

# Distributional Analysis of Sales Tax & Offset Options

HJ 35: STUDY OF STATE AND LOCAL TAX POLICY

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# Introduction to ITEP

## The Institute on Taxation and Economic Policy (ITEP)

- Non-profit
- Non-partisan research organization
- Federal, state, and local tax policy issues

### **Mission:**

Ensure elected officials, media, and general public have access to accurate, timely, and straightforward information that allows them to understand the effects of current and proposed tax policies with an emphasis on tax-incidence analysis.

# Explanation of Analysis

- Modeled distributional effects of Montana adopting a 4 percent sales rate on 2 variations of South Dakota's sales tax base
- Used Department of Revenue's estimates for purposes of distributional analysis
- Analysis:
  - OPTION A: South Dakota's sales tax base (including exempting motor vehicle sales, motorboats, & construction and farm equipment)
  - OPTION B: South Dakota base PLUS motor vehicle sales, motorboats, & construction and farm equipment

## Montana Combined State & Local Taxes as a Share of Income

Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less than	\$ 18,000	\$ 35,800	\$ 56,500	\$ 92,200	\$ 185,400	\$ 448,500
	\$ 18,000	\$ 35,800	\$ 56,500	\$ 92,200	\$ 185,400	\$ 448,500	And up
Average Income in Group	\$ 9,700	\$ 26,800	\$ 42,800	\$ 73,600	\$ 123,200	\$ 261,900	\$ 1,126,400
<b>Total Taxes under Current MT Law</b>	<b>7.9%</b>	<b>6.3%</b>	<b>7.1%</b>	<b>6.6%</b>	<b>6.9%</b>	<b>6.1%</b>	<b>6.5%</b>
<b>Total Taxes with Opt A Sales Tax &amp; No Offsets</b>	<b>12.5%</b>	<b>10.6%</b>	<b>10.4%</b>	<b>9.4%</b>	<b>8.9%</b>	<b>7.3%</b>	<b>7.2%</b>
4% rate; SD Base							
<b>Total Taxes with Opt B Sales Tax &amp; No Offsets</b>	<b>13.0%</b>	<b>11.4%</b>	<b>11.2%</b>	<b>9.4%</b>	<b>8.9%</b>	<b>7.3%</b>	<b>7.2%</b>
4% rate; SD Base + MV Fees, Boats, Construction, Farm Equipment							

# Offset Options

- Income tax thresholds for personal income tax rates
- Increase Earned Income Tax Credit from 3% to 10% & 20% of federal
- Enact sales tax credit identical to Maine's

Current Rates

MFJ	Single	HOH	MFS	Rate
\$0	\$0	\$0	\$0	1.0000%
\$3,100	\$3,100	\$3,100	\$3,100	2.0000%
\$5,500	\$5,500	\$5,500	\$5,500	3.0000%
\$8,400	\$8,400	\$8,400	\$8,400	4.0000%
\$11,300	\$11,300	\$11,300	\$11,300	5.0000%
\$14,500	\$14,500	\$14,500	\$14,500	6.0000%
\$18,700	\$18,700	\$18,700	\$18,700	6.9000%

New Rates

MFJ	Single	HOH	MFS	Rate
\$0	\$0	\$0	\$0	1.0000%
\$12,400	\$6,200	\$9,300	\$6,200	2.0000%
\$22,000	\$11,000	\$16,500	\$11,000	3.0000%
\$33,600	\$16,800	\$25,200	\$16,800	4.0000%
\$45,200	\$22,600	\$33,900	\$22,600	5.0000%
\$58,000	\$29,000	\$43,500	\$29,000	6.0000%
\$74,800	\$37,400	\$56,100	\$37,400	6.9000%

## The Maine Sales Tax Fairness Credit

Filing Status	Reduction Of	For Every	Exceeding This Income Level
Single	\$10	\$500	\$20,000
Head of Household	\$15	\$750	\$30,000
Joint	\$20	\$1,000	\$40,000

## Credit Amount

Per Personal Exemption	TY 2018
1	\$125
2	\$175
3	\$200
4	\$225

Source: <http://legislature.maine.gov/legis/statutes/36/title36sec5213-A.html>

Source

Montana Combined State & Local Taxes with Offsets & Sales Tax Option B (4% Rate; SD Base + MV Fees, Boats, Construction, Farm Equipment) as a Share of Income

INCOME TAXES	0.5%	1.0%	2.8%	3.1%	3.9%	3.8%	4.8%
Threshold Changes	-0.2%	-0.5%	-1.1%	-1.0%	-0.9%	-0.4%	-0.1%
10% EITC	-0.3%	-0.2%	0.0%	0.0%	0.0%	0.0%	0.0%
20% EITC	-0.8%	-0.6%	-0.1%	-0.1%	0.0%	0.0%	0.0%
ME Sales Tax Credit	-1.3%	-0.3%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Combined Offsets: Threshold Changes, 20% EITC, ME Sales Tax Cred</b>	<b>-2.4%</b>	<b>-1.4%</b>	<b>-1.2%</b>	<b>-1.1%</b>	<b>-0.9%</b>	<b>-0.4%</b>	<b>-0.1%</b>

## Montana Combined State & Local Taxes as a Share of Income

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4% rate; SD Base + MV Fees, Boats, Construction, Farm Equipment							
<b>Total Taxes with Opt A Sales Tax &amp; Offsets</b>	<b>10.2%</b>	<b>9.2%</b>	<b>9.2%</b>	<b>8.3%</b>	<b>8.0%</b>	<b>6.9%</b>	<b>7.1%</b>
4% rate; SD Base; Threshold Changes; 20% EITC; ME sales cred							
<b>Total Taxes with Opt B Sales Tax &amp; Offsets</b>	<b>10.7%</b>	<b>10.0%</b>	<b>9.9%</b>	<b>8.3%</b>	<b>8.0%</b>	<b>6.9%</b>	<b>7.1%</b>
4% rate; SD Base + MV Fees, Boats, Construction, Farm Equipment; Threshold Changes; 20% EITC; ME sales cred							
<b>Source: Institute on Taxation and Economic Policy, August 2020</b>							

# Recommendations for Mitigating Impact of Sales Tax

- Eliminate food from sales tax base
- Reduce sales tax rate
- Increase EITC
- Offer more generous version of Maine's sales tax credit



