Individual Income Tax (Title 15, Chapter 30, MCA)

1. **Model Characteristics**
   - Taxpayers report income on eleven lines of their tax return, each source is forecast separately with individual multivariate regressions that are tied to relevant IHS Economics national and/or state level projections. Analyst discretion, informed by other data and information, is used to assess the appropriate model choice, and evaluate model output (trend line) as appropriate. Generally, this is a choice of using the model predicted level, or applying model growth rates to the last known variable of interest.
   - State and Federal present law tax policy (and tax thresholds) are also modeled.
   - These factors are used to simulate individual taxpayer income, behavior (tax minimization), and theoretical minimum tax liability, for the tax years in the forecast period. The starting point is the most recent cohort of taxpayers (TY 2013 tax records).
   - This produces estimated full-year-resident tax year liabilities. These estimates are adjusted and allocated for fiscal year incidence, non-resident filings, filer growth, use of refundable and non-refundable tax credits, change in legislation and other outside-the-model adjustments (for instance in April 2013 (SJ 27) adjustments were made for ATRA 2012 timing effects).

2. **Model Data**
   - State accounting records, BEA/IHS U.S. variables of various components of income, population growth, and inflation.
   - The historical data cover the FY 1969 to FY 2014.
   - IHS projections drive the estimates for FY 2015 - FY 2017

3. **Key Variables**
   - Projections of Montana employment and wages, non-wage components of personal income, interest rates, measures associated with interest rates, capital gains and retirement income

4. **Other Important Points**
   - FY 2013 and FY 2014 collections include effects of income shifting due to *The American Taxpayer Relief Act of 2012*. Collections were accelerated into FY 2013 as taxpayers realized capital gains and other income in CY 2012 instead of CY 2013. This reduced TY 2013 through October (FY 2015) final extension returns.
   - Effective tax rates rise with above trend income growth, and fall with below trend growth
   - Retirement income while receiving significant tax preference, is growing rapidly as the population share of individual over age 65 is growing very rapidly (around 4%)
   - A growing share of income is received from pass-through businesses entities. These entities confer more flexibility to their owners with regard to the timing and realization of taxable income.

Table 2
Tax Year Income
($ millions)

Source of Income	TY 2013 Income	Distribution of TY 2013 Income	Ten Year Average Share of Income
Labor Income			
Wages, salaries, tips, etc.	$15,189.768	63.94%	63.65%
Ownership Income			
Rents, royalties, partnerships, etc.	$2,554.830	10.75%	9.33%
Net business income	$820.125	3.45%	3.59%
Dividend income	$550.135	2.32%	2.55%
Net farm income	-$138.640	-0.58%	-0.76%
Other income	-$289.325	-1.22%	-0.42%
Sub-Total	$3,497.128	14.72%	14.30%
Retirement Income			
Taxable portion of Soc. Sec.	$803.831	3.38%	2.69%
Taxable Pensions, IRAs	$2,569.394	10.82%	9.81%
Sub-Total	$3,373.224	14.20%	12.50%
Gains and Losses			
Capital gain or (loss)	$1,314.178	5.53%	6.85%
Supplemental gains or (losses)	$87.795	0.37%	0.29%
Sub-Total	$1,401.973	5.90%	7.13%
Interest Income	$294.160	1.24%	2.42%
Total	$23,766.238	100.00%	100.00%