

Financial Modernization and Risk Assessment (MARA) Study

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INDIVIDUAL INCOME TAX: ANALYSIS OF NON-RESIDENT AND PARTIAL YEAR RESIDENTS' INCOME

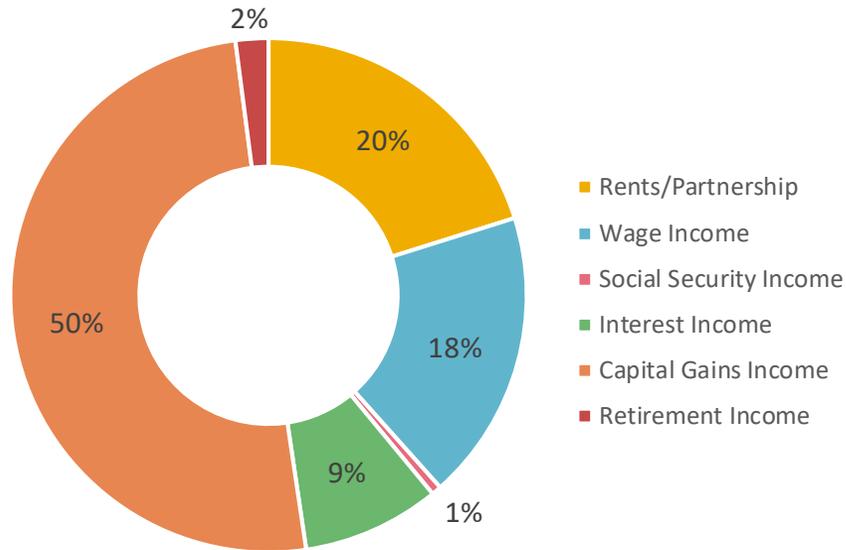
BACKGROUND

- Study began in summer of 2020 analyzing resident income and tax liability by age
- Early analysis focused on potential future implications of an ageing population on income tax collections
- Influx of new residents over the past few years may eliminate income tax declines as a result of an ageing population
- Current stage of study focuses on income trends of non-residents and partial-year residents

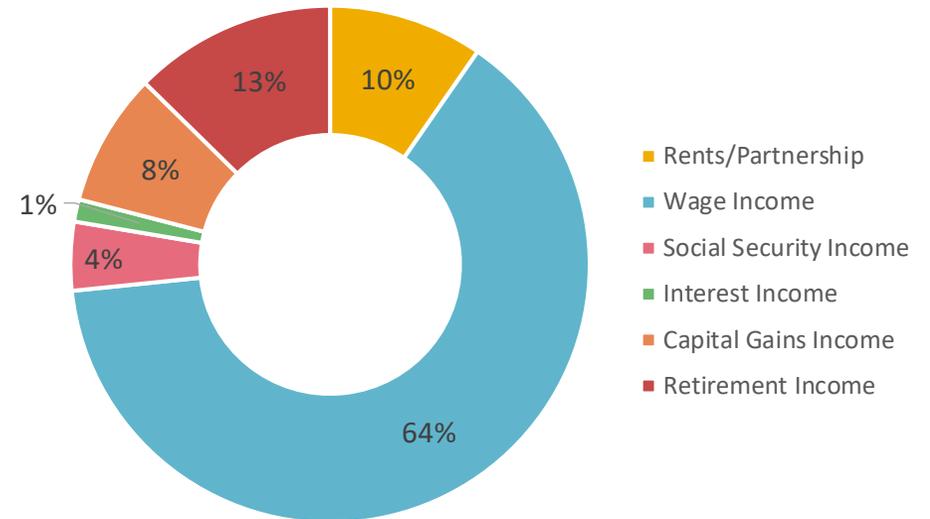
NON-RESIDENT INCOME

- Non-residents are required to pay income taxes on income that is earned in Montana
- Non-resident income averages about \$70 million per year (~5% of total income tax collections)
- Non-residents' income portfolio differs from Montana residents

50% of non-resident individual income is in the form of capital gains .



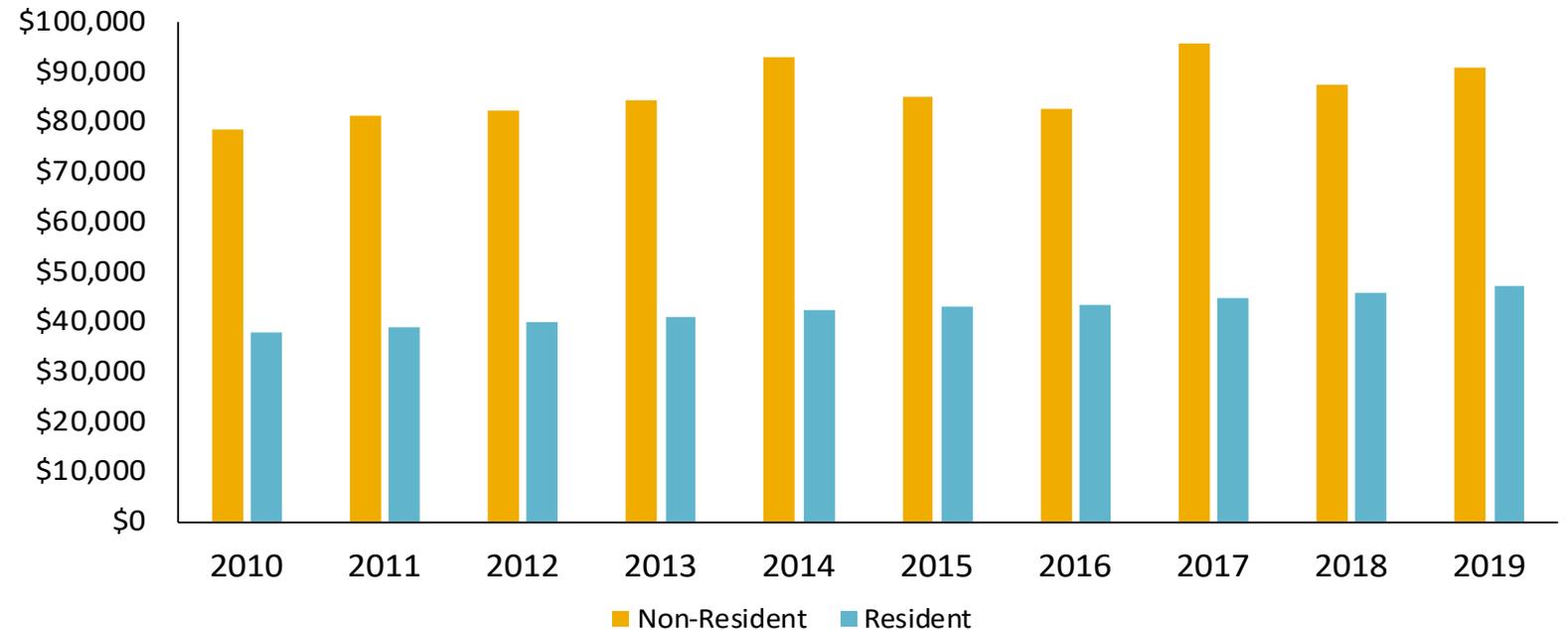
Montana resident income is dominated by wages.



NON-RESIDENT INCOME LEVELS

- Non-residents claim far higher levels of income than Montana residents
- In CY 2019, non-resident median Federal Adjusted Gross Income (FAGI) was \$91,000 compared to \$47,000 for Montana residents

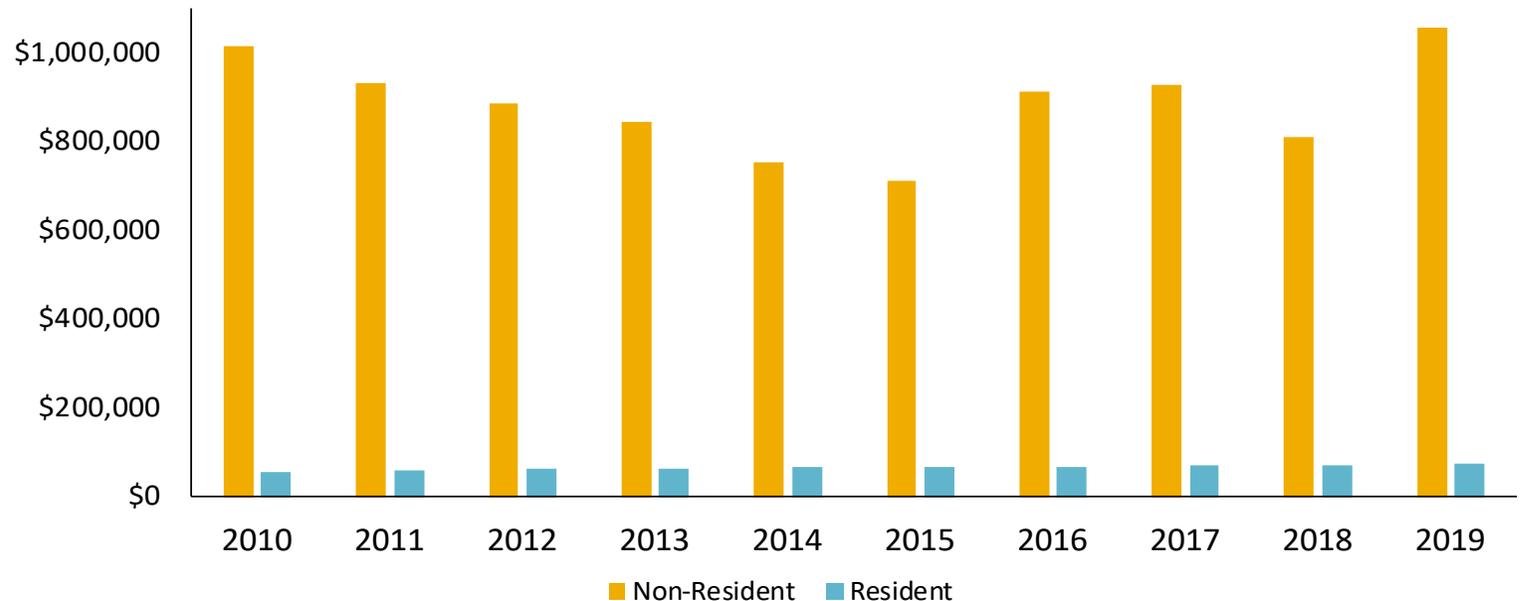
Over the past decade, median non-resident FAGI has been approximately twice as large as the median Montana resident FAGI.



NON-RESIDENT INCOME LEVELS

- The discrepancy is even greater when looking at average FAGI
- In CY 2019, average non-resident FAGI was \$1.1 million compared to \$75,000 for residents
- The top 10% of non-residents had an average FAGI of \$9.6 million compared to \$272,000 for the top 10% of residents.

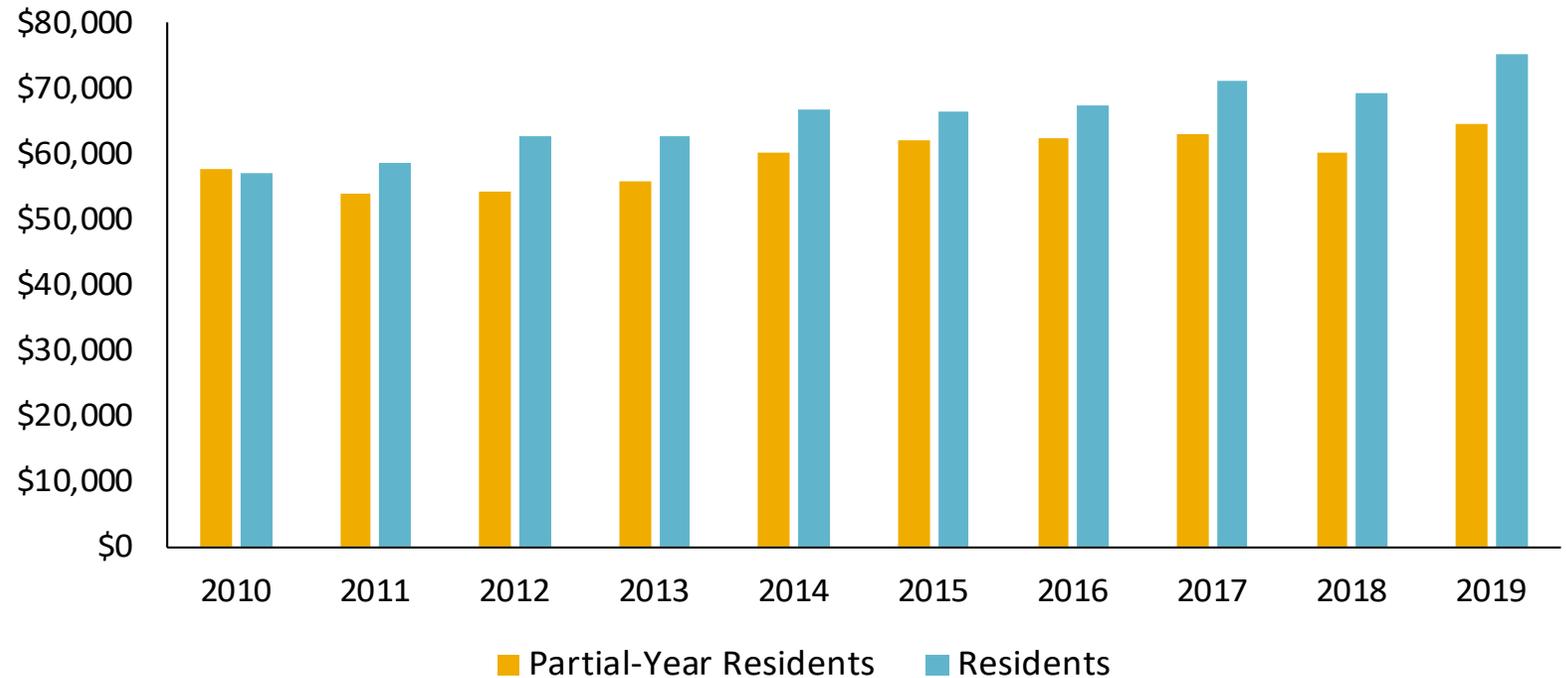
Over the past decade, average non-resident FAGI has been nearly fourteen times as large as the average Montana resident FAGI.



PARTIAL-YEAR RESIDENTS

- Unlike non-residents, who claim residency in another state, partial-year residents are at some point Montana residents during the tax year.
- While non-residents have a substantially higher FAGI than residents, partial year residents are far more comparable to Montana residents.

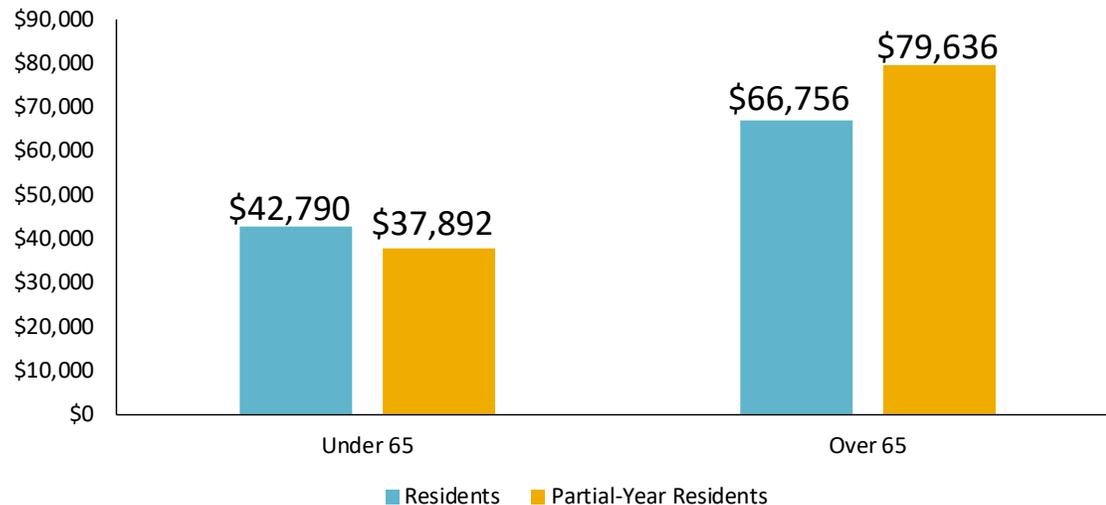
Over the past decade, average resident FAGI has been about 11% larger than partial-year resident FAGI



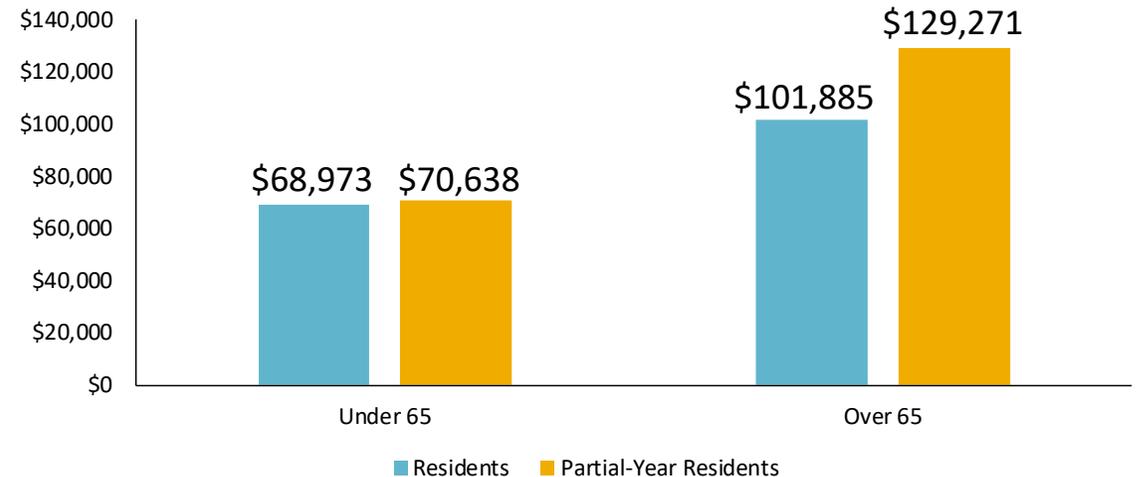
PARTIAL-YEAR RESIDENT INCOME

- **Remaining analysis focuses on those partial-year residents who became Montana residents (moved to Montana)**
- Incomes were quite similar for those taxpayers under the age of 65, but those over 65 who moved to Montana had significantly higher incomes than full-year residents.

Montana residents under 65 had a higher median FAGI than partial year residents in CY 2019, but this trend switches for taxpayers over 65



Partial-year residents had a slightly higher average FAGI for those under 65. However, for those over 65, partial-year residents' FAGI was 27% higher than Montana residents.

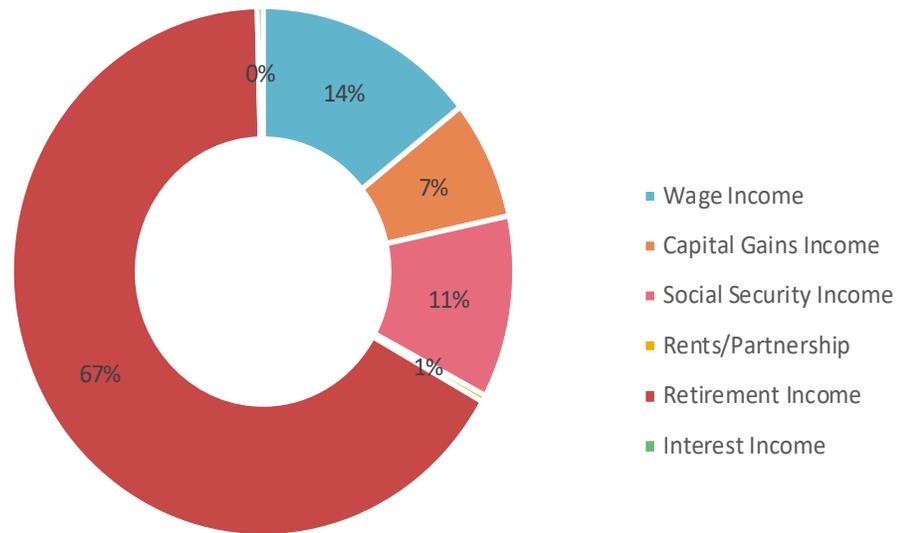


While there are certainly working-age individuals who moved to Montana with comparable incomes to residents, it is likely that their incomes are partially influenced by younger-aged college students who have declared residency here and have lower incomes.

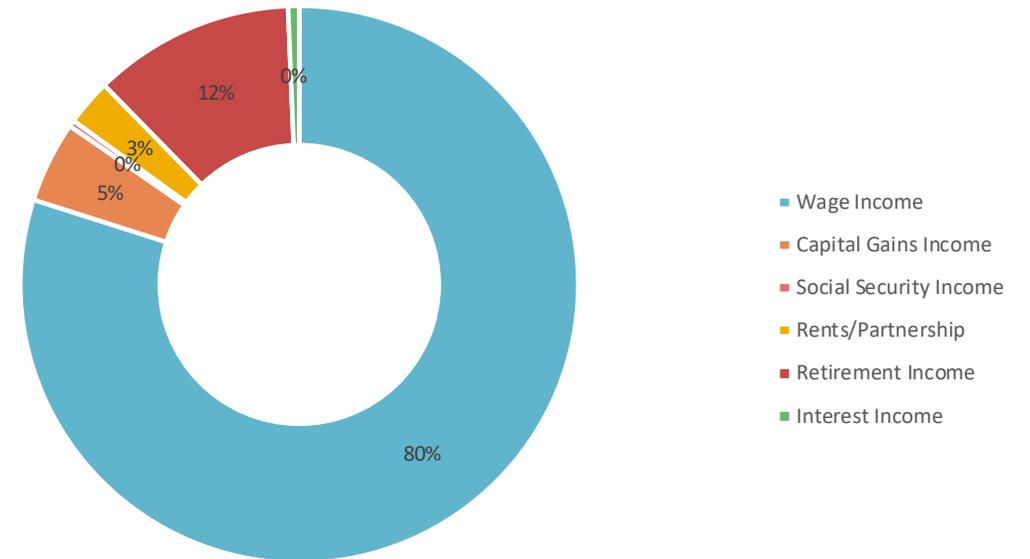
PARTIAL-YEAR RESIDENT INCOME PORTFOLIOS

- Partial-year residents have a much more similar income portfolio to residents than non-residents.

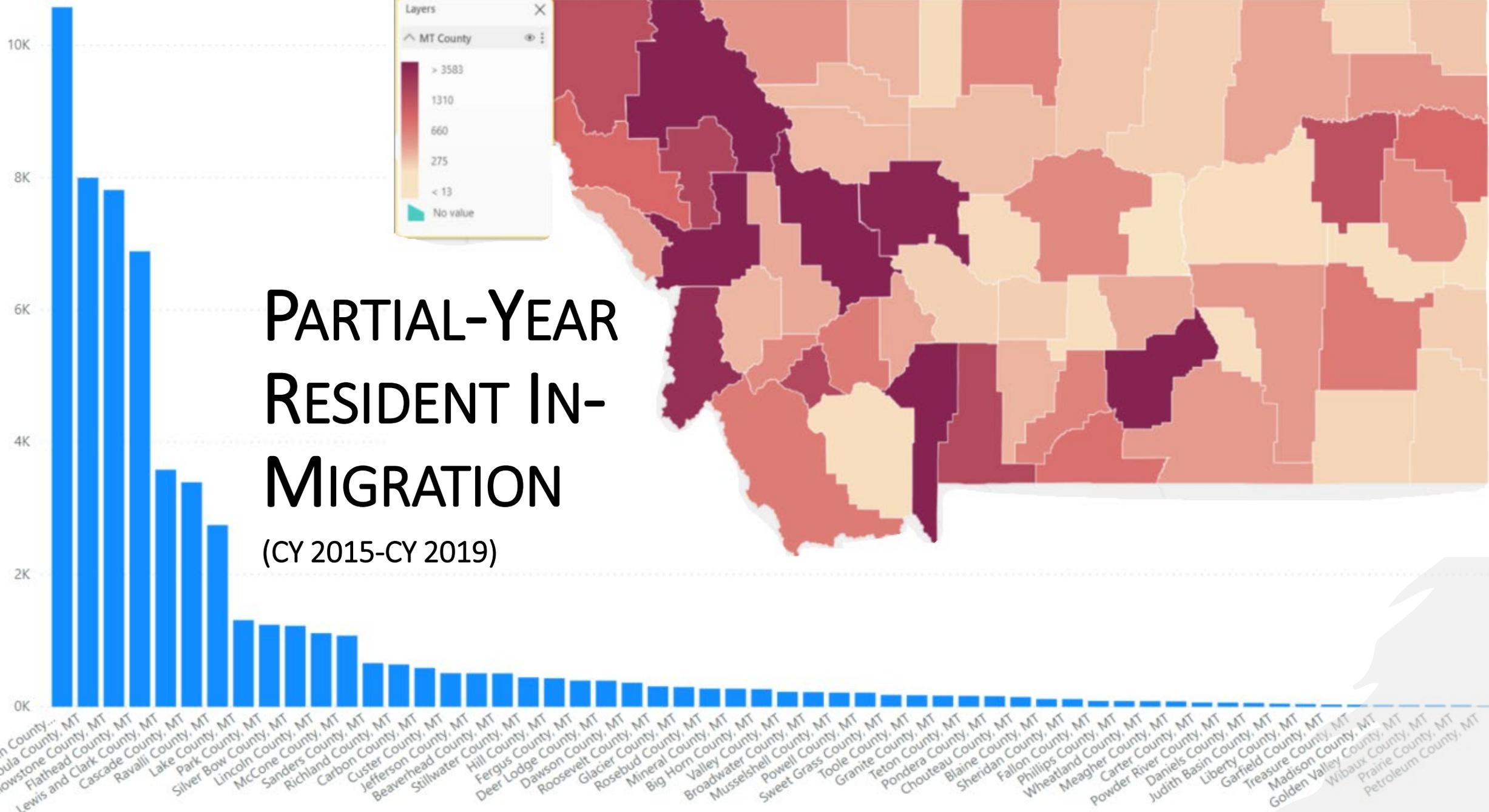
Two-thirds of reported income for new residents over 65 is in the form of retirement income



The income portfolio of those new residents under 65 is dominated by wages.

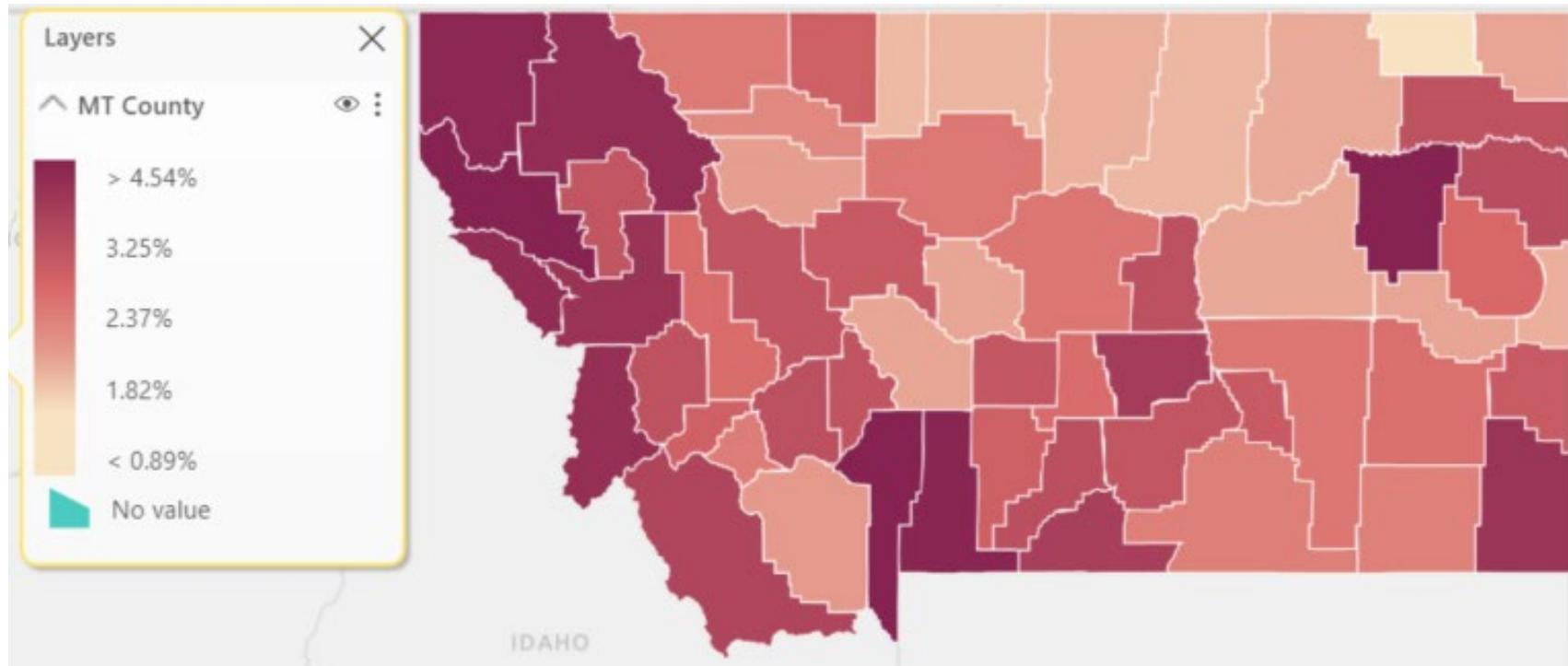


Count of Total FAGI



CY 2019 IN- MIGRATION GROWTH RATES

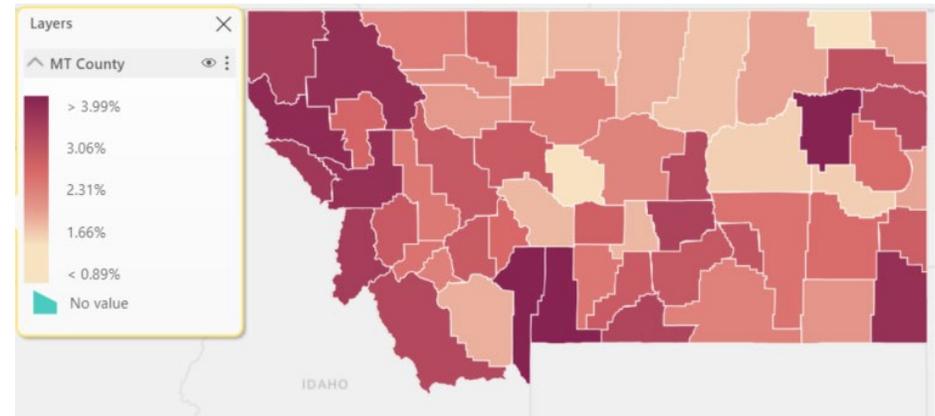
- Instead of pure counts, which counties experienced growth relative to their population?
- Compare new tax forms filed in a county as a percent of total forms filed in CY 2019



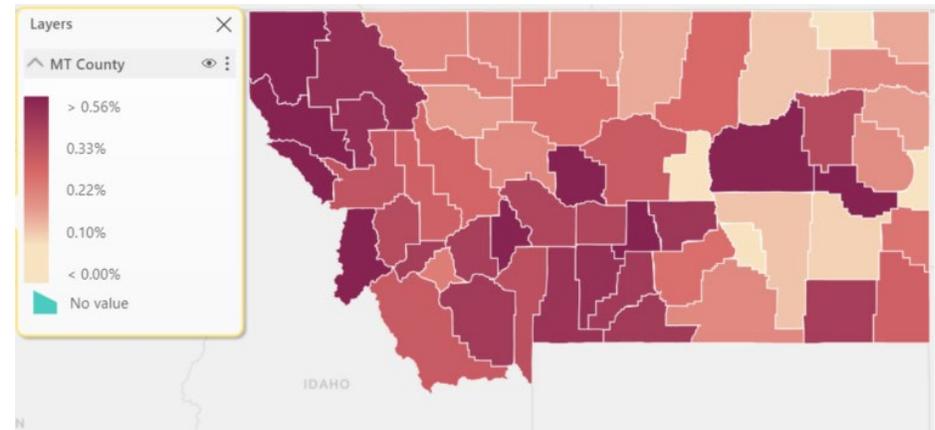
IN-MIGRATION BY AGE

- When looking at tax returns of those under 65, counties with the highest growth rates are confined to Gallatin, Park, and other Western Montana counties, especially along the Montana/Idaho border.
- With the exception of Flathead county, rural counties experienced more growth in new residents over the age of 65 than the larger population centers.

Under 65 in-migration



Over 65 in-migration



FUTURE WORK

- Anecdotal evidence suggests that these trends were accelerated in CY 2020 and into CY 2021.
- CY 2020 tax return data will be available in November, at which point this analysis will be extended upon.
- Furthermore, a full year of income for those residents who moved here in CY 2019 can be analyzed to see how it changed, if at all.