# TAX EXPENDITURES

## BIENNIAL REPORT • MONTANA DEPARTMENT OF REVENUE

Montana Department of
REVENUE

State governments affect people's lives in many ways. They provide services, they regulate behavior, and they levy taxes. When state government provides a service or regulates behavior, citizens and their legislators scrutinize the goals of the program, its costs, and its results. State programs that use the tax system to encourage private parties to change their behavior or provide services should receive the same scrutiny.

The purpose of this tax expenditure report is to provide the public and the legislature information to use in that scrutiny. It identifies special provisions in the tax code that either reward or discourage private activities. It also measures the cost of these special provisions in terms of reduced tax revenue.

**What is a Tax Expenditure?**

When a state agency has a program to accomplish a goal, such as upgrading the pavement on state highways, the program has a direct cost to taxpayers – the taxes they must pay to finance the program. The program's budget spells out how much the program will cost and how the money will be spent.

When the state tax code contains provisions that give incentives for taxpayers to behave in certain ways, such as saving more or donating to charities, this also has a cost to taxpayers. Without the special provisions, either general taxes could be lower or more revenue could be available to provide public services. For example, if all special provisions in the Montana income tax were eliminated, either revenue would increase by about 30% or rates could be reduced by about one-fifth, from a range of 1% to 6.9% to a range of 0.8% to 5.5%. A special tax provision's cost to the state budget, and ultimately to other taxpayers, is called a *tax expenditure.*

**How are Tax Expenditures Measured?**

There are two components to measuring tax expenditures: identifying special provisions of the tax code, and estimating the revenue forgone because of each special provision.

Since the introduction of the tax expenditure concept by the US Treasury Department in 1967, there has been considerable controversy about what should be considered to be a tax expenditure and about what baseline should be used in estimating a special provision's revenue impact. In part, the controversy has been about technical points from economic theory, and in part, it has been an ideological argument between proponents of different visions of an ideal tax system. This controversy has tended to obscure the goal of tax expenditure reporting, which is to serve as a starting point for evaluating whether special features of the tax law should be continued, modified, or replaced.

This report roughly follows the logic put forward by the staff of the congressional Joint Committee on Taxation in a recent report *A Reconsideration of Tax Expenditure Analysis*.[1] It defines tax expenditures to be provisions of the tax law that deliberately depart from the general structure of the tax, generally with the goal of influencing taxpayer behavior. More general questions of tax policy, such as what should be taxed and at what rates, are outside the scope of tax expenditure analysis. This is to limit the scope of the analysis, not because these questions are not important.

For each tax considered, this report first identifies the general structure of the tax – the general rules for what is included in the base and the normal rate structure. It then identifies exceptions from these general rules. The exceptions may take the form of special, limited exemptions from the tax base, special rates with limited applicability, or tax credits. For each special provision, it explores how the special provision affects qualifying taxpayers, the state budget, and other taxpayers. This report presents the amount of each tax expenditure based on information on actual tax returns, such as the amount of credits claimed or the reduction in tax liability due to reported exclusions or deductions. It does not attempt to estimate the changes in behavior a tax incentive has induced or the additional revenue that would result from repealing it. Ideally, these would be estimated as part of a periodic legislative review of each tax expenditure.

**How should this information be used?**

Ideally, the legislature would give tax expenditures the same kind of scrutiny that it gives to direct program expenditures. It would consider the likely costs and results of new proposals, and it would periodically evaluate the actual costs and impacts of existing tax expenditures. This evaluation would examine each tax expenditure's effectiveness, including cost effectiveness.

Evaluating a tax expenditure's effectiveness would require having a clear statement of its purpose and mea-

[1] Joint Committee on Taxation, A Reconsideration of Tax Expenditure Analysis (JCX-37-08), May 12, 2008.

suring whether it accomplishes that purpose. In general, a tax expenditure's purpose is to change taxpayers' behavior in some way. An effective tax expenditure would produce a large change in taxpayers' behavior for a small cost in foregone revenue. An ineffective tax expenditure would reward people for doing what they would have done anyway.

Thus, measuring a tax expenditure's effectiveness requires knowing its cost, knowing how much of the desired activity taxpayers engaged in, and estimating how much of the activity taxpayers would have done without the incentive.

Evaluating a tax expenditure's cost effectiveness would require comparing it with other methods of accomplishing the same goal. For example, the tax credits to encourage energy conservation investments could be compared to direct grant programs or changes in building codes. The tax credit for extending infrastructure to new manufacturing plants could be compared to a direct grant program or changes in land-use planning.

The individual income tax is a tax on income a person or couple receives during a year. The general structure of the income tax has three components:

- the taxpayer's adjusted gross income, which generally includes cash and the value of non-monetary compensation and is net of the costs of earning income,
- an exemption for each taxpayer and each dependent and a standard deduction, which are subtracted from adjusted gross income to give taxable income, and
- the tax rates, which in Montana take the form of a graduated rate schedule with the first increments of income being taxed at lower rates.

Tax expenditures for the income tax take four forms:

- special treatment of specific types of income, either through special provisions for measuring income or through excluding some types of income from the definition of adjusted gross income,
- itemized deductions from adjusted gross incomefor taxpayers who meet certain conditions or make certain types of expenditures,
- lower tax rates for certain types of income, and
- tax credits for taxpayers who meet certain conditions or make certain types of expenditures.

## Tax Expenditures in the Definition of Adjusted Gross Income

Montana law adopts the federal definition of adjusted gross income as the starting point for measuring income subject to the state income tax. Tax expenditures in the definition of adjusted gross income come from two sources: tax expenditures that arise in the federal definition of adjusted gross income and tax expenditures that arise from special provisions of Montana law. State tax expenditures that arise from the state's tie to federal law are *passive tax expenditures*. The state legislature did not take any action to create them and would have to act to prevent them.

Some passive tax expenditures are the result of federal law exempting certain types of income from tax. Others arise from special rules for measuring income. These include special depreciation provisions, rules for the timing of recognition of income, and rules for determining when expenditures that employers make on behalf of their employees count as income to the employee. A third type of passive expenditure results from extra expense deductions federal law allows as incentives to make certain types of investment.

Federal credits do not create passive state tax expenditures, because they do not affect the taxpayer's adjusted gross income.

Montana tax returns do not include information that would allow reliable state-level estimates of individual passive tax expenditures. Total passive tax expenditures can be roughly estimated from the estimates of federal tax expenditures published by the congressional Joint Committee on Taxation (JCT).[1] The JCT's estimates of federal tax expenditures that create Montana passive tax expenditures total $412 billion. Multiplying this by the ratio of adjusted gross income reported on federal returns with a Montana address to adjusted gross income reported on all federal returns, 0.26%, and the ratio of the top Montana rate to the top federal rate, 19.7%, gives the following rough estimate of these passive tax expenditures:

| Montana Passive Expenditures from Special Provisions in Federal Definitions of Total Income ($ Million) |
|---|
| $212 |

Other passive tax expenditures arise from specific adjustments to gross income. These items are listed on both federal and state tax returns. On the 2009 Montana Form 2, they are on lines 23 through 35. These items are sometimes called federal adjustments to income or above-the-line deductions.

Five above-the-line deductions should not be considered tax expenditures. Four allow taxpayers to deduct un-reimbursed costs of doing their jobs or otherwise earning income. They are the deduction for educator expenses; the deduction for business expenses of reservists, performing artists, and fee basis local government officials; the deduction for expenses of moving to

[1] "Estimates of Federal Tax Expenditures for Fiscal Years 2009-2013" by the staff of the Joint Committee on Taxation, January, 2010, Document JCS-1-10.

take a new job; and the deduction for penalties for early withdrawal of savings.

The fifth is the deduction for alimony paid, which ensures that income allocated between former spouses is taxed to the person who ultimately receives it.

The other seven above-the-line deductions are tax expenditures.

### Health Savings Account Deduction

A Health Savings Account (HSA) is a tax-advantaged account for certain medical expenses of taxpayers whose only health insurance is a high-deductible health insurance plan. Funds in an HSA may be used only to pay medical costs that are not reimbursed by insurance. Both deposits to and distributions from an HSA are exempt from income tax.

HSAs provide a partial subsidy to taxpayers who buy their own health insurance and choose a high-deductible plan. This provides an incentive for individuals to purchase high-deductible health insurance themselves rather than choose some other option for health insurance or do without.

Table 2.2 shows Health Savings Account deductions for tax years 2005 through 2009. Before 2005, the above-the-line deductions were all combined on a single line on the Montana income tax return, so these deductions can only be tracked separately since 2005.

For 2009, the Health Savings Account deduction reduced income tax revenue to the state general fund by $1,169,701, or $1.89 per full year resident taxpayer.

### Individual Retirement Account Deduction

An Individual Retirement Account (IRA) is a tax-advantaged account for retirement savings. Taxpayers are allowed an above-the-line deduction for contributions to a traditional IRA. For most taxpayers, the deduction was limited to $4,000 in 2007. The limit increases to $5,000 in 2008. The limit is $1,000 higher for taxpayers who are 50 or older. Higher income taxpayers who participate in one of several types of pension plan have a lower limit that depends on their income.

Earnings retained in an IRA are not taxed, but distributions from an IRA are taxed. This delays taxes on a part of current income until after the taxpayer retires, providing a subsidy for retirement savings. This gives taxpayers an incentive to increase retirement saving.

Table 2.3 shows Individual Retirement Account deductions for tax years 2005 through 2009.

For 2009, the Individual Retirement Account deduction reduced income tax revenue to the state general fund by $3,314,266, or $5.35 per full year resident taxpayer.

**Health Savings Account Deduction (Table 2.2)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 1,793 | $4,861,755 | 234 | $721,309 | 105 | $202,804 | 2,132 | $5,785,868 |
| 2006 | 2,796 | $8,066,464 | 419 | $1,525,065 | 108 | $203,870 | 3,323 | $9,795,399 |
| 2007 | 3,989 | $12,396,345 | 472 | $1,961,471 | 175 | $327,251 | 4,636 | $14,685,067 |
| 2008 | 5,407 | $16,792,206 | 697 | $2,942,603 | 209 | $415,754 | 6,313 | $20,150,563 |
| 2009 | 6,040 | $19,175,503 | 775 | $3,300,085 | 155 | $155 | 6,970 | $22,475,743 |

**Individual Retirement Account Deduction (Table 2.3)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 14,848 | $54,340,678 | 1,203 | $5,790,667 | 487 | $1,521,475 | 16,538 | $61,652,820 |
| 2006 | 15,436 | $59,631,134 | 1,198 | $6,242,828 | 497 | $1,599,056 | 17,131 | $67,473,018 |
| 2007 | 15,803 | $61,619,221 | 1,205 | $6,030,013 | 498 | $1,656,623 | 17,506 | $69,305,857 |
| 2008 | 13,527 | $56,421,582 | 1,112 | $6,816,737 | 328 | $1,122,702 | 14,967 | $64,361,021 |
| 2009 | 12,480 | $52,303,964 | 1,002 | $5,874,759 | 274 | $1,021,602 | 13,756 | $59,200,325 |

### Student Loan Interest Deduction

Taxpayers may deduct interest they paid on student loans for either their own or their dependents' post-secondary education.

This deduction provides a subsidy to taxpayers who borrow to pay for either their own or their dependents' education. This provides an incentive for taxpayers to invest in their own or their dependents' educations. It also provides an incentive to increase the proportion of education expenses financed by borrowing.

Table 2.4 shows student loan interest deductions for tax years 2005 through 2009.

For 2009, the student loan interest deduction reduced income tax revenue to the state general fund by $1,996,907, or $3.23 per full-year resident taxpayer.

### Tuition and Fees Deduction

Taxpayers may deduct tuition and fees they paid for their own or their dependents' post-secondary education. Federal law also provides a credit for some tuition and fee payments, and a taxpayer may not take both the deduction and the credit.

This deduction provides a subsidy for taxpayers who are pursuing their own post-secondary education or paying for their dependents' post-secondary education. This provides an incentive for taxpayers to invest in their own or their dependents' educations.

This deduction did not have a separate line on either federal or state tax returns before 2007.

Table 2.5 shows tuition and fees deductions for tax years 2007 through 2009.

For 2009, the tuition and fees deduction reduced income tax revenue to the state general fund by $572,047, or $0.92 per full year resident taxpayer.

### Deductions for the Self-Employed

Three above-the-line deductions give self-employed persons the same treatment as employees for fringe benefits and retirement plans. They are the deduction for one-half of self-employment tax, the deduction for contributions to qualified self-employed retirement plans, and the deduction for self-employed health insurance. The federal Joint Committee on Taxation classifies these deductions, and the corresponding exclusions for employees, to be tax expenditures – they exclude part of an employee's or self-employed person's income from taxation.

Table 2.6 show these deductions for tax years 2005 through 2009.

For 2009, extending these exclusions to the self employed reduced income tax revenue to the state general fund by $12,133,668, or $19.60 per full-year resident taxpayer.

**Student Loan Interest Deduction (Table 2.4)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 32,217 | $19,351,674 | 1,919 | $1,164,598 | 3,526 | $2,189,736 | 37,662 | $22,706,008 |
| 2006 | 37,114 | $25,323,574 | 2,089 | $1,450,213 | 3,877 | $2,820,547 | 43,080 | $29,594,334 |
| 2007 | 39,214 | $29,796,691 | 2,144 | $1,703,204 | 3,778 | $3,009,468 | 45,136 | $34,509,363 |
| 2008 | 40,577 | $32,089,772 | 2,356 | $2,014,100 | 3,653 | $3,063,092 | 46,586 | $37,166,964 |
| 2009 | 41,749 | $32,806,866 | 2,361 | $1,988,225 | 3,074 | $2,621,006 | 47,184 | $37,416,097 |

**Tuition and Fees Deduction (Table 2.5)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2007 | 12,356 | $31,181,153 | 1,183 | $2,881,876 | 902 | $2,304,488 | 14,441 | $36,367,517 |
| 2008 | 13,413 | $34,238,086 | 1,340 | $3,339,186 | 886 | $2,247,846 | 15,639 | $39,825,118 |
| 2009 | 6,605 | $15,216,928 | 704 | $1,607,260 | 549 | $1,481,854 | 7,858 | $18,306,042 |

| One-Half of Self Employment Tax (Table 2.6) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 58,815 | $71,483,283 | 6,286 | $24,307,841 | 2,291 | $2,176,822 | 67,392 | $97,967,946 |
| 2006 | 59,151 | $74,926,867 | 6,219 | $22,647,884 | 2,388 | $1,991,335 | 67,758 | $99,566,086 |
| 2007 | 60,278 | $79,003,075 | 5,737 | $14,878,508 | 2,287 | $2,023,076 | 68,302 | $95,904,659 |
| 2008 | 58,744 | $74,863,322 | 7,335 | $28,920,785 | 2,123 | $1,948,293 | 68,202 | $105,732,400 |
| 2009 | 57,031 | $70,605,043 | 6,910 | $26,039,269 | 1,752 | $1,593,344 | 65,693 | $98,237,656 |

| Contributions to Qualified Self-Employed Retirement Plans | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 3,763 | $51,859,057 | 1,175 | $28,573,377 | 85 | $1,356,057 | 5,023 | $81,788,491 |
| 2006 | 3,751 | $54,938,617 | 1,165 | $27,108,796 | 96 | $1,420,275 | 5,012 | $83,467,688 |
| 2007 | 3,481 | $52,250,335 | 907 | $21,407,969 | 84 | $1,347,219 | 4,472 | $75,005,523 |
| 2008 | 3,048 | $46,752,467 | 1,134 | $31,280,734 | 75 | $914,798 | 4,257 | $78,947,999 |
| 2009 | 2,707 | $42,822,026 | 1,030 | $26,706,434 | 50 | $546,977 | 3,787 | $70,075,437 |

| Self-Employed Health Insurance Premiums Deduction | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 21,219 | $92,534,884 | 3,057 | $20,040,435 | 511 | $1,716,612 | 24,787 | $114,291,931 |
| 2006 | 20,940 | $95,735,690 | 2,936 | $19,504,200 | 465 | $1,464,168 | 24,341 | $116,704,058 |
| 2007 | 20,644 | $98,953,188 | 2,622 | $17,996,591 | 444 | $1,642,157 | 23,710 | $118,591,936 |
| 2008 | 20,071 | $102,338,278 | 3,512 | $27,287,502 | 398 | $1,316,008 | 23,981 | $130,941,788 |
| 2009 | 19,190 | $98,936,900 | 3,399 | $27,785,729 | 346 | $1,357,558 | 22,935 | $128,080,187 |

### Domestic Production Activities Deduction

Before 2004, certain income from exports to other countries was exempt from taxation. The World Trade Organization found that this export subsidy violated international trade agreements that the United States had signed. This exposed the United States to potential sanctions from its trade partners. Congress responded by repealing the export subsidy and replacing it with a general subsidy for manufacturing.

In addition to the normal deduction for business expenses, taxpayers are allowed a special deduction of a percentage of net income from producing new goods and engineering and architectural services in the United States. The percentage was 3% for 2005 and 2006, 6% for 2007 through 2009, and is 9% from 2010 forward. Because it is a percentage of net income, it would be more accurate to call this provision a partial exemption of certain types of income rather than a deduction.

This deduction provides businesses with an incentive to produce goods and engineering and architectural services rather than other types of services and to engage in these production activities in the United States rather than in other countries.

| Domestic Production Activities Deduction (Table 2.7) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 2,817 | $11,947,553 | 796 | $42,873,123 | 45 | $200,290 | 3,658 | $55,020,966 |
| 2006 | 11,007 | $34,084,680 | 2,116 | $57,874,171 | 585 | $1,502,737 | 13,708 | $93,461,588 |
| 2007 | 4,352 | $35,899,187 | 1,130 | $53,479,563 | 58 | $604,676 | 5,540 | $89,983,426 |
| 2008 | 4,286 | $28,313,939 | 1,762 | $198,481,095 | 70 | $1,103,846 | 6,118 | $227,898,880 |
| 2009 | 4,160 | $22,914,712 | 1,675 | $133,588,571 | 39 | $239,355 | 5,874 | $156,742,638 |

Table 2.7 shows domestic production activities deductions for 2005 through 2009.

For 2009, the domestic production activities deduction reduced individual income tax revenue to the general fund by $1,686,493, or $2.72 per full-year resident taxpayer. Most of the value of this deduction is claimed by non-residents, but most non-residents who file a Montana return have a relatively small fraction of their income from Montana, so that most of the tax expenditure goes to residents.

**Montana Adjustments to Income**

Montana has 40 adjustments to federal adjusted gross income that taxpayers are either allowed or required to make in calculating Montana adjusted gross income.

Some of these Montana adjustments are needed to allocate income between spouses filing separate Montana returns when they filed a joint federal return. Other state adjustments exist because federal law prohibits states from taxing certain types of income that the federal government taxes. A few exist because the state taxes some types of income that the federal government does not. Most exist because the legislature has chosen to partly or completely exempt certain types of income from taxation.

**Interest on Federal Government Bonds**

Federal law and court decisions prohibit states from taxing interest on federal government bonds. Montana law specifically exempts interest on federal bonds from taxation (15-30-2110(2)(a), MCA).

Table 2.8 shows federal interest that has been exempted from Montana taxation since 1997.

For 2009, this exclusion reduced income tax revenue to the general fund by $2,155,884, or $3.48 per full year resident taxpayer.

**Interest on Federal Government Bonds (Table 2.8)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 1997 | 32,848 | $88,800,195 | 2,886 | $133,945,980 | 829 | $2,661,549 | 36,563 | $225,407,724 |
| 1998 | 32,682 | $88,525,656 | 2,789 | $126,827,237 | 797 | $1,675,141 | 36,268 | $217,028,034 |
| 1999 | 32,354 | $85,520,376 | 2,910 | $124,509,638 | 862 | $1,738,047 | 36,126 | $211,768,061 |
| 2000 | 30,883 | $98,577,472 | 2,923 | $104,001,496 | 772 | $1,596,747 | 34,578 | $204,175,715 |
| 2001 | 28,632 | $85,952,848 | 2,877 | $130,252,978 | 763 | $4,341,613 | 32,272 | $220,547,439 |
| 2002 | 25,294 | $59,642,270 | 2,922 | $111,324,880 | 640 | $1,167,997 | 28,856 | $172,135,147 |
| 2003 | 22,291 | $47,157,089 | 2,606 | $59,560,330 | 590 | $644,226 | 25,487 | $107,361,645 |
| 2004 | 22,274 | $43,523,775 | 2,678 | $82,593,579 | 590 | $1,473,694 | 25,542 | $127,591,048 |
| 2005 | 22,326 | $49,168,424 | 3,185 | $120,979,650 | 629 | $1,424,866 | 26,140 | $171,572,940 |
| 2006 | 23,727 | $67,566,360 | 3,200 | $129,009,267 | 652 | $3,866,720 | 27,579 | $200,442,347 |
| 2007 | 24,943 | $76,997,436 | 2,741 | $64,573,369 | 692 | $1,698,874 | 28,376 | $143,269,679 |
| 2008 | 23,481 | $51,862,384 | 3,809 | $208,173,091 | 635 | $2,371,497 | 27,925 | $262,406,972 |
| 2009 | 20,220 | $37,421,242 | 3,304 | $82,926,289 | 433 | $795,403 | 23,957 | $121,142,934 |

**Exempt Tribal Income (Table 2.9)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 4,638 | $109,780,493 | 16 | $412,813 | 41 | $528,813 | 4,695 | $110,722,119 |
| 2006 | 6,330 | $151,953,947 | 12 | $224,730 | 54 | $838,156 | 6,396 | $153,016,833 |
| 2007 | 7,287 | $182,801,857 | * | $138,652 | 46 | $556,012 | * | $183,496,521 |
| 2008 | 7,378 | $187,639,734 | 13 | $668,539 | 58 | $1,061,691 | 7,449 | $189,369,964 |
| 2009 | 7,700 | $201,760,096 | 11 | $200,709 | 54 | $877,670 | 7,765 | $202,838,475 |

### Exempt Tribal Income

Indian tribes are sovereign governments, and by federal law and treaty, the right to tax the income a member who lives on the tribe's reservation earns on the reservation is reserved to the tribal government. The state may tax income non-members earn on a reservation. This is similar to the general rule for taxation across national borders – a country may tax income its citizens earn anywhere, and may tax income non-citizens earn in the country, but may not tax income citizens of another country earn in another country. For this reason, it is not clear whether the exemption for tribal income should be considered a state tax expenditure.

Table 2.9 shows exempt tribal income reported on Montana returns since 2005. Before 2005, tribal income was exempt but was not reported on returns.

For 2009, this exclusion reduced income tax revenue to the general fund by $6,794,935, or $10.98 per full year resident taxpayer.

### Unemployment Compensation

Federal law exempts the first $2,400 of unemployment compensation.

Montana exempts all unemployment compensation from taxation (15-30-2101(10)). The state revenue loss from the federal exemption is included in the estimate of passive tax expenditures. Table 2.10 shows additional state exemptions for unemployment compensation since 1997.

For 2009, this exclusion reduced income tax revenue to the general fund by $7,537,268, or $12.18 per full- year resident taxpayer.

### Worker's Compensation

Federal law exempts worker's compensation payments except those that relate to medical expenses deducted in an earlier year. Montana exempts all worker's compensation payments (15-30-2110(2)(g)). The state revenue loss from the federal exemption is included in the

**Unemployment Compensation (Table 2.10)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 1997 | 25,501 | $48,410,392 | 1,728 | $4,954,706 | 1,752 | $4,228,881 | 28,981 | $57,593,979 |
| 1998 | 25,012 | $47,098,989 | 1,771 | $5,374,593 | 1,731 | $4,213,748 | 28,514 | $56,687,330 |
| 1999 | 23,520 | $48,969,054 | 1,522 | $4,717,423 | 1,696 | $4,546,879 | 26,738 | $58,233,356 |
| 2000 | 23,756 | $50,685,840 | 1,573 | $5,066,450 | 1,616 | $4,408,074 | 26,945 | $60,160,364 |
| 2001 | 25,688 | $59,504,425 | 1,862 | $6,151,988 | 1,831 | $5,368,067 | 29,381 | $71,024,480 |
| 2002 | 27,864 | $78,266,420 | 2,045 | $9,087,969 | 2,047 | $8,391,652 | 31,956 | $95,746,041 |
| 2003 | 29,076 | $85,701,639 | 2,886 | $15,244,369 | 2,197 | $8,767,141 | 34,159 | $109,713,149 |
| 2004 | 25,810 | $67,368,156 | 2,155 | $8,682,056 | 1,787 | $6,311,737 | 29,752 | $82,361,949 |
| 2005 | 21,669 | $56,464,400 | 2,328 | $9,312,642 | 1,550 | $5,408,518 | 25,547 | $71,185,560 |
| 2006 | 21,698 | $58,694,074 | 1,990 | $7,743,079 | 1,491 | $5,216,061 | 25,179 | $71,653,214 |
| 2007 | 22,216 | $62,871,680 | 2,331 | $9,432,544 | 1,402 | $5,070,623 | 25,949 | $77,374,847 |
| 2008 | 29,607 | $99,748,626 | 2,339 | $10,512,152 | 1,741 | $7,082,519 | 33,687 | $117,343,297 |
| 2009 | 31,984 | $169,813,215 | 2,942 | $18,729,135 | 1,907 | $11,978,353 | 36,833 | $200,520,703 |

**Exempt Workers Compensation (Table 2.11)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 73 | $196,017 | * | $181,497 | * | $18,721 | * | $396,235 |
| 2006 | 91 | $409,774 | * | $40,865 | * | $70,684 | * | $521,323 |
| 2007 | 81 | $261,696 | * | $24,398 | * | $741 | * | $286,835 |
| 2008 | 75 | $400,335 | * | $15,719 | 10 | $56,305 | * | $472,359 |
| 2009 | 201 | $1,006,241 | * | $21,577 | 14 | $59,733 | * | $1,087,551 |

estimate of passive tax expenditures. Table 2.11 shows additional state exemptions for worker's compensation payments since 2005. Before 2005, this exemption was not reported on a separate line on tax returns.

For 2009, this exclusion reduced income tax revenue to the general fund by $33,366, or $0.05 per full-year resident taxpayer.

**Small Business Investment Company Dividends**

The federal Small Business Investment Act of 1958 created a category of venture capital firms called small business investment companies. Montana law (15-33-106, MCA) allows taxpayers to exempt capital gains or dividends from a Montana small business investment company.

Table 2.12 shows income exempted under this provision since 2005. Before 2005, this exemption was not reported on a separate line on tax returns.

For 2009, this exclusion reduced income tax revenue to the general fund by $4,029, or $0.01 per full year resident taxpayer.

**Military Salary**

Montana exempts the military salary of residents who are on active duty in armed forces (15-30-2117(2), MCA). Tables 2.13 and 2.14 show the amount of income subject to this exemption since 2005. Before 2005, this exemption did not have a separate line on the tax return.

Military personnel from another state who are stationed in Montana are not required to establish residency in the state, and their military salaries are considered income from their home state rather than from Montana. Beginning in 2009, military spouses also are allowed to maintain residency in their home state. Income not counted as Montana income, and presumably counted in another state, is shown in the following table.

Together, these exclusions reduced 2009 income tax revenue to the general fund by $6,825,170, or $11.03 per full-year resident taxpayer.

**Capital Gains from Small Business Investment Companies (Table 2.12)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 57 | $61,287 | * | $9,904,829 | * | $7,508 | * | $9,973,624 |
| 2006 | 37 | $119,479 | * | $149,653 | * | $4,065 | * | $273,197 |
| 2007 | 39 | $49,391 | * | $1,848 | * | $143,468 | * | $194,707 |
| 2008 | 38 | $50,125 | * | $14,420 | * | $0 | * | $64,545 |
| 2009 | 42 | $73,145 | * | $74 | * | $0 | * | $73,219 |

**Active Duty Military Salary (Table 2.13)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 4,673 | $125,255,618 | 123 | $4,282,937 | 222 | $6,041,248 | 5,018 | $135,579,803 |
| 2006 | 4,667 | $126,527,045 | 153 | $4,997,576 | 239 | $6,033,752 | 5,059 | $137,558,373 |
| 2007 | 4,000 | $124,730,710 | 94 | $3,546,097 | 196 | $5,471,423 | 4,290 | $133,748,230 |
| 2008 | 4,105 | $131,691,515 | 137 | $5,031,564 | 170 | $4,840,757 | 4,412 | $141,563,836 |
| 2009 | 4,259 | $142,046,880 | 113 | $4,746,639 | 145 | $3,994,003 | 4,517 | $150,787,522 |

**Non-Resident Military Salary (Table 2.14)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 76 | $2,323,750 | 540 | $18,994,689 | 211 | $5,879,707 | 827 | $27,198,146 |
| 2006 | 93 | $3,124,488 | 464 | $17,002,978 | 215 | $5,962,234 | 772 | $26,089,700 |
| 2007 | 99 | $2,898,800 | 507 | $18,358,797 | 200 | $5,233,585 | 806 | $26,491,182 |
| 2008 | 111 | $3,661,691 | 565 | $20,578,737 | 183 | $6,047,966 | 859 | $30,288,394 |
| 2009 | 97 | $3,560,669 | 559 | $20,974,101 | 161 | $4,821,656 | 817 | $29,356,426 |

### National Guard Life Insurance Premiums

The state will reimburse members of the National Guard or Reserve who are on active duty for premiums they pay for military group life insurance. This reimbursement is treated as income for federal income tax, but the state exempts it from taxation (15-30-2117(3), MCA). Table 2.15 shows exempt Guard and Reserve life insurance premium reimbursements since 2005.

For 2009, this exclusion reduced income tax revenue to the general fund by $2,470, or $0.004 per full year resident taxpayer.

### Partial Pension Exemption

Each taxpayer may exclude up to $3,600 of pension income from taxation. This exemption is reduced by $2 for each $1 that the taxpayer's federal adjusted gross income exceeds $30,000 (15-30-2110(2)(c)). Table 2.16 shows pension income excluded from taxation since 1997.

For 2009, this exclusion reduced income tax revenue to the general fund by $3,754,974, or $6.07 per full-year resident taxpayer.

### Partial Interest Exclusion for Elderly Taxpayers

Taxpayers who are age 65 or older may exclude up to $800 of interest income (15-30-2110(2)(b), MCA). Table 2.17 shows interest income excluded since 1997.

For 2009, this exclusion reduced income tax revenue to the general fund by $1,523,999, or $2.46 per full year resident taxpayer.

### Disability Retirement Income

Taxpayers who are under the age of 65 and permanently disabled may exclude up to $5,200 of disability retirement income (15-30-2110(10)). The amount taxpayers may exclude is reduced by any amount by which their pre-exclusion adjusted gross income exceeds $15,000. Table 2.18 shows disability income excluded since 2005. Before 2005, this exemption was not reported on a separate line on the tax return.

For 2009, this exclusion reduced income tax revenue to the general fund by $8,349, or $0.01 per full-year resident taxpayer.

**National Guard Life Insurance Premium Reimbursement (Table 2.15)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 159 | $93,693 | * | $130 | * | $1,058 | * | $94,881 |
| 2006 | 131 | $520,505 | * | $29 | * | $2,100 | * | $522,634 |
| 2007 | 103 | $553,974 | * | $926 | * | $930 | * | $555,830 |
| 2008 | 118 | $447,340 | * | $53 | * | $1,823 | * | $449,216 |
| 2009 | 40 | $441,796 | * | $956 | * | $0 | * | $442,752 |

**Partial Pension Exemption (Table 2.16)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 1997 | 40,921 | $156,850,129 | 600 | $2,660,279 | 678 | $2,480,162 | 42,199 | $161,990,570 |
| 1998 | 39,664 | $153,154,815 | 615 | $2,076,552 | 719 | $2,574,945 | 40,998 | $157,806,312 |
| 1999 | 40,040 | $155,172,531 | 632 | $2,018,959 | 726 | $2,423,846 | 41,398 | $159,615,336 |
| 2000 | 40,894 | $156,465,588 | 697 | $2,353,978 | 704 | $2,344,386 | 42,295 | $161,163,952 |
| 2001 | 41,958 | $161,621,214 | 722 | $2,512,713 | 775 | $2,606,210 | 43,455 | $166,740,137 |
| 2002 | 43,366 | $166,435,046 | 789 | $2,493,219 | 734 | $2,433,071 | 44,889 | $171,361,336 |
| 2003 | 43,687 | $168,680,258 | 795 | $2,616,949 | 847 | $2,910,584 | 45,329 | $174,207,791 |
| 2004 | 43,386 | $167,439,300 | 772 | $2,624,006 | 799 | $2,847,727 | 44,957 | $172,911,033 |
| 2005 | 38,273 | $130,393,508 | 575 | $1,727,281 | 661 | $2,082,026 | 39,509 | $134,202,815 |
| 2006 | 38,564 | $129,048,960 | 623 | $1,910,734 | 726 | $2,233,687 | 39,913 | $133,193,381 |
| 2007 | 38,339 | $126,897,995 | 588 | $1,849,712 | 565 | $1,754,517 | 39,492 | $130,502,224 |
| 2008 | 40,079 | $134,023,768 | 882 | $2,751,718 | 555 | $1,711,875 | 41,516 | $138,487,361 |
| 2009 | 39,671 | $132,876,584 | 1,030 | $3,174,075 | 491 | $1,539,858 | 41,192 | $137,590,517 |

**Elderly Interest Exclusion (Table 2.17)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 1997 | 52,611 | $46,684,634 | 2,981 | $3,331,737 | 658 | $582,017 | 56,250 | $50,598,388 |
| 1998 | 53,364 | $46,975,919 | 3,049 | $3,350,351 | 728 | $622,398 | 57,141 | $50,948,668 |
| 1999 | 53,859 | $46,033,716 | 3,259 | $3,541,285 | 786 | $646,766 | 57,904 | $50,221,767 |
| 2000 | 54,789 | $46,732,843 | 3,392 | $3,690,164 | 797 | $663,145 | 58,978 | $51,086,152 |
| 2001 | 55,232 | $46,773,697 | 3,538 | $3,789,050 | 786 | $608,068 | 59,556 | $51,170,815 |
| 2002 | 54,720 | $43,310,418 | 3,661 | $3,818,195 | 824 | $646,084 | 59,205 | $47,774,697 |
| 2003 | 54,279 | $40,099,155 | 3,871 | $3,868,078 | 857 | $593,474 | 59,007 | $44,560,707 |
| 2004 | 54,587 | $37,998,529 | 4,109 | $4,017,619 | 919 | $645,988 | 59,615 | $42,662,136 |
| 2005 | 53,367 | $37,859,686 | 4,666 | $4,686,517 | 1,055 | $796,263 | 59,088 | $43,342,466 |
| 2006 | 57,912 | $43,447,193 | 5,045 | $5,248,370 | 995 | $755,642 | 63,952 | $49,451,205 |
| 2007 | 63,234 | $47,408,013 | 5,084 | $5,163,453 | 1,039 | $819,292 | 69,357 | $53,390,758 |
| 2008 | 63,758 | $46,871,599 | 6,760 | $6,808,609 | 961 | $677,713 | 71,479 | $54,357,921 |
| 2009 | 62,991 | $43,632,908 | 6,861 | $6,716,280 | 805 | $556,418 | 70,657 | $50,905,606 |

**Exempt Disability Retirement Income (Table 2.18)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 159 | $580,798 | * | $1,317 | * | $9,422 | * | $591,537 |
| 2006 | 111 | $424,669 | * | $6,800 | * | $0 | * | $431,469 |
| 2007 | 95 | $383,038 | * | $0 | * | $10,800 | * | $393,838 |
| 2008 | 90 | $369,876 | * | $0 | * | $13,164 | * | $383,040 |
| 2009 | 152 | $656,765 | * | $6,923 | * | $22,712 | * | $686,400 |

**Exempt Tips (Table 2.19)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 6,325 | $17,138,101 | 297 | $902,489 | 597 | $1,433,973 | 7,219 | $19,474,563 |
| 2006 | 10,408 | $28,600,027 | 380 | $1,004,598 | 892 | $2,244,357 | 11,680 | $31,848,982 |
| 2007 | 10,760 | $29,266,842 | 401 | $1,021,978 | 882 | $2,157,714 | 12,043 | $32,446,534 |
| 2008 | 11,005 | $31,562,631 | 510 | $1,135,816 | 787 | $2,021,086 | 12,302 | $34,719,533 |
| 2009 | 13,207 | $38,921,676 | 662 | $1,527,434 | 1,096 | $2,714,781 | 14,965 | $43,163,891 |

### Tips

Tips earned while working for a licensed food service, beverage, or lodging establishment are not taxable in Montana (15-30-2110(2)(f), MCA). Table 2.19 shows tips excluded from income since 2005. Before 2005, this exclusion did not have a separate line on income tax returns.

For 2009, this exclusion reduced income tax revenue to the general fund by $1,586,494, or $2.56 per full year resident taxpayer.

### Employer-Paid Health Insurance Premiums Limited to Part Owners and Highly Compensated Employees

Federal law treats employer-paid premiums for group health insurance provided to all employees as a non-taxable fringe benefit rather than as taxable compensation. This creates a passive tax expenditure, and the cost to the state is included in the estimate of passive tax expenditures.

When an employer provides insurance benefits to certain employees, usually part-owners, executives, or the lead professionals in a professional practice, and does not provide the same benefits to other employees, federal law counts the insurance premiums as compensation. Montana extends the exclusion to insurance premiums that do not meet the federal test to be treated as non-taxable fringe benefits (15-30-2110(2)(h), MCA).

The purpose of the federal exclusion is to encourage employers to provide group health insurance by providing preferential treatment for group health plans that cover all employees. The additional state exclusion undermines this purpose by providing the same state tax treatment to plans that cover only a few employees.

Table 2.20 shows federally taxable health insurance premiums excluded from Montana adjusted gross income since 2005. Before 2005, there was not a separate line on the tax return for this exclusion.

For 2009, this exclusion reduced income tax revenue to the general fund by $36,769, or $0.06 per full-year resident taxpayer.

### Third-Party Repayment of Health Care Professional's Student Loans

There are several private, federal, and state programs intended to encourage health care professionals to locate in under-served areas by making student loan payments for those who do. Federal law excludes from income repayments by certain federal and state programs. Montana excludes qualifying repayments from all programs, including programs private health-care facilities have for their employees (15-30-2110(12), MCA). The state cost of the federal exclusion is part of the estimate of passive tax expenditures. Table 2.21 shows the cost of the additional state exclusion beginning in 2003.

For 2009, this exclusion reduced income tax revenue to the general fund by $24,845, or $0.04 per full year resident taxpayer.

### Montana Medical Care Savings Accounts

Federal law has created two mechanisms, the Archer medical savings account and the health savings account, for taxpayers or their employers to set aside pre-tax funds to pay medical expenses. Deposits to these accounts and distributions from these accounts to pay medical expenses are excluded from federal adjusted gross income. This means that they also are excluded from Montana adjusted gross income. The tax expenditure from this federal exclusion is in the section on federal adjustments to income.

In 1997, the Montana Legislature created a similar state program (15-61-101 through 205, MCA). The Montana Medical Care Savings Account is similar to, but separate from, the federal programs. The main difference is that the federal programs are only for taxpayers whose only health insurance is a high-deductible policy while the state program has no such limitation.

Taxpayers may exclude up to $3,000 of their contributions to an account during a year and any withdrawals from an account that are used to pay medical expenses. This means that earnings retained in the account also are not taxed. Funds may be withdrawn for other pur-

**Health Insurance Premiums Included in Federal Adjusted Gross Income (Table 2.20)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 239 | $855,657 | 24 | $152,118 | 11 | $14,826 | 274 | $1,022,601 |
| 2006 | 233 | $882,832 | 27 | $169,123 | * | $21,233 | * | $1,073,188 |
| 2007 | 208 | $924,672 | 16 | $137,655 | * | $27,449 | * | $1,089,776 |
| 2008 | 257 | $1,127,728 | 16 | $97,274 | * | $17,969 | * | $1,242,971 |
| 2009 | 142 | $644,902 | * | $98,275 | * | $10,589 | * | $753,766 |

**Health Care Professional Student Loan Repayment Included in Federal Adjusted Gross Income (Table 2.21)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2003 | 138 | $381,209 | * | $17,318 | * | $22,517 | * | $421,044 |
| 2004 | 113 | $330,155 | * | $34,420 | * | $23,804 | * | $388,379 |
| 2005 | 81 | $258,197 | * | $9,720 | * | $18,778 | * | $286,695 |
| 2006 | 79 | $250,626 | * | $2,986 | * | $5,903 | * | $259,515 |
| 2007 | 86 | $256,554 | * | $4,255 | * | $12,820 | * | $273,629 |
| 2008 | 99 | $294,799 | * | $7,700 | 11 | $28,659 | * | $331,158 |
| 2009 | 133 | $370,976 | * | $7,700 | 10 | $23,374 | * | $402,050 |

poses, but then the amount withdrawn is treated as income. Tables 2.22 and 2.23 show exempt medical savings account deposits and earnings and taxable withdrawals.

For 2009, this exclusion reduced income tax revenue to the general fund by $992,069, or $1.60 per full-year resident taxpayer.

**First-Time Homebuyer Accounts**

Montana law allows residents who have never owned a home to establish a first-time homebuyer's account (15-63-101 through 205, MCA). Deposits of up to $3,000 per year ($6,000 for a married couple filing a joint return) and account earnings are exempt from taxation. Funds in the account must be used for the down payment and closing costs on a single-family house within 10 years after the account is established. If funds are withdrawn

**Medical Savings Account Deposits (Table 2.22)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 1997 | 761 | $1,626,685 | 12 | $15,558 | 14 | $10,989 | 787 | $1,653,232 |
| 1998 | 1,636 | $4,126,187 | 17 | $21,245 | 25 | $30,343 | 1,678 | $4,177,775 |
| 1999 | 2,013 | $5,327,000 | 12 | $40,218 | 37 | $43,855 | 2,062 | $5,411,073 |
| 2000 | 2,663 | $6,777,035 | 14 | $29,539 | 50 | $66,445 | 2,727 | $6,873,019 |
| 2001 | 3,107 | $8,242,749 | 20 | $50,193 | 52 | $107,995 | 3,179 | $8,400,937 |
| 2002 | 3,775 | $9,937,218 | 23 | $38,026 | 55 | $81,031 | 3,853 | $10,056,275 |
| 2003 | 4,222 | $11,398,465 | 27 | $53,033 | 54 | $96,103 | 4,303 | $11,547,601 |
| 2004 | 4,924 | $13,876,118 | 23 | $41,882 | 69 | $121,757 | 5,016 | $14,039,757 |
| 2005 | 5,171 | $14,221,750 | 38 | $56,762 | 86 | $134,205 | 5,295 | $14,412,717 |
| 2006 | 5,597 | $15,790,740 | 40 | $59,056 | 81 | $110,903 | 5,718 | $15,960,699 |
| 2007 | 5,895 | $16,637,763 | 46 | $77,570 | 113 | $168,495 | 6,054 | $16,883,828 |
| 2008 | 5,912 | $16,967,593 | 43 | $95,768 | 91 | $145,851 | 6,046 | $17,209,212 |
| 2009 | 5,879 | $17,483,938 | 40 | $78,731 | 71 | $93,430 | 5,990 | $17,656,099 |

**Medical Savings Account Non-Qualified Withdrawals (Table 2.23)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 103 | $131,953 | * | $3,193 | * | $21 | * | $135,167 |
| 2006 | 96 | $137,804 | * | $0 | * | $374 | * | $138,178 |
| 2007 | 83 | $103,693 | * | $0 | * | $4,555 | * | $108,248 |
| 2008 | 100 | $145,198 | * | $0 | * | $3,802 | * | $149,000 |
| 2009 | 100 | $129,357 | * | $0 | * | $803 | * | $130,160 |

**First Time Homebuyers Account Deposits (Table 2.24)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 1998 | 233 | $600,962 | * | $11 | * | $24,201 | * | $625,174 |
| 1999 | 253 | $791,828 | * | $128 | 13 | $38,387 | * | $830,343 |
| 2000 | 250 | $739,084 | * | $3,152 | * | $30,628 | * | $772,864 |
| 2001 | 303 | $912,566 | * | $9,085 | 12 | $41,849 | * | $963,500 |
| 2002 | 310 | $928,656 | * | $1,311 | 15 | $45,176 | * | $975,143 |
| 2003 | 312 | $1,067,385 | * | $0 | * | $39,402 | * | $1,106,787 |
| 2004 | 271 | $866,326 | * | $6,043 | 11 | $46,501 | * | $918,870 |
| 2005 | 224 | $725,891 | * | $6,000 | * | $25,000 | * | $756,891 |
| 2006 | 199 | $587,253 | * | $0 | * | $26,041 | * | $613,294 |
| 2007 | 182 | $538,547 | * | $12,004 | * | $19,148 | * | $569,699 |
| 2008 | 162 | $538,398 | * | $0 | * | $16,971 | * | $555,369 |
| 2009 | 203 | $710,124 | * | $2,350 | 12 | $57,714 | * | $770,188 |

for another use or are not used within 10 years, they must be reported as taxable income.

Tables 2.24 and 2.25 show exempt deposits and earnings and taxable withdrawals.

For 2009, this exclusion reduced income tax revenue to the general fund by $44,023, or $0.07 per full year resident taxpayer.

### Family Education Savings Accounts

Section 529 of the Internal Revenue Code allows states to set up higher education savings programs. These programs allow taxpayers to set up an account for a designated beneficiary. States may give special tax treatment to deposits to a qualifying account, and withdrawals to pay the beneficiary's higher education expenses are not included in federal adjusted gross income, which means that account earnings are tax-free. Montana's Section 529 plan was created by the 1997 Legislature (15-62-101 through 302, MCA). Montana taxpayers may exclude up to $3,000 of contributions to one or more family education savings accounts from adjusted gross income each year. Any withdrawals that are not used for higher education expenses are taxed at the highest income tax rate. Table 2.26 shows deposits to Montana family educations savings accounts since 1997.

For 2009, this exclusion reduced income tax revenue to the general fund by $430,250, or $0.70 per full year resident taxpayer.

### Farm and Ranch Risk Management Accounts

The 2001 Legislature created farm and ranch risk management accounts as a tool for family farms to deal with uneven and uncertain income (15-30-3001 through 3005, MCA). An individual or family farm corporation may set up an account and may deposit up to 20% of their net income from agriculture each year, with a limit of $20,000. Deposits to a risk management account are excluded from adjusted gross income. Funds deposited in an account must be withdrawn within five years. Income and withdrawals from the account are taxable. Tables 2.27 and 2.28 show exempt deposits since 2002 and taxable withdrawals since 2005.

**First Time Homebuyers Account Non-Qualified Withdrawals (Table 2.25)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 10 | $31,586 | * | $0 | * | $0 | * | $31,586 |
| 2006 | * | $23,882 | * | $0 | * | $0 | * | $23,882 |
| 2007 | * | $48,138 | * | $62 | * | $6,310 | * | $54,510 |
| 2008 | * | $35,384 | * | $0 | * | $1,915 | * | $37,299 |
| 2009 | 13 | $29,691 | * | $0 | * | $0 | * | $29,691 |

**Family Education Savings Account Deposits (Table 2.26)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 1997 | 72 | $33,423 | * | $868 | * | $1,023 | * | $35,314 |
| 1998 | 327 | $1,209,572 | * | $0 | * | $10,400 | * | $1,219,972 |
| 1999 | 520 | $1,814,909 | * | $0 | * | $29,655 | * | $1,844,564 |
| 2000 | 659 | $2,118,416 | * | $0 | 11 | $11,975 | * | $2,130,391 |
| 2001 | 999 | $3,415,825 | * | $1,000 | 15 | $54,102 | * | $3,470,927 |
| 2002 | 1,563 | $5,479,782 | * | $10,362 | 23 | $74,630 | * | $5,564,774 |
| 2003 | 1,827 | $6,583,685 | * | $17,325 | 25 | $63,677 | * | $6,664,687 |
| 2004 | 2,155 | $7,474,032 | * | $17,500 | 23 | $70,770 | * | $7,562,302 |
| 2005 | 2,068 | $6,915,766 | * | $19,320 | 31 | $81,214 | * | $7,016,300 |
| 2006 | 2,203 | $7,515,336 | 15 | $33,810 | 26 | $79,105 | 2,244 | $7,628,251 |
| 2007 | 2,399 | $8,008,773 | 10 | $23,754 | 24 | $57,423 | 2,433 | $8,089,950 |
| 2008 | 2,155 | $6,854,175 | 10 | $23,940 | 24 | $44,055 | 2,189 | $6,922,170 |
| 2009 | 2,048 | $6,592,192 | 46 | $152,411 | 10 | $26,099 | 2,104 | $6,770,702 |

There have been fewer than 10 deposits to farm and ranch risk management accounts since 2004, and all of those have been made by non-residents.

### Tier II Railroad Retirement

Railroad retirement benefits are divided into Tier I and Tier II. Tier I is equivalent to Social Security, and Tier I benefits are taxed the same as Social Security benefits. Tier II benefits are taxed at the federal level, but federal law exempts them from state taxation. Table 2.29 shows Tier II railroad retirement benefits exempted from Montana taxation.

For 2009, this exclusion reduced income tax revenue to the general fund by $1,025,548, or $1.66 per full-year resident taxpayer.

### Partial Exclusion of Capital Gains on Pre-1987 Installment Sales

Before 1987, federal law allowed taxpayers to exclude 40% of capital gains from adjusted gross income, but capital gains were taxed at the same rate as ordinary income. The Tax Reform Act of 1986 did away with the partial exclusion but replaced it with preferential tax rates for capital gains. Montana law (15-30-2110(13), MCA) continues to allow the 40% exclusion for capital gains on installment sales made before the end of 1986. Table 2.30 shows gains excluded under this provision since 2005.

For 2009, this exclusion reduced income tax revenue to the general fund by $84,984, or $0.14 per full-year resident taxpayer.

**Farm and Ranch Risk Management Account Deposits (Table 2.27)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2002 | 19 | $61,948 | * | $249,503 | 0 | $0 | * | $311,451 |
| 2003 | 44 | $872,912 | * | $109,298 | * | $4 | * | $982,214 |
| 2004 | 11 | $9,694 | * | $0 | 0 | $0 | * | $9,694 |
| 2005 | 0 | $0 | * | $4,694 | 0 | $0 | * | $4,694 |
| 2006 | 0 | $0 | * | $7,115 | 0 | $0 | * | $7,115 |
| 2007 | 0 | $0 | * | $0 | 0 | $0 | * | $0 |
| 2008 | 0 | $0 | * | $0 | 0 | $0 | * | $0 |
| 2009 | 0 | $0 | * | $3,730 | 0 | $0 | * | $3,730 |

**Farm and Ranch Risk Management Account Taxable Distributions (Table 2.28)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | * | $0 | * | $0 | * | $0 | * | $0 |
| 2006 | * | $42,648 | * | $0 | * | $0 | * | $42,648 |
| 2007 | * | $2 | * | $1,149 | * | $0 | * | $1,151 |
| 2008 | * | $200 | * | $0 | * | $600 | * | $800 |
| 2009 | * | $697 | * | $3,288 | * | $0 | * | $3,985 |

**Tier II Railroad Retirement (Table 2.29)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 2,603 | $29,627,378 | 41 | $422,383 | 36 | $458,089 | 2,680 | $30,507,850 |
| 2006 | 2,855 | $32,464,703 | 53 | $751,997 | 33 | $371,968 | 2,941 | $33,588,668 |
| 2007 | 2,959 | $34,357,739 | 52 | $699,781 | 27 | $342,920 | 3,038 | $35,400,440 |
| 2008 | 2,844 | $35,527,084 | 57 | $707,829 | 19 | $255,584 | 2,920 | $36,490,497 |
| 2009 | 2,832 | $36,473,121 | 54 | $724,290 | 33 | $459,572 | 2,919 | $37,656,983 |

| 40% Exclusion of Pre-1985 Capital Gains (Table 2.30) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 144 | $452,053 | 35 | $351,716 | * | $2,184 | * | $805,953 |
| 2006 | 124 | $800,207 | 27 | $275,398 | * | $11,245 | * | $1,086,850 |
| 2007 | 104 | $425,236 | 21 | $162,733 | * | $0 | * | $587,969 |
| 2008 | 595 | $2,813,975 | 66 | $1,128,270 | 11 | $46,489 | 672 | $3,988,734 |
| 2009 | 239 | $1,124,567 | 12 | $494,528 | * | $52,108 | * | $1,671,203 |

### Business Purchases of Recycled Material

Montana allows businesses to take an extra deduction of 10% of the cost of purchases of recycled materials (15-32-609 through 611). In effect, this allows a business expense deduction of 110% of the cost of recycled materials. This reduces the cost of recycled material relative to other raw materials, giving businesses an incentive to recycle.

The deduction is available to corporations and to the owners of unincorporated businesses and S-corps. Table 2.31 shows individual income tax deductions for purchases of recycled material since 2005. This deduction did not have a separate line on the tax return before 2005.

For 2009, this exclusion reduced income tax revenue to the general fund by $4,712, or $0.01 per full-year resident taxpayer.

### Sales of Land to Beginning Farmers

Montana allows taxpayers to exclude up to $50,000 of income from the sale of at least 80 acres to a beginning farmer (80-12-211, MCA). To be eligible, a taxpayer's land sale must be approved by the Montana Department of Agriculture. Table 2.32 shows income excluded since 2005. This exclusion did not have a separate line on the tax return before 2005. Fewer than ten tax payers have used the exclusion every year.

For 2009, this exclusion reduced income tax revenue to the general fund by $1,196, or $0.02 per full-year resident taxpayer.

| Business Expense for Recycled Materials (Table 2.31) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 40 | $84,818 | * | $2,983 | * | $4 | * | $87,805 |
| 2006 | 51 | $198,985 | * | $2,243 | * | $0 | * | $201,228 |
| 2007 | 46 | $152,541 | * | $0 | * | $4,785 | * | $157,326 |
| 2008 | 57 | $179,028 | * | $2,911 | * | $79 | * | $182,018 |
| 2009 | 102 | $136,675 | * | $0 | * | $113 | * | $136,788 |

| Sales of Land to Beginning Farmers (Table 2.32) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | * | $9,203 | * | $450,000 | 0 | $0 | * | $459,203 |
| 2006 | * | $20,011 | * | $0 | 0 | $0 | * | $20,011 |
| 2007 | * | $4,890 | * | $15,000 | 0 | $0 | * | $19,890 |
| 2008 | * | $2,270 | 0 | $0 | 0 | $0 | * | $2,270 |
| 2009 | * | $7,785 | 0 | $0 | * | $29,000 | * | $36,785 |

### Itemized Deduction Tax Expenditures

In general, itemized deductions provide a partial subsidy or reimbursement for deductible expenses. The amount of the subsidy depends on the taxpayer's marginal tax rate and on the amount by which the taxpayer's itemized deductions exceed their standard deduction. For a taxpayer whose deductible expenses are less than their standard deduction, the fact that an expense is deductible provides no extra benefit to the taxpayer and no cost to the state general fund. For a taxpayer whose deductible expenses are more than their standard deduction, an extra $100 of itemized deductions reduces tax liability by $100 multiplied by the marginal tax rate.

For example, a taxpayer with taxable income of $5,000 is in the 3% state tax bracket and the 10% federal tax bracket. An additional $100 deduction would reduce this person's state tax liability by $3 and federal tax liability by $10, for a total of $13. The $100 expenditure that was the basis of the deduction cost the taxpayer $87 and cost the state and federal governments, and ultimately other taxpayers, $13.

A taxpayer with taxable income of $500,000 is in the 6.9% state tax bracket and the 35% federal tax bracket. An additional $100 deduction would reduce this person's state tax liability by $6.90 and federal tax liability by $35, for a total of $41.90. The $100 expenditure that was the basis of the deduction cost this taxpayer $58.10 and cost the state and federal governments, and ultimately other taxpayers, $41.90.

Montana generally allows itemized deductions allowed by federal law (15-30-2131(a), MCA). There are a few exceptions, where Montana law specifically disallows a federal deduction. Montana law allows several itemized deductions that are not allowed by federal law.

Not all itemized deductions are tax expenditures. Four itemized deductions allow taxpayers to deduct costs of earning income. They are the deduction for investment interest, the deduction for un-reimbursed business expenses, the deduction for gambling losses, and the deduction for other miscellaneous expenses.

The deduction for investment interest allows taxpayers to deduct interest on funds borrowed to pay for income-producing property that has not been deducted elsewhere as a business expense.

The deduction for un-reimbursed business expenses allows taxpayers to deduct expenses that are common and useful in the taxpayer's occupation and exceed 2% of the taxpayer's adjusted gross income. If the taxpayer is an employee, they must not have been reimbursed by their employer. If the taxpayer is self-employed, these costs must not have been deducted as a business expense.

Taxpayers who report income from gambling are allowed to deduct gambling losses up to the amount of reported winnings. This makes the income tax apply to net winnings from gambling.

The deduction for other miscellaneous expenses allows taxpayers to deduct certain business and investment costs and losses and certain employment-related costs of a disabled taxpayer. These expenses are not required to be more than 2% of adjusted gross income.

### Medical and Dental Expenses

Both federal and state law allow an itemized deduction for un-reimbursed medical and dental expenses that are more than 7.5% of the taxpayer's adjusted gross income. Premiums for health and long term care insurance are considered deductible medical expenses.

This deduction provides a partial reimbursement or subsidy for taxpayers who have high un-reimbursed medical expenses in a year.

Table 3.1 shows itemized deductions for medical and dental expenses for tax years 1997 through 2009.

For tax year 2009, this deduction reduced income tax revenue to the general fund by $10,686,704, or $17.27 per full-year resident taxpayer.

### Medical Insurance Premiums

In addition to the federal deduction for medical expenses, Montana allows an itemized deduction for all un-reimbursed health insurance premiums. Insurance premiums cannot be claimed as an itemized deduction if they were claimed as an above-the-line deduction in calculating adjusted gross income. This would be the case for a self-employed taxpayer who deducted premiums as a business expense, an employee who had premiums excluded as a fringe benefit, or if the taxpayer paid the premiums with pre-tax funds from a medical savings account.

This deduction provides a partial subsidy to taxpayers who buy their own health insurance. Table 3.2 shows itemized deductions for medical insurance premiums for tax years 1997 through 2009.

For tax year 2009, this deduction reduced income tax revenue to the general fund by $14,140,961, or $22.85 per full year resident taxpayer.

### Long Term Care Insurance Premiums

In addition to the federal deduction for medical expenses, Montana allows an itemized deduction for all un-reimbursed long term care insurance premiums. As with medical insurance premiums, long term care premiums cannot be claimed as an itemized deduction if they were claimed as an above-the-line deduction in calculating adjusted gross income. In addition, a taxpayer may not claim a deduction for premiums that were part of the expenses qualifying for the elderly care credit.

This deduction provides a partial subsidy to taxpayers who buy long term care insurance.

**Medical Expenses over 7.5% of Adjusted Gross Income (Table 3.1)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 1997 | 54,914 | $147,139,515 | 1,130 | $6,081,219 | 874 | $2,690,580 | 56,918 | $155,911,314 |
| 1998 | 56,740 | $156,773,776 | 1,244 | $6,589,873 | 993 | $2,469,128 | 58,977 | $165,832,777 |
| 1999 | 58,389 | $168,701,852 | 1,273 | $7,217,493 | 1,028 | $3,250,185 | 60,690 | $179,169,530 |
| 2000 | 60,960 | $184,849,463 | 1,356 | $8,136,248 | 997 | $3,177,529 | 63,313 | $196,163,240 |
| 2001 | 64,366 | $203,239,099 | 1,580 | $9,812,033 | 1,180 | $4,137,521 | 67,126 | $217,188,653 |
| 2002 | 68,156 | $222,983,052 | 1,794 | $11,861,465 | 1,167 | $4,415,063 | 71,117 | $239,259,580 |
| 2003 | 69,370 | $236,626,833 | 1,897 | $11,335,710 | 1,326 | $4,850,584 | 72,593 | $252,813,127 |
| 2004 | 71,859 | $258,564,236 | 1,917 | $12,225,131 | 1,474 | $6,474,531 | 75,250 | $277,263,898 |
| 2005 | 70,426 | $273,838,752 | 2,130 | $14,480,400 | 1,461 | $6,232,630 | 74,017 | $294,551,782 |
| 2006 | 69,610 | $274,060,275 | 2,515 | $19,385,940 | 1,461 | $6,499,574 | 73,586 | $299,945,789 |
| 2007 | 69,276 | $287,408,401 | 2,201 | $15,193,981 | 1,293 | $5,751,278 | 72,770 | $308,353,660 |
| 2008 | 69,852 | $309,033,065 | 2,826 | $22,170,851 | 1,184 | $5,548,170 | 73,862 | $336,752,086 |
| 2009 | 71,592 | $307,848,323 | 3,138 | $22,715,090 | 1,038 | $4,801,228 | 75,768 | $335,364,641 |

**Medical Insurance Premiums Not Deducted Elsewhere (Table 3.2)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 1997 | 89,499 | $173,487,081 | 3,047 | $6,830,524 | 1,842 | $2,847,007 | 94,388 | $183,164,612 |
| 1998 | 92,253 | $180,956,416 | 3,227 | $7,092,109 | 2,055 | $3,244,652 | 97,535 | $191,293,177 |
| 1999 | 93,286 | $183,340,843 | 3,668 | $7,759,640 | 2,174 | $3,616,629 | 99,128 | $194,717,112 |
| 2000 | 94,866 | $200,002,957 | 3,868 | $8,701,366 | 2,037 | $3,524,629 | 100,771 | $212,228,952 |
| 2001 | 93,390 | $217,940,463 | 4,220 | $10,374,843 | 2,026 | $3,909,789 | 99,636 | $232,225,095 |
| 2002 | 94,746 | $239,493,910 | 4,601 | $11,829,272 | 1,991 | $4,202,443 | 101,338 | $255,525,625 |
| 2003 | 82,377 | $234,737,082 | 3,592 | $10,550,581 | 1,910 | $4,535,738 | 87,879 | $249,823,401 |
| 2004 | 83,811 | $251,763,151 | 3,885 | $12,362,497 | 2,057 | $5,358,208 | 89,753 | $269,483,856 |
| 2005 | 83,118 | $266,115,643 | 4,393 | $14,555,798 | 2,091 | $5,499,027 | 89,602 | $286,170,468 |
| 2006 | 87,321 | $304,942,061 | 4,649 | $16,627,033 | 2,146 | $5,931,183 | 94,116 | $327,500,277 |
| 2007 | 89,970 | $314,537,194 | 5,051 | $19,252,540 | 2,108 | $6,294,992 | 97,129 | $340,084,726 |
| 2008 | 89,832 | $328,606,170 | 6,201 | $26,133,262 | 1,901 | $5,923,937 | 97,934 | $360,663,369 |
| 2009 | 92,000 | $345,055,072 | 6,466 | $28,675,237 | 1,652 | $5,222,640 | 100,118 | $378,952,949 |

Table 3.3 shows itemized deductions for medical insurance premiums for tax years 1997 through 2009.

For tax year 2009, this deduction reduced income tax revenue to the general fund by $1,144,834 or $1.85 per full-year resident taxpayer.

### Federal Income Tax

Montana allows an itemized deduction for federal income tax paid during the year with a limit of $5,000 for a single taxpayer or married taxpayer filing separately or $10,000 for a married couple filing a joint return. Before 2005, there was no upper limit on this deduction.

This deduction partially or completely avoids having the state levy income tax on income paid to the federal government as income tax.

Table 3.4 shows itemized deductions for federal income tax for tax years 1997 through 2009.

For tax year 2009, the deduction for federal income tax reduced income tax revenue to the general fund by $50,155,382 or $81.04 per full-year resident taxpayer.

**Long Term Care Insurance Premiums (Table 3.3)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 1997 | 4,050 | $6,524,960 | 153 | $334,539 | 54 | $1,174,666 | 4,257 | $8,034,165 |
| 1998 | 5,988 | $9,863,434 | 265 | $582,708 | 82 | $133,142 | 6,335 | $10,579,284 |
| 1999 | 7,030 | $11,943,152 | 305 | $677,033 | 105 | $160,786 | 7,440 | $12,780,971 |
| 2000 | 7,671 | $13,502,837 | 355 | $890,724 | 104 | $182,397 | 8,130 | $14,575,958 |
| 2001 | 7,735 | $14,061,406 | 395 | $1,240,514 | 122 | $196,618 | 8,252 | $15,498,538 |
| 2002 | 8,299 | $15,887,210 | 461 | $1,036,517 | 141 | $266,682 | 8,901 | $17,190,409 |
| 2003 | 8,726 | $17,295,360 | 538 | $1,249,961 | 136 | $301,713 | 9,400 | $18,847,034 |
| 2004 | 9,078 | $18,472,371 | 626 | $1,511,698 | 171 | $320,088 | 9,875 | $20,304,157 |
| 2005 | 9,123 | $19,047,021 | 719 | $1,915,551 | 175 | $320,752 | 10,017 | $21,283,324 |
| 2006 | 9,939 | $21,552,299 | 803 | $2,110,144 | 169 | $340,707 | 10,911 | $24,003,150 |
| 2007 | 11,014 | $24,551,454 | 881 | $2,455,949 | 179 | $374,962 | 12,074 | $27,382,365 |
| 2008 | 11,363 | $26,552,393 | 1,072 | $2,981,643 | 203 | $440,232 | 12,638 | $29,974,268 |
| 2009 | 11,187 | $26,195,277 | 1,087 | $3,106,805 | 170 | $379,420 | 12,444 | $29,681,502 |

**Federal Income Tax (Table 3.4)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 1997 | 168,546 | $1,483,333,467 | 11,794 | $1,995,724,437 | 6,231 | $66,196,580 | 186,571 | $3,545,254,484 |
| 1998 | 175,605 | $1,489,915,472 | 12,361 | $1,866,057,004 | 7,147 | $78,019,885 | 195,113 | $3,433,992,361 |
| 1999 | 179,599 | $1,544,833,003 | 13,001 | $2,256,701,826 | 7,637 | $83,650,797 | 200,237 | $3,885,185,626 |
| 2000 | 186,049 | $1,740,098,379 | 13,829 | $2,369,234,595 | 8,025 | $818,581,465 | 207,903 | $4,927,914,439 |
| 2001 | 187,388 | $1,792,025,151 | 14,400 | $2,602,943,741 | 7,886 | $110,729,935 | 209,674 | $4,505,698,827 |
| 2002 | 188,270 | $1,644,516,826 | 14,951 | $2,333,400,880 | 7,259 | $79,957,303 | 210,480 | $4,057,875,009 |
| 2003 | 184,888 | $1,612,852,777 | 15,220 | $1,452,268,646 | 7,250 | $80,839,790 | 207,358 | $3,145,961,213 |
| 2004 | 191,460 | $1,749,652,428 | 15,795 | $2,289,978,693 | 7,796 | $92,264,642 | 215,051 | $4,131,895,763 |
| 2005 | 196,459 | $911,432,919 | 16,744 | $113,795,314 | 8,104 | $42,366,090 | 221,307 | $1,067,594,323 |
| 2006 | 206,398 | $1,003,148,676 | 18,043 | $126,084,225 | 8,883 | $48,135,424 | 233,324 | $1,177,368,325 |
| 2007 | 212,900 | $1,065,150,406 | 19,292 | $130,926,857 | 8,744 | $47,586,369 | 240,936 | $1,243,663,632 |
| 2008 | 198,151 | $977,041,035 | 22,223 | $156,619,968 | 7,422 | $41,376,900 | 227,796 | $1,175,037,903 |
| 2009 | 211,372 | $1,007,165,809 | 22,680 | $155,986,207 | 6,438 | $34,110,135 | 240,490 | $1,197,262,151 |

### Sales Tax or Local Income Tax

Federal law allows taxpayers to choose an itemized deduction for either general sales taxes or state and local income taxes paid during the year. Montana does not allow an itemized deduction for state income tax and does not have a general sales tax or local income taxes. Thus, this deduction is relevant only to taxpayers who pay these taxes in another state.

This deduction avoids having the state levy income tax on income paid as tax to another state or political subdivision of another state.

This deduction was not given its own line on the tax return and was not tracked separately until 2005. Table 3.5 shows itemized deductions for sales tax or local income tax for tax years 2005 through 2009.

For tax year 2009, the deduction for sales tax or local income tax reduced income tax revenue to the general fund by $24,472, or $0.04 per full-year resident taxpayer. More than half of this tax expenditure goes to non-residents.

### Property Taxes on Real Estate

Both federal and Montana law allow taxpayers to take an itemized deduction for property taxes on real estate paid during the year.

This deduction avoids having the state levy income tax on income that was paid to the state or local governments as property tax. It also provides a subsidy to ownership of real estate relative to untaxed purchases.

Table 3.6 shows itemized deductions for real estate taxes for tax years 1997 through 2009.

For tax year 2009, the deduction for real estate taxes reduced income tax revenue to the state general fund by $21,621,646, or $34.93 per full-year resident taxpayer.

**Local Income Taxes (Table 3.5)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 621 | $359,457 | 908 | $9,941,037 | 482 | $485,285 | 2,011 | $10,785,779 |
| 2006 | 233 | $199,732 | 929 | $19,542,924 | 477 | $307,041 | 1,639 | $20,049,697 |
| 2007 | 157 | $104,258 | 874 | $2,046,943 | 424 | $246,485 | 1,455 | $2,397,686 |
| 2008 | 124 | $104,485 | 945 | $20,477,971 | 366 | $226,320 | 1,435 | $20,808,776 |
| 2009 | 220 | $203,766 | 909 | $18,609,474 | 317 | $448,032 | 1,446 | $19,261,272 |

**Real Estate Taxes (Table 3.6)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 1997 | 155,490 | $224,552,051 | 8,655 | $40,122,219 | 4,560 | $7,342,227 | 168,705 | $272,016,497 |
| 1998 | 160,466 | $237,544,952 | 8,821 | $40,214,643 | 5,004 | $8,138,922 | 174,291 | $285,898,517 |
| 1999 | 164,142 | $239,161,553 | 8,910 | $45,890,744 | 5,139 | $8,383,057 | 178,191 | $293,435,354 |
| 2000 | 168,026 | $239,539,241 | 9,180 | $42,228,322 | 5,284 | $8,489,296 | 182,490 | $290,256,859 |
| 2001 | 168,787 | $248,404,235 | 9,519 | $49,509,766 | 5,285 | $8,683,709 | 183,591 | $306,597,710 |
| 2002 | 171,716 | $274,873,159 | 9,961 | $56,403,749 | 5,040 | $9,084,415 | 186,717 | $340,361,323 |
| 2003 | 171,702 | $291,351,060 | 10,253 | $52,480,130 | 5,098 | $9,861,073 | 187,053 | $353,692,263 |
| 2004 | 177,784 | $313,019,635 | 10,737 | $63,728,583 | 5,484 | $11,402,614 | 194,005 | $388,150,832 |
| 2005 | 173,313 | $312,773,695 | 12,403 | $78,227,047 | 5,584 | $11,931,374 | 191,300 | $402,932,116 |
| 2006 | 180,660 | $335,796,457 | 14,394 | $90,823,829 | 5,949 | $13,020,123 | 201,003 | $439,640,409 |
| 2007 | 186,609 | $351,507,817 | 12,937 | $60,408,983 | 5,525 | $12,349,635 | 205,071 | $424,266,435 |
| 2008 | 187,415 | $375,863,167 | 15,801 | $112,053,015 | 4,962 | $11,850,184 | 208,178 | $499,766,366 |
| 2009 | 190,987 | $390,523,795 | 16,210 | $117,316,538 | 4,054 | $9,895,034 | 211,251 | $517,735,367 |

### Property Taxes on Personal Property

Both federal and Montana law allow taxpayers to take an itemized deduction for property taxes on personal property paid during the year. For individual taxpayers, this consists primarily of motor vehicle license fees. One difference between the federal and state deductions is that federal law allows a deduction only for taxes that are based on the value of the property while Montana law allows a deduction for light vehicle registration fees, which are based on age rather than value.

This deduction avoids having the state levy income tax on income that was paid to the state or local governments as property tax. It also provides a subsidy for the ownership of taxable rather than untaxed personal property.

This deduction was not given its own line on the Montana tax return and was not tracked separately until 2005. Table 3.7 shows itemized deductions for personal property taxes for tax years 2005 through 2009.

For tax year 2009, the deduction for personal property taxes reduced income tax revenue to the general fund by $3,103,096, or $5.01 per full-year resident taxpayer.

### Other Deductible Taxes

Federal and state law allow itemized deductions for several other types of taxes, including the generation-skipping transfer tax and income taxes paid to other countries.

This deduction avoids having the state levy income tax on income paid as tax to the United States or another country.

Table 3.8 shows itemized deductions for other taxes from 1997 through 2007. Before 2005, the deduction for taxes on personal property, including motor vehicles, was included in this line on the Montana tax return. The reduction in deductions for other taxes in 2005 reflects this change in the tax form, not a change in taxpayer's deductions.

**Personal Property Taxes (Table 3.7)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 143,930 | $49,132,724 | 5,879 | $3,005,134 | 3,953 | $1,579,713 | 153,762 | $53,717,571 |
| 2006 | 149,420 | $53,801,270 | 7,067 | $3,781,656 | 4,348 | $1,755,659 | 160,835 | $59,338,585 |
| 2007 | 153,191 | $54,986,011 | 6,459 | $2,955,742 | 4,132 | $1,818,477 | 163,782 | $59,760,230 |
| 2008 | 150,213 | $54,112,119 | 7,348 | $4,355,399 | 3,513 | $1,413,080 | 161,074 | $59,880,598 |
| 2009 | 147,121 | $53,773,266 | 7,585 | $5,206,252 | 2,799 | $1,383,547 | 157,505 | $60,363,065 |

**Other Deductible Taxes (Table 3.8)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 1997 | 93,078 | $34,249,703 | 3,220 | $4,845,887 | 2,420 | $1,046,062 | 98,718 | $40,141,652 |
| 1998 | 105,912 | $41,551,576 | 3,161 | $3,813,350 | 2,923 | $1,386,038 | 111,996 | $46,750,964 |
| 1999 | 112,192 | $47,059,216 | 3,124 | $3,181,272 | 3,127 | $1,549,877 | 118,443 | $51,790,365 |
| 2000 | 118,410 | $43,249,518 | 3,108 | $5,520,927 | 3,249 | $1,395,230 | 124,767 | $50,165,675 |
| 2001 | 113,064 | $35,414,255 | 3,149 | $3,190,504 | 3,082 | $1,441,611 | 119,295 | $40,046,370 |
| 2002 | 118,334 | $39,533,367 | 3,315 | $4,252,646 | 2,993 | $1,242,926 | 124,642 | $45,028,939 |
| 2003 | 119,088 | $40,720,924 | 3,620 | $3,473,837 | 3,036 | $1,331,906 | 125,744 | $45,526,667 |
| 2004 | 122,863 | $44,860,192 | 3,925 | $4,690,207 | 3,317 | $1,501,255 | 130,105 | $51,051,654 |
| 2005 | 20,204 | $7,401,798 | 1,125 | $2,654,526 | 435 | $321,390 | 21,764 | $10,377,714 |
| 2006 | 22,408 | $10,506,730 | 3,817 | $8,650,629 | 867 | $1,181,614 | 27,092 | $20,338,973 |
| 2007 | 22,045 | $8,515,407 | 3,963 | $6,852,968 | 781 | $869,845 | 26,789 | $16,238,220 |
| 2008 | 20,767 | $8,494,096 | 4,114 | $8,577,725 | 694 | $645,474 | 25,575 | $17,717,295 |
| 2009 | 23,966 | $8,631,187 | 1,441 | $3,231,465 | 312 | $143,438 | 25,719 | $12,006,090 |

For tax year 2009, the deduction for other taxes reduced income tax revenue to the state general fund by $477,161, or $0.77 per full-year resident taxpayer.

### Home Mortgage Interest

Federal and state law allow an itemized deduction for home mortgage interest. This deduction is reported on three separate lines. The first is for reporting interest, including pre-paid interest called points, reported on a federal Form 1098. The second line is for reporting interest not reported on a federal Form 1098, and the third is for reporting points not reported on a federal Form 1098.

The deduction for home mortgage interest provides an incentive for home ownership and a disincentive for taxpayers to pay off their mortgages.

Tables 3.9, 3.10, and 3.11 show itemized deductions for home mortgage interest. The deductions for interest and points not reported on Form 1098 were not given their own lines on the Montana tax return and were not reported separately before 2005.

Beginning in 2007, federal and Montana law began allowing an itemized deduction for certain home mortgage insurance premiums. Table 3.12 shows mortgage insurance deductions.

Together, these mortgage-interest-related deductions reduced income tax revenue to the state general fund for 2009 by $66,962,389, or $108.19 per full-year resident taxpayer.

**Home Mortgage Interest (Table 3.9)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 1997 | 109,951 | $528,945,609 | 6,343 | $67,453,581 | 4,130 | $26,537,131 | 120,424 | $622,936,321 |
| 1998 | 114,907 | $581,107,149 | 6,655 | $72,590,713 | 4,485 | $29,426,871 | 126,047 | $683,124,733 |
| 1999 | 118,584 | $617,656,281 | 6,679 | $76,371,553 | 4,737 | $31,843,584 | 130,000 | $725,871,418 |
| 2000 | 122,425 | $674,783,486 | 6,886 | $78,513,306 | 4,831 | $34,904,282 | 134,142 | $788,201,074 |
| 2001 | 124,247 | $722,240,324 | 7,228 | $87,385,090 | 4,897 | $36,579,852 | 136,372 | $846,205,266 |
| 2002 | 127,414 | $752,226,098 | 7,639 | $91,905,721 | 4,661 | $34,923,410 | 139,714 | $879,055,229 |
| 2003 | 127,905 | $744,358,655 | 7,982 | $84,606,383 | 4,693 | $35,088,639 | 140,580 | $864,053,677 |
| 2004 | 132,368 | $775,952,387 | 8,202 | $89,552,348 | 5,104 | $38,443,789 | 145,674 | $903,948,524 |
| 2005 | 133,424 | $834,187,317 | 9,658 | $118,470,882 | 5,463 | $43,793,333 | 148,545 | $996,451,532 |
| 2006 | 138,377 | $965,230,692 | 11,039 | $153,530,958 | 5,806 | $53,406,843 | 155,222 | $1,172,168,493 |
| 2007 | 141,920 | $1,099,986,447 | 10,273 | $134,812,748 | 5,381 | $53,926,741 | 157,574 | $1,288,725,936 |
| 2008 | 141,521 | $1,151,150,074 | 11,785 | $171,373,709 | 4,760 | $48,088,326 | 158,066 | $1,370,612,109 |
| 2009 | 142,400 | $1,114,955,415 | 11,881 | $161,922,672 | 3,747 | $33,133,268 | 158,028 | $1,310,011,355 |

**Unreported Home Mortgage Interest (Table 3.10)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 5,038 | $12,391,166 | 606 | $5,150,805 | 269 | $944,775 | 5,913 | $18,486,746 |
| 2006 | 5,149 | $14,061,034 | 512 | $3,575,207 | 265 | $855,962 | 5,926 | $18,492,203 |
| 2007 | 5,158 | $15,891,301 | 458 | $2,408,230 | 257 | $916,031 | 5,873 | $19,215,562 |
| 2008 | 5,249 | $18,043,825 | 512 | $3,308,977 | 214 | $909,509 | 5,975 | $22,262,311 |
| 2009 | 5,551 | $17,628,247 | 501 | $3,088,708 | 156 | $650,143 | 6,208 | $21,367,098 |

## Charitable Contributions

Federal and Montana law allow an itemized deduction for charitable contributions. In any year, this deduction is limited to 50% of the taxpayer's adjusted gross income. In addition, gifts to certain types of charities and certain types of gifts are subject to lower limits. A taxpayer whose contributions exceed the limit may carry the excess contributions forward and deduct them in a later tax year.

The deduction provides an incentive for taxpayers to contribute to tax-exempt charities.

Tables 3.13, 3.14, and 3.15 show itemized deductions for contributions for tax years 1997 through 2009. Non-cash contributions and contributions carried forward from an earlier tax year were first given their own lines on the tax form in 2005. Because of this, table 3.13 shows total contributions for 1997 through 2004 and cash contributions for 2005 through 2009.

Itemized deductions for charitable contributions reduced 2009 income tax revenue to the state general fund by $30,984,127, or $50.06 per full-year resident taxpayer.

**Unreported Points (Table 3.11)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 16,698 | $5,699,668 | 1,326 | $749,113 | 632 | $852,751 | 18,656 | $7,301,532 |
| 2006 | 16,095 | $5,739,845 | 1,645 | $885,176 | 615 | $816,937 | 18,355 | $7,441,958 |
| 2007 | 15,492 | $5,576,575 | 1,229 | $728,211 | 545 | $683,325 | 17,266 | $6,988,111 |
| 2008 | 15,708 | $5,619,416 | 1,490 | $803,063 | 453 | $465,765 | 17,651 | $6,888,244 |
| 2009 | 19,365 | $7,701,339 | 1,714 | $1,097,383 | 386 | $455,858 | 21,465 | $9,254,580 |

**Qualified Mortgage Insurance Premiums (Table 3.12)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2007 | 6,668 | $6,614,484 | 271 | $302,418 | 569 | $655,755 | 7,508 | $7,572,657 |
| 2008 | 10,465 | $12,656,499 | 519 | $778,516 | 679 | $945,411 | 11,663 | $14,380,426 |
| 2009 | 15,693 | $21,264,234 | 757 | $1,143,096 | 648 | $1,172,580 | 17,098 | $23,579,910 |

**Contributions (Table 3.13)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 1997 | 140,992 | $228,778,274 | 8,341 | $362,265,733 | 4,147 | $8,499,718 | 153,480 | $599,543,725 |
| 1998 | 145,404 | $259,104,058 | 8,321 | $868,198,239 | 4,556 | $8,317,647 | 158,281 | $1,135,619,944 |
| 1999 | 149,184 | $275,164,610 | 8,528 | $514,573,705 | 4,782 | $10,260,603 | 162,494 | $799,998,918 |
| 2000 | 154,098 | $294,840,519 | 8,972 | $816,633,941 | 5,064 | $11,640,347 | 168,134 | $1,123,114,807 |
| 2001 | 154,930 | $305,371,553 | 9,286 | $594,986,109 | 5,124 | $12,288,401 | 169,340 | $912,646,063 |
| 2002 | 156,734 | $345,228,308 | 9,705 | $512,439,421 | 4,904 | $10,934,480 | 171,343 | $868,602,209 |
| 2003 | 155,635 | $337,410,601 | 10,004 | $267,070,929 | 4,796 | $11,730,744 | 170,435 | $616,212,274 |
| 2004 | 160,508 | $375,309,514 | 10,400 | $602,142,264 | 5,221 | $14,408,334 | 176,129 | $991,860,112 |
| 2005 | 153,763 | $328,495,465 | 11,768 | $589,530,077 | 4,838 | $11,569,314 | 170,369 | $929,594,856 |
| 2006 | 155,992 | $346,917,958 | 13,171 | $879,547,242 | 4,912 | $15,097,419 | 174,075 | $1,241,562,619 |
| 2007 | 153,487 | $539,533,465 | 11,632 | $242,926,925 | 4,367 | $11,313,736 | 169,486 | $793,774,126 |
| 2008 | 150,723 | $434,698,282 | 13,701 | $1,124,701,325 | 3,867 | $10,188,258 | 168,291 | $1,569,587,865 |
| 2009 | 150,506 | $424,565,892 | 13,647 | $1,224,439,469 | 3,139 | $7,793,220 | 167,292 | $1,656,798,581 |

### Child and Dependent Care Expenses

Montana allows an itemized deduction for the expenses of maintaining a household or providing care for certain dependents. These include a child under 15 or any dependent who is unable to care for himself or herself while the taxpayer is at work. To qualify for the deduction, the taxpayer, and spouse if married, must have combined Montana adjusted gross income of less than $22,800. The income limit is $25,200 if the taxpayer is caring for two eligible dependents and $27,600 for three or more dependents.

There is no comparable federal itemized deduction.

This deduction reduces the cost of working for taxpayers who have a child or other dependent to care for. It provides an incentive to engage in paid work and pay to have the dependent cared for rather than to provide the care personally.

Table 3.16 shows itemized deductions for child and dependent care expenses for tax years 1997 through 2009.

**Non-Cash Contributions (Table 3.14)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 63,138 | $81,133,500 | 6,018 | $565,617,819 | 3,285 | $4,155,124 | 72,441 | $650,906,443 |
| 2006 | 62,763 | $83,872,512 | 6,915 | $581,016,577 | 3,278 | $5,373,699 | 72,956 | $670,262,788 |
| 2007 | 61,102 | $89,879,024 | 5,819 | $140,639,743 | 2,921 | $3,000,858 | 69,842 | $233,519,625 |
| 2008 | 61,637 | $61,442,501 | 6,746 | $435,659,170 | 2,564 | $3,838,773 | 70,947 | $500,940,444 |
| 2009 | 62,071 | $59,713,638 | 6,696 | $229,611,641 | 2,035 | $2,640,083 | 70,802 | $291,965,362 |

**Carryover of Contributions from Previous Years (Table 3.15)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 2,750 | $23,935,534 | 318 | $61,065,545 | 59 | $799,869 | 3,127 | $85,800,948 |
| 2006 | 2,786 | $33,035,422 | 312 | $66,111,824 | 77 | $613,737 | 3,175 | $99,760,983 |
| 2007 | 2,697 | $29,245,142 | 268 | $21,677,292 | 67 | $857,788 | 3,032 | $51,780,222 |
| 2008 | 2,396 | $34,852,686 | 327 | $85,764,028 | 66 | $1,268,528 | 2,789 | $121,885,242 |
| 2009 | 2,560 | $26,683,941 | 369 | $44,220,591 | 50 | $760,505 | 2,979 | $71,665,037 |

**Child and Dependent Care Expenses (Table 3.16)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 1997 | 1,298 | $1,861,625 | 58 | $10,911,133 | 49 | $58,573 | 1,405 | $12,831,331 |
| 1998 | 1,288 | $1,848,384 | 64 | $187,483 | 58 | $83,845 | 1,410 | $2,119,712 |
| 1999 | 1,130 | $1,618,924 | 40 | $64,036 | 54 | $101,155 | 1,224 | $1,784,115 |
| 2000 | 1,214 | $1,776,837 | 46 | $78,651 | 60 | $88,079 | 1,320 | $1,943,567 |
| 2001 | 1,068 | $1,642,048 | 52 | $2,373,313 | 44 | $65,715 | 1,164 | $4,081,076 |
| 2002 | 1,067 | $1,667,803 | 34 | $442,412 | 51 | $82,238 | 1,152 | $2,192,453 |
| 2003 | 1,013 | $1,704,198 | 38 | $72,953 | 38 | $70,450 | 1,089 | $1,847,601 |
| 2004 | 948 | $1,544,650 | 39 | $78,212 | 48 | $82,235 | 1,035 | $1,705,097 |
| 2005 | 878 | $1,502,761 | 47 | $78,518 | 47 | $76,815 | 972 | $1,658,094 |
| 2006 | 781 | $1,391,599 | 39 | $78,514 | 48 | $100,968 | 868 | $1,571,081 |
| 2007 | 795 | $1,471,368 | 35 | $70,146 | 41 | $81,418 | 871 | $1,622,932 |
| 2008 | 725 | $1,382,178 | 40 | $76,892 | 29 | $54,071 | 794 | $1,513,141 |
| 2009 | 837 | $1,600,514 | 62 | $121,396 | 31 | $65,490 | 930 | $1,787,400 |

The itemized deduction for child and dependent care expenses reduced income tax revenue to the state general fund for 2009 by $8,292, or $0.01 per full year resident taxpayer.

### Casualty and Theft Losses

Federal and Montana law allow taxpayers an itemized deduction for uncompensated theft, damage, or destruction of non-business property that exceeds 10% of the taxpayer's adjusted gross income. Casualty and theft losses of business property are deducted as a business expense.

This deduction essentially treats the value of a taxpayer's significant property loss as an offset to income. This reduces the incentive to insure property against theft, damage, or other losses.

Table 3.17 shows itemized deductions for casualty and theft losses for tax years 1997 through 2009.

The itemized deduction for casualty and theft losses reduced income tax revenue to the state general fund for 2009 by $228,587, or $0.37 per full-year resident taxpayer.

### Political Contributions

Montana allows taxpayers an itemized deduction for up to $100 of contributions to candidates for political office or to political parties. Federal law does not allow a comparable deduction.

This deduction provides a subsidy for taxpayers making political contributions totaling up to $100.

This deduction was not given a separate line on the tax forms and tracked separately before 2005. Table 3.18 shows itemized deductions for political contributions for tax years 2005 through 2009.

The itemized deduction for political contributions reduced income tax revenue to the general fund for 2009 by $37,645, or $0.06 per full-year resident taxpayer.

**Casualty and Theft Losses (Table 3.17)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 1997 | 492 | $4,298,471 | 25 | $350,347 | 27 | $333,977 | 544 | $4,982,795 |
| 1998 | 351 | $2,727,108 | 22 | $1,736,067 | 19 | $212,283 | 392 | $4,675,458 |
| 1999 | 408 | $3,058,367 | 18 | $109,181 | 21 | $287,593 | 447 | $3,455,141 |
| 2000 | 443 | $7,212,024 | 21 | $186,387 | 40 | $541,131 | 504 | $7,939,542 |
| 2001 | 360 | $3,158,568 | 9 | $247,991 | 23 | $143,147 | 392 | $3,549,706 |
| 2002 | 430 | $4,464,106 | 28 | $499,941 | 24 | $189,633 | 482 | $5,153,680 |
| 2003 | 394 | $4,105,444 | 20 | $516,249 | 18 | $278,024 | 432 | $4,899,717 |
| 2004 | 384 | $3,618,700 | 20 | $591,327 | 25 | $290,011 | 429 | $4,500,038 |
| 2005 | 378 | $4,441,098 | 94 | $3,136,444 | 31 | $390,980 | 503 | $7,968,522 |
| 2006 | 397 | $7,373,395 | 39 | $1,601,455 | 28 | $457,765 | 464 | $9,432,615 |
| 2007 | 369 | $4,675,161 | 22 | $1,074,624 | 28 | $749,831 | 419 | $6,499,616 |
| 2008 | 363 | $5,565,994 | 44 | $1,713,960 | 17 | $138,661 | 424 | $7,418,615 |
| 2009 | 324 | $6,906,415 | 24 | $13,399,154 | 15 | $134,078 | 363 | $20,439,647 |

**Political Contributions (Table 3.18)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 4,444 | $542,487 | 168 | $19,911 | 88 | $8,803 | 4,700 | $571,201 |
| 2006 | 7,083 | $834,509 | 175 | $21,448 | 116 | $13,395 | 7,374 | $869,352 |
| 2007 | 5,462 | $634,404 | 144 | $17,935 | 104 | $11,034 | 5,710 | $663,373 |
| 2008 | 8,705 | $1,062,633 | 338 | $42,074 | 154 | $17,339 | 9,197 | $1,122,046 |
| 2009 | 5,490 | $643,598 | 190 | $24,431 | 57 | $6,359 | 5,737 | $674,388 |

## Special Treatment for Certain Types of Income

Federal law taxes income from capital gains and corporate dividends at lower rates than ordinary income. Montana does not have separate rates for different types of income, but does provide preferential treatment for capital gains income through a credit. Beginning in 2005, taxpayers may take a credit against income tax liability equal to a percentage of their capital gains income. For 2005 and 2006, the credit was 1% of capital gains income. For 2007 and later years, it is 2%. If the capital gains credit exceeds the taxpayer's tax liability, the excess credit is not refunded and may not be carried forward or backward to other tax years.

This credit is equivalent to taxing capital gains at a lower rate than other income. In essence, a taxpayer in the top income bracket is taxed at 6.9% on an additional dollar of ordinary income but at 4.9% on an additional dollar of capital gains income.

Table 4.1 shows capital gains credits for tax years 2005 through 2009.

For 2009, the capital gains credit reduced income tax revenue to the general fund by $20,067,588, or $32.424 per full-year resident taxpayer.

## Tax Credits

Tax credits offset tax liability for taxpayers who make specified expenditures or take specified actions. Tax credits are not part of the basic structure of the income tax and are therefore tax expenditures.

### College Contribution Credit

Individual and corporate taxpayers are allowed a credit of 10% of the amount of charitable contributions to the general endowment funds of units of the Montana university system, Montana private colleges, or Montana private college foundations.

The credit is limited to a maximum of $500. A taxpayer with a credit that is larger than his or her tax liability will not be refunded the excess, and excess credits may not be carried forward or backward to another tax year.

The credit is in Section 15-30-2326, MCA, which was created by HB 894 of the 1991 Legislative Session. The credit originally was to sunset in 1996, but was made permanent by HB 199 of the 1995 Legislative Session.

A taxpayer who makes a contribution to a college endowment fund may take both state and federal itemized deductions for the charitable contribution and this credit. A taxpayer in the top state and federal brackets who makes a $100 contribution would have their federal tax liability reduced by $35 (the tax on $100 of additional income at the top federal rate of 35%), have his or her state tax liability reduced by $6.90 (the tax on $100 of additional income at the top state rate of 6.9%), and receive a credit of $10 (10% of the $100 contribution). This makes the taxpayer's cost of a $100 contribution $48.10 (the $100 contribution - $35 reduction in federal tax liability - $6.90 reduction in state tax liability - $10 credit).

Table 4.2 shows college contribution credits claimed by individual taxpayers for tax years 1997 through 2009.

This credit is essentially a transfer from the state general fund to Montana college endowment funds. In 2009,

**Capital Gains Credit (Table 4.1)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 53,187 | $15,440,738 | 9,799 | $3,942,692 | 2,418 | $443,246 | 65,404 | $19,826,676 |
| 2006 | 61,392 | $19,599,422 | 10,474 | $2,931,577 | 2,575 | $419,008 | 74,441 | $22,950,007 |
| 2007 | 68,967 | $40,025,383 | 10,329 | $3,358,241 | 2,779 | $752,115 | 82,075 | $44,135,739 |
| 2008 | 41,242 | $26,151,925 | 8,031 | $8,609,630 | 1,442 | $457,981 | 50,715 | $35,219,536 |
| 2009 | 24,961 | $17,974,296 | 5,346 | $1,918,020 | 766 | $175,272 | 31,073 | $20,067,588 |

| College Contribution Credit (Table 4.2) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
| | N | $ | N | $ | N | $ | N | $ |
| 1997 | 1,691 | $110,254 | 35 | $3,232 | 17 | $795 | 1,743 | $114,281 |
| 1998 | 1,749 | $131,090 | 35 | $2,953 | 31 | $2,771 | 1,815 | $136,814 |
| 1999 | 1,760 | $153,277 | 40 | $3,273 | 21 | $2,480 | 1,821 | $159,030 |
| 2000 | 1,686 | $169,944 | 46 | $5,587 | 24 | $3,029 | 1,756 | $178,560 |
| 2001 | 1,810 | $165,451 | 45 | $6,614 | 15 | $3,080 | 1,870 | $175,145 |
| 2002 | 1,919 | $166,369 | 57 | $9,409 | 22 | $2,510 | 1,998 | $178,288 |
| 2003 | 2,012 | $148,470 | 55 | $3,671 | 22 | $2,300 | 2,089 | $154,441 |
| 2004 | 2,074 | $171,903 | 80 | $9,567 | 15 | $1,175 | 2,169 | $182,645 |
| 2005 | 2,297 | $206,714 | 47 | $6,338 | 21 | $6,186 | 2,365 | $219,238 |
| 2006 | 2,419 | $246,533 | 52 | $6,971 | 30 | $3,837 | 2,501 | $257,341 |
| 2007 | 2,412 | $239,072 | 44 | $6,353 | 20 | $1,748 | 2,476 | $247,173 |
| 2008 | 2,433 | $225,228 | 37 | $4,641 | 17 | $3,555 | 2,487 | $233,424 |
| 2009 | 2,488 | $237,180 | 59 | $6,435 | 17 | $2,250 | 2,564 | $245,865 |

this credit cost the state general fund $245,865. Without this credit, $245,865 would have been available to spend on other state programs or taxes could have been reduced by this amount. The college endowment credit against individual income tax cost an average of $0.40 per full-year resident taxpayer.

### Qualified Endowment Credit

Individual taxpayers are allowed a credit of 40% of the present value of a planned gift to a qualified endowment. A qualified endowment is a permanent fund held by or on behalf of a 501(c)(3) charitable organization. A planned gift is one of nine types of arrangements specified in the IRS code that generally provide income to the donor for life or a set period and then the remainder goes to the charity. Corporations are allowed a credit of 20% of a gift to a qualified endowment. Because the concept of planned gifts only makes sense for individuals, corporations are allowed the credit for an outright gift.

The credit is limited to a maximum of $10,000. A taxpayer with a credit that is larger than his or her tax liability will not be refunded the excess, and excess credits may not be carried forward or backward to another tax year.

The credit is in Sections 15-30-2327 through 2329, MCA, and was created by HB 434 of the 1997 Legislature. The credit originally was 50% of the present value of the planned gift with a limit of $10,000. The credit was to sunset at the end of 2001.

The 2001 Legislature (HB 377 and SB 350) reduced the credit to 40% of the present value of the planned gift for individuals and 20% of the value of the gift for corporations. It also clarified the definition of planned gift and extended the sunset date to the end of 2007.

In August 2002, the Montana Legislature met in a special session to deal with revenue shortfalls. To reduce the costs of the credit in the short run, the Legislature (SB 15) reduced the credit for the period from August 28, 2002 through June 30, 2003 to 30% with a $6,000 cap for individuals and 13.3% with a $6,600 cap for corporations. The same bill increased the credit for the period from July 1, 2003 to April 30, 2004 to 50% for individuals and 26.7% for corporations, both with a cap of $13,400. The credit returned to its previous levels May 1, 2004.

The 2003 Legislature (SB 143) eliminated double dipping by specifying that a taxpayer could not take the credit and a deduction for the same contribution.

The 2005 Legislature (HB 193) provided for recapture of the tax credit when the taxpayer recovers a gift.

The 2007 Legislature (SB 150) clarified that building funds are not charitable endowments and extended the sunset date to the end of 2013.

The various types of trusts that can be used for planned gifts are defined in the IRS code for the purpose of determining the tax treatment of the trust. There is no specific federal tax treatment of contributions other than the general deduction for contributions.

| Qualified Endowment Contribution Credit (Table 4.3) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
| | N | $ | N | $ | N | $ | N | $ |
| 1997 | 338 | $1,303,654 | * | $12,630 | * | $16,409 | * | $1,332,693 |
| 1998 | 732 | $3,191,545 | 24 | $93,210 | * | $3,479 | * | $3,288,234 |
| 1999 | 1,045 | $5,547,290 | 34 | $109,278 | * | $3,481 | * | $5,660,049 |
| 2000 | 1,419 | $6,960,128 | 37 | $137,312 | * | $24,483 | * | $7,121,923 |
| 2001 | 1,593 | $7,410,957 | 44 | $101,607 | 17 | $37,847 | 1,654 | $7,550,411 |
| 2002 | 560 | $1,610,509 | 29 | $79,871 | * | $4,401 | * | $1,694,781 |
| 2003 | 603 | $2,138,607 | 23 | $41,028 | * | $61 | * | $2,179,696 |
| 2004 | 720 | $2,502,605 | 30 | $56,390 | * | $26,046 | * | $2,585,041 |
| 2005 | 742 | $2,489,262 | 31 | $50,348 | * | $18,723 | * | $2,558,333 |
| 2006 | 870 | $3,164,764 | 26 | $62,330 | * | $17,932 | * | $3,245,026 |
| 2007 | 741 | $2,786,993 | 24 | $60,164 | * | $11,678 | * | $2,858,835 |
| 2008 | 532 | $1,919,025 | 18 | $60,943 | * | $866 | * | $1,980,834 |
| 2009 | 508 | $1,746,260 | 25 | $62,183 | 0 | $0 | 533 | $1,808,443 |

A taxpayer may not claim the credit for a gift and take a state itemized deduction for the same gift. If the present value of the contribution exceeds the limit, the deduction may be taken on the excess. The taxpayer may take a federal itemized deduction for the full amount of the gift.

A taxpayer who does not take the credit can take federal and state deductions for a charitable contribution. For a taxpayer in the 35% top federal and 6.9% top state brackets, the deductions reduce tax liability by 41.9% of the amount of the contribution. For a taxpayer who does not take the credit, each $100 contributed to a qualified endowment costs the taxpayer $58.10.

If the taxpayer takes the credit for a planned gift of $25,000 or less, the federal deduction reduces tax liability by 35% of the gift and the state credit reduces tax liability by 40% of the gift. Each $100 contributed to a qualified endowment costs the taxpayer $25.

If the taxpayer takes the credit for a planned gift of more than $25,000, the taxpayer's cost is 25% of the first $25,000 and 58.1% of the excess over $25,000.

Table 4.3 shows qualified endowment credits claimed by individuals for tax years 1997 through 2009. Where there are fewer than 10 taxpayers in a group in a year, there is an asterisk. There is also an asterisk in the total column so as to not reveal the number of taxpayers in the individual group.

The qualified endowment credit is essentially a transfer from the state general fund to a private non-profit. In 2009, credits claimed by individual taxpayers cost the state general fund $1,808,443. Without the credit, this amount would have been available to spend on other programs or taxes could have been reduced by this amount. The qualified endowment credit against individual income tax cost other taxpayers an average of $2.92 per full-year resident taxpayer.

### Energy Conservation Credit

Resident individual taxpayers may take a credit for 25% of the costs of investments in a building to conserve energy. The maximum credit is $500 per taxpayer. If a taxpayer claims a credit that is more than his or her tax liability for the year, the excess is not refunded to the taxpayer and may not be carried forward or backward to another tax year.

The credit is in Sections 15-32-109 and 15-30-2319, MCA. It was enacted by HB 237 in the 1981 Legislature. The credit originally was 5% of the cost with a maximum of $150 for a residence and $300 for other buildings and any excess credit could be carried forward for 7 years. The 2001 Legislature (SB 506) increased the credit to 25% of costs with a limit of $500. The 2003 Legislature eliminated the carry-forward (SB 138). In 2005, the Department or Revenue began interpreting the limit of $500 per taxpayer as allowing taxpayers who own a building together, such as a married couple, to each claim a credit for 25% of the share of the cost with a limit of $500 each.

There is no deduction for investments individuals make in their own residence. However, an investment an individual makes in a commercial building he or she own would result in a depreciable asset, so that the cost could be deducted over time.

A taxpayer who takes the credit has the cost of energy efficiency investments of up to $2,000 per year reduced by 25%. In years when the 10% federal credit is available, each $100 a taxpayer spends on building energy efficiency investments costs the taxpayer $65. In years when the federal credit is not available, each $100 invested costs the taxpayer $75.

Table 4.4 shows energy conservation credits from 1997 through 2009. Where there are fewer than 10 taxpayers in a group in a year, there is an asterisk. There is also an asterisk in the total column so as to not reveal the number of taxpayers in the individual group.

The energy conservation credit is essentially a transfer from the state general fund to help a taxpayer purchase private property. In 2009, this credit cost the state general fund $10,103,356. Without the credit this amount would have been available to spend on other state programs or taxes could have been reduced by this amount. The energy conservation credit cost an average of $16.32 per full-year resident taxpayer.

### Alternative Fuel Credit

Taxpayers are allowed a credit against individual income tax or corporate license tax of 50% of the cost of converting a motor vehicle to operate on natural gas, LPG, LNG, hydrogen, electricity, or a fuel at least 85% alcohol or ether. The credit is limited to $500 for converting a vehicle with GVW of 10,000 or less and to $1,000 for converting of a vehicle with GVW over 10,000. If a taxpayer's credit is more than his or her tax liability, the excess credit is not refunded and can not be carried forward or backward to another tax year.

**Energy Conservation Credit (Table 4.4)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 1997 | 1,507 | $120,686 | 0 | $0 | 18 | $1,679 | 1,525 | $122,365 |
| 1998 | 1,757 | $130,774 | * | $11 | 21 | $2,208 | * | $132,993 |
| 1999 | 1,686 | $132,907 | 0 | $0 | 22 | $1,638 | 1,708 | $134,545 |
| 2000 | 1,806 | $141,693 | * | $44 | 22 | $1,513 | * | $143,250 |
| 2001 | 2,419 | $201,445 | * | $29 | 12 | $4,967 | * | $206,441 |
| 2002 | 4,569 | $1,305,788 | * | $1,727 | 55 | $18,545 | * | $1,326,060 |
| 2003 | 8,025 | $2,440,965 | 20 | $3,521 | 83 | $23,755 | 8,128 | $2,468,241 |
| 2004 | 10,431 | $3,098,479 | 30 | $7,924 | 154 | $42,830 | 10,615 | $3,149,233 |
| 2005 | 13,636 | $5,497,658 | 27 | $12,307 | 206 | $98,081 | 13,869 | $5,608,046 |
| 2006 | 18,641 | $7,933,053 | 60 | $32,481 | 340 | $162,786 | 19,041 | $8,128,320 |
| 2007 | 18,742 | $8,090,667 | 67 | $29,701 | 306 | $155,553 | 19,115 | $8,275,921 |
| 2008 | 17,434 | $7,853,727 | 0 | $0 | 183 | $97,148 | 17,617 | $7,950,875 |
| 2009 | 21,260 | $9,998,955 | 0 | $0 | 197 | $104,401 | 21,457 | $10,103,356 |

**Alternative Fuel Credit (Table 4.5)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 42 | $25,783 | 0 | $0 | 0 | $0 | 42 | $25,783 |
| 2006 | 27 | $19,109 | * | $2,700 | * | $1,362 | * | $23,171 |
| 2007 | 29 | $25,219 | 0 | $0 | 0 | $0 | 29 | $25,219 |
| 2008 | 33 | $27,402 | 0 | $0 | * | $150 | * | $27,552 |
| 2009 | 46 | $38,175 | * | $2,210 | * | $100 | * | $40,485 |

The credit is found in Section 15-30-2320, MCA. It was enacted by the 1993 Legislature (HB 219) and has not been amended.

There is a federal credit for purchase of a new alternative fuel vehicle but not for conversion costs

The alternative fuel credit pays part or all of a taxpayer's cost of converting a vehicle to run on an alternative fuel. If the conversion cost is less than the credit limit of $500 for a light vehicle and $1,000 for a heavy vehicle, the credit makes the conversion free for the taxpayer. If the conversion cost is more than the credit limit, the credit reduces the taxpayer's cost by the amount of the credit.

If the conversion is of a business vehicle, the taxpayer would be able to expense or amortize the cost as a business expense in addition to claiming the credit.

This credit has been tracked separately only since 2005. Table 4.5 shows credits for tax years 2005 through 2009. Where there are fewer than 10 taxpayers in a group in a year, there is an asterisk. There is also an asterisk in the total column so as to not reveal the number of taxpayers in the individual group.

This credit is essentially a transfer from the state general fund to help a taxpayer purchase private property. In 2009, the individual income tax credit for alternative fuel vehicle conversion cost the state general fund $40,485. Without the credit, either this amount would have been available to spend on other programs or taxes could have been reduced by this amount. The average cost of this credit is $0.07 per full-year resident taxpayer.

**Rural Physician's Credit**

Through 2007, a physician who began practicing in a rural or underserved area was allowed a $5,000 credit against individual income tax. The credit could be taken the first four years the physician practiced medicine in a rural or underserved area in Montana. Physicians who first claimed the credit for 2007 will be able to claim it through 2010. If the credit exceeds the taxpayer's tax liability, the excess is not refunded and may not be carried forward or backward to another tax year.

The credit is in Sections 15-30-2369 through 2372, MCA. It was enacted by SB 359 in the 1991 Legislature. The 2007 Legislature repealed the credit and replaced it with a student loan repayment program. This program is to be funded by a fee on medical students in the WAMI program and will be a transfer from the general fund based on credits claimed for 2006 and 2007.

Eligible taxpayers receive a subsidy of the lower of $5,000 per year or their state income tax liability for the first four years of practicing medicine in a rural or underserved area. ($5,000 is the tax on taxable income of $79,261.)

Table 4.6 shows credit use from 1997 through 2009. Where there are fewer than 10 taxpayers in a group in a year, there is an asterisk. There is also an asterisk in the total column so as to not reveal the number of taxpayers in the individual group.

The Rural Physicians Credit is equivalent to a payment from the state general fund to physicians who begin

**Rural Physician's Credit (Table 4.6)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 1997 | 69 | $272,403 | * | $35,013 | * | $5,000 | * | $312,416 |
| 1998 | 71 | $277,813 | * | $16 | * | $14,882 | * | $292,711 |
| 1999 | 64 | $257,526 | 0 | $0 | * | $1,295 | * | $258,821 |
| 2000 | 81 | $289,738 | * | $5,000 | * | $8,814 | * | $303,552 |
| 2001 | 78 | $284,082 | * | $11,900 | * | $37,500 | * | $333,482 |
| 2002 | 79 | $405,666 | * | $37,115 | * | $5,000 | * | $447,781 |
| 2003 | 77 | $338,643 | * | $500 | * | $3 | * | $339,146 |
| 2004 | 67 | $336,829 | * | $7 | 0 | $0 | * | $336,836 |
| 2005 | 49 | $245,265 | * | $996 | * | $5,000 | * | $251,261 |
| 2006 | 43 | $208,980 | 0 | $0 | * | $10,000 | * | $218,980 |
| 2007 | 45 | $230,590 | 0 | $0 | * | $5,000 | * | $235,590 |
| 2008 | 33 | $160,294 | 0 | $0 | * | $10,000 | * | $170,294 |
| 2009 | 20 | $90,312 | 0 | $0 | 0 | $0 | 20 | $90,312 |

practice in a rural or underserved area. In 2009, the credit cost the state general fund $90,312. Without the credit, this amount would have been available for other programs or to reduce taxes. The credit cost $0.15 per full-year resident taxpayer.

**Health Insurance for Uninsured Montanans Credit**

An employer with 20 or fewer employees may claim a credit against either income or corporation tax for paying at least 50% of the premium for up to 10 employees' health insurance. The credit is the lower of $25 per month multiplied by the percentage of the premium the employer pays or 50% of the premium. The credit may be claimed for up to 36 months and then cannot be claimed again for 10 years.

There is no explicit dollar limit on the credit, but it may not be claimed for more than ten employees. An employer claiming $25 per month for ten employees would claim a credit of $3,000. If a taxpayer's credit is more than his or her tax liability, the excess credit is not refunded and may not be carried forward or backward to another tax year.

The credit provisions for corporation tax are in Section 15-31-132, MCA. Section 15-30-2367, MCA makes the same provisions apply for income tax. The credit was enacted by the 1991 legislature (HB 693). The only amendments to the credit since its enactment were style changes made by the 2001 code commissioner's bill (HB 25).

This credit provides a three-year subsidy to small employers who begin offering health insurance for their employees. A taxpayer who claims the credit may also deduct insurance premiums it pays as a business expense.

The credit an employer receives depends on both the monthly insurance premium per employee and the percentage the employer pays. For insurance with monthly premiums of $50 or more, the monthly subsidy per employee is $25 multiplied by the percentage of premiums the employer pays. An employer paying 50% of premiums would receive a subsidy of $12.50 per employee per month. An employer paying 75% of premiums would receive a subsidy of $18.75, and an employer paying 100% would receive $25.

For insurance with monthly premiums of less than $50, the limit of 50% of premium costs may come into play. For example, an employer paying 50% of monthly premiums of $40 would receive a subsidy of $12.50, and an employer paying 75% of premiums would receive $18.75, the same as with a $50 premium. However, an employer paying 100% of $40 monthly premiums would receive a subsidy of $20.

This credit was not tracked separately before 2002. Table 4.7 shows credits for tax years 2002 through 2009. Asterisks indicate cells in the table with fewer than 10 taxpayers and totals for rows with a cell with fewer than 10 taxpayers.

The Health Insurance for Uninsured Montanans credit is equivalent to a partial subsidy from the state general fund for group health insurance purchased by small employers. In 2009, the credit cost the state general fund $302,100 in individual income tax revenue. Without the credit, this amount would have been available for other programs or tax reductions. The cost of this credit was $0.49 per full-year resident taxpayer.

**Health Insurance for Uninsured Montanans (Table 4.7)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2002 | 82 | $61,113 | 0 | $0 | * | $651 | * | $61,764 |
| 2003 | 177 | $137,398 | * | $1,617 | 0 | $0 | * | $139,015 |
| 2004 | 560 | $427,460 | 12 | $4,388 | * | $95 | * | $431,943 |
| 2005 | 656 | $510,171 | 13 | $3,314 | * | $3,190 | * | $516,675 |
| 2006 | 641 | $559,023 | 16 | $3,443 | * | $1,225 | * | $563,691 |
| 2007 | 509 | $525,501 | 18 | $4,200 | * | $2,479 | * | $532,180 |
| 2008 | 416 | $413,966 | 13 | $3,568 | 0 | $0 | 429 | $417,534 |
| 2009 | 318 | $294,402 | * | $1,559 | * | $6,139 | * | $302,100 |

### Elderly Care Credit

This credit covers part of the costs of caring for a low income family member who is either elderly or disabled. The credit depends on the taxpayer's income, as shown in the following table.

| Adjusted Gross Income | Credit |
|---|---|
| $25,000 or less | 30% of qualifying expenses |
| $25,001 to $27,000 | 29% of qualifying expenses |
| $27,001 to $29,000 | 28% of qualifying expenses |
| $29,001 to $31,000 | 27% of qualifying expenses |
| $31,001 to $33,000 | 26% of qualifying expenses |
| $33,001 to $35,000 | 25% of qualifying expenses |
| $35,001 to $37,000 | 24% of qualifying expenses |
| $37,001 to $39,000 | 23% of qualifying expenses |
| $39,001 to $41,000 | 22% of qualifying expenses |
| $41,001 to $43,000 | 21% of qualifying expenses |
| $43,001 to $50,000 | 20% of qualifying expenses |
| Over $50,000 | 20% of qualifying expenses - excess of MAGI over $50,000 |

The family member being cared for must have income of $15,000 or less if single or $30,000 or less if married.

The maximum credit is $5,000 per family member and $10,000 total. If a taxpayer's credit exceeds their tax liability, the excess is not refunded and may not be carried forward or backward to another tax year.

The credit is in Section 15-30-2366, MCA, which was enacted by the 1989 Legislature (HB 166). The 1991 Legislature reduced the age for eligible family members from 70 to 65 and made other changes to the definitions of eligible family member and eligible costs (HB 750). Amendments by the 1995 Legislature (SB 345) merely updated references that changed with the creation of the Department of Public Health and Human Services.

This credit provides a partial subsidy for taxpayers with low or moderate income who are caring for a low income elderly or disabled relative. Some costs that qualify for this credit could be claimed as itemized deductions, but taxpayers are not allowed to claim both the credit and an itemized deduction for the same costs. For costs that could not be claimed as an itemized deduction, the subsidy is the credit percentage found in the table above. For costs that could be claimed as an itemized deduction, the subsidy from the credit is the difference between the credit percentage and the taxpayer's marginal tax rate.

For example, a taxpayer with adjusted gross income of $25,000, two exemptions and taking the standard deduction would be in the top, 6.9% rate bracket and would have a 30% credit percentage. For $1,000 of qualifying expenses, this taxpayer could claim a credit of $300, and the taxpayer's cost would be $700. If those expenses could be claimed as an itemized deduction, the deduction would reduce the taxpayer's liability by $69 (6.9% x $1,000). The taxpayer's cost would be $931 ($1,000 - $69). If the taxpayer takes the credit instead of the itemized deduction, the additional subsidy is $231 ($300 - $69).

Table 4.8 shows use of the elderly care credit for tax years 1997 through 2009. Where there are fewer than

**Elderly Care Credit (Table 4.8)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 1997 | 40 | $33,279 | 0 | $0 | * | $688 | * | $33,967 |
| 1998 | 70 | $78,866 | * | $8,469 | * | $1,681 | * | $89,016 |
| 1999 | 40 | $28,611 | 0 | $0 | 0 | $0 | 40 | $28,611 |
| 2000 | 44 | $54,657 | 0 | $0 | * | $54 | * | $54,711 |
| 2001 | 54 | $64,247 | * | $46 | * | $2,263 | * | $66,556 |
| 2002 | 34 | $27,493 | * | $4,510 | * | $573 | * | $32,576 |
| 2003 | 31 | $21,041 | 0 | $0 | * | $672 | * | $21,713 |
| 2004 | 41 | $27,911 | * | $3,820 | * | $4,907 | * | $36,638 |
| 2005 | 45 | $53,855 | 0 | $0 | 0 | $0 | 45 | $53,855 |
| 2006 | 53 | $53,497 | 0 | $0 | 0 | $0 | 53 | $53,497 |
| 2007 | 36 | $49,966 | 0 | $0 | 0 | $0 | 36 | $49,966 |
| 2008 | 44 | $48,026 | 0 | $0 | * | $2,508 | * | $50,534 |
| 2009 | 41 | $45,059 | 0 | $0 | 0 | $0 | 41 | $45,059 |

10 taxpayers in a group in a year, there is an asterisk. There is also an asterisk in the total column so as to not reveal the number of taxpayers in the individual group.

This credit is a transfer from the state general fund to individual taxpayers who are caring for a low income elderly or disabled relative. It pays for part of costs that are not covered by insurance or government programs. In 2009, this credit cost the state general fund $45,059. Without the credit, this amount would have been available to spend on other programs or to reduce taxes. The cost of this credit was $0.07 per full-year resident taxpayer.

### Developmental Disability Account Contribution Credit

The developmental disability account contribution credit sunset at the end of 2007.

Taxpayers were allowed a credit against individual income tax or corporation tax of 30% of any donation to the developmental disability services account. The credit was limited to a maximum of $10,000. If the credit exceeded the taxpayer's liability, the excess credit was not refunded and could not be carried forward or backward to another tax year.

This credit was found in 15-30-187, MCA. It was enacted by HB 452 of the 2003 Legislature. It was to sunset at the end of 2005. In HB 513 the 2005 legislature extended the sunset to January 1, 2008.

State governments are qualified charitable organizations. In general, a taxpayer can take an itemized deduction for both federal and state income taxes for a contribution to state government. However, Section 15-30-187, MCA specifically prohibited a taxpayer from claiming the credit and a state deduction for the same contribution.

For a taxpayer in the 35% federal tax bracket, the 30% state credit and federal deduction reduce the taxpayer's federal and state taxes by 65% of the contribution. Thus, each dollar contributed to the developmental disability services account cost the taxpayer $0.35.

Fewer than 10 taxpayers claimed this credit each year it was available. Table 4.9 shows the total value of credits claimed for tax years 2003 through 2007.

This credit was essentially a transfer from the general fund to the developmental disability services account. Alternatively, this credit can be viewed as allowing the taxpayer to earmark part of his or her state income taxes, while receiving a federal deduction for the part

| Developmental Disability Account Contribution Credit (Table 4.9) | |
|---|---|
| 2003 | $0 |
| 2004 | $1,050 |
| 2005 | $2,715 |
| 2006 | $1,000 |
| 2007 | $11,810 |
| 2008 | n/a |
| 2009 | n/a |

**Recycling Credit (Table 4.10)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 1997 | 38 | $99,146 | * | $310 | 0 | $0 | * | $99,456 |
| 1998 | 46 | $257,108 | * | $4,611 | 0 | $0 | * | $261,719 |
| 1999 | 42 | $95,489 | * | $273 | 0 | $0 | * | $95,762 |
| 2000 | 51 | $261,529 | * | $2,025 | * | $25,179 | * | $288,733 |
| 2001 | 31 | $102,071 | * | $5,726 | 0 | $0 | * | $107,797 |
| 2002 | 40 | $66,369 | * | $713 | 0 | $0 | * | $67,082 |
| 2003 | 40 | $121,309 | * | $50 | 0 | $0 | * | $121,359 |
| 2004 | 62 | $307,678 | * | $2,603 | * | $830 | * | $311,111 |
| 2005 | 71 | $410,785 | * | $1,967 | * | $825 | * | $413,577 |
| 2006 | 83 | $757,543 | 0 | $0 | 0 | $0 | 83 | $757,543 |
| 2007 | 76 | $386,110 | 0 | $0 | * | $979 | * | $387,089 |
| 2008 | 72 | $527,908 | * | $25,593 | * | $1,645 | * | $555,146 |
| 2009 | 76 | $439,254 | * | $24,077 | * | $50 | * | $463,381 |

earmarked. In 2007, this credit cost the state general fund $9,110. Without the credit, this amount would have been available to spend on other programs or to reduce taxes. The cost of the credit was $0.02 per full-year resident taxpayer.

**Recycling Credit**

Taxpayers are allowed a credit against individual income tax or corporate license tax for part of the cost of investments in depreciable property used in collecting or processing reclaimable material or manufacturing a product from reclaimed material. The credit is 25% of the first $250,000 invested, 15% of the next $250,000 invested, and 5% of the next $500,000 invested. The credit for an investment of $1 million or more is $125,000.

If a taxpayer claims a credit in excess of his or her tax liability, the excess credit is not refunded and may not be carried forward or backward to another tax year.

The credit is found in 15-32-601 through 614, MCA. The credit was enacted by the 1991 Legislature (SB 111) as a credit equal to 25% of investments made between 1990 and 1995. The 1993 Legislature (HB 519) clarified the definitions used to determine eligible investments. The 1995 Legislature (SB 358) extended the sunset date to 2001 and expanded eligible investments to include equipment to reclaim contaminated soils. The 2001 Legislature (SB 92) extended the sunset date to 2005 and removed equipment to reclaim contaminated soils from eligible investments. The 2005 Legislature (SB 213) extended the sunset date to 2011. The 2009 Legislature (HB 21) made the credit permanent.

The basis of property for which the credit is claimed is not affected by the credit. Taxpayers are allowed to deduct depreciation on property on which the credit has been claimed.

The credit provides a subsidy to taxpayers who make investments in recycling plant and equipment by reducing the taxpayer's cost. For investments under $250,000, the cost is reduced by 25%. For more expensive investments, the percentage reduction is a declining function of the cost.

Table 4.10 shows use of the recycling credit by individuals from 1997 through 2009. Where there are fewer than 10 taxpayers in a group in a year, there is an asterisk. There is also an asterisk in the total column so as to not reveal the number of taxpayers in the individual group.

This credit is equivalent to a subsidy from the state general fund for the purchase of private property to be used in recycling. In 2009, the credit against individual income tax cost the state general fund $463,381. Without the credit, this amount would have been available to spend on other state programs or reduce taxes. The cost to other taxpayers was $0.75 per full-year resident taxpayer.

**Oilseed Crushing and Biodiesel Production Facility Credit**

| Oilseed Crushing/Biodiesel Facility Credit (Table 4.11) | |
|---|---|
| 2005 | $0 |
| 2006 | $135,870 |
| 2007 | $10,147 |
| 2008 | $4,047 |
| 2009 | $0 |

Taxpayers are allowed a credit against individual income tax or corporation tax for 15% of the cost of investment in depreciable property in Montana that is used primarily for crushing oilseeds for producing biodiesel or lubricants or for the production of biodiesel or biolubricants. The total of credits claimed over time for a single facility in all years may not exceed $500,000.

If the credit a taxpayer claims in any year exceeds the tax liability, the excess credit will not be refunded, but may be carried forward for up to 7 years as long as the facility continues to be used to crush oilseeds for biodiesel or lubricants or to produce biodiesel or biolubricants. If the facility ceases production for 12 months within 5 years after the credit is first claimed, the entire credit must be recaptured.

The credit is found in Section 15-32-701, MCA. The credit was enacted by the 2005 Legislature (HB 756) as a non-refundable credit with no carry forward and available for investments through 2010. The 2007 Legislature (HB 166) extended the credit through 2015, expanded the credit to include biolubricant facilities, allowed the credit to be carried forward, specified that the credit is for costs incurred while the facility is operating or in the two years before, and allowed the credit for facilities that are *primarily* crushing oilseeds for fuel or lubricants.

This credit reduces the taxpayer's cost of investments of up to $3.3 million in a facility to produce fuel or lubricants from oilseeds by 15%. The taxpayer may deduct depreciation on property for which the credit is claimed with no reduction in basis.

Ten or fewer individuals have claimed the credit each year. Table 4.11 shows the total value of credits claimed by individuals for the five years it has been available, 2005 through 2009.

The credit is equivalent to a grant from the state general fund covering 15% of the costs of private property to be used in biodiesel production. No credits were claimed for 2009.

**Biodiesel Blending and Storage Tank Credit**

Taxpayers who are biodiesel blenders are allowed a credit against individual income tax or corporation tax for 15% of the cost of investments in biodiesel blending or storage facilities in a year when the taxpayer is blending or in the two years before blending began. The total credits that may be claimed over time are $52,500 for a distributor (wholesaler) and $7,500 for a retailer.

If a taxpayer is eligible for a credit that exceeds their tax liability, the excess credit is not refunded but may be carried forward for up to 7 years as long as the facility continues to blend biodiesel. If the facility ceases production for 12 months within 5 years after the credit is first claimed, the entire credit must be recaptured.

| Biodiesel Blending/Storage Tank Credit (Table 4.12) | |
|---|---|
| 2005 | $3,880 |
| 2006 | $1,651 |
| 2007 | $3,063 |
| 2008 | $1,090 |
| 2009 | $2,630 |

The credit is found in Section 15-32-703, MCA. It was enacted by the 2005 Legislature (HB 756) as a non-refundable credit with no carry forward. The 2007 Legislature (HB 166) allowed the credit to be carried forward, and specified that the credit is for costs incurred while the facility is operating or in the two years before.

The credit provides a subsidy to biodiesel blending and storage facilities by reducing the taxpayer's cost of investments in biodiesel blending and storage facilities by 15% for investments of up to $50,000 by a retailer and $350,000 by a wholesaler. Taxpayers are allowed to deduct depreciation on facilities for which the credit was taken with no reduction in basis.

Fewer than ten individuals have claimed the credit each year. Table 4.12 shows the total value of credits taken by individuals in 2005 through 2009.

This credit is essentially the same as a grant from the state general fund to pay 15% of the cost of private property used to blend biodiesel. In 2009, credits claimed by individuals cost the state general fund $2,630. Without the credit, this amount would have been available to spend on other state programs or reduce taxes. The cost to other taxpayers was $0.004 per full-year resident taxpayer.

**Geothermal Heating System Credit**

Taxpayers are allowed a credit against individual income tax or corporation tax for up to $1,500 of costs of installing a geothermal heating system (ground-source heat pump) in the taxpayer's principal residence or in a resi-

Geothermal Energy System Credit (Table 4.13)

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 80 | $92,303 | 0 | $0 | * | $4,500 | * | $96,803 |
| 2006 | 73 | $89,234 | 0 | $0 | * | $1,500 | * | $90,734 |
| 2007 | 92 | $121,306 | 0 | $0 | * | $4,500 | * | $125,806 |
| 2008 | 123 | $215,157 | 0 | $0 | * | $7,500 | * | $222,657 |
| 2009 | 226 | $525,153 | 0 | $0 | * | $9,000 | * | $534,153 |

dence the taxpayer constructs. If the credit exceeds the taxpayer's liability, the excess credit will not be refunded but may be carried forward for up to 7 years.

This credit is in Section 15-32-115,MCA. It was enacted by the 1991 Legislature (SB 416). The credit initially was limited to $250 with a three year carry-forward and was only for taxpayers who installed a geothermal system in their own principal dwelling. The 2001 Legislature (SB 506) increased the credit to $1,500 with a seven year carry-forward. An amendment made by the 2003 Legislature (HB 233) was purely cleanup. The 2005 Legislature (SB 340) made the credit available for residences constructed by the taxpayer so that contractors could take the credit for installing geothermal systems on spec houses.

Geothermal heating systems also are eligible for a federal tax credit of 30% of the cost with a maximum credit of $2,000. A taxpayer who installs a geothermal heating system and claims both credits would have the first $1,500 paid by the state and 30% of the next $6,666 paid by the federal government. Homeowners are not allowed to deduct depreciation on their dwellings, and taxpayers may not take this credit and the deduction for energy conserving investments in 15-32-103, MCA. However, a taxpayer who claims the credit for installing a geothermal system in a rental dwelling could also deduct depreciation on the dwelling, including the heating system.

This credit was not tracked separately until 2005. Table 4.13 shows credit use in 2005 through 2009. Where there are fewer than 10 taxpayers in a group in a year, there is an asterisk. There is also an asterisk in the total column so as to not reveal the number of taxpayers in the individual group.

This credit is equivalent to a transfer from the state general fund to taxpayers to pay part of the cost of residential heating systems. In 2009, this credit cost the state general fund $534,153. Without the credit, this amount would have been available to spend on other state programs or to reduce taxes. The credit cost $0.86 per full year resident taxpayer.

### Alternative Energy Systems Credit

Resident individual taxpayers may take a credit for up to $500 of the cost of installing an alternative energy heating system or a low-emission wood or biomass system in their principal residence. If the credit exceeds the taxpayer's liability, the excess may not be refunded, but may be carried forward for up to 4 years.

The credit is found in Sections 15-32-201 through 203, MCA. The credit was enacted by the 1977 Legislature (SB 167) as a credit of 10% of the first $1,000 and 5% of the next $3,000 spent on an alternative energy system, with a reduction if the taxpayer received a grant or a federal credit. It was available through 1982. The 1983 Legislature extended the credit through 1986 (HB 264). The 1985 Legislature (SB 309) expanded the credit to low-emissions wood and biomass systems and extended the credit through 1993. The 1991 Legislature (HB 338) doubled the credit to 20% of the first $1,000 and 10% of the next $3,000, extended it through 1996 for low-emissions wood and biomass systems only, and revised the definition of low-emissions wood and biomass systems. Amendments in 1993, 1995, and 1997 were to correct references and update style (1993 SB 1, 1995 SB 234, 1997 SB 36).

The credit lapsed after 1996. The 2001 Legislature reinstated it for investments beginning in 2002, made it permanent, and set the credit at system cost up to $500

**Alternative Energy System Credit (Table 4.14)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2002 | 397 | $228,283 | 0 | $0 | 13 | $5,671 | 410 | $233,954 |
| 2003 | 550 | $300,489 | * | $2,290 | 15 | $10,880 | * | $313,659 |
| 2004 | 787 | $445,967 | * | $1,500 | 27 | $15,030 | * | $462,497 |
| 2005 | 1,316 | $654,698 | * | $1,000 | 43 | $20,801 | * | $676,499 |
| 2006 | 1,390 | $677,311 | * | $1,642 | 30 | $14,422 | * | $693,375 |
| 2007 | 1,105 | $712,228 | * | $2,291 | 19 | $12,052 | * | $726,571 |
| 2008 | 1,336 | $997,615 | 0 | $0 | 32 | $24,008 | 1,368 | $1,021,623 |
| 2009 | 1,705 | $1,302,796 | 0 | $0 | 22 | $19,500 | 1,727 | $1,322,296 |

(SB 506). The 2003 Legislature adopted federal standards for low-emissions wood and biomass systems. The 2009 Legislature( HB 262) limited the credit to heating systems and changed the definition of eligible wood-burning systems to include outdoor hydronic heaters that meet certain EPA qualifications and masonry heaters that comply with certain building standards.

This credit reduces the taxpayer's cost of a residential alternative energy heating system or low-emissions wood or biomass system by $500. For any system costing $500 or less, the credit makes it free to the taxpayer, though there are not likely to be many eligible systems costing less than $500. Taxpayers are not allowed to deduct depreciation on their homes, so taxpayers may not claim the credit for expenditures that they also deduct. However, a taxpayer may be able to claim state and federal credits for some expenditures. The IRS code provides a credit for 30% of the cost of residential solar electric and water heating equipment, fuel cells, and small wind systems. The maximum federal credit for fuel cells and wind systems is $500 for each 500 Watts of capacity. In addition, there is a $4,000 maximum on the credit for small wind systems.

This credit was not tracked separately before 2002. Table 4.14 shows credit use for 2002 through 2009. Asterisks indicate cells in the table with fewer than 10 taxpayers and totals for rows with a cell with fewer than 10 taxpayers.

This credit is equivalent to a grant from the state general fund to pay part of the cost of private alternative energy systems. In 2009, the credit cost the state general fund $1,322,296. Without the credit, this amount would have been available to spend on other state programs or to reduce taxes. The cost was $2.14 per full-year resident taxpayer.

**Alternative Energy Production Credit**

A taxpayer is allowed a credit against individual income tax or corporation license tax for 35% of the costs, less any federal or state grants, of depreciable property for a commercial or net metering alternative energy system. However, the credit may only be taken against taxes on net income from energy generated by the facility, from manufacturing alternative energy generating equipment, or from a new or expanded industry powered by the facility.

If the credit is more than the taxpayer's liability, the excess credit may not be refunded. Excess credits may be carried forward for 7 years. If the credit is for a commercial system of at least 5MW built on a reservation, the credit may be carried forward for 15 years.

The credit is found in Sections 15-32-401 through 407, MCA. The credit was enacted by the 1983 Legislature as a credit for commercial wind energy systems (HB 780). The 2001 Legislature expanded the credit to alternative energy systems and net-metering systems as well as commercial systems (SB 506). The 2001 Legislature also expanded the carry-forward provision to 15 years for facilities built on a reservation and meeting certain other requirements. Other amendments in 1997, 2001, 2003, and 2005 were for clean-up or related to expired federal laws.

This credit reduces the cost of an alternative energy system by 35%. The taxpayer's cost for each $1,000 of investment is thus $650. In addition, some wind energy systems placed in service between 2008 and 2016 are eligible for a 30% federal credit. If a taxpayer claims both the state and federal credits, the taxpayer's cost for each $1,000 of investment is $350. The taxpayer is allowed to deduct depreciation on property for which the credit was granted with no reduction in basis. However,

**Alternative Energy Production Credit (Table 4.15)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2002 | 28 | $13,312 | 0 | $0 | 0 | $0 | 28 | $13,312 |
| 2003 | 23 | $11,174 | * | $150 | * | $799 | * | $12,123 |
| 2004 | 21 | $16,982 | 0 | $0 | 0 | $0 | 21 | $16,982 |
| 2005 | 22 | $9,762 | * | $500 | * | $1,979 | * | $12,241 |
| 2006 | 30 | $20,858 | 0 | $0 | 0 | $0 | 30 | $20,858 |
| 2007 | 15 | $40,112 | 0 | $0 | 0 | $0 | 15 | $40,112 |
| 2008 | * | $8,315 | 0 | $0 | 0 | $0 | * | $8,315 |
| 2009 | 14 | $33,086 | 0 | $0 | 0 | $0 | 14 | $33,086 |

the taxpayer may not claim any other state energy or investment income tax credit or the property tax exemption for alternative energy systems.

This credit was not tracked separately until 2002. Table 4.15 shows credit use for 2002 through 2009. Cells in the table with fewer than 10 taxpayers have asterisks instead. There is also an asterisk in the total column so as to not reveal the number of taxpayers in the individual group.

This credit is equivalent to a transfer from the state general fund to pay part of the cost of qualifying private property. In 2009, the credit against individual income tax cost the state general fund $33,086. This is $0.05 per full-year resident taxpayer.

**Dependent Care Assistance Credit**

The Dependent Credit Assistance Credit is composed three related credits:

a) There is a credit against individual income tax or corporation license tax for a portion of the cost of providing day care services to employees' dependents. This credit is 25% of the cost of day care or day care assistance with a limit of $1,575 per employee receiving the assistance. The assistance must meet IRS requirements and does not count as part of the employees' compensation.

b) There is a credit against individual income tax or corporation tax for 25% of the cost of providing day care information and referral services to employees.

c) There is a credit against corporation tax for a portion of the cost of setting up a day care facility to be used by the taxpayer's employees' dependents. The credit is the lower of 1) 15% of the costs incurred, 2) $2,500 times the number of dependents the facility will accommodate, or 3) $50,000. The credit is to be claimed over a ten year period, with one-tenth of the credit claimed each year.

If the credit is more than the taxpayer's liability, the excess credit is not refunded. The credits for day care assistance may be carried forward up to five years. The credit for day care facility costs may be carried forward within the ten year period for claiming the credit. There is no recapture provision.

The credit is described in sections 15-31-131, 15-31-133, and 15-30-2373, MCA. The 1989 Legislature enacted the credits for providing day care and referral services (SB 282) as a 15% credit with a limit of $1,250 per employee receiving benefits. The 1991 Legislature (HB 543) increased the credit to 20% of costs. Amendments made by the 1993 Legislature as part of a major revision of the income tax (HB 671) were voided in 1994 by a referendum, and amendments in 1997 (SB 36) were just cleanup. The 2001 Legislature (HB 623) increased the day care assistance credit to 20% of costs with a limit of $1,575 per employee and added the credit for day care facilities.

This credit reduces by 20% an employer's cost of providing day care for employees' dependents as an untaxed fringe benefit. However, the taxpayer's deductions for business expense are reduced by the amount of the credit. For a taxpayer in the 6.9% tax bracket, the net effect is to reduce the employer's costs by almost 19% ((100% – 6.9%) x 20% = 18.62%). Thus, each $1,000 spent on providing day care costs the taxpayer $813.80.

Fewer than ten individuals have claimed the credit each year. The table 4.16 shows the total value of credits claimed against individual income tax from 1997 through 2009.

This credit is equivalent to a transfer from the state general fund to taxpayers to cover part of the costs of providing day care to employees' dependents. In 2009, credits against individual income tax cost the state general fund $7,769. Without the credit, this amount would have been available to spend on other state programs or to reduce taxes. The cost was $0.013 per full-year resident taxpayer.

| Dependent Care Assistance Credit (Table 4.16) | |
|---|---|
| 1997 | $1,205 |
| 1998 | $1,605 |
| 1999 | $3,697 |
| 2000 | $296 |
| 2001 | $538 |
| 2002 | $3,897 |
| 2003 | $8,484 |
| 2004 | $6,208 |
| 2005 | $8,818 |
| 2006 | $9,755 |
| 2007 | $15,130 |
| 2008 | $24,116 |
| 2009 | $7,769 |

## Historic Property Preservation Credit

Taxpayers may take a credit against either individual income tax or corporation license tax for costs of rehabilitating a historic building. The credit is 25% of the federal credit allowed by 26 USC 47(a)(2). The federal credit is 20% of the cost of rehabilitation of a building that has been certified as having historic significance and 10% of the cost of rehabilitation of a building placed in service before 1936 that has not been certified.

Individuals may take an alternative credit against income tax for 20% of the cost of creating a conservation easement and any reduction in value that results from the conservation easement plus 20% of the direct costs of protecting and preserving the property as required by the conservation easement.

There is no maximum for the rehabilitation credit. The conservation easement credit has a maximum of $25,000 per year and $150,000 per property. If the credit is more than the taxpayer's liability, the excess is not refunded but may be carried forward to other tax years. The rehabilitation credit may be carried forward for seven years. The conservation easement credit may be carried forward for six years.

The credit is found in Sections 15-30-2342 and 15-31-151, MCA. The rehabilitation credit was enacted by the 1997 Legislature (HB 601). The conservation easement credit was enacted by the 2001 Legislature (HB 619) and sunsets at the end of 2011.

With the combination of state and federal credits, a taxpayer who rehabilitates a historic property can have 25% of the costs paid by the federal and state governments. A taxpayer who rehabilitates an old but not historic property can have 12.5% of the costs paid by the state and federal governments. A taxpayer who places a conservation easement on a historic property can choose to have the state government pay 20% of the cost and compensate the owner for 20% of any reduction in value. In addition, if the building is used in a business, the taxpayer generally will be able to deduct the costs, either as business expenses in the year they are incurred or over time through depreciation.

This credit was first available for tax year 1998. Table 4.17 shows credits taken against individual income tax for 1998 through 2009. Where there are fewer than ten taxpayers in a group in a year, there is an asterisk. There is also an asterisk in the total column so as to not reveal the number of taxpayers in the individual group.

This credit effectively is a subsidy from the state general fund for rehabilitation of privately owned real estate with improvements built before 1936. The subsidy is larger if the property has been determined to have historic significance to the public. In 2009, credits against the individual income tax cost the state general fund $188,227. Without the credit, this amount would have been available to spend on other programs or to reduce taxes. The cost was $0.30 per full-year resident taxpayer.

**Historic Property Preservation Credit (Table 4.17)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 1998 | 11 | $15,275 | 0 | $0 | * | $331 | * | $15,606 |
| 1999 | * | $7,788 | 0 | $0 | 0 | $0 | * | $7,788 |
| 2000 | 12 | $28,759 | * | $265 | * | $1,599 | * | $30,623 |
| 2001 | 15 | $71,980 | 0 | $0 | 0 | $0 | 15 | $71,980 |
| 2002 | 16 | $74,777 | * | $9,916 | 0 | $0 | * | $84,693 |
| 2003 | * | $17,811 | * | $2,846 | 0 | $0 | * | $20,657 |
| 2004 | 25 | $97,748 | 0 | $0 | 0 | $0 | 25 | $97,748 |
| 2005 | 16 | $51,108 | * | $6,250 | 0 | $0 | * | $57,358 |
| 2006 | 11 | $200,670 | * | $3,701 | 0 | $0 | * | $204,371 |
| 2007 | 15 | $222,787 | * | $16,601 | 0 | $0 | * | $239,388 |
| 2008 | 17 | $60,116 | * | $15,471 | 0 | $0 | * | $75,587 |
| 2009 | 19 | $134,543 | * | $53,684 | 0 | $0 | * | $188,227 |

## Montana Capital Company Credit

There was a credit against individual income tax or corporation tax for investments in a certified Montana capital company or qualified small business investment company. The credit was last available for investments made before July 1, 1995, but the credit could be carried forward for up to 15 years. The last year when credits could potentially be carried forward is 2010, but the last carry-forward was used in 2007.

This credit was not tracked separately before 2005. Fewer than ten individuals claimed the credit in each of tax years 2005 through 2007. Table 4.18 shows the total value of credits against individual income tax for 2005 through 2009.

In 2007, individual income tax credits cost the state general fund $1,847. Without the credit, this amount would have been available to spend on other programs or to reduce taxes. The cost was $0.003 ($1,847/617,394) per full-year resident taxpayer.

## Infrastructure Users Fee Credit

The Board of Investments may make loans to local governments to finance infrastructure to serve a new or relocated business that will result in 15 or more new full-time jobs. The local government may charge fees to the users for extending the infrastructure. The business may claim a credit against income or corporation tax for the amount of the fee it pays.

If the credit is more than the taxpayer's liability, the excess is not refunded, but may be carried forward for 7 years or carried back to the 3 previous tax years.

The credit is found in Section 17-6-316, MCA. It was enacted through two bills passed by the 1995 legislature, SB 100 and HB 602, and has not been amended.

This credit in effect pays the taxpayer for having local infrastructure extended to serve its business. For example, if a business pays $10,000 per year to its local government to cover the cost of having sewer service extended to the business, it is able to claim a credit of $10,000 and deduct $10,000 as a business expense. For a taxpayer in the 6.9% tax bracket, the net effect would be the same as being paid $690 per year to have a new sewer hookup.

This credit was not tracked separately for individuals before 2005. Table 4.19 shows credits against individual income tax for 2005 through 2009. Where there are fewer than 10 taxpayers in a group in a year, there is an asterisk. There is also an asterisk in the total column so as to not reveal the number of taxpayers in the individual group.

In general, local governments recover the cost of infrastructure investments through user fees for the services the infrastructure provides, as with water and sewer services, or through taxes, as with roads. In some cases, local governments charge impact fees to cover the cost of extending infrastructure to new developments. Through this credit, the state general fund pays the cost of extending infrastructure to selected new businesses. This credit provides a subsidy for businesses that locate in a jurisdiction that needs to invest in additional infrastructure to provide services to the business rather than in a jurisdiction that has existing capacity.

**Montana Capital Company Credit (Table 4.18)**

| | |
|---|---|
| 2005 | $384 |
| 2006 | $25 |
| 2007 | $1,847 |
| 2008 | n/a |
| 2009 | n/a |

**Infrastructure User Fee Credit (Table 4.19)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 11 | $851,766 | 0 | $0 | 0 | $0 | 11 | $851,766 |
| 2006 | * | $778,095 | 0 | $0 | 0 | $0 | * | $778,095 |
| 2007 | 14 | $24,311 | 0 | $0 | 0 | $0 | 14 | $24,311 |
| 2008 | 16 | $30,372 | * | $1,034 | 0 | $0 | * | $31,406 |
| 2009 | 12 | $27,699 | 0 | $0 | 0 | $0 | 12 | $27,699 |

In 2009, infrastructure user fee credits against individual income tax cost the state general fund $27,699. Without the credit, this amount would have been available to spend on other state programs or to reduce taxes. The cost was $0.05 per full year resident taxpayer.

### Empowerment Zone Credit

A local government may establish an empowerment zone in an area with chronic high unemployment. Employers in an empowerment zone are eligible for a credit against income or corporation license tax for the first three years' employment for new positions. The credit per new employee is $500 for the first year, $1,000 for the second year, and $1,500 for the third year. To receive the credit, the taxpayer must apply for and receive certification from the Department of Labor and Industry.

If the credit is more than the taxpayer's liability, the excess is not refunded but may be carried back to the three previous tax years or carried forward for seven years.

The credit is found in Sections 15-30-2356 and 15-31-134, MCA. Requirements for an empowerment zone are found in Sections 7-21-3701 through 3704, MCA, and conditions to become certified to receive the credit are in Section 7-21-3710, MCA. The empowerment zone credit was enacted by the 2003 Legislature (SB 484).

| Empowerment Zone Credit (Table 4.20) | |
|---|---|
| 2003 | $0 |
| 2004 | $365 |
| 2005 | $969 |
| 2006 | $17,201 |
| 2007 | $500 |
| 2008 | $0 |
| 2009 | $0 |

There are several federal credits for employment in specified zones or under specified conditions. The federal work opportunity tax credits, which were extended in 2007, provide a credit for a fraction of wages paid to employees in a designated zone, with the fraction depending on the type of zone.

This credit is equivalent to providing an employer a payment for creating a new position and filling it with a resident of an empowerment zone for the first three years. The payment does not depend on the wages paid. Employers may deduct wages paid to new employees for which the credit is taken as a business expense.

Fewer than ten individuals have claimed the credit each year. Table 4.20 shows the total value of empowerment zone credits against individual income tax for 2003 through 2009.

With this credit, the state general fund, in effect, pays employers to create new positions in an empowerment zone. No credits were claimed for 2009.

### Research Credit

Through 2009, Section 41 of the IRS code provides a credit equal to 20% of any increase in research expenditures over the taxpayer's baseline. Montana provides a 5% credit against individual income tax or corporation license tax for the same increases in expenditures in the state.

If a taxpayer's credit is more than his or her tax liability, the excess credit is not refunded but may be carried back to the two previous tax years or carried forward for up to 15 years.

**Research Activities Credit (Table 4.21)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 11 | $83,221 | * | $259,981 | * | $6 | * | $343,208 |
| 2006 | 30 | $137,333 | * | $300,380 | 0 | $0 | * | $437,713 |
| 2007 | 18 | $119,743 | * | $336,881 | 0 | $0 | * | $456,624 |
| 2008 | 10 | $391,790 | * | $2,520 | 0 | $0 | * | $394,310 |
| 2009 | 15 | $345,813 | * | $2,113 | * | $8 | * | $347,934 |

The credit is found in Section 15-31-150, MCA. It was enacted by the 1999 Legislature (HB 638), and has not been amended except to update references to federal law.

The credit reduces the taxpayer's cost of eligible research expenditures by 5%. In addition, a taxpayer may be able to deduct research costs as a business expense.

Table 4.21 shows credits against individual income tax for 2005 through 2009. Where there are fewer than ten taxpayers in a group in a year, there is an asterisk. There is also an asterisk in the total column so as to not reveal the number of taxpayers in the individual group.

The credit is essentially a transfer from the state general fund to pay 5% of a taxpayer's eligible research costs. In 2009, research activity credits against individual income tax cost the state general fund $347,934. Without the credit, this amount would have been available to spend on other state programs or reduce taxes. The cost was $0.56 per full-year resident taxpayer.

### Mineral Exploration Credit

Taxpayers are allowed a credit against income or corporation license tax for the full amount of solid mineral or coal exploration activity in the state (oil and gas exploration expenditures are not eligible). The credit is available only for expenses incurred up to the time that construction of a new mine or reopening of a previously closed mine commences.

The maximum credit is $20 million per mine. The credit taken in any year may not be more than 50% of the taxpayer's tax liability, but unused credits may be carried forward for 15 years.

The credit is found in Sections 5-32-501 through 510 MCA. It was enacted by the 1999 Legislature (SB 265) and has not been amended.

This credit repays up to $20 million of exploration costs incurred in opening a new mine. Depending on the type of mineral and the accounting treatment chosen, exploration expenditures may be deductible in the year they occur or may be treated as capital costs and deducted over several years.

The mineral exploration credit was not tracked separately before 2005. Fewer than ten individuals claimed the credit in each of tax years 2005 through 2009.

Table 4.22 shows the total value of mineral exploration credits against individual income tax for 2005 through 2009.

With this credit, the state general fund will pay up to $20 million of private exploration costs for a new mine. In 2009, mineral exploration credits claimed against individual income tax cost the state general fund $7,749. This is $0.013 per full-year resident taxpayer.

### Film Employment Credit

Taxpayers are allowed a credit against income or corporation license tax for 14% of the first $50,000 of com-

| Mineral Exploration Credit (Table 4.22) | |
|---|---|
| 2005 | $6,718 |
| 2006 | $8,920 |
| 2007 | $9,507 |
| 2008 | $44,530 |
| 2009 | $7,749 |

**Film Production Employment Credit (Table 4.23)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 0 | $0 | 0 | $0 | 0 | $0 | 0 | $0 |
| 2006 | 0 | $0 | 0 | $0 | 0 | $0 | 0 | $0 |
| 2007 | * | $2,290 | 0 | $0 | 0 | $0 | * | $2,290 |
| 2008 | 0 | $0 | 0 | $0 | 0 | $0 | 0 | $0 |
| 2009 | 0 | $0 | 0 | $0 | 0 | $0 | 0 | $0 |

pensation paid to each Montana resident employed on a state-certified film production. Employee compensation for which the credit is claimed may not be deducted from gross revenue in calculating taxable income.

If the credit is more than the taxpayer's liability, the taxpayer must make an irreversible election to either have the credit refunded or to carry it forward for up to four years.

If the Department of Commerce determines that the production has not met the conditions of certification, the taxpayer must repay any credits already received.

The credit is in Sections 15-31-901 through 911, MCA. It was enacted by the 2005 Legislature (HB 584), with a limit of $1 million in credits per production and a sunset date of January 1, 2010. The 2007 Legislature removed the $1 million limit (HB 40). The 2009 Legislature extended the sunset date to January 1, 2015 (HB 163).

A taxpayer who takes this credit reduces taxes by 14% of compensation paid to a Montana resident but gives up the deduction for the expense, which increases taxes by 6.9% of the compensation (assuming the taxpayer is in the top rate bracket) for a net reduction of 7.1%. This gives a 7.1% cost advantage to hiring Montana residents, other than actors and others who would be paid more than $50,000 to work on a film, compared to non-residents.

This credit was first available in 2005. Tables 4.23 and 4.24 show credits claimed against individual income tax for 2005 through 2009. The first shows credits claimed by taxpayers who either had tax liability greater than their credits or chose the carry-over option for any excess credits. The second table shows credits claimed by taxpayers who chose to have excess credits refunded. Where there are fewer than ten taxpayers in a group in a year, there is an asterisk. There is also an asterisk in the total column so as not to reveal the number of taxpayers in the individual group.

In effect, this credit has the state general fund pay 7.1% of the compensation of Montana residents employed in a certified film production. No credits were claimed for 2009.

### Film Expenditure Credit

A taxpayer can claim a credit against individual income tax or corporation license tax for 9% of purchases in Montana for the making of a film that has met the criteria to be certified by the Department of Commerce. A taxpayer may not deduct any expenses for which a credit was claimed.

If a taxpayer claims a credit that is more than his or her tax liability, the excess credit will be refunded. If the De-

**Refundable Film Production Employment Credit (Table 4.24)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 0 | $0 | * | $115 | * | $13 | * | $128 |
| 2006 | 0 | $0 | 0 | $0 | 0 | $0 | 0 | $0 |
| 2007 | 24 | $14,516 | * | $2,046 | 0 | $0 | * | $16,562 |
| 2008 | 0 | $0 | * | $3,470 | 0 | $0 | * | $3,470 |
| 2009 | 0 | $0 | 0 | $0 | 0 | $0 | 0 | $0 |

**Film Expenditures Credit (Table 4.25)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2005 | 0 | $0 | * | $669 | * | $793 | * | $1,462 |
| 2006 | * | $2,337 | 0 | $0 | 0 | $0 | * | $2,337 |
| 2007 | * | $26,486 | 0 | $0 | 0 | $0 | * | $26,486 |
| 2008 | * | $29,230 | * | $8,397 | 0 | $0 | * | $37,627 |
| 2009 | * | $19,047 | * | $6,188 | 0 | $0 | * | $25,235 |

partment of Commerce determines that the production has not met the conditions of certification, the taxpayer must repay any credits already received.

The credit is found in Sections 15-31-901 through 911, MCA. It was enacted by the 2005 Legislature (HB 584), with a limit of $1 million in credits per production. The 2007 Legislature removed this limit (HB 40).

A taxpayer who claims the credit has taxes reduced by 9% of Montana purchases for a film, but must give up the deduction for those expenses. For a taxpayer in the top tax bracket, this increases taxes by 6.9% of the amount of purchases. The net result is that the taxpayer's cost of Montana purchases for a film made in Montana are reduced by 2.1%.

Fewer than ten individuals have claimed the credit each year. Table 4.25 shows the total value of credits claimed against individual income tax for 2005 through 2009.

In effect, this credit has the state general fund pay 2.1% of the cost of all Montana purchases for a certified film production. In 2009, film expenditure credits against the income tax cost the state general fund $25,235. Without the credit, this amount would have been available to spend on other state programs or for tax reductions. The cost was $0.04 per full-year resident taxpayer.

**Insure Montana Small Business Health Insurance Credit**

A small employer that provides group health insurance for its employees through a state pool may claim a credit of a) up to 50% of total premiums the employer pays for the plan or b) up to $100 per month per covered employee ($125 if the average age is at least 45), up to $100 per month per covered spouse, and up to $40 per other covered dependent. An employer that has not offered group health insurance in the last two years may take premium assistance payments instead.

The maximum credit depends on the number of employees an employer may have and be eligible. This is to be set by rule by the State Auditor's Office. The current maximum is nine employees. A taxpayer with credits that are greater than his or her tax liability may have the excess credits refunded. A taxpayer may not deduct insurance premiums as a business expense if the credit has been taken.

The credit is found in sections 33-22-2006, 15-30-185, and 15-31-130, MCA. It was enacted by the 2005 Legislature (HB 667).

The credit reduces the cost of providing group health insurance by 50% or $100 per month for a covered employee or spouse, and 50% or $40 per month for another covered dependent. However, the employer gives up the business expense deduction for premiums. For an employer in the top income bracket, the net effect is to reduce the cost of providing insurance by 50% - 6.9% = 43.1%.

The credit was first available in 2006. Table 4.26 shows credits claimed against individual income tax in 2006 through 2009. An asterisk in a cell in the table indicates there were fewer than ten taxpayers claiming the credit. There is also an asterisk in the total column so as not to reveal the number of taxpayers in the individual group.

**Insure Montana Small Business Health Insurance Credit (Table 4.26)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2006 | 591 | $1,832,523 | 12 | $19,206 | * | $3,900 | * | $1,855,629 |
| 2007 | 617 | $2,189,770 | 11 | $8,352 | 0 | $0 | 628 | $2,198,122 |
| 2008 | 663 | $2,380,374 | 20 | $23,217 | * | $2,344 | * | $2,405,935 |
| 2009 | 746 | $2,513,344 | 22 | $27,623 | * | $67 | * | $2,541,034 |

The credit is paid to taxpayers from the general fund, but the general fund is repaid out of cigarette and tobacco tax revenue. Rates for these taxes were set to discourage consumption and fund programs to offset the health costs due to tobacco use. This credit reduces funds available for other programs.

In 2009, taxpayers claimed credits of $2,541,034 or $4.11 per full-year resident taxpayer. The credit was funded from cigarette and tobacco tax revenue, so the cost of the credit is paid only by purchasers of cigarettes and other tobacco products.

### Adoption Credit

The IRS code allows an income tax credit for costs of adopting a child. A taxpayer who meets the requirements for the federal credit may also claim a credit of $1,000 against Montana income tax. If the credit is more than the taxpayer's liability, the excess is not refunded, but excess credits may be carried forward for up to five years.

The credit was created by the 2007 Legislature (HB 490) and is found in Section 15-30-2503, MCA.

For 2010, the federal adoption credit is $12,170. A taxpayer who takes both the state and federal credits will be reimbursed for up to $13,170 of the costs of adopting a child.

This credit was first available in 2007. Table 4.27 shows credits claimed for 2007 through 2009. An asterisk in a cell in the table indicates there were fewer than ten taxpayers claiming the credit. There is also an asterisk in the total column so as to not reveal the number of taxpayers in the individual group.

In 2009, taxpayers claimed credits of $186,056. Without the credit, this amount would have been available to spend on other state programs or reduce taxes. The cost was $0.30 per full-year resident taxpayer.

**Adoption Credit (Table 4.27)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2007 | 192 | $204,476 | 11 | $11,000 | * | $7,000 | * | $222,476 |
| 2008 | 155 | $186,069 | 12 | $12,000 | * | $7,000 | * | $205,069 |
| 2009 | 150 | $165,300 | 11 | $10,036 | * | $10,720 | * | $186,056 |

**Elderly Homeowner/Renter Credit (Table 4.28)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 1997 | 11,849 | $5,247,856 | 0 | $0 | 0 | $0 | 11,849 | $5,247,856 |
| 1998 | 11,849 | $5,408,152 | 0 | $0 | 0 | $0 | 11,849 | $5,408,152 |
| 1999 | 12,316 | $5,188,461 | 0 | $0 | 0 | $0 | 12,316 | $5,188,461 |
| 2000 | 11,914 | $5,056,701 | 0 | $0 | 0 | $0 | 11,914 | $5,056,701 |
| 2001 | 12,858 | $5,831,326 | 0 | $0 | 0 | $0 | 12,858 | $5,831,326 |
| 2002 | 14,211 | $6,883,615 | 0 | $0 | 0 | $0 | 14,211 | $6,883,615 |
| 2003 | 15,448 | $7,719,936 | 0 | $0 | 0 | $0 | 15,448 | $7,719,936 |
| 2004 | 16,140 | $8,076,357 | 0 | $0 | 0 | $0 | 16,140 | $8,076,357 |
| 2005 | 15,704 | $7,856,705 | 0 | $0 | 39 | $20,498 | 15,743 | $7,877,203 |
| 2006 | 15,546 | $7,482,107 | 0 | $0 | 24 | $6,898 | 15,570 | $7,489,005 |
| 2007 | 16,078 | $7,591,930 | 0 | $0 | 30 | $14,580 | 16,108 | $7,606,510 |
| 2008 | 16,702 | $8,254,717 | 0 | $0 | 30 | $14,580 | 16,732 | $8,269,297 |
| 2009 | 16,986 | $8,466,217 | 0 | $0 | 30 | $14,580 | 17,016 | $8,480,797 |

### Elderly Homeowner/Renter Credit

Taxpayers who are 65 or older and have a household income of less than $45,000 may be eligible for the elderly homeowner/renter credit. The credit refunds part or all of the property tax a homeowner pays directly or a renter pays indirectly that is more than a certain percentage of household income. For a household with income between $12,000 and $45,000, this percentage is 5%. For households with lower incomes, the percentage is lower. The credit is limited to a maximum of $1,000 per household. The credit phases out for households with income between $35,000 and $45,000.

Taxpayers who receive the elderly homeowner/renter credit pay their property taxes and then have part refunded. Local governments, school districts, the university system, and the state general fund all receive full payments of property taxes on these taxpayer's residences. Then, taxpayers are refunded part of the tax they paid via this credit which reduces revenue going to the state general fund.

This credit provides a subsidy for older taxpayers who own their home and whose income is no longer proportional to the value of their home, so that they can stay in their homes. For older taxpayers who rent, it subsidizes the rent they pay.

Table 4.28 shows the credits claimed for 1997 through 2009. For 2009, the elderly homeowner/renter credit cost the state general fund $8,478,996, or $13.70 per full year resident taxpayer.

### Credit for Other States' Taxes

Taxpayers who earn income in more than one state generally will owe tax in each of the states where they earn income that has an income tax. A Montana resident computes Montana income tax on their entire income and then is allowed a credit for income tax paid to other states. A part-year resident computes Montana income tax on their entire income and then multiplies that by the percentage of income earned in Montana to give Montana tax liability. The taxpayer then is allowed a credit for income tax paid to other states on the portion of income earned in Montana.

If the credit is more than the taxpayer's liability, the excess credit is not refunded and may not be carried forward or backward to another tax year.

This credit prevents two states from taxing the same income. Not having a credit for income tax paid to other states would create a disincentive for individuals to work or have business interest in more than one state. Table 4.29 shows the credits claimed for 1997 through 2009. Where there are fewer than 10 taxpayers in a group in a year, there is an asterisk. There is also an asterisk in the total column so as to not reveal the number of taxpayers in the individual group.

For 2009, the credit for other states' taxes cost the state general fund $17,195,602, or $27.78 per full year resident taxpayer.

**Other State's Tax Credit (Table 4.29)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 1997 | 7,837 | $8,360,377 | * | $40,086 | 149 | $320,705 | * | $8,721,168 |
| 1998 | 8,108 | $14,821,950 | * | $11,703 | 155 | $268,653 | * | $15,102,306 |
| 1999 | 9,149 | $10,159,095 | 10 | $5,640 | 168 | $760,356 | 9,327 | $10,925,091 |
| 2000 | 10,114 | $12,196,826 | * | $20,890 | 195 | $163,393 | * | $12,381,109 |
| 2001 | 9,670 | $13,501,613 | 11 | $1,010 | 237 | $165,221 | 9,918 | $13,667,844 |
| 2002 | 9,182 | $14,013,510 | * | $6,829 | 253 | $247,496 | * | $14,267,835 |
| 2003 | 9,225 | $14,479,498 | 20 | $28,557 | 264 | $317,682 | 9,509 | $14,825,737 |
| 2004 | 10,038 | $17,407,297 | * | $6,716 | 219 | $203,653 | * | $17,617,666 |
| 2005 | 10,157 | $19,234,044 | 26 | $26,565 | 347 | $1,116,390 | 10,530 | $20,376,999 |
| 2006 | 9,727 | $23,043,200 | 0 | $0 | 463 | $886,060 | 10,190 | $23,929,260 |
| 2007 | 9,756 | $20,278,753 | 0 | $0 | 630 | $720,083 | 10,386 | $20,998,836 |
| 2008 | 10,007 | $20,931,634 | 0 | $0 | 360 | $284,519 | 10,367 | $21,216,153 |
| 2009 | 9,139 | $16,975,208 | 0 | $0 | 350 | $220,394 | 9,489 | $17,195,602 |

### Emergency Lodging Credit

The Department of Public Health and Human Services has a program to provide temporary emergency lodging to individuals or families referred by non-profit organizations working with domestic violence victims. Lodging establishments may receive a tax credit of $30 per day for providing up to five days of free lodging to someone who has been referred to them through this program.

The credit may be taken against either income tax or corporation tax. This program was created by the 2007 Legislature, and has been in place since 2008. Table 4.30 shows income tax credits claimed in 2008 and 2009.

Fewer than ten taxpayers claimed the credit for 2008, and none did for 2009.

**Emergency Lodging Credit (Table 4.30)**

| | Residents | | Non-Residents | | Part-Year Residents | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | $ | N | $ | N | $ | N | $ |
| 2008 | * | $396 | 0 | $0 | * | $320 | * | $716 |
| 2009 | 0 | $0 | 0 | $0 | 0 | $0 | 0 | $0 |

### Tax Expenditures by Income

Table 5.1 on the following page shows the distribution of income tax expenditures between income groups and between residents and non-residents. The left half of the table shows the number of residents in thirteen income groups, and the number of non-residents and part-year residents. It also shows total income, the percent of total income, total tax, and the percent of total tax for each group. The right half of the table shows total tax expenditures and the percent of the total going to each group, for four categories of tax expenditures and for the total.

### Tax Expenditures by Function

Tax expenditures provide subsidies to taxpayers based either on what they do or who they are. Tax expenditures can be classified based on the function or purpose of these subsidies. Table 5.2 shows the four categories of tax expenditures classified into thirteen functional categories.

Each tax expenditure has been placed in one category, even though many have multiple effects. For example, the itemized deduction for property taxes is counted as a subsidy to local property taxes, but it also subsidizes home ownership. Exemptions of certain types of income that are required by federal law generally have a purpose, but are put in a separate category because they are not discretionary for the state.

Federal adjustments to income primarily subsidize individual savings and individual spending on health care and education. Other significant functions of federal adjustments are subsidizing businesses through the domestic production activities deduction and offsetting federal self-employment taxes.

State adjustments to income that are not required by the federal government primarily go to increase selected individual's disposable income by exempting certain types of income from taxation. About $4 million of tax expenditures result from amounts on the Other State Reductions to Income line, which cannot be classified.

The largest itemized deduction tax expenditures are from the deductions for federal income taxes and property taxes and the home mortgage interest deduction. Other significant itemized deduction tax expenditures subsidize contributions to charities and health care spending.

The largest income tax credits are the credit for income taxes paid to other states and the capital gains credit. The capital gains credit is in the Other or Multiple Purpose category because capital gains can arise from a variety of business and non-business sources. Other large tax expenditures from credits are for the elderly homeowner/renter credit, which subsidizes property tax payments and the credits for alternative energy and energy conservation.

**Income Tax Expenditures by Household Income ($ million) (Table 5.1)**

| Residents | Returns | Taxpayers | Total Household Income* ($ million) | | Tax ($ million) | | Federal Adjustment to Income | | State Adjustments to Income | | Itemized Deductions | | Credits | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Income range | | | $ million | % of Total | $ million | % of Total | $ million | % of Total | $ million | % of Total | $ million | % of Total | $ million | % of Total | $ million | % of Total |
| Less than $0 | 6,574 | 9,503 | -$300.4 | -1.3% | $0.0 | 0.0% | $0.0 | 0.0% | $0.0 | 0.0% | $0.0 | 0.0% | $0.2 | 0.3% | $0.2 | 0.1% |
| $0 to $5,339 | 43,187 | 46,584 | $120.7 | 0.5% | $0.1 | 0.0% | $0.0 | 0.0% | $0.0 | 0.0% | $0.0 | 0.0% | $0.1 | 0.1% | $0.1 | 0.0% |
| $5,340 to $10,566 | 43,188 | 47,974 | $341.5 | 1.5% | $1.3 | 0.2% | $0.1 | 0.4% | $0.2 | 0.5% | $0.0 | 0.0% | $0.4 | 0.4% | $0.7 | 0.2% |
| $10,567 to $16,301 | 43,187 | 50,822 | $578.8 | 2.5% | $4.4 | 0.5% | $0.2 | 0.8% | $0.7 | 1.9% | $0.3 | 0.2% | $1.7 | 2.0% | $2.9 | 0.8% |
| $16,302 to $22,508 | 43,188 | 53,092 | $835.2 | 3.6% | $10.7 | 1.3% | $0.3 | 1.3% | $1.6 | 4.4% | $1.2 | 0.6% | $3.3 | 3.9% | $6.5 | 1.9% |
| $22,509 to $30,144 | 43,188 | 55,443 | $1,130.7 | 4.9% | $21.1 | 2.6% | $0.7 | 2.7% | $2.8 | 7.9% | $3.9 | 2.0% | $3.6 | 4.2% | $11.2 | 3.2% |
| $30,145 to $40,124 | 43,187 | 59,974 | $1,507.7 | 6.6% | $35.7 | 4.4% | $1.1 | 4.7% | $3.2 | 9.0% | $10.3 | 5.2% | $4.1 | 4.8% | $18.9 | 5.5% |
| $40,125 to $53,251 | 43,188 | 65,772 | $2,003.6 | 8.7% | $54.3 | 6.7% | $1.8 | 7.2% | $4.0 | 11.1% | $19.3 | 9.8% | $3.7 | 4.3% | $29.0 | 8.4% |
| $53,252 to $70,331 | 43,187 | 73,517 | $2,648.8 | 11.6% | $80.4 | 9.9% | $2.5 | 10.1% | $5.0 | 14.0% | $30.5 | 15.4% | $3.4 | 3.9% | $41.7 | 12.0% |
| $70,332 to $97,424 | 43,188 | 79,691 | $3,555.5 | 15.5% | $122.4 | 15.0% | $3.3 | 13.7% | $5.8 | 16.3% | $44.3 | 22.4% | $5.3 | 6.2% | $59.3 | 17.1% |
| $97,425 to $114,671 | 14,396 | 27,246 | $1,515.5 | 6.6% | $57.8 | 7.1% | $1.8 | 7.5% | $2.0 | 5.7% | $18.7 | 9.4% | $2.8 | 3.2% | $25.5 | 7.4% |
| $114,672 to $155,966 | 14,396 | 27,246 | $1,887.8 | 8.2% | $78.2 | 9.6% | $2.6 | 10.9% | $2.3 | 6.5% | $21.9 | 11.1% | $4.6 | 5.4% | $31.7 | 9.2% |
| $155,967 and over | 14,396 | 26,872 | $5,437.1 | 23.7% | $275.2 | 33.8% | $7.7 | 31.4% | $5.1 | 14.4% | $39.0 | 19.7% | $42.7 | 49.7% | $95.1 | 27.4% |
| Resident Total | 438,450 | 623,736 | $21,262.7 | 92.8% | $741.6 | 91.1% | $22.1 | 90.8% | $32.6 | 91.6% | $189.5 | 95.8% | $76.0 | 88.5% | $322.9 | 93.2% |
| Non-Residents | 36,362 | 55,717 | $1,205.5 | 5.3% | $56.7 | 7.0% | $2.0 | 8.2% | $2.4 | 6.7% | $5.0 | 2.5% | $9.0 | 10.5% | $18.6 | 5.4% |
| Part Year Residents | 20,513 | 27,813 | $437.1 | 1.9% | $15.3 | 1.9% | $0.3 | 1.1% | $0.6 | 1.7% | $3.2 | 1.6% | $0.9 | 1.1% | $5.1 | 1.5% |
| Total | 495,325 | 707,266 | $22,905.3 | 100.0% | $813.7 | 100.0% | $24.4 | 100.0% | $35.5 | 100.0% | $197.8 | 100.0% | $85.9 | 100.0% | $346.5 | 100.0% |

*Montana Source Income for Non-Residents and Part-Year Residents

**Income Tax Expenditures by Function or Purpose ($ million) (Table 5.2)**

| | Federal Adjustment to Income | State Adjustments to Income | Itemized Deductions | Credits | Total |
|---|---|---|---|---|---|
| Required by Federal Law | $0.0 | $10.4 | $0.0 | $0.0 | $10.4 |
| Subsidize Tax to Another Level of Government | $3.8 | $0.0 | $80.5 | $21.2 | $105.5 |
| Subsidize Health Care and Other Human Services | $6.9 | $1.0 | $13.2 | $3.3 | $24.4 |
| Subsidize Retirement Saving | $6.9 | $0.0 | $0.0 | $0.0 | $6.9 |
| Subsidize Education | $3.4 | $0.5 | $0.0 | $0.0 | $3.8 |
| Subsidize Energy Conservation, Alternative Energy, Recycling | $0.0 | $0.0 | $0.0 | $9.8 | $9.8 |
| Subsidize Business Investment | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 |
| Subsidize Home Ownership | $0.0 | $0.0 | $69.9 | $0.0 | $70.0 |
| Subsidize Charitible Giving | $0.0 | $0.0 | $32.9 | $2.2 | $35.1 |
| Subsidize Agriculture | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 |
| Subsidize Specific Types of Business | $3.4 | $0.1 | $0.0 | $2.5 | $6.0 |
| Income Support | $0.0 | $19.4 | $0.0 | $11.6 | $31.0 |
| Other or Multiple Purpose | $0.0 | $4.1 | $1.1 | $35.3 | $40.5 |
| Total | $24.4 | $35.5 | $197.8 | $85.9 | $343.5 |

Following is a list of expenditures that reduce tax liability for corporate license taxpayers. Many of these expenditures can also be claimed by small businesses, S. corporations, or limited liability companies whose income is "passed through" to the owner, member, or partner and is taxed as individual income.

## Montana Deductions and Exclusions of Income

**Energy-Conserving Investments Deduction** (15-32-103, MCA)

A corporate taxpayer may deduct a portion of expenditures on capital investment in a building for an energy conservation purpose from gross corporate income. If the building is a residential building, the taxpayer may deduct 100% of the first $1,000 expended, 50% of the next $1,000 expended, 20% of the third $1,000 expended, and 10% of the fourth $1,000 expended. For example, if a corporate taxpayer invested $4,000 in approved energy conservation measures in a residential apartment building owned by the taxpayer, it would be able to deduct $1,800 of the expenses (100% of $1,000 plus 50% of $1,000 plus 20% of $1,000 plus 10% of $1,000 **or** $1,000+$500+$200+$100).

For non-residential buildings, the taxpayer may deduct 100% of the first $2,000 spent on energy conservation capital investments, 50% of the second $2,000 spent, 20% of the third $2,000 spent, and 10% of the fourth $2,000 spent. If a corporate taxpayer invested $4,000 in approved energy conservation measures in an non-residential building owned by the taxpayer, it could deduct $3,000 of the expenses (100% of $2,000 plus 50% of $2,000 **or** $2,000+$1,000). If the taxpayer invested $8,000 in approved energy conservation measures in the same building, it could deduct $3,600 of the expenses (100% of $2,000 plus 50% of $2,000 plus 20% of $2,000 plus 10% of $2,000 **or** $2,000 + $1,000 + $400 + $200).

This deduction is subject to approval of the Department of Revenue and cannot be taken on expenditures financed by a state, federal, or private grant. The purpose of this deduction is to encourage energy-conserving investments in existing buildings.

**Deduction for Purchasing Montana-Produced Organic Fertilizer and Inorganic Fertilizer Produced as a Byproduct** (15-32-303, MCA)

In addition to all the other allowed deductions from gross corporate income, a taxpayer may deduct expenditures for organic fertilizer and inorganic fertilizer produced as a byproduct, if the fertilizer was made or used in Montana. The purpose of this deduction is to promote the use of inorganic byproducts and organic matter produced by Montana industries.

**Deduction for Donation of Exploration Information** (15-32-510, MCA)

A taxpayer may deduct expenses from the donation of mineral exploration information to the Montana Tech Foundation to reside in the Montana Tech research library. Montana Tech has the right to limit what information is accepted and what deductions are granted. The documented expenses must be based on the cost of recreating the donated information. If the exploration incentive credit is also claimed by the taxpayer, then this deduction is limited to 20% of the actual value of the data. The deduction is intended to encourage the sharing of mineral exploration information.

**Recycled Material Qualifying for Deduction** (15-32-609 and 610, MCA)

A taxpayer may deduct an additional 10% of expenditures for the purchase of recycled material that was otherwise deductible as a business-related expense. The Department of Revenue defines the types of recycled material that may be used to claim this deduction. The purpose of this deduction is to encourage the use of goods made from reclaimed materials, especially post-consumer materials. The deduction was set to expire at the end of calendar year 2011, but HB 21 passed by the 2009 Legislature makes the additional 10% deduction permanent. This deduction is the only one for which data is accessible. In the most recent database of corporate taxpayer returns, the total deductions claimed were $13,625,921. At the general tax rate of 6.75%, this is a reduction of taxes of $919,750.

**Capital Gain Exclusion for Mobile Home Park** (15-31-163, MCA)

A taxpayer may exclude a portion of the recognized gain from sale of a mobile home park from taxable corporate income or taxable individual income if the sale is to a tenants' association or a mobile home park residents' association; a nonprofit organization that purchases a mobile home park on behalf of a tenants' association or mobile home park residents' association; a county housing authority; or a municipal housing authority. The exclusion of recognized capital gain is limited to 50% for mobile home parks with more than 50 lots; for mobile home parks with 50 lots or fewer the excluded gain is 100%.

Usually properties owned by municipal and county housing authorities are eligible for a property tax exemption; however if the corporate tax exclusion is used for a mobile home park property, it is not eligible for the property tax exemption allowed under Title 15, Chapter 6, Part 2 while the property is used as a mobile home park. This exclusion was passed by the 2009 Legislature (HB 636) and applies to tax years beginning after December 31, 2008.

Many of the following credits are available to individual income taxpayers as well as corporate license taxpayers. More thorough explanations and history of many of the credits are available in the individual income tax section on tax expenditures.

There are differences between the tax periods for the two different income taxes – individual and corporate. The tax year for individual income tax returns is the calendar year and data from the tax returns is presented on that basis. The corporate license tax year and filing requirements are based upon the corporation's fiscal year, which can vary from the calendar year. The numbers of corporate tax credits claimed and the amount of the credits in this section are on a state fiscal year basis.

**College Contribution Credit** (15-30-2326, MCA)

Individual and corporate taxpayers are allowed a credit equal to 10% of donations to the general endowment funds of units of the Montana university system, Montana private colleges, or Montana private college foundations. The maximum credit allowed per year is $500. The credit claimed may not exceed the taxpayer liability. The credit must be applied in the tax year in which the donation was made and no carry forward or carry back is allowed.

**College Contribution Credit (Table 6.1)**

| Fiscal Year | Number of Credits Claimed | Total Credits Claimed |
|---|---|---|
| 1997 | 43 | $7,244 |
| 1998 | 35 | $6,868 |
| 1999 | 36 | $6,676 |
| 2000 | 34 | $8,933 |
| 2001 | 36 | $8,221 |
| 2002 | 28 | $6,737 |
| 2003 | 23 | $5,413 |
| 2004 | 24 | $6,480 |
| 2005 | 18 | $4,571 |
| 2006 | 21 | $4,449 |
| 2007 | 30 | $9,194 |
| 2008 | 28 | $6,265 |
| 2009 | 31 | $6,714 |
| 2010 | 19 | $3,636 |

Table 6.1 shows credits claimed on corporate tax returns by fiscal year.

**Contractor's Gross Receipts** (15-50-207, MCA)

Contractors are required to pay a license fee equal to 1% of the gross receipts from government contracts during the year for which the license is issued. The agency or prime contractor withholds the 1% license fee from payments to the prime contractor or subcontractors. The agency or contractor is responsible for remitting the correct amount to the Department of Revenue along with a form reporting who is to be credited with the license fee payment.

**Contractor's Gross Receipts (Table 6.2)**

| Fiscal Year | Number of Credits Claimed | Total Credits Claimed |
|---|---|---|
| 1997 | 118 | $558,711 |
| 1998 | 108 | $499,682 |
| 1999 | 118 | $906,014 |
| 2000 | 125 | $847,950 |
| 2001 | 119 | $709,652 |
| 2002 | 121 | $1,048,955 |
| 2003 | 112 | $955,814 |
| 2004 | 78 | $972,698 |
| 2005 | 69 | $1,142,370 |
| 2006 | 64 | $703,319 |
| 2007 | 127 | $1,717,148 |
| 2008 | 106 | $1,393,906 |
| 2009 | 91 | $1,692,954 |
| 2010 | 72 | $487,413 |

Contractors may use the amount of gross receipts tax paid as a credit against the contractor's corporation license tax liability or income tax liability, depending upon the type of tax the contractor must pay. The credit may be carried forward a maximum of 5 years.

**Charitable Endowment Credit** (15-31-161 and 162, MCA)

A qualified endowment is a permanent fund held by or on behalf of a 501(c)(3) charitable organization. A planned gift is one of nine types of arrangements specified in the IRS code that generally provide income to the donor for life or a set period and then the remainder goes to the charity. Individual taxpayers are allowed a credit of 40% of the present value of a planned gift to a qualified charitable endowment.

**Charitable Endowment Credit (Table 6.3)**

| Fiscal Year | Number of Credits Claimed | Total Credits Claimed |
|---|---|---|
| 1998 | 15 | $63,516 |
| 1999 | 58 | $313,675 |
| 2000 | 100 | $462,002 |
| 2001 | 127 | $703,420 |
| 2002 | 125 | $622,099 |
| 2003 | 77 | $425,846 |
| 2004 | 52 | $117,618 |
| 2005 | 38 | $106,490 |
| 2006 | 45 | $121,753 |
| 2007 | 50 | $160,667 |
| 2008 | 46 | $174,337 |
| 2009 | 18 | $54,516 |
| 2010 | 29 | $103,189 |

Corporations are allowed a credit of 20% of a gift to a qualified endowment. In the 2007 Legislature, SB 150 extended the credit through 2013. The same legislation restricted the definition of a qualified endowment to exclude a fund where the contributions are expended directly for construction, renovation, or purchasing operations assets, such as building or equipment. However the interest from the endowment, but not the principle, may be used to purchase operational assets.

**Alternative Fuel Motor Vehicle Conversion Credit** (15-30-2320, MCA)

Taxpayers are allowed a credit against individual income tax or corporate license tax of up to 50% of the cost of converting a motor vehicle to operate on natural gas, liquefied petroleum gas (LPG or propane), liquefied natural gas, hydrogen, electricity, or a fuel of at least 85% alcohol or ether.

The credit is limited to $500 for conversion of a motor vehicle with gross weight of 10,000 pounds or less or $1,000 for conversion of a vehicle weighing more than 10,000 pounds.

**Alternative Fuel Motor Vehicle Conversion Credit (Table 6.4)**

| Fiscal Year | Number of Credits Claimed | Total Credits Claimed |
|---|---|---|
| 2001 | * | $2,760 |
| 2002 | * | $7,000 |
| 2003 | * | $3,000 |
| 2004 | * | $12,267 |
| 2005 | * | $50 |
| 2006 | 0 | $0 |
| 2007 | * | $16,000 |
| 2008 | * | $23,500 |
| 2009 | 0 | $0 |
| 2010 | * | $6,000 |

The credit claimed cannot be more than the taxpayer's liability and cannot be carried forward or back. The credit must be claimed for the year in which the conversion was done.

**Health Insurance for Uninsured Montanans Credit** (15-31-132, MCA)

A corporation with 20 or fewer employees working at least 20 hours per week may claim a nonrefundable credit of up to $3,000 against corporation license tax. In order to claim the credit the employer must pay at least 50% of the employee's premium and can claim a credit for a maximum of 10 employees' health or disability insurance (ARM 42.4.2802).

A credit of $25 a month is allowed if the employer pays 100% of the employee's premium. If the employer pays a share of the employee's premium then the $25 credit is pro-rated by the same percentage share.

The credit is subject to a number of restrictions including that the credit may not exceed 50% of the total premium for each employee, the credit may not be claimed more than 36 consecutive months, and may not be granted to an employer or its successor within 10 years of when the last credit was claimed. The employer must have been in business in Montana for at least 12 months and the credit cannot be carried forward or backward and claimed against another year's taxes.

**Health Insurance for Uninsured Montanans (Table 6.5)**

| Fiscal Year | Number of Credits Claimed | Total Credits Claimed |
|---|---|---|
| 1997 | * | $1,490 |
| 1998 | 10 | $5,403 |
| 1999 | 11 | $6,820 |
| 2000 | 11 | $7,468 |
| 2001 | 11 | $7,566 |
| 2002 | * | $1,219 |
| 2003 | 16 | $18,888 |
| 2004 | 17 | $19,433 |
| 2005 | 78 | $91,543 |
| 2006 | 92 | $118,476 |
| 2007 | 206 | $201,593 |
| 2008 | 126 | $111,786 |
| 2009 | 86 | $65,632 |
| 2010 | 61 | $43,400 |

**Insure Montana Small Business Health Insurance Credit** (15-31-130, MCA)

This credit was enacted by the 2005 Legislature (HB 667) and was applicable beginning with tax year 2006. Sections 33-22-2006, 15-30-2368, and 15-31-130, MCA establish the credit. Table 6.6 provides the data on credits claimed in fiscal years 2007-2010.

The 2005 Legislation established a voluntary small business health insurance pool with small employers composing the membership (33-22-2001, MCA). Members of the pool are eligible for premium assistance or incentives, or tax credits. An employer that has not offered group health insurance in the last two years may take premium assistance payments instead of claiming the credit.

The 2009 Legislature in SB 135 made some changes to the program. Previously, an employer was ineligible if any employee, including an owner, partner, or shareholder, was paid more than $75,000 per year. SB 135 made the $75,000 limit apply only to employees who are not owners, partners or shareholders; but prohibited the employer from receiving a credit for providing insurance to an owner, partner or shareholder who is paid more than $75,000 per year or their dependents.

**Insure Montana Credit (Table 6.6)**

| Fiscal Year | Number of Credits Claimed | Total Credits Claimed |
|---|---|---|
| 2007 | 87 | $404,942 |
| 2008 | 221 | $1,057,951 |
| 2009 | 164 | $1,009,331 |
| 2010 | 155 | $880,874 |

A small employer that provides group health insurance for its employees through the state pool may claim a credit against taxes of:

- up to 50% of total premiums the employer pays for the plan or,
- up to $100 per month per covered employee ($125 if the average age is at least 45), up to $100 per month per covered spouse, and up to $40 per other covered dependent.

The maximum credit depends on the number of employees an employer may have. This is set by the State Auditor's Office in an administrative rule. The current maximum is nine employees. Taxpayers with credits that are greater than their tax liability may have the excess credits refunded. A taxpayer may not deduct insurance premiums as a business expense if the taxpayer has taken the credit.

While it is included as a credit on the tax form, from a tax expenditure perspective the Insure Montana Small Business Health Insurance credit is different from other credits which decrease general fund available for other purposes. This credit is funded by general fund which is then reimbursed from cigarette and tobacco tax collections. Because these tax collections also fund programs to offset the health costs due to cigarette and tobacco use, the reimbursement of the general fund reduces the funding available for these health programs.

**Recycling Credit** (15-32-601-611, MCA)

Taxpayers are allowed a credit against individual income tax or corporate license tax for a portion of the cost of investments in depreciable property used in collecting or processing reclaimable material or manufacturing a product from reclaimed material. The amount of the credit is equal to 25% of the cost of the first $250,000 invested in property, 15% of the cost of the next $250,000 invested in property and 5% of the next $500,000 of investment.

Therefore if the taxpayer invests a total of $1,000,000 in property that qualifies for the credit, the taxpayer can claim a credit of $125,000. If the taxpayer invests $250,000 in property qualifying for the credit then the taxpayer can claim a credit of $62,500. The credit was to end December 31, 2011, but the 2009 Legislature made the credit permanent (HB 21). An asterisk in the table indicates fewer than 10 corporate taxpayers claimed this credit.

**Recycling Credits (Table 6.7)**

| Fiscal Year | Number of Credits Claimed | Total Credits Claimed |
|---|---|---|
| 1997 | 15 | $231,567 |
| 1998 | 14 | $91,421 |
| 1999 | 15 | $140,544 |
| 2000 | * | $54,290 |
| 2001 | * | $87,912 |
| 2002 | * | $119,060 |
| 2003 | * | $5,440 |
| 2004 | * | $2,718 |
| 2005 | * | $17,905 |
| 2006 | * | $39,700 |
| 2007 | 12 | $81,892 |
| 2008 | 10 | $102,037 |
| 2009 | * | $70,936 |
| 2010 | * | $25,937 |

**Oilseed Crushing and Biodiesel Production Facility Credit** (15-32-701 and 702, MCA)

Taxpayers are allowed a credit against individual income tax or corporation tax of 15% of the costs of investments in depreciable property in Montana that is used primarily for crushing oilseeds for producing biodiesel or lubricants or for the production of biodiesel or bio-lubricants. The taxpayer can claim credits on investments for the two tax years prior to when the facility begins production or any tax year that the equipment is in production up to January 1, 2015. Unused credits can be carried forward seven years. Taxpayers claiming the credit can still claim depreciation or amortization and other credits allowed by the state.

The credit is subject to a number of restrictions, including how the credit can be carried forward; total credits claimed may not exceed $500,000; and the depreciable property for which the credit has been claimed must begin to be used by 2015 for the purposes of oilseed crushing and biodiesel or bio-lubricant production.

The credit was first enacted by the 2005 Legislature in HB 756. The 2007 Legislature passed HB 166, which extends this credit's life to January 1, 2015 from January 1, 2010; allows the credit to also apply to bio-lubricants; and allows the credit to be claimed on investment in the two tax years prior to when the equipment is used in production. The table above provides the available data on corporate tax credits claimed in fiscal years 2007-2010; in FY 2008 fewer than 10 taxpayers claimed the credit as indicated by the asterisk.

**Oilseed Crushing & Biodiesel Production Credit (Table 6.8)**

| Fiscal Year | Number of Credits Claimed | Total Credits Claimed |
|---|---|---|
| 2007 | 0 | $0 |
| 2008 | * | $500 |
| 2009 | 0 | $0 |
| 2010 | 0 | $0 |

**Biodiesel Blending and Storage Tank Credit** (15-32-703, MCA)

This credit was established in HB 756 passed by the 2005 Legislature.

Taxpayers can claim a credit of 15% of the cost of equipment used in blending biodiesel made from Montana ingredients with petroleum-based diesel. The credit can also be used for storage facilities in a year when the taxpayer is blending or in the two years before blending began. The total credits that may be claimed over time are $52,500 for a distributor (wholesaler) and $7,500 for a retailer.

**Biodiesel Storage and Blending Credit (Table 6.9)**

| Fiscal Year | Number of Credits Claimed | Total Credits Claimed |
|---|---|---|
| 2007 | * | $7,559 |
| 2008 | 0 | $0 |
| 2009 | 0 | $0 |
| 2010 | 0 | $0 |

The credit is subject to a number of restrictions, including that the taxpayer's biodiesel sales must be greater than 2% of the total diesel sales by the end of the third year after the year that the investment is claimed. The unused tax credit can be carried forward up to 7 years, but can only be claimed in tax years in which the facility is operating for the purposes of biodiesel blending. Table 6.9 provides the available data on corporate tax credits claimed in fiscal years 2007-2010. Fewer than 10 corporate license taxpayers claimed the credit in FY 2007 as indicated by the asterisk.

**Geothermal Heating System Credit** (15-32-115, MCA)

Taxpayers are allowed a credit against individual income tax or corporation tax for up to $1,500 of costs of installing a geothermal heating system (ground-source heat pump) in the taxpayer's principal residence or in a residence the taxpayer constructs. Only one credit may be claimed per residence and any credit remaining after the year of installation can be carried forward and claimed in succeeding tax years. This credit could not be claimed by corporate taxpayers, such as builders of residential units, until tax year 2006. The change was made by the 2005 Legislature (SB 340). The asterisk in the table indicates that fewer than 10 corporate license taxpayers claimed this credit in FY 2008.

**Geothermal System Credit (Table 6.10)**

| Fiscal Year | Number of Credits Claimed | Total Credits Claimed |
|---|---|---|
| 2007 | 0 | $0 |
| 2008 | * | $500 |
| 2009 | 0 | $0 |
| 2010 | 0 | $0 |

**Alternative Energy Production Credit** (15-32-401 through 407, MCA)

Qualifying taxpayers that invest $5,000 or more in a commercial system, or net metering system, that generates energy using alternative energy sources are allowed a credit against corporation license tax of 35% of the costs, less any federal or state grants. Alternative energy sources are defined as including, but not limited to, solar energy, wind energy, geothermal energy, conversion of biomass, fuel cells that do not require hydrocarbon fuel, small hydroelectric generators producing less than 1 megawatt; and methane from solid waste.

**Alternative Energy Production Credit (Table 6.11)**

| Fiscal Year | Number of Credits Claimed | Total Credits Claimed |
|---|---|---|
| 2007 | * | $28,452 |
| 2008 | * | $273 |
| 2009 | * | $15,094 |
| 2010 | * | $50 |

Tax credits may be carried forward for seven years. The carry forward period is extended to 15 years if the equipment is placed in service within the boundaries of a Montana reservation and there is an employment agreement with the tribal government of the reservation in which tribal members will be trained and employed in constructing, maintaining and operating the system. The table above provides the available data on corporate tax credits claimed in fiscal years 2007-2010.

**Dependent Care Assistance Credit** (15-31-131 and 133, MCA)

There are several employer costs for which dependent care credits can be claimed. If the employer provides day care services to employees' dependents or information and referral services to employees, then a credit against corporation tax can be claimed for a share of the costs. The allowed credit is 25% of the cost of the day care assistance with a limit of $1,575 per employee receiving the assistance. The day care must be provided by a licensed or registered day care provider; it must meet IRS requirements and cannot be part of the employee's compensation. The employer can also claim a credit on 25% of the cost of providing day care information and referral services to employees (15-31-131, MCA).

**Dependent Care Assistance Credit (Table 6.12)**

| Fiscal Year | Number of Credits Claimed | Total Credits Claimed |
|---|---|---|
| 2001 | * | $1,846 |
| 2002 | * | $4,790 |
| 2003 | * | $1,672 |
| 2004 | * | $50 |
| 2005 | 0 | $0 |
| 2006 | * | $50 |
| 2007 | * | $50 |
| 2008 | 0 | $0 |
| 2009 | 0 | $0 |
| 2010 | 0 | $0 |

Under 5-31-133, MCA, there is a credit allowed against corporation tax for a portion of the cost of setting up a day care facility to be used by the taxpayer's employees' dependents. The credit is the lowest of either:

- 15% of the costs incurred, or
- $2,500 times the number of dependents the facility accommodates, or
- $50,000.

To claim the credit, the facility must meet certain criteria, such as accommodating six or more children, be run by a licensed operator, and have been placed in operation by January 1, 2006. The credit is to be claimed over a ten-year period, with 1/10th of the credit claimed each year. An asterisk in table 6.12 indicates that fewer than 10 corporate taxpayers claimed the credit in the fiscal year.

**Historic Property Preservation Credit** (15-31-151, MCA)

Corporate taxpayers may take a credit against corporation license tax for costs of rehabilitating a historic building located in Montana. The credit is 25% of the federal credit allowed by 26 USC 47. The federal credit is 20% of the rehabilitation cost of a building certified as having historic significance and 10% of the cost of rehabilitation of a building placed in service before 1936 that has not been certified.

**Historic Property Preservation Credit (Table 6.13)**

| Fiscal Year | Number of Credits Claimed | Total Credits Claimed |
|---|---|---|
| 2001 | * | $1,790 |
| 2002 | * | $12,884 |
| 2003 | * | $30,948 |
| 2004 | * | $111,843 |
| 2005 | * | $39,876 |
| 2006 | * | $50 |
| 2007 | * | $129,479 |
| 2008 | * | $43,370 |
| 2009 | 0 | $0 |
| 2010 | 0 | $0 |

The credit is not refundable if it exceeds the amount of taxes owed, but unused credit can be carried over to the seven succeeding tax years. If the corporation is a partnership or S corporation, the credit must be attributed to the partners or shareholders in the same proportion used to report the partnership or corporation income or loss for Montana income tax purposes. An asterisk indicates that fewer than 10 corporate taxpayers claimed the credit in the fiscal year.

**Montana Capital Company Credit** (90-8-202, MCA)

Corporate taxpayers could take a credit against corporation license tax for investments in a certified Montana capital company or qualified small business investment company. The credit was limited to 50% of the investment up to $150,000 per taxpayer for regular capital companies, and an additional $250,000 for qualified investment in a Montana small business investment capital company.

The credit was last available for investments made before July 1, 1995, but the credit itself could be carried forward for up to 15 years and used to reduce tax liability.

**Montana Capital Company Credit (Table 6.14)**

| Fiscal Year | Number of Credits Claimed | Total Credits Claimed |
|---|---|---|
| 1997 | 49 | $223,028 |
| 1998 | 38 | $158,615 |
| 1999 | 30 | $62,112 |
| 2000 | 19 | $15,541 |
| 2001 | 15 | $9,047 |
| 2002 | 15 | $2,695 |
| 2003 | 14 | $934 |
| 2004 | 15 | $2,716 |
| 2005 | 13 | $26,809 |
| 2006 | 12 | $45,374 |
| 2007 | 10 | $57,363 |
| 2008 | 0 | $0 |
| 2009 | 0 | $0 |
| 2010 | 0 | $0 |

**Infrastructure Users Fee Credit** (17-6-316, MCA)

The Board of Investments may make loans to local governments to finance infrastructure to serve a new or relocated business that will result in 15 or more new full-time jobs. The infrastructure may serve as collateral for the loan and the local government may charge fees to the users for extending the infrastructure. The business may claim a credit against income or corporation tax for the amount of the fee it pays.

The total amount of the credit claimed may not exceed the amount of the loan. The credit can be carried forward for 7 years and used to reduce tax liability or carried back for 3 years. Data is available on the credits claimed against corporate license tax for fiscal years 2001-2010. An asterisk indicates that fewer than 10 corporate taxpayers claimed the credit in the fiscal year.

**Infrastructure Users Fee Credit (Table 6.15)**

| Fiscal Year | Number of Credits Claimed | Total Credits Claimed |
|---|---|---|
| 2001 | * | $100 |
| 2002 | * | $36,295 |
| 2003 | * | $533,813 |
| 2004 | * | $814,362 |
| 2005 | * | $685,134 |
| 2006 | * | $50 |
| 2007 | * | $622,928 |
| 2008 | * | $1,345,829 |
| 2009 | * | $541,522 |
| 2010 | * | $431,692 |

**New and Expanded Industry Credit** (15-31-124 and 125, MCA)

New or expanding manufacturing industries are allowed a tax credit equal to 1% of the total new wages paid in Montana for the first three years of operation or expansion. Expanding operations must increase total full-time jobs by 30% or more. “New” industry means a corporation engaging in manufacturing for the first time in Montana.

Table 6.16 provides the information on corporate license tax credits claimed. Data is available for fiscal years 2005-2010. An asterisk indicates that fewer than 10 corporate taxpayers claimed the credit in the fiscal year.

**New and Expanded Industry Credit (Table 6.16)**

| Fiscal Year | Number of Credits Claimed | Total Credits Claimed |
|---|---|---|
| 2005 | * | $14,659 |
| 2006 | * | $84,708 |
| 2007 | * | $83,570 |
| 2008 | * | $4,311 |
| 2009 | 0 | $0 |
| 2010 | 0 | $0 |

**Empowerment Zone New Employees Tax Credit** (15-31-134, MCA)

A local government may establish an empowerment zone in an area with chronic high unemployment (7-21-3710, MCA). Employers in an empowerment zone are eligible for a credit against either income tax or corporation license tax for the first three years of employment for new positions. The credit per new employee is $500 for the first year, $1,000 for the second year, and $1,500 for the third year.

**Empowerment Zone New Employees Tax Credit (Table 6.17)**

| Fiscal Year | Number of Credits Claimed | Total Credits Claimed |
|---|---|---|
| 2005 | * | $948 |
| 2006 | 0 | $0 |
| 2007 | 0 | $0 |
| 2008 | 0 | $0 |
| 2009 | 0 | $0 |
| 2010 | 0 | $0 |

To receive the credit, the taxpayer must apply for and receive certification from the Department of Labor and Industry. The table provides information on corporate license tax credits claimed.

Data is available for fiscal years 2005-2010. An asterisk indicates that fewer than 10 corporate taxpayers claimed the credit in the fiscal year.

**Qualified Research Credit** (15-31-150, MCA)

**Increased Research Activities Credits (Table 6.18)**

| Fiscal Year | Number of Credits Claimed | Total Credits Claimed |
|---|---|---|
| 2001 | * | $87,912 |
| 2002 | * | $119,060 |
| 2003 | * | $5,440 |
| 2004 | * | $2,718 |
| 2005 | * | $17,905 |
| 2006 | * | $39,700 |
| 2007 | 12 | $81,892 |
| 2008 | 10 | $102,037 |
| 2009 | 22 | $588,068 |
| 2010 | 12 | $82,965 |

Taxpayers may receive a non-refundable tax credit for increases in qualified research expense and basic research payments for research conducted in Montana. The amount of the credit is determined in accordance with section 41 of the IRC, U.S.C. 41 as it read on July 1, 1996 or as subsequently amended. Section 41 of the IRS code provides a credit equal to 20% of any increase in research expenditures over the taxpayer's baseline research expenditures. Montana provides a 5% credit against individual income tax or corporation license tax for the same increases in expenditures in the state.

The taxpayer may not claim a current year credit after December 31, 2010. Unused credits from any tax year can be carried back for two years or carried forward for up to 15 years and used to reduce tax liability. An asterisk indicates that fewer than 10 taxpayers claimed the credit in the fiscal year.

**Mineral Exploration Incentive Credit** (15-32-501 through 509, MCA)

Taxpayers are allowed a credit, not to exceed 50% of the taxpayer's liability and not greater than $20 million, for certified mineral exploration expenses. The credit is for the full amount of solid mineral or coal exploration activity in the state (oil and gas exploration expenditures are not eligible). The credit is available only for expenses incurred up to the time that construction of a new mine or reopening of a previously closed mine commences. The credit can be carried forward for 15 years.

**Mineral Exploration Credit (Table 6.19)**

| Fiscal Year | Number of Credits Claimed | Total Credits Claimed |
|---|---|---|
| 2007 | * | $1,212 |
| 2008 | * | $1,831 |
| 2009 | * | $1,361 |
| 2010 | * | $25 |

Table 6.19 provides the data on this credit. An asterisk indicates that fewer than 10 taxpayers claimed the credit in that fiscal year.

**Film Employment Credit** (15-31-907 and 908, MCA)

The Big Sky on the Big Screen Act was passed by the 2005 Legislature. The 2007 Legislature revised the Act, which is in Section 15, Chapter 31, Part 9 of the MCA, to remove the $1 million limitation on the amounts of tax credits received and made other changes. To recieve the tax credits for a state-certified production, the production company must apply for the credit and pay an application fee of $500. The fee is split equally between the Department of Commerce and the Department of Revenue for administering the credit (15-31-906, MCA). Administration fees have totaled $18,575 for fiscal years 2007 through 2009. If the production has been certified by the Department of Commerce, then credits against either corporate or individual income taxes are allowed for two types of expenditures. Taxpayers are allowed a credit equal to 14% of the first $50,000 of compensation paid to each Montana resident employed on a state-certified production. Employee compensation for which the credit is claimed may not be deducted from gross revenue in calculating taxable income.

A taxpayer may also claim a credit against income or corporation license tax for 9% of purchases in Montana for the making of a film that has met the criteria to be certified by the Department of Commerce. A taxpayer may not deduct any expenses for which a credit was claimed. The credit was to terminate on January 1, 2010, but the 2009 Legislature passed HB 163 which extends the termination date to January 1, 2015. Unused credits can be carried over for use on tax returns for the four succeeding tax years.

**Film Production Credit (Table 6.20)**

| Fiscal Year | Number of Credits Claimed | Total Credits Claimed |
|---|---|---|
| 2007 | 0 | $0 |
| 2008 | * | $9,007 |
| 2009 | * | $16,583 |
| 2010 | 0 | $0 |

Table 6.20 shows the tax credits claimed against corporate income on returns filed in fiscal years 2007 through 2010. The asterisk indicates that fewer than 10 taxpayers claimed the credit in the fiscal year.

**Short-term Temporary Lodging Credit** (15-31-171, MCA)

The 2007 Legislature created a refundable individual and corporate income tax credit available to lodging establishments that provide free temporary lodging to individuals displaced from their homes due to domestic abuse (HB 240). The tax credit is available beginning with tax year 2008 and is equal to $30 for each day of lodging provided, limited to a maximum of five nights of lodging for each individual each year. The individuals must be referred to the lodging establishment by a designated charitable organization. The credit may be claimed only for lodging provided in Montana.

The credit may not be claimed if the individual is displaced by a major disaster declared by the President under federal law (42 U.S.C. 5170 or 5191) and financial assistance for temporary housing assistance is available. In the one year of corporate tax returns which are available, this credit was not claimed.

Passive tax expenditures refer to the loss of Montana tax revenue due to federal tax laws. These tax expenditures are not due to actions taken by the Montana Legislature, but by our adherence to the definitions of income, exemptions, and deductions set at the federal level. The figures provided in below show Montana's share of the federal tax expenditures estimated by the U.S. Treasury Department and included in the annual Executive Budget of the United States. The Montana share of federal expenditures was estimated by multiplying the federal tax expenditure estimate by the ratio of Montana taxable income to federal taxable income, and by Montana's effective corporate tax rate (before credits) to the federal effective corporate tax rate (before credits). State and federal share ratios are calculated using 2007 IRS data on corporate income tax returns.

These passive tax expenditures are estimates based on other estimates and should be viewed as approximations. As with other tax expenditures, the figures shown do not necessarily equal the increase in tax revenues that would occur if the provision did not exist.

**Estimated Impact of Passive (Federal) Corporate Tax Expenditures on Montana Tax Revenue, 2008 and 2009**

| | 2008 | 2009 |
|---|---|---|
| **Exemptions** | | |
| Deferral of income from controlled foreign corporations (normal tax method) | $1,477,863 | $1,552,207 |
| Deferred taxes for financial firms on certain income earned overseas | $280,479 | $119,401 |
| Excess bad debt reserves of financial institutions | $1,126 | $1,126 |
| Excess of percentage over cost depletion, fuels and nonfuel minerals | $42,804 | $43,930 |
| Exemption of certain mutuals and cooperatives income | $7,885 | $7,885 |
| Exemption of credit union income | $155,446 | $163,331 |
| Inventory property sales source rules exception | $245,560 | $271,467 |
| Deferral of gain from dispositions of transmission property to implement FERC restructuring policy | $28,161 | -$6,759 |
| Deferral of gain on sale of farm refiners | $2,253 | $2,253 |
| Deferral of tax on shipping companies | $2,253 | $2,253 |
| Excess bad debt reserves of financial institutions | $1,126 | $1,126 |
| **Deductions** | | |
| Accelerated depreciation of machinery and equipment (normal tax method) | $2,426,309 | $3,221,561 |
| Accelerated depreciation on rental housing (normal tax method) | $74,344 | $78,849 |
| Deductibility of charitable contributions (education) | $70,964 | $75,470 |
| Deduction for U.S. production activities | $1,206,396 | $1,316,785 |
| Empowerment zones, enterprise communities, and renewal communities | $42,804 | $47,310 |
| Expensing of certain capital outlays for farmers | $1,126 | $1,126 |
| Expensing of certain multiperiod production costs for farmers | $1,126 | $1,126 |
| Expensing of certain small investments (normal tax method) | $81,102 | $70,964 |
| Expensing of exploration and development costs, fuels and nonfuel minerals | $1,126 | $1,126 |
| Expensing of multiperiod timber growing costs | $20,276 | $21,402 |
| Expensing of capital costs with respect to complying with EPA sulfur regulations | $3,379 | $5,632 |
| Small life insurance company deduction | $5,632 | $5,632 |
| Special Blue Cross/Blue Shield deduction | $72,091 | $73,217 |
| **Other** | | |
| Special alternative tax on small property and casualty insurance companies | $4,506 | $4,506 |
| Special ESOP rules | $135,170 | $146,435 |
| Special rules for certain film and TV production | $6,759 | -$3,379 |
| Tax incentives for preservation of historic structures | $37,172 | $38,298 |

Sources: Estimates of corporate tax expenditures are calculated by the U.S. Treasury and published annually as a part of the Executive Budget of the United States. This data is from the 2008 and 2009 Executive Budgets in the Analytical Perspectives Sections, which are available at www.gpoaccess.gov/usbudget/browse.html. Total income subject to tax, and total income tax before credits comes from www.irs.gov, SOI tax statistics, total returns of active corporations, 2007. Montana estimates come from the Montana master file of corporate tax returns, 2008.

Consistent with the explanation of other tax expenditures, property tax expenditures are provisions in the property tax laws that reduce property taxes for properties that meet certain criteria. There are 3 property tax programs that target homeowners: The Property Tax Assistance Program (PTAP), the Disabled American Veterans Program (DAV) and the Extended Property Tax Assistance Program (EPTAP).

The elderly homeowner/renter credit provides a tax credit based on property taxes but is administered through the income tax, so it is discussed as an income tax expenditure.

Calculating the cost of property tax expenditures is not as straightforward as other tax expenditures. For other taxes, a credit or deduction reduces the money in the general fund. Because of how local government budgeting laws work, they are allowed to raise mills to offset a reduction in the tax base. In general, when the taxable value of a property is lowered, mills rise so property taxes are higher for all other properties in the taxing district.

## Residential Property Tax Expenditures

### PTAP

The Property Tax Assistance Program is established in 15-6-134, MCA. It reduces the class 4 tax rate by 80%, 50% or 30% depending on income. Taxpayers must reside in the home for 7 months of the year and it applies to the first $100,000 of taxable market value of residential improvements and up to 5 acres of residential land.

The table below shows that in 2010 there were 11,583 property taxpayers that qualified for the property tax assistance program. This reduced the taxable value of these properties by $10,774,917 which reduced the state revenue collected with the 95 school equalization mills and the 6 university mills by $1,088,267. The reduction in taxable value increased the local mills, effectively shifting $4,739,203 to other taxpayers.

Participants in the Property Tax Assistance Program paid $5,827,469 less in taxes because of the program for an average benefit of $503.11 in 2010.

### DAV

The Disabled American Veterans Program reduces property taxes for disabled veterans and is established in 15-6-211, MCA. It reduces the class 4 tax rate by 100%, 80%, 70% and 50% depending on income level for qualified veterans. It applies to residential improvements and up to five acres of land. To qualify, the property must be the primary residence of a veteran that was killed while on active duty or was honorably discharged and paid at the 100% disabled rate by the Department of Veterans Affairs for a service-connected disability, or the veteran's surviving spouse.

The table at the top of the next page shows that in 2010 there were 1,800 property taxpayers that qualified for the Disabled American Veteran program. This reduced the taxable value of these properties by $2,955,279 which reduced the state revenue collected with the 95 school equalization mills and the 6 university mills by $298,483. The reduction in taxable value increased the local mills, effectively shifting $1,299,840 to other taxpayers.

Participants in the Disabled American Veteran program paid $1,598,323 less in taxes because of the program for an average benefit of $887.96 in 2010.

**Property Tax Expenditure - PTAP**

| Tax Year | Participants | Reduction in Taxable Value | Loss in 101 Mill Revenue | Tax Shifts | Total Tax Benefit to Participants | Average Tax Benefit |
|---|---|---|---|---|---|---|
| 2005 | 8,568 | $4,316,852 | $436,002 | $1,817,049 | $2,253,051 | $262.96 |
| 2006 | 8,192 | $4,130,616 | $417,192 | $1,758,981 | $2,176,173 | $265.65 |
| 2007 | 7,729 | $3,856,960 | $389,553 | $1,651,280 | $2,040,833 | $264.05 |
| 2008 | 7,399 | $3,508,914 | $354,400 | $1,533,817 | $1,888,217 | $255.20 |
| 2009 | 10,716 | $9,625,089 | $972,134 | $4,128,008 | $5,100,142 | $475.94 |
| 2010 | 11,583 | $10,774,917 | $1,088,267 | $4,739,203 | $5,827,469 | $503.11 |

### EPTAP

The Extended Property Tax Assistance Program reduces property taxes for residential properties that experienced extraordinary market value increases between

2002 and 2008 and is established in 15-6-193, MCA. It limits the growth in taxable value of qualified residential properties to 4%, 5% or 6% per year depending on income bracket. The reduction in taxable value is applied to a residential property and up to 1 acre of land that is occupied at least 7 months of the year.

| Property Tax Expenditure - DAV | | | | | | |
|---|---|---|---|---|---|---|
| Tax Year | Participants | Reduction in Taxable Value | Loss in 101 Mill Revenue | Tax Shifts | Total Tax Benefit to Participants | Average Tax Benefit |
| 2005 | 1,457 | $2,700,858 | $272,787 | $1,136,845 | $1,409,632 | $967.49 |
| 2006 | 1,546 | $2,915,543 | $294,470 | $1,241,555 | $1,536,024 | $993.55 |
| 2007 | 1,608 | $3,158,974 | $319,056 | $1,352,451 | $1,671,508 | $1,039.49 |
| 2008 | 1,711 | $3,237,648 | $327,002 | $1,415,241 | $1,742,243 | $1,018.26 |
| 2009 | 1,643 | $2,765,902 | $279,356 | $1,186,240 | $1,465,596 | $892.02 |
| 2010 | 1,800 | $2,955,279 | $298,483 | $1,299,840 | $1,598,323 | $887.96 |

The table below shows that in 2009 there were 3,132 property taxpayers that qualified for the Extended Property Tax Assistance Program. This reduced the taxable value of these properties by $913,287 which reduced the state revenue collected with the 95 school equalization mills and the 6 university mills by $92,242. The reduction in taxable value increased the local mills, effectively shifting $391,691 to other taxpayers.

Participants in the Extended Property Tax Assistance Program paid $483,933 less in taxes because of the program for an average benefit of $154.51 in 2009.

| Property Tax Expenditure - EPTAP | | | | | | |
|---|---|---|---|---|---|---|
| Tax Year | Participants | Reduction in Taxable Value | Loss in 101 Mill Revenue | Tax Shifts | Total Tax Benefit to Participants | Average Tax Benefit |
| 2005 | 1,191 | $422,874 | $42,710 | $177,996 | $220,706 | $185.31 |
| 2006 | 986 | $427,616 | $43,189 | $182,096 | $225,285 | $228.48 |
| 2007 | 825 | $389,506 | $39,340 | $166,759 | $206,100 | $249.82 |
| 2008 | 805 | $412,080 | $41,620 | $180,128 | $221,748 | $275.46 |
| 2009 | 3,132 | $913,287 | $92,242 | $391,691 | $483,933 | $154.51 |

**Economic Development Tax Expenditures**

In addition to the residential property tax exemptions, there are tax expenditures in statute intended to encourage economic development by reducing the taxable value of properties or creating a tax increment finance district.

**Locally Reduced or Abated Taxable Values**

There are multiple exemptions that may be granted by local governments to encourage economic development. They work by reducing the taxable value used for local purposes, which reduces the property tax for those properties. The exemptions are usually granted for 5 years or 10 years. The reduction in taxable value is granted to encourage the creation of jobs or to subsidize the expansion of existing businesses.

The table at the top of the next page shows that in 2010 there were 129 property taxpayers that received reduced taxable values. This reduced the taxable value of these properties by $26,989,988. Because the reduction in taxable value only applies to local mills it did not reduce state revenues. The reduction in taxable value increased the local mills, effectively shifting $11,871,184 to other taxpayers.

Tax payers with locally abated taxes paid $11,871,184 less in property taxes because of the program for an average benefit of $92,025 in 2010.

| Property Tax Expenditure - Abated Taxable Values | | | | | | |
|---|---|---|---|---|---|---|
| Tax Year | Participants | Reduction in Taxable Value | Loss in 101 Mill Revenue | Tax Shifts | Total Tax Benefit | Average Tax Benefit |
| 2005 | 160 | $4,392,911 | $0 | $1,849,064 | $1,849,064 | $11,556.65 |
| 2006 | 157 | $8,130,177 | $0 | $3,462,155 | $3,462,155 | $22,051.94 |
| 2007 | 148 | $10,256,319 | $0 | $4,391,038 | $4,391,038 | $29,669.17 |
| 2008 | 147 | $20,020,604 | $0 | $8,751,406 | $8,751,406 | $59,533.38 |
| 2009 | 127 | $23,697,393 | $0 | $10,163,338 | $10,163,338 | $80,026.28 |
| 2010 | 129 | $26,989,988 | $0 | $11,871,184 | $11,871,184 | $92,024.68 |

**Tax Increment Financing Districts**

Tax increment financing districts are used by local governments to build infrastructure by designating tax revenue paid by properties within the districts for the use by the district. They capture the taxes on any increase in value that would be used to pay for public services like schools, roads and into the state general fund and redirect that money for improvements to the TIF district. TIFs do not reduce taxes for individual taxpayers, but do increase the mills for other property taxpayers and reduce tax revenue that can be used by the state for providing services.

If the taxable value is higher than it would have been without the district, when the TIF expires the mills are reduced for property taxpayers and the state receives more in 95 mill revenue than would have otherwise occurred.

The table below shows the increment that is used to pay for improvements to the district and the reduction in the 95 state education equalization mills. In 2010, TIFs cost the state $3,989,014 in reduced revenue. The 6 university mills are still paid to the state by the tax increment finance district.

For this tax expenditure analysis, the tax shift is not included as a cost to other taxpayers. The tax increment is used to pay for improvements that would otherwise have been paid for by cities or counties, so it is not calculated as a cost to other tax payers.

| TIF Districts | | | |
|---|---|---|---|
| Tax Year | Increment | Avg Mill | Lost 95 mill Revenue |
| 2005 | $28,866,547 | 521.92 | $2,742,322 |
| 2006 | $32,662,769 | 526.84 | $3,102,963 |
| 2007 | $34,185,246 | 529.13 | $3,247,598 |
| 2008 | $29,315,072 | 538.12 | $2,784,932 |
| 2009 | $32,014,480 | 529.88 | $3,041,376 |
| 2010 | $41,989,617 | 540.84 | $3,989,014 |

### Reduced Rate for Oil and Gas Wells Completed After 1/1/1999

Oil and gas production from wells completed on or after 1/1/1999 is taxed at a reduced rate of 9.26% (instead of 12.76% for oil and 15.06% for gas). This reduced rate provides an incentive for the exploration, development, and production of oil and gas.

### Reduced Rates for "New" Oil and Gas Production

Oil or gas produced from a well that qualifies as "new" production is taxed at a reduced rate of 0.76% (instead of 9.26% for oil and 15.06% for gas). This reduced rate applies for the first 12 months of production from a conventional well and the first 18 months of production from a horizontally completed well. New production includes production from new wells and from wells that have not produced oil or gas during the previous 60 months. This reduced rate provides an incentive for the exploration, development and production of oil and gas.

### Reduced Rate for Horizontally Recompleted Oil Wells

The first 18 months of production from a horizontally recompleted well is taxed at 5.76%. After this period the tax rate reverts to 9.26% for post-99 wells or 12.76% for pre-99 wells.

### Reduced Rates for Incremental Oil Production from Enhanced Recovery Projects

In any quarter when the average price of West Texas Intermediate (WTI) crude oil is less than $30 per barrel, incremental production from secondary recovery projects is taxed at 8.76%, and incremental production from tertiary recovery projects is taxed at 6.06%. In quarters when the average price of WTI is at least $30 per barrel, these wells are taxed at 9.26% for post-99 wells and 12.76% for pre-99 wells. The reduced rates provide incentives for the use of enhanced recovery technologies when prices are low.

### Reduced Rates for Stripper Exemption (Super Stripper) and Stripper Oil Wells

In any quarter the average price of WTI crude oil is less than $38 per barrel (stripper exemption or super stripper oil), oil from wells on leases that produce less than three barrels per well per day is taxed at 0.76%. If the price of WTI is equal to or greater than $38 per barrel this oil is taxed at 6.26%.

From wells on leases that produce between 3 and 15 barrels per well per day (stripper oil), the first 10 barrels per day are taxed at 5.76% and remaining production is taxed at 9.26% in quarters when the average price of WTI is less than $30 per barrel. In quarters when the average price of WTI is at least $30 per barrel, stripper oil is taxed at 9.26% for post-99 and 12.76% for pre-99 wells. The reduced rates on super stripper and stripper oil provide an incentive to keep low-volume wells in production.

**Oil and Natural Gas Production Tax Expenditures**

| **Oil** | **FY 2009** | **FY 2010** |
|---|---|---|
| Reduced Rates for: | | |
| Post-1999 Production | $39,328,632 | $35,731,009 |
| Horizontally Completed Wells First 18 Months | $18,169,751 | $8,527,129 |
| Vertically Completed Wells First 12 Months | $1,182,623 | $588,398 |
| Horizontally Recompleted Wells First 18 Months | $136,257 | $133,765 |
| Stripper Wells | $3,505 | $0 |
| **Total** | **$58,820,768** | **$44,980,301** |
| **Natural Gas** | **FY 2009** | **FY 2010** |
| Reduced Rates for: | | |
| Post-1999 Production | $18,520,636 | $13,128,456 |
| Horizontally Completed Wells First 18 Months | $3,459,634 | $1,507,392 |
| Vertically Completed Wells First 12 Months | $2,633,572 | $299,357 |
| Stripper Wells | $2,759,693 | $2,024,638 |
| **Total** | **$27,373,535** | **$16,959,843** |

### Reduced Rate for Horizontally Completed Gas Wells

After the first 18 months of production, production from a horizontally completed gas well is taxed at 9.26% (instead of 15.06%). The reduced rate provides incentive to use horizontal drilling technology.

### Reduced Rate for Stripper Gas Wells

Gas wells that were completed before 1/1/1999 and produce less than 60 mcf per day are taxed at 11.26% (instead of 15.06%). The reduced rate provides incentive to keep low-volume wells in production.

### **Metalliferous Mines License Tax** (Title 15, Chapter 37, Part 1, MCA)

The first $250,000 of gross value of production is exempt from taxation.

| Metalliferous Mines License Tax Expenditures | | |
|---|---|---|
| | **FY 2009** | **FY 2010** |
| Exemption of the First $250,000 of Production | **$69,789** | **$63,286** |

### **Metal Mines Gross Proceeds Tax** (Title 15, Chapter 23, Part 8, MCA)

15-6-208, MCA provides that metal mines that produce less than 20,000 tons of ore in a taxable year receive an exemption from taxation of 50% the merchantable value of the ore produced.

| Metal Mines Gross Proceeds Tax Expenditures | | |
|---|---|---|
| | **FY 2009** | **FY 2010** |
| 50% Exemption for Mines Producing Less than 20,000 Tons of Ore | **$3,881** | **$3,420** |

### **Coal Severance Tax** (Title 15, Chapter 35, Part 1, MCA)

Each coal mine receives an exemption from taxation on the first 5,000 tons of coal produced in a year.

| Coal Severance Tax Expenditures | | |
|---|---|---|
| | **FY 2009** | **FY 2010** |
| Exemption of the First 5,000 Tons of Production | **$115,685** | **$122,098** |

### **Coal Gross Proceeds Tax** (Title 15, Chapter 23, Part 7, MCA)

15-6-208, MCA provides that coal mines producing less than 50,000 tons of coal in a taxable year receive an exemption from taxation of 50% the contract sales price of the coal produced.

15-23-715, MCA provides that the board of county commissioners may grant a new or expanding underground coal mine with an exemption of 50% of coal gross proceeds taxes on the new or expanding production. This section of law results from the passage of SB 510 in the 2009 Legislature.

There were no tax expenditures during FY 2009 and FY 2010 resulting from these sections of the law.

| Coal Gross Proceeds Tax Expenditures | | |
|---|---|---|
| | **FY 2009** | **FY 2010** |
| 50% Exemption for Mines Producing less than 50,000 Tons of Coal | $0 | $0 |
| New or Expanding Underground Coal Mines | $0 | $0 |
| **Total** | **$0** | **$0** |

### **Bentonite Production Tax** (Title 15, Chapter 39, Part 1, MCA)

Bentonite mines are exempted from taxation on the first 20,000 tons extracted during a year.

| Bentonite Production Tax Expenditures | | |
|---|---|---|
| | **FY 2009** | **FY 2010** |
| Exemption of the First 20,000 Tons of Production | **$125,112** | **$124,964** |