Montana Department of Revenue

Dan Bucks
Director

Brian Schweitzer
Governor

SENATE TAXATION
EXHIBIT NO. 1
DATE 2-3-05
BILL NO. SB 250

MEMORANDUM

To: Senator Robert Story

From: Jim McKeon, Income Tax Specialist (444-1940)

Date: January 26, 2005

Re: Effective tax rate when using [redacted] federal tax deduction

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In response to your questions we discussed at the Senate Taxation Committee hearing held Tuesday, January 25, 2005, the following is provided:

The following example simply illustrates the effect tax rate of a Montana taxpayer who has long-term capital gains income of $20,000 and $100,000.

Example: Taxpayer A purchased 100 shares of ABC Inc. for $50,000 on November 2, 2003. On December 1, 2004 taxpayer A sold the 100 shares of stock for $70,000 (example 1) $150,000 (example 2), thus realizing a long-term capital gain of $20,000 (example 1) $100,000 (example 2). The maximum federal capital gains tax rate for long-term capital gains is 15%.

MONTANA EFFECTIVE TAX RATE IN RELATION TO CAPITAL GAINS (2005 Montana Tax Rates)

		EXAMPLE 1			EXAMPLE 2		
1	Federal Income	$20,000	$20,000	$20,000	$100,000	$100,000	$100,000
2	35% federal tax rate	$7,000			$35,000		
3	15% federal long term capital gains tax rate		$3,000	$3,000		$15,000	$15,000
4	Montana Income without federal tax deduction	$20,000			$100,000		
5	6.9% Montana tax rate	$1,380			$6,900		
6	Montana effective tax rate. (line 5 divided by line 4)	**6.90%**			**6.90%**		
7	Montana Income without federal tax deduction	$20,000	$20,000	$20,000	$100,000	$100,000	$100,000
8	Federal Tax deduction (100% maximum $5,000)	$5,000	$3,000	$3,000	$5,000	$5,000	$5,000
9	Montana Income after federal tax deduction	$15,000	$17,000	$17,000	$95,000	$95,000	$95,000
10	6.9% Montana tax rate	$1,035	$1,173	$1,173	$6,555	$6,555	$6,555
11	Montana 1% capital gains credit			$200			$1,000
12	Montana tax		$1,173	$973		$6,555	$5,555
13	Montana effective tax rate. (line 10 divided by line 7)	**5.18%**	**5.87%**	**4.87%**	**6.56%**	**6.56%**	**5.56%**