

TAX GLOSSARYⁱ

Ability-to-pay principle: a principle of taxation providing that taxes should be based on ability to pay and taxpayers with more income should pay more taxes

Ad valorem tax: a tax computed as a percentage of value

Assessed value: the dollar amount officially set as the valuation of a specific property for tax purposes

Benefits-received principle: a principle of taxation providing that consumers of a publicly provided service should pay for it in proportion to benefits received

Classified property tax system: a property tax in which the assessed value of different types of property is multiplied by different percentages to determine the taxable value of the property

Corporate income tax: a tax on a corporation's net income (gross income less deductions for business expenses)

Direct tax: a tax borne by the person on whom it is levied

Economic incidence: indicates who bears the ultimate burden of a tax

Effective tax rate: a relative measure of tax burden that relates taxes paid to some variant of income

Elasticity (of a tax): a measure of the responsiveness of revenue collections to a change in what is being taxed

Excise tax: a tax levied on the manufacture, sale, or consumption of commodities

General sales tax: a tax levied at the same rate on the purchase of most goods and, in some cases, services

Gross receipts tax: a business tax based on total receipts or total revenue with no deductions allowed for expenses (also referred to as gross income tax)

Horizontal equity: the notion that people in equal economic positions should be treated equally

Indirect tax: a tax for which the burden does not fall on the person on whom it is levied

Individual income tax: a tax on an individual's adjusted gross income or net income

Intangible personal property: personal property that: (1) is not tangible personal property and that has no intrinsic value but is the representative or evidence of value, including but not limited to certificates of stock, bonds, promissory notes, licenses, copyrights, patents, trademarks, contracts, software and franchises; or (2) lacks physical existence, including but not limited to goodwillⁱⁱⁱ

Marginal tax rate: the tax rate collected from the last dollar of the tax base

Market value: the value at which property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant factsⁱⁱⁱ

Mill: an expression used for property taxes; one mill is one-tenth of 1 percent, or \$1 of tax for each \$1,000 of taxable value

Mill levy: the rate of property tax expressed as a number of mills

Payroll tax: a tax levied as a percentage of an employee's wages used to fund Social Security and Medicare

Progressive: a tax system under which an individual's average tax rate increases with income

Property tax: a tax based on ownership of property and measured by the property's value

Proportional: a tax system under which an individual's average tax rate is the same at each level of income

Regressive: a tax system under which an individual's average tax rate decreases with income

Severance tax: a tax imposed on the removal of natural resources, such as oil, gas, minerals, or timber

Statutory incidence: indicates who is legally responsible for a tax

Tax avoidance: altering behavior to reduce legal tax liability

Tax evasion: not paying taxes legally due

Tax indexing: automatically adjusting the tax schedule to compensate for inflation

Tax shifting: the difference between statutory incidence and economic incidence

Taxable value: the portion of assessed value of property that is subject to taxation

Unit tax: a tax levied as a fixed amount per unit of commodity purchased

Use tax: a tax on the use, consumption, or storage of tangible personal property, generally at the same rate as the sales tax. The use tax is designed to prevent people from avoiding the sales tax by purchasing items outside of the state.

User fee: a price paid by users of a government-provided good or service

Value added: the difference between sales and the cost of purchased material inputs

Value-added tax: a percentage tax on value added at each stage of production

Vertical equity: the idea of distributing tax burdens fairly across people with different abilities to pay

ⁱ Unless otherwise indicated, definitions are from: Ronald Fischer, “State and Local Public Finance, Third Edition” *Thomson South-Western*, 2007; Harvey S. Rosen and Ted Gayer, “Public Finance, Eighth Edition” *McGraw Hill*, 2008, and Jeff Martin, “A General Background Report on State and Local Taxation,” *Montana Legislative Council*, July 1991.

ⁱⁱ Definition from [15-6-218](#), MCA.

ⁱⁱⁱ See [15-8-111](#), MCA, for additional detail.