

Individual Income Tax

Revenue Description

The tax is levied against taxable income, which is defined as Montana personal income adjusted for exemptions and deductions. Once tax liability is determined, the amount of tax due is computed by subtracting allowable credits.

Statutory Reference

Tax Rate – [15-30-2103, MCA](#) through [15-30-2105, MCA](#)

Tax Distribution – [17-2-124\(2\), MCA](#)

Date Due – 15th day of the fourth month of the filer's fiscal year ([15-30-2604, MCA](#)). Withholding taxes are due monthly, quarterly, or on an accelerated schedule depending on income ([15-30-2504, MCA](#)). Estimated taxes are due on the 15th day of the 4th, 6th, and 9th month and the month following the close of the tax year ([15-30-2512, MCA](#)).

Applicable Tax Rates

Tax rates vary from 1.0% to 6.9%, depending on the level of taxable income. Tax brackets, personal exemption amounts, and the standard deduction are adjusted for inflation each year. Due to the capital gains income tax credit, the tax rate on capital gains income is less than the tax rate on ordinary income by 2%.

Collection Frequency: Quarterly, monthly, bi-weekly and weekly

Distribution: All proceeds are deposited into the general fund.

Summary of Legislative Action

[House Bill 379](#) – This bill revises several provisions relating to interest and penalties for late tax payments, late filing, not filing a return, and filing a false return. It changes the statute of limitations for the individual income tax from five years to three years. Changes to penalties apply for tax periods beginning after the end of CY 2016. The reduced statute of limitation applies for tax periods beginning after the end of CY 2014. Changes to interest apply beginning in CY 2018.

[Senate Bill 309](#) – This legislation expands the Unlocking State Lands personal and corporate income tax credit to include land access to federal land managed by the U.S. Forest Service or the Bureau of Land Management.

[Senate Bill 386](#) – This legislation revises filing and withholding requirements for pass-through entities and limits the penalty for a pass-through entity failing to file a required report to a maximum of \$2,500 per tax period.

[Senate Bill 399](#) – This bill creates a new type of tax deferred savings account, the Montana Achieving a Better Life Experience (ABLE) account, as provided in federal law under section 529 of the I.R.S. code. The program administrative responsibility is assigned to the Department of Public Health and Human Services (DPPHS).

[Senate Bill 410](#) – This legislation creates two new tax credits, one for contributing to a new educational improvement special revenue account for distribution to school districts for new programs, and one for making donations to organizations that would give scholarships to students in private schools.

Individual Income Tax – Legislation Passed by 64th Legislature General Fund Impact (\$ Millions)			
Bill Number and Short Title	FY 2015	FY 2016	FY 2017
HB0379 Generally revise income tax laws	-	-	\$0.000
SB0309 Revise laws to incentivize access to isolated state and federal lands	-	-	(0.019)
SB0386 Revising late file penalty, filing, and withholding for pass-through entities	-	\$0.502	0.502
SB0399 Provide for 529 account for disability expenses	-	(0.012)	(0.030)
SB0410 Provide for tax credits for contributions to public and private schools	-	-	(4.282)
Total General Fund Impact	-	\$0.490	(\$3.829)

Revenue Estimate Methodology

Data

The estimate for this source is based on collection data from SABHRS, individual income tax return data supplied by the Department of Revenue (DOR), state and national historical and forecast data on income, inflation, employment, and other economic variables from IHS.

Analysis

Overview

An individual income tax simulation model is used to forecast Montana calendar year individual income tax liability for all residents. The calendar year state tax liability forecast is developed by applying modeled growth rates to each resident taxpayer’s income and deduction items. The result is a forecast of calendar year state individual income tax liability for each resident, the sum of which produces a statewide forecast of individual income tax liability for each year.

The statewide forecast of resident liability is adjusted for the growth in resident taxpayers, and multiplied by an all-filers percentage to include the tax liability for nonresidents and partial-year residents. This results in a forecast of total calendar year individual income tax liability before credits. An estimate of allowable credits is deducted, producing a calendar year individual income tax liability for each future year.

Fiscal year collections before audit, penalty, and interest income are modeled on total calendar year liability, and forecast fiscal year collections are then augmented by expected future audit, penalty and interest collections to produce the total individual income tax revenue estimate.

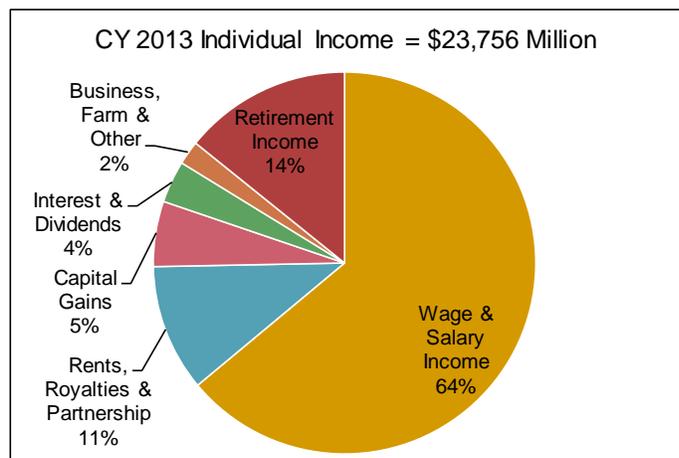
Joint Tax Subcommittee Alternatives

The joint tax subcommittee chose to adopt several alternative assumptions from the baseline forecast provided by the LFD. The alternative assumptions included the following:

- Higher wage growth for the outlook period
- Increased non-resident liability
- A continuation of FY 2014 taxpayer behavior
- Higher audit collections

Growth Rates

Growth rates are modeled for each of the income, adjustment, addition, reduction and deduction line items. The models for most of the income line items are highlighted in this section, along with corresponding forecast risks. Nearly two-thirds of all income reported is from wages and salaries; the broad revenue categories are shown in the adjacent chart.



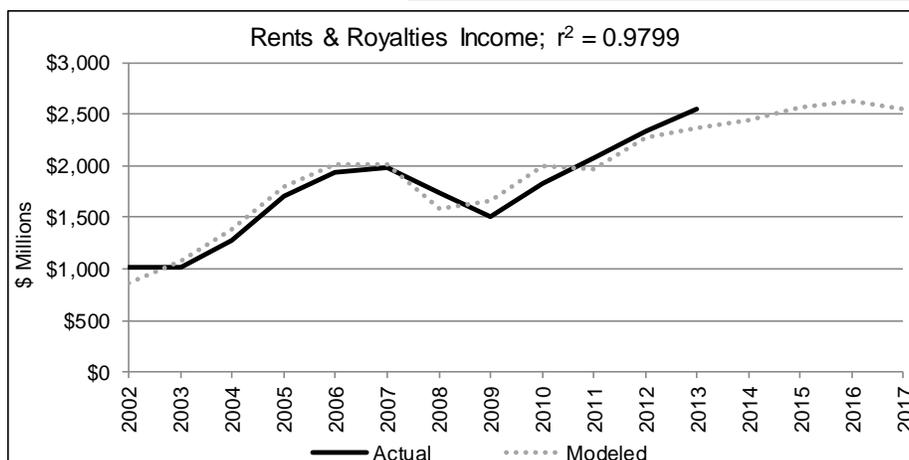
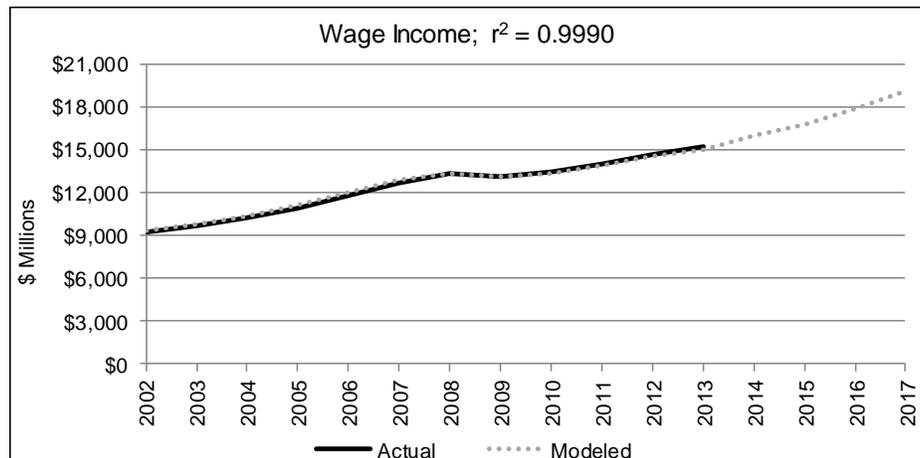
Business and Personal Taxes

Individual Income Tax

The table below summarizes the growth rates used for returns, inflation and income items. Growth estimates for all other line items—adjustments, additions, reductions and itemized deductions—are included in the revenue estimate assumptions section, which is available online.

Individual Income Growth Rates				
	CY 2014	CY 2015	CY 2016	CY 2017
Full Year Resident Returns (Annual)	1.0%	1.1%	1.3%	1.1%
Full Year Resident Returns (Cumulative)	101.0%	102.1%	103.5%	104.6%
Inflation State	2.1%	-1.0%	2.2%	2.4%
Inflation Federal	1.7%	1.6%	-0.3%	1.4%
Wages and salaries	6.2%	5.2%	6.2%	6.7%
Interest income	-0.3%	-0.7%	8.8%	25.2%
Dividend income	3.7%	6.4%	3.4%	1.1%
Taxable refunds	0.0%	0.0%	0.0%	0.0%
Alimony received	4.0%	4.0%	4.0%	4.0%
Net business income	-0.4%	2.2%	-0.2%	2.3%
Capital gains	19.1%	1.1%	7.4%	4.2%
Supplemental gains	-40.0%	2.0%	2.0%	2.0%
IRA distributions	12.7%	10.8%	8.8%	7.5%
Taxable pensions	6.2%	6.7%	6.8%	6.2%
Rents, royalties, etc.	2.9%	5.0%	2.2%	-2.5%
Farm income	5.0%	0.0%	0.0%	0.0%
Unemployment compensation	0.0%	0.0%	0.0%	0.0%
Taxable social security	8.6%	7.8%	7.5%	6.9%
Other income	-20.0%	0.0%	0.0%	0.0%

Wage and salary income is the largest source of individual income and is modeled on the IHS series for Montana wage and salary distributions. The modeled growth rates were then augmented by 2.5%, 1.5%, 1.5% and 1.5% for FY 2014 through FY 2017, based on the recommendation of the joint tax subcommittee.

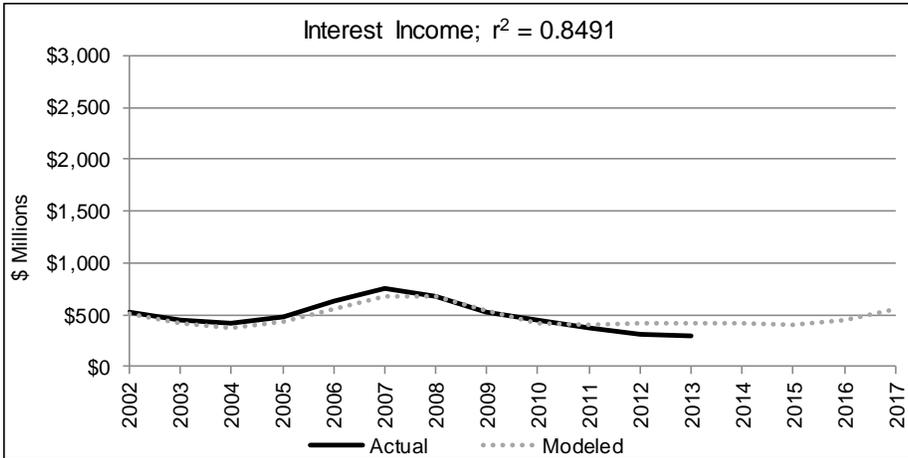
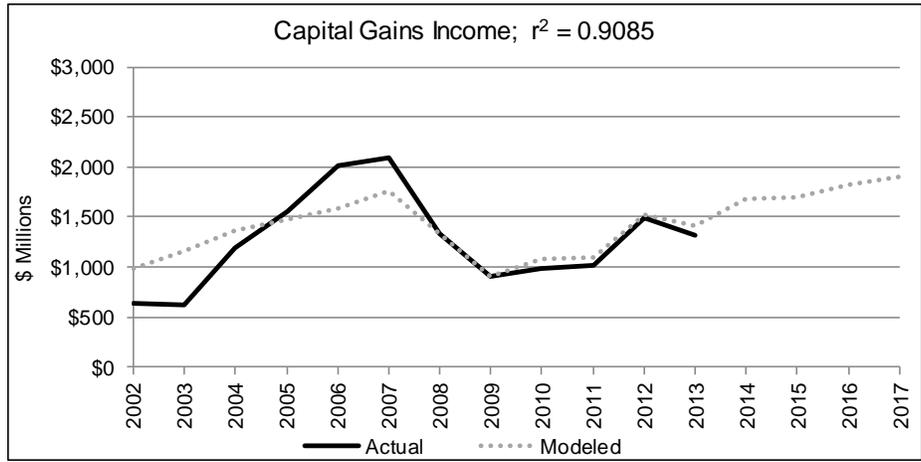


Rent, royalty & partnership (schedule E) income is modeled on West Texas Intermediate (WTI) oil price, gross state product for the construction industries and before tax corporate profits.

Business and Personal Taxes

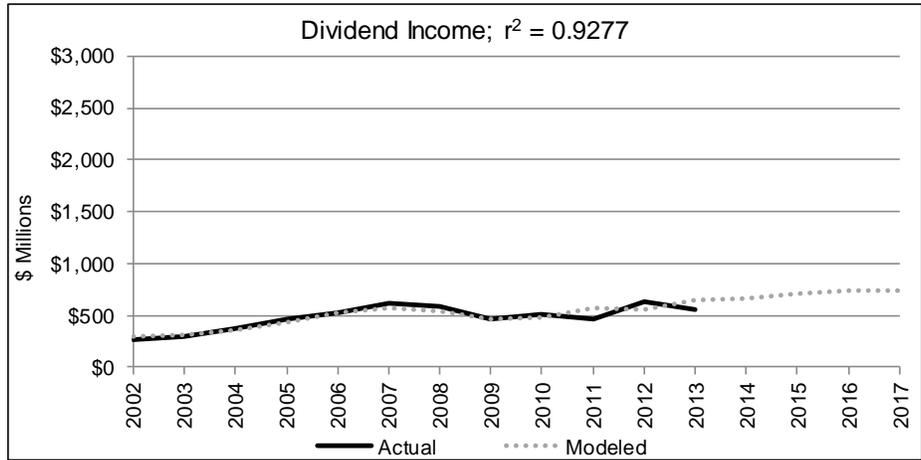
Individual Income Tax

Capital gains income is modeled on a three-year difference of the S&P 500 stock market index, a three-year difference of Montana median house price, and the annual number of Montana home sales.

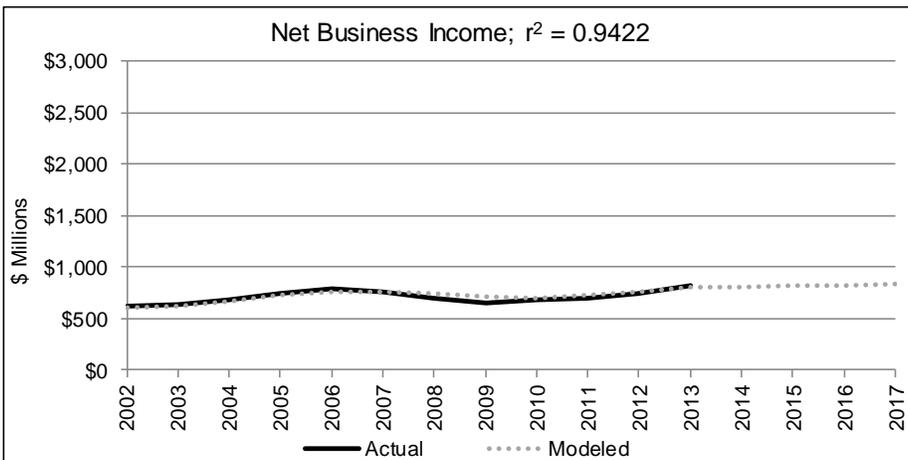


Interest income is modeled on the rate of 3-month negotiable CDs and national personal interest income.

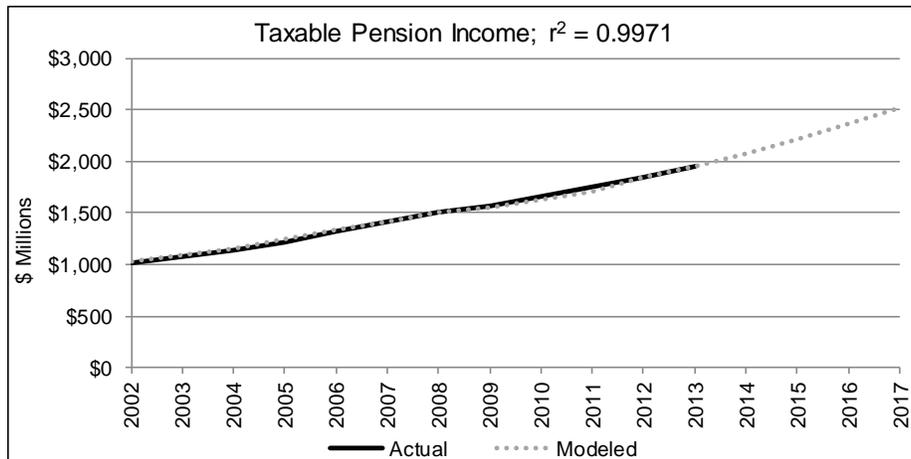
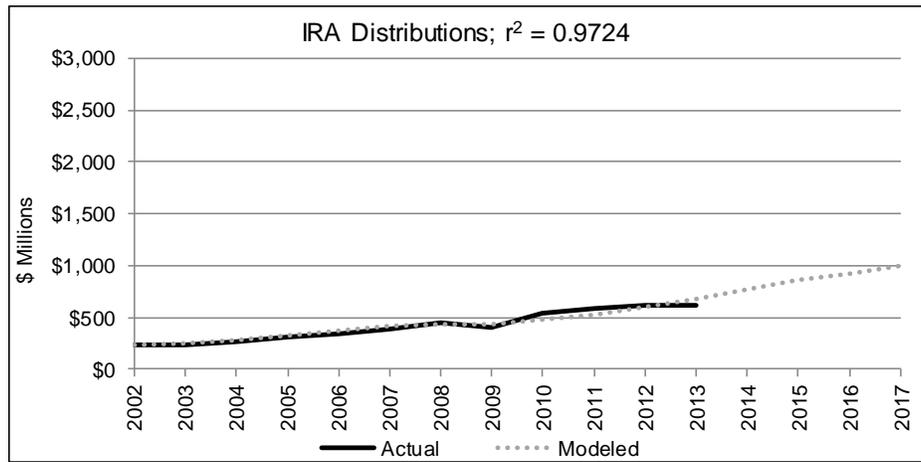
Dividend income is modeled on before-tax corporate profits.



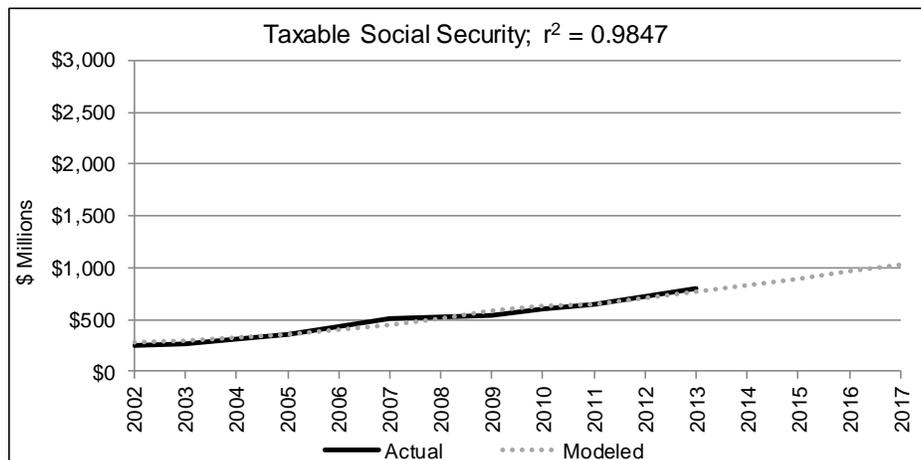
Net Business income is modeled on national non-farm proprietor's income, Montana farm proprietor's income, and gross state product for the construction industry.



The two of the three retirement income sources—IRA distributions and pension income—are modeled on the S&P 500 stock market index, gross domestic product and the number of age 65 and older Montanans.



Taxable social security is modeled on federal transfer payments to Montana and Montana population age 65 or older.



All remaining income sources, including farm income, sum to a negative amount. These sources are forecast individually, but are generally anticipated to remain at about the same as the level as the last known year.

Audits and Other Assumptions

Fiscal year audit, penalty and interest revenue is assumed to remain at a recent historical average of the prior calendar year tax liability before credits. Audit, and penalty and interest revenue added to the modeled fiscal liability, resulting in total fiscal year collections.

This section contains the assumptions used to generate the revenue estimates contained in House Joint Resolution 2. It does not reflect changes, if any, enacted by the 2015 Legislature.

FY	Total Tax \$ Millions	GF Tax \$ Millions	Audit, P&I \$ Millions
A 2002	\$517.568	\$517.568	\$21.812
A 2003	535.831	535.831	23.627
A 2004	605.582	605.348	29.922
A 2005	707.343	706.235	37.240
A 2006	768.922	768.922	22.744
A 2007	827.145	827.145	25.475
A 2008	866.659	866.659	30.637
A 2009	815.138	815.138	34.743
A 2010	717.834	717.834	35.293
A 2011	816.090	816.090	33.468
A 2012	898.851	898.851	28.307
A 2013	1,047.790	1,047.790	31.828
A 2014	1,063.284	1,063.284	41.010
F 2015	1,142.481	1,142.481	41.744
F 2016	1,229.127	1,229.127	44.910
F 2017	1,311.185	1,311.185	47.909

CY	Modeled FYR Liability \$ Millions	Population Adjustment Percent	FYR Liability \$ Millions	Non-Resident Factor Percent	Total Liability Before Credits \$ Millions	Elderly H/R Credit \$ Millions	All Other Credits \$ Millions
A 2002	\$494.216	100.0%	\$494.216	106.3%	\$525.122	\$11.049	\$18.955
A 2003	538.246	100.0%	538.246	106.8%	574.877	11.889	21.119
A 2004	620.965	100.0%	620.965	107.3%	666.250	12.193	26.462
A 2005	652.487	100.0%	652.487	108.6%	708.617	11.580	31.606
A 2006	731.493	100.0%	731.493	107.8%	788.762	10.726	41.553
A 2007	771.627	100.0%	771.627	107.8%	831.967	9.811	38.111
A 2008	741.689	100.0%	741.689	109.7%	813.725	10.396	38.219
A 2009	687.751	100.0%	687.751	105.4%	724.649	10.316	37.626
A 2010	739.846	100.0%	739.846	106.8%	790.464	11.355	43.461
A 2011	776.522	100.0%	776.522	106.8%	829.435	10.786	35.901
A 2012	874.595	100.0%	874.595	107.4%	939.072	9.638	39.356
A 2013	903.847	100.0%	903.847	107.2%	969.219	8.484	43.459
F 2014	961.441	101.0%	971.466	107.4%	1,043.608	8.484	51.073
F 2015	1,023.259	102.1%	1,045.142	107.4%	1,122.756	8.484	55.036
F 2016	1,077.469	103.5%	1,114.917	107.4%	1,197.713	8.484	58.510
F 2017	1,135.829	104.6%	1,188.298	107.4%	1,276.543	8.484	62.251

CY	Wage Income \$ Millions	Rent, Royalty & Part. Inc. \$ Millions	Capital Gains Income \$ Millions	Interest Income \$ Millions	Dividend Income \$ Millions	Net Business Income \$ Millions	IRA Distributions \$ Millions
A 2002	\$9,265.904	\$1,014.593	\$637.444	\$528.959	\$264.875	\$620.572	\$231.217
A 2003	9,649.687	1,019.724	629.701	453.025	297.423	629.701	237.257
A 2004	10,209.869	1,283.271	1,193.177	411.889	379.386	680.790	271.069
A 2005	10,840.674	1,704.629	1,554.054	480.088	463.027	749.588	308.394
A 2006	11,779.592	1,944.999	2,006.021	636.780	521.734	785.303	339.909
A 2007	12,669.894	1,976.847	2,088.579	756.826	619.819	762.060	396.199
A 2008	13,352.105	1,735.147	1,337.810	674.053	592.113	701.307	451.709
A 2009	13,136.979	1,508.400	912.041	519.760	462.423	648.187	396.729
A 2010	13,389.962	1,823.263	992.632	442.983	504.422	690.830	548.648
A 2011	13,995.864	2,075.865	1,015.745	376.777	465.230	702.187	592.390
A 2012	14,686.234	2,340.911	1,491.198	313.117	627.612	740.894	618.964
A 2013	15,189.766	2,554.830	1,314.178	294.150	550.135	820.125	623.888
F 2014	15,890.239	2,734.093	1,607.228	294.811	570.700	817.302	703.609
F 2015	16,703.694	2,812.365	1,476.148	303.189	615.439	831.646	774.019
F 2016	17,540.925	2,833.439	1,551.820	339.640	627.297	838.392	842.231
F 2017	18,468.534	2,787.626	1,510.500	429.378	626.751	855.525	906.742

CY	Pension Income \$ Millions	Social Security \$ Millions	Farm Income \$ Millions	Other Income \$ Millions	Adjustments to Income \$ Millions	Additions to Income \$ Millions	Reductions to Income \$ Millions
A 2002	\$1,019.172	\$254.249	(\$157.525)	(\$5.377)	\$252.613	\$441.091	\$860.312
A 2003	1,070.482	267.287	(146.211)	(47.936)	292.241	479.732	892.111
A 2004	1,146.455	305.542	(139.623)	(78.402)	322.438	525.260	924.793
A 2005	1,216.409	359.184	(125.935)	(218.921)	367.927	548.257	953.277
A 2006	1,317.954	434.518	(176.145)	(204.405)	389.095	546.321	1,107.147
A 2007	1,416.590	508.637	(155.989)	41.344	427.200	526.752	1,195.607
A 2008	1,509.033	527.626	(210.131)	2.641	417.744	532.558	1,265.730
A 2009	1,567.181	540.620	(183.602)	(24.918)	378.735	610.638	1,447.997
A 2010	1,658.178	603.827	(145.068)	(23.266)	417.143	736.051	1,670.219
A 2011	1,752.608	651.771	(127.273)	(210.837)	434.745	802.123	1,764.863
A 2012	1,840.957	721.661	(135.869)	(290.953)	445.516	834.573	1,706.041
A 2013	1,945.506	803.831	(138.640)	(289.325)	487.773	803.607	1,594.119
F 2014	2,067.629	872.625	(145.572)	(288.722)	507.347	812.994	
F 2015	2,215.486	945.996	(145.572)	(288.095)	528.032	826.949	
F 2016	2,368.740	1,021.588	(145.572)	(287.443)	549.898	822.501	
F 2017	2,525.087	1,091.758	(145.572)	(286.766)	573.020	824.216	

CY	Itemized Deductions \$ Millions	Montana Adj. Gross Income \$ Millions	Capital Gains Credit \$ Millions	FYR Returns Annual Gr. Percent	Federal Inflation Percent	State Inflation Percent
A 2002	\$3,724.249	\$13,034.813		0.5%	3.3%	1.1%
A 2003	3,678.689	13,572.280		0.5%	1.6%	2.1%
A 2004	3,991.385	15,011.177		2.2%	2.3%	3.3%
A 2005	3,364.496	16,785.897	15.441	0.4%	2.3%	2.5%
A 2006	3,719.716	18,659.288	19.599	3.3%	3.1%	4.3%
A 2007	4,178.663	20,248.096	40.025	4.0%	3.9%	2.7%
A 2008	4,088.399	19,579.234	26.152	-7.6%	2.3%	5.0%
A 2009	4,072.245	18,286.742	17.974	-1.0%	4.3%	-1.4%
A 2010	4,086.676	19,177.163	19.642	1.0%	0.2%	1.1%
A 2011	4,197.183	19,934.727	19.622	0.8%	1.5%	3.6%
A 2012	4,137.027	21,690.849	31.235	7.9%	2.4%	1.7%
A 2013	4,241.199	22,477.954	27.523	2.0%	2.6%	1.8%
F 2014				1.0%	1.7%	2.1%
F 2015				1.1%	1.6%	-1.0%
F 2016				1.3%	-0.3%	2.2%
F 2017				1.1%	1.4%	2.4%

Revenue Projection

