

INDIVIDUAL INCOME TAX CREDIT & DEDUCTION ANALYSIS

A Report Prepared for the
Revenue and Transportation Interim Committee

By
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Legislative Fiscal Division



www.leg.mt.gov/css/fiscal

INTRODUCTION

The analysis of individual income tax credits presented to the Revenue and Transportation Interim Committee meeting on September 25th led to an interesting discussion of credits and their use, as well as further questions. These questions resulted in requests for information regarding repeat users of tax credits, credit use by income distribution, and the effective tax rate before and after tax credits. In addition, there was a request for analysis on the use of individual income tax deductions.

All analysis for this report was limited to full year resident taxpayers with total incomes greater than \$0. Other restrictions may apply depending on the subject type, and are clearly labeled in the graph titles.

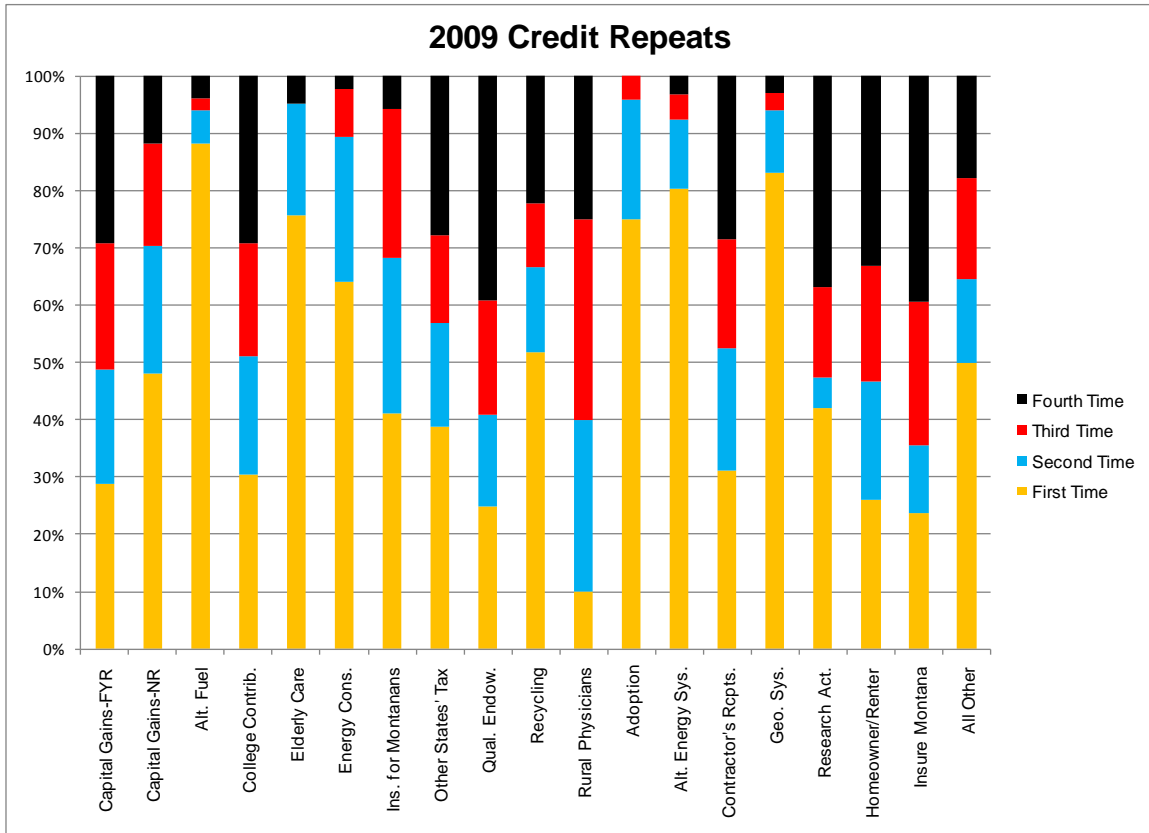
REPEAT USERS OF TAX CREDITS

Data for identifying repeat users of a particular tax credit is available for tax years 2006 through 2009. 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.

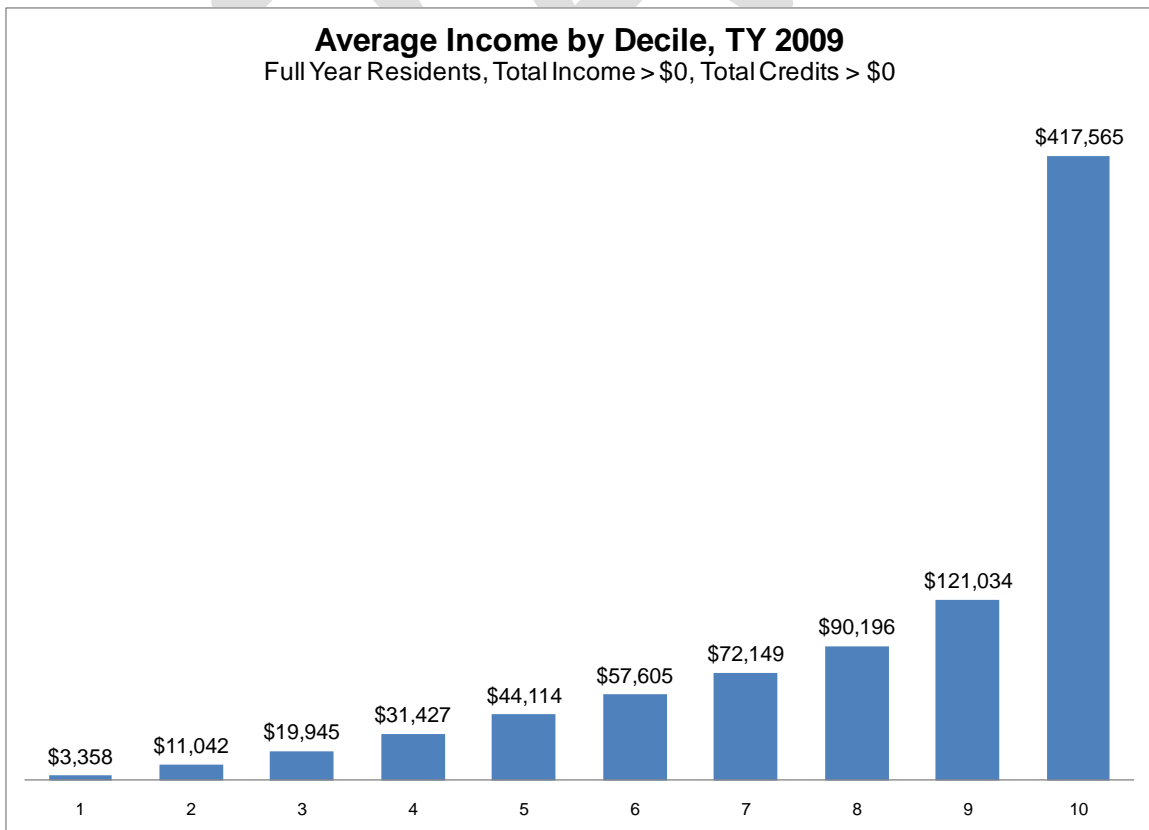
The table below shows what percent of 2009 users of each credit were multi-year users of that credit. For example, 88.2% of taxpayers who claimed the alternative fuel credit were first-time users of that credit. Second-time users accounted for 5.9% of claimers, third-time users were 2.0% of claimers, and 3.9% of taxpayers who claimed the credit in 2009 had claimed it every year for which there is identifying information.

2009 Credit Repeat Data				
	First Time	Second Time	Third Time	Fourth Time
Capital Gains Credit				
Capital Gains Credit-FYR	28.7%	20.1%	22.0%	29.2%
Capital Gains Credit-NR	48.2%	22.2%	17.9%	11.7%
Non-Refundable Credits with No Carryover				
Alternative Fuel Credit	88.2%	5.9%	2.0%	3.9%
College Contribution Credit	30.3%	20.8%	19.7%	29.1%
Elderly Care Credit	75.6%	19.5%	0.0%	4.9%
Energy Conservation Credit	64.2%	25.3%	8.3%	2.3%
Insurance for Uninsured Montanans Credit	41.0%	27.4%	25.8%	5.8%
Other States' Income Tax Credit	38.7%	18.3%	15.2%	27.8%
Qualified Endowment Credit	24.8%	16.1%	19.9%	39.2%
Recycling Credit	51.9%	14.8%	11.1%	22.2%
Rural Physicians Credit	10.0%	30.0%	35.0%	25.0%
Non-Refundable Credits with Carryover				
Adoption Credit	75.0%	20.8%	4.2%	0.0%
Alternative Energy Systems Credit	80.3%	12.0%	4.5%	3.2%
Contractor's Gross Receipts Credit	31.2%	21.3%	19.1%	28.4%
Geothermal Systems Credit	83.2%	10.8%	3.0%	3.0%
Research Activities Credit	42.1%	5.3%	15.8%	36.8%
Refundable Credits				
Elderly Homeowner/Renter Credit	26.0%	20.8%	20.1%	33.1%
Insure Montana Small Business Health Ins Credit	23.7%	12.0%	25.1%	39.3%
Credits claimed <10 times, combined	50.0%	14.5%	17.7%	17.7%

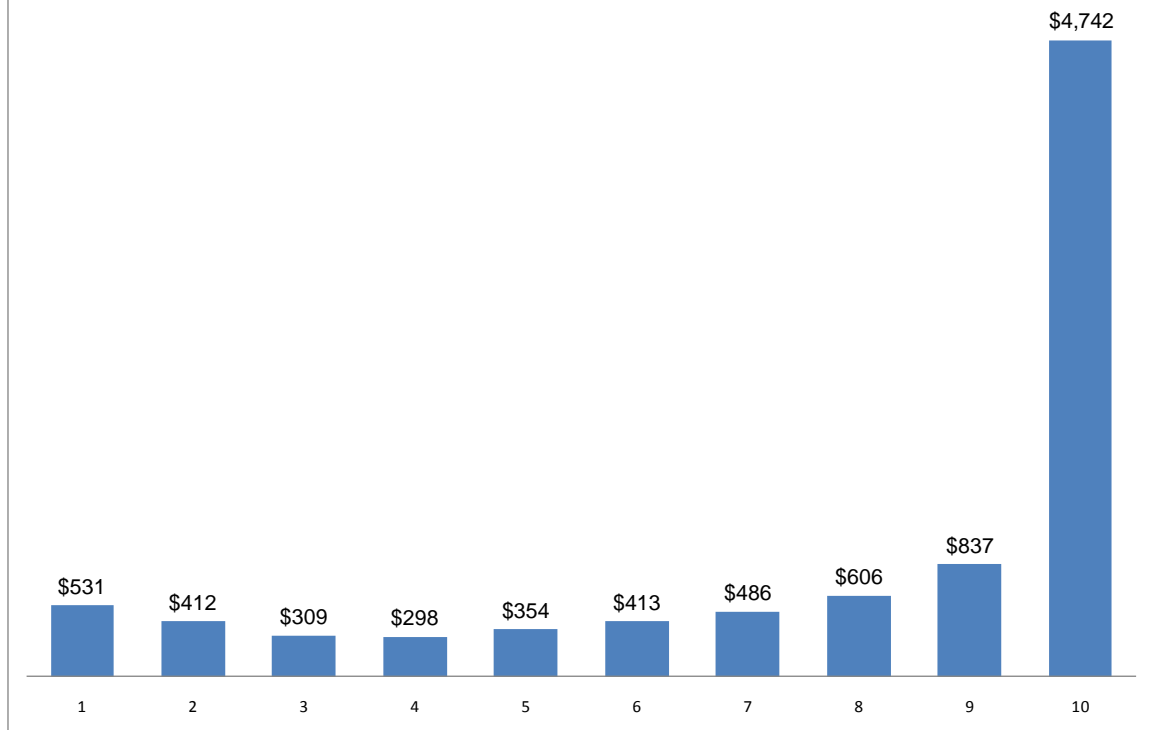
The tax data does not differentiate between current credit and carryover of a previous credit. Therefore, the non-refundable credits with carryover section likely includes taxpayers who are using carryover from a previous year rather than claiming a particular credit again. The data in the table above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



CREDIT USE BY INCOME DECILES



Average Total Credit by Income Decile, TY 2009
Full Year Residents, Total Income > \$0, Total Credits > \$0



EFFECTIVE TAX RATE BEFORE & AFTER CREDITS

There were 69,575 taxpayers with incomes greater than \$0 who claimed at least \$1 of tax credit in 2009; the total amount of credits claimed by these taxpayers was \$62.5 million.

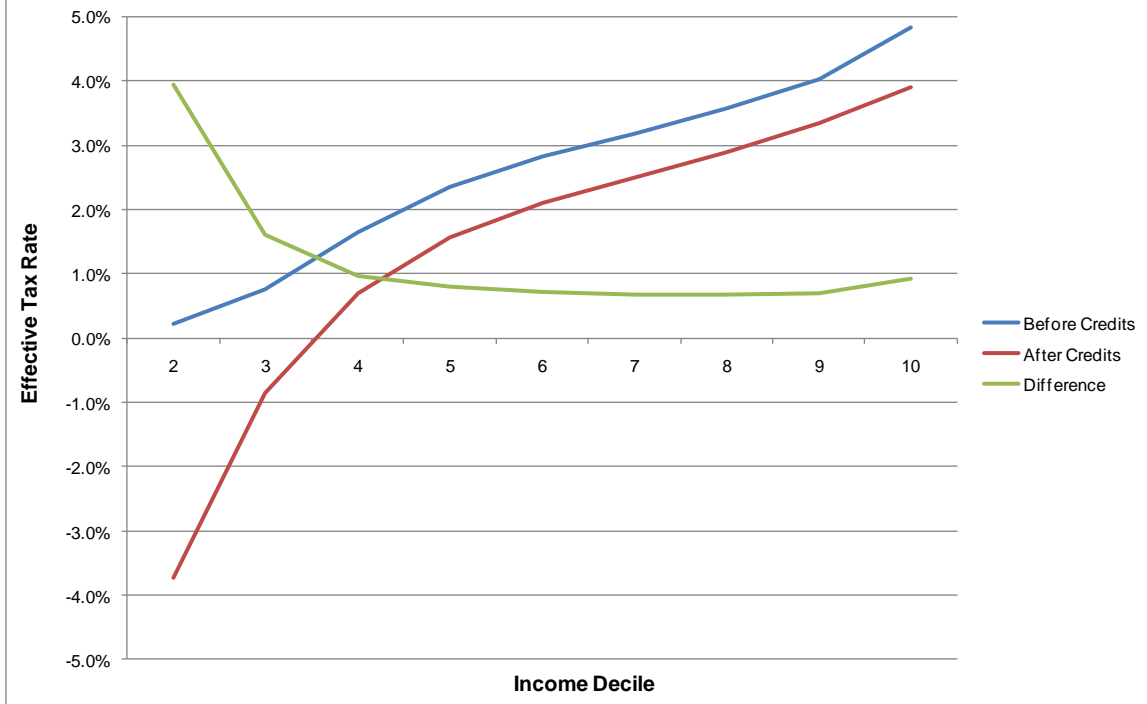
Effective Tax Rate Before & After Tax Credits by Income Decile, TY 2009 Full Year Residents, Total Income > \$0, Total Credits > \$0						
Income Decile	Average Total Income	Average Total Tax	Average Total Credits	Effective Tax Rate Before Credits	Effective Tax Rate After Credits	Difference
1	\$3,358	\$1	\$531	0.04%	-2847.35%	2847.39%
2	11,042	27	412	0.22%	-3.72%	3.95%
3	19,945	156	309	0.75%	-0.86%	1.61%
4	31,427	527	298	1.65%	0.69%	0.96%
5	44,114	1,047	354	2.36%	1.56%	0.80%
6	57,605	1,635	413	2.83%	2.11%	0.72%
7	72,149	2,295	486	3.18%	2.50%	0.67%
8	90,196	3,218	606	3.56%	2.89%	0.67%
9	121,034	4,901	837	4.03%	3.34%	0.69%
10	417,565	21,342	4,742	4.84%	3.91%	0.93%

Average Tax Before Credits by Income Decile, TY 2009
 Full Year Residents, Total Income > \$0, Total Credits > \$0



Effective Tax Rate Before & After Credits by Income Decile, TY 2009

Full Year Residents, Total Income > \$0, Total Credits > \$0

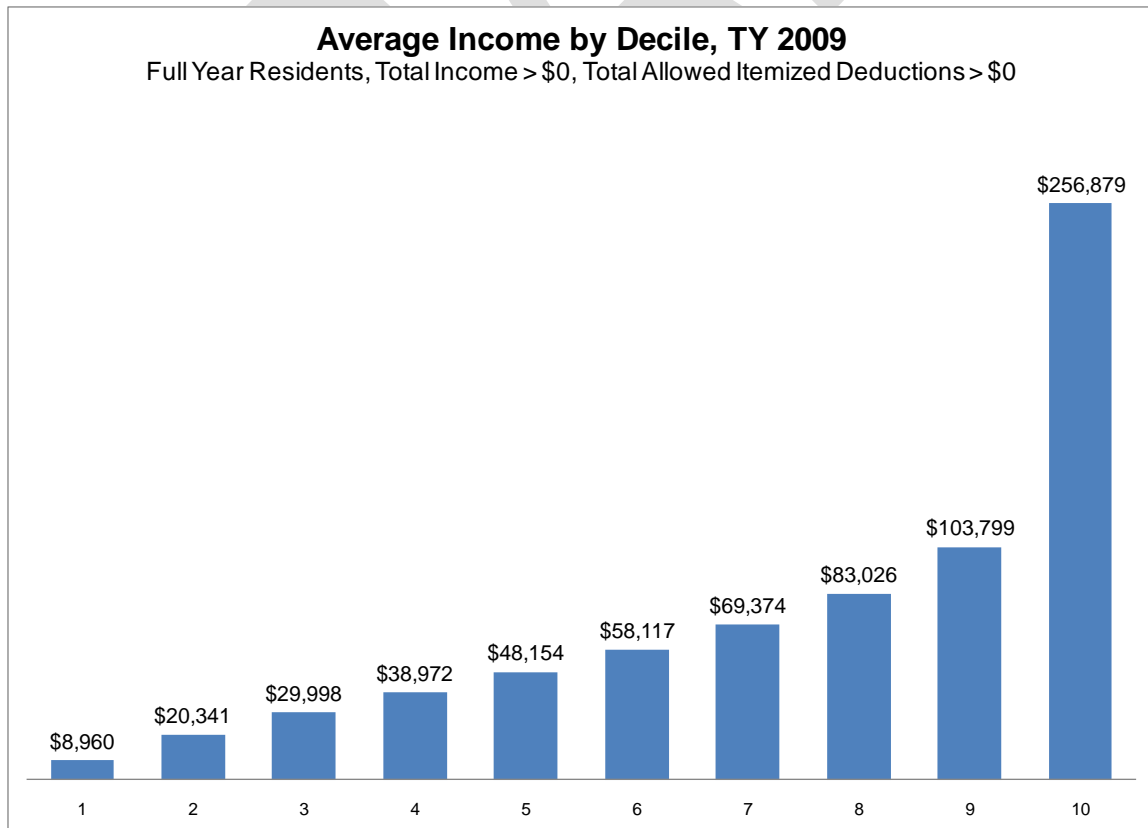


ANALYSIS OF ITEMIZED DEDUCTIONS

There were 226,612 full year resident taxpayers with incomes greater than \$0 who had at least \$1 of itemized deduction in 2009; their total amount of itemized deductions was \$3,974.4 million. If this is multiplied by the average effective tax rate of 3.9%, the approximate effect to tax collections is \$155.0 million. For purposes of comparison, if each of those taxpayers had taken the standard deduction (\$3,950 or \$7,900 depending on filing status) instead of itemizing, the total amount of deductions would have been \$1,164.0 million.

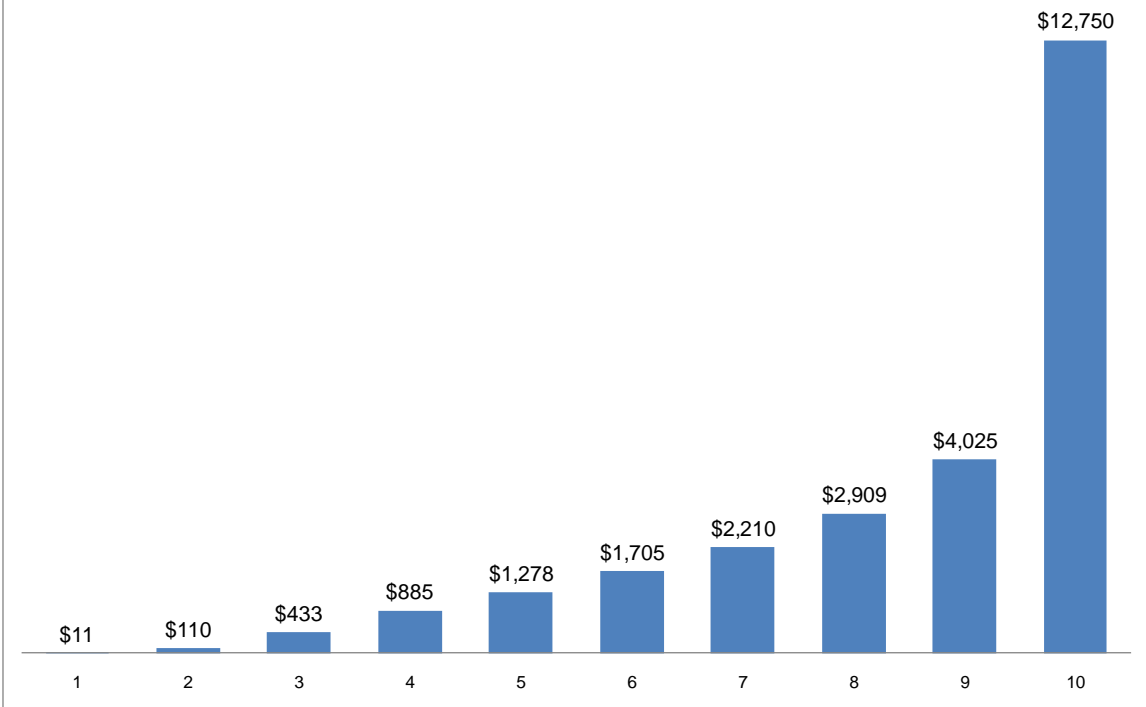
Implied Tax Reduction due to Itemized Deductions by Income Decile, TY 2009							
Full Year Residents, Total Income > \$0, Total Allowed Itemized Deductions > \$0							
Income Deciles*	Avg. Total Income	Avg. Total Tax	Avg. Total Deduction	Implied Tax Rate	Taxes Bef. Ded.**	Implied Tax Reduction	Implied % Reduction
2	20,341	110	11,188	1.20%	244	134	55.00%
3	29,998	433	11,880	2.39%	717	284	39.60%
4	38,972	885	12,976	3.40%	1,327	442	33.30%
5	48,154	1,278	14,443	3.79%	1,825	548	29.99%
6	58,117	1,705	16,130	4.06%	2,360	655	27.75%
7	69,374	2,210	18,029	4.30%	2,985	776	25.99%
8	83,026	2,909	20,189	4.63%	3,844	935	24.32%
9	103,799	4,025	23,170	4.99%	5,182	1,157	22.32%
10	256,879	12,750	37,660	5.82%	14,940	2,190	14.66%

* The average total deduction is in excess of the average total income of the first decile; therefore it is not included
 **Assuming no movement between tax brackets



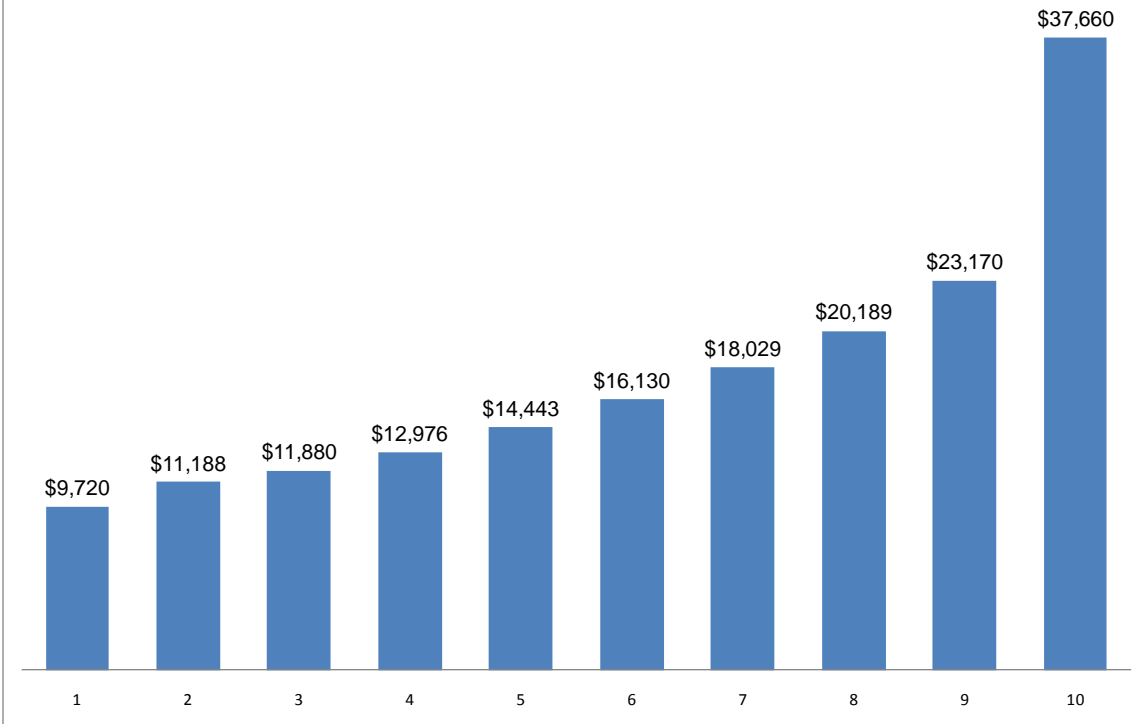
Average Tax by Decile, TY 2009

Full Year Residents, Total Income > \$0, Total Allowed Itemized Deductions > \$0



Average Value of Itemized Deductions by Decile, TY 2009

Full Year Residents, Total Income > \$0, Total Allowed Itemized Deductions > \$0

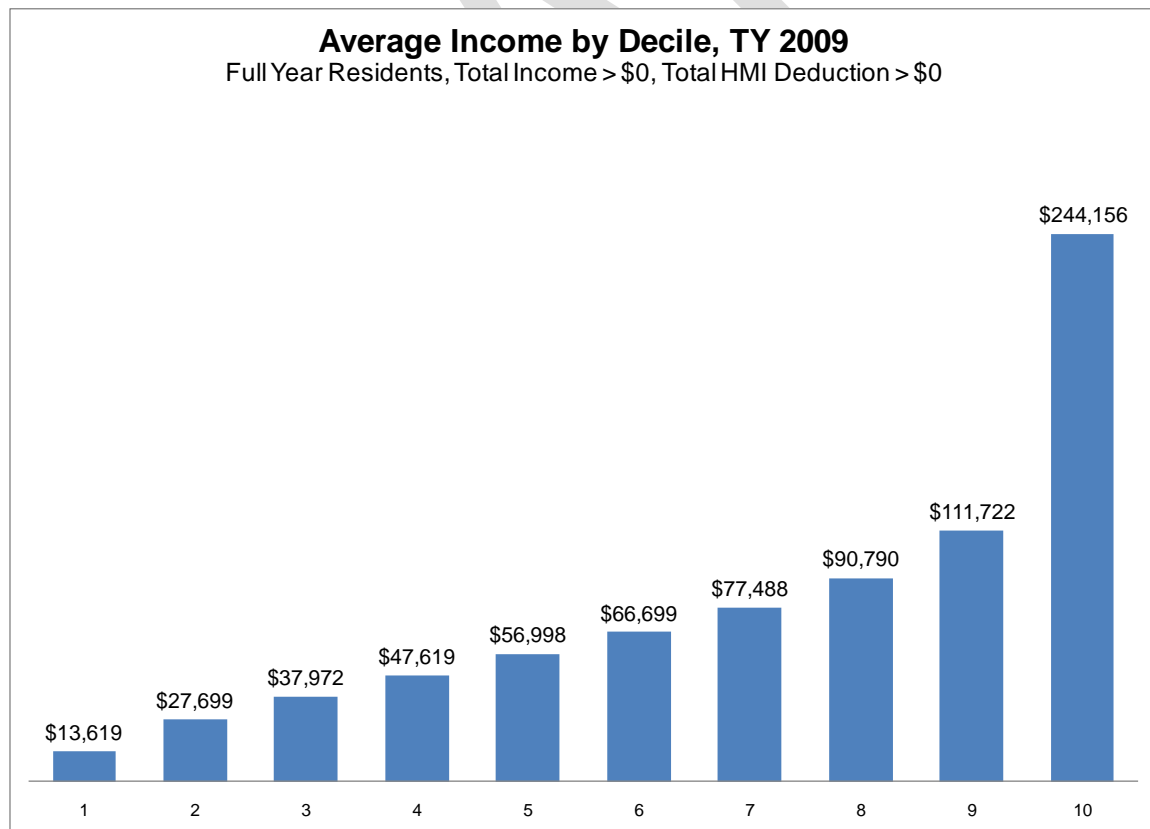


Home Mortgage Interest Deduction

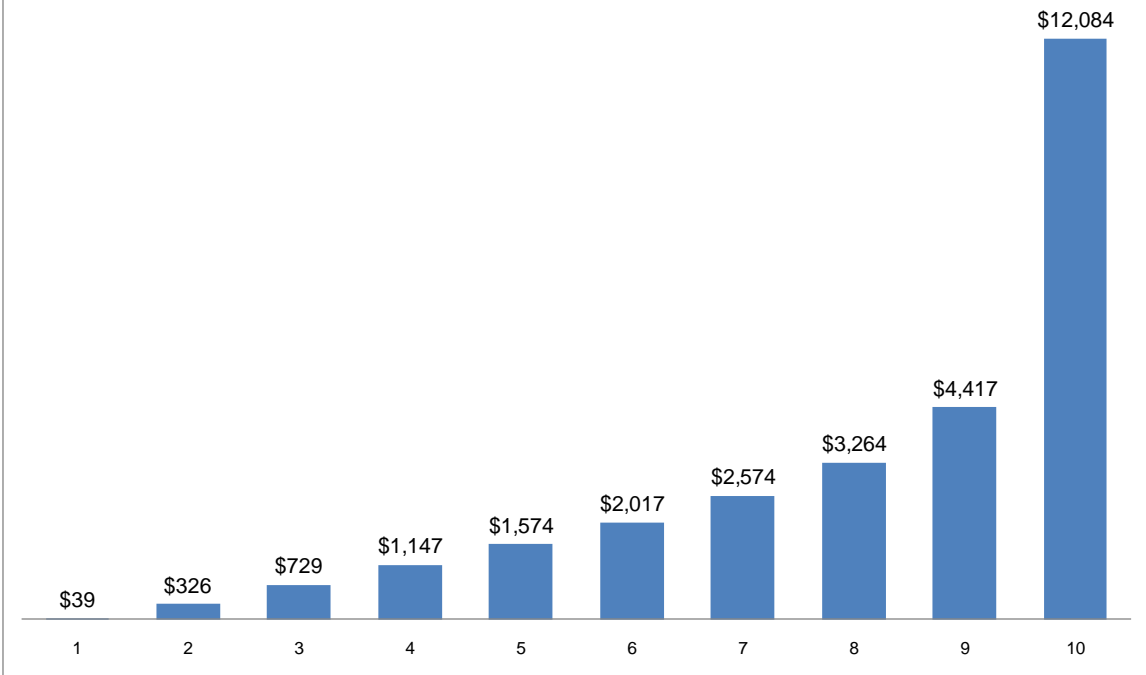
The home mortgage interest (HMI) deduction is the largest deduction, accounting for 27.4% of all deductions. There were 140,348 taxpayers who had at least \$1 of HMI deduction in 2009; the total amount of itemized deductions by full year residents whose total income was greater than \$0 in 2009 is \$1,090.7 million. If this is multiplied by the average effective tax rate of 3.9%, the approximate effect to tax collections is \$42.5 million.

Implied Tax Reduction due to the Home Mortgage Interest Deduction by Income Decile, TY 2009 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	13,619	39	5,671	12,085	46.92%	2.51%	181	142	78.71%	
2	27,699	326	5,834	12,770	45.69%	2.19%	454	128	28.10%	
3	37,972	729	6,278	14,468	43.39%	3.10%	924	195	21.08%	
4	47,619	1,147	6,698	15,855	42.24%	3.61%	1,389	242	17.41%	
5	56,998	1,574	6,996	17,148	40.80%	3.95%	1,850	276	14.93%	
6	66,699	2,017	7,361	18,660	39.45%	4.20%	2,326	309	13.29%	
7	77,488	2,574	7,754	20,251	38.29%	4.50%	2,922	349	11.93%	
8	90,790	3,264	8,367	22,503	37.18%	4.78%	3,664	400	10.92%	
9	111,722	4,417	9,279	25,345	36.61%	5.11%	4,892	475	9.70%	
10	244,156	12,084	13,473	36,898	36.52%	5.83%	12,870	786	6.10%	

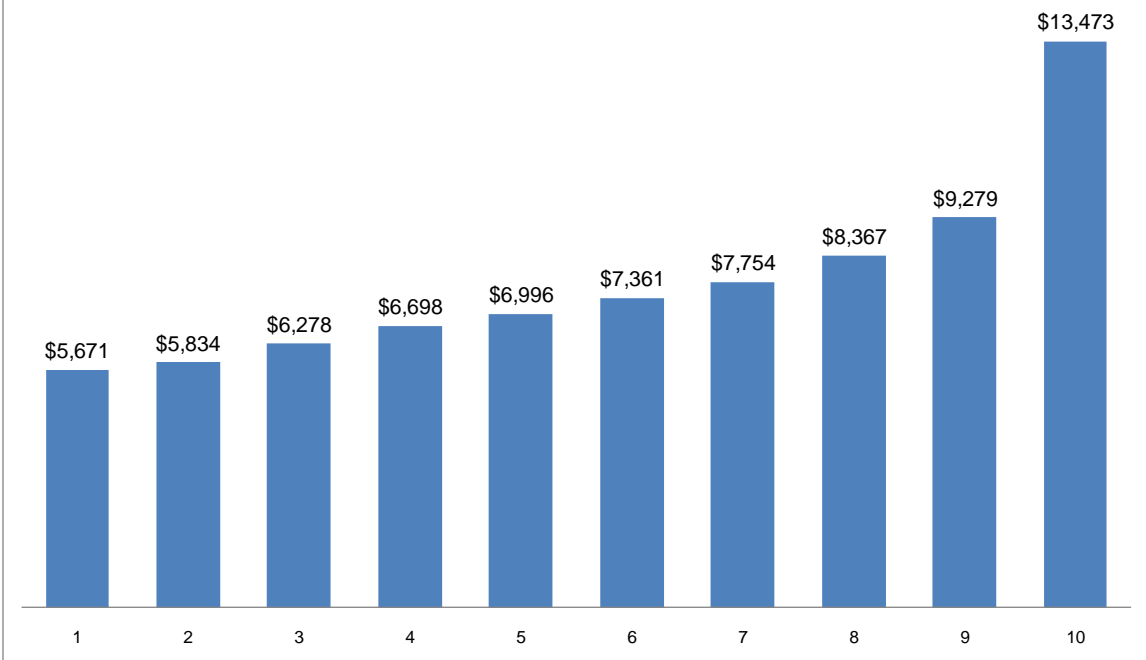
*Assuming no movement between tax brackets



Average Tax by Decile, TY 2009
Full Year Residents, Total Income > \$0, Total HMI Deduction > \$0



Average HMI Deduction by Decile, TY 2009
Full Year Residents, Total Income > \$0, Total HMI Deduction > \$0

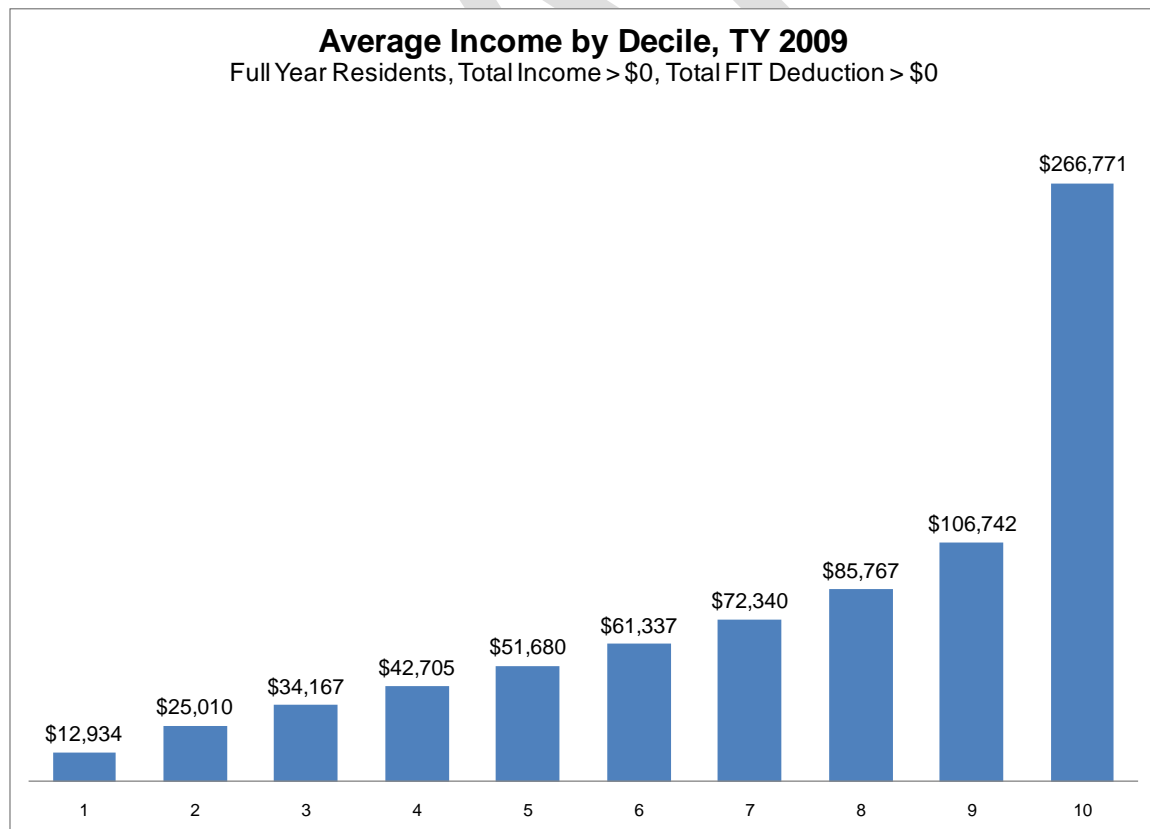


Federal Income Tax Deduction

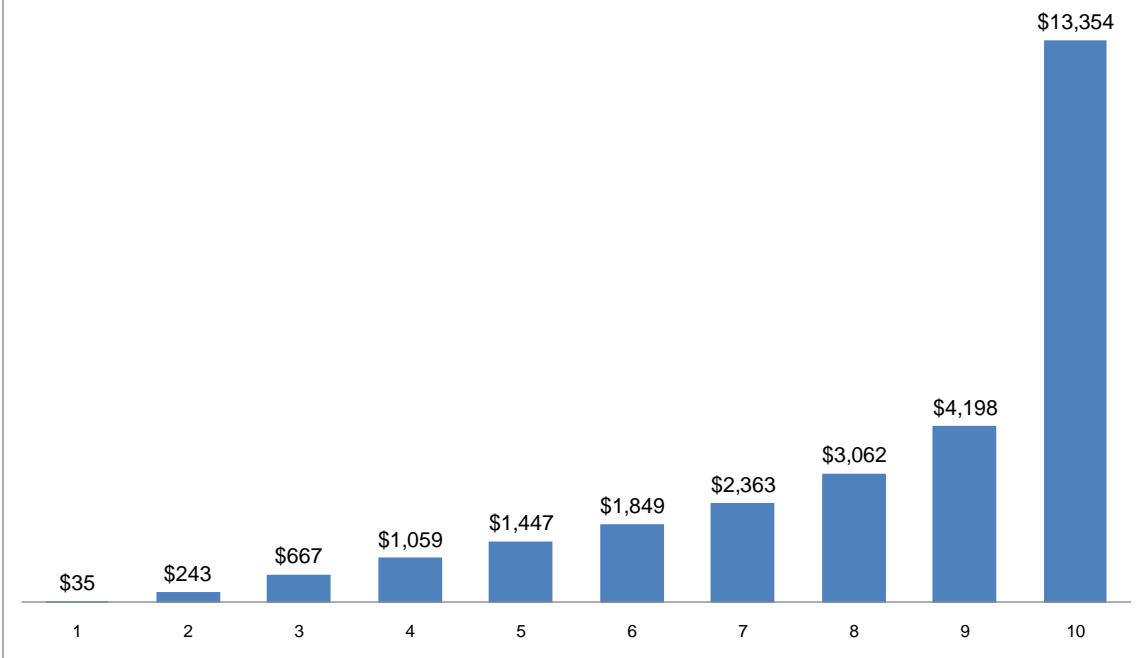
The federal income tax (FIT) deduction is the second largest deduction, accounting for 25.2% of all deductions. There were 209,372 taxpayers who had at least \$1 of FIT deduction in 2009; the total amount of itemized deductions by full year residents whose total income was greater than \$0 in 2009 is \$1,001.4 million. If this is multiplied by the average effective tax rate of 3.9%, the approximate effect to tax collections is \$39.1 million.

Implied Tax Reduction due to the Federal Income Tax Deduction by Income Decile, TY 2009 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	12,934	35	1,255	9,639	13.02%	1.05%	48	13	27.58%
2	25,010	243	2,053	11,121	18.47%	1.75%	279	36	12.88%
3	34,167	667	3,002	11,990	25.04%	3.01%	757	90	11.92%
4	42,705	1,059	3,723	13,389	27.80%	3.61%	1,193	134	11.27%
5	51,680	1,447	4,199	14,842	28.29%	3.93%	1,612	165	10.23%
6	61,337	1,849	4,771	16,575	28.78%	4.13%	2,046	197	9.63%
7	72,340	2,363	5,631	18,404	30.60%	4.38%	2,609	247	9.45%
8	85,767	3,062	6,710	20,523	32.70%	4.69%	3,377	315	9.33%
9	106,742	4,198	7,813	23,465	33.30%	5.04%	4,592	394	8.58%
10	266,771	13,354	8,670	38,285	22.65%	5.84%	13,860	507	3.66%

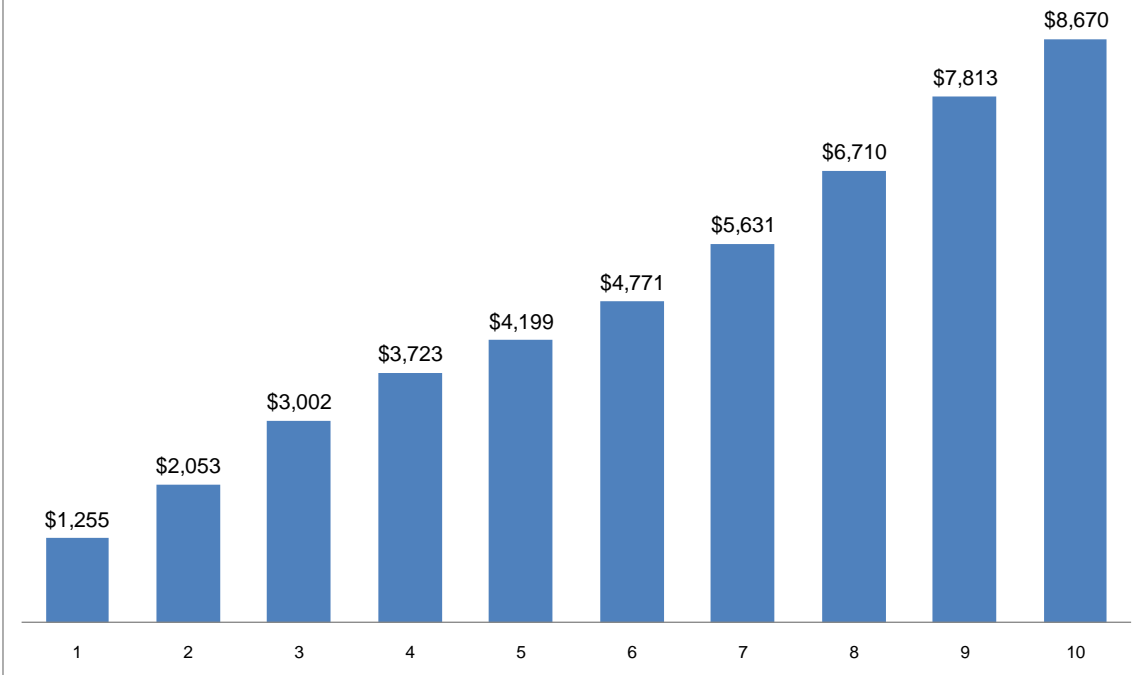
*Assuming no movement between tax brackets



Average Tax by Decile, TY 2009
Full Year Residents, Total Income > \$0, Total FIT Deduction > \$0



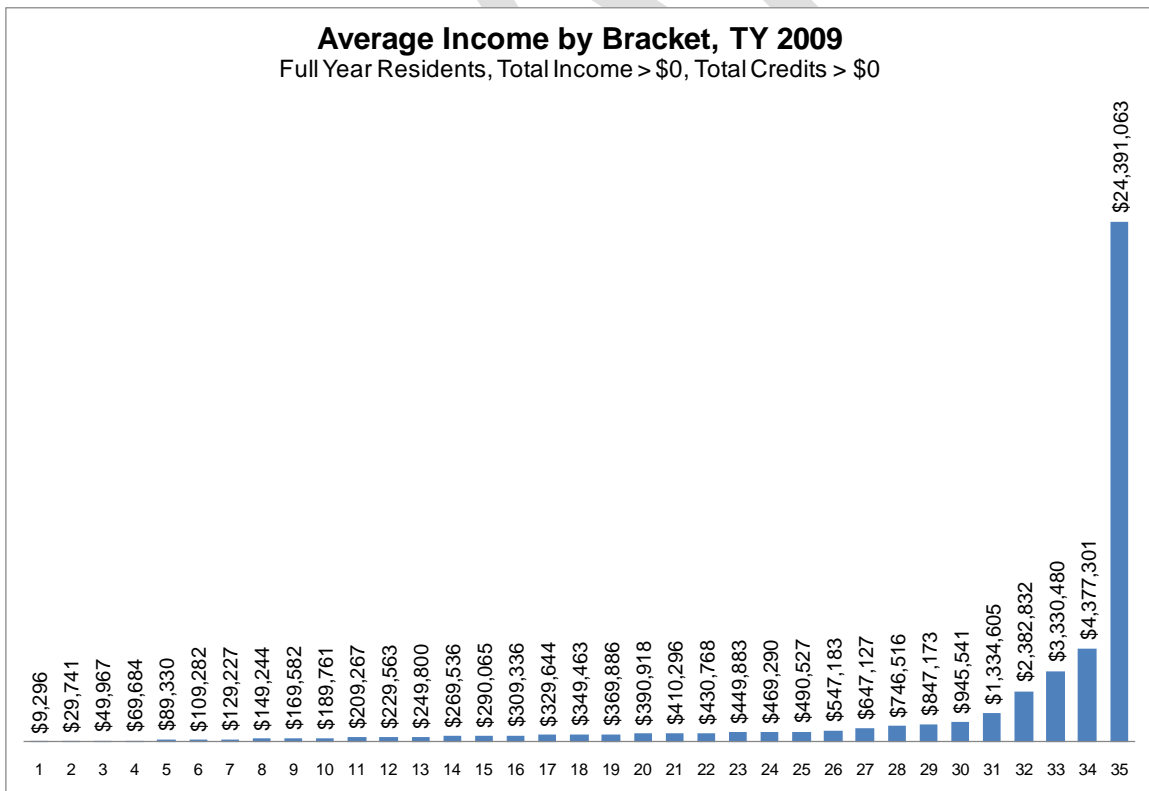
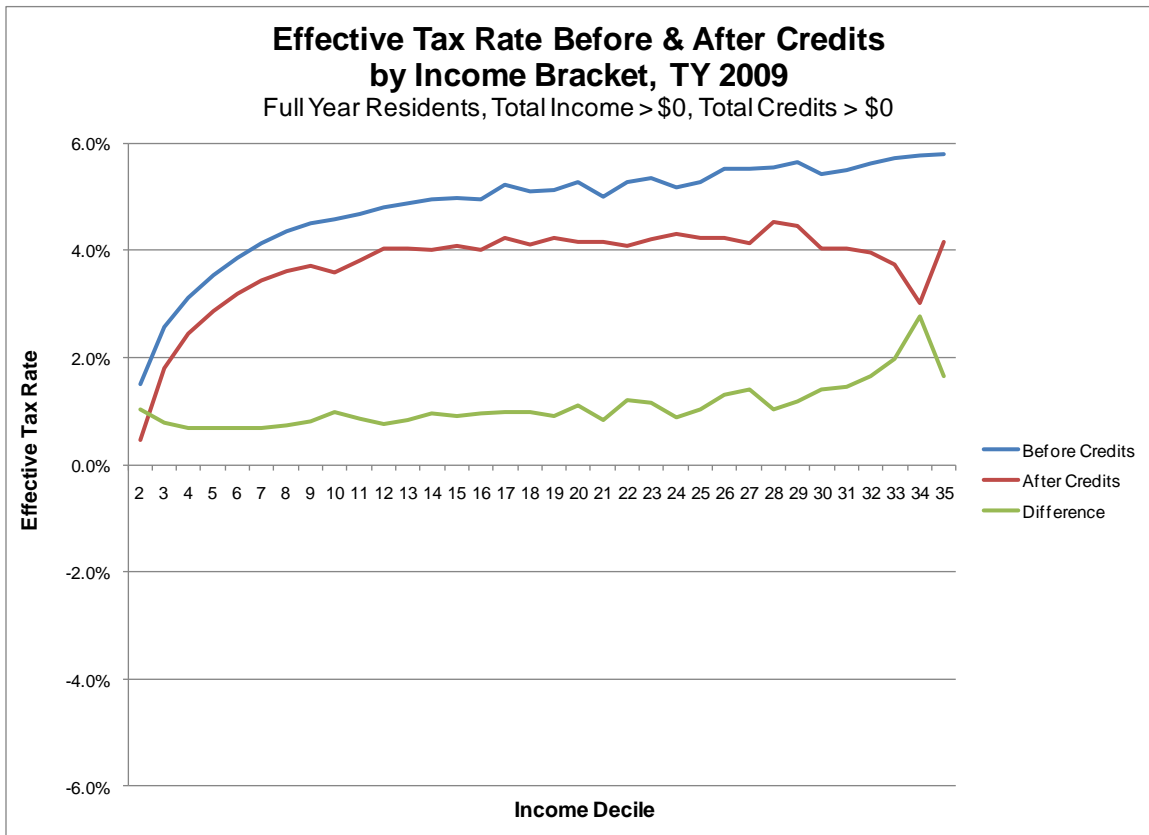
Average Federal Income Tax Deduction by Decile, TY 2009
Full Year Residents, Total Income > \$0, Total FIT Deduction > \$0



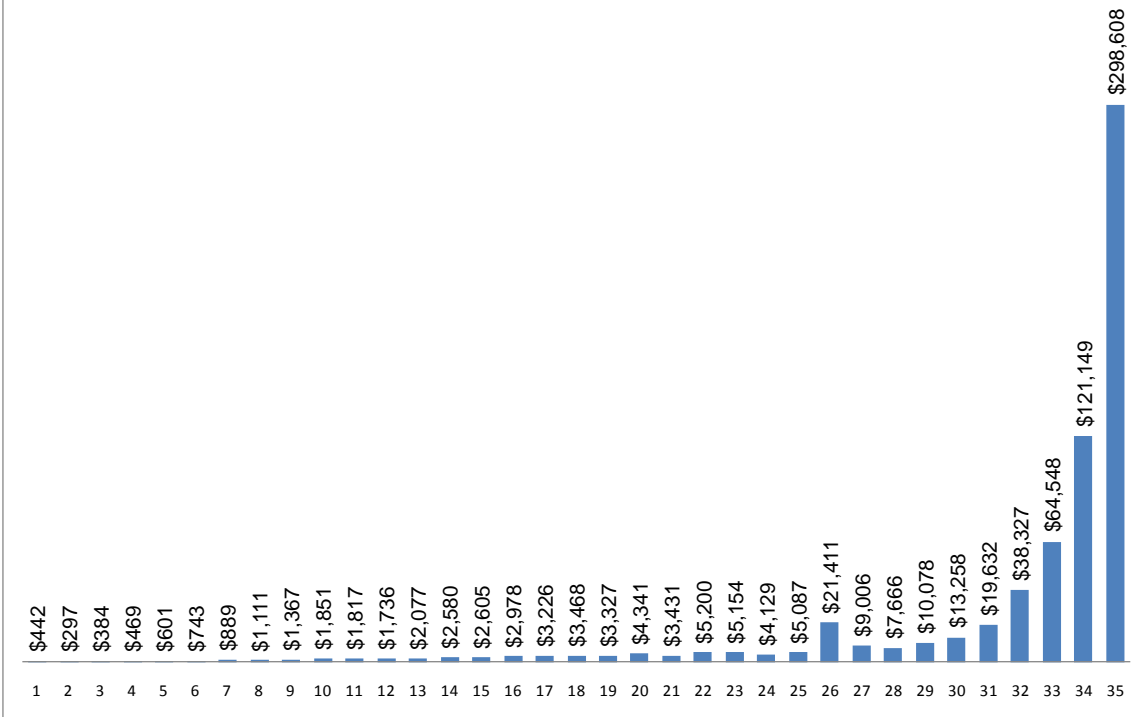
APPENDIX—CREDIT USE BY INCOME BRACKET

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 deciles analysis done in the body of the report. The following table shows the same information given previously, but for fixed-width brackets. 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.

Effective Tax Rate Before & After Tax Credits by Income Bracket, TY 2009 Full Year Residents, Total Income > \$0, Total Credits > \$0								
Bracket Low	Bracket High	Number in Bracket	Average Total Income	Average Total Tax	Total Credits	Tax Rate Before	Tax Rate After	Difference
\$1	\$20,000	17,524	\$9,296	\$31	\$442	0.22%	-1132.96%	1133.18%
20,001	40,000	11,623	29,741	472	297	1.50%	0.47%	1.03%
40,001	60,000	10,398	49,967	1,298	384	2.57%	1.80%	0.77%
60,001	80,000	9,081	69,684	2,184	469	3.12%	2.45%	0.67%
80,001	100,000	6,578	89,330	3,176	601	3.55%	2.87%	0.67%
100,001	120,000	4,077	109,282	4,223	743	3.86%	3.18%	0.68%
120,001	140,000	2,565	129,227	5,349	889	4.14%	3.45%	0.69%
140,001	160,000	1,641	149,244	6,516	1,111	4.37%	3.62%	0.74%
160,001	180,000	1,119	169,582	7,644	1,367	4.50%	3.70%	0.80%
180,001	200,000	805	189,761	8,696	1,851	4.58%	3.60%	0.98%
200,001	220,000	628	209,267	9,803	1,817	4.69%	3.82%	0.87%
220,001	240,000	473	229,563	11,021	1,736	4.80%	4.05%	0.76%
240,001	260,000	405	249,800	12,151	2,077	4.87%	4.03%	0.83%
260,001	280,000	287	269,536	13,358	2,580	4.96%	4.00%	0.95%
280,001	300,000	278	290,065	14,416	2,605	4.97%	4.07%	0.90%
300,001	320,000	222	309,336	15,340	2,978	4.96%	4.00%	0.96%
320,001	340,000	157	329,644	17,205	3,226	5.22%	4.24%	0.98%
340,001	360,000	134	349,463	17,823	3,468	5.10%	4.11%	0.99%
360,001	380,000	114	369,886	18,982	3,327	5.13%	4.23%	0.90%
380,001	400,000	104	390,918	20,638	4,341	5.28%	4.17%	1.11%
400,001	420,000	93	410,296	20,492	3,431	4.99%	4.16%	0.84%
420,001	440,000	103	430,768	22,743	5,200	5.28%	4.07%	1.20%
440,001	460,000	72	449,883	24,102	5,154	5.36%	4.21%	1.15%
460,001	480,000	69	469,290	24,293	4,129	5.18%	4.30%	0.88%
480,001	500,000	74	490,527	25,855	5,087	5.27%	4.24%	1.04%
500,001	600,000	280	547,183	84,737	21,411	5.54%	4.23%	1.30%
600,001	700,000	162	647,127	35,754	9,006	5.53%	4.13%	1.39%
700,001	800,000	96	746,516	41,518	7,666	5.56%	4.53%	1.03%
800,001	900,000	81	847,173	47,766	10,078	5.65%	4.46%	1.19%
900,001	1,000,000	50	945,541	51,462	13,258	5.43%	4.03%	1.40%
1,000,001	2,000,000	182	1,334,605	72,981	19,632	5.49%	4.03%	1.46%
2,000,001	3,000,000	45	2,382,832	133,123	38,327	5.62%	3.97%	1.65%
3,000,001	4,000,000	20	3,330,480	190,018	64,548	5.71%	3.73%	1.98%
4,000,001	5,000,000	11	4,377,301	252,206	121,149	5.78%	3.01%	2.76%
5,000,001		24	24,391,063	1,254,402	298,608	5.80%	4.16%	1.64%



Average Total Credit by Income Bracket, TY 2009
Full Year Residents, Total Income > \$0, Total Credits > \$0



Average Tax Before Credits by Income Bracket, TY 2009
Full Year Residents, Total Income > \$0, Total Credits > \$0

