



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: April 27, 2020
TO: Modernization and Risk Analysis (MARA) Committee
FROM: Sam Schaefer
RE: Individual Income Tax and Demographics Analyses Options

The Legislative Fiscal Division has access to a history of individual-level taxpayer information detailing every item that was present on the tax form in each year. In addition to line items on the tax forms, the county of the tax form as well as a unique taxpayer ID is present. This information allows for multiple possible analyses, with varying levels of complexity.

Some of the simpler analyses are as follows:

- **How does per capita income and tax liability change across counties?** Both of these variables are listed explicitly in the tax data. The analysis would not require much time, but would give insight into how income changes from county to county.
- **How does income change from county-to-county over time?** Similarly to the above analyses, this would examine income and tax liability by county, but could examine how it has changed over the past decade. Significant changes could be due to migration within counties, or possibly due to aging of certain counties if incomes change as counties age.
- **How does income change by county by age? (Over 65/Under 65)** In Montana, taxpayers aged 65 and older can exempt a portion of interest income. The tax data includes a variable that indicates whether the taxpayer is eligible for the exemption. There is no age variable in the tax data, so this exemption indicator is the lone variable to get a sense of income by age. Income and tax liability could be compared between those taxpayers who chose to take the exemption and those who didn't. If it is of interest, this could also be analyzed at the county level.

Some of the more complex and time intensive analyses are as follows:

- **Does income change as aging occurs?** As mentioned earlier, the data contains a unique, taxpayer ID for each return. Using this ID, taxpayers can be matched from year-to-year. There is a decade worth of tax returns that has both this taxpayer ID as well as the 65 and older exemption. To gain insight into how income changes as an individual nears retirement, and ultimately retires, an age variable will need to be created and estimated. This could be accomplished by creating a subset of taxpayers that show an exemption variable changing from a non-exempt to exempt status from one year to the next. At this point, it would be assumed that the taxpayer was 65 years old, and years could be either subtracted or added as you move either backward or forward in years. Given the amount of historical data that is available, a data set could be created with estimated ages ranging from 56 to 73. Both changes in the amount of income as well as types of income could then be analyzed across these age demographics.

- **Are retirees moving to Montana, and if so, to which counties, and what does their income look like? Furthermore, what does in-migration from county-to-county look like?** Preliminary research suggests that retirees do move into Montana. Using the previously mentioned exemption variable, these individuals could be identified as they show up for the first time in the tax data. Furthermore, the LFD could analyze both their incomes and the counties that these individuals are moving to. Finally, an extremely rigorous approach could analyze individuals moving from county-to-county within the state, and their associated incomes.