## State of Montana Tax Expenditures Associated with Home Mortgage Interest Itemized Deduction

Full Year Residents, Tax Year 2005

Source: Biennial Report: July 1, 2002-June 30, 2004

Montana Department of Revenue

| Decile Group | Number of Households | Tax Expenditure | Percent |
|---|---|---|---|
| 1 | 24 | $476.00 | 0.00% |
| 2 | 540 | $15,677.00 | 0.03% |
| 3 | 1,914 | $110,538.00 | 0.20% |
| 4 | 3,954 | $413,690.00 | 0.76% |
| 5 | 7,091 | $1,282,081.00 | 2.35% |
| 6 | 11,300 | $3,046,370.00 | 5.59% |
| 7 | 16,652 | $5,734,435.00 | 10.52% |
| 8 | 22,834 | $9,581,122.00 | 17.57% |
| 9 | 27,946 | $13,790,740.00 | 25.29% |
| 10 | 29,396 | $20,549,096.00 | 37.69% |
| Total | 121,651 | $54,524,225.00 | 100.00% |

**Decile Group Brackets**

| Decile Group | Income Bracket |
|---|---|
| 1 | $0 - $4,481 |
| 2 | $4,482 - $8,734 |
| 3 | $8,735 - $13,416 |
| 4 | $13,417 - $18,455 |
| 5 | $18,456 - $24,624 |
| 6 | $24,625 - $32,715 |
| 7 | $32,716 - $43,299 |
| 8 | $43,300 - $57,212 |
| 9 | $57,213 - $78,454 |
| 10 | $78,455 + |

## Estimated Individual Income Tax Expenditures

| Itemized Deduction | FY2006 | FY2007 | Biennium |
|---|---|---|---|
| Home Mortgage Interest | $60,030,000 | $64,470,000 | $124,500,000 |

**The Tax Expenditure Concept**

Tax expenditures are defined as provisions of the tax code that provide for special exclusions, exemptions, deductions, credits, deferrals, or preferential tax rates that result in foregone revenue.

The purpose of tax expenditures is to provide financial assistance to certain groups of taxpayers, or to provide an economic incentive that encourages specific taxpayer behavior. One example of a tax expenditure designed to provide financial assistance is the additional personal exemption allowed the blind and/or elderly. On the other hand, the deduction allowed homeowners for mortgage interest may be viewed as an inducement to encourage home ownership. In both cases, the same objectives could be met through direct government spending programs that subsidize certain individuals on the basis of specific characteristics or behavior.

EXHIBIT 5
DATE 1/29/07
HB 1302