxpayers an incentive to appeal in the hope that the Tax Appeal Board or a court will find some reason to lower the department's assessment with essentially no risk that it will be raised. For homeowners and small businesses with limited resources and expertise this probably is not a significant problem. For large industrial taxpayers, the potential savings from significantly reducing property tax assessments can pay for in-house or hired expertise and drawn-out appeals. For these taxpayers, the structure of the appeals process makes it rational to automatically appeal in the hope that the Tax Appeal Board or a court can be convinced that there is something wrong with the department's assessment or the department can be convinced to settle for a lower valuation.

Personal Income Tax

Since the income tax is self-assessed, taxpayers have numerous opportunities not to comply with the tax. They can understate their income, overstate their deductions, and claim credits that they are not eligible for. When taxes are withheld from taxpayers' income and there is third-party reporting of income, taxpayers are much more likely to comply. Taxpayers must either risk a high probability of being caught or convince their employers to collude with them in evading tax. The IRS estimates that income is under-reported by less than 5 percent for types of income such as interest and dividends where the payer is required to report payments on a form 1099. For wages and salaries, where employers withhold tax and report income on form W-2, the IRS estimates that income is underreported by about one percent. The IRS estimates that income from sole-proprietor businesses and pass-through entities, where neither withholding nor third-party reporting is required, is under-reported by at least 50 percent.

Sales and Excise Taxes

Since sales and excise taxes are included in the bill the taxpayer receives for another transaction, the ultimate taxpayer has little choice about complying. The main compliance issues with these taxes are vendors who do not collect the tax and ensuring that the tax is applied to the correct base. Sometimes new or temporary businesses do not collect a tax, either from ignorance or because they do not expect to be caught. Vendors sometimes do not apply tax to taxable transactions because they are misinformed. Vendors also sometimes collect tax from customers but either under-report sales or misreport some taxable sales as non- taxable.

With a general sales and use tax, the main compliance issue arises from out-of-state purchases. In all states with a general sales and use tax, the tax is on the buyer, but is collected by the seller. When a resident of a sales tax state buys something from an out-of-state seller, the buyer has a legal obligation to pay the tax, but the seller may not have a legal obligation to collect it. This is not a problem with Montana's selective sales and excise taxes.

Severance Taxes

Since severance taxes are self-reported, there are opportunities for non-compliance. Producers may not file returns because they are unaware of the tax or because they do not think they are likely to be caught. Producers may under-report production or under-report the value of production, particularly if there is no arms-length transaction to measure the value of production at the point in the process where the tax is imposed.

Fairness of Administration

Whether a tax is administered fairly is a different question than whether the tax is fair. A tax may be unfair if, for example, it imposes wildly different taxes on taxpayers in similar circumstances. Administration of a tax may be unfair if, for example, the cost to comply is much higher for some taxpayers than for others or if some groups of taxpayers find it easy to evade the tax while others pay.

Property Tax

In general, the Montana property tax system is designed so that similar properties are valued in a similar way and any differences in taxes will be due to differences in local mills. In some cases, differences in local mills reflect differences in local services. For example, if residents of one town choose to have more parks and recreation facilities than residents of a similar town, the first town is likely to have higher property taxes to pay for the additional facilities. Differences in local mills may also reflect differences in the costs of providing local services. If the cost of living is higher in one area than another, school districts in the higher-cost area may have to levy more mills so they can pay teachers higher salaries to induce them to live and work in the higher-cost area.

However, one of the main determinants of mill levies in a taxing jurisdiction is the amount of industrial and commercial property in the jurisdiction. Jurisdictions with large amounts of industrial and commercial property relative to the population tend to have low mill levies. Otherwise similar jurisdictions with little or no industrial or commercial property tend to have higher mill levies. This can result in similar properties with similar taxable values paying very different amounts of property tax for the same public services.

One aspect of the Montana property tax system that can result in similar properties having different taxable values is the six-year reappraisal cycle for residential property. Residential properties are valued once every six years, and increases in the values of individual properties are phased in over the next six years. Decreases in individual property values go on the books immediately. In recent reappraisal cycles, the legislature has adjusted the assessment ratio for residential property to keep taxable value constant for residences with an average percentage increase in market value.

This results in several inequities between homeowners. In the first year after reappraisal, taxpayers whose homes decreased in value over the previous six years are taxed on full market value while taxpayers whose homes increased in value over the previous six years are taxed at less than full market value.

For taxpayers whose homes have increased in value, the system is designed so that, after six years, all will be taxed on full market value in the reappraisal year, six years earlier. Each year of the cycle, the assessed value of each house increases by one-sixth of the increase in market value between the last two appraisals. If two houses had the same value at the last appraisal but had different values at the previous appraisal, they will have different taxable values for the first five years of the cycle. This is because each house begins the current cycle with a taxable value based on its market value six years ago. The house that had the larger increase in value over the previous cycle will be taxed on a lower percent of its market value at the beginning of the new cycle.

Changes in value during the current cycle can compound the inequity. They will not begin to be reflected in taxable value until the end of the current cycle, and will not be fully reflected in taxable value until the end of the next cycle.

For example, suppose two homes were each valued at $100,000 in the latest reappraisal, but that they had been valued at $50,000 and $90,000 in the previous appraisal. The following table shows the value from the most recent appraisal and the assessed value for property tax for the last year of the previous cycle (Year 0) and the six years of the current cycle.

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
House 1							
Appraised Value	$50,000	$100,000	$100,000	$100,000	$100,000	$100,000	$100,000
Assessed Value	$50,000	$58,333	$66,667	$75,000	$83,333	$91,667	$100,000
Percent	100.00%	58.30%	66.70%	75.00%	83.30%	91.70%	100.00%
House 2							
Appraised Value	$90,000	$100,000	$100,000	$100,000	$100,000	$100,000	$100,000
Assessed Value	$90,000	$91,667	$93,333	$95,000	$96,667	$98,333	$100,000
Percent	100.00%	91.70%	93.30%	95.00%	96.70%	98.30%	100.00%

The two houses are taxed on the same percent of the latest appraised value only in the last year of the cycle. In the first five years, the house with the larger increase is taxed on a smaller percent of its appraised value.

If the values of the two houses continue to increase at different rates, the house with the faster increase in value will continue to be taxed on a smaller percent of its market value for the whole cycle. This is shown in the next table, where the house whose value doubles over each cycle is consistently taxed on half its market value while the house whose value increases by 10 percent over each cycle is consistently taxed on 91 percent of its market value.

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
House 1							
Market Value	$100,000	$116,667	$133,333	$150,000	$166,667	$183,333	$200,000
Assessed Value		$58,333	$66,667	$75,000	$83,333	$91,667	$100,000
Assessed / Market		50.00%	50.00%	50.00%	50.00%	50.00%	50.00%
House 2							
Market Value	$100,000	$101,667	$103,333	$105,000	$106,667	$108,333	$110,000
Assessed Value		$92,424	$93,939	$95,455	$96,970	$98,485	$100,000
Assessed / Market		90.90%	90.90%	90.90%	90.90%	90.90%	90.90%

Since property values can change within a year, perfect equalization of assessments is not possible. The Montana Supreme Court has held that a system that periodically equalizes assessments meets the constitutional standard of equal protection of the laws, and that equalizing every six years is acceptable but that equalizing every 50 years is not.[8] Whether to equalize more often than is required by the minimum standard of constitutionality is a policy decision for the legislature.

Personal Income Tax

The primary difficulty in administering the income tax fairly comes from differences in the ease of non-compliance for taxpayers in different circumstances. Taxpayers with income from wages and salaries, interest, corporate dividends, or pensions have their income reported to the IRS and the department and may have tax withheld from their payments. Taxpayers with income from a sole proprietor business or a pass-through entity do not have the same third-party reporting and withholding requirements. IRS research indicates that taxpayers whose income is not subject to third-party reporting or withholding under-report income and under-pay tax at much higher rates.

Accountability

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.

Taxes differ in how obvious they are to taxpayers and in how easy it is for taxpayers to compare the amount they are paying for public services to the amount they pay for other goods and services. With taxes that are billed or that require taxpayers to file a periodic return, taxpayers can easily see the total amount they pay for the period. In the case of property taxes, the bill can also tell taxpayers what they are paying for particular public services, such as roads, schools, and public safety. With sales and excise taxes, it is much less obvious to a taxpayer how much they are paying per period. Even when excise taxes are stated on a bill, customers paying the bill are likely be only vaguely aware of the amount of tax. When businesses are taxed with the intention that they pass the tax on to customers, the ultimate taxpayers will be unaware of the tax. When businesses are taxed to pay for public services that the businesses use, the cost will be passed on to customers in the same way as other costs of doing business.

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 See Covenant Investments, Inc. v. Department of Revenue, 2013 MT 215 and Roosevelt v. Montana Department of Revenue, 1999 MT 30.

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.

Competitive
People and businesses consider taxes and government services in deciding where to locate. State and local governments often compete by providing special tax treatment for specific industries or groups of residents. However, with their requirements to have a balanced budget, state and local governments can only cut taxes for one group by raising taxes for another or by cutting services. Governments can compete by giving special treatment to favored groups at the cost of higher taxes or fewer services for everyone else, or they can compete by efficiently providing a level of services that citizens want at the lowest possible cost.

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 prefer 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.

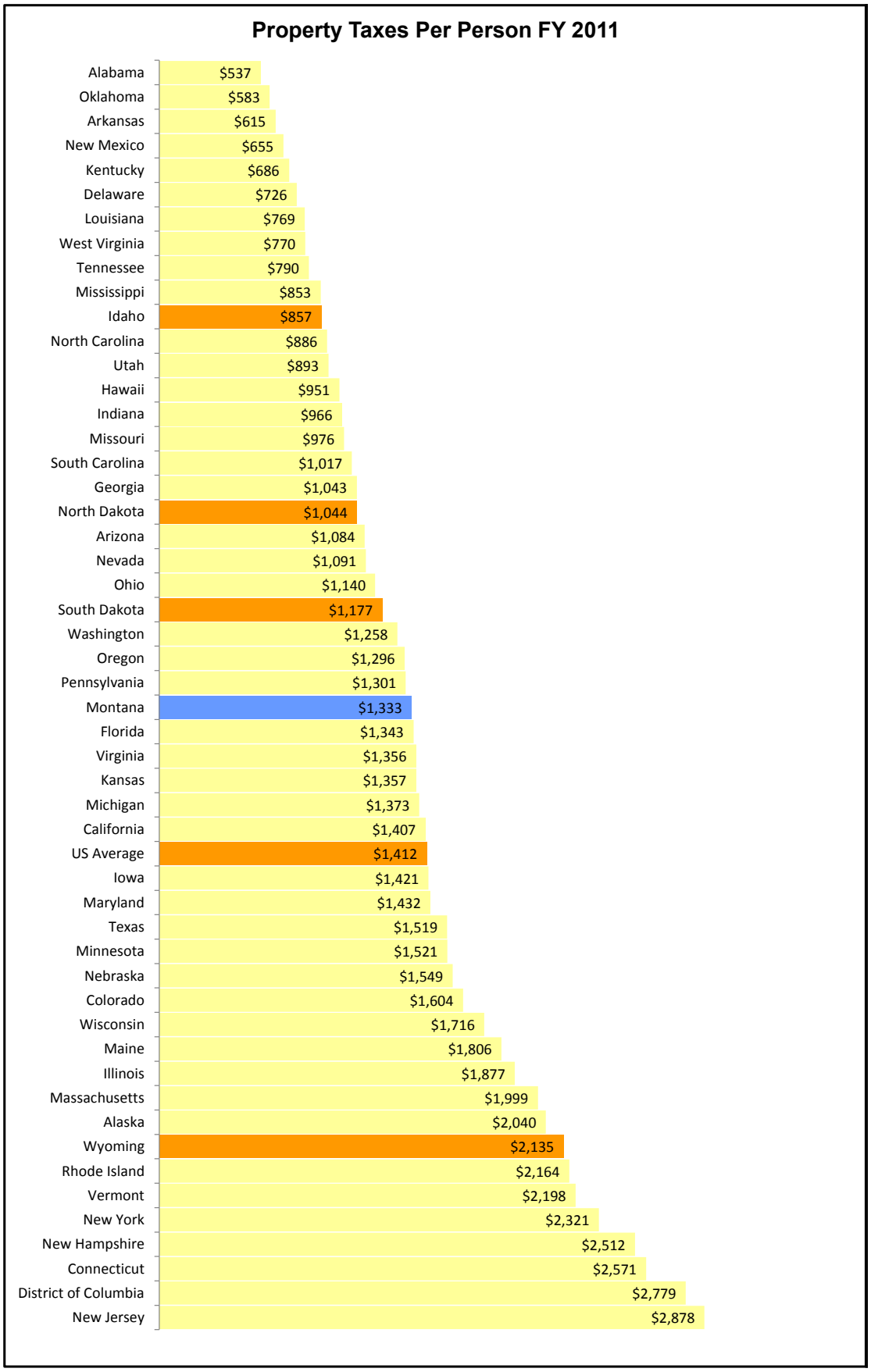
The last set of tables show taxes per person and taxes per dollar of income received by state residents for the 50 states and the District of Columbia for the fiscal year ending June 30, 2011. The tables show property taxes, sales and gross receipts taxes, individual and corporate income taxes, other taxes, and the total of all taxes. These tables show state and local taxes adjusted for the size of each state's population and the size of its economy. They also show the relative importance of each type of tax in each state.

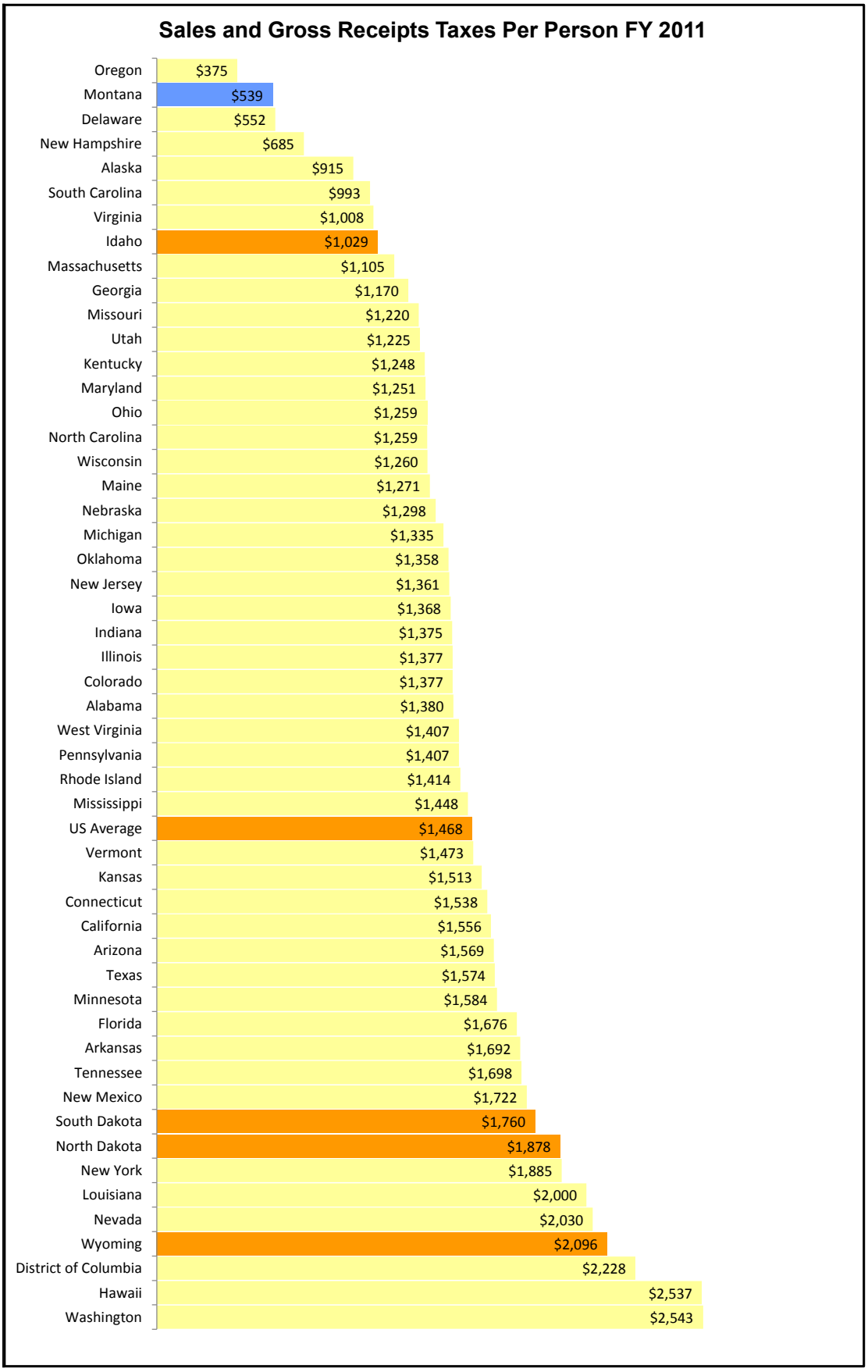
These tables do not show taxes paid by a typical individual or the percent of income a typical individual pays in taxes. States differ in the shares of taxes paid by individuals and businesses and by residents and non-residents. Several organizations publish comparisons that attempt to adjust for these differences. The Tax Foundation[9] attempts to adjust for taxes each state receives from out-of-state taxpayers. The District of Columbia[10] compares taxes for hypothetical families in each state. The Institute on Taxation and Economic Policy[11] estimates taxes as a percent of income for income groups in each state.

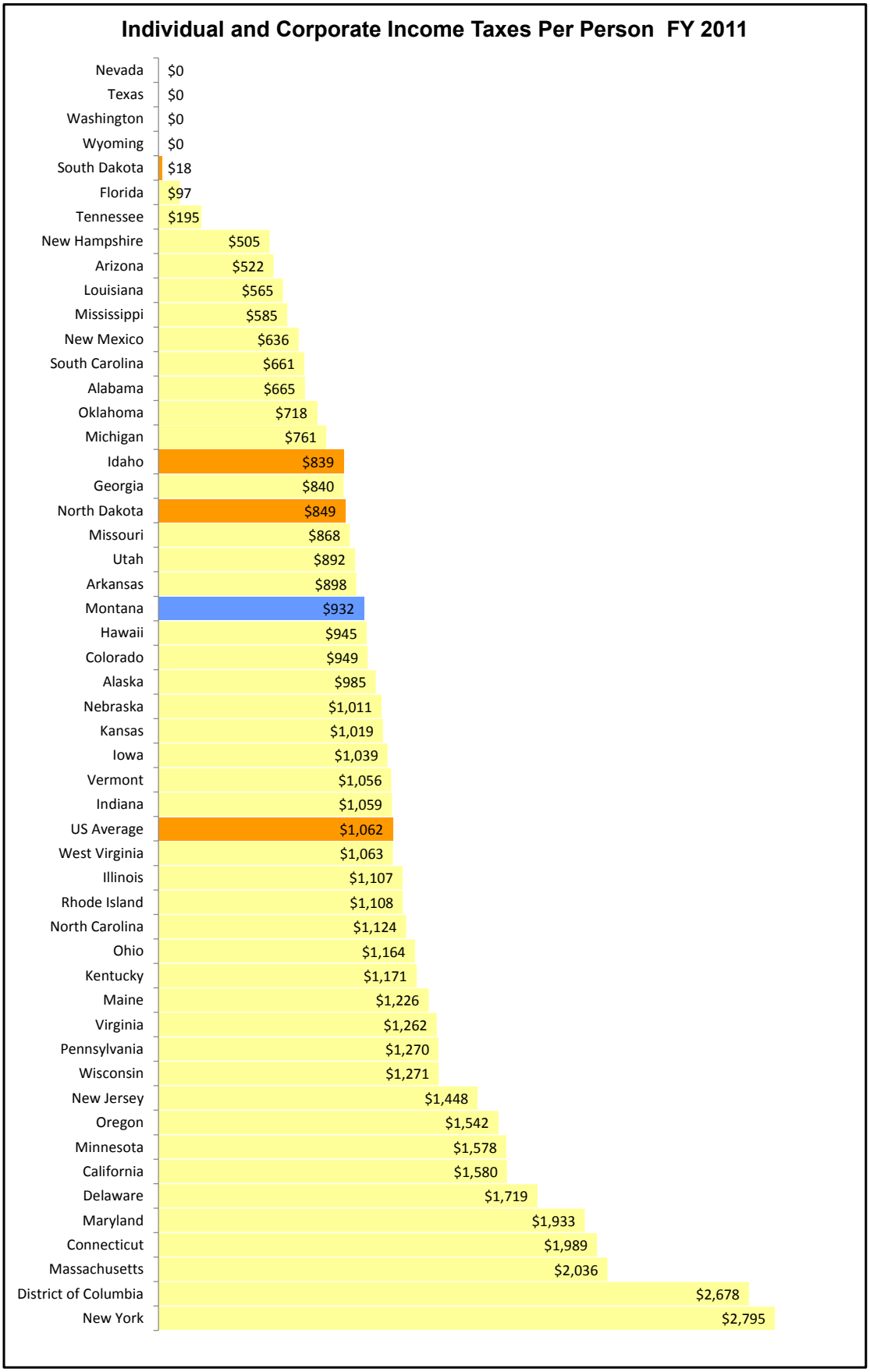
9 http://www.taxfoundation.org
10 http://cfo.dc.gov
11 http://www.itepnet.org

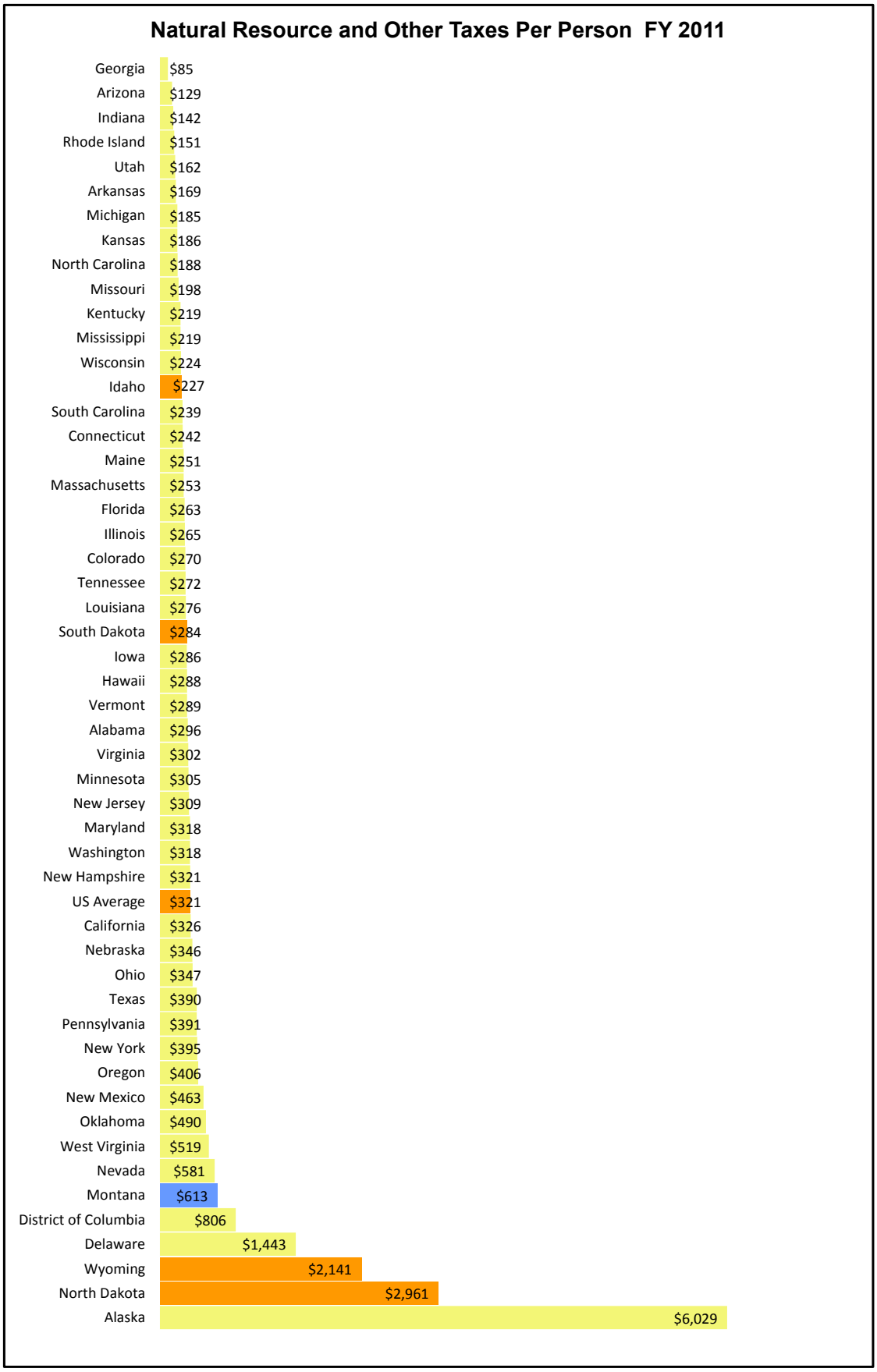
Taxes Per Person - FY 2011

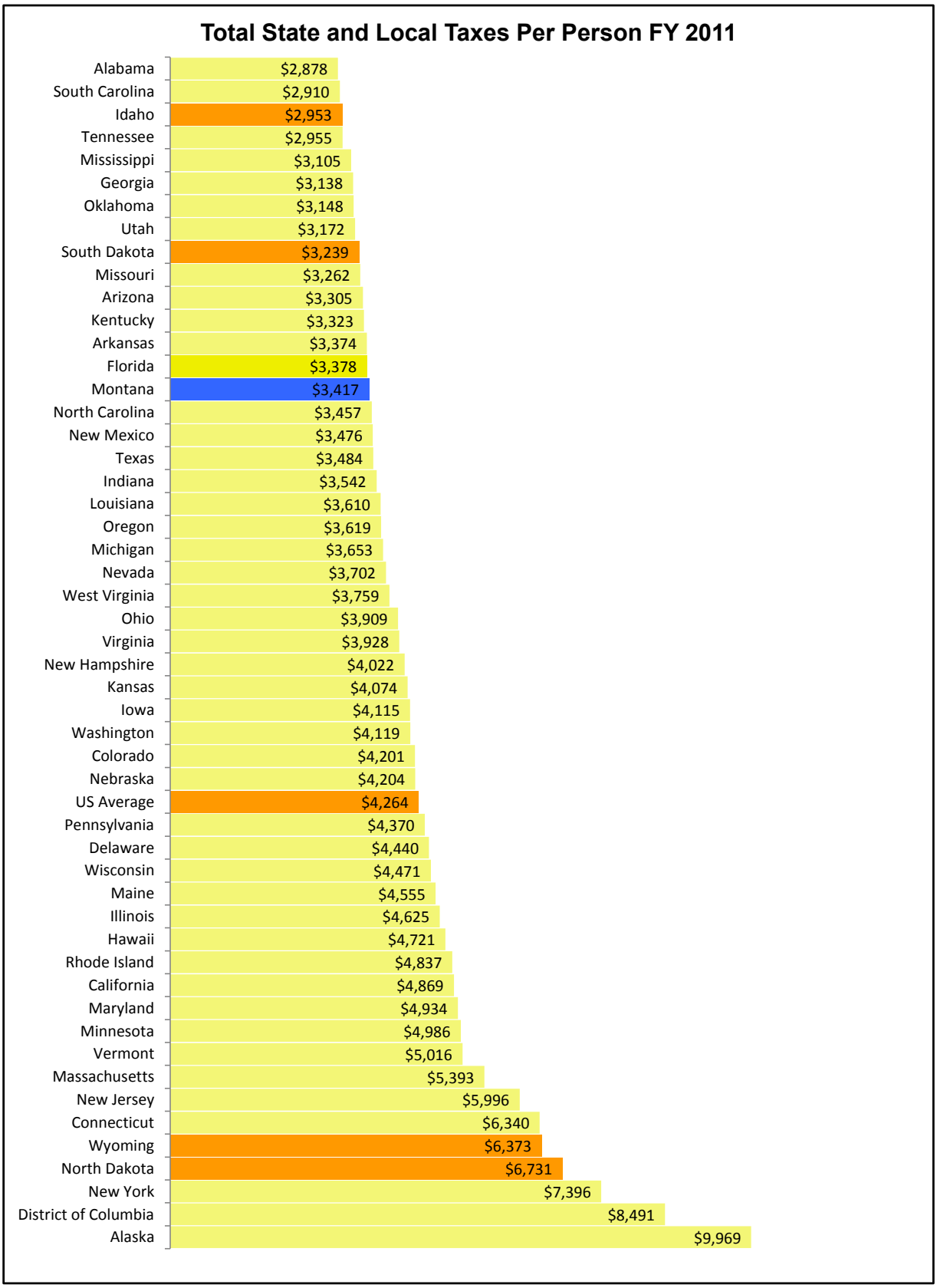
State	Property Tax $	Property Tax Rank	Sales and Gross Receipts $	Sales and Gross Receipts Rank	Individual and Corporate Income Tax $	Individual and Corporate Income Tax Rank	Other Taxes $	Other Taxes Rank	Total $	Total Rank
Alabama	$537	51	$1,380	25	$665	38	$296	24	$2,878	51
Alaska	$2,040	9	$915	47	$985	26	$6,029	1	$9,969	1
Arizona	$1,084	32	$1,569	16	$522	43	$129	50	$3,305	41
Arkansas	$615	49	$1,692	12	$898	30	$169	46	$3,374	39
California	$1,407	20	$1,556	17	$1,580	7	$326	17	$4,869	12
Colorado	$1,604	14	$1,377	26	$949	27	$270	31	$4,201	21
Connecticut	$2,571	3	$1,538	18	$1,989	4	$242	36	$6,340	6
Delaware	$726	46	$552	49	$1,719	6	$1,443	4	$4,440	18
District of Columbia	$2,779	2	$2,228	3	$2,678	2	$806	5	$8,491	2
Florida	$1,343	24	$1,676	13	$97	46	$263	33	$3,378	38
Georgia	$1,043	34	$1,170	42	$840	34	$85	51	$3,138	46
Hawaii	$951	38	$2,537	2	$945	28	$288	26	$4,721	14
Idaho	**$857**	**41**	**$1,029**	**44**	**$839**	**35**	**$227**	**38**	**$2,953**	**49**
Illinois	$1,877	11	$1,377	27	$1,107	19	$265	32	$4,625	15
Indiana	$966	37	$1,375	28	$1,059	21	$142	49	$3,542	33
Iowa	$1,421	19	$1,368	29	$1,039	23	$286	27	$4,115	23
Kansas	$1,357	22	$1,513	19	$1,019	24	$186	44	$4,074	24
Kentucky	$686	47	$1,248	39	$1,171	15	$219	41	$3,323	40
Louisiana	$769	45	$2,000	6	$565	42	$276	29	$3,610	32
Maine	$1,806	12	$1,271	34	$1,226	14	$251	35	$4,555	16
Maryland	$1,432	18	$1,251	38	$1,933	5	$318	20	$4,934	11
Massachusetts	$1,999	10	$1,105	43	$2,036	3	$253	34	$5,393	8
Michigan	$1,373	21	$1,335	32	$761	36	$185	45	$3,653	30
Minnesota	$1,521	16	$1,584	14	$1,578	8	$305	22	$4,986	10
Mississippi	$853	42	$1,448	21	$585	41	$219	40	$3,105	47
Missouri	$976	36	$1,220	41	$868	32	$198	42	$3,262	42
Montana	**$1,333**	**25**	**$539**	**50**	**$932**	**29**	**$613**	**6**	**$3,417**	**37**
Nebraska	$1,549	15	$1,298	33	$1,011	25	$346	16	$4,204	20
Nevada	$1,091	31	$2,030	5	$0	48	$581	7	$3,702	29
New Hampshire	$2,512	4	$685	48	$505	44	$321	18	$4,022	25
New Jersey	$2,878	1	$1,361	30	$1,448	10	$309	21	$5,996	7
New Mexico	$655	48	$1,722	10	$636	40	$463	10	$3,476	35
New York	$2,321	5	$1,885	7	$2,795	1	$395	12	$7,396	3
North Carolina	$886	40	$1,259	36	$1,124	17	$188	43	$3,457	36
North Dakota	**$1,044**	**33**	**$1,878**	**8**	**$849**	**33**	**$2,961**	**2**	**$6,731**	**4**
Ohio	$1,140	30	$1,259	37	$1,164	16	$347	15	$3,909	27
Oklahoma	$583	50	$1,358	31	$718	37	$490	9	$3,148	45
Oregon	$1,296	27	$375	51	$1,542	9	$406	11	$3,619	31
Pennsylvania	$1,301	26	$1,407	23	$1,270	12	$391	13	$4,370	19
Rhode Island	$2,164	7	$1,414	22	$1,108	18	$151	48	$4,837	13
South Carolina	$1,017	35	$993	46	$661	39	$239	37	$2,910	50
South Dakota	**$1,177**	**29**	**$1,760**	**9**	**$18**	**47**	**$284**	**28**	**$3,239**	**43**
Tennessee	$790	43	$1,698	11	$195	45	$272	30	$2,955	48
Texas	$1,519	17	$1,574	15	$0	48	$390	14	$3,484	34
Utah	$893	39	$1,225	40	$892	31	$162	47	$3,172	44
Vermont	$2,198	6	$1,473	20	$1,056	22	$289	25	$5,016	9
Virginia	$1,356	23	$1,008	45	$1,262	13	$302	23	$3,928	26
Washington	$1,258	28	$2,543	1	$0	48	$318	19	$4,119	22
West Virginia	$770	44	$1,407	24	$1,063	20	$519	8	$3,759	28
Wisconsin	$1,716	13	$1,260	35	$1,271	11	$224	39	$4,471	17
Wyoming	**$2,135**	**8**	**$2,096**	**4**	**$0**	**48**	**$2,141**	**3**	**$6,373**	**5**


Property Taxes Per Person FY 2011
Alabama $537
Oklahoma $583
Arkansas $615
New Mexico $655
Kentucky $686
Delaware $726
Louisiana $769
West Virginia $770
Tennessee $790
Mississippi $853
Idaho $857
North Carolina $886
Utah $893
Hawaii $951
Indiana $966
Missouri $976
South Carolina $1,017
Georgia $1,043
North Dakota $1,044
Arizona $1,084
Nevada $1,091
Ohio $1,140
South Dakota $1,177
Washington $1,258
Oregon $1,296
Pennsylvania $1,301
Montana $1,333
Florida $1,343
Virginia $1,356
Kansas $1,357
Michigan $1,373
California $1,407
US Average $1,412
Iowa $1,421
Maryland $1,432
Texas $1,519
Minnesota $1,521
Nebraska $1,549
Colorado $1,604
Wisconsin $1,716
Maine $1,806
Illinois $1,877
Massachusetts $1,999
Alaska $2,040
Wyoming $2,135
Rhode Island $2,164
Vermont $2,198
New York $2,321
New Hampshire $2,512
Connecticut $2,571
District of Columbia $2,779
New Jersey $2,878


Sales and Gross Receipts Taxes Per Person FY 2011
Oregon $375
Montana $539
Delaware $552
New Hampshire $685
Alaska $915
South Carolina $993
Virginia $1,008
Idaho $1,029
Massachusetts $1,105
Georgia $1,170
Missouri $1,220
Utah $1,225
Kentucky $1,248
Maryland $1,251
Ohio $1,259
North Carolina $1,259
Wisconsin $1,260
Maine $1,271
Nebraska $1,298
Michigan $1,335
Oklahoma $1,358
New Jersey $1,361
Iowa $1,368
Indiana $1,375
Illinois $1,377
Colorado $1,377
Alabama $1,380
West Virginia $1,407
Pennsylvania $1,407
Rhode Island $1,414
Mississippi $1,448
US Average $1,468
Vermont $1,473
Kansas $1,513
Connecticut $1,538
California $1,556
Arizona $1,569
Texas $1,574
Minnesota $1,584
Florida $1,676
Arkansas $1,692
Tennessee $1,698
New Mexico $1,722
South Dakota $1,760
North Dakota $1,878
New York $1,885
Louisiana $2,000
Nevada $2,030
Wyoming $2,096
District of Columbia $2,228
Hawaii $2,537
Washington $2,543

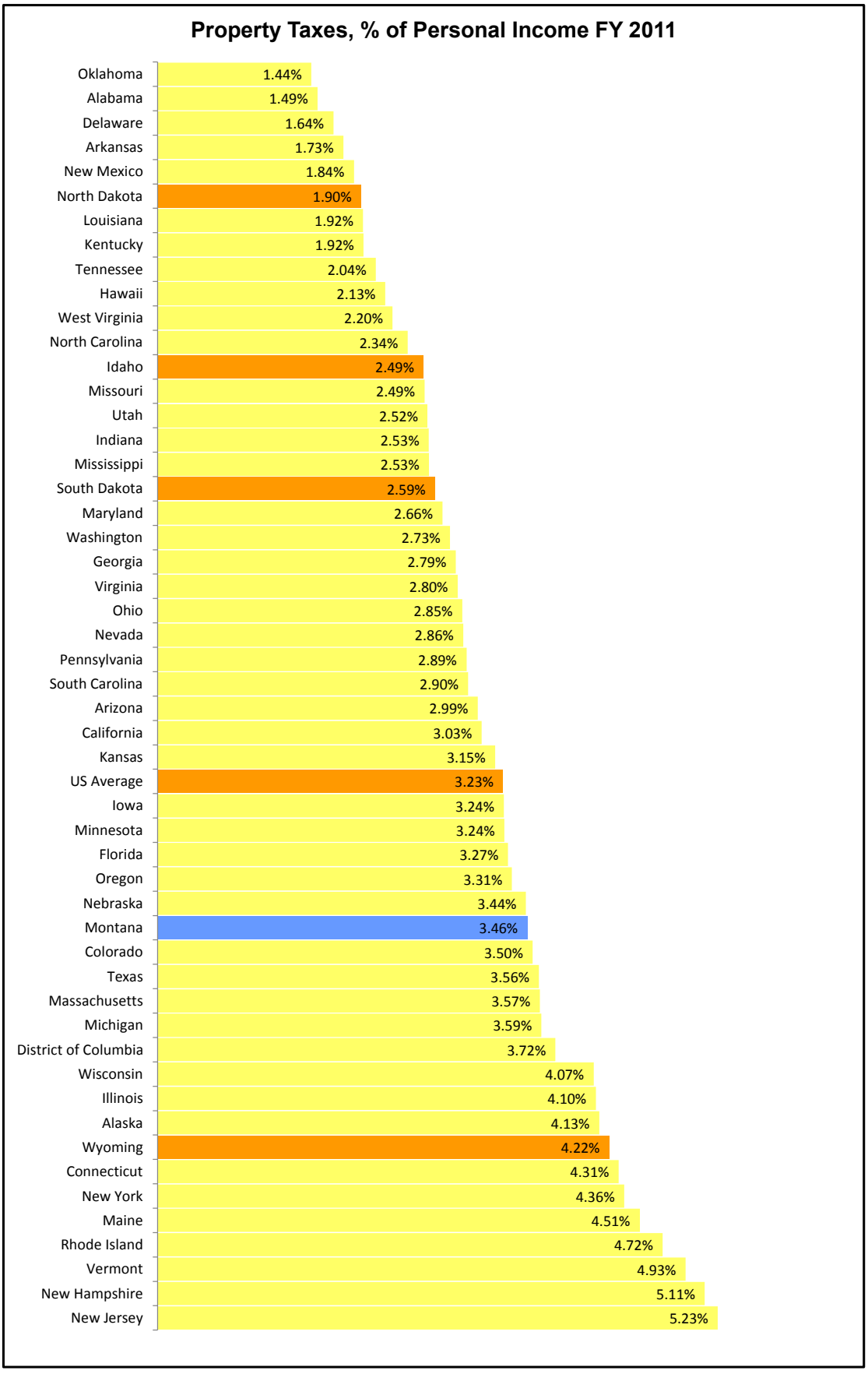

Individual and Corporate Income Taxes Per Person FY 2011
Nevada $0
Texas $0
Washington $0
Wyoming $0
South Dakota $18
Florida $97
Tennessee $195
New Hampshire $505
Arizona $522
Louisiana $565
Mississippi $585
New Mexico $636
South Carolina $661
Alabama $665
Oklahoma $718
Michigan $761
Idaho $839
Georgia $840
North Dakota $849
Missouri $868
Utah $892
Arkansas $898
Montana $932
Hawaii $945
Colorado $949
Alaska $985
Nebraska $1,011
Kansas $1,019
Iowa $1,039
Vermont $1,056
Indiana $1,059
US Average $1,062
West Virginia $1,063
Illinois $1,107
Rhode Island $1,108
North Carolina $1,124
Ohio $1,164
Kentucky $1,171
Maine $1,226
Virginia $1,262
Pennsylvania $1,270
Wisconsin $1,271
New Jersey $1,448
Oregon $1,542
Minnesota $1,578
California $1,580
Delaware $1,719
Maryland $1,933
Connecticut $1,989
Massachusetts $2,036
District of Columbia $2,678
New York $2,795

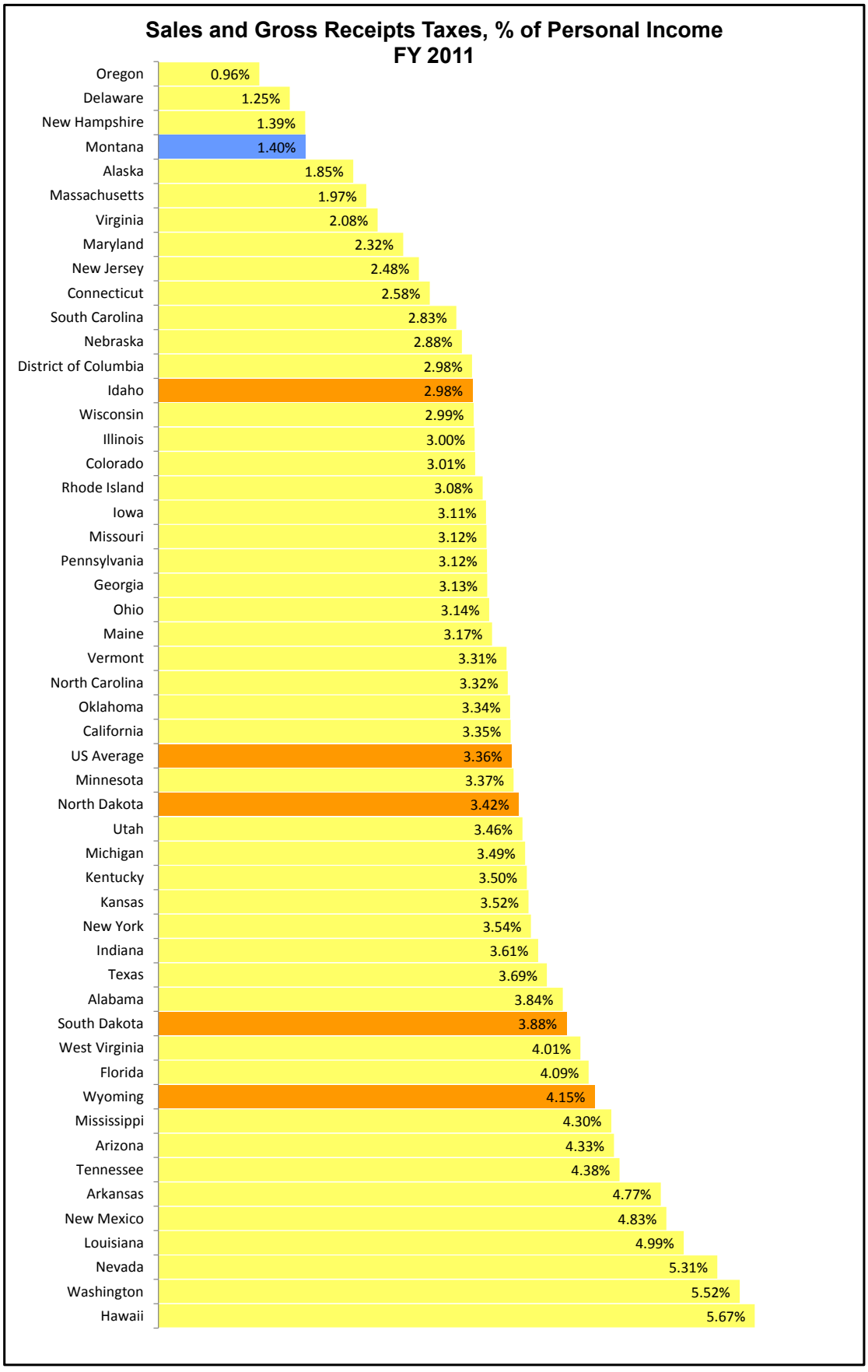

Natural Resource and Other Taxes Per Person FY 2011
Georgia $85
Arizona $129
Indiana $142
Rhode Island $151
Utah $162
Arkansas $169
Michigan $185
Kansas $186
North Carolina $188
Missouri $198
Kentucky $219
Mississippi $219
Wisconsin $224
Idaho $227
South Carolina $239
Connecticut $242
Maine $251
Massachusetts $253
Florida $263
Illinois $265
Colorado $270
Tennessee $272
Louisiana $276
South Dakota $284
Iowa $286
Hawaii $288
Vermont $289
Alabama $296
Virginia $302
Minnesota $305
New Jersey $309
Maryland $318
Washington $318
New Hampshire $321
US Average $321
California $326
Nebraska $346
Ohio $347
Texas $390
Pennsylvania $391
New York $395
Oregon $406
New Mexico $463
Oklahoma $490
West Virginia $519
Nevada $581
Montana $613
District of Columbia $806
Delaware $1,443
Wyoming $2,141
North Dakota $2,961
Alaska $6,029

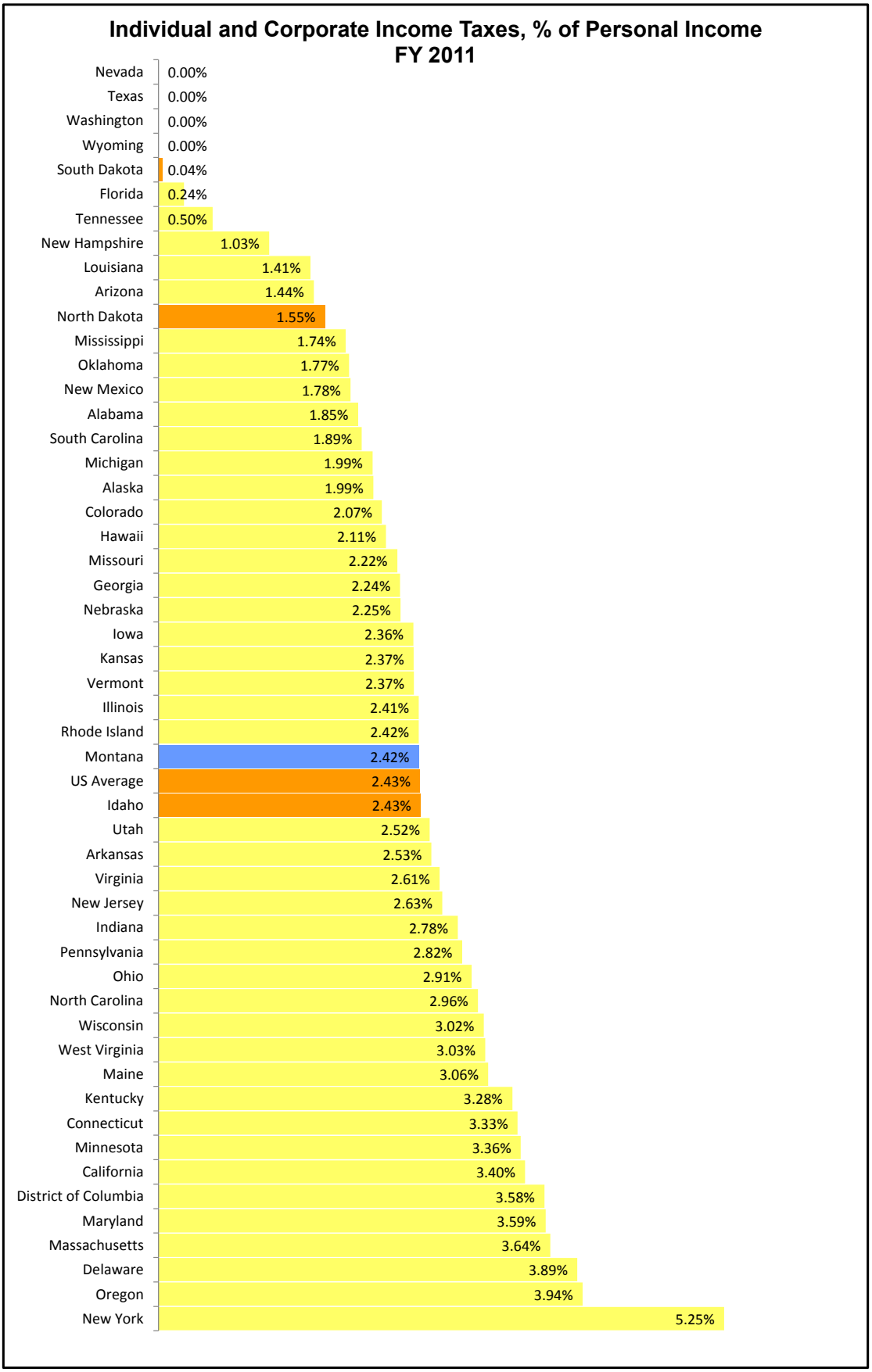

Total State and Local Taxes Per Person FY 2011
Alabama $2,878
South Carolina $2,910
Idaho $2,953
Tennessee $2,955
Mississippi $3,105
Georgia $3,138
Oklahoma $3,148
Utah $3,172
South Dakota $3,239
Missouri $3,262
Arizona $3,305
Kentucky $3,323
Arkansas $3,374
Florida $3,378
Montana $3,417
North Carolina $3,457
New Mexico $3,476
Texas $3,484
Indiana $3,542
Louisiana $3,610
Oregon $3,619
Michigan $3,653
Nevada $3,702
West Virginia $3,759
Ohio $3,909
Virginia $3,928
New Hampshire $4,022
Kansas $4,074
Iowa $4,115
Washington $4,119
Colorado $4,201
Nebraska $4,204
US Average $4,264
Pennsylvania $4,370
Delaware $4,440
Wisconsin $4,471
Maine $4,555
Illinois $4,625
Hawaii $4,721
Rhode Island $4,837
California $4,869
Maryland $4,934
Minnesota $4,986
Vermont $5,016
Massachusetts $5,393
New Jersey $5,996
Connecticut $6,340
Wyoming $6,373
North Dakota $6,731
New York $7,396
District of Columbia $8,491
Alaska $9,969

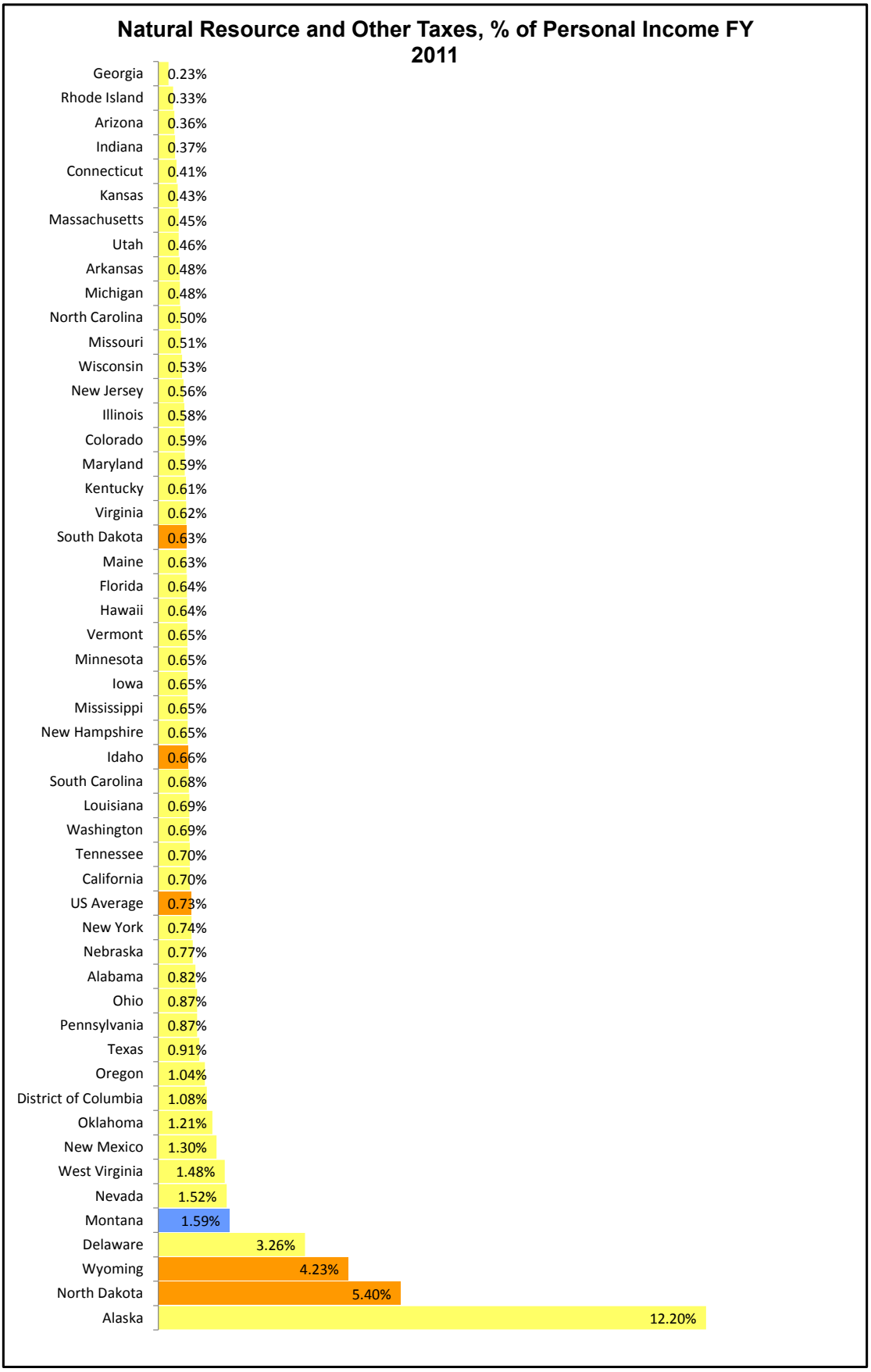
Taxes as a percent of Personal Income - FY 2011

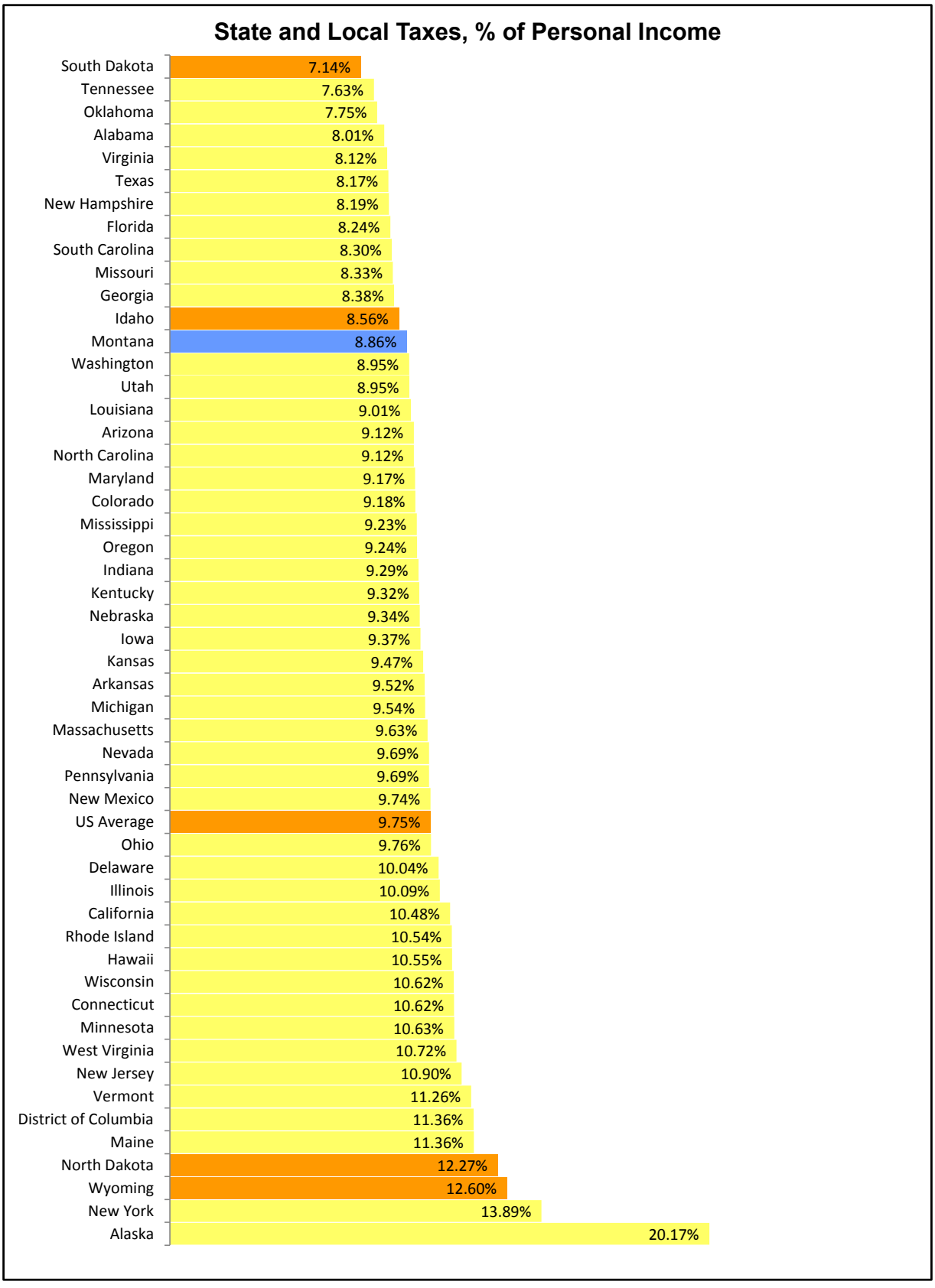
State	Property Tax $	Property Tax Rank	Sales and Gross Receipts $	Sales and Gross Receipts Rank	Individual and Corporate Income Tax $	Individual and Corporate Income Tax Rank	Other Taxes $	Other Taxes Rank	Total $	Total Rank
Alabama	1.49%	50	3.84%	14	1.85%	37	0.82%	15	8.01%	48
Alaska	4.13%	9	1.85%	47	1.99%	34	12.20%	1	20.17%	1
Arizona	2.99%	25	4.33%	8	1.44%	42	0.36%	49	9.12%	35
Arkansas	1.73%	48	4.77%	6	2.53%	20	0.48%	43	9.52%	24
California	3.03%	24	3.35%	24	3.40%	7	0.70%	18	10.48%	15
Colorado	3.50%	16	3.01%	35	2.07%	33	0.59%	36	9.18%	32
Connecticut	4.31%	7	2.58%	42	3.33%	9	0.41%	47	10.62%	11
Delaware	1.64%	49	1.25%	50	3.89%	3	3.26%	4	10.04%	17
District of Columbia	3.72%	12	2.98%	39	3.58%	6	1.08%	10	11.36%	6
Florida	3.27%	20	4.09%	11	0.24%	46	0.64%	30	8.24%	44
Georgia	2.79%	31	3.13%	30	2.24%	30	0.23%	51	8.38%	41
Hawaii	2.13%	42	5.67%	1	2.11%	32	0.64%	29	10.55%	13
Idaho	**2.49%**	**39**	**2.98%**	**38**	**2.43%**	**22**	**0.66%**	**23**	**8.56%**	**40**
Illinois	4.10%	10	3.00%	36	2.41%	25	0.58%	37	10.09%	16
Indiana	2.53%	36	3.61%	16	2.78%	17	0.37%	48	9.29%	29
Iowa	3.24%	22	3.11%	33	2.36%	28	0.65%	26	9.37%	26
Kansas	3.15%	23	3.52%	18	2.37%	27	0.43%	46	9.47%	25
Kentucky	1.92%	44	3.50%	19	3.28%	10	0.61%	34	9.32%	28
Louisiana	1.92%	45	4.99%	4	1.41%	43	0.69%	21	9.01%	36
Maine	4.51%	5	3.17%	28	3.06%	11	0.63%	31	11.36%	5
Maryland	2.66%	33	2.32%	44	3.59%	5	0.59%	35	9.17%	33
Massachusetts	3.57%	14	1.97%	46	3.64%	4	0.45%	45	9.63%	22
Michigan	3.59%	13	3.49%	20	1.99%	35	0.48%	42	9.54%	23
Minnesota	3.24%	21	3.37%	23	3.36%	8	0.65%	27	10.63%	10
Mississippi	2.53%	35	4.30%	9	1.74%	40	0.65%	25	9.23%	31
Missouri	2.49%	38	3.12%	32	2.22%	31	0.51%	40	8.33%	42
Montana	**3.46%**	**17**	**1.40%**	**48**	**2.42%**	**23**	**1.59%**	**5**	**8.86%**	**39**
Nebraska	3.44%	18	2.88%	40	2.25%	29	0.77%	16	9.34%	27
Nevada	2.86%	28	5.31%	3	0.00%	48	1.52%	6	9.69%	21
New Hampshire	5.11%	2	1.39%	49	1.03%	44	0.65%	24	8.19%	45
New Jersey	5.23%	1	2.48%	43	2.63%	18	0.56%	38	10.90%	8
New Mexico	1.84%	47	4.83%	5	1.78%	38	1.30%	8	9.74%	19
New York	4.36%	6	3.54%	17	5.25%	1	0.74%	17	13.89%	2
North Carolina	2.34%	40	3.32%	26	2.96%	14	0.50%	41	9.12%	34
North Dakota	**1.90%**	**46**	**3.42%**	**22**	**1.55%**	**41**	**5.40%**	**2**	**12.27%**	**4**
Ohio	2.85%	29	3.14%	29	2.91%	15	0.87%	14	9.76%	18
Oklahoma	1.44%	51	3.34%	25	1.77%	39	1.21%	9	7.75%	49
Oregon	3.31%	19	0.96%	51	3.94%	2	1.04%	11	9.24%	30
Pennsylvania	2.89%	27	3.12%	31	2.82%	16	0.87%	13	9.69%	20
Rhode Island	4.72%	4	3.08%	34	2.42%	24	0.33%	50	10.54%	14
South Carolina	2.90%	26	2.83%	41	1.89%	36	0.68%	22	8.30%	43
South Dakota	**2.59%**	**34**	**3.88%**	**13**	**0.04%**	**47**	**0.63%**	**32**	**7.14%**	**51**
Tennessee	2.04%	43	4.38%	7	0.50%	45	0.70%	19	7.63%	50
Texas	3.56%	15	3.69%	15	0.00%	48	0.91%	12	8.17%	46
Utah	2.52%	37	3.46%	21	2.52%	21	0.46%	44	8.95%	37
Vermont	4.93%	3	3.31%	27	2.37%	26	0.65%	28	11.26%	7
Virginia	2.80%	30	2.08%	45	2.61%	19	0.62%	33	8.12%	47
Washington	2.73%	32	5.52%	2	0.00%	48	0.69%	20	8.95%	38
West Virginia	2.20%	41	4.01%	12	3.03%	12	1.48%	7	10.72%	9
Wisconsin	4.07%	11	2.99%	37	3.02%	13	0.53%	39	10.62%	12
Wyoming	**4.22%**	**8**	**4.15%**	**10**	**0.00%**	**48**	**4.23%**	**3**	**12.60%**	**3**


Property Taxes, % of Personal Income FY 2011
Oklahoma 1.44%
Alabama 1.49%
Delaware 1.64%
Arkansas 1.73%
New Mexico 1.84%
North Dakota 1.90%
Louisiana 1.92%
Kentucky 1.92%
Tennessee 2.04%
Hawaii 2.13%
West Virginia 2.20%
North Carolina 2.34%
Idaho 2.49%
Missouri 2.49%
Utah 2.52%
Indiana 2.53%
Mississippi 2.53%
South Dakota 2.59%
Maryland 2.66%
Washington 2.73%
Georgia 2.79%
Virginia 2.80%
Ohio 2.85%
Nevada 2.86%
Pennsylvania 2.89%
South Carolina 2.90%
Arizona 2.99%
California 3.03%
Kansas 3.15%
US Average 3.23%
Iowa 3.24%
Minnesota 3.24%
Florida 3.27%
Oregon 3.31%
Nebraska 3.44%
Montana 3.46%
Colorado 3.50%
Texas 3.56%
Massachusetts 3.57%
Michigan 3.59%
District of Columbia 3.72%
Wisconsin 4.07%
Illinois 4.10%
Alaska 4.13%
Wyoming 4.22%
Connecticut 4.31%
New York 4.36%
Maine 4.51%
Rhode Island 4.72%
Vermont 4.93%
New Hampshire 5.11%
New Jersey 5.23%


Sales and Gross Receipts Taxes, % of Personal Income
FY 2011
Oregon 0.96%
Delaware 1.25%
New Hampshire 1.39%
Montana 1.40%
Alaska 1.85%
Massachusetts 1.97%
Virginia 2.08%
Maryland 2.32%
New Jersey 2.48%
Connecticut 2.58%
South Carolina 2.83%
Nebraska 2.88%
District of Columbia 2.98%
Idaho 2.98%
Wisconsin 2.99%
Illinois 3.00%
Colorado 3.01%
Rhode Island 3.08%
Iowa 3.11%
Missouri 3.12%
Pennsylvania 3.12%
Georgia 3.13%
Ohio 3.14%
Maine 3.17%
Vermont 3.31%
North Carolina 3.32%
Oklahoma 3.34%
California 3.35%
US Average 3.36%
Minnesota 3.37%
North Dakota 3.42%
Utah 3.46%
Michigan 3.49%
Kentucky 3.50%
Kansas 3.52%
New York 3.54%
Indiana 3.61%
Texas 3.69%
Alabama 3.84%
South Dakota 3.88%
West Virginia 4.01%
Florida 4.09%
Wyoming 4.15%
Mississippi 4.30%
Arizona 4.33%
Tennessee 4.38%
Arkansas 4.77%
New Mexico 4.83%
Louisiana 4.99%
Nevada 5.31%
Washington 5.52%
Hawaii 5.67%


Individual and Corporate Income Taxes, % of Personal Income
FY 2011
Nevada 0.00%
Texas 0.00%
Washington 0.00%
Wyoming 0.00%
South Dakota 0.04%
Florida 0.24%
Tennessee 0.50%
New Hampshire 1.03%
Louisiana 1.41%
Arizona 1.44%
North Dakota 1.55%
Mississippi 1.74%
Oklahoma 1.77%
New Mexico 1.78%
Alabama 1.85%
South Carolina 1.89%
Michigan 1.99%
Alaska 1.99%
Colorado 2.07%
Hawaii 2.11%
Missouri 2.22%
Georgia 2.24%
Nebraska 2.25%
Iowa 2.36%
Kansas 2.37%
Vermont 2.37%
Illinois 2.41%
Rhode Island 2.42%
Montana 2.42%
US Average 2.43%
Idaho 2.43%
Utah 2.52%
Arkansas 2.53%
Virginia 2.61%
New Jersey 2.63%
Indiana 2.78%
Pennsylvania 2.82%
Ohio 2.91%
North Carolina 2.96%
Wisconsin 3.02%
West Virginia 3.03%
Maine 3.06%
Kentucky 3.28%
Connecticut 3.33%
Minnesota 3.36%
California 3.40%
District of Columbia 3.58%
Maryland 3.59%
Massachusetts 3.64%
Delaware 3.89%
Oregon 3.94%
New York 5.25%


Natural Resource and Other Taxes, % of Personal Income FY 2011
Georgia 0.23%
Rhode Island 0.33%
Arizona 0.36%
Indiana 0.37%
Connecticut 0.41%
Kansas 0.43%
Massachusetts 0.45%
Utah 0.46%
Arkansas 0.48%
Michigan 0.48%
North Carolina 0.50%
Missouri 0.51%
Wisconsin 0.53%
New Jersey 0.56%
Illinois 0.58%
Colorado 0.59%
Maryland 0.59%
Kentucky 0.61%
Virginia 0.62%
South Dakota 0.63%
Maine 0.63%
Florida 0.64%
Hawaii 0.64%
Vermont 0.65%
Minnesota 0.65%
Iowa 0.65%
Mississippi 0.65%
New Hampshire 0.65%
Idaho 0.66%
South Carolina 0.68%
Louisiana 0.69%
Washington 0.69%
Tennessee 0.70%
California 0.70%
US Average 0.73%
New York 0.74%
Nebraska 0.77%
Alabama 0.82%
Ohio 0.87%
Pennsylvania 0.87%
Texas 0.91%
Oregon 1.04%
District of Columbia 1.08%
Oklahoma 1.21%
New Mexico 1.30%
West Virginia 1.48%
Nevada 1.52%
Montana 1.59%
Delaware 3.26%
Wyoming 4.23%
North Dakota 5.40%
Alaska 12.20%


State and Local Taxes, % of Personal Income
South Dakota 7.14%
Tennessee 7.63%
Oklahoma 7.75%
Alabama 8.01%
Virginia 8.12%
Texas 8.17%
New Hampshire 8.19%
Florida 8.24%
South Carolina 8.30%
Missouri 8.33%
Georgia 8.38%
Idaho 8.56%
Montana 8.86%
Washington 8.95%
Utah 8.95%
Louisiana 9.01%
Arizona 9.12%
North Carolina 9.12%
Maryland 9.17%
Colorado 9.18%
Mississippi 9.23%
Oregon 9.24%
Indiana 9.29%
Kentucky 9.32%
Nebraska 9.34%
Iowa 9.37%
Kansas 9.47%
Arkansas 9.52%
Michigan 9.54%
Massachusetts 9.63%
Nevada 9.69%
Pennsylvania 9.69%
New Mexico 9.74%
US Average 9.75%
Ohio 9.76%
Delaware 10.04%
Illinois 10.09%
California 10.48%
Rhode Island 10.54%
Hawaii 10.55%
Wisconsin 10.62%
Connecticut 10.62%
Minnesota 10.63%
West Virginia 10.72%
New Jersey 10.90%
Vermont 11.26%
District of Columbia 11.36%
Maine 11.36%
North Dakota 12.27%
Wyoming 12.60%
New York 13.89%
Alaska 20.17%