

# TAX EXPENDITURES



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The purpose of this tax expenditure report is to provide the public and the Legislature information on special provisions and the cost of these special provisions in terms of reduced tax revenue.

### **What are Tax Expenditures and Why Measure Them?**

When a state agency has a program to accomplish a goal, such as upgrading the pavement on state highways, the program has a direct cost to taxpayers – the taxes they must pay to finance the program. The program's budget spells out how much the program will cost and how the money will be spent.

When the state tax code contains provisions that give incentives for taxpayers to behave in certain ways, such as saving more or donating to charities, this also has a cost to taxpayers. Without the special provisions, either general taxes could be lower or more revenue could be available to provide public services. This cost to the state budget, and ultimately to other taxpayers, is called a *tax expenditure*.

When the Legislature creates tax expenditures, conventional accounting gives a distorted picture of the state budget. To see this, suppose that the Legislature is considering two programs to provide \$10 million in assistance to private landowners who remove beetle-killed trees. One program would provide grants to landowners based on their costs and the benefits to public safety. The other would make exactly the same payments to exactly the same people for cutting down and removing exactly the same trees, but, at the end of the program, the checks would be written by the Department of Revenue instead of the Department of Natural Resources and Conservation, and the money would be called a tax credit instead of a grant.

The two programs would have the same effect on the bottom line of the state budget. They would both reduce the ending fund balance by \$10 million. In the first case, conventional accounting correctly shows how this has happened. The state spent an additional \$10 million with no change in revenue. In the second case, conventional accounting is misleading. The \$10 million spent disposing of beetle-killed trees is shown as a reduction of revenue, rather than as the expenditure it really is.

This distorted accounting allows legislators to propose new spending programs while portraying them as tax cuts. Accounting for tax expenditures gives legislators and the public a better picture of both the size and scope of state government and the tradeoffs between state programs.

### **How are Tax Expenditures Measured?**

There are two components to measuring tax expenditures: identifying special provisions of the tax code and estimating the revenue lost because of each special provision.

Since the introduction of the tax expenditure concept by the U.S. Treasury Department in 1967, there has been considerable controversy about what should be considered to be a tax expenditure and about what baseline should be used in estimating a special provision's revenue impact. In part, the controversy has been about technical points from economic theory, and in part, it has been an ideological argument between proponents of different visions of an ideal tax system. This controversy has tended to obscure the goal of tax expenditure reporting, which is to serve as a starting point for evaluating whether special features of the tax law should be continued, modified, or replaced.

For each tax considered, this report first identifies the general structure of the tax – the general rules defining the tax base and the normal rate structure. It then identifies exceptions from these general rules. The exceptions may take the form of special, limited exemptions from the tax base, special rates with limited applicability, or tax credits. For each special provision, it explores how the special provision affects qualifying taxpayers, the state budget, and other taxpayers. This report presents the amount of each tax expenditure based on information from actual tax returns, such as the amount of credits claimed or the reduction in tax liability due to reported exclusions or deductions. It does not attempt to estimate the changes in behavior a tax incentive has induced or the additional revenue that would result from repealing it.

### **How Should This Information be Used?**

Ideally, the Legislature would give tax expenditures the same kind of scrutiny that it gives to direct program expenditures. It would consider the likely costs and results of new proposals, and it would periodically evaluate the actual costs and impacts of existing tax expenditures. This evaluation would examine each tax expenditure's effectiveness and its cost-effectiveness.

Evaluating a tax expenditure's effectiveness would require having a clear statement of its purpose and measuring whether it accomplishes that purpose. In general, a tax expenditure's purpose is to change taxpayers' behavior in some way. An effective tax expenditure would produce a large change in taxpayers' behavior for a small cost in lost revenue. An ineffective tax expenditure would reward people for doing what they would have done anyway.

Thus, measuring a tax expenditure's effectiveness requires knowing its cost, knowing how much of the desired activity taxpayers engaged in, and estimating how much of the activity taxpayers would have done without the incentive.

Evaluating a tax expenditure's cost effectiveness would require comparing it with other methods of accomplishing the same goal. For example, the tax credits to encourage energy conservation investments could be compared to direct grant programs or changes in building codes. The tax credit for extending infrastructure to new manufacturing plants could be compared to a direct grant program or changes in land-use planning.

The table on the next page lists all of the tax expenditures in this report, as well as each expenditure's code reference, year of enactment, and bill and chapter reference.

### **Tax Exempt Organizations**

In addition to the tax expenditures for each tax type listed in this section, the State of Montana also exempts some organizations and property from taxation by the state. In general, organizations that qualify for tax exempt status includes government, charitable and educational organizations, such as public libraries, church properties used for religious worship or nonprofits that provide care to qualified individuals. A complete list of tax exempt organization types can be located in 15-6-201, MCA. To receive, and continue, tax-exempt status, each organization is required to meet the necessary requirements and file an application to the Department of Revenue each tax year by March 1st.

## Introduction to Tax Expenditures

Tax Source	Tax Expenditure	Expenditure Type	Law	Session/Year	Legislation
Individual Income Tax	Business Purchase of Recycled Material	Adjustment to Gross Income	15-32-609 to 611	1991	SB 111
Individual Income Tax	Deduction for Self-Employment	Adjustment to Gross Income	Federal Provision		
Individual Income Tax	Disability Retirement Income	Adjustment to Gross Income	15-30-2110(10)	1985	SB 464
Individual Income Tax	Domestic Production Activities	Adjustment to Gross Income	Federal Provision		
Individual Income Tax	Employer-Paid Disability Insurance Limited to Part Owners and Highly Compensated Employees	Adjustment to Gross Income	15-30-2110(2)(h)	2013	HB 545
Individual Income Tax	Employer-Paid Health Insurance Limited to Part Owners and Highly Compensated Employees	Adjustment to Gross Income	15-30-2110(2)(h)	1985	SB 72
Individual Income Tax	Exempt Tribal Income	Adjustment to Gross Income	Federal Provision		
Individual Income Tax	Family Education Savings Account	Adjustment to Gross Income	15-62-101 to 302	1997	HB 536
Individual Income Tax	Farm and Risk Management Account	Adjustment to Gross Income	15-30-3001 to 3005	2001	SB 245
Individual Income Tax	First Time Homebuyer Account	Adjustment to Gross Income	15-63-101 to 205	1997	HB 599
Individual Income Tax	Health Savings Account	Adjustment to Gross Income	Federal Provision		
Individual Income Tax	Individual Retirement Account Deduction	Adjustment to Gross Income	Federal Provision		
Individual Income Tax	Interest On Federal Government Bonds	Adjustment to Gross Income	Federal Provision and 15-30-2110(2)(a)		
Individual Income Tax	Military Salary	Adjustment to Gross Income	15-30-2117(2)	1975	HB 152
Individual Income Tax	Montana Achieving a Better Life Experience Act Account Deposits	Adjustment to Gross Income	Federal Provision		
Individual Income Tax	Montana Medical Savings Account	Adjustment to Gross Income	15-61-101 to 205	1995	HB 560
Individual Income Tax	National Guard Life Insurance	Adjustment to Gross Income	15-30-2117(3)	2005	HB 761
Individual Income Tax	Partial Exclusion of Capital Gains on Pre-1987 Installment Sales	Adjustment to Gross Income	15-30-2110(13)	1987	HB 904
Individual Income Tax	Partial Interest Exclusion for the Elderly	Adjustment to Gross Income	15-30-2110(2)(b)	1981	HB 18
Individual Income Tax	Partial Pension Exemption	Adjustment to Gross Income	15-30-2110(2)(c)	1963	HB 232
Individual Income Tax	Passive Tax Expenditures	Adjustment to Gross Income	15-30-2110(1)	1955	HB 354
Individual Income Tax	Sale of Land to Beginning Farmers	Adjustment to Gross Income	80-12-211	1983	SB 316
Individual Income Tax	Small Business Investment Company Dividends	Adjustment to Gross Income	15-33-106	1981	HB 834
Individual Income Tax	Student Loan Interest Deduction	Adjustment to Gross Income	Federal Provision		
Individual Income Tax	Third Party Repayment of Health Care Professional's Student Loans	Adjustment to Gross Income	15-30-2110(12)	2003	SB408
Individual Income Tax	Tier II Railroad Retirement	Adjustment to Gross Income	Federal Provision		
Individual Income Tax	Tips	Adjustment to Gross Income	15-30-2110(2)(f)	1983	HB 841
Individual Income Tax	Tuition and Fees Deduction	Adjustment to Gross Income	Federal Provision		
Individual Income Tax	Unemployment Compensation	Adjustment to Gross Income	15-30-2101(10)	1979	HB 363
Individual Income Tax	Worker's Compensation	Adjustment to Gross Income	15-30-2110(2)(g)	1985	SB 72
Individual Income Tax	Casualty and Theft Losses	Itemized Deduction	Federal Provision		
Individual Income Tax	Charitable Contributions	Itemized Deduction	Federal Provision		
Individual Income Tax	Child and Dependent Care Expenses	Itemized Deduction	15-30-2131(1)(c)	1977	HB 47
Individual Income Tax	Federal Income Tax	Itemized Deduction	15-30-2131(1)(b)	1933	HB 328
Individual Income Tax	Home Mortgage Interest	Itemized Deduction	Federal Provision		
Individual Income Tax	Light Vehicle Registration Fees	Itemized Deduction	15-30-2131(1)(h)	1999	HB 540
Individual Income Tax	Long Term Care Insurance Premiums	Itemized Deduction	15-30-2131(1)(a)(iv)	1997	SB 151

## Introduction to Tax Expenditures

Tax Source	Tax Expenditure	Chapter Number	Law	Session/Year	Legislation
Individual Income Tax	Livestock Fees	Itemized Deduction	15-30-2131(1)(i)	2001	HB 124
Individual Income Tax	Medical and Dental Expenses	Itemized Deduction	Federal Provision		
Individual Income Tax	Medical Insurance Premiums	Itemized Deduction	15-30-2131(1)(a)(iii)	1995	HB 202
Individual Income Tax	Other Deductible Taxes	Itemized Deduction	Federal Provision		
Individual Income Tax	Political Contributions	Itemized Deduction	15-30-2131(1)(d)	1979	HB 407
Individual Income Tax	Property Taxes on Personal Property	Itemized Deduction	Federal Provision		
Individual Income Tax	Property Taxes on Real Estate	Itemized Deduction	Federal Provision		
Individual Income Tax	Sales Tax and Local Income Tax	Itemized Deduction	Federal Provision		
Individual Income Tax	Adoption Credit	Credit	15-30-2364	2007	HB 490
Individual Income Tax	Alternative Energy Production Credit	Credit	15-32-401 to 407	1983	HB 780
Individual Income Tax	Alternative Energy Systems Credit	Credit	15-32-201 to 203	1977	SB 167
Individual Income Tax	Alternative Fuel Credit	Credit	15-30-2320	1993	HB 219
Individual Income Tax	Apprenticeship Credit	Credit	15-30-2357, 39-6-109	2017	HB 308
Individual Income Tax	Biodiesel Blending and Storage Tank Credit	Credit	15-32-703	2005	HB 756
Individual Income Tax	Capital Gains Credit	Credit	15-30-2301	2003	SB 407
Individual Income Tax	College Contribution Credit	Credit	15-30-2326	1991	HB 894
Individual Income Tax	Credit For Other States' Taxes	Credit	15-30-2302	1941	HB 38
Individual Income Tax	Dependent Care Credit	Credit	15-31-131, 15-31-133, 15-30-2373	1989	SB 282
Individual Income Tax	Elderly Care Credit	Credit	15-30-2366	1989	HB 166
Individual Income Tax	Elderly Homeowner/Renter Credit	Credit	15-30-2337 to 15-30-2341	1981	SB 337
Individual Income Tax	Emergency Lodging Credit	Credit	15-30-2381	2007	HB 240
Individual Income Tax	Empowerment Zone Credit	Credit	15-30-2356 and 15-31-134	2003	SB 484
Individual Income Tax	Energy Conservation Credit	Credit	15-32-109 and 15-30-2319	1981	HB 237
Individual Income Tax	Geothermal Heating System Credit	Credit	15-32-115	1991	SB 416
Individual Income Tax	Health Insurance for Uninsured Montanans Credit	Credit	15-30-2367	1991	HB 693
Individual Income Tax	Historic Property Preservation Credit	Credit	15-30-2342, 15-31-151	1997	HB 601
Individual Income Tax	Infrastructure Users Fee Credit	Credit	17-6-316	1995	SB 100 and HB 602
Individual Income Tax	Innovative Educational Program Credit	Credit	15-30-3110	2015	SB 410
Individual Income Tax	Mineral Exploration Credit	Credit	15-32-501 to 510	1999	SB 265
Individual Income Tax	Montana Earned Income Tax Credit	Credit	15-30-2318	2017	HB 391
Individual Income Tax	Oilseed Crushing and Biodiesel Production Facility Credit	Credit	15-32-701 to 702	2005	HB 756
Individual Income Tax	Qualified Endowment Credit	Credit	15-30-2327 to 2329	1997	HB 434
Individual Income Tax	Recycling Credit	Credit	15-32-601 to 604	1991	SB 111
Individual Income Tax	Research Credit	Credit	15-31-150	1999	HB 638
Individual Income Tax	State Land Access Credit	Credit	15-30-2380	2013	HB 444
Individual Income Tax	Student Scholarship Organization Credit	Credit	15-30-3111	2015	SB 410

# Introduction to Tax Expenditures

Tax Source	Tax Expenditure	Expenditure Type	Law	Session/Year	Legislation
Corporate Income Tax	Water's Edge Election	Special Election	15-31-322 to 15-31-324	1987	HB 703
Corporate Income Tax	Capital Gains Exclusion for Mobile Home Park	Deduction	15-31-163	2009	HB 636
Corporate Income Tax	Deduction for Donation of Exploration Information	Deduction	15-32-510	1999	SB 625
Corporate Income Tax	Deduction for Purchasing Montana-Produced Organic Fertilizer Produced as a Byproduct	Deduction	15-32-303	1981	SB 322
Corporate Income Tax	Energy-Conservation Investment Deduction	Deduction	15-32-103	1975	HB 663
Corporate Income Tax	Recycling Material Qualifying for Deduction	Deduction	15-32-609 and 610	1991	SB 111
Corporate Income Tax	Alternative Energy Production Credit	Credit	15-32-401 to 407	1983	HB 755
Corporate Income Tax	Alternative Fuel Motor Vehicle Conversion Credit	Credit	15-30-2320	1993	HB 219
Corporate Income Tax	Apprenticeship Credit	Credit	15-30-2357 and 39-6-109	2017	HB 308
Corporate Income Tax	Biodiesel Blending and Storage Tank Credit	Credit	15-32-703	2005	HB 756
Corporate Income Tax	Charitable Endowment Credit	Credit	15-31-161 and 162	1997	HB 434
Corporate Income Tax	College Contributions Credit	Credit	15-30-2326	1991	HB 894
Corporate Income Tax	Contractor's Gross Receipts Tax Credit	Credit	15-50-207	1967	HB 530
Corporate Income Tax	Contributions to Public and Private Schools Credit	Credit	15-31-158 to 15-30-159	2015	SB 410
Corporate Income Tax	Dependent Care Assistance Credit	Credit	15-31-131 and 133	1989	SB 282
Corporate Income Tax	Empowerment Zone New Employees Tax Credit	Credit	15-31-134	2003	SB 484
Corporate Income Tax	Geothermal Heating Credit	Credit	15-32-115	2005	SB 340
Corporate Income Tax	Health Insurance for Uninsured Montanans Credit	Credit	15-31-132	1989	HB 166
Corporate Income Tax	Historic Property Preservation Credit	Credit	15-31-151	1997	HB 601
Corporate Income Tax	Infrastructure Users Fee Credit	Credit	17-6-316	1995	SB 100 & HB 602
Corporate Income Tax	Mineral Exploration Incentive Credit	Credit	15-32-501 to 509	1999	SB 625
Corporate Income Tax	New and Expanded Industry Credit	Credit	15-31-124 to 127	1975	HB 593
Corporate Income Tax	Oilseed Crushing and Biodiesel Production Facility Credit	Credit	15-32-701 and 702	2005	HB 756
Corporate Income Tax	Qualified Research Credit	Credit	15-31-150	1999	HB 638
Corporate Income Tax	Recycling Credit	Credit	15-32-601 to 611	1991	SB 111
Corporate Income Tax	Short Tem Temporary Lodging Credit	Credit	15-31-171	2007	HB 240
Corporate Income Tax	Unlocking Public Lands Credit	Credit	15-30-2380	2013	HB 444
Corporate Income Tax	Corporate Passive Deduction Expenditures	Passive Expenditure			
Tax Source	Tax Expenditure	Expenditure Type	Law	Session/Year	Legislation
Property Tax	Disabled American Veterans Program	Residential Property	15-6-211	1979	HB 213
Property Tax	Electrical Generation and Transmission Facility Exemption	Economic Development	15-24-3001	2007	HB 3
Property Tax	Energy Production or Development Tax Abatement	Economic Development	15-24-3111	2007	HB 3
Property Tax	Generally Exempt Property	Tax Exempt	15-6-2		
Property Tax	Intangible Personal Property Exemption	Centrally Assessed	15-6-218	1999	SB 111
Property Tax	Land Value Property Tax Assistance Program	Residential Property	15-6-240	2017	SB 94
Property Tax	Property Tax Assistance Program	Residential Property	15-6-134	1979	HB 398
Property Tax	Tax Increment Finance Districts	Economic Development	7-15-4282	1974	HB 193

## Introduction to Tax Expenditures

Tax Source	Tax Expenditure	Expenditure Type	Law	Session/Year	Legislation
Oil and Gas Tax	New Production Tax Holiday	Reduced Rate	15-36-304	1977	HB 553
Oil and Gas Tax	Reduced Rate for Oil and Gas Wells Completed After 1998	Reduced Rate	15-36-304	1977	HB 553
Oil and Gas Tax	Reduced Rates for Horizontally Recompleted Oil Wells	Reduced Rate	15-36-304	1993	SB 18
Oil and Gas Tax	Reduced Rates for Incremental Oil Production from Enhanced Recovery Projects	Reduced Rate	15-36-304	1985	HB 636
Oil and Gas Tax	Reduced Rates for Stripper Exemption and Stripper Oil Wells	Reduced Rate	15-36-304	1999	HB 661
Oil and Gas Tax	Reduced Rates for Pre-1999 "Stripper" Gas Wells	Reduced Rate	15-36-304	1999	SB 530

The following tables show the cost of tax expenditures by size. The tables showing income, corporate income, and property tax expenditures show only the cost to the general fund for these provisions. The fourth table showing natural resource expenditures show the total cost of the tax expenditure to state and any local governments. Passive tax expenditures are not included in these tables.

## Introduction to Tax Expenditures

Individual Income Tax Expenditures - 2017	Number	\$
Federal Income Tax Deduction	242,669	\$74,238,304
Special Treatment for Capital Gains	72,881	\$48,144,173
Credit for Other States' Taxes	14,070	\$33,984,000
Medical Insurance Premium Deduction	103,991	\$22,600,177
Medical and Dental Expenses Deduction	60,310	\$11,795,070
Exempt Military Salary	4,759	\$9,059,626
Elderly Homeowner/Renter Credit	13,567	\$6,955,393
Unemployment Compensation Deduction	21,741	\$5,072,028
Partial Pension Exemption	44,862	\$3,965,750
Exempt Tips	20,718	\$3,861,857
Energy Conservation Credit	7,266	\$3,484,878
Qualified Endowment Credit	728	\$2,981,018
Long Term Care Insurance Premium Deduction	10,451	\$1,627,086
Partial Interest Exclusion for Elderly Taxpayers	69,725	\$1,569,092
Infrastructure Users Fee Credit	21	\$1,457,532
Montana Medical Care Savings Account Deduction	6,101	\$1,157,835
Family Education Savings Account Deduction	3,807	\$832,099
College Contribution Credit	3,089	\$350,872
Alternative Energy Systems Credit	742	\$315,904
Recycling Credit	106	\$283,047
Adoption Credit	175	\$169,555
Geothermal Heating System Credit	91	\$135,223
Third-Party Repayment of Health Care Professional's Student Loans Deduction	455	\$91,905
Small Business Investment Company Dividend Deduction	*	\$79,110
Political Contribution Deduction	6,832	\$49,728
Health Insurance for Uninsured Montanans Credit	52	\$47,564
First Time Homebuyer Account Deduction	217	\$43,658
Health Benefits Limited to Highly-Compensated Employees Deduction	155	\$38,671
Alternative Energy Production Credit	*	\$29,765
Historic Property Preservation Credit	13	\$29,281
Worker's Compensation Deduction	155	\$28,841
Student Scholarship Organization Credit	123	\$26,270
Elderly Care Credit	57	\$24,893
Business Purchases of Recycled Material Deduction	90	\$13,425
Temporary Emergency Lodging Credit	20	\$10,051
Innovative Education Credit	39	\$8,572
Dependent Care Assistance Credit	*	\$7,215
Child and Dependent Care Expenses Deduction	496	\$5,321
ABLE Account Deduction	35	\$4,244
Partial Exclusion of Capital Gains on Pre-1987 Installment Sales	12	\$3,291
Alternative Fuel Credit	12	\$3,129
Research Credit	*	\$3,068
Exempt Disability Retirement Income Deduction	37	\$2,408
Mineral Exploration Credit	*	\$2,020
Unlocking State Lands Credit	*	\$1,973
National Guard Life Insurance Premiums Deduction	28	\$1,325
Sales of Land to Beginning Farmers Deduction	*	\$195
Empowerment Zone Credit	0	\$0
Biodiesel Credits	0	\$0

\* Not disclosed due to confidentiality concerns



## Introduction to Tax Expenditures

Corporate Income Tax Expenditures - 2016	Number	\$
Water's Edge Election	487	\$8-\$13 million
Infrastructure Users Fee Credit	*	\$706,524
Contractor's Gross Receipts	88	\$319,316
Historic Property Preservation Credit	*	\$39,653
Charitable Endowment Credit	11	\$25,130
Recycling Credit	*	\$7,605
Recycled Material Qualifying for Deduction	*	\$7,605
College Contribution Credit	25	\$4,898
New/Expanded Industry Credit	*	\$872
Health Insurance for Uninsured Montanans Credit	*	\$350
Qualified Research Credit	*	\$223
Mineral Exploration Incentive Credit	*	\$25
Short-term Temporary Lodging Credit	0	\$0
Oilseed Crushing & Biodiesel Production Credit	0	\$0
Geothermal Heating System Credit	0	\$0
Empowerment Zone New Employees Tax Credit	0	\$0
Dependent Care Assistance Credit	0	\$0
Biodiesel Blending and Storage Tank Credit	0	\$0
Alternative Fuel Motor Vehicle Conversion Credit	0	\$0
Alternative Energy Production Credit	0	\$0
Capital Gain Exclusion for Mobile Home Park	--	--
Deduction for Donation of Exploration Information	--	--
Deduction for Purchasing Montana-Produced Organic Fertilizer and Inorganic Fertilizer Produced as a Byproduct	--	--
Energy Conserving Investments Deduction	--	--

\* Not disclosed due to confidentiality concerns

Property Tax Expenditures - 2018	Number	\$
Generally Exempt Property	N/A	\$20,803,542
Intangible Personal Property Exemption	171	\$15,595,004
Tax Increment Financing Districts	N/A	\$5,258,806
Property Tax Assistance Program	23,018	\$2,589,060
Disabled American Veterans Program	2,567	\$647,417
Energy Production or Development Tax Abatement	N/A	\$357,107
Land Value Property Tax Assistance Program	104	\$59,909
Electrical Generation and Transmission Facility Exemption	0	\$0

\* Not disclosed due to confidentiality concerns

Natural Resource Tax Expenditures - 2018	Number	\$
Oil New Production Holiday (Oil and Gas Production Tax)	28	\$2,537,259
Oil Stripper Well Production (Oil and Gas Production Tax)	1295	\$945,954
Natural Gas Pre-1999 and Less than 60 MCF/day (Oil and Gas Production Tax)	4507	\$362,249
Natural Gas New Production Tax Holiday (Oil and Gas Production Tax)	21	\$131,122
Oil Horizontally Recompleted Wells (Oil and Gas Production Tax)	0	\$0
Reduced Gross Proceeds Tax Rate for New Underground Coal Mines (Coal Severance Tax)	0	\$0

## Personal Income Tax Expenditures

### Tax Expenditures: Individual Income Tax

The individual income tax is a tax on income a person or couple receives during a year. The general structure of the income tax has three components:

- The taxpayer's adjusted gross income, which generally includes cash receipts and the value of non-monetary compensation and is net of the costs of earning income;
- An exemption for each taxpayer and each dependent and a standard deduction, which are subtracted from adjusted gross income to give taxable income; and
- The tax rates, which in Montana take the form of a graduated rate schedule with the first increments of income being taxed at lower rates. The personal exemption and standard deduction can be viewed as defining an initial rate bracket with a zero-tax rate.

Tax expenditures for the income tax take four forms:

- Tax credits for taxpayers who meet certain conditions or make certain types of expenditures;
- Special treatment of specific types of income, either through special provisions for measuring income or through excluding some types of income from the definition of adjusted gross income;
- Itemized deductions from adjusted gross income for taxpayers who meet certain conditions or make certain types of expenditures; and
- Lower tax rates for certain types of income.

### Tax Expenditures in the Definition of Adjusted Gross Income

In most cases, Montana law adopts the federal definition of adjusted gross income as the starting point for measuring income subject to the state income tax. Tax expenditures in the definition of adjusted gross income come from two sources: tax expenditures that arise in the federal definition of adjusted gross income, and tax expenditures that arise from special provisions of Montana law. State tax expenditures that arise from the state's tie to federal law are called passive tax expenditures. The state Legislature did not take any action to create them and would have to act to prevent them.

Some passive tax expenditures are the result of federal law exempting certain types of income from tax. Others arise from special rules for measuring income. These include special depreciation provisions, rules for the timing of recognition of income, and rules for determining when expenditures that employers make on behalf of their employees count as income to the employee. A third type of passive expenditure results from extra expense deductions federal law allows as incentives to make certain types of investment.

Federal credits do not create passive state tax expenditures, because they do not affect the taxpayer's adjusted gross income.

Montana tax returns do not include information that would allow reliable state-level estimates of individual passive tax expenditures. Total passive tax expenditures can be roughly estimated from the estimates of federal tax expenditures published by the congressional Joint Committee on Taxation (JCT).<sup>1</sup> The JCT's estimates of federal tax expenditures that create Montana passive tax expenditures total \$685 billion. Multiplying this by the ratio of adjusted gross income reported on federal returns with a Montana address to adjusted gross income reported on all federal returns (0.27 percent) and the ratio of the top Montana rate to the top federal rate (17.4 percent) gives the following rough estimate of these passive tax expenditures:

Montana Passive Expenditures from Special Provisions in Federal Definition of Total Income (\$ million)
\$319

Other passive tax expenditures arise from specific adjustments to gross income. These items are listed on both federal and state tax returns. On the 2017 Montana Form 2, they are on lines 24 through 36. These items are sometimes called federal adjustments to income or above-the-line deductions.

<sup>1</sup> "Estimates of Federal Tax Expenditures for Fiscal Years 2018-2022," by the staff of the Joint Committee on Taxation, October, 2018, Document JCX-81-18.

## Definition of Adjusted Gross Income - Passive Expenditures

Five above-the-line deductions should not be considered tax expenditures. Four allow taxpayers to deduct unreimbursed costs of doing their jobs or otherwise earning income. They are the deduction for educator expenses; the deduction for business expenses of reservists, performing artists, and fee basis local government officials; the deduction for expenses of moving to take a new job; and the deduction for penalties for early withdrawal of savings.

The fifth is the deduction for alimony paid, which ensures that income allocated between former spouses is taxed to the person who ultimately receives it. The other seven above-the-line deductions are tax expenditures.

### Deductions for the Self-Employed: Federal Provision Legislation: NA

Three above-the-line deductions give self-employed persons the same treatment as employees for fringe benefits and retirement plans. They are the deduction for one-half of self-employment tax, the deduction for contributions to qualified self-employed retirement plans, and the deduction for self-employed person's health insurance premiums. These are equivalent to an employer's payments for payroll taxes, health insurance benefits, and pension contributions that are not included in an employee's adjusted gross income.

The exclusions for employees provide an incentive for employers to offer and employees to accept pension and health benefits because they make it cheaper for employers to provide additional after-tax compensation as fringe benefits rather than as wages. Providing the same exclusions for self-employed persons removes an incentive to be an employee rather than self-employed.

The costs of the exclusions for employees are included in the figure for passive tax expenditures. The following tables show these deductions for tax years 2009 through 2017. For 2017, extending these exclusions to the self-employed reduced income tax revenue to the state general fund by \$18,183,803, or \$27.73 per full-year resident taxpayer.

One-Half of Self Employment Tax								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	57,031	\$70,605,043	6,910	\$26,039,269	1,752	\$1,593,344	65,693	\$98,237,656
2010	56,835	\$69,819,591	7,555	\$34,223,881	1,983	\$2,112,075	66,373	\$106,155,547
2011	58,708	\$76,908,913	8,341	\$36,132,655	2,029	\$2,057,736	69,078	\$115,099,304
2012	57,264	\$77,679,329	8,375	\$32,192,253	2,115	\$2,006,523	67,754	\$111,878,105
2013	59,162	\$84,415,172	9,383	\$38,275,634	2,307	\$2,297,896	70,852	\$124,988,702
2014	60,013	\$86,986,043	9,765	\$43,015,696	2,382	\$2,399,186	72,160	\$132,400,925
2015	60,556	\$89,922,276	9,844	\$41,834,447	2,565	\$2,528,989	72,965	\$134,285,712
2016	61,088	\$88,099,153	9,774	\$43,246,206	2,596	\$2,625,927	73,458	\$133,971,286
2017	61,605	\$89,951,840	10,037	\$40,555,635	2,627	\$2,823,065	74,269	\$133,330,540

Contributions to Qualified Self-Employed Retirement Plans								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	2,707	\$42,822,026	1,030	\$26,706,434	50	\$546,977	3,787	\$70,075,437
2010	2,611	\$43,089,605	1,143	\$33,264,923	69	\$1,217,513	3,823	\$77,572,041
2011	2,588	\$42,298,279	1,168	\$36,460,986	62	\$1,288,153	3,818	\$80,047,418
2012	2,443	\$41,584,610	1,088	\$33,441,775	49	\$997,520	3,580	\$76,023,905
2013	2,632	\$47,762,885	1,259	\$38,226,913	63	\$1,266,334	3,954	\$87,256,132
2014	2,637	\$48,366,605	1,350	\$42,009,219	73	\$1,371,546	4,060	\$91,747,370
2015	2,641	\$49,414,662	1,364	\$44,931,667	69	\$1,336,748	4,074	\$95,683,077
2016	2,658	\$50,148,146	1,408	\$46,243,338	77	\$1,275,171	4,143	\$97,666,655
2017	2,679	\$51,530,999	1,499	\$51,744,670	95	\$2,157,835	4,273	\$105,433,504

## Definition of Adjusted Gross Income - Passive Expenditures

Self-Employed Health Insurance Premiums Deduction								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	19,190	\$98,936,900	3,399	\$27,785,729	346	\$1,357,558	22,935	\$128,080,187
2010	21,191	\$110,816,477	4,114	\$35,170,815	412	\$1,738,433	25,717	\$147,725,725
2011	21,235	\$116,579,020	4,359	\$39,243,006	409	\$1,547,156	26,003	\$157,369,182
2012	20,848	\$116,803,202	4,265	\$38,252,152	399	\$1,581,816	25,512	\$156,637,170
2013	22,355	\$132,130,435	4,984	\$46,016,372	434	\$1,800,061	27,773	\$179,946,868
2014	23,572	\$130,249,955	5,265	\$50,754,610	488	\$2,064,756	29,325	\$183,069,321
2015	24,554	\$138,208,738	5,395	\$54,472,657	522	\$2,138,891	30,471	\$194,820,286
2016	24,485	\$145,127,725	5,396	\$57,881,920	463	\$2,204,967	30,344	\$205,214,612
2017	23,377	\$152,651,623	5,430	\$60,668,262	476	\$2,598,515	29,283	\$215,918,400

### Domestic Production Activities Deduction: Federal Provision Legislation: NA

Before 2004, certain income from exports to other countries was exempt from taxation. The World Trade Organization found that this export subsidy violated international trade agreements that the United States had signed. This exposed the United States to potential sanctions from its trade partners. Congress responded by repealing the export subsidy and replacing it with a general subsidy for manufacturing.

In addition to the normal deduction for business expenses, taxpayers are allowed an above-the-line deduction of 9 percent of net income from producing new goods and engineering and architectural services in the United States. The deduction cannot be more than the smaller of the taxpayer's adjusted gross income (taxable income for a corporation) or half of the wages the taxpayer pays to employees. An individual can claim the deduction based on income from production activities carried out by a sole-proprietor business or the taxpayer's share of income from production activities carried out by a pass-through entity.

This partial exemption of income from manufacturing and engineering and architectural services is equivalent to taxing this income at a lower rate than income from other business activities. This provides businesses with an incentive to produce goods and engineering and architectural services rather than other types of services and to engage in these production activities in the United States rather than in other countries.

The following table shows domestic production activities deductions for Tax Years 2009 through 2017. For 2017, the domestic production activities deduction reduced individual income tax revenue to the general fund by \$4,199,554, or \$6.41 per full-year resident taxpayer. Most of the value of this deduction is claimed by non-residents, but most non-residents filers have a relatively small fraction of their income from Montana, so most of the tax expenditure goes to residents.

Domestic Production Activities Deduction								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	4,160	\$22,914,712	1,675	\$133,588,571	39	\$239,355	5,874	\$156,742,638
2010	5,574	\$43,123,307	2,109	\$324,358,015	74	\$618,466	7,757	\$368,099,788
2011	5,638	\$43,533,192	2,210	\$385,089,358	73	\$791,762	7,921	\$429,414,312
2012	5,534	\$47,736,036	2,151	\$406,922,598	60	\$211,682	7,745	\$454,870,316
2013	6,088	\$50,133,423	2,541	\$390,432,012	82	\$704,680	8,711	\$441,270,115
2014	5,476	\$47,706,540	2,748	\$205,925,971	67	\$1,106,548	8,291	\$254,739,059
2015	5,608	\$55,835,207	2,651	\$219,485,481	73	\$539,829	8,332	\$275,860,517
2016	6,746	\$57,962,441	2,671	\$354,263,884	64	\$908,477	9,481	\$413,134,802
2017	6,406	\$57,849,388	2,799	\$194,354,490	77	\$1,011,189	9,282	\$253,215,067

## Definition of Adjusted Gross Income - Passive Expenditures

### Health Savings Account Deduction: Federal Provision Legislation: NA

A Health Savings Account (HSA) is a tax-advantaged account for certain medical expenses of taxpayers whose only health insurance is a high-deductible health insurance plan. Funds in an HSA may be used only to pay medical costs that are not reimbursed by insurance. Both deposits to and distributions from an HSA are exempt from income tax.

HSAs provide a partial subsidy to taxpayers who buy their own health insurance and choose a high-deductible plan. This provides an incentive for individuals to purchase high-deductible health insurance themselves rather than choose some other option for health insurance or do without.

The following table shows HSA deductions for tax years 2009 through 2017. For 2017, the HSA deduction reduced income tax revenue to the state general fund by \$2,804,129, or \$4.28 per full-year resident taxpayer.

Health Savings Account Deduction								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	6,040	\$19,175,503	775	\$3,300,085	155	\$343,945	6,970	\$22,819,533
2010	6,903	\$21,882,122	965	\$4,328,394	237	\$529,198	8,105	\$26,739,714
2011	7,673	\$24,675,845	1,066	\$4,630,468	264	\$598,301	9,003	\$29,904,614
2012	7,785	\$25,616,255	1,063	\$4,751,936	221	\$552,963	9,069	\$30,921,154
2013	8,119	\$28,425,705	1,212	\$5,547,865	235	\$565,381	9,566	\$34,538,951
2014	8,968	\$30,938,095	1,414	\$6,267,767	305	\$750,963	10,687	\$37,956,825
2015	9,743	\$34,820,388	1,440	\$6,646,471	323	\$849,707	11,506	\$42,316,566
2016	11,828	\$41,310,075	1,612	\$7,369,209	426	\$935,438	13,866	\$49,614,722
2017	12,203	\$43,149,496	1,692	\$7,865,067	436	\$923,775	14,331	\$51,938,338

### Individual Retirement Account Deduction: Federal Provision Legislation: NA

An Individual Retirement Account (IRA) is a tax-advantaged account for retirement savings. Taxpayers are allowed an above-the-line deduction for contributions to a traditional IRA. For most taxpayers, the deduction is limited to \$5,500. The limit is \$1,000 higher for taxpayers who are 50 or older. Higher income taxpayers who participate in one of several types of pension plans have a lower limit that depends on their income.

Earnings retained in an IRA are not taxed. Funds deposited in an IRA and accumulated earnings are both taxed when they are withdrawn. This deferral of taxes gives taxpayers an incentive to increase retirement savings.

The following table shows IRA deductions for tax years 2009 through 2017. For 2017, the IRA deduction reduced income tax revenue to the state general fund by \$4,263,064, or \$6.50 per full-year resident taxpayer.

Individual Retirement Account Deduction								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	12,480	\$52,303,964	1,002	\$5,874,759	274	\$1,021,602	13,756	\$59,200,325
2010	12,484	\$53,329,887	1,091	\$6,499,869	269	\$928,945	13,844	\$60,758,701
2011	12,466	\$54,281,327	1,145	\$6,889,532	353	\$1,224,768	13,964	\$62,395,627
2012	12,406	\$56,077,309	1,219	\$7,332,085	348	\$1,060,895	13,973	\$64,470,289
2013	12,909	\$62,060,097	1,403	\$9,118,826	392	\$1,451,143	14,704	\$72,630,066
2014	13,284	\$65,989,731	1,428	\$9,557,425	416	\$1,500,042	15,128	\$77,047,198
2015	13,176	\$65,361,123	1,425	\$9,379,560	417	\$1,544,536	15,018	\$76,285,219
2016	13,240	\$66,073,642	1,382	\$9,201,406	452	\$1,849,560	15,074	\$77,124,608
2017	13,194	\$67,053,676	1,395	\$9,424,326	442	\$1,645,468	15,031	\$78,123,470

## Definition of Adjusted Gross Income - Passive Expenditures

### Student Loan Interest Deduction: Federal Provision Legislation: NA

Taxpayers may deduct up to \$2,500 of interest they paid on student loans for either their own or their dependents' post-secondary education. The deduction phases out for incomes between \$65,000 and \$80,000 (\$130,000 and \$160,000 for a joint return) and may not be claimed by a taxpayer who is claimed as someone else's dependent. This deduction provides a subsidy to taxpayers who borrow to pay for either their own or their dependents' education. This provides an incentive for taxpayers to invest more in their own or their dependents' educations. It also provides an incentive to increase the proportion of education expenses financed by borrowing. The following table shows student loan interest deductions for tax years 2009 through 2017. For 2017, the student loan interest deduction reduced income tax revenue to the state general fund by \$3,021,678, or \$4.61 per full-year resident taxpayer.

Student Loan Interest Deduction								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	41,749	\$32,806,866	2,361	\$1,988,225	3,074	\$2,621,006	47,184	\$37,416,097
2010	42,392	\$34,202,184	2,470	\$2,081,298	3,385	\$3,138,523	48,247	\$39,422,005
2011	42,279	\$36,245,983	2,641	\$2,480,349	3,513	\$3,433,628	48,433	\$42,159,960
2012	43,380	\$38,303,590	3,033	\$2,913,781	3,880	\$3,864,992	50,293	\$45,082,363
2013	45,115	\$41,374,226	3,194	\$3,188,041	4,063	\$4,132,916	52,372	\$48,695,183
2014	43,530	\$43,632,382	3,318	\$3,501,763	4,244	\$4,555,024	51,092	\$51,689,169
2015	44,987	\$46,402,195	3,372	\$3,596,607	4,455	\$4,898,571	52,814	\$54,897,373
2016	46,722	\$46,125,127	3,375	\$3,584,420	4,525	\$4,824,229	54,622	\$54,533,776
2017	47,360	\$46,843,507	3,364	\$3,498,850	4,542	\$4,905,421	55,266	\$55,247,778

### Tuition and Fees Deduction: Federal Provision Legislation: NA

Taxpayers may deduct up to \$4,000 of tuition and fees they paid for their own or their dependents' post-secondary education. Taxpayers with income of \$65,000 or less (\$130,000 for a joint return) may take the full deduction. Taxpayers with incomes between \$65,000 and \$80,000 (\$160,000 for a joint return) are limited to a \$2,000 deduction, and taxpayers with higher incomes may not take the deduction.

Federal law also allows a tax credit for some higher education expenses, and a taxpayer may not take both the deduction and the credit. This deduction provides a subsidy for taxpayers who are pursuing their own post-secondary education or paying for their dependents' post-secondary education. This provides an incentive for taxpayers to invest in their own or their dependents' educations.

The deduction was set to expire in 2016, but was extended to 2017 in 2018. The following table shows tuition and fees deductions for tax years 2009 through 2017. For 2017, the tuition and fees deduction reduced income tax revenue to the state general fund by \$309,082, or \$0.47 per full-year resident taxpayer.

Tuition and Fees Deduction								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	6,605	\$15,216,928	704	\$1,607,260	549	\$1,481,854	7,858	\$18,306,042
2010	5,387	\$11,733,181	601	\$1,355,631	453	\$1,108,694	6,441	\$14,197,506
2011	5,640	\$12,398,266	618	\$1,457,285	542	\$1,372,674	6,800	\$15,228,225
2012	5,914	\$13,060,037	637	\$1,392,408	553	\$1,458,678	7,104	\$15,911,123
2013	5,496	\$12,198,697	623	\$1,359,370	531	\$1,388,396	6,650	\$14,946,463
2014	5,133	\$11,191,316	636	\$1,485,165	566	\$1,500,036	6,335	\$14,176,517
2015	5,230	\$11,481,274	617	\$1,431,365	560	\$1,436,247	6,407	\$14,348,886
2016	5,092	\$11,292,573	593	\$1,462,569	544	\$1,437,767	6,229	\$14,192,909
2017	3,461	\$7,716,922	446	\$1,071,768	302	\$815,820	4,209	\$9,604,510

## Definition of Adjusted Gross Income

### Montana Adjustments to Income

Montana has 50 adjustments to federal adjusted gross income that taxpayers are either allowed or required to make in calculating Montana adjusted gross income. Some of these Montana adjustments allocate income between spouses filing separate Montana returns when they file a joint federal return. Other state adjustments exist because federal law prohibits states from taxing certain types of income that the federal government taxes. A few exist because the state taxes some types of income that the federal government does not tax. Most exist because the legislature has chosen to partly or completely exempt certain types of income from taxation.

**ABLE Accounts:** 15-30-2110(12), MCA  
**Legislation:** SB 399, 2015 Session

In 2014, Congress amended Section 529 of the Internal Revenue Code to create the Achieving a Better Life Experience (ABLE) account, which is a tax-advantaged savings account to be used for the benefit of a person with disabilities. Earnings on an ABLE account are exempt from federal tax as long as funds withdrawn from the account are used for eligible expenses related to the beneficiary's disability. More than one person can contribute to a single account, but total contributions in a year may not exceed \$14,000 (adjusted annually for inflation). As long as the balance in the account is \$100,000 or less, having an ABLE account will not affect the beneficiary's eligibility for Social Security or Medicaid.

Beginning in 2015, Montana exempts up to \$3,000 a taxpayer contributes to an ABLE account from income tax. More than one taxpayer can contribute to the same account if total deposits do not exceed the annual limit, and each taxpayer can exempt the amount of their deposit.

ABLE Account Deposits									
	Residents		Nonresidents		Part-Year Residents		Total		
	N	\$	N	\$	N	\$	N	\$	
2015	0	\$0	0	\$0	0	\$0	0	\$0	\$0
2016	0	\$0	0	\$0	0	\$0	0	\$0	\$0
2017	35	\$78,670	0	\$0	*	\$3,125	*	\$3,125	\$81,795

\* Not disclosed due to confidentiality concerns

**Business Purchases of Recycled Material:** 15-32-609, MCA through 15-32-611, MCA  
**Legislation:** SB 111, 1991 Session

Montana allows businesses to take an extra deduction of 10 percent of the cost of purchases of recycled materials. In effect, this allows a business expense deduction of 110 percent of the cost of recycled materials. This reduces the cost of recycled material relative to other raw materials, giving businesses an incentive to use recycled material.

The deduction is available to corporations and to the owners of sole-proprietor businesses and pass-through entities. The following table shows individual income tax deductions for purchases of recycled material since 2009. For 2017, this exclusion reduced income tax revenue to the general fund by \$13,425, or \$0.02

Business Expense for Recycled Materials									
	Residents		Nonresidents		Part-Year Residents		Total		
	N	\$	N	\$	N	\$	N	\$	
2009	102	\$136,675	0	\$0	*	\$113	*	\$113	\$136,788
2010	112	\$204,911	*	\$105	*	\$250	*	\$250	\$205,266
2011	98	\$266,011	*	\$65,406	*	\$660	*	\$660	\$332,077
2012	104	\$242,946	*	\$46,045	*	\$302	*	\$302	\$289,293
2013	91	\$366,958	*	\$239	*	\$663	*	\$663	\$367,860
2014	100	\$296,108	*	\$211	*	\$365	*	\$365	\$296,684
2015	101	\$240,929	*	\$100	*	\$3,025	*	\$3,025	\$244,054
2016	105	\$327,567	*	\$291	*	\$5,809	*	\$5,809	\$333,667
2017	90	\$279,218	*	\$47	*	\$200	*	\$200	\$279,465

\* Not disclosed due to confidentiality concerns

## Definition of Adjusted Gross Income

per full-year resident taxpayer.

**Disability Retirement Income:** 15-30-2110(10), MCA  
**Legislation:** SB 464, 1985 Session

Taxpayers who are under the age of 65 and permanently disabled may exclude up to \$5,200 of disability retirement income. The amount taxpayers may exclude is reduced by any amount by which their pre-exclusion adjusted gross income exceeds \$15,000. The purpose of this exclusion appears to be to increase the after-tax income of permanently disabled taxpayers with low incomes. The following table shows disability income excluded since 2009. For 2017, this exclusion reduced income tax revenue to the general fund by \$2,408, or less than \$0.01 per full-year resident taxpayer.

Exempt Disability Retirement Income										
	Residents		Nonresidents		Part-Year Residents		Total			
	N	\$	N	\$	N	\$	N	\$		
2009	152	\$656,765	*	\$6,923	*	\$22,712	*	*	\$686,400	
2010	179	\$786,572	*	\$5,200	*	\$34,744	*	*	\$826,516	
2011	81	\$364,329	*	\$7,816	0	\$0	*	*	\$372,145	
2012	60	\$276,606	*	\$36	*	\$9,916	*	*	\$286,558	
2013	50	\$226,388	0	\$0	0	\$0	50	*	\$226,388	
2014	27	\$126,247	0	\$0	0	\$0	27	*	\$126,247	
2015	31	\$137,022	0	\$0	*	\$5,200	*	*	\$142,222	
2016	36	\$171,297	*	\$5,200	*	\$5,063	*	*	\$181,560	
2017	37	\$170,951	0	\$0	*	\$5,200	*	*	\$176,151	

\* Not disclosed due to confidentiality concerns

**Exempt Tribal Income:** Federal Provision  
**Legislation:** NA

Indian tribes are sovereign governments and state taxation of tribes and their members is governed by federal law and treaties. The right to tax the income that a member who lives on the tribe's reservation earns on the reservation is reserved to the tribal government. The state may tax income non-members earn on a reservation and income a tribal member earns off the reservation. This is similar to the general rule for taxation across national borders – a country may tax income its citizens earn anywhere, and may tax income non-citizens earn in the country, but may not tax income citizens of another country earn in another country. Therefore, it is not clear whether the exemption for tribal income should be considered a tax expenditure.

The following table shows exempt tribal income reported on Montana returns since 2009. If the state could tax this income it would have increased income tax revenue to the general fund by \$7,543,449, or \$11.51 per full year resident taxpayer for 2017.

Exempt Tribal Income									
	Residents		Nonresidents		Part-Year Residents		Total		
	N	\$	N	\$	N	\$	N	\$	
2009	7,700	\$201,760,096	11	\$200,709	54	\$877,670	7,765	\$202,838,475	
2010	7,202	\$200,800,212	20	\$13,958,716	53	\$1,376,590	7,275	\$216,135,518	
2011	7,132	\$290,700,359	19	\$388,120	51	\$1,315,689	7,202	\$292,404,168	
2012	6,959	\$221,787,087	16	\$473,244	50	\$1,169,701	7,025	\$223,430,032	
2013	5,620	\$170,919,136	22	\$539,535	44	\$978,101	5,686	\$172,436,772	
2014	5,899	\$184,937,230	18	\$456,199	40	\$884,217	5,957	\$186,277,646	
2015	6,172	\$204,787,286	17	\$349,962	41	\$1,281,013	6,230	\$206,418,261	
2016	6,255	\$216,137,415	21	\$544,256	32	\$1,266,686	6,308	\$217,948,357	
2017	6,152	\$254,049,703	24	\$558,530	64	\$1,259,708	6,240	\$255,867,941	



## Definition of Adjusted Gross Income

### **Family Education Savings Accounts:** 15-62-101, MCA through 15-62-302, MCA **Legislation:** HB 536, 1997 Session

Section 529 of the Internal Revenue Code allows states to set up higher education savings programs. These programs allow taxpayers to set up an account for a designated beneficiary, usually a child or grandchild. States may give special tax treatment to deposits to a qualifying account, and withdrawals to pay the beneficiary's higher education expenses are not included in federal adjusted gross income, which means that account earnings are tax-free. Montana's Section 529 plan was created by the 1997 Legislature. Montana taxpayers may exclude up to \$3,000 of contributions to one or more Family Education Savings Accounts from adjusted gross income each year. Any withdrawals that are not used for higher education expenses are taxed at the highest income tax rate. The 2013 Legislature (SB 117) expanded the deduction to include deposits to other states' college savings plans.

This program encourages families to save for their children's college education by lowering the cost of saving any given amount.

The tax expenditure from the federal exclusion of account earnings is included in the estimate of passive tax expenditures. The state exclusion of deposits to an education savings account creates an additional tax expenditure. The following table shows deposits to Montana Family Education Savings Accounts since 2009. For 2017, this exclusion reduced income tax revenue to the general fund by \$832,099, or \$1.27 per full-year resident taxpayer.

Family Education Savings Account Deposits								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	2,048	\$6,592,192	46	\$152,411	10	\$26,099	2,104	\$6,770,702
2010	2,055	\$6,547,256	15	\$40,337	20	\$53,396	2,090	\$6,640,989
2011	2,072	\$6,528,702	10	\$33,150	21	\$50,745	2,103	\$6,612,597
2012	2,105	\$6,838,715	12	\$37,817	30	\$79,590	2,147	\$6,956,122
2013	2,955	\$9,385,280	81	\$319,193	60	\$145,956	3,096	\$9,850,429
2014	3,175	\$10,075,735	102	\$371,011	42	\$120,793	3,319	\$10,567,539
2015	3,311	\$10,525,352	110	\$405,000	63	\$181,822	3,484	\$11,112,174
2016	3,473	\$11,083,019	112	\$424,186	56	\$188,042	3,641	\$11,695,247
2017	3,807	\$12,361,878	142	\$539,923	68	\$194,936	4,017	\$13,096,737

### **Farm and Ranch Risk Management Accounts:** 15-30-3001, MCA through 15-30-3005, MCA **Legislation:** SB 245, 2001 Session

The 2001 Legislature created Farm and Ranch Risk Management Accounts as a tool for family farms to deal with uneven and uncertain income. An individual or family farm corporation may set up an account and may deposit up to 20 percent of their net income from agriculture each year, with a limit of \$20,000.

Deposits to a risk management account are excluded from adjusted gross income. Funds deposited in an account must be withdrawn within five years. Income and withdrawals from the account are taxable.

Federal law allows farmers to average income over three years for income tax purposes. The additional tax smoothing allowed by Montana Farm and Ranch Risk Management Accounts has seen very little use. There have been fewer than 10 deposits to accounts each year since 2004, and all of those have been made by non-residents. No deposits were made for 2012 through 2015. For 2017, this exclusion reduced general fund revenue by less than \$100. The tables on the next page show exempt deposits and taxable withdrawals since 2009.

## Definition of Adjusted Gross Income

Farm and Ranch Risk Management Account Deposits									
	Residents		Nonresidents		Part-Year Residents		Total		
	N	\$	N	\$	N	\$	N	\$	
2009	0	\$0	*	\$3,730	0	\$0	*	\$3,730	
2010	0	\$0	*	\$3,496	0	\$0	*	\$3,496	
2011	0	\$0	*	\$1,807	0	\$0	*	\$1,807	
2012	0	\$0	0	\$0	0	\$0	0	\$0	
2013	0	\$0	0	\$0	0	\$0	0	\$0	
2014	0	\$0	0	\$0	0	\$0	0	\$0	
2015	0	\$0	0	\$0	0	\$0	0	\$0	
2016	*	\$1,941	0	\$0	0	\$0	*	\$1,941	
2017	*	\$1,056	0	\$0	0	\$0	*	\$1,056	

\* Not disclosed due to confidentiality concerns

Farm and Ranch Risk Management Account Taxable Distributions									
	Residents		Nonresidents		Part-Year Residents		Total		
	N	\$	N	\$	N	\$	N	\$	
2009	*	\$697	*	\$3,288	0	\$0	*	\$3,985	
2010	*	\$191	*	\$1,880	0	\$0	*	\$2,071	
2011	*	\$10,576	*	\$8,823	0	\$0	*	\$19,399	
2012	*	\$5,043	*	\$2,651	0	\$0	*	\$7,694	
2013	*	\$1,003	*	\$13,106	0	\$0	*	\$14,109	
2014	*	\$2,200	*	\$826	0	\$0	*	\$3,026	
2015	*	\$993	*	\$132	0	\$0	*	\$1,125	
2016	*	\$3,500	*	\$1,457	0	\$0	*	\$4,957	
2017	0	\$0	*	\$14,480	0	\$0	*	\$14,480	

\* Not disclosed due to confidentiality concerns

**First-Time Homebuyer Accounts:** 15-63-101, MCA through 15-63-205, MCA  
**Legislation:** HB 599, 1997 Session

Montana law allows residents who have never owned a home to establish a First-Time Homebuyer's Account. Deposits of up to \$3,000 per year (\$6,000 for a married couple filing a joint return) and account earnings are exempt from taxation. Funds in the account must be used for the down payment and closing costs on a single-family house within 10 years after the account is established. If funds are withdrawn for another use or are not used within 10 years, they must be reported as taxable income.

This program encourages home ownership by reducing the cost of saving for a down payment.

The following tables show exempt deposits and earnings and taxable withdrawals. For 2017, this exclusion reduced income tax revenue to the general fund by \$43,658, or \$0.07 per full-year resident taxpayer.

First Time Homebuyer Account Deposits									
	Residents		Nonresidents		Part-Year Residents		Total		
	N	\$	N	\$	N	\$	N	\$	
2009	203	\$710,124	*	\$2,350	12	\$57,714	*	\$770,188	
2010	126	\$358,024	0	\$0	*	\$18,550	*	\$376,574	
2011	131	\$395,135	0	\$0	*	\$3,751	*	\$398,886	
2012	158	\$501,379	0	\$0	*	\$12,160	*	\$513,539	
2013	141	\$501,702	*	\$2,487	*	\$6,150	*	\$510,339	
2014	161	\$543,587	0	\$0	*	\$22,890	*	\$566,477	
2015	214	\$678,938	*	\$1,820	10	\$33,480	*	\$714,238	
2016	215	\$706,088	*	\$6,000	*	\$18,000	*	\$730,088	
2017	217	\$691,899	*	\$8,800	*	\$6,003	*	\$706,702	

\* Not disclosed due to confidentiality concerns

## Definition of Adjusted Gross Income

First Time Homebuyers Account Nonqualified Withdrawals									
	Residents		Nonresidents		Part-Year Residents		Total		
	N	\$	N	\$	N	\$	N	\$	
2009	13	\$29,691	0	\$0	0	\$0	13	\$29,691	
2010	*	\$13,722	0	\$0	0	\$0	*	\$13,722	
2011	*	\$12,589	0	\$0	0	\$0	*	\$12,589	
2012	*	\$8,053	0	\$0	*	\$12,000	*	\$20,053	
2013	*	\$50,177	*	\$2,322	0	\$0	*	\$52,499	
2014	*	\$4,177	0	\$0	0	\$0	*	\$4,177	
2015	11	\$29,261	0	\$0	0	\$0	11	\$29,261	
2016	13	\$27,839	0	\$0	0	\$0	13	\$27,839	
2017	*	\$11,317	*	\$250	0	\$0	*	\$11,567	

\* Not disclosed due to confidentiality concerns

### Health Benefits Limited to Highly-Compensated Employees: 15-30-2110(2)(h), MCA Legislation: SB 72, 1985 Session

Federal law treats employer-paid premiums for group health insurance and reimbursement of medical costs by an employer's self-insurance program as a nontaxable fringe benefit if the same benefits are available to all employees. This creates a passive tax expenditure, and the cost to the state is included in the estimate of passive tax expenditures.

When an employer's health plan provides more benefits to a select group of highly compensated employees, such as company executives, major stock-holders, or the highest-paid employees, federal law requires these employees to count the difference between their benefits and the benefits available to all employees as taxable compensation. Montana law allows these select employees to count their extra health insurance benefits as non-taxable fringe benefits.

The purpose of the federal exclusion is to encourage employers to provide group health insurance by providing preferential treatment for group health plans that cover all employees. The additional state exclusion undermines this purpose by providing the same state tax treatment to plans that cover only select employees.

The following table shows federally taxable health insurance premiums excluded from Montana adjusted gross income since 2009. For 2017, this exclusion reduced income tax revenue to the general fund by \$38,671, or \$0.06 per full-year resident taxpayer.

Employer-Provided Health Insurance Not Available to All Employees									
	Residents		Nonresidents		Part-Year Residents		Total		
	N	\$	N	\$	N	\$	N	\$	
2009	142	\$644,902	*	\$98,275	*	\$10,589	*	\$753,766	
2010	172	\$677,282	*	\$55,831	*	\$628	*	\$733,741	
2011	197	\$843,169	*	\$31,098	*	\$962	*	\$875,229	
2012	178	\$597,413	*	\$31,151	*	\$15,076	*	\$643,640	
2013	160	\$791,972	*	\$14,924	*	\$7,318	*	\$814,214	
2014	155	\$710,685	*	\$4,725	*	\$3,810	*	\$719,220	
2015	103	\$439,835	10	\$49,135	*	\$5,000	*	\$493,970	
2016	130	\$563,180	*	\$15,031	*	\$16,620	*	\$594,831	
2017	155	\$646,073	*	\$7,880	*	\$29,886	*	\$683,839	

\* Not disclosed due to confidentiality concerns

## Definition of Adjusted Gross Income

### Interest on Federal Government Bonds: Federal Provision and 15-30-2110(2)(a), MCA Legislation: NA

Federal law and court decisions prohibit states from taxing interest on federal government bonds. Montana law exempts interest on federal bonds from taxation. The following table shows exempt federal interest since 2009. If the state could tax this income it would have increased income tax revenue to the general fund by \$1,605,848, or \$2.45 per full-year resident taxpayer for 2017.

Interest on Federal Government Bonds								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	20,220	\$37,421,242	3,304	\$82,926,289	433	\$795,403	23,957	\$121,142,934
2010	18,966	\$31,017,274	3,382	\$116,283,113	479	\$556,615	22,827	\$147,857,002
2011	17,310	\$25,764,777	3,192	\$150,492,487	428	\$484,575	20,930	\$176,741,839
2012	16,211	\$22,275,353	2,844	\$58,400,464	451	\$850,448	19,506	\$81,526,265
2013	15,909	\$19,330,263	2,572	\$106,019,200	416	\$526,474	18,897	\$125,875,937
2014	15,155	\$20,115,632	2,899	\$50,869,732	449	\$525,881	18,503	\$71,511,245
2015	14,678	\$20,245,070	2,872	\$52,382,952	420	\$560,967	17,970	\$73,188,989
2016	15,995	\$23,737,395	3,084	\$75,315,859	414	\$593,914	19,493	\$99,647,168
2017	17,472	\$25,990,828	3,436	\$285,464,468	443	\$873,541	21,351	\$312,328,837

### Military Salary: 15-30-2117(2), MCA Legislation: HB 152, 1979 Session; SB 378, 2015 Session

Montana exempts the military salary of residents who are on active duty in the armed forces. This includes members of the Montana National Guard who are serving in a homeland defense activity or contingency operation. The following table shows the amount of income subject to this exemption since 2009.

Active Duty Military Salary								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	4,259	\$142,046,880	113	\$4,746,639	145	\$3,994,003	4,517	\$150,787,522
2010	4,706	\$153,852,927	95	\$3,641,023	160	\$4,601,945	4,961	\$162,095,895
2011	4,368	\$148,526,725	94	\$3,910,963	136	\$4,049,039	4,598	\$156,486,727
2012	4,520	\$158,404,853	93	\$4,059,101	150	\$4,931,370	4,763	\$167,395,324
2013	4,521	\$164,472,809	129	\$5,438,421	143	\$4,799,545	4,793	\$174,710,775
2014	4,511	\$169,324,587	100	\$4,198,055	148	\$5,234,548	4,759	\$178,757,190
2015	4,537	\$170,649,803	85	\$3,798,088	156	\$5,378,956	4,778	\$179,826,847
2016	4,541	\$174,056,632	74	\$2,861,817	156	\$5,030,357	4,771	\$181,948,806
2017	4,650	\$180,870,093	91	\$4,077,258	194	\$6,160,503	4,935	\$191,107,854

  

Nonresident Military Salary								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	97	\$3,560,669	559	\$20,974,101	161	\$4,821,656	817	\$29,356,426
2010	115	\$4,739,141	576	\$23,357,142	168	\$4,940,973	859	\$33,037,256
2011	119	\$4,212,397	520	\$22,133,967	174	\$5,386,754	813	\$31,733,118
2012	107	\$3,862,257	626	\$25,020,849	207	\$5,980,079	940	\$34,863,185
2013	125	\$4,235,016	743	\$29,074,744	189	\$6,223,632	1,057	\$39,533,392
2014	152	\$5,918,182	751	\$32,081,547	215	\$6,793,661	1,118	\$44,793,390
2015	139	\$5,379,138	869	\$36,085,884	236	\$7,828,165	1,244	\$49,293,187
2016	141	\$5,389,119	906	\$38,010,951	247	\$7,111,952	1,294	\$50,512,022
2017	109	\$4,919,395	921	\$41,727,524	275	\$8,375,849	1,305	\$55,022,768

Federal law allows military personnel and their spouses to maintain residency in their home state and requires states to treat military salaries and some income of military spouses as if it were earned in the home state. This requires Montana to exempt military salaries and some other income that service members and

## Definition of Adjusted Gross Income

their spouses earn in Montana. The Nonresident Military Salary table on the previous page shows income not counted as Montana income because of this requirement.

Together, the state exclusion of residents' military salaries and the federal requirement to exclude non-residents' military salaries reduced 2017 income tax revenue to the general fund by \$9,059,626, or \$13.82 per full-year resident taxpayer.

**Montana Medical Care Savings Accounts:** 15-61-101, MCA to 15-61-205, MCA  
**Legislation:** HB 560, 1995 Session

Federal law has created two mechanisms, the Archer Medical Savings Account and the Health Savings Account, for taxpayers or their employers to set aside pretax funds to pay medical expenses. Deposits to these accounts and distributions from these accounts to pay medical expenses are excluded from federal adjusted gross income. This means that they also are excluded from Montana adjusted gross income. The tax expenditure from this federal exclusion is in the section on federal adjustments to income.

Medical Savings Account Deposits								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	5,879	\$17,483,938	40	\$78,731	71	\$93,430	5,990	\$17,656,099
2010	6,131	\$18,732,448	34	\$95,825	75	\$125,462	6,240	\$18,953,735
2011	6,236	\$19,395,678	32	\$88,049	85	\$131,835	6,353	\$19,615,562
2012	5,903	\$18,791,602	0	\$0	76	\$135,057	5,979	\$18,926,659
2013	6,181	\$19,801,670	*	\$3,000	77	\$118,532	*	\$19,923,202
2014	6,084	\$19,436,867	*	\$3,000	96	\$126,808	*	\$19,566,675
2015	6,233	\$19,574,075	0	\$0	98	\$138,910	6,331	\$19,712,985
2016	6,036	\$19,419,283	0	\$0	99	\$158,784	6,135	\$19,578,067
2017	6,101	\$19,759,187	0	\$0	100	\$144,077	6,201	\$19,903,264

\* Not disclosed due to confidentiality concerns

In 1997, the Montana Legislature created a similar state program. The main difference is that the federal programs are limited to taxpayers whose only health insurance is a high-deductible policy while the state program does not have this limitation. The purpose of these accounts appears to be to encourage taxpayers to set aside funds ahead of time to cover medical costs that will not be covered by insurance.

Taxpayers may exclude up to \$3,000 of their contributions to an account during a year and any withdrawals from an account that are used to pay medical expenses. This means that earnings retained in the account also are not taxed. Funds may be withdrawn for other purposes, but then the amount withdrawn is treated as income. The following tables show exempt medical savings account deposits and earnings and taxable withdrawals.

Medical Savings Account Nonqualified Withdrawals									
	Residents		Nonresidents		Part-Year Residents		Total		
	N	\$	N	\$	N	\$	N	\$	\$
2009	100	\$129,357	0	\$0	*	\$803	*	*	\$130,160
2010	77	\$101,799	*	\$530	0	\$0	*	*	\$102,329
2011	87	\$121,307	0	\$0	*	\$10,238	*	*	\$131,545
2012	94	\$144,311	0	\$0	*	\$1,185	*	*	\$145,496
2013	72	\$129,693	0	\$0	*	\$31,096	*	*	\$160,789
2014	78	\$99,814	*	\$23,279	*	\$6,091	*	*	\$129,184
2015	71	\$135,323	0	\$0	*	\$40,937	*	*	\$176,260
2016	50	\$93,482	*	\$8,622	0	\$0	*	*	\$102,104
2017	63	\$122,519	*	\$1,000	*	\$9,303	*	*	\$132,822

\* Not disclosed due to confidentiality concerns

For 2017, this exclusion reduced income tax revenue to the general fund by \$1,157,835, or \$1.77 per full-year resident taxpayer.

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### National Guard Life Insurance Premiums: 15-30-2117(3) Legislation: HB 761, 2005 Session

The state will reimburse members of the National Guard or Reserve who are on active duty for premiums they pay for military group life insurance. This reimbursement is treated as income for federal income tax, but the state exempts it from taxation. This exemption increases the after-tax income of guard and reserve members, increasing the financial incentive to join or remain in the guard or reserves. It also provides an incentive for guard and reserve members to purchase military group life insurance. The following table shows exempt Guard and Reserve life insurance premium reimbursements since 2009. For 2017, this exclusion reduced income tax revenue to the general fund by \$1,325, or \$0.01 per full-year resident taxpayer.

National Guard Life Insurance Premium Reimbursement								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	40	\$441,796	*	\$956	0	\$0	*	\$442,752
2010	52	\$69,491	*	\$1,600	*	\$433	*	\$71,524
2011	45	\$14,795	*	\$468	*	\$210	*	\$15,473
2012	41	\$17,001	*	\$324	*	\$549	*	\$17,874
2013	46	\$28,091	*	\$27	*	\$569	*	\$28,687
2014	32	\$48,885	*	\$402	*	\$1,322	*	\$50,609
2015	20	\$10,766	0	\$0	0	\$0	20	\$10,766
2016	25	\$15,633	0	\$0	*	\$170	*	\$15,803
2017	28	\$28,304	0	\$0	*	\$778	*	\$29,082

\* Not disclosed due to confidentiality concerns

### Partial Exclusion of Capital Gains on Pre-1987 Installment Sales: 15-30-2110(13), MCA Legislation: HB 904, 1987 Session

Before 1987, federal law allowed taxpayers to exclude 40 percent of capital gains from adjusted gross income, but capital gains were taxed at the same rate as ordinary income. The Tax Reform Act of 1986 did away with the partial exclusion, but Congress replaced it with preferential tax rates for capital gains. Montana law continues to allow the 40 percent exclusion for capital gains on installment sales made before the end of 1986. These gains also are eligible for the capital gains credit and therefore receive a double preference. The following table shows gains excluded under this provision since 2005.

The original partial exclusion of capital gains income gave an incentive to invest in assets that appreciate over time rather than in assets that pay a stream of ordinary income. Today, this provision just applies pre-1987 tax law to payments from transactions that occurred before 1987. This probably has little effect on taxpayer behavior.

For 2017, this exclusion reduced income tax revenue to the general fund by \$3,291, or \$0.01 per full-year resident taxpayer.

40% Exclusion of Pre-1985 Capital Gains								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	239	\$1,124,567	12	\$494,528	*	\$52,108	*	\$1,671,203
2010	292	\$1,155,423	14	\$2,594,406	*	\$38	*	\$3,749,867
2011	45	\$123,493	15	\$14,022,194	0	\$0	60	\$14,145,687
2012	50	\$884,971	10	\$137,043	0	\$0	60	\$1,022,014
2013	40	\$148,686	10	\$55,695	*	\$23,161	*	\$227,542
2014	33	\$155,285	11	\$247,585	0	\$0	44	\$402,870
2015	29	\$134,842	*	\$24,087	0	\$0	*	\$158,929
2016	31	\$166,133	*	\$8,292	*	\$4,129	*	\$178,554
2017	12	\$75,280	*	\$8,431	0	\$0	*	\$83,711

\* Not disclosed due to confidentiality concerns

## Definition of Adjusted Gross Income

### Partial Interest Exclusion for Elderly Taxpayers: 15-30-2110(2)(b), MCA Legislation: HB 18, 1981 Session

Taxpayers who are age 65 or older may exclude up to \$800 of interest income. The following table shows interest income excluded since 2009. This exemption provides a limited incentive for retirees to hold interest-paying assets, such as corporate bonds, rather than assets that pay other types of income. It also provides a limited incentive for retirees to locate in Montana rather than in a state without a similar exemption. However, the primary effect is to reduce tax paid by older taxpayers. For 2017, this exclusion reduced income tax revenue to the general fund by \$1,569,092, or \$2.39 per full-year resident taxpayer.

Elderly Interest Exclusion								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	62,991	\$43,632,908	6,861	\$6,716,280	805	\$556,418	70,657	\$50,905,606
2010	62,493	\$40,226,852	7,614	\$7,066,082	911	\$549,183	71,018	\$47,842,117
2011	62,402	\$36,798,111	8,201	\$7,096,890	919	\$530,202	71,522	\$44,425,203
2012	62,095	\$33,021,476	8,381	\$6,848,965	967	\$508,511	71,443	\$40,378,952
2013	62,720	\$31,301,899	9,135	\$7,311,644	1,111	\$492,669	72,966	\$39,106,212
2014	62,418	\$29,772,557	9,729	\$7,660,793	1,119	\$513,706	73,266	\$37,947,056
2015	64,139	\$30,087,414	10,135	\$7,973,410	1,172	\$550,550	75,446	\$38,611,374
2016	65,312	\$30,687,228	10,475	\$8,296,402	1,277	\$575,776	77,064	\$39,559,406
2017	69,725	\$33,284,834	11,098	\$8,805,973	1,458	\$664,040	82,281	\$42,754,847

### Partial Pension Exemption: 15-30-2110(2)(c), MCA Legislation: HB 232, 1963 Session / SB 226, 1991 Session

Taxpayers with federal adjusted gross income below a threshold have part of their pension income exempted from taxation. For taxpayers with higher incomes, the exemption amount is reduced by \$2 for each \$1 that federal adjusted gross income exceeds the threshold. Both the threshold and the amount exempted are adjusted for inflation each year. For 2017, the amount exempted was \$3,980 and the threshold was \$33,190. Taxpayers with federal adjusted gross income between \$33,190 and \$35,180 were eligible for an exemption of less than \$3,980, and taxpayers with incomes over \$35,180 were not eligible for the exemption.

This exemption provides a limited incentive to participate in a retirement system and to retain funds in a retirement plan rather than withdrawing them. It also provides a limited incentive for retirees to locate in Montana rather than in a state without a similar exemption. However, this does not appear to have been the legislative purpose. Montana was one of 23 states that originally exempted state employee pensions from the state income tax. This allowed the state to make smaller pension contributions and resulted in some administrative savings. In addition, Montana exempted the first \$3,600 of income from federal government pensions. In 1989, a group of federal government and military retirees sued states, including Montana, which exempted state pensions, arguing that states must give them the same exemption. The states lost.<sup>2</sup> The U.S. Supreme Court ruled that states may tax different types of income differently, but may not tax the same type of income differently depending on who paid it. The states that had exempted state employee pensions changed their laws in a variety of ways. The Montana Legislature eliminated the exemption for state employee pensions but extended the \$3,600 partial exemption to all pension income.

The table on the next page shows pension income excluded from taxation since 2009. For 2017, this exclusion reduced income tax revenue to the general fund by \$3,965,750, or \$5.46 per full-year resident taxpayer.

<sup>2</sup> The U.S. Supreme Court ruled against Michigan in *Davis v. Michigan Dep't of Treasury*, 489 U.S. 803, 109 S.Ct. 1500, 103 L.Ed.2d 891 (1989). Montana settled the similar case *Sheehy v. State Dep't of Revenue*, 250 Mont. 437, 820 P.2d 1257 (1991) and issued \$15.7 million in refunds for the years 1983 through 1989.

## Definition of Adjusted Gross Income

Partial Pension Exemption								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	39,671	\$132,876,584	1,030	\$3,174,075	491	\$1,539,858	41,192	\$137,590,517
2010	41,904	\$142,365,778	1,158	\$3,732,588	605	\$1,974,030	43,667	\$148,072,396
2011	43,012	\$150,693,545	1,499	\$5,074,630	691	\$2,174,844	45,202	\$157,943,019
2012	43,208	\$154,378,099	1,523	\$5,023,099	726	\$2,393,257	45,457	\$161,794,455
2013	43,546	\$158,597,172	1,634	\$5,502,608	775	\$2,596,220	45,955	\$166,696,000
2014	44,032	\$163,276,389	1,666	\$5,873,948	762	\$2,506,314	46,460	\$171,656,651
2015	44,197	\$164,186,433	1,852	\$6,551,278	855	\$2,833,101	46,904	\$173,570,812
2016	45,229	\$173,070,990	1,985	\$7,357,688	978	\$3,361,132	48,192	\$183,789,810
2017	44,862	\$173,734,004	1,914	\$7,179,943	945	\$3,314,448	47,721	\$184,228,395

### Sales of Land to Beginning Farmers: 80-12-211, MCA Legislation: SB 316, 1983 Session

Montana allows taxpayers to exclude up to \$50,000 of income from the sale of at least 80 acres to a beginning farmer. To be eligible, a taxpayer's land sale must be approved by the Montana Department of Agriculture. The deduction provides an incentive for retiring farmers to sell land to someone who will keep it in agriculture rather than convert it to another use.

The following table shows income excluded since 2009. Fewer than ten taxpayers have used the exclusion every year. For 2017, this exclusion reduced income tax revenue to the general fund by less than \$200, or less than \$0.01 per full-year resident taxpayer.

Sales of Land to Beginning Farmers									
	Residents		Nonresidents		Part-Year Residents		Total		
	N	\$	N	\$	N	\$	N	\$	
2009	*	\$7,785	0	\$0	*	\$29,000	*	\$36,785	
2010	*	\$5,956	*	\$546,272	0	\$0	*	\$552,228	
2011	*	\$55,961	*	\$11	0	\$0	*	\$55,972	
2012	*	\$6,796	0	\$0	0	\$0	*	\$6,796	
2013	*	\$56,687	0	\$0	0	\$0	*	\$56,687	
2014	*	\$7,094	0	\$0	0	\$0	*	\$7,094	
2015	*	\$7,918	0	\$0	0	\$0	*	\$7,918	
2016	*	\$27,569	0	\$0	0	\$0	*	\$27,569	
2017	*	\$4,377	0	\$0	0	\$0	*	\$4,377	

\* Not disclosed due to confidentiality concerns

### Small Business Investment Company Dividends: 15-33-106, MCA Legislation: HB 834, 1981 Session

The federal Small Business Investment Act of 1958 created a category of venture capital firms called small business investment companies. Montana law allows taxpayers to exempt capital gains or dividends from a Montana small business investment company. This provides an incentive to invest in these companies rather than in other businesses.

The table on the next page shows income exempted under this provision since 2009.



## Definition of Adjusted Gross Income

Capital Gains from Small Business Investment Companies									
	Residents		Nonresidents		Part-Year Residents		Total		
	N	\$	N	\$	N	\$	N	\$	
2009	42	\$73,145	*	\$74	0	\$0	*	*	\$73,219
2010	54	\$148,811	*	\$44,362	*	\$8	*	*	\$193,181
2011	33	\$95,032	*	\$15,277	*	\$48,675	*	*	\$158,984
2012	15	\$47,868	*	\$24,814	0	\$0	*	*	\$72,682
2013	17	\$173,389	*	\$209,411	*	\$274	*	*	\$383,074
2014	20	\$134,599	*	\$35,179	0	\$0	*	*	\$169,778
2015	13	\$48,730	*	\$57,758	*	\$69,535	*	*	\$176,023
2016	13	\$24,738	*	\$29,921	0	\$0	*	*	\$54,659
2017	*	\$1,449,364	*	\$245,044	0	\$0	*	*	\$1,694,408

\* Not disclosed due to confidentiality concerns

### Third-Party Repayment of Health Care Professional's Student Loans: 15-30-2110(12), MCA Legislation: SB 408, 2003 Session

There are several private, federal, and state programs intended to encourage health care professionals to locate in under-served areas by making student loan payments for those who do. Federal law excludes repayments made by certain federal and state programs from taxable income. Montana excludes qualifying repayments from all programs, including programs private health-care facilities have for their employees. The state cost of the federal exclusion is part of the estimate of passive tax expenditures. The following table shows the cost of the additional state exclusion since 2009.

Health Care Professional Student Loan Repayment Included in Federal AGI									
	Residents		Nonresidents		Part-Year Residents		Total		
	N	\$	N	\$	N	\$	N	\$	
2009	133	\$370,976	*	\$7,700	10	\$23,374	*	*	\$402,050
2010	173	\$476,765	*	\$8,144	12	\$30,069	*	*	\$514,978
2011	253	\$666,300	*	\$2,952	23	\$72,978	*	*	\$742,230
2012	281	\$789,081	*	\$8,465	25	\$53,831	*	*	\$851,377
2013	300	\$880,391	*	\$5,317	31	\$79,000	*	*	\$964,708
2014	341	\$913,226	*	\$14,191	34	\$95,392	*	*	\$1,022,809
2015	426	\$1,234,654	10	\$28,757	32	\$79,458	468		\$1,342,869
2016	425	\$1,278,928	13	\$34,086	49	\$148,114	487		\$1,461,128
2017	455	\$1,315,847	12	\$41,405	49	\$136,636	516		\$1,493,888

\* Not disclosed due to confidentiality concerns

For 2017, this exclusion reduced income tax revenue to the general fund by \$91,905, or \$0.14 per full-year resident taxpayer.

### Tier II Railroad Retirement: Federal Provision Legislation: NA

Railroad retirement benefits are divided into Tier I and Tier II. Tier I is equivalent to Social Security, and Tier I benefits are taxed the same as Social Security benefits. Tier II benefits are taxed at the federal level, but federal law exempts them from state taxation. The table on the next page shows Tier II railroad retirement benefits exempted from Montana taxation.

This exemption increases the after-tax income of railroad retirees.

For 2017, income tax revenue to the general fund would have been \$1,632,620 higher if Montana could tax Tier II railroad retirement. This is \$2.49 per full-year resident taxpayer.

## Definition of Adjusted Gross Income

Tier II Railroad Retirement								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	2,832	\$36,473,121	54	\$724,290	33	\$459,572	2,919	\$37,656,983
2010	2,809	\$37,812,494	52	\$682,521	23	\$209,683	2,884	\$38,704,698
2011	2,793	\$38,836,218	60	\$789,738	24	\$338,161	2,877	\$39,964,117
2012	2,808	\$40,918,763	70	\$980,315	38	\$619,985	2,916	\$42,519,063
2013	2,863	\$43,719,325	81	\$1,064,303	28	\$413,587	2,972	\$45,197,215
2014	2,823	\$45,197,719	81	\$1,092,309	25	\$297,154	2,929	\$46,587,182
2015	2,820	\$46,343,176	80	\$1,383,942	18	\$235,919	2,918	\$47,963,037
2016	2,846	\$48,318,083	81	\$1,341,418	28	\$489,381	2,955	\$50,148,882
2017	2,878	\$50,097,081	85	\$1,481,810	29	\$430,941	2,992	\$52,009,832

**Tips:** 15-30-2110(2)(f), MCA

**Legislation:** HB 841, 1983 Session

Tips earned while working for a licensed food service, beverage, or lodging establishment are not taxable in Montana. The reasoning behind this exclusion is that tips should be considered voluntary gifts from a restaurant's patrons to its employees and gifts generally are not included in taxable income. Federal law considers tips to be taxable compensation for providing services. The following table shows tips excluded from income since 2009. For 2017, this exclusion reduced income tax revenue to the general fund by \$3,861,857, or \$5.89 per full-year resident taxpayer.

Exempt Tips								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	13,207	\$38,921,676	662	\$1,527,434	1,096	\$2,714,781	14,965	\$43,163,891
2010	13,577	\$43,592,519	678	\$2,124,352	1,087	\$3,065,874	15,342	\$48,782,745
2011	13,748	\$46,381,919	653	\$1,858,335	1,111	\$3,311,215	15,512	\$51,551,469
2012	15,251	\$52,275,624	728	\$2,117,166	1,283	\$3,840,659	17,262	\$58,233,449
2013	16,516	\$56,390,533	960	\$2,592,060	1,621	\$4,757,200	19,097	\$63,739,793
2014	16,836	\$59,993,312	1,148	\$3,576,755	1,705	\$5,124,973	19,689	\$68,695,040
2015	18,795	\$67,147,671	1,402	\$4,252,879	2,174	\$6,809,415	22,371	\$78,209,965
2016	19,216	\$71,768,259	1,471	\$4,468,898	2,291	\$7,468,411	22,978	\$83,705,568
2017	20,718	\$80,661,372	1,691	\$5,765,450	2,634	\$8,284,592	25,043	\$94,711,414

**Unemployment Compensation:** 15-30-2101, MCA

**Legislation:** HB 363 1979 Session

Federal law taxes unemployment compensation, but Montana exempts it from taxation. The following table shows additional state exemptions for unemployment compensation since 2009. For 2017, this exclusion reduced income tax revenue to the general fund by \$5,072,028, or \$7.74 per full-year resident taxpayer.

Unemployment Compensation								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	31,984	\$169,813,215	2,942	\$18,729,135	1,907	\$11,978,353	36,833	\$200,520,703
2010	47,123	\$268,585,687	4,653	\$34,225,311	2,750	\$18,303,436	54,526	\$321,114,434
2011	41,856	\$192,982,355	4,523	\$28,417,877	2,523	\$14,055,209	48,902	\$235,455,441
2012	35,808	\$158,526,968	5,298	\$31,476,030	2,316	\$12,245,987	43,422	\$202,248,985
2013	32,374	\$129,933,369	4,756	\$26,765,431	2,171	\$10,499,700	39,301	\$167,198,500
2014	26,517	\$93,510,592	3,804	\$18,077,778	1,891	\$7,453,018	32,212	\$119,041,388
2015	24,456	\$89,447,741	3,933	\$20,533,636	1,752	\$7,791,931	30,141	\$117,773,308
2016	23,437	\$94,926,088	3,453	\$18,390,875	1,687	\$8,100,053	28,577	\$121,417,016
2017	21,741	\$87,578,113	3,404	\$19,041,750	1,480	\$6,909,586	26,625	\$113,529,449

## Definition of Adjusted Gross Income

**Worker's Compensation:** 15-30-2110(2)(g), MCA  
**Legislation:** SB 72, 1985 Session

Federal law exempts worker's compensation payments except payments that are reimbursement for medical expenses deducted in an earlier year. Montana exempts all worker's compensation payments. The state revenue loss from the federal exemption is included in the estimate of passive tax expenditures. The following table shows additional state exemptions for worker's compensation payments since 2009. For 2017, this exclusion reduced income tax revenue to the general fund by \$28,841, or \$0.04 per full-year resident taxpayer.

	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	201	\$1,006,241	*	\$21,577	14	\$59,733	*	\$1,087,551
2010	323	\$1,990,149	20	\$102,955	17	\$122,757	360	\$2,215,861
2011	149	\$786,281	*	\$22,823	*	\$22,849	*	\$831,953
2012	135	\$918,240	*	\$42,137	*	\$70,004	*	\$1,030,381
2013	137	\$1,009,272	*	\$29,361	*	\$9,979	*	\$1,048,612
2014	121	\$852,638	*	\$26,794	*	\$93,459	*	\$972,891
2015	136	\$998,080	16	\$82,565	*	\$4,750	*	\$1,085,395
2016	124	\$699,707	*	\$29,817	15	\$112,900	*	\$842,424
2017	155	\$774,048	*	\$105,741	11	\$70,428	*	\$950,217

\* Not disclosed due to confidentiality concerns

## Itemized Deduction Expenditures

### Itemized Deduction Tax Expenditures

In general, itemized deductions provide a partial subsidy or reimbursement for deductible expenses. The amount of the subsidy depends on the taxpayer's marginal tax rate and on the amount by which itemized deductions exceed the standard deduction. For a taxpayer whose deductible expenses are less than their standard deduction, the fact that an expense is deductible provides no extra benefit to the taxpayer and no cost to the state general fund. For a taxpayer whose deductible expenses are more than their standard deduction, an extra \$100 of itemized deductions reduces tax liability by \$100 multiplied by the marginal tax rate.

For example, a taxpayer with taxable income of \$6,000 is in the 3 percent state tax bracket and the 10 percent federal tax bracket. An additional \$100 deduction would reduce this person's state tax liability by \$3 and federal tax liability by \$10, for a total of \$13 if the taxpayer itemizes their deductions. The \$100 expenditure that was the basis of the deduction cost the taxpayer \$87 and cost the state and federal governments, and ultimately other taxpayers, \$13.

A taxpayer with taxable income of \$500,000 is in the 6.9 percent state tax bracket and the 39.6 percent federal tax bracket. An additional \$100 deduction would reduce this person's state tax liability by \$6.90 and federal tax liability by \$39.60, for a total of \$46.50 if the taxpayer itemizes. The \$100 expenditure that was the basis of the deduction cost this taxpayer \$53.50 and cost the state and federal governments, and ultimately other taxpayers, \$46.50.

Montana generally allows itemized deductions allowed by federal law (15-30-2131(1)(a), MCA). There are a few exceptions where Montana law specifically disallows a federal deduction. Montana law allows several itemized deductions that are not allowed by federal law.

Not all itemized deductions are tax expenditures. Four itemized deductions allow taxpayers to deduct costs of earning income. They are the deduction for investment interest, the deduction for unreimbursed business expenses, the deduction for gambling losses, and the deduction for other miscellaneous expenses.

The deduction for investment interest allows taxpayers to deduct interest on funds borrowed to pay for income-producing property that has not been deducted elsewhere as a business expense.

The deduction for unreimbursed business expenses allows taxpayers to deduct expenses that are common and useful in the taxpayer's occupation and exceed 2 percent of the taxpayer's adjusted gross income. If the taxpayer is an employee, they must not have been reimbursed by their employer. If the taxpayer is self-employed, these costs must not have been deducted as a business expense.

Taxpayers who report income from gambling can deduct gambling losses up to the amount of reported winnings. This makes the income tax apply to net winnings from gambling.

The deduction for other miscellaneous expenses allows taxpayers to deduct certain business and investment costs and losses and certain employment-related costs of a disabled taxpayer. These expenses are not required to be more than 2 percent of adjusted gross income.

### **Casualty and Theft Losses: Federal Provision**

**Legislation:** N/A

Federal and Montana law allows taxpayers an itemized deduction for the uncompensated theft, damage, or destruction of non-business property that exceeds 10 percent of the taxpayer's adjusted gross income. Casualty and theft losses of business property are deducted as a business expense in calculating adjusted gross income.

This deduction essentially treats the value of a taxpayer's significant property loss as an offset to income. This reduces the incentive to insure or protect property against theft, damage, or other losses.

## Itemized Deduction Expenditures

The following table shows itemized deductions for casualty and theft losses for tax years 2009 through 2017. The itemized deduction for casualty and theft losses reduced income tax revenue to the state general fund for 2017 by \$191,595, or \$0.29 per full-year resident taxpayer.

Casualty and Theft Losses								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	324	\$6,906,415	24	\$13,399,154	15	\$134,078	363	\$20,439,647
2010	470	\$4,921,842	29	\$1,435,060	18	\$236,837	517	\$6,593,739
2011	603	\$9,738,044	47	\$1,819,443	31	\$251,412	681	\$11,808,899
2012	337	\$7,131,478	27	\$648,528	15	\$92,764	379	\$7,872,770
2013	510	\$5,869,942	52	\$847,644	20	\$120,451	582	\$6,838,037
2014	475	\$5,096,735	52	\$1,670,297	22	\$471,616	549	\$7,238,648
2015	334	\$5,334,806	30	\$1,148,861	22	\$97,586	386	\$6,581,253
2016	309	\$6,744,568	40	\$1,965,451	27	\$263,256	376	\$8,973,275
2017	267	\$5,112,316	53	\$6,092,544	23	\$297,291	343	\$11,502,151

### Charitable Contributions: Federal Provision Legislation: NA

Federal and Montana law allows an itemized deduction for charitable contributions. In any year, this deduction is limited to 50 percent of the taxpayer's adjusted gross income. In addition, gifts to certain types of charities and certain types of gifts are subject to lower limits. A taxpayer whose contributions exceed the limit may carry the excess contributions forward and deduct them in a later tax year. The deduction provides an incentive for taxpayers to contribute to tax-exempt charities by making the taxpayer's cost of the donation less than the amount the charity receives.

The following tables show itemized deductions for contributions for tax years 2009 through 2017. Itemized deductions for charitable contributions reduced 2017 income tax revenue to the state general fund by \$39,936,806, or \$60.91 per full-year resident taxpayer.

Contributions								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	150,506	\$424,565,892	13,647	\$1,224,439,469	3,139	\$7,793,220	167,292	\$1,656,798,581
2010	149,905	\$443,302,712	15,018	\$777,622,164	3,524	\$9,514,707	168,447	\$1,230,439,583
2011	149,573	\$454,876,219	15,723	\$1,483,130,383	3,722	\$10,006,032	169,018	\$1,948,012,634
2012	147,981	\$458,318,428	16,737	\$1,356,904,314	4,012	\$11,644,667	168,730	\$1,826,867,409
2013	150,343	\$487,023,319	18,043	\$1,375,346,442	4,154	\$11,881,345	172,540	\$1,874,251,106
2014	149,283	\$435,494,624	18,516	\$515,994,391	4,163	\$11,867,165	171,962	\$963,356,180
2015	150,403	\$450,272,008	18,378	\$551,805,559	4,299	\$13,726,971	173,080	\$1,015,804,538
2016	150,927	\$502,946,119	18,540	\$1,857,487,225	4,278	\$14,917,531	173,745	\$2,375,350,875
2017	151,085	\$490,356,062	19,129	\$741,475,164	4,341	\$13,967,357	174,555	\$1,245,798,583

Noncash Contributions								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	62,071	\$59,713,638	6,696	\$229,611,641	2,035	\$2,640,083	70,802	\$291,965,362
2010	63,149	\$59,815,976	7,508	\$418,247,266	2,375	\$2,793,160	73,032	\$480,856,402
2011	64,355	\$64,804,361	7,972	\$750,863,209	2,510	\$3,257,614	74,837	\$818,925,184
2012	65,204	\$68,366,539	8,708	\$177,502,381	2,780	\$5,131,176	76,692	\$251,000,096
2013	68,473	\$75,235,417	9,489	\$915,527,476	3,059	\$3,900,138	81,021	\$994,663,031
2014	68,964	\$79,790,146	9,759	\$371,406,540	3,092	\$5,645,390	81,815	\$456,842,076
2015	71,039	\$90,062,103	9,695	\$379,146,416	3,086	\$5,979,338	83,820	\$475,187,857
2016	72,718	\$148,637,209	10,024	\$927,313,382	3,379	\$8,283,427	86,121	\$1,084,234,018
2017	72,383	\$118,484,126	10,149	\$1,045,453,011	3,329	\$5,369,819	85,861	\$1,169,306,956

## Itemized Deduction Expenditures

Carryover of Contributions from Previous Years								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	2,560	\$26,683,941	369	\$44,220,591	50	\$760,505	2,979	\$71,665,037
2010	3,628	\$34,781,509	561	\$703,268,770	60	\$924,995	4,249	\$738,975,274
2011	3,465	\$36,451,707	554	\$101,251,825	82	\$799,702	4,101	\$138,503,234
2012	3,269	\$40,198,253	421	\$67,939,866	97	\$1,597,883	3,787	\$109,736,002
2013	3,314	\$36,604,717	535	\$444,543,991	94	\$321,170	3,943	\$481,469,878
2014	2,997	\$34,834,107	529	\$130,092,647	86	\$431,717	3,612	\$165,358,471
2015	2,778	\$35,565,096	481	\$122,379,344	75	\$362,590	3,334	\$158,307,030
2016	3,102	\$33,937,186	504	\$414,328,549	60	\$504,653	3,666	\$448,770,388
2017	3,477	\$42,384,106	577	\$205,476,095	76	\$1,096,563	4,130	\$248,956,764

### Child and Dependent Care Expenses: 15-30-2131(1)(c), MCA Legislation: HB 47, 1977 session

Montana allows an itemized deduction for up to \$4,800 of the expenses of maintaining a household for or providing care for certain dependents while the taxpayer is at work or looking for a job. The dependent may be a child under 15 or any person who is unable to care for him or herself while the taxpayer is at work. To qualify for the deduction, the taxpayer and spouse, if married, must have combined Montana adjusted gross income of less than \$22,800. The income limit is \$25,200 if the taxpayer is caring for two eligible dependents and \$27,600 for three or more dependents.

Federal law allows taxpayers to claim a credit rather than an itemized deduction for dependent care expenses. The conditions for claiming the federal credit are similar to the conditions for claiming the state deduction.

This deduction reduces the cost of working for taxpayers who have a child or other dependent to care for. It provides an incentive to engage in paid work and pay to have the dependent cared for rather than to provide the care personally.

The following table shows itemized deductions for child and dependent care expenses for tax years 2009 through 2017. The itemized deduction for child and dependent care expenses reduced income tax revenue to the state general fund for 2017 by \$5,321, or \$0.01 per full-year resident taxpayer.

Child and Dependent Care Expenses								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	837	\$1,600,514	62	\$121,396	31	\$65,490	930	\$1,787,400
2010	784	\$1,468,425	73	\$157,712	32	\$58,378	889	\$1,684,515
2011	805	\$1,607,286	64	\$132,737	39	\$72,575	908	\$1,812,598
2012	734	\$1,452,494	62	\$140,216	37	\$76,770	833	\$1,669,480
2013	703	\$1,447,271	70	\$145,804	49	\$109,360	822	\$1,702,435
2014	558	\$1,189,970	42	\$111,620	33	\$77,121	633	\$1,378,711
2015	484	\$1,050,416	27	\$46,766	33	\$73,996	544	\$1,171,178
2016	548	\$1,206,246	28	\$66,605	29	\$62,376	605	\$1,335,227
2017	496	\$1,093,360	41	\$95,077	34	\$82,612	571	\$1,271,049

## Itemized Deduction Expenditures

**Federal Income Tax:** 15-30-2131(1)(b), MCA  
**Legislation:** HB 328, 1933 Session

Montana allows an itemized deduction for federal income tax paid during the year with a limit of \$5,000 for a single taxpayer or married taxpayer filing separately and \$10,000 for a married couple filing a joint return. Before 2005, there was no upper limit on this deduction. The cap was introduced by SB 407 (2003 Session). The sponsors of this legislation had several goals, which included reducing income tax revenue, lowering the top marginal rate, reducing the number of rate brackets, making the brackets narrower, eliminating the itemized deduction for federal taxes, and having no income group pay more than under prior law. It proved impossible to fully meet all these goals, and the capped deduction was retained to keep the narrower rate brackets from increasing taxes on middle-income taxpayers. The 2003 Legislature chose not to index the cap for inflation, so that, in real terms, the cap will decrease over time.

Formally, this deduction partially or completely avoids having the state levy income tax on income paid to the federal government as income tax. Practically, it has the same effect on taxpayers as having lower tax rates for taxpayers who itemize deductions and whose income puts them below the cap on this deduction. This is because each extra dollar of income increases adjusted gross income by 1 dollar but also increases itemized deductions by the federal marginal tax rate times 1 dollar. Thus, an extra dollar of adjusted gross income translates into less than an extra dollar of taxable income.

For example, a single taxpayer with taxable income of \$25,000 would be in the 6.9 percent state tax bracket and the 15 percent federal tax bracket. An additional \$100 of income would result in an additional \$15 of federal income tax, giving an \$85 increase in taxable income. Applying the 6.9 percent rate to \$85 gives additional tax of \$5.87, for an effective marginal tax rate of about 5.9 percent rather than 6.9 percent.<sup>3</sup> For a taxpayer whose federal taxes are above the cap on the deduction, the effective marginal tax rate is 6.9 percent.

The following table shows itemized deductions for federal income tax for tax years 2009 through 2017. For Tax Year 2017, the deduction for federal income tax reduced income tax revenue to the general fund by \$94,238,304, or \$113.23 per full-year resident taxpayer.

Federal Income Tax								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	211,372	\$1,007,165,809	22,680	\$155,986,207	6,438	\$34,110,135	240,490	\$1,197,262,151
2010	210,199	\$1,015,360,042	24,995	\$172,019,855	7,128	\$39,395,858	242,322	\$1,226,775,755
2011	218,905	\$1,132,026,533	27,349	\$191,751,665	8,098	\$45,809,499	254,352	\$1,369,587,697
2012	219,334	\$1,154,479,513	30,146	\$211,978,444	8,933	\$51,384,146	258,413	\$1,417,842,103
2013	224,818	\$1,206,775,407	32,250	\$229,764,838	9,500	\$54,613,668	266,568	\$1,491,153,913
2014	227,218	\$1,241,851,066	33,560	\$241,375,438	10,033	\$59,254,829	270,811	\$1,542,481,333
2015	232,979	\$1,297,118,744	33,646	\$245,467,280	10,148	\$61,093,726	276,773	\$1,603,679,750
2016	236,969	\$1,325,330,899	33,132	\$241,315,861	10,241	\$60,477,836	280,342	\$1,627,124,596
2017	242,669	\$1,367,118,010	34,595	\$250,911,791	10,643	\$63,443,115	287,907	\$1,681,472,916

<sup>3</sup> If a taxpayer claims the state deduction for federal taxes but not the federal deduction for state taxes, the effective marginal state tax rate is  $state\ rate * (1 - federal\ rate)$ . If a taxpayer claims both the state deduction for federal taxes and the federal deduction for state taxes, the effective marginal state tax rate is  $state\ rate * (1 - federal\ rate) / (1 - state\ rate * federal\ rate)$ .

## Itemized Deduction Expenditures

### Home Mortgage Interest: Federal Provision Legislation: NA

Federal and state law allow an itemized deduction for home mortgage interest. Through 2012 this deduction was reported on three separate lines. The first was for reporting interest, including pre-paid interest called points, reported on a federal Form 1098. The second line was for reporting interest not reported on a federal Form 1098, and the third was for reporting points not reported on a federal Form 1098. Beginning in 2013, the three were combined in one line.

The deduction for home mortgage interest provides an incentive for home ownership and a disincentive for taxpayers to pay off their mortgages. The following table show itemized deductions for home mortgage interest. This deduction reduced income tax revenue to the state general fund for 2017 by \$56,166,519, or \$85.67 per full-year resident taxpayer.

Home Mortgage Interest								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	142,400	\$1,114,955,415	11,881	\$161,922,672	3,747	\$33,133,268	158,028	\$1,310,011,355
2010	141,209	\$1,075,407,210	12,901	\$165,341,641	3,909	\$34,453,627	158,019	\$1,275,202,478
2011	140,370	\$1,008,850,204	13,498	\$160,126,078	4,091	\$32,720,242	157,959	\$1,201,696,524
2012	137,113	\$935,062,102	14,483	\$147,226,941	4,334	\$31,192,941	155,930	\$1,113,481,984
2013	141,696	\$907,271,882	15,609	\$151,307,187	4,583	\$32,308,778	161,888	\$1,090,887,847
2014	140,721	\$881,047,516	15,788	\$150,949,816	4,766	\$32,665,529	161,275	\$1,064,662,861
2015	142,562	\$900,243,023	15,218	\$146,760,981	4,664	\$32,888,662	162,444	\$1,079,892,666
2016	144,780	\$909,386,335	15,504	\$150,336,425	4,888	\$34,706,195	165,172	\$1,094,428,955
2017	146,491	\$932,109,767	15,809	\$154,934,319	5,108	\$37,201,137	167,408	\$1,124,245,223

### Home Mortgage Insurance Premiums: Federal Provision Legislation: NA

Federal and state law allow an itemized deduction for mortgage insurance premiums for mortgage insurance issued after 2006. Federal law considers mortgage insurance premiums to be part of mortgage interest, and Montana law follows federal law on this point.

The following table shows itemized deductions for mortgage insurance. For 2017, this deduction reduced general fund revenue by \$929,606, or \$1.42 per full-year resident taxpayer. The decrease in deduction amounts in 2017 is due to a last minute extension of this deduction in 2018, which limited the number of taxpayers who could claim the deduction.

Qualified Mortgage Insurance Premiums								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	15,693	\$21,264,234	757	\$1,143,096	648	\$1,172,580	17,098	\$23,579,910
2010	17,979	\$23,239,755	923	\$1,435,739	727	\$1,326,476	19,629	\$26,001,970
2011	18,823	\$20,843,664	1,117	\$2,435,089	771	\$1,062,445	20,711	\$24,341,198
2012	17,378	\$20,286,561	1,150	\$1,386,050	693	\$912,752	19,221	\$22,585,363
2013	21,297	\$29,921,640	1,453	\$1,906,673	948	\$1,488,023	23,698	\$33,316,336
2014	20,398	\$26,123,598	1,306	\$1,831,456	906	\$1,325,422	22,610	\$29,280,476
2015	20,738	\$27,804,697	1,177	\$1,782,136	843	\$1,322,613	22,758	\$30,909,446
2016	22,473	\$29,761,138	1,293	\$1,919,193	982	\$1,642,638	24,748	\$33,322,969
2017	11,494	\$15,411,102	720	\$1,105,219	544	\$872,293	12,758	\$17,388,614



## Itemized Deduction Expenditures

### Long Term Care Insurance Premiums: 15-30-2131(1)(a)(iv), MCA Legislation: SB 151, 1997 Session

In addition to the federal deduction for medical expenses, Montana allows an itemized deduction for all unreimbursed long-term care insurance premiums. As with medical insurance premiums, long-term care premiums cannot be claimed as an itemized deduction if they were claimed as an above-the-line deduction in calculating adjusted gross income. In addition, a taxpayer may not claim a deduction for premiums that were part of the expenses qualifying for the elderly care credit.

This deduction provides a partial subsidy to taxpayers who buy long-term care insurance. The following table shows itemized deductions for medical insurance premiums for tax years 2009 through 2017. For Tax Year 2017, this deduction reduced income tax revenue to the general fund by \$1,627,086 or \$2.48 per full-year resident taxpayer.

Long Term Care Insurance Premiums								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	11,187	\$26,195,277	1,087	\$3,106,805	170	\$379,420	12,444	\$29,681,502
2010	11,291	\$27,300,594	1,212	\$3,555,909	183	\$390,151	12,686	\$31,246,654
2011	11,210	\$33,985,594	1,284	\$3,706,599	180	\$435,634	12,674	\$38,127,827
2012	10,966	\$27,571,088	1,327	\$3,902,607	211	\$469,625	12,504	\$31,943,320
2013	11,086	\$29,433,415	1,393	\$4,282,706	198	\$459,421	12,677	\$34,175,542
2014	10,995	\$30,079,682	1,427	\$4,713,851	210	\$533,442	12,632	\$35,326,975
2015	10,756	\$30,500,607	1,419	\$4,705,289	214	\$529,032	12,389	\$35,734,928
2016	10,793	\$30,987,121	1,418	\$4,804,136	235	\$776,408	12,446	\$36,567,665
2017	10,451	\$30,898,836	1,422	\$5,136,137	217	\$567,120	12,090	\$36,602,093

### Medical and Dental Expenses: Federal Provision Legislation: NA

Both federal and state law allow an itemized deduction for a portion of the taxpayer's unreimbursed medical and dental expenses. Expenses that are paid directly by another party or which are reimbursed by insurance are not deductible. Premiums for health insurance and long-term care insurance are considered deductible medical expenses.

Through 2012, the deduction was for expenses that were more than 7.5 percent of adjusted gross income. Beginning in 2013, taxpayers younger than 65 could only deduct expenses that are more than 10 percent of adjusted gross income. Federal tax law changes lowered the expenses threshold to 7.5 percent for all taxpayers until Tax Year 2019. Beginning in Tax Year 2019, the 10 percent threshold will apply to all taxpayers. This deduction provides a partial reimbursement or subsidy for taxpayers who have high unreimbursed medical expenses in a year.

Medical Expenses								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	71,592	\$307,848,323	3,138	\$22,715,090	1,038	\$4,801,228	75,768	\$335,364,641
2010	70,087	\$304,436,666	3,366	\$25,336,873	1,073	\$4,940,915	74,526	\$334,714,454
2011	68,589	\$301,438,269	3,313	\$27,542,862	1,179	\$6,185,864	73,081	\$335,166,995
2012	65,601	\$296,883,350	3,385	\$27,559,664	1,247	\$6,483,899	70,233	\$330,926,913
2013	57,445	\$289,795,563	3,171	\$29,070,157	1,126	\$5,858,508	61,742	\$324,724,228
2014	56,074	\$278,443,929	3,198	\$29,850,377	1,073	\$6,623,096	60,345	\$314,917,402
2015	56,183	\$284,136,157	3,007	\$29,160,349	1,024	\$6,375,164	60,214	\$319,671,670
2016	56,383	\$293,717,332	3,158	\$30,398,401	1,023	\$6,703,465	60,564	\$330,819,198
2017	60,310	\$307,625,176	3,308	\$31,767,112	1,197	\$6,487,843	64,815	\$345,880,131

The table above shows itemized deductions for medical and dental expenses for tax years 2009 through 2017. For Tax Year 2017, this deduction reduced income tax revenue to the general fund by \$11,795,070, or \$17.99 per full-year resident taxpayer.

## Itemized Deduction Expenditures

### Medical Insurance Premiums: 15-30-2131(1)(a)(iii), MCA Legislation: HB 202, 1995 Session

In addition to the federal deduction for medical expenses, Montana allows an itemized deduction for all unreimbursed health insurance premiums. Insurance premiums cannot be claimed as an itemized deduction if they were claimed as an above-the-line deduction in calculating adjusted gross income. This would be the case for a self-employed taxpayer who deducted premiums as a business expense, an employee who had premiums excluded as a fringe benefit, or if the taxpayer paid the premiums with pre-tax funds from a medical savings account.

This deduction provides a partial subsidy to taxpayers who buy their own health insurance. The following table shows itemized deductions for medical insurance premiums for tax years 2009 through 2017. For Tax Year 2017, this deduction reduced income tax revenue to the general fund by \$22,600,177, or \$34.47 per full-year resident taxpayer.

Medical Insurance Premiums Not Deducted Elsewhere								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	92,000	\$345,055,072	6,466	\$28,675,237	1,652	\$5,222,640	100,118	\$378,952,949
2010	91,411	\$353,880,862	7,022	\$32,329,763	1,761	\$5,727,102	100,194	\$391,937,727
2011	91,861	\$364,569,523	7,507	\$34,416,031	1,952	\$6,261,215	101,320	\$405,246,769
2012	91,649	\$368,422,012	7,962	\$36,238,149	2,008	\$6,836,636	101,619	\$411,496,797
2013	92,845	\$388,204,675	8,475	\$40,764,387	2,213	\$7,808,160	103,533	\$436,777,222
2014	94,095	\$390,392,386	9,007	\$44,109,594	2,125	\$7,480,016	105,227	\$441,981,996
2015	98,528	\$481,950,204	9,085	\$46,594,292	2,275	\$8,162,208	109,888	\$536,706,704
2016	103,805	\$445,884,104	9,571	\$51,676,439	2,728	\$9,434,403	116,104	\$506,994,946
2017	103,991	\$473,418,359	9,734	\$54,746,509	2,775	\$10,288,605	116,500	\$538,453,473

### Political Contributions: 15-30-2131(1)(d), MCA Legislation: HB 407, 1979 Session

Montana allows taxpayers an itemized deduction for up to \$100 of contributions to candidates for political office or to political parties. Federal law does not allow a comparable deduction. This deduction provides a subsidy for taxpayers making political contributions totaling up to \$100.

The following table shows itemized deductions for political contributions for tax years 2009 through 2017. The itemized deduction for political contributions reduced income tax revenue to the general fund for 2017 by \$49,728, or \$0.08 per full-year resident taxpayer.

Political Contributions								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	5,490	\$643,598	190	\$24,431	57	\$6,359	5,737	\$674,388
2010	6,959	\$822,083	230	\$29,357	86	\$9,673	7,275	\$861,113
2011	6,047	\$729,898	210	\$27,487	84	\$9,069	6,341	\$766,454
2012	8,774	\$1,082,429	296	\$39,241	121	\$14,181	9,191	\$1,135,851
2013	5,343	\$643,188	185	\$24,439	82	\$9,661	5,610	\$677,288
2014	6,683	\$840,852	208	\$27,772	97	\$10,767	6,988	\$879,391
2015	5,621	\$684,847	209	\$25,325	105	\$11,111	5,935	\$721,283
2016	8,490	\$1,055,050	281	\$36,989	154	\$17,115	8,925	\$1,109,154
2017	6,832	\$838,756	240	\$32,440	133	\$15,210	7,205	\$886,406

## Itemized Deduction Expenditures

### Property Taxes on Personal Property: Federal Provision and 15-30-2131(1)(h), MCA Legislation: HB 540, 1999 Session (light vehicle fees)

Both federal and Montana law allows taxpayers to take an itemized deduction for property taxes on personal property paid during the year. For individual taxpayers, this consists primarily of motor vehicle license fees. One difference between the federal and state deductions is that federal law allows a deduction only for taxes that are based on the value of the property while Montana law allows a deduction for light vehicle registration fees, which are based on age rather than value.

This deduction avoids having the state levy income tax on income that was paid to the state or local governments as property tax. To the extent that taxpayers with higher incomes own more taxable personal property, the effect on taxpayers is similar to having a lower rate for personal property owners. It also provides an incentive for the ownership of taxable rather than untaxed personal property.

The following table shows itemized deductions for personal property taxes for tax years 2009 through 2017. For Tax Year 2017, the deduction for personal property taxes reduced income tax revenue to the general fund by \$3,723,240, or \$5.68 per full-year resident taxpayer.

Personal Property Taxes								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	147,121	\$53,773,266	7,585	\$5,206,252	2,799	\$1,383,547	157,505	\$60,363,065
2010	144,929	\$52,671,671	8,059	\$4,918,690	3,132	\$1,303,742	156,120	\$58,894,103
2011	148,894	\$52,698,081	8,638	\$5,110,112	3,473	\$1,484,196	161,005	\$59,292,389
2012	148,566	\$52,294,545	9,434	\$5,321,672	3,706	\$1,472,320	161,706	\$59,088,537
2013	152,201	\$54,011,758	10,082	\$5,899,666	4,135	\$1,724,377	166,418	\$61,635,801
2014	150,373	\$55,086,743	10,207	\$6,074,643	4,092	\$1,801,915	164,672	\$62,963,301
2015	150,616	\$56,198,651	9,878	\$6,163,518	3,755	\$1,730,465	164,249	\$64,092,634
2016	155,725	\$58,464,448	10,103	\$6,444,118	4,317	\$1,907,618	170,145	\$66,816,184
2017	157,971	\$61,716,979	10,323	\$8,149,043	4,684	\$2,431,660	172,978	\$72,297,682

### Property Taxes on Real Estate: Federal Provision Legislation: NA

Both federal and Montana law allow taxpayers to take an itemized deduction for property taxes on real estate paid during the year. This deduction avoids having the state levy income tax on income that was paid to the state or local governments as property tax. Since taxpayers with higher incomes tend to own more real estate and pay more property taxes, the effect is similar to having lower rates for property owners. This deduction also provides an incentive for ownership of real estate relative to making other purchases and to own rather than rent.

The table on the next page shows itemized deductions for real estate taxes for tax years 2009 through 2017. For Tax Year 2017, the deduction for real estate taxes reduced income tax revenue to the state general fund by \$31,788,835, or \$48.48 per full-year resident taxpayer.

## Itemized Deduction Expenditures

Real Estate Taxes								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	190,987	\$390,523,795	16,210	\$117,316,538	4,054	\$9,895,034	211,251	\$517,735,367
2010	190,240	\$400,710,387	17,430	\$132,985,027	4,242	\$10,966,735	211,912	\$544,662,149
2011	190,503	\$411,428,092	18,284	\$140,956,982	4,432	\$11,106,045	213,219	\$563,491,119
2012	187,722	\$407,127,118	19,198	\$115,915,969	4,713	\$11,434,342	211,633	\$534,477,429
2013	191,258	\$427,371,486	20,552	\$147,935,026	4,912	\$12,574,315	216,722	\$587,880,827
2014	190,500	\$438,431,688	20,935	\$145,442,935	5,036	\$13,080,649	216,471	\$596,955,272
2015	193,588	\$461,824,346	20,505	\$156,708,157	4,929	\$14,489,690	219,022	\$633,022,193
2016	196,679	\$491,661,308	20,971	\$171,690,180	5,289	\$15,682,421	222,939	\$679,033,909
2017	200,158	\$542,165,526	21,568	\$190,265,641	5,444	\$16,926,369	227,170	\$749,357,536

### Other Deductible Taxes: Federal Provision Legislation: NA

Federal and state law allows itemized deductions for several other types of taxes, including the generation skipping transfer tax and income taxes paid to other countries. This deduction avoids having the state levy income tax on income paid as tax to the United States or another country. As with other deductions for taxes, the effect on taxpayers is similar to having lower rates as long as taxpayers with higher incomes tend to pay more of the deductible taxes.

The following table shows itemized deductions for other taxes from 2009 through 2017. For Tax Year 2017, the deduction for other taxes reduced income tax revenue to the state general fund by \$374,326, or \$0.57 per full-year resident taxpayer.

Other Deductible Taxes								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	23,966	\$8,631,187	1,441	\$3,231,465	312	\$143,438	25,719	\$12,006,090
2010	25,284	\$10,298,211	3,789	\$7,385,215	560	\$493,640	29,633	\$18,177,066
2011	23,351	\$9,209,030	1,456	\$2,553,390	355	\$190,590	25,162	\$11,953,010
2012	22,435	\$8,398,699	1,450	\$2,280,780	358	\$206,848	24,243	\$10,886,327
2013	21,508	\$8,636,316	1,612	\$2,798,319	355	\$216,346	23,475	\$11,650,981
2014	20,734	\$7,865,574	1,526	\$2,901,792	358	\$216,468	22,618	\$10,983,834
2015	20,251	\$7,480,154	1,489	\$3,177,156	290	\$301,071	22,030	\$10,958,381
2016	16,400	\$6,342,633	1,533	\$3,092,082	280	\$156,522	18,213	\$9,591,237
2017	15,178	\$6,262,752	1,560	\$3,621,889	302	\$246,158	17,040	\$10,130,799

### Sales Tax or Local Income Tax: Federal Provision Legislation: NA

Federal law allows taxpayers to choose an itemized deduction for either general sales taxes or state and local income taxes paid during the year. Montana does not allow an itemized deduction for state income tax and does not have a general sales tax or local income taxes. Thus, this deduction is relevant only to taxpayers who pay sales tax or local income taxes in another state.

The effect of this deduction on taxpayers is like the effect of the deduction for federal taxes. Formally, it avoids having the state levy income tax on income paid as tax to another state or political subdivision of another state. Practically, it is essentially equivalent to a lower tax rate for taxpayers who pay sales tax or local income tax in another state and itemize deductions.

For example, suppose a taxpayer who lives in another state but has Montana income spends 90 percent of any extra income on purchases that are subject to their home state's 8 percent sales tax. For every \$100 of extra income, this person will have \$7.40 of extra sales tax deductions so that an extra \$100 of gross income is only \$92.80 of taxable income. If they are in the 6.9 percent top rate bracket, their effective

## Itemized Deduction Expenditures

marginal rate is 6.4 percent (6.9 percent x 92.8 percent).

The tables below show itemized deductions for sales tax or local income tax. The deduction for sales tax was first available for 2009. For Tax Year 2017, the deductions for sales tax or local income tax reduced income tax revenue to the general fund by \$143,268, or \$0.22 per full-year resident taxpayer. More than half of this tax expenditure goes to non-residents.

Sales Taxes									
	Residents		Nonresidents		Part-Year Residents		Total		
	N	\$	N	\$	N	\$	N	\$	
2009	554	\$626,619	4,325	\$38,487,222	657	\$828,472	5,536	\$39,942,313	
2010	†	†	†	†	†	†	†	†	†
2011	406	\$512,725	5,239	\$16,742,670	777	\$1,025,031	6,422	\$18,280,426	
2012	381	\$346,741	5,208	\$12,695,689	691	\$860,975	6,280	\$13,903,405	
2013	353	\$404,334	5,257	\$19,095,941	719	\$948,301	6,329	\$20,448,576	
2014	358	\$458,055	5,259	\$11,803,026	693	\$1,009,380	6,310	\$13,270,461	
2015	468	\$530,408	4,711	\$10,910,770	596	\$979,978	5,775	\$12,421,156	
2016	435	\$441,878	5,241	\$12,227,289	659	\$991,229	6,335	\$13,660,396	
2017	494	\$669,560	5,739	\$13,652,736	873	\$1,278,790	7,106	\$15,601,086	

† This item did not have a separate line on 2010 returns.

Local Income Taxes									
	Residents		Nonresidents		Part-Year Residents		Total		
	N	\$	N	\$	N	\$	N	\$	
2009	220	\$203,766	909	\$18,609,474	317	\$448,032	1,446	\$19,261,272	
2010	285	\$130,753	1,160	\$15,246,242	373	\$293,152	1,818	\$15,670,147	
2011	294	\$131,540	1,249	\$10,735,398	400	\$215,856	1,943	\$11,082,794	
2012	229	\$102,533	1,527	\$4,994,937	437	\$345,344	2,193	\$5,442,814	
2013	190	\$136,620	1,545	\$5,573,860	513	\$346,018	2,248	\$6,056,498	
2014	178	\$122,793	1,430	\$6,681,561	439	\$414,937	2,047	\$7,219,291	
2015	393	\$447,040	1,518	\$23,818,385	452	\$418,285	2,363	\$24,683,710	
2016	404	\$125,825	1,532	\$4,640,589	483	\$271,106	2,419	\$5,037,520	
2017	484	\$213,412	1,534	\$5,502,230	453	\$308,135	2,471	\$6,023,777	

## Tax Credits

Tax credits offset tax liability for taxpayers who make specified expenditures or take specified actions. Tax credits are not part of the basic structure of the income tax and are therefore tax expenditures.

Credits generally give taxpayers an incentive to make certain expenditures by providing a partial subsidy for those expenditures, which lowers the taxpayer's cost. The amount of subsidy a taxpayer receives depends on whether the taxpayer can also claim a federal deduction or credit, whether the taxpayer could claim a state deduction for the same expenditure, and whether the taxpayer must choose between a state deduction and the state credit or can claim both. For each credit, this section shows taxpayer subsidies, taking the interactions of state and federal taxes into account, for taxpayers whose federal taxes are above and below the cap on the state deduction for federal taxes.

Sometimes, a taxpayer will have a credit or combination of credits that is greater than their tax liability. If a credit is refundable, the taxpayer receives a direct subsidy equal to the difference between the credit and tax liability, and the cost to the general fund is the full amount of the credit. If a credit is non-refundable but has a carry-over provision, any excess of the credit over tax liability must be carried forward and applied against tax liability in a later year. The current cost to the general fund is limited to the tax liability of taxpayers claiming the credit, but some credits claimed one year may be carried forward and reduce general fund revenue in future years. Also, part of the credits claimed in the current year may have been carried forward from earlier years. If a credit is non-refundable and cannot be carried over, the cost to the general fund is limited by the current tax liability of taxpayers claiming the credit.

**Adoption Credit:** 15-30-2364, MCA  
**Legislation:** HB 490, 2007 Session

The IRS code allows an income tax credit for costs of adopting a child. A taxpayer who meets the requirements for the federal credit may also claim a credit of \$1,000 against Montana income tax. If the credit is more than the taxpayer's liability, the excess is not refunded, but excess credits may be carried forward for up to five years.

The credit has not been amended since it was enacted.

For 2017, the maximum federal adoption credit is \$13,570. A taxpayer who takes both the state and federal credits will be reimbursed for up to \$14,570 of the costs of adopting a child. If the actual costs are less than the federal credit, the state credit will provide a double reimbursement for \$1,000 of costs.

There is no itemized deduction for adoptions expenses. However, a taxpayer who claims the state and federal credits and itemizes deductions will have a smaller federal deduction for state taxes and may have a smaller state deduction for federal taxes. The following table shows the net effect of claiming the state credit and the maximum federal credit for a taxpayer in the top state and federal rate brackets who itemizes.

Adoption Expenditures		
Taxpayer Claims State Credit and Maximum Federal Credit		
	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	\$12,574.00	\$12,927.22
State Tax Subsidy	\$1,000.00	\$108.02
Net Taxpayer Subsidy	\$11,574.00	\$12,819.20

However, for many taxpayers, the federal credit will be more than federal tax liability and the state credit may be more than state tax liability. In these cases, the interaction of federal and state deductions will only occur in the last year the credit is carried forward and is likely to be smaller than shown in the table.

## Tax Credits

This credit was first available in 2007. The following table shows credits claimed for 2009 through 2017.

	Adoption Credit							
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	150	\$165,300	11	\$10,036	*	\$10,720	*	\$186,056
2010	249	\$322,517	17	\$17,608	14	\$18,522	280	\$358,647
2011	230	\$274,849	18	\$16,982	*	\$6,000	*	\$297,831
2012	178	\$189,721	20	\$22,245	*	\$6,418	*	\$218,384
2013	186	\$210,765	22	\$23,320	10	\$9,998	218	\$244,083
2014	180	\$257,945	23	\$24,030	14	\$15,000	217	\$296,975
2015	183	\$219,789	23	\$27,367	10	\$10,594	216	\$257,750
2016	185	\$222,618	14	\$12,591	10	\$12,582	209	\$247,791
2017	175	\$205,210	17	\$16,291	*	\$5,582	*	\$227,083

\* Not disclosed due to confidentiality concerns

In 2017, taxpayers used credits of \$169,555 and carried forward credits of approximately \$57,500 to be used in future years. There were \$27,590 in credits claimed in 2017 that were carried forward from 2016. Without the credit, \$169,555 would have been available to spend on other state programs or to reduce taxes. The cost was \$0.26 per full-year resident taxpayer.

**Alternative Energy Production Credit:** 15-32-401, MCA through 15-32-407, MCA  
**Legislation:** HB 780, 1983 Session

A taxpayer is allowed a credit against individual income tax or corporation income tax for 35 percent of the costs, less any federal or state grants, of depreciable property for a commercial or net metering alternative energy system. However, the credit may only be taken against taxes on net income from energy generated by the facility, from manufacturing alternative energy generating equipment, or from a new or expanded industry powered by the facility.

If the credit is more than the taxpayer's liability, the excess credit may not be refunded. Excess credits may be carried forward for seven years. If the credit is for a commercial system of at least 5MW built on a reservation, the credit may be carried forward for 15 years.

The credit was enacted as a credit for commercial wind energy systems. The 2001 Legislature expanded the credit to alternative energy systems and net-metering systems as well as commercial systems (SB 506). The 2001 Legislature also expanded the carry-forward provision to 15 years for facilities built on a reservation and meeting certain other requirements. Other amendments in 1997, 2001, 2003, and 2005 were for clean-up or related to expired federal laws.

This credit reduces the cost of an alternative energy system by 35 percent. The taxpayer's cost for each \$1,000 of investment is thus \$650. In addition, some wind energy systems placed in service between 2008 and 2016 are eligible for a 30 percent federal credit. If a taxpayer claims both the state and federal credits, the taxpayer's cost for each \$1,000 of investment is \$350. The taxpayer is allowed to deduct depreciation on property for which the credit was granted with no reduction in basis. However, the taxpayer may not claim any other state energy or investment income tax credit or the property tax exemption for alternative energy systems.

An individual taxpayer may claim the credit for investments made by a sole-proprietor business or may claim a share of the credit claimed by a pass-through entity. If the taxpayer itemizes deductions, claiming the state credit will reduce the federal deduction for state taxes, and claiming the federal credit may reduce the state deduction for federal taxes. The table on the next page shows the state and federal tax subsidies for a \$1,000 investment, if the taxpayer is in the top state and federal rate brackets and itemizes deductions.

The table on the next page shows credit use for tax year 2009 through 2017.

## Tax Credits

\$1,000 Expenditure for Commercial Alternative Energy System		
Taxpayer Claims State and Federal Credits		
	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	\$161.40	\$165.93
State Tax Subsidy	\$350.00	\$338.55
Net Taxpayer Subsidy	\$511.40	\$504.48

Alternative Energy Production Credit									
	Residents		Nonresidents		Part-Year Residents		Total		
	N	\$	N	\$	N	\$	N	\$	
2009	14	\$33,086	0	\$0	0	\$0	14	\$33,086	
2010	*	\$11,360	0	\$0	0	\$0	*	\$11,360	
2011	*	\$7,290	0	\$0	0	\$0	*	\$7,290	
2012	*	\$11,684	0	\$0	0	\$0	*	\$11,684	
2013	*	\$56	0	\$0	0	\$0	*	\$56	
2014	*	\$1,310	0	\$0	0	\$0	*	\$1,310	
2015	*	\$13,730	0	\$0	0	\$0	*	\$13,730	
2016	*	\$1,843	0	\$0	0	\$0	*	\$1,843	
2017	*	\$33,936	*	\$7,126	0	\$0	*	\$41,062	

\* Not disclosed due to confidentiality concerns

This credit is equivalent to a transfer from the state general fund to pay part of the cost of qualifying private property. In 2017, the credit against individual income tax cost the state general fund \$29,765. Credits of more than \$11,000 could be carried forward to future years, but none of the credits claimed in 2016 were carried forward from 2017. The cost per full-year resident taxpayer is \$0.05.

**Alternative Energy Systems Credit:** 15-32-201, MCA through 15-32-203, MCA  
**Legislation:** SB 167, 1977 Session

Resident individual taxpayers may take a credit for up to \$500 of the cost of installing an alternative energy heating system or a low-emission wood or biomass system in their principal residence. If the credit exceeds the taxpayer's liability, the excess may not be refunded, but may be carried forward for up to four years.

The credit was enacted as a credit of 10 percent of the first \$1,000 and 5 percent of the next \$3,000 spent on an alternative energy system, with a reduction if the taxpayer received a grant or a federal credit. It was available through 1982. The 1983 Legislature extended the credit through 1986 (HB 264). The 1985 Legislature (SB 309) expanded the credit to low-emissions wood and biomass systems and extended the credit through 1993. The 1991 Legislature (HB 338) doubled the credit to 20 percent of the first \$1,000 and 10 percent of the next \$3,000, extended it through 1996 for low-emissions wood and biomass systems only, and revised the definition of low-emissions wood and biomass systems. Amendments in 1993, 1995, and 1997 were to correct references and update style (1993 SB 1, 1995 SB 234, 1997 SB 36).

The credit lapsed after 1996. The 2001 Legislature reinstated it for investments beginning in 2002, made it permanent, and set the credit at system cost up to \$500 (SB 506). The 2003 Legislature adopted federal standards for low-emissions wood and biomass systems. The 2009 Legislature (HB 262) limited the credit to heating systems and changed the definition of eligible wood-burning systems to include outdoor hydronic heaters that meet certain EPA qualifications and masonry heaters that comply with certain building standards.

This credit reduces the taxpayer's cost of a residential alternative energy heating system or low-emissions wood or biomass system by \$500. For any system costing \$500 or less, the credit makes it free to the taxpayer, though there are not likely to be many eligible systems costing less than \$500. Taxpayers are not allowed to deduct depreciation on their homes, so taxpayers may not claim the credit for expenditures that they also deduct. However, through 2016, a taxpayer may also claim a federal credit for 30 percent of the cost of residential solar electric and water heating equipment, fuel cells, and small wind systems.



## Tax Credits

For a taxpayer who itemizes deductions, claiming the state credit will reduce the federal deduction for state taxes, and claiming the federal credit may reduce the state deduction for federal taxes. The table to the right shows state and federal tax subsidies for \$1,000 spent on a qualifying alternative energy system, if the taxpayer is in the top state and federal rate brackets and itemizes deductions.

\$1,000 Alternative Energy System Expenditure		
Taxpayer Claims Credit, Expenses Not Deductible		
	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	\$102.00	\$104.87
State Tax Subsidy	\$500.00	\$492.76
Net Taxpayer Subsidy	\$602.00	\$597.63

The following table shows credit use for tax year 2009 through 2017.

Alternative Energy System Credit									
	Residents		Nonresidents		Part-Year Residents		Total		
	N	\$	N	\$	N	\$	N	\$	
2009	1,705	\$1,302,796	0	\$0	22	\$19,500	1,727	\$1,322,296	
2010	1,810	\$1,377,478	0	\$0	36	\$27,256	1,846	\$1,404,734	
2011	1,135	\$823,533	0	\$0	15	\$10,270	1,150	\$833,803	
2012	858	\$642,288	0	\$0	15	\$11,800	873	\$654,088	
2013	830	\$632,607	0	\$0	17	\$14,694	847	\$647,301	
2014	800	\$617,949	0	\$0	22	\$19,904	822	\$637,853	
2015	735	\$581,523	0	\$0	23	\$21,046	758	\$602,569	
2016	827	\$668,542	0	\$0	26	\$22,765	853	\$691,307	
2017	742	\$577,371	0	\$0	29	\$23,967	771	\$601,338	

This credit is equivalent to a grant from the state general fund to pay part of the cost of private alternative energy systems. In 2017, the credit cost the state general fund \$315,904 and \$50,902 in credits were carried forward to future years. Fifty-five percent of credits for were wood and biomass systems, and 45 percent were for other types of system. There were \$18,400 in credits carried forward from 2016 and claimed in 2017. Without the credit, \$315,904 would have been available to spend on other state programs or to reduce taxes. The cost was \$0.48 per full-year resident taxpayer.

**Alternative Fuel Conversion Credit:** 15-30-2320, MCA  
**Legislation:** HB 219, 1993 Session

Taxpayers are allowed a credit against individual income tax or corporate license tax of 50 percent of the cost of converting a motor vehicle to operate on natural gas, LPG, LNG, hydrogen, electricity, or a fuel that is at least 85 percent alcohol or ether. The credit is limited to \$500 for converting a vehicle with GVW of 10,000 or less and to \$1,000 for converting of a vehicle with GVW over 10,000. If a taxpayer's credit is more than his or her tax liability, the excess credit is not refunded and cannot be carried forward or backward to another tax year.

This credit has not been amended since it was first enacted. There is no federal incentive for vehicle conversions, but a federal credit for the purchase of a new alternative fuel vehicle was extended by the Bipartisan Budget Act of 2018.

The alternative fuel credit pays part or all of a taxpayer's cost of converting a vehicle to run on an alternative fuel. For a taxpayer who takes the standard deduction on their federal taxes, the credit pays the full cost up to the limit. However, if the taxpayer itemizes, the credit will increase their federal taxes. This is because claiming the state credit will reduce the federal itemized deduction for state taxes. The table to the right shows the change in federal and state taxes for a \$100 expenditure by a taxpayer in the top federal and state rate brackets who itemizes on both federal and state returns.

## Tax Credits

If the conversion is of a business vehicle, the taxpayer would be able to expense or amortize the cost as a business expense in addition to claiming the credit. For a personal vehicle, these costs are not deductible.

\$100 Alternative Fuel Vehicle Conversion Expenditure		
Taxpayer Claims Credit, Expenses Not Deductible		
	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	(\$19.80)	(\$20.36)
State Tax Subsidy	\$50.00	\$51.40
Net Taxpayer Subsidy	\$69.80	\$68.95

The following table shows credits for tax years 2009 through 2017.

	Alternative Fuel Credit							
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	46	\$38,175	*	\$2,210	*	\$100	*	\$40,485
2010	36	\$25,281	0	\$0	0	\$0	36	\$25,281
2011	15	\$26,822	0	\$0	*	\$500	*	\$27,322
2012	22	\$14,778	0	\$0	*	\$500	*	\$15,278
2013	16	\$8,183	*	\$1,200	0	\$0	*	\$9,383
2014	16	\$9,905	*	\$3,880	*	\$909	*	\$14,694
2015	12	\$8,189	*	\$3,712	*	\$6,000	*	\$17,901
2016	16	\$8,632	*	\$775	*	\$925	*	\$10,332
2017	12	\$6,194	0	\$0	*	\$1,600	*	\$7,794

\* Not disclosed due to confidentiality concerns

This credit is essentially a transfer from the state general fund to help a taxpayer purchase private property. In 2017, the individual income tax credit for alternative fuel vehicle conversion cost the state general fund \$3,129. Taxpayers were unable to use more than \$4,500 of available credits because the credit is non-refundable and cannot be carried forward. Without the credit, either \$3,129 would have been available to spend on other programs or taxes could have been reduced by this amount. The average cost of this credit is less than \$0.01 per full-year resident taxpayer.

**Apprenticeship Credit:** 15-30-2357, MCA and 39-6-109, MCA  
**Legislation:** HB 308, 2017 Session

Taxpayers are allowed a credit for employing an apprentice or veteran apprentice as a new employee in a state-registered apprenticeship training program. The credit is worth \$750 per approved apprentice or \$1,500 per approved veteran apprentice and may only be claimed for 5 years per apprentice. The credit is non-refundable and cannot exceed the individual's tax liability.

No credits have been claimed at this point, as the credit applies to tax years after December 31, 2017.

**Biodiesel Blending and Storage Tank Credit:** 15-32-703, MCA  
**Legislation:** HB 776, 2005 Session

Taxpayers who are biodiesel blenders are allowed a credit against individual income tax or corporation tax for 15 percent of the cost of investments in biodiesel blending or storage facilities in a year when the taxpayer is blending or in the two years before blending began. The total credits that may be claimed over time are \$52,500 for a distributor (wholesaler) and \$7,500 for a retailer.

If a taxpayer is eligible for a credit that exceeds their tax liability, the excess credit is not refunded but may be carried forward for up to seven years as long as the facility continues to blend biodiesel. If the facility ceases production for 12 months within five years after the credit is first claimed, the entire credit must be recaptured.

## Tax Credits

The credit was enacted as a non-refundable credit with no carry-forward. The 2007 Legislature (HB 166) allowed the credit to be carried forward, and specified that the credit is for costs incurred while the facility is operating or in the two years before.

An individual may claim the credit for investments made by a sole-proprietor business or may claim a share of the credit for investments made by a pass-through entity.

<b>\$100 Biodiesel Blending or Storage Equipment Expenditure</b>		
<b>Taxpayer Claims Credit, No Change to Depreciation Deduction</b>		
	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	(\$5.94)	(\$6.11)
State Tax Subsidy	\$15.00	\$15.42
Net Taxpayer Subsidy	\$9.06	\$9.31

The credit provides a subsidy to biodiesel blending and storage facilities by reducing the taxpayer's cost of investments in biodiesel blending and storage facilities by 15 percent for investments of up to \$50,000 by a retailer and up to \$350,000 by a wholesaler. Taxpayers are allowed to deduct depreciation on facilities for which the credit was taken with no reduction in basis. A taxpayer who claims the credit and itemizes deductions will have a smaller federal deduction for state taxes, which will increase their federal tax liability, and may have a larger state deduction for federal taxes. The table above shows the total state tax subsidy and the federal tax cost to a taxpayer in the top federal and state rate brackets for \$100 invested in biodiesel blending or storage facilities.

Fewer than 10 individuals have claimed the credit each year. The following table shows the total value of credits taken by individuals in 2009 through 2017.

<b>Biodiesel Blending/Storage Tank Credit</b>										
	Residents		Nonresidents		Part-Year Residents		Total			
	N	\$	N	\$	N	\$	N	\$		
2009	*	\$2,630	0	\$0	0	\$0	0	\$0	*	\$2,630
2010	*	\$907	0	\$0	0	\$0	0	\$0	*	\$907
2011	*	\$46,755	0	\$0	0	\$0	0	\$0	*	\$46,755
2012	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0
2013	*	\$2,250	0	\$0	0	\$0	0	\$0	*	\$2,250
2014	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0
2015	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0
2016	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0
2017	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0

\* Not disclosed due to confidentiality concerns

This credit is essentially the same as a grant from the state general fund to pay 15 percent of the cost of private property used to blend biodiesel. No credits were used or carried forward to future years in 2014 through 2017.

**Capital Gains Credit:** 15-30-2301, MCA  
**Legislation:** HB 407, 2003 Session

A taxpayer has a gain or loss when the price of an asset the taxpayer owns changes and the change is not equal to depreciation on the asset. Gains and losses are realized when the taxpayer sells the asset. A taxpayer has unrealized gains or losses when the market value of an asset is more or less than the taxpayer's basis, which usually is the purchase price less depreciation.

In most cases, gains or losses on asset sales are considered capital gains or losses and are given special tax treatment by both federal and Montana law. In some cases where an asset's book value is less than its market value because of excess depreciation, part or all of the gain from its sale is taxed as ordinary income.

## Tax Credits

Both federal law and Montana law require taxpayers to recognize gains and losses when assets are sold, rather than when the price change occurs. Gains and losses in the same year are netted against each other. If the result is a net gain, it is taxed that year. A net loss of up to \$3,000 (\$1,500 for a married taxpayer filing a separate return) may be used to offset other income in the same year, and any loss over this limit must be carried forward to the next year.

Federal law taxes income from capital gains and corporate dividends at lower rates than ordinary income. Montana does not have separate rates for different types of income, but does allow a credit equal to 2 percent of capital gains income. If the capital gains credit exceeds the taxpayer's tax liability, the excess credit is not refunded and may not be carried forward or backward to other tax years. This credit is equivalent to taxing capital gains at a lower rate than other income. With the credit, a taxpayer in the top income bracket is taxed at 6.9 percent on an additional dollar of ordinary income but at 4.9 percent on an additional dollar of capital gains income.

The income tax would not affect taxpayers' choices between assets that yield a stream of income and assets that provide a return through appreciation if capital gains were taxed (and capital losses were deducted) when they accrue rather than when they are realized, if capital gains were taxed at the same rate as ordinary income, and if gains and losses were calculated after adjusting the taxpayer's basis for inflation. In most cases, the preferential treatment of capital gains income creates incentives for taxpayers to invest in assets that produce capital gains rather than producing a stream of income, for taxpayers to make riskier investments, and for taxpayers to hold assets that have appreciated and sell assets that have lost value. However, these incentives may be reversed if taxpayers expect asset price increases to be offset by inflation.

The following table shows capital gains credits for tax years 2009 through 2017. For 2017, the capital gains credit reduced income tax revenue to the general fund by \$48,144,173, or \$76.24 per full-year resident taxpayer. The reduction in revenue is less than the total amount of credits claimed because some taxpayers reach zero tax liability without using all of their credit.

Capital Gains Credit								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	24,961	\$17,974,296	5,346	\$85,787,352	766	\$505,481	31,073	\$104,267,129
2010	31,812	\$19,642,186	7,340	\$296,606,874	1,043	\$1,073,029	40,195	\$317,322,089
2011	37,812	\$19,621,982	8,790	\$261,522,466	1,266	\$1,437,924	47,868	\$282,582,372
2012	50,139	\$31,235,460	10,891	\$267,092,173	1,615	\$1,285,846	62,645	\$299,613,479
2013	62,628	\$27,523,134	13,534	\$262,312,945	2,165	\$1,214,702	78,327	\$291,050,781
2014	68,897	\$38,921,806	15,472	\$333,043,375	2,476	\$1,404,501	86,845	\$373,369,682
2015	67,457	\$33,445,616	15,263	\$272,007,058	2,449	\$2,004,163	85,169	\$307,456,837
2016	62,818	\$33,576,490	14,410	\$357,188,908	2,297	\$3,481,699	79,525	\$394,247,097
2017	72,881	\$44,758,820	16,863	\$396,299,151	2,787	\$2,072,261	92,531	\$443,130,232

**College Contribution Credit:** 15-30-2301, MCA  
**Legislation:** HB 894, 1991 Session

Individual and corporate taxpayers are allowed a credit of 10 percent of the amount of charitable contributions to the general endowment funds of Montana public or private higher education institutions.

The credit is limited to a maximum of \$500. A taxpayer with a credit that is larger than his or her tax liability will not be refunded the excess, and excess credits may not be carried forward or backward to another tax year. The credit originally was to sunset in 1996, but was made permanent by HB 199 of the 1995 Legislative Session. A taxpayer who makes a contribution to a college endowment fund may take both state and federal itemized deductions for the charitable contribution and this credit.

## Tax Credits

This credit is essentially a transfer from the state general fund to Montana college endowment funds. The table below shows the portions of a \$100 contribution to an eligible college endowment fund that are ultimately paid by the donor, federal taxpayers, and state taxpayers, when the donor claims state and federal itemized deductions for the donation, when the donor claims the credit in addition to the federal deduction, and the difference due to the credit. The table assumes that the donor is in the top federal and state tax brackets.

<b>\$100 Contribution to College Endowment Fund</b>			
<b>Taxpayer Claims Credit and Federal and State Deductions</b>			
		Deduction for Federal Taxes	
		Capped	Not Capped
Federal Tax Subsidy		\$32.91	\$33.83
State Tax Subsidy		\$16.90	\$14.57
Net Taxpayer Subsidy		\$49.81	\$48.40
<b>Taxpayer Claims Federal and State Itemized Deductions</b>			
		Deduction for Federal Taxes	
		Capped	Not Capped
Federal Tax Subsidy		\$36.87	\$37.90
State Tax Subsidy		\$6.90	\$4.28
Net Taxpayer Subsidy		\$43.77	\$42.19
<b>Difference Due to Credit</b>			
		Deduction for Federal Taxes	
		Capped	Not Capped
Federal Tax Subsidy		(\$3.96)	(\$4.07)
State Tax Subsidy		\$10.00	\$10.28
Net Taxpayer Subsidy		\$6.04	\$6.21

The itemized deductions reduce the donor's cost to about 55 percent of the donation, and the credit further reduces it to about 50 percent of the donation. The additional subsidy is less than the credit because claiming the credit reduces the itemized deductions that can be claimed for state taxes.

The following table shows college contribution credits claimed by individual taxpayers for tax years 2009 through 2017.

<b>College Contribution Credit</b>								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	2,488	\$237,180	59	\$6,435	17	\$2,250	2,564	\$245,865
2010	2,549	\$253,119	54	\$5,634	27	\$3,940	2,630	\$262,693
2011	2,506	\$238,141	54	\$5,232	20	\$3,294	2,580	\$246,667
2012	2,607	\$246,495	56	\$8,421	20	\$2,038	2,683	\$256,954
2013	2,662	\$269,473	51	\$6,142	24	\$1,872	2,737	\$277,487
2014	2,833	\$285,949	69	\$9,164	22	\$3,817	2,924	\$298,930
2015	2,942	\$306,734	60	\$10,230	26	\$5,649	3,028	\$322,613
2016	3,101	\$322,604	77	\$10,754	34	\$6,396	3,212	\$339,754
2017	3,089	\$369,846	71	\$13,103	18	\$1,970	3,178	\$384,919

In 2017, this credit cost the state general fund \$350,872. Taxpayers were unable to use \$34,047 of credits because the credit is non-refundable and cannot be carried forward. Without this credit, \$350,872 would have been available to spend on other state programs or taxes could have been reduced by this amount. The college endowment credit against individual income tax cost an average of \$0.54 per full-year resident taxpayer.

## Tax Credits

### **Credit for Other States' Taxes:** 15-30-2302, MCA **Legislation:** HB 38, 1941 Session

Taxpayers who earn income in more than one state generally will owe tax in each of the states where they earn income that has an income tax. A Montana resident computes Montana income tax on their entire income and then is allowed a credit for income tax paid to other states. A non-resident or part-year resident computes Montana income tax on their entire income and then multiplies that by the percentage of income earned in Montana to give Montana tax liability. A part-year resident is then allowed a credit for income tax paid to another state on income also taxed in Montana.

If the credit is more than the taxpayer's liability, the excess credit is not refunded and may not be carried forward or backward to another tax year.

This credit prevents two states from taxing the same income. Not having a credit for income tax paid to other states would create a disincentive for individuals to work or have business interest in more than one state. The following table shows the credits claimed for 2009 through 2017.

Other State's Tax Credit									
	Residents		Nonresidents		Part-Year Residents		Total		
	N	\$	N	\$	N	\$	N	\$	
2009	9,139	\$16,975,208	0	\$0	350	\$220,394	9,489	\$17,195,602	
2010	10,572	\$20,608,363	0	\$0	254	\$138,299	10,826	\$20,746,662	
2011	10,658	\$19,090,209	0	\$0	275	\$294,694	10,933	\$19,384,903	
2012	10,497	\$23,668,111	0	\$0	223	\$192,211	10,720	\$23,860,322	
2013	12,202	\$27,082,006	0	\$0	268	\$217,481	12,470	\$27,299,487	
2014	12,772	\$31,205,001	0	\$0	684	\$757,794	13,456	\$31,962,795	
2015	13,301	\$31,375,448	0	\$0	925	\$855,861	14,226	\$32,231,309	
2016	13,351	\$31,363,032	0	\$0	460	\$575,796	13,811	\$31,938,828	
2017	14,070	\$33,636,066	0	\$0	540	\$502,006	14,610	\$34,138,072	

For 2017, the credit for other states' taxes cost the state general fund \$33,984,000, and \$154,072 in credits were unused because taxpayers had more credits than tax liability. The cost to the general fund was \$51.83 per full year resident taxpayer.

### **Dependent Care Assistance Credit:** 15-31-131 and 15-30-2373, MCA; 15-31-133 and 15-30-2365, MCA; **Legislation:** SB 282, 1989 Session

Taxpayers may claim three related credits against individual income tax or corporation tax for providing daycare benefits to employees:

- There is a credit for a portion of the cost of providing day care services to employees' dependents. This credit is 25 percent of the cost of day care or day care assistance with a limit of \$1,575 per employee receiving the assistance. The assistance must meet requirements in federal law for being considered a non-taxable fringe benefit rather than part of the employees' compensation.
- There is a credit for 25 percent of the cost of providing day care information and referral services to employees.
- There is a credit for a portion of the cost of setting up a day care facility to be used by the taxpayer's employees' dependents. This credit was only for facilities placed in service by the end of 2005, with the credit being claimed over a ten-year period. The last year when this credit could be claimed was 2014.

Individuals may claim the credits directly as the owner of a sole-proprietor business or may claim their share of credits claimed by a pass-through entity. If the credit is more than the taxpayer's liability, the excess credit is not refunded. The credits for day care assistance may be carried forward up to five years. The credit for day care facility costs may be carried forward within the ten-year period for claiming the credit. There is no recapture provision.

## Tax Credits

The 1989 Legislature created the credit for 15 percent of expenditures for providing day care services with a limit of \$1,250 per employee receiving benefits. The 1991 Legislature (HB 543) increased the credit to 20 percent of costs and allowed a partial credit when part of the cost counts as compensation. Amendments made by the 1993 Legislature as part of a major revision of the income tax (HB 671) were voided in 1994 by a referendum, and amendments in 1997 (SB 36) were just cleanup. The 2001 Legislature (HB 623) increased the day care assistance credit to 25 percent of costs with a limit of \$1,575 per employee and added the credits for day care referral and for day care facilities.

In general, employers can deduct the cost of employee fringe benefits as a business expense. Because of this, a taxpayer who does not claim the credit can deduct the costs as a business expense for both federal and state taxes. However, a taxpayer who claims the credit cannot deduct the cost for state taxes. With fewer deductions, the taxpayer's state taxes will be higher. Thus, the reduction in state taxes is less than the credit.

If the taxpayer itemizes deductions, the reduction in state taxes will result in a smaller federal deduction for state taxes. The resulting increase in federal taxes may result in a larger state deduction. The following table shows the net effects of claiming the credit on a taxpayer in the top federal and state rate brackets.

<b>\$100 Expenditure on Daycare for Employees' Dependents</b>		
<b>Difference When Taxpayer Claims Federal Expense Deduction and State Credit Instead of Deduction</b>		
	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	(\$7.17)	(\$7.37)
State Tax Subsidy	\$18.10	\$18.61
Net Taxpayer Subsidy	\$10.93	\$11.24

The following table shows the total value of credits claimed against individual income tax from tax year 2009 through 2017.

<b>Dependent Care Assistance Credit</b>										
	Residents		Nonresidents		Part-Year Residents				Total	
	N	\$	N	\$	N	\$	N	\$	N	\$
2009	*	\$7,769	0	\$0	0	\$0	*	\$0	*	\$7,769
2010	*	\$14,595	0	\$0	*	\$108	*	\$108	*	\$14,703
2011	10	\$26,039	0	\$0	*	\$239	*	\$239	*	\$26,278
2012	10	\$95,590	*	\$122	*	\$253	*	\$253	*	\$95,965
2013	12	\$13,525	0	\$0	*	\$2,600	*	\$2,600	*	\$16,125
2014	*	\$13,528	0	\$0	0	\$0	*	\$0	*	\$13,528
2015	14	\$31,586	*	\$2,200	*	\$851	*	\$851	*	\$34,637
2016	*	\$22,415	*	\$1	*	\$1,970	*	\$1,970	*	\$24,386
2017	*	\$149,378	0	\$0	0	\$0	*	\$0	*	\$149,378

\* Not disclosed due to confidentiality concerns

This credit is equivalent to a transfer from the state general fund to taxpayers to cover part of the costs of providing day care to employees' dependents. In 2017, credits against individual income tax cost the state general fund \$7,215. None of the credits claimed in 2017 were carried forward from 2016. Without the credit, \$7,215 would have been available to spend on other state programs or to reduce taxes. The cost was \$0.01 per full-year resident taxpayer.

**Elderly Care Credit:** 15-30-2366, MCA  
**Legislation:** HB 166, 1989 Session

This credit covers part of the costs of caring for a low-income family member who is either elderly or disabled. The credit depends on the taxpayer's income, as shown in the following table.

<u>Adjusted Gross Income</u>	<u>Credit</u>
\$25,000 or less	30% of qualifying expenses
\$25,001 to \$27,000	29% of qualifying expenses
\$27,001 to \$29,000	28% of qualifying expenses
\$29,001 to \$31,000	27% of qualifying expenses
\$31,001 to \$33,000	26% of qualifying expenses
\$33,001 to \$35,000	25% of qualifying expenses
\$35,001 to \$37,000	24% of qualifying expenses
\$37,001 to \$39,000	23% of qualifying expenses
\$39,001 to \$41,000	22% of qualifying expenses
\$41,001 to \$43,000	21% of qualifying expenses
\$43,001 to \$55,000	20% of qualifying expenses

The family member being cared for must have income of \$15,000 or less if single or \$30,000 or less if married. The maximum credit is \$5,000 per family member and \$10,000 total. If a taxpayer's credit exceeds their tax liability, the excess is not refunded and may not be carried forward or backward to another tax year.

The credit was enacted by the 1989 Legislature (HB 166). The 1991 Legislature reduced the age for eligible family members from 70 to 65 and made other changes to the definitions of eligible family member and eligible costs (HB 750). Amendments by the 1995 Legislature (SB 345) merely updated references that changed with the creation of the Department of Public Health and Human Services.

This credit provides a partial subsidy for taxpayers with low or moderate income who are caring for a low-income elderly or disabled relative. Some costs that qualify for this credit could be claimed as itemized deductions, but taxpayers are not allowed to claim both the credit and an itemized deduction for the same costs. For costs that could not be claimed as an itemized deduction, the subsidy is the credit percentage found in the table above. For costs that could be claimed as an itemized deduction, the subsidy from the credit is the difference between the credit percentage and the taxpayer's marginal tax rate.

For example, a taxpayer with adjusted gross income of \$25,000, two exemptions, and taking the standard deduction would be in the top (6.9 percent) rate bracket and would have a 30 percent credit. For \$1,000 of qualifying expenses, this taxpayer could claim a credit of \$300, and the taxpayer's cost would be \$700. If those expenses could be claimed as an itemized deduction, the deduction would reduce the taxpayer's liability by \$69 (6.9 percent x \$1,000). The taxpayer's cost would be \$931 (\$1,000 - \$69). If the taxpayer takes the credit instead of the itemized deduction, the additional subsidy is \$231 (\$300 - \$69).

For a taxpayer who itemized deductions, the credit would reduce the federal deduction for state taxes and possibly increase the state deduction for federal taxes. This would increase federal taxes and give a much smaller further reduction in state taxes. For an itemizer in the 10 percent federal rate bracket and the 6.9 percent state rate bracket, claiming a \$300 credit would increase federal income taxes by \$30.21 and reduce state taxes by a total of \$302.08.

The table on the following page shows use of the elderly care credit for tax years 2009 through 2017.

This credit is a transfer from the state general fund to individual taxpayers who are caring for a low-income elderly or disabled relative. It pays for part of costs that are not covered by insurance or government programs. In 2017, this credit cost the state general fund \$24,893. Taxpayers were unable to use credits of nearly \$72,000 because the credit is non-refundable and cannot be carried forward. Without the credit, \$24,893 would have been available to spend on other programs or to reduce taxes. The cost of this credit was \$0.04 per full-year resident taxpayer.



Elderly Care Credit								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	41	\$45,059	0	\$0	0	\$0	41	\$45,059
2010	51	\$75,912	0	\$0	0	\$0	51	\$75,912
2011	49	\$77,468	0	\$0	0	\$0	49	\$77,468
2012	47	\$52,714	0	\$0	0	\$0	47	\$52,714
2013	43	\$74,466	*	\$4,000	*	\$95	*	\$78,561
2014	41	\$59,626	0	\$0	*	\$4,500	*	\$64,126
2015	39	\$55,637	0	\$0	*	\$90	*	\$55,727
2016	53	\$82,771	*	\$477	*	\$7,373	*	\$90,621
2017	57	\$91,545	*	\$1	*	\$4,986	*	\$96,532

\* Not disclosed due to confidentiality concerns

**Elderly Homeowner/Renter Credit:** 15-30-2337 to 15-30-2341, MCA  
**Legislation:** SB 337, 1981 Session

Taxpayers who are age 62 or older and have a household income of less than \$45,000 may be eligible for the elderly homeowner/renter credit. The credit refunds part or all of the property tax a homeowner pays directly or a renter pays indirectly that is more than a certain percentage of household income. For a household with income between \$12,000 and \$45,000, this percentage is 5 percent. For households with lower incomes, the credit refunds part or all of property taxes that are more than a smaller percent of income. For taxpayers with income between \$2,000 and \$2,999, the credit refunds part or all of property taxes that are more than 0.6 percent of income. The credit is limited to a maximum of \$1,000 per household. The credit phases out for households with income between \$35,000 and \$45,000.

Taxpayers who receive the elderly homeowner/renter credit pay their property taxes and then have part refunded. Local governments, school districts, the university system, and the state general fund all receive full payments of property taxes on these taxpayers' residences. Then, taxpayers are refunded part of the tax they paid via this credit, which reduces revenue going to the state general fund.

This credit is essentially a property tax refund administered through the income tax system. The credit could be considered a tax expenditure either for the income tax or the property tax.

This credit provides a subsidy for older taxpayers who own their home and whose income is no longer proportional to the value of their home, so that they can stay in their homes. For older taxpayers who rent, it subsidizes the rent they pay.

Taxpayers who claim the credit are able to take an itemized deduction for property taxes on their homes. For a taxpayer who takes the state and federal standard deductions, the credit reduces state income tax by \$1 for each \$1 by which the taxpayer's property tax exceeds the credit percentage for their income. If the taxpayer itemizes deductions, the credit reduces the federal deduction for state taxes, which increases federal income tax. This increases the state deduction for federal taxes, further reducing state taxes. A taxpayer who is eligible for the credit may be in any state rate bracket, but is likely to be in the 10 percent or 15 percent federal brackets. The table on the next page shows federal and state subsidies for a taxpayer in the top state and 15 percent federal rate brackets who claims the credit and itemizes, the federal and state subsidies if the taxpayer itemizes but does not claim the credit, and the difference due to the credit.

For a taxpayer who itemizes, the credit reduces the federal deduction for state taxes by the amount that the federal deduction for property taxes exceeds the credit percentage.

The table on the next page shows the credits claimed with income tax returns for 2009 through 2017. Additional credits were claimed by taxpayers who did not file income tax returns. For 2017, the elderly homeowner/ renter credit cost the state general fund \$6,955,393, or \$10.61 per full-year resident taxpayer.

## Tax Credits

Property Tax \$100 more than Credit Percent	
Taxpayer Claims Credit and Federal and State Deductions	
Federal Tax Subsidy	(\$1.05)
State Tax Subsidy	\$106.97
Net Taxpayer Subsidy	\$105.93
Taxpayer Claims Federal and State Itemized Deductions	
Federal Tax Subsidy	\$14.11
State Tax Subsidy	\$5.93
Net Taxpayer Subsidy	\$20.04
Difference Due to Credit	
Federal Tax Subsidy	(\$15.16)
State Tax Subsidy	\$101.05
Net Taxpayer Subsidy	\$85.89

Elderly Homeowner/Renter Credit									
	Residents		Nonresidents		Part-Year Residents		Total		
	N	\$	N	\$	N	\$	N	\$	
2009	16,984	\$8,465,090	*	\$1,127	23	\$12,779	*	\$8,478,996	
2010	16,986	\$8,467,974	0	\$0	14	\$8,322	17,000	\$8,476,296	
2011	16,470	\$8,167,841	*	\$1,033	29	\$14,702	*	\$8,183,576	
2012	14,906	\$7,183,795	*	\$2,109	21	\$8,283	*	\$7,194,187	
2013	13,756	\$6,608,064	0	\$0	22	\$11,303	13,778	\$6,619,367	
2014	12,660	\$6,065,006	*	\$1,026	16	\$5,740	*	\$6,071,772	
2015	12,733	\$6,182,410	0	\$0	21	\$10,510	12,754	\$6,192,920	
2016	13,120	\$6,510,107	*	\$1,768	24	\$7,632	*	\$6,519,507	
2017	13,551	\$6,949,653	0	\$0	16	\$5,740	13,567	\$6,955,393	

\* Not disclosed due to confidentiality concerns

### Emergency Lodging Credit: 15-31-171, MCA and 15-30-2381, MCA Legislation: HB 240, 2007 Session

The Department of Public Health and Human Services has a program to provide temporary emergency lodging to individuals or families referred by non-profit organizations working with domestic violence victims. Lodging establishments may receive a tax credit of \$30 per day for providing up to five days of free lodging to someone who has been referred to them through this program. If the credit is more than the taxpayer's tax liability, the excess can be refunded. Since this credit is not a proportion of expenditure, it is not possible to calculate tax subsidy percentages as is done for other credits.

The credit may be taken against either income tax or corporation tax. This program was created by the 2007 Legislature, and has been in place since 2008. The 2015 legislature expanded the credit to cover lodging provided to families as well as individuals.

The following table shows income tax credits claimed in tax year 2008 through 2017. Until 2017, fewer than 20 taxpayers claimed the credit each year. Without the credit, approximately \$10,000 would have been available in 2017 to spend on other state programs or taxes could have been reduced by this amount.

Emergency Lodging Credit									
	Residents		Nonresidents		Part-Year Residents		Total		
	N	\$	N	\$	N	\$	N	\$	
2009	0	\$0	0	\$0	0	\$0	0	\$0	\$0
2010	0	\$0	0	\$0	0	\$0	0	\$0	\$0
2011	*	\$863	*	\$150	0	\$0	*	\$0	\$1,013
2012	0	\$0	0	\$0	0	\$0	0	\$0	\$0
2013	0	\$0	0	\$0	0	\$0	0	\$0	\$0
2014	*	\$500	0	\$0	0	\$0	*	\$0	\$500
2015	*	\$247	*	\$180	*	\$90	*	\$0	\$517
2016	*	\$2,030	*	\$85	*	\$1,300	*	\$0	\$3,415
2017	20	\$9,841	*	\$150	*	\$60	*	\$0	\$10,051

\* Not disclosed due to confidentiality concerns

## Tax Credits

**Empowerment Zone Credit:** 15-30-2356, MCA and 15-31-134, MCA  
**Legislation:** SB 484, 2003 Session

A local government may establish an empowerment zone in an area with chronic high unemployment. Employers in an empowerment zone are eligible for a credit against income or corporation income tax for the first three years' employment for new positions. The credit per new employee is \$500 for the first year, \$1,000 for the second year, and \$1,500 for the third year. To receive the credit, the taxpayer must apply for and receive certification from the Department of Labor and Industry.

If the credit is more than the taxpayer's liability, the excess is not refunded but may be carried back to the three previous tax years or carried forward for seven years.

Requirements for an empowerment zone are found in 7-21-3701 through 3704, MCA, and conditions to become certified to receive the credit are in 7-21-3710, MCA.

There are several federal credits for employment in specified zones or under specified conditions.

This credit is equivalent to providing an employer a payment for creating a new position and filling it with a resident of an empowerment zone for the first three years. The payment does not depend on the wages paid. Employers may deduct wages paid to new employees for which the credit is taken as a business expense. Since the credit is a fixed amount per employee, it is not possible to calculate general state and federal tax changes per dollar of expenditure as is done for most credits.

Fewer than ten individuals have claimed the credit each year. The following table shows the total value of empowerment zone credits against individual income tax for tax year 2009 through 2017.

Empowerment Zone Credit									
	Residents		Nonresidents		Part-Year Residents		Total		
	N	\$	N	\$	N	\$	N	\$	
2009	0	\$0	0	\$0	0	\$0	0	\$0	\$0
2010	*	\$600	0	\$0	0	\$0	*	\$600	\$600
2011	*	\$475	0	\$0	0	\$0	*	\$475	\$475
2012	0	\$0	0	\$0	0	\$0	0	\$0	\$0
2013	0	\$0	0	\$0	0	\$0	0	\$0	\$0
2014	*	\$902	0	\$0	0	\$0	*	\$902	\$902
2015	0	\$0	0	\$0	0	\$0	0	\$0	\$0
2016	0	\$500	0	\$0	0	\$0	0	\$500	\$500
2017	0	\$0	0	\$0	0	\$0	0	\$0	\$0

\* Not disclosed due to confidentiality concerns

No credits were claimed for 2017.

**Energy Conservation Credit:** 15-32-109, MCA and 15-30-2319, MCA  
**Legislation:** HB 237, 1981 Session

A resident individual taxpayer may take a credit for 25 percent of the costs of energy-conserving investments in a building. The maximum credit is \$500 per taxpayer. If a taxpayer claims a credit that is more than his or her tax liability for the year, the excess is not refunded to the taxpayer and may not be carried forward or backward to another tax year.

The credit originally was 5 percent of the cost with a maximum of \$150 for a residence and \$300 for other buildings, and any excess credit could be carried forward for seven years. The 2001 Legislature (SB 506) increased the credit to 25 percent of costs with a limit of \$500. The 2003 Legislature eliminated the carry-forward (SB 138). In 2005, the Department of Revenue began interpreting the limit of \$500 per taxpayer as allowing taxpayers who own a building together, such as a married couple, to each claim a credit for 25 percent of the share of the cost with a limit of \$500 each.

## Tax Credits

Taxpayers may not take either an itemized deduction or a business expense deduction for investments in their own residence. However, an investment an individual makes in a commercial building he or she owns would result in a depreciable asset, so that the cost could be deducted over time.

For a taxpayer who does not itemize deductions on their federal return, the credit provides a 25 percent subsidy for expenditures up to \$2,000. For a taxpayer who itemizes, the subsidy is smaller, because the credit reduces the federal itemized deduction for state taxes. The table below shows state and federal subsidies to a taxpayer who itemizes on both the state and federal returns for a \$100 home energy conservation expenditure. Note that federal taxes are higher because of the smaller itemized deduction for state taxes.

\$100 Home Energy Conservation Expenditure		
Taxpayer Claims Credit, Expenses Not Deductible		
	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	(\$9.90)	(\$10.18)
State Tax Subsidy	\$25.00	\$25.70
Net Taxpayer Subsidy	\$15.10	\$15.52

The table below shows energy conservation credits from 2009 through 2017. The energy conservation credit is essentially a transfer from the state general fund to help a taxpayer purchase private property. In 2017, this credit cost the state general fund \$3,484,878. Taxpayers were unable to use \$547,237 of credits because the credit is non-refundable and cannot be carried forward. Without the credit, \$3,484,878 would have been available to spend on other state programs or taxes could have been reduced by this amount. The energy conservation credit cost an average of \$5.32 per full-year resident taxpayer.

Energy Conservation Credit									
	Residents		Nonresidents		Part-Year Residents		Total		
	N	\$	N	\$	N	\$	N	\$	
2009	21,260	\$9,998,955	0	\$0	197	\$104,401	21,457	\$10,103,356	
2010	21,156	\$10,233,928	0	\$0	233	\$123,863	21,389	\$10,357,791	
2011	12,481	\$5,588,577	0	\$0	123	\$63,923	12,604	\$5,652,500	
2012	9,464	\$4,510,918	0	\$0	96	\$51,064	9,560	\$4,561,982	
2013	9,063	\$4,536,016	0	\$0	125	\$68,832	9,188	\$4,604,848	
2014	8,499	\$4,360,886	0	\$0	116	\$71,689	8,615	\$4,432,575	
2015	7,919	\$4,176,132	0	\$0	92	\$53,482	8,011	\$4,229,614	
2016	7,784	\$4,138,900	0	\$0	115	\$62,014	7,899	\$4,200,914	
2017	7,266	\$3,970,515	0	\$0	110	\$61,600	7,376	\$4,032,115	

Use of the credit was higher in 2009 and 2010, when a 10 percent federal credit was available for many of the same expenditures that are eligible for this credit. Congress extended the credit, first through 2011 and then through 2012, but in both cases the extension was probably too late to have much of an effect on behavior.

**Geothermal Heating System Credit:** 15-32-115, MCA  
**Legislation:** SB 416, 1991 Session

Taxpayers are allowed a credit against individual income tax or corporation tax for up to \$1,500 of the costs of installing a geothermal heating system (ground-source heat pump) in the taxpayer's principal residence or in a residence the taxpayer constructs. If the credit exceeds the taxpayer's liability, the excess credit will not be refunded, but may be carried forward for up to seven years.

The credit initially was limited to \$250 with a three-year carry-forward and was only for taxpayers who installed a geothermal system in their own principal dwelling. The 2001 Legislature (SB 506) increased the credit to \$1,500 with a seven-year carry-forward. An amendment made by the 2003 Legislature (HB 233) was purely cleanup. The 2005 Legislature (SB 340) made the credit available for residences constructed

## Tax Credits

by the taxpayer so that contractors could take the credit for installing geothermal systems in spec houses.

Through 2016, geothermal heating systems also are eligible for a federal tax credit of 30 percent of the cost. A taxpayer who installs a geothermal heating system and claims both credits would have the first \$1,500 paid by the state and 30 percent of the total paid by the federal government. Homeowners are not allowed to deduct depreciation on their dwellings, and taxpayers may not take this credit and the deduction for energy conserving investments in 15-32-103, MCA. However, a taxpayer who claims the credit for installing a geothermal system in a rental dwelling could also deduct depreciation on the dwelling, including the heating system.

A taxpayer who claims the credit and itemizes deductions will have a smaller federal deduction for state taxes, which will partly offset the federal credit. This may result in a smaller state deduction for federal taxes. The following table shows the state and federal tax subsidies to a taxpayer in the top federal and state tax brackets who makes a \$5,000 investment in a geothermal heating system.

\$5,000 Expenditure for Geothermal Heating System		
Taxpayer Claims \$1,500 State Credit and 30% Federal Credit		
	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	\$906.00	\$931.45
State Tax Subsidy	\$1,500.00	\$1,435.73
Net Taxpayer Subsidy	\$2,406.00	\$2,367.18

The following table shows credit use in tax year 2009 through 2017.

Geothermal Energy System Credit									
	Residents		Nonresidents		Part-Year Residents		Total		
	N	\$	N	\$	N	\$	N	\$	\$
2009	226	\$525,153	0	\$0	*	\$9,000	*	\$534,153	
2010	231	\$453,992	0	\$0	*	\$78,094	*	\$532,086	
2011	187	\$318,928	0	\$0	*	\$8,347	*	\$327,275	
2012	224	\$344,548	0	\$0	*	\$14,752	*	\$359,300	
2013	185	\$313,920	0	\$0	*	\$6,257	*	\$320,177	
2014	156	\$238,535	0	\$0	*	\$12,000	*	\$250,535	
2015	146	\$284,611	0	\$0	*	\$6,284	*	\$290,895	
2016	146	\$195,186	0	\$0	11	\$16,000	157	\$211,186	
2017	91	\$171,381	0	\$0	*	\$7,500	*	\$178,881	

\* Not disclosed due to confidentiality concerns

This credit is equivalent to a transfer from the state general fund to taxpayers to pay part of the cost of residential heating systems. In 2017, this credit cost the state general fund \$135,223, with the remaining credits being able to be claimed in the following tax year. There were \$20,858 in credits carried forward from 2016 and claimed in 2017. Without the credit, \$135,223 would have been available to spend on other state programs or to reduce taxes. The credit cost \$0.21 per full-year resident taxpayer.

**Health Insurance for Uninsured Montanans Credit:** 15-30-2367, MCA and 15-31-132, MCA  
**Legislation:** HB 693, 1991 Session

An employer with 20 or fewer employees may claim a credit against either income or corporation tax for paying at least 50 percent of the premium for up to 10 employees' health insurance. The credit is the lower of \$25 per month multiplied by the percentage of the premium the employer pays, or 50 percent of the premium. The credit may be claimed for up to 36 months and then cannot be claimed again for 10 years.

There is no explicit dollar limit on the credit, but it may not be claimed for more than 10 employees. An employer claiming \$25 per month for ten employees would claim a credit of \$3,000. If a taxpayer's credit is more than his or her tax liability, the excess credit is not refunded and may not be carried forward or

## Tax Credits

backward to another tax year.

The only amendments to the credit since its enactment were style changes made by the 2001 code commissioner's bill (HB 25).

This credit provides a three-year subsidy to small employers who begin offering health insurance for their employees. A taxpayer who claims the credit may also deduct insurance premiums it pays as a business expense for both state and federal taxes. However, a taxpayer who itemizes deductions will have a smaller federal deduction for state taxes, partially offsetting the expense deduction.

The credit an employer receives depends on both the monthly insurance premium per employee and the percentage the employer pays. For insurance with monthly premiums of \$50 or more, the monthly subsidy per employee is \$25 multiplied by the percentage of premiums the employer pays. An employer paying 50 percent of premiums would receive a subsidy of \$12.50 per employee per month. An employer paying 75 percent of premiums would receive a subsidy of \$18.75, and an employer paying 100 percent would receive \$25.

For insurance with monthly premiums of less than \$50, the limit of 50 percent of premium costs may come into play. For example, an employer paying 50 percent of monthly premiums of \$40 would receive a subsidy of \$12.50, and an employer paying 75 percent of premiums would receive \$18.75, the same as with a \$50 premium. However, an employer paying 100 percent of \$40 monthly premiums would receive a subsidy of \$20.

This credit generally is not a percentage of the taxpayer's expenditure. This makes it impossible to show the taxpayer subsidy per \$100 of expenditure as is done for most other credits.

The following table shows credits for tax years 2009 through 2017.

Health Insurance for Uninsured Montanans									
	Residents		Nonresidents		Part-Year Residents		Total		
	N	\$	N	\$	N	\$	N	\$	
2009	318	\$294,402	*	\$1,559	*	\$6,139	*	\$302,100	
2010	293	\$276,066	*	\$5,345	*	\$2,921	*	\$284,332	
2011	223	\$192,670	*	\$2,987	*	\$1,133	*	\$196,790	
2012	162	\$171,365	*	\$269	0	\$0	*	\$171,634	
2013	152	\$165,558	*	\$1,148	0	\$0	*	\$166,706	
2014	101	\$121,701	*	\$11,119	0	\$0	*	\$132,820	
2015	67	\$64,671	*	\$7,564	0	\$0	*	\$72,235	
2016	45	\$39,526	*	\$1,273	0	\$0	*	\$40,799	
2017	52	\$51,629	*	\$1,341	0	\$0	*	\$52,970	

\* Not disclosed due to confidentiality concerns

The Health Insurance for Uninsured Montanans credit is equivalent to a partial subsidy from the state general fund for group health insurance purchased by small employers. In 2017, the credit cost the state general fund \$47,564 in individual income tax revenue. Taxpayers were unable to use more than \$5,000 of their credits because the credit is non-refundable and cannot be carried forward. Without the credit, \$47,564 would have been available for other programs or tax reductions. The cost of this credit was \$0.07 per full-year resident taxpayer.

**Historic Property Preservation Credit:** 15-30-2342, MCA and 15-31-151, MCA  
**Legislation:** HB 601, 1997 Session

Taxpayers may take a credit against either individual income tax or corporation income tax for costs of rehabilitating a certified historic building. The credit is 25 percent of the federal credit allowed by 26 U.S.C. 47(a)(2). The federal credit is 20 percent of the cost of rehabilitation. A certified historic building must either be in the National Register of Historic Buildings or be in a designated historic district and have been certified

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by the Department of the Interior as having historic significance to the district. Only commercial buildings that can be depreciated are eligible for the credit. No credits may be claimed for rehabilitating a private residence.

Through 2011, individuals were allowed a credit against income tax for 20 percent of the costs and loss of value from creating a conservation easement and protecting and preserving the property as required by the conservation easement.

There is no maximum for the rehabilitation credit. If the credit is more than the taxpayer's liability, the excess is not refunded but may be carried forward for seven years.

The rehabilitation credit was enacted by the 1997 Legislature (HB 601). The conservation easement credit was enacted by the 2001 Legislature (HB 619) and sunset at the end of 2011.

With the combination of state and federal credits, a taxpayer who rehabilitates a historic property can have 25 percent of the costs paid by the federal and state governments. Claiming the credits does not reduce depreciation the taxpayer may take over the life of the building. If the taxpayer itemizes, the state credit will reduce the taxpayer's federal deduction for state taxes and the federal credit may reduce the taxpayer's state deduction for federal taxes. The following table shows the net federal and state tax subsidies for a taxpayer in the top state and federal rate brackets.

\$1,000 Expenditure for Historic Building Rehabilitation		
Taxpayer Claims State and Federal Credits		
	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	\$180.20	\$185.26
State Tax Subsidy	\$50.00	\$37.22
Net Taxpayer Subsidy	\$230.20	\$222.48

The following table shows credits taken against individual income tax for tax year 2009 through 2017.

Historic Property Preservation Credit									
	Residents		Nonresidents		Part-Year Residents		Total		
	N	\$	N	\$	N	\$	N	\$	
2009	19	\$134,543	*	\$53,684	0	\$0	*	*	\$188,227
2010	20	\$495,691	*	\$44,158	0	\$0	*	*	\$539,849
2011	21	\$105,214	*	\$29,549	0	\$0	*	*	\$134,763
2012	21	\$199,776	*	\$32,291	0	\$0	*	*	\$232,067
2013	32	\$492,477	13	\$63,320	0	\$0	45	*	\$555,797
2014	21	\$443,810	11	\$53,875	0	\$0	32	*	\$497,685
2015	16	\$363,789	46	\$241,925	0	\$0	62	*	\$605,714
2016	19	\$301,456	33	\$416,873	*	\$50,000	*	*	\$768,329
2017	13	\$186,753	30	\$373,205	0	\$0	43	*	\$559,958

\* Not disclosed due to confidentiality concerns

This credit effectively is a subsidy from the state general fund for rehabilitation of privately owned real estate. In 2017, credits against the individual income tax cost the state general fund \$29,281, and credits of \$530,677 were carried forward to be used in future years. There were \$332,915 in credits claimed for 2017 that had been carried forward from 2016. Without the credit, \$29,281 would have been available to spend on other programs or to reduce taxes. The cost was \$0.04 per full-year resident taxpayer.

## Tax Credits

### Infrastructure Users Fee Credit: 17-6-316, MCA Legislation: SB 100 and HB 602, 1995 Session

The Board of Investments may make loans to local governments to finance infrastructure to serve a new or relocated business that will result in 15 or more new full-time jobs. The local government may charge fees to the users for extending the infrastructure. The business may claim a credit against income or corporation tax for the amount of the fee it pays.

If the credit is more than the taxpayer's liability, the excess is not refunded, but may be carried forward for seven years or carried back to the three previous tax years.

The credit has not been amended since it was enacted.

This credit in effect pays the taxpayer for having local infrastructure extended to serve its business. For example, if a business pays \$100 per year to its local government to cover the cost of having sewer service extended to the business, it is able to claim a credit of \$100 and deduct \$100 as a business expense. For a taxpayer in the 6.9 percent tax bracket, the net effect would be the same as being paid \$6.90 per year to have a new sewer hookup. However, if the taxpayer is an individual who itemizes deductions, the taxpayer's federal deduction for state taxes will be smaller, resulting in higher federal taxes. This may result in a smaller state deduction for federal taxes. The table below shows the net change in federal and state taxes and the net subsidy from claiming a \$100 credit for a taxpayer in the top federal and state tax rate brackets.

\$100 Expenditure on Infrastructure Fees		
Difference in Taxes and Taxpayer Cost When Taxpayer Claims Credit and Federal and State Expense Deductions		
	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	(\$39.60)	(\$40.71)
State Tax Subsidy	\$100.00	\$102.81
Net Taxpayer Subsidy	\$60.40	\$62.10

The following table shows credits against individual income tax for tax year 2009 through 2017.

Infrastructure User Fee Credit										
	Residents		Nonresidents		Part-Year Residents		Total			
	N	\$	N	\$	N	\$	N	\$		
2009	12	\$27,699	0	\$0	0	\$0	12	\$27,699		
2010	13	\$45,258	*	\$3,820	0	\$0	*	\$49,078		
2011	12	\$24,414	*	\$2,487	*	\$4,711	*	\$31,612		
2012	*	\$20,990	*	\$11,023	0	\$0	*	\$32,013		
2013	*	\$21,203	*	\$17,211	0	\$0	*	\$38,414		
2014	10	\$27,269	*	\$9,327	0	\$0	*	\$36,596		
2015	13	\$2,832,145	*	\$10,755	0	\$0	*	\$2,842,900		
2016	14	\$646,145	*	\$11,587	0	\$0	*	\$657,732		
2017	21	\$3,341,669	*	\$11,011	0	\$0	*	\$3,352,680		

\* Not disclosed due to confidentiality concerns

In general, local governments recover the cost of infrastructure investments through user fees for the services the infrastructure provides, as with water and sewer services, or through taxes, as with roads. In some cases, local governments charge impact fees to cover the cost of extending infrastructure to new developments. Through this credit, the state general fund pays the cost of extending infrastructure to selected new businesses. This credit provides a subsidy for businesses that locate in a jurisdiction that needs to invest in additional infrastructure to provide services to the business rather than in a jurisdiction that has existing capacity.



## Tax Credits

In 2017, infrastructure user fee credits against individual income tax cost the state general fund \$1,457,532, and nearly \$1,900,000 in credits were carried forward to be used in future years. There were nearly \$400,000 in credits claimed for 2017 that had been carried forward from previous years. Without the credit, \$1,457,532 would have been available to spend on other state programs or to reduce taxes. The cost was \$2.22 per full year resident taxpayer.

**Innovative Educational Program Credit:** 15-30-3110, MCA  
**Legislation:** SB 410, 2015 Session

Taxpayers are allowed a credit against any preapproved donation to the state's educational improvement account. The credit is limited to \$150 per taxpayer, with a limit of \$300 for taxpayers who file a joint return. The credit is proportional to the size of the donation made by the taxpayer up to the credit limit. The credit is non-refundable and can be claimed by individuals, corporations, partnerships, small businesses, estates and trusts.

The credit was first available in Tax Year 2016. The total amount of credits that can be claimed each tax year is capped, with a limit of \$3 million in total credits for Tax Year 2017.

This credit in effect pays the taxpayer for donating to the state's education improvement account. For example, if an individual donates \$100 to the improvement account, they will be able to claim a credit of \$100. However, if the taxpayer is an individual who itemizes their deductions, the taxpayer's federal deduction for state taxes will be smaller, resulting in higher federal taxes. This may result in a smaller state deduction for federal taxes. The table below shows the net change in federal and state taxes and the net subsidy from claiming a \$100 credit for a taxpayer in the top federal and state tax rate brackets who itemizes their deductions.

\$100 Contribution to Innovative Educational Program		
Taxpayer Claims Credit, Expenses Not Deductible		
	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	(\$9.90)	(\$10.18)
State Tax Subsidy	\$25.00	\$25.70
Net Taxpayer Subsidy	\$15.10	\$15.52

The following table shows the credits claimed on individual income tax returns for tax years 2016 and 2017.

Innovative Educational Program Credit								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2016	35	\$7,601	0	\$0	*	\$100	*	\$7,701
2017	39	\$8,420	0	\$0	*	\$540	*	\$8,960

\* Not disclosed due to confidentiality concerns

**Mineral Exploration Credit:** 15-32-501 to 15-32-510, MCA  
**Legislation:** SB 265, 1999 Session

Taxpayers are allowed a credit against individual or corporation income tax for the full amount of solid mineral or coal exploration expenditures in the state (oil and gas exploration expenditures are not eligible). The credit is available only for expenses incurred up to the time that construction commences on a new mine or the reopening of a previously closed mine. The maximum credit is \$20 million per mine. The credit taken in any year may not be more than 50 percent of the taxpayer's tax liability, but unused credits may be carried forward for 15 years.

An individual may claim the credit directly for exploration expenses incurred by a sole-proprietor business or may claim a share of the credit for exploration expenses incurred by a pass-through entity. The credit was enacted by the 1999 Legislature and has not been amended.

## Tax Credits

This credit repays up to \$20 million of exploration costs incurred in opening a new mine. Depending on the type of mineral and the accounting treatment chosen, exploration expenditures may be deducted in the year they occur, may be treated as capital costs and deducted over several years, or may be counted as contributing to the value of the mineral deposit, which is deducted over time through depletion. A taxpayer may deduct exploration costs in the appropriate way whether or not they claim the credit.

An individual who claims the credit and itemizes deductions will have a smaller federal deduction for state taxes and therefore pay more in federal tax. This may result in a larger state deduction for federal taxes. The following table shows the net change in state and federal taxes from claiming the credit for \$100 of exploration expenses for a taxpayer in the top state and federal rate brackets.

\$100 Mineral Exploration Expenditures		
Difference in Taxes and Taxpayer Cost When Taxpayer Claims Credit as Well as Federal and State Expense Deductions		
	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	(\$39.60)	(\$40.71)
State Tax Subsidy	\$100.00	\$102.81
Net Taxpayer Subsidy	\$60.40	\$62.10

Fewer than 10 individuals claimed the credit in each of tax years 2005 through 2009, 2011 through 2015 and 2016 through 2017. The following table shows the total value of mineral exploration credits against individual income tax for tax year 2009 through 2017.

Mineral Exploration Credit										
	Residents		Nonresidents		Part-Year Residents		Total			
	N	\$	N	\$	N	\$	N	\$		
2009	*	\$7,749	0	\$0	0	\$0	0	\$0	*	\$7,749
2010	10	\$26,895	*	\$5,332,180	0	\$0	*	\$5,359,075		
2011	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0
2012	0	\$0	*	\$5,331,680	0	\$0	*	\$5,331,680		
2013	*	\$684	0	\$0	0	\$0	*	\$684		
2014	*	\$533	0	\$0	0	\$0	*	\$533		
2015	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0
2016	*	\$465	0	\$0	0	\$0	0	\$0	0	\$465
2017	*	\$2,020	0	\$0	0	\$0	*	\$2,020		

\* Not disclosed due to confidentiality concerns

With this credit, the state general fund will pay up to \$20 million of private exploration costs for a new mine. Fewer than 10 taxpayers claimed the credit in 2017.

### Montana Earned Income Tax Credit: 15-30-2318, MCA Legislation: HB 391, 2017 Session

Individual taxpayers with income from working or owning a business can claim the federal Earned Income Tax Credit if they meet the necessary requirements and file a federal tax return. The credit is determined by the amount of income the taxpayer reports as well as the number of qualified dependents reported by the taxpayer. With zero qualifying children, a taxpayer could receive a tax credit of up to \$510 in Tax Year 2017 depending on their income. The maximum credit amounts in Tax Year 2017 increase to \$3,400 for taxpayers with one qualified child, \$5,616 for two children and \$6,318 for three or more qualified children. The credit is fully refundable.

Taxpayers in Montana are allowed a credit equal to 3 percent of the federal Earned Income Tax Credit on their state income taxes. The credit was enacted by the 2017 Legislature and is also refundable. No credits have been claimed at this point, as the credit applies to tax years after December 31, 2018.

## Tax Credits

### Oilseed Crushing and Biodiesel Production Facility Credit: 15-32-701 and 702, MCA Legislation: HB 756, 2005 Session

Taxpayers are allowed a credit against individual income tax or corporation tax for 15 percent of the cost of investment in depreciable property placed in service in Montana by the end of 2014 that is used primarily for crushing oilseeds for producing biodiesel or lubricants or for their production. The total of credits claimed over time for a single facility in all years may not exceed \$500,000.

If the credit a taxpayer claims in any year exceeds their tax liability, the excess credit will not be refunded, but may be carried forward for up to seven years as long as the facility continues to be used to crush oilseeds for biodiesel or lubricants or for their production. If the facility ceases production for 12 months within 5 years after the credit is first claimed, the entire credit must be recaptured.

An individual may claim the credit directly as the owner of a sole-proprietor business or may claim a share of the credit claimed by a pass-through entity. The credit does not reduce depreciation that the taxpayer can claim over the life of the property.

The credit was enacted as a non-refundable credit with no carry-forward and available for investments through 2010. The 2007 Legislature (HB 166) extended the credit through 2014, expanded the credit to include bio-lubricant facilities, allowed the credit to be carried forward, specified that the credit is for costs incurred while the facility is operating or in the two years before, and allowed the credit for facilities that are primarily crushing oilseeds for fuel or lubricants.

This credit reduces the taxpayer's cost of investments of up to \$3.3 million in a facility to produce fuel or lubricants from oilseeds by 15 percent. The taxpayer may deduct depreciation on property for which the credit is claimed with no reduction in basis. An individual taxpayer who claims the credit and itemizes deductions will have a smaller federal deduction for state taxes, which will increase their federal income tax, and may have a larger state deduction for federal income taxes. The following table shows the total state tax subsidy and the federal tax cost for the first \$100 invested in a biodiesel facility by a taxpayer in the top federal and state tax brackets.

\$100 Biodiesel Production Equipment Expenditure		
Taxpayer Claims Credit, No Change to Depreciation Deduction		
	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	(\$5.94)	(\$6.11)
State Tax Subsidy	\$15.00	\$15.42
Net Taxpayer Subsidy	\$9.06	\$9.31

Ten or fewer individuals have claimed the credit each year. The following table shows the total value of credits claimed by individuals for 2009 through 2015. No credits were claimed for 2009, 2010, 2012, 2014, 2015, 2016 and 2017.

Oilseed Crushing/Biodiesel Facility Credit										
	Residents		Nonresidents		Part-Year Residents				Total	
	N	\$	N	\$	N	\$	N	\$	N	\$
2009	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0
2010	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0
2011	*	\$8,536	*	\$1	0	\$0	*	\$0	*	\$8,537
2012	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0
2013	*	\$1	0	\$0	0	\$0	*	\$0	*	\$1
2014	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0
2015	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0
2016	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0
2017	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0

\* Not disclosed due to confidentiality concerns

### **Qualified Endowment Credit:** 15-30-2327, MCA through 15-30-2329, MCA **Legislation** HB 434, 1997 Session

Individual taxpayers are allowed a credit of 40 percent of the present value of a planned gift to a qualified endowment. A qualified endowment is a permanent fund held by or on behalf of a 501(c)(3) charitable organization. A planned gift is one of nine types of arrangements specified in the IRS code. Planned gifts basically fall into three categories. In the first, the donor continues to receive income or benefits from the donated assets, either for a fixed term or for life, and the endowment receives the assets at the end of the term or when the donor dies. Examples include charitable remainder trusts and life estate arrangements. In the second category, the endowment receives income from the assets, generally for a fixed term, and then the assets revert to the donor or the donor's heirs. Charitable lead trusts fall into this category. The third category of planned gifts is paid-up life insurance.

Corporations are allowed a credit of 20 percent of a gift to a qualified endowment. Because the concept of planned gifts only makes sense for individuals, corporations are allowed the credit for an outright gift.

The credit is limited to a maximum of \$10,000. A taxpayer with a credit that is larger than his or her tax liability will not be refunded the excess, and excess credits may not be carried forward or backward to another tax year. A taxpayer may claim the credit for multiple gifts in one year as long as total credits do not exceed \$10,000. A taxpayer who makes eligible contributions in multiple years may take the credit each year. An individual will receive the maximum credit for a gift with a present value of \$25,000. A corporation will receive the maximum credit for a gift of \$50,000.

The credit originally was 50 percent of the present value of the planned gift with a limit of \$10,000. The credit was to sunset at the end of 2001. The 2001 Legislature (HB 377) reduced the credit to 40 percent of the present value of the planned gift for individuals and 20 percent of the value of the gift for corporations. It also clarified the definition of planned gift and extended the sunset date to the end of 2007. The 2001 Legislature (SB 350) also created an affordable housing revolving loan program and made contributions to the account for this program eligible for the credit. This provision sunset at the end of 2004, and the Legislature did not extend it. In August 2002, the Montana Legislature met in a special session to deal with revenue shortfalls.

To reduce the costs of the credit in the short run, the Legislature (SB 15) reduced the credit for the period from August 28, 2002, through June 30, 2003, to 30 percent for individuals and 13.3 percent for corporations, with a cap of \$6,600. The same bill increased the credit for the period from July 1, 2003, to April 30, 2004, to 50 percent for individuals and 26.7 percent for corporations, with a cap of \$13,400. The credit returned to its previous levels May 1, 2004. The 2003 Legislature (SB 143) defined the term "charitable gift annuity" in Montana Code Annotated Title 33, which deals with insurance, and made the credit language refer to that definition. The 2005 Legislature (HB 193) provided for recapture of the tax credit when a gift is returned to the taxpayer. The 2007 Legislature (SB 150) clarified that a building fund or other fund that spends from contributions rather than just from its earnings is not a charitable endowment. SB 150 also extended the sunset date to the end of 2013. The 2013 Legislature (SB 108) extended the sunset date to the end of 2019.

The arrangements that can be used for planned gifts are defined in the IRS code, but there is no specific federal tax treatment of planned gifts other than the general deduction for contributions. A taxpayer may not claim the credit for a gift and take a state itemized deduction for the same gift. If the present value of the contribution exceeds the limit, the deduction may be taken on the excess. The taxpayer may take a federal itemized deduction for the full amount of the gift.

This credit is essentially a transfer from the state general fund to Montana charitable endowment funds. The table on the next page shows the portions of a \$100 contribution to an eligible endowment fund that are ultimately paid by a donor, and by federal and state taxpayers, when the donor claims state and federal itemized deductions for the donation, when the donor claims the state credit and the federal deduction,

## Tax Credits

and the difference due to the credit. The table assumes that the donor is in the top federal and state rate brackets.

\$100 Contribution to Charitable Endowment Fund		
<b>Taxpayer Claims Credit and Federal Itemized Deduction</b>		
	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	\$23.76	\$24.43
State Tax Subsidy	\$40.00	\$38.31
Net Taxpayer Subsidy	\$63.76	\$62.74
<b>Taxpayer Claims Federal and State Itemized Deductions</b>		
	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	\$36.87	\$37.90
State Tax Subsidy	\$6.90	\$4.28
Net Taxpayer Subsidy	\$43.77	\$42.19
<b>Difference Due to Credit</b>		
	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	(\$13.11)	(\$13.48)
State Tax Subsidy	\$33.10	\$34.03
Net Taxpayer Subsidy	\$19.99	\$20.55

A taxpayer who takes state and federal itemized deductions for a charitable contribution receives a subsidy from other taxpayers of a little more than 40 percent of the donation, with most of that subsidy coming from federal taxes. A taxpayer who claims the state credit and a federal itemized deduction receives a subsidy of a little more than 60 percent, with about two-thirds of the subsidy coming from state taxes.

The table below shows qualified endowment credits claimed by individuals for tax years 2009 through 2017.

Qualified Endowment Contribution Credit								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	508	\$1,746,260	25	\$62,183	0	\$0	533	\$1,808,443
2010	536	\$1,737,766	14	\$59,121	*	\$30,294	*	\$1,827,181
2011	501	\$1,755,033	10	\$24,621	*	\$5,063	*	\$1,784,717
2012	578	\$2,049,386	10	\$23,368	0	\$0	588	\$2,072,754
2013	587	\$2,073,344	*	\$25,526	*	\$25,509	*	\$2,124,379
2014	613	\$2,471,140	10	\$30,592	*	\$9,279	*	\$2,511,011
2015	616	\$2,461,321	*	\$24,060	*	\$9,545	*	\$2,494,926
2016	641	\$2,708,754	*	\$32,071	*	\$2,046	*	\$2,742,871
2017	728	\$3,157,163	15	\$58,607	*	\$10,020	*	\$3,225,790

\* Not disclosed due to confidentiality concerns

In 2017, credits claimed by individual taxpayers cost the state general fund \$2,981,018. Taxpayers were unable to use the remaining credits because the credit is non-refundable and cannot be carried forward. Without the credit, \$2,981,018 would have been available to spend on other programs or taxes could have been reduced by this amount. Qualified endowment credits claimed against individual income tax cost other taxpayers an average of \$4.55 per full-year resident taxpayer.

**Recycling Credit:** 15-32-601, MCA through 15-32-614, MCA  
**Legislation:** SB 111, 1991 Session.

Taxpayers are allowed a credit against individual income tax or corporate license tax for part of the cost of investments in depreciable property used in collecting or processing reclaimable material or in manufacturing a product from reclaimed material. The credit is 25 percent of the first \$250,000 invested, 15 percent of the next \$250,000 invested, and 5 percent of the next \$500,000 invested. The credit for an investment of \$1 million or more is \$125,000.

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If a taxpayer claims a credit in excess of his or her tax liability, the excess credit is not refunded and may not be carried forward or backward to another tax year. An individual may claim the credit directly for an investment made by a sole-proprietor business or may claim a share of the credit for an investment made by a pass-through entity.

The credit was enacted as a credit equal to 25 percent of investments made between 1990 and 1995. The 1993 Legislature (HB 519) clarified the definitions used to determine eligible investments. The 1995 Legislature (SB 358) extended the sunset date to 2001 and expanded eligible investments to include equipment to reclaim contaminated soils. The 2001 Legislature (SB 92) extended the sunset date to 2005 and removed equipment to reclaim contaminated soils from eligible investments. The 2005 Legislature (SB 213) extended the sunset date to 2011. The 2009 Legislature (HB 21) made the credit permanent.

The basis of property for which the credit is claimed is not affected by the credit. Taxpayers are allowed to deduct depreciation on property on which the credit has been claimed.

The credit provides a subsidy to taxpayers who make investments in recycling plant and equipment by reducing the taxpayer's cost. For investments under \$250,000, the cost is reduced by 25 percent. For more expensive investments, the percentage reduction is a declining function of the cost.

If a taxpayer who claims this credit itemizes deductions on their federal and state tax returns, the credit will reduce the federal deduction for state taxes, increasing the taxpayer's federal income tax. If the taxpayer's federal taxes are less than the cap on the state deduction for federal taxes, this will increase that deduction, reducing state taxes. The following table shows the net state tax subsidy and federal tax cost for the first \$100 of expenditure on recycling equipment by a taxpayer in the top federal and state rate brackets.

<b>\$100 Recycling Equipment Expenditure</b>		
<b>Taxpayer Claims Credit, No Change to Depreciation Deduction</b>		
	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	(\$9.90)	(\$10.18)
State Tax Subsidy	\$25.00	\$25.70
Net Taxpayer Subsidy	\$15.10	\$15.52

The following table shows use of the recycling credit by individuals for tax years 2009 through 2017. This credit is equivalent to a subsidy from the state general fund for the purchase of private property to be used in recycling. In 2017, the credit against individual income tax cost the state general fund \$283,047. Taxpayers were unable to use the remaining credits because the credit is non-refundable and cannot be carried forward. Without the credit, \$283,047 would have been available to spend on other state programs or to reduce taxes. The cost to other taxpayers was \$0.43 per full-year resident taxpayer.

<b>Recycling Credit</b>									
	Residents		Nonresidents		Part-Year Residents		Total		
	N	\$	N	\$	N	\$	N	\$	
2009	76	\$439,254	*	\$24,077	*	\$50	*	\$463,381	
2010	103	\$492,609	*	\$20,425	*	\$1,594	*	\$514,628	
2011	87	\$538,163	*	\$45,110	*	\$600	*	\$583,873	
2012	85	\$368,940	*	\$9,606	*	\$400	*	\$378,946	
2013	82	\$289,907	*	\$216	*	\$763	*	\$290,886	
2014	97	\$548,118	*	\$14,872	*	\$285	*	\$563,275	
2015	71	\$279,657	*	\$1,762	*	\$500	*	\$281,919	
2016	101	\$329,343	*	\$4,448	*	\$30	*	\$333,821	
2017	106	\$473,540	*	\$27,029	*	\$110	*	\$500,679	

\* Not disclosed due to confidentiality concerns

## Tax Credits

**Research Credit (Expired):** 15-31-150, MCA and 15-30-2358, MCA  
**Legislation:** HB 638, 1999 Session

Through 2010, Montana provided a 5 percent credit against individual income tax or corporation income tax for any increase in Montana research expenditures over the taxpayer's baseline. After 2010, no new credits may be claimed, but unused credits may be carried forward for up to 15 years.

The credit was tied to provisions of the federal research credit in Section 41 of the IRS code, which expired at the end of 2011.

The following table shows credits against individual income tax for tax year 2009 through 2017.

	Research Activities Credit							
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2009	15	\$345,813	*	\$2,113	*	\$8	*	\$347,934
2010	16	\$149,977	*	\$7,913	0	\$0	*	\$157,890
2011	*	\$149,633	*	\$6,210	0	\$0	*	\$155,843
2012	*	\$125,170	*	\$5,253	0	\$0	*	\$130,423
2013	*	\$73,983	*	\$5,240	0	\$0	*	\$79,223
2014	*	\$72,474	*	\$5,240	0	\$0	*	\$77,714
2015	*	\$72,462	*	\$5,235	0	\$0	*	\$77,697
2016	*	\$795	*	\$4,907	0	\$0	*	\$5,702
2017	*	\$4,591	*	\$3,979	0	\$0	*	\$8,570

\* Not disclosed due to confidentiality concerns

The credit is essentially a transfer from the state general fund to pay 5 percent of a taxpayer's eligible research costs. The number of taxpayers claiming the research credit was less than 10 for tax years 2011 through 2017 and could not be released.

**Student Scholarship Organization Credit:** 15-30-2380, MCA  
**Legislation:** SB 410, 2015 Session

Taxpayers are allowed a credit against any preapproved charitable donation to a registered Student Scholarship Organization in the state. The credit is limited to \$150 per taxpayer, with a limit of \$300 for taxpayers who file a joint return. The credit is proportional to the size of the donation made by the taxpayer up to the credit limit. The credit is non-refundable and can be claimed by individuals, corporations, partnerships, small businesses, estates and trusts.

The credit was first available in Tax Year 2016. The total amount of credits that can be claimed each tax year is capped, with a limit of \$3 million in total credits for Tax Year 2017.

This credit in effect pays the taxpayer for donating to a student scholarship organization. For example, if an individual donates \$100 to an organization, they will be able to claim a credit of \$100. However, if the taxpayer is an individual who itemizes their deductions, the taxpayer's federal deduction for state taxes will be smaller, resulting in higher federal taxes. This may result in a smaller state deduction for federal taxes. The table on the next page shows the net change in federal and state taxes and the net subsidy from claiming a \$100 credit for a taxpayer in the top federal and state tax rate brackets who itemizes their deductions.

The table on the next page shows the credits claimed on individual income tax returns for tax years 2016 and 2017.

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\$100 Contribution to Student Scholarship Organization		
Taxpayer Claims Credit		
	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	(\$39.60)	(\$40.71)
State Tax Subsidy	\$100.00	\$102.81
Net Taxpayer Subsidy	\$60.40	\$62.10

Student Scholarship Organization Credit								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2016	130	\$30,474	*	\$5	*	\$1,350	*	\$31,829
2017	123	\$27,732	0	\$0	*	\$150	*	\$27,882

\* Not disclosed due to confidentiality concerns

### Unlocking State Lands Credit: 15-30-2380, MCA Legislation: HB 444, 2013 Session

A taxpayer is allowed a credit of \$750 for allowing recreational access across the taxpayer's property to an isolated parcel of state land or federal land managed by the Forest Service or the Bureau of Land Management. Access must be granted by a contract between the landowner and the Department of Fish, Wildlife, and Parks. A taxpayer granting access across multiple parcels is limited to a maximum of \$3,000 in credits. If a property has multiple owners, they are to share a single credit for granting access. If the credit is more than the taxpayer's tax liability, the excess is to be refunded.

This credit was enacted by the 2013 Legislature, and was first available for 2014. SB 309, enacted by the 2015 Legislature, increased the maximum credit per taxpayer from \$2,000 to \$3,000 and expanded coverage to providing access to federal land. The credit sunsets at the end of 2020.

This credit is equivalent to an annual lease payment of \$750 for an easement across private land.

The following table shows credits claimed for 2014 through 2017. For each tax year, the number of taxpayers claiming the credit was less than 10 and could not be released.

Unlocking State Lands Credit								
	Residents		Nonresidents		Part-Year Residents		Total	
	N	\$	N	\$	N	\$	N	\$
2014	*	\$1,086	0	\$0	0	\$0	*	\$1,086
2015	*	\$1,086	*	\$153	0	\$0	*	\$1,239
2016	*	\$1,973	0	\$0	0	\$0	*	\$1,973
2017	*	\$1,973	0	\$0	0	\$0	*	\$1,973

\* Not disclosed due to confidentiality concerns



# PIT - Tax Expenditures Summary

## Tax Expenditures by Income

The tables below show the distribution of income tax expenditures between income groups and between residents and non-residents. The left half of the table shows the number of residents in thirteen income groups and the number of non-residents and part-year residents. The first group contains all taxpayers with incomes less than zero. The next nine categories contain the remaining taxpayers and groups them into income deciles. The final three categories contain the final decile broken down into three equal groups based on their income. It also shows total income, the percent of total income, total tax, and the percent of total tax for each group. The right half of the table shows total tax expenditures and the percent of the total going to each group for four categories of tax expenditures and for the total.

Income Tax Expenditures by Household Income Tax Year 2016 (\$ million)																
Residents	Returns	Taxpayers	Total Household Income*		Tax		Passive Federal		State Adjustments		Itemized		Credits		Total	
			\$ million	% of Total	\$ million	% of Total	Adjustments to Income	% of Total	to Income	% of Total	Deductions	% of Total	% of Total	% of Total		
Income range																
Less than \$0	5,778	8,291	-\$303.6	-1.0%	\$0.0	0.0%	\$0.0	0.0%	\$0.0	0.0%	\$0.0	0.0%	\$1.8	1.7%	\$1.8	0.4%
\$0 to \$6,732	45,560	49,716	\$156.0	0.5%	\$0.1	0.0%	\$0.0	0.0%	\$0.0	0.0%	\$0.0	0.0%	\$3.0	3.0%	\$3.0	0.8%
\$6,733 to \$13,279	45,561	51,084	\$455.3	1.6%	\$2.1	0.2%	\$0.0	0.2%	\$0.3	0.6%	\$0.1	0.0%	\$1.9	1.9%	\$2.3	0.6%
\$13,280 to \$20,190	45,561	53,002	\$760.2	2.6%	\$7.2	0.7%	\$0.1	0.2%	\$1.1	2.3%	\$0.6	0.3%	\$1.4	1.4%	\$3.2	0.8%
\$20,191 to \$27,611	45,560	54,560	\$1,085.2	3.7%	\$17.0	1.5%	\$0.2	0.9%	\$2.5	5.5%	\$2.0	0.9%	\$1.0	1.0%	\$5.7	1.4%
\$27,612 to \$36,458	45,561	57,305	\$1,451.6	5.0%	\$31.6	2.9%	\$0.5	2.2%	\$4.0	8.9%	\$5.8	2.6%	\$1.1	1.1%	\$11.5	2.9%
\$36,459 to \$48,398	45,561	61,789	\$1,919.8	6.6%	\$51.6	4.7%	\$0.9	4.0%	\$4.8	10.5%	\$13.7	6.1%	\$1.5	1.5%	\$20.9	5.3%
\$48,399 to \$64,070	45,560	68,275	\$2,546.3	8.8%	\$77.8	7.1%	\$1.5	6.6%	\$6.2	13.6%	\$23.0	10.2%	\$2.3	2.3%	\$33.0	8.4%
\$64,071 to \$85,153	45,561	76,940	\$3,374.2	11.7%	\$113.0	10.3%	\$2.2	9.5%	\$7.6	16.7%	\$35.8	15.8%	\$3.6	3.5%	\$49.1	12.4%
\$85,154 to \$119,199	45,561	83,439	\$4,566.9	15.8%	\$172.5	15.7%	\$3.4	14.7%	\$8.1	17.9%	\$50.8	22.4%	\$6.0	5.9%	\$68.3	17.3%
\$119,200 to \$141,691	15,187	28,648	\$1,963.1	6.8%	\$81.8	7.4%	\$1.7	7.6%	\$2.9	6.3%	\$20.4	9.0%	\$3.3	3.3%	\$28.3	7.2%
\$141,692 to \$196,567	15,187	28,503	\$2,486.5	8.6%	\$112.1	10.2%	\$2.5	11.1%	\$3.0	6.5%	\$23.3	10.3%	\$6.3	6.3%	\$35.2	8.9%
Over \$196,567	15,187	28,314	\$6,751.1	23.3%	\$355.6	32.3%	\$8.7	38.4%	\$2.7	5.9%	\$42.3	18.7%	\$53.3	52.9%	\$107.0	27.1%
<b>Resident Total</b>	<b>461,385</b>	<b>649,866</b>	<b>\$27,212.8</b>	<b>94.0%</b>	<b>\$1,022.5</b>	<b>92.8%</b>	<b>\$21.7</b>	<b>95.4%</b>	<b>\$43.0</b>	<b>94.8%</b>	<b>\$218.0</b>	<b>96.2%</b>	<b>\$86.5</b>	<b>85.8%</b>	<b>\$369.1</b>	<b>93.4%</b>
Nonresidents	77,879	77,879	\$1,035.4	3.6%	\$51.6	4.7%	\$0.8	3.4%	\$1.4	3.2%	\$5.1	2.3%	\$10.2	10.1%	\$17.5	4.4%
Part-Year Residents	34,719	34,719	\$709.0	2.4%	\$27.8	2.5%	\$0.3	1.3%	\$0.9	2.0%	\$3.4	1.5%	\$4.1	4.0%	\$8.7	2.2%
<b>Total</b>	<b>573,983</b>	<b>762,464</b>	<b>\$28,957.1</b>	<b>100.0%</b>	<b>\$1,101.8</b>	<b>100.0%</b>	<b>\$22.7</b>	<b>100.0%</b>	<b>\$45.4</b>	<b>100.0%</b>	<b>\$226.5</b>	<b>100.0%</b>	<b>\$100.8</b>	<b>100.0%</b>	<b>\$395.4</b>	<b>100.0%</b>

\*Montana Source Income for Nonresidents and Part-Year Residents

Income Tax Expenditures by Household Income Tax Year 2017 (\$ million)																
Residents	Returns	Taxpayers	Total Household Income*		Tax		Passive Federal		State Adjustments		Itemized		Credits		Total	
			\$ million	% of Total	\$ million	% of Total	Adjustments to Income	% of Total	to Income	% of Total	Deductions	% of Total	% of Total	% of Total		
Income range																
Less than \$0	5,356	7,726	-\$273.0	-0.9%	\$0.0	0.0%	\$0.0	0.0%	\$0.0	0.0%	\$0.0	0.0%	\$2.0	1.6%	\$2.0	0.5%
\$0 to \$7,044	46,102	50,271	\$166.1	0.5%	\$0.1	0.0%	\$0.0	0.0%	\$0.0	0.0%	\$0.0	0.0%	\$3.1	2.6%	\$3.2	0.7%
\$7,045 to \$13,877	46,105	51,649	\$482.5	1.6%	\$2.4	0.2%	\$0.0	0.1%	\$0.3	0.7%	\$0.1	0.1%	\$2.2	1.8%	\$2.7	0.6%
\$13,878 to \$21,064	46,103	53,532	\$803.9	2.6%	\$8.1	0.7%	\$0.0	0.2%	\$1.2	2.5%	\$0.7	0.3%	\$1.6	1.3%	\$3.5	0.8%
\$21,065 to \$28,713	46,104	55,062	\$1,144.3	3.7%	\$18.9	1.6%	\$0.2	0.8%	\$2.7	5.6%	\$2.2	0.9%	\$1.2	1.0%	\$6.2	1.5%
\$28,714 to \$37,962	46,105	57,627	\$1,528.0	5.0%	\$34.8	3.0%	\$0.5	2.1%	\$4.3	8.8%	\$6.4	2.8%	\$1.4	1.1%	\$12.6	3.0%
\$37,963 to \$50,454	46,103	62,295	\$2,025.0	6.6%	\$56.3	4.8%	\$0.9	3.9%	\$5.1	10.5%	\$14.3	6.2%	\$1.7	1.4%	\$22.0	5.2%
\$50,455 to \$66,613	46,104	69,071	\$2,681.1	8.7%	\$83.8	7.1%	\$1.6	6.6%	\$6.5	13.4%	\$24.2	10.4%	\$2.6	2.1%	\$34.9	8.2%
\$66,614 to \$88,566	46,103	77,972	\$3,551.8	11.6%	\$121.2	10.3%	\$2.3	9.8%	\$7.8	16.1%	\$37.0	16.0%	\$4.3	3.5%	\$51.4	12.1%
\$88,567 to \$123,839	46,105	84,260	\$4,799.0	15.7%	\$183.6	15.7%	\$3.4	14.7%	\$8.6	17.9%	\$52.3	22.6%	\$7.3	6.0%	\$71.8	16.8%
\$123,840 to \$147,527	15,366	28,810	\$2,065.6	6.7%	\$87.5	7.5%	\$1.8	7.5%	\$2.8	5.9%	\$21.2	9.1%	\$4.0	3.3%	\$29.7	7.0%
\$147,528 to \$204,501	15,368	28,835	\$2,615.3	8.5%	\$118.3	10.1%	\$2.7	11.7%	\$3.0	6.2%	\$24.4	10.5%	\$7.6	6.2%	\$37.8	8.9%
Over \$204,501	15,369	28,535	\$7,216.9	23.5%	\$380.5	32.4%	\$8.9	38.1%	\$3.2	6.7%	\$40.2	17.3%	\$64.8	53.1%	\$117.2	27.5%
<b>Resident Total</b>	<b>466,393</b>	<b>655,645</b>	<b>\$28,806.5</b>	<b>93.9%</b>	<b>\$1,095.5</b>	<b>93.4%</b>	<b>\$22.4</b>	<b>95.4%</b>	<b>\$45.6</b>	<b>94.2%</b>	<b>\$223.1</b>	<b>96.1%</b>	<b>\$103.8</b>	<b>85.0%</b>	<b>\$394.9</b>	<b>92.7%</b>
Nonresidents	52,172	79,877	\$1,176.6	3.8%	\$51.6	4.4%	\$0.8	3.4%	\$1.8	3.7%	\$5.4	2.3%	\$16.1	13.2%	\$24.1	5.6%
Part-Year Residents	26,913	34,932	\$681.1	2.2%	\$26.2	2.2%	\$0.3	1.2%	\$1.0	2.1%	\$3.6	1.5%	\$2.2	1.8%	\$7.1	1.7%
<b>Total</b>	<b>545,478</b>	<b>770,454</b>	<b>\$30,664.1</b>	<b>100.0%</b>	<b>\$1,173.2</b>	<b>100.0%</b>	<b>\$23.5</b>	<b>100.0%</b>	<b>\$48.4</b>	<b>100.0%</b>	<b>\$232.1</b>	<b>100.0%</b>	<b>\$122.2</b>	<b>100.0%</b>	<b>\$426.1</b>	<b>100.0%</b>

\*Montana Source Income for Nonresidents and Part-Year Residents

Following is a list of expenditures that reduce tax liability for corporate income taxpayers. Many of these expenditures can also be claimed by small businesses, S corporations, or limited liability companies whose income is “passed through” to the owner, member, or partner and is taxed as individual income.

### Water’s Edge Election

**Code:** 15-31-322 through 324, MCA

**Legislation:** HB 703, 1987 Session

Montana requires corporations that have common ownership to file a combined report. The income of the members of the group of corporations under common ownership is apportioned to Montana based on the combined apportionment factors of the group. The purpose of the combined reporting is to make the apportionment of income to Montana independent of the financial arrangements between group members.

Under current state law (15-31-324, MCA), corporations can elect to file as a water’s edge corporation. In doing so the corporation will pay a higher rate, 7 percent, instead of the normal corporate income tax rate of 6.75 percent, on income apportioned to Montana. Only its domestic, rather than worldwide, income and apportionment factors are included in the apportionment process (with certain exceptions). Under the water’s edge election, some of the group’s foreign affiliates may be excluded from the process of apportioning income to Montana.

The number of corporations electing to file water’s edge was 487 in Tax Year 2016, 472 in Tax Year 2015, 424 in Tax Year 2014, 395 in Tax Year 2013, 365 in Tax Year 2012, 293 in Tax Year 2011, 230 in Tax Year 2010 and 221 in Tax Year 2009.

The department’s analyses of the fiscal impact of narrowing the water’s edge provisions by modifying the test for whether a foreign affiliate is included or excluded in the apportionment process indicate the revenue foregone is at least \$2.0 million to \$2.6 million per year. The proposed changes to the existing test for inclusion of affiliates in combined reporting included:

- Requiring all domestically (U.S.) incorporated affiliates be included, even if less than 20 percent of their payroll and property is in the United States;
- Requiring a subsidiary of a foreign-owned corporation be included if the subsidiary has more than 20 percent of the average of its payroll and property in the U.S.;
- Requiring a group member be included if it earns more than 20 percent of its income from selling services or intangibles to other members of the group and the other members can deduct the expenses against income; and
- Requiring all the income considered U.S. income under federal law be reported and used in the apportionment process.

Under current state law, a group member or affiliate must be included in the combined report if it is incorporated in a tax haven, and the analyses of revenue foregone included updating the list of tax havens.

However, if the water’s edge election was eliminated completely - not just narrowed by the changes in provisions described above - additional revenue to the state is estimated to be four or five times those amounts estimated, or in the \$8 million-\$13 million range. This estimate, which is based upon audit experience, may be conservative, as the number of water’s edge filers has almost doubled over the last 6 years.

### Montana Deductions

**Capital Gain Exclusion for Mobile Home Park:** 15-31-163, MCA  
**Legislation:** SB 636, 2009 Session

A taxpayer may exclude a portion of the recognized gain from sale of a mobile home park from taxable corporate income or taxable individual income if the sale is to a tenants' association or a mobile home park residents' association; a nonprofit organization that purchases a mobile home park on behalf of a tenants' association or mobile home park residents' association; a county housing authority; or a municipal housing authority. The exclusion of recognized capital gain is limited to 50 percent for mobile home parks with more than 50 lots; for mobile home parks with 50 lots or less the excluded gain is 100 percent.

Usually properties owned by municipal and county housing authorities are eligible for a property tax exemption; however, if the corporate tax exclusion is used for a mobile home park property, it is not eligible for the property tax exemption allowed under Title 15, Chapter 6, Part 2 while the property is used as a mobile home park. The exclusion was passed by the 2009 Legislature (HB 636) and applies to tax years beginning after December 31, 2008.

**Deduction for Purchasing Montana-Produced Organic or Inorganic Fertilizer Produced:** 15-32-303, MCA  
**Legislation:** SB 322, 1981 Session

In addition to all the other allowed deductions from gross corporate income, a taxpayer may deduct expenditures for organic fertilizer and inorganic fertilizer produced as a byproduct, if the fertilizer was made and used in Montana. The purpose of this deduction is to promote the use of inorganic byproducts and organic matter produced by Montana industries.

**Deduction for Donation of Exploration Information:** 15-32-510, MCA  
**Legislation:** SB 625, 1999 Session

A taxpayer may deduct expenses from the donation of mineral exploration information to the Montana Tech Foundation to reside in the Montana Tech research library. Montana Tech has the right to limit what information is accepted and what deductions are granted. The documented expenses must be based on the cost of recreating the donated information. If the exploration incentive credit is also claimed by the taxpayer, then this deduction is limited to 20 percent of the actual value of the data. The deduction was established in 1999 in SB 625 and is intended to encourage the sharing of mineral exploration information.

**Energy-Conserving Investments Deduction:** 15-32-103, MCA  
**Legislation:** HB 663, 1975 Session

A corporate taxpayer may deduct from gross corporate income a portion of expenditures on capital investment in a building for an energy conservation purpose. If the building is a residential building, the taxpayer may deduct 100 percent of the first \$1,000 expended, 50 percent of the next \$1,000 expended, 20 percent of the third \$1,000 expended, and 10 percent of the fourth \$1,000 expended. For example, if a corporate taxpayer invested \$4,000 in approved energy conservation measures in a residential apartment building owned by the taxpayer, it would be able to deduct \$1,800 of the expenses (100 percent of \$1,000, plus 50 percent of \$1,000, plus 20 percent of \$1,000, plus 10 percent of \$1,000, or \$1,000 + \$500 + \$200 + \$100).

For non-residential buildings, the taxpayer may deduct 100 percent of the first \$2,000 spent on energy conservation capital investments, 50 percent of the second \$2,000 spent, 20 percent of the third \$2,000 spent, and 10 percent of the fourth \$2,000 spent. If a corporate taxpayer invested \$4,000 in approved energy conservation measures in a non-residential building owned by the taxpayer, it could deduct \$3,000 of the expenses (100 percent of \$2,000, plus 50 percent of \$2,000, or \$2,000 plus \$1,000). If the taxpayer

invested \$8,000 in approved energy conservation measures in the same building, it could deduct \$3,600 of the expenses (100 percent of \$2,000, plus 50 percent of \$2,000, plus 20 percent of \$2,000, plus 10 percent of \$2,000, or \$2,000 + \$1,000 + \$400 + \$200).

This deduction is subject to approval of the Department of Revenue and cannot be taken on expenditures financed by a state, federal, or private grant. The purpose of this deduction is to encourage energy-conserving investments in existing buildings.

**Recycled Material Qualifying for Deduction:** 15-32-609 and 610, MCA

**Legislation:** SB 111, 1991 Session

A taxpayer may deduct an additional 10 percent of expenditures for the purchase of recycled material that was otherwise deductible as a business-related expense. The Department of Revenue defines the types of recycled material that may be used to claim this deduction. The purpose of this deduction is to encourage the use of goods made from reclaimed materials, especially post-consumer materials. The deduction was set to expire at the end of calendar year 2011, but HB 21, passed by the 2009 Legislature, makes the additional 10 percent deduction permanent. The deduction originally began in 1991 through passage of SB 111.

## Corporate Tax Expenditures

### Montana Corporate Tax Credits

Many of these credits are available to individual income taxpayers as well as corporate income taxpayers. More thorough explanations of many of the credits and their history are available in the individual income tax section on tax expenditures.

There are differences between the tax periods for the two different income taxes – individual and corporate. The tax year for individual income tax returns is the calendar year and data from the tax returns is presented on that basis. The corporate income tax year and filing requirements is based upon the corporation's fiscal year, which can vary from the calendar year.

There is another change in the tables presented in this section due to the availability of a more complete, updated dataset of corporate tax returns. The tables in this section show 7 years of history, unless the credit has not been in effect that long.

**Alternative Energy Production Credit:** 15-32-401 through 407, MCA  
**Legislation:** HB 755, 1983 Session

Qualifying taxpayers that invest \$5,000 or more in a commercial system, or net metering system, that generates energy using alternative energy sources are allowed a credit against corporation income tax of 35 percent of the costs, less any federal or state grants. Alternative energy sources are defined as including, but not limited to, solar energy, wind energy, geothermal energy, conversion of biomass, fuel cells that do not require hydrocarbon fuel, small hydroelectric generators producing less than one megawatt; and methane from solid waste.

Tax credits may be carried forward for 7 years. The carry-forward period is extended to 15 years if the equipment is placed in service within the boundaries of a Montana reservation and there is an employment agreement with the tribal government of the reservation in which tribal members will be trained and employed in constructing, maintaining and operating the system.

Alternative Energy Production Credit		
Year	Number of Credits Claimed	Total Credits Claimed
2009	*	\$50
2010	*	\$100
2011	*	\$50
2012	*	\$50
2013	*	\$100
2014	0	\$0
2015	0	\$0
2016	0	\$0

\* Not disclosed due to confidentiality concerns

Alternative Fuel Motor Vehicle Conversion Credit		
Year	Number of Credits Claimed	Total Credits Claimed
2009	*	\$6,004
2010	*	\$14,000
2011	*	\$6,479
2012	0	\$0
2013	*	\$379
2014	*	\$4,000
2015	*	\$1,000
2016	0	\$0

\* Not disclosed due to confidentiality concerns

The table shows credits claimed on corporate tax returns by tax year for 2009 through 2016.

**Alternative Fuel Motor Vehicle Conversion Credit:** 15-30-2320, MCA  
**Legislation:** HB 219, 1993 Session

Taxpayers are allowed a credit against individual income tax or corporate income tax of up to 50 percent of the cost of converting a motor vehicle to operate on natural gas, liquefied petroleum gas (LPG or propane), liquefied natural gas, hydrogen, electricity, or a fuel of at least 85 percent alcohol or ether.

The credit is limited to \$500 for conversion of a motor vehicle with gross weight of 10,000 pounds or less or \$1,000 for

## Corporate Tax Expenditures

conversion of a vehicle weighing more than 10,000 pounds.

The credit claimed cannot be more than the taxpayer's liability and cannot be carried forward or back. The credit must be claimed for the year in which the conversion was done. The table shows credits claimed on corporate tax returns by fiscal year for tax years 2009 through 2016.

**Apprenticeship Credit:** 15-30-2357 and 39-6-109, MCA  
**Legislation:** HB 308, 2017 Session

Individual and corporate income taxpayers are allowed a credit for employing an apprentice or veteran apprentice as a new employee in a state-registered apprenticeship training program. The credit is worth \$750 per approved apprentice or \$1,500 per approved veteran apprentice and may only be claimed for 5 years per apprentice. This tax credit is effective for tax years beginning January 1, 2018 and thereafter.

**Biodiesel Blending and Storage Tank Credit:** 15-32-703, MCA  
**Legislation:** HB 756, 2005 Session

Taxpayers can claim a credit of 15 percent of the cost of equipment used in blending biodiesel made from Montana ingredients with petroleum-based diesel. The credit can also be used for storage facilities in a year when the taxpayer is blending or in the two years before blending began. The total credits that may be claimed over time are \$52,500 for a distributor (wholesaler) and \$7,500 for a retailer.

The credit is subject to some restrictions, including that the taxpayer's biodiesel sales must be greater than 2 percent of the total diesel sales by the end of the third year after the year that the investment is claimed. The unused tax credit can be carried forward up to 7 years, but can only be claimed in tax years in which the facility is operating for the purposes of biodiesel blending.

The table shows credits claimed on corporate tax returns by tax year for 2009 through 2016.

Biodiesel Blending and Storage Tank Credit		
Year	Number of Credits Claimed	Total Credits Claimed
2008	0	\$0
2009	0	\$0
2010	0	\$0
2011	0	\$0
2012	0	\$0
2013	0	\$0
2014	0	\$0
2015	0	\$0
2016	0	\$0

Charitable Endowment Credit		
Year	Number of Credits Claimed	Total Credits Claimed
2009	30	\$94,889
2010	14	\$42,830
2011	15	\$45,913
2012	20	\$60,406
2013	26	\$50,704
2014	17	\$32,561
2015	15	\$31,436
2016	11	\$25,130

**Charitable Endowment Credit:** 15-31-161 and 162, MCA  
**Legislation:** HB 434, 1997 Session

A qualified endowment is a permanent fund held by or on behalf of a 501(c)(3) charitable organization. A planned gift is one of nine types of arrangements specified in the IRS code that generally provide income to the donor for life or a set period and then the remainder goes to the charity. Individual taxpayers are allowed a credit of 40 percent of the present value of a planned gift to a qualified charitable endowment.

Corporations are allowed a credit of 20 percent of a gift to a qualified endowment.

## Corporate Tax Expenditures

The 2013 Legislature passed SB 108, which extends the credit through 2019. Among other changes, the legislation made the definition of a “permanent, irrevocable fund” which can accept donations eligible for the credit refer to the Uniform Prudent Management of Institutional Funds Act (Title 72, Chapter 30).

The table shows credits claimed on corporate tax returns by tax year for 2009 through 2016.

**College Contribution Credit:** 15-30-2326, MCA  
**Legislation:** HB 894, 1991 Session

Individual and corporate taxpayers are allowed a credit equal to 10 percent of donations to the general endowment funds of units of the Montana university system, Montana private colleges, or Montana private college foundations. The maximum credit allowed per year is \$500. The credit claimed may not exceed the taxpayer liability. The credit must be applied in the tax year in which the donation was made and no carry-forward or carry-back is allowed.

The table shows credits claimed on corporate tax returns by tax year for 2009 through 2016.

College Contribution Credit		
Year	Number of Credits Claimed	Total Credits Claimed
2009	22	\$4,466
2010	25	\$5,605
2011	24	\$5,874
2012	28	\$9,020
2013	28	\$6,173
2014	31	\$19,300
2015	28	\$6,468
2016	25	\$4,898

**Contractor’s Gross Receipts:** 15-50-207, MCA  
**Legislation:** HB 530, 1967 Session

Contractor's Gross Receipts		
Year	Number of Credits Claimed	Total Credits Claimed
2009	90	\$1,318,876
2010	91	\$906,127
2011	110	\$531,807
2012	104	\$763,534
2013	103	\$613,274
2014	96	\$645,615
2015	91	\$644,922
2016	88	\$319,316

Contractors are required to pay a license fee equal to 1 percent of the gross receipts from government contracts during the year for which the license is issued. The agency or prime contractor withholds the 1 percent license fee from payments to the prime contractor or subcontractors. The agency or contractor is responsible for remitting the correct amount to the Department of Revenue along with a form reporting who is to be credited with the license fee payment.

Contractors may use the amount of gross receipts tax paid as a credit against the contractor’s corporation income tax liability or income tax liability, depending upon the type of tax the contractor must pay. The credit may be carried forward a maximum of 5 years.

The table shows credits claimed on corporate tax returns by tax year for 2009 through 2016.

**Contributions to Public and Private Schools Credit:** 15-31-158 and 159, MCA  
**Legislation:** SB 410, 2015 Session

The 2015 legislature created a nonrefundable individual and corporate income tax credit for donations made to the educational improvement account provided for in 20-9-905, providing supplemental funding to public schools for innovative educational programs and technological deficiencies. The aggregate amount of tax credits allowed is \$3 million in Tax Year 2016. If the \$3 million is met, that amount is increased by 10 percent each year.

## Corporate Tax Expenditures

The 2015 Legislature also created a nonrefundable individual and corporate income tax credit for donations made to student scholarship organizations. This credit is limited to \$150 per taxpayer. The aggregate amount of tax credits allowed is \$3 million in Tax Year 2016. If the \$3 million is met, that amount is increased by 10 percent each year.

There were no C corporation claims of this credit in Tax Year 2016.

**Dependent Care Assistance Credit:** 15-31-131 and 133, MCA  
**Legislation:** SB 282, 1989 Session

There are several employer costs for which dependent care credits can be claimed. If the employer provides day care services to employees' dependents or information and referral services to employees, then a credit against corporation tax can be claimed for a share of the costs. The allowed credit is 25 percent of the cost of the day care assistance with a limit of \$1,575 per employee receiving the assistance. The day care must be provided by a licensed or registered day care provider; it must meet IRS requirements and cannot be part of the employee's compensation. The employer can also claim a credit on 25 percent of the cost of providing day care information and referral services to employees (15-31-131, MCA).

Under 15-31-133, MCA there is a credit allowed against corporation tax for a portion of the cost of setting up a day care facility to be used by the taxpayer's employees' dependents. The credit is the lowest of either:

- (1) 15 percent of the costs incurred, or
- (2) \$2,500 times the number of dependents the facility accommodates, or
- (3) \$50,000.

To claim the credit the facility must meet certain criteria, such as accommodating six or more children, be run by a licensed operator, and have been placed in operation by January 1, 2006. The credit is to be claimed over a 10 year period, with one-tenth of the credit claimed each year.

There were no C corporation claims of this credit from Tax Year 2009 through 2016.

**Empowerment Zone New Employees Tax Credit:** 15-31-134, MCA  
**Legislation:** SB 484, 2003 Session

A local government may establish an empowerment zone in an area with chronic high unemployment (7-21-3710, MCA). Employers in an empowerment zone are eligible for a credit against either income tax or corporation income tax for the first 3 years of employment for new positions. The credit per new employee is \$500 for the first year, \$1,000 for the second year, and \$1,500 for the third year.

To receive the credit, the taxpayer must apply for and receive certification from the Department of Labor and Industry.

There were no C corporation claims of this credit from Tax Year 2009 through 2016.

**Geothermal Heating System Credit:** 15-32-115, MCA  
**Legislation:** SB 340, 2005 Session

Taxpayers are allowed a credit against individual income tax or corporation tax for up to \$1,500 of costs of installing a geothermal heating system (ground-source heat pump) in the taxpayer's principal residence or in a residence the taxpayer constructs. Only one credit may be claimed per residence and any credit remaining after the year of installation can be carried forward and claimed in succeeding tax years.

Geothermal System Credit		
Year	Number of Credits Claimed	Total Credits Claimed
2008	*	\$500
2009	0	\$0
2010	0	\$0
2011	0	\$0
2012	0	\$0
2013	*	\$1,500
2014	0	\$0
2015	0	\$0
2016	0	\$0

\* Not disclosed due to confidentiality concerns



## Corporate Tax Expenditures

This credit could not be claimed by corporate taxpayers, such as builders of residential units, until Tax Year 2006. The change was made by the 2005 Legislature (SB 340). The table on the previous page shows credits claimed on corporate tax returns by tax year for 2009 through 2016.

**Health Insurance for Uninsured Montanans Credit:** 15-31-132, MCA  
**Legislation:** HB 166, 1989 Session

A corporation with 20 or fewer employees working at least 20 hours per week may claim a nonrefundable credit of up to \$3,000 against corporation income tax. In order to claim the credit, the employer must pay at least 50 percent of the employee's premium and can claim a credit for a maximum of 10 employees' health or disability insurance (ARM 42.4.2802).

A credit of \$25 a month is allowed if the employer pays 100 percent of the employee's premium. If the employer pays a share of the employee's premium, then the \$25 credit is prorated by the same percentage share.

The credit is subject to many restrictions including that the credit may not exceed 50 percent of the total premium for each employee, the credit may not be claimed for more than 36 consecutive months, and may not be granted to an employer or its successor within 10 years of when the last credit was claimed. The employer must have been in business in Montana for at least 12 months and the credit cannot be carried forward or backward and claimed against another year's taxes.

The table shows credits claimed on corporate tax returns by tax year for 2009 through 2016.

**Historic Property Preservation Credit:** 15-31-151, MCA  
**Legislation:** HB 601, 1997 Session

Corporate taxpayers may take a credit against corporation income tax for costs of rehabilitating a historic building located in Montana. The credit is 25 percent of the federal credit allowed by 26 U.S.C. 47. The federal credit is 20 percent of the rehabilitation cost of a building certified as having historic significance and 10 percent of the cost of rehabilitation of a building placed in service before 1936 that has not been certified.

The credit is not refundable if it exceeds the amount of taxes owed, but unused credits can be carried over to the seven succeeding tax years. If the corporation is a partnership or S corporation, the credit must be attributed to the partners or shareholders in the same proportion used to report the partnership or corporation income or loss for Montana income tax purposes.

The table shows credits claimed on corporate tax returns by tax year for 2009 through 2016. An asterisk indicates that fewer than 10 corporate taxpayers claimed the credit in the fiscal year.

Health Insurance for Uninsured Montanans		
Year	Number of Credits Claimed	Total Credits Claimed
2009	43	\$30,319
2010	42	\$31,753
2011	28	\$29,619
2012	19	\$15,220
2013	15	\$11,741
2014	*	\$5,581
2015	*	\$5,750
2016	*	\$350

\* Not disclosed due to confidentiality concerns

Historic Property Preservation Credit		
Year	Number of Credits Claimed	Total Credits Claimed
2009	0	\$0
2010	0	\$0
2011	0	\$0
2012	0	\$0
2013	0	\$0
2014	*	\$85,520
2015	*	\$374,586
2016	*	\$39,653

\* Not disclosed due to confidentiality concerns

## Corporate Tax Expenditures

**Infrastructure Users Fee Credit:** 17-6-316, MCA  
**Legislation:** SB 100 and HB 602, 1995 Session

The Board of Investments may make loans to local governments to finance infrastructure to serve a new or relocated business that will result in 15 or more new full-time jobs. The infrastructure may serve as collateral for the loan and the local government may charge fees to the users for extending the infrastructure. The business may claim a credit against income or corporation tax for the fee it pays.

The total amount of the credit claimed may not exceed the amount of the loan. The credit can be carried forward for 7 years and used to reduce tax liability or carried back for 3 years.

The table shows credits claimed on corporate tax returns by tax year for 2009 through 2016. An asterisk indicates that fewer than 10 corporate taxpayers claimed the credit in the fiscal year.

Infrastructure Users Fee Credit		
Year	Number of Credits Claimed	Total Credits Claimed
2009	*	\$520,271
2010	*	\$501,904
2011	*	\$45,913
2012	*	\$305,304
2013	*	\$472,732
2014	*	\$741,261
2015	*	\$1,676,702
2016	*	\$706,524

\* Not disclosed due to confidentiality concerns

**Mineral Exploration Incentive Credit:** 15-32-501 through 509, MCA  
**Legislation:** SB 625, 1999 Session

Taxpayers are allowed a credit, not to exceed 50 percent of the taxpayer's liability and not greater than \$20 million, for certified mineral exploration expenses. The credit is for the full amount of solid mineral or coal exploration activity in the state (oil and gas exploration expenditures are not eligible). The credit is available only for expenses incurred up to the time that construction of a new mine or reopening of a previously closed mine commences. The credit can be carried forward for 15 years.

The table below shows credits claimed on corporate tax returns by tax year for 2009 through 2016. An asterisk indicates that fewer than 10 corporate taxpayers claimed the credit in the fiscal year.

Mineral Exploration Credit		
Year	Number of Credits Claimed	Total Credits Claimed
2009	*	\$25
2010	*	\$25
2011	*	\$2,767
2012	*	\$25
2013	*	\$534
2014	*	\$25
2015	*	\$25
2016	*	\$25

\* Not disclosed due to confidentiality concerns

## Corporate Tax Expenditures

**New/Expanded Industry Credit:** 15-31-124 and 125, MCA  
**Legislation:** HB 593, 1975 Session

New or expanding manufacturing industries are allowed a tax credit equal to 1 percent of the total new wages paid in Montana for the first 3 years of operation or expansion. Expanding operations must increase total full-time jobs by 30 percent or more. "New" industry means a corporation engaging in manufacturing for the first time in Montana.

The table shows credits claimed on corporate tax returns by tax year for 2009 through 2016. An asterisk indicates that fewer than 10 corporate taxpayers claimed the credit in the fiscal year.

New and Expanded Industry Credit		
Year	Number of Credits Claimed	Total Credits Claimed
2009	0	\$0
2010	0	\$0
2011	0	\$0
2012	0	\$0
2013	0	\$0
2014	*	\$4,221
2015	*	\$2,465
2016	*	\$872

\* Not disclosed due to confidentiality concerns

**Oilseed Crushing and Biodiesel Production Facility Credit:**  
 15-32-701 and 702  
**Legislation:** HB 756, 2005 Session

Taxpayers are allowed a credit against individual income tax or corporation tax of 15 percent of the costs of investments in depreciable property in Montana that is used primarily for crushing oilseeds for producing biodiesel or lubricants or to produce biodiesel or bio-lubricants. The taxpayer can claim credits on investments for the two tax years prior to when the facility begins production or any tax year that the equipment is in production up to January 1, 2015. Unused credits can be carried forward 7 years. Taxpayers claiming the credit can still claim depreciation or amortization and other credits allowed by the state.

The credit is subject to several restrictions, including how the credit can be carried forward; total credits claimed may not exceed \$500,000; and the depreciable property for which the credit has been claimed must begin to be used by 2015 for the purposes of oilseed crushing and biodiesel or bio-lubricant production.

The credit was first enacted by the 2005 Legislature in HB 756. The 2007 Legislature passed HB 166 which extended this credit's life to January 1, 2015, from January 1, 2010; allows the credit to apply to bio-lubricants too; and allows the credit to be claimed on investment in the 2 tax years prior to when the equipment is used in production.

There have been no C corporation claims for this credit for Tax Year 2009 to 2016.

**Qualified Research Credit:** 15-31-150, MCA  
**Legislation:** HB 638, 1999 Session

Taxpayers may receive a nonrefundable tax credit for increases in qualified research expense and basic research payments for research conducted in Montana. The amount of the credit is determined in accordance with Section 41 of the IRC, 26 U.S.C. 41 as it read on July 1, 1996, or as subsequently amended. Section 41 of the IRS code provides a credit equal to 20 percent of any increase in research expenditures over the taxpayer's baseline research expenditures. Montana provides a 5 percent credit against individual income tax or corporation income tax for the same increases in expenditures in the state.

Increased Research Activities Credits		
Year	Number of Credits Claimed	Total Credits Claimed
2009	24	\$250,195
2010	21	\$372,491
2011	18	\$365,643
2012	14	\$47,394
2013	*	\$16,264
2014	*	\$1,627
2015	*	\$300
2016	*	\$223

\* Not disclosed due to confidentiality concerns

## Corporate Tax Expenditures

The taxpayer may not claim a current year credit after December 31, 2010. Unused credits from any tax year may be carried back for 2 years or carried forward for up to 15 years and used to reduce tax liability.

The table on the previous page shows credits claimed on corporate tax returns by tax year for 2009 through 2016.

**Recycling Credit:** 15-32-601-611, MCA  
**Legislation:** SB 111, 1997 Session

Taxpayers are allowed a credit against individual income tax or corporate income tax for a portion of the cost of investments in depreciable property used in collecting or processing reclaimable material or manufacturing a product from reclaimed material. The amount of the credit is equal to 25 percent of the cost of the first \$250,000 invested in property, 15 percent of the cost of the next \$250,000 invested in property and 5 percent of the next \$500,000 of investment.

Therefore, if the taxpayer invests \$1,000,000 in property that qualifies for the credit, the taxpayer can claim a credit of \$125,000. If the taxpayer invests \$250,000 in property qualifying for the credit, then the taxpayer can claim a credit of \$62,500. The credit was to end December 31, 2011, but the 2009 Legislature made the credit permanent (HB 21). An asterisk in the table indicates less than 10 corporate taxpayers claimed this credit.

In each tax year 2009 through 2016, there were less than 10 credits claimed. Thus, the department cannot disclose credit amounts due to confidentiality concerns.

**Short-term Temporary Lodging Credit:** 15-31-171, MCA  
**Legislation:** HB 240, 2007 Session

The 2007 Legislature created a refundable individual and corporate income tax credit available to lodging establishments that provide free temporary lodging to individuals displaced from their homes due to domestic abuse (HB 240). The 2015 Legislature expanded the statutory definition to include families as well as individuals (SB 175). The tax credit is equal to \$30 for each day of lodging provided, limited to a maximum of 5 nights of lodging for all family members each year. The individuals must be referred to the lodging establishment by a designated charitable organization. The credit is claimable only for lodging provided in Montana.

The credit may not be claimed if the individual is displaced by a major disaster declared by the President under federal law (42 U.S.C. 5170 or 5191) and financial assistance for temporary housing assistance is available.

There have been no C corporation claims for this credit for Tax Year 2009 to 2016.

**Unlocking Public Lands Credit:** 15-30-2380, MCA  
**Legislation:** HB 444, 2013 Session

The 2013 Legislature created a refundable individual and corporate income tax credit for taxpayers that provide access to state land. The 2015 Legislature expanded the credit to those providing public access to any public land and increased the credit amount. The tax credit is equal to \$750 for each qualified access to public land that is provided. The maximum credit a taxpayer may claim in a year is \$3,000.

There have not been any C corporation claims for this credit.

### **Passive Expenditures**

Passive tax expenditures refer to the loss of Montana tax revenue due to federal tax laws. These tax expenditures are not due to actions taken by the Montana Legislature, but by our adherence to the definitions of income, exemptions, and deductions set at the federal level. Montana's corporate income tax calculations rely to some extent on these definitions so if there are changes at the federal level, then the tax collected by the state can also be affected.

One example of these federal tax credits is the accelerated depreciation of machinery and equipment listed in the table below. Depreciation is an income tax deduction that allows a taxpayer an annual allowance for the wear and tear, deterioration, or obsolescence of the property.

The figures provided below are an estimate of the impact that Montana's adherence to these definitions has on state income tax collections. The estimates are based on the federal tax expenditures estimated by the U.S. Treasury Department and included in the annual Executive Budget of the United States and are scaled down to Montana proportions. These passive tax expenditures are estimates based on other estimates and should be viewed as approximations. As with other tax expenditures, the figures shown do not necessarily equal the increase in tax revenues that would occur if the provision did not exist.

## Corporate Tax Expenditures - Passive Expenditures

<b>Estimated Impact of Passive (Federal) Corporate Tax Expenditures on Montana Tax</b>		
	<b>2017</b>	<b>2018</b>
<b>Exemptions</b>		
Deferral of income from controlled foreign corporations (normal tax method)	\$12,763,942	\$13,402,139
Exclusion of interest on life insurance savings	\$341,721	\$356,009
Excess of percentage over cost depletion, fuels and nonfuel minerals	\$41,673	\$52,389
Exemption of certain mutuals' and cooperatives' income	\$17,860	\$17,860
Exemption of credit union income	\$347,436	\$345,412
Inventory property sales source rules exception	\$395,301	\$425,068
Deferral of gain on sale of farm refiners	\$2,381	\$2,381
Deferral of tax on shipping companies	\$2,381	\$2,381
<b>Deductions</b>		
Accelerated depreciation of machinery and equipment (normal tax method)	\$3,430,309	\$2,871,887
Accelerated depreciation on rental housing (normal tax method)	\$42,864	\$55,961
Deductibility of charitable contributions (education)	\$102,397	\$107,160
Deduction for U.S. production activities	\$1,182,332	\$1,238,293
Empowerment zones, Enterprise communities, and Renewal communities	\$5,953	\$2,381
Expensing of exploration and development costs, fuels	-\$55,961	-\$25,004
Expensing of certain multiperiod production costs for farmers	\$2,381	\$2,381
Expensing of certain small investments (normal tax method)	\$34,529	\$33,339
Expensing of exploration and development costs, nonfuel minerals	\$4,763	\$5,953
Expensing of multiperiod timber growing costs	\$25,004	\$26,195
Expensing research and experimentation expenditures (normal tax method)	\$907,288	\$909,669
Small life insurance company deduction	\$341,721	\$356,009
<b>Other</b>		
Special alternative tax on small property and casualty insurance companies	\$5,953	\$5,953
Special ESOP rules	\$233,371	\$240,515
Special rules for certain film and TV production	\$19,051	\$10,716
Tax incentives for preservation of historic structures	\$51,199	\$52,389
<p>Sources: Estimates of corporate tax expenditures are calculated by the U.S. Treasury and published annually as a part of the Executive Budget of the United States. The data is in the Analytical Perspectives section of the Executive Budget. The Montana estimates were developed using the ratio of total income subject to tax and total income tax before credits for Montana and federal taxes. Total income subject to tax and total income tax before credits comes from <a href="http://www.irs.gov">www.irs.gov</a>, SOI tax statistics, total returns of active corporations, and from Montana data.</p>		

## Property Tax Expenditures

### Property Tax Expenditures

Property tax expenditures are provisions in the property tax laws that reduce taxes for properties that meet certain criteria.

The cost of property tax expenditures are the revenue losses from statewide mills that would have been collected if these programs did not reduce the properties taxable value. Property tax expenditures can cost other property owners as well due to laws governing local governments' budgeting procedure (15-10-420, MCA). This section of code allows local governments to increase mills to offset a reduction in the tax base. Property tax expenditures work to lower taxable value for one sub-group of taxpayers which decreases the tax base and can cause mills to increase so that local jurisdictions can maintain budget levels.

In this section, the tax expenditure is reported as the decrease of state revenue caused by each program, and the tax burden reallocated to other taxpayers is reported as a tax shift.

### Residential Property Tax Expenditures

There are three major property tax programs that target homeowners: The Property Tax Assistance Program (PTAP), the Disabled American Veterans Program (DAV) and the Land Value Property Tax Assistance Program.

The Elderly Homeowner/Renter credit provides a tax credit based on property taxes. However, it is administered through the income tax so it is classified as an income tax expenditure.

**Property Tax Assistance Program (PTAP):** 15-6-305, MCA  
**Legislation:** HB 398, 1979 Session

The Property Tax Assistance Program (PTAP) reduces property taxes for low-income households. The program works by reducing the Class 4 tax rate by 80 percent, 50 percent, or 30 percent, depending on the income of the owners. To qualify for this program in Tax Year 2018, homeowners must report a household income below \$21,607 for one qualified homeowner and below \$28,810 for more than one qualified owner. To qualify for PTAP, homeowners must reside in their home for seven months out of the year. PTAP applies to the first \$200,000 of the taxable market value of residential improvements and residential land.

The table on the next page shows that in 2018 there were 23,018 property taxpayers who qualified for PTAP. This program reduced the taxable value of these properties by \$25.482 million which reduced the state revenue collected with the 95 school mills, 1.5 vo-tech mills, and the six university mills by \$2.589 million. Additionally, the reduction in taxable value increased local mills, effectively shifting \$14.601 million in taxes to other taxpayers.

In 2018, PTAP participants paid a total of \$17.190 million less that they would have otherwise paid in taxes, an average benefit of \$747 per participant.

## Property Tax Expenditures

Property Tax Expenditure - PTAP						
<u>Tax Year</u>	<u>Participants</u>	<u>Reduction in Taxable Value</u>	<u>Loss in State Revenue</u>	<u>Tax Shifts</u>	<u>Total Tax Benefit to Participants</u>	<u>Average Tax Benefit</u>
2005	8,568	\$4,316,852	\$436,002	\$1,817,049	\$2,253,051	\$263
2006	8,192	\$4,130,616	\$417,192	\$1,758,981	\$2,176,173	\$266
2007	7,729	\$3,856,960	\$389,553	\$1,651,280	\$2,040,833	\$264
2008	7,399	\$3,508,914	\$354,400	\$1,533,817	\$1,888,217	\$255
2009	10,716	\$10,088,764	\$1,024,553	\$4,715,210	\$5,739,763	\$536
2010	11,583	\$10,691,795	\$1,086,019	\$5,139,997	\$6,226,016	\$538
2011	13,115	\$11,925,684	\$1,211,511	\$5,769,721	\$6,981,233	\$532
2012	14,013	\$13,130,717	\$1,333,840	\$6,450,295	\$7,784,135	\$555
2013	18,302	\$17,035,076	\$1,730,774	\$8,604,113	\$10,334,886	\$565
2014	19,446	\$18,075,495	\$1,836,544	\$9,333,585	\$11,170,129	\$574
2015	20,397	\$20,491,472	\$2,082,193	\$10,828,944	\$12,911,136	\$633
2016	22,544	\$22,764,665	\$2,313,248	\$12,279,757	\$14,593,005	\$647
2017	22,378	\$24,398,251	\$2,479,136	\$13,619,695	\$16,098,831	\$719
2018	23,018	\$25,481,545	\$2,589,060	\$14,600,656	\$17,189,717	\$747

**Disabled American Veterans Program (DAV): 15-6-311, MCA**  
**Legislation: HB 213, 1979 Session**

The Disabled American Veterans Program (DAV) reduces property taxes for disabled veterans and is established in 15-6-311, MCA. It reduces the residential Class 4 tax rate by 100 percent, 80 percent, 70 percent, or 50 percent, depending on the level of income of qualified veterans. It applies to residential improvements. To qualify, the property must be the primary residence of a veteran who was honorably discharged and paid at the 100 percent disabled rate by the Department of Veterans Affairs for a service-connected disability. The spouse of a veteran killed while on active duty or who died from a service-connected disability qualifies for DAV benefits as well.

The table on the next page shows that in 2018 there were 2,567 property taxpayers who qualified for DAV. This reduced the taxable value of these properties by \$6.370 million which reduced the state revenue collected with 95 school equalization mills, 1.5 vo-tech mills, and the six university mills by \$647,417. The reduction in taxable value increased the local mills effectively shifting \$3.529 million to other taxpayers.

In 2018, participants of DAV paid \$4.176 million less in taxes because of this program, an average benefit of \$1,627.



## Property Tax Expenditures

Property Tax Expenditure - DAV						
<u>Tax Year</u>	<u>Participants</u>	<u>Reduction in Taxable Value</u>	<u>Loss in State Revenue</u>	<u>Tax Shifts</u>	<u>Total Tax Benefit to Participants</u>	<u>Average Tax Benefit</u>
2005	1,457	\$2,700,858	\$272,787	\$1,136,845	\$1,409,632	\$967
2006	1,546	\$2,915,543	\$294,470	\$1,241,555	\$1,536,024	\$994
2007	1,608	\$3,158,974	\$319,056	\$1,352,451	\$1,671,508	\$1,039
2008	1,711	\$3,237,648	\$327,002	\$1,415,241	\$1,742,243	\$1,018
2009	1,643	\$3,768,883	\$383,125	\$1,711,423	\$2,094,548	\$1,275
2010	1,800	\$4,001,902	\$406,865	\$1,904,963	\$2,311,828	\$1,284
2011	2,037	\$4,061,664	\$412,888	\$1,937,029	\$2,349,917	\$1,154
2012	2,095	\$4,230,522	\$429,951	\$2,024,742	\$2,454,693	\$1,172
2013	2,147	\$4,413,666	\$448,579	\$2,156,731	\$2,605,310	\$1,213
2014	2,199	\$4,562,601	\$463,708	\$2,268,044	\$2,731,752	\$1,242
2015	2,103	\$4,916,616	\$499,854	\$2,495,371	\$2,995,225	\$1,424
2016	2,383	\$5,324,319	\$541,332	\$2,765,682	\$3,307,014	\$1,388
2017	2,427	\$5,920,080	\$601,769	\$3,176,103	\$3,777,872	\$1,557
2018	2,567	\$6,370,030	\$647,417	\$3,528,561	\$4,175,978	\$1,627

**Land Value Property Tax Assistance Program:** ,15-6-240, MCA  
**Legislation:** SB 94, 2017 Session

The Land Value Property Tax Assistance Program for Residential Property helps residential property owners if the value of their land is disproportionately higher than the value of their home or other buildings on their land and the land has been in their family for at least 30 years. The benefit applies to the portion of the property owner's land value that is more than 150 percent of the department's appraised market value of the home and other improvements located on the land, effectively capping the value of the property owners land to 150 percent of the improvement value. The benefit applies to a maximum of 5 acres, although there is no maximum on the tax benefit of this program, nor is there an income qualification.

The table below provides some summary data on the properties that received assistance under this program. In Tax Year 2018, the first year this program was available, there were 104 participants, the reduction in taxable value was equal to \$592,904, the reduction in state taxes was equal to \$59,909, and the shift in tax burden to other tax payers was equal to \$272,853. However, as the table below illustrates, these tax savings disproportionately distributed to the higher valued homes.

Land Value Property Tax Assistance Program Exemption Detail Tax Year 2018						
	<u>Market Value</u>	<u>Tax With SB 94</u>	<u>Tax Without SB 94</u>	<u>Tax Savings</u>	<u>State Tax Expend.</u>	<u>% Reduction in Taxes</u>
<b>Example Properties</b>						
Minimum <u>Valued</u> Prop.	\$61,422	\$319	\$569	-\$251	-\$37	-43.99%
Median <u>Valued</u> Prop.	\$798,400	\$5,101	\$5,684	-\$583	-\$112	-10.26%
Maximum <u>Valued</u> Prop.	\$3,753,800	\$12,050	\$25,745	-\$13,695	-\$2,723	-53.19%
<b>Summary Value (N=104)</b>						
Minimum <u>Values</u>	\$61,422	\$319	\$569	-\$105	-\$20	-1.71%
Average <u>Values</u>	\$923,906	\$3,629	\$6,829	-\$3,200	-\$576	-42.63%
Maximum <u>Value</u>	\$3,753,800	\$12,050	\$25,745	-\$16,584	-\$2,778	-92.52%
<b>Total</b>	<b>\$96,086,210</b>	<b>\$377,412</b>	<b>\$710,175</b>	<b>-\$332,763</b>	<b>-\$59,909</b>	<b>-46.86%</b>

## Property Tax Expenditures

### Economic Development Tax Expenditures

In addition to the residential property tax exemptions, there are tax expenditures in statute that encourage economic development by reducing the taxable value of properties or by creating a tax increment finance district. These expenditures are described below.

#### **Energy Production or Development Tax Abatement:** 15-24-3111, MCA **Legislation:** HB 3, May 2007 Special Session

The energy production or development tax abatement provides a 50 percent rate reduction on a qualified energy production or development facility and equipment. The tax rate reduction may be in effect during the construction period and the first 15 years after the facility commences operation, not to exceed a total of 19 years. Currently the properties using this abatement are Class 14 and Class 15, both of which are normally taxed at 3 percent. This program changes the tax rate to 1.5 percent for these properties.

In Tax Year 2018, approximately \$235.714 million market value was reported in this program, providing for an abatement of approximately \$1.415 million in taxes. Approximately \$0.357 million of this amount is a reduction in state revenue; the remaining amount was shifted to other tax payers.

<b>Energy Production or Development State and Local Tax Abatement</b>					
<b>Tax Year</b>	<b>Market Value</b>	<b>Reduction in Taxable Value</b>	<b>Loss in State Revenue</b>	<b>Tax Shifts</b>	<b>Total Tax Benefit to Participants</b>
2012	\$64,844,968	\$972,675	\$98,466	\$463,966	\$562,432
2013	\$176,656,421	\$2,649,846	\$268,027	\$1,137,804	\$1,405,831
2014	\$240,744,779	\$3,611,173	\$365,159	\$1,556,291	\$1,921,449
2015	\$292,397,489	\$4,252,907	\$429,985	\$1,450,428	\$1,880,413
2016	\$294,559,606	\$4,201,253	\$424,327	\$1,600,023	\$2,024,350
2017	\$268,796,398	\$4,031,946	\$407,227	\$1,545,357	\$1,952,584
2018	\$235,714,004	\$3,535,709	\$357,107	\$1,414,512	\$1,771,618

#### **Electrical Generation and Transmission Facility Exemption:** 15-24-3001, MCA **Legislation:** HB 3, May 2007 Special Session

The electrical generation and transmission facility exemption provides a 10 year exemption from taxation for certain qualified property that was constructed in the state of Montana between May 5, 2001 and January 1, 2006.

In 2018, this exemption was not claimed by any taxpayer.

#### **Tax Increment Finance Districts:** 7-15-4282, MCA **Legislation:** HB 193, 1974 Session

Tax increment financing (TIF) provides for the segregation of the taxable value, in a qualified district, into base and increment values. Qualified districts may include urban renewal districts and targeted economic development districts. Tax increment financing may be used to pay for a variety of development activities within the TIF, including land acquisition, demolition and removal of structures, relocation of occupants, infrastructure costs, construction of publicly owned buildings and improvements, administration of urban renewal activities, and paying bonds that were issued to fund appropriate costs. To learn more about TIFs, please refer to the property tax chapter.

The TIF increment value is the amount of taxable value of a TIF less the taxable value when it was formed. All local and state mills are levied against the TIF increment value and the TIF retains this revenue with the exception of the 6 university mills.

## Property Tax Expenditures

The state only receives revenue for mills levied against TIF increment value from the 6 university mills so the tax expenditure cost to the state is the revenue generated from the 95 and 1.5 statewide mills on the increment value. Unlike the other property tax expenditure programs, there is not a clear shift to other taxpayers. There are however some instances when the creation of a TIF can lead to increases in property taxes for taxpayers located inside and outside the TIF.

Development within a TIF may necessitate an increase of services by local jurisdictions, whether they are schools, towns, counties, or fire districts. Since local budgets are constrained by 15-10-420, MCA, local governments may propose voted mill levy increases to pay for new services. A voted levy would increase taxes for all property owners located in the jurisdiction, increase TIF revenue, and may increase taxes on property located outside of the TIF.

If development is intended inside a proposed TIF district, but does not occur before the TIF base is determined, the TIF may collect revenue that may have otherwise been used to reduce mills and taxes due by property owners in affiliated taxing jurisdictions.

The following table presents the amount of revenue used by TIFs in Montana by type of jurisdictions for tax years 2009 through 2018. In 2018, the amount of TIF revenue that came from the 95 state education equalization mills and 1.5 vo-tech mills was \$5.259 million.

TIF Districts Revenue Generated by Mill Type							
Tax Year	Increment	Revenue From Statewide Mills	Revenue From County Mills	Revenue From School Mills	Revenue From City Mills	Revenue From Misc. Mills	Total From All Mills
2009	\$32,014,815	\$3,069,779	\$6,079,435	\$6,599,541	\$2,853,160	\$778,881	\$19,380,796
2010	\$42,266,864	\$4,057,293	\$7,767,739	\$9,969,301	\$3,905,254	\$995,454	\$26,695,041
2011	\$46,300,358	\$4,438,575	\$9,385,018	\$10,625,763	\$4,264,645	\$1,213,209	\$29,927,210
2012	\$46,053,586	\$4,408,555	\$8,627,610	\$10,660,530	\$4,220,604	\$1,681,498	\$29,598,797
2013	\$48,039,378	\$4,652,871	\$8,694,981	\$9,843,858	\$4,525,461	\$1,873,798	\$29,590,969
2014	\$45,186,770	\$4,324,414	\$7,822,155	\$10,879,496	\$4,910,109	\$1,654,865	\$29,591,039
2015	\$50,785,821	\$4,871,444	\$9,031,894	\$12,909,760	\$5,823,421	\$1,498,020	\$34,134,539
2016	\$52,929,104	\$5,069,499	\$13,090,100	\$10,221,322	\$5,369,837	\$1,618,956	\$35,369,714
2017	\$58,171,093	\$5,571,918	\$10,688,524	\$14,728,273	\$6,639,817	\$2,245,574	\$39,874,104
2018	\$54,926,982	\$5,258,806	\$10,385,468	\$15,769,712	\$6,436,009	\$1,561,221	\$39,411,215

### Centrally Assessed Tax Expenditures

The last type of property tax deals with the way centrally assessed properties are value relative to locally assessed properties.

#### Intangible Personal Property (IPP) Exemption: 15-6-218, MCA

Legislation: SB 111, 1999 Session

Montana is a unit value state, which means that a total unit value of a centrally assessed company is determined, and the relevant portion of the total value is allocated to Montana using an apportionment formula for property tax purposes. The Montana unit value includes both tangible and intangible personal property. Since centrally assessed companies are valued as a whole unit, and not as a sum of each individual part, the value of IPP must be excluded from the unit value.

Intangible personal property can be exempt Class 8 personal property, or exempt personal property owned by a centrally assessed company. The concept of intangible personal property is not easily grasped, since by its very nature lacks a physical presence and cannot be seen or touched. IPP is statutorily defined in 15-6-218, MCA, but unfortunately, these definitions can be somewhat ambiguous. In some instances,

## Property Tax Expenditures

statute very clearly defines IPP. Certificates of stock, bonds, promissory notes, licenses, copyrights, patents, trademarks, contracts, software, and franchises are all specifically defined as IPP. However, IPP is also defined with the following more nebulous descriptions: goodwill, property that “has no intrinsic value but is representative of value”, or property that “lacks a physical presence”.

The department excludes IPP by automatically granting each company a percentage reduction to account for the inclusion of IPP in the unit value. However, a company may claim a larger reduction if it can prove that the value of IPP is greater than the default percentage provided by rule.

The fiscal impact of exempting intangible personal property is estimated by calculating the taxable value decrease caused by exempting IPP market value from centrally assessed companies. This decrease is the difference of taxable value under current law and the taxable value that would exist in the absence of the IPP exemption.

The following table displays the market value of exempt IPP, the impact the exemption has on taxable value, the impact on statewide property taxes, and the estimated amount of tax revenue shifted to local tax taxpayers. In Tax Year 2018, it is estimated state property tax revenues would have been \$15.595 million higher if there was no IPP exemption.

<b>Intangible Personal Property Exemption State and Local Tax Effects</b>					
<b>Tax Year</b>	<b>Exempt Market Value</b>	<b>Reduction in Taxable Value</b>	<b>Loss in State Revenue</b>	<b>Tax Shifts</b>	<b>Total Tax Benefit to Central. Assess. Comp.</b>
2012	\$1,694,045,680	\$106,005,997	\$10,774,142	\$46,527,597	\$57,301,739
2013	\$1,883,034,088	\$117,423,302	\$11,934,115	\$53,480,744	\$65,414,859
2014	\$1,777,563,764	\$112,421,730	\$11,420,628	\$51,779,273	\$63,199,901
2015	\$1,864,874,318	\$116,341,728	\$11,818,446	\$53,397,311	\$65,215,756
2016	\$1,738,771,588	\$111,478,545	\$11,322,582	\$51,124,671	\$62,447,253
2017	\$2,445,472,074	\$154,291,592	\$15,680,073	\$77,326,355	\$93,006,427
2018	\$2,447,543,291	\$153,466,984	\$15,595,004	\$80,224,603	\$95,819,607

### **Generally Exempt Property:** Title 15, Chapter 6, Part 2 (and Various Other Sections)

**Legislation:** NA

Certain property may qualify for a reduced taxable value. This can be either a direct reduction, or a reduction of assessed value. Montana does not tax certain types of property or organizations. For example, real property owned by federal, state, and local governments; public libraries; irrigation districts not operated for gain or profit; property owned by municipal corporations, fire districts and some volunteer fire departments; or property owned by a federally recognized tribe located within the boundaries of the reservation and used for essential governmental services is all exempt from property taxation.

Montana also recognizes the tax exempt status of the following organizations: church property used for religious worship, clergy residence, or educational or youth recreational activities open to the public; nonprofit agricultural or horticultural societies; organizations with specific educational facilities; low-income housing nonprofits; organizations with nonprofit health care facilities; cemeteries; public charities; public museums, art galleries, zoos, or observatories operating as not-for-profit; nonprofits that lease railroad right-of-way land for less than \$100 per year; landowners with land within 660 feet on either side of qualifying transmission right-of-way constructed after January 1, 2007; organizations with a nonprofit veterans' clubhouse; organizations with nonprofit facilities used in international sports and athletic event competitions or used in training and practicing for such competitions; nonprofits organized to furnish potable water to its members (other than for agricultural irrigation); and nonprofits caring for the developmentally disabled, the mentally ill, the vocationally handicapped, the retired, aged, or chronically ill.

Additionally, some personal property is specifically exempt from property taxation including: freepoint merchandise and business inventories; agricultural irrigation systems livestock and the unprocessed products of livestock; livestock that is subject to a per capita fee; producer-held grain in storage; unprocessed

## Property Tax Expenditures

agricultural products; poultry and the unprocessed products of poultry; bees and the unprocessed products of bees; biological control insects; some sugar beet equipment; agricultural implements and machinery worth less than \$100; down-hole equipment in oil and gas wells; certain motion picture and television property; intangible personal property, including software; harness, saddles, and other tack; the first \$15,000 or less of hand-held tools; household goods and furniture; bicycles used for personal use; personal property intended for rent or lease if it meets specific conditions; space vehicles and all associated equipment; title plane owned by a title insurer; business equipment used in the manufacture of ammunition components; machinery and equipment used in a canola seed oil processing facility, malting barley facility, industrial dairy or milk processing, or in the production of ethanol from grain in the first 10 years; small electrical generation equipment with a nameplate capacity of less than 1 megawatt; property subject to registration fees; class 8 property totaling less than \$100,000 market value.

Some property is contained in the property tax system, such as property owned by a governmental entity, and the tax impact of exempting this property can therefore be estimated. Other types of property are not reported, and therefore, the tax impact of exempting these properties cannot be accurately estimated, class 8 property owners who don't report the value of their business equipment property under \$100,000 as an example.

The following table shows the tax impact of some of the property tax exemptions that could be estimated in the property tax database. However, this is an underestimate, as the tax impact cannot be estimated for all types of exempt property.

<b>TY 2018 Estimated Tax Expenditures for Generally Exempt Property</b>				
<b>Type of Exemption</b>	<b>Parcels</b>	<b>Market Value</b>	<b>Tax Shift</b>	<b>Tax Expend</b>
Governmental Exemptions	96,882	8,404,394,674	62,172,823.45	11,550,139.92
Non-Profit Health Care	482	1,325,348,800	16,210,128.81	2,547,516.42
Religious Exemptions	2,439	1,152,460,261	12,679,791.87	2,164,953.06
Educational Exemptions	574	649,812,195	7,486,351.46	1,232,891.21
Charitable Exemptions	943	564,610,650	6,528,371.44	1,063,986.97
Low Income Housing	145	176,602,835	2,163,960.98	329,039.81
Community Service Building/Fraternal	353	123,521,756	1,385,515.29	234,703.36
Developmentally Disabled Org/Mentally Impaired	254	100,230,394	1,136,843.65	180,432.07
Art Galleries/Observatories/Zoos/Museums	87	44,123,466	468,369.09	83,261.52
Cemetery, Mausoleums, Crematories	130	42,652,336	482,818.65	81,331.46
Retired/Aged/Chronically Ill	25	30,163,317	350,758.25	57,633.61
Veteran's Clubhouse	78	15,568,468	181,003.98	29,313.52
Non-Profit Water Association	88	8,679,093	71,854.53	15,949.43
Non-Profit International Athletic Facility	3	5,352,973	64,540.05	10,308.92
Horticulture/Agricultural Societies	2	2,503,162	26,515.54	4,778.81
Natural Disaster	21	1,142,999	10,701.31	1,770.91
Historic Abatement	1	159,220	2,039.34	303.94
Unknown	21,210	696,701,230	7,146,184.97	1,215,226.80
<b>Total</b>	<b>123,717</b>	<b>13,344,027,829</b>	<b>118,568,573</b>	<b>20,803,542</b>

### Oil and Gas Tax Expenditures

There are many tax rates for production from oil and natural gas wells, depending on the type of well, when they were drilled, and whether the production is owned by working interest or royalty owners. The following tax expenditures all apply to working interest owners, as production owned by royalty owners does not benefit from any tax expenditures. All estimated tax expenditures are summarized in the table at the end of this section.

#### Reduced Rates for “New” Oil and Gas Production

**Code:** 15-36-304, MCA

**Legislation:** HB 553, 1977 session

Oil or gas produced from a well that qualifies as “new” production is taxed at a reduced rate of 0.80 percent. This reduced rate applies for the first 12 months of production from a conventional well and the first 18 months of production from a horizontally completed well. New production includes production from new wells and from wells that have not produced oil or gas during the previous 60 months. This reduced rate is intended to provide an incentive for the exploration, development and production of oil and gas.

#### Reduced Rate for Horizontally Recompleted Oil Wells

**Code:** 15-36-304, MCA

**Legislation:** SB 18, 1993 session

The first 18 months of incremental production from a horizontally recompleted well is taxed at 5.80 percent. After this period, the tax rate reverts to 9.30 percent for wells drilled in and after Calendar Year 1999 or 12.80 percent for wells drilled prior to 1999. There has been no production reported from horizontally recompleted oil wells after Fiscal Year 2012.

#### Reduced Rates for Incremental Oil Production from Enhanced Recovery Projects

**Code:** 15-36-304, MCA

**Legislation:** HB 636, 1985 session

In any quarter when the average price of West Texas Intermediate (WTI) crude oil is less than \$54 per barrel, incremental production from secondary recovery projects is taxed at 8.80 percent, and incremental production from tertiary recovery projects is taxed at 6.10 percent. In quarters when the average price of WTI is at least \$54 per barrel, these wells are taxed at 9.30 percent for wells drilled in and after Calendar Year 1999 and 12.80 percent for wells drilled before 1999. The reduced rates provide incentives for the use of enhanced recovery technologies when prices are low.

#### Reduced Rates for Stripper Exemption and Stripper Oil Wells

**Code:** 15-36-304, MCA

**Legislation:** HB 661, 1999 session; HB 658, 1999 session; HB 535, 2005 session; HB 411, 2015 session

In any quarter the average price of WTI crude oil is less than \$54 per barrel, oil from wells on leases that produce less than 3 barrels per well per day is taxed at 0.80 percent (stripper exemption). If the price of WTI is equal to or greater than \$54 per barrel, this oil is taxed at 6.30 percent.

From wells on leases that produce between 3 and 15 barrels per well per day (stripper oil), the first 10 barrels per day are taxed at 5.80 percent and remaining production is taxed at 9.30 percent in quarters when the average price of WTI is less than \$54 per barrel. In quarters when the average price of WTI is at least \$54 per barrel, stripper oil is taxed at 9.30 percent for well drilled in and after 1999 and 12.80 percent for wells drilled before 1999. The reduced rates on stripper exemption and stripper oil provide an incentive to keep low-volume wells in production.

## Natural Resource Tax Expenditures

The 2015 Legislature passed HB 411 changing one of the benchmarks for reduced rates from \$38 per barrel to \$54 per barrel (average quarterly WTI price). The change increased the revenue foregone by the state during Fiscal Year 2016 and 2017 with the price exceeding the trigger point part-way through Fiscal Year 2018.

### Reduced Rates for Pre-1999 “Stripper” Gas Wells

Code: 15-36-304, MCA

Legislation: SB 530, 1999 session

Gas wells drilled prior to January 1, 1999, that produced less than 60,000 cubic feet of natural gas a day during the previous year (stripper wells) receive a preferential tax rate of 11.30 percent.

Oil and Natural Gas Severance Tax Expenditures							
Natural Gas Production	New Production Tax Holiday						
	Fiscal Year	Working Interest Value	Actual Tax Rate	Tax Revenue	Normal Tax Rate	Normal Tax Revenue	Tax Expenditure
	2014	\$23,652,552	0.760%	\$179,759	9.260%	\$2,190,226	\$2,010,467
	2015	\$13,343,168	0.760%	\$101,408	9.260%	\$1,235,577	\$1,134,169
	2016	\$3,259,367	0.760%	\$24,771	9.260%	\$301,817	\$277,046
	2017	\$409,529	0.787%	\$3,225	9.287%	\$38,033	\$34,808
	2018	\$1,542,607	0.800%	\$12,341	9.300%	\$143,462	\$131,122
	Drilled Before 1999 and Average Less Than 60 MCF/ Day in Prior Calendar Year						
	Fiscal Year	Working Interest Value	Actual Tax Rate	Tax Revenue	Normal Tax Rate	Normal Tax Revenue	Tax Expenditure
	2014	\$33,768,347	11.260%	\$3,802,316	15.060%	\$5,085,513	\$1,283,197
	2015	\$25,239,595	11.260%	\$2,841,979	15.060%	\$3,801,083	\$959,104
	2016	\$12,426,517	11.260%	\$1,399,226	15.060%	\$1,871,433	\$472,207
2017	\$11,750,406	11.290%	\$1,326,579	15.090%	\$1,773,136	\$446,557	
2018	\$9,532,877	11.300%	\$1,077,216	15.100%	\$1,439,464	\$362,249	
Oil Production	New Production Tax Holiday						
	Fiscal Year	Working Interest Value	Actual Tax Rate	Tax Revenue	Normal Tax Rate	Normal Tax Revenue	Tax Expenditure
	2014	\$657,251,544	0.760%	\$4,996,704	9.260%	\$60,861,493	\$55,864,789
	2015	\$425,578,790	0.760%	\$3,234,399	9.260%	\$39,408,596	\$36,174,197
	2016	\$107,543,080	0.760%	\$817,327	9.260%	\$9,958,489	\$9,141,162
	2017	\$11,268,317	0.789%	\$88,876	9.289%	\$1,046,714	\$957,838
	2018	\$29,850,102	0.800%	\$238,801	9.300%	\$2,776,060	\$2,537,259
	Stripper Well Production						
	Fiscal Year	Working Interest Value	Actual Tax Rate	Tax Revenue	Normal Tax Rate	Normal Tax Revenue	Tax Expenditure
	2014	\$45,552,890	6.260%	\$2,851,611	9.260%	\$4,218,198	\$1,366,587
	2015	\$31,379,118	6.260%	\$1,964,333	9.260%	\$2,905,706	\$941,373
	2016	\$17,747,394	0.765%	\$135,737	9.260%	\$1,643,409	\$1,507,672
2017	\$20,798,632	0.790%	\$164,334	9.290%	\$1,932,193	\$1,767,859	
2018	\$21,519,867	4.904%	\$1,055,394	9.300%	\$2,001,348	\$945,954	
Total	Fiscal Year	Natural Gas Tax Expenditures	Oil Tax Expenditures	Oil and Natural Gas Tax Expenditures			
	2014	\$3,293,664	\$57,231,376	\$60,525,040			
	2015	\$2,093,274	\$37,115,571	\$39,208,844			
	2016	\$749,254	\$10,648,834	\$11,398,087			
	2017	\$481,365	\$2,725,697	\$3,207,062			
	2018	\$493,371	\$3,483,213	\$3,976,583			