



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: July 15, 2014
TO: Economic Affairs Interim Committee
FROM: Stephanie Morrison, Revenue Analyst
RE: Individual Income Tax Credit Grouping

The information provided in this memo completes a follow-up request made by the Economic Affairs Interim Committee at the March 27th meeting. At that time, the highlights of a detailed [credit report](#) was presented to the committee. Interest was expressed by various committee members in having the credits grouped by type, then comparing the average incomes and counts of credit claimers across individual credits and credit groupings.

The credit grouping was finalized with input from Sen. Tutvedt and Sen. Barrett, and organized into four basic groups, as well as a group for credits with fewer than ten claimers in any of the delineated years. The main groupings are as follows:

- Business-related credits
- Energy-related credits
- Rate-reduction credits
- Other credits

The credit for income taxes paid to other states was not included in the analysis based on the assumption that an expiration of the credit is not likely to be considered for simplification purposes.

The table on the following page shows the average income decile of the individuals who claim each credit. The income deciles are based on full-year-resident individual income taxpayer data since 2006 with total incomes greater than \$0. Individuals with total income less than \$0 were excluded from the construction of the decile ranges; however, they are included in the data for following table, with their income falling in the first decile. The income ranges for each decile by year are given at the end of this memo.

The income ranges of the ten deciles are constructed so that one-tenth of all full-year-resident taxpayers with positive incomes falls into each decile. If the average decile of a particular credit is on the lower end of the range 1-10, that means the individuals who claim that credit have, on average, lower total incomes. Conversely, a higher average decile indicates that the individuals claiming that credit have higher relative total incomes. The

advantage of this method of analysis is that high or low income outliers do not have a disproportionate impact on the overall income distribution.

The table below shows the average income decile for each credit and credit group by calendar year. The only credits with average income deciles below the midpoint are the elderly homeowner renter credit and the elderly care credit, both of which have income restrictions.

Average Income Decile of Credit Claimers by Credit Type & Calendar Year							
	2006	2007	2008	2009	2010	2011	2012
Business Related Credits	8.9	8.9	8.8	8.6	8.5	8.6	8.8
Contractor's Gross Receipts Credit	9.3	9.4	9.3	9.0	8.7	8.7	8.8
Insurance for Uninsured Montanans Credit	9.1	8.9	8.7	8.6	8.7	8.8	8.9
Insure Montana Small Business Health Ins Credit	8.5	8.7	8.5	8.3	8.4	8.5	8.7
Energy Related Credits	7.6	7.6	7.6	7.7	7.7	7.6	7.6
Alternative Energy Systems BIOMASS Credit							6.7
Alternative Energy Systems Credit	7.3	7.2	7.4	7.5	7.4	7.2	7.5
Alternative Fuel Credit	6.8	7.4	7.4	7.1	7.0	7.1	5.7
Energy Conservation Credit	7.6	7.7	7.6	7.7	7.7	7.6	7.7
Geothermal Systems Credit	7.8	8.3	8.0	8.4	8.1	7.9	8.0
Recycling Credit	8.0	7.3	7.2	7.3	7.2	7.1	7.4
Other Credits	9.0	9.0	8.9	8.8	8.7	8.7	8.7
Adoption Credit		7.8	7.8	8.0	7.4	7.5	7.8
College Contribution Credit	8.9	9.0	8.8	8.7	8.8	8.8	8.7
Elderly Care Credit	4.9	5.7	5.7	5.1	4.8	5.0	5.3
Historic Property Preservation Credit	9.0	8.8	8.5	8.6	7.3	8.3	8.8
Qualified Endowment Credit	9.6	9.7	9.6	9.6	9.6	9.6	9.4
Rate Reduction Credits	6.6	6.7	6.2	5.6	5.9	6.1	5.9
Capital Gains Credit	7.6	7.6	7.7	7.8	7.8	7.7	7.1
Elderly Homeowner/Renter Credit	2.6	2.5	2.5	2.4	2.3	2.3	2.2
Fewer than 10/Year	7.5	7.5	8.1	8.0	8.4	7.9	7.6
Alternative Energy Production Credit							
Biodiesel Fuel Credit							
Dependent Care Assistance Credit							
Empowerment Zone Credit							
Film Production Employment Credit							
Film Production Employment Credit-Refundable							
Film Qualified Expenditure Credit							
Infrastructure User Fee Credit							
Mineral Exploration Credit							
Oilseed Crushing/Biodiesel Facility Credit							
Temporary Emergency Lodging							
Overall Average	6.9	6.9	6.7	6.5	6.8	6.6	6.3

To maintain confidentiality, average income decile information is only shown in aggregate for the credits that have been claimed by fewer than ten individuals in any given year.

The table below shows the number of times each credit was claimed by year. As in the table above, rarely-used credits remain grouped to maintain confidentiality.

Count of Credit Claimers by Credit Type & Calendar Year							
	2006	2007	2008	2009	2010	2011	2012
Business Related Credits	1,616	1,524	1,532	1,601	1,697	1,580	1,484
Contractor's Gross Receipts Credit	352	362	417	503	573	630	651
Insurance for Uninsured Montanans Credit	659	534	429	329	302	234	165
Insure Montana Small Business Health Ins Credit	605	628	686	769	822	716	668
Energy Related Credits	20,652	20,445	19,229	23,548	43,469	14,057	10,770
Alternative Energy Systems BIOMASS Credit							417
Alternative Energy Systems Credit	1,424	1,128	1,368	1,727	1,846	1,150	466
Alternative Fuel Credit	30	29	34	51	36	16	23
Energy Conservation Credit	19,041	19,115	17,617	21,457	41,238	12,604	9,546
Geothermal Systems Credit	74	95	128	232	238	193	231
Recycling Credit	83	78	82	81	111	94	87
Other Credits	3,472	3,507	3,279	3,332	3,436	3,424	3,529
Adoption Credit		208	174	168	280	253	200
College Contribution Credit	2,501	2,476	2,487	2,564	2,524	2,580	2,667
Elderly Care Credit	53	36	46	41	51	49	47
Historic Property Preservation Credit	13	20	21	26	27	28	28
Qualified Endowment Credit	905	767	551	533	554	514	587
Rate Reduction Credits	76,962	85,075	57,974	41,970	48,812	54,313	65,066
Capital Gains Credit	61,392	68,967	41,242	24,961	31,812	37,812	50,139
Elderly Homeowner/Renter Credit	15,570	16,108	16,732	17,009	17,000	16,501	14,927
Fewer than 10/Year	64	79	56	37	44	37	27
Overall Count	102,766	110,630	82,070	70,488	97,458	73,411	80,876

The following table illustrates how an alternative grouping of the credits can be used to differentiate the credit impacts of a tax simplification bill. In this case, the credits are grouped by whether they were eliminated or kept in SB 282 of the 2013 Session.

2013 Session SB 282: Average Income Decile of Eliminated & Kept Credits by Calendar Year							
	2006	2007	2008	2009	2010	2011	2012
Eliminate	7.7	7.7	7.7	7.8	7.8	7.8	7.2
Alternative Energy Production Credit							
Alternative Energy Systems Credit							
Alternative Fuel Credit							
Biodiesel Fuel Credit							
Capital Gains Credit							
College Contribution Credit							
Contractor's Gross Receipts Credit							
Empowerment Zone Credit							
Energy Conservation Credit							
Geothermal Systems Credit							
Historic Property Preservation Credit							
Infrastructure User Fee Credit							
Mineral Exploration Credit							
Oilseed Crushing/Biodiesel Facility Credit							
Recycling Credit							
Temporary Emergency Lodging							
Keep	3.4	3.2	3.1	3.0	3.0	2.9	2.9
Adoption Credit							
Dependent Care Assistance Credit							
Elderly Care Credit							
Elderly Homeowner/Renter Credit							
Film Production Employment Credit							
Film Production Employment Credit-Refundable							
Film Qualified Expenditure Credit							
Insurance for Uninsured Montanans Credit							
Insure Montana Small Business Health Ins Credit							
Qualified Endowment Credit							
Not Applicable							6.7
Alternative Energy Systems BIOMASS Credit							

The credit simplification included in SB 282 called for eliminating credits whose aggregate average income decile was above 7 in each of the years for which there is information. The bill kept credits whose aggregate average income decile was around 3 for the same years.

The income range for each decile by calendar year is shown in the table below:

Decile	2006		2007		2008		2009		2010		2011		2012	
	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max
1	\$1	\$5,263	\$1	\$5,202	\$1	\$5,415	\$1	\$5,511	\$1	\$5,862	\$1	\$5,951	\$1	\$6,158
2	5,264	10,178	5,203	10,248	5,416	10,625	5,512	10,644	5,863	11,238	5,952	11,387	6,159	11,813
3	10,179	15,544	10,249	15,862	10,626	16,326	10,645	16,171	11,239	16,886	11,388	17,198	11,814	17,754
4	15,545	21,328	15,863	21,966	16,327	22,465	16,172	22,221	16,887	23,122	17,199	23,629	17,755	24,416
5	21,329	28,564	21,967	29,479	22,466	30,001	22,222	29,469	23,123	30,736	23,630	31,607	24,417	32,660
6	28,565	37,891	29,480	39,210	30,002	39,739	29,470	39,018	30,737	40,730	31,608	42,109	32,661	43,661
7	37,892	50,065	39,211	52,166	39,740	52,682	39,019	51,733	40,731	53,910	42,110	55,836	43,662	58,040
8	50,066	66,049	52,167	68,908	52,683	69,578	51,734	68,560	53,911	71,296	55,837	73,882	58,041	77,122
9	66,050	91,896	68,909	95,987	69,579	96,562	68,561	94,982	71,297	98,555	73,883	102,426	77,123	106,903
10	91,897		95,988		96,563		94,983		98,556		102,427		106,904	