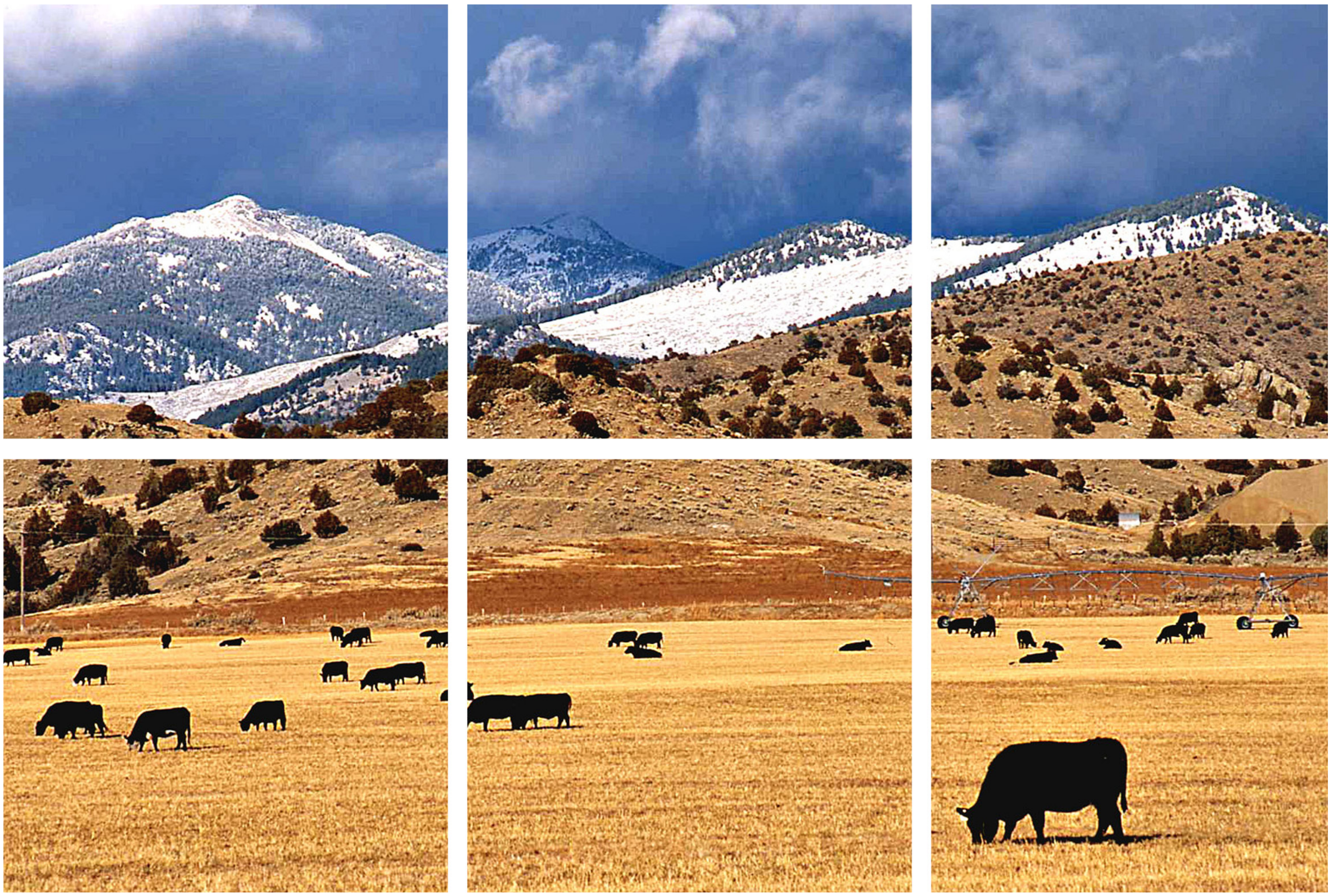
TAX EXPENDITURES

BIENNIAL REPORT - THE MONTANA DEPARTMENT OF REVENUE



Montana Department of
REVENUE

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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. This 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 lost because of each special provision.

Since the introduction of the tax expenditure concept by the U.S. 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 defining the tax 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 from 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

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

expenditure's effectiveness and its cost effectiveness.

Evaluating a tax expenditure's effectiveness would require having a clear statement of its purpose and measuring 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 lost 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 following table lists all of the tax expenditures in this report, as well as each expenditure's code reference, year of enactment, and bill and chapter reference.

Tax Source	Tax Expenditure	Law	Session/Year	Legislation	Chapter Number
Individual Income Tax	Passive Tax Expenditures	15-30-2110(1)	1955	HB 354	Ch 260
Individual Income Tax	Health Savings Account	Federal Provision			
Individual Income Tax	Individual Retirement Account Deduction	Federal Provision			
Individual Income Tax	Student Loan Interest Deduction	Federal Provision			
Individual Income Tax	Tuition and Fees Deduction	Federal Provision			
Individual Income Tax	Deduction for Self-Employment	Federal Provision			
Individual Income Tax	Domestic Production Activities	Federal Provision			
Individual Income Tax	Interest On Federal Government Bonds	Federal Provision and 15-30-2110(2)(a)			
Individual Income Tax	Exempt Tribal Income	Federal Provision			
Individual Income Tax	Unemployment Compensation	15-30-2101(10)	1979	HB 363	Ch 476
Individual Income Tax	Worker's Compensation	15-30-2110(2)(g)	1985	SB 72	Ch 682
Individual Income Tax	Small Business Investment Company Dividends	15-33-106	1981	HB 834	Ch 571
Individual Income Tax	Military Salary	15-30-2117(2)	1975	HB 152	Ch 326
Individual Income Tax	National Guard Life Insurance	15-30-2117(3)	2005	HB 761	Ch 604
Individual Income Tax	Partial Pension Exemption	15-30-2110(2)(c)	1963	HB 232	Ch 58
Individual Income Tax	Partial Interest Exclusion for the Elderly	15-30-2110(2)(b)	1981	HB 18	Ch 546
Individual Income Tax	Disability Retirement Income	15-30-2110(10)	1985	SB 464	Ch 364
Individual Income Tax	Tips	15-30-2110(2)(f)	1983	HB 841	Ch 634
Individual Income Tax	Employer-Paid Health Insurance Limited to Part Owners and Highly Compensated Employees	15-30-2110(2)(h)	1985	SB 72	Ch 682
Individual Income Tax	Employer-Paid Disability Insurance Limited to Part Owners and Highly Compensated Employees	15-30-2110(2)(h)	2013	HB 545	Ch 349
Individual Income Tax	Third Party Repayment of Health Care Professional's Student Loans	15-30-2110(12)	2003	SB408	Ch 545
Individual Income Tax	Montana Medical Savings Account	15-61-101 to 205	1995	HB 560	Ch 295
Individual Income Tax	First Time Homebuyer Account	15-63-101 to 205	1997	HB 599	Ch 544
Individual Income Tax	Family Education Savings Account	15-62-101 to 302	1997	HB 536	Ch 540
Individual Income Tax	Farm and Risk Management Account	15-30-3001 to 3005	2001	SB 245	Ch 262
Individual Income Tax	Tier II Railroad Retirement	Federal Provision			
Individual Income Tax	Partial Exclusion of Capital Gains on Pre-1987 Installment Sales	15-30-2110(13)	1987	HB 904	Ch 666
Individual Income Tax	Business Purchase of Recycled Material	15-32-609 to 611	1991	SB 111	Ch 712
Individual Income Tax	Sale of Land to Beginning Farmers	80-12-211	1983	SB 316	Ch 580
Individual Income Tax	Medical and Dental Expenses	Federal Provision			
Individual Income Tax	Medical Insurance Premiums	15-30-2131(1)(a)(iii)	1995	HB 202	Ch 284
Individual Income Tax	Long Term Care Insurance Premiums	15-30-2131(1)(a)(iv)	1997	SB 151	Ch 383
Individual Income Tax	Federal Income Tax	15-30-2131(1)(b)	1933	HB 328	Ch 181
Individual Income Tax	Sales Tax and Local Income Tax	Federal Provision			
Individual Income Tax	Property Taxes on Real Estate	Federal Provision			

Tax Source	Tax Expenditure	Law	Session/Year	Legislation	Chapter Number
Individual Income Tax	Property Taxes on Personal Property	Federal Provision			
Individual Income Tax	Light Vehicle Registration Fees	15-30-2131(1)(h)	1999	HB 540	Ch 515
Individual Income Tax	Livestock Fees	15-30-2131(1)(i)	2001	HB 124	Ch 574
Individual Income Tax	Other Deductible Taxes	Federal Provision			
Individual Income Tax	Home Mortgage Interest	Federal Provision			
Individual Income Tax	Charitable Contributions	Federal Provision			
Individual Income Tax	Child and Dependent Care Expenses	15-30-2131(1)(c)	1977	HB 47	Ch 102
Individual Income Tax	Casualty and Theft Losses	Federal Provision			
Individual Income Tax	Political Contributions	15-30-2131(1)(d)	1979	HB 407	Ch 129
Individual Income Tax	Capital Gains Credit	15-30-2301	2003	SB 407	Ch 544
Individual Income Tax	College Contribution Credit	15-30-2326	1991	HB 894	Ch 542
Individual Income Tax	Qualified Endowment Credit	15-30-2327 to 2329	1997	HB 434	Ch 537
Individual Income Tax	Energy Conservation Credit	15-32-109 and 15-30-2319	1981	HB 237	Ch 480
Individual Income Tax	Alternative Fuel Credit	15-30-2320	1993	HB 219	Ch 617
Individual Income Tax	Health Insurance for Uninsured Montanans Credit	15-30-2367	1991	HB 693	Ch 606
Individual Income Tax	Elderly Care Credit	15-30-2366	1989	HB 166	Ch 469
Individual Income Tax	Recycling Credit	15-32-601 to 604	1991	SB 111	Ch 712
Individual Income Tax	Oilseed Crushing and Biodiesel Production Facility Credit	15-32-701 to 702	2005	HB 756	Ch 524
Individual Income Tax	Biodiesel Blending and Storage Tank Credit	15-32-703	2005	HB 756	Ch 524
Individual Income Tax	Geothermal Heating System Credit	15-32-115	1991	SB 416	Ch 646
Individual Income Tax	Alternative Energy Systems Credit	15-32-201 to 203	1977	SB 167	Ch 574
Individual Income Tax	Alternative Energy Production Credit	15-32-401 to 407	1983	HB 780	Ch 649
Individual Income Tax	Dependent Care Credit	15-31-131, 15-31-133, 15-30-2373	1989	SB 282	Ch 706
Individual Income Tax	Historic Property Preservation Credit	15-30-2342, 15-31-151	1997	HB 601	Ch 545
Individual Income Tax	Infrastructure Users Fee Credit	17-6-316	1995	SB 100 and HB 602	Ch 2 & Ch 477
Individual Income Tax	Empowerment Zone Credit	15-30-2356 and 15-31-134	2003	SB 484	Ch 582
Individual Income Tax	Research Credit	15-31-150	1999	HB 638	Ch 444
Individual Income Tax	Mineral Exploration Credit	15-32-501 to 510	1999	SB 265	Ch 538
Individual Income Tax	Film Employment Credit	15-31-901 to 911	2005	HB 584	Ch 593
Individual Income Tax	Film Expenditure Credit	15-31-901 to 911	2005	HB 584	Ch 593
Individual Income Tax	Insure Montana Small Business Health Insurance Credit	33-22-2006; 15-30-2368; 15-31-130	2005	HB 667	Ch 595
Individual Income Tax	Adoption Credit	15-30-2364	2007	HB 490	Ch 320
Individual Income Tax	Elderly Homeowner/Renter Credit	15-30-2337 to 15-30-2341	1981	SB 337	Ch584
Individual Income Tax	Credit For Other States' Taxes	15-30-2302	1941	HB 38	Ch 28
Individual Income Tax	Emergency Lodging Credit	15-30-2381	2007	HB 240	Ch 375
Individual Income Tax	State Land Access Credit	15-30-2380	2013	HB 444	Ch 346

Tax Source	Tax Expenditure	Law	Session/Year	Legislation	Chapter Number
Corporate Income Tax	Water's Edge Election	15-31-322 to 15-31-324	1987	HB 703	Ch 616
Corporate Income Tax	Corporate Passive Deduction Expenditures				
Corporate Income Tax	Energy-Conservation Investment Deduction	15-32-103	1975	HB 663	Ch 548
Corporate Income Tax	Deduction for Purchasing Montana-Produced Organic Fertilizer Produced as a Byproduct	15-32-303	1981	SB 322	Ch 533
Corporate Income Tax	Deduction for Donation of Exploration Information	15-32-510	1999	SB 625	Ch 538
Corporate Income Tax	Deduction for Purchase of Recycled Material	15-32-609 and 610	1991	SB 111	Ch 712
Corporate Income Tax	Capital Gains Exclusion for Mobil Home Park	15-31-163	2009	HB 636	Ch 389
Corporate Income Tax	College Contributions Credit	15-30-2326	1991	HB 894	Ch 542
Corporate Income Tax	Contractor's Gross Receipts Tax Credit	15-50-207	1967	HB 530	Ch 195
Corporate Income Tax	Charitable Endowments Credit	15-31-161 and 162	1997	HB 434	Ch 537
Corporate Income Tax	Alternative Fuel Motor Vehicle Conversion Credit	15-30-2320	1993	HB 219	Ch 617
Corporate Income Tax	Health Insurance for Uninsured Montanans Credit	15-31-132	1989	HB 166	Ch 469
Corporate Income Tax	Insure Montana Small Businesses Health Insurance Credit	15-31-130 and 33-22-2006	2005	HB 667	Ch 595
Corporate Income Tax	Recycling Credit	15-32-601 to 611	1991	SB 111	Ch 712
Corporate Income Tax	Oilseed Crushing and Biodiesel Production Facility Credit	15-32-701 and 702	2005	HB 756	Ch 524
Corporate Income Tax	Biodiesel Blending and Storage Tank Credit	15-32-703	2005	HB 756	Ch 524
Corporate Income Tax	Geothermal Heating Credit	15-32-115	2005	SB 340	Ch 455
Corporate Income Tax	Alternative Energy Production Credit	15-32-401 to 407	1983	HB 755	Ch 648
Corporate Income Tax	Dependent Care Assistance Credit	15-31-131 and 133	1989	SB 282	Ch 706
Corporate Income Tax	Historic Property Preservation Credit	15-31-151	1997	HB 601	Ch 545
Corporate Income Tax	Infrastructure Users Fee Credit	17-6-316	1995	SB 100 & HB 602	Ch 2 & Ch 477
Corporate Income Tax	New and Expanded Industry Credit	15-31-124 to 127	1975	HB 593	Ch 435
Corporate Income Tax	Empowerment Zone New Employees Tax Credit	15-31-134	2003	SB 484	Ch 582
Corporate Income Tax	Qualified Research Credit	15-31-150	1999	HB 638	Ch 444
Corporate Income Tax	Mineral Exploration Incentive Credit	15-32-501 to 509	1999	SB 625	Ch 538
Corporate Income Tax	Film Employment Credit	15-31-901 to 911	2005	HB 584	Ch 393
Corporate Income Tax	Short Tem Temporary Lodging Credit	15-31-171	2007	HB 240	Ch 375
Property Tax	Property Tax Assistance Program	15-6-134	1979	HB 398	Ch 706
Property Tax	Disabled American Veterans Program	15-6-211	1979	HB 213	Ch 693
Property Tax	Extended Property Tax Assistance Program	15-6-193	2003	SB 461	Ch 606
Oil and Gas Tax	Reduced Rate for Oil and Gas Wells Completed After 1998	15-36-304	1977	HB 553	Ch 256
Oil and Gas Tax	New Production Tax Holiday	15-36-304	1977	HB 553	Ch 256
Oil and Gas Tax	Reduced Rates for Horizontally Recompleted Oil Wells	15-36-304	1993	SB 18	Ch 9
Oil and Gas Tax	Reduced Rates for Incremental Oil Production from Enhanced Recovery Projects	15-36-304	1985	HB 636	Ch 724
Oil and Gas Tax	Reduced Rates for Stripper and Super Stripper Oil Production	15-36-304	1959	HB 484	Ch 172

Introduction to Tax Expenditures

The following tables show the cost of tax expenditures by size. The tables showing income, corporate income, and property tax expenditures show only the cost to the general fund for these provisions. The fourth table showing natural resource expenditures shows the total cost of the tax expenditure to state and any local governments. Passive tax expenditures are not included in these tables. The total cost of passive expenditures from special provisions in the federal definition of total income is approximately $283 million.

The income tax table does not show the following five provisions, as they all had no cost to the general fund in 2013: farm and ranch risk management accounts deduction, oilseed crushing and biodiesel production facility credit, empowerment zone credit, mineral exploration credit, and emergency lodging credit.

In the corporate income tax table, the total cost of energy conserving investments deduction, the deduction for purchasing Montana-produced organic fertilizer and inorganic fertilizer as a byproduct, the deduction for donation of exploration information, and capital gain exclusion for mobile home park are not available as they are not reported individually.

Individual Income Tax Expenditures	2013
Federal Income Tax Deduction	$66,976,406
Special Treatment for Capital Gains	$29,365,395
Credit for Other States' Taxes	$27,252,784
Medical Insurance Premium Deduction	$17,602,245
Medical and Dental Expenses Deduction	$9,817,890
Elderly Homeowner/Renter Credit	$8,485,894
Exempt Military Salary	$7,927,126
Unemployment Compensation Deduction	$6,828,544
Energy Conservation Credit	$3,931,727
Partial Pension Exemption	$3,459,610
Exempt Tips	$2,457,255
Qualified Endowment Credit	$1,959,610
Long Term Care Insurance Premium Deduction	$1,480,093
Partial Interest Exclusion for Elderly Taxpayers	$1,349,450
Montana Medical Care Savings Account Deduction	$1,150,552
Family Education Savings Account Deduction	$626,909
Alternative Energy Systems Credit	$518,842
College Contribution Credit	$254,708
Geothermal Heating System Credit	$199,561
Recycling Credit	$187,167
Adoption Credit	$163,563
Health Insurance for Uninsured Montanans Credit	$134,370
Historic Property Preservation Credit	$128,501
Third-Party Repayment of Health Care Professional's Student Loans Deduction	$58,935
Film Employment Credit	$55,391
Health Benefits Limited to Highly-Compensated Employees Deduction	$47,933
Political Contribution Deduction	$38,341
First Time Homebuyer Account Deduction	$30,942
Worker's Compensation Deduction	$24,696
Business Purchases of Recycled Material Deduction	$24,594
Infrastructure Users Fee Credit	$21,503
Elderly Care Credit	$19,028
Film Expenditure Credit	$15,150
Child and Dependent Care Expenses Deduction	$13,402
Small Business Investment Company Dividend Deduction	$11,984
Partial Exclusion of Capital Gains on Pre-1987 Installment Sales	$10,402
Alternative Fuel Credit	$7,661
Dependent Care Assistance Credit	$4,724
Exempt Disability Retirement Income Deduction	$2,993
Biodiesel Blending and Storage Tank Credit	$2,250
Sales of Land to Beginning Farmers Deduction	$2,237
Research Credit	$1,521
National Guard Life Insurance Premiums Deduction	$1,031
Alternative Energy Production Credit	$56

Corporate Income Tax Expenditures	2012
Water's Edge Election*	$8-$13 million
Recycled Material Qualifying for Deduction	$956,782
Contractor's Gross Receipts	$763,534
Insure Montana Small Business Health Insurance Credit	$667,413
Infrastructure Users Fee Credit	$305,304
Recycling Credit	$79,815
Charitable Endowment Credit	$60,406
Film Employment and Production Tax Credit	$49,491
Qualified Research Credit	$47,394
Health Insurance for Uninsured Montanans Credit	$15,220
College Contribution Credit	$9,020
Alternative Energy Production Credit	$50
Mineral Exploration Incentive Credit	$25
Alternative Fuel Motor Vehicle Conversion Credit	$0
Oilseed Crushing & Biodiesel Production Credit	$0
Biodiesel Blending and Storage Tank Credit	$0
Geothermal Heating System Credit	$0
Dependent Care Assistance Credit	$0
Historic Property Preservation Credit	$0
New/Expanded Industry Credit	$0
Empowerment Zone New Employees Tax Credit	$0
Short-term Temporary Lodging Credit	$0
Energy Conserving Investments Deduction	--
Deduction for Purchasing Montana-Produced Organic Fertilizer and Inorganic Fertilizer Produced as a Byproduct	--
Deduction for Donation of Exploration Information	--
Capital Gain Exclusion for Mobile Home Park	--

*The water's edge election expenditure amount is an estimate based on audits

Property Tax Expenditures	2014
Tax Increment Financing Districts	$4,324,414
Property Tax Assistance Program	$1,765,544
Disabled American Veterans Program	$453,681
Energy Production or Development Tax Abatement	$364,728
Extended Property Tax Assistance Program	$144,549
Electrical Generation and Transmission Facility Exemption	$0

Natural Resource Tax Expenditures	2014
Oil New Production Holiday (Oil and Gas Production Tax)	$55,864,789
Natural Gas New Production Tax Holiday (Oil and Gas Production Tax)	$2,010,467
Oil Stripper Well Production (Oil and Gas Production Tax)	$1,366,587
Natural Gas Pre-1999 and Less than 60 MCF/day (Oil and Gas Production Tax)	$1,283,197
Oil Horizontally Recompleted Wells (Oil and Gas Production Tax)	$0
Reduced Gross Proceeds Tax Rate for New Underground Coal Mines (Coal Severance Tax)	$0

Tax Expenditures: Individual Income Tax

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 receipts 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. The personal exemption and standard deduction can be viewed as defining an initial rate bracket with a zero tax rate.

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 income for 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 called 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 $608 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, 0.27 percent, and the ratio of the top Montana rate to the top federal rate, 17.4 percent, gives the following rough estimate of these passive tax expenditures:

Montana Passive Expenditures from Special Provisions in Federal Definition of Total Income ($ million)
$283

Other passive tax expenditures arise from specific adjustments to gross income. These items are listed on both federal and state tax returns. On the 2013 Montana Form 2, they are on lines 24 through 37. 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 unreimbursed 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 take a new job; and the deduction for penalties for early withdrawal of savings.

1 "Estimates of Federal Tax Expenditures for Fiscal Years 2012-2017" by the staff of the Joint Committee on Taxation, January, 2013, Document JCS-1-13.

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.

Student Loan Interest Deduction: Federal Provision
Legislation: NA

Taxpayers may deduct up to $2,500 of 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 more in their own or their dependents' educations. It also provides an incentive to increase the proportion of education expenses financed by borrowing. The following table shows student loan interest deductions for tax years 2005 through 2013. For 2013, the student loan interest deduction reduced income tax revenue to the state general fund by $2,580,810, or $4.08 per full-year resident taxpayer.

Student Loan Interest Deduction								
	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
2010	42,392	$34,202,184	2,470	$2,081,298	3,385	$3,138,523	48,247	$39,422,005
2011	42,279	$36,245,983	2,641	$2,480,349	3,513	$3,433,628	48,433	$42,159,960
2012	43,380	$38,303,590	3,033	$2,913,781	3,880	$3,864,992	50,293	$45,082,363
2013	45,115	$41,374,226	3,194	$3,188,041	4,063	$4,132,916	52,372	$48,695,183

Tuition and Fees Deduction: Federal Provision
Legislation: NA

Taxpayers may deduct up to $4,000 of tuition and fees they paid for their own or their dependents' post-secondary education. Federal law also allows a tax credit for some higher education expenses, 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. The following table shows tuition and fees deductions for tax years 2007 through 2013. For 2013, the tuition and fees deduction reduced income tax revenue to the state general fund by $481,661, or $0.76 per full year resident taxpayer.

This deduction sunset at the end of 2014. It is part of the temporary provisions that Congress has been extending for one year at a time.

Tuition and Fees Deduction								
	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
2010	5,387	$11,733,181	601	$1,355,631	453	$1,108,694	6,441	$14,197,506
2011	5,640	$12,398,266	618	$1,457,285	542	$1,372,674	6,800	$15,228,225
2012	5,914	$13,060,037	637	$1,392,408	553	$1,458,678	7,104	$15,911,123
2013	5,496	$12,198,697	623	$1,359,370	531	$1,388,396	6,650	$14,946,463

Health Savings Account Deduction: Federal Provision
Legislation: NA

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.

The following table shows HSA deductions for tax years 2005 through 2013. For 2013, the HSA deduction reduced income tax revenue to the state general fund by $1,824,596, or $2.89 per full year resident taxpayer.

Health Savings Account Deduction								
	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	$343,945	6,970	$22,819,533
2010	6,903	$21,882,122	965	$4,328,394	237	$529,198	8,105	$26,739,714
2011	7,673	$24,675,845	1,066	$4,630,468	264	$598,301	9,003	$29,904,614
2012	7,785	$25,616,255	1,063	$4,751,936	221	$552,963	9,069	$30,921,154
2013	8,119	$28,425,705	1,212	$5,547,865	235	$565,381	9,566	$34,538,951

Individual Retirement Account Deduction: Federal Provision
Legislation: NA

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 is limited to $5,500. 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 plans have a lower limit that depends on their income.

Earnings retained in an IRA are not taxed. Funds deposited in an IRA and accumulated earnings are both taxed when they are withdrawn. This deferral of taxes gives taxpayers an incentive to increase retirement savings.

The following table shows IRA deductions for tax years 2005 through 2013. For 2013, the IRA deduction reduced income tax revenue to the state general fund by $3,962,612, or $6.27 per full year resident taxpayer.

Individual Retirement Account Deduction								
	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
2010	12,484	$53,329,887	1,091	$6,499,869	269	$928,945	13,844	$60,758,701
2011	12,466	$54,281,327	1,145	$6,889,532	353	$1,224,768	13,964	$62,395,627
2012	12,406	$56,077,309	1,219	$7,332,085	348	$1,060,895	13,973	$64,470,289
2013	12,909	$62,060,097	1,403	$9,118,826	392	$1,451,143	14,704	$72,630,066

Domestic Production Activities Deduction: Federal Provision
Legislation: NA

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 an above-the-line deduction of 9 percent of net income from producing new goods and engineering and architectural services in the United States. The deduction cannot be more than the smaller of the taxpayer's adjusted gross income (taxable income for a corporation) or half of the wages the taxpayer pays to employees. An individual can claim the deduction based on income from production activities carried out by a sole-proprietor business or the taxpayer's share of income from production activities carried out by a pass-through entity.

This partial exemption of income from manufacturing and engineering and architectural services is equivalent to taxing this income at a lower rate than income from other business activities. This 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.

The following table shows domestic production activities deductions for tax years 2005 through 2013. For 2013, the domestic production activities deduction reduced individual income tax revenue to the general fund by $3,604,224, or $5.70 per full-year resident taxpayer. Most of the value of this deduction is claimed by non-residents, but most non-residents filers have a relatively small fraction of their income from Montana, so most of the tax expenditure goes to residents.

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
2010	5,574	$43,123,307	2,109	$324,358,015	74	$618,466	7,757	$368,099,788
2011	5,638	$43,533,192	2,210	$385,089,358	73	$791,762	7,921	$429,414,312
2012	5,534	$47,736,036	2,151	$406,922,598	60	$211,682	7,745	$454,870,316
2013	6,088	$50,133,423	2,541	$390,432,012	82	$704,680	8,711	$441,270,115

Deductions for the Self-Employed: Federal Provision
Legislation: NA

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 person's health insurance premiums. These are equivalent to an employer's payments for payroll taxes, health insurance benefits, and pension contributions that are not included in employee's adjusted gross income.

The exclusions for employees provide an incentive for employers to offer and employees to accept pension and health benefits because they make it cheaper for employers to provide an additional dollar of after-tax compensation as fringe benefits rather than as wages. Providing the same exclusions for self-employed persons removes an incentive to be an employee rather than self-employed.

The costs of the exclusions for employees are included in the figure for passive tax expenditures. The following tables show these deductions for tax years 2005 through 2013. For 2013, extending these exclusions to the self-employed reduced income tax revenue to the state general fund by $15,873,862, or $25.11 per full-year resident taxpayer.

One-Half of Self Employment Tax

	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
2010	56,835	$69,819,591	7,555	$34,223,881	1,983	$2,112,075	66,373	$106,155,547
2011	58,708	$76,908,913	8,341	$36,132,655	2,029	$2,057,736	69,078	$115,099,304
2012	57,264	$77,679,329	8,375	$32,192,253	2,115	$2,006,523	67,754	$111,878,105
2013	59,162	$84,415,172	9,383	$38,275,634	2,307	$2,297,896	70,852	$124,988,702

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
2010	2,611	$43,089,605	1,143	$33,264,923	69	$1,217,513	3,823	$77,572,041
2011	2,588	$42,298,279	1,168	$36,460,986	62	$1,288,153	3,818	$80,047,418
2012	2,443	$41,584,610	1,088	$33,441,775	49	$997,520	3,580	$76,023,905
2013	2,632	$47,762,885	1,259	$38,226,913	63	$1,266,334	3,954	$87,256,132

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
2010	21,191	$110,816,477	4,114	$35,170,815	412	$1,738,433	25,717	$147,725,725
2011	21,235	$116,579,020	4,359	$39,243,006	409	$1,547,156	26,003	$157,369,182
2012	20,848	$116,803,202	4,265	$38,252,152	399	$1,581,816	25,512	$156,637,170
2013	22,355	$132,130,435	4,984	$46,016,372	434	$1,800,061	27,773	$179,946,868

Montana Adjustments to Income
Montana has 50 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 allocate income between spouses filing separate Montana returns when they file 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 tax. Most exist because the legislature has chosen to partly or completely exempt certain types of income from taxation.

Interest on Federal Government Bonds: Federal Provision and 15-30-2110(2)(a), MCA
Legislation: NA

Federal law and court decisions prohibit states from taxing interest on federal government bonds. Montana law exempts interest on federal bonds from taxation. The following table shows exempt federal interest since 2005. If the state was able to tax this income it would have increased income tax revenue to the general fund by $1,085,328, or $1.72 per full year resident taxpayer for 2013.

Interest on Federal Government Bonds

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
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
2010	18,966	$31,017,274	3,382	$116,283,113	479	$556,615	22,827	$147,857,002
2011	17,310	$25,764,777	3,192	$150,492,487	428	$484,575	20,930	$176,741,839
2012	16,211	$22,275,353	2,844	$58,400,464	451	$850,448	19,506	$81,526,265
2013	15,909	$19,330,263	2,572	$106,019,200	416	$526,474	18,897	$125,875,937

Exempt Tribal Income: Federal Provision
Legislation: NA

Indian tribes are sovereign governments and state taxation of tribes and their members is governed by federal law and treaties. The right to tax the income that 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 and income a tribal member earns off the 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. Therefore, it is not clear whether the exemption for tribal income should be considered a tax expenditure.

The following table shows exempt tribal income reported on Montana returns since 2005. If the state was able to tax this income it would have increased income tax revenue to the general fund by $6,250,767, or $9.89 per full year resident taxpayer for 2013.

Exempt Tribal Income

	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
2010	7,202	$200,800,212	20	$496,160	53	$1,376,590	7,275	$202,672,962
2011	7,132	$290,700,359	19	$388,120	51	$1,315,689	7,202	$292,404,168
2012	6,959	$221,787,087	16	$473,244	50	$1,169,701	7,025	$223,430,032
2013	5,620	$170,919,136	22	$539,535	44	$978,101	5,686	$172,436,772

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

Unemployment Compensation: 15-30-2101, MCA
Legislation: HB 363 1979 Session

Federal law exempts the first $2,400 of unemployment compensation. Montana exempts all unemployment compensation from taxation. The state revenue loss from the federal exemption is included in the estimate of passive tax expenditures. The following table shows additional state exemptions for unemployment compensation since 2005. For 2013, this exclusion reduced income tax revenue to the general fund by $6,828,544, or $10.80 per full year resident taxpayer.

Unemployment Compensation								
	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
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
2010	47,123	$268,585,687	4,653	$34,225,311	2,750	$18,303,436	54,526	$321,114,434
2011	41,856	$192,982,355	4,523	$28,417,877	2,523	$14,055,209	48,902	$235,455,441
2012	35,808	$158,526,968	5,298	$31,476,030	2,316	$12,245,987	43,422	$202,248,985
2013	32,374	$129,933,369	4,756	$26,765,431	2,171	$10,499,700	39,301	$167,198,500

Worker's Compensation: 15-30-2110(2)(g), MCA
Legislation: SB 72, 1985 Session

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. The state revenue loss from the federal exemption is included in the estimate of passive tax expenditures. The following table shows additional state exemptions for worker's compensation payments since 2005. For 2013, this exclusion reduced income tax revenue to the general fund by $24,696, or $0.04 per full-year resident taxpayer.

Exempt Worker's Compensation								
	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
2010	323	$1,990,149	20	$102,955	17	$122,757	360	$2,215,861
2011	149	$786,281	*	$22,823	*	$22,849	*	$831,953
2012	135	$918,240	*	$42,137	*	$70,004	*	$1,030,381
2013	137	$1,009,272	*	$29,361	*	$9,979	*	$1,048,612

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

Small Business Investment Company Dividends: 15-33-106, MCA
Legislation: HB 834, 1981 Session

The federal Small Business Investment Act of 1958 created a category of venture capital firms called small business investment companies. Montana law allows taxpayers to exempt capital gains or dividends from a Montana small business investment company. This provides an incentive to invest in these companies rather than in other businesses.

The following table shows income exempted under this provision since 2005. For 2013, this exclusion reduced income tax revenue to the general fund by $11,984, or $0.02 per full year resident taxpayer.

Capital Gains from Small Business Investment Companies								
	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	$0	*	$73,219
2010	54	$148,811	*	$44,362	*	$8	*	$193,181
2011	33	$95,032	*	$15,277	*	$48,675	*	$158,984
2012	15	$47,868	*	$24,814	0	$0	*	$72,682
2013	17	$173,389	*	$209,411	*	$274	*	$383,074

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

National Guard Life Insurance Premiums: 15-30-2117(3)
Legislation: HB 761, 2005 Session

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. This exemption increases the after-tax income of guard and reserve members, increasing the financial incentive to join or remain in the guard or reserves. It also provides an incentive for guard and reserve members to purchase military group life insurance. The following table shows exempt Guard and Reserve life insurance premium reimbursements since 2005. For 2013, this exclusion reduced income tax revenue to the general fund by $1,031, or $0.002 per full year resident taxpayer.

National Guard Life Insurance Premium Reimbursement								
	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	$0	*	$442,752
2010	52	$69,491	*	$1,600	*	$433	*	$71,524
2011	45	$14,795	*	$468	*	$210	*	$15,473
2012	41	$17,001	*	$324	*	$549	*	$17,874
2013	46	$28,091	*	$27	*	$569	*	$28,687

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

Military Salary: 15-30-2117(2), MCA
Legislation: HB 152, 1979 Session

Montana exempts the military salary of residents who are on active duty in the armed forces. The following table shows the amount of income subject to this exemption since 2005.

Active Duty Military Salary								
	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
2010	4,706	$153,852,927	95	$3,641,023	160	$4,601,945	4,961	$162,095,895
2011	4,368	$148,526,725	94	$3,910,963	136	$4,049,039	4,598	$156,486,727
2012	4,520	$158,404,853	93	$4,059,101	150	$4,931,370	4,763	$167,395,324
2013	4,521	$164,472,809	129	$5,438,421	143	$4,799,545	4,793	$174,710,775

Federal law allows military personnel and their spouses to maintain residency in their home state and requires states to treat military salaries and some income of military spouses as if it were earned in the home state. This requires Montana to exempt military salaries and some other income that service members and their spouses earn in Montana. The following table shows income not counted as Montana income because of this requirement.

Non-Resident Military Salary								
	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
2010	115	$4,739,141	576	$23,357,142	168	$4,940,973	859	$33,037,256
2011	119	$4,212,397	520	$22,133,967	174	$5,386,754	813	$31,733,118
2012	107	$3,862,257	626	$25,020,849	207	$5,980,079	940	$34,863,185
2013	125	$4,235,016	743	$29,074,744	189	$6,223,632	1,057	$39,533,392

Together, the state exclusion of residents' military salaries and the federal requirement to exclude non-residents' military salaries reduced 2013 income tax revenue to the general fund by $7,927,126, or $12.54 per full-year resident taxpayer.

Partial Pension Exemption: 15-30-2110(2)(c), MCA
Legislation: HB 232, 1963 Session / SB 226, 1991 Session

Taxpayers with federal adjusted gross income below a threshold have part of their pension income exempted from taxation. For taxpayers with higher incomes, the exemption amount is reduced by $2 for each $1 that federal adjusted gross income exceeds the threshold. Both the threshold and the amount exempted are adjusted for inflation each year. For 2013, the amount exempted was $3,900 and the threshold was $32,480. Taxpayers with federal adjusted gross income between $32,480 and $34,430 were eligible for an exemption of less than $3,900, and taxpayers with incomes over $34,430 were not eligible for the exemption.

This exemption provides a limited incentive to participate in a retirement system and to retain funds in a retirement plan rather than withdrawing them. It also provides a limited incentive for retirees to locate in Montana rather than in a state without a similar exemption. However, this does not appear to have been the legislative purpose. Montana was one of 23 states that originally exempted state employee pensions from the state income tax. This allowed the state to make smaller pension contributions and resulted in some administrative savings. In addition, Montana exempted the first $3,600 of income from federal government pensions. In 1989, a group of federal government and military retirees sued states, including Montana, that exempted state pensions, arguing that states must give them the same exemption. The states lost.[2] The U.S. Supreme Court ruled that states may tax different types of income differently, but may not tax the same type of income differently depending on who paid it. The states that had exempted state employee pensions changed their laws in a variety of ways. The Montana Legislature eliminated the exemption for state employee pensions but extended the $3,600 partial exemption to all pension income.

The following table shows pension income excluded from taxation since 2005. For 2013, this exclusion reduced income tax revenue to the general fund by $3,459,610, or $5.47 per full-year resident taxpayer.

Partial Pension Exemption								
	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
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
2010	41,904	$142,365,778	1,158	$3,732,588	605	$1,974,030	43,667	$148,072,396
2011	43,012	$150,693,545	1,499	$5,074,630	691	$2,174,844	45,202	$157,943,019
2012	43,208	$154,378,099	1,523	$5,023,099	726	$2,393,257	45,457	$161,794,455
2013	43,546	$158,597,172	1,634	$5,502,608	775	$2,596,220	45,955	$166,696,000

Partial Interest Exclusion for Elderly Taxpayers: 15-30-2110(2)(b), MCA
Legislation: HB 18, 1981 Session

Taxpayers who are age 65 or older may exclude up to $800 of interest income. The following table shows interest income excluded since 2005. This exemption provides a limited incentive for retirees to hold interest-paying assets, such as corporate bonds, rather than assets that pay other types of income. It also provides a limited incentive for retirees to locate in Montana rather than in a state without a similar exemption. However, the primary effect is to reduce tax paid by older taxpayers. For 2013, this exclusion reduced income tax revenue to the general fund by $1,349,450, or $2.13 per full year resident taxpayer.

Elderly Interest Exclusion								
	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
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
2010	62,493	$40,226,852	7,614	$7,066,082	911	$549,183	71,018	$47,842,117
2011	62,402	$36,798,111	8,201	$7,096,890	919	$530,202	71,522	$44,425,203
2012	62,095	$33,021,476	8,381	$6,848,965	967	$508,511	71,443	$40,378,952
2013	62,720	$31,301,899	9,135	$7,311,644	1,111	$492,669	72,966	$39,106,212

2 The U.S. Supreme Court ruled against Michigan in *Davis v. Michigan Dep't of Treasury*, 489 U.S. 803, 109 S.Ct. 1500, 103 L.Ed.2d 891 (1989). Montana settled the similar case *Sheehy v. State Dep't of Revenue*, 250 Mont. 437, 820 P.2d 1257 (1991) and issued $15.7 million in refunds for the years 1983 through 1989.

Disability Retirement Income: 15-30-2110(10), MCA
Legislation: SB 464, 1985 Session

Taxpayers who are under the age of 65 and permanently disabled may exclude up to $5,200 of disability retirement income. The amount taxpayers may exclude is reduced by any amount by which their pre-exclusion adjusted gross income exceeds $15,000. The purpose of this exclusion appears to be to increase the after-tax income of permanently disabled taxpayers with low incomes. The following table shows disability income excluded since 2005. For 2013, this exclusion reduced income tax revenue to the general fund by $2,993, or $0.005 per full-year resident taxpayer.

Exempt Disability Retirement Income

	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
2010	179	$786,572	*	$5,200	*	$34,744	*	$826,516
2011	81	$364,329	*	$7,816	0	$0	*	$372,145
2012	60	$276,606	*	$36	*	$9,916	*	$286,558
2013	50	$226,388	0	$0	0	$0	50	$226,388

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

Tips: 15-30-2110(2)(f), MCA
Legislation: HB 841, 1983 Session

Tips earned while working for a licensed food service, beverage, or lodging establishment are not taxable in Montana. The reasoning behind this exclusion is that tips should be considered voluntary gifts from a restaurant's patrons to its employees and gifts generally are not included in taxable income. Federal law considers tips to be taxable compensation for providing services. The following table shows tips excluded from income since 2005. For 2013, this exclusion reduced income tax revenue to the general fund by $2,457,255, or $3.89 per full year resident taxpayer.

Exempt Tips

	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
2010	13,577	$43,592,519	678	$2,124,352	1,087	$3,065,874	15,342	$48,782,745
2011	13,748	$46,381,919	653	$1,858,335	1,111	$3,311,215	15,512	$51,551,469
2012	15,251	$52,275,624	728	$2,117,166	1,283	$3,840,659	17,262	$58,233,449
2013	16,516	$56,390,533	960	$2,592,060	1,621	$4,757,200	19,097	$63,739,793

Health Benefits Limited to Highly-Compensated Employees: 15-30-2110(2)(h), MCA
Legislation: SB 72, 1985 Session

Federal law treats employer-paid premiums for group health insurance and reimbursement of medical costs by an employer's self-insurance program as a nontaxable fringe benefit as long as the same benefits are available to all employees. This creates a passive tax expenditure, and the cost to the state is included in the estimate of passive tax expenditures.

When an employer's health plan provides more benefits to a select group of highly compensated employees, such as company executives, major stock-holders, or the highest-paid employees, federal law requires these employees to count the difference between their benefits and the benefits available to all employees as taxable compensation. Montana law allows these select employees to count their extra health insurance benefits as non-taxable fringe benefits.

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 select employees.

The following table shows federally taxable health insurance premiums excluded from Montana adjusted gross income since 2005. For 2013, this exclusion reduced income tax revenue to the general fund by $47,933, or $0.08 per full-year resident taxpayer.

Health Insurance Premiums Included in Federal Adjusted Gross Income								
	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
2010	172	$677,282	*	$55,831	*	$628	*	$733,741
2011	197	$843,169	*	$31,098	*	$962	*	$875,229
2012	178	$597,413	*	$31,151	*	$15,076	*	$643,640
2013	160	$791,972	*	$14,924	*	$7,318	*	$814,214

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

Third-Party Repayment of Health Care Professional's Student Loans: 15-30-2110(12), MCA
Legislation: SB 408, 2003 Session

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 repayments made by certain federal and state programs from taxable income. Montana excludes qualifying repayments from all programs, including programs private health-care facilities have for their employees. The state cost of the federal exclusion is part of the estimate of passive tax expenditures. The following table shows the cost of the additional state exclusion since 2005.

For 2013, this exclusion reduced income tax revenue to the general fund by $58,935, or $0.09 per full year resident taxpayer.

Health Care Professional Student Loan Repayment Included in Federal AGI								
	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
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
2010	173	$476,765	*	$8,144	12	$30,069	*	$514,978
2011	253	$666,300	*	$2,952	23	$72,978	*	$742,230
2012	281	$789,081	*	$8,465	25	$53,831	*	$851,377
2013	300	$880,391	*	$5,317	31	$79,000	*	$964,708

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

Montana Medical Care Savings Accounts: 15-61-101, MCA to 15-61-205, MCA
Legislation: HB 560, 1995 Session

Federal law has created two mechanisms, the Archer medical savings account and the health savings account, for taxpayers or their employers to set aside pretax 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. The main difference is that the federal programs are limited to taxpayers whose only health insurance is a high-deductible policy while the state program does not have this limitation. The purpose of these accounts appears to be to encourage taxpayers to set aside funds ahead of time to cover medical costs that will not be covered by insurance.

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 purposes, but then the amount withdrawn is treated as income. The following tables show exempt medical savings account deposits and earnings and taxable withdrawals.

For 2013, this exclusion reduced income tax revenue to the general fund by $1,150,552, or $1.82 per full-year resident taxpayer.

Medical Savings Account Deposits

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
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
2010	6,131	$18,732,448	34	$95,825	75	$125,462	6,240	$18,953,735
2011	6,236	$19,395,678	32	$88,049	85	$131,835	6,353	$19,615,562
2012	5,903	$18,791,602	0	$0	76	$135,057	5,979	$18,926,659
2013	6,181	$19,801,670	*	$3,000	77	$118,532	*	$19,923,202

Medical Savings Account Non-Qualified Withdrawals

	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	$0	*	$803	*	$130,160
2010	77	$101,799	*	$530	0	$0	*	$102,329
2011	87	$121,307	0	$0	*	$10,238	*	$131,545
2012	94	$144,311	0	$0	*	$1,185	*	$145,496
2013	72	$129,693	0	$0	*	$31,096	*	$160,789

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

First-Time Homebuyer Accounts: 15-63-101, MCA through 15-63-205, MCA
Legislation: HB 599, 1997 Session

Montana law allows residents who have never owned a home to establish a first-time homebuyer's account. 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 for another use or are not used within 10 years, they must be reported as taxable income.

This program encourages home ownership by reducing the cost of saving for a down payment.

The following tables show exempt deposits and earnings and taxable withdrawals. For 2013, this exclusion reduced income tax revenue to the general fund by $30,942, or $0.05 per full year resident taxpayer.

First-Time Homebuyer Account Deposits

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
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
2010	126	$358,024	0	$0	*	$18,550	*	$376,574
2011	131	$395,135	0	$0	*	$3,751	*	$398,886
2012	158	$501,379	0	$0	*	$12,160	*	$513,539
2013	141	$501,702	*	$2,487	*	$6,150	*	$510,339

First Time Homebuyers Account Non-Qualified Withdrawals

	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	0	$0	13	$29,691
2010	*	$13,722	0	$0	0	$0	*	$13,722
2011	*	$12,589	0	$0	0	$0	*	$12,589
2012	*	$8,053	0	$0	*	$12,000	*	$20,053
2013	*	$50,177	*	$2,322	0	$0	*	$52,499

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

Family Education Savings Accounts: 15-62-101, MCA through 15-62-302, MCA
Legislation: HB 536, 1997 Session

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, usually a child or grandchild. 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. 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. The 2013 Legislature (SB 117) expanded the deduction to include deposits to other states' college savings plans.

This program encourages families to save for their children's college education by lowering the cost of saving any given amount.

The tax expenditure from the federal exclusion of account earnings is included in the estimate of passive tax expenditures. The state exclusion of deposits to an education savings account creates an additional tax expenditure. The following table shows deposits to Montana family educations savings accounts since 2005. For 2013, this exclusion reduced income tax revenue to the general fund by $626,909, or $0.99 per full year resident taxpayer.

Family Education Savings Account Deposits								
	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
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
2010	2,055	$6,547,256	15	$40,337	20	$53,396	2,090	$6,640,989
2011	2,072	$6,528,702	10	$33,150	21	$50,745	2,103	$6,612,597
2012	2,105	$6,838,715	12	$37,817	30	$79,590	2,147	$6,956,122
2013	2,955	$9,385,280	81	$319,193	60	$145,956	3,096	$9,850,429

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

Tier II Railroad Retirement: Federal Provision
Legislation: NA

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. The table below shows Tier II railroad retirement benefits exempted from Montana taxation.

Tier II Railroad Retirement								
	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
2010	2,809	$37,812,494	52	$682,521	23	$209,683	2,884	$38,704,698
2011	2,793	$38,836,218	60	$789,738	24	$338,161	2,877	$39,964,117
2012	2,808	$40,918,763	70	$980,315	38	$619,985	2,916	$42,519,063
2013	2,863	$43,719,325	81	$1,064,303	28	$413,587	2,972	$45,197,215

This exemption increases the after-tax income of railroad retirees.

For 2013, income tax revenue to the general fund would have been $1,399,127 higher if Montana were allowed to tax Tier II railroad retirement. This is $2.21 per full-year resident taxpayer.

Farm and Ranch Risk Management Accounts: 15-30-3001, MCA through 15-30-3005, MCA
Legislation: SB 245, 2001 Session

The 2001 Legislature created farm and ranch risk management accounts as a tool for family farms to deal with uneven and uncertain income. An individual or family farm corporation may set up an account and may deposit up to 20 percent 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.

Federal law allows farmers to average income over three years for income tax purposes. The additional tax smoothing allowed by Montana farm and risk management accounts has seen very little use. There have been fewer than 10 deposits to farm and ranch risk management accounts each year since 2004, and all of those have been made by non-residents. For 2013, this exclusion had no impact on income tax revenue to the general fund. The following tables show exempt deposits and taxable withdrawals since 2005.

Farm and Ranch Risk Management Account Deposits

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
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
2010	0	$0	*	$3,496	0	$0	*	$3,496
2011	0	$0	*	$1,807	0	$0	*	$1,807
2012	0	$0	0	$0	0	$0	0	$0
2013	0	$0	0	$0	0	$0	0	$0

Farm and Ranch Risk Management Account Taxable Distributions

	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	$0	*	$3,985
2010	*	$191	*	$1,880	0	$0	*	$2,071
2011	*	$10,576	*	$8,823	0	$0	*	$19,399
2012	*	$5,043	*	$2,651	0	$0	*	$7,694
2013	*	$1,003	*	$13,106	0	$0	*	$14,109

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

Partial Exclusion of Capital Gains on Pre-1987 Installment Sales: 15-30-2110(13), MCA
Legislation: HB 904, 1987 Session

Before 1987, federal law allowed taxpayers to exclude 40 percent 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 Congress replaced it with preferential tax rates for capital gains. Montana law continues to allow the 40 percent exclusion for capital gains on installment sales made before the end of 1986. These gains also are eligible for the capital gains credit and therefore receive a double preference. The following table shows gains excluded under this provision since 2005.

40% Exclusion of Pre-1987 Capital Gains								
	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
2010	292	$1,155,423	14	$2,594,406	*	$38	*	$3,749,867
2011	45	$123,493	15	$14,022,194	0	$0	60	$14,145,687
2012	50	$884,971	10	$137,043	0	$0	60	$1,022,014
2013	40	$148,686	10	$55,695	*	$23,161	*	$227,542

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

The original partial exclusion of capital gains income gave an incentive to invest in assets that appreciate over time rather than in assets that pay a stream of ordinary income. Today, this provision just applies pre-1987 tax law to payments from transactions that occurred before 1987. This probably has little effect on taxpayer behavior.

For 2013, this exclusion reduced income tax revenue to the general fund by $10,402, or $0.02 per full-year resident taxpayer.

Business Purchases of Recycled Material: 15-32-609, MCA through 15-32-611, MCA
Legislation: SB 111, 1991 Session

Montana allows businesses to take an extra deduction of 10 percent of the cost of purchases of recycled materials. In effect, this allows a business expense deduction of 110 percent of the cost of recycled materials. This reduces the cost of recycled material relative to other raw materials, giving businesses an incentive to use recycled material.

The deduction is available to corporations and to the owners of sole-proprietor businesses and pass-through entities. The following table shows individual income tax deductions for purchases of recycled material since 2005. For 2013, this exclusion reduced income tax revenue to the general fund by $24,594, or $0.04 per full-year resident taxpayer.

Business Expense for Recycled Materials								
	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	$0	*	$113	*	$136,788
2010	112	$204,911	*	$105	*	$250	*	$205,266
2011	98	$266,011	*	$65,406	*	$660	*	$332,077
2012	104	$242,946	*	$46,045	*	$302	*	$289,293
2013	91	$366,958	*	$239	*	$663	*	$367,860

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

Sales of Land to Beginning Farmers: 80-12-211, MCA
Legislation: SB 316, 1983 Session

Montana allows taxpayers to exclude up to $50,000 of income from the sale of at least 80 acres to a beginning farmer. To be eligible, a taxpayer's land sale must be approved by the Montana Department of Agriculture. The deduction provides an incentive for retiring farmers to sell land to someone who will keep it in agriculture rather than convert it to another use.

The following table shows income excluded since 2005. Fewer than ten taxpayers have used the exclusion every year. For 2013, this exclusion reduced income tax revenue to the general fund by $2,237, or $0.004 per full-year resident taxpayer.

Sales of Land to Beginning Farmers

	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
2010	*	$5,956	*	$546,272	0	$0	*	$552,228
2011	*	$55,961	*	$11	0	$0	*	$55,972
2012	*	$6,796	0	$0	0	$0	*	$6,796
2013	*	$56,687	0	$0	0	$0	*	$56,687

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

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 itemized deductions exceed the 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 $6,000 is in the 3 percent state tax bracket and the 10 percent 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 percent state tax bracket and the 39.6 percent federal tax bracket. An additional $100 deduction would reduce this person's state tax liability by $6.90 and federal tax liability by $39.60, for a total of $46.50. The $100 expenditure that was the basis of the deduction cost this taxpayer $53.50 and cost the state and federal governments, and ultimately other taxpayers, $46.50.

Montana generally allows itemized deductions allowed by federal law (15-30-2131(1)(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 unreimbursed 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 unreimbursed business expenses allows taxpayers to deduct expenses that are common and useful in the taxpayer's occupation and exceed 2 percent 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 percent of adjusted gross income.

Medical and Dental Expenses: Federal Provision
Legislation: NA

Both federal and state law allow an itemized deduction for a portion of the taxpayer's unreimbursed medical and dental expenses. Expenses that are paid directly by another party or which are reimbursed by insurance are not deductible. Premiums for health insurance and long term care insurance are considered deductible medical expenses.

Through 2012, the deduction was for expenses that were more than 7.5 percent of adjusted gross income. Beginning in 2013, taxpayers younger than 65 can only deduct expenses that are more than 10 percent of adjusted gross income. Through 2016, taxpayers who are at least age 65 will still be able to deduct expenses that are more than 7.5 percent of adjusted gross income. Beginning in 2017, the 10 percent threshold will apply to all taxpayers. This deduction provides a partial reimbursement or subsidy for taxpayers who have high unreimbursed medical expenses in a year.

The following table shows itemized deductions for medical and dental expenses for tax years 2005 through 2013. For tax year 2013, this deduction reduced income tax revenue to the general fund by $9,817,890, or $15.53 per full-year resident taxpayer.

Medical Expenses over 7.5% of Adjusted Gross Income								
	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
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
2010	70,087	$304,436,666	3,366	$25,336,873	1,073	$4,940,915	74,526	$334,714,454
2011	68,589	$301,438,269	3,313	$27,542,862	1,179	$6,185,864	73,081	$335,166,995
2012	65,601	$296,883,350	3,385	$27,559,664	1,247	$6,483,899	70,233	$330,926,913
2013	57,445	$289,795,563	3,171	$29,070,157	1,126	$5,858,508	61,742	$324,724,228

Medical Insurance Premiums: 15-30-2131(1)(a)(iii), MCA
Legislation: HB 202, 1995 Session

In addition to the federal deduction for medical expenses, Montana allows an itemized deduction for all unreimbursed 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. The following table shows itemized deductions for medical insurance premiums for tax years 2005 through 2013. For tax year 2013, this deduction reduced income tax revenue to the general fund by $17,602,245, or $27.84 per full year resident taxpayer.

Medical Insurance Premiums Not Deducted Elsewhere								
	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
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
2010	91,411	$353,880,862	7,022	$32,329,763	1,761	$5,727,102	100,194	$391,937,727
2011	91,861	$364,569,523	7,507	$34,416,031	1,952	$6,261,215	101,320	$405,246,769
2012	91,649	$368,422,012	7,962	$36,238,149	2,008	$6,836,636	101,619	$411,496,797
2013	92,845	$388,204,675	8,475	$40,764,387	2,213	$7,808,160	103,533	$436,777,222

Long Term Care Insurance Premiums: 15-30-2131(1)(a)(iv), MCA
Legislation: SB 151, 1997 Session

In addition to the federal deduction for medical expenses, Montana allows an itemized deduction for all unreimbursed 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. The following table shows itemized deductions for medical insurance premiums for tax years 2005 through 2013. For tax year 2013, this deduction reduced income tax revenue to the general fund by $1,480,093 or $2.34 per full-year resident taxpayer.

Long Term Care Insurance Premiums								
	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
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
2010	11,291	$27,300,594	1,212	$3,555,909	183	$390,151	12,686	$31,246,654
2011	11,210	$33,985,594	1,284	$3,706,599	180	$435,634	12,674	$38,127,827
2012	10,966	$27,571,088	1,327	$3,902,607	211	$469,625	12,504	$31,943,320
2013	11,086	$29,433,415	1,393	$4,282,706	198	$459,421	12,677	$34,175,542

Sales Tax or Local Income Tax: Federal Provision
Legislation: NA

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 sales tax or local income taxes in another state.

This provision of federal law sunset at the end of 2014. It is one of the temporary provisions that Congress has been extending one year at a time.

The effect of this deduction on taxpayers is like the effect of the deduction for federal taxes. Formally, it avoids having the state levy income tax on income paid as tax to another state or political subdivision of another state. Practically, it is essentially equivalent to a lower tax rate for taxpayers who pay sales tax or local income tax in another state and itemize deductions.

For example, suppose a taxpayer who lives in another state but has Montana income spends 90 percent of any extra income on purchases that are subject to their home state's 8 percent sales tax. For every $100 of extra income, this person will have $7.40 of extra sales tax deductions so that an extra $100 of gross income is only $92.80 of taxable income. If they are in the 6.9 percent top rate bracket, their effective marginal rate is 6.4 percent (6.9 percent x 92.8 percent).

The following table shows itemized deductions for sales tax or local income tax for tax years 2005 through 2013. For tax year 2013, the deduction for sales tax or local income tax reduced income tax revenue to the general fund by $126,631, or $0.20 per full-year resident taxpayer. More than half of this tax expenditure goes to non-residents.

Local Income Taxes								
	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
2010	285	$130,753	1,160	$15,246,242	373	$293,152	1,818	$15,670,147
2011	294	$131,540	1,249	$10,735,398	400	$215,856	1,943	$11,082,794
2012	229	$102,533	1,527	$4,994,937	437	$345,344	2,193	$5,442,814
2013	190	$136,620	1,545	$5,573,860	513	$346,018	2,248	$6,056,498

Sales Taxes								
	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2009	554	$626,619	4,325	$38,487,222	657	$828,472	5,536	$39,942,313
2010	†	†	†	†	†	†	†	†
2011	406	$512,725	5,239	$16,742,670	777	$1,025,031	6,422	$18,280,426
2012	381	$346,741	5,208	$12,695,689	691	$860,975	6,280	$13,903,405
2013	353	$404,334	5,257	$19,095,941	719	$948,301	6,329	$20,448,576

† This item did not have a separate line on 2010 returns.

Federal Income Tax: 15-30-2131(1)(b), MCA
Legislation: HB 328, 1933 Session

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 and $10,000 for a married couple filing a joint return. Before 2005, there was no upper limit on this deduction. The cap was introduced by SB 407 (2005 Session). The sponsors of this legislation had several goals, which included reducing income tax revenue, lowering the top marginal rate, reducing the number of rate brackets, making the brackets narrower, eliminating the itemized deduction for federal taxes, and having no income group pay more than under prior law. It proved impossible to fully meet all these goals, and the capped deduction was retained to keep the narrower rate brackets from increasing taxes on middle-income taxpayers.

Formally, this deduction partially or completely avoids having the state levy income tax on income paid to the federal government as income tax. Practically, it has the same effect on taxpayers as having lower tax rates for taxpayers who itemize deductions and whose income puts them below the cap on this deduction. This is because each extra dollar of income increases adjusted gross income by a dollar but also increases itemized deductions by the federal marginal tax rate times a dollar. Thus, an extra dollar of adjusted gross income translates into less than an extra dollar of taxable income.

For example, a single taxpayer with taxable income of $25,000 would be in the 6.9 percent state tax bracket and the 15 percent federal tax bracket. An additional $100 of income would result in an additional $15 of federal income tax, giving an $85 increase in taxable income. Applying the 6.9 percent rate to $85 gives additional tax of $5.87, for an effective marginal tax rate of about 5.9 percent rather than 6.9 percent.[3] For a taxpayer whose federal taxes are above the cap on the deduction, the effective marginal tax rate is 6.9 percent.

The following table shows itemized deductions for federal income tax for tax years 2005 through 2013. For tax year 2013, the deduction for federal income tax reduced income tax revenue to the general fund by $66,976,406, or $105.94 per full-year resident taxpayer.

3 If a taxpayer claims the state deduction for federal taxes but not the federal deduction for state taxes, the effective marginal state tax rate is *state rate * (1 – federal rate)*. If a taxpayer claims both the state deduction for federal taxes and the federal deduction for state taxes, the effective marginal state tax rate is *state rate * (1 - federal rate) / (1- state rate * federal rate).*

Federal Income Tax								
	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
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
2010	210,199	$1,015,360,042	24,995	$172,019,855	7,128	$39,395,858	242,322	$1,226,775,755
2011	218,905	$1,132,026,533	27,349	$191,751,665	8,098	$45,809,499	254,352	$1,369,587,697
2012	219,334	$1,154,479,513	30,146	$211,978,444	8,933	$51,384,146	258,413	$1,417,842,103
2013	224,818	$1,206,775,407	32,250	$229,764,838	9,500	$54,613,668	266,568	$1,491,153,913

Property Taxes on Real Estate: Federal Provision
Legislation: NA

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. Since taxpayers with higher incomes tend to own more real estate and pay more property taxes, the effect is similar to having lower rates for property owners. This deduction also provides an incentive for ownership of real estate relative to making other purchases and to own rather than rent.

The following table shows itemized deductions for real estate taxes for tax years 2005 through 2013. For tax year 2013, the deduction for real estate taxes reduced income tax revenue to the state general fund by $24,740,992, or $39.13 per full-year resident taxpayer.

Real Estate Taxes								
	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
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
2010	190,240	$400,710,387	17,430	$132,985,027	4,242	$10,966,735	211,912	$544,662,149
2011	190,503	$411,428,092	18,284	$140,956,982	4,432	$11,106,045	213,219	$563,491,119
2012	187,722	$407,127,118	19,198	$115,915,969	4,713	$11,434,342	211,633	$534,477,429
2013	191,258	$427,371,486	20,552	$147,935,026	4,912	$12,574,315	216,722	$587,880,827

Property Taxes on Personal Property: Federal Provision and 15-30-2131(1)(h), MCA
Legislation: HB 540, 1999 Session (light vehicle fees)

Both federal and Montana law allows 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. To the extent that taxpayers with higher incomes own more taxable personal property, the effect on taxpayers is similar to having a lower rate for personal property owners. It also provides an incentive for the ownership of taxable rather than untaxed personal property.

The following table shows itemized deductions for personal property taxes for tax years 2005 through 2013. For tax year 2013, the deduction for personal property taxes reduced income tax revenue to the general fund by $3,267,819, or $5.17 per full-year resident taxpayer.

Personal Property Taxes								
	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
2010	144,929	$52,671,671	8,059	$4,918,690	3,132	$1,303,742	156,120	$58,894,103
2011	148,894	$52,698,081	8,638	$5,110,112	3,473	$1,484,196	161,005	$59,292,389
2012	148,566	$52,294,545	9,434	$5,321,672	3,706	$1,472,320	161,706	$59,088,537
2013	152,201	$54,011,758	10,082	$5,899,666	4,135	$1,724,377	166,418	$61,635,801

Other Deductible Taxes: Federal Provision
Legislation: NA

Federal and state law allows 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. As with other deductions for taxes, the effect on taxpayers is similar to having lower rates as long as taxpayers with higher incomes tend to pay more of the deductible taxes.

The following table shows itemized deductions for other taxes from 2005 through 2013. For tax year 2013, the deduction for other taxes reduced income tax revenue to the state general fund by $494,788, or $0.78 per full-year resident taxpayer.

Other Deductible Taxes								
	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
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
2010	25,284	$10,298,211	3,789	$7,385,215	560	$493,640	29,633	$18,177,066
2011	23,351	$9,209,030	1,456	$2,553,390	355	$190,590	25,162	$11,953,010
2012	22,435	$8,398,699	1,450	$2,280,780	358	$206,848	24,243	$10,886,327
2013	21,508	$8,636,316	1,612	$2,798,319	355	$216,346	23,475	$11,650,981

Home Mortgage Interest: Federal Provision
Legislation: NA

Federal and state law allow an itemized deduction for home mortgage interest. Through 2012 this deduction was reported on three separate lines. The first was for reporting interest, including pre-paid interest called points, reported on a federal Form 1098. The second line was for reporting interest not reported on a federal Form 1098, and the third was for reporting points not reported on a federal Form 1098. Beginning in 2013, the three were combined in one line.

The deduction for home mortgage interest provides an incentive for home ownership and a disincentive for taxpayers to pay off their mortgages. The following tables show itemized deductions for home mortgage interest. Beginning in 2007, federal and Montana law began allowing an itemized deduction for certain home mortgage insurance premiums. The bottom table shows mortgage insurance deductions. Together, these mortgage-interest-related deductions reduced income tax revenue to the state general fund for 2013 by $54,315,070, or $85.91 per full-year resident taxpayer.

Home Mortgage Interest								
	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2005	155,160	$852,278,151	11,590	$124,370,800	6,364	$45,590,859	173,114	$1,022,239,810
2006	159,621	$985,031,571	13,196	$157,991,341	6,686	$55,079,742	179,503	$1,198,102,654
2007	162,570	$1,121,454,323	11,960	$137,949,189	6,183	$55,526,097	180,713	$1,314,929,609
2008	162,478	$1,174,813,315	13,787	$175,485,749	5,427	$49,463,600	181,692	$1,399,762,664
2009	167,316	$1,140,285,001	14,096	$166,108,763	4,289	$34,239,269	185,701	$1,340,633,033
2010	166,640	$1,099,428,663	15,449	$169,547,752	4,580	$35,825,485	186,669	$1,304,801,900
2011	165,073	$1,031,711,636	16,136	$164,519,232	4,712	$33,782,149	185,921	$1,230,013,017
2012	162,474	$958,035,238	17,192	$151,153,349	5,010	$32,408,936	184,676	$1,141,597,523
2013	141,696	$907,271,882	15,609	$151,307,187	4,583	$32,308,778	161,888	$1,090,887,847

Home Mortgage Insurance Premium: Federal Provision
Legislation: NA

Federal and state law allow an itemized deduction for mortgage insurance premiums for mortgage insurance issued after 2006. Federal law considers mortgage insurance premiums to be part of mortgage interest, and Montana law follows federal law on this point.

This deduction sunset at the end of 2014. It is one of the temporary provisions that Congress has been extending one year at a time.

For 2013, this deduction reduced general fund revenue by $1,695,196, or $2.68 per full-year resident taxpayer.

Qualified Mortgage Insurance Premiums								
	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
2010	17,979	$23,239,755	923	$1,435,739	727	$1,326,476	19,629	$26,001,970
2011	18,823	$20,843,664	1,117	$2,435,089	771	$1,062,445	20,711	$24,341,198
2012	17,378	$20,286,561	1,150	$1,386,050	693	$912,752	19,221	$22,585,363
2013	21,297	$29,921,640	1,453	$1,906,673	948	$1,488,023	23,698	$33,316,336

Charitable Contributions: Federal Provision
Legislation: NA

Federal and Montana law allows an itemized deduction for charitable contributions. In any year, this deduction is limited to 50 percent 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 by making the taxpayer's cost of the donation less than the amount the charity receives.

The following tables show itemized deductions for contributions for tax years 2005 through 2013. Itemized deductions for charitable contributions reduced 2013 income tax revenue to the state general fund by $36,460,796, or $57.67 per full-year resident taxpayer.

Contributions								
	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
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
2010	149,905	$443,302,712	15,018	$777,622,164	3,524	$9,514,707	168,447	$1,230,439,583
2011	149,573	$454,876,219	15,723	$1,483,130,383	3,722	$10,006,032	169,018	$1,948,012,634
2012	147,981	$458,318,428	16,737	$1,356,904,314	4,012	$11,644,667	168,730	$1,826,867,409
2013	150,343	$487,023,319	18,043	$1,375,346,442	4,154	$11,881,345	172,540	$1,874,251,106

Non-Cash Contributions								
	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
2010	63,149	$59,815,976	7,508	$418,247,266	2,375	$2,793,160	73,032	$480,856,402
2011	64,355	$64,804,361	7,972	$750,863,209	2,510	$3,257,614	74,837	$818,925,184
2012	65,204	$68,366,539	8,708	$177,502,381	2,780	$5,131,176	76,692	$251,000,096
2013	68,473	$75,235,417	9,489	$915,527,476	3,059	$3,900,138	81,021	$994,663,031

Carryover of Contributions from Previous Years								
	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
2010	3,628	$34,781,509	561	$703,268,770	60	$924,995	4,249	$738,975,274
2011	3,465	$36,451,707	554	$101,251,825	82	$799,702	4,101	$138,503,234
2012	3,269	$40,198,253	421	$67,939,866	97	$1,597,883	3,787	$109,736,002
2013	3,314	$36,604,717	534	$444,543,991	94	$321,170	3,942	$481,469,878

Child and Dependent Care Expenses: 15-30-2131(1)(c), MCA
Legislation: HB 47, 1977 session

Montana allows an itemized deduction for up to $4,800 of the expenses of maintaining a household for or providing care for certain dependents while the taxpayer is at work or looking for a job. The dependent may be a child under 15 or any person who is unable to care for him 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.

Federal law allows taxpayers to claim a credit rather than an itemized deduction for dependent care expenses. The conditions for claiming the federal credit are similar to the conditions for claiming the state 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.

The following table shows itemized deductions for child and dependent care expenses for tax years 2005 through 2013. The itemized deduction for child and dependent care expenses reduced income tax revenue to the state general fund for 2013 by $13,402, or $0.02 per full year resident taxpayer.

Child and Dependent Care Expenses

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
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
2010	784	$1,468,425	73	$157,712	32	$58,378	889	$1,684,515
2011	805	$1,607,286	64	$132,737	39	$72,575	908	$1,812,598
2012	734	$1,452,494	62	$140,216	37	$76,770	833	$1,669,480
2013	703	$1,447,271	70	$145,804	49	$109,360	822	$1,702,435

Casualty and Theft Losses: Federal Provision
Legislation: N/A

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

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

The following table shows itemized deductions for casualty and theft losses for tax years 2005 through 2013. The itemized deduction for casualty and theft losses reduced income tax revenue to the state general fund for 2013 by $218,331, or $0.35 per full-year resident taxpayer.

Casualty and Theft Losses								
	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
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
2010	470	$4,921,842	29	$1,435,060	18	$236,837	517	$6,593,739
2011	603	$9,738,044	47	$1,819,443	31	$251,412	681	$11,808,899
2012	337	$7,131,478	27	$648,528	15	$92,764	379	$7,872,770
2013	510	$5,869,942	52	$847,644	20	$120,451	582	$6,838,037

Political Contributions: 15-30-2131(1)(d), MCA
Legislation: HB 407, 1979 Session

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.

The following table shows itemized deductions for political contributions for tax years 2005 through 2013. The itemized deduction for political contributions reduced income tax revenue to the general fund for 2013 by $38,341, or $0.06 per full-year resident taxpayer.

Political Contributions								
	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
2010	6,959	$822,083	230	$29,357	86	$9,673	7,275	$861,113
2011	6,047	$729,898	210	$27,487	84	$9,069	6,341	$766,454
2012	8,774	$1,082,429	296	$39,241	121	$14,181	9,191	$1,135,851
2013	5,343	$643,188	185	$24,439	82	$9,661	5,610	$677,288

Special Treatment for Capital Gains: 15-30-2301, MCA
Legislation: HB 407, 2003 Session

A taxpayer has a gain or loss when the price of an asset the taxpayer owns changes and the change is not equal to depreciation on the asset. Gains and losses are realized when the taxpayer sells the asset. A taxpayer has unrealized gains or losses when the market value of an asset is more or less than the taxpayer's basis, which usually is the purchase price less depreciation.

In most cases, gains or losses on asset sales are considered capital gains or losses and are given special tax treatment by both federal and Montana law. In some cases where an asset's book value is less than its market value because of excess depreciation, part or all of the gain from its sale is taxed as ordinary income.

Both federal law and Montana law require taxpayers to recognize gains and losses when assets are sold, rather than when the price change occurs. Gains and losses in the same year are netted against each other. If the result is a net gain, it is taxed that year. A net loss of up to $3,000 ($1,500 for a married taxpayer filing a separate return) may be used to offset other income in the same year, and any loss over this limit must be carried forward to the next year.

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 allow a credit equal to 2 percent of capital gains income. 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 percent on an additional dollar of ordinary income but at 4.9 percent on an additional dollar of capital gains income.

The income tax would not affect taxpayers' choices between assets that yield a stream of income and assets that provide a return through appreciation if capital gains were taxed (and capital losses were deducted) when they accrue rather than when they are realized, if capital gains were taxed at the same rate as ordinary income, and if gains and losses were calculated after adjusting the taxpayer's basis for inflation. In most cases, the preferential treatment of capital gains income creates incentives for taxpayers to invest in assets that produce capital gains rather than producing a stream of income, for taxpayers to make riskier investments, and for taxpayers to hold assets that have appreciated and sell assets that have lost value. However, these incentives may be reversed if taxpayers expect asset price increases to be offset by inflation.

The following table shows capital gains credits for tax years 2005 through 2013. For 2013, the capital gains credit reduced income tax revenue to the general fund by $29,365,395, or $46.45 per full-year resident taxpayer. The reduction in revenue is less than the total amount of credits claimed because some taxpayers reach zero tax liability without using all of their credit.

Capital Gains Credit

	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
2010	31,812	$19,642,186	7,340	$3,794,662	1,043	$318,107	40,195	$23,754,954
2011	37,812	$19,621,982	8,790	$2,539,063	1,266	$822,209	47,868	$22,983,254
2012	50,139	$31,235,460	10,891	$3,745,517	1,615	$570,206	62,645	$35,551,183
2013	62,628	$27,523,134	13,534	$4,269,932	2,165	$496,880	78,327	$32,289,946

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.

Credits generally give taxpayers an incentive to make certain expenditures by providing a partial subsidy for those expenditures, which lowers the taxpayer's cost. The amount of subsidy a taxpayer receives depends on whether the taxpayer can also claim a federal deduction or credit, whether the taxpayer could claim a state deduction for the same expenditure, and whether the taxpayer must choose between a state deduction and the state credit or can claim both. For each credit, this section shows taxpayer subsidies, taking the interactions of state and federal taxes into account, for taxpayers whose federal taxes are above and below the cap on the state deduction for federal taxes.

Sometimes, a taxpayer will have a credit or combination of credits that is greater than their tax liability. If a credit is refundable, the taxpayer receives a direct subsidy equal to the difference between the credit and tax liability, and the cost to the general fund is the full amount of the credit. If a credit is non-refundable but has a carry-over provision, any excess of the credit over tax liability must be carried forward and applied against tax liability in a later year. The current cost to the general fund is limited to the tax liability of taxpayers claiming the credit, but some credits claimed one year may be carried forward and reduce general fund revenue in future years. Also, part of the credits claimed in the current year may have been carried forward from earlier years. If a credit is non-refundable and cannot be carried over, the cost to the general fund is limited by the current tax liability of taxpayers claiming the credit.

College Contribution Credit: 15-30-2301, MCA
Legislation: HB 894, 1991 Session

Individual and corporate taxpayers are allowed a credit of 10 percent of the amount of charitable contributions to the general endowment funds of Montana public or private higher education institutions.

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 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.

$100 Contribution to College Endowment Fund

Taxpayer Claims Credit and Federal and State Deductions	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	$32.91	$33.83
State Tax Subsidy	$16.90	$14.57
Net Taxpayer Subsidy	$49.81	$48.40

Taxpayer Claims Federal and State Itemized Deductions	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	$36.87	$37.90
State Tax Subsidy	$6.90	$4.28
Net Taxpayer Subsidy	$43.77	$42.19

Difference Due to Credit	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	($3.96)	($4.07)
State Tax Subsidy	$10.00	$10.28
Net Taxpayer Subsidy	$6.04	$6.21

This credit is essentially a transfer from the state general fund to Montana college endowment funds. The table above shows the portions of a $100 contribution to an eligible college endowment fund that are ultimately paid by the donor, federal taxpayers, and state taxpayers, when the donor claims state and federal itemized deductions for the donation, when the donor claims the credit in addition to the federal deduction, and the difference due to the credit. The table assumes that the donor is in the top federal and state tax brackets.

The itemized deductions reduce the donor's cost to about 60 percent of the donation, and the credit further reduces it to about 45 percent of the donation. The additional subsidy is less than the credit because claiming the credit reduces the itemized deductions that can be claimed for state taxes.

The following table shows college contribution credits claimed by individual taxpayers for tax years 2005 through 2013.

College Contribution Credit								
	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
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
2010	2,549	$253,119	54	$5,634	27	$3,940	2,630	$262,693
2011	2,506	$238,141	54	$5,232	20	$3,294	2,580	$246,667
2012	2,607	$246,495	56	$8,421	20	$2,038	2,683	$256,954
2013	2,662	$269,473	51	$6,142	24	$1,872	2,737	$277,487

In 2013, this credit cost the state general fund $254,708. Taxpayers were unable to use $22,779 of credits because the credit is non-refundable and cannot be carried forward. Without this credit, $254,708 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: 15-30-2327, MCA through 15-30-2329, MCA
Legislation HB 434, 1997 Session

Individual taxpayers are allowed a credit of 40 percent 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. Planned gifts basically fall into three categories. In the first, the donor continues to receive income or benefits from the donated assets, either for a fixed term or for life, and the endowment receives the assets at the end of the term or when the donor dies. Examples include charitable remainder trusts and life estate arrangements. In the second category, the endowment receives income from the assets, generally for a fixed term, and then the assets revert to the donor or the donor's heirs. Charitable lead trusts fall into this category. The third category of planned gifts is paid-up life insurance.

Corporations are allowed a credit of 20 percent 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. A taxpayer may claim the credit for multiple gifts in one year as long as total credits do not exceed $10,000. A taxpayer who makes eligible contributions in multiple years may take the credit each year. An individual will receive the maximum credit for a gift with a present value of $25,000. A corporation will receive the maximum credit for a gift of $50,000.

The credit originally was 50 percent 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) reduced the credit to 40 percent of the present value of the planned gift for individuals and 20 percent 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. The 2001 Legislature (SB 350) also created an affordable housing revolving loan program and made contributions to the account for this program eligible for the credit. This provision sunset at the end of 2004, and the legislature did not extend it. 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 percent for individuals and 13.3 percent for corporations, with a cap of $6,600. The same bill increased the credit for the period from July 1, 2003 to April 30, 2004, to 50 percent for individuals and 26.7 percent for corporations, with a cap of $13,400. The credit returned to its previous levels May 1, 2004. The 2003 Legislature (SB 143) defined the term "charitable gift annuity" in Montana Code Annotated Title 33, which deals with insurance, and made the credit language refer to that definition. The 2005 Legislature (HB 193) provided for recapture of the tax credit when a gift is returned to the taxpayer. The 2007 Legislature (SB 150) clarified that a building fund or other fund that spends from contributions rather than just from its earnings is not a charitable endowment. SB 150 also extended the sunset date to the end of 2013. The 2013 Legislature (SB 108) extended the sunset date to the end of 2019.

The arrangements that can be used for planned gifts are defined in the IRS code, but there is no specific federal tax treatment of planned gifts other than the general deduction for contributions. 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.

This credit is essentially a transfer from the state general fund to Montana charitable endowment funds. The table to the right shows the portions of a $100 contribution to an eligible endowment fund that are ultimately paid by a donor, and by federal and state taxpayers, when the donor claims state and federal itemized deductions for the donation, when the donor claims the state credit and the federal deduction, and the difference due to the credit. The table assumes that the donor is in the top federal and state rate brackets.

A taxpayer who takes state and federal itemized deductions for a charitable contribution receives a subsidy from other taxpayers of a little more than 40 percent of the donation, with most of that subsidy coming from federal taxes. A taxpayer who claims the state credit and a federal itemized deduction receives a subsidy of a little more than 60 percent, with about two-thirds of the subsidy coming from state taxes.

$100 Contribution to Charitable Endowment Fund

Taxpayer Claims Credit and Federal Itemized Deduction	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	$23.76	$24.43
State Tax Subsidy	$40.00	$38.31
Net Taxpayer Subsidy	$63.76	$62.74

Taxpayer Claims Federal and State Itemized Deductions	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	$36.87	$37.90
State Tax Subsidy	$6.90	$4.28
Net Taxpayer Subsidy	$43.77	$42.19

Difference Due to Credit	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	($13.11)	($13.48)
State Tax Subsidy	$33.10	$34.03
Net Taxpayer Subsidy	$19.99	$20.55

The table below shows qualified endowment credits claimed by individuals for tax years 2005 through 2013.

Qualified Endowment Contribution Credit

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
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
2010	536	$1,737,766	14	$59,121	*	$30,294	*	$1,827,181
2011	501	$1,755,033	10	$24,621	*	$5,063	*	$1,784,717
2012	578	$2,049,386	10	$23,368	0	$0	588	$2,072,754
2013	587	$2,073,344	*	$25,526	*	$25,509	*	$2,124,379

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

In 2013, credits claimed by individual taxpayers cost the state general fund $1,959,610. Taxpayers were unable to use $164,769 of credits because the credit is non-refundable and cannot be carried forward. Without the credit, $1,959,610 would have been available to spend on other programs or taxes could have been reduced by this amount. Qualified endowment credits claimed against individual income tax cost other taxpayers an average of $3.10 per full-year resident taxpayer.

Energy Conservation Credit: 15-32-109, MCA and 15-30-2319, MCA
Legislation: HB 237, 1981 Session

A resident individual taxpayer may take a credit for 25 percent 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 originally was 5 percent 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 seven years. The 2001 Legislature (SB 506) increased the credit to 25 percent of costs with a limit of $500. The 2003 Legislature eliminated the carry-forward (SB 138). In 2005, the Department of 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 percent of the share of the cost with a limit of $500 each.

Taxpayers may not take either an itemized deduction or a business expense deduction for investments in their own residence. However, an investment an individual makes in a commercial building he or she owns would result in a depreciable asset, so that the cost could be deducted over time.

For a taxpayer who does not itemize deductions on their federal return, the credit provides a 25 percent subsidy for expenditures up to $2,000. For a taxpayer who itemizes, the subsidy is smaller, because the credit reduces the federal itemized deduction for state taxes. The table to the right shows state and federal subsidies to a taxpayer who itemizes on both the state and federal returns for a $100 home energy conservation expenditure. Note that federal taxes are higher because of the smaller itemized deduction for state taxes.

$100 Home Energy Conservation Expenditure

Taxpayer Claims Credit, Expenses Not Deductable

	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	($9.90)	($10.18)
State Tax Subsidy	$25.00	$25.70
Net Taxpayer Subsidy	$15.10	$15.52

The table below shows energy conservation credits from 2005 through 2013. The energy conservation credit is essentially a transfer from the state general fund to help a taxpayer purchase private property. In 2013, this credit cost the state general fund $3,931,727. Taxpayers were unable to use $673,121 of credits because the credit is non-refundable and cannot be carried forward. Without the credit, $3,931,727 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 $6.22 per full-year resident taxpayer.

Energy Conservation Credit

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
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
2010	21,156	$10,233,928	0	$0	233	$123,863	21,389	$10,357,791
2011	12,481	$5,588,577	0	$0	123	$63,923	12,604	$5,652,500
2012	9,464	$4,510,918	0	$0	96	$51,064	9,560	$4,561,982
2013	9,063	$4,536,016	0	$0	125	$68,832	9,188	$4,604,848

Use of the credit was higher in 2009 and 2010, when a 10 percent federal credit was available for many of the same expenditures that are eligible for this credit. Congress extended the credit, first through 2011 and then through 2012, but in both cases the extension was probably too late to have much of an effect on behavior.

Alternative Fuel Conversion Credit: 15-30-2320, MCA
Legislation: HB 219, 1993 Session

Taxpayers are allowed a credit against individual income tax or corporate license tax of 50 percent of the cost of converting a motor vehicle to operate on natural gas, LPG, LNG, hydrogen, electricity, or a fuel that is at least 85 percent 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 cannot be carried forward or backward to another tax year.

This credit has not been amended since it was first enacted. 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. For a taxpayer who takes the standard deduction on their federal taxes, the credit pays the full cost up to the limit. However, if the taxpayer itemizes, the credit will increase their federal taxes. This is because claiming the state credit will reduce the federal itemized deduction for state taxes. The table to the right shows the change in federal and state taxes for a $100 expenditure by a taxpayer in the top federal and state rate brackets who itemizes on both federal and state returns.

$100 Alternative Fuel Vehicle Conversion Expenditure

Taxpayer Claims Credit, Expenses Not Deductable

	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	($19.80)	($20.36)
State Tax Subsidy	$50.00	$51.40
Net Taxpayer Subsidy	$69.80	$68.95

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. For a personal vehicle, these costs are not deductible.

The following table shows credits for tax years 2005 through 2013.

Alternative Fuel Credit

	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
2010	36	$25,281	0	$0	0	$0	36	$25,281
2011	15	$26,822	0	$0	*	$500	*	$27,322
2012	22	$14,778	0	$0	*	$500	*	$15,278
2013	16	$8,183	*	$1,200	0	$0	*	$9,383

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

This credit is essentially a transfer from the state general fund to help a taxpayer purchase private property. In 2013, the individual income tax credit for alternative fuel vehicle conversion cost the state general fund $7,661. Taxpayers were unable to use $1,722 of credits because the credit is non-refundable and cannot be carried forward. Without the credit, either $7,661 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 $0.01 per full-year resident taxpayer.

Health Insurance for Uninsured Montanans Credit: 15-30-2367, MCA and 15-31-132, MCA
Legislation: HB 693, 1991 Session

An employer with 20 or fewer employees may claim a credit against either income or corporation tax for paying at least 50 percent of the premium for up to ten employees' health insurance. The credit is the lower of $25 per month multiplied by the percentage of the premium the employer pays or 50 percent 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 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 for both state and federal taxes. However, a taxpayer who itemizes deductions will have a smaller federal deduction for state taxes, partially offsetting the expense deduction.

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 percent of premiums would receive a subsidy of $12.50 per employee per month. An employer paying 75 percent of premiums would receive a subsidy of $18.75, and an employer paying 100 percent would receive $25.

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

This credit generally is not a percentage of the taxpayer's expenditure. This makes it impossible to show the taxpayer subsidy per $100 of expenditure as is done for most other credits.

The following table shows credits for tax years 2005 through 2013.

Health Insurance for Uninsured Montanans								
	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
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
2010	293	$276,066	*	$5,345	*	$2,921	*	$284,332
2011	223	$192,670	*	$2,987	*	$1,133	*	$196,790
2012	162	$171,365	*	$269	0	$0	*	$171,634
2013	152	$165,558	*	$1,148	0	$0	*	$166,706

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

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 2013, the credit cost the state general fund $134,370 in individual income tax revenue. Taxpayers were unable to use $32,336 of credits because the credit is non-refundable and cannot be carried forward. Without the credit, $134,370 would have been available for other programs or tax reductions. The cost of this credit was $0.21 per full-year resident taxpayer.

Elderly Care Credit: 15-30-2366, MCA
Legislation: HB 166, 1989 Session

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 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 percent, rate bracket and would have a 30 percent 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 percent 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).

For a taxpayer who itemized deductions, the credit would reduce the federal deduction for state taxes and possibly increase the state deduction for federal taxes. This would increase federal taxes and give a much smaller further reduction in state taxes. For an itemizer in the 10 percent federal rate bracket and the 6.9 percent state rate bracket, claiming a $300 credit would increase federal income taxes by $30.21 and reduce state taxes by a total of $302.08.

The table on the following page shows use of the elderly care credit for tax years 2005 through 2013.

Elderly Care Credit								
	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
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
2010	51	$75,912	0	$0	0	$0	51	$75,912
2011	49	$77,468	0	$0	0	$0	49	$77,468
2012	47	$52,714	0	$0	0	$0	47	$52,714
2013	43	$74,466	*	$4,000	*	$95	*	$78,561

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

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 2013, this credit cost the state general fund $19,028. Taxpayers were unable to use credits of $59,533 because the credit is non-refundable and cannot be carried forward. Without the credit, $19,028 would have been available to spend on other programs or to reduce taxes. The cost of this credit was $0.03 per full-year resident taxpayer.

Recycling Credit: 15-32-601, MCA through 15-32-614, MCA
Legislation: SB 111, 1991 Session.

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 in manufacturing a product from reclaimed material. The credit is 25 percent of the first $250,000 invested, 15 percent of the next $250,000 invested, and 5 percent 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. An individual may claim the credit directly for an investment made by a sole-proprietor business or may claim a share of the credit for an investment made by a pass-through entity.

The credit was enacted as a credit equal to 25 percent 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 percent. For more expensive investments, the percentage reduction is a declining function of the cost.

If a taxpayer who claims this credit itemizes deductions on their federal and state tax returns, the credit will reduce the federal deduction for state taxes, increasing the taxpayer's federal income tax. If the taxpayer's federal taxes are less than the cap on the state deduction for federal taxes, this will increase that deduction, reducing state taxes. The following table shows the net state tax subsidy and federal tax cost for the first $100 of expenditure on recycling equipment by a taxpayer in the top federal and state rate brackets.

$100 Recycling Equipment Expenditure		
Taxpayer Claims Credit, No Change to Depreciation Deduction		
	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	($9.90)	($10.18)
State Tax Subsidy	$25.00	$25.70
Net Taxpayer Subsidy	$15.10	$15.52

The following table shows use of the recycling credit by individuals for tax years 2005 through 2013. This credit is equivalent to a subsidy from the state general fund for the purchase of private property to be used in recycling. In 2013, the credit against individual income tax cost the state general fund $187,167. Taxpayers were unable to use credits of $103,719 because the credit is non-refundable and cannot be carried forward. Without the credit, $187,167 would have been available to spend on other state programs or to reduce taxes. The cost to other taxpayers was $0.30 per full-year resident taxpayer.

Recycling Credit								
	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
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
2010	103	$492,609	*	$20,425	*	$1,594	*	$514,628
2011	87	$538,163	*	$45,110	*	$600	*	$583,873
2012	85	$368,940	*	$9,606	*	$400	*	$378,946
2013	82	$289,907	*	$216	*	$763	*	$290,886

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

Oilseed Crushing and Biodiesel Production Facility Credit: 15-32-701 and 702, MCA
Legislation: HB 756, 2005 Session

Taxpayers are allowed a credit against individual income tax or corporation tax for 15 percent of the cost of investment in depreciable property placed in service in Montana by the end of 2014 that is used primarily for crushing oilseeds for producing biodiesel or lubricants or for the production of biodiesel or bio-lubricants. 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 their tax liability, the excess credit will not be refunded, but may be carried forward for up to seven years as long as the facility continues to be used to crush oilseeds for biodiesel or lubricants or to produce biodiesel or bio-lubricants. If the facility ceases production for 12 months within five years after the credit is first claimed, the entire credit must be recaptured.

An individual may claim the credit directly as the owner of a sole-proprietor business or may claim a share of the credit claimed by a pass-through entity. The credit does not reduce depreciation that the taxpayer can claim over the life of the property.

The credit was enacted as a non-refundable credit with no carry forward and available for investments through 2010. The 2007 Legislature (HB 166) extended the credit through 2014, expanded the credit to include bio-lubricant 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 percent. The taxpayer may deduct depreciation on property for which the credit is claimed with no reduction in basis. An individual taxpayer who claims the credit and itemizes deductions will have a smaller federal deduction for state taxes, which will increase their federal income tax, and may have a larger state deduction for federal income taxes. The following table shows the total state tax subsidy and the federal tax cost for the first $100 invested in a biodiesel facility by a taxpayer in the top federal and state tax brackets.

$100 Biodiesel Production Equipment Expenditure

Taxpayer Claims Credit, No Change to Depreciation Deduction	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	($5.94)	($6.11)
State Tax Subsidy	$15.00	$15.42
Net Taxpayer Subsidy	$9.06	$9.31

Ten or fewer individuals have claimed the credit each year. The following table shows the total value of credits claimed by individuals for 2005 through 2013. No credits were claimed for 2009, 2010, 2012, and 2013.

Oilseed Crushing/Biodiesel Facility Credit

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2005	0	$0	0	$0	0	$0	0	$0
2006	*	$133,415	0	$0	*	$2,455	*	$135,870
2007	*	$8,688	*	$1,459	0	$0	*	$10,147
2008	*	$4,047	0	$0	0	$0	*	$4,047
2009	0	$0	0	$0	0	$0	0	$0
2010	0	$0	0	$0	0	$0	0	$0
2011	*	$8,536	*	$1	0	$0	*	$8,537
2012	0	$0	0	$0	0	$0	0	$0
2013	*	$1	0	$0	0	$0	*	$1

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

Biodiesel Blending and Storage Tank Credit: 15-32-703, MCA
Legislation: HB 776, 2005 Session

Taxpayers who are biodiesel blenders are allowed a credit against individual income tax or corporation tax for 15 percent 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 seven years as long as the facility continues to blend biodiesel. If the facility ceases production for 12 months within five years after the credit is first claimed, the entire credit must be recaptured.

The credit was enacted 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.

An individual may claim the credit for investments made by a sole-proprietor business or may claim a share of the credit for investments made by a pass-through entity.

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 percent 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. A taxpayer who claims the credit and itemizes deductions will have a smaller federal deduction for state taxes, which will increase their federal tax liability, and may have a larger state deduction for federal taxes. The table above shows the total state tax subsidy and the federal tax cost to a taxpayer in the top federal and state rate brackets for $100 invested in biodiesel blending or storage facilities.

$100 Biodiesel Blending or Storage Equipment Expenditure		
Taxpayer Claims Credit, No Change to Depreciation Deduction		
	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	($5.94)	($6.11)
State Tax Subsidy	$15.00	$15.42
Net Taxpayer Subsidy	$9.06	$9.31

Fewer than ten individuals have claimed the credit each year. The following table shows the total value of credits taken by individuals in 2005 through 2013.

Biodiesel Blending/Storage Tank Credit	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2005	*	$3,880	0	$0	0	$0	*	$3,880
2006	*	$1,651	0	$0	0	$0	*	$1,651
2007	*	$3,063	0	$0	0	$0	*	$3,063
2008	*	$1,090	0	$0	0	$0	*	$1,090
2009	*	$2,630	0	$0	0	$0	*	$2,630
2010	*	$907	0	$0	0	$0	*	$907
2011	*	$46,755	0	$0	0	$0	*	$46,755
2012	0	$0	0	$0	0	$0	0	$0
2013	*	$2,250	0	$0	0	$0	*	$2,250

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

This credit is essentially the same as a grant from the state general fund to pay 15 percent of the cost of private property used to blend biodiesel. In 2013, credits claimed by individuals cost the state general fund $2,250. No credits were carried forward to future years. Without the credit, this amount would have been available to spend on other state programs or to reduce taxes. The cost to other taxpayers was $0.04 per full-year resident taxpayer.

Geothermal Heating System Credit: 15-32-115, MCA
Legislation: SB 416, 1991 Session

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

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 in spec houses.

Through 2016, geothermal heating systems also are eligible for a federal tax credit of 30 percent of the cost. A taxpayer who installs a geothermal heating system and claims both credits would have the first $1,500 paid by the state and 30 percent of the total 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.

A taxpayer who claims the credit and itemizes deductions will have a smaller federal deduction for state taxes, which will partly offset the federal credit. This may result in a smaller state deduction for federal taxes. The following table shows the state and federal tax subsidies to a taxpayer in the top federal and state tax brackets who makes a $5,000 investment in a geothermal heating system.

$5000 Expenditure for Geothermal Heating System		
Taxpayer Claims $1,500 State Credit and 30% Federal Credit		
	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	$906.00	$931.45
State Tax Subsidy	$1,500.00	$1,435.73
Net Taxpayer Subsidy	$2,406.00	$2,367.18

The following table shows credit use in tax year 2005 through 2013.

Geothermal Energy System Credit								
	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
2010	231	$453,992	0	$0	*	$78,094	*	$532,086
2011	187	$318,928	0	$0	*	$8,347	*	$327,275
2012	224	$344,548	0	$0	*	$14,752	*	$359,300
2013	185	$313,920	0	$0	*	$6,257	*	$320,177

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

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 2013, this credit cost the state general fund $199,561 and $120,616 of credits were carried forward to future years. There were $41,298 in credits carried forward from 2012 and claimed in 2013. Without the credit, $199,561 would have been available to spend on other state programs or to reduce taxes. The credit cost $0.32 per full year resident taxpayer.

Alternative Energy Systems Credit: 15-32-201, MCA through 15-32-203, MCA
Legislation: SB 167, 1977 Session

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 four years.

The credit was enacted as a credit of 10 percent of the first $1,000 and 5 percent 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 percent of the first $1,000 and 10 percent 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 (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, through 2016, a taxpayer may also claim a federal credit for 30 percent of the cost of residential solar electric and water heating equipment, fuel cells, and small wind systems.

For a taxpayer who itemizes deductions, claiming the state credit will reduce the federal deduction for state taxes, and claiming the federal credit may reduce the state deduction for federal taxes. The table to the right shows state and federal tax subsidies for $1,000 spent on a qualifying alternative energy system, assuming that the taxpayer is in the top state and federal rate brackets and itemizes deductions.

$1000 Alternative Energy System Expenditure

Taxpayer Claims Credit, Expenses Not Deductable

	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	$102.00	$104.87
State Tax Subsidy	$500.00	$492.76
Net Taxpayer Subsidy	$602.00	$597.63

The following table shows credit use for tax year 2005 through 2013.

Alternative Energy System Credit

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
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
2010	1,810	$1,377,478	0	$0	36	$27,256	1,846	$1,404,734
2011	1,135	$823,533	0	$0	15	$10,270	1,150	$833,803
2012	858	$642,288	0	$0	15	$11,800	873	$654,088
2013	830	$632,607	0	$0	17	$14,694	847	$647,301

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

This credit is equivalent to a grant from the state general fund to pay part of the cost of private alternative energy systems. In 2013, the credit cost the state general fund $518,842 and $128,459 in credits were carried forward to future years. There were $60,043 in credits carried forward from 2012 and claimed in 2013. Without the credit, $518,842 would have been available to spend on other state programs or to reduce taxes. The cost was $0.82 per full-year resident taxpayer.

Alternative Energy Production Credit: 15-32-401, MCA through 15-32-407, MCA
Legislation: HB 780, 1983 Session

A taxpayer is allowed a credit against individual income tax or corporation income tax for 35 percent 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 seven 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 was enacted as a credit for commercial wind energy systems. 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 percent. 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 percent 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, the taxpayer may not claim any other state energy or investment income tax credit or the property tax exemption for alternative energy systems.

An individual taxpayer may claim the credit for investments made by a sole-proprietor business or may claim a share of the credit claimed by a pass-through entity. If the taxpayer itemizes deductions, claiming the state credit will reduce the federal deduction for state taxes, and claiming the federal credit may reduce the state deduction for federal taxes. The following table shows the state and federal tax subsidies for a $1,000 investment, assuming that the taxpayer is in the top state and federal rate brackets and itemizes deductions.

$1000 Expenditure for Commercial Alternative Energy System

Taxpayer Claims State and Federal Credits

	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	$161.40	$165.93
State Tax Subsidy	$350.00	$338.55
Net Taxpayer Subsidy	$511.40	$504.48

The table on the following page shows credit use for tax year 2005 through 2013.

Alternative Energy Production Credit								
	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
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
2010	*	$11,360	0	$0	0	$0	*	$11,360
2011	*	$7,290	0	$0	0	$0	*	$7,290
2012	*	$11,684	0	$0	0	$0	*	$11,684
2013	*	$56	0	$0	0	$0	*	$56

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

This credit is equivalent to a transfer from the state general fund to pay part of the cost of qualifying private property. In 2013, the credit against individual income tax cost the state general fund $56. No credits were carried forward to future years, and none of the credits claimed in 2013 were carried forward from 2012. The cost per full-year resident taxpayer is $0.0001.

Dependent Care Assistance Credit: 15-31-131 and 15-30-2373, MCA; 15-31-133 and 15-30-2365, MCA; **Legislation:** SB 282, 1989 Session

Taxpayers may claim three related credits against individual income tax or corporation tax for providing daycare benefits to employees:

a) There is a credit for a portion of the cost of providing day care services to employees' dependents. This credit is 25 percent 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 requirements in federal law for being considered a non-taxable fringe benefit rather than part of the employees' compensation.

b) There is a credit for 25 percent of the cost of providing day care information and referral services to employees.

c) There is a credit for a portion of the cost of setting up a day care facility to be used by the taxpayer's employees' dependents. This credit was only for facilities placed in service by the end of 2005, with the credit being claimed over the next ten years. 2014 is the last year when this credit may be claimed.

Individuals may claim the credits directly as the owner of a sole-proprietor business or may claim their share of credits claimed by a pass-through entity. 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 1989 Legislature created the credit for 15 percent of expenditures for providing day care services with a limit of $1,250 per employee receiving benefits. The 1991 Legislature (HB 543) increased the credit to 20 percent of costs and allowed a partial credit when part of the cost counts as compensation. 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 25 percent of costs with a limit of $1,575 per employee and added the credits for day care referral and for day care facilities.

In general, employers can deduct the cost of employee fringe benefits as a business expense. Because of this, a taxpayer who does not claim the credit can deduct the costs as a business expense for both federal and state taxes. However, a taxpayer who claims the credit cannot deduct the cost for state taxes. With fewer deductions, the taxpayer's state taxes will be higher. Thus, the reduction in state taxes is less than the credit.

If the taxpayer itemizes deductions, the reduction in state taxes will result in a smaller federal deduction for state taxes. The resulting increase in federal taxes may result in a larger state deduction. The following table shows the net effects of claiming the credit on a taxpayer in the top federal and state rate brackets.

$100 Expenditure on Day Care for Employees' Dependents

Difference When Taxpayer Claims Federal Expense Deduction and State Credit Instead of Deduction

	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	($7.17)	($7.37)
State Tax Subsidy	$18.10	$18.61
Net Taxpayer Subsidy	$10.93	$11.24

Fewer than ten individuals have claimed the credit each year. The following table shows the total value of credits claimed against individual income tax from tax year 2005 through 2013.

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 2013, credits against individual income tax cost the state general fund $4,724, and $11,401 in credits were carried forward to future years. None of the credits claimed in 2013 were carried forward from 2012. Without the credit, $4,724 would have been available to spend on other state programs or to reduce taxes. The cost was $0.01 per full-year resident taxpayer.

Dependent Care Assistance Credit

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2005	*	$8,818	0	$0	0	$0	*	$8,818
2006	*	$9,755	0	$0	0	$0	*	$9,755
2007	*	$13,430	*	$1,700	0	$0	*	$15,130
2008	*	$24,116	0	$0	0	$0	*	$24,116
2009	*	$7,769	0	$0	0	$0	*	$7,769
2010	*	$14,595	0	$0	*	$108	*	$14,703
2011	10	$26,039	0	$0	*	$239	*	$26,278
2012	10	$95,590	*	$122	*	$253	*	$95,965
2013	12	$13,525	0	$0	*	$2,600	*	$16,125

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

Historic Property Preservation Credit: 15-30-2342, MCA and 15-31-151, MCA
Legislation: HB 601, 1997 Session

Taxpayers may take a credit against individual income tax or corporation income tax for costs of rehabilitating a certified historic building. The credit is 25 percent of the federal credit allowed by 26 USC 47(a)(2). The federal credit is 20 percent of the cost of rehabilitation. A certified historic building must either be in the National Register of Historic Buildings or be in a designated historic district and have been certified by the Department of the Interior as having historic significance to the district. Only commercial buildings that can be depreciated are eligible for the credit. No credits may be claimed for rehabilitating a private residence.

Through 2011, individuals were allowed a credit against income tax for 20 percent of the costs and loss of value from creating a conservation easement and protecting and preserving the property as required by the conservation easement.

There is no maximum for the rehabilitation credit. If the credit is more than the taxpayer's liability, the excess is not refunded but may be carried forward for seven years.

The rehabilitation credit was enacted by the 1997 Legislature (HB 601). The conservation easement credit was enacted by the 2001 Legislature (HB 619) and sunset at the end of 2011.

With the combination of state and federal credits, a taxpayer who rehabilitates a historic property can have 25 percent of the costs paid by the federal and state governments. Claiming the credits does not reduce depreciation the taxpayer may take over the life of the building. If the taxpayer itemizes, the state credit will reduce the taxpayer's federal deduction for state taxes and the federal credit may reduce the taxpayer's state deduction for federal taxes. The following table shows the net federal and state tax subsidies for a taxpayer in the top state and federal rate brackets.

$1000 Expenditure for Historic Building Rehabilitation

Taxpayer Claims State and Federal Credits

	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	$180.20	$185.26
State Tax Subsidy	$50.00	$37.22
Net Taxpayer Subsidy	$230.20	$222.48

The following table shows credits taken against individual income tax for tax year 2005 through 2013.

Historic Property Preservation Credit

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
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
2010	20	$495,691	*	$44,158	0	$0	*	$539,849
2011	21	$105,214	*	$29,549	0	$0	*	$134,763
2012	21	$199,776	*	$32,291	0	$0	*	$232,067
2013	32	$492,477	13	$63,320	0	$0	45	$555,797

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

This credit effectively is a subsidy from the state general fund for rehabilitation of privately owned real estate. In 2013, credits against the individual income tax cost the state general fund $128,501, and credits of $427,296 were carried forward to be used in future years. There were $24,443 in credits claimed for 2013 that had been carried forward from 2012. Without the credit, $128,501 would have been available to spend on other programs or to reduce taxes. The cost was $0.20 per full-year resident taxpayer.

Infrastructure Users Fee Credit: 17-6-316, MCA
Legislation: SB 100 and HB 602, 1995 Session

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 seven years or carried back to the three previous tax years.

The credit has not been amended since it was enacted.

$100 Expenditure on Infrastructure Fees		
Difference in Taxes and Taxpayer Cost When Taxpayer Claims Credit and Federal and State Expense Deductions		
	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	($39.60)	($40.71)
State Tax Subsidy	$100.00	$102.81
Net Taxpayer Subsidy	$60.40	$62.10

This credit in effect pays the taxpayer for having local infrastructure extended to serve its business. For example, if a business pays $100 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 $100 and deduct $100 as a business expense. For a taxpayer in the 6.9 percent tax bracket, the net effect would be the same as being paid $6.90 per year to have a new sewer hookup. However, if the taxpayer is an individual who itemizes deductions, the taxpayer's federal deduction for state taxes will be smaller, resulting in higher federal taxes. This may result in a smaller state deduction for federal taxes. The table above shows the net change in federal and state taxes and the net subsidy from claiming a $100 credit for a taxpayer in the top federal and state tax rate brackets.

The following table shows credits against individual income tax for tax year 2005 through 2013.

Infrastructure User Fee Credit								
	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
2010	13	$45,258	*	$3,820	0	$0	*	$49,078
2011	12	$24,414	*	$2,487	*	$4,711	*	$31,612
2012	*	$20,990	*	$11,023	0	$0	*	$32,013
2013	*	$21,203	*	$17,211	0	$0	*	$38,414

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

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.

In 2013, infrastructure user fee credits against individual income tax cost the state general fund $21,503, and $16,911 in credits were carried forward to be used in future years. There were $10,893 in credits claimed for 2013 that had been carried forward from 2012. Without the credit, $21,503 would have been available to spend on other state programs or to reduce taxes. The cost was $0.03 per full year resident taxpayer.

Empowerment Zone Credit: 15-30-2356, MCA and 15-31-134, MCA
Legislation: SB 484, 2003 Session

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 income 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.

Requirements for an empowerment zone are found in 7-21-3701 through 3704, MCA, and conditions to become certified to receive the credit are in 7-21-3710, MCA.

There are several federal credits for employment in specified zones or under specified conditions.

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. Since the credit is a fixed amount per employee, it is not possible to calculate general state and federal tax changes per dollar of expenditure as is done for most credits.

Fewer than ten individuals have claimed the credit each year. The following table shows the total value of empowerment zone credits against individual income tax for tax year 2005 through 2013.

No credits were claimed for 2013.

Empowerment Zone Credit

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2005	*	$969	0	$0	0	$0	*	$969
2006	*	$17,201	0	$0	0	$0	*	$17,201
2007	*	$500	0	$0	0	$0	*	$500
2008	0	$0	0	$0	0	$0	0	$0
2009	0	$0	0	$0	0	$0	0	$0
2010	*	$600	0	$0	0	$0	*	$600
2011	*	$475	0	$0	0	$0	*	$475
2012	0	$0	0	$0	0	$0	0	$0
2013	0	$0	0	$0	0	$0	0	$0

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

Research Credit: 15-31-150, MCA and 15-30-2358, MCA
Legislation: HB 638, 1999 Session

Through 2010, Montana provided a 5 percent credit against individual income tax or corporation income tax for any increase in Montana research expenditures over the taxpayer's baseline. After 2010, no new credits may be claimed, but unused credits may be carried forward for up to 15 years.

The credit was tied to provisions of the federal research credit in Section 41 of the IRS code, which expired at the end of 2011.

The following table shows credits against individual income tax for tax year 2005 through 2013.

Research Activities Credit								
	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
2010	16	$149,977	*	$7,913	0	$0	*	$157,890
2011	*	$149,633	*	$6,210	0	$0	*	$155,843
2012	*	$125,170	*	$5,253	0	$0	*	$130,423
2013	*	$73,983	*	$5,240	0	$0	*	$79,223

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

The credit is essentially a transfer from the state general fund to pay 5 percent of a taxpayer's eligible research costs. In 2013, $79,223 in research activity credits against individual income tax were carried forward from previous years. The cost to the state general fund was $1,521, and $77,702 in credits were carried forward to be used in future years. Without the credit, $1,521 would have been available to spend on other state programs or to reduce taxes. The cost was $0.002 per full-year resident taxpayer.

Mineral Exploration Credit: 15-32-501 to 15-32-510, MCA
Legislation: SB 265, 1999 Session

Taxpayers are allowed a credit against income or corporation income tax for the full amount of solid mineral or coal exploration expenditures 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 percent of the taxpayer's tax liability, but unused credits may be carried forward for 15 years.

An individual may claim the credit directly for exploration expenses incurred by a sole-proprietor business or may claim a share of the credit for exploration expenses incurred by a pass-through entity.

The credit was enacted by the 1999 Legislature 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 deducted in the year they occur, may be treated as capital costs and deducted over several years, or may be counted as contributing to the value of the mineral deposit, which is deducted over time through depletion. A taxpayer may deduct exploration costs in the appropriate way whether or not they claim the credit.

An individual who claims the credit and itemizes deductions will have a smaller federal deduction for state taxes and therefore pay more in federal tax. This may result in a larger state deduction for federal taxes. The following table shows the net change in state and federal taxes from claiming the credit for $100 of exploration expenses for a taxpayer in the top state and federal rate brackets.

$100 Mineral Exploration Expenditures

Difference in Taxes and Taxpayer Cost When Taxpayer Claims Credit as Well as Federal and State Expense Deductions

	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	($39.60)	($40.71)
State Tax Subsidy	$100.00	$102.81
Net Taxpayer Subsidy	$60.40	$62.10

Fewer than ten individuals claimed the credit in each of tax years 2005 through 2009 and 2011 through 2013. The following table shows the total value of mineral exploration credits against individual income tax for tax year 2005 through 2013.

Mineral Exploration Credit

	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2005	*	$6,718	0	$0	0	$0	*	$6,718
2006	*	$8,920	0	$0	0	$0	*	$8,920
2007	*	$9,507	0	$0	0	$0	*	$9,507
2008	*	$44,530	0	$0	0	$0	*	$44,530
2009	*	$7,749	0	$0	0	$0	*	$7,749
2010	10	$26,895	0	$0	0	$0	10	$26,895
2011	0	$0	0	$0	0	$0	0	$0
2012	0	$0	0	$0	0	$0	0	$0
2013	*	$684	0	$0	0	$0	*	$684

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

With this credit, the state general fund will pay up to $20 million of private exploration costs for a new mine. No credits were claimed for 2013.

Film Employment Credit: 15-31-901, MCA through 15-31-911, MCA
Legislation: HB 584, 2005 Session

Through 2014, taxpayers are allowed a credit against income or corporation income tax for 14 percent of the first $50,000 of compensation 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 originally had 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).

An individual may claim the credit for expenditures made directly by a sole-proprietor business or may claim a share of the credit for expenditures made by a pass-through entity.

A taxpayer who takes this credit reduces taxes by 14 percent of compensation paid to a Montana resident but gives up the deduction for the expense, which increases taxes by 6.9 percent of the compensation (assuming the taxpayer is in the top rate bracket) for a net reduction of 7.1 percent. This gives a cost advantage to hiring Montana residents rather than non-residents. For employees paid less than $50,000, the advantage is 7.1 percent of compensation. For actors and others who would be paid more than $50,000, the advantage is $3,550.

A taxpayer who itemizes deductions and claims the credit will have a smaller federal deduction for state taxes, which will result in higher federal taxes. This may result in a larger state deduction for federal taxes, further reducing state taxes. The following table shows the net changes in state and federal taxes from claiming the credit for $100 of compensation paid to a Montana resident working on a film produced by a taxpayer in the top state and federal rate brackets.

$100 Film Employment Expenditure

Difference When Taxpayer Claims Federal Expense Deduction and State Credit Instead of Deduction

	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	($2.81)	($2.89)
State Tax Subsidy	$7.10	$7.30
Net Taxpayer Subsidy	$4.29	$4.41

The following tables show credits claimed on timely-filed individual income tax returns for 2005 through 2013.[4] 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.

In effect, this credit has the state general fund pay 7.1 percent of the compensation of Montana residents employed in a certified film production. In 2013, film employment credits claimed against individual income tax cost the state general fund $55,391. No credits were carried forward to future years, and none of the credits claimed in 2013 were carried forward from 2012. The cost was $0.09 per full-year resident taxpayer.

4 Additional credits have been claimed on late returns.

Film Production Employment Credit								
	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
2010	0	$0	0	$0	0	$0	0	$0
2011	0	$0	0	$0	0	$0	0	$0
2012	0	$0	0	$0	0	$0	0	$0
2013	0	$0	0	$0	0	$0	0	$0

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

Refundable Film Production Employment Credit								
	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
2010	*	$11,480	0	$0	0	$0	*	$11,480
2011	*	$5,316	0	$0	0	$0	*	$5,316
2012	*	$23,924	*	$23,924	0	$0	*	$47,848
2013	*	$55,391	0	$0	0	$0	*	$55,391

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

Film Expenditure Credit: 15-31-901, MCA through 15-31-911, MCA
Legislation: HB 584, 2005 Session

A taxpayer can claim a credit against individual income tax or corporation income tax for 9 percent 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 Department of Commerce determines that the production has not met the conditions of certification, the taxpayer must repay any credits already received.

An individual may claim the credit directly for expenditures by a sole-proprietor business or may claim a share of the credit for expenditures by a pass-through entity.

The credit was enacted 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 percent 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 percent 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 percent.

$100 Film Expenditure

Difference When Taxpayer Claims Federal Expense Deduction and State Credit Instead of Deduction

	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	($0.83)	($0.85)
State Tax Subsidy	$2.10	$2.16
Net Taxpayer Subsidy	$1.27	$1.30

A taxpayer who itemizes deductions and claims the credit will have a smaller federal deduction for state taxes, which will result in higher federal taxes. This may result in a larger state deduction for federal taxes, further reducing state taxes. The table above shows the net changes in state and federal taxes from claiming the credit for $100 of Montana purchases for a film produced by a taxpayer in the top state and federal rate brackets.

Fewer than ten individuals have claimed the credit on timely-filed returns each year.[5] The following table shows the total value of credits claimed on timely-filed individual income tax returns for 2005 through 2013.

Film Expenditures Credit								
	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
2010	*	$17,217	0	$0	0	$0	*	$17,217
2011	*	$20,067	*	$2,389	0	$0	*	$22,456
2012	0	$0	0	$0	0	$0	0	$0
2013	*	$15,150	0	$0	0	$0	*	$15,150

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

In effect, this credit has the state general fund pay 2.1 percent of the cost of all Montana purchases for a certified film production. In 2013, film expenditure credits against the income tax cost the state general fund $15,150. Without the credit, this amount would have been available to spend on other state programs or for tax reductions. The cost was $0.02 per full-year resident taxpayer.

Insure Montana Small Business Health Insurance Credit: 15-30-2368; 15-31-130; 33-22-2006, MCA
Legislation: HB 667, 2005 Session

A small employer that provides group health insurance for its employees through a state pool may claim a credit of a) up to 50 percent 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.

An employer who provides insurance coverage to all employees as a fringe benefit may generally take a business expense deduction for the premium cost for both federal and state taxes. A taxpayer who claims the credit may not also take the normal business expense deduction.

An individual may claim the credit for insurance purchases by a sole-proprietor business or may claim a share of the credit for insurance purchases by a pass-through entity.

The credit has not been amended since it was enacted.

The credit reduces the cost of providing group health insurance by 50 percent or $100 per month for a covered employee or spouse, and 50 percent 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 percent - 6.9 percent = 43.1 percent if the monthly insurance premiums are $200 or less for the employee and spouse and $80 or less per dependent. If monthly premiums are more than this, the net cost reduction is a flat $93.10 per employee or spouse and $37.24 per dependent.

5 Additional credits have been claimed on late returns.

A taxpayer who itemizes deductions will have a smaller federal deduction for state taxes, which will result in higher federal taxes. This may result in a larger state deduction for federal taxes. The following tables show the net changes in state and federal taxes and net taxpayer cost for an employer who provides insurance with premiums above and below the credit cap and who is in the top state and federal rate brackets.

$100 Insurance Premium

Difference When Taxpayer Claims Federal Expense Deduction and State Credit Instead of Deduction

	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	($17.07)	($17.55)
State Tax Subsidy	$43.10	$44.31
Net Taxpayer Subsidy	$26.03	$26.76

$200 Insurance Premium

Difference When Taxpayer Claims Federal Expense Deduction and State Credit Instead of Deduction

	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	($30.17)	($30.92)
State Tax Subsidy	$86.20	$88.33
Net Taxpayer Subsidy	$56.03	$57.42

The credit was first available in 2006. The following table shows credits claimed against individual income tax in tax year 2006 through 2013.

Insure Montana Small Business Health Insurance Credit

	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
2010	784	$2,890,619	28	$35,076	10	$12,983	822	$2,938,678
2011	686	$2,156,183	26	$23,077	*	$3,809	*	$2,183,069
2012	644	$1,876,550	24	$31,140	*	$755	*	$1,908,445
2013	585	$2,028,400	25	$31,182	*	$13,782	*	$2,073,364

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

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 2013, taxpayers claimed credits of $2,073,264 or $3.28 per full-year resident taxpayer. The credit is 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: 15-30-2364, MCA
Legislation: HB 490, 2007 Session

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 has not been amended since it was enacted.

For 2013, the maximum federal adoption credit is $12,970. A taxpayer who takes both the state and federal credits will be reimbursed for up to $13,970 of the costs of adopting a child. There is no itemized deduction for adoptions expenses. However, a taxpayer who claims the state and federal credits and itemizes deductions will have a smaller federal deduction for state taxes and may have a smaller state deduction for federal taxes. The following table shows the net effect of claiming the state credit and the maximum federal credit for a taxpayer in the top state and federal rate brackets who itemizes.

Adoption Expenditures

Taxpayer Claims State Credit and Maximum Federal Credit

	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	$12,574.00	$12,927.22
State Tax Subsidy	$1,000.00	$108.02
Net Taxpayer Subsidy	$11,574.00	$12,819.20

However, for many taxpayers, the federal credit will be more than federal tax liability and the state credit may be more than state tax liability. In these cases, the interaction of federal and state deductions will only occur in the last year the credit is carried forward and is likely to be smaller than shown in the table.

This credit was first available in 2007. The following table shows credits claimed for 2007 through 2013.

Adoption Credit

	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
2010	249	$322,517	17	$17,608	14	$18,522	280	$358,647
2011	230	$274,849	18	$16,982	*	$6,000	*	$297,831
2012	178	$189,721	20	$22,245	*	$6,418	*	$218,384
2013	186	$210,765	22	$23,320	10	$9,998	218	$244,083

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

In 2013, taxpayers used credits of $163,563 and carried forward credits of $80,520 to be used in future years. There were $28,679 in credits claimed in 2013 that were carried forward from 2012. Without the credit, $163,563 would have been available to spend on other state programs or to reduce taxes. The cost was $3.28 per full-year resident taxpayer.

Elderly Homeowner/Renter Credit: 15-30-2337 to 15-30-2341, MCA
Legislation: SB 337, 1981 Session

Taxpayers who are age 62 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 percent. For households with lower incomes, the credit refunds part or all of property taxes that are more than a smaller percent of income. For taxpayers with income between $2,000 and $1,999, the credit refunds part or all of property taxes that are more than 0.6% of income. 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 taxpayers' 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 is essentially a property tax refund administered through the income tax system. Taxpayers who are required to file an income tax return claim the credit on a form filed with their tax return, but taxpayers whose income is below the income tax filing threshold can file the credit form without filing an income tax return. The credit could be considered a tax expenditure either for the income tax or the property tax.

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.

Taxpayers who claim the credit are able to take an itemized deduction for property taxes on their homes. For a taxpayer who takes the state and federal standard deductions, the credit reduces state income tax by $1 for each $1 by which the taxpayer's property tax exceeds the credit percentage for their income. If the taxpayer itemizes deductions, the credit reduces the federal deduction for state taxes, which increases federal income tax. This increases the state deduction for federal taxes, further reducing state taxes. A taxpayer who is eligible for the credit may be in any state rate bracket, but is likely to be in the 10 percent or 15 percent federal brackets. The following table shows federal and state subsidies for a taxpayer in the top state and 15 percent federal rate brackets who claims the credit and itemizes, the federal and state subsidies if the taxpayer itemizes but does not claim the credit, and the difference due to the credit.

Property Tax $100 more than Credit Percent	
Taxpayer Claims Credit and Federal and State Deductions	
Federal Tax Subsidy	($1.05)
State Tax Subsidy	$106.97
Net Taxpayer Subsidy	$105.93
Taxpayer Claims Federal and State Itemized Deductions	
Federal Tax Subsidy	$14.11
State Tax Subsidy	$5.93
Net Taxpayer Subsidy	$20.04
Difference Due to Credit	
Federal Tax Subsidy	($15.16)
State Tax Subsidy	$101.05
Net Taxpayer Subsidy	$85.89

For a taxpayer who itemizes, the credit reduces the federal deduction for state taxes by the amount that the federal deduction for property taxes exceeds the credit percentage.

The following table shows the credits claimed for 2005 through 2013. For 2013, the elderly homeowner/renter credit cost the state general fund $8,485,894, or $13.40 per full year resident taxpayer.

Elderly Homeowner/Renter Credit						
	Credit Claimed with Income Tax Return		Credit Claimed Without Income Tax Return		Total	
	N	$	N	$	N	$
2005	16,850	$7,971,363	7,534	$3,609,244	24,384	$11,580,607
2006	17,234	$7,742,741	6,447	$2,983,280	23,681	$10,726,021
2007	17,545	$7,829,406	4,536	$1,981,220	22,081	$9,810,626
2008	18,333	$8,538,200	3,954	$1,777,670	22,287	$10,315,870
2010	18,867	$8,712,465	5,902	$2,642,897	24,769	$11,355,362
2011	18,135	$8,282,747	5,684	$2,508,178	23,820	$10,790,925
2012	16,640	$7,284,407	5,607	$2,357,138	22,247	$9,641,545
2013	15,351	$6,699,687	4,714	$1,788,207	20,365	$8,487,894

Credit for Other States' Taxes: 15-30-2302, MCA
Legislation: HB 38, 1941 Session

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 non-resident or 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. A part-year resident is then allowed a credit for income tax paid to another state on income also taxed 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. The following table shows the credits claimed for 2005 through 2013.

Other State's Tax Credit								
	Residents		Non-Residents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
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
2010	10,572	$20,608,363	0	$0	254	$138,299	10,826	$20,746,662
2011	10,658	$19,090,209	0	$0	275	$294,694	10,933	$19,384,903
2012	10,497	$23,668,111	0	$0	223	$192,211	10,720	$23,860,322
2013	12,202	$27,082,006	0	$0	268	$217,481	12,470	$27,299,487

For 2013, the credit for other states' taxes cost the state general fund $27,252,784, and $46,703 in credits were unused because taxpayers had more credits than tax liability. The cost to the general fund was $43.11 per full year resident taxpayer.

Emergency Lodging Credit: 15-31-171, MCA and 15-30-2381, MCA
Legislation: HB 240, 2007 Session

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.

Since this credit is not a proportion of expenditure, it is not possible to calculate tax subsidy percentages as is done for other credits.

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. The following table shows income tax credits claimed in tax year 2008 through 2013. Fewer than 10 taxpayers have claimed the credit each year, and credits have only been claimed in 2008 and 2011.

Emergency Lodging Credit

	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
2010	0	$0	0	$0	0	$0	0	$0
2011	*	$863	*	$150	0	$0	*	$1,013
2012	0	$0	0	$0	0	$0	0	$0
2013	0	$0	0	$0	0	$0	0	$0

*Counts less than 10 and row totals including counts less than 10 are not shown to protect taxpayer confidentiality.

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. The table on the following page 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.

Tax Expenditures by Income

The tables following the Tax Expenditures by Function tables show 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.

Income Tax Expenditures by Function or Purpose Tax Year 2012
($ million)

Function	Federal Adjustment to Income	State Adjustments to Income	Itemized Deductions	Credits	Total
Required by Federal Law	$0.0	$9.1	$0.0	$0.0	$9.1
Subsidize Tax to Another Level of Government	$4.0	$0.0	$84.7	$23.9	$112.6
Subsidize Health Care and Other Human Services	$8.5	$1.1	$82.9	$2.4	$94.9
Subsidize Retirement Saving	$6.5	$0.0	$0.0	$0.0	$6.5
Subsidize Education	$2.9	$0.4	$0.0	$0.0	$3.3
Subsidize Energy Conservation, Alternative Energy, Recycling	$0.0	$0.0	$0.0	$5.7	$5.7
Subsidize Business Investment	$0.0	$0.0	$0.0	$0.0	$0.0
Subsidize Home Ownership	$0.0	$0.0	$1.2	$0.0	$1.2
Subsidize Charitable Giving	$0.0	$0.0	$36.2	$2.3	$38.5
Subsidize Agriculture	$0.0	$1.3	$0.0	$0.0	$1.3
Subsidize Specific Types of Business	$3.4	$0.1	$0.0	$11.1	$14.6
Income Support	$0.0	$22.3	$0.0	$7.2	$29.5
Other or Multiple Purpose	$0.0	$10.8	$0.5	$31.5	$42.8
Total	**$25.2**	**$45.1**	**$205.5**	**$84.1**	**$360.0**

Income Tax Expenditures by Function or Purpose Tax Year 2013
($ million)

Function	Federal Adjustment to Income	State Adjustments to Income	Itemized Deductions	Credits	Total
Required by Federal Law	$0.0	$8.7	$0.0	$0.0	$8.7
Subsidize Tax to Another Level of Government	$4.4	$0.0	$95.6	$27.3	$127.3
Subsidize Health Care and Other Human Services	$9.8	$11.0	$19.1	$2.6	$42.6
Subsidize Retirement Saving	$7.4	$0.0	$0.0	$0.0	$7.4
Subsidize Education	$3.1	$0.6	$0.0	$0.0	$3.7
Subsidize Energy Conservation, Alternative Energy, Recycling	$0.0	$0.0	$0.0	$5.5	$5.5
Subsidize Business Investment	$0.0	$0.0	$0.0	$0.0	$0.0
Subsidize Home Ownership	$0.0	$0.0	$56.0	$0.0	$56.0
Subsidize Charitable Giving	$0.0	$0.0	$36.5	$2.4	$38.9
Subsidize Agriculture	$0.0	$0.0	$0.0	$0.0	$0.0
Subsidize Specific Types of Business	$3.6	$0.0	$2.0	$6.1	$11.7
Income Support	$0.0	$22.1	$0.0	$6.6	$28.7
Other or Multiple Purpose	$0.0	$4.7	$17.5	$60.3	$82.5
Total	**$28.3**	**$47.3**	**$226.7**	**$110.8**	**$413.0**

Income Tax Expenditures by Household Income Tax Year 2012
($ million)

Residents	Returns	Taxpayers	Total Household Income* ($ million)		Tax ($ million)		Passive Federal Adjustments 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	5,315	7,486	-$255.5	-1.0%	$0.0	0.0%	$0.0	0.0%	$0.0	0.0%	$0.0	0.0%	$1.8	2.1%	$1.8	0.5%
$0 to $5,873	43,259	46,931	$134.5	0.5%	$0.1	0.0%	$0.0	0.0%	$0.0	0.0%	$0.0	0.0%	$3.0	3.6%	$3.0	0.8%
$5,874 to $11,365	43,257	48,329	$385.2	1.5%	$1.6	0.2%	$0.1	0.3%	$0.3	0.6%	$0.1	0.0%	$1.9	2.3%	$2.3	0.6%
$11,366 to $17,268	43,255	50,510	$636.5	2.5%	$5.3	0.6%	$0.2	0.7%	$0.9	2.1%	$0.5	0.2%	$1.5	1.8%	$3.0	0.8%
$17,269 to $23,894	43,256	52,837	$909.1	3.6%	$12.2	1.3%	$0.4	1.4%	$2.2	4.9%	$1.6	0.8%	$1.0	1.2%	$5.1	1.4%
$23,895 to $32,190	43,258	55,621	$1,232.5	4.9%	$23.5	2.5%	$0.7	2.9%	$3.9	8.6%	$5.0	2.4%	$1.0	1.2%	$10.6	2.9%
$32,191 to $43,158	43,255	60,059	$1,652.6	6.5%	$40.6	4.3%	$1.3	5.1%	$4.7	10.5%	$12.4	6.0%	$1.3	1.6%	$19.8	5.5%
$43,159 to $57,380	43,258	65,690	$2,208.7	8.7%	$63.4	6.8%	$2.0	7.9%	$6.1	13.6%	$21.2	10.3%	$1.9	2.3%	$31.3	8.7%
$57,381 to $76,101	43,257	73,465	$2,932.8	11.6%	$93.6	10.0%	$2.7	10.6%	$7.7	17.0%	$32.7	15.9%	$3.3	3.9%	$46.3	12.9%
$76,102 to $106,221	43,257	79,125	$3,943.5	15.5%	$143.7	15.3%	$3.7	14.5%	$8.2	18.2%	$45.9	22.3%	$5.2	6.1%	$62.9	17.5%
$106,222 to $126,09	14,418	27,116	$1,680.2	6.6%	$68.0	7.2%	$1.9	7.5%	$2.8	6.3%	$18.5	9.0%	$2.8	3.3%	$26.0	7.2%
$126,094 to $175,02	14,419	27,103	$2,092.9	8.2%	$91.7	9.8%	$2.6	10.2%	$3.0	6.6%	$21.1	10.3%	$5.0	6.0%	$31.7	8.8%
Over $175,020	14,419	26,831	$6,289.8	24.8%	$330.8	35.2%	$8.7	34.5%	$2.9	6.4%	$38.4	18.7%	$47.7	56.7%	$97.6	27.1%
Resident Total	437,883	621,103	$23,842.8	93.9%	$874.6	93.1%	$24.1	95.6%	$42.7	94.8%	$197.2	95.9%	$77.5	92.1%	$341.5	94.9%
Non-Residents	45,597	70,270	$1,008.7	4.0%	$45.2	4.8%	$0.8	3.2%	$1.5	3.3%	$5.2	2.5%	$6.3	7.5%	$13.8	3.8%
Part Year Residents	22,060	29,574	$526.8	2.1%	$19.3	2.1%	$0.3	1.2%	$0.9	2.0%	$3.1	1.5%	$0.3	0.4%	$4.6	1.3%
Total	505,540	720,947	$25,378.3	100.0%	$939.1	100.0%	$25.2	100.0%	$45.1	100.0%	$205.5	100.0%	$84.1	100.0%	$360.0	100.0%

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

Income Tax Expenditures by Household Income Tax Year 2013
($ million)

Residents	Returns	Taxpayers	Total Household Income* ($ million)		Tax ($ million)		Passive Federal Adjustments 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	5,186	7,284	-$219.6	-0.8%	$0.0	0.0%	$0.0	0.0%	$0.0	0.0%	$0.0	0.0%	$2.1	1.9%	$2.1	0.5%
$0 to $5,873	44,086	47,846	$141.8	0.5%	$0.1	0.0%	$0.0	0.0%	$0.0	0.0%	$0.0	0.0%	$2.9	2.6%	$2.9	0.7%
$5,874 to $11,365	44,086	49,167	$405.1	1.5%	$1.7	0.2%	$0.1	0.3%	$0.2	0.6%	$0.1	0.0%	$1.9	1.7%	$2.3	0.6%
$11,366 to $17,268	44,087	51,582	$672.0	2.6%	$5.8	0.6%	$0.2	0.7%	$0.9	2.1%	$0.5	0.2%	$1.4	1.3%	$3.0	0.8%
$17,269 to $23,894	44,091	53,644	$961.0	3.7%	$13.6	1.4%	$0.4	1.5%	$2.2	5.2%	$1.7	0.8%	$1.1	1.0%	$5.4	1.4%
$23,895 to $32,190	44,089	56,438	$1,302.3	5.0%	$26.1	2.7%	$0.8	3.0%	$3.7	8.7%	$5.3	2.5%	$1.1	1.0%	$10.9	2.8%
$32,191 to $43,158	44,090	61,130	$1,745.4	6.7%	$44.2	4.6%	$1.4	5.0%	$4.7	10.9%	$12.9	6.2%	$1.6	1.4%	$20.5	5.3%
$43,159 to $57,380	44,088	67,150	$2,334.6	8.9%	$68.9	7.1%	$2.2	7.9%	$5.9	13.8%	$21.9	10.5%	$2.3	2.1%	$32.3	8.3%
$57,381 to $76,101	44,092	74,981	$3,098.2	11.8%	$101.7	10.5%	$3.0	10.4%	$7.1	16.7%	$33.4	16.1%	$3.5	3.2%	$46.9	12.1%
$76,102 to $106,221	44,088	80,571	$4,167.5	15.9%	$155.6	16.1%	$4.1	14.5%	$7.6	17.9%	$46.6	22.4%	$6.0	5.4%	$64.3	16.5%
$106,222 to $126,09	14,696	27,533	$1,780.7	6.8%	$73.4	7.6%	$2.1	7.3%	$2.6	6.2%	$18.7	9.0%	$3.4	3.0%	$26.8	6.9%
$126,094 to $175,02	14,695	27,620	$2,234.1	8.5%	$99.4	10.3%	$3.0	10.6%	$2.8	6.7%	$21.3	10.3%	$6.2	5.6%	$33.4	8.6%
Over $175,020	14,696	27,319	$5,937.6	22.7%	$313.5	32.3%	$9.8	34.5%	$2.5	5.8%	$37.1	17.9%	$43.9	39.6%	$93.3	24.0%
Resident Total	446,070	632,265	$24,560.9	93.9%	$903.9	93.3%	$27.1	95.6%	$40.3	94.6%	$199.4	96.0%	$77.2	69.7%	$344.0	88.3%
Non-Residents	48,778	75,413	$1,037.4	4.0%	$44.8	4.6%	$0.9	3.2%	$1.5	3.4%	$5.2	2.5%	$33.2	30.0%	$40.7	10.5%
Part Year Residents	23,132	31,004	$554.3	2.1%	$20.5	2.1%	$0.3	1.2%	$0.8	2.0%	$3.1	1.5%	$0.4	0.3%	$4.7	1.2%
Total	517,980	738,682	$26,152.6	100.0%	$969.2	100.0%	$28.3	100.0%	$42.6	100.0%	$207.7	100.0%	$110.8	100.0%	$389.4	100.0%

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

Following is a list of expenditures that reduce tax liability for corporate income 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.

Water's Edge Election

Code: 15-31-322 through 324, MCA
Legislation: HB 703, 1987 Session

Montana requires corporations that have common ownership to file a combined report. The income of the members of the group of corporations under common ownership is apportioned to Montana based on the combined apportionment factors of the group. The purpose of the combined reporting is to make the apportionment of income to Montana independent of the financial arrangements between group members.

Under current state law (15-31-324, MCA), a corporation can elect to file as a water's edge corporation. In doing so the corporation will pay a higher rate, 7 percent, instead of the normal corporate income tax rate of 6.75 percent, on income apportioned to Montana, but only its domestic, rather than worldwide, income and apportionment factors are included in the apportionment process (with certain exceptions). Under the water's edge election, some of the group's foreign affiliates may be excluded from the process of apportioning income to Montana.

The number of corporations electing to file water's edge was 365 in tax year 2012, 293 in tax year 2011, 230 in tax year 2010, and 221 in tax year 2009. This compares to 161 water's edge filers in tax year 2007 and 186 in tax year 2008.

The department's analyses of the fiscal impact of narrowing the water's edge provisions by modifying the test for whether a foreign affiliate is included or excluded in the apportionment process indicate the revenue foregone is at least $2.0 million to $2.6 million per year. The proposed changes to the existing test for inclusion of affiliates in combined reporting included:

- Requiring all domestically (U.S.) incorporated affiliates be included, even if less than 20 percent of their payroll and property is in the United States;
- Requiring a subsidiary of a foreign-owned corporation be included if the subsidiary has more than 20 percent of the average of its payroll and property in the U.S.;
- Requiring a group member be included if it earns more than 20 percent of its income from selling services or intangibles to other members of the group and the other members are able to deduct the expenses against income; and
- Requiring all the income considered U.S. income under federal law be reported and used in the apportionment process.

Under current state law, a group member or affiliate must be included in the combined report if it is incorporated in a tax haven, and the analyses of revenue foregone included updating the list of tax havens.

However, if the water's edge election was eliminated completely - not just narrowed by the changes in provisions described above - additional revenue to the state is estimated to be 4 or 5 times those amounts estimated, or in the $8-$13 million range. This estimate, which is based upon audit experience, may be conservative in light of the fact that the number of water's edge filers has more than doubled over the last six years.

Montana Deductions

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.

The deduction was established in 1975 in HB 663.

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. The deduction was established in 1981 by passage of SB 322.

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 was established in 1999 in SB 625 and 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. The deduction originally began in 1991 through passage of SB 111.

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 $14,174,552. At the general tax rate of 6.75%, this is a reduction in tax revenue of $956,782.

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 less 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. The exclusion was passed by the 2009 Legislature (HB 636) and applies to tax years beginning after December 31, 2008.

Montana Corporate Tax Credits

Many of these credits are available to individual income taxpayers as well as corporate income taxpayers. More thorough explanations of many of the credits and their history 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 income tax year and filing requirements is based upon the corporation's fiscal year which can vary from the calendar year.

There is another change in the tables presented in this section due to the availability of a more complete, updated dataset of corporate tax returns. The tables in this section show seven years of history, unless the credit has not been in effect that long. The numbers and values of corporate tax credits claimed are on a state fiscal year basis for the first three years and are on a tax year basis for the last four years shown.

The 2013 Legislature approved a new tax credit (HB 444) which provides a refundable individual income tax credit or a corporate income tax credit of $500 for qualified access to state land that was previously not accessible to the public. The total of all of these credits that can be claimed by one taxpayer is not to exceed $2,000. The credit can be claimed in tax years beginning after 2013, so there is not any information available yet on credits claimed by corporate income taxpayers. The credit terminates December 31, 2018.

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.

The table shows credits claimed on corporate tax returns by fiscal year for 2006 through 2008 and by tax year for 2009 through 2012.

College Contribution Credit

Year	Number of Credits Claimed	Total Credits Claimed
2006	21	$4,449
2007	30	$9,194
2008	28	$6,265
2009	22	$4,466
2010	25	$5,605
2011	24	$5,874
2012	28	$9,020

The credit was established in the 1991 legislative session by passage of HB 894.

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

Contractors are required to pay a license fee equal to one percent of the gross receipts from government contracts during the year for which the license is issued. The agency or prime contractor withholds the one percent 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.

Contractors may use the amount of gross receipts tax paid as a credit against the contractor's corporation income 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 five years.

The table shows credits claimed on corporate tax returns by fiscal year for 2006 through 2008 and by tax year for 2009 through 2012.

The credit was established in the 1967 legislative session by HB 530.

Contractor's Gross Receipts

Year	Number of Credits Claimed	Total Credits Claimed
2006	64	$703,319
2007	127	$1,717,148
2008	106	$1,393,906
2009	90	$1,318,876
2010	91	$906,127
2011	110	$531,807
2012	104	$763,534

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 percent of the present value of a planned gift to a qualified charitable endowment.

Corporations are allowed a credit of 20 percent of a gift to a qualified endowment.

The 2013 Legislature passed SB 108 which extends the credit through 2019. Among other changes, the legislation made the definition of a "permanent, irrevocable fund" which can accept donations eligible for the credit refer to the Uniform Prudent Management of Institutional Funds Act (Title 72, Chapter 30, MCA).

The table shows credits claimed on corporate tax returns by fiscal year for 2006 through 2008 and by tax year for 2009 through 2012.

HB 434, which was passed in the 1997 legislative session, created the credit.

Charitable Endowment Credit

Year	Number of Credits Claimed	Total Credits Claimed
2006	45	$121,753
2007	50	$160,667
2008	46	$174,337
2009	30	$94,889
2010	14	$42,830
2011	15	$45,913
2012	20	$60,406

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

Taxpayers are allowed a credit against individual income tax or corporate income 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 percent 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.

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. The table shows credits claimed on corporate tax returns by fiscal year for 2006 through 2008 and by tax years 2009 through 2012.

The credit was established in the 1993 legislative session by passage of HB 219.

Alternative Fuel Motor Vehicle Conversion Credit

Year	Number of Credits Claimed	Total Credits Claimed
2006	0	$0
2007	*	$16,000
2008	*	$23,500
2009	*	$6,004
2010	*	$14,000
2011	*	$6,479
2012	0	$0

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 income tax. In order to claim the credit the employer must pay at least 50 percent 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 percent of the employee's premium. If the employer pays a share of the employee's premium, then the $25 credit is prorated by the same percentage share.

The credit is subject to a number of restrictions including that the credit may not exceed 50 percent of the total premium for each employee, the credit may not be claimed for 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.

The table shows credits claimed on corporate tax returns by fiscal year for 2006 through 2008 and by tax year for 2009 through 2012.

The credit was established in the 1989 legislative session by HB 166.

Health Insurance for Uninsured Montanans

Year	Number of Credits Claimed	Total Credits Claimed
2006	92	$118,476
2007	206	$201,593
2008	126	$111,786
2009	43	$30,319
2010	42	$31,753
2011	28	$29,619
2012	19	$15,220

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. The table shows credits claimed on corporate tax returns by fiscal year for 2007 through 2008 and by tax year for 2009 through 2012. No credits were claimed in fiscal year 2006.

Insure Montana Credit

Year	Number of Credits Claimed	Total Credits Claimed
2007	87	$404,942
2008	221	$1,057,951
2009	177	$1,002,347
2010	185	$942,979
2011	167	$753,856
2012	156	$667,413

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.

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

(a) up to 50 percent 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.

The maximum credit depends on the number of employees an employer may have and be eligible and 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 that decrease general funds 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 through 15-32-611, MCA)

Taxpayers are allowed a credit against individual income tax or corporate income 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 percent 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 percent of the next $500,000 of investment.

Therefore if the taxpayer invests a total investment $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 less than 10 corporate taxpayers claimed this credit.

The table shows credits claimed on corporate tax returns by fiscal year for 2006 through 2008 and by tax year for 2009 through 2012.

The credit was originally established by the 1991 legislative session in SB 111.

Recycling Credits

Year	Number of Credits Claimed	Total Credits Claimed
2006	*	$39,700
2007	12	$81,892
2008	10	$102,037
2009	*	$41,560
2010	*	$47,884
2011	*	$112,359
2012	*	$79,815

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 extended this credit's life to January 1, 2015 from January 1, 2010; allows the credit to apply to bio-lubricants too; 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 shows credits claimed on corporate tax returns by fiscal year for 2007 through 2008 and by tax year for 2009 through 2012.

Oilseed Crushing & Biodiesel Production Credit

Year	Number of Credits Claimed	Total Credits Claimed
2007	0	$0
2008	*	$500
2009	0	$0
2010	0	$0
2011	0	$0
2012	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 percent 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.

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 seven years, but can only be claimed in tax years in which the facility is operating for the purposes of biodiesel blending.

Biodiesel Blending and Storage Credit

Year	Number of Credits Claimed	Total Credits Claimed
2007	*	$7,559
2008	0	$0
2009	0	$0
2010	0	$0
2011	0	$0
2012	0	$0

The table shows credits claimed on corporate tax returns by fiscal year for 2007 through 2008 and by tax year for 2009 through 2012.

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 table shows credits claimed on corporate tax returns by fiscal year for 2007 through 2008 and by tax year for 2009 through 2012.

Geothermal System Credit

Year	Number of Credits Claimed	Total Credits Claimed
2007	0	$0
2008	*	$500
2009	0	$0
2010	0	$0
2011	0	$0
2012	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 income tax of 35 percent 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.

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.

Alternative Energy Production Credit

Year	Number of Credits Claimed	Total Credits Claimed
2007	*	$28,452
2008	*	$273
2009	*	$50
2010	*	$100
2011	*	$50
2012	*	$50

The table shows credits claimed on corporate tax returns by fiscal year for 2006 through 2008 and by tax year for 2009 through 2012.

The credit was created in 1983 in HB 755.

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 daycare 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 percent of the cost of the daycare assistance with a limit of $1,575 per employee receiving the assistance. The daycare must be provided by a licensed or registered daycare provider; it must meet IRS requirements and cannot be part of the employee's compensation. The employer can also claim a credit on 25 percent of the cost of providing daycare information and referral services to employees (15-31-131, MCA).

Under 15-31-133, MCA there is a credit allowed against corporation tax for a portion of the cost of setting up a daycare facility to be used by the taxpayer's employees' dependents. The credit is the lowest of either:

(1)15% of the costs incurred, or
(2) $2,500 times the number of dependents the facility accommodates, or
(3) $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.

The table shows credits claimed on corporate tax returns by fiscal year for 2006 through 2008 and by tax year for 2009 through 2012.

The credit was created in 1989 by SB 282.

Dependent Care Assistance Credit

Year	Number of Credits Claimed	Total Credits Claimed
2006	*	$50
2007	*	$50
2008	0	$0
2009	0	$0
2010	0	$0
2011	0	$0
2012	0	$0

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

Corporate taxpayers may take a credit against corporation income tax for costs of rehabilitating a historic building located in Montana. The credit is 25 percent 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.

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.

The table shows credits claimed on corporate tax returns by fiscal year for 2006 through 2008 and by tax year for 2009 through 2012. An asterisk indicates that fewer than 10 corporate taxpayers claimed the credit in the fiscal year.

The credit was created in 1997 by HB 601.

Historic Property Preservation Credit

Year	Number of Credits Claimed	Total Credits Claimed
2006	*	$50
2007	*	$129,479
2008	*	$43,370
2009	0	$0
2010	0	$0
2011	0	$0
2012	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 seven years and used to reduce tax liability or carried back for three years.

The table shows credits claimed on corporate tax returns by fiscal year for 2006 through 2008 and by tax year for 2009 through 2012. An asterisk indicates that fewer than 10 corporate taxpayers claimed the credit in the fiscal year.

The credit was created in 1995 by SB 100 and HB 602.

Infrastructure Users Fee Credit

Year	Number of Credits Claimed	Total Credits Claimed
2006	*	$50
2007	*	$622,928
2008	*	$1,345,829
2009	*	$520,271
2010	*	$501,904
2011	*	$45,913
2012	*	$305,304

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

New or expanding manufacturing industries are allowed a tax credit equal to 1 percent 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 percent or more. "New" industry means a corporation engaging in manufacturing for the first time in Montana.

The table shows credits claimed on corporate tax returns by fiscal year for 2006 through 2008 and by tax year for 2009 through 2012. An asterisk indicates that fewer than 10 corporate taxpayers claimed the credit in the fiscal year.

The credit was created in 1975 by HB 593.

New and Expanded Industry Credit

Year	Number of Credits Claimed	Total Credits Claimed
2006	*	$84,708
2007	*	$83,570
2008	*	$4,311
2009	0	$0
2010	0	$0
2011	0	$0
2012	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 income 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.

To receive the credit, the taxpayer must apply for and receive certification from the Department of Labor and Industry.

The table shows credits claimed on corporate tax returns by fiscal year for 2006 through 2008 and by tax year for 2009 through 2012.

The credit was created in 2003 by SB 484.

Empowerment Zone New Employees Tax Credit

Year	Number of Credits Claimed	Total Credits Claimed
2006	0	$0
2007	0	$0
2008	0	$0
2009	0	$0
2010	0	$0
2011	0	$0
2012	0	$0

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

Taxpayers may receive a nonrefundable 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 percent of any increase in research expenditures over the taxpayer's baseline research expenditures. Montana provides a 5 percent credit against individual income tax or corporation income 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.

The table shows credits claimed on corporate tax returns by fiscal year for 2006 through 2008 and by tax year for 2009 through 2012.

The credit was created in 1999 by HB 638.

Increased Research Activities Credits

Year	Number of Credits Claimed	Total Credits Claimed
2006	*	$39,700
2007	12	$81,892
2008	10	$102,037
2009	24	$250,195
2010	21	$372,491
2011	18	$365,643
2012	14	$47,394

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

Taxpayers are allowed a credit, not to exceed 50 percent 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.

The table shows credits claimed on corporate tax returns by fiscal year for 2007 through 2008 and by tax year for 2009 through 2012. An asterisk indicates that fewer than 10 corporate taxpayers claimed the credit in the fiscal year.

Mineral Exploration Credit

Year	Number of Credits Claimed	Total Credits Claimed
2007	*	$1,212
2008	*	$1,831
2009	*	$25
2010	*	$25
2011	*	$2,767
2012	*	$25

The credit was created in 1999 by SB 625.

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

The Big Sky on the Big Screen Act was passed by the 2005 Legislature (HB 584). 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 (HB 163). Under the Act, 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. If the credit is more than the taxpayer's liability, the taxpayer must make a one-time election. The election is between whether the taxpayer will receive a refund of the credit balance over and above the tax liability, or will carry it over to use against future tax liabilities for up to four years.

A taxpayer may also claim a credit against income or corporation income 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. If the taxpayer's tax liability is less than the credit, any unused credit balance is refunded to the taxpayer.

There were no credits claimed on corporate tax returns in fiscal year 2007. In fiscal year 2008, $9,007 in credits were claimed and no credits were claimed on corporate tax returns for tax year 2009.

Additional detail on what the credits is being claimed for – employment or production costs – is available for tax years 2010 through 2012 and is provided in the table to the right. An asterisk indicates that fewer than 10 corporate taxpayers claimed the credit in the tax year. There were no taxpayers who elected to carry over any credit balance to be used against future years tax liabilities; any credit amounts over the tax liability were refunded.

Film Credits

	Credit for Production Expenses		Credit for Employment Expenses	
Year	Number Claimed	Total Credits Claimed	Number Claimed	Total Credits Claimed
2010	*	$0	*	$11,110
2011	*	$12,693	*	$25,865
2012	*	$33,862	*	$49,491

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 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 is claimable 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.

Emergency Lodging Credit

Year	Number of Credits Claimed	Total Credits Claimed
2009	*	$0
2010	*	$0
2011	0	$0
2012	0	$0

Passive Expenditures

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. Montana's corporate income tax calculations rely to some extent on these definitions so if there are changes at the federal level, then the tax collected by the state can also be affected.

One example of these federal tax credits is the accelerated depreciation of machinery and equipment listed in the table below. Depreciation is an income tax deduction that allows a taxpayer an annual allowance for the wear and tear, deterioration, or obsolescence of the property.

The figures provided below are an estimate of the impact that Montana's adherence to these definitions has on state income tax collections. The estimates are based on the federal tax expenditures estimated by the U.S. Treasury Department and included in the annual Executive Budget of the United States and are scaled down to Montana proportions. 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, 2013 and 2014

	2013	2014
Exemptions		
Deferral of income from controlled foreign corporations (normal tax method)	$10,259,073	$11,763,004
Deferred taxes for financial firms on certain income earned overseas	$1,077,009	$436,625
Exclusion of interest on life insurance savings	$519,099	$599,955
Excess of percentage over cost depletion, fuels and nonfuel minerals	$72,771	$90,559
Exemption of certain mutuals' and cooperatives' income	$17,788	$19,406
Exemption of credit union income	$323,426	$334,746
Inventory property sales source rules exception	$536,887	$582,167
Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	$0	-$9,703
Deferral of gain on sale of farm refiners	$3,234	$3,234
Deferral of tax on shipping companies	$3,234	$3,234
Deductions		
Accelerated depreciation of machinery and equipment (normal tax method)	$5,284,781	$1,347,069
Accelerated depreciation on rental housing (normal tax method)	$48,514	$54,982
Deductibility of charitable contributions (education)	$118,050	$126,136
Deduction for U.S. production activities	$1,573,468	$1,686,667
Empowerment zones, Enterprise communities, and Renewal communities	$29,108	$16,171
Expensing of exploration and development costs, fuels	$74,388	$69,537
Expensing of certain multiperiod production costs for farmers	$1,617	$1,617
Expensing of certain small investments (normal tax method)	$92,176	-$42,045
Expensing of exploration and development costs, nonfuel minerals	$8,086	$8,086
Expensing of multiperiod timber growing costs	$27,491	$29,108
Expensing of research and experimentation expenditures (normal tax method)	$863,547	$764,903
Small life insurance company deduction	$4,851	$4,851
Other		
Special alternative tax on small property and casualty insurance companies	$1,617	$1,617
Special ESOP rules	$250,655	$263,592
Special rules for certain film and TV production	$37,194	$27,006
Tax incentives for preservation of historic structures	$79,239	$80,857

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. The data is in the Analytical Perspectives Section of the 2015 Executive Budget, which is available at http://www.gpo.gov/fdsys/pkg/BUDGET-2015-PER/pdf/BUDGET-2015-PER.pdf. The Montana estimates were developed using the ratio of total income subject to tax to total income tax before credits for Montana and federal taxes. Total income subject to tax and total income tax before credits comes from www.irs.gov, SOI tax statistics, total returns of active corporations, 2011 and from Montana data for most recent complete tax year.

Property Tax Expenditures
Property tax expenditures are provisions in the property tax laws that reduce taxes for properties that meet certain criteria.

The cost of property tax expenditures are the revenue losses from statewide mills that would have been collected if these programs did not reduce the properties' taxable value. Property tax expenditures can cost other property owners as well due to laws governing local governments' budgeting procedure (15-10-420, MCA). This section of code allows local governments to increase mills to offset a reduction in the tax base. Property tax expenditures work to lower taxable value for one sub-group of taxpayers which decreases the tax base and can cause mills to increase so that local jurisdictions can maintain budget levels.

In this section, the tax expenditure is reported as the decrease of state revenue caused by each program, and the tax shift to other taxpayers is reported as a tax shift.

Residential Property Tax Expenditures
There are three 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. However, it is administered through the income tax so it is classified as an income tax expenditure.

Property Tax Assistance Program (PTAP): 15-6-134, MCA
Legislation: HB 398, 1979 Session

The Property Tax Assistance Program (PTAP) reduces property taxes for low-income households. The program works by reducing the class 4 tax rate by 80 percent, 50 percent, or 30 percent depending on the income of the owners. To qualify for this program in 2014, homeowners must report a household income below $21,144 for one qualified homeowner and below $28,192 for more than one qualified owner. To qualify for PTAP, homeowners must reside in their home for seven months out of the year. PTAP applies to the first $100,000 of the taxable market value of residential improvements and up to five acres of residential land.

The table below shows that in 2014 there were 19,446 property taxpayers who qualified for PTAP. This program reduced the taxable value of these properties by $17,396,189 which reduced the state revenue collected with the 95 schools mills, 1.5 vo-tech mills, and the six university mills by $1,765,544. Additionally, the reduction in taxable value increased local mills, effectively shifting $7,973,713 in taxes to other taxpayers.

In 2014, PTAP participants paid $9,739,256 less in taxes, an average benefit of $501 per participant.

Property Tax Expenditure - PTAP

Tax Year	Participants	Reduction in Taxable Value	Loss in State 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	$263
2006	8,192	$4,130,616	$417,192	$1,758,981	$2,176,173	$266
2007	7,729	$3,856,960	$389,553	$1,651,280	$2,040,833	$264
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	$476
2010	11,583	$10,774,917	$1,088,267	$4,739,203	$5,827,469	$503
2011	13,115	$11,871,305	$1,205,923	$5,794,751	$7,000,674	$534
2012	14,013	$12,805,457	$1,298,649	$6,375,049	$7,673,698	$548
2013	18,302	$16,639,495	$1,688,880	$7,475,155	$9,164,035	$501
2014	19,446	$17,396,189	$1,765,544	$7,973,713	$9,739,256	$501

Disabled American Veterans Program (DAV): 15-6-211, MCA
Legislation: HB 213, 1979 Session

The Disabled American Veterans Program (DAV) reduces property taxes for disabled veterans and is established in 15-6-211, MCA. It reduces the residential class 4 tax rate by 100 percent, 80 percent, 70 percent, or 50 percent depending on the level of income of 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 who was honorably discharged and paid at the 100 percent disabled rate by the Department of Veterans Affairs for a service-connected disability. The spouse of a veteran killed while on active duty or who died from a service-connected disability qualifies for DAV benefits as well.

The table below shows that in 2014 there were 2,199 property taxpayers who qualified for DAV. This reduced the taxable value of these properties by $4,470,188 which reduced the state revenue collected with 95 school equalization mills, 1.5 vo-tech mills, and the six university mills by $453,681. The reduction in taxable value increased the local mills effectively shifting $2,048,954 to other taxpayers.

In 2014, participants of DAV paid $2,502,635 less in taxes because of this program, an average benefit of $1,138 per participant.

Property Tax Expenditure - DAV						
Tax Year	Participants	Reduction in Taxable Value	Loss in State 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
2006	1,546	$2,915,543	$294,470	$1,241,555	$1,536,024	$994
2007	1,608	$3,158,974	$319,056	$1,352,451	$1,671,508	$1,039
2008	1,711	$3,237,648	$327,002	$1,415,241	$1,742,243	$1,018
2009	1,643	$2,765,902	$279,356	$1,186,240	$1,465,596	$892
2010	1,800	$2,955,279	$298,483	$1,299,840	$1,598,323	$888
2011	2,037	$4,056,325	$412,345	$1,943,383	$2,355,728	$1,156
2012	2,095	$4,185,996	$425,293	$2,033,607	$2,458,900	$1,174
2013	2,147	$4,325,995	$439,081	$1,943,417	$2,382,498	$1,110
2014	2,199	$4,470,188	$453,681	$2,048,954	$2,502,635	$1,138

Extended Property Tax Assistance Program (EPTAP): 15-6-193, MCA
Legislation: HB 461, 2003 Session

The Extended Property Tax Assistance Program (EPTAP) reduces property taxes for residential properties that experienced extraordinary market value increases between 2002 and 2008 and is established in 15-6-193, MCA. Homeowners must report a household income equal to or below $75,000 to qualify for this program. It limits the growth in taxable value of qualified residential properties to four percent, five percent, or six percent per year depending on the taxpayer's income bracket. The reduction in taxable value is applied to a residential property and up to one acre of land that is occupied at least seven months of the year.

The table on the next page shows that in 2014 there were 1,696 property taxpayers who qualified for EPTAP. This reduced the taxable value of these properties by $1,424,267, which reduced the state revenue collected with the 95 school equalization mills, the 1.5 vo-tech mills, and the six university mills by $144,549. The reduction in taxable value increased the local mills, effectively shifting $652,827 to other taxpayers.

In 2014, participants in EPTAP paid $797,376 less in taxes because of this program, an average benefit of $470 per participant.

Property Tax Expenditure - EPTAP						
Tax Year	Participants	Reduction in Taxable Value	Loss in State Revenue	Tax Shifts	Total Tax Benefit to Participants	Average Tax Benefit
2005	1,191	$422,874	$42,710	$177,996	$220,706	$185
2006	986	$427,616	$43,189	$182,096	$225,285	$228
2007	825	$389,506	$39,340	$166,759	$206,100	$250
2008	805	$412,080	$41,620	$180,128	$221,748	$275
2009	3,132	$913,287	$92,242	$391,691	$483,933	$155
2010		**EPTAP data is unavailable for 2010**				
2011	3,602	$1,762,720	$178,295	$734,307	$912,602	$253
2012	2,560	$1,541,880	$155,942	$665,051	$820,993	$321
2013	2,151	$1,531,869	$155,482	$688,179	$843,662	$392
2014	1,696	$1,424,267	$144,549	$652,827	$797,376	$470

Economic Development Tax Expenditures
In addition to the residential property tax exemptions, there are tax expenditures in statute that encourage economic development by reducing the taxable value of properties or by creating a tax increment finance district. These expenditures are described below.

Energy Production or Development Tax Abatement: 15-24-3111, MCA

The energy production or development tax abatement provides a 50 percent rate reduction on a qualified energy production or development facility and equipment. The tax rate reduction may be in effect during the construction period and the first 15 years after the facility commences operation, not to exceed a total of 19 years. Currently the properties using this abatement are class 14 and class 15, both of which are normally taxed at 3 percent. This program changes the tax rate to 1.5 percent for these properties.

In 2014, approximately $240,744,779 in market value was reported in this program, providing for an abatement of approximately $1,921,446 in taxes. Approximately $364,728 of this amount is a reduction in state revenue; the remaining $1,556,717 was shifted to other tax payers.

Electrical Generation and Transmission Facility Exemption: 15-24-3001, MCA

The electrical generation and transmission facility exemption provides a 10 year exemption from taxation for certain qualified property that was constructed in the state of Montana between May 5th, 2001 and January 1st, 2006.

In 2014, this exemption was not claimed by any taxpayer.

Tax Increment Finance Districts: 7-15-4282, MCA

Tax increment financing (TIF) provides for the segregation of the taxable value, in a qualified district, into base and increment values. Qualified districts may include urban renewal districts and targeted economic development districts. Tax increment financing may be used to pay for a variety of development activities within the TIF, including land acquisition, demolition and removal of structures, relocation of occupants, infrastructure costs, construction of publicly owned buildings and improvements, administration of urban renewal activities, and paying bonds that were issued to fund appropriate costs. To learn more about TIFs, please refer to the property tax chapter of this report.

The TIF increment value is the amount of taxable value of a TIF less the taxable value when it was formed. All local and state mills are levied against the TIF increment value and the TIF retains this revenue with the exception of the six university mills.

The state only receives revenue for mills levied against TIF increment value from the six university mills so the tax expenditure cost to the state is the revenue generated from the 95 and 1.5 statewide mills on the increment value. Unlike the other property tax expenditure programs, there is not a clear shift to other taxpayers. There are, however, some instances when the creation of a TIF can lead to increases in property taxes for taxpayers located inside and outside the TIF.

Development within a TIF may necessitate an increase of services by local jurisdictions, whether they are schools, towns, counties, or fire districts. Since local budgets are constrained by 15-10-420, MCA, local governments may propose voted mill levy increases to pay for new services. A voted levy would increase taxes for all property owners located in the jurisdiction, increase TIF revenue, and may increase taxes on property located outside of the TIF.

If development is intended inside a proposed TIF district, but does not occur before the TIF base is determined, the TIF may collect revenue that may have otherwise been used to reduce mills and taxes due by property owners in affiliated taxing jurisdictions.

The following table presents the amount of revenue used by TIFs in Montana by type of jurisdictions for tax years 2009 through 2014. In 2014, the amount of TIF revenue that came from the 95 state education equalization mills and 1.5 vo-tech mills was $4,324,414.

TIF Districts
Revenue Generated by Mill Type

Tax Year	Increment	Revenue From Statewide Mills	Revenue From County Mills	Revenue From School Mills	Revenue From City Mills	Revenue From Miscellaneous Mills	Total Revenue From All Mills
2009	$32,014,815	$3,069,779	$6,079,435	$6,599,541	$2,853,160	$778,881	$19,380,796
2010	$42,266,864	$4,057,293	$7,767,739	$9,969,301	$3,905,254	$995,454	$26,695,041
2011	$46,300,358	$4,438,575	$9,385,018	$10,625,763	$4,264,645	$1,213,209	$29,927,210
2012	$46,053,586	$4,408,555	$8,627,610	$10,660,530	$4,220,604	$1,681,498	$29,598,797
2013	$48,039,378	$4,652,871	$8,694,981	$9,843,858	$4,525,461	$1,873,798	$29,590,969
2014	$45,186,770	$4,324,414	$7,822,155	$10,879,496	$4,910,109	$1,654,865	$29,591,039

Oil and Gas Tax Expenditures
There are many tax rates for oil and natural gas wells, depending on the type of well, when they were drilled, and whether they are owned by working interest or royalty owners. The following tax expenditures all apply to working interest owners as royalty owners do not benefit from any tax expenditures.

Reduced Rates for "New" Oil and Gas Production
Code: 15-36-304, MCA
Legislation: HB 553, 1977 Session

Oil or gas produced from a well that qualifies as "new" production is taxed at a reduced rate of 0.76 percent. 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 is intended to provide an incentive for the exploration, development and production of oil and gas.

Reduced Rate for Horizontally Recompleted Oil Wells
Code: 15-36-304, MCA
Legislation: SB 18, 1993 Session

The first 18 months of incremental production from a horizontally recompleted well is taxed at 5.76 percent. After this period, the tax rate reverts to 9.26 percent for post-99 wells or 12.76 percent for pre-99 wells. There were no horizontally recompleted oil wells approved in 2011, 2013 or 2014.

Reduced Rates for Incremental Oil Production from Enhanced Recovery Projects
Code: 15-36-304, MCA
Legislation: HB 636, 1985 Session

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 percent, and incremental production from tertiary recovery projects is taxed at 6.06 percent. In quarters when the average price of WTI is at least $30 per barrel, these wells are taxed at 9.26 percent for post-99 wells and 12.76 percent for pre-99 wells. The reduced rates provide incentives for the use of enhanced recovery technologies when prices are low. The state does not currently forgo any revenue as a result of this tax expenditure because the average quarterly WTI price has not been below $30 per barrel since the 4th quarter of FY 2003.

Reduced Rates for Stripper Exemption and Stripper Oil Wells
Code: 15-36-304, MCA
Legislation: HB 661, 1999 Session; HB 658, 1999 Session; HB 535, 2005 Session

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

From wells on leases that produce between three and 15 barrels per well per day (stripper oil), the first 10 barrels per day are taxed at 5.76 percent 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 percent for post-99 and 12.76 percent for pre-99 wells. The reduced rates on stripper exemption and stripper oil provide an incentive to keep low-volume wells in production.

The state does not currently forgo any revenue as a result of oil prices being below $38 or $30 per barrel because the average quarterly WTI price has not been below $38 per barrel since the 3rd quarter of FY 2004.

Reduced Rates for Pre-1999 "Stripper" Gas Wells
Code: 15-36-304, MCA
Legislation: SB 530, 1999 Session

Gas wells drilled prior to January 1, 1999 that produced less than 60,000 cubic feet of natural gas a day during the previous year (stripper wells) receive a preferential tax rate of 11.26 percent.

Coal Tax Expenditures
While there are many tax rates for coal producers depending on the type of mining and the quality of coal, the following temporary tax rate reduction clearly meets the qualifications of a tax expenditure as defined under the Congressional Budget and Impoundment Control Act of 1974 (the "Budget Act") as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability."

Reduced Gross Proceeds Rate for New Underground Coal Mines
Code: 15-23-703, MCA
Legislation: SB 266, 2011 Session

Provides a reduced coal gross proceeds tax rate of 2.5 percent for new and existing underground mines for the first 10 years of coal production.

There were no claims for this reduced tax rate for FY 2013 or FY 2014.

Oil and Natural Gas Severance Tax Expenditures

Natural Gas Production

New Production Tax Holiday

Fiscal Year	Working Interest Value	Actual Tax Rate	Tax Revenue	"Normal" Tax Rate	"Normal" Tax Revenue	Tax Expenditure
2010	$19,760,155	0.760%	$150,177	9.260%	$1,829,790	$1,679,613
2011	$23,179,064	0.760%	$176,161	9.260%	$2,146,381	$1,970,220
2012	$13,678,192	0.760%	$103,954	9.260%	$1,266,601	$1,162,646
2013	$17,148,261	0.760%	$130,327	9.260%	$1,587,929	$1,457,602
2014	$23,652,552	0.760%	$179,759	9.260%	$2,190,226	$2,010,467

Drilled Before 1999 and Average Less Than 60 MCF/ Day in Prior Calendar Year

Fiscal Year	Working Interest Value	Actual Tax Rate	Tax Revenue	"Normal" Tax Rate	"Normal" Tax Revenue	Tax Expenditure
2010	$49,793,879	11.260%	$5,606,791	15.060%	$7,498,958	$1,892,167
2011	$43,170,889	11.260%	$4,861,043	15.060%	$6,501,536	$1,640,493
2012	$33,595,799	11.260%	$3,782,887	15.060%	$5,059,527	$1,276,640
2013	$32,345,250	11.260%	$3,642,076	15.060%	$4,871,195	$1,229,119
2014	$33,768,347	11.260%	$3,802,316	15.060%	$5,085,513	$1,283,197

Oil Production

New Production Tax Holiday

Fiscal Year	Working Interest Value	Actual Tax Rate	Tax Revenue	"Normal" Tax Rate	"Normal" Tax Revenue	Tax Expenditure
2010	$112,156,719	0.760%	$852,391	9.260%	$10,385,712	$9,533,321
2011	$226,006,907	0.760%	$1,717,652	9.260%	$20,928,240	$19,210,587
2012	$334,866,575	0.760%	$2,544,986	9.260%	$31,008,645	$28,463,659
2013	$624,632,195	0.760%	$4,747,205	9.260%	$57,840,941	$53,093,737
2014	$657,251,544	0.760%	$4,996,704	9.260%	$60,861,493	$55,864,789

Horizontally Recompleted Wells

Fiscal Year	Working Interest Value	Actual Tax Rate	Tax Revenue	"Normal" Tax Rate	"Normal" Tax Revenue	Tax Expenditure
2010	$3,821,852	5.760%	$220,139	9.260%	$353,903	$133,765
2011	$0	5.760%	$0	9.260%	$0	$0
2012	$294,160	5.760%	$16,944	9.260%	$27,239	$10,296
2013	$0	5.760%	$0	9.260%	$0	$0
2014	$0	5.760%	$0	9.260%	$0	$0

Stripper Well Production

Fiscal Year	Working Interest Value	Actual Tax Rate	Tax Revenue	"Normal" Tax Rate	"Normal" Tax Revenue	Tax Expenditure
2010	$36,124,635	6.260%	$2,261,402	9.260%	$3,345,141	$1,083,739
2011	$42,718,840	6.260%	$2,674,199	9.260%	$3,955,765	$1,281,565
2012	$47,730,292	6.260%	$2,987,916	9.260%	$4,419,825	$1,431,909
2013	$45,766,201	6.260%	$2,864,964	9.260%	$4,237,950	$1,372,986
2014	$45,552,890	6.260%	$2,851,611	9.260%	$4,218,198	$1,366,587

Total

Fiscal Year	Natural Gas Tax Expenditures	Oil Tax Expenditures	Oil and Natural Gas Tax Expenditures
2010	$3,571,781	$10,750,825	$14,322,605
2011	$3,610,714	$20,492,152	$24,102,866
2012	$2,439,286	$29,905,863	$32,345,149
2013	$2,686,721	$54,466,722	$57,153,443
2014	$3,293,664	$57,231,376	$60,525,040