SENATE TAXATION
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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.

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

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.