

To: Revenue Interim Committee

From: Aaron McNay, Tax Policy and Research

Date: June 17, 2020

Subject: Montana Tax Exempt Tip Income in Tax Year 2018

The purpose of this memorandum is to provide information on the types of tip income that is exempt from Montana's income tax, as well as to provide information on the taxpayer households that report tax-exempt tip income.

For the federal income tax, all income an individual receives in the form of tips from customers is considered taxable income and must be reported as part of their Federal Adjusted Gross Income when filing their federal income taxes. Montana's income tax, however, exempts any tips and gratuities that the taxpayer received while working for an employer in the food, beverage, or lodging sectors. All other tip income is still considered Montana taxable income. When filing a Montana tax return with tax exempt tip income, a taxpayer will report their tip income as part of their Federal Adjusted Gross Income, but will then subtract the exempt income when estimating their Montana Adjusted Gross Income.

In tax year 2018, 476,972 full-year resident households filed an income tax return in the state of Montana. Of the 476,972 households, 20,250 (4.2 percent) reported tax exempt tip and gratuity income on their returns. In total, nearly \$82 million in tax exempt tip income was reported on full-year resident Montana income tax returns. Households with incomes between \$10,000 and \$30,000 comprised nearly half of the households reporting tax exempt income and were the most likely to report the exempt income on their returns (Table 1). At the same time, households with incomes between \$30,000 and \$50,000 reported the highest average tax-exempt tip income, with \$7,151 in tax exempt tips on average.

Table 1							
Full-Year Resident Returns With Tax Exempt Tip Income in Tax Year 2018							
Household Income Range	Number of Households	Percent of Full Year Resident Returns	Total Income	Average Income	Total Exempt Tips	Average Exempt Tips	Exempt Tips as a Percent of Income
Less Than \$0	29	0.5%	(\$1,220,997)	(\$42,103)	\$58,045	\$2,002	-4.8%
Between \$0 and \$10,000	3,930	5.9%	\$23,764,822	\$6,047	\$3,651,083	\$929	15.4%
Between \$10,000 and \$20,000	5,431	8.5%	\$81,323,485	\$14,974	\$14,182,049	\$2,611	17.4%
Between \$20,000 and \$30,000	4,055	6.8%	\$99,601,840	\$24,563	\$20,345,382	\$5,017	20.4%
Between \$30,000 and \$40,000	2,339	4.8%	\$80,487,908	\$34,411	\$16,767,336	\$7,169	20.8%
Between \$40,000 and \$50,000	1,267	3.4%	\$56,486,736	\$44,583	\$9,019,183	\$7,119	16.0%
Between \$50,000 and \$60,000	780	2.5%	\$42,614,274	\$54,634	\$4,886,638	\$6,265	11.5%
Between \$60,000 and \$70,000	564	2.2%	\$36,506,104	\$64,727	\$2,900,153	\$5,142	7.9%
Between \$70,000 and \$80,000	496	2.3%	\$37,032,466	\$74,662	\$2,842,196	\$5,730	7.7%
Between \$80,000 and \$90,000	361	1.9%	\$30,736,403	\$85,142	\$2,212,554	\$6,129	7.2%
Between \$90,000 and \$100,000	257	1.6%	\$24,382,508	\$94,874	\$1,559,538	\$6,068	6.4%
More than \$100,000	741	0.9%	\$107,521,082	\$145,103	\$3,529,961	\$4,764	3.3%