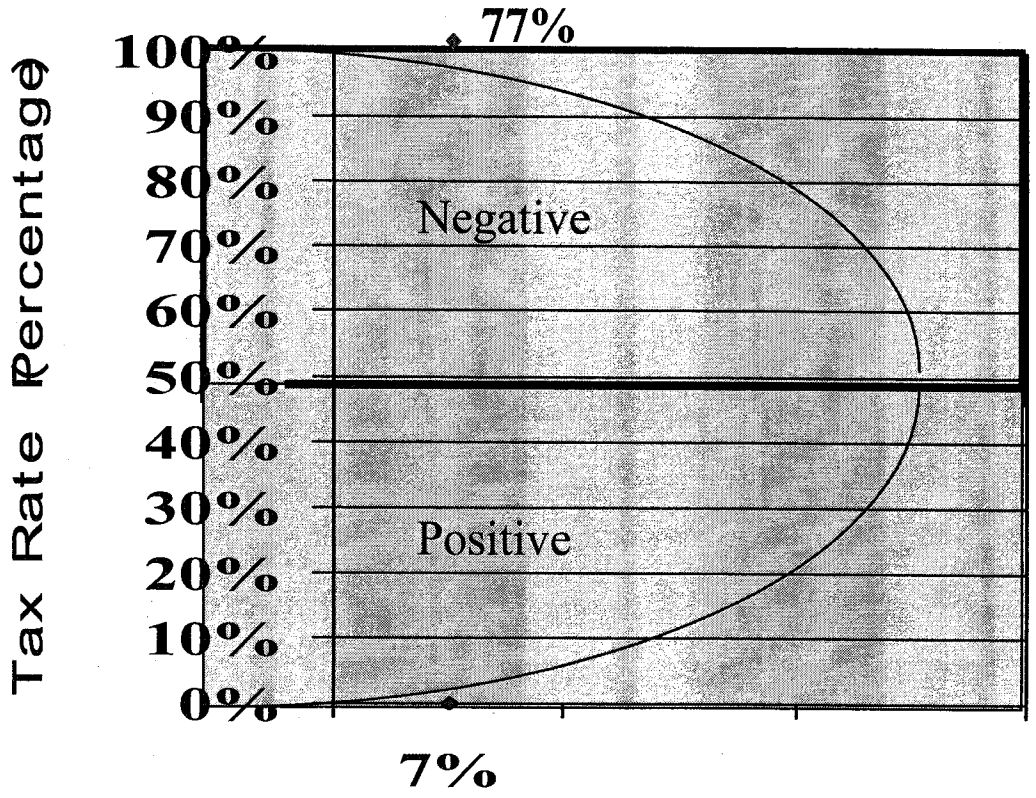
SENATE TAXATION
EXHIBIT NO. 5
DATE 4-10-07
BILL NO. HB-564

REP. TOM MCGILLVRAY HB 564

Laffer Curve



(Incomes over $300,00)

Tax Year	Rate	Revenue
1916	7 %	81,404,194
1921	77 %	84,797,344

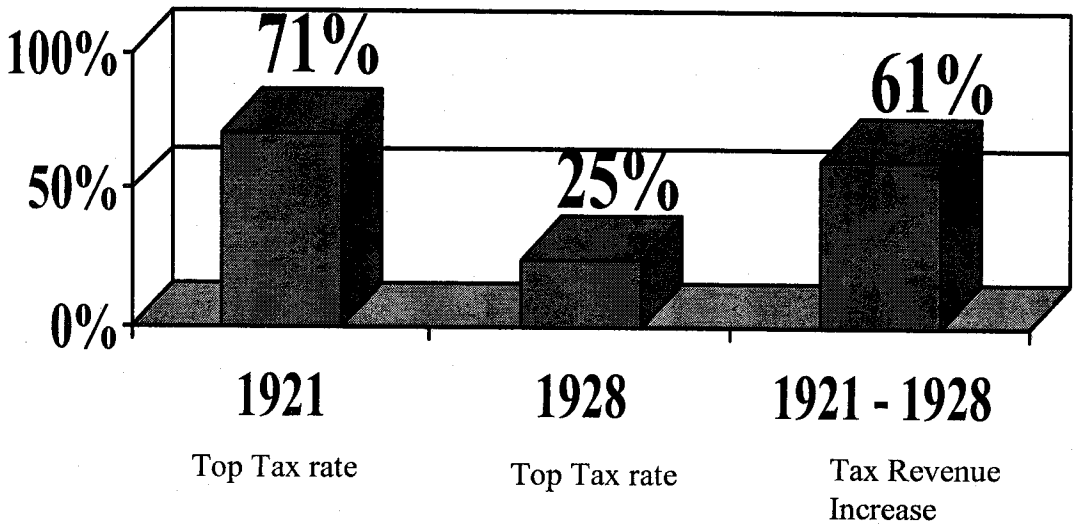
The Laffer Curve: In the 1920s, the Treasury discovered that a 77% Tax rate produced about the same amount of revenue as a 7% tax rate.

Source: For Good and Evil – The Impact of Taxes on the Course of Civilization – Charles Adams.

Fig. 1

Historical Income Tax Cuts and Result in Tax Revenue

Coolidge Tax Cuts 1921 -1928

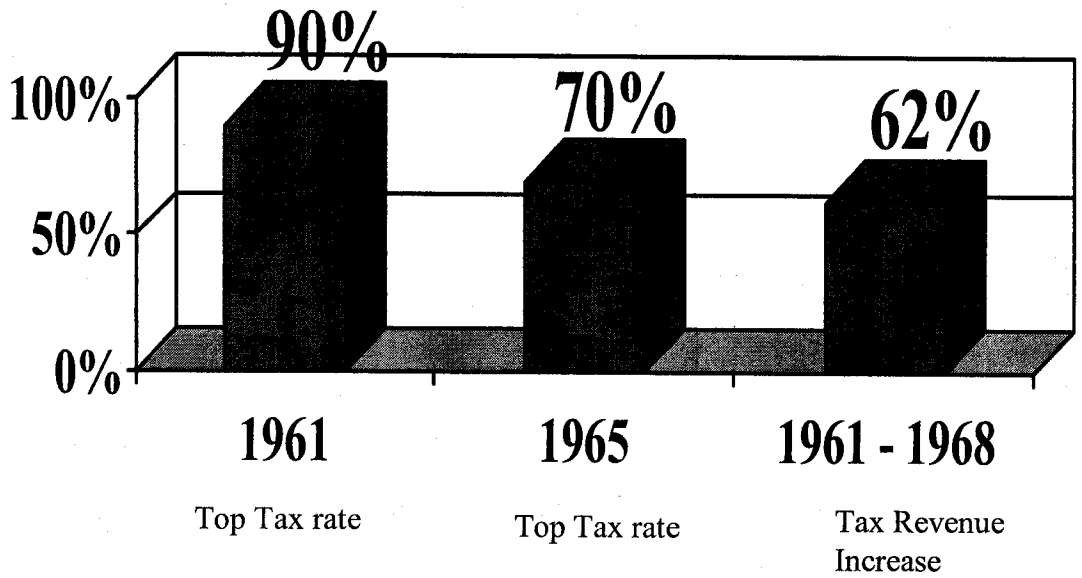


Source: Heritage Foundation: The Historical Lesson of Lower Tax Rates, Daniel Mitchell, Ph.D

Fig. 2

Historical Income Tax Cuts and Result in Tax Revenue

Kennedy Tax Cuts 1961 -1968

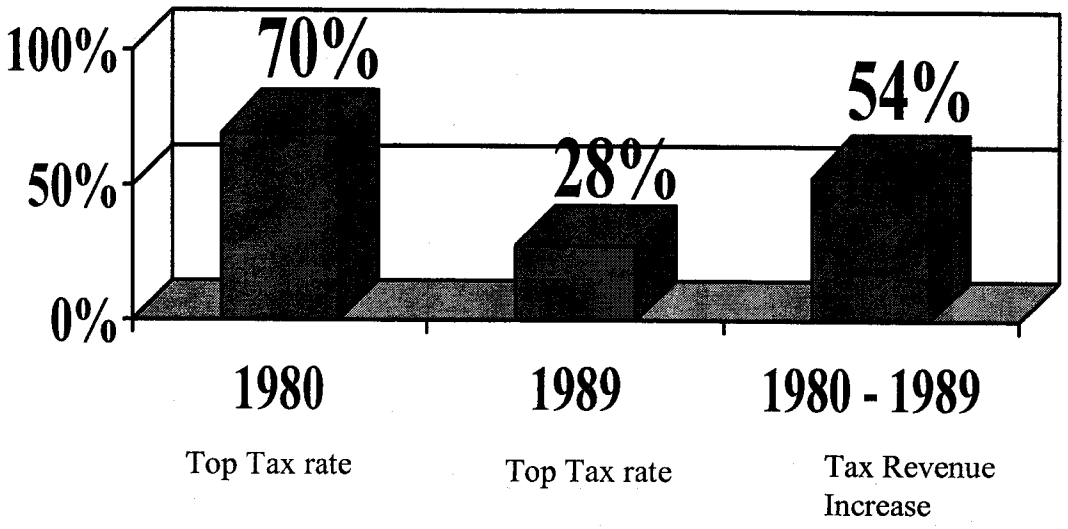


Source: Heritage Foundation: The Historical Lesson of Lower Tax Rates, Daniel Mitchell, Ph.D

Fig. 3

Historical Income Tax Cuts and Result in Tax Revenue

Regan Tax Cuts 1980 -1989

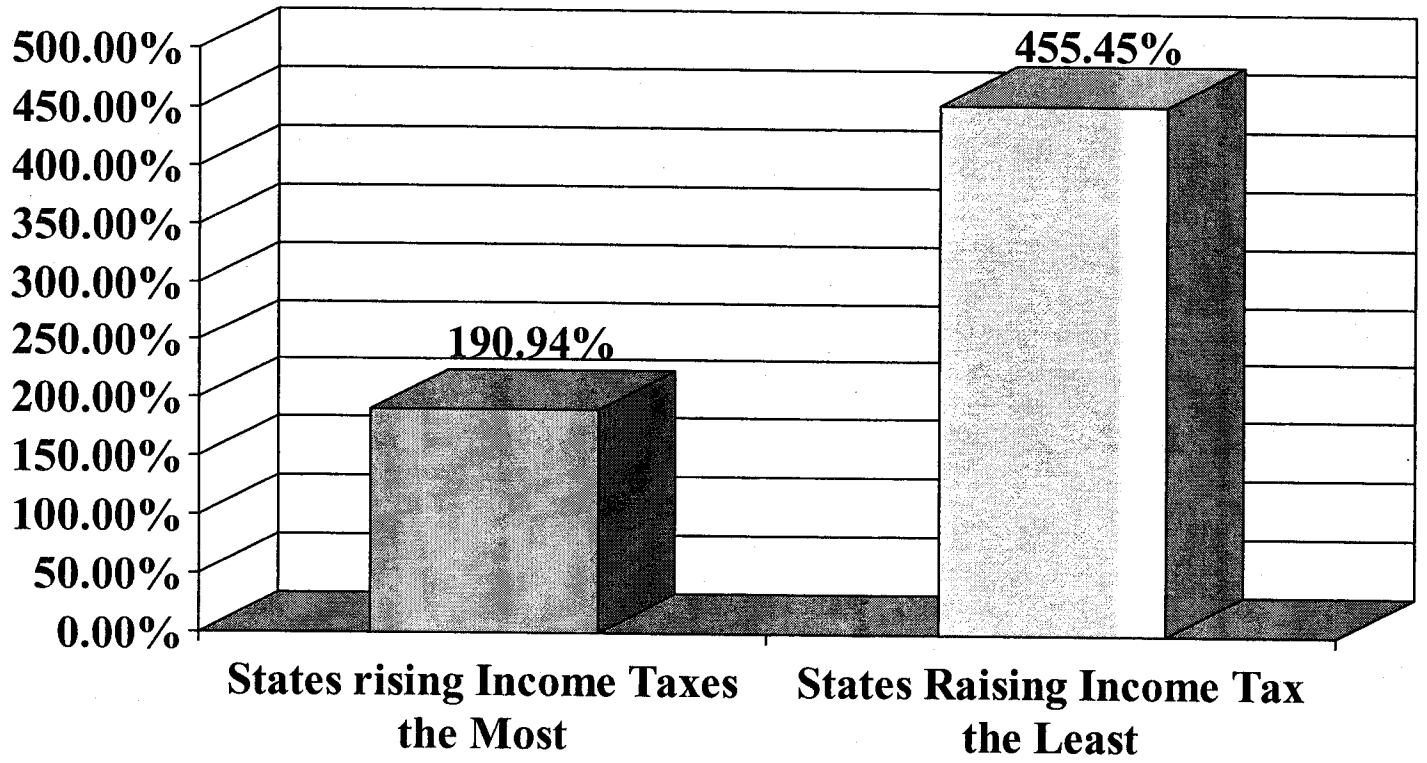


Source: Heritage Foundation: The Historical Lesson of Lower Tax Rates, Daniel Mitchell, Ph.D

Fig. 4

REP. TOM MCGILLVRAY HB 564

Real Total Income Growth



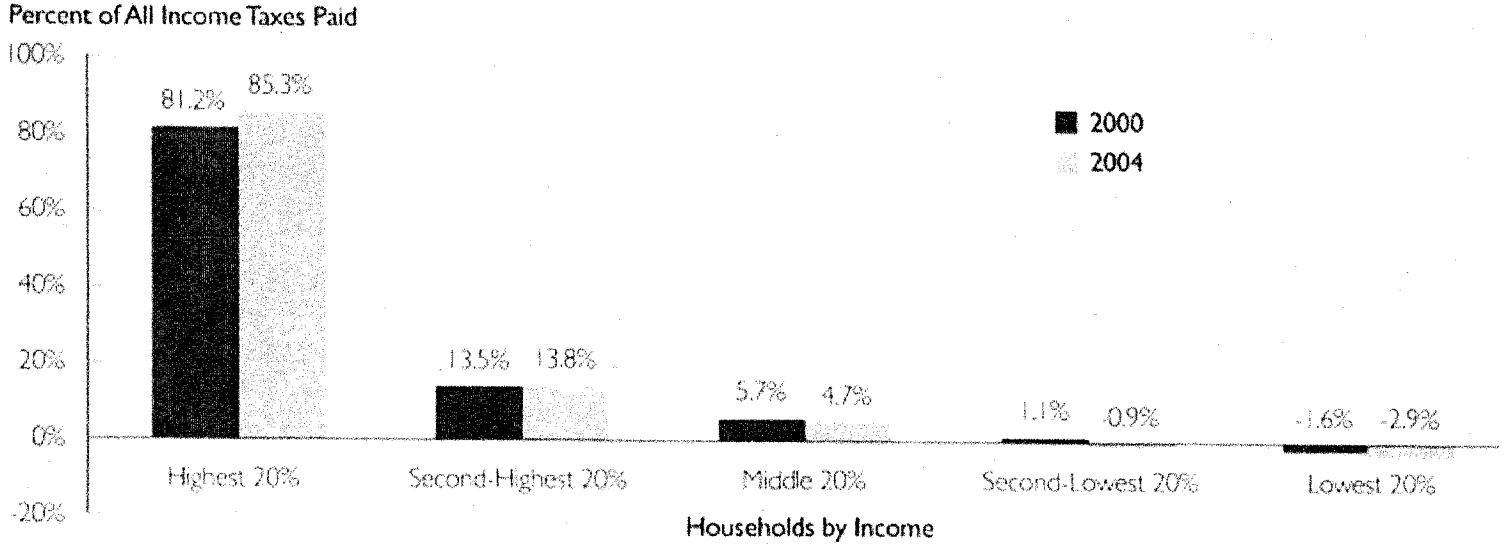
Economic performance:
10 states raising income taxes the most vs. states raising income taxes the least.
1957 – 1997.

Fig. 6 Source: US Department of Commerce; Dr. Richard Vedder, Taxes and Economic Growth, September 2001

Chart 6

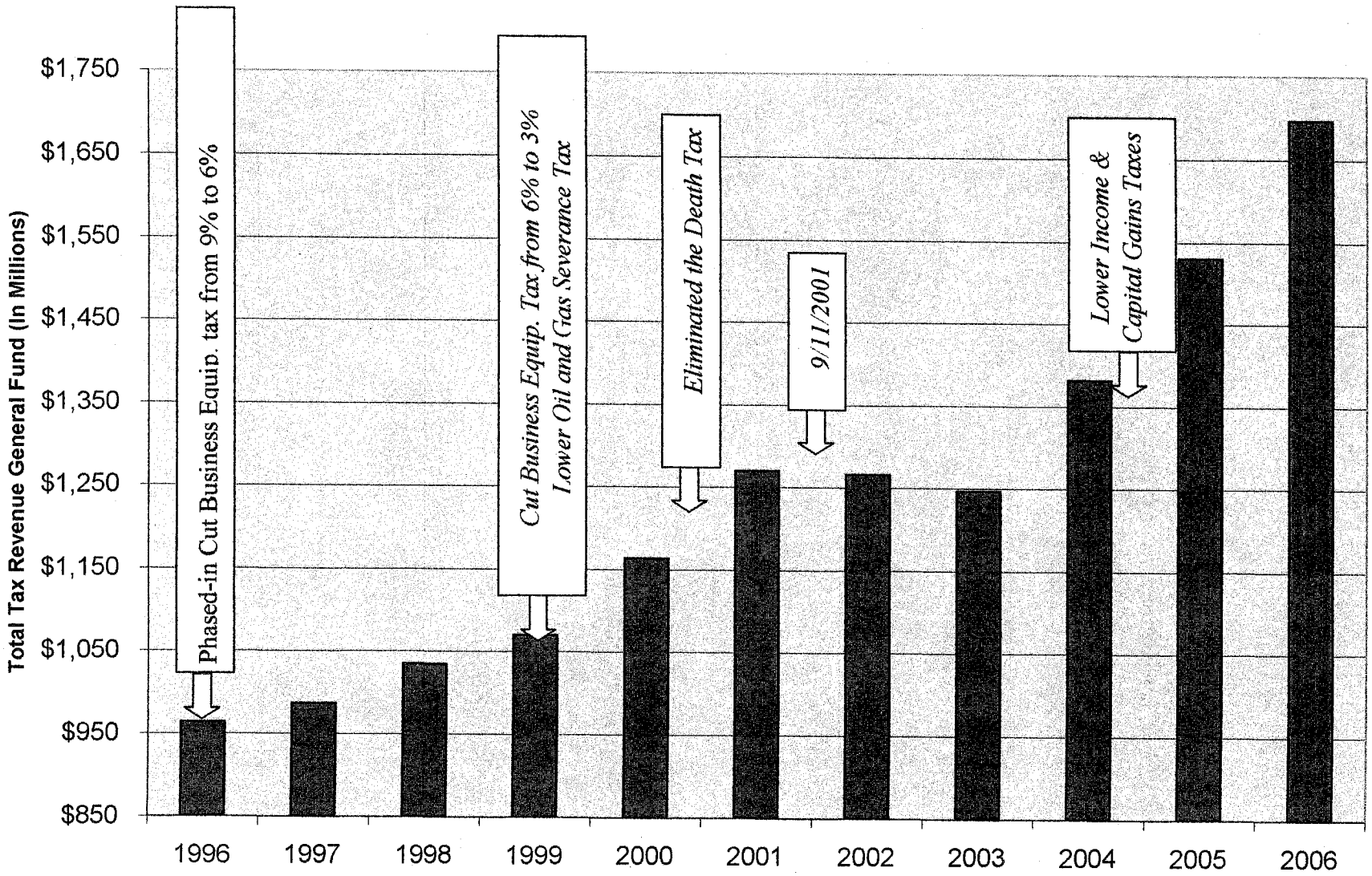
B 2001

The Bush Tax Cuts Shifted the Tax Burden Further Toward the Rich



Source: Congressional Budget Office, "Historical Effective Federal Tax Rates: 1979 to 2004," December 2006.

DO TAX CUTS INCREASE TAX REVENUES?....YOU DECIDE



Comparison of Income and Tax Paid by Decile Group

The following table shows Montana adjusted gross income and income tax liability by decile group for 2004 and 2005. Each decile group is 10% of the population, sorted by income. Group 1 is the 10% with the lowest incomes, while group 10 is the 10% with the highest incomes. For each decile group, the table shows the income range and the number of taxpayers; total adjusted gross income and percent of the population total; total tax liability, percent of the population total, and average tax per taxpayer; and the average effective tax rate, which is total tax liability divided by total income.

The progressive nature of Montana's income tax can be seen from the fact that higher deciles have higher average effective tax rates. The changes from 2004 to 2005 reflect both income growth and the changes in tax law from SB407. For example, the highest income group received 41.1% of income in 2004 and 42.9% in 2005 but paid 58.1% of the tax both years with an average effective tax rate of 5.84% in 2004 and 5.39% in 2005.

Average Effective Tax Rate by Decile Group
Full Year Resident Taxpayers - 2004 and 2005

Decile Group	Adjusted Gross Income Range	Number of Tax-payers	Adjusted Gross Income		Tax Liability			Effective Tax Rate
			$ Million	% of Total	$ Million	% of Total	Average Per Tax-payer	
			2004					
1	< $3,167	49,445	-$262.2	-1.7%	$0.01	0.0%	$0.22	0.00%
2	$3,167 - $6,984	49,446	$250.6	1.7%	$1.28	0.2%	$25.82	0.51%
3	$6,985 - $11,131	49,445	$446.0	3.0%	$4.82	0.8%	$97.48	1.08%
4	$11,132 - $15,580	49,446	$659.9	4.4%	$10.22	1.6%	$206.70	1.55%
5	$15,581 - $20,275	49,445	$884.5	5.9%	$17.88	2.9%	$361.60	2.02%
6	$20,276 - $25,818	49,446	$1,134.9	7.6%	$28.65	4.6%	$579.49	2.52%
7	$25,219 - $32,992	49,445	$1,447.0	9.6%	$42.90	6.9%	$867.55	2.96%
8	$32,993 - $42,154	49,446	$1,844.7	12.3%	$61.49	9.9%	$1,243.56	3.33%
9	$42,155 - $58,349	49,445	$2,429.0	16.2%	$92.78	14.9%	$1,876.48	3.82%
10	$58,350 and over	49.446	$6,176. 7	41.1 %	360.89	58.1 %	$7,298.65	5.84%
	Total	494,455	$15,011.2	100.0%	$620.92	100.0%	$1,255.76	4.14%
			2005					
1	< $3,514	49,666	-$242.2	-1.4%	$0.01	0.0%	$0.11	0.00%
2	$3,515 - $7,630	49,667	$276.8	1.7%	$0.86	0.1%	$17.33	0.31%
3	$7,631 - $12,023	49,667	$487.1	2.9%	$3.79	0.6%	$76.39	0.78%
4	$12,024 - $16,688	49,667	$712.8	4.3%	$9.46	1.4%	$190.53	1.33%
5	$16,689 - $21,653	49,667	$949.4	5.7%	$18.47	2.8%	$371.84	1.95%
6	$21,654 - $27,683	49,666	$1,219.0	7.3%	$31.61	4.7%	$636.43	2.59%
7	$27,684 - $35,222	49,667	$1,557.6	9.3%	$47.31	7.1%	$952.56	3.04%
8	$35,223 - $45,106	49,667	$1,980.6	11.8%	$66.99	10.0%	$1,348.77	3.38%
9	$45,107 - $63,379	49,667	$2,629.6	15.7%	$101.02	15.1%	$2,033.89	3.84%
10	$63,380 and over	49.667	$7,200.1	42.9%	$388.33	58.1 %	$7,818.70	5.39%
	Total	496,668	$16,770.7	100.0%	$667.85	100.0%	$1,344.66	3.98%