



# Montana Department of Revenue



**Mike Kadas**  
Director

**Steve Bullock**  
Governor

To: Rep. Kris Hansen

From: Dan Dodds, Senior Economist

Date: March 12, 2013

Subject: Taxpayer impacts of HB 581

The following graphs show impacts of HB581 on groups of taxpayers. For each group, there are four graphs. The first shows the percent of returns with a tax increase of at least 5% or \$50, the percent with a tax decrease of at least 5% or \$50, and the percent with less than 5% or \$50 change. The second graph shows the average change in tax liability at different income levels. The third graph shows the same information as the second with the scale expanded to show more detail about changes for returns with low and middle incomes. The fourth graph shows the percentage change in tax liability at different income levels.

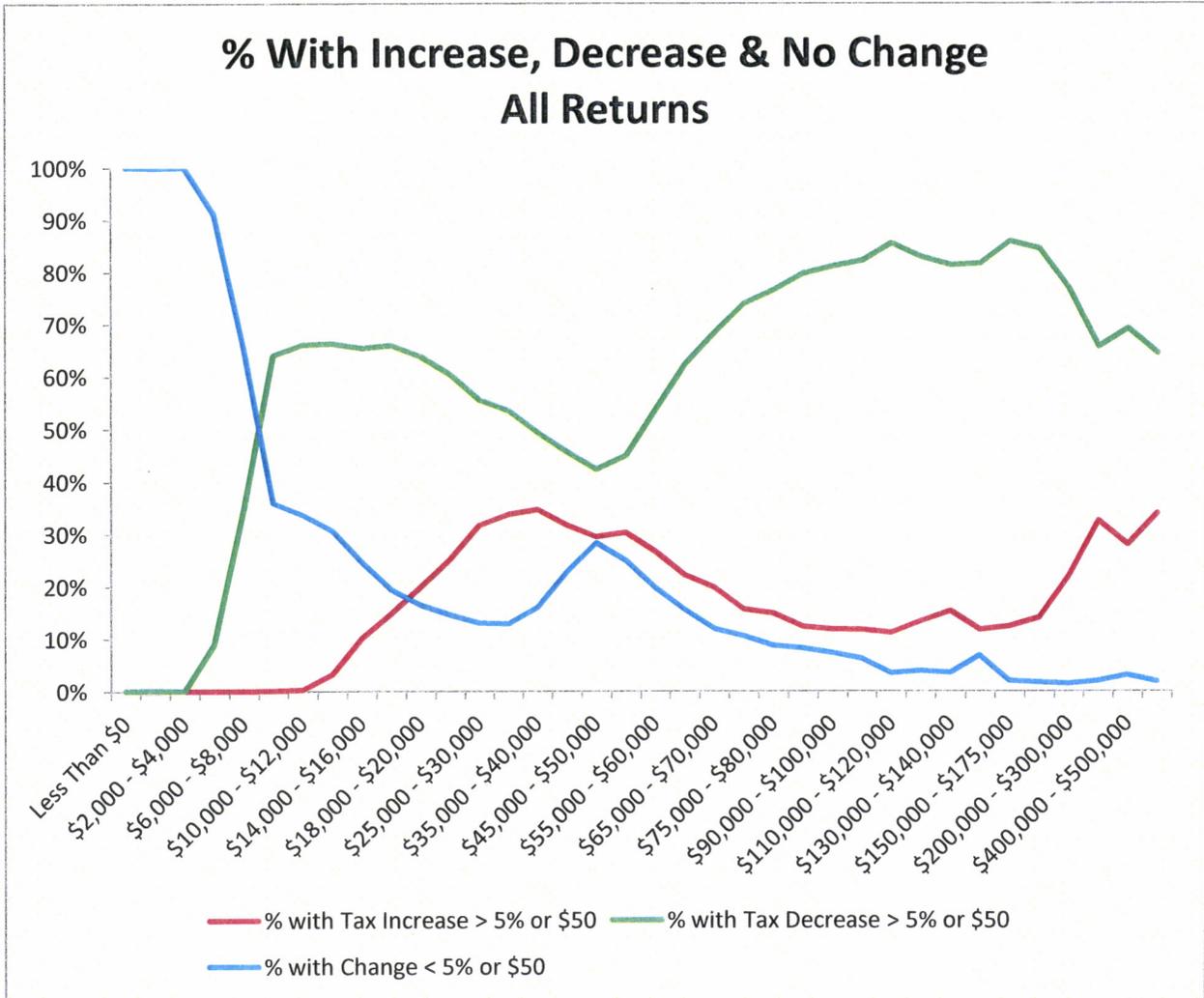
The graphs show returns grouped by

- All Returns
- Filing status on 2011 return
  - Head of Household,
  - Joint,
  - Married Separate, and
  - Single
- Whether taxpayers have dependents
  - Dependents, and
  - No Dependents
- Age
  - Returns with one taxpayer age 65 or older, and
  - Returns with no taxpayer age 65 or older
- Capital Gains
  - Returns with a net loss on the capital gains line,
  - Returns with zero capital gains, and
  - Returns with a net gain on the capital gains line,
- Deductions
  - Returns with Itemized Deductions, and
  - Returns taking the Standard Deduction

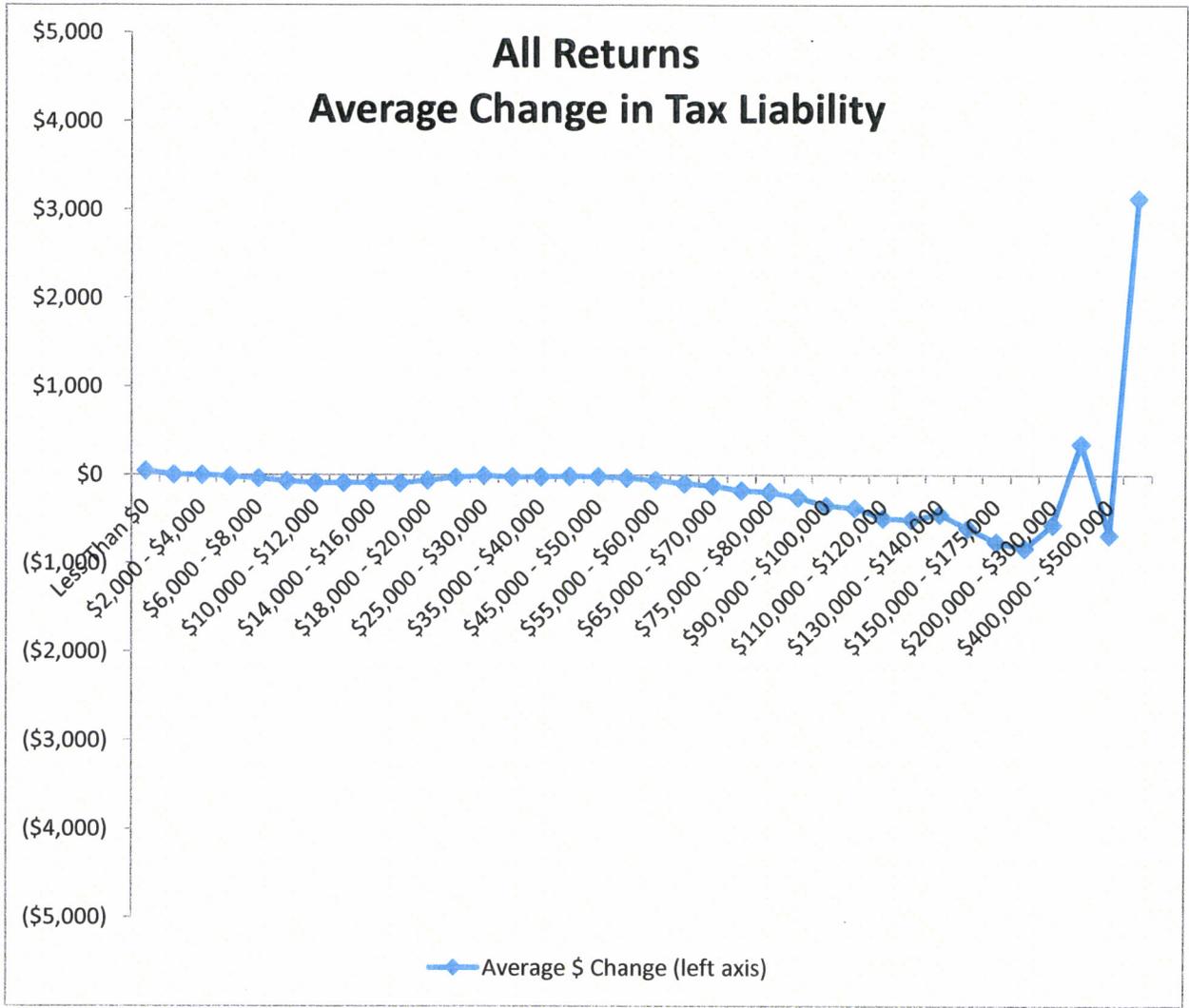
*Villa  
X3616*

# All Returns

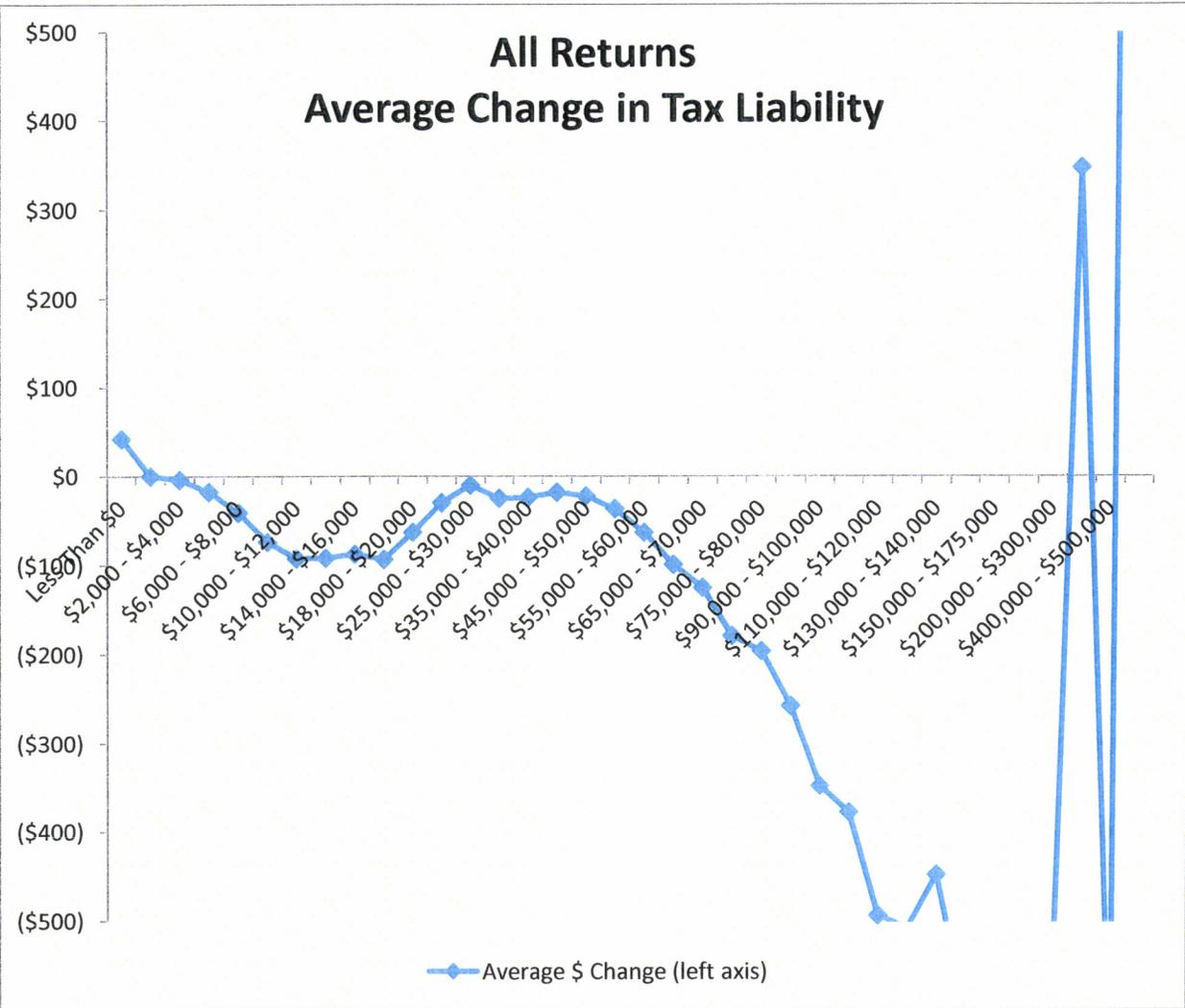
## % With Increase, Decrease & No Change All Returns

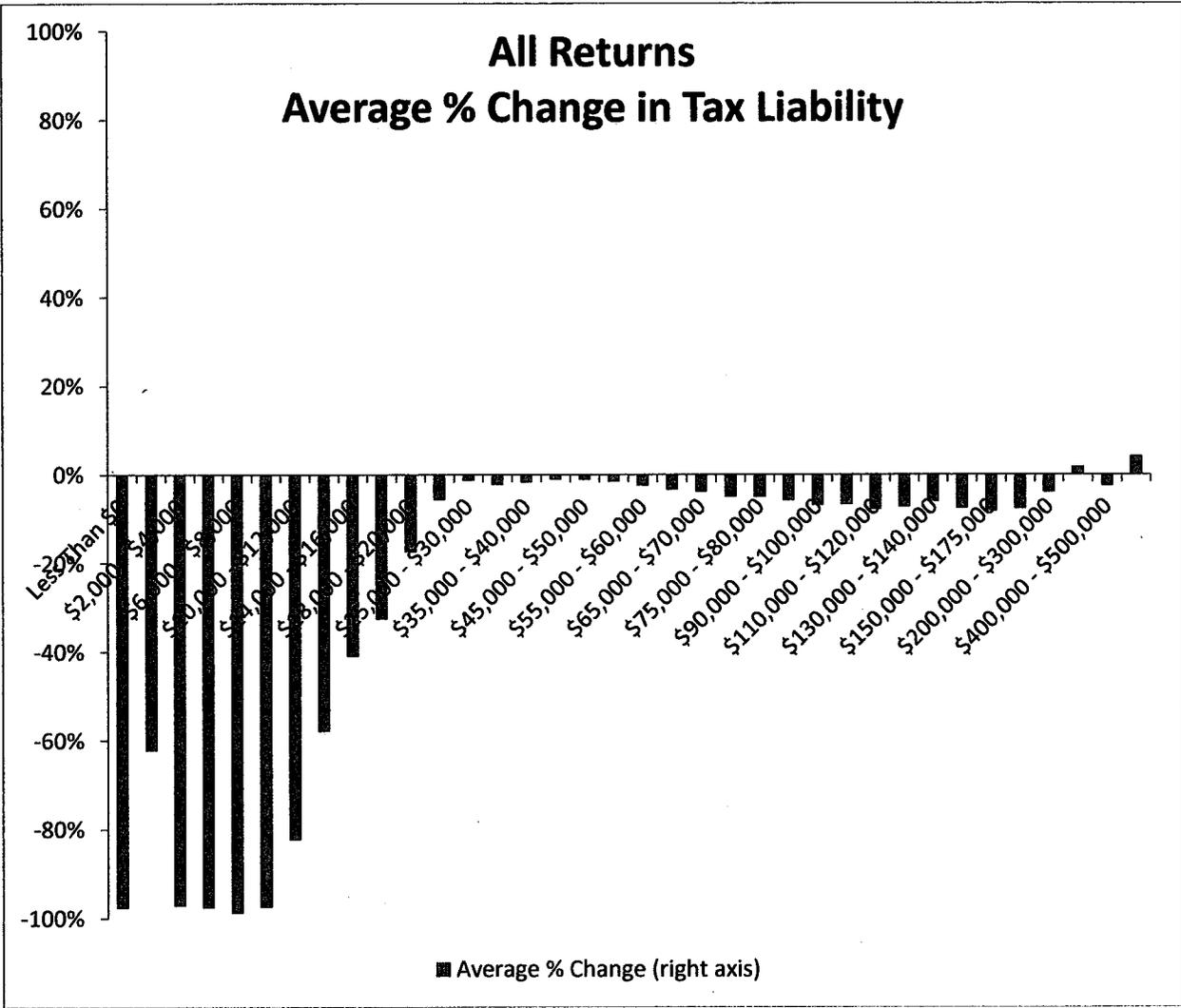


## All Returns Average Change in Tax Liability

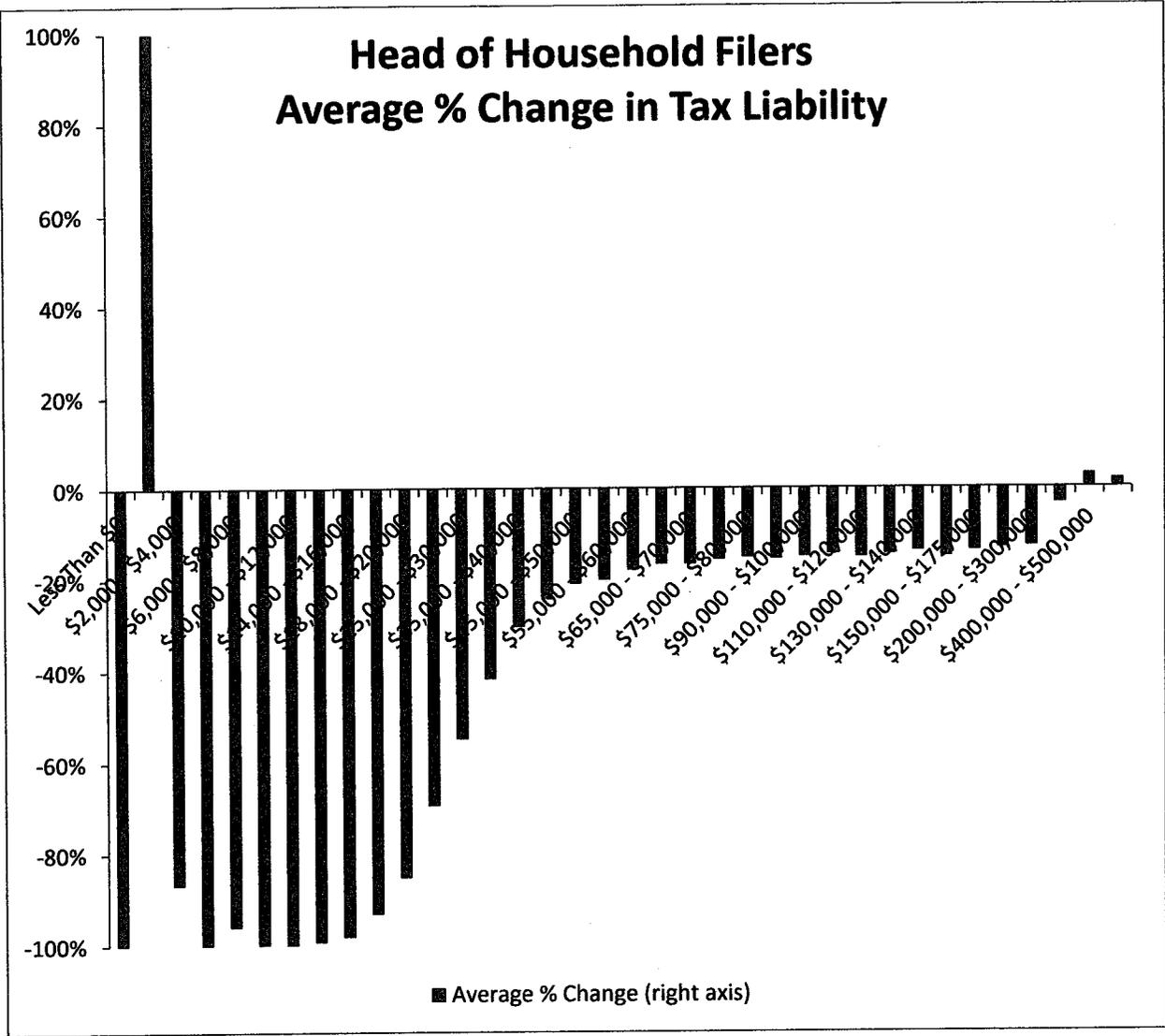


## All Returns Average Change in Tax Liability

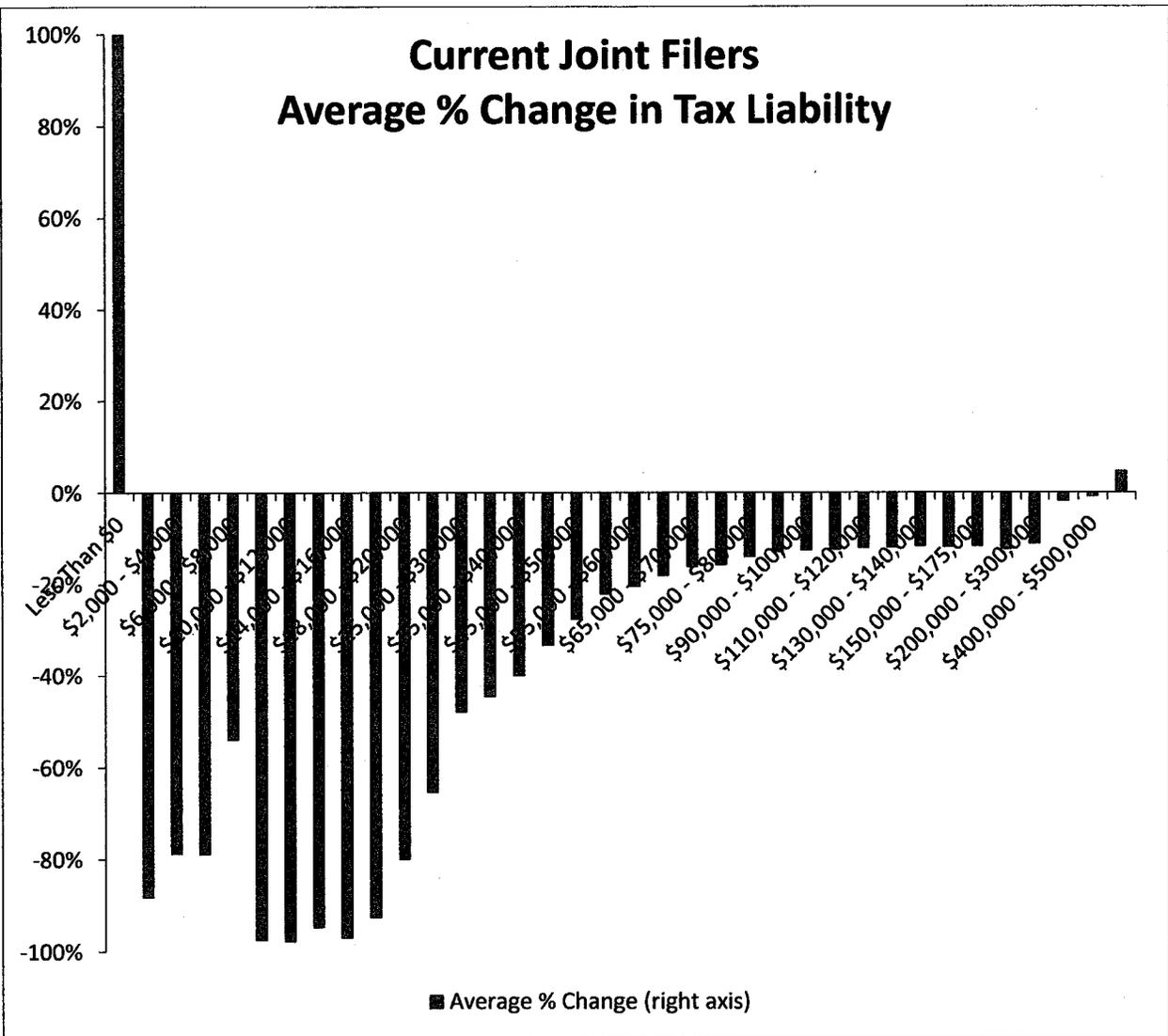




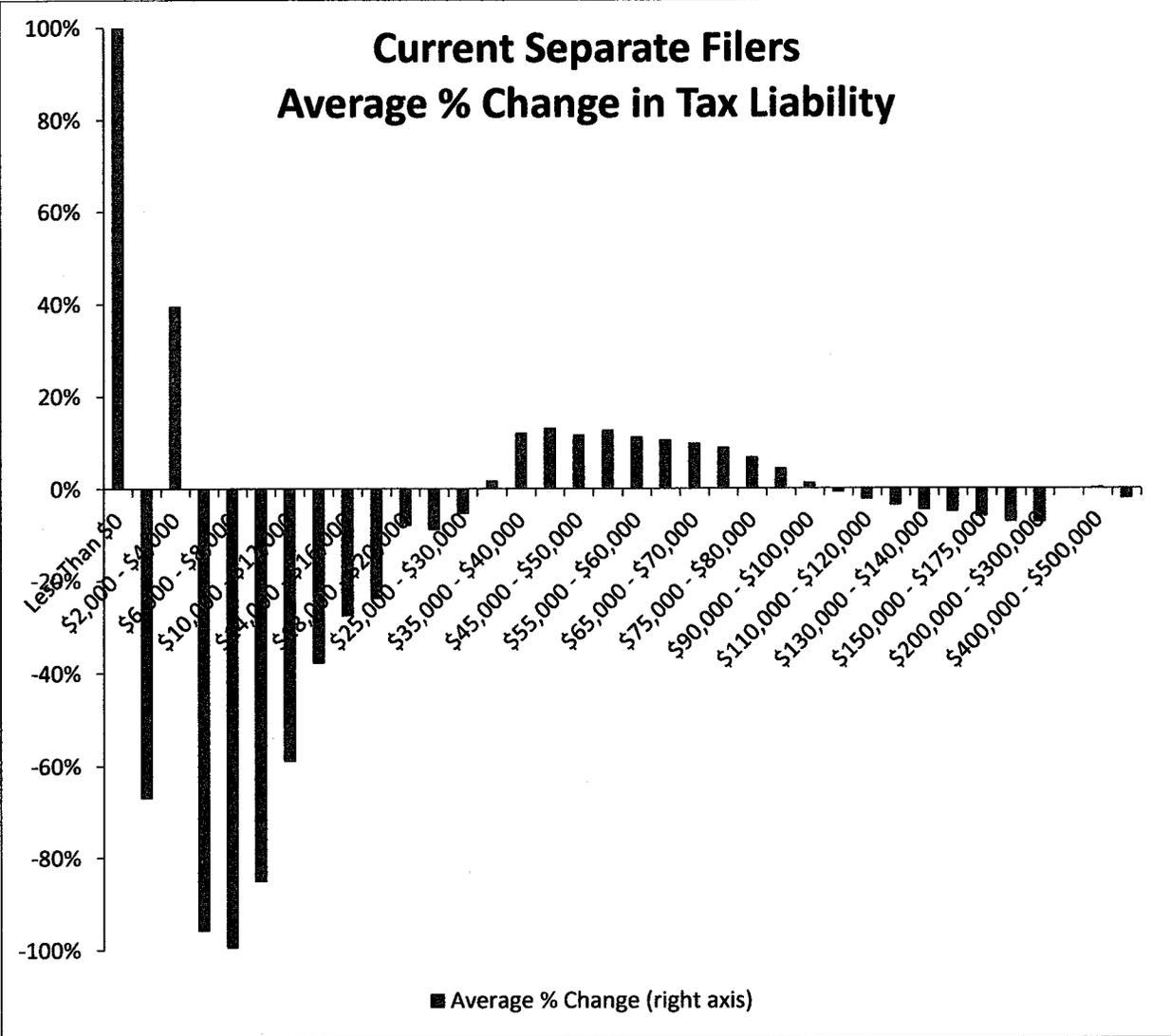
Returns Grouped by Filing Status

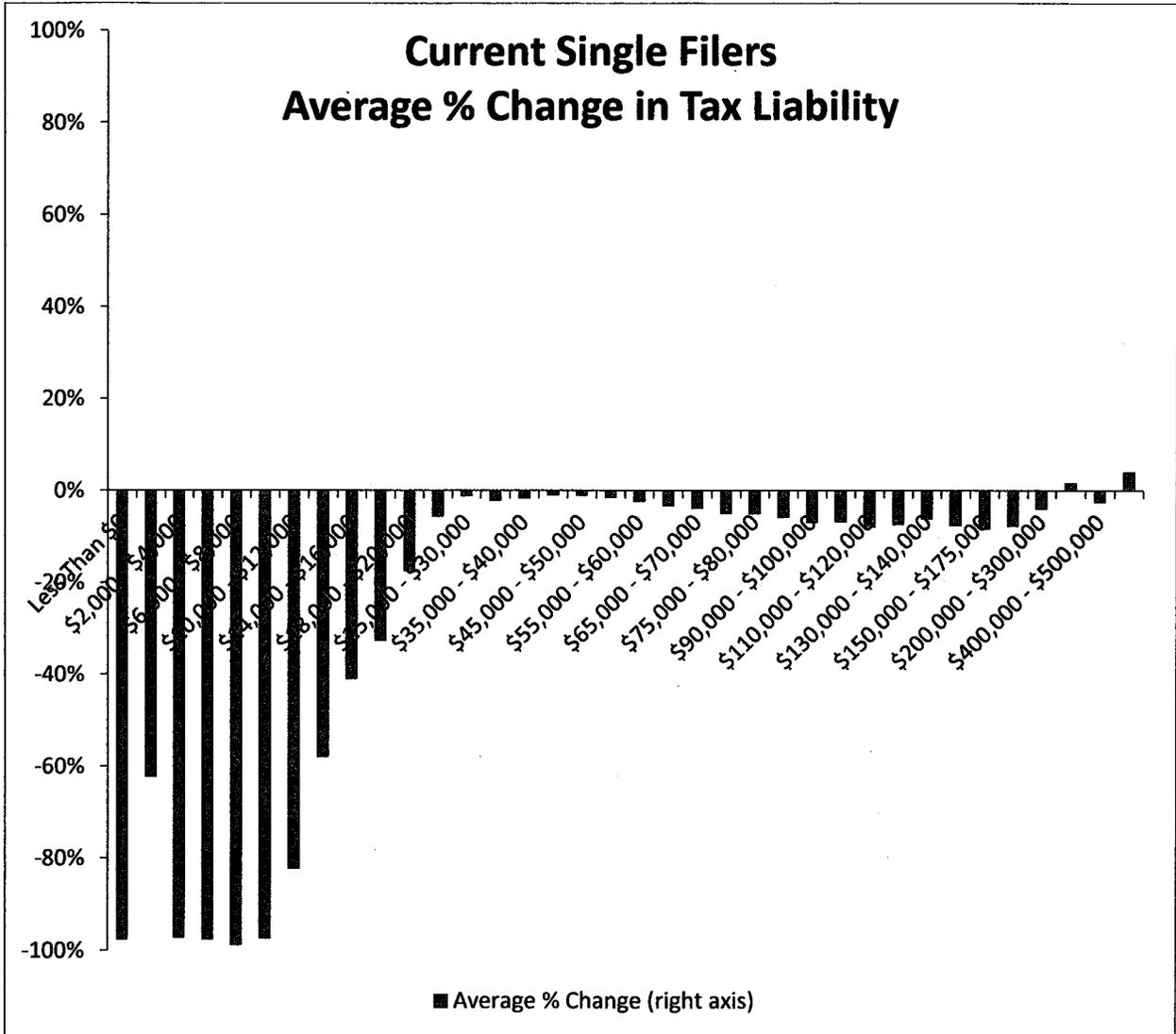


## Current Joint Filers Average % Change in Tax Liability



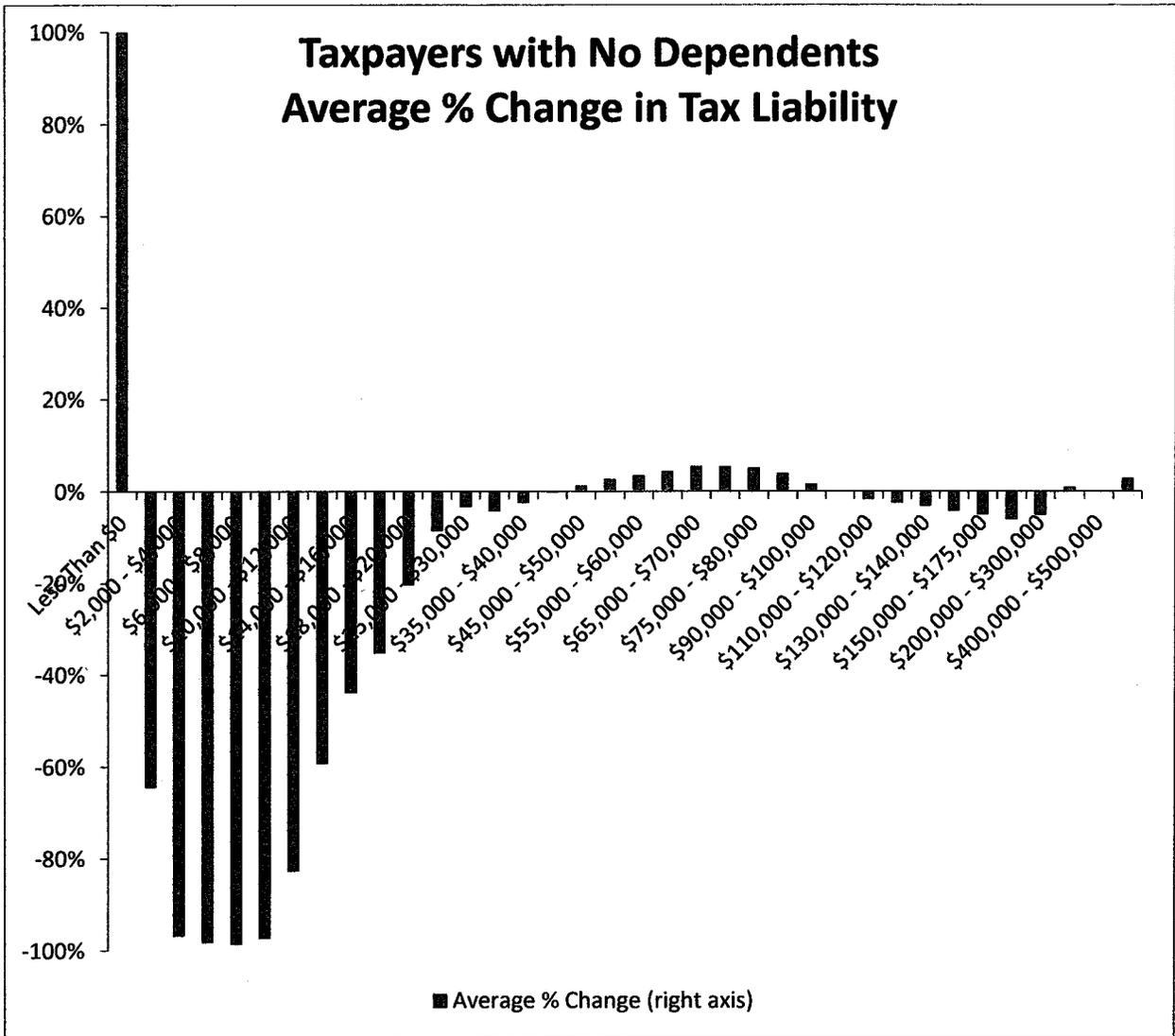
## Current Separate Filers Average % Change in Tax Liability

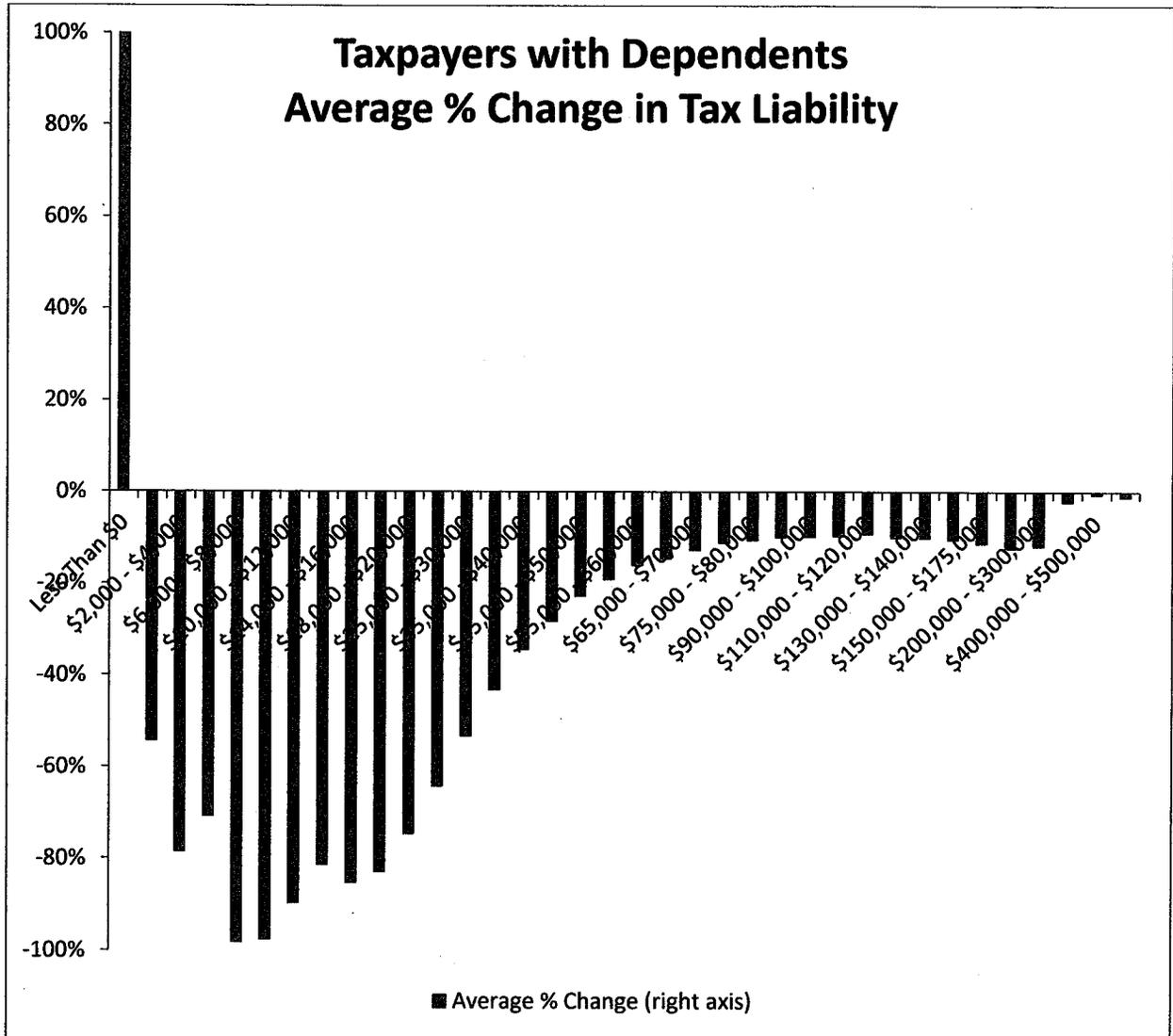




Taxpayers Grouped by Whether They Claimed Dependents

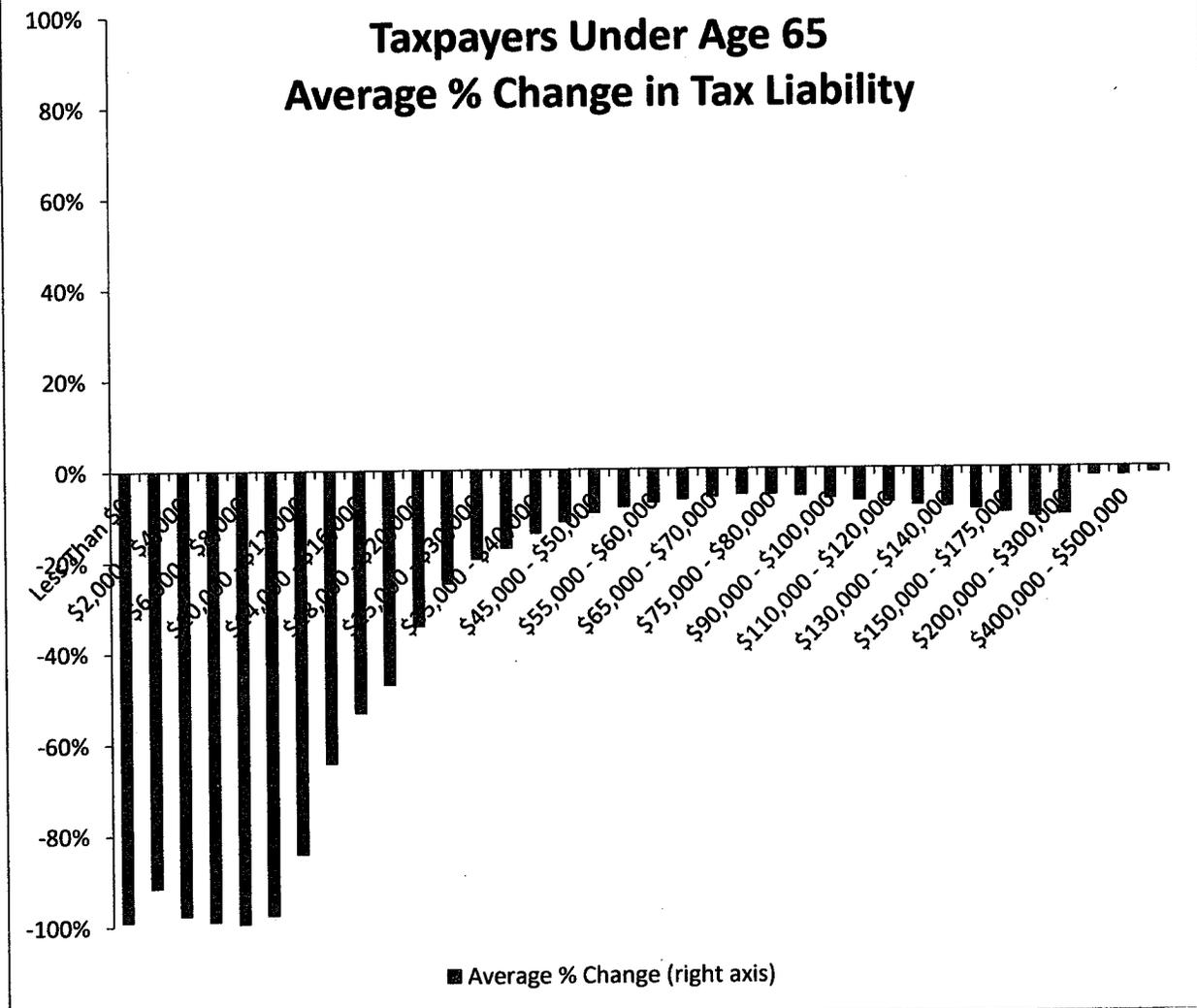
## Taxpayers with No Dependents Average % Change in Tax Liability

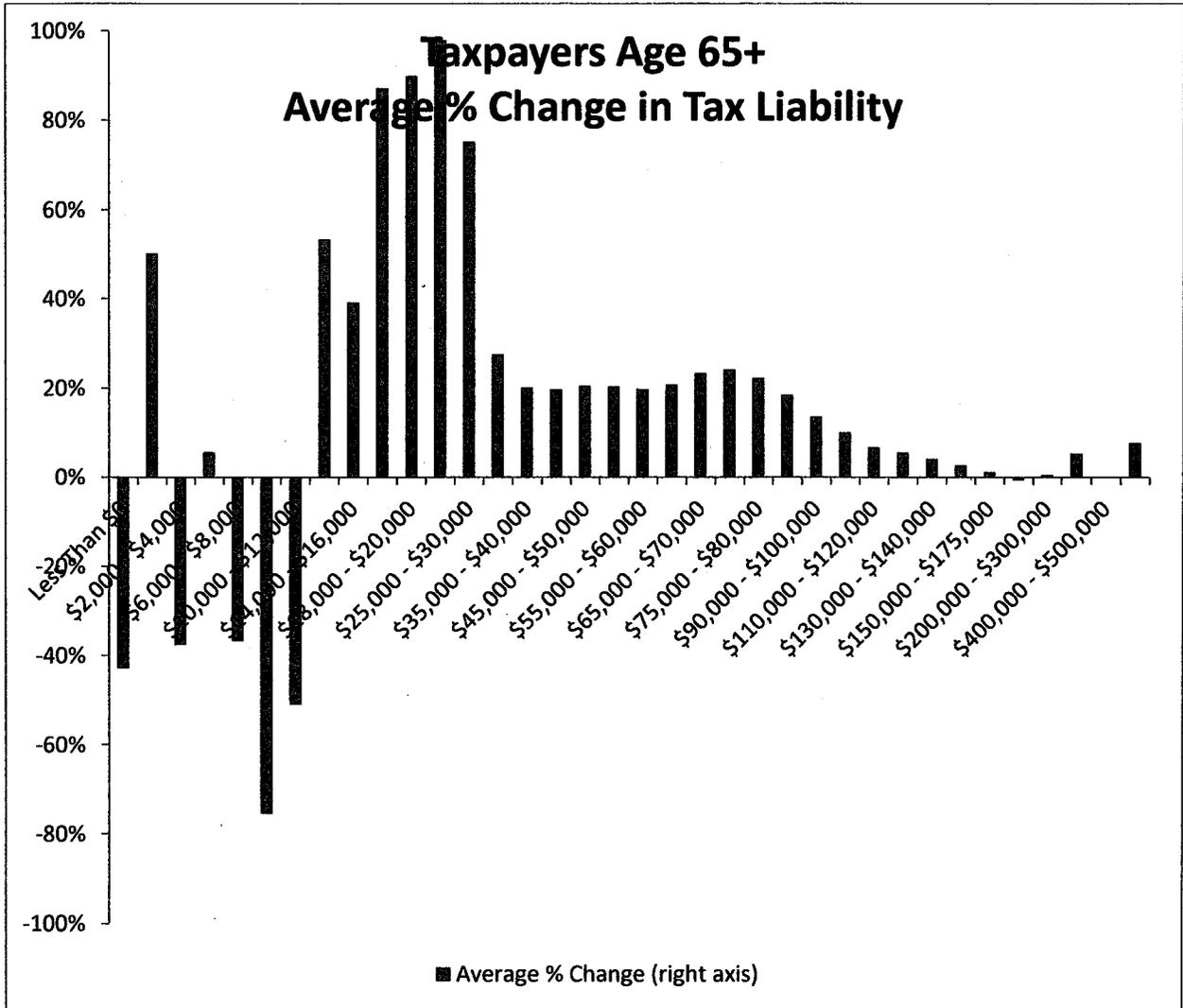




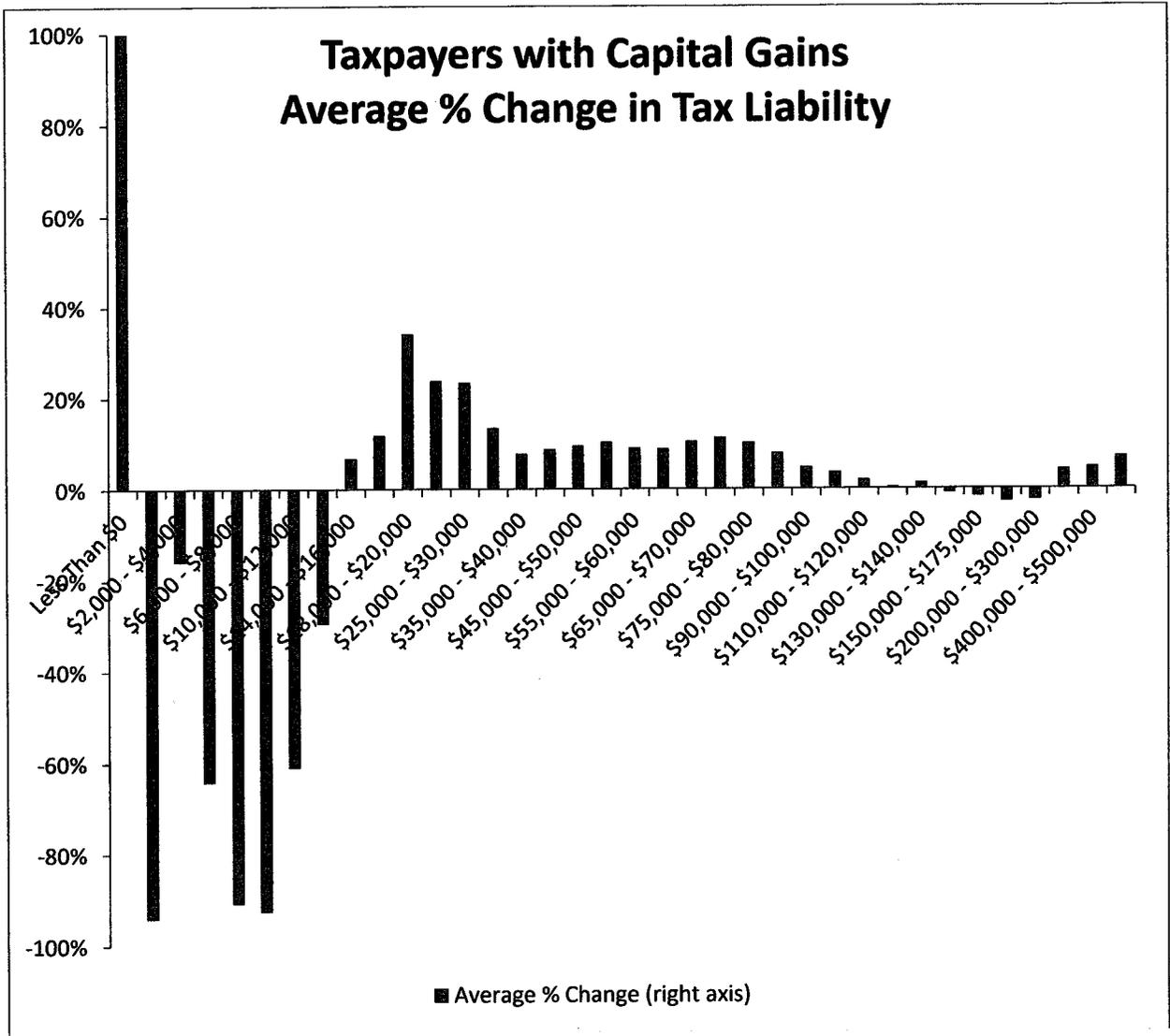
Taxpayers Grouped by Whether Age 65 and Older

## Taxpayers Under Age 65 Average % Change in Tax Liability





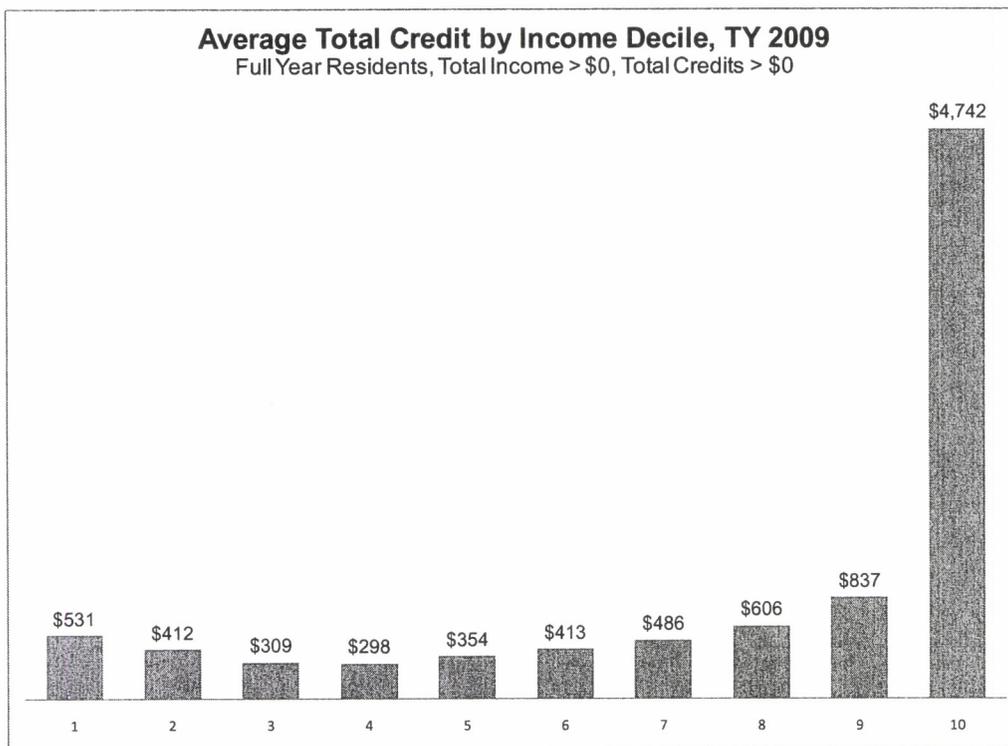
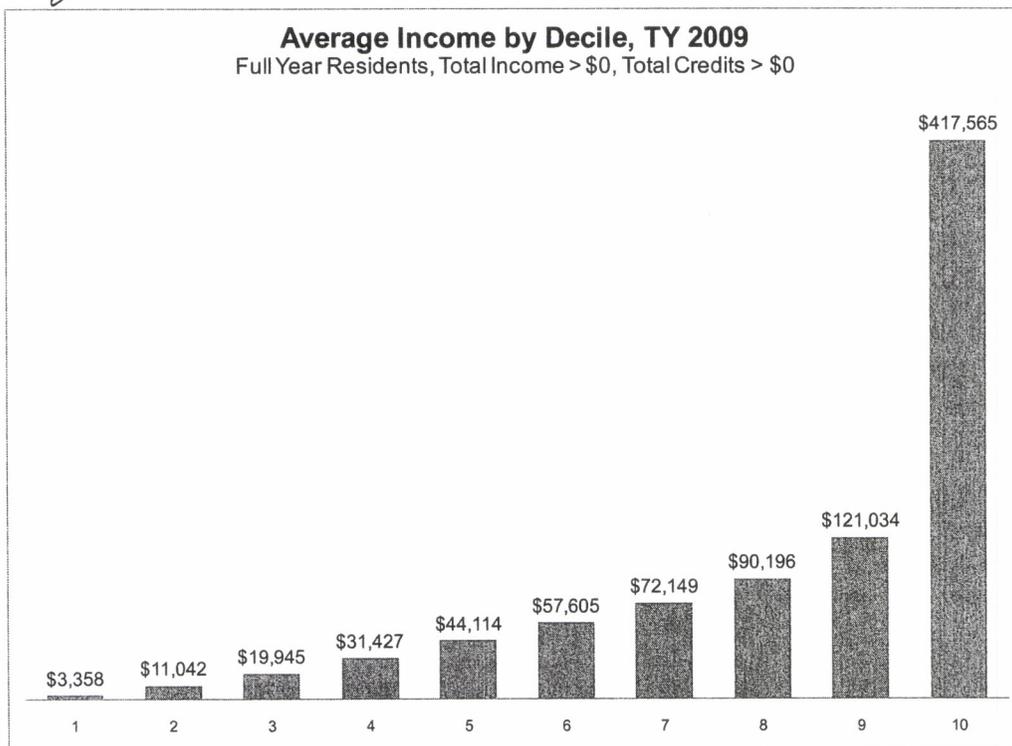
Taxpayers Grouped by Whether Have Capital Gains, Losses, or Neither



Taxpayers Grouped by Whether Itemized or Took Standard Deduction

# CREDIT USE BY INCOME DECILES

*- for people who use credits*

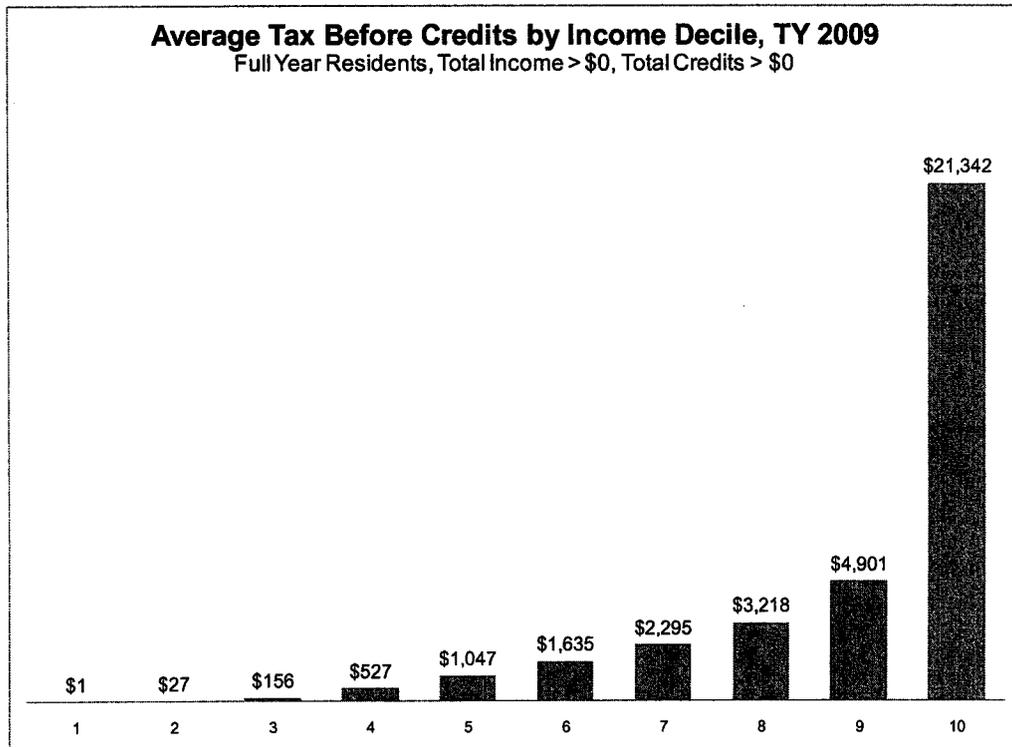


A

## EFFECTIVE TAX RATE BEFORE & AFTER CREDITS

There were 69,575 taxpayers with incomes greater than \$0 who claimed at least \$1 of tax credit in 2009; the total amount of credits claimed by these taxpayers was \$62.5 million.

Effective Tax Rate Before & After Tax Credits by Income Decile, TY 2009 Full Year Residents, Total Income > \$0, Total Credits > \$0						
Income Decile	Average Total Income	Average Total Tax	Average Total Credits	Effective Tax Rate Before Credits	Effective Tax Rate After Credits	Difference
1	\$3,358	\$1	\$531	0.04%	-2847.35%	2847.39%
2	11,042	27	412	0.22%	-3.72%	3.95%
3	19,945	156	309	0.75%	-0.86%	1.61%
4	31,427	527	298	1.65%	0.69%	0.96%
5	44,114	1,047	354	2.36%	1.56%	0.80%
6	57,605	1,635	413	2.83%	2.11%	0.72%
7	72,149	2,295	486	3.18%	2.50%	0.67%
8	90,196	3,218	606	3.56%	2.89%	0.67%
9	121,034	4,901	837	4.03%	3.34%	0.69%
10	417,565	21,342	4,742	4.84%	3.91%	0.93%



Comparison of Tax: Hansen HB 581 with Retirement Income vs Existing Rates and Exclusion

Sample Wages

Each spouse reports \$30,000 of income including at least \$3,830 in pension income  
 Each spouse is over 65

**Current Rate Brackets**

Between	0	2,700	1%		
	2,700	4,800	2%	Minus	\$27
	4,800	7,300	3%	Minus	\$75
	7,300	9,900	4%	Minus	\$148
	9,900	12,700	5%	Minus	\$247
	12,700	16,400	6%	Minus	\$374
	16,400	or more	6.9%	Minus	\$522

**Existing Law**

	MFJ	T	S	Head of Household
Gross Income	60,000	30,000	30,000	30,000
Pension Exclusion		3,830	3,830	3,830
Montana AGI	60,000	26,170	26,170	26,170
Montana Standard Deuction	8,400	4,200	4,200	8,400
Net	51,600	21,970	21,970	17,770
Montana Personal Exemption	4,480	2,240	2,240	4,480
Taxable Income	47,120	19,730	19,730	13,290
Income tax	2,729	839	839	423

**Proposed Brackets**

Single and Married Filing Separate

	Amount	Rate	Tax
First	2,000	1%	20
Next	6,500	3%	195
In Excess of	8,500	6.0%	

Married Filing Joint

	Amount	Rate	Tax
First	4,000	1%	40
Next	13,000	3%	390
In Excess of	17,000	6.0%	

Head of Household

	Amount	Rate	Tax
First	3,000	1%	30
Next	9,750	3%	293
In Excess of	12,750	6.0%	

	MFJ	Single	Single	Household
Gross Income Above	60,000	30,000	30,000	30,000
Federal Standard Deduction	14,200	7,400	7,400	10,150
Net	45,800	22,600	22,600	19,850
Exemption	7,600	3,800	3,800	7,600
Taxable Income	38,200	18,800	18,800	12,250
Income tax	1,702	833	833	398

**Summary**

Filing Status	MFJ	Single	Single	Head of Household
<u>Tax with Pension Income</u>				
Current Law	2,729	839	839	423
Proposed Law	1,702	833	833	398
Pension Exclusion	0	3,830	3,830	3,830
Proposed Law				
Increase Personal Exemption	3,120	1,560	1,560	3,120
Increase Standard Deduction	5,800	3,200	3,200	1,750
	8,920	4,760	4,760	4,870

B

Comparison of Tax: Hansen HB 581 vs Existing Rates and Exclusion

Each spouse reports \$25,000 of income

**Current Rate Brackets**

Between	0	2,700	1%		
	2,700	4,800	2%	Minus	\$27
	4,800	7,300	3%	Minus	\$75
	7,300	9,900	4%	Minus	\$148
	9,900	12,700	5%	Minus	\$247
	12,700	16,400	6%	Minus	\$374
	16,400	or more	6.9%	Minus	\$522

**Existing Law**

	MFJ	T	S	Head of Household
Gross Income	50,000	25,000	25,000	25,000
Montana AGI	50,000	25,000	25,000	25,000
Montana Standard Deuction	8,400	4,200	4,200	5,000
Net	41,600	20,800	20,800	20,000
Montana Personal Exemption	4,480	2,240	2,240	4,480
Taxable Income	37,120	18,560	18,560	15,520
Income tax	2,039	759	759	557

**Proposed Brackets**

Single and Married Filing Separate

	Amount	Rate	Tax
First	2,000	1%	20
Next	6,500	3%	195
In Excess of	8,500	6.0%	

Married Filing Joint

	Amount	Rate	Tax
First	4,000	1%	40
Next	13,000	3%	390
In Excess of	17,000	6.0%	

Head of Household

	Amount	Rate	Tax
First	3,000	1%	30
Next	9,750	3%	293
In Excess of	12,750	6.0%	

	MFJ	Single	Single	Head of Household
Gross Income Above	50,000	25,000	25,000	25,000
Federal Standard Deduction	11,900	5,950	5,950	8,700
Net	38,100	19,050	19,050	16,300
Exemption	7,600	3,800	3,800	7,600
Taxable Income	30,500	15,250	15,250	8,700
Income tax	1,240	620	620	201

**Summary**

Filing Status	MFJ	Single	Single	Head of Household
<b>Tax</b>				
Current Law	2,039	759	759	557
Proposed Law	1,240	620	620	201
Proposed Law				
Increase Personal Exemption	3,120	1,560	1,560	3,120
Increase Standard Deduction	3,500	1,750	1,750	3,700
	6,620	3,310	3,310	6,820

For the year Jan. 1–Dec. 31, 2012, or other tax year beginning , 2012, ending , 20 See separate instructions.

Your first name and initial Last name Your social security number

If a joint return, spouse's first name and initial Last name Spouse's social security number

Home address (number and street). If you have a P.O. box, see instructions. Apt. no. Make sure the SSN(s) above and on line 6c are correct.

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). Presidential Election Campaign

Foreign country name Foreign province/state/county Foreign postal code Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. You Spouse

Filing Status 1 Single 2 Married filing jointly (even if only one had income) 3 Married filing separately. Enter spouse's SSN above and full name here. 4 Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. 5 Qualifying widow(er) with dependent child

Exemptions 6a Yourself. If someone can claim you as a dependent, do not check box 6a. 6b Spouse. Boxes checked on 6a and 6b. No. of children on 6c who: lived with you; did not live with you due to divorce or separation (see instructions). Dependents on 6c not entered above. Add numbers on lines above. c Dependents: (1) First name Last name (2) Dependent's social security number (3) Dependent's relationship to you (4) if child under age 17 qualifying for child tax credit (see instructions)

Income 7 Wages, salaries, tips, etc. Attach Form(s) W-2 7 8a Taxable interest. Attach Schedule B if required 8a 8b Tax-exempt interest. Do not include on line 8a 8b 9a Ordinary dividends. Attach Schedule B if required 9a 9b Qualified dividends 9b 10 Taxable refunds, credits, or offsets of state and local income taxes 10 11 Alimony received 11 12 Business income or (loss). Attach Schedule C or C-EZ 12 13 Capital gain or (loss). Attach Schedule D if required. If not required, check here 13 14 Other gains or (losses). Attach Form 4797 14 15a IRA distributions 15a b Taxable amount 15b 16a Pensions and annuities 16a b Taxable amount 16b 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E 17 18 Farm income or (loss). Attach Schedule F 18 19 Unemployment compensation 19 20a Social security benefits 20a b Taxable amount 20b 21 Other income. List type and amount 21 22 Combine the amounts in the far right column for lines 7 through 21. This is your total income 22

Adjusted Gross Income 23 Educator expenses 23 24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ 24 25 Health savings account deduction. Attach Form 8889 25 26 Moving expenses. Attach Form 3903 26 27 Deductible part of self-employment tax. Attach Schedule SE 27 28 Self-employed SEP, SIMPLE, and qualified plans 28 29 Self-employed health insurance deduction 29 30 Penalty on early withdrawal of savings 30 31a Alimony paid b Recipient's SSN 31a 32 IRA deduction 32 33 Student loan interest deduction 33 34 Tuition and fees. Attach Form 8917 34 35 Domestic production activities deduction. Attach Form 8903 35 36 Add lines 23 through 35 36 37 Subtract line 36 from line 22. This is your adjusted gross income 37

Tax and Credits

38 Amount from line 37 (adjusted gross income)
39a Check [ ] You were born before January 2, 1948, [ ] Blind. Total boxes checked 39a
[ ] Spouse was born before January 2, 1948, [ ] Blind.

Standard Deduction for-

• People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions.
• All others:
Single or Married filing separately, \$5,950
Married filing jointly or Qualifying widow(er), \$11,900
Head of household, \$8,700

b If your spouse itemizes on a separate return or you were a dual-status alien, check here 39b
40 Itemized deductions (from Schedule A) or your standard deduction (see left margin)
41 Subtract line 40 from line 38
42 Exemptions. Multiply \$3,800 by the number on line 6d.
43 Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-
44 Tax (see instructions). Check if any from: a [ ] Form(s) 8814 b [ ] Form 4972 c [ ] 962 election
45 Alternative minimum tax (see instructions). Attach Form 6251
46 Add lines 44 and 45
47 Foreign tax credit. Attach Form 1116 if required
48 Credit for child and dependent care expenses. Attach Form 2441
49 Education credits from Form 8863, line 19
50 Retirement savings contributions credit. Attach Form 8880
51 Child tax credit. Attach Schedule 8812, if required.
52 Residential energy credits. Attach Form 5695
53 Other credits from Form: a [ ] 3800 b [ ] 8801 c [ ]
54 Add lines 47 through 53. These are your total credits
55 Subtract line 54 from line 46. If line 54 is more than line 46, enter -0-

Other Taxes

56 Self-employment tax. Attach Schedule SE
57 Unreported social security and Medicare tax from Form: a [ ] 4137 b [ ] 8919
58 Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required
59a Household employment taxes from Schedule H
b First-time homebuyer credit repayment. Attach Form 5405 if required
60 Other taxes. Enter code(s) from instructions
61 Add lines 55 through 60. This is your total tax

Payments

If you have a qualifying child, attach Schedule EIC.

62 Federal income tax withheld from Forms W-2 and 1099
63 2012 estimated tax payments and amount applied from 2011 return
64a Earned income credit (EIC)
b Nontaxable combat pay election 64b
65 Additional child tax credit. Attach Schedule 8812
66 American opportunity credit from Form 8863, line 8
67 Reserved
68 Amount paid with request for extension to file
69 Excess social security and tier 1 RRTA tax withheld
70 Credit for federal tax on fuels. Attach Form 4136
71 Credits from Form: a [ ] 2439 b [ ] Reserved c [ ] 8801 d [ ] 8885
72 Add lines 62, 63, 64a, and 65 through 71. These are your total payments

Refund

Direct deposit? See instructions.

73 If line 72 is more than line 61, subtract line 61 from line 72. This is the amount you overpaid
74a Amount of line 73 you want refunded to you. If Form 8888 is attached, check here
b Routing number
c Type: [ ] Checking [ ] Savings
d Account number
75 Amount of line 73 you want applied to your 2013 estimated tax

Amount You Owe

76 Amount you owe. Subtract line 72 from line 61. For details on how to pay, see instructions
77 Estimated tax penalty (see instructions)

Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see instructions)? [ ] Yes. Complete below. [ ] No
Designee's name Phone no. Personal identification number (PIN)

Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature Date Your occupation Daytime phone number
Spouse's signature. If a joint return, both must sign. Date Spouse's occupation
If the IRS sent you an Identity Protection PIN, enter it here (see inst.)

Paid Preparer Use Only

Print/Type preparer's name Preparer's signature Date Check [ ] if self-employed PTIN
Firm's name Firm's EIN
Firm's address Phone no.

# 2012 Montana Individual Income Tax Return

For the year Jan 1 – Dec 31, 2012 or the tax year beginning and ending

Mark all that apply. First Name and Initial Last Name Social Security Number Deceased? Date of Death

Amended Return Spouse's First Name and Initial Last Name Spouse's Social Security Number Deceased? Date of Death

NOL Carryback Mailing Address City State Zip+4

Filing Status Mark only one box. 1 Single 2 Married filing jointly 3a Married filing separately on the same form Do you both want to allow us to discuss this return with your spouse? Yes No 3b Married filing separately on separate forms 3c Married filing separately and spouse not filing Spouse's SSN (for lines 3b and 3c) 4 Head of household

Residency Status Mark only one box. 5a Resident full year Resident Part-Year Required Information Date of change State moved to State moved from 5b Nonresident full year 5c Resident part-year



Did you know? You can file and pay online. revenue.mt.gov

Table with 5 columns: First Name, Last Name, Social Security Number, Relationship, Mark if Disabled. Includes a vertical label 'Dependents' on the left.

Table for Exemptions with 4 columns: 6a, 6b, 6c, 6d. Includes a vertical label 'Exemptions' on the left and a header for Column A and Column B.

Table for Federal Income with 22 rows and 4 columns. Includes a vertical label 'Federal Income' on the left and a header: 'Enter amounts on lines 7 through 38 corresponding to your federal return. Round to nearest dollar. If no entry, leave blank.'







## Montana Individual Income Tax

**Tax Year:** 2012

**Standard Deduction Percentage:** 20%

**Standard Deduction Maximum**

Single: \$4,200  
 Married filing separately: \$4,200  
 Married filing jointly: \$8,400  
 Head of Household: \$8,400

Federal  
 \$5,950  
 \$5,950  
 \$11,900  
 \$8,700

**Standard Deduction Minimum**

Single: \$1,860  
 Married filing separately: \$1,860  
 Married filing jointly: \$3,720  
 Head of Household: \$3,720

**Personal Exemption:** \$2,240

\$3,800

**Federal Income Tax Deduction Limitations:**

Single: \$5,000  
 Married filing separately: \$5,000  
 Head of household: \$5,000  
 Married filing jointly: \$10,000

**Partial Pension and Annuity Income Exemption**

Maximum Exemption: \$3,830  
 Federal AGI threshold for phase-out: \$31,920

**Capital Gains Tax Credit:** 2%

Rate Table			
If your taxable income is		Then your tax is	Less
More than	But not more than		
\$0	\$2,700	1% of taxable income	
\$2,700	\$4,800	2% of taxable income	\$27
\$4,800	\$7,300	3% of taxable income	\$75
\$7,300	\$9,900	4% of taxable income	\$148
\$9,900	\$12,700	5% of taxable income	\$247
\$12,700	\$16,400	6% of taxable income	\$374
	More than \$16,400	6.9% of taxable income	\$522