

TAX STRUCTURE AND TRENDS



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Introduction

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

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

Government Functions and Revenue Sources

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

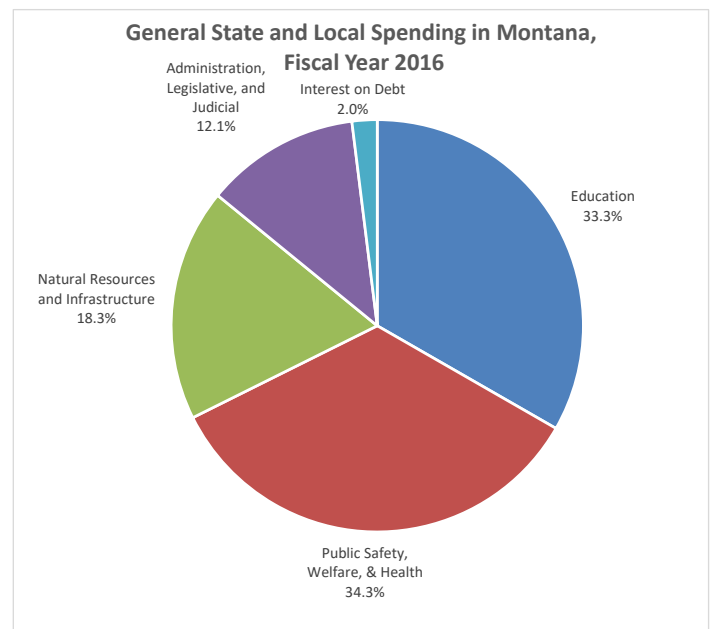
In the United States, private businesses and non-profit groups provide many of the goods and services that people want. Businesses provide goods and services that can be sold to their customers at a profit. Non-profit groups provide goods and services that donors and customers are willing to pay for, or volunteers are willing to provide. Governments provide other services that lawmakers have concluded their constituents want and are willing to finance. Governments provide services, such as police and fire protection, that are designed to benefit everyone in the community. Governments also provide services like road systems, where the costs of charging individual users and excluding those who don't pay are prohibitive. In other cases, governments provide services such as sewer systems, where benefits - in this case public health - are obtained only if everyone participates. In some cases, governments provide services, such as the education of children, to ensure that they are available to everyone regardless of their ability to pay.

Governments pay for the services they provide by raising revenue from several different sources, such as the collection of taxes, user fees, interest, the selling of property and transfers from other governments.

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

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

Governments also receive revenue from normal business transactions. For example, governments earn interest on investments and sell surplus



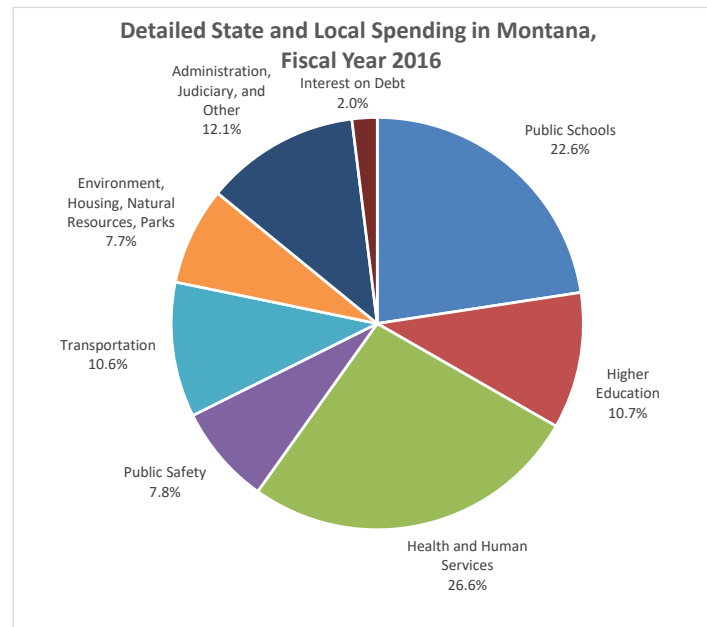
State and Local Government Finance in Montana

property. Local governments operate utilities that may sell water, electricity, or natural gas. State and local governments also receive intergovernmental transfers from the federal government and local governments receive transfers from state governments. These transfers include federal payments to states for Medicaid and state support for local school districts. In Montana, transfers include entitlement share payments to local governments, which replaced local taxes brought to the state beginning in 2001 with the passage of HB 124.

State and Local Spending

The chart on the right shows the percentage of state and local spending in Montana in each of eight general categories for the Fiscal Year ending June 30, 2016.¹ Education, including public schools and the university system, accounted for one-third of total spending. Health and human services accounted for a little more than one-third of total spending. This includes Medicaid, public health programs, and income support programs. Other categories account for smaller shares of total spending.

Somewhat more than half of total state and local government spending occurs at the state level, and somewhat less than half at the local level. The table below shows the breakdown for Fiscal Year 2016. It shows direct spending to provide government services. It excludes state transfers of funds to local governments and school districts because those amounts are included in local spending.



State and Local Government Direct Expenditures on Government Services, FY 2016 (Excludes Local Government Utilities and State Liquor Enterprise)		
	\$ million	% of Total
State Direct Expenditures (Excludes Transfers to Local Governments and School Districts)	\$4,945	56%
Local Expenditures	\$3,831	44%
Total	\$8,776	100%

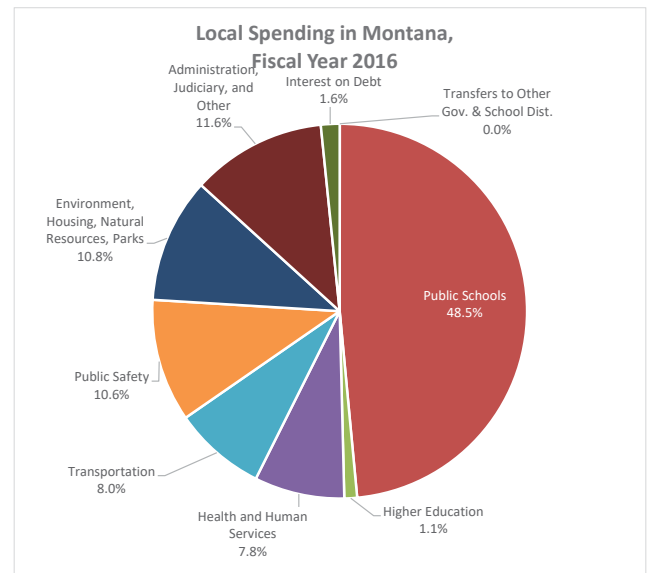
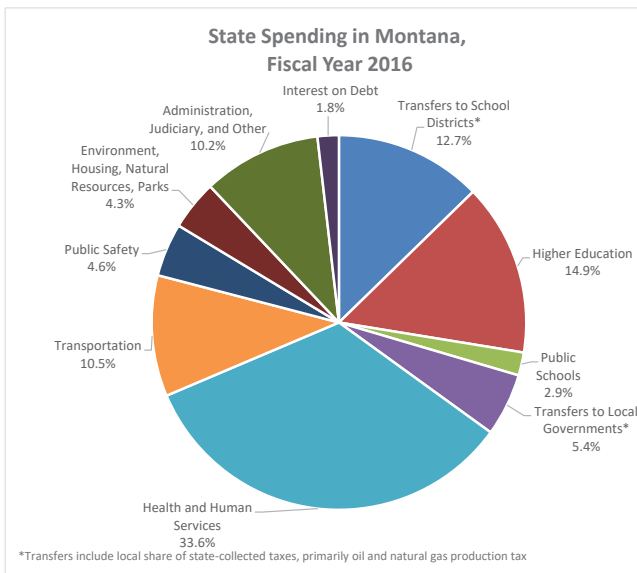
The next two charts on Page 10 show state and local spending separately. The left-hand chart shows state spending, including transfers to local governments and school districts as well as direct spending. The right-hand chart shows local spending.

Almost 20 percent of state spending is transfers to local governments and school districts.

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

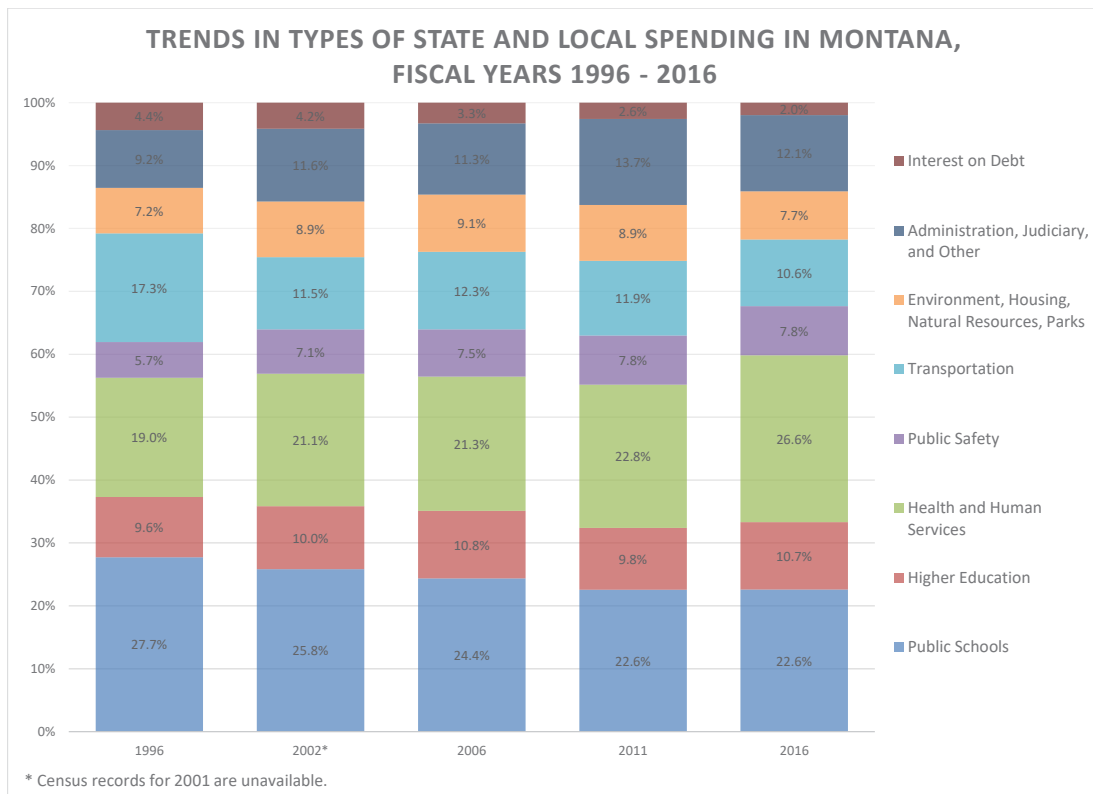
¹ In this section, information on combined state and local spending and state and local revenue from all sources is from the U.S. Census Bureau's annual survey of state and local governments. This is the only source for combined state and local data that is collected consistently across states. For comparisons between states, it is important to use combined state and local data because taxing and spending are divided between state and local governments differently in different states. The most recent Fiscal Year for which the Census Bureau has compiled data is 2016. Information on Montana state and local tax collections through Fiscal Year 2018 is from the state accounting system and Department of Revenue records.

State and Local Government Finance in Montana



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

Direct spending for public schools is primarily local, accounting for almost half of local spending. Higher education spending is almost all at the state level, accounting for about 15 percent of state spending. Health and human services spending is significant at both the state and local level, accounting for 33.6 percent of state spending and 8 percent of local spending. Spending on other functions also occurs at both levels. This includes transportation, public safety and general government administration.



State and Local Government Finance in Montana

Over the past 20 years, the types of spending at the state and local levels has shifted in several areas. The share of spending on public schools has declined from 27.7 percent in Fiscal Year 1996 to 24.4 percent in Fiscal Year 2006 and to 22.6 percent in Fiscal Year 2016. At the same time, the share of state and local government spending on Public Safety, and Health and Human Services has increased, from 24.7 percent in Fiscal Year 1996 to 34.4 percent in Fiscal Year 2016. The chart on the previous page shows the percentage of state and local spending in Montana for each of the eight general spending categories for fiscal years 1996, 2002, 2006, 2011 and 2016.

State and Local Revenue

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

State taxes are the largest source of state revenue, making up 44 percent of the total. Transfers from the federal government, at 41 percent of the total, are the next largest source of state revenue. This includes federal funding for Medicaid and other state programs and federal education funds that are passed on to school districts.

Charges and fees make up 8 percent of state revenue. More than 80 percent of the charges and fees are university system tuition and fees. This category also includes income from state lands. Interest earnings on trust funds and other state accounts are about 4 percent of state revenue, and about 3 percent is from miscellaneous sources.

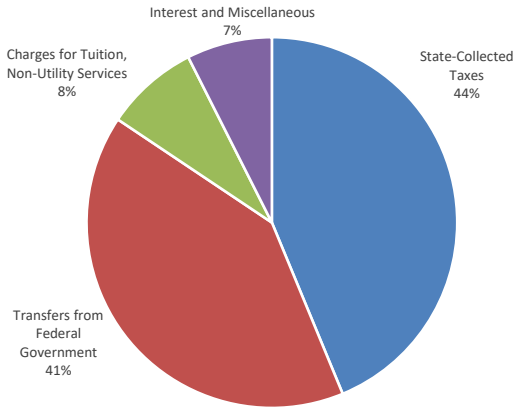
Transfers from the state government, including the local share of state-collected taxes, and local taxes each are slightly more than one-third of local revenue. Charges for local services make up 17 percent of local revenue. Transfers from the federal government and revenue from miscellaneous sources, including interest, each account for 6 percent.

The remaining four charts show combined state and local revenue. Because state and local governments and school districts are combined in these charts, transfers between levels of government are not shown. The chart on the left side of the middle of the page shows that revenue is almost evenly split between taxes and all other sources. The chart on the right shows total revenue with taxes broken down into five types and other revenue sources broken down into three types.

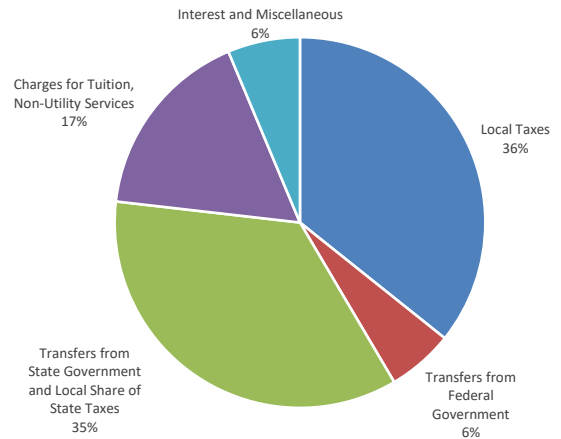
The charts on the bottom of the page show state and local tax revenue, on the left, and non-tax revenue, on the right.

State and Local Government Finance in Montana

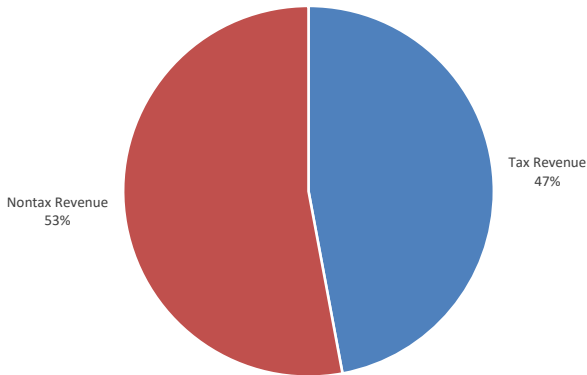
State Revenue in Montana, Fiscal Year 2016



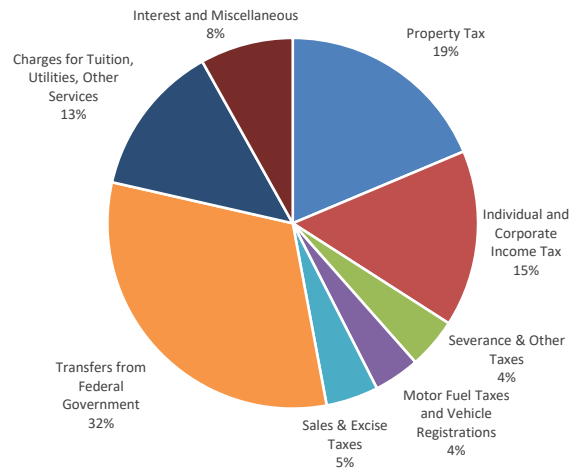
Local Revenue in Montana, Fiscal Year 2016



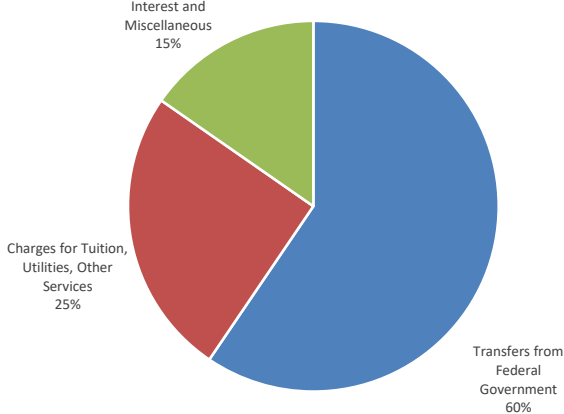
Tax and Nontax State and Local Revenue in Montana, Fiscal Year 2016



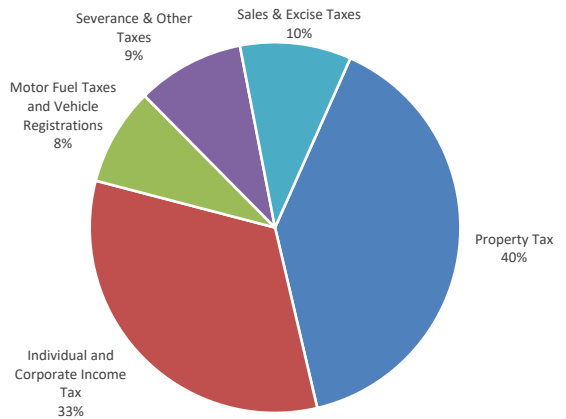
Detailed State and Local Revenue in Montana, Fiscal Year 2016



State and Local Nontax Revenue in Montana, Fiscal Year 2016



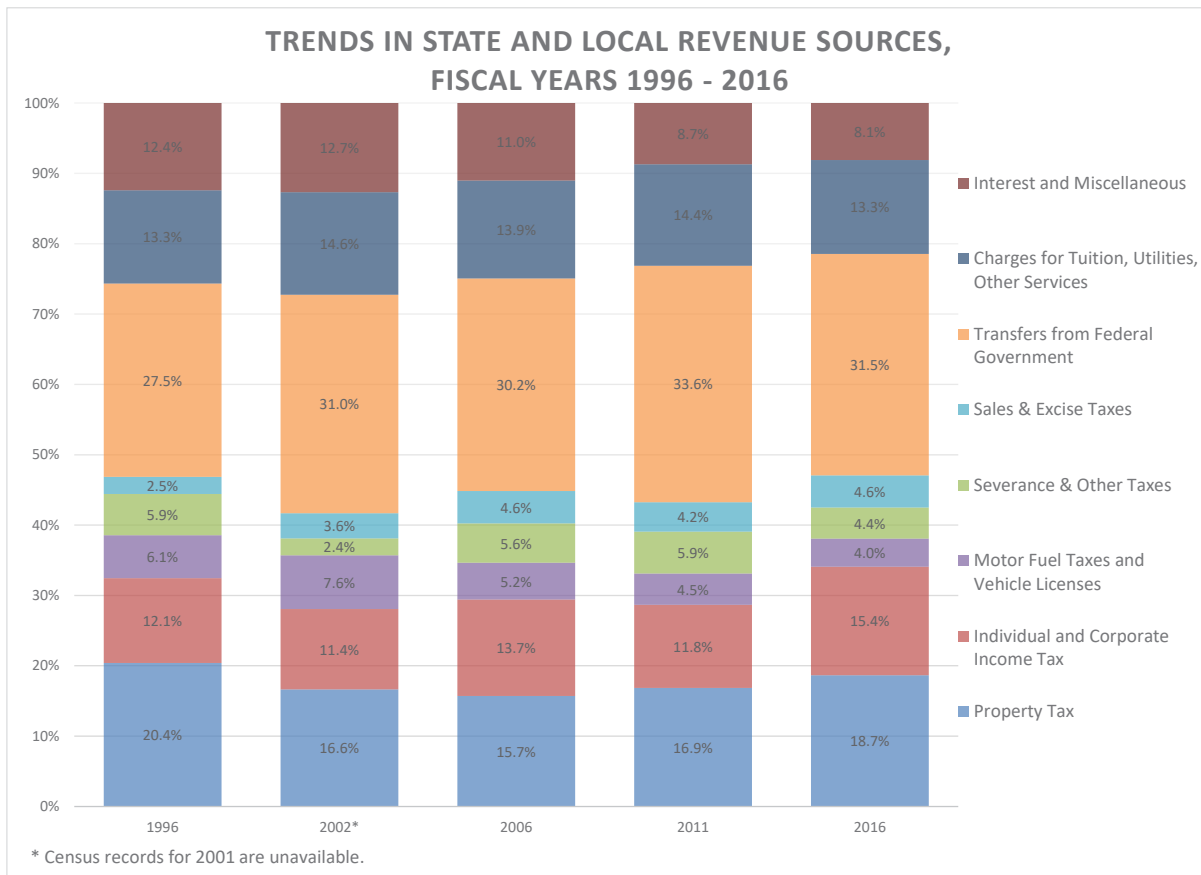
State and Local Tax Revenue in Montana, Fiscal Year 2016



State and Local Government Finance in Montana

The sources of state and local revenue have changed in relative importance over time. This is shown in the following graph. Transfers from the federal government have varied over time, partly due to the fact that state revenue tends to grow slowly or even fall in a recession while the federal transfers to state and local governments continue or are even increased. From 1996 to 2011, the share of state and local revenue coming from the federal government increased from 27.5 percent to 33.6 percent. In 2016, it had decreased to 31.5 percent.

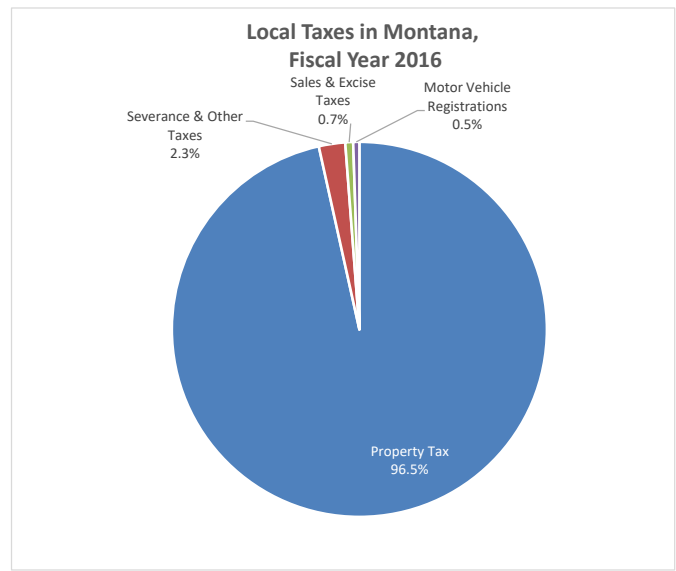
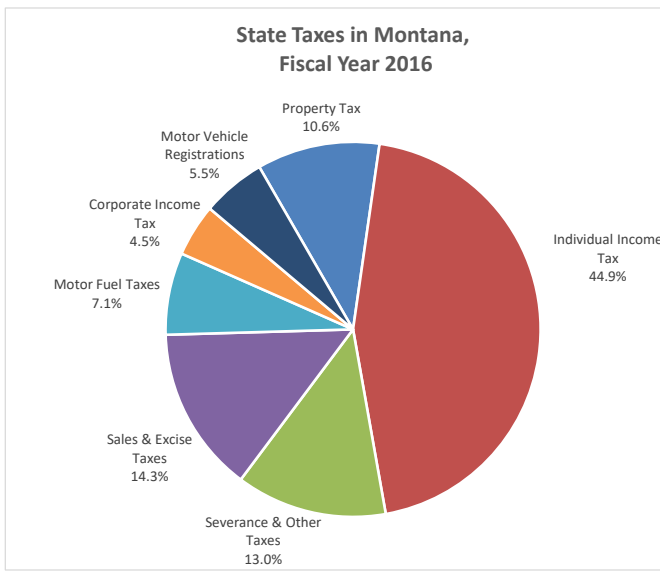
Changes in the other shares reflect both changes in the state economy and state and local legislative actions. For example, the share of severance and other taxes decreased from 1996 to 2002 as low oil and gas prices led to falling production. This share increased from 2002 to 2011 as higher prices and new technology led to increased production. As another example, the share of sales and excise taxes increased between 1996 and 2016 due, in part, to new taxes on lodging and rental cars.



State and Local Taxes

The two pie graphs on the next page show state and local tax revenue. The state collects a wide variety of taxes. The largest source of state tax revenue is the individual income tax. In Fiscal Year 2016, sales and excise taxes made up the second largest category, generating more than 14 percent of state tax revenue. The share of state taxes generated by severance and other taxes decreased from 17.3 percent in 2013 to 13 percent in 2016. The oil and gas production tax was about two-thirds of this category in fiscal 2013, with the remainder composed of mining taxes and other miscellaneous taxes. While it is collected at the state level, about half of the oil and gas tax is distributed to local governments and school districts. Statewide property taxes are earmarked for public schools and the university system. Revenue from the 95 mills levied for schools is deposited in the state general fund, where it covers about one-third of state funds transferred to school districts. Motor fuel taxes are earmarked for the highway system and other related uses.

Department of Revenue Tax Collections



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

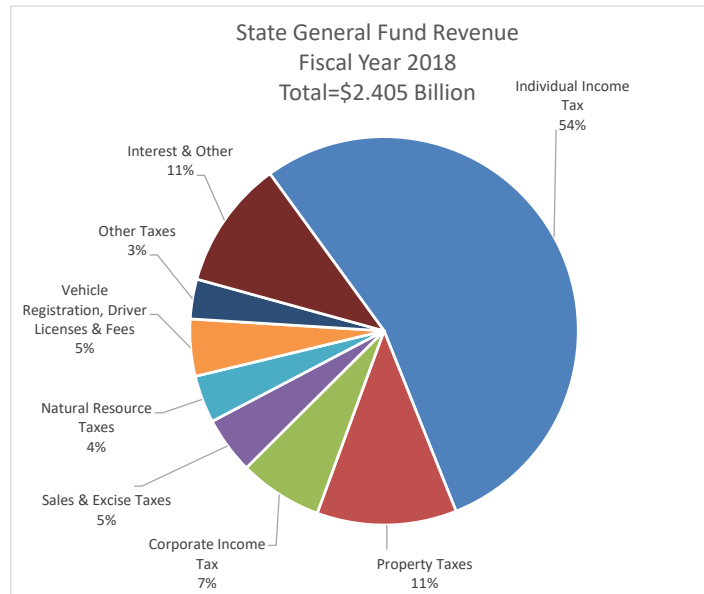
The following table shows how each type of tax was allocated between state and local governments in the Fiscal Year ending June 30, 2018. For the state share, it shows the allocation between the state general fund and earmarked uses. Each column shows the allocation of one type of tax. The bottom row shows the percentage of total state and local tax revenue from each type of tax. The rest of each column shows the percentage of collections of each type of tax that went to local governments, school districts, the state general fund, and various earmarked state funds in Fiscal Year 2018.

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

Allocation of Montana State and Local Taxes, FY 2018							
	Property Tax	Individual Income Tax	Severance & Other Taxes	Sales & Excise Taxes	Motor Fuel Taxes	Corporate Income Tax	Motor Vehicle Licenses
Local							
Governments & Special Districts	40.90%	-	15.38%	0.84%	-	-	-
Schools	41.47%	-	16.74%	-	-	-	-
State							
General Fund	16.57%	100.00%	38.12%	44.06%	-	100.00%	69.72%
University System	1.06%	-	0.81%	1.08%	-	-	-
Health & Human Services	-	-	-	20.09%	-	-	-
Regulation & Agency Operations	-	-	1.73%	15.09%	-	-	4.62%
Public Safety	-	-	2.07%	1.46%	0.05%	-	-
Transportation	-	-	-	0.22%	95.78%	-	22.71%
Environment	-	-	5.01%	0.30%	4.17%	-	-
State Buildings	-	-	3.78%	0.29%	-	-	-
Trust Funds (inc. Retirement)	-	-	16.36%	0.27%	-	-	0.16%
Parks, Recreation, Tourism	-	-	-	16.30%	-	-	2.80%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
% of Total from Each Tax	39.94%	30.36%	4.34%	13.54%	4.13%	4.09%	3.61%
Total From Each Tax (\$ millions)	\$1,703.136	\$1,294.934	\$184.991	\$577.407	\$175.973	\$174.393	\$153.857

Department of Revenue Tax Collections

The graph to the right shows the breakdown of general fund revenue for the Fiscal Year ending June 30, 2018, including taxes and non-tax revenue. The individual income tax is by far the largest single source of revenue for the general fund, and accounts for over half of state general fund revenue. The second largest source is property tax from the 95-mill statewide school equalization levy, which accounted for 11 percent of general fund revenue. Nearly all other revenue categories each accounted for less than 10 percent of general fund revenue.

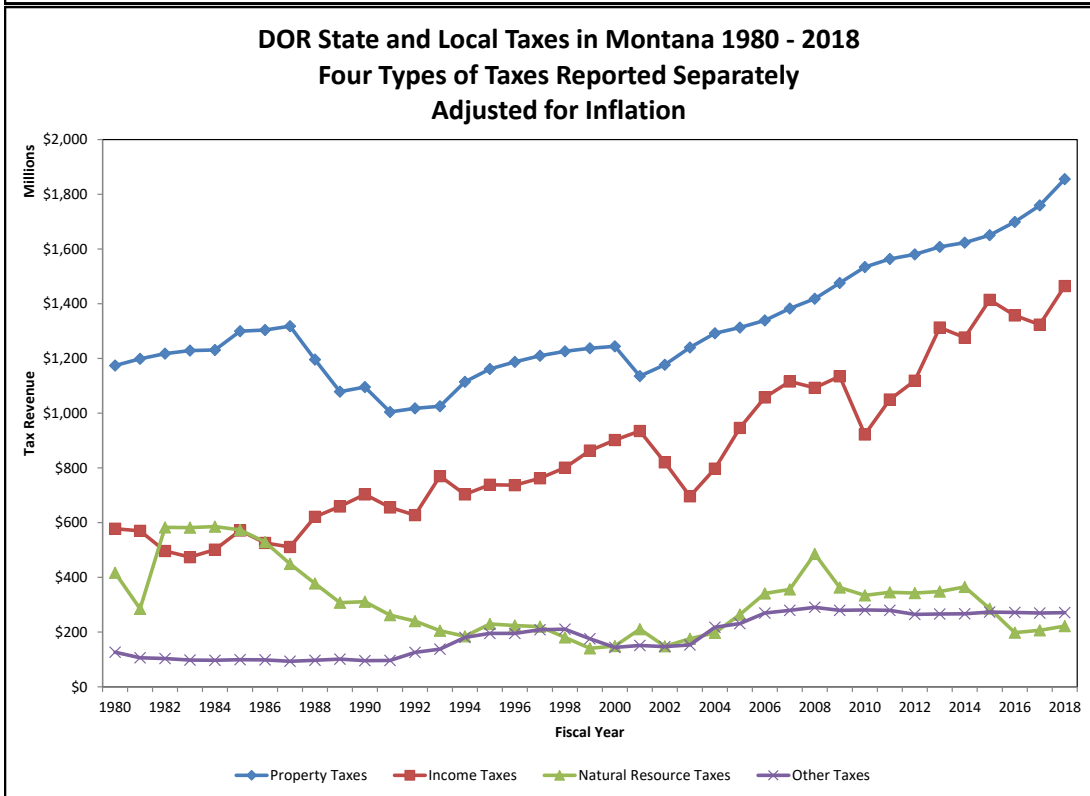
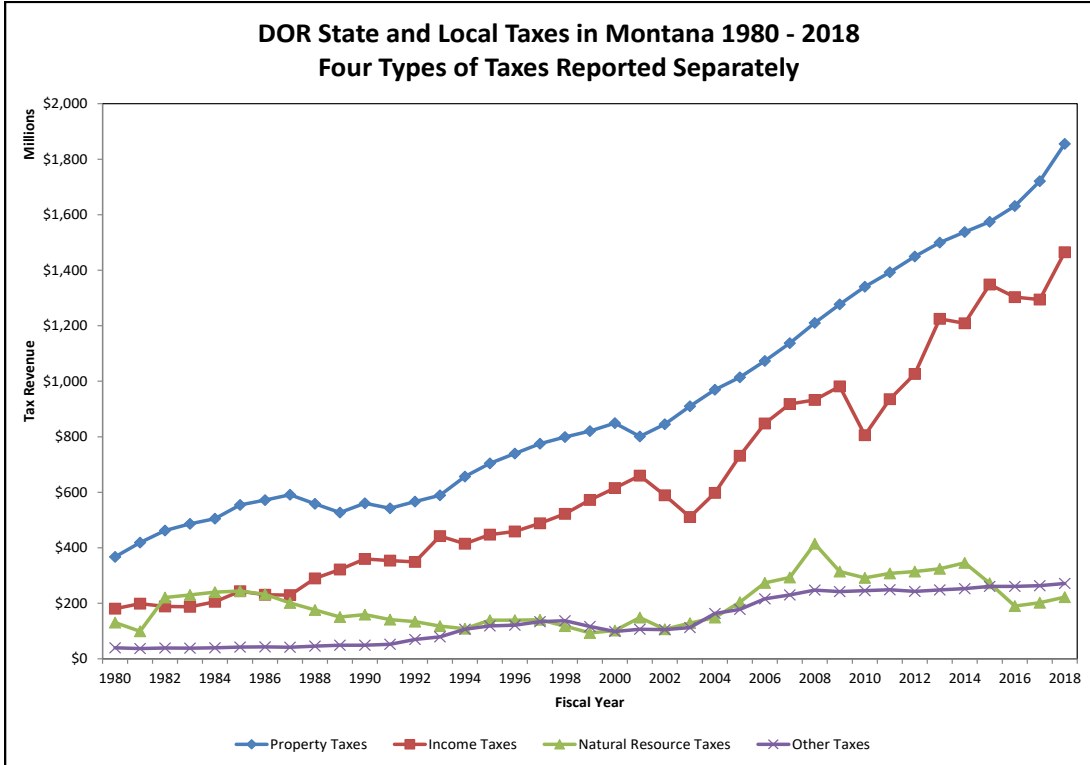


The following table shows Department of Revenue collections of state taxes for Fiscal Years 2012 through 2018. For taxes where revenue is split between the state and local governments, this table shows only the state share. Details on each tax can be found in later sections of this report. The Department of Revenue collects about 80 percent of state tax revenue. Other agencies that collect at least 1 percent of state tax revenue are the Department of Transportation (motor fuel taxes), the Commissioner of Securities and Insurance (insurance taxes), and the Department of Justice (gambling taxes).

Department of Revenue State Collections - Fiscal Years 2012 - 2018							
	2012	2013	2014	2015	2016	2017	2018
Individual Income Tax							
Income Tax Withheld	\$ 734,240,351	\$ 783,631,123	\$ 816,681,159	\$ 875,304,260	\$ 904,652,951	\$ 941,987,699	\$ 998,390,078
Income Tax All Other	164,610,850	264,158,862	246,603,249	300,440,621	280,174,810	226,236,943	299,386,508
Subtotal	898,851,201	1,047,789,985	1,063,284,408	1,175,744,881	1,184,827,762	1,168,224,644	1,297,776,586
Corporation License Tax	127,774,092	177,500,421	147,550,091	172,731,561	118,386,603	125,991,635	167,099,816
Natural Resources Taxes (State Portion)							
Bentonite Tax	494,248	352,050	172,039	219,172	286,081	266,623	291,255
Coal Severance Tax	52,742,627	56,573,818	57,676,184	60,891,414	60,358,548	58,808,035	60,097,399
Oil and Gas Production Tax	110,123,693	120,794,398	135,766,496	92,502,365	45,537,806	54,846,008	65,514,847
Resource Indemnity Trust Tax	2,343,678	2,112,327	2,278,971	3,303,038	2,335,153	2,622,658	2,531,336
Metalliferous Mines License Tax	9,936,518	13,222,539	10,457,348	10,947,952	5,691,074	6,698,782	8,700,599
Subtotal	175,640,765	193,055,132	206,351,039	167,863,941	114,208,662	123,242,105	137,135,436
Other Taxes, Licenses and Services							
Cigarette Tax	75,533,075	74,790,040	73,839,772	71,843,320	73,219,123	71,872,218	65,495,811
Telecommunications Excise Tax	21,459,017	20,651,872	19,656,770	18,256,517	16,774,868	15,602,798	13,725,924
Lodging Facility Use Tax	22,257,882	23,332,178	24,486,047	27,127,478	27,910,664	29,539,381	32,805,856
Inheritance/Estate Tax (Net)	59,718	1,676	3,741	35	62	-	-
Sales Tax - Accommodations	15,606,496	16,719,931	17,725,159	19,696,526	21,492,606	21,780,133	24,091,089
Nursing Facility Bed Tax	14,294,205	13,719,662	13,929,619	13,485,243	13,232,878	13,109,763	16,959,437
Hospital Utilization Fee	21,238,158	21,703,642	22,179,418	23,626,972	22,667,834	22,282,214	22,619,596
Emergency Telephone 911 System	13,212,111	13,062,990	13,009,356	12,947,304	13,120,489	13,020,367	13,003,639
Electrical Energy Production Tax	4,481,361	5,066,602	4,279,845	5,132,926	4,536,484	4,313,577	4,301,551
Abandoned Property	7,188,318	8,827,032	12,882,668	10,196,308	9,554,713	12,068,348	13,868,626
Tobacco Products Tax	12,024,144	12,386,794	12,562,721	12,894,293	13,131,013	13,268,717	12,864,522
Wholesale Energy Transaction Tax	3,427,411	3,558,221	3,112,284	3,795,377	3,516,131	3,463,834	3,628,180
Public Service Commission Tax	2,461,936	2,608,068	4,910,861	3,254,094	2,897,229	4,745,981	3,936,916
Sales Tax - Rental Vehicles Tax	3,419,763	3,523,211	3,521,324	3,906,745	4,269,438	4,536,234	4,958,598
Contractor's Gross Receipts Tax	(3,041,921)	(137,587)	887,078	3,256,741	2,397,493	3,078,111	4,266,667
Rail Car Tax	2,273,412	2,178,957	2,418,072	3,706,309	3,594,460	3,790,195	3,648,993
Consumer Counsel Tax	1,523,517	1,063,563	1,444,344	1,469,750	1,002,553	1,365,518	919,347
TDD Telecommunications Service Fee	1,325,236	1,317,336	1,430,128	1,321,811	1,334,146	1,352,174	1,365,782
Intermediate Care Utilization Fee	882,024	951,767	906,220	906,155	1,036,982	743,617	614,244
Other Taxes and Licenses	127,592	152,681	151,784	165,793	160,547	152,789	225,566
Subtotal	219,753,456	225,478,635	233,337,211	236,989,696	235,849,713	240,085,969	243,300,363
Liquor Taxes, Profits, and Licenses							
Liquor Profits and License Fees (to GF)	9,559,079	10,584,631	10,560,209	11,253,438	11,373,175	12,034,865	12,459,988
Liquor, Beer, and Wine Taxes	30,266,107	31,438,970	32,471,220	33,908,378	34,706,138	35,545,414	36,450,544
Subtotal	39,825,185	42,023,600	43,031,429	45,161,815	46,079,313	47,580,279	48,910,532
TOTAL COLLECTIONS	\$ 1,461,350,452	\$ 1,685,847,774	\$ 1,693,554,177	\$ 1,798,491,894	\$ 1,699,352,053	\$ 1,705,124,632	\$ 1,894,222,733

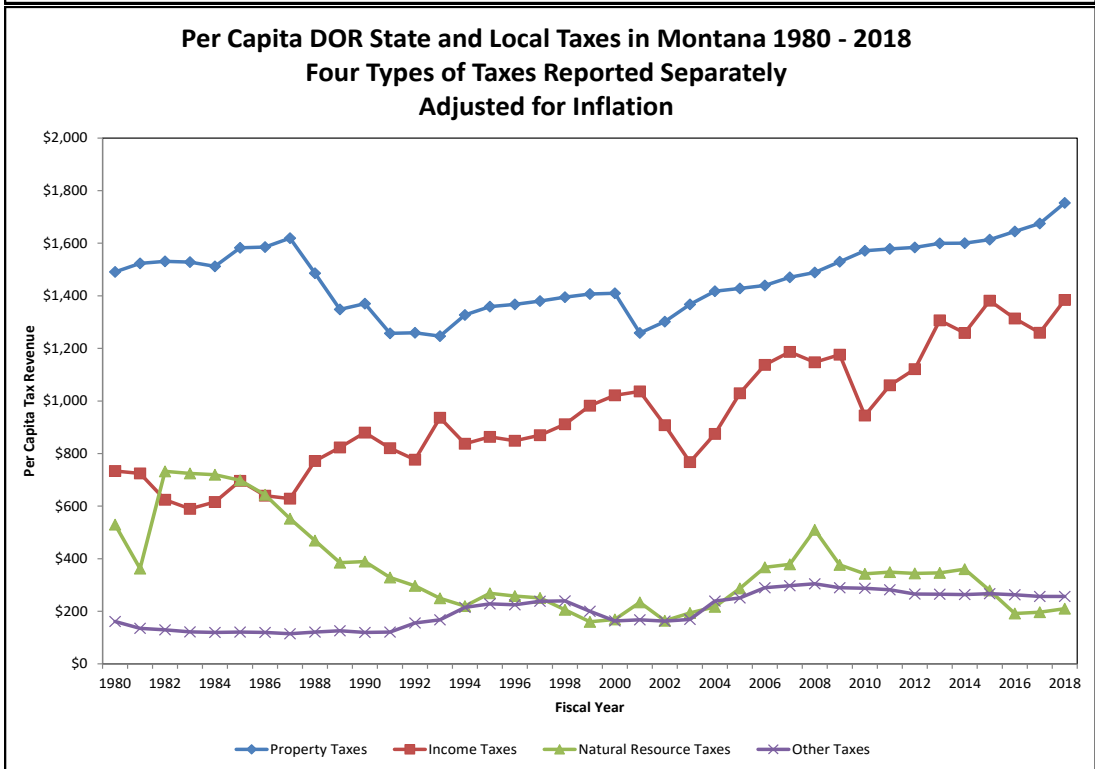
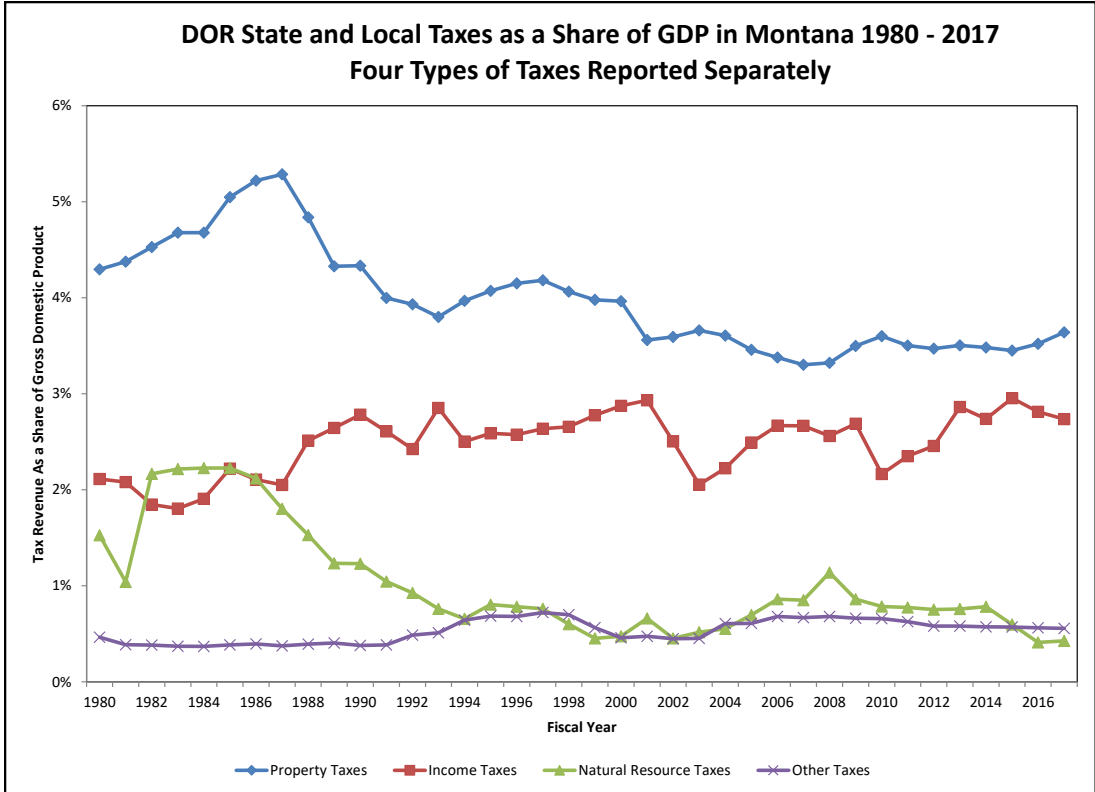
Montana Tax Trends

The two graphs on this page show total collections of taxes, divided into four categories, for Fiscal Years 1980 through 2018. The first shows the actual amount of collections each year. The second shows collections adjusted for inflation, with each year's collections shown in terms of their value in 2018.



Montana Tax Trends

The two graphs on this page also show total collection of taxes in Montana, divided into the same four categories, for Fiscal Years 1980 through 2018. The first graph shows the amount of collections for each tax type as a share of Montana's gross domestic product for the same period. The second shows the amount of revenue collected on a per capita basis. The second chart is also adjusted for inflation, with each year's collections shown in terms of their 2018 value.



Taxes and Spending in Montana and Other States

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

<p><u>Property Tax</u></p> <ul style="list-style-type: none"> ● Taxes Based on Mill Levies ● Special Improvement Districts (SID) ● Rural Improvement Districts (RID) ● Other Fees 	<p><u>Income Taxes</u></p> <ul style="list-style-type: none"> ● Individual Income Taxes ● Corporate Income Taxes
<p><u>Natural Resource Taxes</u></p> <ul style="list-style-type: none"> ● Coal Severance Tax ● Coal Gross Proceeds Tax ● Metal Mines License Tax ● Metal Mines Gross Proceeds Tax ● Resource Indemnity and Groundwater Assessment Tax ● Miscellaneous Mines Net Proceeds Tax ● Bentonite Tax ● Oil and Natural Gas Severance Tax ● Cement and Gypsum Taxes 	
<p><u>Other Taxes</u></p> <ul style="list-style-type: none"> ● Lodging Facility Use Tax ● Accommodations Sales Tax ● Rental Vehicle Tax ● Cigarette Tax ● Tobacco Product Tax ● Cigarette Seller Licenses ● Liquor License Tax ● Liquor Excise Tax ● Beer Tax ● Wine Tax ● Alcoholic Beverage License Fees ● Marijuana Tax ● Telephone Company Tax and Retail Telecommunication Tax ● Emergency Telephone System Fee ● TDD Telecommunications Fee ● Electrical Energy Producers' Tax ● Wholesale Energy Transaction Tax ● Consumer Council Tax ● Public Service Commission Tax ● Unclaimed Property ● Public Contactor's Gross Receipts Tax ● Inheritance and Estate Tax ● Nursing Facility Bed Tax ● Intermediate Care Facility Utilization Fee ● Invasive Species Fee ● Hospital Facility Utilization Fee ● Rail Car Tax 	

The charts on the next page show the mix of taxes in Fiscal Year 2016 for Montana, for the average of all 50 states, and for Idaho, North Dakota, South Dakota, and Wyoming. The charts on the following page show the mix of state and local spending for the same states.

The chart in the upper left corner of the next page shows the average percentage of tax revenue from each tax type for all states. Property taxes, sales taxes, and individual income taxes together account for 87 percent of state and local tax revenue. This combination of taxes is often referred to as the “three legged stool” of state and local taxation.

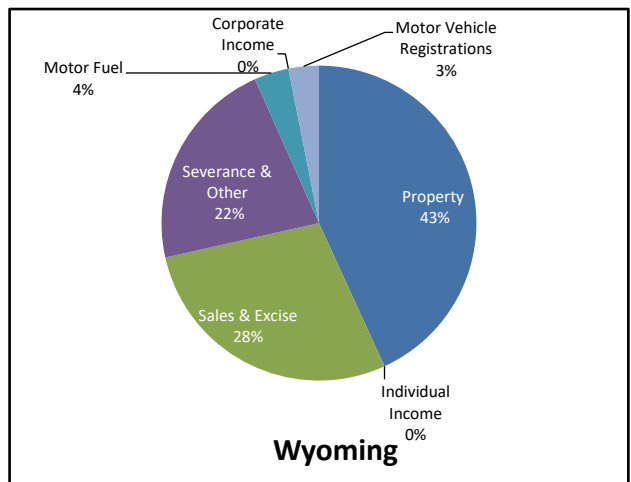
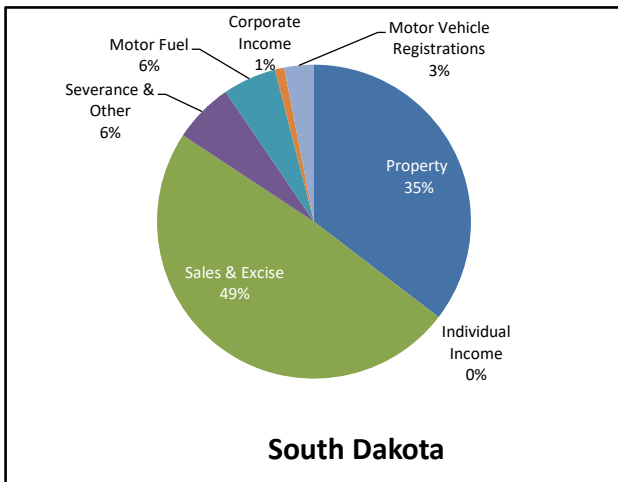
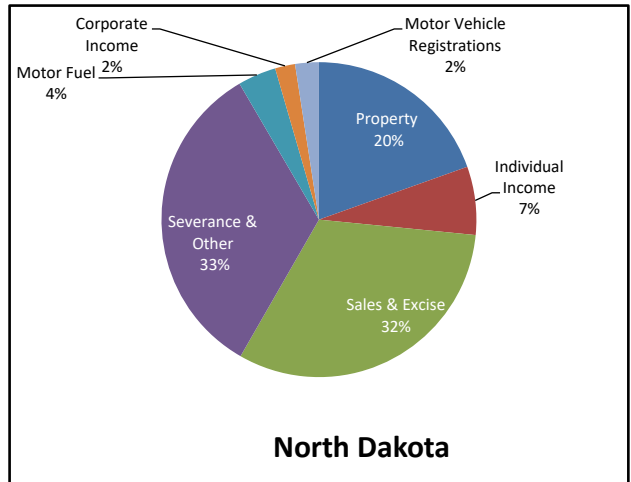
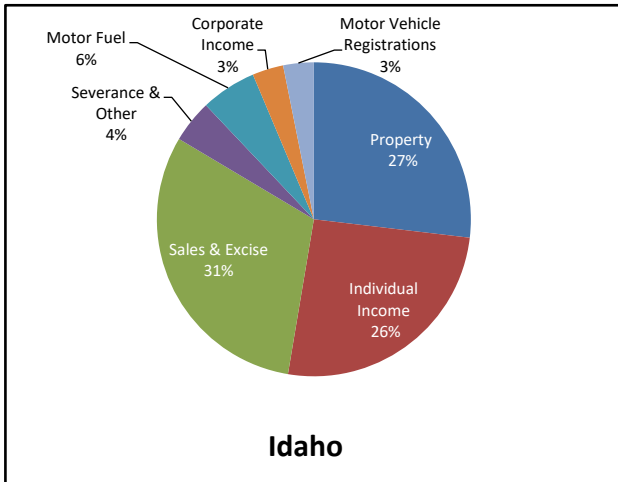
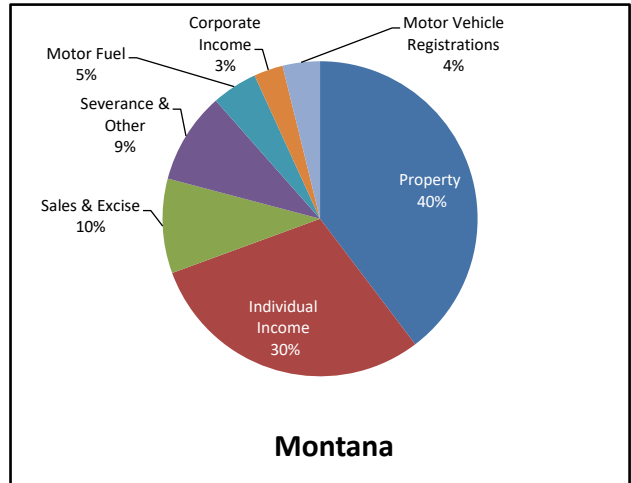
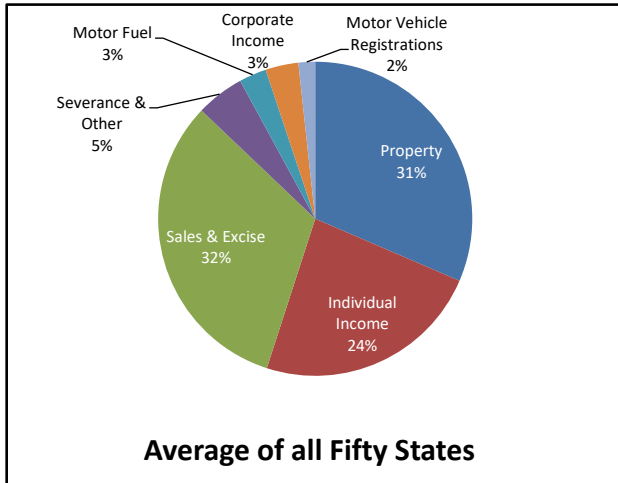
Compared to the average, Montana gets a much smaller share of tax revenue from sales and excise taxes and a somewhat larger share from each of the other types. Of the four neighboring states, only Idaho looks like the average state. In North Dakota, severance and other taxes were over 33 percent of total collections in Fiscal Year 2016. North Dakota’s share of revenue from sales and excise taxes was about average, but the shares from income and property taxes were a little less than half the average. South Dakota and Wyoming do not have individual income taxes and Wyoming does not have a corporate income tax. South Dakota compensates by receiving a somewhat higher proportion of tax revenue from property taxes and a much higher proportion from the sales tax. Wyoming receives a much higher-than-average proportion of tax revenue from the severance and other categories.

The mix of spending shows much smaller differences between states. All the states in the region devote an average share of spending to public schools. Montana, Idaho, and Wyoming devote the same proportion

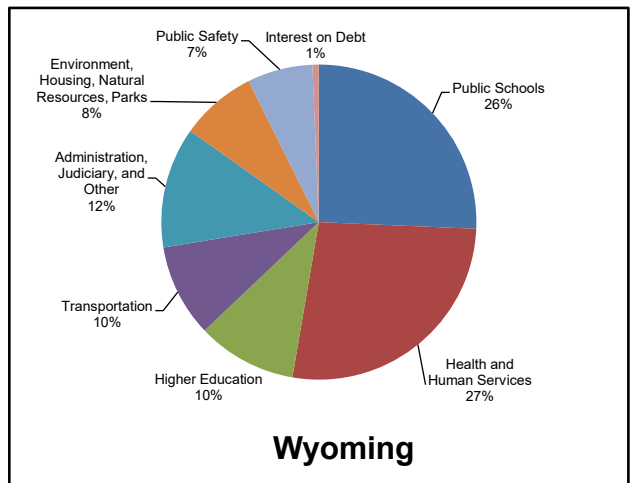
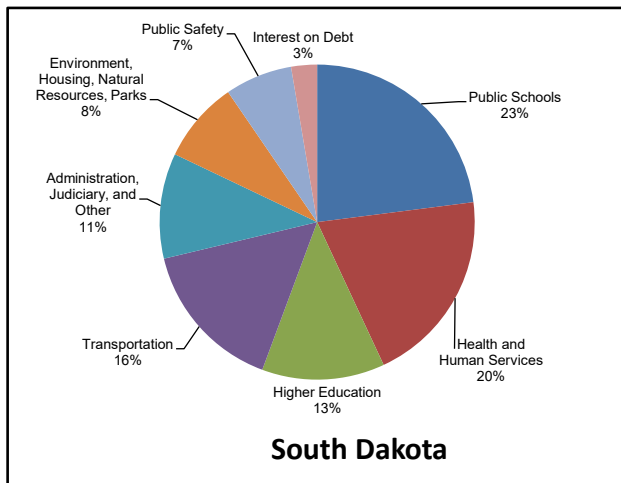
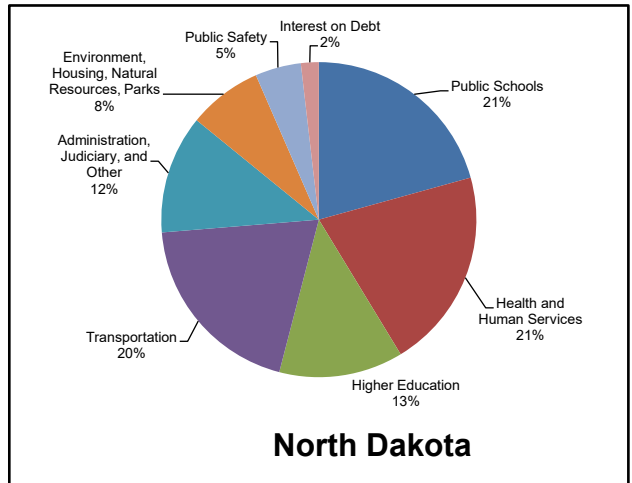
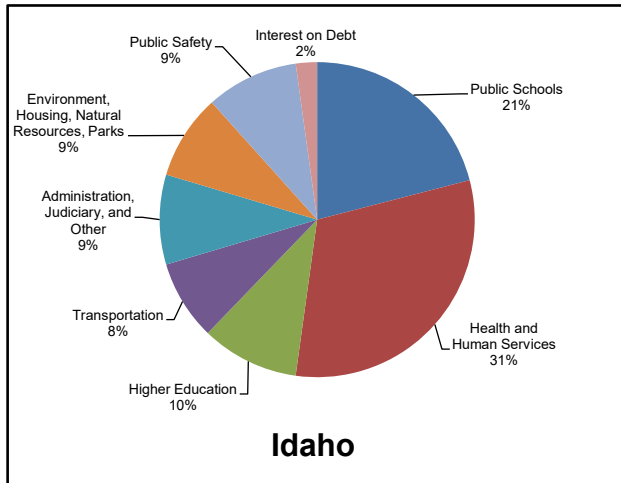
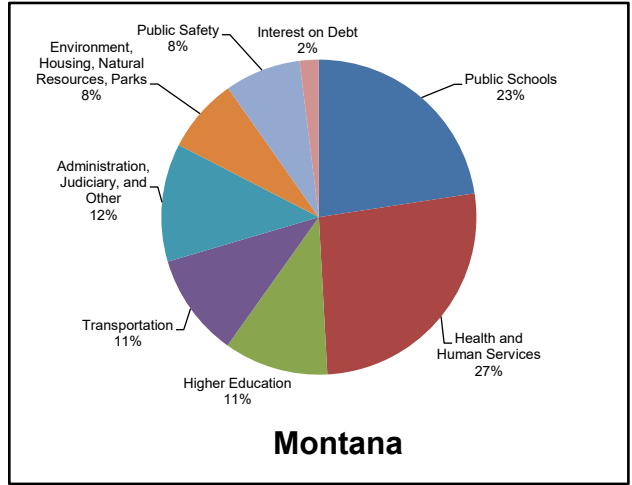
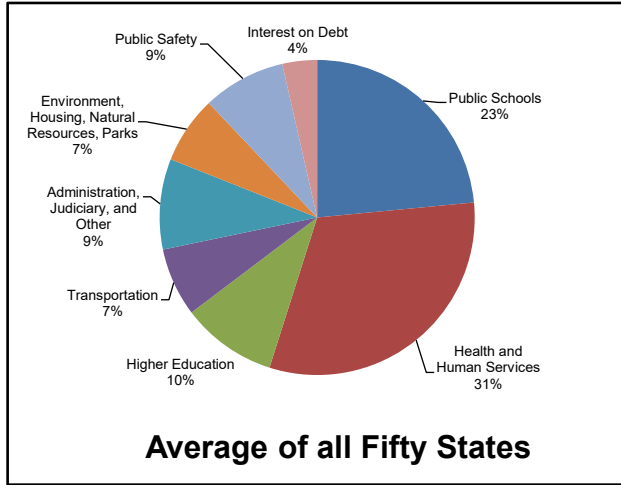
Taxes and Spending in Montana and Other States

to higher education as the average state, while the proportion is slightly higher in North Dakota and South Dakota. Montana, Wyoming and the Dakotas devote a smaller-than-average share of spending to health and human services while Idaho is close to the average. Transportation's share of spending is higher than average in all the states in the region.

State and Local Taxes in Fiscal Year 2016



State and Local Spending in Fiscal Year 2016



How Does Montana's State and Local Revenue System Measure Up?

There are many ways to evaluate state and local revenue systems. People and businesses care about different aspects of revenue systems because state and local taxes affect them differently: A tax system that is attractive to one person or business may be unattractive to another. For example, a family with a large mortgage may benefit from itemized deductions for property taxes and home mortgage interest while a family who live in an apartment would not. A business with large investment in buildings and fixed equipment may prefer a location with low property taxes even if it has a high sales tax, while a business with few fixed assets but large expenses for supplies may prefer the opposite.

This section presents an analysis of Montana taxes based on the ideas in the National Conference of State Legislatures' (NCSL) Principles of a High Quality State Revenue System. The NCSL first published this document in 1992 and has updated it several times since then.² The NCSL's nine principles can be stated as follows:

1. The elements are complementary rather than contradictory. Individual state taxes should harmonize with each other, and state and local taxes should complement each other rather than conflict.
2. Revenue should be reliable for both government and taxpayers. Revenue should be adequate to fund state and local government functions, and there should not be wide fluctuations in revenue from one year to the next. Taxpayers should not face frequent and significant changes in tax rates and structures.
3. There should be a balanced mix of revenue sources. All taxes have strengths and weaknesses, and a system with multiple taxes is more likely to be able to offset the weaknesses of one with the strengths of another. Multiple taxes also allow lower rates for individual taxes.
4. The revenue system should be fair. While there are many disagreements about tax fairness, there are a few widely accepted principles: Taxpayers in similar circumstances should pay similar taxes. The ratio of taxes to income should not be higher for low income taxpayers than for higher income taxpayers. And, taxes on low-income people should be low.
5. Taxes should be easy to understand and easy to comply with.
6. Taxes should be easy to administer in a fair, efficient, and effective manner.
7. A state's taxes should be competitive with taxes in other states and countries while financing a competitive level of infrastructure and public services. Competitiveness should be measured by the state's entire package of taxes and public services, not by the special treatment given to specific groups of taxpayers.
8. A high-quality revenue system minimizes its impacts on taxpayer decisions and state budgeting decisions, and any such impacts should be explicit. Tax systems affect taxpayer decisions by imposing higher taxes on some activities than on others. Sometimes this is intentional, as with targeted tax credits, and sometimes it is a consequence of adopting certain types of taxes. Tax systems affect budgeting decisions primarily through earmarking of particular taxes.
9. A high-quality revenue system is accountable to taxpayers. The processes for setting and changing taxes should be public and accessible. Taxpayers should be aware of the taxes they pay, and special provisions of the tax code should be reviewed regularly.

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

Comparison of State Taxes

For each of the NCSL's principles, the rest of this section presents information on ways that Montana either conforms to or differs from the principle. Where possible, it also compares Montana to the other states.³

Complementary

The Principles document lists several ways that state and local taxes can fail to be complementary: State and local governments may compete for the same tax base, the state may impose spending mandates on local governments, and the state may impose limits on local governments' ability to raise revenue.

In Montana, both the state and local governments levy property taxes, so there is some degree of competition for tax base. In the past, the state and local governments shared a variety of taxes. The 2001 Legislature replaced this with a system where these taxes are collected by the state, and local governments and school districts receive fixed entitlement share payments. The oil and natural gas production tax continues to be shared. Before 2003, the state and local shares were partly determined by property tax mill levies, but the 2003 Legislature made state and local shares fixed percentages.

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

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

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

Reliable

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

The graph on the following page compares states on the variability of state and local tax revenue. It shows states and the District of Columbia ranked by a measure of the relative variability⁴ of revenue growth over the period 2007 to 2016. Montana is highlighted in blue, and the four surrounding states and the U.S. average⁵ have darker shading than other states.

Montana ranks 39th, with higher-than-average relative variability. The stability of a state's revenue depends on its tax structure and how that structure interacts with the state's economy. In general, states with the most volatile taxes tend to have less diverse tax structures and to be more dependent on volatile taxes such as corporation tax and severance taxes.

Balance

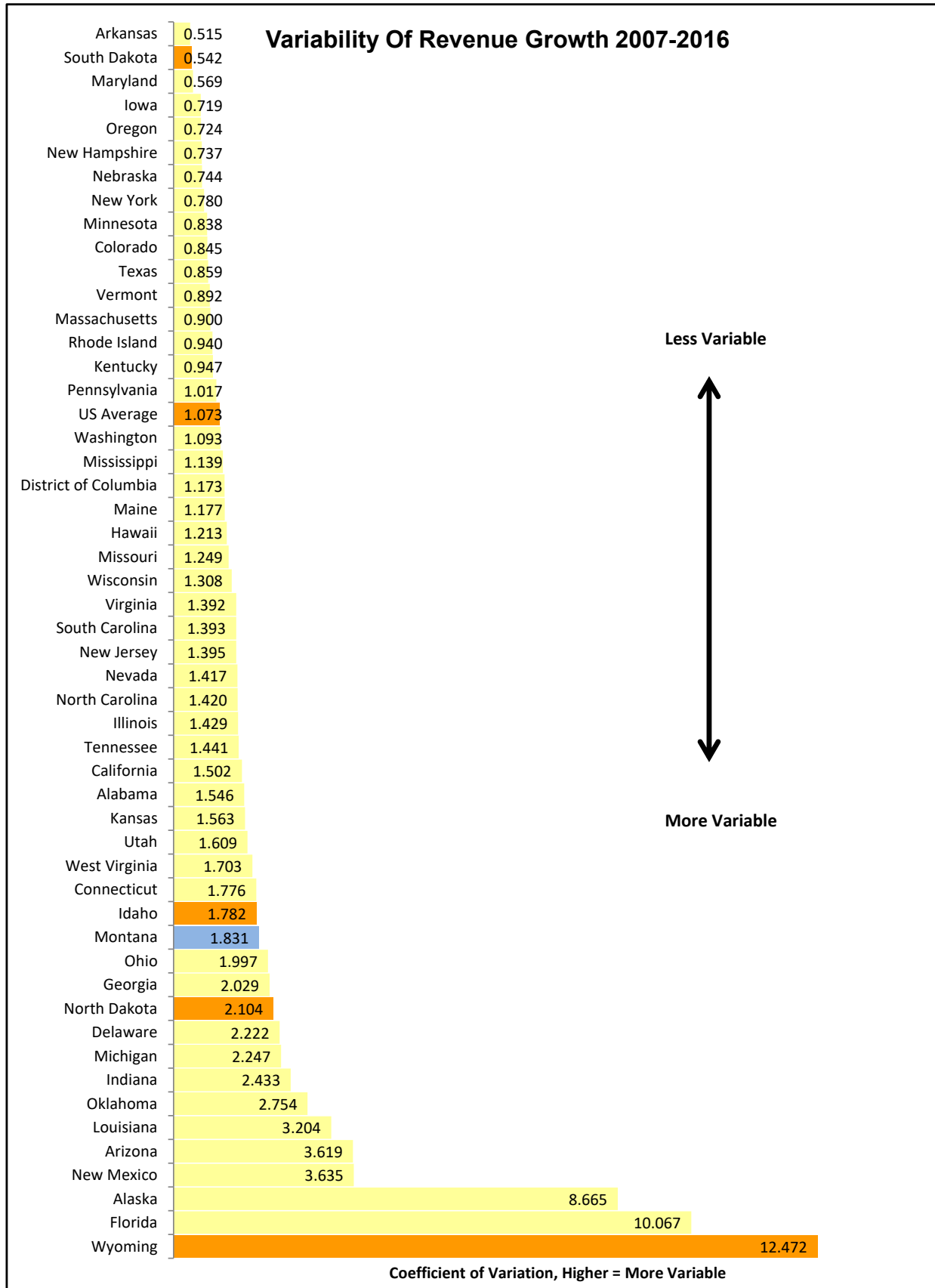
The Principles document states, "All taxes have their advantages and disadvantages, but reliance on a diverse assortment can cancel out their biases." An unbalanced tax system relies on one or two taxes for most of its revenue. The graphs on pages 24 and 25 compare states on their share of taxes from the largest tax type and from the two largest tax types.

³ A number of organizations publish state tax comparisons that reflect the particular interests of that organization. For example, The Tax Foundation (www.taxfoundation.org) publishes an annual "State Business Tax Climate Index," The Institute on Taxation and Economic Policy (www.itepnet.org) periodically publishes "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," The Council on State Taxation (www.cost.org) produces an annual report "Total State and Local Business Taxes," and the Office of the Chief Financial Officer of the District of Columbia (cfo.dc.gov) publishes an annual report "Tax Rates and Tax Burdens in the District of Columbia – A Nationwide Comparison."

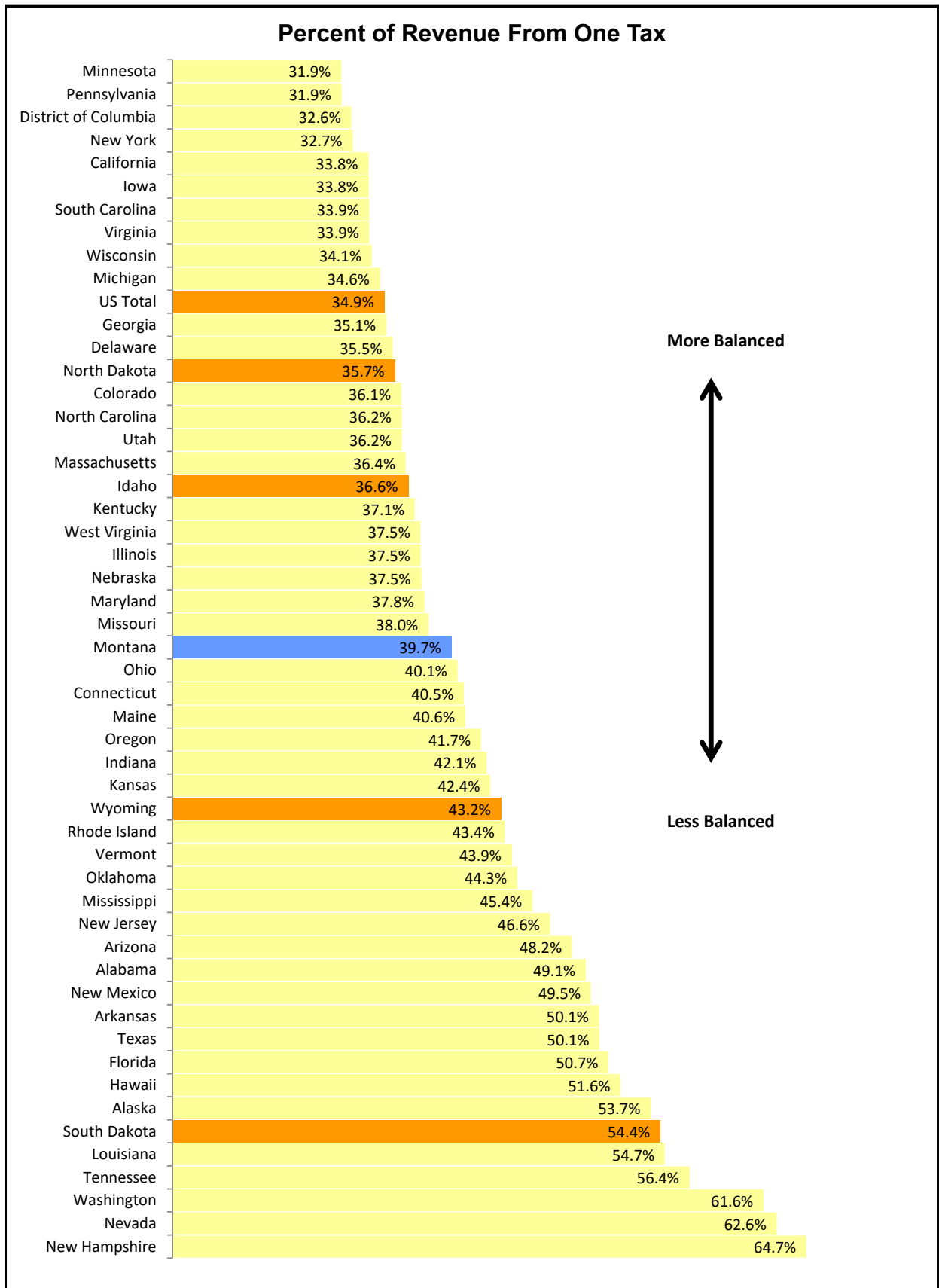
⁴ The coefficient of variation is a measure of relative variability. A higher CV indicates that the variation in annual growth rates is a larger percentage of the average growth rate.

⁵ In this section, U.S. averages are calculated from total revenue for all fifty states. They are not the average of the fifty state numbers.

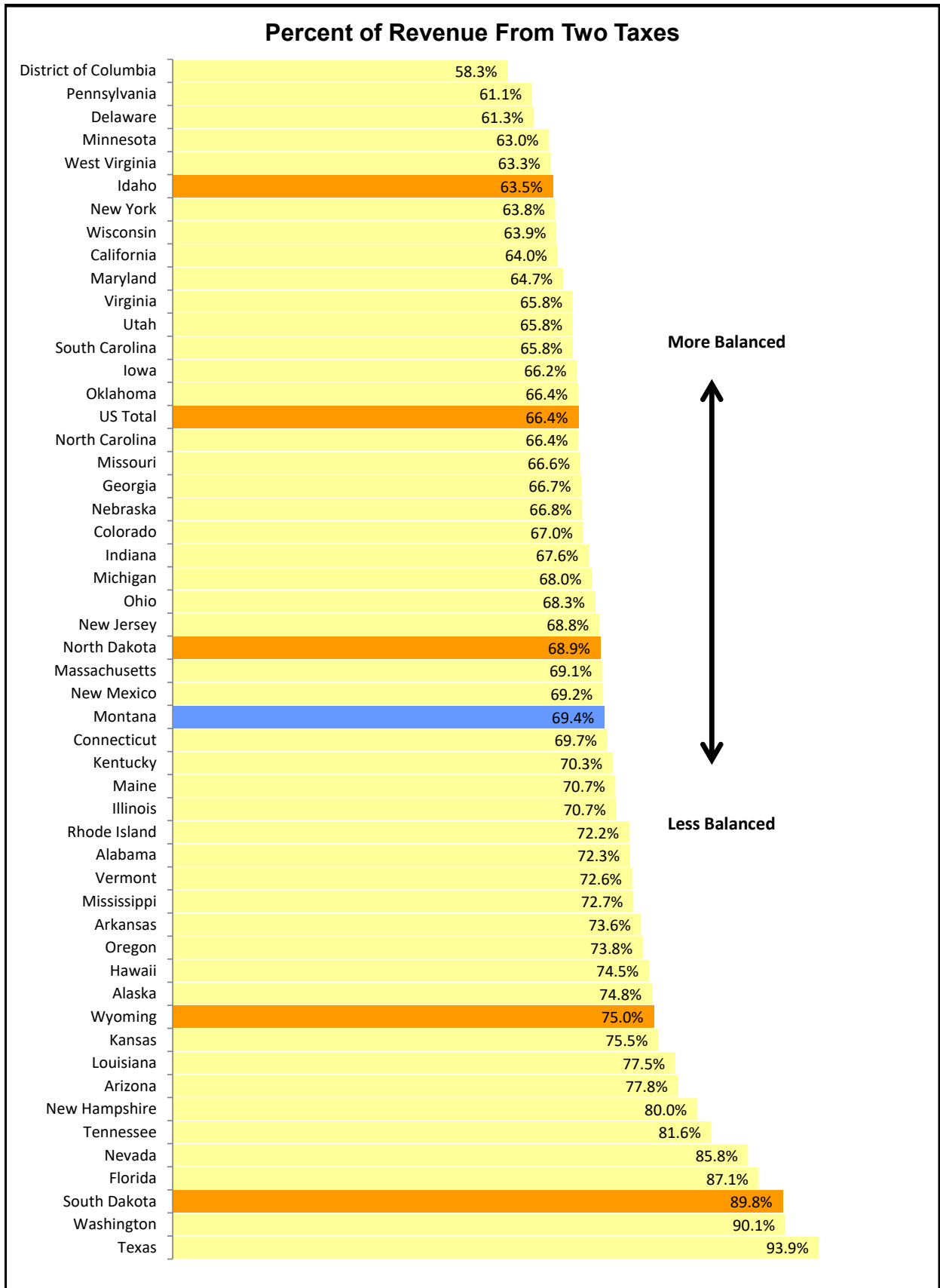
Comparison of State Taxes



Comparison of State Taxes



Comparison of State Taxes



Comparison of State Taxes

The conventional view is that a balanced tax system would get most of its revenue from the “three-legged stool” of income, property, and sales taxes, but balance can be achieved in other ways. Despite not having a general sales tax, Montana has one of the more balanced tax systems, as measured by the percent of revenue from one or two taxes, with 39.7 percent from one tax and 69.4 percent from two taxes. For Montana, selective sales and excises taxes and severance taxes together make up about the same share of revenue as general sales taxes do for other states.

Equity

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

Similar Circumstances and Similar Taxes

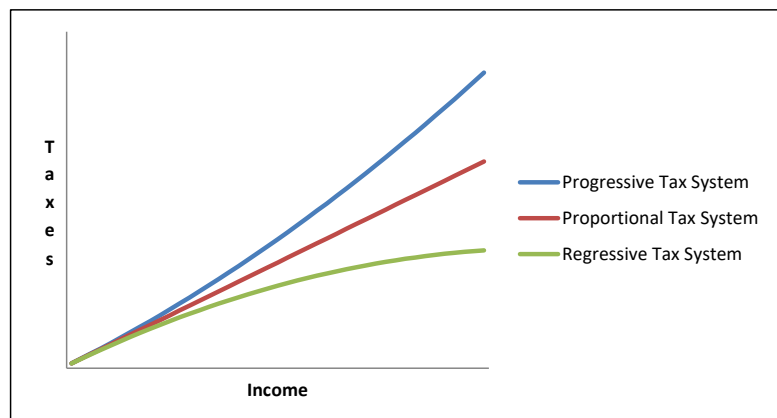
For most Montana taxes, taxpayers who are similar, in terms of having similar tax bases, pay similar taxes. There are two exceptions. One is the income tax, where taxpayers with similar income may have very different tax liabilities if they differ in their ability to take advantage of the itemized deductions and tax credits that the state allows. For example, a taxpayer with a mortgage on a house can claim itemized deductions for mortgage interest and property taxes. This is likely to result in this taxpayer having lower income tax liability than an otherwise identical taxpayer who rents and cannot claim these deductions.

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

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

Taxes as a Proportion of Income

A tax system is defined to be proportional if the ratio of taxes to income is the same for taxpayers with different incomes. It is progressive if the ratio of taxes to income is higher for taxpayers with higher incomes and regressive if the ratio of taxes to income is lower for taxpayers with higher incomes. The graph below illustrates these concepts. The red line shows a proportional tax system, where taxes are the same proportion of income at all income levels. The blue line shows a progressive tax system, where taxpayers with higher incomes pay a higher percentage of their incomes in



Comparison of State Taxes

taxes. The green line shows a regressive tax system, where taxpayers with lower incomes pay a higher percentage of their incomes in taxes.

The graph on the next page shows a measure of progressivity or regressivity, the Suits index, for each of the 50 states and the District of Columbia. The Suits index is positive for a progressive tax system, zero for a proportional tax system, and negative for a regressive tax system. A larger negative number indicates a more regressive tax system. The Suits index is always between -1 and 1. If all taxes were paid by the person with the highest income, the Suits index would be equal to 1, and if all of taxes were paid by the person with the lowest income, the Suits index would be equal to -1.⁶

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

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

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

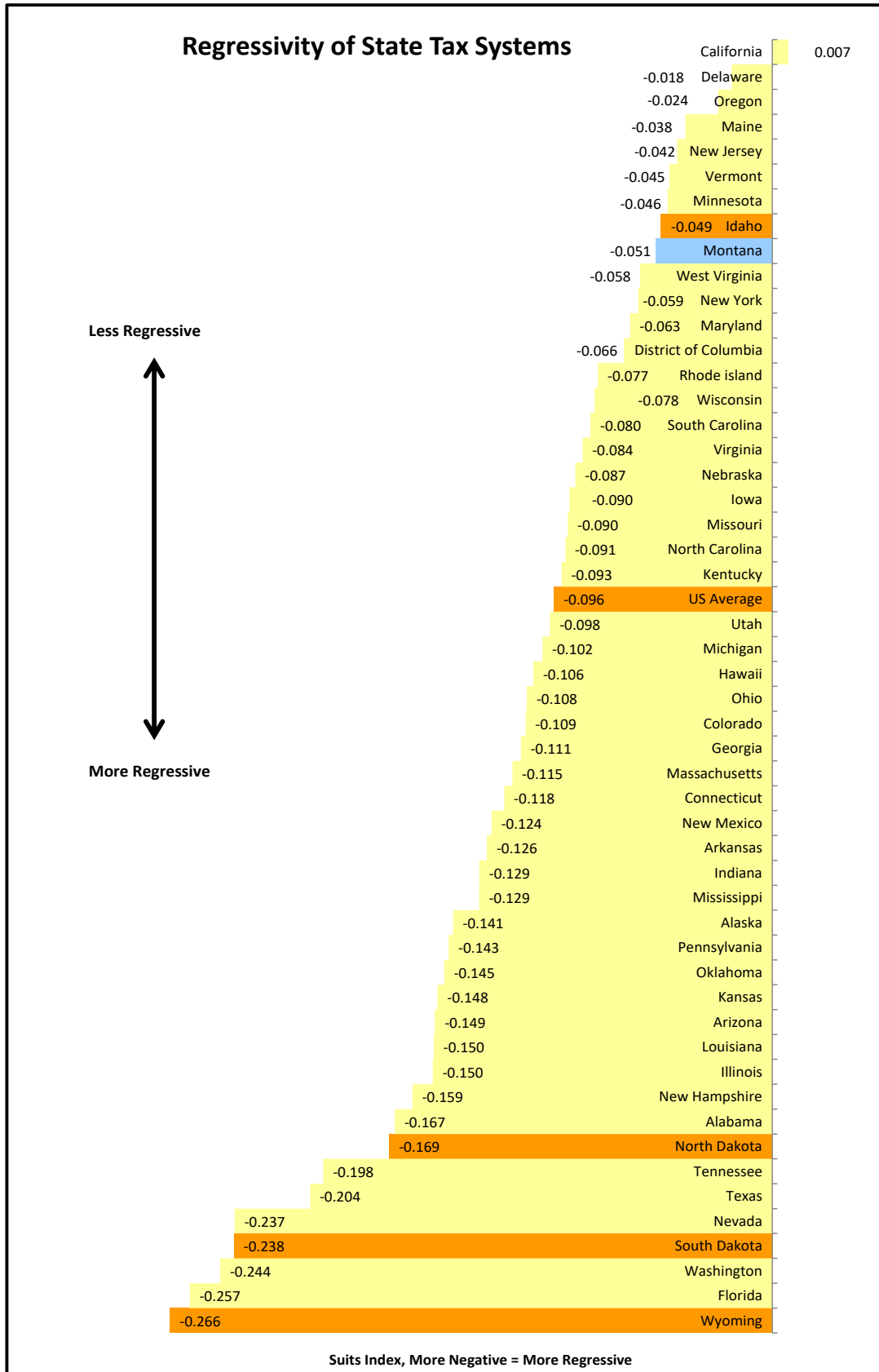
Montana has one of the least regressive tax systems as measured by the Suits index, due in part to our lack of a general statewide sales tax.

Taxes on Low Income Households

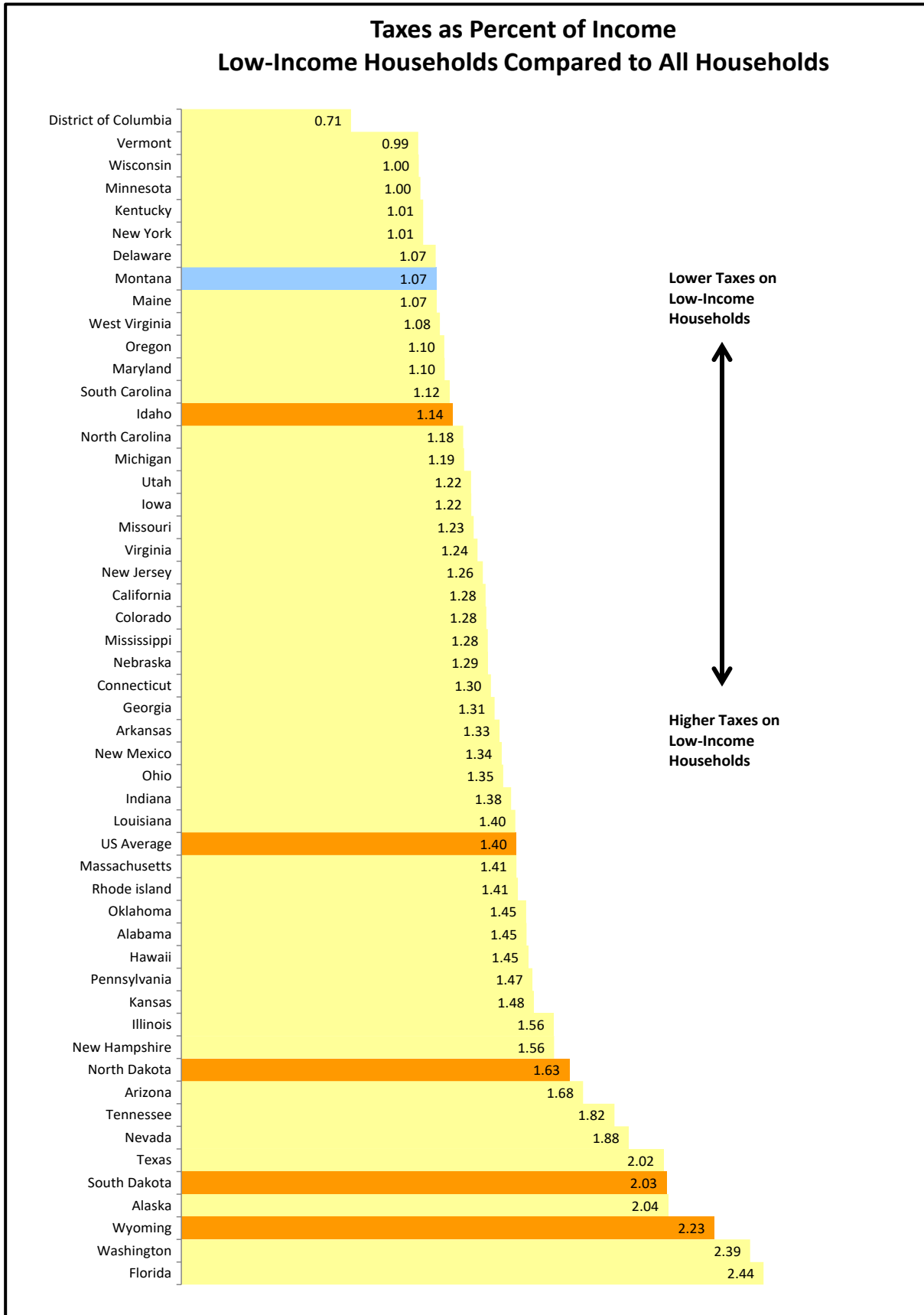
The graph on Page 29 compares the percentage of income going to state and local taxes for the fifth of taxpayers with the lowest incomes to the same percentage for all taxpayers. The number for a state is less than one if low-income taxpayers pay a smaller share of their income in state and local taxes than other taxpayers. It is more than one if low-income taxpayers pay a larger share of their income in state and local taxes.

Montana low-income taxpayers pay 1.07 times as large a share of their income in state and local taxes as taxpayers as a whole. This is one of the lower ratios, and well below the national average of 1.40. There are four states where the ratio is 1 or less. The seven states with no income tax have the highest ratios, with low-income taxpayers paying at least twice as large a share of their income in state and local taxes in six of the seven.

⁶ Suits Indices in the graph are calculated from information in Carl Davis, Kelly Davis, Matthew Gardner, Harley Heimovitz, Sebastian Johnson, Robert S. McIntyre, Richard Phillips, Alla Sapozhnikova and Meg Wiehe, *Who Pays: A Distributional Analysis of the Tax Systems in All 50 States*, 5th ed, Institute on Taxation & Economic Policy, 2015.



Comparison of State Taxes



Comparison of State Taxes

Easy to Understand and Comply

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

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

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

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

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

Billed or Self-Assessed

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

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

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

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

Ease or Difficulty of Self-Assessment

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

Personal Income Tax

The income tax is self-assessed. Taxpayers are required to complete and file an annual return. This requires some degree of record-keeping, organization and planning. The ease of filing returns differs between

Comparison of State Taxes

taxpayers. For taxpayers whose income is all in forms for which they receive a W-2 or 1099 at the end of the year, such as wages or interest, and who take the standard deduction and do not claim any credits, filling out a return can be simple. For taxpayers who have business income, itemize deductions, or claim a credit, there is a greater need to keep records, and completing a return takes more time and effort.

Like most states, Montana has tied its income tax closely to the federal income tax. For taxpayers who are required to file a federal income tax return, the closer the state return is to the federal return, the easier it is for taxpayers to file their state return. Montana's income tax return is modeled on the federal return, and for many taxpayers, all of the information on income and deductions used in calculating their state income tax is the same information they used on their federal returns.

All states have some differences from federal law – in types of income that are taxed or exempt and in the itemized deductions and credits allowed. Montana has more differences from federal law than its surrounding states.

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

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

State Income Tax Components - Tax Year 2017					
	Idaho	Montana	North Dakota	South Dakota	Wyoming
Federal Income Type Used	Federal Adjusted Gross Income	Federal Adjusted Gross Income	Federal Taxable Income		
Additions to Federal Income	6	15	4		
Subtractions to Federal Income	22	35	9	No Income Tax	No Income Tax
Itemized Deductions	Federal Itemized Deductions	Additional Deductions Allowed	Federal Itemized Deductions		
Credits	14	26	24		

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

Montana law also provides for a smaller standard deduction than federal law, which results in more taxpayers itemizing deductions on their state returns than on their federal returns. Fifty-five percent of Montana income tax returns itemize deductions while only 29 percent of federal returns filed from Montana itemize.

Tax credits reduce taxes for eligible taxpayers but require them to keep track of expenditures that are the basis of a credit and to fill out additional schedules. As the previous table shows, Montana has more credits than the other states. The additional work can vary greatly between credits, and only a subset of taxpayers

Comparison of State Taxes

claim any one credit, so the number of credits measures only one aspect of the additional compliance cost from tax credits

For taxpayers who do not use them, these provisions do not make complying with the income tax more difficult. However, a majority of Montana taxpayers are affected by one or more of the differences from federal law. A little more than half of Montana married couples file separate returns on the same form while 95 percent of married couples file joint federal returns. A little more than half of Montana returns are subject to at least one of the state additions to or subtractions from federal adjusted gross income. About 55 percent itemize deductions and 20 percent claim at least one tax credit.

Corporation Income Tax

The corporate income tax also is tied to federal law. The Montana return begins with federal taxable income from the taxpayer's federal return. Montana has some adjustments to federal taxable income, and most taxpayers are affected by at least one. In particular, taxpayers must add back any Montana corporation tax deducted in calculating federal taxable income. Montana also has a large number of tax credits for corporations, but only about 2 percent of corporate returns claim a credit.

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

Selective Sales and Excise Taxes and Severance Taxes

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

The ease of self-assessing can be partly judged by the fraction of returns with problems. For taxes where returns are filed by a business, the fraction of returns with math errors or other inconsistencies ranges from about one in 10 to almost one in two. For comparison, the error rate on individual income tax returns is about one in four.

Ease of Verifying Tax Bills

Property Tax

Property tax payers receive an annual statement showing the department's valuation of their property and an annual bill showing the calculation of tax. To verify the valuation, the taxpayer generally needs to contact the department's regional office and talk with an appraiser. Montana has a more complicated tax calculation than many states, and it can be difficult to understand. Then an assessment ratio, which differs between classes of property, is applied to give taxable value.

The tax on a property is calculated by multiplying the taxable value by state and local mill levies and adding any local fees. Few taxpayers understand the local budgeting processes that determines mill levies. This often leads taxpayers to expect a change in their property taxes based on their assessment notice which turns out to be quite different from any change that they see when they ultimately receive their tax bills.

To verify that the correct mill levies and fees have been applied to the taxable value, the taxpayer generally

Comparison of State Taxes

needs to contact the county treasurer's office.

Selective Sales and Excise Taxes

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

Ease of Payment

Property Tax

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

Personal Income Tax

Taxpayers are required to make payments during the year of at least 90 percent of the current year's tax liability or 100 percent of the previous year's tax liability. Any excess payments are refunded when the taxpayer files a return, and any shortfall must be paid at that time. Payments during the year may be made by withholding or quarterly estimated payments. Most taxpayers who receive periodic payments can choose to have income tax withheld from these payments. Taxpayers must complete a form W-4 to begin the withholding process or to adjust the amount withheld. After that, withholding is automatic for the taxpayer but adds another step to the payroll process for employers and other payers. Taxpayers who make estimated payments generally have to keep track of their income, calculate the amount to pay each quarter, and make sure that funds are available to make the payments. About eight in 10 individuals or couples have taxes withheld from wages or other periodic payments, and about one in 10 make estimated payments. About one in 20 do both.

Corporation Income Tax

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

Selective Sales and Excise Taxes

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

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

Severance Taxes

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

Comparison of State Taxes

Easy to Administer Fairly, Efficiently, and Effectively

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

Cost to Assess or Process Returns

The tax agency's cost to administer a tax depends on the number of taxpayers and the time and effort the agency must expend per taxpayer. The number of taxpayers varies between types of taxes. Taxes that are paid directly by most individuals or businesses have many returns. Taxes that are paid by a few taxpayers or that are collected from many taxpayers by a few vendors have fewer returns to process.

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

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

Property Tax

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

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

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

Property assessment is a state function in Montana for a combination of historic and practical reasons. The 1972 Constitutional Convention made property assessment a state function after hearing widespread concerns about lack of uniformity in appraisals done by county assessors. Montana is one of 11 states with state-wide property taxes, and in these states it is important that assessments be uniform statewide as well as within local jurisdictions.

Identical properties need to have the same assessed value within a taxing jurisdiction to ensure that they pay the same taxes. However, the taxes on individual properties in a jurisdiction will be the same whether assessments are all at market value or are uniformly high or low. This is because property taxes are based on a taxpayer's share of taxable value in a jurisdiction, not on the absolute value of the taxpayer's property.

Comparison of State Taxes

A taxpayer with 0.01 percent of the taxable value in a jurisdiction will pay property taxes equal to 0.01 percent of the taxing jurisdiction's revenue requirement. Millage rates are set by dividing a jurisdiction's revenue requirement by its taxable value. If, for example, all properties in a jurisdiction are over-assessed by 10 percent, the mills will be 10 percent lower than if assessments were at market value, and taxes will be the same as if assessments were at market value.

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

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

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

The basis for property taxation is the market value of property. Determining the tax from market value can be simple or complex. In some states, all property is assessed at its market value and the tax equals market value multiplied by a tax rate. In other states, property is assessed at a percent of its market value. The percentage may vary between classes of property, some types of property may be assessed on something other than market value, part of a property's value may be exempt from taxes, or different rates may apply to different properties.

When property is assessed at less than full market value, the ratio of assessed value to market value is called the assessment ratio. Property tax rates give the ratio of tax to taxable value. In Montana, they are expressed in mills, or dollars of tax per thousand dollars of taxable value. Some states express rates as a percent, or dollars of tax per hundred dollars of taxable value. Property tax rates may either be set in statute or determined annually by dividing a taxing jurisdiction's revenue requirement by its total taxable value.

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

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

twelve, including two for business equipment depending on how much the taxpayer owns. Six states have uniform assessment ratios, but have at least one situation where a property class pays a different millage rate. Three states have classes with different assessment ratios and different millage rates. One state, California, does not base taxes on market value. Property taxes in California are based on purchase price partially adjusted for inflation. This is equivalent to having a different assessment ratio for property sold each year.

State With Uniform and Nonuniform Taxation of Property Classes

One Assessment Ratio and Uniform Mills	22
One Assessment Ratio and Nonuniform Mills	6
Multiple Assessment Ratios and Uniform Mills	19 - including Montana
Multiple Assessment Ratios and Nonuniform Mills	3
Tax Not Based on Market Value	1

Comparison of State Taxes

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

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

Personal Income Tax

The provisions of the Montana income tax that make it more difficult for taxpayers to file returns also generally make it more expensive for the department to process and audit returns. Building the ability to handle separate returns filed on the same form and the large number of line items into the department's data processing system required significant up-front costs. They also require considerable extra work when the system is upgraded and somewhat increase the cost of processing each return and storing the information on it. The large number of state credits and the differences from the federal definition of income and federal itemized deductions create more line items on returns that must be verified and may need to be audited to ensure high compliance. The table on the next page contains a list of the tax credits and other tax expenditures that currently exist in Montana's personal income tax rules in Tax Year 2017. Additional information on each of the tax expenditures listed on the next page, as well as tax expenditure information for other tax types, can be located in the Tax Expenditure section of this report.

Increasing electronic filing has affected the cost of administering the income tax in both positive and negative ways. The department has had to invest in additional data processing systems to allow taxpayers to file electronically. As more taxpayers have filed electronically, the department has been able to print fewer tax booklets. Electronic filing also greatly reduces the kind of mistakes in adding and copying numbers that taxpayers tend to make when filling out returns by hand. The table below contains a breakdown on the number of personal income tax returns that are filed by Montana taxpayers. The share of e-file returns has increased from 55 percent of returns filed in Tax Year 2007 to more than 86 percent in 2017.

Income Tax Returns File in Montana				
Tax Year	Total	Paper	E-file	% E-file
2007	511,235	230,490	280,745	54.9%
2008	542,625	219,182	323,443	59.6%
2009	533,161	193,843	339,318	63.6%
2010	522,381	165,237	357,144	68.4%
2011	526,902	123,179	403,723	76.6%
2012	535,682	109,058	426,624	79.6%
2013	547,558	103,101	444,457	81.2%
2014	552,189	93,924	458,265	83.0%
2015	562,647	88,524	474,123	84.3%
2016	571,114	81,333	489,781	85.8%
2017	568,961	78,196	490,765	86.3%

Comparison of State Taxes

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

Comparison of State Taxes

Sales and Excise Taxes

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

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

Severance Taxes

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

Opportunities for Non-Compliance or Gamesmanship by Taxpayers

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

Property Tax

Taxpayers are responsible for reporting business equipment annually. The department attempts to identify new construction, but taxpayers are also asked to self-identify new construction or other changes to real estate. The only real opportunity for non-compliance for most property is a failure to report business equipment or new construction.

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

Comparison of State Taxes

Personal Income Tax

Since the income tax is self-assessed, taxpayers have numerous opportunities not to comply with the tax. They can understate their income, overstate their deductions, and claim credits that they are not eligible for. When taxes are withheld from taxpayers' income and there is third-party reporting of income, taxpayers are much more likely to comply. Taxpayers must either risk a high probability of being caught or convince their employers to collude with them in evading tax. The IRS estimates that income is under-reported by less than 5 percent for types of income such as interest and dividends where the payer is required to report payments on a form 1099. For wages and salaries, where employers withhold tax and report income on form W-2, the IRS estimates that income is underreported by about 1 percent. The IRS estimates that income from sole-proprietor businesses and pass-through entities, where neither withholding nor third-party reporting is required, is underreported by at least 50 percent.

Sales and Excise Taxes

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

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

Severance Taxes

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

Fairness of Administration

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

The property tax and the personal income tax are the two taxes that pose the greatest challenges for fairness in administration.

Property Tax

Two properties with the same value and in the same class should only have different property taxes if they face different local mill levies. This will be the case if the department's assessments of property value are uniform.

Assessing property values is a much more difficult and involved process than determining the tax base for

Comparison of State Taxes

other taxes. For most other taxes, the tax base is either the value of a market transaction, such as income earned or goods sold, or some physical quantity, such as tons of a mineral mined or packs of cigarettes sold.

For property tax, there is an observable, current market transaction only for a fraction of properties every year. For properties that have not sold recently, the department has to estimate the price at which they would sell. And even for properties that have sold recently, the department has to estimate how much, if any, the value changed between the date when it sold last and the reappraisal date.

The department has a number of tools for making these estimates. For residential property, the main tool is statistical modeling which uses the prices and characteristics of homes that have sold recently to estimate the contribution to a home's price of various characteristics such as location, size, age, number and type of rooms, type of construction, etc. Another tool is direct comparison with a limited number of similar properties that have sold recently. Other tools used for estimating the value of income-producing properties include estimates of the cost of constructing a similar building and estimating the present value of the stream of rent or other income that the property could produce.

For all of these appraisal tools, there is a trade-off between the effort and cost that goes into appraisal and the accuracy of the estimated value of individual properties. For example, statistical models do a good job of estimating the average value of a certain type of house in a certain neighborhood, but may not pick up unique features that make the value of a particular house higher or lower than average. Collecting additional information and using it to build more sophisticated models can lead to more accurate individual appraisals, but increases the cost of the appraisal process.

Personal Income Tax

The primary difficulty in administering the income tax fairly comes from differences in the ease of non-compliance for taxpayers in different circumstances. Taxpayers with income from wages and salaries, interest, corporate dividends, or pensions have their income reported to the IRS and the department and may have tax withheld from their payments. Taxpayers with income from a sole proprietor business or a pass-through entity do not have the same third-party reporting and withholding requirements. IRS research indicates that taxpayers whose income is not subject to third-party reporting or withholding under-report income and under-pay tax at much higher rates. Most credits and deductions also are based on information that is self-reported by the taxpayer with little or no third-party verification.

Maintaining acceptable compliance and fairness between taxpayers requires the department to audit and verify a sample of returns with items where there is no third-party verification and to search for non-filers. Increasing fairness of administration by reducing non-compliance by taxpayers with income, deduction, or credit items without third-party reporting can be done, but only by imposing additional costs, either on the department for additional auditing or on taxpayers through additional reporting requirements.

Competitive

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

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

attractive. Taxpayers may also be attracted by the quality of specific public services, such as schools or roads.

The next 12 tables show taxes per person and taxes per dollar of income received by state residents for the 50 states and the District of Columbia for the Fiscal Year ending June 30, 2016. Both tables show property taxes, sales and gross receipts taxes, individual and corporate income taxes, other taxes, and the total of all taxes. These tables show state and local taxes adjusted for the size of each state's population and the size of its economy. They also show the relative importance of each type of tax in each state.

These tables do not show taxes paid by a typical individual or the percent of income a typical individual pays in taxes. States differ in the shares of taxes paid by individuals and businesses and by residents and non-residents. Several organizations publish comparisons that attempt to adjust for these differences. The Tax Foundation⁷ attempts to adjust for taxes each state receives from out-of-state taxpayers. The District of Columbia⁸ compares taxes for hypothetical families in each state. The Institute on Taxation and Economic Policy⁹ estimates taxes as a percent of income for income groups in each state.

Accountability

In an accountable tax system, taxpayers know what they pay and what their taxes buy. Taxpayers also know how taxing and spending decisions are made and have the opportunity to participate in and influence those decisions.

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

In Montana, taxing and spending decisions are made by the Legislature and elected local officials. In addition, local property tax increases that exceed half the rate of inflation must be put to a vote.

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

7 <http://www.taxfoundation.org>

8 <http://cfo.dc.gov>

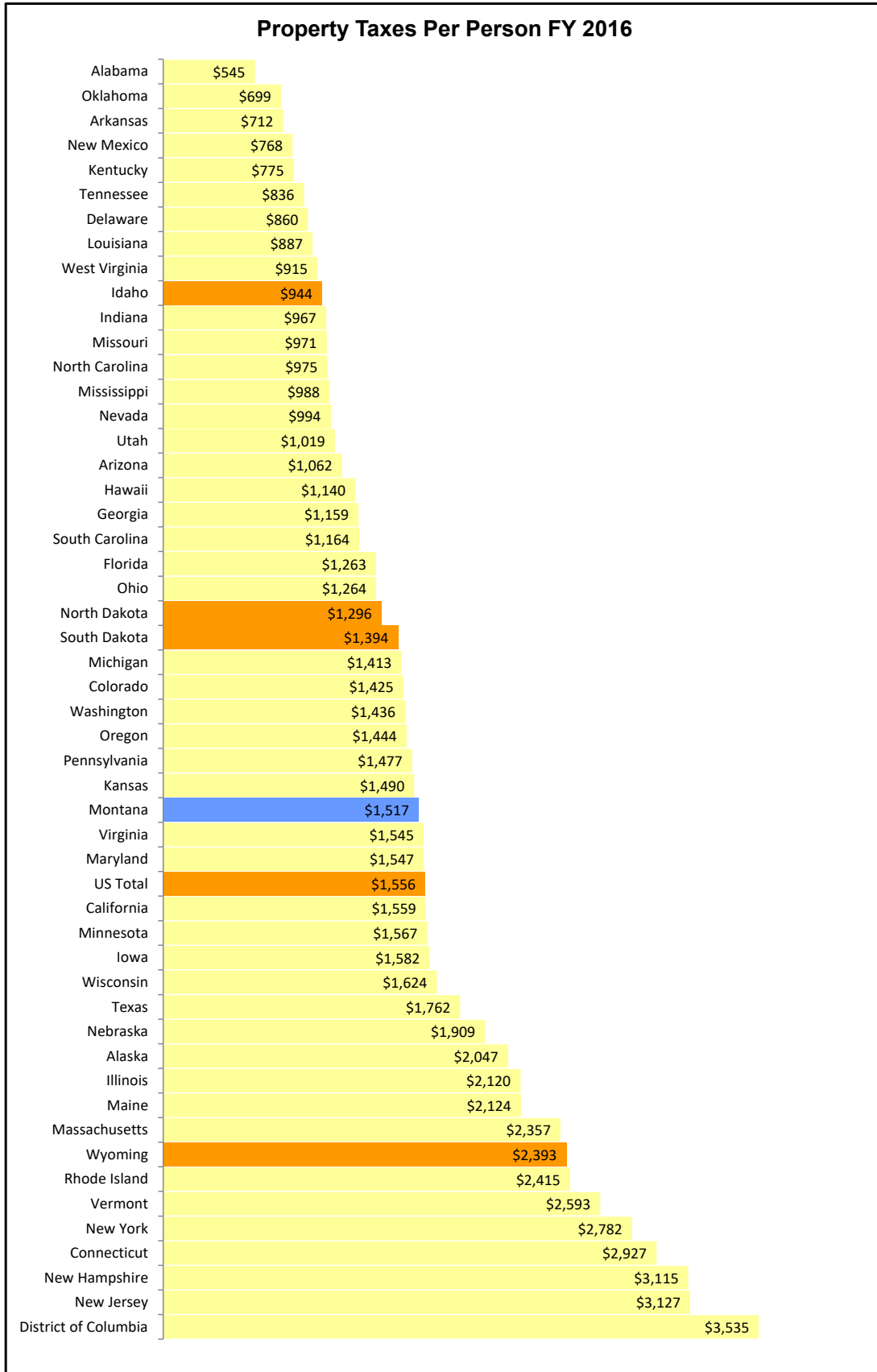
9 <http://www.itepnet.org>

Comparison of State Taxes

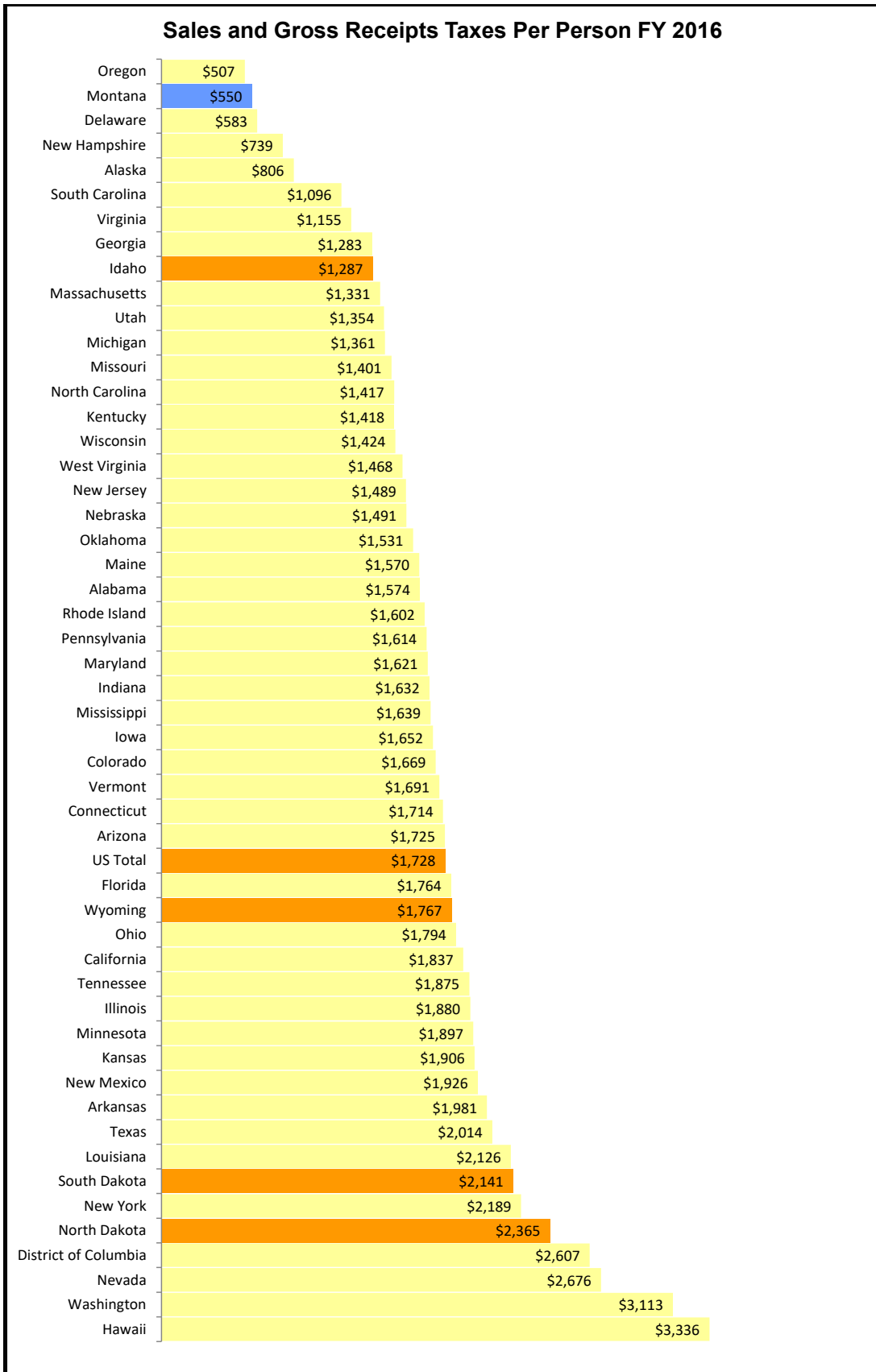
Taxes Per Person - FY 2016

State	Property Tax		Sales and Gross Receipts		Individual and Corporate Income Tax		Other Taxes		Total	
	\$	Rank	\$	Rank	\$	Rank	\$	Rank	\$	Rank
Average of All States	\$1,556		\$1,728		\$1,331		\$330		\$4,946	
Alabama	\$545	51	\$1,574	30	\$821	37	\$264	33	\$3,203	51
Alaska	\$2,047	12	\$806	47	\$286	44	\$673	5	\$3,812	40
Arizona	\$1,062	35	\$1,725	20	\$657	40	\$138	49	\$3,582	45
Arkansas	\$712	49	\$1,981	10	\$1,081	31	\$183	46	\$3,958	31
California	\$1,559	18	\$1,837	16	\$2,307	5	\$374	18	\$6,077	9
Colorado	\$1,425	26	\$1,669	23	\$1,286	22	\$241	38	\$4,622	23
Connecticut	\$2,927	4	\$1,714	21	\$2,307	6	\$272	31	\$7,220	3
Delaware	\$860	45	\$583	49	\$1,568	10	\$1,746	2	\$4,757	22
District of Columbia	\$3,535	1	\$2,607	4	\$3,601	1	\$1,098	4	\$10,841	1
Florida	\$1,263	31	\$1,764	19	\$110	46	\$340	24	\$3,478	47
Georgia	\$1,159	33	\$1,283	44	\$1,107	29	\$110	51	\$3,660	43
Hawaii	\$1,140	34	\$3,336	1	\$1,557	11	\$434	13	\$6,467	7
Idaho	\$944	42	\$1,287	43	\$1,018	33	\$265	32	\$3,514	46
Illinois	\$2,120	11	\$1,880	14	\$1,338	17	\$316	27	\$5,654	12
Indiana	\$967	41	\$1,632	26	\$1,142	27	\$131	50	\$3,872	37
Iowa	\$1,582	16	\$1,652	24	\$1,288	21	\$361	21	\$4,884	19
Kansas	\$1,490	22	\$1,906	12	\$903	34	\$196	44	\$4,494	26
Kentucky	\$775	47	\$1,418	37	\$1,449	15	\$181	47	\$3,823	39
Louisiana	\$887	44	\$2,126	8	\$648	41	\$227	43	\$3,888	36
Maine	\$2,124	10	\$1,570	31	\$1,270	23	\$264	34	\$5,227	15
Maryland	\$1,547	19	\$1,621	27	\$2,463	3	\$396	16	\$6,027	10
Massachusetts	\$2,357	9	\$1,331	42	\$2,457	4	\$324	26	\$6,469	6
Michigan	\$1,413	27	\$1,361	40	\$1,077	32	\$231	41	\$4,082	29
Minnesota	\$1,567	17	\$1,897	13	\$2,217	7	\$409	15	\$6,090	8
Mississippi	\$988	38	\$1,639	25	\$758	38	\$228	42	\$3,613	44
Missouri	\$971	40	\$1,401	39	\$1,119	28	\$191	45	\$3,682	42
Montana	\$1,517	21	\$550	50	\$1,252	24	\$505	9	\$3,824	38
Nebraska	\$1,909	13	\$1,491	33	\$1,338	16	\$349	23	\$5,087	16
Nevada	\$994	37	\$2,676	3	\$0	48	\$606	6	\$4,277	28
New Hampshire	\$3,115	3	\$739	48	\$590	43	\$373	19	\$4,818	20
New Jersey	\$3,127	2	\$1,489	34	\$1,736	9	\$357	22	\$6,709	4
New Mexico	\$768	48	\$1,926	11	\$731	39	\$466	11	\$3,891	35
New York	\$2,782	5	\$2,189	6	\$3,464	2	\$522	7	\$8,957	2
North Carolina	\$975	39	\$1,417	38	\$1,291	20	\$236	40	\$3,919	33
North Dakota	\$1,296	29	\$2,365	5	\$601	42	\$2,368	1	\$6,630	5
Ohio	\$1,264	30	\$1,794	17	\$1,172	26	\$244	37	\$4,473	27
Oklahoma	\$699	50	\$1,531	32	\$848	36	\$379	17	\$3,458	48
Oregon	\$1,444	24	\$507	51	\$2,051	8	\$505	8	\$4,508	25
Pennsylvania	\$1,477	23	\$1,614	28	\$1,551	12	\$416	14	\$5,058	17
Rhode Island	\$2,415	7	\$1,602	29	\$1,305	19	\$239	39	\$5,562	13
South Carolina	\$1,164	32	\$1,096	46	\$869	35	\$306	29	\$3,435	49
South Dakota	\$1,394	28	\$2,141	7	\$38	47	\$365	20	\$3,938	32
Tennessee	\$836	46	\$1,875	15	\$280	45	\$331	25	\$3,322	50
Texas	\$1,762	14	\$2,014	9	\$0	48	\$244	36	\$4,020	30
Utah	\$1,019	36	\$1,354	41	\$1,218	25	\$153	48	\$3,744	41
Vermont	\$2,593	6	\$1,691	22	\$1,329	18	\$291	30	\$5,904	11
Virginia	\$1,545	20	\$1,155	45	\$1,544	13	\$316	28	\$4,560	24
Washington	\$1,436	25	\$3,113	2	\$0	48	\$501	10	\$5,050	18
West Virginia	\$915	43	\$1,468	35	\$1,088	30	\$445	12	\$3,917	34
Wisconsin	\$1,624	15	\$1,424	36	\$1,468	14	\$254	35	\$4,770	21
Wyoming	\$2,393	8	\$1,767	18	\$0	48	\$1,384	3	\$5,545	14

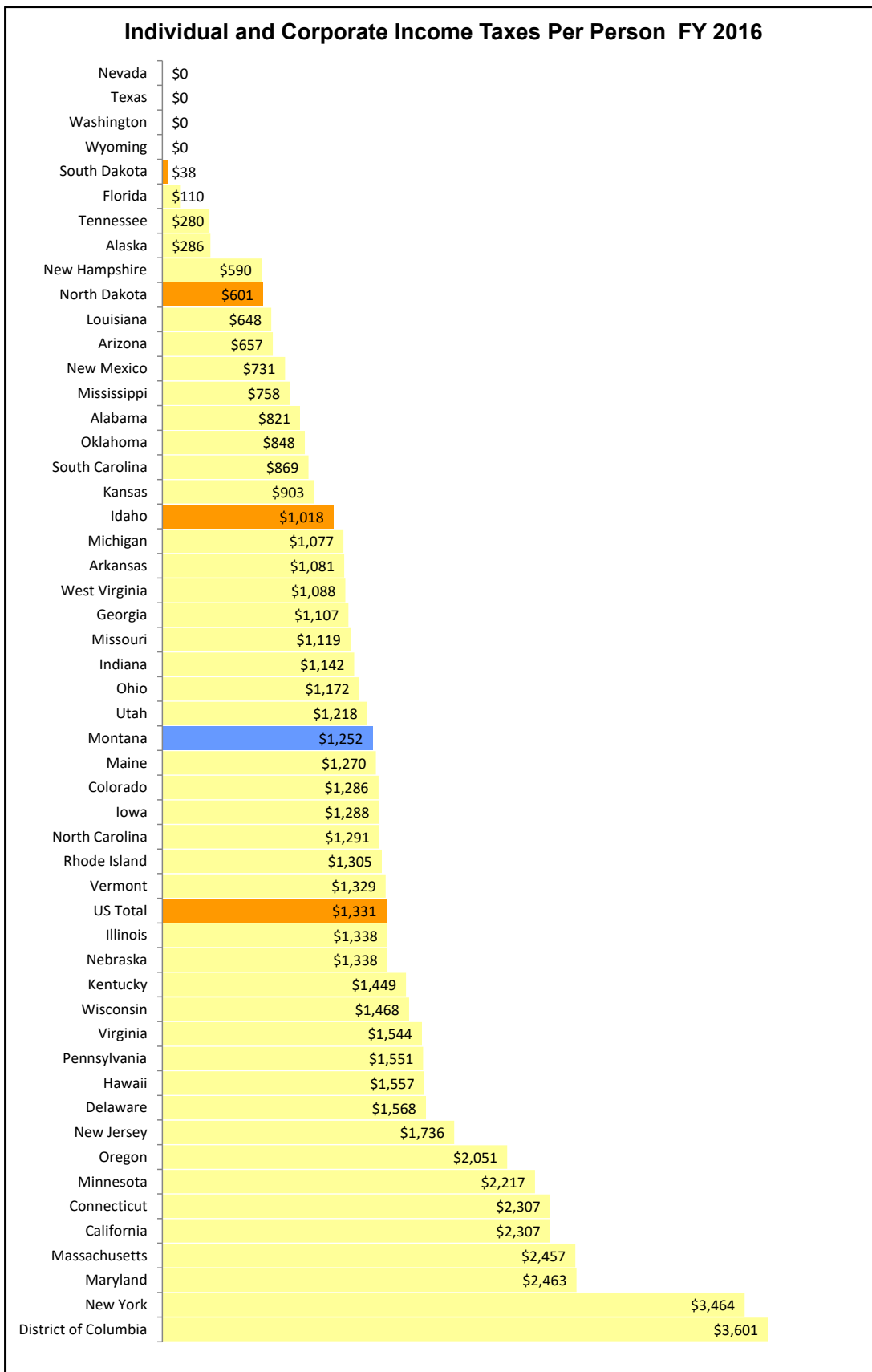
Comparison of State Taxes



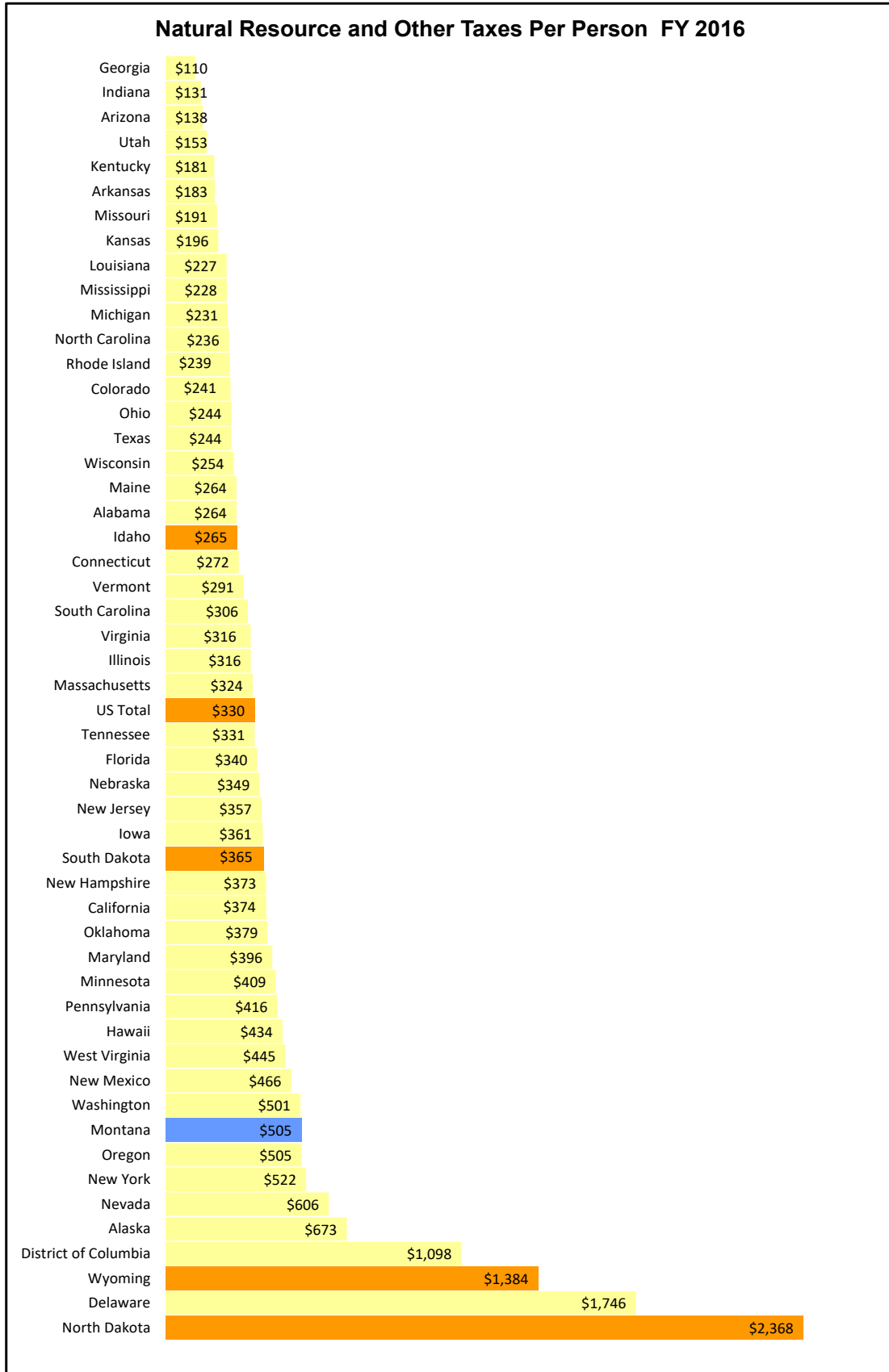
Comparison of State Taxes



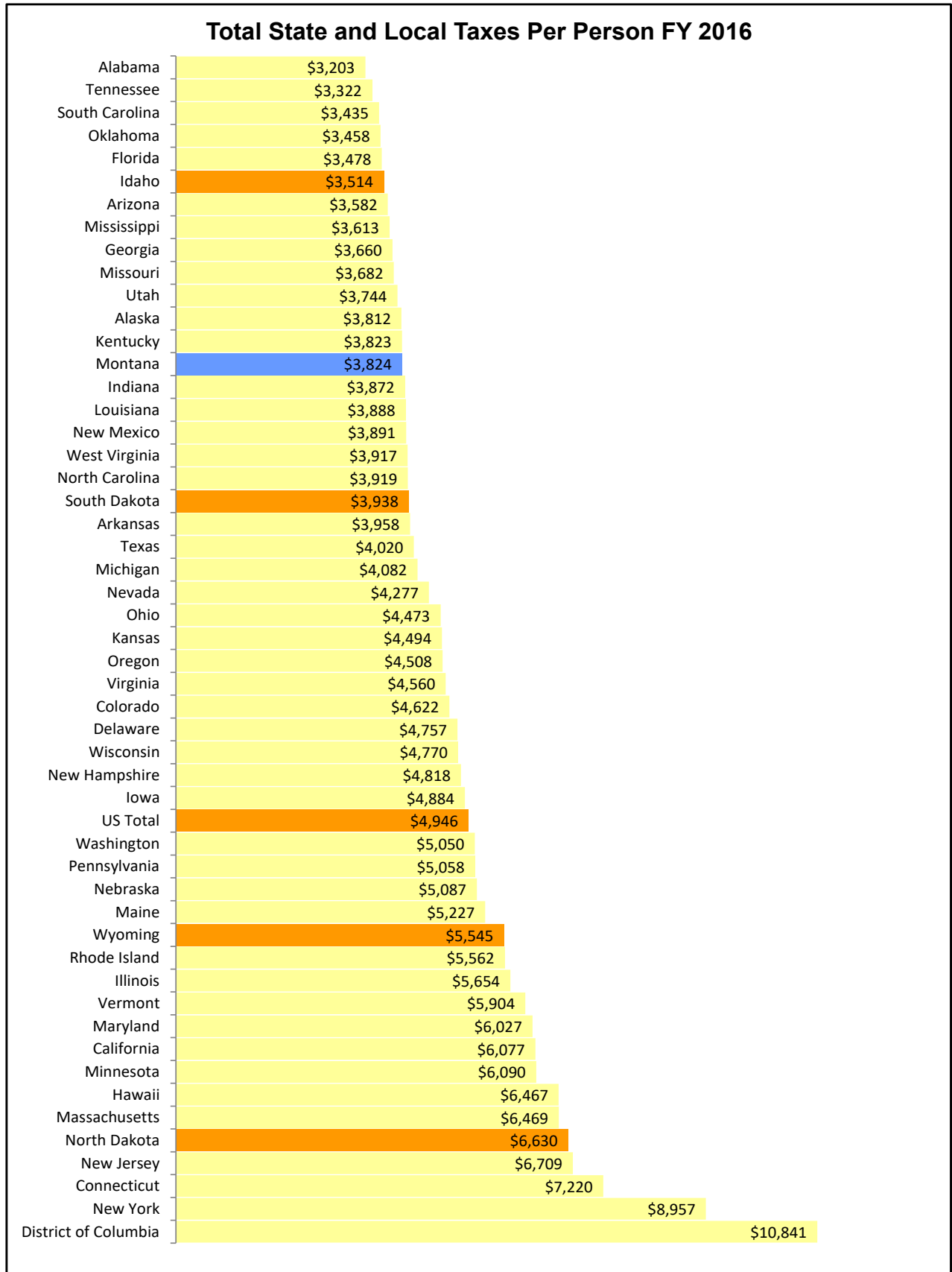
Comparison of State Taxes



Comparison of State Taxes



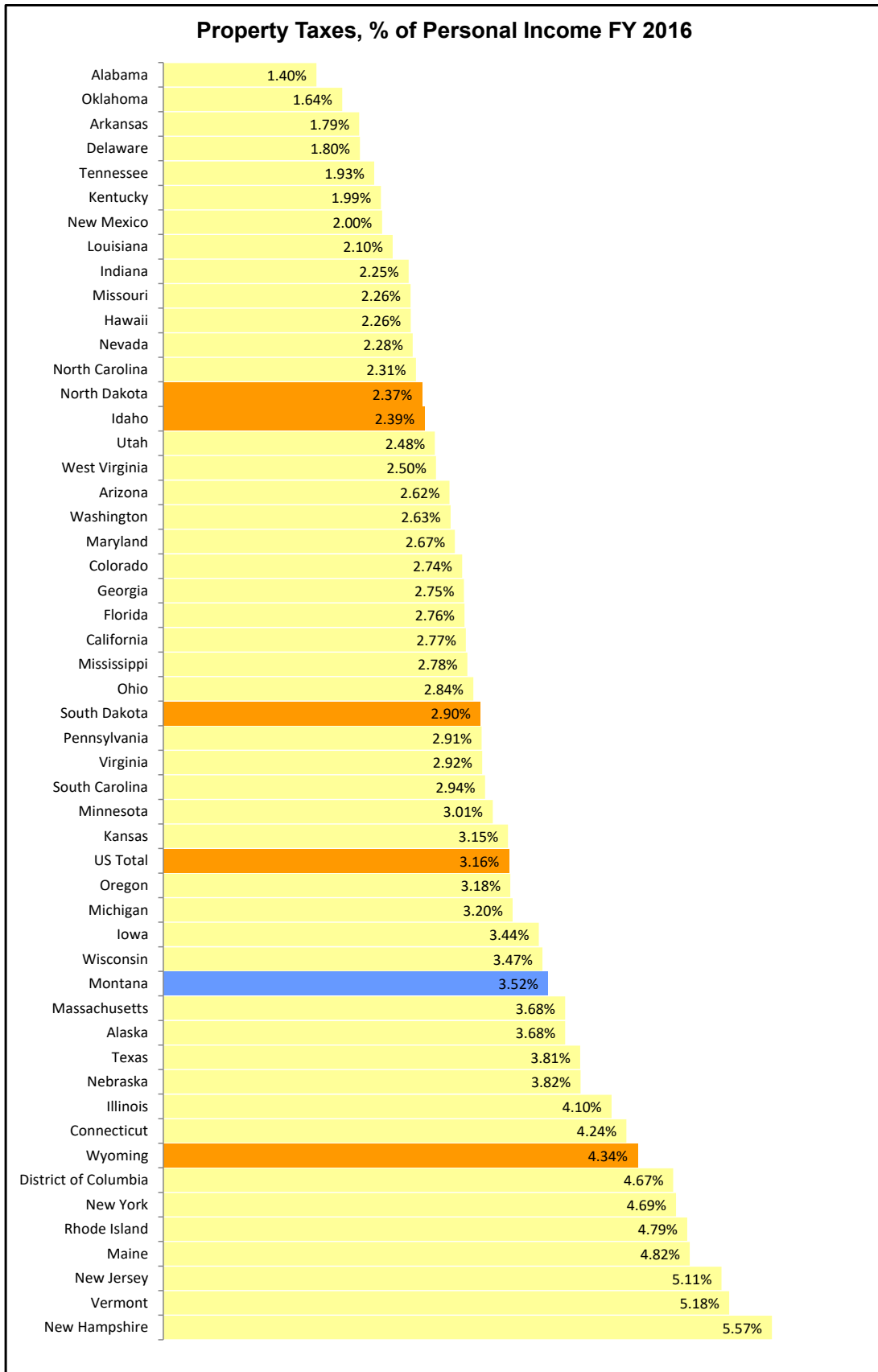
Comparison of State Taxes



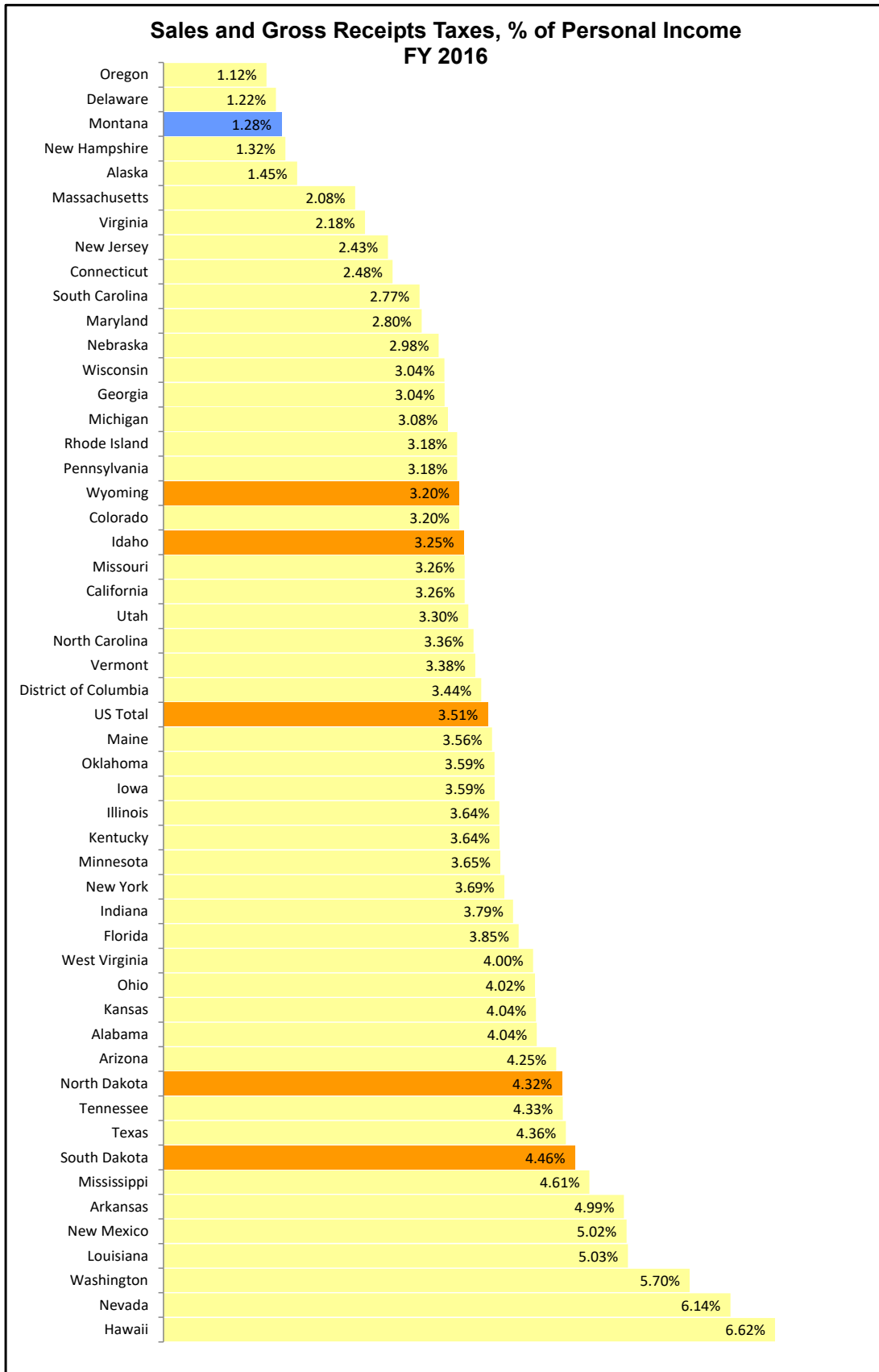
Comparison of State Taxes

Taxes as a Percent of Personal Income - FY 2016										
State	Property Tax		Sales and Gross Receipts		Individual and Corporate Income Tax		Other Taxes		Total	
	Percent	Rank	Percent	Rank	Percent	Rank	Percent	Rank	Percent	Rank
Average of All States	3.16%		3.51%		2.71%		0.67%		10.05%	
Alabama	1.40%	51	4.04%	13	2.11%	36	0.68%	24	8.23%	46
Alaska	3.68%	13	1.45%	47	0.51%	45	1.21%	8	6.85%	51
Arizona	2.62%	34	4.25%	12	1.62%	40	0.34%	49	8.83%	39
Arkansas	1.79%	49	4.99%	6	2.72%	22	0.46%	44	9.96%	24
California	2.77%	28	3.26%	30	4.10%	6	0.66%	27	10.79%	11
Colorado	2.74%	31	3.20%	33	2.47%	32	0.46%	43	8.87%	37
Connecticut	4.24%	9	2.48%	43	3.34%	9	0.39%	47	10.45%	14
Delaware	1.80%	48	1.22%	50	3.28%	10	3.65%	2	9.94%	25
District of Columbia	4.67%	7	3.44%	26	4.75%	2	1.45%	4	14.31%	2
Florida	2.76%	29	3.85%	17	0.24%	46	0.74%	21	7.59%	50
Georgia	2.75%	30	3.04%	38	2.63%	27	0.26%	51	8.68%	42
Hawaii	2.26%	41	6.62%	1	3.09%	12	0.86%	14	12.84%	3
Idaho	2.39%	37	3.25%	32	2.57%	31	0.67%	25	8.89%	36
Illinois	4.10%	10	3.64%	22	2.59%	30	0.61%	29	10.94%	10
Indiana	2.25%	43	3.79%	18	2.65%	25	0.31%	50	8.99%	35
Iowa	3.44%	17	3.59%	23	2.80%	21	0.78%	17	10.60%	13
Kansas	3.15%	20	4.04%	14	1.91%	38	0.42%	46	9.52%	29
Kentucky	1.99%	46	3.64%	21	3.72%	8	0.47%	42	9.82%	27
Louisiana	2.10%	44	5.03%	4	1.53%	41	0.54%	37	9.20%	33
Maine	4.82%	4	3.56%	25	2.88%	19	0.60%	30	11.85%	5
Maryland	2.67%	32	2.80%	41	4.25%	5	0.68%	23	10.40%	15
Massachusetts	3.68%	14	2.08%	46	3.83%	7	0.50%	40	10.09%	20
Michigan	3.20%	18	3.08%	37	2.43%	33	0.52%	39	9.23%	32
Minnesota	3.01%	21	3.65%	20	4.26%	4	0.79%	16	11.71%	7
Mississippi	2.78%	27	4.61%	7	2.13%	35	0.64%	28	10.17%	18
Missouri	2.26%	42	3.26%	31	2.61%	28	0.44%	45	8.58%	45
Montana	3.52%	15	1.28%	49	2.90%	18	1.17%	9	8.87%	38
Nebraska	3.82%	11	2.98%	40	2.68%	23	0.70%	22	10.17%	17
Nevada	2.28%	40	6.14%	2	0.00%	48	1.39%	5	9.81%	28
New Hampshire	5.57%	1	1.32%	48	1.06%	43	0.67%	26	8.61%	44
New Jersey	5.11%	3	2.43%	44	2.83%	20	0.58%	32	10.96%	9
New Mexico	2.00%	45	5.02%	5	1.90%	39	1.21%	6	10.13%	19
New York	4.69%	6	3.69%	19	5.84%	1	0.88%	13	15.11%	1
North Carolina	2.31%	39	3.36%	28	3.06%	13	0.56%	34	9.29%	30
North Dakota	2.37%	38	4.32%	11	1.10%	42	4.32%	1	12.10%	4
Ohio	2.84%	26	4.02%	15	2.63%	26	0.55%	35	10.04%	22
Oklahoma	1.64%	50	3.59%	24	1.98%	37	0.89%	12	8.09%	48
Oregon	3.18%	19	1.12%	51	4.51%	3	1.11%	10	9.91%	26
Pennsylvania	2.91%	24	3.18%	35	3.06%	14	0.82%	15	9.97%	23
Rhode Island	4.79%	5	3.18%	36	2.59%	29	0.47%	41	11.04%	8
South Carolina	2.94%	22	2.77%	42	2.20%	34	0.77%	18	8.69%	41
South Dakota	2.90%	25	4.46%	8	0.08%	47	0.76%	20	8.20%	47
Tennessee	1.93%	47	4.33%	10	0.65%	44	0.76%	19	7.67%	49
Texas	3.81%	12	4.36%	9	0.00%	48	0.53%	38	8.70%	40
Utah	2.48%	36	3.30%	29	2.97%	15	0.37%	48	9.13%	34
Vermont	5.18%	2	3.38%	27	2.65%	24	0.58%	33	11.79%	6
Virginia	2.92%	23	2.18%	45	2.92%	17	0.60%	31	8.61%	43
Washington	2.63%	33	5.70%	3	0.00%	48	0.92%	11	9.24%	31
West Virginia	2.50%	35	4.00%	16	2.97%	16	1.21%	7	10.68%	12
Wisconsin	3.47%	16	3.04%	39	3.14%	11	0.54%	36	10.19%	16
Wyoming	4.34%	8	3.20%	34	0.00%	48	2.51%	3	10.05%	21

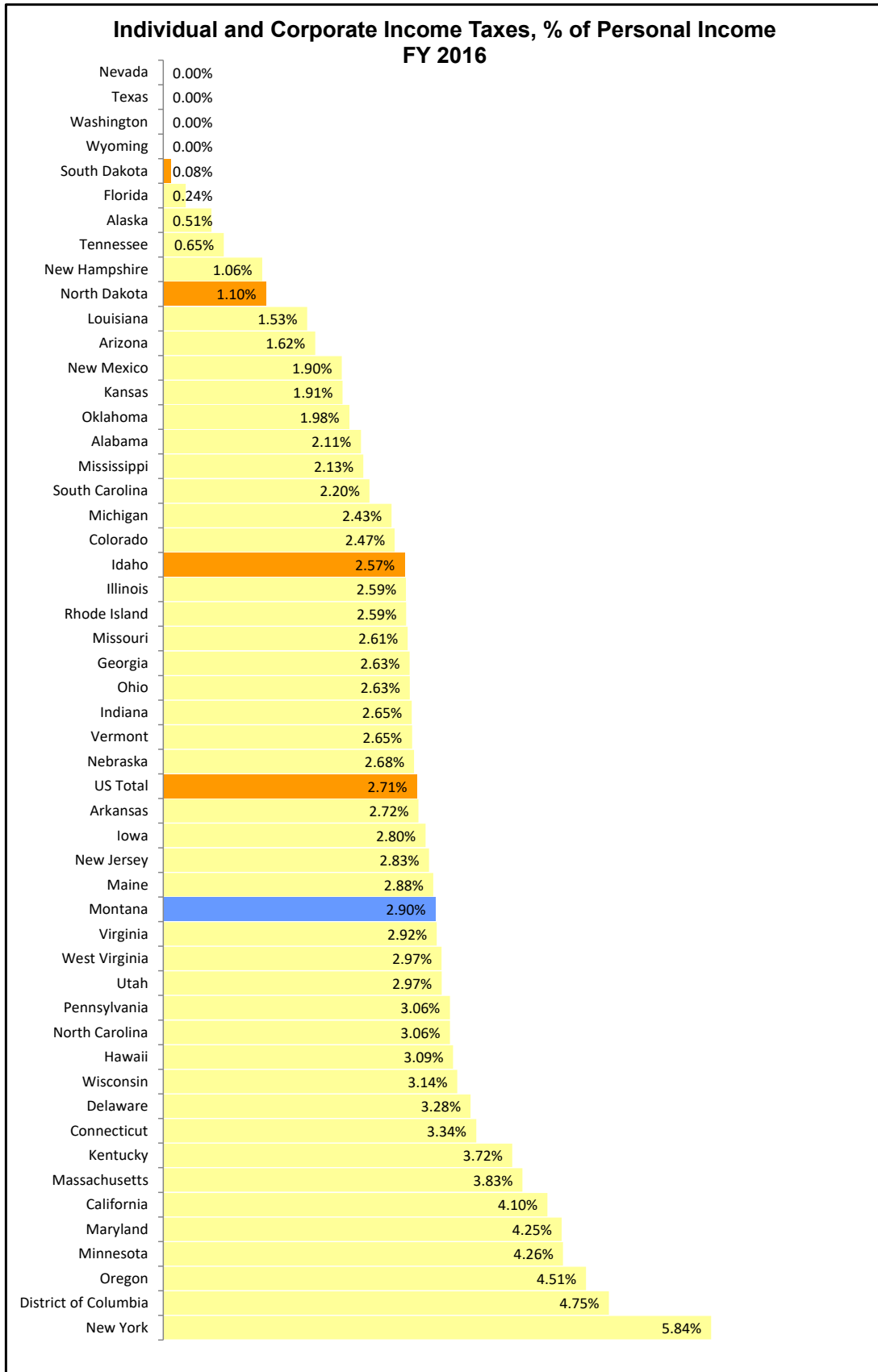
Comparison of State Taxes



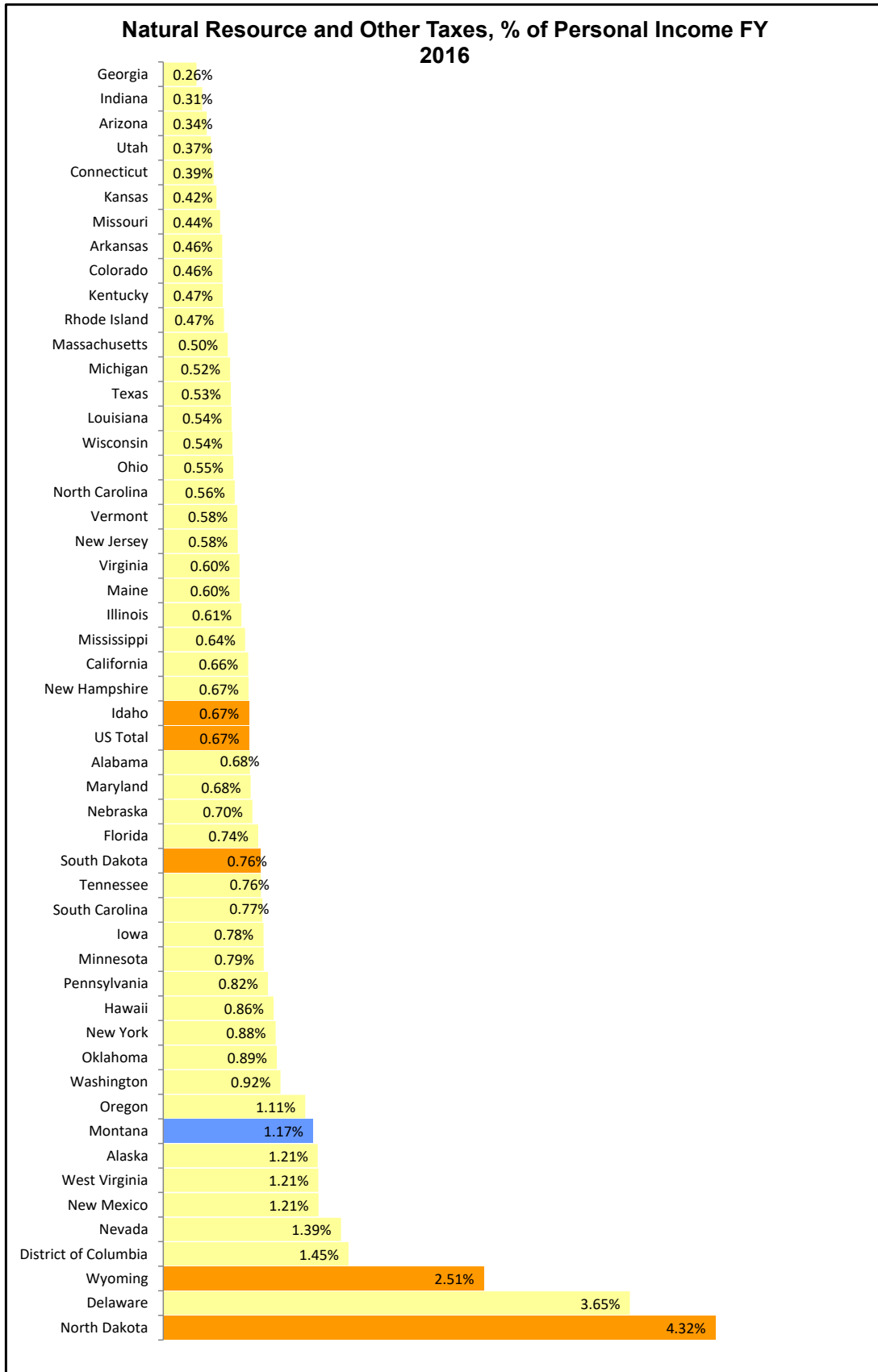
Comparison of State Taxes



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