EXHIBIT 8
DATE 4.13.05
SB 520

Legislative Fiscal Division

Representative Balyeat

04/11/03

SB 407 Long Term Analysis

Tax Component	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
Rental Vehicle Tax (4%)	-	2.4	2.5	2.6	2.6	2.7	2.8	2.9	3.0
Accomodations Tax Increase (3%)	0.8	9.6	9.9	10.2	10.5	10.8	11.2	11.5	11.9
Cigarette Tax Increase (52 cents)	4.3	28.1	27.0	26.1	25.1	24.2	23.3	22.5	21.7
Tobacco Tax Increase (12.5%, snuff 7 cents)	0.1	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9
Total Tax Increase	5.3	40.9	40.2	39.7	39.1	38.6	38.2	37.8	37.4
Income Tax Reduction	-	-	(15.8)	(38.9)	(54.0)	(57.2)	(60.7)	(64.3)	(68.2)

Cumulative Tax Increase									
Combined Tax Increase	5.3	46.1	86.4	126.1	165.2	203.8	242.0	279.8	317.3
Income tax Tax Decrease	-	-	(15.8)	(54.7)	(108.7)	(165.9)	(226.6)	(290.9)	(359.1)
Net Cumulative Tax Increase	5.3	46.1	70.6	71.4	56.5	37.9	15.4	(11.1)	(41.8)

Revenues shown are changes in total revenue from tax (not just general fund share) and are before vendors allowance.

BOZEMAN MONTANA

WEDNESDAY, MARCH 30, 2005

OUR OPINION

Proposed property tax 'rebate' just semantics

State Sen. Jim Elliot, D-Trout Creek, may win a few votes in his economically depressed constituency with his proposal to extend "property tax rebates" to renters.

It's long been a rallying cry of the downtrodden that they, too, pay property tax; they just give it to their landlord when they pay their rent. That may be true, but the same can be said for every other cost incurred by landlords — costs renters are not even aware of much less entitled to when those costs go down.

Elliot's bill actually calls for a $135 income tax rebate aimed at providing property tax relief to 336,000 Montana homeowners and renters. His bill was crafted specifically to counter a 2003 income tax rate reduction that he says gave more than half the resulting tax relief to those earning more than $100,000.

Providing more income tax relief and trying to spread it more evenly over the whole range of wage earners may be a laudable goal, assuming the state treasury can afford it. But calling it property tax relief and then extending it to renters is just plain semantics.

Renters do indeed help their landlords pay property taxes when they pay rent. They also help them pay for insurance, building maintenance, loan interest and every other expense involved in owning a rental property.

Rent, however, is determined by what the market will bear in any given rental market. The property of landlords who charge anything higher will sit vacant and that, as any business 101 student can tell you, is not a good thing.

If Elliot really wants to provide property tax relief, he needs to direct it at the property owners. And that makes sense, because this state is far too heavily dependent on property taxes. If that relief allows landlords to lower rents, the competitive nature of the rental market will see that they do.

If, on the other hand, Elliot is just trying to provide some income tax relief, then let's call it that and let everyone who pays it in on the action.

TAXES AND ECONOMIC GROWTH

By Richard Vedder
Ohio University
September 2001

Do Taxes Matter?

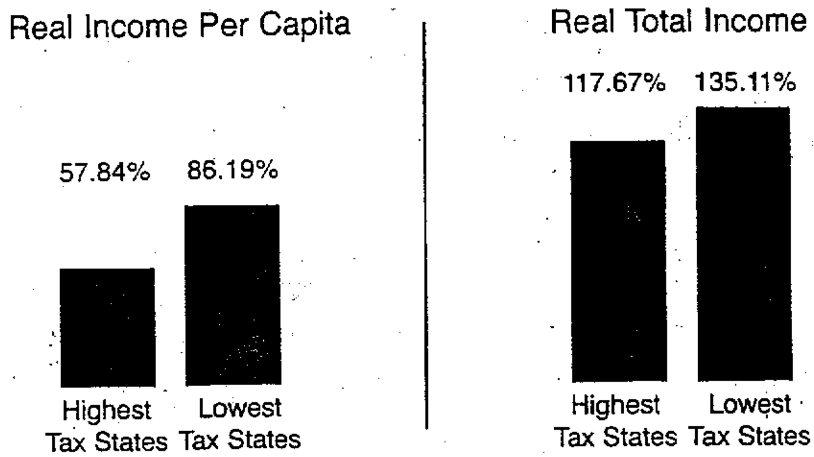
Government is a big part of the lives of Americans, and indeed of anyone living on this planet. Government does some good things; indeed, having a government seems critical to having a prosperous and well-ordered society. Yet governments use resources, and a means must be found in capturing these resources from private uses. While a variety of means are used – debt financing, printing money, expropriating private assets, mandating private performance of governmental objectives, the assessment of user charges– by far the most important way that we pay for government is through taxation.

While this study will concentrate on taxation and its impact on the economy, it is important to keep in mind that taxes are levied to finance governmental spending. When government is non-existent or very small, tax-financed governmental expansion likely is good from the standpoint of creating income for the citizenry: resources are used to establish and enforce laws protecting individual property rights, protecting individuals from destructive behavior on the part of bullies, thieves, and foreign enemies. The government helps finance certain minimal infrastructure needs like roads necessary for trade, and defines and regulates the issuance of money. Virtually everyone but the most radical libertarian would agree that governmental provision of these functions helps develop an exchange economy. Taxes levied when government is extremely small, then, likely increase economic growth by making trade more efficient, providing incentives for people to work, form capital and to innovate. Yet as government grows larger, the law of diminishing returns begins to have an effect. Some spending on roads, national security, police and fire protection, etc., may be of marginal use. More important, governments start to perform welfare functions, redistributing income and wealth from some members of society to others. The taxes needed to finance these expenditures become larger and more burdensome, and may start to have severe disincentive effects. Thus, the original federal income tax, which had rates of one to seven percent and applied only to affluent Americans, had little impact of human economic behavior. Later, however, when marginal tax rates grew as high as 70 or even 90 percent or more, people altered their behavior to avoid an excessive tax burden. The new government spending added less to the national output and may have even reduced it, while the taxes reduced work effort, capital formation, and innovation. Thus tax-financed spending began to have adverse effects on the prosperity of persons.

All of this is illustrated in Figure 1. When government absorbs little or none of the national output, public sector expansion expands that output. When government grows large, however, its expansion crowds out productive private activity and actually retards economic growth. The taxes used to finance most government activity then have a more negative effect than any benefits provided by governmental services.

Figure 5.

Economic Performance: 10 Highest, 10 Lowest Tax States, 1957-1977



Source: U.S. Department of Commerce, Author's Calculations

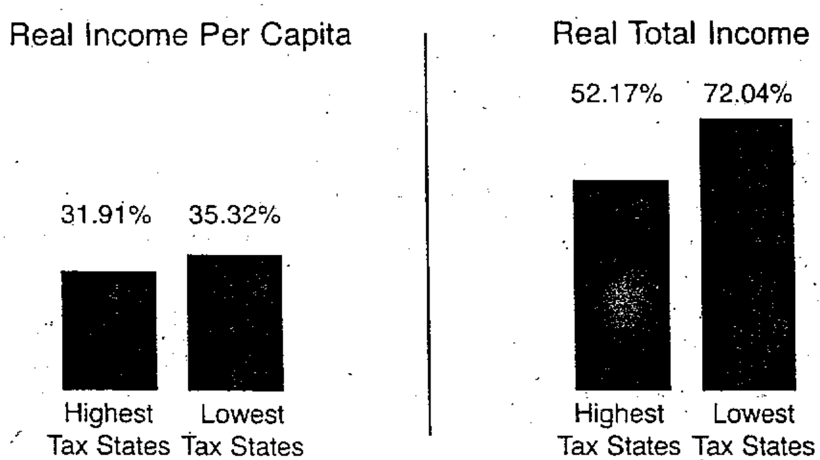
Summarizing, in Figures 3 through 6 we make a total of eight comparisons of high (or increasing) tax states compared with states with a relatively low (or declining) tax burden. In every single case, without exception, the results are consistent: **high or rising taxes are associated with lower amounts of economic growth.** The use of more sophisticated statistical models produces the same sort of result: higher taxes, lower growth. *

Incentives Impact Behavior

It might be useful to reflect a little more as to *why* this is so. This author does not believe that the people working in the public sector are inherently less efficient, less creative, less productive than their private sector counterparts. What is different about the two sectors, however, is that the private sector responds to the discipline of markets. When firms are inefficient, having high costs or selling a product that people do not want, prof-

Figure 6.

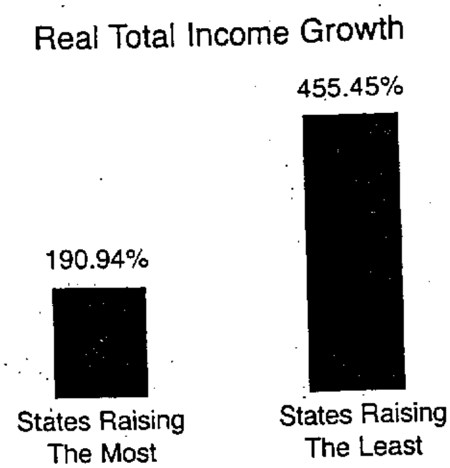
Economic Performance: 10 Highest, 10 Lowest Tax States, 1977-1997



Source: U.S. Department of Commerce, Author's Calculations ual income tax. I compared the 10 states with the greatest increase in income tax burden from 1957 to 1997, and compared them with the 10 states with the smallest increase in burden (in several cases, zero, as they had no income tax throughout the period).

Figure 7.

Economic Performance: 10 States Raising Income Taxes The Most vs. 10 States Raising Them The Least 1957-1997



Source: U.S. Department of Commerce, Author's Calculations

Figure 7 shows that real personal income growth was more than twice as high in the states raising their income taxes the least (or not at all), compared with the states with the biggest increase in tax burden. . Most of that reflected larger population growth in the low or no income tax states. However, real income *per person* also grew faster on average in the low tax states.

The higher population growth in the low income tax states reflected massive migration into those states from the high income tax states. People "voted with their feet", preferring states where the government allowed them to keep more of their own income. I calculated the net movement of native born Americans within the U.S from the years 1990 to 1999, comparing the nine states that have essentially no personal income tax (Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington and Wyoming) with the other 41 states and the District of Columbia. Some 2,849,310 persons moved into the no income tax states from the states that levied taxes on the productive activity of their citizens. **Excepting Sundays, some one thousand persons moved every day for nine years to the no income tax states!** More persons fled to the no income tax havens than moved from East to West Germany during the Cold War. One of the great migrations in human history occurred –and most Americans do not even know about it!

The income tax's negative impact on economic activity may come in part because the tax itself may be a factor in the growth of government. I divided the 48 contiguous states into three categories: those which had no income tax in 1957 and did not enact one in the following 40 years ("no income tax states"); the 12 states that had no income tax in 1957 but enacted one over the next 40 years ("new income tax" states); and the 28 states that

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STATE AND LOCAL TAXATION AND ECONOMIC GROWTH: LESSONS FOR FEDERAL TAX REFORM

A STUDY

prepared for the use of the

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ONE HUNDRED FOURTH CONGRESS

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EXECUTIVE SUMMARY

The experience of the states over the past third of a century provides a unique laboratory for investigating the effects of tax policy on economic growth. States vary widely in the method and magnitude by which they raise revenues, and this paper examines the resulting effects on economic well-being within states.

Through a comprehensive statistical analysis, this study concludes that higher state and local taxes had a distinct and significant negative effect on personal income growth over the period extending from 1960 to 1993. That is, when state and local taxes were raised, personal income growth slowed markedly. By the same token, states with lower taxes enjoyed substantially higher personal income growth.

Key findings include:

- Relatively low-tax states grew nearly one-third faster than high-tax states. This difference in growth rates translates into higher income of about $2,300 per person or $9,000 for a family of four for people living in low-tax states compared to those living in high-tax states.
- On average, an increase in state and local tax burdens equal to one percent of personal income lowered income growth by over three and a half percent. Since states raised tax burdens by an average of nearly two percent of personal income over this period, an average family of four lost almost $2,900 in income.
- ** Income taxes have a particularly adverse impact on income growth. Had a representative state kept its level of income taxation at the same share of personal income over the course of this study, personal income in that state would be over 30 percent greater today.
- * Flat-rate income taxes are significantly more favorable to economic growth than progressive taxes. Personal income in flat-rate income tax states grew about 25 percent faster than did personal income in states with a progressive rate structure.

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March 10, 2005

Senator Joe Balyeat
Montana Senate
PO Box 200500
Helena, MT 59620-0500

RE: Impending Budget Showdown

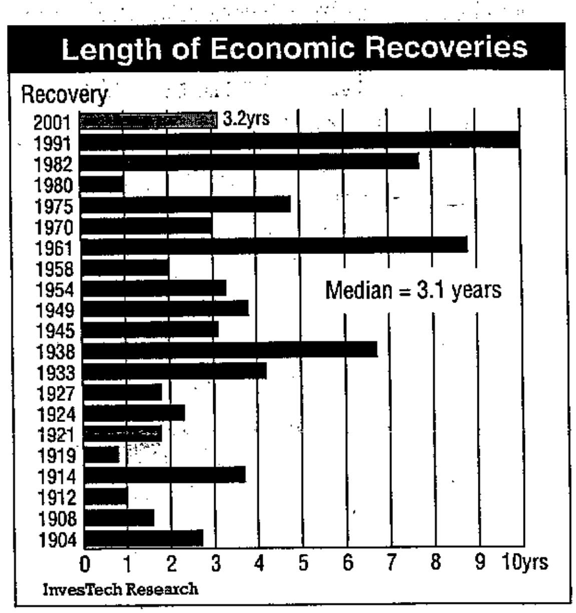
Dear Senator Balyeat,

Before setting this letter aside, please consider that it comes from one of the nation's leading market and economic research firms – *based in Montana.* It contains important facts which you need to know in dealing with, and resolving Montana's budget dilemma and a seemingly archaic spending-limit law.

First, here are the historic facts:

1) **This is not a young economic expansion.** According to the NBER (National Bureau of Economic Research), the official ending date of the last recession was November 2001. That makes this U.S. economic expansion 3.2 years of age – *compared to a historic median of just 3.1 years.* [see graphic at right]

The public (and political) view of recessions has been seriously distorted by the decades of the 1980s and '90s. These comprised two of the longest economic expansions in U.S. history – certainly more an aberration than the norm.



2) **Serious imbalances are already appearing that could trigger the next economic downturn.** Even after 6 Discount Rate hikes, the Federal Reserve has encountered ongoing pressure to continue raising interest rates. While manufacturing and business have been reluctant to pass on price increases, inflation pressures may be rapidly building. The ISM Survey of the nation's manufacturers finds pricing pressure near one of the highest levels in two decades. In addition, the Producer Price index for "intermediate goods" (not yet at the consumer level) is rising at the fastest pace in 21 years!

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