

INDIVIDUAL INCOME TAX CREDIT AND SELECTED DEDUCTION ANALYSIS

A Report Prepared for the
Revenue & Transportation Interim Committee

By
Stephanie Morrison, Ph.D.
Revenue Analyst

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INTRODUCTION

This report updates and combines the 2011 analysis of individual income tax credits. The information provided in this report is complementary to that found in the Department of Revenue's Biennial Report. Legislative history and prior years' data, as well as policy highlights for each credit are found in the [Tax Expenditures](#) section of the 2010-2012 Biennial Report. The report is organized by five sections:

- Section 1: Income Level of Credit Claimers
- Section 2: Credit Claimers by Income Decile & Brackets
- Section 3: Credit Impact on Effective Tax Rate
- Section 4: Repeat Claimers of Particular Credits
- Section 5: Selected Deduction Analysis

Data

Full-year-resident individual income taxpayer data from 1997 through 2012 is the basis of all the analysis, with the exception of the capital gains credit. The data used for various sections may be a subset of the full data set depending on the specific calculation. Details of the subset specification are highlighted below:

- Section 1: Subset of taxpayers who claimed at least \$1 of analyzed credit
- Section 2: Subset of taxpayers with incomes greater than \$0
- Section 3: Subset of taxpayers with incomes greater than \$0
- Section 4: Subset of taxpayers who claimed at least \$1 of analyzed credit
- Section 5: Subset of taxpayers with incomes greater than \$0 who had at least \$1 of itemized deductions

As used in this report, the term "taxpayer" may refer to any of the file types allowed by the Montana tax code: single, married filing joint, married filing separately, and head of household. There are a few cases in this report where the average amount of the credit is larger than the maximum amount of the credit. This apparent discrepancy is due to both individuals claiming the credit on joint or separate, same form tax forms.

Throughout this report, the term "total income" refers to the sum of all income sources before adjustments; i.e., total income is not equal to Federal Adjusted Gross Income.

Charts

The double-axis graphs in Section 1 are descriptive, but a little challenging to read. This gives a brief overview of the graphs and how to read them.

- The green bars depict the average total income of the filers who claim the associated credit
- The black line depicts the average value of the credit as a percentage of the average total income of the filers who claim the credit
- Income is shown on the left axis and goes from \$0 to \$700,000 in most cases
- Percentages are shown on the right axis and goes from 0% to 7% in most cases

The charts included with decile analysis of Sections 2, 3 and 5 show various characteristics of ten equally-sized groups of relevant taxpayers. The total number of taxpayers is included with the title of the chart.

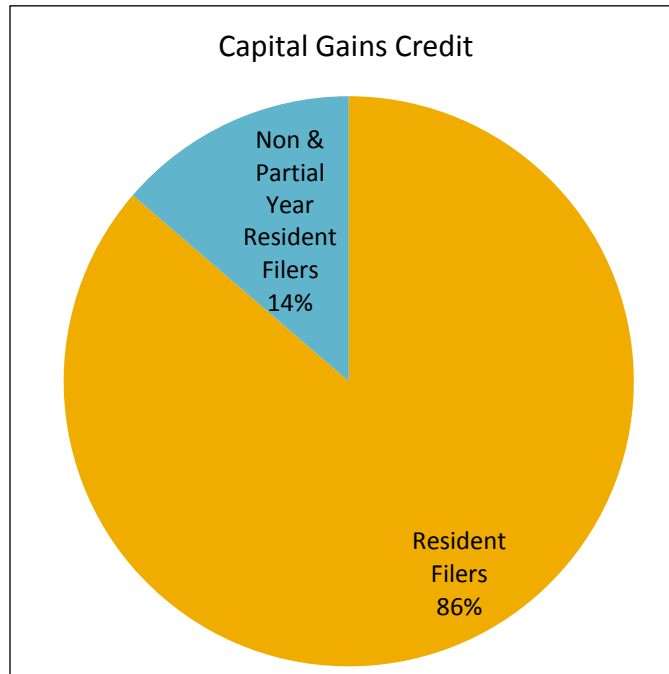
SECTION 1: INCOME LEVEL OF CREDIT CLAIMERS

This section provides historical average income characteristics and average percentage value for each credit. Each subsection includes a link to the associated MCA section and a brief summary of the credit, a chart with the historical average total income and associated percentage value of the credit, and aggregate statistics of the credit in 2012. The credits are organized by capital gains, non-refundable with no carryover credits, non-refundable with carryover credits, and refundable credits.

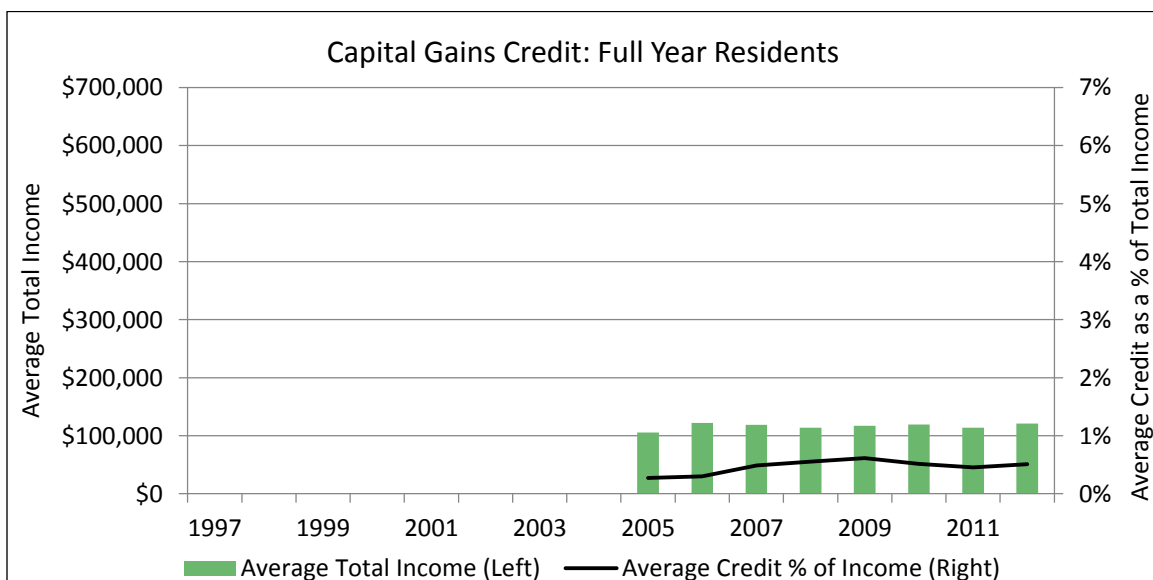
Capital Gains Credit: [5-30-2301](#)

Individual taxpayers are allowed a credit equal to 2% of capital gains income. If the capital gains credit exceeds the taxpayer's tax liability, the excess credit is not refunded and may not be carried forward or backward to other tax years.

Although this document focuses almost entirely on the characteristics of full year resident taxpayers who claim the various credits, there has generally been significant interest regarding the nonresident claimers of the capital gains credit. This section illustrates the average characteristics of full-year resident, and partial-year and nonresident claimers of the credit. The chart below shows the average share of resident and nonresident claimers of the credit since its inception in 2005.

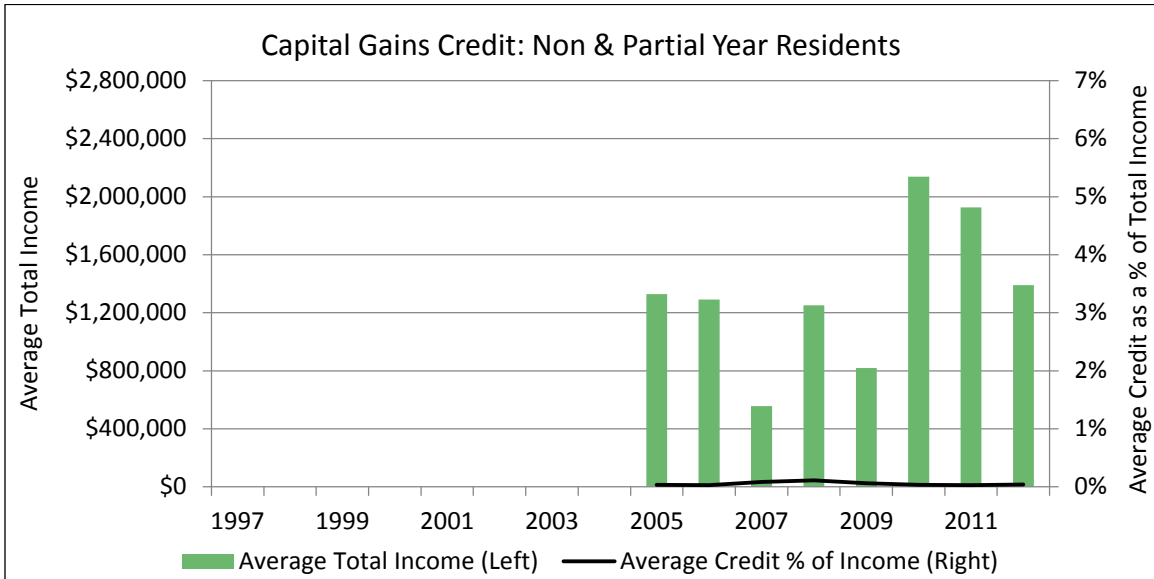


Full Year Residents



In 2012, 48,732 full year resident taxpayers claimed this credit for a total credit amount of \$30,255,648 and an average credit amount of \$621. The chart above indicates that the average total income of filers who claim this credit is above \$100,000 and the credit accounts for about 0.5% of total income.

Non- & Partial-Year Residents

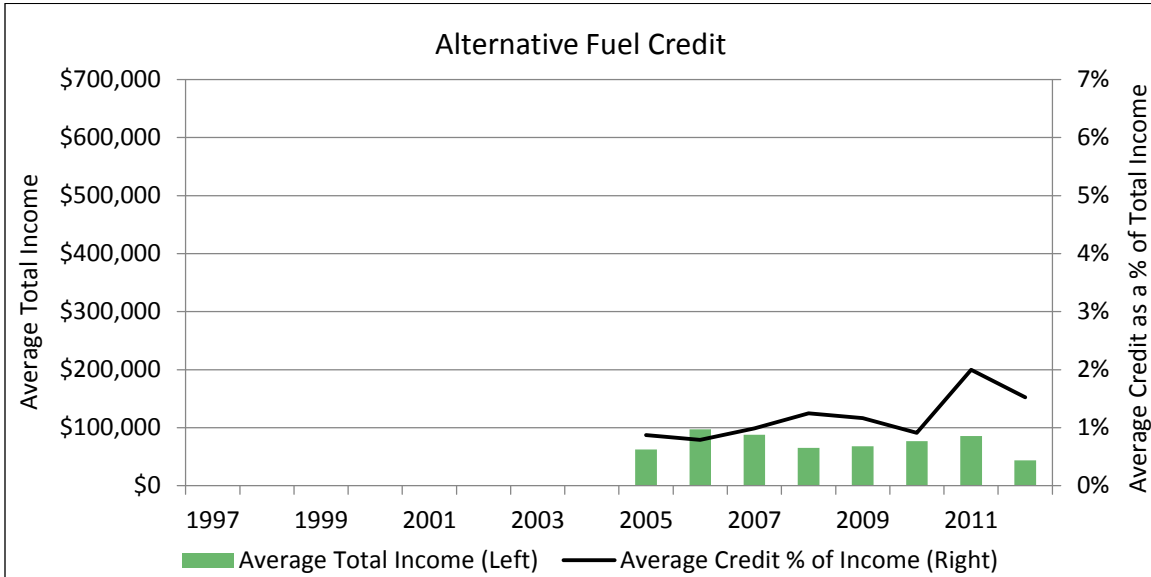


In 2012, 6,958 non-full-year resident taxpayers claimed this credit for a total credit amount of \$3,730,069 and an average credit amount of \$536. The chart above indicates that the average total income of filers who claim this credit typically varies above \$1,000,000 and the credit accounts for just above 0% of total income.

Non-Refundable Credits with no Carryover

Alternative Fuel Credit: [15-30-2320](#) and [15-31-137](#)

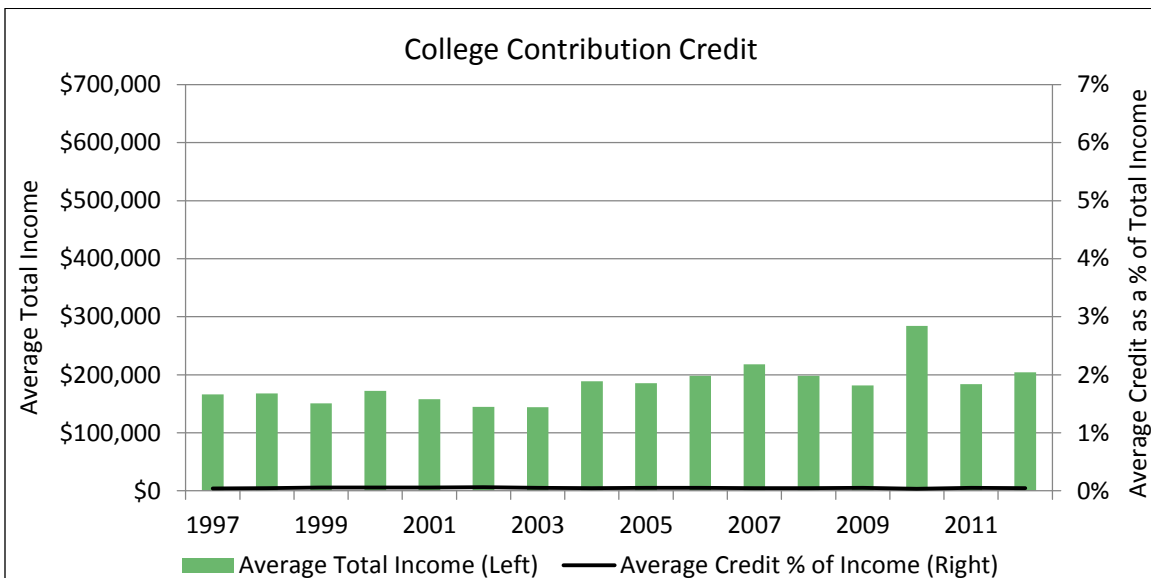
Individual and corporate taxpayers are allowed a credit of up to 50% of the cost of converting a motor vehicle to operate on various alternative fuel sources. The credit is limited to \$500 or \$1,000, depending on the size of the vehicle.



In 2012, 23 full year resident taxpayers claimed this credit for a total credit amount of \$15,278 and an average credit amount of \$664. The chart above indicates that the average total income of filers who claim this credit is just under \$100,000 and the credit accounts for between 1% and 2% of total income.

College Contribution Credit: [15-30-2326](#) and [15-31-135](#)

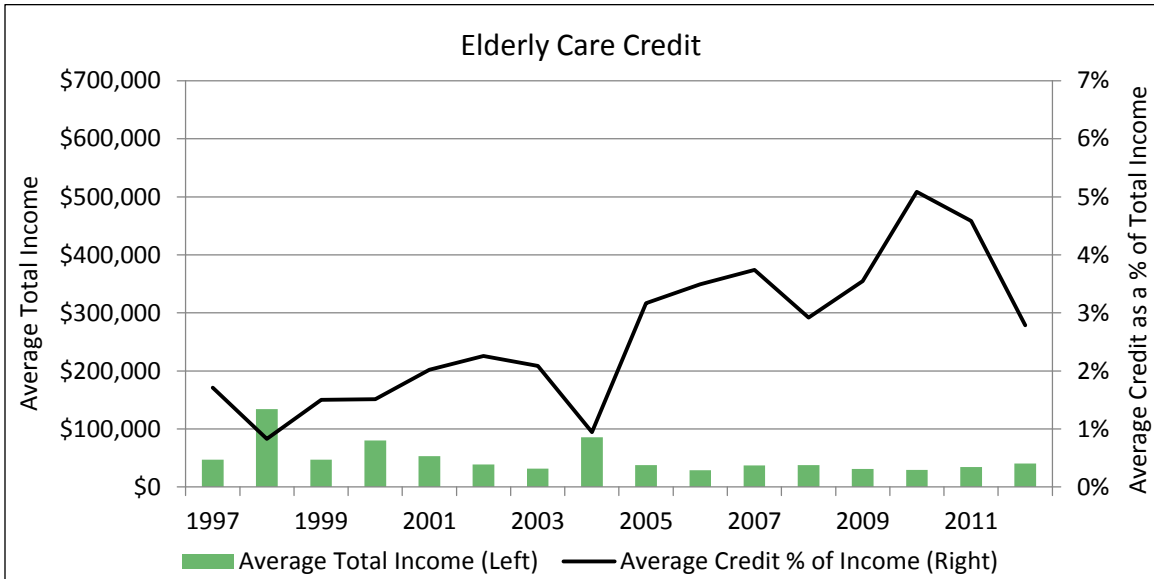
Individual and corporate taxpayers are allowed a credit of 10% of the amount of charitable contributions to the general endowment funds of Montana public or private higher education institutions. The credit is limited to \$500 per taxpayer.



In 2012, 2,667 full year resident taxpayers claimed this credit for a total credit amount of \$253,357 and an average credit amount of \$95. The chart above indicates that the average total income of filers who claim this credit is typically around \$200,000 and the credit accounts for just above 0% of total income.

Elderly Care Credit: [15-30-2366](#)

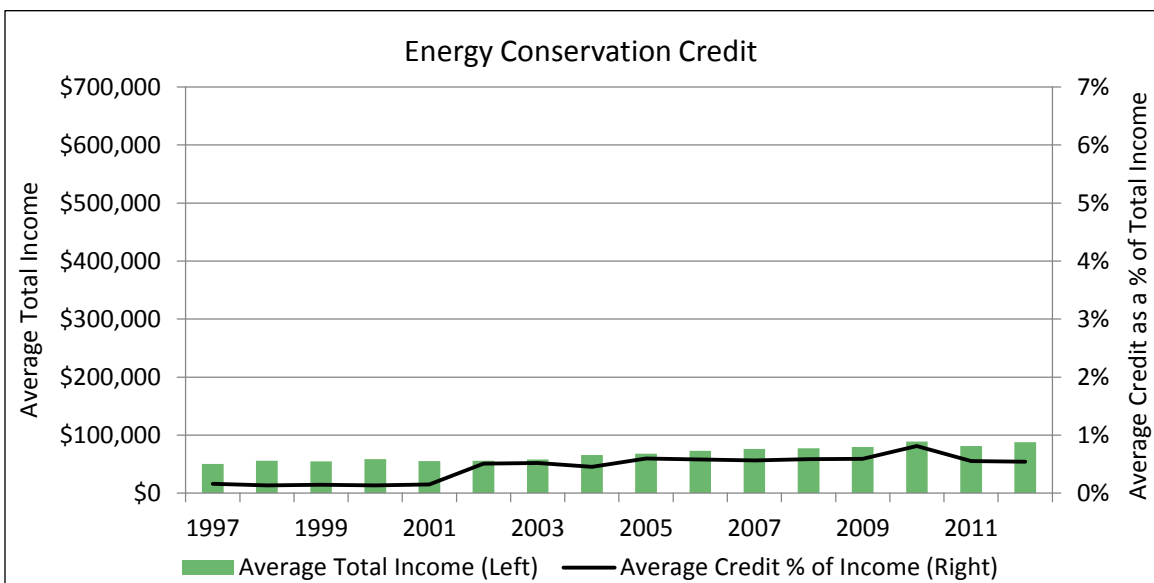
Individual taxpayers are allowed a credit of up to 24% of the costs of caring for a low income family member who is either elderly or disabled, depending on the taxpayer’s income. The credit is limited to \$5,000 per family member and \$10,000 total.



In 2012, 47 full year resident taxpayers claimed this credit for a total credit amount of \$52,714 and an average credit amount of \$1,122. The chart above indicates that the average total income of filers who claim this credit is typically under \$50,000 and in recent years, the credit accounts for over 3% of total income.

Energy Conservation Credit: [15-30-2319](#) and [15-32-109](#)

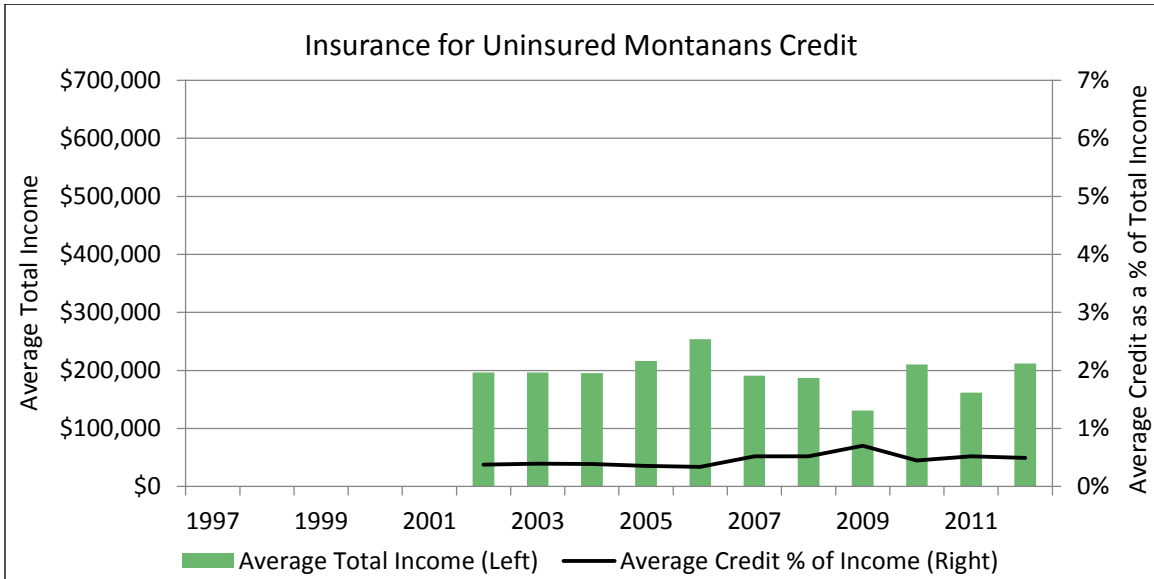
Individual resident taxpayers are allowed a credit for 25% of the costs of investments in a building made to conserve energy. The maximum credit is \$500 per taxpayer.



In 2012, 9,546 full year resident taxpayers claimed this credit for a total credit amount of \$4,554,157 and an average credit amount of \$477. The chart above indicates that the average total income of filers who claim this credit is under \$100,000 and the credit accounts for less than 1% of total income.

Insurance for Uninsured Montanans Credit: [15-30-2368](#) and [15-31-132](#)

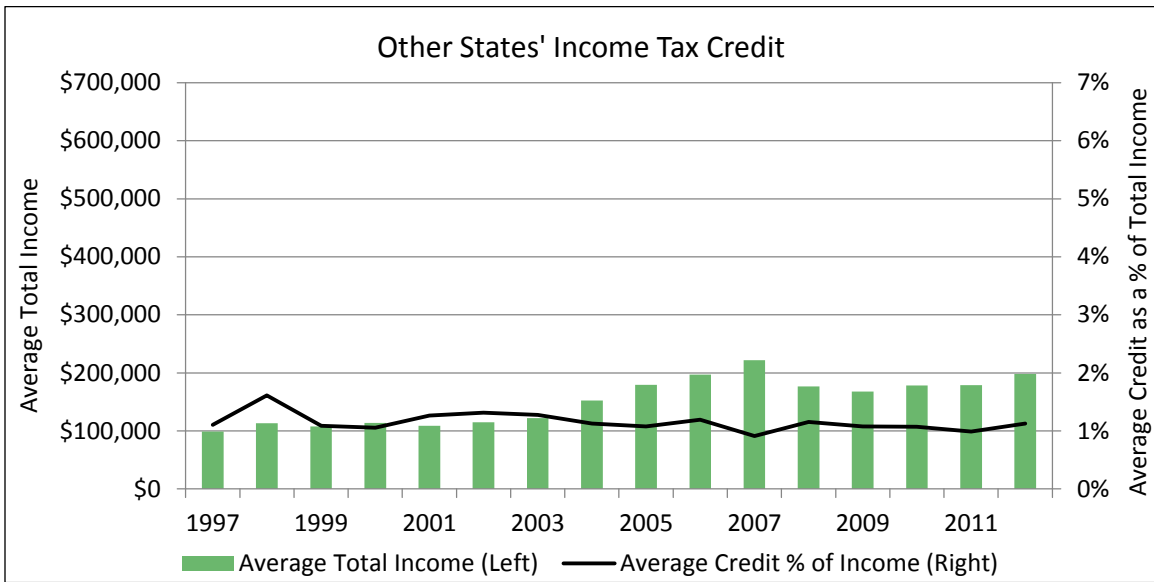
An employer with 20 or fewer employees may claim a credit against either income or corporation tax for paying at least 50% of the premium for up to 10 employees’ health insurance. The credit is the lower of \$25 per month multiplied by the percentage of the premium the employer pays or 50% of the premium. There is no explicit limit on the credit, but it may not be claimed for more than ten employees. An employer claiming \$25 per month for ten employees would claim a credit of \$3,000.



In 2012, 165 full year resident taxpayers claimed this credit for a total credit amount of \$171,634 and an average credit amount of \$1,040. The chart above indicates that the average total income of filers who claim this credit is around \$200,000 and the credit accounts for about half of 1% of total income.

Other States’ Income Tax Credit: [15-30-2302](#)

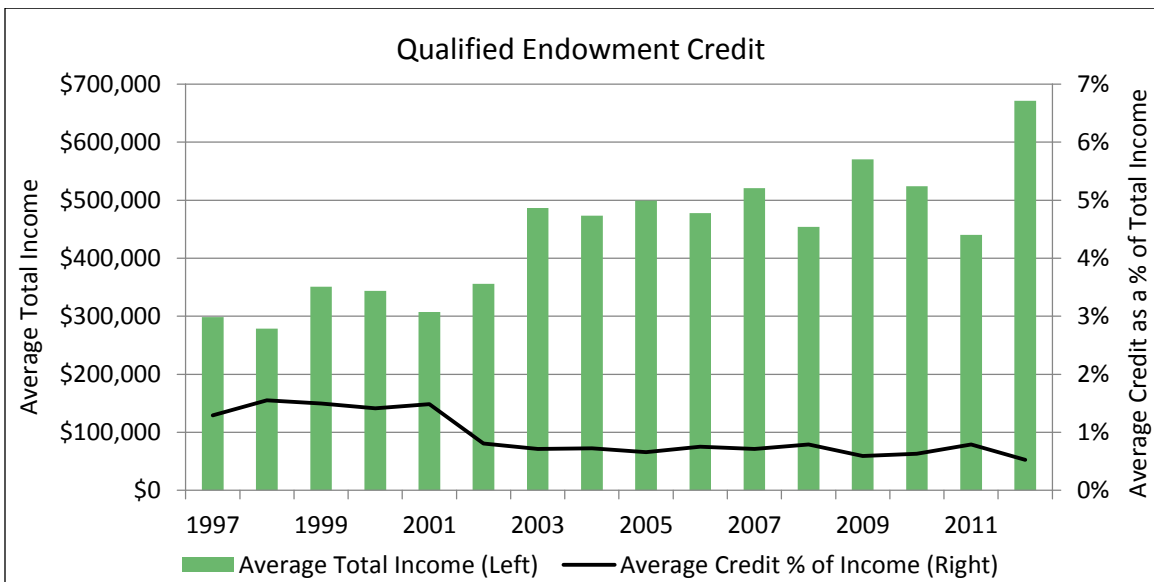
Resident taxpayers compute Montana income tax on their entire income, and then are allowed a credit for income tax paid to other states. Non- or partial-year-resident taxpayers compute Montana income tax on their entire income and then multiply by the share of income earned in Montana to give Montana tax liability. The taxpayer then is allowed a credit for income tax paid to other states on the portion of income earned in Montana. There is no maximum for this credit.



In 2012, 10,697 full year resident taxpayers claimed this credit for a total credit amount of \$23,833,728 and an average credit amount of \$2,228. The chart above indicates that the average total income of filers who claim this credit is around \$200,000 in recent years and the credit accounts for about 1% of total income.

Qualified Endowment Credit: [15-30-2327](#) through [15-30-2329](#)

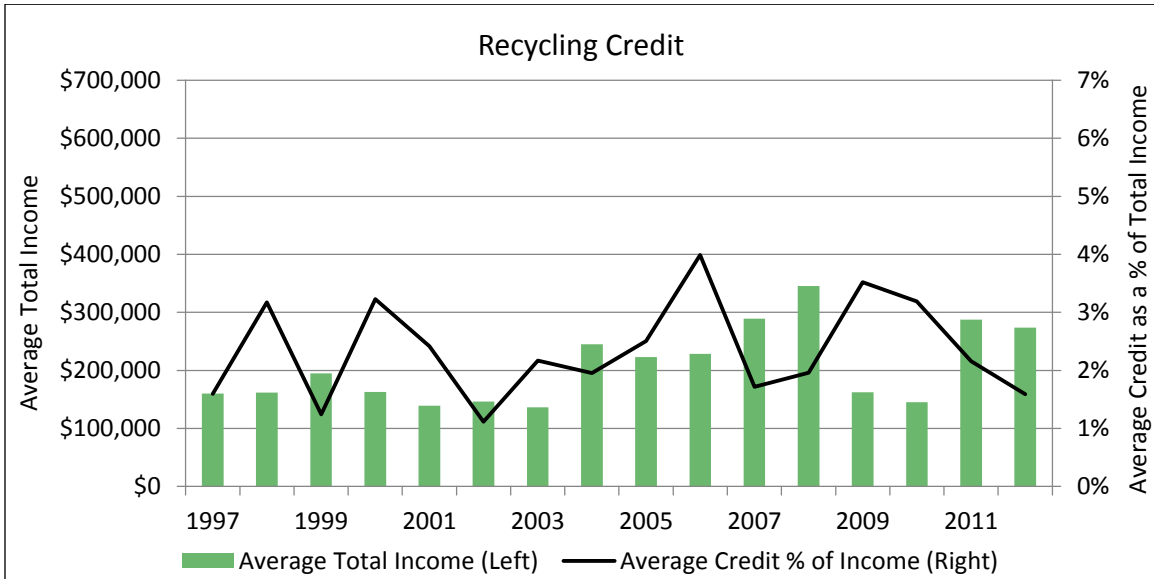
Individual taxpayers are allowed a credit of 40% of the present value of a planned gift to a qualified endowment. A qualified endowment is a permanent fund held by or on behalf of a 501(c)(3) charitable organization, and a planned gift is one of nine types of arrangements specified in the IRS code. The credit is limited to \$10,000 per taxpayer.



In 2012, 587 full year resident taxpayers claimed this credit for a total credit amount of \$2,072,367 and an average credit amount of \$3,530. The chart above indicates that the average total income of filers who claim this credit varies around \$500,000 in recent years and the credit accounts for under 1% of total income.

Recycling Credit: 15-32-601 through 15-32-611

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

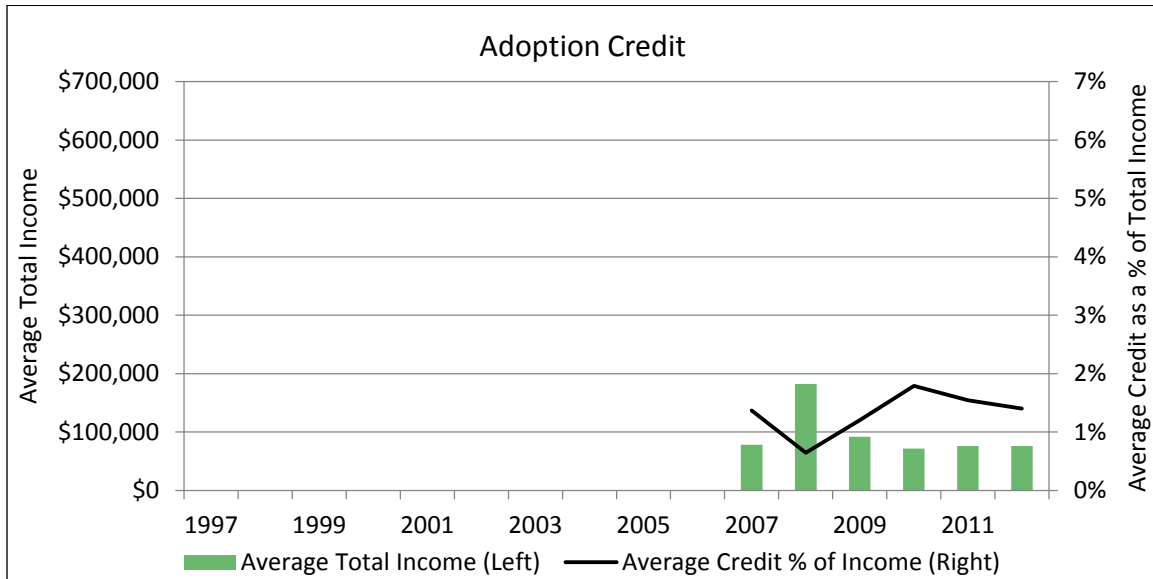


In 2012, 87 full year resident taxpayers claimed this credit for a total credit amount of \$378,546 and an average credit amount of \$4,351. The chart above indicates that the average total income of filers who claim this credit varies significantly around \$250,000 and the credit accounts for around 2.5% of total income.

Non-Refundable Credits with Carryover

Adoption Credit: [15-30-2364](#)

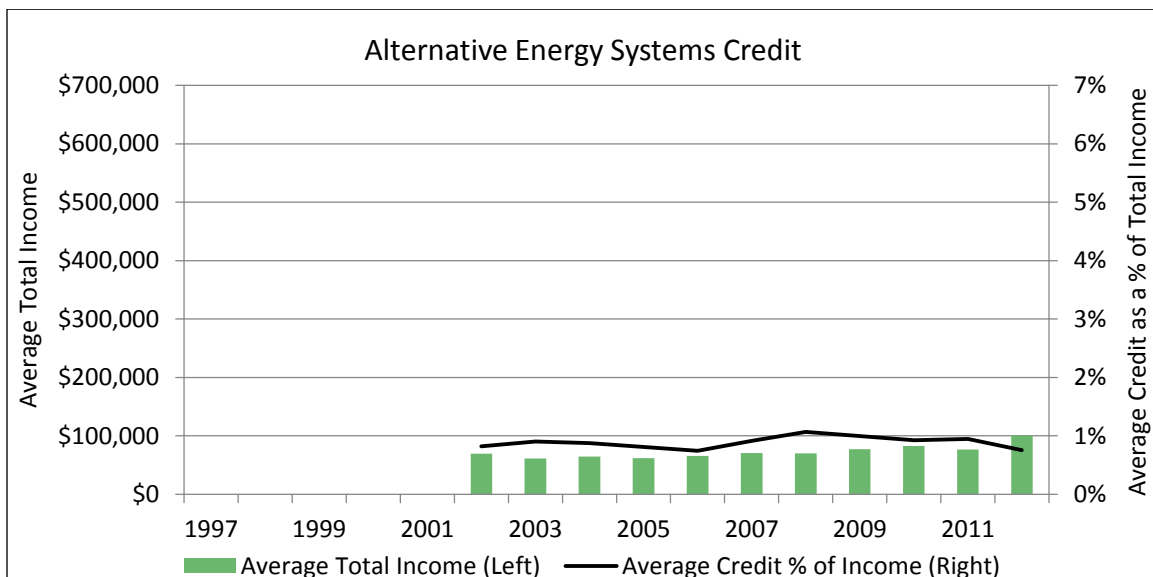
The IRS code allows an income tax credit for costs of adopting a child. A taxpayer who meets the requirements for the federal credit may also claim a credit of \$1,000 against Montana income tax. If the credit is more than the taxpayer's liability, the excess may be carried forward for up to five years.



In 2012, 200 full year resident taxpayers claimed this credit for a total credit amount of \$212,392 and an average credit amount of \$1,062. The chart above indicates that the average total income of filers who claim this credit is generally less than \$100,000 and the credit accounts for about 1.5% of total income.

Alternative Energy Systems Credit: [15-32-201](#) through [15-32-203](#)

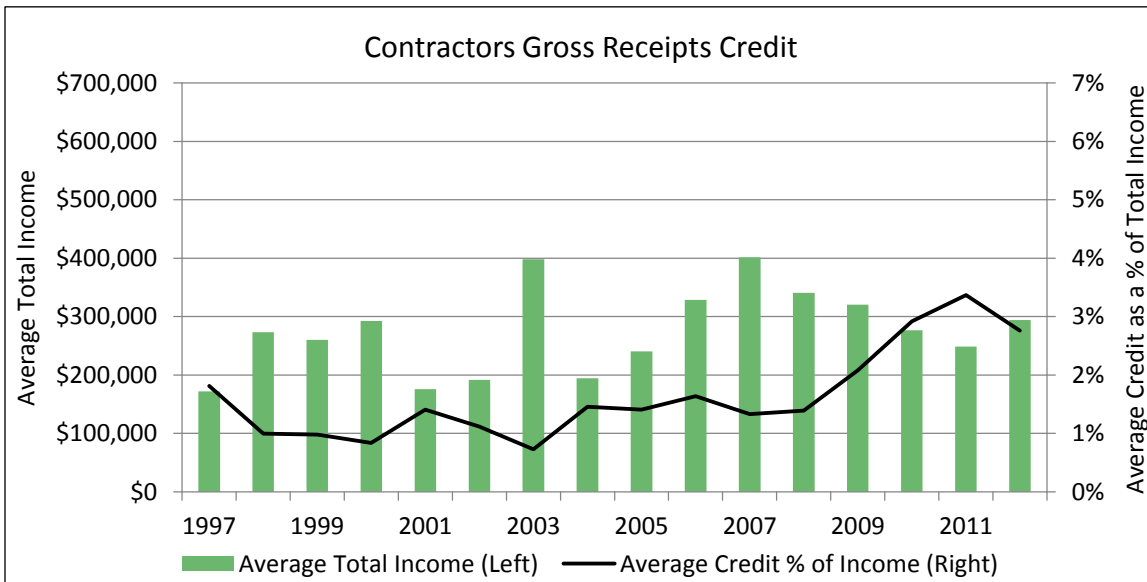
Resident individual taxpayers are allowed a credit for up to \$500 of the cost of installing an alternative energy heating system or a low-emission wood or biomass system in their principal residence. If the credit exceeds the taxpayer's liability, the excess may be carried forward for four years.



In 2012, 466 full year resident taxpayers claimed this credit for a total credit amount of \$352,822 and an average credit amount of \$757. The chart above indicates that the average total income of filers who claim this credit is about \$100,000 and the credit accounts for about 1% of total income.

Contractor's Gross Receipts Credit: [15-50-207](#)

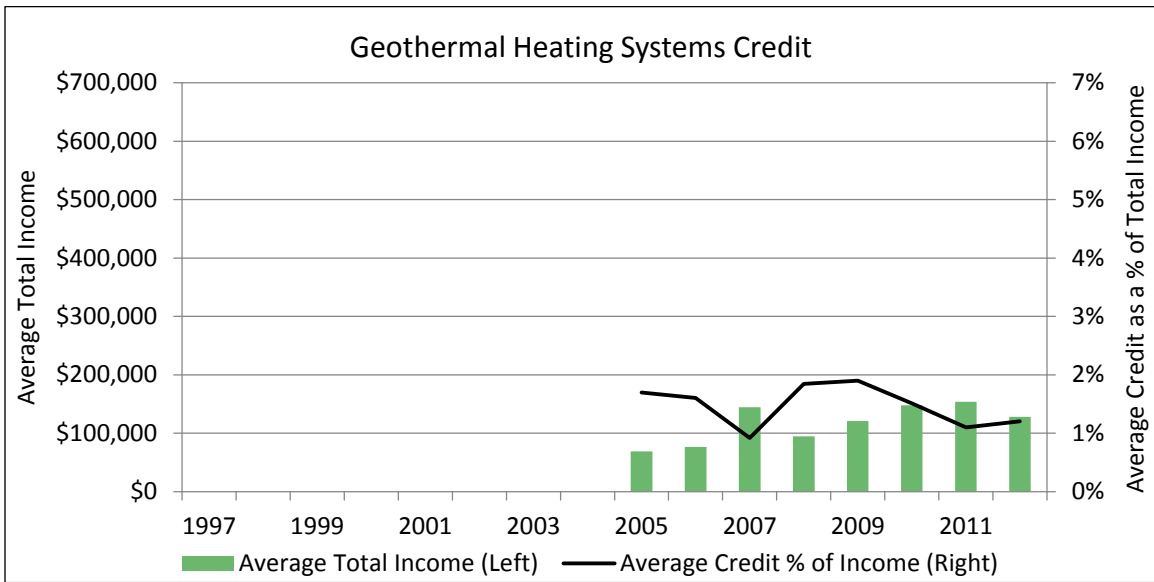
Contractors are required to pay a license fee equal to 1% of the gross receipts from government contracts during the year for which the license is issued. The agency or prime contractor withholds the fee from payments to the prime contractor or subcontractors. Contractors may use the amount of gross receipts tax paid as a credit against the contractor's individual or corporate income tax liability. The credit may be carried forward a maximum of five years.



In 2012, 651 full year resident taxpayers claimed this credit for a total credit amount of \$5,284,806 and an average credit amount of \$8,118. The chart above indicates that the average total income of filers who claim this credit varies around \$300,000 and the credit has recently increased to account for about 3% of total income.

Geothermal Heating System Credit: [15-32-115](#)

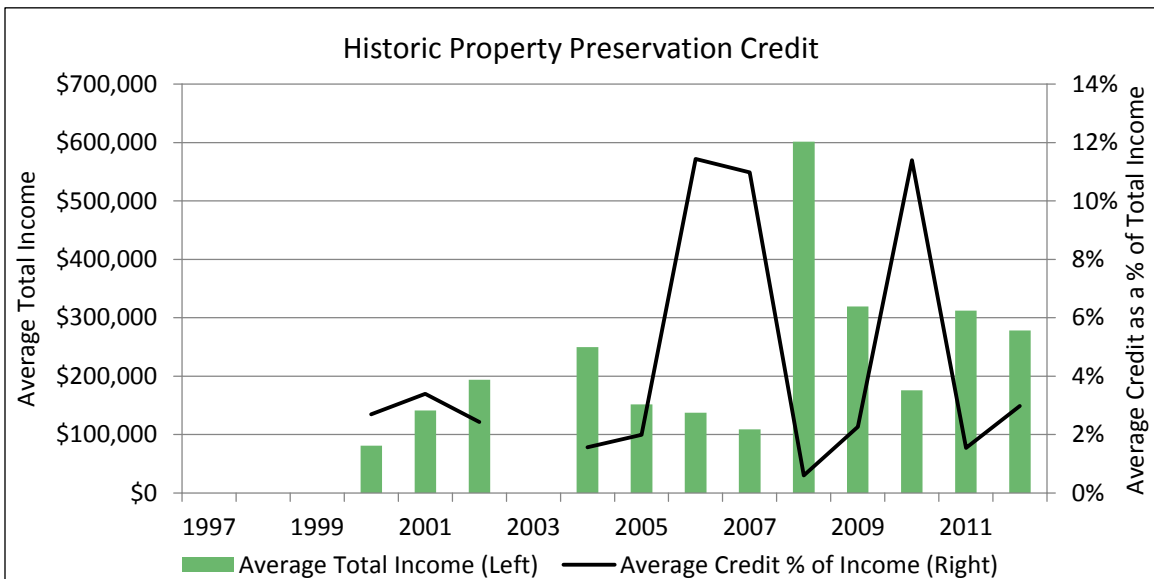
Individual and corporate taxpayers are allowed a credit for up to \$1,500 of costs of installing a geothermal heating system (ground-source heat pump) in the taxpayer's principal residence or in a residence the taxpayer constructs. If the credit exceeds the taxpayer's liability, the excess credit may be carried forward for up to seven years.



In 2012, 231 full year resident taxpayers claimed this credit for a total credit amount of \$356,300 and an average credit amount of \$1,542. The chart above indicates that the average total income of filers who claim this credit is about \$150,000 and the credit varies between 1% and 2% of total income.

Historic Property Preservation Credit: [15-30-2342](#) and [15-31-151](#)

Individual and corporate taxpayers are allowed a credit for the costs of rehabilitating a certified historic building. The credit is 25% of the federal credit allowed by 26 USC 47(a) (2); the federal credit is 20% of the cost of rehabilitation. Only commercial buildings that can be depreciated are eligible for the credit. There is no maximum for the rehabilitation credit. If the credit is more than the taxpayer’s liability, the excess may be carried forward for seven years.



In 2012, 28 full year resident taxpayers claimed this credit for a total credit amount of \$232,067 and an average credit amount of \$8,288. The chart above indicates that the average total income of filers who claim this credit varies significantly above \$100,000 and the credit accounts for between 1% and 12% of total income. Average income is not shown for 2003 due to confidentiality concerns.

Average income by year is not shown for the remaining credits in this section due to confidentiality concerns.

Alternative Energy Production Credit: [15-32-401](#) through [15-32-407](#)

Individual and corporate taxpayers are allowed a credit for 35% of the costs, less any federal or state grants, of depreciable property for a commercial or net metering alternative energy system. The credit may only be taken against taxes on net income from energy generated by the facility, from manufacturing alternative energy generating equipment, or from a new or expanded industry powered by the facility. If the credit is more than the taxpayer's liability, the excess credit may be carried forward for seven years. If the credit is for a commercial system of at least 5MW built on a reservation, the credit may be carried forward for fifteen years.

This credit has been claimed by 76 full year resident taxpayers since 2006.

Biodiesel Blending/Storage Tank Credit: [15-32-703](#)

Individual and corporate taxpayers are allowed a credit for 15% of the cost of investments in biodiesel blending or storage facilities in a year when the taxpayer is blending or in the two years before blending began. The total credits that may be claimed over time are \$52,500 for a distributor (wholesaler) and \$7,500 for a retailer. If a taxpayer is eligible for a credit that exceeds their tax liability, the excess credit is not refunded but may be carried forward for up to seven years as long as the facility continues to blend biodiesel.

This credit has been claimed by fewer than 10 full year resident taxpayers since 2006; it was not claimed in 2011 or 2012.

Dependent Care Assistance Credit: [15-31-131](#), [15-31-133](#) and [15-30-2373](#)

Individual and corporate taxpayers may claim three related credits for providing daycare benefits to employees:

- A credit for 25% of the cost of providing day care services to employees' dependents, with a limit of \$1,575 per employee receiving the assistance
- A credit for 25% of the cost of providing daycare information and referral services to employees
- A credit for a portion of the cost of setting up a day care facility to be used by the taxpayer's employees' dependents. This credit was only for facilities placed in service by the end of 2005, with the credit being claimed over the next ten years.

If the credit is more than the taxpayer's liability, the excess credit may be carried forward up to five years. The credit for day care facility costs may be carried forward within the ten year period for claiming the credit.

This credit has been claimed by 51 full year resident taxpayers since 2006.

Empowerment Zone Credit: [15-30-2356](#) and [15-31-134](#)

Local governments may establish an empowerment zone in an area with chronic high unemployment. Employers in an empowerment zone are eligible for a credit against income or corporation license tax for the first three years' employment for new positions. The credit per new employee is \$500 for the first year, \$1,000 for the second year and \$1,500 for the third year. If the credit is more than the taxpayer's liability, the excess may be carried back to the three previous tax years or carried forward for seven years.

This credit was claimed by fewer than 10 full year resident taxpayers in 2006 and 2007; it has not been claimed since then.

Film Production Employment Credit: [15-31-901](#) to [15-31-911](#)

Individual and corporate taxpayers are allowed a credit for 14% of the first \$50,000 of compensation paid to each Montana resident employed on a state-certified film production. Employee compensation for which the credit is claimed may not be deducted from gross revenue in calculating taxable income. If the credit is more than the taxpayer's liability, the taxpayer must make an irreversible election to either have the credit refunded or to carry it forward for up to four years.

The carry forward election of this credit was claimed by fewer than 10 full year resident taxpayers in 2007; it has otherwise not been claimed since 2006. Most claimers of this credit elect to have the excess credit refunded.

Infrastructure User Fee Credit: [17-6-316](#)

The Board of Investments may make loans to local governments to finance infrastructure to serve a new or relocated business that will result in 15 or more new full-time jobs. The local government may charge fees to the users for extending the infrastructure. The business may claim a credit against income or corporation tax for the amount of the fee it pays. If the credit is more than the taxpayer's liability, the excess may be carried forward for seven years or carried back to the three previous tax years.

This credit has been claimed by 25 full year resident taxpayers since 2006.

Mineral Exploration Credit: [15-32-501](#) through [15-32-510](#)

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

This credit has been claimed by 14 full year resident taxpayers since 2006.

Oilseed Crushing/Biodiesel Facility Credit: [15-32-701](#)

Individual and corporate taxpayers are allowed a credit for 15% of the cost of investment in depreciable property placed in service in Montana by the end of 2014 that is used primarily for crushing oilseeds for producing biodiesel or lubricants or for the production of biodiesel or biolubricants. The total of credits claimed over time for a single facility in all years may not exceed \$500,000.

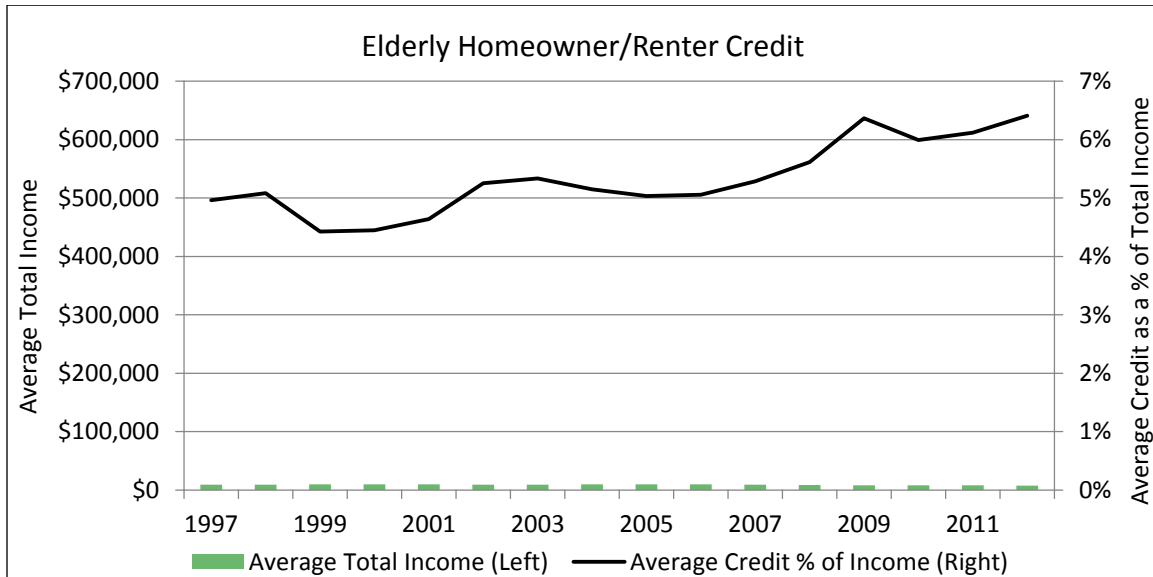
If the credit a taxpayer claims in any year exceeds the tax liability, the excess credit will not be refunded, but may be carried forward for up to seven years as long as the facility continues to be used to crush oilseeds for biodiesel or lubricants or to produce biodiesel or biolubricants. If the facility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

This credit has been claimed by 14 full year resident taxpayers since 2006; it was not claimed in 2009, 2010 or 2012.

Refundable Credits

Elderly Homeowner/Renter Credit: [15-30-2337](#) to [15-30-2341](#)

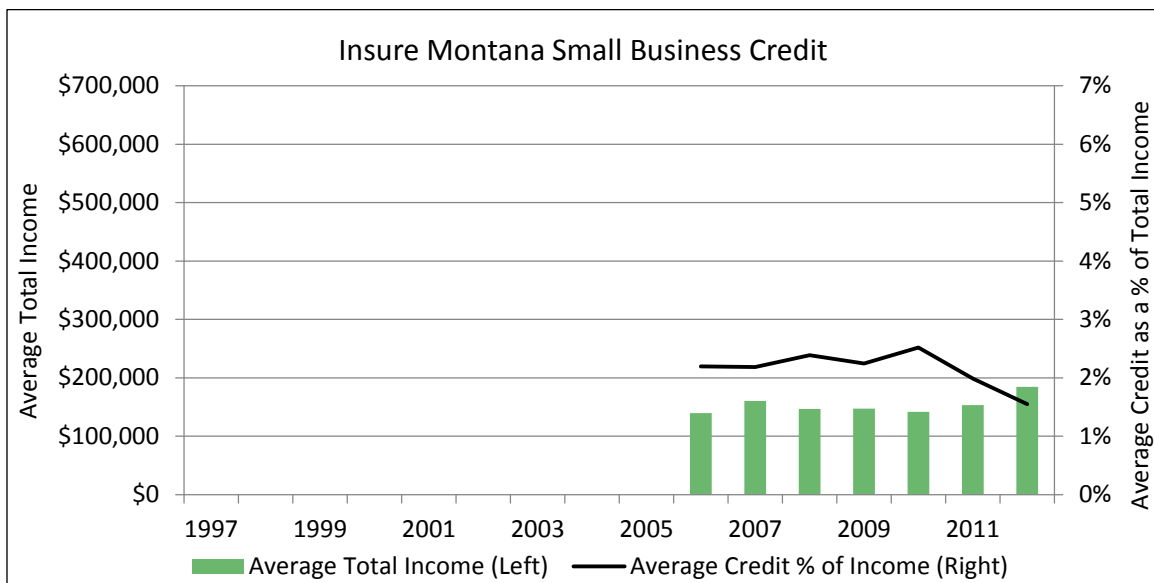
Taxpayers who are age 65 or older and have a household income of less than \$45,000 may be eligible for the elderly homeowner/renter credit. The credit refunds part or all of the property tax a homeowner pays directly or a renter pays indirectly that is more than a certain percentage of household income. The credit is limited to a maximum of \$1,000 per household.



In 2012, 14,927 full year resident taxpayers claimed this credit for a total credit amount of \$8,478,996 and an average credit amount of \$482. The average total income of filers who claim this credit is under \$10,000 and the credit accounts for over 5% of total income.

Insure Montana Health Insurance Credit: [15-30-2368](#), [15-31-130](#) and [33-22-2006](#)

A small employer that provides group health insurance for its employees through the state pool may claim a credit against taxes of up to 50% of total premiums the employer pays for the plan; or up to \$100 per month per covered employee (\$125 if the average age is at least 45), up to \$100 per month per covered spouse, and up to \$40 per other covered dependent. The maximum credit depends on the number of employees an employer may have and be eligible and this is set by the State Auditor's Office in an administrative rule. The current maximum is nine employees. Taxpayers with credits that are greater than their tax liability may have the excess credits refunded. A taxpayer may not deduct insurance premiums as a business expenses if the taxpayer has taken the credit.



In 2012, 668 full year resident taxpayers claimed this credit for a total credit amount of \$1,906,310 and an average credit amount of \$3,304. The chart above indicates that the average total income of filers who claim this credit is around \$150,000 and the credit accounts for about 2% of total income.

Average income by year is not shown for the remaining credits in this section due to confidentiality concerns.

Film Production Employment Tax Credit: [15-31-901](#) to [15-31-911](#)

Individual and corporate taxpayers are allowed a credit for 14% of the first \$50,000 of compensation paid to each Montana resident employed on a state-certified film production. Employee compensation for which the credit is claimed may not be deducted from gross revenue in calculating taxable income. If the credit is more than the taxpayer’s liability, the taxpayer must make an irreversible election to either have the credit refunded or to carry it forward for up to four years.

This credit has been claimed by 33 full year resident taxpayers since 2007.

Film Qualified Expenditure Tax Credit: [15-31-901](#) to [15-31-911](#)

Individual and corporate taxpayers are allowed a credit for 9% of purchases in Montana for the making of a film that has met the criteria to be certified by the Department of Commerce. A taxpayer may not deduct any expenses for which a credit was claimed. Taxpayers with a credit that is more than their tax liability may have the excess credit refunded.

This credit has been claimed by 19 full year resident taxpayers since 2006; it was not claimed in 2012.

Temporary Emergency Lodging: [15-31-171](#)

The Department of Public Health and Human Services has a program to provide temporary emergency lodging to individuals or families referred by non-profit organizations working with domestic violence victims. Lodging establishments may receive a tax credit of \$30 per day for providing up to five days of free lodging to someone who has been referred to them through this program. The credit may be taken by individual or corporate income taxpayers.

This credit was claimed by fewer than 10 full year resident taxpayers in 2008 and has not been claimed since then.

SECTION 2: CREDIT CLAIMERS BY INCOME DECILE & BRACKET

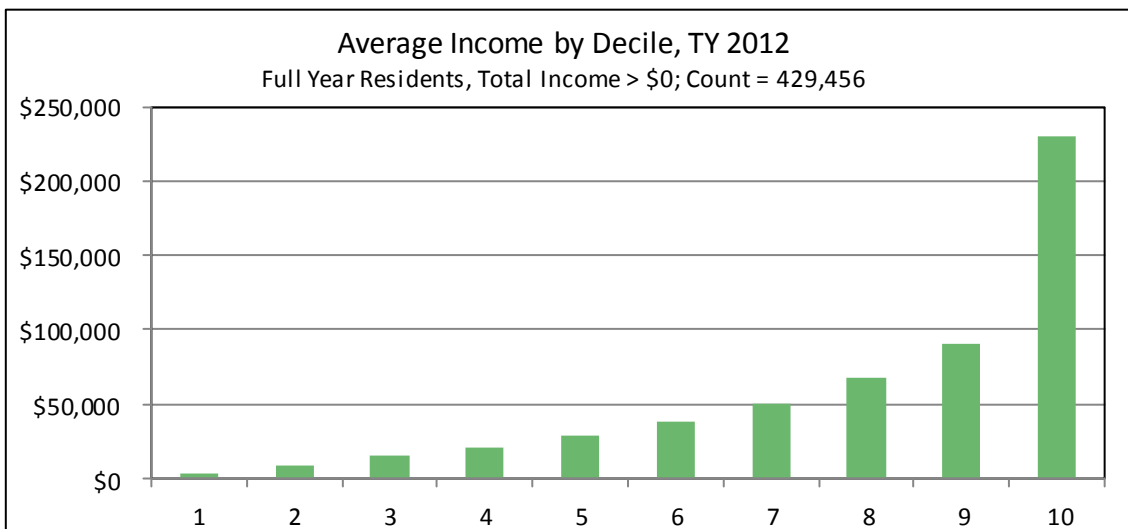
The analysis in this section is based on full-year-resident individual income taxpayer data since 2005 with total incomes greater than \$0. In the first subsection, taxpayers are evenly grouped in sets of ten—or by decile—for each year. Average income, tax and credits are then calculated for each group. In the second subsection, taxpayers are grouped by income brackets of fixed width.

Decile Analysis

The table below shows the average total income by income decile for 2005 through 2012. Each decile represents 10% of taxpayers with greater than \$0 in total income for a given year. For example, the average total income of the top 10% of taxpayers in 2012 was \$229,993.

Average Total Income by Income Decile								
Decile	2005	2006	2007	2008	2009	2010	2011	2012
1	\$2,725	\$2,874	\$2,743	\$2,895	\$2,923	\$3,120	\$3,146	\$3,231
2	7,254	7,689	7,674	7,979	8,042	8,535	8,653	8,984
3	12,075	12,837	13,033	13,442	13,363	14,030	14,263	14,747
4	17,326	18,371	18,857	19,332	19,127	19,938	20,353	20,993
5	23,372	24,811	25,565	26,095	25,706	26,777	27,456	28,365
6	31,163	33,002	34,129	34,647	34,014	35,489	36,607	37,885
7	41,247	43,755	45,405	45,914	45,083	47,050	48,675	50,557
8	54,473	57,643	60,080	60,664	59,658	62,133	64,407	67,093
9	73,003	77,413	80,849	81,488	80,323	83,435	86,595	90,319
10	188,873	207,589	219,436	202,392	187,797	199,543	204,422	229,993

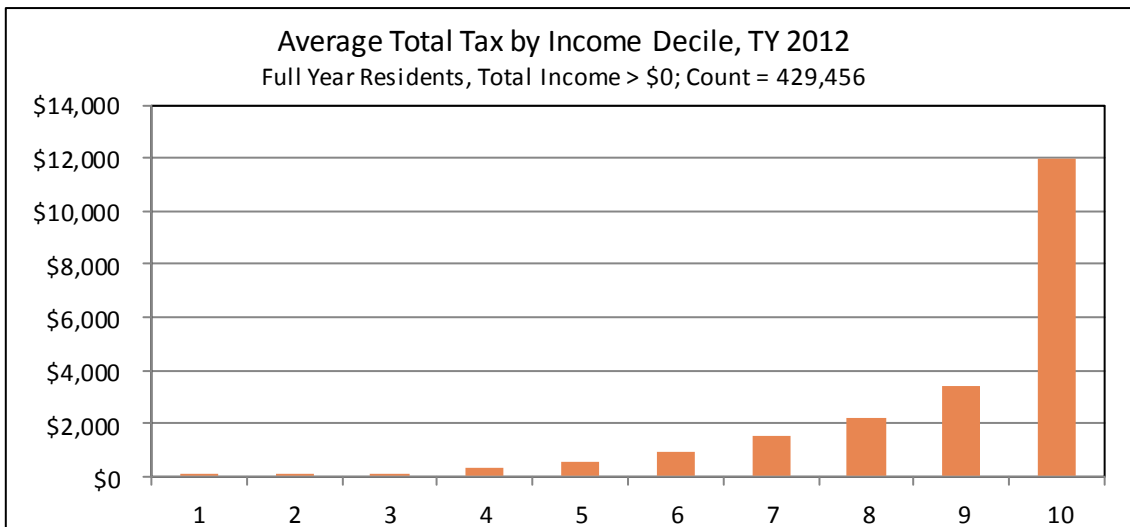
The following graph illustrates average total incomes for 2012:



The table below shows the average total tax by income decile for 2005 through 2012:

Average Total Tax by Income Decile								
Decile	2005	2006	2007	2008	2009	2010	2011	2012
1	\$2	\$2	\$2	\$2	\$2	\$3	\$2	\$3
2	30	32	30	30	31	35	36	41
3	97	106	106	105	101	111	114	126
4	224	247	255	251	237	257	267	288
5	440	476	502	493	466	495	512	554
6	734	794	830	833	785	833	883	956
7	1,146	1,224	1,273	1,266	1,213	1,296	1,377	1,489
8	1,716	1,806	1,878	1,874	1,826	1,936	2,048	2,208
9	2,632	2,761	2,848	2,852	2,793	2,959	3,145	3,385
10	9,872	10,386	10,363	9,563	8,809	9,530	10,218	11,986

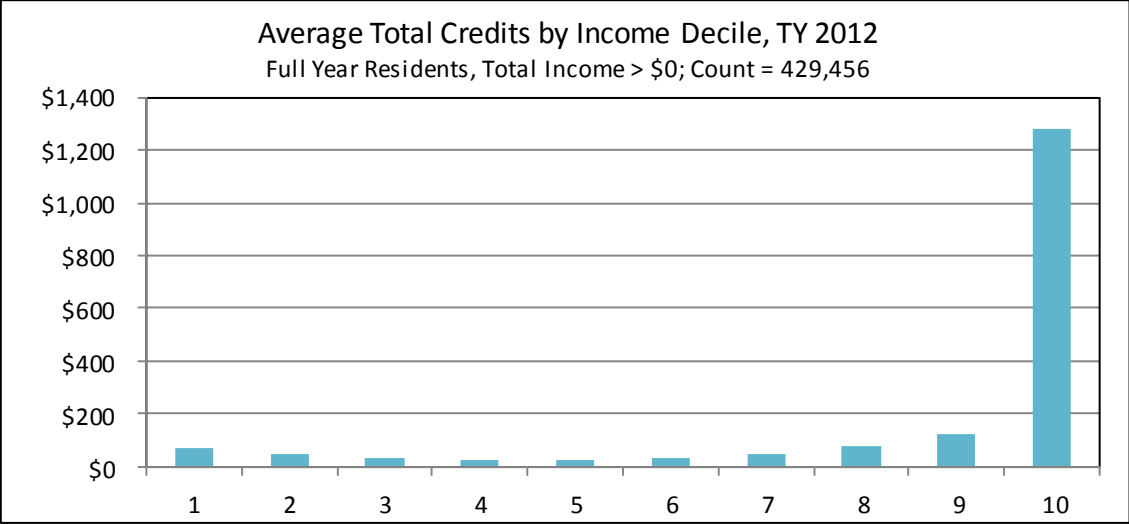
The following graph illustrates average total tax for 2012:



The table below shows the average total credit value by income decile for 2005 through 2012:

Average Total Credit by Income Decile								
Decile	2005	2006	2007	2008	2009	2010	2011	2012
1	\$54	\$52	\$61	\$64	\$69	\$69	\$67	\$67
2	52	51	47	50	52	52	47	44
3	47	43	41	44	43	43	38	34
4	33	31	31	30	30	28	26	25
5	27	29	32	28	29	32	27	24
6	29	35	41	36	38	44	33	32
7	40	50	61	51	56	65	50	48
8	62	76	95	78	84	95	72	77
9	93	116	151	124	132	148	120	122
10	935	1,167	1,430	1,161	946	1,057	965	1,278

The following graph illustrates average total credit value for 2012:



Bracket Analysis

Further detail on the average effect of credits on tax rates may be obtained by looking at income brackets of fixed width, rather than the decile analysis shown above. For incomes from \$1 to \$500,000, the brackets are in \$20,000 increments. Incomes from \$500,001 to \$1 million are in increments of \$100,000. Incomes between \$1 million and \$5 million are in increments of \$1 million. All incomes above \$5 million are combined into a single bracket.

TY 2012 Income Bracket Analysis								
Income Bracket Range	Taxpayer Count	Credit Count	Average Income	Average Tax	Average Credit	Effective Tax	Effective Tax	Difference
						Rate Before Credits	Rate After Credits	
1 to 20000	144,122	19,261	\$10,036	\$74	\$46	0.5%	-165.4%	165.9%
20001 to 40000	100,525	11,693	28,986	591	26	2.0%	1.9%	0.1%
40001 to 60000	60,954	10,197	49,376	1,437	46	2.9%	2.8%	0.1%
60001 to 80000	43,284	9,463	69,433	2,320	82	3.3%	3.2%	0.1%
80001 to 100000	30,333	7,876	89,246	3,319	118	3.7%	3.6%	0.1%
100001 to 120000	17,881	5,238	109,095	4,431	174	4.1%	3.9%	0.2%
120001 to 140000	10,170	3,521	129,057	5,613	247	4.3%	4.2%	0.2%
140001 to 160000	5,788	2,287	149,124	6,832	380	4.6%	4.3%	0.3%
160001 to 180000	3,525	1,615	169,401	8,030	528	4.7%	4.4%	0.3%
180001 to 200000	2,388	1,152	189,707	9,367	678	4.9%	4.6%	0.4%
200001 to 220000	1,732	877	209,363	10,549	734	5.0%	4.7%	0.3%
220001 to 240000	1,343	732	229,775	11,747	907	5.1%	4.7%	0.4%
240001 to 260000	1,080	604	249,523	13,066	1,337	5.2%	4.7%	0.5%
260001 to 280000	789	453	269,603	14,350	1,363	5.3%	4.8%	0.5%
280001 to 300000	645	373	290,002	15,589	1,430	5.4%	4.9%	0.5%
300001 to 320000	482	299	309,359	16,936	1,884	5.5%	4.9%	0.6%
320001 to 340000	440	275	329,380	18,168	1,817	5.5%	5.0%	0.6%
340001 to 360000	385	240	349,664	19,537	1,823	5.6%	5.1%	0.5%
360001 to 380000	333	219	369,356	20,845	2,578	5.6%	4.9%	0.7%
380001 to 400000	239	150	389,859	22,130	2,193	5.7%	5.1%	0.6%
400001 to 420000	239	151	409,523	22,831	2,364	5.6%	5.0%	0.6%
420001 to 440000	194	117	430,011	24,432	2,234	5.7%	5.2%	0.5%
440001 to 460000	211	135	449,482	25,859	2,521	5.8%	5.2%	0.6%
460001 to 480000	145	103	469,752	27,291	3,366	5.8%	5.1%	0.7%
480001 to 500000	143	89	489,074	27,954	2,936	5.7%	5.1%	0.6%
500001 to 600000	545	364	546,344	32,179	3,715	5.9%	5.2%	0.7%
600001 to 700000	390	269	647,166	38,130	4,681	5.9%	5.2%	0.7%
700001 to 800000	243	185	748,169	45,552	7,488	6.1%	5.1%	1.0%
800001 to 900000	161	121	846,541	51,579	6,212	6.1%	5.4%	0.7%
900001 to 1000000	120	90	943,740	57,837	9,838	6.1%	5.1%	1.0%
1000001 to 2000000	394	316	1,339,664	84,316	13,849	6.3%	5.3%	1.0%
2000001 to 3000000	89	74	2,399,106	152,286	29,159	6.3%	5.1%	1.2%
3000001 to 4000000	47	41	3,449,925	224,240	59,075	6.5%	4.8%	1.7%
4000001 to 5000000	23	18	4,471,729	283,223	37,333	6.3%	5.5%	0.8%
5000001+	74	66	14,421,201	899,695	176,105	6.5%	4.9%	1.6%

SECTION 3: CREDIT IMPACT ON EFFECTIVE TAX RATE

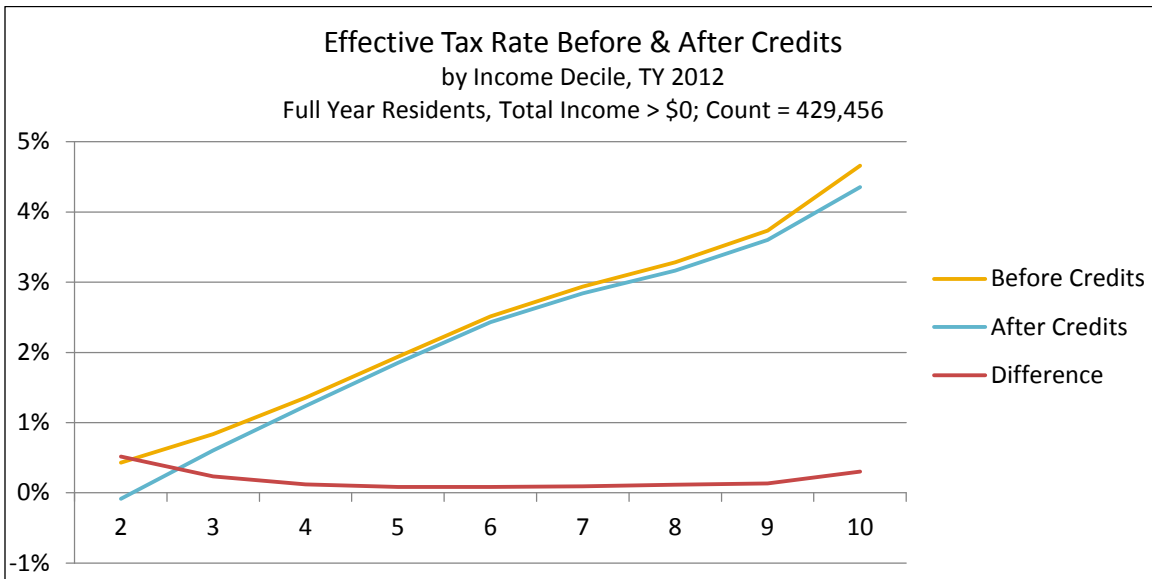
Credits have the effect of lowering the effective tax rate, which is defined here as total tax divided by total income. Effective tax rates before or after tax credits can be calculated from the information provided in the previous section. The tables below show the effective tax before credits, effective tax after credits, and difference in effective tax rates. The primary reason for the large difference in the first or lowest income decile is the refundable elderly homeowner/renter credit.

Average Effective Tax Rate Before Credits by Income Decile								
Decile	2005	2006	2007	2008	2009	2010	2011	2012
1	0.7%	0.1%	0.0%	0.6%	0.1%	0.5%	0.1%	0.1%
2	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
3	0.8%	0.8%	0.8%	0.8%	0.7%	0.8%	0.8%	0.8%
4	1.3%	1.3%	1.3%	1.3%	1.2%	1.3%	1.3%	1.4%
5	1.9%	1.9%	2.0%	1.9%	1.8%	1.8%	1.9%	1.9%
6	2.3%	2.4%	2.4%	2.4%	2.3%	2.3%	2.4%	2.5%
7	2.8%	2.8%	2.8%	2.7%	2.7%	2.7%	2.8%	2.9%
8	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.2%	3.3%
9	3.6%	3.6%	3.5%	3.5%	3.5%	3.5%	3.6%	3.7%
10	4.6%	4.5%	4.3%	4.3%	4.3%	4.4%	4.5%	4.7%

Average Effective Tax Rate After Credits by Income Decile								
Decile	2005	2006	2007	2008	2009	2010	2011	2012
1	-107.8%	-81.4%	-568.2%	-402.7%	-468.5%	-254.6%	-253.8%	-555.9%
2	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.2%	-0.2%	-0.1%
3	0.4%	0.5%	0.5%	0.4%	0.4%	0.5%	0.5%	0.6%
4	1.1%	1.2%	1.2%	1.1%	1.1%	1.1%	1.2%	1.2%
5	1.8%	1.8%	1.8%	1.8%	1.7%	1.7%	1.8%	1.9%
6	2.2%	2.3%	2.3%	2.3%	2.2%	2.2%	2.3%	2.4%
7	2.7%	2.7%	2.7%	2.6%	2.6%	2.6%	2.7%	2.8%
8	3.0%	3.0%	3.0%	3.0%	2.9%	3.0%	3.1%	3.2%
9	3.5%	3.4%	3.3%	3.3%	3.3%	3.4%	3.5%	3.6%
10	4.3%	4.1%	3.9%	4.0%	4.0%	4.0%	4.3%	4.4%

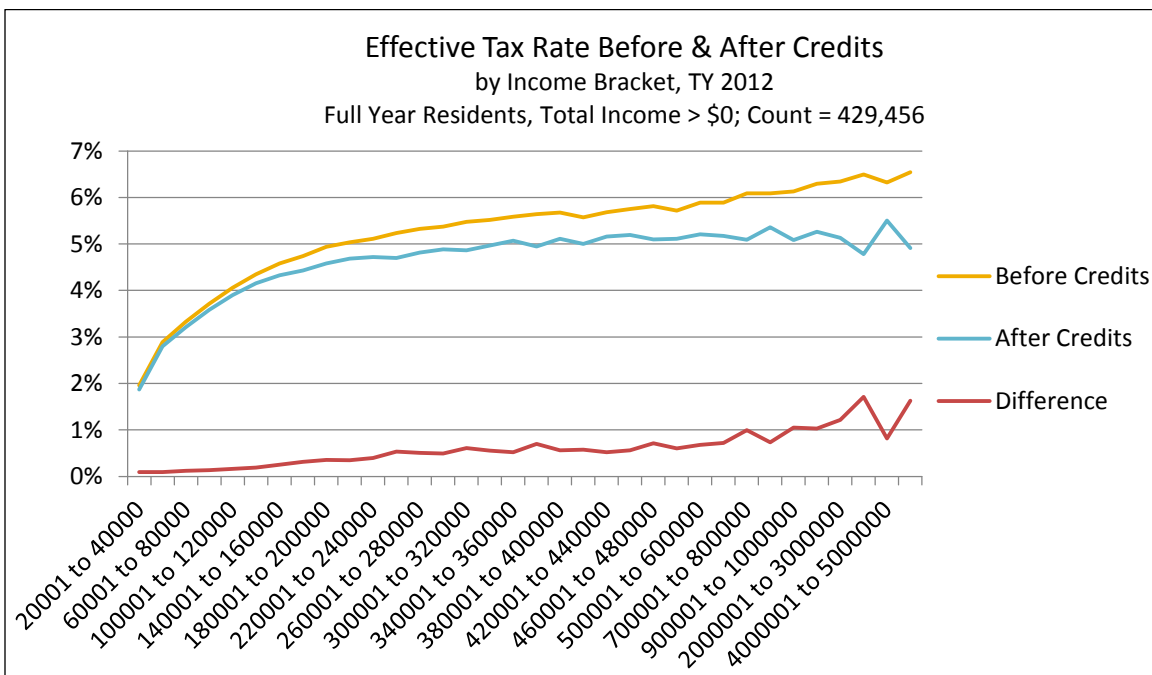
Difference in Average Effective Tax Rate by Income Decile								
Decile	2005	2006	2007	2008	2009	2010	2011	2012
1	108.5%	81.5%	568.2%	403.2%	468.5%	255.1%	253.9%	555.9%
2	0.7%	0.7%	0.6%	0.7%	0.7%	0.6%	0.6%	0.5%
3	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.2%
4	0.2%	0.2%	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%
5	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
6	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
7	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
8	0.1%	0.1%	0.2%	0.1%	0.1%	0.2%	0.1%	0.1%
9	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.1%	0.1%
10	0.3%	0.3%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%

What the tables above and the chart below indicate is that, on average, credits have a much larger impact on lower income taxpayers. The average impact is small and evenly distributed by income for about 60% of all taxpayers (deciles 4 through 9), before increasing slightly for the top 10% of income earners.



In 2012, 429,456 full year resident taxpayers had incomes greater than \$0. Of these, 78,664 taxpayers claimed at least \$1 of credits for a total credit amount of \$75.2 million. The credits lowered average effective tax rates for most taxpayers by about 0.1%.

The average impact of credits on higher income taxpayers appears greater when portrayed by bracket, rather than by decile. Note that the number of taxpayers is no longer evenly distributed—as tabulated in the [Bracket Analysis](#) section above, about a third of taxpayers have incomes in the range \$1-\$20,000 (not even shown in the graph below). The taxpayers in the lowest bracket account for nearly 25% of taxpayers claiming at least \$1 of credits.



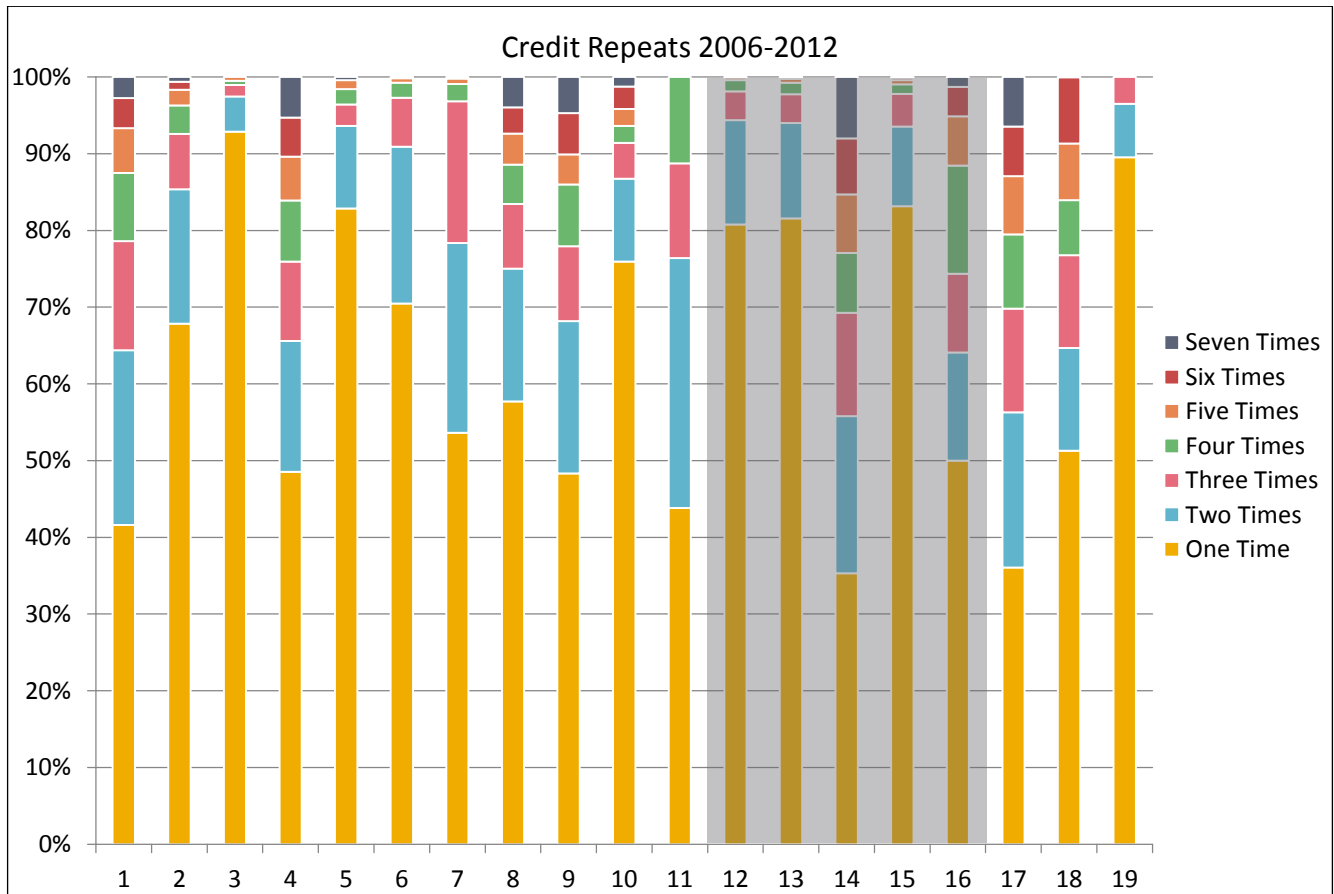
SECTION 4: CREDIT REPEAT CLAIMERS

Data for identifying repeat users of a particular tax credit is available for tax years 2006 through 2012. Note that this identifying information does not reveal the actual identity of the taxpayer, but associates each taxpayer with a unique tax identification code which remains the same each year.

The table below shows what percent of all users since 2006 of each credit were multi-year users of that credit. For example, 48.6% of taxpayers who claimed the college contribution credit since 2006 were first-time users of that credit. Second-time users accounted for 17.0% of claimers, third-time users were 10.3% of claimers, and 5.3% of taxpayers have claimed it every year for which there is identifying information.

Credit Repeats 2006-2012							
	One Time	Two Times	Three Times	Four Times	Five Times	Six Times	Seven Times
Capital Gains Credit							
Capital Gains Credit-Full Year Residents	41.6%	22.8%	14.2%	8.9%	5.8%	4.0%	2.7%
Capital Gains Credit-Non Residents	67.9%	17.5%	7.2%	3.7%	2.0%	1.0%	0.6%
Non-Refundable Credits with No Carryover							
Alternative Fuel Credit	92.9%	4.6%	1.5%	0.5%	0.5%	0.0%	0.0%
College Contribution Credit	48.6%	17.0%	10.3%	8.0%	5.7%	5.1%	5.3%
Elderly Care Credit	82.9%	10.8%	2.8%	2.0%	1.2%	0.0%	0.4%
Energy Conservation Credit	70.5%	20.4%	6.4%	2.0%	0.6%	0.2%	0.0%
Insurance for Uninsured Montanans Credit	53.6%	24.7%	18.5%	2.2%	0.7%	0.2%	0.0%
Other States' Income Tax Credit	57.7%	17.3%	8.4%	5.1%	4.1%	3.4%	4.0%
Qualified Endowment Credit	48.3%	19.8%	9.7%	8.1%	3.9%	5.4%	4.7%
Recycling Credit	75.9%	10.8%	4.7%	2.2%	2.2%	2.9%	1.2%
Rural Physicians Credit	43.8%	32.6%	12.4%	11.2%	0.0%	0.0%	0.0%
Non-Refundable Credits with Carryover							
Adoption Credit	80.8%	13.6%	3.7%	1.5%	0.3%	0.1%	0.0%
Alternative Energy Systems Credit	81.6%	12.4%	3.7%	1.5%	0.5%	0.2%	0.1%
Contractor's Gross Receipts Credit	35.3%	20.5%	13.5%	7.8%	7.6%	7.3%	8.0%
Geothermal Systems Credit	83.2%	10.4%	4.2%	1.3%	0.5%	0.3%	0.1%
Historic Property Preservation Credit	50.0%	14.1%	10.3%	14.1%	6.4%	3.8%	1.3%
Refundable Credits							
Elderly Homeowner/Renter Credit	36.1%	20.2%	13.5%	9.7%	7.6%	6.5%	6.4%
Insure Montana Small Business Health Ins Credit	51.3%	13.4%	12.1%	7.2%	7.4%	8.6%	0.0%
Credits claimed <10 times, combined	81.1%	6.3%	3.2%	3.2%	2.8%	2.2%	1.3%

The tax data does not differentiate between current credit and carryover of a previous credit. Therefore, the non-refundable credits with carryover likely include taxpayers who are using carryover from a previous year rather than claiming a particular credit again. The data in the table above is shown in the chart below, with the carryover credits shown in the shaded section.



Credit Key	
1	Capital Gains Credit-Full Year Residents
2	Capital Gains Credit-Non Residents
3	Alternative Fuel Credit
4	College Contribution Credit
5	Elderly Care Credit
6	Energy Conservation Credit
7	Insurance for Uninsured Montanans Credit
8	Other States' Income Tax Credit
9	Qualified Endowment Credit
10	Recycling Credit
11	Rural Physicians Credit
12	Adoption Credit
13	Alternative Energy Systems Credit
14	Contractor's Gross Receipts Credit
15	Geothermal Systems Credit
16	Historic Property Preservation Credit
17	Elderly Homeowner/Renter Credit
18	Insure Montana Small Business Health Ins Credit
19	Credits claimed <10 times, combined

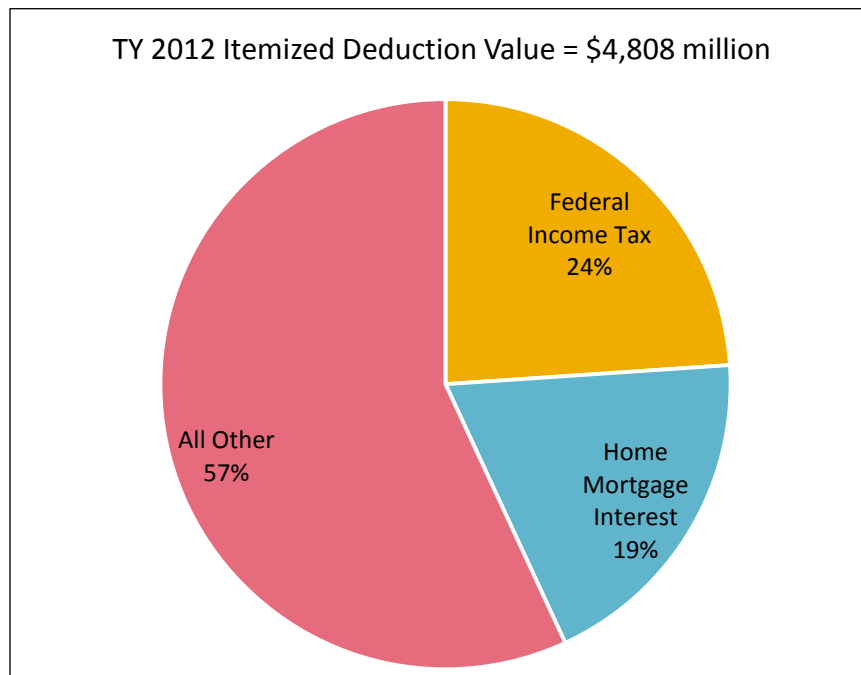
SECTION 5: SELECTED DEDUCTION ANALYSIS

Of the 429,456 full year resident taxpayers with incomes greater than \$0, 55% or 234,555 itemized their deductions and 45% or 194,901 took the standard deduction. The total value of itemized deductions was \$4,706 million; the total value of standard deductions was \$732 million. For purposes of comparison, if each of the itemizing taxpayers had taken the maximum standard deduction (\$4,200 or \$8,400 depending on filing status) instead of itemizing, the total amount of deductions would have been \$1,257 million.

Implied Tax Reduction due to Itemized Deductions by Income Decile, TY 2012 Full Year Residents, Total Income > \$0, Total Allowed Itemized Deductions > \$0							
Income Deciles	Avg. Total Income	Avg. Total Tax	Avg. Total Deduction	Implied Tax Rate	Taxes Bef. Ded.*	Implied \$ Reduction	Implied % Reduction
1	\$9,970	\$18	\$9,275	2.6%	\$259	\$241	93.0%
2	22,944	164	10,838	1.4%	308	144	46.9%
3	33,592	626	11,555	2.8%	936	310	33.2%
4	43,200	1,118	12,594	3.7%	1,538	419	27.3%
5	53,375	1,548	14,381	4.0%	2,058	509	24.8%
6	64,521	2,009	16,309	4.2%	2,605	596	22.9%
7	77,112	2,621	18,183	4.4%	3,313	692	20.9%
8	92,270	3,419	20,394	4.8%	4,226	807	19.1%
9	116,011	4,760	22,840	5.1%	5,684	924	16.3%
10	319,288	16,623	37,412	5.9%	17,849	1,226	6.9%

*Assuming no movement between tax brackets

There are 27 itemized deductions on the Montana individual income tax form. Further detail on the two largest deductions—the federal income tax deduction and the home mortgage interest deduction—is provided in the remainder of this section. Information on other deductions can be obtained from the DOR Biennial Report. The chart below shows the value of the two largest deductions relative to the deduction total:



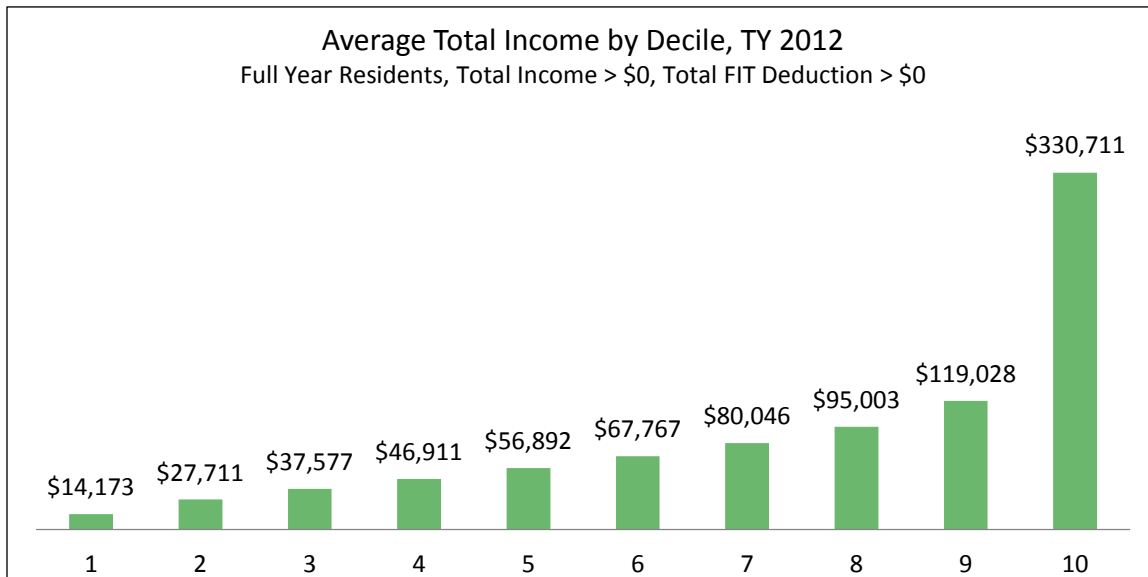
Federal Income Tax Deduction

The federal income tax (FIT) deduction is the largest deduction, accounting for 24% of all deductions. There were 217,857 taxpayers who had at least \$1 of FIT deduction in 2012; the total value of this deduction was \$1,150 million. If this is multiplied by the average effective tax rate of 4.0%, the approximate effect to tax collections is \$46.1 million.

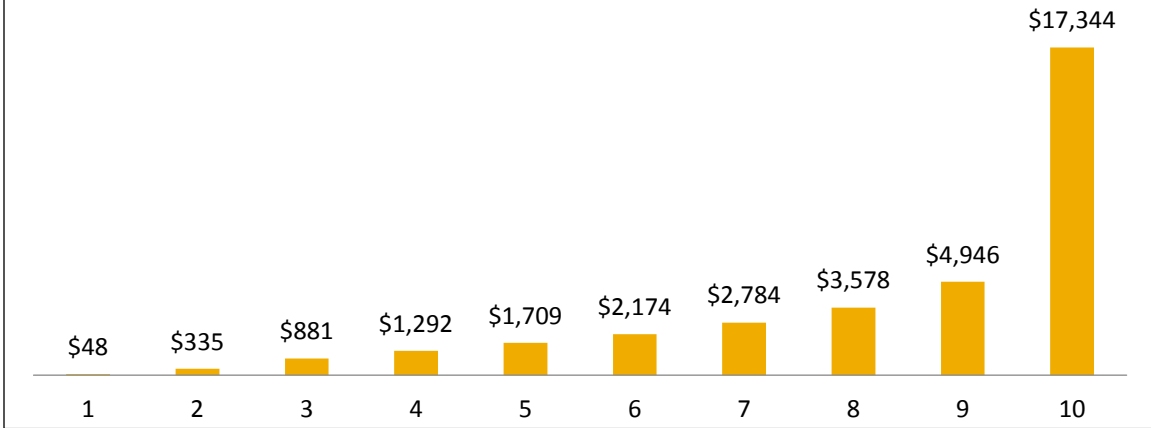
Implied Tax Reduction due to the Federal Income Tax Deduction by Income Decile, TY 2012 Full Year Residents, Total Income > \$0, Total FIT Deduction > \$0										
Income Deciles	Avg. Total Income	Avg. Total Tax	Avg. FITD Deduction	Avg. Total Deduction	FITD % Total Ded.	Implied Tax Rate	Taxes Bef. FITD*	Implied Tax Red.	Implied % Reduct.	
1	\$14,173	\$48	\$1,382	\$9,164	15.1%	1.0%	\$61	\$13	21.6%	
2	27,711	335	2,507	11,249	22.3%	2.0%	386	51	13.2%	
3	37,577	881	3,667	11,507	31.9%	3.4%	1,005	124	12.3%	
4	46,911	1,292	4,229	13,149	32.2%	3.8%	1,454	162	11.1%	
5	56,892	1,709	4,769	14,919	32.0%	4.1%	1,903	194	10.2%	
6	67,767	2,174	5,530	16,685	33.1%	4.3%	2,409	235	9.8%	
7	80,046	2,784	6,506	18,561	35.1%	4.5%	3,078	295	9.6%	
8	95,003	3,578	7,413	20,699	35.8%	4.8%	3,935	357	9.1%	
9	119,028	4,946	8,159	23,124	35.3%	5.2%	5,366	421	7.8%	
10	330,711	17,344	8,647	37,931	22.8%	5.9%	17,856	512	2.9%	

*Assuming no movement between tax brackets

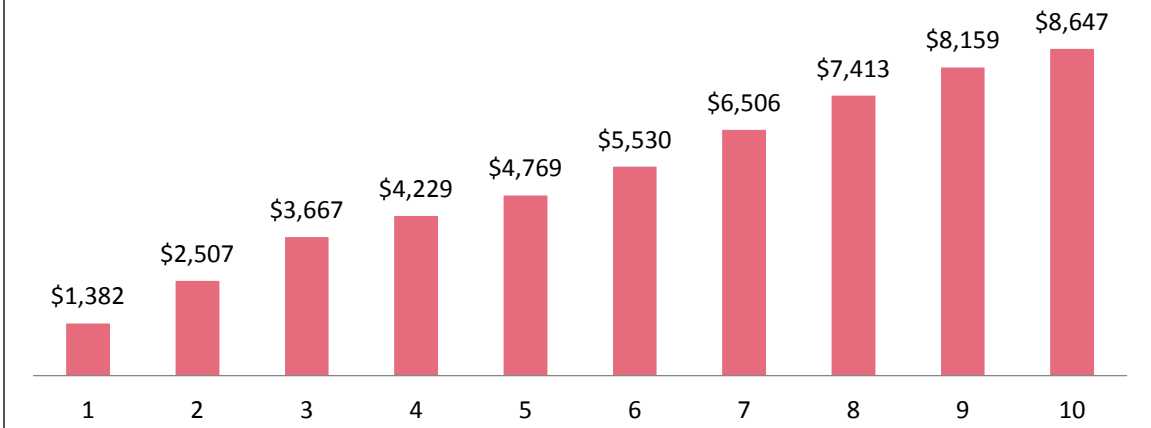
The graphs on the following page provide an illustration of columns 2 through 4 of the table above.



Average Total Tax by Income Decile, TY 2012
Full Year Residents, Total Income > \$0, Total FIT Deduction > \$0



Average Federal Income Tax Deduction by Income Decile, TY 2012
Full Year Residents, Total Income > \$0, Total FIT Deduction > \$0



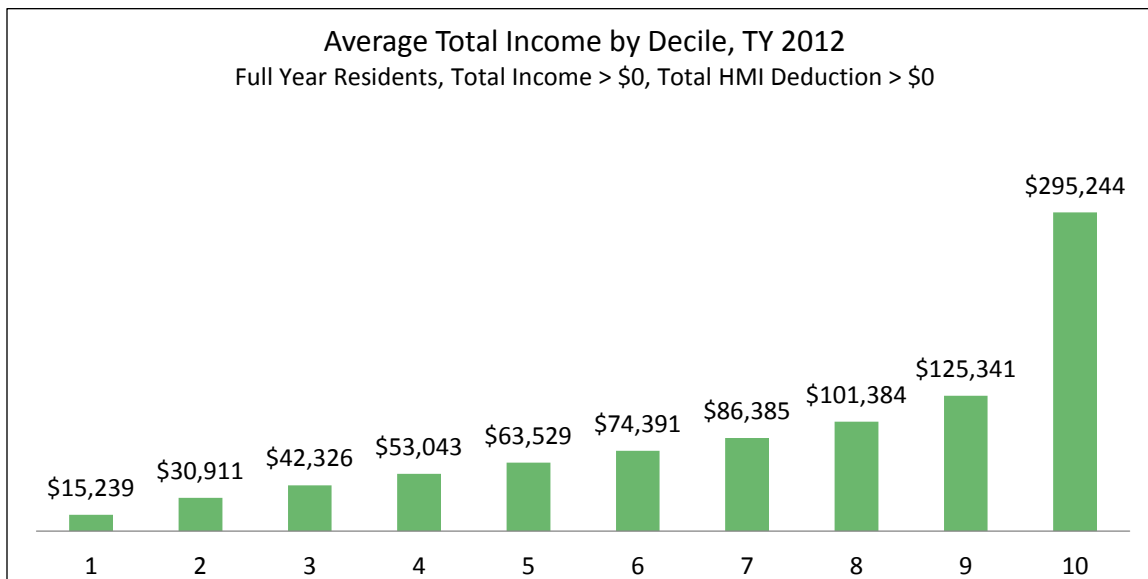
Home Mortgage Interest Deduction

The home mortgage interest (HMI) deduction is the second largest deduction, accounting for 19% of all deductions. There were 135,684 taxpayers who had at least \$1 of HMI deduction in 2012; the total value of this deduction was \$922 million. If this is multiplied by the average effective tax rate of 4.0%, the approximate effect to tax collections is \$36.9 million.

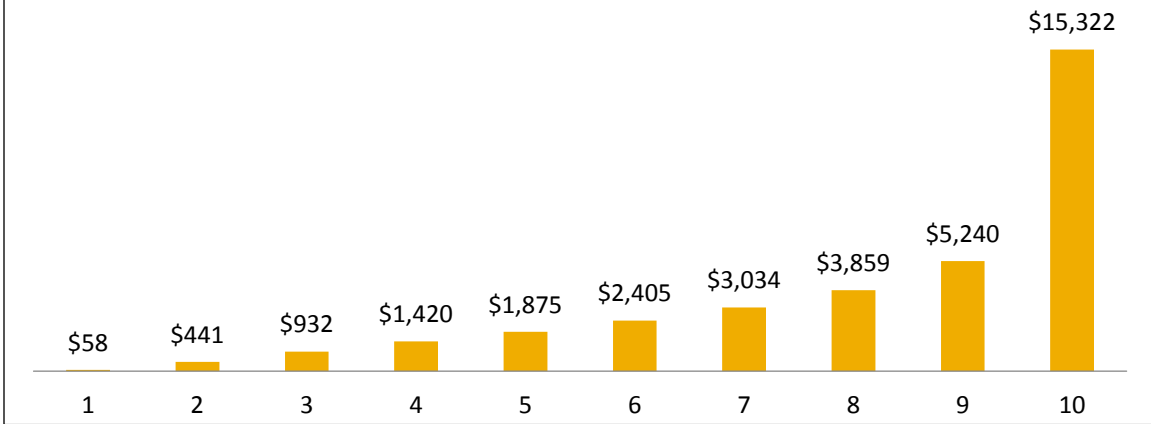
Implied Tax Reduction due to the Home Mortgage Interest Deduction by Income Decile, TY 2012 Full Year Residents, Total Income > \$0, Total HMI Deduction > \$0									
Income Deciles	Avg. Total Income	Avg. Total Tax	Avg. HMI Deduction	Avg. Total Deduction	HMI % of Total Ded.	Implied Tax Rate	Taxes Bef. HMI*	Implied Tax Red.	Implied % Reduct.
1	\$15,239	\$58	\$4,755	\$11,258	42.2%	1.4%	\$126	\$69	54.4%
2	30,911	441	5,569	13,160	42.3%	2.5%	579	138	23.9%
3	42,326	932	5,652	14,619	38.7%	3.4%	1,122	190	16.9%
4	53,043	1,420	5,775	15,926	36.3%	3.8%	1,641	221	13.5%
5	63,529	1,875	6,115	17,427	35.1%	4.1%	2,124	249	11.7%
6	74,391	2,405	6,420	19,010	33.8%	4.3%	2,684	279	10.4%
7	86,385	3,034	6,864	20,935	32.8%	4.6%	3,352	318	9.5%
8	101,384	3,859	7,338	22,767	32.2%	4.9%	4,220	360	8.5%
9	125,341	5,240	8,148	25,073	32.5%	5.2%	5,666	426	7.5%
10	295,244	15,322	11,288	36,658	30.8%	5.9%	15,991	669	4.2%

*Assuming no movement between tax brackets

Columns 2 through 4 of the table above are shown in the following three graphs:



Average Total Tax by Income Decile, TY 2012
Full Year Residents, Total Income > \$0, Total HMI Deduction > \$0



Average Home Mortgage Interest Deduction, TY 2012
Full Year Residents, Total Income > \$0, Total HMI Deduction > \$0

