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Re: Answers to Montana Legislators' Questions

Dear Chairman Redfield and Members of the HJ 35 Tax Study Committee:

Below are answers to several questions that I was unable to answer during the question and answer portion of my July 20 presentation on sales tax in Montana. Additionally, it is my understanding that Finn McMichael of the Department of Revenue has provided you with an explanation of why our revenue estimates differed.

Questions and answers:

Information on purchases during sales tax holidays among income categories:

While research on sales tax holiday purchases among taxpayers in different income categories is difficult to come by, two research studies from the [Federal Reserve Board](#) and the [Federal Reserve Bank of Chicago](#) found that the presence of sales tax holidays leads to increases in spending, including durable goods like furniture and consumer electronics. However, the size and price of items purchased are often limited to specific items (for example, clothing, back-to-school supplies, or hurricane preparedness) or a specific price threshold (like items valued up to \$2,500 in Massachusetts) so not every holiday is guaranteed to experience the same economic impact.

It is also important to remember that sales tax holidays—while potentially beneficial for state economies—do little to reduce the regressivity of state sales tax systems for low- and middle-income taxpayers.

Minnesota's sales tax structure & tax credits:

Minnesota imposes a 6.875 percent sales tax rate on a range of [taxable services](#) and exempts sales tax collection on certain [nontaxable sales](#), including some services and items such as clothing for general use, groceries, and prescription and over-the-counter drugs. Minnesota's version of a state Earned Income Tax Credit—called the [Working Families Tax Credit](#)—is refundable and the amount depends on a taxpayer's income, filing status, and number of dependents. While the credit helps taxpayers offset the regressive nature of the sales tax, there are still ways the state could improve and expand access to these benefits. The [Minnesota Budget Project](#) notes that, for instance, changes that would make the credit more equitable include, increasing the credit amount and earnings threshold for single and married childless filers and expanding access to immigrant workers who file with Individual Taxpayer Identification Numbers (ITINs), as those workers pay tax but do not qualify for the credit.

Respectfully,

Marco Guzman