

Memorandum

To: Economic Affairs Interim Committee

From: Aaron McNay, Tax Policy and Research

Date: November 2, 2021

Subject: Overview of Programs and Incentive Available in Montana

The Economic Affairs Interim Committee has requested information on the Montana tax provisions that are available to low- and moderate-income taxpayers within the state. Similar information on tax provisions for employers of low- and moderate-income taxpayers was also requested. The purpose of this memorandum is to provide a list of tax provisions that provide benefits specifically targeted to low- and moderate-income taxpayers and their employers.

Individual Income Tax Provisions

1. Child and Dependent Care Deduction (15-30-2131(1)(c), MCA): Montana allows taxpayers to claim an itemized deduction of up to \$4,800 for the expenses of maintaining a household or providing care to certain dependents while the taxpayer is at work or looking for employment. To qualify for the deduction, the taxpayers must have a combined Montana Adjusted Gross Income of less than \$22,800 if caring for one eligible dependent. The income limit is increased to \$25,200 for taxpayers caring for two dependents. For taxpayers caring for three or more dependents, the income limit is \$27,600.
2. Disability Retirement Income Deduction (15-30-2110(10), MCA): Taxpayers who are under the age of 65 and permanently disabled may exclude up to \$5,200 of disability retirement income from their Montana taxable income. The amount taxpayers may exclude is reduced by any amount by which their pre-exclusion adjusted gross income exceeds \$15,000.
3. Partial Pension Exemption (15-30-2110(2)(c), MCA): Taxpayers with Federal Adjusted Gross Income below a threshold have part of their pension income exempted from taxation. For tax year 2020, the maximum exemption amount was capped at \$4,370 per taxpayer. The exemption amount is reduced by \$2 for each \$1 in income the taxpayer has in excess of \$36,420. This places the maximum income threshold for the deduction at \$38,605 for tax year 2021.
4. Montana Earned Income Tax Credit (15-30-2318, MCA): In most cases, individual taxpayers who claim the federal Earned Income Tax credit are also able to claim Montana's Earned Income Tax credit as well. Montana's tax credit is equal to 3 percent of the federal credit and is fully refundable. The maximum Montana credit

amount for tax year 2021 ranges between \$45 for taxpayers with no children and \$202 for taxpayers who have at least 3 qualified children or relatives.

5. Elderly Homeowner / Renter Tax Credit (15-30-2337, MCA): Taxpayers who are at least 62 years old and have a household income of less than \$45,000 may qualify for the state's Elderly Homeowner / Renter Credit. The credit refunds a portion of the property tax or rent a taxpayer paid during the year. The credit is reduced if the taxpayer's household income exceeds \$35,000 and is phased-out completely once the taxpayer's income reaches \$45,000. The maximum credit amount is \$1,150.

Property Tax Provisions

1. Property Tax Assistance Program (15-6-305, MCA): The Property Tax Assistance Program (PTAP) reduces property taxes for low-income households. The program works by reducing the Class 4 tax rate by 80 percent, 50 percent, or 30 percent, depending on the income of the owners. To qualify for this program in Tax Year 2020, homeowners must report a household income below \$23,337 for one qualified homeowner and below \$31,116 for more than one qualified owner. The program applies to the first \$200,000 of the taxable market value of residential improvements and land.
2. Disabled Veteran Assistance Program (15-6-311, MCA): The Montana Disabled Veterans Program reduces property taxes for disabled veterans. It reduces the residential Class 4 property tax rate by between 50 and 100 percent depending on the income level of the qualified veterans. The program applies to residential improvements and up to 5 acres of land. To qualify, the property must be the primary residence of a veteran that was honorably discharged and paid at the 100 percent disable rate by the Department of Veteran Affairs. The spouse of a veteran killed while on active duty or who died from a service-connected disability also qualifies for the program.

Employer Tax Provisions

1. Trades Education and Training Credit (15-30-2359, MCA): The Montana Trades Education and Training Credit provides a tax credit for the state's personal income tax and corporate income tax. The credit is equal to 50 percent of the training expenses paid by the business to an unrelated third-party for vocational, technical or trade profession training. The credit is capped at \$2,000 per employee with a cap of \$25,000 per employer. The credit is non-refundable.
2. Job Growth Incentive Tax Credit (15-30-2361, MCA): The Job Growth Incentive Credit provides a tax credit for the state's personal income tax and corporate income tax. The credit is based on the number of new qualified employees the business claiming the credit employed during the tax year. The size of the credit is equal to 50 percent of the total estimated taxes imposed on the taxpayer each year under the Federal Insurance Contributions Act multiplied by the number of qualifying employees. In order to qualify for the credit, an employee must meet the following requirements:

- a. Be hired after December 31, 2021
- b. Be employed for at least 6 months of the year the credit is granted
- c. Have a yearly wage of at least \$50,000, plus any benefits paid to other employees
- d. Cannot be hired to replace a previous employee

The credit is non-refundable, but businesses that claim the credit can carryforward any unused credits for up to 10 years.