HJR 13 Individual Income Tax Study Final Report:
Summary of Reports to the Revenue and Transportation Interim Committee

by
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House Joint Resolution No. 13 (HJR 13) provided for a study of and options for revising the individual income tax system. The study ranked highly in the poll of legislators: 1st of 16 ranked interim studies. The Legislative Council assigned the study to the Revenue and Transportation Interim Committee (RTIC), which approved the HJR 13 study plan at its June 2011 meeting.

The individual income tax is the largest source of state revenue, accounting for $717.8 million in fiscal year 2010. The tax was first imposed in Montana in 1933. Over the years, the tax rates and income tax brackets have changed a number of times. Tax rates are indexed for inflation and, for tax year 2012, ranged from 1% on the first $2,600 of taxable income to 6.9% on taxable income in excess of $15,600.

An individual's Montana income tax liability is calculated by adjusting total income by federal and Montana adjustments, subtracting itemized deductions or the standard deduction, and subtracting the personal exemption to arrive at Montana taxable income. Montana taxable income is then multiplied by the tax rate table. This amount is reduced by the 2% capital gains credit and other Montana tax credits to reach the Montana individual income tax liability.

**September 26-27, 2011**

Individual Income Tax in the United States and Montana -- Jaret Coles

This 38-page staff attorney report is divided into five parts and generally covers: (1) calculation of federal individual income tax liability; (2) calculation of Montana individual income tax liability; (3) tax brackets, rates, and filing options in the United States; (4) Montana's history of individual income tax filing options, including an analysis of the rationale for allowing married taxpayers to file separately on the same form; and (5) individual income tax provisions in the states using a survey from the Wisconsin Legislative Fiscal Bureau. The report contains multiple exhibits, including House Joint Resolution No. 13 (2011), the Montana Department of Revenue's Biennial Report: July 1, 2008 - June 30, 2010, pp. 53-80, 205-271, a legislative staff outline regarding state conformity with federal income tax laws, a legislative staff attorney report regarding potential legal issues with automatically adopting federal tax provisions, and the Wisconsin Legislative Fiscal Bureau survey.

Individual Income Tax Credits: What, Who & How Much -- Stephanie Morrison

This first of four Legislative Fiscal Division reports presented to RTIC contains an analysis of individual income tax credits. Topics included the average total income of the taxpayers who claimed a particular credit, the value of each credit as a percent of its claimants' average total income, repeat use of each tax credit, credit use by income decile, and effective tax rates before and after credits.

**December 8-9, 2011**

Individual Income Tax Credit & Deduction Analysis -- Stephanie Morrison

This report provides an analysis of itemized deductions generally, as well as specific information on the home mortgage interest deduction and the federal income tax deduction.

**February 16-17, 2012**

Review of State Income Tax Starting Points and Select Income Tax Returns -- Jaret Coles

This report indicates that Montana and the majority of states use the federal income tax system as a starting point for calculating tax liability. The policy reasons for using a federal starting point includes ease of enforcement (since IRS audits can trigger state audits and adjustments), accuracy, and taxpayer convenience. Montana, the District of Columbia, and 27 states use federal adjusted gross income as the starting point. Seven states, including Colorado, use federal taxable income as the starting point. Prior to the 2001 federal tax cuts, three states (North Dakota, Rhode Island, and Vermont) multiplied federal taxes paid by a percentage in order to calculate federal tax liability. The report includes exhibits from the Federation of Tax Administrators, a Colorado tax return, a Rhode Island tax return (prior to 2001 federal tax cuts), and the 1864 federal income tax return.

Effect of Tax Credits on Individual Income Tax Rate -- Stephanie Morrison

This report expands on the analysis in the report Individual Income Tax Credits: What, Who & How Much to include all full-year resident taxpayers and spans tax years 2005 through 2010.

Married Tax Filers: Highlights From 2007 and 2010 -- Stephanie Morrison

This report highlights the DOR 2009 analysis on the tax filing preferences of married taxpayers. In addition, the report compares the effective tax rate for separate same-form filers and joint filers for 2007 and 2010. Finally, the report tabulates the number of taxpayers that paid more or less tax due to their filing choice along with listing their corresponding aggregate income.

**April 26, 2012**

Alternative Methods of Taxing Individual Income -- Jeff Martin

This memorandum discusses some alternative approaches to taxing individual income in Montana that may help simplify the state's income tax system. The alternatives are offered as discussion items to help the Committee decide which options, if any, to consider. The options include: taxing individual income under variations of the existing system, revising the income tax system, an individual income tax based on federal taxable income, and an individual income tax based on Montana adjusted gross income.

Spreadsheet Summary of Montana Income Tax Deductions, Exemptions, and Credits -- Jaret Coles

This spreadsheet summarizes Montana income tax deductions, exemptions, and credits using multiple columns, including approximate fiscal impact, enactment history, code provision citation, and a summary of each provision. The spreadsheet contains 16 additions to federal adjusted gross income, 35 reductions to adjusted gross income, 22 itemized deductions, the standard deduction, the personal exemption, the capital gains tax credit, 11 nonrefundable with no carryover credits, 12 nonrefundable with carryover credits, and 6 refundable credits.

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