

Memorandum

To: Gene Walborn, Department of Revenue

From: Aaron McNay, Tax Policy and Research

Date: December 3, 2019

Subject: Estimating Montana's Credit for Income Tax Paid to Another State

During the Revenue Interim Committee meeting there was a request for additional information on Montana's income tax credit for income taxes paid in another state (The foreign states tax credit). This memorandum provides additional information on the tax credit by examining the process a full-year resident taxpayer of Montana would go through if they have income that is taxable in other states.

The exact process used for estimating the income tax credit for Montana's Income Tax Paid to Another State credit depends on where the other income is earned and the residency status of the taxpayer. This memorandum examines the process for a Montana full-year resident taxpayer who earned taxable income in Idaho.

A breakdown of this process is provided in the following example:

A taxpayer is a full-year resident of Montana and earns \$30,000 in wage income in Montana. They also earn \$20,000 in wage income in Idaho. They are single and have no children. It is assumed this taxpayer has no other credits, or other adjustments to income.

Their Idaho income tax is calculated using the following process. The Idaho apportionment factor for the taxpayer is 0.4 ($\$20,000 / (\$20,000 + \$30,000)$). The standard Idaho deduction for a single individual is \$12,000. The Idaho deduction for this taxpayer would be \$4,800 ($\$12,000 * 0.4$). The Idaho taxable income for the individual would be \$15,200 ($\$20,000 - \$4,800$). Based on Idaho's income tax table for 2018, the taxpayer would owe \$793 in Idaho income taxes.

The Montana calculation is as follows. The standard deduction for Montana with \$50,000 in income would be \$4,580 in tax year 2018. The taxpayer would also qualify for \$2,440 in income exemptions. The Montana taxable income of this individual would be \$42,980 ($\$50,000 - \$4,580 - \$2,440$). Based on Montana's tax table amounts for 2018, this individual would have a Montana tax liability of \$2,396. The credit for tax paid to another state is the Idaho tax liability of \$793. The Montana taxes due for this individual would be \$1,603 ($\$2,396 - \793). The following graphic provides a detailed outline of the process.

