

SENATE BILL NO. 145

INTRODUCED BY B. HOVEN

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A BILL FOR AN ACT ENTITLED: "AN ACT REVISING INDIVIDUAL INCOME TAX RATES; CREATING A NEW TAX STRUCTURE FOR MARRIED TAXPAYERS FILING JOINTLY; AMENDING SECTIONS 15-30-2101 AND 15-30-2103, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE AND A RETROACTIVE APPLICABILITY DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 15-30-2101, MCA, is amended to read:

"15-30-2101. Definitions. For the purpose of this chapter, unless otherwise required by the context, the following definitions apply:

(1) "Base year structure" means the following elements of the income tax structure:

(a) the tax brackets established in 15-30-2103, but unadjusted by 15-30-2103~~(2)~~(3), in effect on June 30 of the taxable year;

(b) the exemptions contained in 15-30-2114, but unadjusted by 15-30-2114(6), in effect on June 30 of the taxable year;

(c) the maximum standard deduction provided in 15-30-2132, but unadjusted by 15-30-2132(2), in effect on June 30 of the taxable year.

(2) "Consumer price index" means the consumer price index, United States city average, for all items, for all urban consumers (CPI-U), using the 1982-84 base of 100, as published by the bureau of labor statistics of the U.S. department of labor.

(3) "Corporation" or "C. corporation" means a corporation, limited liability company, or other entity:

(a) that is treated as an association for federal income tax purposes;

(b) for which a valid election under section 1362 of the Internal Revenue Code (26 U.S.C. 1362) is not in effect; and

(c) that is not a disregarded entity.

(4) "Department" means the department of revenue.

(5) "Disregarded entity" means a business entity:



1 (a) that is disregarded as an entity separate from its owner for federal tax purposes, as provided in
2 United States treasury regulations 301.7701-2 or 301.7701-3, 26 CFR 301.7701-2 or 26 CFR 301.7701-3, or as
3 those regulations may be labeled or amended; or

4 (b) that is a qualified subchapter S. subsidiary that is not treated as a separate corporation, as provided
5 in section 1361(b)(3) of the Internal Revenue Code (26 U.S.C. 1361(b)(3)).

6 (6) "Dividend" means:

7 (a) any distribution made by a C. corporation out of its earnings and profits to its shareholders or
8 members, whether in cash or in other property or in stock of the corporation, other than stock dividends; and

9 (b) any distribution made by an S. corporation treated as a dividend for federal income tax purposes.

10 (7) "Fiduciary" means a guardian, trustee, executor, administrator, receiver, conservator, or any person,
11 whether individual or corporate, acting in any fiduciary capacity for any person, trust, or estate.

12 (8) "Foreign C. corporation" means a corporation that is not engaged in or doing business in Montana,
13 as provided in 15-31-101.

14 (9) "Foreign government" means any jurisdiction other than the one embraced within the United States,
15 its territories, and its possessions.

16 (10) "Gross income" means the taxpayer's gross income for federal income tax purposes as defined in
17 section 61 of the Internal Revenue Code (26 U.S.C. 61) or as that section may be labeled or amended, excluding
18 unemployment compensation included in federal gross income under the provisions of section 85 of the Internal
19 Revenue Code (26 U.S.C. 85) as amended.

20 (11) "Inflation factor" means a number determined for each tax year by dividing the consumer price index
21 for June of the previous tax year by the consumer price index for June 2015.

22 (12) "Information agents" includes all individuals and entities acting in whatever capacity, including
23 lessees or mortgagors of real or personal property, fiduciaries, brokers, real estate brokers, employers, and all
24 officers and employees of the state or of any municipal corporation or political subdivision of the state, having the
25 control, receipt, custody, disposal, or payment of interest, rent, salaries, wages, premiums, annuities,
26 compensations, remunerations, emoluments, or other fixed or determinable annual or periodical gains, profits,
27 and income with respect to which any person or fiduciary is taxable under this chapter.

28 (13) "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended, or as it may be
29 labeled or further amended. References to specific provisions of the Internal Revenue Code mean those
30 provisions as they may be otherwise labeled or further amended.

1 (14) "Knowingly" is as defined in 45-2-101.

2 (15) "Limited liability company" means a limited liability company, domestic limited liability company, or
3 a foreign limited liability company as defined in 35-8-102.

4 (16) "Limited liability partnership" means a limited liability partnership as defined in 35-10-102.

5 (17) "Lottery winnings" means income paid either in lump sum or in periodic payments to:

6 (a) a resident taxpayer on a lottery ticket; or

7 (b) a nonresident taxpayer on a lottery ticket purchased in Montana.

8 (18) (a) "Montana source income" means:

9 (i) wages, salary, tips, and other compensation for services performed in the state or while a resident
10 of the state;

11 (ii) gain attributable to the sale or other transfer of tangible property located in the state, sold or otherwise
12 transferred while a resident of the state, or used or held in connection with a trade, business, or occupation
13 carried on in the state;

14 (iii) gain attributable to the sale or other transfer of intangible property received or accrued while a
15 resident of the state;

16 (iv) interest received or accrued while a resident of the state or from an installment sale of real property
17 or tangible commercial or business personal property located in the state;

18 (v) dividends received or accrued while a resident of the state;

19 (vi) net income or loss derived from a trade, business, profession, or occupation carried on in the state
20 or while a resident of the state;

21 (vii) net income or loss derived from farming activities carried on in the state or while a resident of the
22 state;

23 (viii) net rents from real property and tangible personal property located in the state or received or
24 accrued while a resident of the state;

25 (ix) net royalties from real property and from tangible real property to the extent the property is used in
26 the state or the net royalties are received or accrued while a resident of the state. The extent of use in the state
27 is determined by multiplying the royalties by a fraction, the numerator of which is the number of days of physical
28 location of the property in the state during the royalty period in the tax year and the denominator of which is the
29 number of days of physical location of the property everywhere during all royalty periods in the tax year. If the
30 physical location is unknown or unascertainable by the taxpayer, the property is considered used in the state in

1 which it was located at the time the person paying the royalty obtained possession.

2 (x) patent royalties to the extent the person paying them employs the patent in production, fabrication,
3 manufacturing, or other processing in the state, a patented product is produced in the state, or the royalties are
4 received or accrued while a resident of the state;

5 (xi) net copyright royalties to the extent printing or other publication originates in the state or the royalties
6 are received or accrued while a resident of the state;

7 (xii) partnership income, gain, loss, deduction, or credit or item of income, gain, loss, deduction, or credit:

8 (A) derived from a trade, business, occupation, or profession carried on in the state;

9 (B) derived from the sale or other transfer or the rental, lease, or other commercial exploitation of
10 property located in the state; or

11 (C) taken into account while a resident of the state;

12 (xiii) an S. corporation's separately and nonseparately stated income, gain, loss, deduction, or credit or
13 item of income, gain, loss, deduction, or credit:

14 (A) derived from a trade, business, occupation, or profession carried on in the state;

15 (B) derived from the sale or other transfer or the rental, lease, or other commercial exploitation of
16 property located in the state; or

17 (C) taken into account while a resident of the state;

18 (xiv) social security benefits received or accrued while a resident of the state;

19 (xv) taxable individual retirement account distributions, annuities, pensions, and other retirement benefits
20 received while a resident of the state;

21 (xvi) any other income attributable to the state, including but not limited to lottery winnings, state and
22 federal tax refunds, nonemployee compensation, recapture of tax benefits, and capital loss addbacks; and

23 (xvii) in the case of a nonresident who sells the nonresident's interest in a publicly traded partnership
24 doing business in Montana, the gain described in section 751 of the Internal Revenue Code, 26 U.S.C. 751,
25 multiplied by the Montana apportionment factor. If the net gain or loss resulting from the use of the apportionment
26 factor as provided in this subsection (18)(a)(xvii) does not fairly and equitably represent the nonresident
27 taxpayer's business activity interest, then the nonresident taxpayer may petition for, or the department may
28 require with respect to any and all of the partnership interest, the employment of another method to effectuate
29 an equitable allocation or apportionment of the nonresident's income. This subsection (18)(a)(xvii) is intended
30 to preserve the rights and privileges of a nonresident taxpayer and align those rights with taxpayers who are

1 afforded the same rights under 15-1-601 and 15-31-312.

2 (b) The term does not include:

3 (i) compensation for military service of members of the armed services of the United States who are not
4 Montana residents and who are residing in Montana solely by reason of compliance with military orders and does
5 not include income derived from their personal property located in the state except with respect to personal
6 property used in or arising from a trade or business carried on in Montana; or

7 (ii) interest paid on loans held by out-of-state financial institutions recognized as such in the state of their
8 domicile, secured by mortgages, trust indentures, or other security interests on real or personal property located
9 in the state, if the loan is originated by a lender doing business in Montana and assigned out-of-state and there
10 is no activity conducted by the out-of-state lender in Montana except periodic inspection of the security.

11 (19) "Net income" means the adjusted gross income of a taxpayer less the deductions allowed by this
12 chapter.

13 (20) "Nonresident" means a natural person who is not a resident.

14 (21) "Paid", for the purposes of the deductions and credits under this chapter, means paid or accrued
15 or paid or incurred, and the terms "paid or accrued" and "paid or incurred" must be construed according to the
16 method of accounting upon the basis of which the taxable income is computed under this chapter.

17 (22) "Partner" means a member of a partnership or a manager or member of any other entity, if treated
18 as a partner for federal income tax purposes.

19 (23) "Partnership" means a general or limited partnership, limited liability partnership, limited liability
20 company, or other entity, if treated as a partnership for federal income tax purposes.

21 (24) "Pass-through entity" means a partnership, an S. corporation, or a disregarded entity.

22 (25) "Pension and annuity income" means:

23 (a) systematic payments of a definitely determinable amount from a qualified pension plan, as that term
24 is used in section 401 of the Internal Revenue Code (26 U.S.C. 401), or systematic payments received as the
25 result of contributions made to a qualified pension plan that are paid to the recipient or recipient's beneficiary upon
26 the cessation of employment;

27 (b) payments received as the result of past service and cessation of employment in the uniformed
28 services of the United States;

29 (c) lump-sum distributions from pension or profit-sharing plans to the extent that the distributions are
30 included in federal adjusted gross income;

1 (d) distributions from individual retirement, deferred compensation, and self-employed retirement plans
2 recognized under sections 401 through 408 of the Internal Revenue Code (26 U.S.C. 401 through 408) to the
3 extent that the distributions are not considered to be premature distributions for federal income tax purposes; or

4 (e) amounts received from fully matured, privately purchased annuity contracts after cessation of regular
5 employment.

6 (26) "Purposely" is as defined in 45-2-101.

7 (27) "Received", for the purpose of computation of taxable income under this chapter, means received
8 or accrued, and the term "received or accrued" must be construed according to the method of accounting upon
9 the basis of which the taxable income is computed under this chapter.

10 (28) "Resident" applies only to natural persons and includes, for the purpose of determining liability to
11 the tax imposed by this chapter with reference to the income of any taxable year, any person domiciled in the
12 state of Montana and any other person who maintains a permanent place of abode within the state even though
13 temporarily absent from the state and who has not established a residence elsewhere.

14 (29) "S. corporation" means an incorporated entity for which a valid election under section 1362 of the
15 Internal Revenue Code (26 U.S.C. 1362) is in effect.

16 (30) "Stock dividends" means new stock issued, for surplus or profits capitalized, to shareholders in
17 proportion to their previous holdings.

18 (31) "Tax year" means the taxpayer's taxable year for federal income tax purposes.

19 (32) "Taxable income" means the adjusted gross income of a taxpayer less the deductions and
20 exemptions provided for in this chapter.

21 (33) "Taxpayer" includes any person, entity, or fiduciary, resident or nonresident, subject to a tax or other
22 obligation imposed by this chapter and unless otherwise specifically provided does not include a C. corporation."

23

24 **Section 2.** Section 15-30-2103, MCA, is amended to read:

25 **"15-30-2103. Rate of tax.** (1) ~~There~~ Except as provided in subsection (2), there must be levied,
26 collected, and paid for each tax year upon the taxable income of each taxpayer subject to this tax, after making
27 allowance for exemptions and deductions as provided in this chapter, a tax on the brackets of taxable income
28 as follows:

29 (a) on the first \$2,900 of taxable income or any part of that income, 1%;

30 (b) on the next \$2,200 of taxable income or any part of that income, 2%;

- 1 (c) on the next \$2,700 of taxable income or any part of that income, 3%;
- 2 (d) on the next \$2,700 of taxable income or any part of that income, 4%;
- 3 (e) on the next \$3,000 of taxable income or any part of that income, 5%;
- 4 (f) on the next \$3,900 of taxable income or any part of that income, 6%;
- 5 (g) on any taxable income in excess of \$17,400 or any part of that income, 6.9%.

6 (2) There must be levied, collected, and paid for each tax year upon the taxable income of taxpayers
 7 subject to this tax who are married and filing jointly, after making allowances for exemptions and deductions as
 8 provided in this chapter, a tax on the brackets of taxable income as follows:

- 9 (a) on the first \$5,800 of taxable income or any part of that income, 1%;
- 10 (b) on the next \$4,400 of taxable income or any part of that income, 2%;
- 11 (c) on the next \$5,400 of taxable income or any part of that income, 3%;
- 12 (d) on the next \$5,400 of taxable income or any part of that income, 4%;
- 13 (e) on the next \$6,000 of taxable income or any part of that income, 5%;
- 14 (f) on the next \$7,800 of taxable income or any part of that income, 6%;
- 15 (g) on any taxable income in excess of \$34,800 or any part of that income, 6.9%.

16 ~~(2)~~(3) By November 1 of each year, the department shall multiply the bracket ~~amount~~ amounts contained
 17 in ~~subsection~~ subsections (1) and (2) by the inflation factor for the following tax year and round the cumulative
 18 brackets to the nearest \$100. The resulting adjusted brackets are effective for that following tax year and must
 19 be used as the basis for imposition of the tax in ~~subsection~~ subsections (1) and (2) ~~of this section.~~"

21 NEW SECTION. Section 3. Transition -- inflation factors applied -- inflationary parity with other
 22 bracket amounts. The department shall increase the new bracket amounts in 15-30-2103(2) by the inflation
 23 factors that would have been applied had the new brackets been enacted in section 2, Chapter 418, Laws of
 24 2015, which updated the current brackets in 15-30-2103(1) for tax years subsequent to the tax year ending
 25 December 31, 2016.

27 NEW SECTION. Section 4. Effective date. [This act] is effective on passage and approval.

29 NEW SECTION. Section 5. Retroactive applicability. [This act] applies retroactively, within the
 30 meaning of 1-2-109, to tax years beginning after December 31, 2018.

31 - END -