

Memorandum

To: HJ 35 Tax Study Committee

From: Aaron McNay, Tax Policy and Research *Am*

Date: March 19, 2020

Subject: Capital Gains in Montana By Household

During the previous HJ 35 Tax Study Interim Committee meeting there was a request for additional information on capital gains income in Montana and the taxpayers who report it. This memorandum provides information on the taxpayers who claimed capital gains income in tax year 2013 and examines how their reporting of capital gains income changed over the next five years.

In tax year 2013, approximately 446,000 households filed a full-year resident tax return with the Montana Department of Revenue. Of these households, 93,845 reported at least some capital gains income on their state tax return. As can be seen in the table below, there are households from all income deciles that report taxable capital gains income. Except for households with negative incomes, the share of households with capital gains income increases as incomes increase. For income deciles 1 through 4, approximately 11 percent of households reported capital gains income. Starting with the fifth decile, the share of households with capital gains income begins increasing, reaching 31.7% for the ninth decile. The top income decile has the largest share of households with capital gains income, with nearly 52% of households. For households with negative reported incomes, nearly 50 percent of all households reported capital gains income.

Table 1						
Full-Year Resident Taxpayers With Capital Gains Income in Tax Year 2013						
Decile	Households With Capital Gains	Share of Total Households In Decile	Total Income	Average Income	Total Capital Gains	Average Capital Gains
Negative Income	2,514	48.5%	(\$139,380,990)	(\$55,442)	\$18,104,473	\$7,201
1	4,878	11.1%	\$15,773,297	\$3,234	\$1,249,927	\$256
2	4,858	11.0%	\$44,767,029	\$9,215	\$4,145,277	\$853
3	5,042	11.4%	\$76,831,924	\$15,238	\$7,691,912	\$1,526
4	5,076	11.5%	\$111,036,590	\$21,875	\$11,256,416	\$2,218
5	6,061	13.7%	\$179,997,816	\$29,698	\$16,087,275	\$2,654
6	7,428	16.8%	\$295,465,610	\$39,777	\$25,372,252	\$3,416
7	9,529	21.6%	\$507,933,917	\$53,304	\$41,652,186	\$4,371
8	11,724	26.6%	\$827,223,234	\$70,558	\$66,027,036	\$5,632
9	13,991	31.7%	\$1,330,137,452	\$95,071	\$110,992,387	\$7,933
10	22,744	51.6%	\$6,282,319,297	\$276,219	\$1,011,599,138	\$44,478
Total	93,845	21.0%	\$9,532,105,176	\$101,573	\$1,314,178,279	\$14,004

Over time, the share of households reporting capital gains each year decreased for each income decile. Households in the first income decile had the largest decrease in the share of households reporting capital gains in future tax years. From tax year 2013 to 2014, the share of households in the first decile decreased to 73.1 percent (Table 2). By tax year 2018, the share had decreased to 41.3 percent. At the same time, households in the highest income decile in tax year 2013 reported the smallest decrease in the share of returns reporting capital gains income in future tax years. For the top decile, the share of households reporting capital gains income decreased to 84.6 percent in tax year 2014 and 72.6 percent by tax year 2018.

Decile	2013	2014	2015	2016	2017	2018
Negative Income	100.0%	78.8%	67.5%	62.5%	57.4%	52.5%
1	100.0%	73.1%	60.4%	51.4%	46.6%	41.3%
2	100.0%	74.1%	62.1%	54.9%	50.1%	43.8%
3	100.0%	76.2%	66.2%	59.5%	54.4%	48.0%
4	100.0%	77.2%	67.4%	61.5%	56.5%	51.1%
5	100.0%	77.1%	69.5%	63.3%	59.5%	54.0%
6	100.0%	78.6%	70.5%	64.7%	61.2%	56.3%
7	100.0%	79.0%	72.6%	67.1%	63.9%	59.9%
8	100.0%	80.2%	73.5%	69.8%	66.8%	62.4%
9	100.0%	81.0%	74.3%	71.3%	69.0%	65.3%
10	100.0%	84.6%	79.4%	77.9%	75.5%	72.6%

From tax year 2013 to 2018, all income deciles reported increases in the total amount of capital gains income reported. In tax year 2013, the 93,845 households reporting capital gains income reported approximately \$1.3 billion in capital gains income (Table 3). By tax year 2018, the same households reported nearly \$1.8 billion in capital gains, an increase of \$479 million. Households in the top decile in 2013 reported the largest increase over this period. From tax year 2013 to 2018, capital gains income increased from \$1.01 billion to \$1.21 billion, a 19.5 percent increase. Households in the bottom decile reported the smallest absolute increase in capital gains income, but the largest percentage increase.

The increases in total capital gains income were large enough to offset the reduction in the number of households reporting capital gains income, resulting in increases in the average capital gains reported by each household in 2018. Households reporting negative incomes in 2013 reported the largest average increase, with an increase of \$23,598 in tax year 2018 (Table 4). Households in the top decile reported the second largest increase at \$8,711.

Table 3						
Total Capital Gains Income Reported By 2013 Capital Gains Households						
Decile	2013	2014	2015	2016	2017	2018
Negative Income	\$18,104,473	\$103,422,276	\$71,062,089	\$75,948,428	\$62,073,489	\$77,431,087
1	\$1,249,927	\$13,253,919	\$9,460,896	\$9,022,387	\$11,608,021	\$11,564,754
2	\$4,145,277	\$14,070,307	\$11,389,133	\$13,465,495	\$15,002,565	\$15,616,995
3	\$7,691,912	\$27,249,103	\$17,790,457	\$17,445,052	\$22,457,341	\$19,209,416
4	\$11,256,416	\$23,709,168	\$21,324,939	\$18,008,880	\$23,987,976	\$26,768,448
5	\$16,087,275	\$37,210,231	\$28,295,223	\$26,056,302	\$31,818,773	\$35,729,700
6	\$25,372,252	\$49,234,955	\$48,988,150	\$41,599,317	\$55,182,979	\$54,164,630
7	\$41,652,186	\$68,820,440	\$65,987,801	\$47,803,380	\$68,324,254	\$71,245,821
8	\$66,027,036	\$97,986,487	\$91,796,551	\$82,484,220	\$106,498,615	\$104,596,440
9	\$110,992,387	\$156,545,184	\$137,406,004	\$126,758,701	\$160,758,005	\$167,120,209
10	\$1,011,599,138	\$1,137,846,104	\$700,318,845	\$817,877,437	\$1,060,654,122	\$1,209,723,274
Total	\$1,314,178,279	\$1,729,348,174	\$1,203,820,088	\$1,276,469,599	\$1,618,366,140	\$1,793,170,774

Table 4						
Average Capital Gains Income of 2013 Capital Gains Returns						
Decile	2013	2014	2015	2016	2017	2018
Negative Income	\$7,201	\$41,139	\$28,267	\$30,210	\$24,691	\$30,800
1	\$256	\$2,717	\$1,940	\$1,850	\$2,380	\$2,371
2	\$853	\$2,896	\$2,344	\$2,772	\$3,088	\$3,215
3	\$1,526	\$5,404	\$3,528	\$3,460	\$4,454	\$3,810
4	\$2,218	\$4,671	\$4,201	\$3,548	\$4,726	\$5,274
5	\$2,654	\$6,139	\$4,668	\$4,299	\$5,250	\$5,895
6	\$3,416	\$6,628	\$6,595	\$5,600	\$7,429	\$7,292
7	\$4,371	\$7,222	\$6,925	\$5,017	\$7,170	\$7,477
8	\$5,632	\$8,358	\$7,830	\$7,036	\$9,084	\$8,922
9	\$7,933	\$11,189	\$9,821	\$9,060	\$11,490	\$11,945
10	\$44,478	\$50,028	\$30,791	\$35,960	\$46,634	\$53,189

Households With \$1 Million in Capital Gains Income in Tax Year 2013

Breaking households into deciles has the potential to obscure differences in taxpayers with incomes that are significantly different than others in the same decile. Households with the highest incomes tend to have incomes that are not only significantly above those in lower income deciles, but also significantly above those of other taxpayers within the same decile. Because of this, a breakdown of the households with capital gains income above \$1 million in tax year 2013 is provided in the table on the next page. As can be seen in the table, households with at least \$1 million in capital gains income in 2013 continued to report capital gains income at rates similar to other households in the top decile, with 75 percent reporting capital gains in 2018. However, the average capital gains income amount is significantly above those of other households in the top decile, with \$2.9 million in tax year 2013. In addition, the average capital gains amount increased significantly more than the average for the decile, increasing by \$135,000 from tax year 2013 to 2018.

Table 5						
108 Households With Capital Gains Over \$1 Million In 2013						
	2013	2014	2015	2016	2017	2018
Percent with Capital Gains	100.0%	83.3%	73.1%	75.0%	75.9%	75.0%
Average Capital Gains Income	\$2,890,618	\$2,756,327	\$643,943	\$851,834	\$1,629,161	\$3,025,623
Average Household Income	\$5,945,967	\$7,676,043	\$2,506,921	\$4,895,537	\$8,405,150	\$9,041,427