



**Dan Bucks**  
Director

# Montana Department of Revenue

SENATE TAXATION

EXHIBIT NO. 2

DATE 2.1.11

SENATE BILL NO. SB77



**Brian Schweitzer**  
Governor

## Senate Bill 77 – Additional Information

1. In Montana, trusts that do not distribute their income are taxed at the same graduated rates as individuals. 15-30-2153, MCA. Contrary to what was said in earlier testimony, the federal tax on trusts is also imposed at graduated rates (handout of federal trust return instructions and individual income tax return instructions showing federal graduated rates for each).
2. When the deduction for federal taxes paid was capped in 2003, it was one of a three-part enactment that complemented each other:
  - a. the deduction for federal income taxes paid was capped (this was of less tax benefit to lower income taxpayers than to higher income taxpayers; conversely this cost higher income taxpayers in a way it did not cost lower income taxpayers who paid less than \$5,000 in federal tax)
  - b. the credit for capital gains was enacted (this benefitted higher income taxpayers in Montana more than lower income taxpayers in Montana, whose income is mostly fully-taxed wages)
  - c. the number of tax rate brackets was reduced (from 10 to 7 brackets) and the tax rates were lowered (the highest rate was reduced from 11% for income over \$80,300 to 6.9% for income over \$13,900) (this significantly benefitted higher income taxpayers in Montana who now pay the same rate of tax as Montanans now earning more than \$15,600)
3. Unless a cap is imposed on the deduction for federal taxes paid by trusts, a special privileged class of high income taxpayers is created in Montana that:
  - enjoys having had their rate of tax lowered from 11% to 6.9% on income over \$15,600 (inflation adjusted)
  - still enjoys the full benefit a capital gains credit (because the tax is imposed only on undistributed trust income, this particularly benefits the trusts of individuals who are so wealthy they do not need or want distributions)
  - is given a tax benefit for an expense incurred by all Montana individuals that is not given to any Montana individuals.
4. Estates and trusts held for educational, charitable, or religious purposes do not file tax returns and pay tax to the state of Montana, 15-30-2151 (1), MCA.