

Individual Income Tax: Analysis of Non-Resident & Partial Year Residents' Income

PREPARED FOR THE FINANCIAL MODERNIZATION &
RISK ASSESSMENT STUDY (MARA)

SAM SCHAEFER

AUGUST 31, 2021

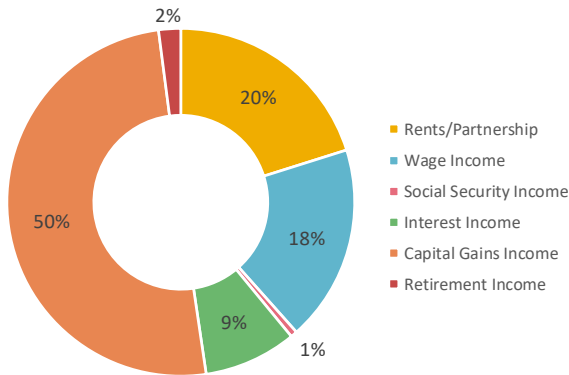
BACKGROUND

This report is a continuation of an individual income tax [analysis](#) from the 2021 biennium. That report analyzed income growth over the past decade across the state as well as how income types change as individuals age and focused on full-year residents. At the beginning of the study, focus had been put on the aging demographics of the state, and the impacts it would have on future individual income tax collections. In recent years however, especially this past year, Montana has seen an influx of new residents. This paper places its focus on income trends for non-residents and partial year residents, defined as those individuals who resided in Montana for part of the year. While CY 2020 data will not be available until November, this paper begins examining these recent trends through CY 2019.

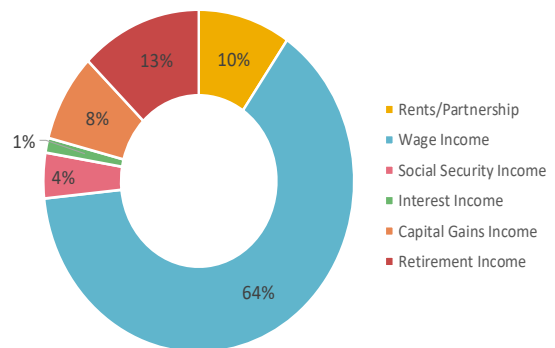
NON-RESIDENT INCOME

In Montana, non-resident tax liability averages about \$70 million per year, which is approximately 5% of total income tax collections. Non-residents are required to pay taxes on income that is earned in Montana. Starting with federal income, an apportionment factor, which calculates what portion of an individual's income was earned in Montana, is then applied to ultimately produce a Montana tax liability. Non-residents who owe taxes in Montana have an income portfolio dominated by capital gains income (~50% of total income), as opposed to wage income (~64% of total income) for Montana residents.

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

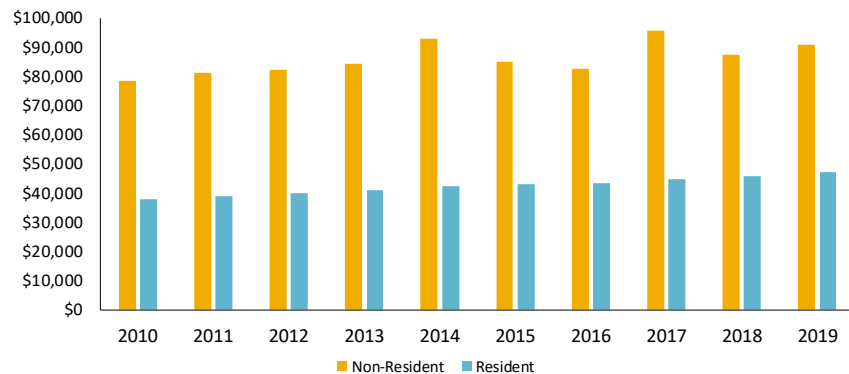


Montana resident income is dominated by wages.



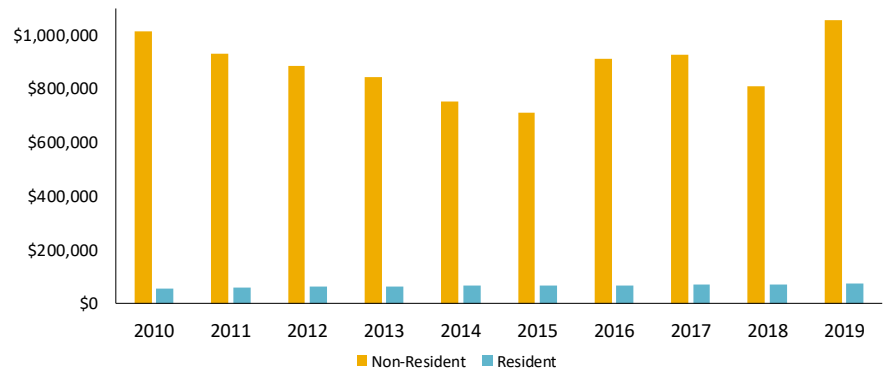
When examining median income amounts, non-residents earn approximately twice as much as Montana residents, and this has remained consistent over the past decade. In CY 2019 the median federally adjusted gross income (FAGI) for non-residents was \$91,000 compared to \$47,000 for Montana residents.

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

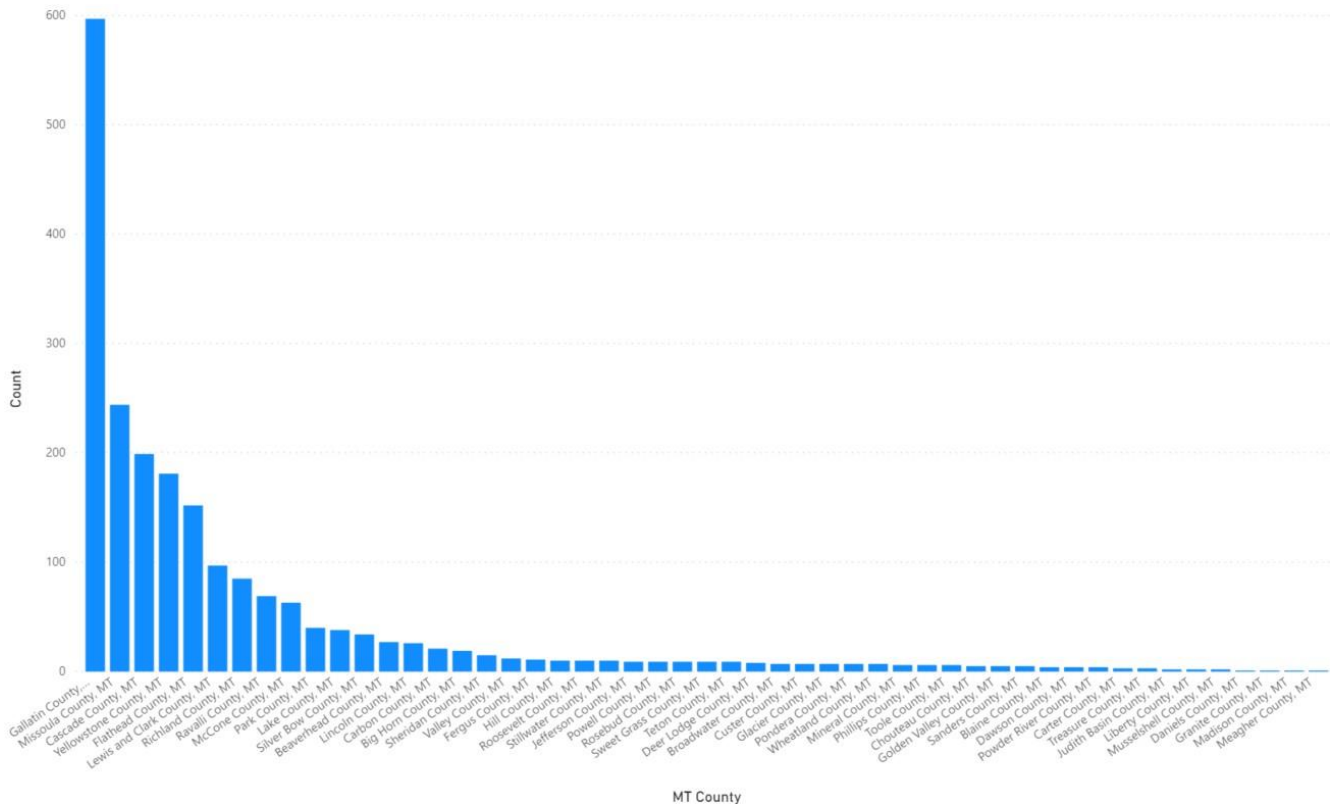


However, when looking at the average FAGI as opposed to median FAGI, the discrepancy is far greater, with non-residents averaging \$1.1 million in CY 2019 compared to \$75,000 for Montana residents. This is driven by non-resident individuals with significant levels of income at the higher range of incomes. For instance, the top 10% of non-residents have an average FAGI of \$9.6 million compared to the top 10% of Montana residents averaging \$272,000.

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



For those non-residents that have a Montana county listed on their tax form, the majority are located in Montana's largest counties, with Gallatin county having more than twice as many as the next closest county. For those non-resident tax forms that does list a county, the primary source of Montana-source is in wages, with a median value of \$9,641.

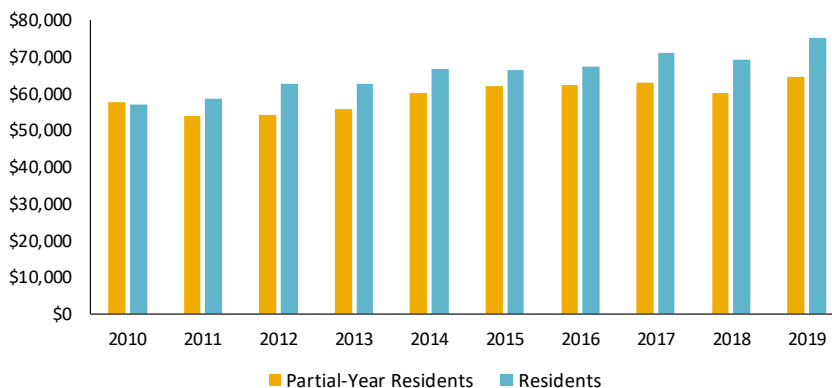


PARTIAL-YEAR RESIDENT INCOME

As opposed to non-residents, who claim residency in another state, partial-year residents are at some point during the tax year Montana residents. Prior to the Covid-19 health pandemic there was certainly anecdotal evidence suggesting that certain counties in Montana were seeing growth from individuals moving into the jurisdiction from out-of-state. It seems as if this trend was accelerated in CY 2020, and when that data becomes available in November it will be studied.

While non-residents have a substantially higher FAGI than residents, partial year residents are far more comparable to Montana residents. In fact, average Montana resident FAGI has been approximately 11% larger than partial-year residents over the past decade.

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

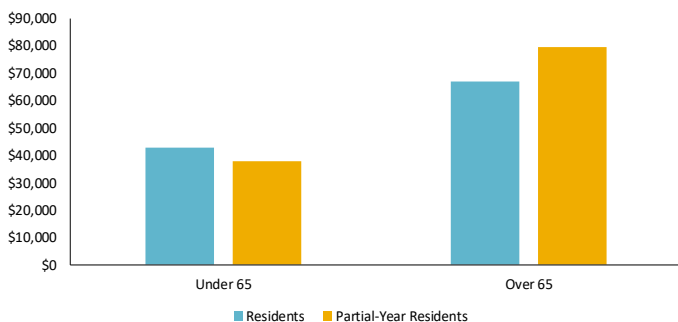


The story changes when comparing residents to partial-year residents by age, as well as looking at only those partial-year residents who recently moved to Montana.

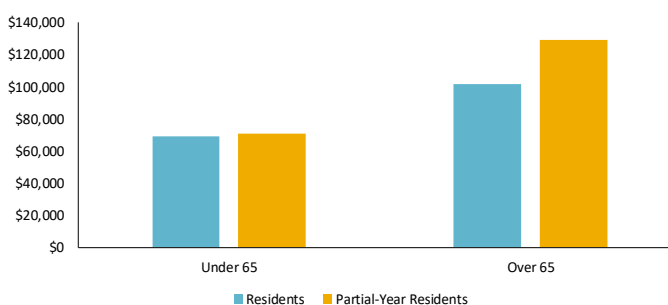
For the remaining income analyses, comparisons were made only for those partial-year residents who arrived into Montana in CY 2019. For those taxpayers under the age of 65 Montana residents had a median FAGI of \$42,790 in CY 2019 compared to a median FAGI of partial-year residents under 65 of \$37,892. This could partially be due to the number of younger partial-year residents who are college students who declared residency in Montana and have lower incomes. For those taxpayers over 65, partial-year residents had a median FAGI of \$79,636 compared to \$66,756 for Montana residents.

Like the non-resident comparison, when the average FAGI is examined for those who moved to Montana, their income increases much more than Montana residents. The average FAGI for partial-year residents over 65 was \$129,271 in CY 2019 compared to \$101,885 for Montana residents. And Montana residents under 65 had a greater median FAGI than partial-year residents, when looking at the average the partial-year residents had slightly higher incomes (\$70,638 compared to \$68,973).

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.

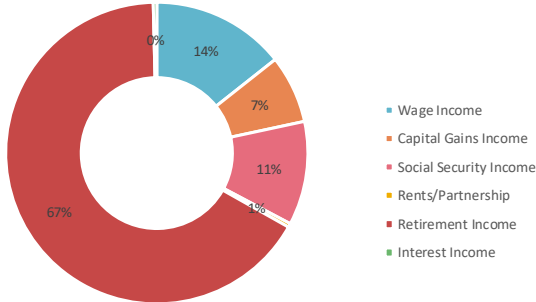


Once again, the discrepancy in the median and average income levels is driven by taxpayers with significant levels of income that only affect the average calculation, not the median. For taxpayers over

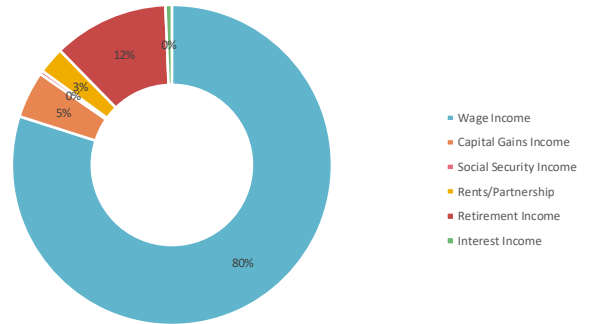
the age of 65, the top ten percent of partial-year residents had an average FAGI of \$259,000, compared to \$203,000 for the top ten percent of Montana residents over the age of 65.

Furthermore, partial year residents' income portfolios is more similar to Montana residents than non-residents.

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

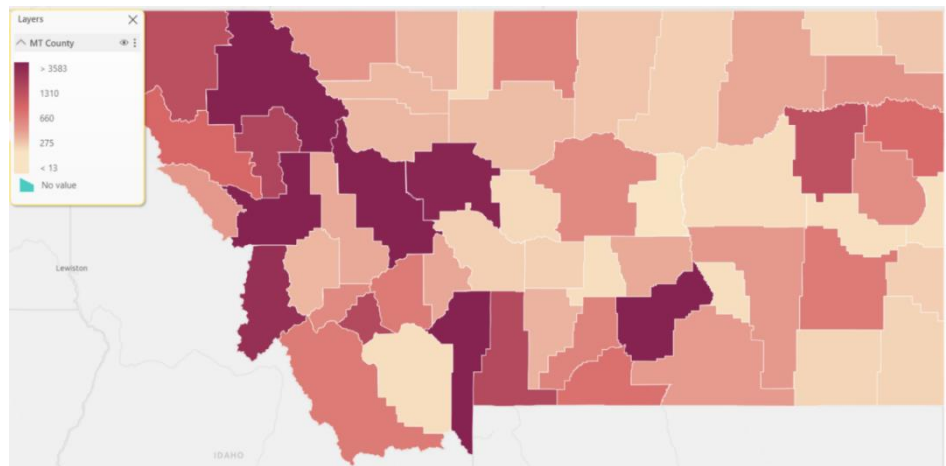


The income portfolio of those new residents under 65 is dominated by wages.

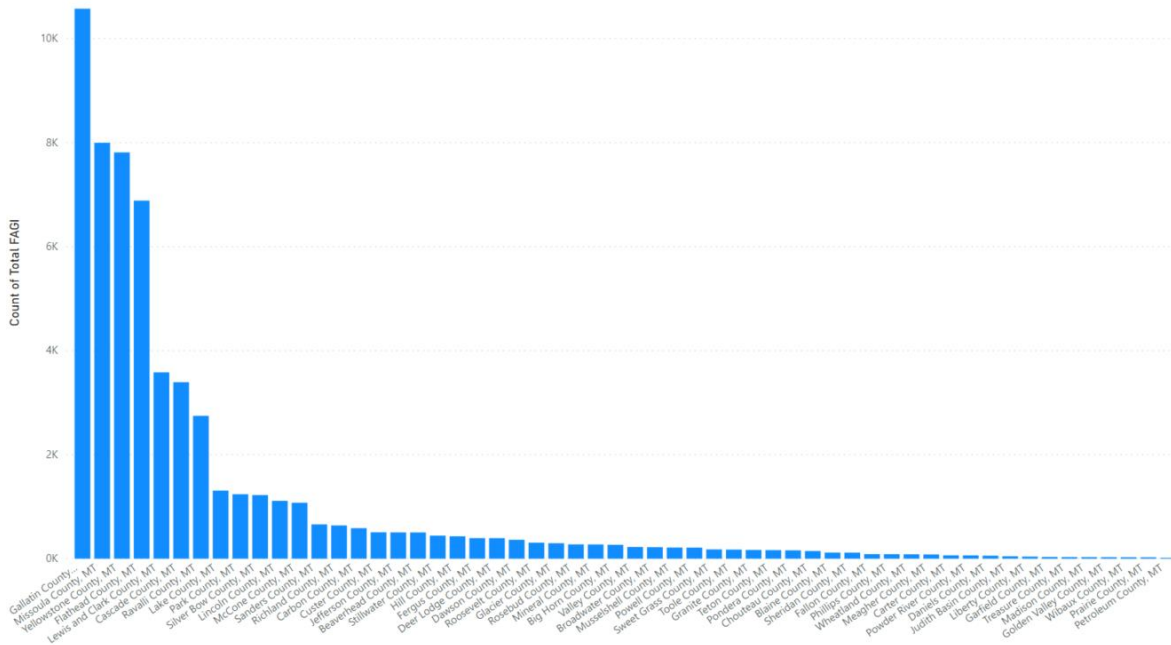


PARTIAL-YEAR RESIDENT IN-MIGRATION

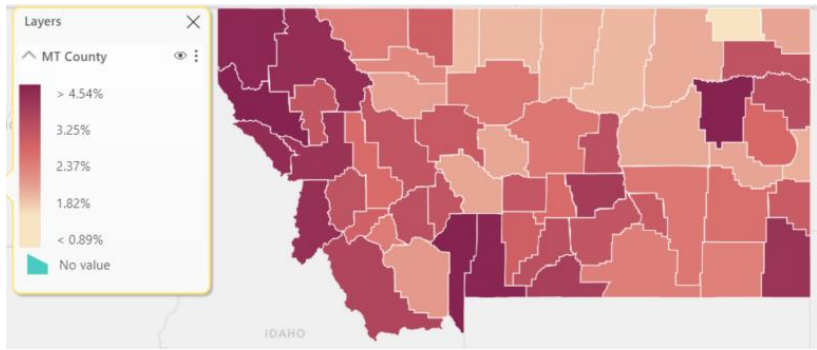
The map shows where new residents have been moving for CY's 2015-2019. Note that this map does not necessarily represent people, but instead new tax forms that were filed in those counties who did not file a Montana income tax form the year before.



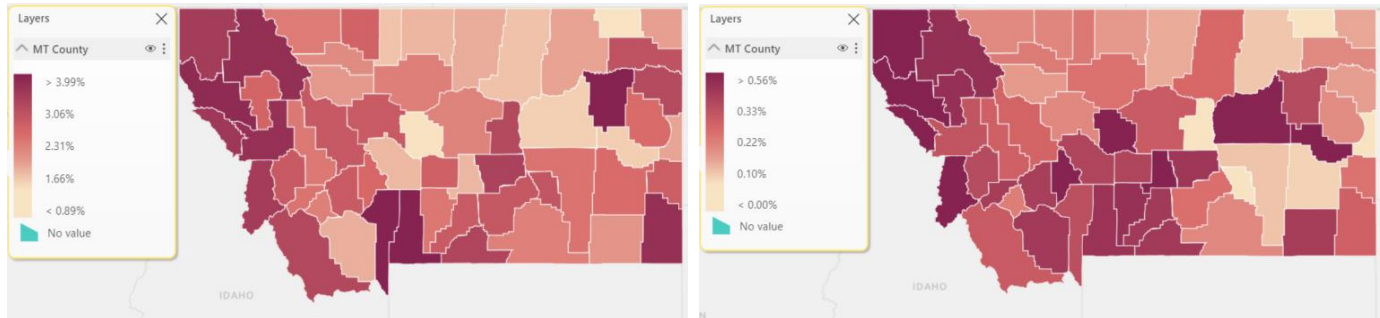
The majority of new residents have moved to the major population centers in Montana, with Gallatin county leading the in-migration.



However, when looking at growth rates as opposed to pure counts, some smaller counties have seen equal if not more growth than the major population centers. The following graphic shows new tax forms filed by county as a percent of total tax forms filed for CY 2019. Whereas Gallatin county experienced considerable growth of 5.25%, smaller counties along the Montana-Idaho border outpaced growth from many of the larger Montana counties.



The picture changes when looking at migration by age. The counties of Missoula, Flathead, and Gallatin experienced strong growth in new residents under 65. However, when looking at growth for new residents over 65 it was more confined to rural counties, with the exception of Flathead county.



Growth by county for those under 65 was strong in the more urban areas of Western Montana.

Growth by county for those over 65 was more widespread, and was much stronger in rural counties compared to those under 65.

FUTURE-ANALYSIS WITH 2020 RETURN DATA

As this analysis shows, through CY 2019 Montana had been experiencing growth throughout much of the state, and in certain regions extremely strong growth. Urban areas in Western Montana have seen strong growth of working-age individuals, while some of the more rural areas have seen an influx of retirement age individuals, many with significant levels of income.

Anecdotal evidence seems to suggest that these migration trends were accelerated in CY 2020 and have continued into CY 2021. CY 2020 tax return data will be available in November, and similar migration trends will be assessed. In addition, a full year of Montana incomes can then be analyzed for those residents who were only partial-year residents in CY 2019. The CY 2020 data will shed light on if the individuals moving to Montana maintain similar levels of income as to when they moved.