EXHIBIT 3
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Informational exhibit

Tax Expenditures

State governments affect people's lives in many ways. They provide services, they regulate behavior, and they levy taxes. When state government provides a service or regulates behavior, citizens and their legislators scrutinize the goals of the program, its costs, and its results. State programs that use the tax system to encourage private parties to provide services should receive the same scrutiny.

The purpose of this tax expenditure report is to provide the public and the legislature information to use in that scrutiny. It identifies and measures tax expenditures, but does not make any judgments about whether specific tax expenditures are good tax policy.

What is a Tax Expenditure?

When a state agency has a program to accomplish a goal, such as upgrading the pavement on state highways, the program has a budget that spells out what the agency will spend and what it will spend it on. This budget has a direct cost to taxpayers – the taxes they must pay to finance the program.

When the state tax code contains provisions that give incentives for taxpayers to behave in certain ways, such as saving more or donating to charities, this also has a cost to taxpayers. Without the special provisions, either general taxes could be lower or more revenue would be available to provide public services. Thus, we have the concept of *tax expenditure* – the cost to the state budget, and ultimately to other taxpayers, of special provisions in the tax code.

How are Tax Expenditures Measured?

There are two components to measuring tax expenditures: identifying special provisions of the tax code, and estimating the revenue forgone because of each special provision.

Since the introduction of the tax expenditure concept by the US Treasury Department in 1967, there has been considerable controversy about what should be considered to be a tax expenditure and about what baseline should be used in estimating a special provision's revenue impact. In part, the controversy has been about technical points from economic theory, and in part, it has been an ideological argument between proponents of different visions of an ideal tax system. This controversy has tended to obscure the goal of tax expenditure reporting, which is to serve as a starting point for evaluating whether special features of the tax law should be continued, modified, or replaced.

This report roughly follows the logic put forward by the staff of the congressional Joint Committee on Taxation in a recent report *A Reconsideration of Tax*

Expenditure Analysis.[1] It defines tax expenditures to be provisions of the tax law that deliberately depart from the general structure of the tax, generally with the goal of influencing taxpayer behavior. More general questions of tax policy, such as what should be taxed and at what rates, are outside the scope of tax expenditure analysis. This is to limit the scope of the analysis, not because these questions are not important.

For each tax considered, this report first identifies the general structure of the tax – the general rules for what is included in the base and the normal rate structure. It then identifies exceptions from these general rules. The exceptions may take the form of special, limited exemptions from the tax base, special rates with limited applicability, or tax credits. For each special provision, it explores how the special provision affects qualifying taxpayers, the state budget, and other taxpayers. This report presents the amount of each tax expenditure based on information on actual tax returns, such as the amount of credits claimed or the reduction in tax liability due to reported exclusions or deductions. It does not attempt to estimate the changes in behavior a tax incentive has induced or the additional revenue that would result from repealing it. Ideally, these would be estimated as part of a periodic legislative review of each tax expenditure.

Tax Expenditures - Individual Income Tax

The individual income tax is a tax on income a person or couple receives during a year. The general structure of the income tax has three components:

1. the taxpayer's adjusted gross income, which generally excludes non-cash fringe benefits and is net of the costs of earning income,
2. an exemption for each taxpayer and each dependent and a standard deduction, which are subtracted from adjusted gross income to give taxable income, and
3. the tax rates, which in Montana take the form of a graduated rate schedule with the first increments of income being taxed at lower rates.

Tax expenditures for the income tax take four forms:

1. special treatment of specific types of income, either through special provisions for measuring income or through excluding some types of income from the definition of adjusted gross income,
2. itemized deductions from adjusted gross income for taxpayers who meet certain conditions or make certain types of expenditures,
3. lower rates for certain types of income, and
4. tax credits for taxpayers who meet certain conditions or make certain types of expenditures.

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[1] Joint Committee on Taxation, *A Reconsideration of Tax Expenditure Analysis* (JCX-37-08), May 12, 2008.

Tax Expenditures in the Definition of Adjusted Gross Income

Montana law adopts the federal definition of adjusted gross income as the starting point for measuring income subject to the state income tax. Tax expenditures in the definition of adjusted gross income come from two sources: tax expenditures that arise in the federal definition of adjusted gross income and tax expenditures that arise from special provisions of Montana law that differ from the federal definition of adjusted gross income. State tax expenditures that arise from the state's tie to federal law are *passive tax expenditures*. The state legislature did not take any action to create them and would have to act to prevent them.

Some passive tax expenditures arise from special rules for measuring income. These include special depreciation provisions, rules for the timing of recognition of income, and rules for determining when expenditures that employers make on behalf of their employees count as income to the employee. This report does not attempt to list or measure these passive tax expenditures. As a practical matter, state tax returns do not include information that would allow reliable state-level estimates. The staff of the congressional Joint Committee on Taxation produces an annual report with estimates of federal tax expenditures, including those arising from special rules for measuring income.[2]

Other passive tax expenditures arise from specific adjustments to gross income. These items are listed on both federal and state tax returns. On the 2007 Montana Form 2, they are on lines 23 through 35. These items are sometimes called federal adjustments to income or above-the-line deductions.

Eight above-the-line deductions should not be considered tax expenditures. They make general rules for defining income apply to all taxpayers.

Four of these allow employees to deduct un-reimbursed costs of doing their jobs. They are the deduction for educator expenses; the deduction for business expenses of reservists, performing artists, and fee basis local government officials; the deduction for expenses of moving to take a new job; and the deduction for penalties for early withdrawal of savings.

Three others give self-employed persons the same treatment as employees for fringe benefits and retirement plans. They are the deduction for one half of self-employment tax, the deduction for contributions to qualified self-employed retirement plans, and the deduction for self-employed health insurance.

The eighth is the deduction for alimony paid, which ensures that income allocated between former spouses is taxed to the person who ultimately receives it.

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[2] "Estimates of Federal Tax Expenditures for Fiscal Years 2008-2012" by the staff of the Joint Committee on Taxation, October 2008, Document JCS-2-08.

The other five above-the-line deductions are tax expenditures.

Health Savings Account Deduction

A Health Savings Account (HSA) is a tax-advantaged account for certain medical expenses of taxpayers whose only health insurance is a high deductible health insurance plan. Funds in an HSA may be used only to pay medical costs that are not reimbursed by insurance. Both deposits to and distributions from an HSA are exempt from income tax.

HSAs provide a partial subsidy to taxpayers who buy their own health insurance and choose a high-deductible plan. This provides an incentive for individuals to purchase high-deductible health insurance themselves rather than choose some other option for health insurance or do without.

The following table shows Health Savings Account deductions for tax years 2005 through 2007. Before 2005, the above-the line deductions were all combined on a single line on the Montana income tax return, so these deductions can only be tracked separately since 2005.

Health Savings Account Deduction

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2005	1,793	$4,861,755	234	$721,309	105	$202,804	2,132	$5,785,868
2006	2,796	$8,066,464	419	$1,525,065	108	$203,870	3,323	$9,795,399
2007	3,989	$12,396,345	472	$1,961,471	175	$327,251	4,636	$14,685,067

For 2007, the Health Savings Account deduction reduced income tax revenue to the state general fund by $777,008, or $1.26 per full year resident taxpayer.

Individual Retirement Account Deduction

An Individual Retirement Account (IRA) is a tax-advantaged account for retirement savings. Taxpayers are allowed an above-the-line deduction for contributions to a traditional IRA. For most taxpayers, the deduction was limited to $4,000 in 2007. The limit increases to $5,000 in 2008. The limit is $1,000 higher for taxpayers who are 50 or older. Higher income taxpayers who participate in one of several types of pension plan have a lower limit that depends on their income.

Earnings retained in an IRA are not taxed, but distributions from an IRA are taxed. This delays taxes on a part of current income until after the taxpayer retires, providing a subsidy for retirement savings. This gives taxpayers an incentive to increase retirement saving.

The following table shows Individual Retirement Account deductions for tax years 2005 through 2007.

Individual Retirement Account Deduction

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2005	14,848	$54,340,678	1,203	$5,790,667	487	$1,521,475	16,538	$61,652,820
2006	15,436	$59,631,134	1,198	$6,242,828	497	$1,599,056	17,131	$67,473,018
2007	15,803	$61,619,221	1,205	$6,030,013	498	$1,656,623	17,506	$69,305,857

For 2007, the Individual Retirement Account deduction reduced income tax revenue to the state general fund by $3,822,019, or $6.19 per full year resident taxpayer.

Student Loan Interest Deduction

Taxpayers may deduct interest they paid on student loans for either their own or their dependents' post-secondary education.

This deduction provides a subsidy to taxpayers who borrow to pay for either their own or their dependents' education. This provides an incentive for taxpayers to invest in their own or their dependents' educations. It also provides an incentive to increase the proportion of education expenses financed by borrowing.

The following table shows student loan interest deductions for tax years 2005 through 2007.

Student Loan Interest Deduction

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2005	32,217	$19,351,674	1,919	$1,164,598	3,526	$2,189,736	37,662	$22,706,008
2006	37,114	$25,323,574	2,089	$1,450,213	3,877	$2,820,547	43,080	$29,594,334
2007	39,214	$29,796,691	2,144	$1,703,204	3,778	$3,009,468	45,136	$34,509,363

For 2007, the student loan interest deduction reduced income tax revenue to the state general fund by $1,730,406, or $2.80 per full year resident taxpayer.

Tuition and Fees Deduction

Taxpayers may deduct tuition and fees they paid for their own or their dependents' post-secondary education. Federal law also provides a credit for some tuition and fee payments, and a taxpayer may not take both the deduction and the credit.

This deduction provides a subsidy for taxpayers who are pursuing their own post-secondary education or paying for their dependents' post-secondary education.

This provides an incentive for taxpayers to invest in their own or their dependents' educations.

This deduction did not have a separate line on either federal or state tax returns before 2007. The following table shows tuition and fees deductions for tax year 2007.

Tuition and Fees Deduction

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2007	12,356	$31,181,153	1,183	$2,881,876	902	$2,304,488	14,441	$36,367,517

For 2007, the tuition and fees deduction reduced income tax revenue to the state general fund by $1,335,234, or $2.16 per full year resident taxpayer.

Domestic Production Activities Deduction

Before 2004, certain income from exports to other countries was exempt from taxation. The World Trade Organization found that this export subsidy violated international trade agreements that the United States had signed. This exposed the United States to potential sanctions from its trade partners. Congress responded by repealing the export subsidy and replacing it with a general subsidy for manufacturing.

In addition to the normal deduction for business expenses, taxpayers are allowed a special deduction of a percentage of net income from producing new goods and engineering and architectural services in the United States. The percentage was 3% for 2005 and 2006, is 6% for 2007 through 2009, and will be 9% beginning in 2010. Since it is a percentage of net income, it would be more accurate to call this provision a partial exemption of certain types of income rather than a deduction.

This deduction provides businesses with an incentive to produce goods and engineering and architectural services rather than other types of services and to engage in these production activities in the United States rather than in other countries.

The following table shows domestic production activities deductions for 2005 through 2007.

Domestic Production Activities Deduction

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2005	2,817	$11,947,553	796	$42,873,123	45	$200,290	3,658	$55,020,966
2006	11,007	$34,084,680	2,116	$57,874,171	585	$1,502,737	13,708	$93,461,588
2007	4,352	$35,899,187	1,130	$53,479,563	58	$604,676	5,540	$89,983,426

For 2007, the domestic production activities deduction reduced individual income tax revenue to the general fund by $2,475,894, or $4.01 per full year resident taxpayer.

Itemized Deduction Tax Expenditures

In general, itemized deductions provide a partial subsidy or reimbursement for deductible expenses. The amount of the subsidy depends on the taxpayer's marginal tax rate and on the amount by which the taxpayer's itemized deductions exceed their standard deduction. For a taxpayer whose deductible expenses are less than their standard deduction, the fact that an expense is deductible provides no extra benefit to the taxpayer and no cost to the state general fund. For a taxpayer whose deductible expenses are more than their standard deduction, an extra $100 of itemized deductions reduces tax liability by $100 multiplied by the marginal tax rate.

For example, a taxpayer with taxable income of $5,000 is in the 3% state tax bracket and the 10% federal tax bracket. An additional $100 deduction would reduce this person's state tax liability by $3.00 and reduce their federal tax liability by $10.00, for a total of $13.00. The $100 expenditure that was the basis of the deduction cost the taxpayer $87 and cost the state and federal governments, and ultimately other taxpayers, $13.

A taxpayer with taxable income of $500,000 is in the 6.9% state tax bracket and the 35% federal tax bracket. An additional $100 deduction would reduce this person's state tax liability by $6.90 and reduce their federal tax liability by $35, for a total of $41.90. The $100 expenditure that was the basis of the deduction cost this taxpayer $58.10 and cost the state and federal governments, and ultimately other taxpayers, $41.90.

Montana generally allows itemized deductions allowed by federal law (15-30-121, MCA). There are a few exceptions, where Montana law specifically disallows a federal deduction. Montana law allows several itemized deductions that are not allowed by federal law.

Not all itemized deductions are tax expenditures. Four itemized deductions allow taxpayers to deduct costs of earning income. They are the deduction for investment interest, the deduction for un-reimbursed business expenses, the deduction for gambling losses, and the deduction for other miscellaneous expenses.

The deduction for investment interest allows taxpayers to deduct interest on funds borrowed to pay for income-producing property that has not been deducted elsewhere as a business expense.

The deduction for un-reimbursed business expenses allows taxpayers to deduct expenses that are common and useful in the taxpayer's occupation and exceed 2% of the taxpayer's adjusted gross income. If the taxpayer is an employee, they must not have been reimbursed by their employer. If the taxpayer is self-employed, these costs must not have been deducted as a business expense.

Taxpayers who report income from gambling are allowed to deduct gambling losses up to the amount of reported winnings. This makes the income tax apply to net winnings from gambling.

The deduction for other miscellaneous expenses allows taxpayers to deduct certain business and investment costs and losses and certain employment-related costs of a disabled taxpayer. These expenses are not required to be more than 2% of adjusted gross income.

Medical and Dental Expenses

Both federal and state law allow an itemized deduction for un-reimbursed medical and dental expenses that are more than 7.5% of the taxpayer's adjusted gross income. Premiums for health and long term care insurance are considered deductible medical expenses.

This deduction provides a partial reimbursement or subsidy for taxpayers who have high un-reimbursed medical expenses in a year.

The following table shows itemized deductions for medical and dental expenses for tax years 1997 through 2007.

Medical Expenses over 7.5% of Adjusted Gross Income

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
1997	54,914	$147,139,515	1,130	$6,081,219	874	$2,690,580	56,918	$155,911,314
1998	56,740	$156,773,776	1,244	$6,589,873	993	$2,469,128	58,977	$165,832,777
1999	58,389	$168,701,852	1,273	$7,217,493	1,028	$3,250,185	60,690	$179,169,530
2000	60,960	$184,849,463	1,356	$8,136,248	997	$3,177,529	63,313	$196,163,240
2001	64,366	$203,239,099	1,580	$9,812,033	1,180	$4,137,521	67,126	$217,188,653
2002	68,156	$222,983,052	1,794	$11,861,465	1,167	$4,415,063	71,117	$239,259,580
2003	69,370	$236,626,833	1,897	$11,335,710	1,326	$4,850,584	72,593	$252,813,127
2004	71,859	$258,564,236	1,917	$12,225,131	1,474	$6,474,531	75,250	$277,263,898
2005	70,426	$273,838,752	2,130	$14,480,400	1,461	$6,232,630	74,017	$294,551,782
2006	69,610	$274,060,275	2,515	$19,385,940	1,461	$6,499,574	73,586	$299,945,789
2007	69,276	$287,408,401	2,201	$15,193,981	1,293	$5,751,278	72,770	$308,353,660

For tax year 2007, this deduction reduced income tax revenue to the general fund by $10,097,153, or $16.35 per full year resident taxpayer.

Medical Insurance Premiums

In addition to the federal deduction for medical expenses, Montana allows an itemized deduction for all un-reimbursed health insurance premiums. Insurance premiums can not be claimed as an itemized deduction if they were claimed as an above-the-line deduction in calculating adjusted gross income. This would be the case for a self-employed taxpayer who deducted premiums as a business expense, an employee who had premiums excluded as a fringe benefit, or if the taxpayer paid the premiums with pre-tax funds from a medical savings account.

This deduction provides a partial subsidy to taxpayers who buy their own health insurance.

The following table shows itemized deductions for medical insurance premiums for tax years 1997 through 2007.

Medical Insurance Premiums Not Deducted Elsewhere

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
1997	89,499	$173,487,081	3,047	$6,830,524	1,842	$2,847,007	94,388	$183,164,612
1998	92,253	$180,956,416	3,227	$7,092,109	2,055	$3,244,652	97,535	$191,293,177
1999	93,286	$183,340,843	3,668	$7,759,640	2,174	$3,616,629	99,128	$194,717,112
2000	94,866	$200,002,957	3,868	$8,701,366	2,037	$3,524,629	100,771	$212,228,952
2001	93,390	$217,940,463	4,220	$10,374,843	2,026	$3,909,789	99,636	$232,225,095
2002	94,746	$239,493,910	4,601	$11,829,272	1,991	$4,202,443	101,338	$255,525,625
2003	82,377	$234,737,082	3,592	$10,550,581	1,910	$4,535,738	87,879	$249,823,401
2004	83,811	$251,763,151	3,885	$12,362,497	2,057	$5,358,208	89,753	$269,483,856
2005	83,118	$266,115,643	4,393	$14,555,798	2,091	$5,499,027	89,602	$286,170,468
2006	87,321	$304,942,061	4,649	$16,627,033	2,146	$5,931,183	94,116	$327,500,277
2007	89,970	$314,537,194	5,051	$19,252,540	2,108	$6,294,992	97,129	$340,084,726

For tax year 2007, this deduction reduced income tax revenue to the general fund by $13,595,793, or $22.02 per full year resident taxpayer.

Long Term Care Insurance Premiums

In addition to the federal deduction for medical expenses, Montana allows an itemized deduction for all un-reimbursed long term care insurance premiums. As with medical insurance premiums, long term care premiums can not be claimed as an itemized deduction if they were claimed as an above-the-line deduction in calculating adjusted gross income. In addition, a taxpayer may not claim a deduction for premiums that were part of the expenses qualifying for the elderly care credit.

This deduction provides a partial subsidy to taxpayers who buy long term care insurance.

The following table shows itemized deductions for medical insurance premiums for tax years 1997 through 2007.

Long Term Care Insurance Premiums

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
1997	4,050	$6,524,960	153	$334,539	54	$1,174,666	4,257	$8,034,165
1998	5,988	$9,863,434	265	$582,708	82	$133,142	6,335	$10,579,284
1999	7,030	$11,943,152	305	$677,033	105	$160,786	7,440	$12,780,971
2000	7,671	$13,502,837	355	$890,724	104	$182,397	8,130	$14,575,958
2001	7,735	$14,061,406	395	$1,240,514	122	$196,618	8,252	$15,498,538
2002	8,299	$15,887,210	461	$1,036,517	141	$266,682	8,901	$17,190,409
2003	8,726	$17,295,360	538	$1,249,961	136	$301,713	9,400	$18,847,034
2004	9,078	$18,472,371	626	$1,511,698	171	$320,088	9,875	$20,304,157
2005	9,123	$19,047,021	719	$1,915,551	175	$320,752	10,017	$21,283,324
2006	9,939	$21,552,299	803	$2,110,144	169	$340,707	10,911	$24,003,150
2007	11,014	$24,551,454	881	$2,455,949	179	$374,962	12,074	$27,382,365

For tax year 2007, this deduction reduced income tax revenue to the general fund by $1,184,593 or $1.92 per full year resident taxpayer.

Federal Income Tax

Montana allows an itemized deduction for federal income tax paid during the year with a limit of $5,000 for a single taxpayer or married taxpayer filing separately or $10,000 for a married couple filing a joint return. Before 2005, there was no upper limit on this deduction.

This deduction partially or completely avoids having the state levy income tax on income paid to the federal government as income tax.

The following table shows itemized deductions for federal income tax for tax years 1997 through 2007.

Federal Income Tax

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
1997	168,546	$1,483,333,467	11,794	$1,995,724,437	6,231	$66,196,580	186,571	$3,545,254,484
1998	175,605	$1,489,915,472	12,361	$1,866,057,004	7,147	$78,019,885	195,113	$3,433,992,361
1999	179,599	$1,544,833,003	13,001	$2,256,701,826	7,637	$83,650,797	200,237	$3,885,185,626
2000	186,049	$1,740,098,379	13,829	$2,369,234,595	8,025	$818,581,465	207,903	$4,927,914,439
2001	187,388	$1,792,025,151	14,400	$2,602,943,741	7,886	$110,729,935	209,674	$4,505,698,827
2002	188,270	$1,644,516,826	14,951	$2,333,400,880	7,259	$79,957,303	210,480	$4,057,875,009
2003	184,888	$1,612,852,777	15,220	$1,452,268,646	7,250	$80,839,790	207,358	$3,145,961,213
2004	191,460	$1,749,652,428	15,795	$2,289,978,693	7,796	$92,264,642	215,051	$4,131,895,763
2005	196,459	$911,432,919	16,744	$113,795,314	8,104	$42,366,090	221,307	$1,067,594,323
2006	206,398	$1,003,148,676	18,043	$126,084,225	8,883	$48,135,424	233,324	$1,177,368,325
2007	212,900	$1,065,150,406	19,292	$130,926,857	8,744	$47,586,369	240,936	$1,243,663,632

For tax year 2007, the deduction for federal income tax reduced income tax revenue to the general fund by $51,173,680 or $82.89 per full year resident taxpayer.

Sales Tax or Local Income Tax

Federal law allows taxpayers to choose an itemized deduction for either general sales taxes or state and local income taxes paid during the year. Montana allows taxpayers to take a credit for income tax paid to other states, but the general tie to federal law allows taxpayers to choose between the deduction for local income taxes and state and local sales taxes. Since Montana does not have a general sales tax or local income taxes, this deduction is relevant only to taxpayers who pay these taxes in another state.

This deduction avoids having the state levy income tax on income paid as tax to another state or political subdivision of another state.

This deduction was not given its own line on the tax return and tracked separately before 2005. The following table shows itemized deductions for sales tax or local income tax for tax years 2005 through 2007.

Local Income Taxes

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2005	621	$359,457	908	$9,941,037	482	$485,285	2,011	$10,785,779
2006	233	$199,732	929	$19,542,924	477	$307,041	1,639	$20,049,697
2007	157	$104,258	874	$2,046,943	424	$246,485	1,455	$2,397,686

For tax year 2007, the deduction for sales tax or local income tax reduced income tax revenue to the general fund by $6,337, or $0.01 per full year resident taxpayer.

Property Taxes on Real Estate

Both federal and Montana law allow taxpayers to take an itemized deduction for property taxes on real estate paid during the year.

This deduction avoids having the state levy income tax on income that was paid to the state or local governments as property tax. It also provides a subsidy to ownership of real estate relative to untaxed purchases.

The following table shows itemized deductions for real estate taxes for tax years 1997 through 2007.

Real Estate Taxes

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
1997	155,490	$224,552,051	8,655	$40,122,219	4,560	$7,342,227	168,705	$272,016,497
1998	160,466	$237,544,952	8,821	$40,214,643	5,004	$8,138,922	174,291	$285,898,517
1999	164,142	$239,161,553	8,910	$45,890,744	5,139	$8,383,057	178,191	$293,435,354
2000	168,026	$239,539,241	9,180	$42,228,322	5,284	$8,489,296	182,490	$290,256,859
2001	168,787	$248,404,235	9,519	$49,509,766	5,285	$8,683,709	183,591	$306,597,710
2002	171,716	$274,873,159	9,961	$56,403,749	5,040	$9,084,415	186,717	$340,361,323
2003	171,702	$291,351,060	10,253	$52,480,130	5,098	$9,861,073	187,053	$353,692,263
2004	177,784	$313,019,635	10,737	$63,728,583	5,484	$11,402,614	194,005	$388,150,832
2005	173,313	$312,773,695	12,403	$78,227,047	5,584	$11,931,374	191,300	$402,932,116
2006	180,660	$335,796,457	14,394	$90,823,829	5,949	$13,020,123	201,003	$439,640,409
2007	186,609	$351,507,817	12,937	$60,408,983	5,525	$12,349,635	205,071	$424,266,435

For tax year 2007, the deduction for real estate taxes reduced income tax revenue to the state general fund by $19,525,210, or $31.63 per full year resident taxpayer.

Property Taxes on Personal Property

Both federal and Montana law allow taxpayers to take an itemized deduction for property taxes on personal property paid during the year. For individual taxpayers, this consists primarily of motor vehicle license fees. One difference between the federal and state deductions is that federal law allows a deduction only for taxes that are based on the value of the property while Montana law allows a deduction for light vehicle registration fees, which are based on age rather than value.

This deduction avoids having the state levy income tax on income that was paid to the state or local governments as property tax. It also provides a subsidy for the ownership of taxable rather than untaxed personal property.

This deduction was not given its own line on the Montana tax return and was not tracked separately until 2005. The following table shows itemized deductions for personal property taxes for tax years 2005 through 2007.

Personal Property Taxes

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2005	143,930	$49,132,724	5,879	$3,005,134	3,953	$1,579,713	153,762	$53,717,571
2006	149,420	$53,801,270	7,067	$3,781,656	4,348	$1,755,659	160,835	$59,338,585
2007	153,191	$54,986,011	6,459	$2,955,742	4,132	$1,818,477	163,782	$59,760,230

For tax year 2007, the deduction for personal property taxes reduced income tax revenue to the general fund by $3,148,912, or $5.10 per full year resident taxpayer.

Other Deductible Taxes

Federal and state law allow itemized deductions for several other types of taxes, including the generation-skipping transfer tax and income taxes paid to other countries.

This deduction avoids having the state levy income tax on income paid as tax to the United States or another country.

The following table shows itemized deductions for other taxes from 1997 through 2007. Before 2005, the deduction for taxes on personal property, including motor vehicles, was included in this line on the Montana tax return. The reduction in deductions for other taxes in 2005 reflects this change in the tax form, not a change in taxpayer's deductions.

Other Deductible Taxes

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
1997	93,078	$34,249,703	3,220	$4,845,887	2,420	$1,046,062	98,718	$40,141,652
1998	105,912	$41,551,576	3,161	$3,813,350	2,923	$1,386,038	111,996	$46,750,964
1999	112,192	$47,059,216	3,124	$3,181,272	3,127	$1,549,877	118,443	$51,790,365
2000	118,410	$43,249,518	3,108	$5,520,927	3,249	$1,395,230	124,767	$50,165,675
2001	113,064	$35,414,255	3,149	$3,190,504	3,082	$1,441,611	119,295	$40,046,370
2002	118,334	$39,533,367	3,315	$4,252,646	2,993	$1,242,926	124,642	$45,028,939
2003	119,088	$40,720,924	3,620	$3,473,837	3,036	$1,331,906	125,744	$45,526,667
2004	122,863	$44,860,192	3,925	$4,690,207	3,317	$1,501,255	130,105	$51,051,654
2005	20,204	$7,401,798	1,125	$2,654,526	435	$321,390	21,764	$10,377,714
2006	22,408	$10,506,730	3,817	$8,650,629	867	$1,181,614	27,092	$20,338,973
2007	22,045	$8,515,407	3,963	$6,852,968	781	$869,845	26,789	$16,238,220

For tax year 2007, the deduction for other taxes reduced income tax revenue to the state general fund by $474,528, or $0.77 per full year resident taxpayer.

Home Mortgage Interest

Federal and state law allow an itemized deduction for home mortgage interest. This deduction is reported on three separate lines. The first is for reporting interest, including pre-paid interest called points, reported on a federal Form 1098. The second line is for reporting interest not reported on a federal Form 1098, and the third is for reporting points not reported on a federal Form 1098.

The deduction for home mortgage interest provides an incentive for home ownership and a disincentive for taxpayers to pay off their mortgages.

The following tables show itemized deductions for home mortgage interest. The deductions for interest and points not reported on Form 1098 were not given their own lines on the Montana tax return and reported separately before 2005.

Home Mortgage Interest

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
1997	109,951	$528,945,609	6,343	$67,453,581	4,130	$26,537,131	120,424	$622,936,321
1998	114,907	$581,107,149	6,655	$72,590,713	4,485	$29,426,871	126,047	$683,124,733
1999	118,584	$617,656,281	6,679	$76,371,553	4,737	$31,843,584	130,000	$725,871,418
2000	122,425	$674,783,486	6,886	$78,513,306	4,831	$34,904,282	134,142	$788,201,074
2001	124,247	$722,240,324	7,228	$87,385,090	4,897	$36,579,852	136,372	$846,205,266
2002	127,414	$752,226,098	7,639	$91,905,721	4,661	$34,923,410	139,714	$879,055,229
2003	127,905	$744,358,655	7,982	$84,606,383	4,693	$35,088,639	140,580	$864,053,677
2004	132,368	$775,952,387	8,202	$89,552,348	5,104	$38,443,789	145,674	$903,948,524
2005	133,424	$834,187,317	9,658	$118,470,882	5,463	$43,793,333	148,545	$996,451,532
2006	138,377	$965,230,692	11,039	$153,530,958	5,806	$53,406,843	155,222	$1,172,168,493
2007	141,920	$1,099,986,447	10,273	$134,812,748	5,381	$53,926,741	157,574	$1,288,725,936

Unreported Home Mortgage Interest

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2005	5,038	$12,391,166	606	$5,150,805	269	$944,775	5,913	$18,486,746
2006	5,149	$14,061,034	512	$3,575,207	265	$855,962	5,926	$18,492,203
2007	5,158	$15,891,301	458	$2,408,230	257	$916,031	5,873	$19,215,562

Unreported Points

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2005	16,698	$5,699,668	1,326	$749,113	632	$852,751	18,656	$7,301,532
2006	16,095	$5,739,845	1,645	$885,176	615	$816,937	18,355	$7,441,958
2007	15,492	$5,576,575	1,229	$728,211	545	$683,325	17,266	$6,988,111

Beginning in 2007, federal and Montana law began allowing an itemized deduction for certain home mortgage insurance premiums. The following table shows mortgage insurance deductions for 2007.

Qualified Mortgage Insurance Premiums

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2007	6,668	$6,614,484	271	$302,418	569	$655,755	7,508	$7,572,657

Together, these mortgage interest related deductions reduced income tax revenue to the state general fund for 2007 by $64,268,327, or $104.10 per full year resident taxpayer.

Charitable Contributions

Federal and Montana law allow an itemized deduction for charitable contributions. In any year, this deduction is limited to 50% of the taxpayer's adjusted gross income. In addition, gifts to certain types of charities and certain types of gifts are subject to lower limits. A taxpayer whose contributions exceed the limit may carry the excess contributions forward and deduct them in a later tax year.

The deduction provides an incentive for taxpayers to contribute to tax-exempt charities.

The following tables show itemized deductions for contributions for tax years 1997 through 2007. Non-cash contributions and contributions carried forward from an earlier tax year were first given their own lines on the tax form in 2005. Because of this, the first table shows total contributions for 1997 through 2004 and cash contributions for 2005 through 2007.

Contributions

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
1997	140,992	$228,778,274	8,341	$362,265,733	4,147	$8,499,718	153,480	$599,543,725
1998	145,404	$259,104,058	8,321	$868,198,239	4,556	$8,317,647	158,281	$1,135,619,944
1999	149,184	$275,164,610	8,528	$514,573,705	4,782	$10,260,603	162,494	$799,998,918
2000	154,098	$294,840,519	8,972	$816,633,941	5,064	$11,640,347	168,134	$1,123,114,807
2001	154,930	$305,371,553	9,286	$594,986,109	5,124	$12,288,401	169,340	$912,646,063
2002	156,734	$345,228,308	9,705	$512,439,421	4,904	$10,934,480	171,343	$868,602,209
2003	155,635	$337,410,601	10,004	$267,070,929	4,796	$11,730,744	170,435	$616,212,274
2004	160,508	$375,309,514	10,400	$602,142,264	5,221	$14,408,334	176,129	$991,860,112
2005	153,763	$328,495,465	11,768	$589,530,077	4,838	$11,569,314	170,369	$929,594,856
2006	155,992	$346,917,958	13,171	$879,547,242	4,912	$15,097,419	174,075	$1,241,562,619
2007	153,487	$539,533,465	11,632	$242,926,925	4,367	$11,313,736	169,486	$793,774,126

Non-Cash Contributions

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2005	63,138	$81,133,500	6,018	$565,617,819	3,285	$4,155,124	72,441	$650,906,443
2006	62,763	$83,872,512	6,915	$581,016,577	3,278	$5,373,699	72,956	$670,262,788
2007	61,102	$89,879,024	5,819	$140,639,743	2,921	$3,000,858	69,842	$233,519,625

Carryover of Contributions from Previous Years

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2005	2,750	$23,935,534	318	$61,065,545	59	$799,869	3,127	$85,800,948
2006	2,786	$33,035,422	312	$66,111,824	77	$613,737	3,175	$99,760,983
2007	2,697	$29,245,142	268	$21,677,292	67	$857,788	3,032	$51,780,222

Itemized deductions for charitable contributions reduced 2007 income tax revenue to the state general fund by $39,339,685, or $63.72 per full year resident taxpayer.

Child and Dependent Care Expenses

Montana allows an itemized deduction for the expenses of maintaining a household or providing care for a child under 15 or other dependent who is unable to care for them self while the taxpayer is at work. To qualify for the deduction, the taxpayer, and spouse if married, must have combined Montana adjusted gross income of less than $22,800. If the expenses are for the care of more than one dependent, this income limit is increased by $2,400 for each of the second or third dependent.

There is no comparable federal itemized deduction.

This deduction reduces the cost of working for taxpayers who have a child or other dependent to care for. It provides an incentive to engage in paid work and pay to have the dependent cared for rather than to provide the care personally.

The following table shows itemized deductions for child and dependent care expenses for tax years 1997 through 2007.

Child and Dependent Care Expenses

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
1997	1,298	$1,861,625	58	$10,911,133	49	$58,573	1,405	$12,831,331
1998	1,288	$1,848,384	64	$187,483	58	$83,845	1,410	$2,119,712
1999	1,130	$1,618,924	40	$64,036	54	$101,155	1,224	$1,784,115
2000	1,214	$1,776,837	46	$78,651	60	$88,079	1,320	$1,943,567
2001	1,068	$1,642,048	52	$2,373,313	44	$65,715	1,164	$4,081,076
2002	1,067	$1,667,803	34	$442,412	51	$82,238	1,152	$2,192,453
2003	1,013	$1,704,198	38	$72,953	38	$70,450	1,089	$1,847,601
2004	948	$1,544,650	39	$78,212	48	$82,235	1,035	$1,705,097
2005	878	$1,502,761	47	$78,518	47	$76,815	972	$1,658,094
2006	781	$1,391,599	39	$78,514	48	$100,968	868	$1,571,081
2007	795	$1,471,368	35	$70,146	41	$81,418	871	$1,622,932

The itemized deduction for child and dependent care expenses reduced income tax revenue to the state general fund for 2007 by $10,274, or $0.02 per full year resident taxpayer.

Casualty and Theft Losses

Federal and Montana law allow taxpayers an itemized deduction for uncompensated theft, damage, or destruction of non-business property that exceed 10% of the taxpayer's adjusted gross income. Casualty and theft losses of business property are deducted as a business expense.

This deduction essentially treats the value of a taxpayer's significant property loss as an offset to income. This reduces the incentive to insure property against theft, damage, or other losses.

The following table shows itemized deductions for casualty and theft losses for tax years 1997 through 2007.

Casualty and Theft Losses

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
1997	492	$4,298,471	25	$350,347	27	$333,977	544	$4,982,795
1998	351	$2,727,108	22	$1,736,067	19	$212,283	392	$4,675,458
1999	408	$3,058,367	18	$109,181	21	$287,593	447	$3,455,141
2000	443	$7,212,024	21	$186,387	40	$541,131	504	$7,939,542
2001	360	$3,158,568	9	$247,991	23	$143,147	392	$3,549,706
2002	430	$4,464,106	28	$499,941	24	$189,633	482	$5,153,680
2003	394	$4,105,444	20	$516,249	18	$278,024	432	$4,899,717
2004	384	$3,618,700	20	$591,327	25	$290,011	429	$4,500,038
2005	378	$4,441,098	94	$3,136,444	31	$390,980	503	$7,968,522
2006	397	$7,373,395	39	$1,601,455	28	$457,765	464	$9,432,615
2007	369	$4,675,161	22	$1,074,624	28	$749,831	419	$6,499,616

The itemized deduction for casualty and theft losses reduced income tax revenue to the state general fund for 2007 by $158,755, or $0.26 per full year resident taxpayer.

Political Contributions

Montana allows taxpayers an itemized deduction for up to $100 of contributions to candidates for political office or political parties. Federal law does not allow a comparable deduction.

This deduction provides a subsidy for taxpayers making political contributions totaling up to $100.

This deduction was not given a separate line on the tax forms and tracked separately before 2005. The following table shows itemized deductions for political contributions for tax years 2005 through 2007.

Political Contributions

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2005	4,444	$542,487	168	$19,911	88	$8,803	4,700	$571,201
2006	7,083	$834,509	175	$21,448	116	$13,395	7,374	$869,352
2007	5,462	$634,404	144	$17,935	104	$11,034	5,710	$663,373

The itemized deduction for political contributions reduced income tax revenue to the general fund for 2007 by $36,631, or $0.06 per full year resident taxpayer.

Special Treatment for Certain Types of Income

Federal law taxes income from capital gains and corporate dividends at lower rates than ordinary income. Montana does not have separate rates for different types of income, but does provide preferential treatment for capital gains income through a credit. Beginning in 2005, taxpayers may take a credit against income tax liability equal to a percentage of their capital gains income. For 2005 and 2006, the credit was 1% of capital gains income. For 2007 and later years, it is 2%. If the capital gains credit exceeds the taxpayer's tax liability, the excess credit is not refunded and may not be carried forward or backward to other tax years.

This credit is equivalent to taxing capital gains at a lower rate than other income. In essence, a taxpayer in the top income bracket is taxed at 6.9% on an additional dollar of ordinary income but at 4.9% on an additional dollar of capital gains income.

The following table shows capital gains credits for tax years 2005 through 2007.

Capital Gains Credit

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2005	53,187	$15,440,738	9,799	$3,942,692	2,418	$443,246	65,404	$19,826,676
2006	61,392	$19,599,422	10,474	$2,931,577	2,575	$419,008	74,441	$22,950,007
2007	68,967	$40,025,383	10,329	$3,358,241	2,779	$752,115	82,075	$44,135,739

For 2007, the capital gains credit reduced income tax revenue to the general fund by $44,135,749, or $71.487 per full year resident taxpayer.

Tax Credits

Tax Credits offset tax liability for taxpayers who make specified expenditures or take specified actions. Tax credits are not part of the basic structure of the income tax and are therefore tax expenditures.

College Contribution Credit

Individual and corporate taxpayers are allowed a credit of 10% of the amount of charitable contributions to the general endowment funds of units of the Montana university system, Montana private colleges, or Montana private college foundations.

The credit is limited to a maximum of $500. A taxpayer with a credit that is larger than their tax liability will not be refunded the excess, and excess credits may not be carried forward or backward to another tax year.

The credit is in Section 15-30-163, MCA, which was created by HB 894 of the 1991 legislative session. The credit originally was to sunset in 1996, but was made permanent by HB 199 of the 1995 legislative session.

A taxpayer who makes a contribution to a college endowment fund may take both state and federal itemized deductions for the charitable contribution and this credit. A taxpayer in the top state and federal brackets who makes a $100 contribution would have their federal tax liability reduced by $35 (the tax on $100 of additional income at the top federal rate of 35%), have their state tax liability reduced by $6.90 (the tax on $100 of additional income at the top state rate of 6.9%), and receive a credit of $10 (10% of the $100 contribution). This makes the taxpayer's cost of a $100 contribution $48.10 (the $100 contribution - $35 reduction in federal tax liability - $6.90 reduction in state tax liability - $10 credit).

The following table shows college contribution credits claimed by individual taxpayers for tax years 1997 through 2007.

College Contribution Credit

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
1997	1,691	$110,254	35	$3,232	17	$795	1,743	$114,281
1998	1,749	$131,090	35	$2,953	31	$2,771	1,815	$136,814
1999	1,760	$153,277	40	$3,273	21	$2,480	1,821	$159,030
2000	1,686	$169,944	46	$5,587	24	$3,029	1,756	$178,560
2001	1,810	$165,451	45	$6,614	15	$3,080	1,870	$175,145
2002	1,919	$166,369	57	$9,409	22	$2,510	1,998	$178,288
2003	2,012	$148,470	55	$3,671	22	$2,300	2,089	$154,441
2004	2,074	$171,903	80	$9,567	15	$1,175	2,169	$182,645
2005	2,297	$206,714	47	$6,338	21	$6,186	2,365	$219,238
2006	2,419	$246,533	52	$6,971	30	$3,837	2,501	$257,341
2007	2,412	$239,072	44	$6,353	20	$1,748	2,476	$247,173

This credit is essentially a transfer from the state general fund to Montana college endowment funds. In 2007, this credit cost the state general fund $247,173. Without this credit, $247,173 would have been available to spend on other state program or taxes could have been reduced by this amount. The college endowment credit against individual income tax cost an average of $0.40 per full year resident taxpayer.

Qualified Endowment Credit

Individual taxpayers are allowed a credit of 40% of the present value of a planned gift to a qualified endowment. A qualified endowment is a permanent fund held by or on behalf of a 501(c)(3) charitable organization. A planned gift is

one of nine types of arrangements specified in the IRS code that generally provide income to the donor for life or a set period and then the remainder goes to the charity. Corporations are allowed a credit of 20% of a gift to a qualified endowment. Since the concept of planned gifts only makes sense for individuals, corporations are allowed the credit for an outright gift.

The credit is limited to a maximum of $10,000. A taxpayer with a credit that is larger than their tax liability will not be refunded the excess, and excess credits may not be carried forward or backward to another tax year.

The credit is in Sections 15-30-165 through 167, MCA, and was created by HB 434 of the 1997 legislature. The credit originally was 50% of the present value of the planned gift with a limit of $10,000. The credit was to sunset at the end of 2001.

The 2001 legislature (HB 377 and SB 350) reduced the credit to 40% of the present value of the planned gift for individuals and 20% of the value of the gift for corporations. It also clarified the definition of planned gift and extended the sunset date to the end of 2007.

In August 2002, the legislature met in a special session to deal with revenue shortfalls. To reduce the costs of the credit in the short run, the legislature (SB 15) reduced the credit for the period from August 28, 2002 through June 30, 2003 to 30% with a $6,000 cap for individuals and 13.3% with a $6,600 cap for corporations. The same bill increased the credit for the period from July 1, 2003 to April 30, 2004 to 50% for individuals and 26.7% for corporations, both with a cap of $13,400. The credit returned to its previous levels May 1, 2004.

The 2003 legislature (SB 143) eliminated double dipping by specifying that a taxpayer could not take the credit and a deduction for the same contribution.

The 2005 legislature (HB 193) provided for recapture of the tax credit when the taxpayer recovers a gift.

The 2007 legislature (SB 150) clarified that building funds are not charitable endowments and extended the sunset date to the end of 2013.

The various types of trust that can be used for planned gifts are defined in the IRS code for the purpose of determining the tax treatment of the trust. There is no specific federal tax treatment of contributions other than the general deduction for contributions.

A taxpayer may not claim the credit for a gift and take a state itemized deduction for the same gift. If the present value of the contribution exceeds the limit, the deduction may be taken on the excess. The taxpayer may take a federal itemized deduction for the full amount of the gift.

A taxpayer who does not take the credit can take federal and state deductions for a charitable contribution. For a taxpayer in the 35% top federal and 6.9% top state brackets, the deductions reduce tax liability by 41.9% of the amount of the contribution. For a taxpayer who does not take the credit, each $100 contributed to a qualified endowment costs the taxpayer $58.10.

If the taxpayer takes the credit for a planned gift of $25,000 or less, the federal deduction reduces tax liability by 35% of the gift and the state credit reduces tax liability by 40% of the gift. Each $100 contributed to a qualified endowment costs the taxpayer $25.

If the taxpayer takes the credit for a planned gift of more than $25,000, the taxpayer's cost is 25% of the first $25,000 and 58.1% of the excess over $25,000

The following table shows qualified endowment credits claimed by individuals for tax years 1997 through 2007. Where there are fewer than 10 taxpayers in a group in a year, there is an asterisk. There is also an asterisk in the total column so as to not reveal the number of taxpayers in the individual group.

Qualified Endowment Contribution Credit

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
1997	338	$1,303,654	*	$12,630	*	$16,409	*	$1,332,693
1998	732	$3,191,545	24	$93,210	*	$3,479	*	$3,288,234
1999	1,045	$5,547,290	34	$109,278	*	$3,481	*	$5,660,049
2000	1,419	$6,960,128	37	$137,312	*	$24,483	*	$7,121,923
2001	1,593	$7,410,957	44	$101,607	17	$37,847	1,654	$7,550,411
2002	560	$1,610,509	29	$79,871	*	$4,401	*	$1,694,781
2003	603	$2,138,607	23	$41,028	*	$61	*	$2,179,696
2004	720	$2,502,605	30	$56,390	*	$26,046	*	$2,585,041
2005	742	$2,489,262	31	$50,348	*	$18,723	*	$2,558,333
2006	870	$3,164,764	26	$62,330	*	$17,932	*	$3,245,026
2007	741	$2,786,993	24	$60,164	*	$11,678	*	$2,858,835

The qualified endowment credit is essentially a transfer from the state general fund to a private non-profit. In 2007, credits claimed by individual taxpayers cost the state general fund $2,786,993. Without the credit, this amount would have been available to spend on other programs or taxes could have been reduced by this amount. The qualified endowment credit against individual income tax cost other taxpayers an average of $4.63 per full year resident taxpayer.

Energy Conservation Credit

Resident individual taxpayers may take a credit for 25% of the costs of investments in a building to conserve energy. The maximum credit is $500 per taxpayer. If a taxpayer claims a credit that is more than their tax liability for the

year, the excess is not refunded to the taxpayer and may not be carried forward or backward to another tax year.

The credit is in Sections 15-32-109 and 15-30-125, MCA. It was enacted by HB 237 in the 1981 legislature. The credit originally was 5% of the cost with a maximum of $150 for a residence and $300 for other buildings and any excess credit could be carried forward for 7 years. The 2001 legislature (SB 506) increased the credit to 25% of costs with a limit of $500. The 2003 legislature eliminated the carry-forward (SB 138). In 2005, the Department or Revenue began interpreting the limit of $500 per taxpayer as allowing taxpayers who own a building together, such as a married couple, to each claim a credit for 25% of their share of the cost with a limit of $500 each.

A federal credit of 10% of costs for energy efficiency investments in the taxpayer's primary residence with a limit of $500 was in place for 2006 and 2007 and will be in place again for 2009, but not for later years

There is no deduction for investments individuals make in their own residence. However, an investment an individual makes in a commercial building they own would result in a depreciable asset, so that the cost could be deducted over time.

A taxpayer who takes the credit has the cost of energy efficiency investments of up to $2,000 per year reduced by 25%. In years when the 10% federal credit is available, each $100 a taxpayer spends on building energy efficiency investments costs the taxpayer $65. In years when the federal credit is not available, each $100 invested costs the taxpayer $75.

The following table shows energy conservation credits from 1997 through 2007. Where there are fewer than 10 taxpayers in a group in a year, there is an asterisk. There is also an asterisk in the total column so as to not reveal the number of taxpayers in the individual group.

Energy Conservation Credit

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
1997	1,507	$120,686	0	$0	18	$1,679	1,525	$122,365
1998	1,757	$130,774	*	$11	21	$2,208	*	$132,993
1999	1,686	$132,907	0	$0	22	$1,638	1,708	$134,545
2000	1,806	$141,693	*	$44	22	$1,513	*	$143,250
2001	2,419	$201,445	*	$29	12	$4,967	*	$206,441
2002	4,569	$1,305,788	*	$1,727	55	$18,545	*	$1,326,060
2003	8,025	$2,440,965	20	$3,521	83	$23,755	8,128	$2,468,241
2004	10,431	$3,098,479	30	$7,924	154	$42,830	10,615	$3,149,233
2005	13,636	$5,497,658	27	$12,307	206	$98,081	13,869	$5,608,046
2006	18,641	$7,933,053	60	$32,481	340	$162,786	19,041	$8,128,320
2007	18,742	$8,090,667	67	$29,701	306	$155,553	19,115	$8,275,921

The energy conservation credit is essentially a transfer from the state general fund to help a taxpayer purchase private property. In 2007, this credit cost the state general fund $8,090,667. Without the credit this amount would have been available to spend on other state programs or taxes could have been reduced by this amount. The energy conservation credit cost an average of $13.41 per full year resident taxpayer.

Alternative Fuel Credit

Taxpayers are allowed a credit against individual income tax or corporate license tax of 50% of the cost of converting a motor vehicle to operate on natural gas, LPG, LNG, hydrogen, electricity, or a fuel at least 85% alcohol or ether. The credit is limited to $500 for converting a vehicle with GVW of 10,000 or less and to $1,000 for converting of a vehicle with GVW over 10,000. If a taxpayer's credit is more than their tax liability, the excess credit is not refunded and can not be carried forward or backward to another tax year.

The credit is found in Section 15-30-164, MCA. It was enacted by the 1993 legislature (HB 219) and has not been amended.

There is a federal credit for purchase of a new alternative fuel vehicle but not for conversion costs

The alternative fuel credit pays part or all of a taxpayer's cost of converting a vehicle to run on an alternative fuel. If the conversion cost is less than the credit limit of $500 for a light vehicle and $1,000 for a heavy vehicle, the credit makes the conversion free for the taxpayer. If the conversion cost is more than the credit limit, the credit reduces the taxpayer's cost by the amount of the credit. If the conversion is of a business vehicle, the taxpayer would be able to expense or amortize the cost as a business expense in addition to claiming the credit.

This credit has been tracked separately only since 2005. The following table shows credits for tax years 2005 through 2007. Where there are fewer than 10 taxpayers in a group in a year, there is an asterisk. There is also an asterisk in the total column so as to not reveal the number of taxpayers in the individual group.

Alternative Fuel Credit

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2005	42	$25,783	0	$0	0	$0	42	$25,783
2006	27	$19,109	*	$2,700	*	$1,362	*	$23,171
2007	29	$25,219	0	$0	0	$0	29	$25,219

This credit is essentially a transfer from the state general fund to help a taxpayer purchase private property. In 2007, the individual income tax credit for alternative fuel vehicle conversion cost the state general fund $25,219. Without the credit, either this amount would have been available to spend on other programs or taxes could have been reduced by this amount. The average cost of this credit is $0.04 per full year resident taxpayer.

Rural Physician's Credit

Through 2007, a physician who began practicing in a rural or underserved area was allowed a $5,000 credit against individual income tax. The credit could be taken the first four years the physician practiced medicine in a rural or underserved area in Montana. Physicians who first claimed the credit for 2007 will be able to claim it through 2010. If the credit exceeds the taxpayer's tax liability, the excess is not refunded and may not be carried forward or backward to another tax year.

The credit is in Sections 15-30-188 through 191, MCA. It was enacted by SB 359 in the 1991 legislature. The 2007 legislature repealed the credit and replaced it with a student loan repayment program. This program is to be funded by a fee on medical students in the WAMI program and will be a transfer from the general fund based on credits claimed for 2006 and 2007.

Eligible taxpayers receive a subsidy of the lower of $5,000 per year or their state income tax liability for the first four years of practicing medicine in a rural or under-served area. ($5,000 is the tax on taxable income of $79,261.)

The following table shows credit use from 1997 through 2007. Where there are fewer than 10 taxpayers in a group in a year, there is an asterisk. There is also an asterisk in the total column so as to not reveal the number of taxpayers in the individual group.

Rural Physician's Credit

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
1997	69	$272,403	*	$35,013	*	$5,000	*	$312,416
1998	71	$277,813	*	$16	*	$14,882	*	$292,711
1999	64	$257,526	0	$0	*	$1,295	*	$258,821
2000	81	$289,738	*	$5,000	*	$8,814	*	$303,552
2001	78	$284,082	*	$11,900	*	$37,500	*	$333,482
2002	79	$405,666	*	$37,115	*	$5,000	*	$447,781
2003	77	$338,643	*	$500	*	$3	*	$339,146
2004	67	$336,829	*	$7	0	$0	*	$336,836
2005	49	$245,265	*	$996	*	$5,000	*	$251,261
2006	43	$208,980	0	$0	*	$10,000	*	$218,980
2007	45	$230,590	0	$0	*	$5,000	*	$235,590

The Rural Physicians Credit is equivalent to a payment from the state general fund to physicians who begin practice in a rural or underserved area. In 2007, the credit cost the state general fund $235,590. Without the credit, this amount would have been available for other programs or to reduce taxes. The credit cost $0.38 per full year resident taxpayer.

Health Insurance for Uninsured Montanans Credit

An employer with 20 or fewer employees may claim a credit against either income or corporation tax for paying at least 50% of the premium for up to 10 employees' health insurance. The credit is the lower of $25 per month multiplied by the percentage of the premium the employer pays or 50% of the premium. The credit may be claimed for up to 36 months and then cannot be claimed again for 10 years.

There is no explicit dollar limit on the credit, but it may not be claimed for more than ten employees. An employer claiming $25 per month for ten employees would claim a credit of $3,000. If a taxpayer's credit is more than their tax liability, the excess credit is not refunded and may not be carried forward or backward to another tax year.

The credit provisions for corporation tax are in Section 15-31-132, MCA. Section 15-30-129, MCA makes the same provisions apply for income tax. The credit was enacted by the 1991 legislature (HB 693). The only amendments to the credit since its enactment were style changes made by the 2001 code commissioner's bill (HB 25).

This credit provides a three-year subsidy to small employers who begin offering health insurance for their employees. A taxpayer who claims the credit may also deduct insurance premiums it pays as a business expense.

The credit an employer receives depends on both the monthly insurance premium per employee and the percentage the employer pays. For insurance with monthly premiums of $50 or more, the monthly subsidy per employee is $25 multiplied by the percentage of premiums the employer pays. An employer paying 50% of premiums would receive a subsidy of $12.50 per employee per month. An employer paying 75% of premiums would receive a subsidy of $18.75, and an employer paying 100% would receive $25.

For insurance with monthly premiums of less than $50, the limit of 50% of premium costs may come into play. For example, an employer paying 50% of monthly premiums of $40 would receive a subsidy of $12.50, and an employer paying 75% of premiums would receive $18.75, the same as with a $50 premium. However, an employer paying 100% of $40 monthly premiums would receive a subsidy of $20.

This credit was not tracked separately before 2002. The following table shows credits for tax years 2002 through 2007. Asterisks indicate cells in the table with fewer than 10 taxpayers and totals for rows with a cell with fewer than 10 taxpayers.

Health Insurance for Uninsured Montanans

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2002	82	$61,113	0	$0	*	$651	*	$61,764
2003	177	$137,398	*	$1,617	0	$0	*	$139,015
2004	560	$427,460	12	$4,388	*	$95	*	$431,943
2005	656	$510,171	13	$3,314	*	$3,190	*	$516,675
2006	641	$559,023	16	$3,443	*	$1,225	*	$563,691
2007	509	$525,501	18	$4,200	*	$2,479	*	$532,180

The Health Insurance for Uninsured Montanans credit is equivalent to a partial subsidy from the state general fund for group health insurance purchased by small employers. In 2006, the credit cost the state general fund $532,180 in individual income tax revenue. Without the credit, this amount would have been available for other programs or tax reductions. The cost of this credit was $0.86 per full year resident taxpayer.

Elderly Care Credit

This credit covers part of the costs of caring for a low income family member who is either elderly or disabled. The credit depends on the taxpayer's income, as shown in the following table

Adjusted Gross Income	Credit
$25,000 or Less	30% of qualifying expenses
$25,001 to $27,000	29% of qualifying expenses
$27,001 to $29,000	28% of qualifying expenses
$29,001 to $31,000	27% of qualifying expenses
$31,001 to $33,000	26% of qualifying expenses
$33,001 to $35,000	25% of qualifying expenses
$35,001 to $37,000	24% of qualifying expenses
$37,001 to $39,000	23% of qualifying expenses
$39,001 to $41,000	22% of qualifying expenses
$41,001 to $43,000	21% of qualifying expenses
$53,001 to $50,000	20% of qualifying expenses
Over $50,000	20% of qualifying expenses - excess of MAGI over $50,000

The family member being cared for must have income of $15,000 or less if single or $30,000 or less if married.

The maximum credit is $5,000 per family member and $10,000 total. If a taxpayer's credit exceeds their tax liability, the excess is not refunded and may not be carried forward or backward to another tax year.

The credit is in Section 15-30-128, MCA, which was enacted by the 1989 legislature (HB 166). The 1991 legislature reduced the age for eligible family members from 70 to 65 and made other changes to the definitions of eligible family member and eligible costs (HB 750). Amendments by the 1995 legislature (SB 345) merely updated references that changed with the creation of the Department of Public Health and Human Services.

This credit provides a partial subsidy for taxpayers with low or moderate income who are caring for a low income elderly or disabled relative. Some costs that qualify for this credit could be claimed as itemized deductions, but taxpayers are not allowed to claim both the credit and an itemized deduction for the same costs. For costs that could not be claimed as an itemized deduction, the subsidy is the credit percentage found in the table above. For costs that could be claimed as an itemized deduction, the subsidy from the credit is the difference between the credit percentage and the taxpayer's marginal tax rate.

For example, a taxpayer with adjusted gross income of $25,000, two exemptions and taking the standard deduction would be in the top, 6.9% rate bracket and would have a 30% credit percentage. For $1,000 of qualifying expenses, this taxpayer could claim a credit of $300, and the taxpayer's cost would be $700. If those expenses could be claimed as an itemized deduction, the deduction would reduce the taxpayer's liability by $69 (6.9% x $1,000). The taxpayer's cost would be $931 ($1,000 - $69). If the taxpayer takes the credit instead of the itemized deduction, the additional subsidy is $231 ($300 - $69).

The following table shows use of the elderly care credit for tax years 1997 through 2007. Where there are fewer than 10 taxpayers in a group in a year, there is an asterisk. There is also an asterisk in the total column so as to not reveal the number of taxpayers in the individual group.

Elderly Care Credit

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
1997	40	$33,279	0	$0	*	$688	*	$33,967
1998	70	$78,866	*	$8,469	*	$1,681	*	$89,016
1999	40	$28,611	0	$0	0	$0	40	$28,611
2000	44	$54,657	0	$0	*	$54	*	$54,711
2001	54	$64,247	*	$46	*	$2,263	*	$66,556
2002	34	$27,493	*	$4,510	*	$573	*	$32,576
2003	31	$21,041	0	$0	*	$672	*	$21,713
2004	41	$27,911	*	$3,820	*	$4,907	*	$36,638
2005	45	$53,855	0	$0	0	$0	45	$53,855
2006	53	$53,497	0	$0	0	$0	53	$53,497
2007	36	$49,966	0	$0	0	$0	36	$49,966

This credit is a transfer from the state general fund to individual taxpayers who are caring for a low income elderly or disabled relative. It pays for part of costs that are not covered by insurance or government programs. In 2007, this credit cost the state general fund $49,966. Without the credit, this amount would have been available to spend on other program or to reduce taxes. The cost of this credit was $0.08 per full year resident taxpayer.

Developmental Disability Account Contribution Credit

The developmental disability account contribution credit sunset at the end of 2007.

Taxpayers were allowed a credit against individual income tax or corporation tax of 30% of any donation to the developmental disability services account. The credit was limited to a maximum of $10,000. If the credit exceeded the taxpayer's liability, the excess credit was not refunded and could not be carried forward or backward to another tax year.

This credit was found in 15-30-187, MCA, It was enacted by HB 452 of the 2003 legislature. It was to sunset at the end of 2005. In HB 513 the 2005 legislature extended the sunset to January 1, 2008.

State governments are qualified charitable organizations. In general, a taxpayer can take an itemized deduction for both federal and state income taxes for a contribution to state government. However, Section 15-30-187 specifically prohibited a taxpayer from claiming the credit and a state deduction for the same contribution.

For a taxpayer in the 35% federal tax bracket, the 30% state credit and federal deduction reduce the taxpayer's federal and state taxes by 65% of the contribution. Thus, each dollar contributed to the developmental disability services account cost the taxpayer $0.35.

Less than 10 taxpayers claimed this credit each year it was available. The following table shows the total value of credits claimed for tax years 2003 through 2007.

Developmental Disability Account Contribution Credit

2003	$0
2004	$1,050
2005	$2,715
2006	$1,000
2007	$11,810

This credit was essentially a transfer from the general fund to the developmental disability services account. Alternatively, this credit can be viewed as allowing the taxpayer to earmark part of their state income taxes, while receiving a federal deduction for the part earmarked. In 2007, this credit cost the state general fund $9,110. Without the credit, this amount would have been available to spend on other programs or to reduce taxes. The cost of the credit was $0.02 per full year resident taxpayer.

Recycling Credit

Taxpayers are allowed a credit against individual income tax or corporate license tax for part of the cost of investments in depreciable property used in collecting or processing reclaimable material or manufacturing a product from reclaimed material. The credit is 25% of the first $250,000 invested, 15% of the next $250,000 invested, and 5% of the next $500,000 invested. The credit for an investment of $1 million or more is $125,000.

If a taxpayer claims a credit in excess of their tax liability, the excess credit is not refunded and may not be carried forward or backward to another tax year.

The credit is found in 15-32-601 through 614, MCA. The credit was enacted by the 1991 legislature (SB 111) as a credit equal to 25% of investments made between 1990 and 1995. The 1993 legislature (HB 519) clarified the definitions used to determine eligible investments. The 1995 legislature (SB 358) extended the sunset date to 2001 and expanded eligible investments to include equipment to reclaim contaminated soils. The 2001 legislature (SB 92) extended the sunset date to 2005 and removed equipment to reclaim contaminated soils from eligible investments. The 2005 legislature (SB 213) extended the sunset date to 2011.

The basis of property for which the credit is claimed is not affected by the credit. Taxpayers are allowed to deduct depreciation on property on which the credit has been claimed.

The credit provides a subsidy to taxpayers who make investments in recycling plant and equipment by reducing the taxpayer's cost. For investments under $250,000, the cost is reduced by 25%. For more expensive investments, the percentage reduction is a declining function of the cost.

The following table shows use of the recycling credit by individuals from 1997 through 2007. Where there are fewer than 10 taxpayers in a group in a year, there is an asterisk. There is also an asterisk in the total column so as to not reveal the number of taxpayers in the individual group.

Recycling Credit

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
1997	38	$99,146	*	$310	0	$0	*	$99,456
1998	46	$257,108	*	$4,611	0	$0	*	$261,719
1999	42	$95,489	*	$273	0	$0	*	$95,762
2000	51	$261,529	*	$2,025	*	$25,179	*	$288,733
2001	31	$102,071	*	$5,726	0	$0	*	$107,797
2002	40	$66,369	*	$713	0	$0	*	$67,082
2003	40	$121,309	*	$50	0	$0	*	$121,359
2004	62	$307,678	*	$2,603	*	$830	*	$311,111
2005	71	$410,785	*	$1,967	*	$825	*	$413,577
2006	83	$757,543	0	$0	0	$0	83	$757,543
2007	76	$386,110	0	$0	*	$979	*	$387,089

This credit is equivalent to a subsidy from the state general fund for the purchase of private property to be used in recycling. In 2007, the credit against individual income tax cost the state general fund $387,089. Without the credit, this amount would have been available to spend on other programs or reduce taxes. The cost to other taxpayers was $0.63 per full year resident taxpayer.

Oilseed Crushing and Biodiesel Production Facility Credit

Taxpayers are allowed a credit against individual income tax or corporation tax for 15% of the cost of investment in depreciable property in Montana that is used primarily for crushing oilseeds for producing biodiesel or lubricants or for the production of biodiesel or biolubricants. The total of credits claimed over time for a single facility in all years may not exceed $500,000.

If the credit a taxpayer claims in any year exceeds their tax liability, the excess credit will not be refunded, but may be carried forward for up to 7 years as long as the facility continues to be used to crush oilseeds for biodiesel or lubricants or to produce biodiesel or biolubricants. If the facility ceases production for 12 months within 5 years after the credit is first claimed the entire credit must be recaptured.

The credit is found in Section 15-32-701, MCA. The credit was enacted by the 2005 legislature (HB 756) as a non-refundable credit with no carry forward and available for investments through 2010. The 2007 legislature (HB 166) extended the credit through 2015, expanded the credit to include biolubricant facilities,

allowed the credit to be carried forward, specified that the credit is for costs incurred while the facility is operating or in the two years before, and allowed the credit for facilities that are *primarily* crushing oilseeds for fuel or lubricants.

This credit reduces the taxpayer's cost of investments of up to $3.3 million in a facility to produce fuel or lubricants from oilseeds by 15%. The taxpayer may deduct depreciation on property for which the credit is claimed with no reduction in basis.

Ten or fewer individuals have claimed the credit each year. The following table shows the total value of credits claimed by individuals for the three years it has been available, 2005 through 2007.

Oilseed Crushing/Biodiesel Facility Credit

2005	$0
2006	$135,870
2007	$10,147

The credit is equivalent to a grant from the state general fund covering 15% of the costs of private property to be used in biodiesel production. In 2007, credits to individuals cost the state general fund $10,147. Without the credit, this amount would have been available to spend on other programs or to reduce taxes. The cost was $0.02 per full year resident taxpayer.

Biodiesel Blending and Storage Tank Credit

Taxpayers who are biodiesel blenders are allowed a credit against individual income tax or corporation tax for 15% of the cost of investments in biodiesel blending or storage facilities in a year when the taxpayer is blending or in the two years before blending began. The total credits that may be claimed over time are $52,500 for a distributor (wholesaler) and $7,500 for a retailer.

If a taxpayer is eligible for a credit that exceeds their tax liability, the excess credit is not refunded but may be carried forward for up to 7 years as long as the facility continues to blend biodiesel. If the facility ceases production for 12 months within 5 years after the credit is first claimed, the entire credit must be recaptured.

The credit is found in Section 15-32-703, MCA. It was enacted by the 2005 legislature (HB 756) as a non-refundable credit with no carry forward. The 2007 legislature (HB 166) allowed the credit to be carried forward, and specified that the credit is for costs incurred while the facility is operating or in the two years before.

The credit provides a subsidy to biodiesel blending and storage facilities by reducing the taxpayer's cost of investments in biodiesel blending and storage facilities by 15% for investments of up to $50,000 by a retailer and $350,000 by a wholesaler. Taxpayers are allowed to deduct depreciation on facilities for which the credit was taken with no reduction in basis

Fewer than ten individuals have claimed the credit each year. The following table shows the total value of credits taken by individuals in 2005 through 2007.

Biodiesel Blending/Storage Tank Credit

2005	$3,880
2006	$1,651
2007	$3,063

This credit is essentially the same as a grant from the state general fund to pay 15% of the cost of private property used to blend biodiesel. In 2007, credits claimed by individuals cost the state general fund $3,063. Without the credit, this amount would have been available to spend on other programs or reduce taxes. The cost to other taxpayers was $0.005 per full year resident taxpayer.

Geothermal Heating System Credit

Taxpayers are allowed a credit against individual income tax or corporation tax for up to $1,500 of costs of installing a geothermal heating system (ground-source heat pump) in the taxpayer's principal residence or in a residence the taxpayer constructs. If the credit exceeds the taxpayer's liability, the excess credit will not be refunded but may be carried forward for up to 7 years.

This credit is in Section 15-32-115. It was enacted by the 1991 legislature (SB 416). The credit initially was limited to $250 with a 3 year carry-forward and was only for taxpayers who installed a geothermal system in their own principal dwelling. The 2001 legislature (SB 506) increased the credit to $1,500 with a 7 year carry-forward. An amendment made by the 2003 legislature (HB 233) was purely cleanup. The 2005 legislature (SB 340) made the credit available for residences constructed by the taxpayer so that contractors could take the credit for installing geothermal systems on spec houses.

Geothermal heating systems also are eligible for a federal tax credit of 30% of the cost with a maximum credit of $2,000. A taxpayer who installs a geothermal heating system and claims both credits would have the first $1,500 paid by the state and 30% of the next $6,666 paid by the federal government. Homeowners are not allowed to deduct depreciation on their dwellings, and taxpayers may not take this credit and the deduction for energy conserving investments in 15-32-103. However, a taxpayer who claims the credit for installing a geothermal

system in a rental dwelling could also deduct depreciation on the dwelling, including the heating system.

This credit was not tracked separately until 2005. The following table shows credit use in 2005 through 2007. Where there are fewer than 10 taxpayers in a group in a year, there is an asterisk. There is also an asterisk in the total column so as to not reveal the number of taxpayers in the individual group.

Geothermal Energy System Credit

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2005	80	$92,303	0	$0	*	$4,500	*	$96,803
2006	73	$89,234	0	$0	*	$1,500	*	$90,734
2007	92	$121,306	0	$0	*	$4,500	*	$125,806

This credit is equivalent to a transfer from the state general fund to taxpayers to pay part of the cost of residential heating systems. In 2007, this credit cost the state general fund $125,806. Without the credit, this amount would have been available to spend on other programs or to reduce taxes. The credit cost $0.20 per full year resident taxpayer.

Alternative Energy Systems Credit

Resident individual taxpayers may take a credit for up to $500 of the cost of installing an alternative energy system or a low-emission wood or biomass system in their principal residence. If the credit exceeds the taxpayer's liability, the excess may not be refunded, but may be carried forward for up to 4 years. The credit is found in Sections 15-32-201 through 203. The credit was enacted by the 1977 legislature (SB 167) as a credit of 10% of the first $1,000 and 5% of the next $3,000 spent on an alternative energy system, with a reduction if the taxpayer received a grant or a federal credit. It was available through 1982. The 1983 legislature extended the credit through 1986 (HB 264). The 1985 legislature (SB 309) expanded the credit to low-emissions wood and biomass systems and extended the credit through 1993. The 1991 legislature (HB 338) doubled the credit to 20% of the first $1,000 and 10% of the next $3,000, extended it through 1996 for low-emissions wood and biomass systems only, and revised the definition of low-emissions wood and biomass systems. Amendments in 1993, 1995, and 1997 were to correct references and update style (1993 SB 1, 1995 SB 234, 1997 SB 36).

The credit lapsed after 1996. The 2001 legislature reinstated it for investments beginning in 2002, made it permanent, and set the credit at system cost up to $500 (SB 506). The 2003 legislature adopted federal standards for low-emissions wood and biomass systems.

This credit reduces the taxpayer's cost of a residential alternative energy system or low-emissions wood or biomass system by $500. For any system costing $500 or less, the credit makes it free to the taxpayer, though there are not likely to be many eligible systems costing less than $500. Taxpayers are not allowed to deduct depreciation on their homes, so taxpayers may not claim the credit for expenditures that they also deduct. However, a taxpayer may be able to claim state and federal credits for some expenditures. The IRS code provides a credit for 30% of the cost of residential solar electric and water heating equipment, fuel cells, and small wind systems. The maximum federal credit for fuel cells and wind systems is $500 for each 500 Watts of capacity. In addition, there is a $4,000 maximum on the credit for small wind systems.

This credit was not tracked separately before 2002. The following table shows credit use for 2002 through 2007. Asterisks indicate cells in the table with fewer than 10 taxpayers and totals for rows with a cell with fewer than 10 taxpayers.

Alternative Energy System Credit

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2002	397	$228,283	0	$0	13	$5,671	410	$233,954
2003	550	$300,489	*	$2,290	15	$10,880	*	$313,659
2004	787	$445,967	*	$1,500	27	$15,030	*	$462,497
2005	1,316	$654,698	*	$1,000	43	$20,801	*	$676,499
2006	1,390	$677,311	*	$1,642	30	$14,422	*	$693,375
2007	1,105	$712,228	*	$2,291	19	$12,052	*	$726,571

This credit is equivalent to a grant from the state general fund to pay part of the cost of private alternative energy systems. In 2007, the credit cost the state general fund $726,571. Without the credit, this amount would have been available to spend on other programs or to reduce taxes. The cost was $1.18 per full year resident taxpayer.

Alternative Energy Production Credit

A taxpayer is allowed a credit against individual income tax or corporation license tax for 35% of the costs, less any federal or state grants, of depreciable property for a commercial or net metering alternative energy system. However, the credit may only be taken against taxes on net income from energy generated by the facility, from manufacturing alternative energy generating equipment, or from a new or expanded industry powered by the facility.

If the credit is more than the taxpayer's liability, the excess credit may not be refunded. Excess credits may be carried forward for 7 years. If the credit is for a commercial system of at least 5MW built on a reservation, the credit may be carried forward for 15 years.

The credit is found in Sections 15-32-401 through 407, MCA. The credit was enacted by the 1983 legislature as a credit for commercial wind energy systems (HB 780). The 2001 legislature expanded the credit to alternative energy systems and net-metering systems as well as commercial systems (SB 506). The 2001 legislature also expanded the carry-forward provision to 15 years for facilities built on a reservation and meeting certain other requirements. Other amendments in 1997, 2001, 2003, and 2005 were for clean-up or related to expired federal laws.

This credit reduces the cost of an alternative energy system by 35%. The taxpayer's cost for each $1,000 of investment is thus $650. In addition, some wind energy systems placed in service between 2008 and 2016 are eligible for a 30% federal credit. If a taxpayer claims both the state and federal credits, the taxpayer's cost for each $1,000 of investment is $350. The taxpayer is allowed to deduct deprecation on property for which the credit was granted with no reduction in basis. However, the taxpayer may not claim any other state energy or investment income tax credit or the property tax exemption for alternative energy systems.

This credit was not tracked separately until 2002. The following table shows credit use for 2002 through 2007. Cells in the table with fewer than 10 taxpayers have asterisks instead. There is also an asterisk in the total column so as to not reveal the number of taxpayers in the individual group.

Alternative Energy Production Credit

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2002	28	$13,312	0	$0	0	$0	28	$13,312
2003	23	$11,174	*	$150	*	$799	*	$12,123
2004	21	$16,982	0	$0	0	$0	21	$16,982
2005	22	$9,762	*	$500	*	$1,979	*	$12,241
2006	30	$20,858	0	$0	0	$0	30	$20,858
2007	15	$40,112	0	$0	0	$0	15	$40,112

This credit is equivalent to a transfer from the state general fund to pay part of the cost of qualifying private property. In 2007, the credit against individual income tax cost the state general fund $40,112. This is $0.06 per full year resident taxpayer.

Dependent Care Assistance Credit
The Dependent Credit Assistance Credit is composed three related credits:

a) There is a credit against individual income tax or corporation license tax for a portion of the cost of providing day care services to employees' dependents. This credit is 25% of the cost of day care or day care assistance with a limit of $1,575 per employee receiving the assistance. The assistance must meet IRS requirements and does not count as part of the employees' compensation.

b) There is a credit against individual income tax or corporation tax for 25% of the cost of providing day care information and referral services to employees.

c) There is a credit against corporation tax for a portion of the cost of setting up a day care facility to be used by the taxpayer's employees' dependents. The credit is the lower of i) 15% of the costs incurred, ii) $2,500 times the number of dependents the facility will accommodate, or iii) $50,000. The credit is to be claimed over a ten year period, with one-tenth of the credit claimed each year.

If the credit is more than the taxpayer's liability, the excess credit is not refunded. The credits for day care assistance may be carried forward up to five years. The credit for day care facility costs may be carried forward within the ten year period for claiming the credit. There is no recapture provision.

The credit is Sections 15-31-131, 15-31-133, and 15-30-186, MCA. The 1989 legislature enacted the credits for providing day care and referral services (SB 282) as a 15% credit with a limit of $1,250 per employee receiving benefits. The 1991 legislature (HB 543) increased the credit to 20% of costs. Amendments made by the 1993 legislature as part of a major revision of the income tax (HB 671) were voided in 1994 by a referendum, and amendments in 1997 (SB 36) were just cleanup. The 2001 legislature (HB 623) increased the daycare assistance credit to 20% of costs with a limit of $1,575 per employee and added the credit for day care facilities.

This credit reduces by 20% an employer's cost of providing day care for employees' dependents as an untaxed fringe benefit. However, the taxpayer's deductions for business expense are reduced by the amount of the credit. For a taxpayer in the 6.9% tax bracket, the net effect is to reduce the employer's costs by almost 19% ((100% – 6.9%) x 20% = 18.62%). Thus, each $1,000 spent on providing day care costs the taxpayer $813.80.

Fewer than ten individuals have claimed the credit each year. The following table shows the total value of credits claimed against individual income tax from 1997 through 2007.

Dependent Care Assistance Credit

1997	$1,205
1998	$1,605
1999	$3,697
2000	$296
2001	$538
2002	$3,897
2003	$8,484
2004	$6,208
2005	$8,818
2006	$9,755
2007	$15,130

This credit is equivalent to a transfer from the state general fund to taxpayers to cover part of the costs of providing daycare to employees' dependents. In 2007, credits against individual income tax cost the state general fund $15,130. Without the credit, this amount would have been available to spend on other programs or to reduce taxes. The cost was $0.025 per full year resident taxpayer.

Historic Property Preservation Credit

Taxpayers may take a credit against either individual income tax or corporation license tax for costs of rehabilitating a historic building. The credit is 25% of the federal credit allowed by 26 USC 47(a)(2). The federal credit is 20% of the cost of rehabilitation of a building that has been certified as having historic significance and 10% of the cost of rehabilitation of a building placed in service before 1936 that has not been certified.

Individuals may take an alternative credit against income tax for 20% of the cost of creating a conservation easement and any reduction in value that results from the conservation easement plus 20% of the direct costs of protecting and preserving the property as required by the conservation easement.

There is no maximum for the rehabilitation credit. The conservation easement credit has a maximum of $25,000 per year and $150,000 per property. If the credit is more than the taxpayer's liability, the excess is not refunded but may be carried forward to other tax years. The rehabilitation credit may be carried forward for seven years. The conservation easement credit may be carried forward for six years.

The credit is found in Sections 15-30-180 and 15-31-151, MCA. The rehabilitation credit was enacted by the 1997 legislature (HB 601). The conservation easement credit was enacted by the 2001 legislature (HB 619) and sunsets at the end of 2011.

With the combination of state and federal credits, a taxpayer who rehabilitates a historic property can have 25% of the costs paid by the federal and state governments. A taxpayer who rehabilitates an old but not historic property can have 12.5% of the costs paid by the state and federal governments. A taxpayer who places a conservation easement on a historic property can choose to have the state government pay 20% of the cost and compensate the owner for 20% of any reduction in value. In addition, if the building is used in a business, the taxpayer generally will be able to deduct the costs, either as business expenses in the year they are incurred or over time through depreciation.

This credit was first available for tax year 1998. The following table shows credits taken against individual income tax for 1998 through 2007. Where there are fewer than 10 taxpayers in a group in a year, there is an asterisk. There is also an asterisk in the total column so as to not reveal the number of taxpayers in the individual group.

Historic Property Preservation Credit

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
1998	11	$15,275	0	$0	*	$331	*	$15,606
1999	*	$7,788	0	$0	0	$0	*	$7,788
2000	12	$28,759	*	$265	*	$1,599	*	$30,623
2001	15	$71,980	0	$0	0	$0	15	$71,980
2002	16	$74,777	*	$9,916	0	$0	*	$84,693
2003	*	$17,811	*	$2,846	0	$0	*	$20,657
2004	25	$97,748	0	$0	0	$0	25	$97,748
2005	16	$51,108	*	$6,250	0	$0	*	$57,358
2006	11	$200,670	*	$3,701	0	$0	*	$204,371
2007	15	$222,787	*	$16,601	0	$0	*	$239,388

This credit effectively is a subsidy from the state general fund for rehabilitation of privately owned real estate with improvements built before 1936. The subsidy is larger if the property has been determined to have historic significance to the public. In 2006, credits against the individual income tax cost the state general fund $239,388. Without the credit, this amount would have been available to spend on other programs or to reduce taxes. The cost was $0.39 per full year resident taxpayer.

Montana Capital Company Credit

There was a credit against individual income tax or corporation tax for investments in a certified Montana capital company or qualified small business

investment company. The credit was last available for investments made before July 1, 1995, but the credit could be carried forward for up to 15 years. Credits currently being claimed are carried forward from previous years.

This credit was not tracked separately before 2005. Fewer than ten individuals claimed the credit in each of tax years 2005 through 2007. The following table shows the total value of credits against individual income tax for 2005 through 2007.

Montana Capital Company Credit

2005	$384
2006	$25
2007	$1,847

In 2007, individual income tax credits cost the state general fund $1,847. Without the credit, this amount would have been available to spend on other programs or to reduce taxes. The cost was $0.003 ($1,847/617,394) per full year resident taxpayer.

Infrastructure Users Fee Credit

The Board of Investments may make loans to local governments to finance infrastructure to serve a new or relocated business that will result in 15 or more new full-time jobs. The local government may charge fees to the users for extending the infrastructure. The business may claim a credit against income or corporation tax for the amount of the fee it pays.

If the credit is more than the taxpayer's liability, the excess is not refunded, but may be carried forward for 7 years or carried back to the 3 previous tax years.

The credit is found in Section 17-6-316, MCA. It was enacted through two bills passed by the 1995 legislature, SB 100 and HB 602, and has not been amended.

This credit in effect pays the taxpayer for having local infrastructure extended to serve its business. For example, if a business pays $10,000 per year to its local government to cover the cost of having sewer service extended to the business, it is able to claim a credit of $10,000 and deduct $10,000 as a business expense. For a taxpayer in the 6.9% tax bracket, the net effect would be the same as being paid $690 per year to have a new sewer hookup.

This credit was not tracked separately for individuals before 2005. The following table shows credits against individual income tax for 2005 through 2007. Where there are fewer than 10 taxpayers in a group in a year, there is an asterisk. There is also an asterisk in the total column so as to not reveal the number of taxpayers in the individual group.

Infrastructure User Fee Credit

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2005	11	$851,766	0	$0	0	$0	11	$851,766
2006	*	$778,095	0	$0	0	$0	*	$778,095
2007	14	$24,311	0	$0	0	$0	14	$24,311

In general, local governments recover the cost of infrastructure investments through user fees for the services the infrastructure provides, as with water and sewer services, or through taxes, as with roads. In some cases, local governments charge impact fees to cover the cost of extending infrastructure to new developments. Through this credit, the state general fund pays the cost of extending infrastructure to selected new businesses. This credit provides a subsidy for businesses that locate in a jurisdiction that needs to invest in additional infrastructure to provide services to the business rather than in a jurisdiction that has existing capacity.

In 2007, infrastructure user fee credits against individual income tax cost the state general fund $24,311. Without the credit, this amount would have been available to spend on other programs or to reduce taxes. The cost was $0.04 per full year resident taxpayer.

Empowerment Zone Credit

A local government may establish an empowerment zone in an area with chronic high unemployment. Employers in an empowerment zone are eligible for a credit against income or corporation license tax for the first three years' employment for new positions. The credit per new employee is $500 for the first year, $1,000 for the second year, and $1,500 for the third year. To receive the credit, the taxpayer must apply for and receive certification from the Department of Labor and Industry.

If the credit is more than the taxpayer's liability, the excess is not refunded but may be carried back to the three previous tax year or carried forward for seven years.

The credit is found in Sections 15-30-182 and 15-31-134, MCA. Requirements for an empowerment zone are found in Sections 7-21-3701 through 3704, MCA, and conditions to become certified to receive the credit are in Section 7-21-3710,

MCA. The empowerment zone credit was enacted by the 2003 legislature (SB484).

There are several federal credits for employment in specified zones or under specified conditions. The federal work opportunity tax credits, which were extended in 2007, provide a credit for a fraction of wages paid to employees in a designated zone, with the fraction depending on the type of zone.

This credit is equivalent to providing an employer a payment for creating a new position and filling it with a resident of an empowerment zone for the first three years. The payment does not depend on the wages paid. Employers may deduct wages paid to new employees for which the credit is taken as a business expense.

Fewer than ten individuals have claimed the credit each year. The following table shows the total value of empowerment zone credits against individual income tax for 2003 through 2007.

Empowerment Zone Credit

2003	$0
2004	$365
2005	$969
2006	$17,201
2007	$500

With this credit, the state general fund, in effect, pays employers to create new positions in an empowerment zone. In 2007, empowerment zone credits against individual income tax cost the state general fund $500. Without the credit, this amount would have been available to spend on other programs or to reduce taxes. The cost was $0.001 per full year resident taxpayer.

Research Credit

Through 2009, Section 41 of the IRS code provides a credit equal to 20% of any increase in research expenditures over the taxpayer's baseline. Montana provides a 5% credit against individual income tax or corporation license tax for the same increases in expenditures in the state.

If a taxpayer's credit is more than their tax liability, the excess credit is not refunded but may be carried back to the two previous tax years or carried forward for up to 15 years.

The credit is found in Section 15-31-150, MCA. It was enacted by the 1999 legislature (HB 638), and has not been amended except to update references to federal law.

The credit reduces the taxpayer's cost of eligible research expenditures by 5%. In addition, a taxpayer may be able to deduct research costs as a business expense.

The following table shows credits against individual income tax for 2005 through 2007. Where there are fewer than 10 taxpayers in a group in a year, there is an asterisk. There is also an asterisk in the total column so as to not reveal the number of taxpayers in the individual group.

Research Activities Credit

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2005	11	$83,221	*	$259,981	*	$6	*	$343,208
2006	30	$137,333	*	$300,380	0	$0	*	$437,713
2007	18	$119,743	*	$336,881	0	$0	*	$456,624

The credit is essentially a transfer from the state general fund to pay 5% of a taxpayer's eligible research costs. In 2007, research activity credits against individual income tax cost the state general fund $456,624. Without the credit, this amount would have been available to spend on other programs or reduce taxes. The cost was $0.74 per full year resident taxpayer.

Mineral Exploration Credit

Taxpayers are allowed a credit against income or corporation license tax for the full amount of solid mineral or coal exploration activity in the state (oil and gas exploration expenditures are not eligible). The credit is available only for expenses incurred up to the time that construction of a new mine or reopening of a previously closed mine commences.

The maximum credit is $20 million per mine. The credit taken in any year may not be more than 50% of the taxpayer's tax liability, but unused credits may be carried forward for fifteen years.

The credit is found in Sections 5-32-501 through 510 MCA. It was enacted by the 1999 legislature (SB 265) and has not been amended.

This credit repays up to $20 million of exploration costs incurred in opening a new mine. Depending on the type of mineral and the accounting treatment chosen, exploration expenditures may be deductible in the year they occur or may be treated as capital costs and deducted over several years.

The mineral exploration credit was not tracked separately before 2005. Fewer than ten individuals claimed the credit in each of tax years 2005 through 2007. The following table shows the total value of mineral exploration credits against individual income tax for 2005 through 2007.

Mineral Exploration Credit

2005	$6,718
2006	$8,920
2007	$9,507

With this credit, the state general fund will pay up to $20 million of private exploration costs for a new mine. In 2007, mineral exploration credits claimed against individual income tax cost the state general fund $9,507. This is $0.015 ($9,507/617,394) per full year resident taxpayer.

Film Employment Credit

Taxpayers are allowed a credit against income or corporation license tax for 14% of the first $50,000 of compensation paid to each Montana resident employed on a state-certified film production. Employee compensation for which the credit is claimed may not be deducted from gross revenue in calculating taxable income.

If the credit is more than the taxpayer's liability, the taxpayer must make an irreversible election to either have the credit refunded or to carry it forward for up to 4 years.

If the Department of Commerce determines that the production has not met the conditions of certification, the taxpayer must repay any credits already received.

The credit is in Sections 15-31-901 through 911, MCA. It was enacted by the 2005 legislature (HB 584), with a limit of $1 million in credits per production. The 2007 legislature removed this limit (HB 40).

A taxpayer who takes this credit reduces taxes by 14% of compensation paid to a Montana resident but gives up the deduction for the expense, which increases taxes by 6.9% of the compensation (assuming the taxpayer is in the top rate bracket) for a net reduction of 7.1%. This gives a 7.1% cost advantage to hiring Montana residents, other than actors and others who would be paid more than $50,000 to work on a film, compared to non-residents.

This credit was first available in 2005. The following tables show credits claimed against individual income tax for 2005 through 2007. The first shows credits claimed by taxpayers who either had tax liability greater than their credits or chose the carry-over option for any excess credits. The second table shows credits claimed by taxpayers who chose to have excess credits refunded. Where there are fewer than 10 taxpayers in a group in a year, there is an asterisk.

There is also an asterisk in the total column so as to not reveal the number of taxpayers in the individual group.

Film Production Employment Credit

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2005	0	$0	0	$0	0	$0	0	$0
2006	0	$0	0	$0	0	$0	0	$0
2007	*	$2,290	0	$0	0	$0	*	$2,290

Refundable Film Production Employment Credit

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2005	0	$0	*	$115	*	$13	*	$128
2006	0	$0	0	$0	0	$0	0	$0
2007	24	$14,516	*	$2,046	0	$0	*	$16,562

In effect, this credit has the state general fund is pay 7.1% of the compensation of Montana residents employed in a certified film production. Credits claimed against individual income tax cost the state general fund $15,852 in 2007. Without the credit, this amount would have been available to spend on other programs or to reduce taxes. The cost was $0.03 per full year resident taxpayer.

Film Expenditure Credit

A taxpayer can claim a credit against individual income tax or corporation license tax for 9% of purchases in Montana for the making of a film that has met the criteria to be certified by the Department of Commerce. A taxpayer may not deduct any expenses for which a credit was claimed.

If a taxpayer claims a credit that is more than their tax liability, the excess credit will be refunded. If the Department of Commerce determines that the production has not met the conditions of certification, the taxpayer must repay any credits already received.

The credit is found in Sections 15-31-901 through 911, MCA. It was enacted by the 2005 legislature (HB 584), with a limit of $1 million in credits per production. The 2007 legislature removed this limit (HB 40).

A taxpayer who claims the credit has taxes reduced by 9% of Montana purchases for a film, but must give up the deduction for those expenses. For a taxpayer in the top tax bracket, this increases taxes by 6.9% of the amount of purchases. The net result is that the taxpayer's cost of Montana purchases for a film made in Montana are reduced by 2.1%.

Fewer than 10 individuals have claimed the credit each year. The following table shows the total value of credits claimed against individual income tax for 2005 through 2007.

Film Expenditures Credit

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2005	0	$0	*	$669	*	$793	*	$1,462
2006	*	$2,337	0	$0	0	$0	*	$2,337
2007	*	$26,486	0	$0	0	$0	*	$26,486

In effect, this credit has the state general fund pay 2.1% of the cost of all Montana purchases for a certified film production. In 2007, film expenditure credits against the income tax cost the state general fund $26,486. Without the credit, this amount would have been available to spend on other programs or for tax reductions. The cost was $0.04 per full year resident taxpayer.

Insure Montana Small Business Health Insurance Credit

A small employer that provides group health insurance for its employees through a state pool may claim a credit of a) up to 50% of total premiums the employer pays for the plan or b) up to $100 per month per covered employee ($125 if the average age is at least 45), up to $100 per month per covered spouse, and up to $40 per other covered dependent. An employer that has not offered group health insurance in the last two years may take premium assistance payments instead. The maximum credit depends on the number of employees an employer may have and be eligible. This is to be set by rule by the State Auditor's Office. The current maximum is nine employees. A taxpayer with credits that are greater than their tax liability may have the excess credits refunded. A taxpayer may not deduct insurance premiums as a business expenses if it has taken the credit.

The credit is found in sections 33-22-2006, 15-30-185, and 15-31-130, MCA. It was enacted by the 2005 legislature (HB667).

The credit reduces the cost of providing group health insurance by 50% or $100 per month for a covered employee or spouse and 50% or $40 per month for another covered dependent. However, the employer gives up the business expense deduction for premiums. For an employer in the top income bracket, the net effect is to reduce the cost of providing insurance by 50% - 6.9% = 43.1%.

The credit was first available in 2006. The following table shows credits claimed against individual income tax in 2006 and 2007. Asterisks in a cell in the table indicates there were fewer than 10 taxpayers claiming the credit. There is also

an asterisk in the total column so as to not reveal the number of taxpayers in the individual group.

Insure Montana Small Business Health Insurance Credit

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2006	591	$1,832,523	12	$19,206	*	$3,900	*	$1,855,629
2007	617	$2,189,770	11	$8,352	0	$0	628	$2,198,122

The credit is paid to taxpayers from the general fund, but the general fund is repaid out of cigarette and tobacco tax revenue. Rates for these taxes were set to discourage consumption and fund programs to offset the health costs due to tobacco use. This credit reduces funds available for other programs.

In 2007, taxpayers claimed credits of $2,198,122 or $3.56 per full year resident taxpayer. The credit was funded from cigarette and tobacco tax revenue, so the cost of the credit is paid only by purchasers of cigarettes and other tobacco products.

Adoption Credit

The IRS code allows an income tax credit for costs of adopting a child. A taxpayer who meets the requirements for the federal credit may also claim a credit of $1,000 against Montana income tax. If the credit is more than the taxpayer's liability, the excess is not refunded, but excess credits may be carried forward for up to five years.

The credit was created by the 2007 legislature (HB 490) and is found in Section 15-30-203, MCA.

For 2008, the federal adoption credit is $11,650. A taxpayer who takes both the state and federal credits will be reimbursed for up to $12,650 of the costs of adopting a child.

This credit was first available in 2007. The following table shows credits claimed for 2007. Asterisks in a cell in the table indicates there were fewer than 10 taxpayers claiming the credit. There is also an asterisk in the total column so as to not reveal the number of taxpayers in the individual group.

Adoption Credit

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2007	192	$204,476	11	$11,000	*	$7,000	*	$222,476

In 2007, taxpayers claimed credits of $222,476. Without the credit, this amount would have been available to spend on other programs or reduce taxes. The cost was $0.36 per full year resident taxpayer.

Elderly Homeowner/Renter Credit

Taxpayers who are 65 or older and have a household income of less than $45,000 may be eligible for the elderly homeowner/renter credit. The credit refunds part or all of the property tax a homeowner pays directly or a renter pays indirectly that is more than a certain percentage of their household income. For a household with income between $12,000 and $45,000, this percentage is 5%. For households with lower incomes, the percentage is lower. The credit is limited to a maximum of $1,000 per household. The credit phases out for households with income between $35,000 and $45,000.

Taxpayers who receive the elderly homeowner/renter credit pay their property taxes and then have part refunded. Local governments, school districts, the university system, and the state general fund all receive full payments of property taxes on these taxpayer's residences. Then, taxpayers are refunded part of the tax they paid via this credit which reduces revenue going to the state general fund.

This credit provides a subsidy for older taxpayers who own their home and whose income is no longer proportional to the value of their home to stay in their home. For older taxpayers who rent, it subsidizes the rent they pay.

Elderly Homeowner/Renter Credit

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
1997	11,849	$5,247,856	0	$0	0	$0	11,849	$5,247,856
1998	11,849	$5,408,152	0	$0	0	$0	11,849	$5,408,152
1999	12,316	$5,188,461	0	$0	0	$0	12,316	$5,188,461
2000	11,914	$5,056,701	0	$0	0	$0	11,914	$5,056,701
2001	12,858	$5,831,326	0	$0	0	$0	12,858	$5,831,326
2002	14,211	$6,883,615	0	$0	0	$0	14,211	$6,883,615
2003	15,448	$7,719,936	0	$0	0	$0	15,448	$7,719,936
2004	16,140	$8,076,357	0	$0	0	$0	16,140	$8,076,357
2005	15,704	$7,856,705	0	$0	39	$20,498	15,743	$7,877,203
2006	15,546	$7,482,107	0	$0	24	$6,898	15,570	$7,489,005
2007	16,078	$7,591,930	0	$0	30	$14,580	16,108	$7,606,510

For 2007, the elderly homeowner/renter credit cost the state general fund $7,606,510, or $12.32 per full year resident taxpayer.

Credit for Other States' Taxes

Taxpayers who earn income in more than one state generally will owe tax in each of the states where they earn income that has an income tax. A Montana resident computes Montana income tax on their entire income and then is allowed a credit for income tax paid to other states. A part-year resident computes Montana income tax on their entire income and then multiplies that by the percentage of income earned in Montana to give Montana tax liability. The taxpayer then is allowed a credit for income tax paid to other states on the portion of income earned in Montana.

If the credit is more than the taxpayer's liability, the excess credit is not refunded and may not be carried forward or backward to another tax year.

This credit prevents two states from taxing the same income. Not having a credit for income tax paid to other states would create a disincentive for individuals to work or have business interest in more than one state. Where there are fewer than 10 taxpayers in a group in a year, there is an asterisk. There is also an asterisk in the total column so as to not reveal the number of taxpayers in the individual group.

Other State's Tax Credit

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
1997	7,837	$8,360,377	*	$40,086	149	$320,705	*	$8,721,168
1998	8,108	$14,821,950	*	$11,703	155	$268,653	*	$15,102,306
1999	9,149	$10,159,095	10	$5,640	168	$760,356	9,327	$10,925,091
2000	10,114	$12,196,826	*	$20,890	195	$163,393	*	$12,381,109
2001	9,670	$13,501,613	11	$1,010	237	$165,221	9,918	$13,667,844
2002	9,182	$14,013,510	*	$6,829	253	$247,496	*	$14,267,835
2003	9,225	$14,479,498	20	$28,557	264	$317,682	9,509	$14,825,737
2004	10,038	$17,407,297	*	$6,716	219	$203,653	*	$17,617,666
2005	10,157	$19,234,044	26	$26,565	347	$1,116,390	10,530	$20,376,999
2006	9,727	$23,043,200	0	$0	463	$886,060	10,190	$23,929,260
2007	9,756	$20,278,753	0	$0	630	$720,083	10,386	$20,998,836

For 2007, the credit for other states' taxes cost the state general fund $20,998,836, or $34.012 per full year resident taxpayer.

Corporate License Tax Expenditures

Following is a list of expenditures that reduce tax liability for corporate license taxpayers. Many of these expenditures can also be claimed by small businesses, S. corporations, or limited liability companies whose income is "passed through" to the owner, member, or partner and is taxed as individual income.

For certain expenditures the number of taxpayers using it is small. The Department of Revenue's policy is to not show the exact count when the number of taxpayers is less than 10. An asterisk indicates the number is fewer than 10.

Montana Deductions

Energy-Conserving Investments Deduction (15-32-103, MCA)

A corporate taxpayer may deduct a portion of expenditures on capital investment in a building for an energy conservation purpose from gross corporate income. If the building is a residential building, the taxpayer may deduct 100% of the first $1,000 expended, 50% of the next $1,000 expended, 20% of the third $1,000 expended, and 10% of the fourth $1,000 expended. For example if a corporate taxpayer invested $4,000 in approved energy conservation measures in a residential apartment building owned by the taxpayer, it would be able to deduct $1,800 of the expenses (100% of $1,000 plus 50% of $1,000 plus 20% of $1,000 plus 10% of $1,000 **or** $1,000+$500+$200+$100).

For non-residential buildings, the taxpayer may deduct 100% of the first $2,000 spent on energy conservation capital investments, 50% of the second $2,000 spent, 20% of the third $2,000 spent, and 10% of the fourth $2,000 spent. If a corporate taxpayer invested $4,000 in approved energy conservation measures in an non-residential building owned by the taxpayer, it could deduct $3,000 of the expenses (100% of $2,000 plus 50% of $2,000 **or** $2,000+$1,000). If the taxpayer invested $8,000 in approved energy conservation measures in the same building, it could deduct $3,600 of the expenses (100% of $2,000 plus 50% of $2,000 plus 20% of $2,000 plus 10% of $2,000 **or** $2,000 + $1,000 + $400 + $200).

This deduction is subject to approval of the Department of Revenue and cannot be taken on expenditures financed by a state, federal, or private grant. The purpose of this deduction is to encourage energy-conserving investments in existing buildings.

Deduction for Purchasing Montana-Produced Organic Fertilizer and Inorganic Fertilizer Produced as a Byproduct (15-32-303, MCA)

In addition to all the other allowed deductions from gross corporate income, a taxpayer may deduct expenditures for organic fertilizer and inorganic fertilizer produced as a byproduct, if the fertilizer was made or used in Montana. The purpose of this deduction is to promote the use of inorganic byproducts and organic matter produced by Montana industries.

Deduction for Donation of Exploration Information (15-32-510, MCA)

A taxpayer may deduct expenses from the donation of mineral exploration information to the Montana Tech Foundation to reside in the Montana Tech research library. Montana Tech has the right to limit what information is accepted and what deductions are granted. The documented expenses must be based on the cost of recreating the donated information. If the exploration incentive credit is also claimed by the taxpayer, then this deduction is limited to 20% of the actual value of the data. The deduction is intended to encourage the sharing of mineral exploration information.

Recycled Material Qualifying for Deduction (15-32-609, MCA)

A taxpayer may deduct an additional 10% of expenditures for the purchase of recycled material that was otherwise deductible as a business-related expense. The Department of Revenue defines the types of recycled material that may be used to claim this deduction. The purpose of this deduction is to encourage the use of goods made from reclaimed materials, especially post-consumer materials. The deduction will expire at the end of calendar year 2011.

This deduction is the only one for which data is accessible. In the most recent database of corporate taxpayer returns, the total deductions claimed were $20,167,172. At the general tax rate of 6.75%, this is a reduction of taxes of $1,361,284.

Montana Corporate Tax Credits

Many of these credits are available to individual income tax payers as well as corporate license taxpayers. More thorough explanations of many of the credits and their history are available in the individual income tax section on tax expenditures.

There are differences between the tax periods for the two different income taxes – individual and corporate. The tax year for Individual income tax returns is the calendar year and data from the tax returns is presented on that basis. The corporate license tax year and filing requirements is based upon the

corporation's fiscal year which can vary from the calendar year. The numbers of corporate tax credits claimed and the amount of the credits in this section are on a state fiscal year basis.

College Contribution Credit

Individual and corporate taxpayers are allowed a credit equal to 10% of donations to the general endowment funds of units of the Montana university system, Montana private colleges, or Montana private college foundations. The maximum credit allowed per year is $500. The credit claimed may not exceed the taxpayer's liability. The credit must be applied in the tax year in which the donation was made and no carry forward or carry back is allowed (see 15-30-163, MCA).

The table to the right shows credits claimed on corporate tax returns by fiscal year.

College Contribution Credit

Fiscal Year	Number of Credits Claimed	Total Credits Claimed
1997	43	$7,244
1998	35	$6,868
1999	36	$6,676
2000	34	$8,933
2001	36	$8,221
2002	28	$6,737
2003	23	$5,413
2004	24	$6,480
2005	18	$4,571
2006	21	$4,449
2007	30	$9,194
2008	28	$6,265

Contractor's Gross Receipts (15-50-207, MCA)

Contractors are required to pay a license fee equal to 1% of the gross receipts from government contracts during the year for which the license is issued. The agency or prime contractor withholds the 1% license fee from payments to the prime contractor or subcontractors. The agency or contractor is responsible for remitting the correct amount to the Department of Revenue along with a form reporting who is to be credited with the license fee payment.

Contractors may use the amount of gross receipts tax paid as a credit against the contractor's corporation license tax liability or income tax liability, depending upon the

Contractor's Gross Receipts

Fiscal Year	Number of Credits Claimed	Total Credits Claimed
1997	118	$558,711
1998	108	$499,682
1999	118	$906,014
2000	125	$847,950
2001	119	$709,652
2002	121	$1,048,955
2003	112	$955,814
2004	78	$972,698
2005	69	$1,142,370
2006	64	$703,319
2007	127	$1,717,148
2008	106	$1,393,906

type of tax the contractor must pay. The credit may be carried forward a maximum of 5 years.

Charitable Endowment Credit (15-31-161 and 162, MCA)

A qualified endowment is a permanent fund held by or on behalf of a 501(c)(3) charitable organization. A planned gift is one of nine types of arrangements specified in the IRS code that generally provide income to the donor for life or a set period and then the remainder goes to the charity. Individual taxpayers are allowed a credit of 40% of the present value of a planned gift to a qualified charitable endowment.

Charitable Endowment Credit

Fiscal Year	Number of Credits Claimed	Total Credits Claimed
1998	15	$63,516
1999	58	$313,675
2000	100	$462,002
2001	127	$703,420
2002	125	$622,099
2003	77	$425,846
2004	52	$117,618
2005	38	$106,490
2006	45	$121,753
2007	50	$160,667
2008	46	$174,337

Corporations are allowed a credit of 20% of a gift to a qualified endowment. As noted in the section on individual income tax, the concept of planned gifts makes sense for individuals but not corporations; therefore, corporations are allowed the credit for an outright gift. In the 2007 Legislature SB 150 extended the credit through 2013. The same legislation restricted the definition of a qualified endowment to exclude a fund where the contributions are expended directly for construction, renovation, or purchasing operations assets, such as building or equipment. However the interest from the endowment may be used to purchase operational assets, but not the principle. Data on corporate license tax credits claimed is available for fiscal years 1998-2008 and is provided in the table.

Alternative Fuel Motor Vehicle Conversion Credit (15-30-164, MCA)

Taxpayers are allowed a credit against individual income tax or corporate license tax of up to 50% of the cost of converting a motor vehicle to operate on natural gas, liquefied petroleum gas (LPG or propane), liquefied natural gas, hydrogen, electricity, or a fuel of at least 85% alcohol or ether. The credit is limited to $500 for conversion of a motor vehicle with gross weight of 10,000 pounds or less or $1,000 for

Alternative Fuel Motor Vehicle Conversion Credit

Fiscal Year	Number of Credits Claimed	Total Credits Claimed
2001	*	$2,760
2002	*	$7,000
2003	*	$3,000
2004	*	$12,267
2005	*	$50
2006	0	$0
2007	*	$16,000
2008	*	$23,500

conversion of a vehicle weighing more than 10,000 pounds.

The credit claimed cannot be more than the taxpayer's liability and cannot be carried forward or back. The credit must be claimed for the year in which the conversion was done. The table in this section shows the number of corporate returns with credits claimed and the total dollar amount of credits.

Health Insurance for Uninsured Montanans Credit (15-31-132, MCA)

A corporation with 20 or fewer employees working at least 20 hours per week may claim a nonrefundable credit of up to $3,000 against corporation license tax. In order to claim the credit the employer must pay at least 50% of the employee's premium and can claim a credit for a maximum of 10 employees' health or disability insurance (ARM 42.4.2802).

A credit of $25 a month is allowed if the employer pays 100% of the employee's premium. If the employer pays a share of the employee's premium then the $25 credit is pro-rated by the same percentage share.

Health Insurance for Uninsured Montanans

Fiscal Year	Number of Credits Claimed	Total Credits Claimed
1997	*	$1,490
1998	10	$5,403
1999	11	$6,820
2000	11	$7,468
2001	11	$7,566
2002	*	$1,219
2003	16	$18,888
2004	17	$19,433
2005	78	$91,543
2006	92	$118,476
2007	206	$201,593
2008	126	$111,786

The credit is subject to a number of restrictions including that the credit may not exceed 50% of the total premium for each employee, the credit may not be claimed more than 36 consecutive months, and may not be granted to an employer or its successor within 10 years of when the last credit was claimed. The employer must have been in business in Montana for at least 12 months and the credit cannot be carried forward or backward and claimed against another year's taxes.

Insure Montana Small Business Health Insurance Credit (15-31-130, MCA)

This credit was enacted by the 2005 legislature (HB667) and was applicable beginning with tax year 2006. Sections 33-22-2006, 15-30-185, and 15-31-130, MCA establish the credit. The table to the

Insure Montana Credit

Fiscal Year	Number of Credits Claimed	Total Credits Claimed
2007	87	$404,942
2008	221	$1,057,951

right provides the data on credits claimed in fiscal years 2007-2008.

The 2005 legislation established a voluntary small business health insurance pool with small employers composing the membership (33-22-2001, MCA). Members of the pool are eligible for premium assistance or incentives, or tax credits. An employer that has not offered group health insurance in the last two years may take premium assistance payments instead of claiming the credit.

A small employer that provides group health insurance for its employees through the state pool may claim a credit against taxes of:

(a) up to 50% of total premiums the employer pays for the plan or,

(b) up to $100 per month per covered employee ($125 if the average age is at least 45), up to $100 per month per covered spouse, and up to $40 per other covered dependent.

The maximum credit depends on the number of employees an employer may have and be eligible and this is set by the State Auditor's Office in an administrative rule. The current maximum is nine employees. Taxpayers with credits that are greater than their tax liability may have the excess credits refunded. A taxpayer may not deduct insurance premiums as a business expense if the taxpayer has taken the credit.

As discussed in the income tax section, while it is included as a credit on the tax form, from a tax expenditure perspective the Insure Montana Small Business Health Insurance credit is different from other credits which decrease general fund available for other purposes. This credit is funded by general fund which is then reimbursed from cigarette and tobacco tax collections. Because these tax collections also fund programs to offset the health costs due to cigarette and tobacco use, the reimbursement of the general fund reduces the funding available for these health programs.

Recycling Credit (15-32-601-611, MCA)

Taxpayers are allowed a credit against individual income tax or corporate license tax for a portion of the cost of investments in depreciable property used in collecting or processing reclaimable material or manufacturing a product from reclaimed material. The amount of the credit is equal to 25% of the cost of the first $250,000 invested in property, 15% of the cost of the next $250,000 invested in property and 5% of the next $500,000 of investment.

Recycling Credits

Fiscal Year	Number of Credits Claimed	Total Credits Claimed
1997	15	$231,567
1998	14	$91,421
1999	15	$140,544
2000	*	$54,290
2001	*	$87,912
2002	*	$119,060
2003	*	$5,440
2004	*	$2,718
2005	*	$17,905
2006	*	$39,700
2007	12	$81,892
2008	10	$102,037

Therefore if the taxpayer invests a total investment $1,000,000 in property that qualifies for the credit, the taxpayer can claim a credit of $125,000. If the taxpayer invests $250,000 in property qualifying for the credit then the taxpayer can claim a credit of $62,500. The credit terminates December 31, 2011. An asterisk in the table indicates less than 10 corporate taxpayers claimed this credit.

Oilseed Crushing and Biodiesel Production Facility Credit (15-32-701 and 702)

Taxpayers are allowed a credit against individual income tax or corporation tax of 15% of the costs of investments in depreciable property in Montana that is used primarily for crushing oilseeds for producing biodiesel or lubricants or for the production of biodiesel or biolubricants. The taxpayer can claim credits on investments for the two tax years prior to when the facility begins production or any tax year that the equipment is in production up to January 1, 2015. Unused credits can be carried forward seven years. Taxpayers claiming the credit can still claim depreciation or amortization and other credits allowed by the state.

Oilseed Crushing & Biodiesel Production Credit

Fiscal Year	Number of Credits Claimed	Total Credits Claimed
2007	0	$0
2008	*	$500

The credit is subject to a number of restrictions, including how the credit can be carried forward; total credits claimed may not exceed $500,000; and the depreciable property for which the credit has been claimed must begin to be

used by 2015 for the purposes of oilseed crushing and biodiesel or biolubricant production.

The credit was first enacted by the 2005 legislature in HB 756. The 2007 legislature passed HB 166 which extends this credit's life to January 1, 2015 from January 1, 2010; allows the credit to apply to biolubricants too; and allows the credit to be claimed on investment in the two tax years prior to when the equipment is used in production. The table above provides the available data on corporate tax credits claimed in fiscal years 2007-2008; in FY 2008 less than 10 taxpayers claimed the credit as indicated by the asterisk.

Biodiesel Blending and Storage Tank Credit (15-32-703, MCA)

Biodiesel Storage and Blending Credit

Fiscal Year	Number of Credits Claimed	Total Credits Claimed
2007	*	$7,559
2008	0	$0

This credit was established in HB 756 passed by the 2005 legislature. Taxpayers can claim a credit of 15% of the cost of equipment used in blending biodiesel made from Montana ingredients with petroleum-based diesel. The credit can also be used for storage facilities in a year when the taxpayer is blending or in the two years before blending began. The total credits that may be claimed over time are $52,500 for a distributor (wholesaler) and $7,500 for a retailer.

The credit is subject to a number of restrictions, including that the taxpayer's biodiesel sales must be greater than 2% of the total diesel sales by the end of the third year after the year that the investment is claimed. The unused tax credit can be carried forward up to 7 years, but can only be claimed in tax years in which the facility is operating for the purposes of biodiesel blending. The table above provides the available data on corporate tax credits claimed in fiscal years 2007-2008. Less than 10 corporate license taxpayers claimed the credit in FY 2007 as indicated by the asterisk.

Geothermal Heating System Credit (15-32-115, MCA)

Geothermal System Credit

Fiscal Year	Number of Credits Claimed	Total Credits Claimed
2007	0	$0
2008	*	$500

Taxpayers are allowed a credit against individual income tax or corporation tax for up to $1,500 of costs of installing a geothermal heating system (ground-source heat pump) in the taxpayer's principal residence or in a residence the taxpayer constructs. Only one credit may

be claimed per residence and any credit remaining after the year of installation can be carried forward and claiming in succeeding tax years. This credit could not be claimed by corporate taxpayers, such as builders of residential units, until tax year 2006. The change was made by the 2005 legislature (SB 340). The asterisk in the table indicated that less than 10 corporate license taxpayers claimed this credit in FY 2008.

Alternative Energy Production Credit (15-32-401 through 407, MCA)

Qualifying taxpayers that invest $5,000 or more in a commercial system, or net metering system, that generates energy using alternative energy sources is allowed a credit against corporation license tax of 35% of the costs, less any federal or state grants. Alternative energy sources are defined as including, but not limited to, solar energy, wind energy, geothermal energy, conversion of biomass, fuel cells that do not require hydrocarbon fuel, small hydroelectric generators producing less than 1 megawatt; and methane from solid waste.

Alternative Energy Production Credit

Fiscal Year	Number of Credits Claimed	Total Credits Claimed
2007	206	$201,593
2008	126	$111,786

Tax credits may be carried forward for seven years. The carry forward period is extended to 15 years if the equipment is placed in service within the boundaries of a Montana reservation and there is an employment agreement with the tribal government of the reservation in which tribal members will be trained and employed in constructing, maintaining and operating the system. The table above provides the available data on corporate tax credits claimed in fiscal years 2007-2008.

Dependent Care Assistance Credit (15-31-131 and 133, MCA)

Dependent Care Assistance Credit

Fiscal Year	Number of Credits Claimed	Total Credits Claimed
2001	*	$1,846
2002	*	$4,790
2003	*	$1,672
2004	*	$50
2005	0	$0
2006	*	$50
2007	*	$50
2008	0	$0

There are several employer costs for which dependent care credits can be claimed. If the employer provides day care services to employees' dependents or information and referral services to employees, then a credit against corporation tax can be claimed for a share of the costs. The allowed credit is 25% of the cost of the day care assistance with a limit of $1,575 per employee receiving the assistance. The day care must be provided by a licensed or registered day care provider; it must meet IRS requirements and cannot be part of the employee's compensation. The employer can also claim a credit on 25% of the cost of providing day care information and referral services to employees (15-31-131, MCA).

Under 5-31-133, MCA there is a credit allowed against corporation tax for a portion of the cost of setting up a day care facility to be used by the taxpayer's employees' dependents. The credit is the lowest of either:

(1)15% of the costs incurred, or
(2) $2,500 times the number of dependents the facility accommodates, or
(3) $50,000.

To claim the credit the facility must meet certain criteria, such as accommodating six or more children, be run by a licensed operator, and have been placed in operation by January 1, 2006. The credit is to be claimed over a ten year period, with $1/10^{th}$ of the credit claimed each year. An asterisk in the table above indicates that fewer than 10 corporate taxpayers claimed the credit in the fiscal year.

Historic Property Preservation Credit (15-31-151, MCA)

Corporate taxpayers may take a credit against corporation license tax for costs of rehabilitating a historic building located in Montana. The credit is 25% of the federal credit allowed by 26 USC 47(a)(2). The federal credit is 20% of the cost of rehabilitation of a building that has been certified as having historic significance and 10% of the cost of rehabilitation of a building placed in service before 1936 that has not been certified.

Historic Property Preservation Credit

Fiscal Year	Number of Credits Claimed	Total Credits Claimed
2001	*	$1,790
2002	*	$12,884
2003	*	$30,948
2004	*	$111,843
2005	*	$39,876
2006	*	$50
2007	*	$129,479
2008	*	$43,370

The credit is not refundable if it exceeds the amount of taxes owed, but unused credit can be carried over to the seven succeeding tax years. If the corporation is a partnership or small business corporation (S corporation) the credit must be attributed to the partners or shareholders in the same proportion used to report the partnership or corporation income or loss for Montana income tax purposes. An asterisk indicates that fewer than 10 corporate taxpayers claimed the credit in the fiscal year.

Montana Capital Company Credit (90-8-202, MCA)

Corporate taxpayers could take a credit against corporation license tax for investments in a certified Montana capital company or qualified small business investment company. The credit was limited to 50% of the investment up to $150,000 per taxpayer for regular capital companies, and an additional $250,000 for qualified investment in a Montana small business investment capital company.

The credit was last available for investments made before July 1, 1995, but the credit itself could be carried forward for up to 15 years and used to reduce tax liability. Credits currently being claimed are carried forward from prior years.

Montana Capital Company Credit

Fiscal Year	Number of Credits Claimed	Total Credits Claimed
1997	49	$223,028
1998	38	$158,615
1999	30	$62,112
2000	19	$15,541
2001	15	$9,047
2002	15	$2,695
2003	14	$934
2004	15	$2,716
2005	13	$26,809
2006	12	$45,374
2007	10	$57,363
2008	0	$0

Infrastructure Users Fee Credit (17-6-316, MCA)

The Board of Investments may make loans to local governments to finance infrastructure to serve a new or relocated business that will result in 15 or more new full-time jobs. The infrastructure may serve as collateral for the loan and the local government may charge fees to the users for extending the infrastructure. The business may claim a credit against income or corporation tax for the amount of the fee it pays.

Infrastructure Users Fee Credit

Fiscal Year	Number of Credits Claimed	Total Credits Claimed
2001	*	$100
2002	*	$36,295
2003	*	$533,813
2004	*	$814,362
2005	*	$685,134
2006	*	$50
2007	*	$622,928
2008	*	$1,345,829

The total amount of the credit claimed may not exceed the amount of the loan. The credit can be carried forward for 7 years and used to reduce tax liability or carried back for 3 years. Data is available on the credits claimed against corporate license tax for fiscal years 2001-2008. As with the other tables, an asterisk indicates that fewer than 10 corporate taxpayers claimed the credit in the fiscal year.

New/Expanded Industry Credit (15-31-124 and 125, MCA)

New or expanding manufacturing industries are allowed a tax credit equal to 1% of the total new wages paid in Montana for the first three years of operation or expansion. Expanding operations must increase total full-time jobs by 30% or more. "New" industry means a corporation engaging in manufacturing for the first time in Montana.

New and Expanded Industry Credit

Fiscal Year	Number of Credits Claimed	Total Credits Claimed
2005	*	$14,659
2006	*	$84,708
2007	*	$83,570
2008	*	$4,311

The table on the right provides the information on corporate license tax credits claimed. Data is available for fiscal years 2005-2008. An asterisk indicates that fewer than 10 corporate taxpayers claimed the credit in the fiscal year.

Empowerment Zone New Employees Tax Credit (15-31-134, MCA)

A local government may establish an empowerment zone in an area with chronic high unemployment (7-21-3710, MCA). Employers in an empowerment zone are eligible for a credit against either income tax or corporation license tax for the first three years of employment for new positions. The credit per new employee is $500 for the first year, $1,000 for the second year, and $1,500 for the third year.

Empowerment Zone New Employees Tax Credit

Fiscal Year	Number of Credits Claimed	Total Credits Claimed
2005	*	$948
2006	0	$0
2007	0	$0
2008	0	$0

To receive the credit, the taxpayer must apply for and receive certification from the Department of Labor and Industry. The table provides information on corporate license tax credits claimed. Data is available for fiscal years 2005-2008. An asterisk indicates that fewer than 10 corporate taxpayers claimed the credit in the fiscal year.

Qualified Research Credit (15-31-150, MCA)

Taxpayers may receive a nonrefundable tax credit for increases in qualified research expense and basic research payments for research conducted in Montana. The amount of the credit is determined in accordance with section 41 of the IRC, U.S.C. 41 as it read on July 1, 1996 or as subsequently amended. Section 41 of the IRS code provides a credit equal to 20% of any increase in research expenditures over the taxpayer's baseline research expenditures. Montana provides a 5% credit against individual income tax or corporation license tax for the same increases in expenditures in the state.

Increased Research Activities Credits

Fiscal Year	Number of Credits Claimed	Total Credits Claimed
2001	*	$87,912
2002	*	$119,060
2003	*	$5,440
2004	*	$2,718
2005	*	$17,905
2006	*	$39,700
2007	12	$81,892
2008	10	$102,037

The taxpayer may not claim a credit for the current year after December 31, 2010. Unused credits from any tax year can be carried back for two years or carried forward for up to 15 years and used to reduce tax liability. An asterisk indicates that fewer than 10 taxpayers claimed the credit in the fiscal year.

Mineral Exploration Incentive Credit (15-32-501 through 509, MCA)

Taxpayers are allowed a credit, not to exceed 50% of the taxpayer's liability and not greater than $20 million, for certified mineral exploration expenses. The credit is for the full amount of solid mineral or coal exploration activity in the state (oil and gas exploration expenditures are not eligible). The credit is available only for expenses incurred up to the time that construction of a new mine or reopening of a previously closed mine commences. The credit can be carried forward for 15 years.

Mineral Exploration Credit

Fiscal Year	Number of Credits Claimed	Total Credits Claimed
2007	*	$1,212
2008	*	$1,831

The table above provides the available data on this credit. An asterisk indicates that fewer than 10 taxpayers claimed the credit in that fiscal year.

Film Employment Credit (15-31-907 and 908, MCA)

The Big Sky on the Big Screen Act was passed by the 2005 legislature. The 2007 Legislature revised the Act, which is in Section 15, Chapter 31, Part 9 of the MCA, to remove the $1 million limitation on the amounts of tax credits received and made other changes. Under the Act if the production has been certified by the Department of Commerce, then credits against either corporate or individual income taxes are allowed for two types of expenditures. Taxpayers are allowed a credit equal to 14% of the first $50,000 of compensation paid to each Montana resident employed on a state-certified production. Employee compensation for which the credit is claimed may not be deducted from gross revenue in calculating taxable income.

Film Production Credit

Fiscal Year	Number of Credits Claimed	Total Credits Claimed
2007	0	$0
2008	*	$9,007

A taxpayer may also claim a credit against income or corporation license tax for 9% of purchases in Montana for the making of a film that has met the criteria to be certified by the Department of Commerce. A taxpayer may not deduct any expenses for which a credit was claimed. The credit terminates on January 1, 2010, but unused credits can be carried over for use on tax returns for tax years beginning before January 1, 2014.

The table above shows the tax credits claimed against corporate income on returns filed in fiscal years 2007 and 2008. The asterisk indicates that fewer than 10 taxpayers claimed the credit in the fiscal year.

Short-term Temporary Lodging Credit

The 2007 legislature created a refundable individual and corporate income tax credit available to lodging establishments that provide free temporary lodging to individuals displaced from their homes due to domestic abuse (HB 240). The tax credit is available beginning with tax year 2008 and is equal to $30 for each day of lodging provided, limited to a maximum of five nights of lodging for each individual each year. The individuals must be referred to the lodging establishment by a designated charitable organization. The credit is claimable only for lodging provided in Montana.

The credit may not be claimed if the individual is displaced by a major disaster declared by the President under federal law (42 U.S.C. 5170 or 5191) and financial assistance for temporary housing assistance is available. Due to the newness of the credit, there is no return data available on the number and amount claimed.

Developmental Disability Account Contribution Credit

This credit is no longer available as of the end of 2007. Taxpayers were allowed a credit against individual income tax or corporation tax of 30% of any donation to the developmental disability services account. The credit was limited to a maximum of $10,000 and any excess beyond the taxpayer's liability was not refundable and could not be carried forward or backward to use against another year's taxable income.

Natural Resource Tax Expenditures - Oil and Gas Production

The following is a list of tax expenditures for the natural resource taxes. The majority of these exemptions take the form of lower tax rates for producers who meet certain qualifications.

The table shows the value of each tax expenditure. After the table is a description of how oil and natural gas qualifies for the reduced rates. Detailed information on the tax rates shown below is in 15-36-304, MCA.

Oil and Natural Gas Production Tax Expenditures			
Oil	FY 2006	FY 2007	FY 2008
Reduced Rates for:			
Post-1999 Production	$35,669,308	$45,805,139	$49,807,214
Horizontally Completed Wells First 18 Months	$56,434,134	$58,481,947	$44,849,421
Vertically Completed Wells First 12 Months	$1,209,869	$1,756,218	$1,922,834
Stripper Wells	$467,872	$962,642	$998,218
Horizontally Recompleted Wells First 18 Months	$465,140	$329,400	$140,615
Total	**$94,246,322**	**$107,335,347**	**$97,718,302**
Natural Gas	FY 2006	FY 2007	FY 2008
Reduced Rates for:			
Post-1999 Production	$27,352,802	$24,884,777	$28,014,159
Horizontally Completed Wells First 18 Months	$8,587,315	$5,763,620	$5,146,211
Vertically Completed Wells First 12 Months	$4,120,915	$6,010,413	$8,707,542
Total	**$40,061,033**	**$36,658,810**	**$41,867,912**

Reduced Rate for Oil and Gas Wells Completed After 1/1/1999

Oil and gas production from wells completed on or after 1/1/1999 is taxed at a reduced rate of 9.26% (instead of 12.76% for oil and 15.06% for gas). This reduced rate provides an incentive for the exploration, development, and production of oil and gas.

Reduced Rates for "New" Oil and Gas Production

Oil or gas from a well that qualifies as "new" production is taxed at a reduced rate of 0.76% (instead of 9.26% for oil and 15.06% for gas). This reduced rate applies for the first 12 months of production from a conventional well and the first 18 months of production from a horizontally completed well. New production includes production from new wells and from wells that have not produced oil or gas during the previous 60 months. This reduced rate provides an incentive for the exploration, development and production of oil and gas.

Reduced Rate for Horizontally Recompleted Oil Wells
The first 18 months of production from a horizontally recompleted well is taxed at 5.76%. After this period the tax rate reverts to 9.26% for post-99 wells or 12.76% for pre-99 wells.

Reduced Rates for Incremental Oil Production from Enhanced Recovery Projects
In any quarter when the average price of West Texas Intermediate (WTI) crude oil is less than $30 per barrel, incremental production from secondary recovery projects is taxed at 8.76%, and incremental production from tertiary recovery projects is taxed at 6.06%. In quarters when the average price of WTI is at least $30 per barrel, these wells are taxed at 9.26% for post-99 wells and 12.76% for pre-99 wells. The reduced rates provide incentives for the use of enhanced recovery technologies when prices are low.

Reduced Rates for Stripper Exemption (Super Stripper) and Stripper Oil Wells
In any quarter the average price of West Texas Intermediate crude oil is less than $38 per barrel (stripper exemption or super stripper oil), oil from wells on leases that produce less than three barrels per well per day is taxed at 0.76%. If the price of WTI is equal to or greater than $38 per barrel this oil is taxed at 6.26%.

From wells on leases that produce between 3 and 15 barrels per well per day (stripper oil), the first 10 barrels per day are taxed at 5.76% and remaining production is taxed at 9.26% in quarters when the average price of WTI is less than $30 per barrel. In quarters when the average price of WTI is at least $30 per barrel, stripper oil is taxed at 9.26% for post-99 and 12.76% for pre-99 wells. The reduced rates on super stripper and stripper oil provide an incentive to keep low-volume wells in production.

Reduced Rate for Horizontally Completed Gas Wells
After the first 18 months of production, production from a horizontally completed gas well is taxed at 9.26% (instead of 15.06%). The reduced rate provides incentive to use horizontal drilling technology.

Reduced Rate for Stripper Gas Wells
Gas wells that were completed before 1/1/1999 and produce less than 60 mcf per day are taxed at 11.26% (instead of 15.06%). The reduced rate provides incentive to keep low-volume wells in production.

Tax Expenditures (Other Taxes)

Rental Vehicle Tax

The Rental Vehicle Tax is a selective sales tax on the base rental charges for rental vehicles. The base rental charges include the charges for time of use of the rental vehicle, mileage, charges for personal accident insurance, charges for personal accident insurance, charges for additional or underage drivers and charges for certain accessory equipment.

Farm vehicles and machinery and equipment are specifically exempted from the rental car tax. These vehicles are exempted from the rental car tax to avoid taxing business inputs, which could lead to tax pyramiding. The Department does not have the rental charges associated with farm vehicles and machinery, so the value of this tax expenditure is unknown.

Beer Tax

The Beer Tax is a tax on each 31-gallon barrel of beer sold in Montana. The tax rate for producers that produce more than 20,000 barrels a year pay a tax of $4.30 for each barrel sold in Montana. Producers of less than 20,000 barrels a year pay lower tax rates for each barrel sold in Montana.

The table shows the number of barrels sold at each tax rate and the tax expenditure or difference between the total taxes paid and the amount that would have been due had the higher rate of $4.30 per barrel been paid by the producer.

		$1.30/ barrel	$2.30/ barrel	$3.30/ barrel	$4.30/ barrel	Total
2007	**Barrels**	21,525	5,856	4,439	955,278	955,278
	Expenditure	$64,575	$11,712	$4,439	$0	$80,726
2008	**Barrels**	26,289	4,779	4,310	938,233	973,610
	Expenditure	$78,867	$9,558	$4,310	$0	$92,735

The lower tax rates act as a direct payment for breweries that produce less than 20,000 barrels of beer a year. This results in lower payments to the Department of Public Health and Human Services and the state general fund. Without the lower tax rates, brewers that produced less than 20,000 barrels of beer would have paid $92,735 more in taxes in fiscal year 2008.

Liquor License Tax

The state of Montana levies a tax on the retail sale price of all liquor sold in the state. For producers that sell more than 200,000 proof gallon of liquor nationwide the tax is 10% of the retail price, for producers that produce more than 50,000 gallons and less than 200,000 gallons the rate is 8.6% of the retail

price, and for producers that produce less than 50,000 gallons the rate is 2% of the retail price.

In fiscal years 2007 and 2008, all liquor products sold in the state of Montana paid the 10% tax rate. While the reduced tax rates are in statute, they do not cost the state of Montana any tax revenue.

Liquor Excise Tax

The state of Montana levies an excise tax of 16% of the retail-sale price on all liquor sold by companies that sell more than 200,000 proof gallons of liquor nationwide. The rate for producers that sell less than 200,000 proof gallons of liquor nationwide is 13.8% of the retail price.

In fiscal years 2006, 2007 and 2008 there are no producers taxed at the lower rate, so during the last three fiscal years this tax expenditure has been $0.