

# Tax Expenditures

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# Introduction

The purpose of this tax expenditure report is to provide the public and the Legislature with information on special provisions and the cost of these special provisions in terms of reduced tax revenue.

## What are Tax Expenditures and Why Measure Them?

When a state agency has a program to accomplish a goal, such as paving state highways, operating prisons, or funding local school districts, the program will have a direct cost to taxpayers, i.e. 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, 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.

When the Legislature creates tax expenditures, conventional accounting gives a distorted picture of the state budget. For example: the legislature is considering two programs to provide \$10 million in assistance to private landowners who remove beetle-killed trees.

One program would provide grants to landowners based on their costs and the benefits to public safety.

The other program would make exactly the same payments to exactly the same people for cutting down and removing exactly the same trees, but, at the end of the program, the checks would be written by the Department of Revenue instead of the Department of Natural Resources and Conservation, and the money would be called a tax credit instead of a grant.

The two programs would also have the same effect on the bottom line of the state budget. They would both reduce the ending fund balance by \$10 million. In the first case, conventional accounting correctly shows how this has happened. The state spent an additional \$10 million with no change in revenue.

In the second case, conventional accounting is misleading. The \$10 million spent disposing of beetle-killed trees is shown as a reduction of revenue, rather than as the expenditure it really is.

This distorted accounting allows legislators to propose new spending programs while portraying them as tax cuts. Accounting for tax expenditures gives legislators and the public a better picture of both the size and scope of state government and the tradeoffs between state programs.

## How are Tax Expenditures Measured?

There are two components to measuring tax expenditures:

- identifying special provisions of the tax code
- estimating the revenue lost because of each special provision

Since the introduction of the tax expenditure concept by the U.S. Department of the Treasury in 1967, there has been considerable controversy about what should be considered 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 of economic theory. It has also been an ideological argument between proponents of different visions of an ideal tax system. This controversy has obscured 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.

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. The report 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.

## **How Should This Information be Used?**

Ideally, policymakers would give tax expenditures the same kind of scrutiny that they give direct program expenditures. They would consider the likely costs and results of new proposals and periodically evaluate the actual costs and impacts of existing tax expenditures. This evaluation would examine each tax 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 table on the next page 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-Exempt Organizations**

In addition to the tax expenditures for each tax type listed in this section, the state also exempts some organizations and property from taxation by the state. In general, organizations that qualify for tax-exempt status include government, charitable and educational organizations, properties used for religious purposes, or nonprofits that provide care to qualified individuals. A complete list of tax-exempt organization types can be found in 15-6-201, MCA. To receive tax-exempt status, each organization must meet the requirements and apply with the Department of Revenue by March 1.

Tax Source	Tax Expenditure	Expenditure Type	Law	Session/Year	Legislation
<b>Individual Income Tax</b>					
Individual Income Tax	Archer MSA Deduction	Adjustment to Gross Income	Federal Provision		
Individual Income Tax	Business Purchase of Recycled Material	Adjustment to Gross Income	15-32-609 to 611	1991	SB 111
Individual Income Tax	Capital Gain Exclusion from the Sale of Mobile Home Park	Adjustment to Gross Income	15-31-163	2009	HB 636
Individual Income Tax	Deduction for Self-Employment	Adjustment to Gross Income	Federal Provision		
Individual Income Tax	Disability Retirement Income	Adjustment to Gross Income	15-30-2110(10)	1985	SB 464
Individual Income Tax	Domestic Production Activities	Adjustment to Gross Income	Federal Provision		
Individual Income Tax	Employer-Paid Disability Insurance Limited to Part Owners and Highly Compensated Employees	Adjustment to Gross Income	15-30-2110(2)(h)	2013	HB 545
Individual Income Tax	Employer-Paid Health Insurance Limited to Part Owners and Highly Compensated Employees	Adjustment to Gross Income	15-30-2110(2)(h)	1985	SB 72
Individual Income Tax	Exempt Tribal Income	Adjustment to Gross Income	Federal Provision		
Individual Income Tax	Expenses Incurred by Medical Marijuana Providers	Adjustment to Gross Income	15-30-2131	2017	SB 333
Individual Income Tax	Family Education Savings Account	Adjustment to Gross Income	15-62-101 to 302	1997	HB 536
Individual Income Tax	Farm and Ranch Risk Management Account	Adjustment to Gross Income	15-30-3001 to 3005	2001	SB 245
Individual Income Tax	First-Time Homebuyer Account	Adjustment to Gross Income	15-63-101 to 205	1997	HB 599
Individual Income Tax	Health Savings Account	Adjustment to Gross Income	Federal Provision		
Individual Income Tax	Individual Retirement Account Deduction	Adjustment to Gross Income	Federal Provision		
Individual Income Tax	Interest On Federal Government Bonds	Adjustment to Gross Income	Federal Provision and 15-30-2110(2)(a)		
Individual Income Tax	Military Salary	Adjustment to Gross Income	15-30-2117(2)	1975	HB 152

<b>Tax Source</b>	<b>Tax Expenditure</b>	<b>Expenditure Type</b>	<b>Law</b>	<b>Session/Year</b>	<b>Legislation</b>
Individual Income Tax	Montana Achieving a Better Life Experience Act Account Deposits	Adjustment to Gross Income	Federal Provision		
Individual Income Tax	Montana Medical Savings Account	Adjustment to Gross Income	15-61-101 to 205	1995	HB 560
Individual Income Tax	National Guard Life Insurance	Adjustment to Gross Income	15-30-2117(3)	2005	HB 761
Individual Income Tax	Partial Exclusion of Capital Gains on Pre-1987 Installment Sales	Adjustment to Gross Income	15-30-2110(13)	1987	HB 904
Individual Income Tax	Partial Interest Exclusion for the Elderly	Adjustment to Gross Income	15-30-2110(2)(b)	1981	HB 18
Individual Income Tax	Partial Pension Exemption	Adjustment to Gross Income	15-30-2110(2)(c)	1963	HB 232
Individual Income Tax	Passive Tax Expenditures	Adjustment to Gross Income	15-30-2110(1)	1955	HB 354
Individual Income Tax	Sale of Land to Beginning Farmers	Adjustment to Gross Income	80-12-211	1983	SB 316
Individual Income Tax	Small Business Investment Company Dividends	Adjustment to Gross Income	15-33-106	1981	HB 834
Individual Income Tax	Student Loan Interest Deduction	Adjustment to Gross Income	Federal Provision		
Individual Income Tax	Third-Party Repayment of Health Care Professional's Student Loans	Adjustment to Gross Income	15-30-2110(12)	2003	SB408
Individual Income Tax	Tier II Railroad Retirement	Adjustment to Gross Income	Federal Provision		
Individual Income Tax	Tips	Adjustment to Gross Income	15-30-2110(2)(f)	1983	HB 841
Individual Income Tax	Tuition and Fees Deduction	Adjustment to Gross Income	Federal Provision		
Individual Income Tax	Unemployment Compensation	Adjustment to Gross Income	15-30-2101(10)	1979	HB 363
Individual Income Tax	Worker's Compensation	Adjustment to Gross Income	15-30-2110(2)(g)	1985	SB 72
Individual Income Tax	Casualty and Theft Losses	Itemized Deduction	Federal Provision		
Individual Income Tax	Charitable Contributions	Itemized Deduction	Federal Provision		
Individual Income Tax	Child and Dependent Care Expenses	Itemized Deduction	15-30-2131(1)(c)	1977	HB 47
Individual Income Tax	Federal Income Tax	Itemized Deduction	15-30-2131(1)(b)	1933	HB 328

Tax Source	Tax Expenditure	Expenditure Type	Law	Session/Year	Legislation
Individual Income Tax	Home Mortgage Interest	Itemized Deduction	Federal Provision		
Individual Income Tax	Light Vehicle Registration Fees	Itemized Deduction	15-30-2131(1)(h)	1999	HB 540
Individual Income Tax	Long Term Care Insurance Premiums	Itemized Deduction	15-30-2131(1)(a)(iv)	1997	SB 151
Individual Income Tax	Livestock Fees	Itemized Deduction	15-30-2131(1)(i)	2001	HB 124
Individual Income Tax	Medical and Dental Expenses	Itemized Deduction	Federal Provision		
Individual Income Tax	Medical Insurance Premiums	Itemized Deduction	15-30-2131(1)(a)(iii)	1995	HB 202
Individual Income Tax	Other Deductible Taxes	Itemized Deduction	Federal Provision		
Individual Income Tax	Political Contributions	Itemized Deduction	15-30-2131(1)(d)	1979	HB 407
Individual Income Tax	State and Local Taxes Limited to \$10,000	Itemized Deduction	Federal Provision		
Individual Income Tax	Adoption Credit	Credit	15-30-2364	2007	HB 490
Individual Income Tax	Alternative Energy Production Credit	Credit	15-32-401 to 407	1983	HB 780
Individual Income Tax	Alternative Energy Systems Credit	Credit	15-32-201 to 203	1977	SB 167
Individual Income Tax	Alternative Fuel Credit	Credit	15-30-2320	1993	HB 219
Individual Income Tax	Apprenticeship Credit	Credit	15-30-2357, 39-6-109	2017	HB 308
Individual Income Tax	Biodiesel Blending and Storage Tank Credit	Credit	15-32-703	2005	HB 756
Individual Income Tax	Capital Gains Credit	Credit	15-30-2301	2003	SB 407
Individual Income Tax	College Contribution Credit	Credit	15-30-2326	1991	HB 894
Individual Income Tax	Credit For Other States' Taxes	Credit	15-30-2302	1941	HB 38
Individual Income Tax	Dependent Care Credit	Credit	15-31-131, 15-31-133, 15-30-2373	1989	SB 282
Individual Income Tax	Earned Income Tax Credit	Credit	15-30-2318	2017	HB 391
Individual Income Tax	Elderly Care Credit	Credit	15-30-2366	1989	HB 166

<b>Tax Source</b>	<b>Tax Expenditure</b>	<b>Expenditure Type</b>	<b>Law</b>	<b>Session/Year</b>	<b>Legislation</b>
Individual Income Tax	Elderly Homeowner/Renter Credit	Credit	15-30-2337 to 15-30-2341	1981	SB 337
Individual Income Tax	Emergency Lodging Credit	Credit	15-30-2381	2007	HB 240
Individual Income Tax	Empowerment Zone Credit	Credit	15-30-2356, 15-31-134	2003	SB 484
Individual Income Tax	Energy Conservation Credit	Credit	15-32-109, 15-30-2319	1981	HB 237
Individual Income Tax	Geothermal Heating System Credit	Credit	15-32-115	1991	SB 416
Individual Income Tax	Health Insurance for Uninsured Montanans Credit	Credit	15-30-2367	1991	HB 693
Individual Income Tax	Historic Property Preservation Credit	Credit	15-30-2342, 15-31-151	1997	HB 601
Individual Income Tax	Infrastructure Users Fee Credit	Credit	17-6-316	1995	SB 100 and HB 602
Individual Income Tax	Innovative Educational Program Credit	Credit	15-30-3110	2015	SB 410
Individual Income Tax	Media Production Credit	Credit	15-31-1001 to 1012	2019	HB 293
Individual Income Tax	Mineral Exploration Credit	Credit	15-32-501 to 510	1999	SB 265
Individual Income Tax	Montana Earned Income Tax Credit	Credit	15-30-2318	2017	HB 391
Individual Income Tax	Oilseed Crushing and Biodiesel Production Facility Credit	Credit	15-32-701 to 702	2005	HB 756
Individual Income Tax	Qualified Endowment Credit	Credit	15-30-2327 to 2329	1997	HB 434
Individual Income Tax	Recycling Credit	Credit	15-32-601 to 604	1991	SB 111
Individual Income Tax	Research Credit	Credit	15-31-150	1999	HB 638
Individual Income Tax	State Land Access Credit	Credit	15-30-2380	2013	HB 444
Individual Income Tax	Student Scholarship Organization Credit	Credit	15-30-3111	2015	SB 410
Individual Income Tax	Trades Education and Training Credit	Credit	15-30-2359	2021	HB 252
<b>Corporate Income Tax</b>					
Corporate Income Tax	Water's Edge Election	Special Election	15-31-322 to 324	1987	HB 703

<b>Tax Source</b>	<b>Tax Expenditure</b>	<b>Expenditure Type</b>	<b>Law</b>	<b>Session/Year</b>	<b>Legislation</b>
Corporate Income Tax	Capital Gains Exclusion for Mobile Home Park	Deduction	15-31-163	2009	HB636
Corporate Income Tax	Deduction for Donation of Exploration Information	Deduction	15-32-510	1999	SB 625
Corporate Income Tax	Deduction for Purchasing Montana-Produced Fertilizer	Deduction	15-32-303	1981	SB 322
Corporate Income Tax	Energy-Conservation Investment Deduction	Deduction	15-32-103	1975	HB 663
Corporate Income Tax	Recycling Material Qualifying for Deduction	Deduction	15-32-609 and 610	1991	SB 111
Corporate Income Tax	Alternative Energy Production Credit	Credit	15-32-401 to 407	1983	HB 755
Corporate Income Tax	Alternative Fuel Motor Vehicle Conversion Credit	Credit	15-30-2320	1993	HB 219
Corporate Income Tax	Apprenticeship Credit	Credit	15-30-2357, 39-6-109	2017	HB 308
Corporate Income Tax	Biodiesel Blending and Storage Tank Credit	Credit	15-32-703	2005	HB 756
Corporate Income Tax	Charitable Endowment Credit	Credit	15-31-161 and 162	1997	HB 434
Corporate Income Tax	College Contributions Credit	Credit	15-30-2326	1991	HB 894
Corporate Income Tax	Contractor's Gross Receipts Tax Credit	Credit	15-50-207	1967	HB 530
Corporate Income Tax	Contributions to Public and Private Schools Credit	Credit	15-31-158 and 159	2015	SB 410
Corporate Income Tax	Dependent Care Assistance Credit	Credit	15-31-131 and 133	1989	SB 282
Corporate Income Tax	Empowerment Zone New Employees Tax Credit	Credit	15-31-134	2003	SB 484
Corporate Income Tax	Geothermal Heating Credit	Credit	15-32-115	2005	SB 340
Corporate Income Tax	Health Insurance for Uninsured Montanans Credit	Credit	15-31-132	1989	HB 166
Corporate Income Tax	Historic Property Preservation Credit	Credit	15-31-151	1997	HB 601
Corporate Income Tax	Infrastructure Users Fee Credit	Credit	17-6-316	1995	SB 100 and HB 602

<b>Tax Source</b>	<b>Tax Expenditure</b>	<b>Expenditure Type</b>	<b>Law</b>	<b>Session/Year</b>	<b>Legislation</b>
Corporate Income Tax	Mineral Exploration Incentive Credit	Credit	15-32-501 to 509	1999	SB 625
Corporate Income Tax	Montana Economic Development Industry Advancement Act (Media Production Credit)	Credit	15-31-1001 to 1012	2019	HB 293
Corporate Income Tax	New and Expanded Industry Credit	Credit	15-31-124 to 127	1975	HB 593
Corporate Income Tax	Oilseed Crushing and Biodiesel Production Facility Credit	Credit	15-32-701 and 702	2005	HB 756
Corporate Income Tax	Qualified Research Credit	Credit	15-31-150	1999	HB 638
Corporate Income Tax	Recycling Credit	Credit	15-32-601 to 611	1991	SB 111
Corporate Income Tax	Short Term Temporary Lodging Credit	Credit	15-31-171	2007	HB 240
Corporate Income Tax	Unlocking Public Lands Credit	Credit	15-30-2380	2013	HB 444
Corporate Income Tax	Corporate Passive Deduction Expenditures	Passive Expenditure			
<b>Property Tax</b>					
Property Tax	Montana Disabled Veterans Program	Residential Property	15-6-211	1979	HB 213
Property Tax	Energy Production or Development Tax Abatement	Economic Development	15-24-3111	2007	HB 3
Property Tax	Generally Exempt Property	Tax Exempt	15-6-201 to 242		
Property Tax	Intangible Personal Property Exemption	Centrally Assessed	15-6-218	1999	SB 111
Property Tax	Land Value Property Tax Assistance Program	Residential Property	15-6-240	2017	SB 94
Property Tax	Property Tax Assistance Program	Residential Property	15-6-134	1979	HB 398
Property Tax	Tax Increment Finance Districts	Economic Development	7-15-4282	1974	HB 193
Property Tax	New Fiber Optic and Coaxial Cable Exemption	Centrally Assessed	15-6-135 to 219	2021	SB 51

<b>Tax Source</b>	<b>Tax Expenditure</b>	<b>Expenditure Type</b>	<b>Law</b>	<b>Session/Year</b>	<b>Legislation</b>
<b>Oil and Gas Tax</b>					
Oil and Gas Tax	New Production Tax Holiday	Reduced Rate	15-36-304	1977	HB 553
Oil and Gas Tax	Reduced Rate for Oil and Gas Wells Completed After 1998	Reduced Rate	15-36-304	1977	HB 553
Oil and Gas Tax	Reduced Rates for Horizontally Recompleted Oil Wells	Reduced Rate	15-36-304	1993	SB 18
Oil and Gas Tax	Reduced Rates for Incremental Oil Production from Enhanced Recovery Projects	Reduced Rate	15-36-304	1985	HB 636
Oil and Gas Tax	Reduced Rates for Stripper Exemption and Stripper Oil Wells	Reduced Rate	15-36-304	1999	HB 661
Oil and Gas Tax	Reduced Rates for Pre-1999 "Stripper" Gas Wells	Reduced Rate	15-36-304	1999	SB 530

The following tables show the estimated cost of tax expenditures by size. The tables listing individual income, corporate income, and property tax expenditures show only the cost to the general fund for these provisions. The fourth table, presenting natural resource expenditures, illustrates the total cost of the tax expenditure to state and any local governments. Passive tax expenditures are not included in these tables.

## Individual Income Tax Expenditures - 2021

	Number	\$
Capital Gains Credit	93,649	\$142,659,750
Credit for Other States' Taxes	16,339	\$80,816,438
Federal Income Tax Deduction	220,833	\$68,620,386
Charitable Contributions	131,650	\$60,413,912
Home Mortgage Interest	136,905	\$55,873,206
State and Local Tax Deduction	203,536	\$37,622,771
Medical Insurance Premium Deduction	102,380	\$25,880,868
Unemployment Compensation Deduction	34,489	\$15,724,305
Exempt Military Salary	4,955	\$11,851,890
Medical and Dental Expenses Deduction	47,090	\$11,546,979
Elderly Homeowner/Renter Credit	13,052	\$7,049,440
Exempt Tips	22,069	\$5,710,835
Earned Income Tax Credit	89,015	\$4,936,275
Partial Pension Exemption	44,793	\$4,420,373
Energy Conservation Credit	7,111	\$4,085,936
Qualified Endowment Credit	654	\$3,356,828
Media Production Credit	18	\$3,338,049
Tier II Railroad Retirement	2,876	\$1,951,187
Partial Interest Exclusion for Elderly Taxpayers	73,706	\$1,674,247
Long Term Care Insurance Premium Deduction	9,069	\$1,639,725
Montana Medical Care Savings Account Deduction	5,175	\$1,395,302
Family Education Savings Account Deduction	5,494	\$1,259,674
Alternative Energy Systems Credit	875	\$652,907
Other Deductible Taxes	5,648	\$540,083
Recycling Credit	105	\$517,006
Light Vehicle Registration Fee Deduction	30,214	\$475,037
Apprenticeship Credit	325	\$430,530
Expenses Incurred by Medical Cannabis Providers	71	\$369,000
College Contribution Credit	2,165	\$310,062
Adoption Credit	126	\$133,395
Trades Education and Training Credit	182	\$101,409
Geothermal Heating System Credit	71	\$86,401
Third-Party Repayment of Health Care Professional's Student Loans Deduction	350	\$79,415
Infrastructure Users Fee Credit	*	\$77,182
First Time Homebuyer Account Deduction	251	\$57,683
Worker's Compensation Deduction	179	\$50,807
Political Contribution Deduction	5,264	\$41,181

	Number	\$
Small Business Investment Company Dividend Deduction	19	\$35,130
Health Benefits Limited to Highly-Compensated Employees Deduction	115	\$34,664
Historic Property Preservation Credit	13	\$32,062
Business Purchases of Recycled Material Deduction	91	\$27,579
Alternative Energy Production Credit	20	\$27,466
Health Insurance for Uninsured Montanans Credit	39	\$26,504
Dependent Care Assistance Credit	14	\$23,399
ABLE Account Deduction	164	\$23,227
Elderly Care Credit	31	\$22,040
Casualty and Theft Losses	305	\$13,621
Educator Student Loan Repayment	71	\$11,045
Research Credit	*	\$7,558
Student Scholarship Organization Credit	40	\$6,544
Alternative Fuel Credit	10	\$5,247
Sales of Land to Beginning Farmers	*	\$3,505
Per Capita Livestock Fee Deduction	493	\$3,379
Child and Dependent Care Expenses Deduction	271	\$3,294
Innovative Education Credit	*	\$1,650
Unlocking State Lands Credit	*	\$1,500
Exempt Disability Retirement Income Deduction	18	\$945
National Guard Life Insurance Premiums Deduction	*	\$321
Capital Gain Exclusion From Sale of Mobile Home Park	0	\$0
Biodiesel Credits	0	\$0
Temporary Emergency Lodging Credit	0	\$0
Empowerment Zone Credit	0	\$0
Mineral Exploration Credit	0	\$0

*\*Not disclosed due to confidentiality concerns.*

## Corporate Income Tax Expenditures - 2020

	Number	\$
Water's Edge Election	687	\$6-\$10,000,000
MEDIA Credit	*	\$5,533,471
Contractor's Gross Receipts	76	\$1,939,697
Recycled Material Qualifying for Deduction	*	\$1,262,728
Infrastructure Users Fee Credit	11	\$398,786
Recycling Credit	*	\$132,349
Dependent Care Assistance Credit	*	\$42,525
Charitable Endowment Credit	*	\$24,626
Apprenticeship Tax Credit	*	\$18,150
College Contribution Credit	15	\$4,971
Health Insurance for Uninsured Montanans Credit	*	\$2,810
Historic Property Preservation Credit	*	\$50
Geothermal Heating System Credit	*	\$50
Mineral Exploration Incentive Credit	*	\$25
Contributions to Public and Private Schools Credit	0	\$0
Qualified Research Credit	0	\$0
New/Expanded Industry Credit	0	\$0
Short-term Temporary Lodging Credit	0	\$0
Oilseed Crushing & Biodiesel Production Credit	0	\$0
Empowerment Zone New Employees Tax Credit	0	\$0
Biodiesel Blending and Storage Tank Credit	0	\$0
Alternative Fuel Motor Vehicle Conversion Credit	0	\$0
Alternative Energy Production Credit	0	\$0
Capital Gain Exclusion for Mobile Home Park	--	--
Deduction for Donation of Exploration Information	--	--
Deduction for Purchasing Montana-Produced Fertilizer	--	--
Energy Conserving Investments Deduction	--	--

\*Not disclosed due to confidentiality concerns.

## Property Tax Expenditures - 2022

	Number	\$
Generally Exempt Property	N/A	\$28,093,774
Intangible Personal Property Exemption	167	\$18,386,332
Tax Increment Financing Districts	N/A	\$6,988,183
Property Tax Assistance Program	21,527	\$2,845,918
Disabled American Veterans Program	3,028	\$972,630
Energy Production or Development Tax Abatement	5	\$330,900
Land Value Property Tax Assistance Program	166	\$71,092
Fiber Optic and Coaxial Cable Exemption	82	\$61,180

## Natural Resource Tax Expenditures - 2022

	Number	\$
Oil New Production Holiday (Oil and Gas Production Tax)	44	\$12,240,872
Oil Stripper Well Production (Oil and Gas Production Tax)	2170	\$1,029,042
Natural Gas Pre-1999 and Less than 60 MCF/day (Oil and Gas Production Tax)	5003	\$575,567
Natural Gas New Production Tax Holiday (Oil and Gas Production Tax)	28	\$369,756
Oil Horizontally Recompleted Wells (Oil and Gas Production Tax)	0	\$0
Oil Tertiary Incremental Production (Oil and Gas Production Tax)	0	\$0

# Individual Income Tax Expenditures

## Tax Expenditures: Individual Income Tax

The individual income tax is a tax on the 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 nonmonetary compensation, minus costs related to earning income
- an exemption for each taxpayer and dependent, and a standard deduction, both of which are subtracted from adjusted gross income to give taxable income
- the tax rates, which in Montana take the form of a graduated rate schedule with the first increments of income taxed at lower rates. The total of 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:

- tax credits for taxpayers who meet certain conditions or make certain types of expenditures
- special treatment of specific types of income, either through special provisions for measuring income, or by 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

## Definition of Adjusted Gross Income - Passive Expenditures

### Tax Expenditures in the Definition of Adjusted Gross Income

In most cases, Montana law adopts the federal definition of adjusted gross income as the starting point for measuring income that is subject to the state income tax. Tax expenditures in the definition of adjusted gross income arise from two sources: the federal definition of adjusted gross income and special provisions of Montana law.

State tax expenditures that arise from the state's adoption of federal law are called passive tax expenditures. The legislature has not taken any action to create them and would have to act to prevent them.

Some passive tax expenditures result from 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 that determine 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 that 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).<sup>1</sup>

The JCT estimates that federal tax expenditures creating Montana passive tax expenditures total \$768.24 billion. This amount, multiplied by the ratio of adjusted gross income reported on federal returns with a Montana address to adjusted gross income reported on all federal returns (0.28 percent), and the ratio of the top Montana rate to the top federal rate (18.6 percent), results in passive tax expenditures of \$407 million due to the federal definition of total income.

Other passive tax expenditures arise from specific adjustments to gross income. These items are listed on both federal and state tax returns. For Tax Year 2021, these adjustments are on Schedule 1 of Montana's Form 2. 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 of these allow taxpayers to deduct unreimbursed costs of doing their jobs or otherwise earning income. The first four above-the-line deductions 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 for members of the Armed Forces
- the deduction for penalties for early withdrawal of savings
- the deduction for alimony paid, which ensures that income allocated between former spouses is taxed to the person who ultimately receives it

There are seven other above-the-line deductions that are considered tax expenditures.

<sup>1</sup> "Estimates of Federal Tax Expenditures for FYs 2020-2024," by the staff of the Joint Committee on Taxation, November 5 2020, Document JCX-23-20.

## Deductions for the Self-Employed: Federal Provision Legislation: N/A

Three above-the-line deductions give the self-employed taxpayer the same treatment as employees for fringe benefits and retirement plans. These deductions are:

- the deduction for one-half of the self-employment tax
- the deduction for contributions to qualified self-employed retirement plans
- the deduction for a self-employed person's health insurance premiums

These three deductions are equivalent to an employer's payments for payroll taxes, health insurance benefits, and pension contributions that are not included in an 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 additional 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 2013 through 2021. For 2021, extending these exclusions to the self-employed reduced income tax revenue to the state general fund by \$20,439,349, or \$30.00 per full-year resident taxpayer.

### One-Half of Self Employment Tax

TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	59,162	\$84,415,172	9,383	\$38,275,634	2,307	\$2,297,896	70,852	\$124,988,702
2014	60,013	\$86,986,043	9,765	\$43,015,696	2,382	\$2,399,186	72,160	\$132,400,925
2015	60,556	\$89,922,276	9,844	\$41,834,447	2,565	\$2,528,989	72,965	\$134,285,712
2016	61,088	\$88,099,153	9,774	\$43,246,206	2,596	\$2,625,927	73,458	\$133,971,286
2017	61,605	\$89,951,840	10,037	\$40,555,635	2,627	\$2,823,065	74,269	\$133,330,540
2018	60,312	\$85,230,666	9,452	\$43,488,645	2,740	\$2,661,760	72,504	\$131,381,071
2019	62,562	\$96,409,633	10,486	\$51,753,246	2,947	\$3,409,125	75,995	\$151,572,004
2020	61,661	\$99,987,176	9,714	\$60,590,983	3,025	\$3,711,978	74,400	\$164,290,137
2021	66,384	\$114,394,252	11,412	\$95,495,562	3,782	\$4,620,291	81,578	\$214,510,105

## Contributions to Qualified Self-Employed Retirement Plans

TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	2,632	\$47,762,885	1,259	\$38,226,913	63	\$1,266,334	3,954	\$87,256,132
2014	2,637	\$48,366,605	1,350	\$42,009,219	73	\$1,371,546	4,060	\$91,747,370
2015	2,641	\$49,414,662	1,364	\$44,931,667	69	\$1,336,748	4,074	\$95,683,077
2016	2,658	\$50,148,146	1,408	\$46,243,338	77	\$1,275,171	4,143	\$97,666,655
2017	2,679	\$51,530,999	1,499	\$51,744,670	95	\$2,157,835	4,273	\$105,433,504
2018	2,239	\$41,034,938	1,313	\$48,785,296	69	\$1,153,009	3,621	\$90,973,243
2019	2,494	\$51,970,436	1,540	\$57,362,334	95	\$2,194,690	4,129	\$111,527,460
2020	2,543	\$55,866,698	1,432	\$51,890,759	110	\$2,354,376	4,085	\$110,111,833
2021	2,745	\$65,102,113	1,606	\$60,859,550	107	\$2,693,723	4,458	\$128,655,386

## Self-Employed Health Insurance Premiums Deduction

TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	22,355	\$132,130,435	4,984	\$46,016,372	434	\$1,800,061	27,773	\$179,946,868
2014	23,572	\$130,249,955	5,265	\$50,754,610	488	\$2,064,756	29,325	\$183,069,321
2015	24,554	\$138,208,738	5,395	\$54,472,657	522	\$2,138,891	30,471	\$194,820,286
2016	24,485	\$145,127,725	5,396	\$57,881,920	463	\$2,204,967	30,344	\$205,214,612
2017	23,377	\$152,651,623	5,430	\$60,668,262	476	\$2,598,515	29,283	\$215,918,400
2018	21,107	\$139,368,732	4,806	\$54,633,071	442	\$2,216,325	26,355	\$196,218,128
2019	21,748	\$148,882,955	5,449	\$65,536,437	497	\$2,750,877	27,694	\$217,170,269
2020	21,012	\$138,780,789	5,066	\$63,226,854	479	\$2,819,629	26,557	\$204,827,272
2021	21,161	\$143,629,871	5,405	\$67,357,543	586	\$3,380,678	27,152	\$214,368,092

# Health Savings Account Deduction: Federal Provision Legislation: N/A

A Health Savings Account (HSA) is a tax-advantaged account for certain medical expenses of taxpayers whose only health insurance is a high-deductible 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 to do without.

The following table shows HSA deductions for Tax Years 2013 through 2021. For 2021, the HSA deduction reduced income tax revenue to the state general fund by \$3,104,002, or \$4.56 per full-year resident taxpayer.

Health Savings Account Deduction								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	8,119	\$28,425,705	1,212	\$5,547,865	235	\$565,381	9,566	\$34,538,951
2014	8,968	\$30,938,095	1,414	\$6,267,767	305	\$750,963	10,687	\$37,956,825
2015	9,743	\$34,820,388	1,440	\$6,646,471	323	\$849,707	11,506	\$42,316,566
2016	11,828	\$41,310,075	1,612	\$7,369,209	426	\$935,438	13,866	\$49,614,722
2017	12,203	\$43,149,496	1,692	\$7,865,067	436	\$923,775	14,331	\$51,938,338
2018	11,939	\$41,366,481	1,617	\$7,236,979	457	\$915,478	14,013	\$49,518,938
2019	12,832	\$45,824,799	1,750	\$8,256,363	430	\$916,820	15,012	\$54,997,982
2020	12,600	\$45,569,798	1,655	\$8,080,558	492	\$1,097,516	14,747	\$54,747,872
2021	12,397	\$46,892,804	1,821	\$9,107,331	606	\$1,466,321	14,824	\$57,466,456

# Individual Retirement Account Deduction: Federal Provision

## Legislation: N/A

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 age 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 kept 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 2013 through 2021. For 2021, the IRA deduction reduced income tax revenue to the state general fund by \$4,143,298, or \$6.09 per full-year resident taxpayer.

Individual Retirement Account Deduction								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	12,909	\$62,060,097	1,403	\$9,118,826	392	\$1,451,143	14,704	\$72,630,066
2014	13,284	\$65,989,731	1,428	\$9,557,425	416	\$1,500,042	15,128	\$77,047,198
2015	13,176	\$65,361,123	1,425	\$9,379,560	417	\$1,544,536	15,018	\$76,285,219
2016	13,240	\$66,073,642	1,382	\$9,201,406	452	\$1,849,560	15,074	\$77,124,608
2017	13,194	\$67,053,676	1,395	\$9,424,326	442	\$1,645,468	15,031	\$78,123,470
2018	12,060	\$60,604,691	1,271	\$8,428,998	387	\$1,557,223	13,718	\$70,590,912
2019	12,093	\$63,021,981	1,268	\$8,839,514	436	\$1,525,690	13,797	\$73,387,185
2020	11,815	\$65,218,041	1,226	\$8,771,679	434	\$1,651,087	13,475	\$75,640,807
2021	11,330	\$64,537,851	1,229	\$8,988,081	444	\$1,970,418	13,003	\$75,496,350

## Student Loan Interest Deduction: Federal Provision Legislation: N/A

Taxpayers may deduct up to \$2,500 of interest they paid on student loans for either their own or their dependents' post-secondary education. The deduction phases out for incomes between \$65,000 and \$80,000 (\$130,000 and \$160,000 for a joint return) and may not be claimed by a taxpayer who is claimed as someone else's dependent. 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 2013 through 2021. For 2021, the student loan interest deduction reduced income tax revenue to the state general fund by \$836,977, or \$1.23 per full-year resident taxpayer.

Student Loan Interest Deduction								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	45,115	\$41,374,226	3,194	\$3,188,041	4,063	\$4,132,916	52,372	\$48,695,183
2014	43,530	\$43,632,382	3,318	\$3,501,763	4,244	\$4,555,024	51,092	\$51,689,169
2015	44,987	\$46,402,195	3,372	\$3,596,607	4,455	\$4,898,571	52,814	\$54,897,373
2016	46,722	\$46,125,127	3,375	\$3,584,420	4,525	\$4,824,229	54,622	\$54,533,776
2017	47,360	\$46,843,507	3,364	\$3,498,850	4,542	\$4,905,421	55,266	\$55,247,778
2018	46,898	\$46,949,461	3,326	\$3,542,997	4,415	\$4,749,345	54,639	\$55,241,803
2019	47,046	\$48,349,339	3,476	\$3,764,753	4,390	\$4,680,305	54,912	\$56,794,397
2020	37,397	\$24,835,659	2,735	\$1,988,189	3,255	\$2,404,119	43,387	\$29,227,967
2021	17,413	\$12,688,481	1,398	\$1,169,244	1,784	\$1,545,994	20,595	\$15,403,719

## Tuition and Fees Deduction: Federal Provision Legislation: N/A

Until Tax Year 2021, taxpayers could deduct up to \$4,000 of tuition and fees they paid for their own or their dependents' postsecondary education. Taxpayers with an income of \$65,000 or less (\$130,000 for a joint return) may take the full deduction. Taxpayers with incomes between \$65,000 and \$80,000 (\$160,000 for a joint return) are limited to a \$2,000 deduction, and taxpayers with higher incomes may not take the deduction.

Federal law also allowed a tax credit for some higher education expenses; a taxpayer could not take both the deduction and the credit. This deduction provided a subsidy for taxpayers who were pursuing their own post-secondary education or paying for their dependents' post-secondary education. This provided an incentive for taxpayers to invest in their own or their dependents' educations.

The following table shows tuition and fees deductions for Tax Years 2013 through 2020. Deduction amounts for Tax Year 2018 are not available, as the deduction was allowed retroactively and after taxpayers had already filed their returns. Deduction amounts for Tax Year 2021 are also not available, as the deduction expired at the end of 2020. For 2020, the tuition and fees deduction reduced income tax revenue to the state general fund by \$317,314, or \$0.47 per full-year resident taxpayer.

Tuition and Fees Deduction								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	5,496	\$12,198,697	623	\$1,359,370	531	\$1,388,396	6,650	\$14,946,463
2014	5,133	\$11,191,316	636	\$1,485,165	566	\$1,500,036	6,335	\$14,176,517
2015	5,230	\$11,481,274	617	\$1,431,365	560	\$1,436,247	6,407	\$14,348,886
2016	5,092	\$11,292,573	593	\$1,462,569	544	\$1,437,767	6,229	\$14,192,909
2017	3,461	\$7,716,922	446	\$1,071,768	302	\$815,820	4,209	\$9,604,510
2018	0	\$0	0	\$0	0	\$0	0	\$0
2019	3,728	\$8,888,960	413	\$1,064,448	374	\$968,848	4,515	\$10,922,256
2020	3,632	\$8,977,256	499	\$1,313,679	393	\$1,099,435	4,524	\$11,390,370
2021	0	\$0	0	\$0	0	\$0	0	\$0

*\*Not disclosed due to confidentiality concerns.*

## **Archer MSA Deduction: Federal Provision Legislation: N/A**

An Archer MSA is a tax-advantaged account for medical savings and expenses. Taxpayers are allowed an above-the-line deduction for contributions to an Archer MSA. Earnings kept in an Archer MSA are not taxed. In addition, distributions from an Archer MSA are not considered taxable if used for qualified medical expenses.

For Tax Year 2021, the IRA deduction reduced income tax revenue to the state general fund by \$2,347, or \$0.00 per full-year resident taxpayer.

# Definition of Adjusted Gross Income

## Montana Adjustments to Income

Montana currently has 49 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 exempt certain types of income partly or completely from taxation.

## ABLE Accounts: 15-30-2110 (12), MCA Legislation: SB 399, 2015 Session

In 2014, Congress amended Section 529 of the Internal Revenue Code to create the Achieving a Better Life Experience (ABLE) account, which is a tax-advantaged savings account to be used for the benefit of a person with disabilities. Earnings on an ABLE account are exempt from federal tax as long as the funds withdrawn from the account are used for eligible expenses related to the beneficiary's disability. More than one person can contribute to a single account, but total contributions in a year may not exceed \$15,000 (adjusted annually for inflation). As long as the balance in the account is \$100,000 or less, having an ABLE account will not affect the beneficiary's eligibility for Social Security or Medicaid.

Beginning in Tax Year 2015, Montana exempts up to \$3,000 contributed by a taxpayer to an ABLE account from income tax. More than one taxpayer can contribute to the same account if total deposits do not exceed the annual limit, and each taxpayer can exempt the amount of their deposit.

The table below lists exempt income reported on Montana income tax returns for Tax Years 2015 through 2021. If the state taxed this income, general fund revenue would increase by \$23,227, or \$0.03 per full-year resident taxpayer in Tax Year 2021.

ABLE Account Deposits								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	0	\$0	0	\$0	0	\$0	0	\$0
2014	0	\$0	0	\$0	0	\$0	0	\$0
2015	0	\$0	0	\$0	0	\$0	0	\$0
2016	17	\$42,190	0	\$0	*	\$3,525	*	\$45,715
2017	35	\$78,670	0	\$0	*	\$3,125	*	\$81,795
2018	69	\$171,910	0	\$0	*	\$10,482	*	\$182,392
2019	108	\$242,259	0	\$0	*	\$250	*	\$242,509
2020	137	\$365,139	0	\$0	*	\$6,870	*	\$372,009
2021	164	\$442,144	0	\$0	*	\$9,800	*	\$451,944

\*Not disclosed due to confidentiality concerns.

## 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 these costs. 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 Tax Year 2011. For Tax Year 2021, this exclusion reduced income tax revenue to the general fund by \$27,579, or \$0.04 per full-year resident taxpayer.

Business Expense for Recycled Materials								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	91	\$366,958	*	\$239	*	\$663	*	\$367,860
2014	100	\$296,108	*	\$211	*	\$365	*	\$296,684
2015	101	\$240,929	*	\$100	*	\$3,025	*	\$244,054
2016	105	\$327,567	*	\$291	*	\$5,809	*	\$333,667
2017	90	\$279,218	*	\$47	*	\$200	*	\$279,465
2018	98	\$938,108	*	\$62	*	\$1,437	*	\$939,607
2019	103	\$617,354	*	\$1,051	*	\$3,652	*	\$622,057
2020	110	\$483,000	0	\$0	*	\$355	*	\$483,355
2021	91	\$640,035	*	\$11,533	*	\$1,770	*	\$653,338

\*Not disclosed due to confidentiality concerns.

# Capital Gain Exclusion from Sale of Mobile Home Park: 15-31-163, MCA Legislation: HB 636, 2009 Session

A taxpayer who was the owner of a mobile home park may be able to deduct a portion of their capital gains if the park was sold to a tenant’s association, a 501(c)(3) organization, or a county or municipal housing authority.

The table below contains the income exempted from Montana income tax for Tax Years 2018 and 2021. No taxpayers claimed this deduction on their income tax returns in Tax Year 2021.

Capital Gain Exclusion From Sale of Mobile Home Park								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	0	\$0	0	\$0	0	\$0	0	\$0
2014	0	\$0	0	\$0	0	\$0	0	\$0
2015	0	\$0	0	\$0	0	\$0	0	\$0
2016	0	\$0	0	\$0	0	\$0	0	\$0
2017	0	\$0	0	\$0	0	\$0	0	\$0
2018	0	\$0	0	\$0	0	\$0	0	\$0
2019	*	\$1,506,856	0	\$0	0	\$0	*	\$1,506,856
2020	0	\$0	0	\$0	0	\$0	0	\$0
2021	0	\$0	0	\$0	0	\$0	0	\$0

\*Not disclosed due to confidentiality concerns.

## 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. This exclusion increases the after-tax income of permanently disabled taxpayers with low incomes.

The following table shows disability income excluded since Tax Year 2013. For Tax Year 2021, this exclusion reduced income tax revenue to the general fund by \$369,000, or less than \$0.54 per full-year resident taxpayer.

Exempt Disability Retirement Income								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	50	\$226,388	0	\$0	0	\$0	50	\$226,388
2014	27	\$126,247	0	\$0	0	\$0	27	\$126,247
2015	31	\$137,022	0	\$0	*	\$5,200	*	\$142,222
2016	36	\$171,297	*	\$5,200	*	\$5,063	*	\$181,560
2017	37	\$170,951	0	\$0	*	\$5,200	*	\$176,151
2018	38	\$161,933	*	\$4,800	0	\$0	*	\$166,733
2019	28	\$115,731	*	\$8,480	*	\$19,900	*	\$144,111
2020	28	\$118,893	0	\$0	0	\$0	28	\$118,893
2021	18	\$79,046	*	\$7,102	*	\$5,200	*	\$91,348

\*Not disclosed due to confidentiality concerns.

## Exempt Tribal Income: Federal Provision Legislation: N/A

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 earned on the reservation by a member who lives on the tribe's reservation is limited to the tribal government. The state may tax income earned by non-members on a reservation and income earned by a tribal member off the reservation. This is similar to the general rule for taxation across national borders—a country may tax income earned by its citizens anywhere and may tax income earned by non-citizens in the country, but it may not tax income earned by citizens of another country 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 Tax Year 2013. If the state taxed this income, general fund income would increase by \$9,199,798, or \$13.51 per full-year resident taxpayer for Tax Year 2021.

Exempt Tribal Income								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	5,620	\$170,919,136	22	\$539,535	44	\$978,101	5,686	\$172,436,772
2014	5,899	\$184,937,230	18	\$456,199	40	\$884,217	5,957	\$186,277,646
2015	6,172	\$204,787,286	17	\$349,962	41	\$1,281,013	6,230	\$206,418,261
2016	6,255	\$216,137,415	21	\$544,256	32	\$1,266,686	6,308	\$217,948,357
2017	6,152	\$254,049,703	24	\$558,530	64	\$1,259,708	6,240	\$255,867,941
2018	6,012	\$238,297,833	14	\$571,165	36	\$870,434	6,062	\$239,739,432
2019	5,848	\$230,915,588	29	\$753,965	52	\$1,039,519	5,929	\$232,709,072
2020	5,606	\$436,859,218	17	\$678,936	34	\$910,027	5,657	\$438,448,181
2021	5,415	\$224,169,249	18	\$522,414	34	\$1,088,133	5,467	\$225,779,796

# Expenses Incurred by Medical Marijuana Providers: 15-30-2131, MCA Legislation: SB 333, 2017 Session

Under federal law, Medical Marijuana providers may not deduct business expenses directly related to the production and sale of marijuana beyond those directly related to the cost of manufacturing the product. Medical Marijuana providers that are registered with the state of Montana can exempt any ordinary and necessary business expenses that are disallowed under Internal Revenue Code Section 280E.

The table below has exempt income reported on Montana income tax returns for Tax Years 2018 through 2021. If the state taxed this income, general fund revenue would increase by \$369,000, or \$0.54 per full-year resident taxpayer in Tax Year 2021.

Expenses Incurred by Medical Marijuana Providers								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	0	\$0	0	\$0	0	\$0	0	\$0
2014	0	\$0	0	\$0	0	\$0	0	\$0
2015	0	\$0	0	\$0	0	\$0	0	\$0
2016	0	\$0	0	\$0	0	\$0	0	\$0
2017	0	\$0	0	\$0	0	\$0	0	\$0
2018	56	\$982,343	*	\$23	*	\$1,000	*	\$983,366
2019	60	\$4,306,185	*	\$12,514	*	\$100	*	\$4,318,799
2020	65	\$4,344,305	0	\$0	0	\$0	65	\$4,344,305
2021	71	\$5,757,939	0	\$0	*	\$14,982	*	\$5,772,921

\*Not disclosed due to confidentiality concerns.

# 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; 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 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 Tax Year 2013. For Tax Year 2021, this exclusion reduced income tax revenue to the general fund by \$1,259,674, or \$1.85 per full-year resident taxpayer.

Family Education Savings Account Deposits								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	2,955	\$9,385,280	81	\$319,193	60	\$145,956	3,096	\$9,850,429
2014	3,175	\$10,075,735	102	\$371,011	42	\$120,793	3,319	\$10,567,539
2015	3,311	\$10,525,352	110	\$405,000	63	\$181,822	3,484	\$11,112,174
2016	3,473	\$11,083,019	112	\$424,186	56	\$188,042	3,641	\$11,695,247
2017	3,807	\$12,361,878	142	\$539,923	68	\$194,936	4,017	\$13,096,737
2018	4,167	\$13,454,571	157	\$587,391	60	\$178,158	4,384	\$14,220,120
2019	4,596	\$15,038,959	178	\$678,180	80	\$218,240	4,854	\$15,935,379
2020	4,673	\$15,524,119	186	\$681,445	96	\$310,602	4,955	\$16,516,166
2021	5,494	\$18,807,708	218	\$880,870	120	\$425,702	5,832	\$20,114,280

## 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 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 Ranch Risk Management Accounts has seen very little use. There have been fewer than 10 deposits to accounts each year since Tax Year 2004, and all of those have been made by non-residents. No deposits were made in Tax Years 2019, 2020, and 2021. The tables below show exempt deposits and taxable withdrawals since Tax Year 2013.

Farm and Ranch Risk Management Account Deposits								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	0	\$0	0	\$0	0	\$0	0	\$0
2014	0	\$0	0	\$0	0	\$0	0	\$0
2015	0	\$0	0	\$0	0	\$0	0	\$0
2016	*	\$1,941	0	\$0	0	\$0	*	\$1,941
2017	*	\$1,056	0	\$0	0	\$0	*	\$1,056
2018	*	\$1,154	0	\$0	0	\$0	*	\$1,154
2019	0	\$0	0	\$0	0	\$0	0	\$0
2020	0	\$0	0	\$0	0	\$0	0	\$0
2021	0	\$0	0	\$0	0	\$0	0	\$0

\*Not disclosed due to confidentiality concerns.

## Farm and Ranch Risk Management Account Taxable Distributions

TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	*	\$1,003	*	\$13,106	0	\$0	*	\$14,109
2014	*	\$2,200	*	\$826	0	\$0	*	\$3,026
2015	*	\$993	*	\$132	0	\$0	*	\$1,125
2016	*	\$3,500	*	\$1,457	0	\$0	*	\$4,957
2017	0	\$0	*	\$14,480	0	\$0	*	\$14,480
2018	*	\$3,443	*	\$2,403	0	\$0	*	\$5,846
2019	*	\$6,293	*	\$1,992	0	\$0	*	\$8,285
2020	*	\$2,394	*	\$7,712	*	\$1,010	*	\$11,116
2021	*	\$46,804	*	\$5,460	0	\$0	*	\$52,264

*\*Not disclosed due to confidentiality concerns.*

# 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 Tax Year 2021, this exclusion reduced income tax revenue to the general fund by \$57,683, or \$0.08 per full-year resident taxpayer.

<b>First-Time Homebuyer Account Deposits</b>								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	141	\$501,702	*	\$2,487	*	\$6,150	*	\$510,339
2014	161	\$543,587	0	\$0	*	\$22,890	*	\$566,477
2015	214	\$678,938	*	\$1,820	10	\$33,480	*	\$714,238
2016	215	\$706,088	*	\$6,000	*	\$18,000	*	\$730,088
2017	217	\$691,899	*	\$8,800	*	\$6,003	*	\$706,702
2018	226	\$731,601	0	\$0	*	\$12,001	*	\$743,602
2019	241	\$753,212	0	\$0	*	\$23,004	*	\$776,216
2020	262	\$1,000,174	*	\$1,200	12	\$45,200	*	\$1,046,574
2021	251	\$962,219	*	\$2,000	*	\$40,711	*	\$1,004,930

\*Not disclosed due to confidentiality concerns.

## First-Time Homebuyer Account Nonqualified Withdrawals

TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	*	\$50,177	*	\$2,322	0	\$0	*	\$52,499
2014	*	\$4,177	0	\$0	0	\$0	*	\$4,177
2015	11	\$29,261	0	\$0	0	\$0	11	\$29,261
2016	13	\$27,839	0	\$0	0	\$0	13	\$27,839
2017	*	\$11,317	*	\$250	0	\$0	*	\$11,567
2018	*	\$31,301	0	\$0	0	\$0	*	\$31,301
2019	15	\$17,465	0	\$0	*	\$5,000	*	\$22,465
2020	14	\$90,090	0	\$0	*	\$780	*	\$90,870
2021	24	\$70,200	0	\$0	*	\$4,460	*	\$74,660

*\*Not disclosed due to confidentiality concerns.*

## 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 if 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 Tax Year 2013. For Tax Year 2021, this exclusion reduced income tax revenue to the general fund by \$34,664, or \$0.05 per full-year resident taxpayer.

<b>Employer-Provided Health Insurance Not Available to All Employees</b>								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	160	\$791,972	*	\$14,924	*	\$7,318	*	\$814,214
2014	155	\$710,685	*	\$4,725	*	\$3,810	*	\$719,220
2015	103	\$439,835	10	\$49,135	*	\$5,000	*	\$493,970
2016	130	\$563,180	*	\$15,031	*	\$16,620	*	\$594,831
2017	155	\$646,073	*	\$7,880	*	\$29,886	*	\$683,839
2018	141	\$743,590	*	\$88,760	*	\$13,417	*	\$845,767
2019	124	\$550,391	*	\$24,881	*	\$19,122	*	\$594,394
2020	138	\$694,294	*	\$28,042	*	\$4,048	*	\$726,384
2021	115	\$568,229	*	\$1,446	*	\$10,201	*	\$579,876

*\*Not disclosed due to confidentiality concerns.*

## Interest on Federal Government Bonds: Federal Provision and 15-30-2110(2)(a), MCA Legislation: N/A

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 Tax Year 2013. If the state could tax this income, it would have increased income tax revenue to the general fund by \$1,707,443, or \$2.51 per full-year resident taxpayer for Tax Year 2021.

<b>Interest on Federal Government Bonds</b>								
<b>TY</b>	<b>Residents</b>		<b>Nonresidents</b>		<b>Part-Year Residents</b>		<b>Total</b>	
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
2013	15,909	\$19,330,263	2,572	\$106,019,200	416	\$526,474	18,897	\$125,875,937
2014	15,155	\$20,115,632	2,899	\$50,869,732	449	\$525,881	18,503	\$71,511,245
2015	14,678	\$20,245,070	2,872	\$52,382,952	420	\$560,967	17,970	\$73,188,989
2016	15,995	\$23,737,395	3,084	\$75,315,859	414	\$593,914	19,493	\$99,647,168
2017	17,472	\$25,990,828	3,436	\$285,464,468	443	\$873,541	21,351	\$312,328,837
2018	19,323	\$31,134,949	3,617	\$275,323,996	534	\$898,469	23,474	\$307,357,414
2019	21,943	\$47,045,746	4,687	\$546,813,819	625	\$1,185,510	27,255	\$595,045,075
2020	20,179	\$32,425,710	4,208	\$192,177,430	573	\$2,010,844	24,960	\$226,613,984
2021	19,036	\$27,050,136	3,754	\$35,084,940	556	\$985,377	23,346	\$63,120,453

**Military Salary: 15-30-2117(2), MCA Legislation:  
 HB 152, 1979  
 Session: SB 378, 2015 Session**

Montana exempts the military salary of residents who are on active duty in the armed forces. This includes members of the Montana National Guard who are serving in a homeland defense activity or contingency operation. The following table shows the amount of income subject to this exemption since Tax Year 2011.

Together, the state exclusion of residents' military salaries and the federal requirement to exclude nonresidents' military salaries reduced Tax Year 2021 income tax revenue to the general fund by \$11,851,890, or \$17.41 per full-year resident taxpayer.

<b>Active Duty Military Salary</b>								
<b>TY</b>	<b>Residents</b>		<b>Nonresidents</b>		<b>Part-Year Residents</b>		<b>Total</b>	
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
2013	4,521	\$164,472,809	129	\$5,438,421	143	\$4,799,545	4,793	\$174,710,775
2014	4,511	\$169,324,587	100	\$4,198,055	148	\$5,234,548	4,759	\$178,757,190
2015	4,537	\$170,649,803	85	\$3,798,088	156	\$5,378,956	4,778	\$179,826,847
2016	4,541	\$174,056,632	74	\$2,861,817	156	\$5,030,357	4,771	\$181,948,806
2017	4,650	\$180,870,093	91	\$4,077,258	194	\$6,160,503	4,935	\$191,107,854
2018	4,812	\$198,113,363	954	\$46,738,719	403	\$12,103,039	6,169	\$256,955,121
2019	5,167	\$214,409,324	1,013	\$50,183,267	419	\$13,804,500	6,599	\$278,397,091
2020	4,848	\$212,067,156	857	\$44,002,418	320	\$10,463,016	6,025	\$266,532,590
2021	4,955	\$223,462,683	875	\$44,361,887	432	\$15,226,554	6,262	\$283,051,124

# 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 Tax Year 1997, the 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 kept in the account are also 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 Tax Year 2021, this exclusion reduced income tax revenue to the general fund by \$1,395,302, or \$2.05 per full-year resident taxpayer.

Montana Medical Care Savings Accounts								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	6,181	\$19,801,670	*	\$3,000	77	\$118,532	*	\$19,923,202
2014	6,084	\$19,436,867	*	\$3,000	96	\$126,808	*	\$19,566,675
2015	6,233	\$19,574,075	0	\$0	98	\$138,910	6,331	\$19,712,985
2016	6,036	\$19,419,283	0	\$0	99	\$158,784	6,135	\$19,578,067
2017	6,101	\$19,759,187	0	\$0	100	\$144,077	6,201	\$19,903,264
2018	5,110	\$19,589,251	0	\$0	35	\$47,828	5,145	\$19,637,079
2019	5,354	\$22,651,337	0	\$0	37	\$98,099	5,391	\$22,749,436
2020	5,185	\$22,743,005	0	\$0	49	\$133,358	5,234	\$22,876,363
2021	5,175	\$23,986,330	0	\$0	51	\$165,303	5,226	\$24,151,633

\*Not disclosed due to confidentiality concerns.

Medical Savings Account Nonqualified Withdrawals								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	72	\$129,693	0	\$0	*	\$31,096	*	\$160,789
2014	78	\$99,814	*	\$23,279	*	\$6,091	*	\$129,184
2015	71	\$135,323	0	\$0	*	\$40,937	*	\$176,260
2016	50	\$93,482	*	\$8,622	0	\$0	*	\$102,104
2017	63	\$122,519	*	\$1,000	*	\$9,303	*	\$132,822
2018	156	\$348,943	0	\$0	*	\$137,248	*	\$486,191
2019	198	\$426,060	0	\$0	*	\$19,223	*	\$445,283
2020	210	\$520,415	0	\$0	*	\$12,141	*	\$532,556
2021	182	\$476,861	0	\$0	*	\$3,088	*	\$479,949

\*Not disclosed due to confidentiality concerns.

## 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 Tax Year 2013. For Tax Year 2021, this exclusion reduced income tax revenue to the general fund by \$321, or less than \$0.00 per full-year resident taxpayer.

National Guard Life Insurance Premiums								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	46	\$28,091	*	\$27	*	\$569	*	\$28,687
2014	32	\$48,885	*	\$402	*	\$1,322	*	\$50,609
2015	20	\$10,766	0	\$0	0	\$0	20	\$10,766
2016	25	\$15,633	0	\$0	*	\$170	*	\$15,803
2017	28	\$28,304	0	\$0	*	\$778	*	\$29,082
2018	14	\$17,792	*	\$408	0	\$0	*	\$18,200
2019	21	\$34,481	*	\$19,059	0	\$0	*	\$53,540
2020	26	\$194,456	0	\$0	*	\$714	*	\$195,170
2021	*	\$4,822	0	\$0	0	\$0	*	\$4,822

\*Not disclosed due to confidentiality concerns.

# 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 Tax Year 2013. 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 Tax Year 2021, this exclusion reduced income tax revenue to the general fund by \$1,674,247, or \$2.46 per full-year resident taxpayer.

Partial Interest Exclusion for Elderly Taxpayers								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	62,720	\$31,301,899	9,134	\$7,311,575	1,111	\$492,669	72,965	\$39,106,143
2014	62,418	\$29,772,557	9,729	\$7,660,793	1,119	\$513,706	73,266	\$37,947,056
2015	64,139	\$30,087,414	10,135	\$7,973,410	1,172	\$550,550	75,446	\$38,611,374
2016	65,312	\$30,687,228	10,475	\$8,296,402	1,277	\$575,776	77,064	\$39,559,406
2017	69,725	\$33,284,834	11,098	\$8,805,973	1,458	\$664,040	82,281	\$42,754,847
2018	72,006	\$36,035,566	10,677	\$8,611,233	1,525	\$735,052	84,208	\$45,381,851
2019	76,703	\$41,744,457	11,944	\$10,333,249	1,632	\$883,476	90,279	\$52,961,182
2020	74,882	\$38,240,518	11,645	\$9,718,363	1,650	\$806,405	88,177	\$48,765,286
2021	73,706	\$32,290,033	11,978	\$9,169,320	1,986	\$835,453	87,670	\$42,294,806

# 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 the Federal Adjusted Gross Income exceeds the threshold. Both the threshold and the amount exempted are adjusted for inflation each year. For Tax Year 2021, the amount exempted was \$4,400 and the threshold was \$36,700. Taxpayers with Federal Adjusted Gross Income between \$36,700 and \$38,900 were eligible for an exemption of less than \$4,400, and taxpayers with incomes over \$38,900 were not eligible for the exemption.

This exemption provides a limited incentive to participate in a retirement system and to keep 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, the legislature exempted the first \$3,600 of income from federal government pensions. In Tax Year 1989, a group of federal government and military retirees sued states that exempted state pensions, including Montana, arguing that states must give them the same exemption. The states lost,<sup>2</sup> with the U.S. Supreme Court ruling that states may tax different types of income differently but may not tax the same type of income differently depending on who paid it. As a result, 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 table on the next page shows pension income excluded from taxation since 2013. For 2021, this exclusion reduced income tax revenue to the general fund by \$4,420,373, or \$6.49 per full-year resident taxpayer.

Partial Pension Exemption								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	43,546	\$158,597,172	1,634	\$5,502,608	775	\$2,596,220	45,955	\$166,696,000
2014	44,032	\$163,276,389	1,666	\$5,873,948	762	\$2,506,314	46,460	\$171,656,651
2015	44,197	\$164,186,433	1,852	\$6,551,278	855	\$2,833,101	46,904	\$173,570,812
2016	45,229	\$173,070,990	1,985	\$7,357,688	978	\$3,361,132	48,192	\$183,789,810
2017	44,862	\$173,734,004	1,914	\$7,179,943	945	\$3,314,448	47,721	\$184,228,395
2018	44,573	\$174,904,162	1,682	\$6,242,999	942	\$3,290,626	47,197	\$184,437,787
2019	45,396	\$182,365,023	1,348	\$5,198,618	818	\$3,091,122	47,562	\$190,654,763
2020	46,106	\$185,146,420	1,482	\$5,619,338	1,045	\$3,595,034	48,633	\$194,360,792
2021	44,793	\$184,243,909	1,339	\$5,357,069	928	\$3,553,632	47,060	\$193,154,610

<sup>2</sup> The U.S. Supreme Court ruled against Michigan in *Davis v. Michigan Dept. of Treasury*, 489 U.S. 803, 109 S.Ct. 1500, 103 L.Ed.2d 891 (1989). Montana settled the similar case *Sheehy v. State Dept. of Revenue*, 250 Mont. 437, 820 P.2d 1257 (1991) and issued \$15.7 million in refunds for the years 1983 through 1989.

## 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 Tax Year 2013. Fewer than 10 taxpayers have used the exclusion every year. For Tax Year 2021, this exclusion reduced income tax revenue to the general fund by \$3,505, or less than \$0.01 per full-year resident taxpayer.

Sales of Land to Beginning Farmers								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	*	\$56,687	0	\$0	0	\$0	*	\$56,687
2014	*	\$7,094	0	\$0	0	\$0	*	\$7,094
2015	*	\$7,918	0	\$0	0	\$0	*	\$7,918
2016	*	\$27,569	0	\$0	0	\$0	*	\$27,569
2017	*	\$4,377	0	\$0	0	\$0	*	\$4,377
2018	*	\$3,955	0	\$0	0	\$0	*	\$3,955
2019	*	\$33,234	0	\$0	*	\$1	*	\$33,235
2020	0	\$0	0	\$0	0	\$0	0	\$0
2021	*	\$77,990	0	\$0	0	\$0	*	\$77,990

\*Not disclosed due to confidentiality concerns.

# 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 table on the next page shows income exempted under this provision since Tax Year 2013.

<b>Capital Gains from Small Business Investment Companies</b>								
<b>TY</b>	<b>Residents</b>		<b>Nonresidents</b>		<b>Part-Year Residents</b>		<b>Total</b>	
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
2013	17	\$173,389	*	\$209,411	*	\$274	*	\$383,074
2014	20	\$134,599	*	\$35,179	0	\$0	*	\$169,778
2015	13	\$48,730	*	\$57,758	*	\$69,535	*	\$176,023
2016	13	\$24,738	*	\$29,921	0	\$0	*	\$54,659
2017	*	\$1,449,364	*	\$245,044	0	\$0	*	\$1,694,408
2018	16	\$79,928	*	\$138,707	*	\$56,087	*	\$274,722
2019	23	\$10,486	*	\$297,119	*	\$723,789	*	\$1,031,394
2020	22	\$1,335,337	*	\$192,584	*	\$145,792	*	\$1,673,713
2021	19	\$529,940	*	\$254,165	0	\$0	*	\$784,105

*\*Not disclosed due to confidentiality concerns.*

# Loan Repayment Through Quality Educator Loan Assistance Program: 15-30-2110(14), MCA

## Legislation: HB 211, 2019 Session

Starting Tax Year 2020, taxpayers who receive loan repayment assistance during the tax year from the Quality Educator Loan Assistance Program can exclude the assistance amount from their adjusted gross income. The exclusion is limited to a maximum of \$5,000 for the tax year. The table below shows the cost of this exclusion for Tax Years 2020 and 2021.

For Tax Year 2021, this exclusion reduced income tax revenue to the general fund by \$11,045, or \$0.02 per full-year resident taxpayer.

<b>Educator Student Loan Repayment included in Federal AGI</b>								
<b>TY</b>	<b>Residents</b>		<b>Nonresidents</b>		<b>Part-Year Residents</b>		<b>Total</b>	
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
2013	0	\$0	0	\$0	0	\$0	0	\$0
2014	0	\$0	0	\$0	0	\$0	0	\$0
2015	0	\$0	0	\$0	0	\$0	0	\$0
2016	0	\$0	0	\$0	0	\$0	0	\$0
2017	0	\$0	0	\$0	0	\$0	0	\$0
2018	0	\$0	0	\$0	0	\$0	0	\$0
2019	0	\$0	0	\$0	0	\$0	0	\$0
2020	83	\$190,483	0	\$0	*	\$15,050	*	\$205,533
2021	71	\$5,757,939	0	\$0	*	\$14,982	*	\$5,772,921

\*Not disclosed due to confidentiality concerns.

# 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 law excludes qualifying repayments from all programs, including programs provided by private health-care facilities 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 Tax Year 2013. For Tax Year 2021, this exclusion reduced income tax revenue to the general fund by \$79,415, or \$0.12 per full-year resident taxpayer.

<b>Health Care Professional Student Loan Repayment Included in Federal AGI</b>								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	300	\$880,391	*	\$5,317	31	\$79,000	*	\$964,708
2014	341	\$913,226	*	\$14,191	34	\$95,392	*	\$1,022,809
2015	426	\$1,234,654	10	\$28,757	32	\$79,458	468	\$1,342,869
2016	425	\$1,278,928	13	\$34,086	49	\$148,114	487	\$1,461,128
2017	455	\$1,315,847	12	\$41,405	49	\$136,636	516	\$1,493,888
2018	448	\$1,422,858	12	\$34,351	50	\$164,686	510	\$1,621,895
2019	467	\$1,535,563	21	\$55,784	71	\$228,584	559	\$1,819,931
2020	444	\$1,278,535	21	\$61,225	33	\$111,418	498	\$1,451,178
2021	350	\$1,116,534	14	\$43,575	26	\$85,434	390	\$1,245,543

\*Not disclosed due to confidentiality concerns.

## Tier II Railroad Retirement: Federal Provision Legislation: N/A

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 on the next page shows Tier II railroad retirement benefits exempted from Montana taxation.

For Tax Year 2021, income tax revenue to the general fund would have been \$1,951,187 higher if the state could tax Tier II railroad retirement. This is \$2.87 per full-year resident taxpayer.

Tier II Railroad Retirement								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	2,863	\$43,719,325	81	\$1,064,303	28	\$413,587	2,972	\$45,197,215
2014	2,823	\$45,197,719	81	\$1,092,309	25	\$297,154	2,929	\$46,587,182
2015	2,820	\$46,343,176	80	\$1,383,942	18	\$235,919	2,918	\$47,963,037
2016	2,846	\$48,318,083	81	\$1,341,418	28	\$489,381	2,955	\$50,148,882
2017	2,878	\$50,097,081	85	\$1,481,810	29	\$430,941	2,992	\$52,009,832
2018	2,951	\$52,442,866	89	\$1,640,449	29	\$313,763	3,069	\$54,397,078
2019	2,903	\$53,205,289	86	\$1,641,744	37	\$594,601	3,026	\$55,441,634
2020	2,883	\$53,655,007	78	\$1,378,911	27	\$365,423	2,988	\$55,399,341
2021	2,876	\$54,408,208	87	\$1,594,030	27	\$461,304	2,990	\$56,463,542

## Tip Income and Gratuities: 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 Tax Year 2013. For Tax Year 2021, this exclusion reduced income tax revenue to the general fund by \$5,710,835, or \$8.39 per full-year resident taxpayer.

Exempt Tip Income								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	16,516	\$56,390,533	960	\$2,592,060	1,621	\$4,757,200	19,097	\$63,739,793
2014	16,836	\$59,993,312	1,148	\$3,576,755	1,705	\$5,124,973	19,689	\$68,695,040
2015	18,795	\$67,147,671	1,402	\$4,252,879	2,174	\$6,809,415	22,371	\$78,209,965
2016	19,216	\$71,768,259	1,471	\$4,468,898	2,291	\$7,468,411	22,978	\$83,705,568
2017	20,718	\$80,661,372	1,691	\$5,765,450	2,634	\$8,284,592	25,043	\$94,711,414
2018	20,189	\$81,593,214	1,785	\$6,141,529	2,385	\$7,870,545	24,359	\$95,605,288
2019	21,799	\$88,982,140	1,967	\$6,928,943	2,621	\$8,648,427	26,387	\$104,559,510
2020	20,430	\$70,780,085	1,803	\$5,182,929	2,287	\$5,956,110	24,520	\$81,919,124
2021	22,069	\$105,418,886	2,351	\$9,765,435	2,774	\$10,477,779	27,194	\$125,662,100

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

Federal law taxes unemployment compensation, but Montana law exempts it from taxation.

The following table shows additional state exemptions for unemployment compensation since Tax Year 2013. For Tax Year 2021, this exclusion reduced income tax revenue to the general fund by \$15,724,305, or \$23.10 per full-year resident taxpayer.

<b>Exempt Unemployment Compensation</b>								
<b>TY</b>	<b>Residents</b>		<b>Nonresidents</b>		<b>Part-Year Residents</b>		<b>Total</b>	
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
2013	32,374	\$129,933,369	4,756	\$26,765,431	2,171	\$10,499,700	39,301	\$167,198,500
2014	26,517	\$93,510,592	3,804	\$18,077,778	1,891	\$7,453,018	32,212	\$119,041,388
2015	24,456	\$89,447,741	3,933	\$20,533,636	1,752	\$7,791,931	30,141	\$117,773,308
2016	23,437	\$94,926,088	3,453	\$18,390,875	1,687	\$8,100,053	28,577	\$121,417,016
2017	21,741	\$87,578,113	3,404	\$19,041,750	1,480	\$6,909,586	26,625	\$113,529,449
2018	19,589	\$80,750,167	3,027	\$16,330,381	1,252	\$5,984,762	23,868	\$103,065,310
2019	19,506	\$82,795,091	2,652	\$14,590,281	1,209	\$5,793,306	23,367	\$103,178,678
2020	80,869	\$887,376,585	7,908	\$101,781,077	5,547	\$68,943,815	94,324	\$1,058,101,477
2021	34,489	\$302,584,760	5,299	\$59,161,752	2,851	\$31,179,289	42,639	\$392,925,801

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

Federal law exempts worker's compensation payments, except payments that are reimbursement for medical expenses deducted in an earlier year. Montana law 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 Tax Year 2013. For Tax Year 2021, this exclusion reduced income tax revenue to the general fund by \$50,807, or \$0.07 per full-year resident taxpayer.

<b>Exempt Unemployment Compensation</b>								
<b>TY</b>	<b>Residents</b>		<b>Nonresidents</b>		<b>Part-Year Residents</b>		<b>Total</b>	
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
2013	137	\$1,009,272	*	\$29,361	*	\$9,979	*	\$1,048,612
2014	121	\$852,638	*	\$26,794	*	\$93,459	*	\$972,891
2015	136	\$998,080	16	\$82,565	*	\$4,750	*	\$1,085,395
2016	124	\$699,707	*	\$29,817	15	\$112,900	*	\$842,424
2017	155	\$774,048	*	\$105,741	11	\$70,428	*	\$950,217
2018	182	\$1,111,653	*	\$50,666	*	\$33,832	*	\$1,196,151
2019	154	\$882,827	*	\$64,920	10	\$64,745	*	\$1,012,492
2020	284	\$2,433,726	*	\$135,823	15	\$131,366	*	\$2,700,915
2021	179	\$1,354,321	*	\$84,622	18	\$189,824	*	\$1,628,767

\*Not disclosed due to confidentiality concerns.

# 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 if the taxpayer itemizes their deductions. 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 a taxable income of \$500,000 is in the 6.9 percent state tax bracket and the 37 percent federal tax bracket. An additional \$100 deduction would reduce this person's state tax liability by \$6.90 and federal tax liability by \$37, for a total of \$43.90 if the taxpayer itemizes. The \$100 expenditure that was the basis of the deduction cost this taxpayer \$56.10 and cost the state and federal governments, and ultimately other taxpayers, \$43.90.

Montana law 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. Three itemized deductions allow taxpayers to deduct costs of earning income. They are the deduction for investment interest, 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.

Taxpayers who report income from gambling can 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 required to not be more than 2 percent of adjusted gross income.

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

Federal and Montana law allows taxpayers to take 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.

Starting in Tax Year 2018, the deduction is limited to losses attributable to a federally declared disaster.

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 2013 through 2021. The itemized deduction for casualty and theft losses reduced income tax revenue to the state general fund for Tax Year 2021 by \$13,621, or \$0.02 per full-year resident taxpayer.

<b>Casualty and Theft Losses</b>								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	510	\$5,869,942	52	\$847,644	20	\$120,451	582	\$6,838,037
2014	475	\$5,096,735	52	\$1,670,297	22	\$471,616	549	\$7,238,648
2015	334	\$5,334,806	30	\$1,148,861	22	\$97,586	386	\$6,581,253
2016	309	\$6,744,568	40	\$1,965,451	27	\$263,256	376	\$8,973,275
2017	267	\$5,112,316	53	\$6,092,544	23	\$297,291	343	\$11,502,151
2018	448	\$4,442,831	32	\$670,697	*	\$87,003	*	\$5,200,531
2019	322	\$1,560,011	32	\$520,150	10	\$25,198	364	\$2,105,359
2020	477	\$2,825,353	32	\$216,179	*	\$6,318	*	\$3,047,850
2021	305	\$1,777,231	34	\$298,126	*	\$9,814	*	\$2,085,171

*\*Not disclosed due to confidentiality concerns.*

## Charitable Contributions: Federal Provision Legislation: N/A

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 2013 through 2021. Itemized deductions for charitable contributions reduced Tax Year 2021 income tax revenue to the state general fund by \$60,413,912, or \$88.75 per full-year resident taxpayer.

Charitable Contributions								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	150,343	\$487,023,319	18,043	\$1,375,346,442	4,154	\$11,881,345	172,540	\$1,874,251,106
2014	149,283	\$435,494,624	18,516	\$515,994,391	4,163	\$11,867,165	171,962	\$963,356,180
2015	150,403	\$450,272,008	18,378	\$551,805,559	4,299	\$13,726,971	173,080	\$1,015,804,538
2016	150,927	\$502,946,119	18,540	\$1,857,487,225	4,278	\$14,917,531	173,745	\$2,375,350,875
2017	151,085	\$490,356,062	19,129	\$741,475,164	4,341	\$13,967,357	174,555	\$1,245,798,583
2018	136,747	\$447,461,011	15,359	\$1,262,677,513	3,564	\$13,681,208	155,670	\$1,723,819,732
2019	132,059	\$494,466,799	15,593	\$1,400,677,568	3,272	\$14,800,967	150,924	\$1,909,945,334
2020	102,298	\$474,658,056	13,710	\$483,685,968	2,911	\$30,895,489	118,919	\$989,239,513
2021	131,650	\$630,240,590	17,527	\$887,866,826	4,441	\$30,781,520	153,618	\$1,548,888,936

Charitable Noncash Contributions								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	68,473	\$75,235,417	9,489	\$915,527,476	3,059	\$3,900,138	81,021	\$994,663,031
2014	68,964	\$79,790,146	9,759	\$371,406,540	3,092	\$5,645,390	81,815	\$456,842,076
2015	71,039	\$90,062,103	9,695	\$379,146,416	3,086	\$5,979,338	83,820	\$475,187,857
2016	72,718	\$148,637,209	10,024	\$927,313,382	3,379	\$8,283,427	86,121	\$1,084,234,018
2017	72,383	\$118,484,126	10,149	\$1,045,453,011	3,329	\$5,369,819	85,861	\$1,169,306,956
2018	61,347	\$73,875,268	7,636	\$363,465,342	2,492	\$4,023,178	71,475	\$441,363,788
2019	55,483	\$126,426,919	7,335	\$541,144,496	2,205	\$6,639,952	65,023	\$674,211,367
2020	46,737	\$104,422,201	6,128	\$211,957,533	1,954	\$12,568,872	54,819	\$328,948,606
2021	47,835	\$181,278,076	6,717	\$536,287,154	2,459	\$9,593,978	57,011	\$727,159,208

## Carryover of Contributions from Previous Years

TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	3,314	\$36,604,717	534	\$444,543,991	94	\$321,170	3,942	\$481,469,878
2014	2,997	\$34,834,107	529	\$130,092,647	86	\$431,717	3,612	\$165,358,471
2015	2,778	\$35,565,096	481	\$122,379,344	75	\$362,590	3,334	\$158,307,030
2016	3,102	\$33,937,186	504	\$414,328,549	60	\$504,653	3,666	\$448,770,388
2017	3,477	\$42,384,106	577	\$205,476,095	76	\$1,096,563	4,130	\$248,956,764
2018	2,583	\$33,969,667	489	\$44,141,614	55	\$291,779	3,127	\$78,403,060
2019	2,314	\$30,647,375	466	\$233,950,152	48	\$2,141,288	2,828	\$266,738,815
2020	2,011	\$33,893,069	436	\$111,051,210	52	\$879,665	2,499	\$145,823,944
2021	2,894	\$53,647,324	497	\$127,351,049	65	\$512,902	3,456	\$181,511,275

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

Montana law allows an itemized deduction for up to \$4,800 for 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 if caring for one eligible dependent. The income limit is \$25,200 if the taxpayer is caring for two 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 table on the next page shows itemized deductions for child and dependent care expenses for Tax Years 2013 through 2021. The itemized deduction for child and dependent care expenses reduced income tax revenue to the state general fund for Tax Year 2021 by \$3,294, or less than \$0.00 per full-year resident taxpayer.

<b>Child and Dependent Care Expenses</b>								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	703	\$1,447,271	70	\$145,804	49	\$109,360	822	\$1,702,435
2014	558	\$1,189,970	42	\$111,620	33	\$77,121	633	\$1,378,711
2015	484	\$1,050,416	27	\$46,766	33	\$73,996	544	\$1,171,178
2016	548	\$1,206,246	28	\$66,605	29	\$62,376	605	\$1,335,227
2017	496	\$1,093,360	41	\$95,077	34	\$82,612	571	\$1,271,049
2018	368	\$886,905	24	\$59,792	21	\$54,843	413	\$1,001,540
2019	325	\$705,164	21	\$55,913	14	\$29,247	360	\$790,324
2020	295	\$681,098	19	\$48,253	*	\$22,591	*	\$751,942
2021	271	\$679,465	20	\$56,452	14	\$34,036	305	\$769,953

*\*Not disclosed due to confidentiality concerns.*

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

Montana law 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 (2003 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 kept to prevent the narrower rate brackets from increasing taxes on middle-income taxpayers. The 2003 Legislature chose not to index the cap for inflation, so that, in real terms, the cap will decrease over time.

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 1 dollar but also increases itemized deductions by the federal marginal tax rate times 1 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 in Tax Year 2021 would be in the 6.9 percent state tax bracket and the 12 percent federal tax bracket. An additional \$100 of income would result in an additional \$12 of federal income tax, for an \$88 increase in taxable income. Applying the 6.9 percent rate to \$88 provides additional tax of \$6.07, for an effective marginal tax rate of about 6.1 percent rather than 6.9 percent. 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 2013 through 2021. For Tax Year 2021, the deduction for federal income tax reduced income tax revenue to the general fund by \$68,620,386, or \$100.80 per full-year resident taxpayer.

Federal Income Tax								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	224,818	\$1,206,775,407	32,250	\$229,764,838	9,500	\$54,613,668	266,568	\$1,491,153,913
2014	227,218	\$1,241,851,066	33,560	\$241,375,438	10,033	\$59,254,829	270,811	\$1,542,481,333
2015	232,979	\$1,297,118,744	33,646	\$245,467,280	10,148	\$61,093,726	276,773	\$1,603,679,750
2016	236,969	\$1,325,330,899	33,132	\$241,315,861	10,241	\$60,477,836	280,342	\$1,627,124,596
2017	242,669	\$1,367,118,010	34,595	\$250,911,791	10,643	\$63,443,115	287,907	\$1,681,472,916
2018	218,784	\$1,199,661,055	29,269	\$214,748,520	8,891	\$53,607,145	256,944	\$1,468,016,720
2019	208,531	\$1,153,558,682	30,784	\$228,991,454	8,202	\$50,830,919	247,517	\$1,433,381,055
2020	208,762	\$1,164,299,664	30,072	\$221,821,966	8,844	\$54,323,729	247,678	\$1,440,445,359
2021	220,833	\$1,259,672,196	33,881	\$250,693,510	11,308	\$71,046,028	266,022	\$1,581,411,734

# Home Mortgage Interest and Insurance Premiums: Federal Provision Legislation: N/A

Federal and state law allow an itemized deduction for home mortgage interest paid during the tax year. The deduction of interest is limited to the first \$750,000 of debt that is incurred after December 2017. In addition, taxpayers cannot deduct interest paid on equity indebtedness for Tax Years 2018 through 2025.

Federal and state law also allow taxpayers to deduct the mortgage insurance premiums paid for mortgage insurance issued after Tax Year 2006. Federal law considers mortgage insurance premiums to be part of mortgage interest, and Montana law follows federal law on this point.

The deduction for home mortgage interest and mortgage insurance provides an incentive for home ownership and a disincentive for taxpayers to pay off their mortgages. The following table shows itemized deductions for home mortgage interest and insurance. This deduction reduced income tax revenue to the state general fund for Tax Year 2021 by \$55,873,206, or \$82.08 per full-year resident taxpayer.

<b>Home Mortgage Interest</b>								
<b>TY</b>	<b>Residents</b>		<b>Nonresidents</b>		<b>Part-Year Residents</b>		<b>Total</b>	
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
2013	141,696	\$907,271,882	15,609	\$151,307,187	4,583	\$32,308,778	161,888	\$1,090,887,847
2014	140,721	\$881,047,516	15,788	\$150,949,816	4,766	\$32,665,529	161,275	\$1,064,662,861
2015	142,562	\$900,243,023	15,218	\$146,760,981	4,664	\$32,888,662	162,444	\$1,079,892,666
2016	144,780	\$909,386,335	15,504	\$150,336,425	4,888	\$34,706,195	165,172	\$1,094,428,955
2017	146,491	\$932,109,767	15,809	\$154,934,319	5,108	\$37,201,137	167,408	\$1,124,245,223
2018	137,315	\$903,558,507	13,293	\$136,209,342	4,599	\$36,320,490	155,207	\$1,076,088,339
2019	136,388	\$987,393,435	17,085	\$212,703,072	4,813	\$41,987,715	158,286	\$1,242,084,222
2020	135,162	\$979,405,589	16,715	\$198,342,853	5,058	\$44,816,143	156,935	\$1,222,564,585
2021	136,905	\$921,441,130	17,912	\$191,183,631	6,334	\$51,468,005	161,151	\$1,164,092,766

## Light Vehicle Registration Fees: 15-30-2131(1)(h), MCA Legislation: HB 540, 1999 Session

Montana taxpayers may deduct any light vehicle registration fees paid by the taxpayer for a Montana vehicle during the tax year from their income. Before Tax Year 2018, this deduction was reported with other personal property taxes when the taxpayer itemized their deductions. However, the federal deduction limitation for state and local taxes does not apply to Montana light vehicle registrations and was separated on Montana's income tax return starting in Tax Year 2018.

The exemption of light vehicle registration fees from taxable income provides an incentive for vehicle ownership. In addition, as the registration rate is higher for newer vehicles, the deduction also provides an incentive for taxpayers to operate newer vehicles.

The following table shows the deductions claimed for light vehicle registration fees for Tax Year 2018 through 2021. For Tax Year 2021, this deduction reduced income tax revenue to the general fund by \$475,037, or \$0.70 per full-year resident taxpayer.

Light Vehicle Registration Fees								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	†	†	†	†	†	†	†	†
2014	†	†	†	†	†	†	†	†
2015	†	†	†	†	†	†	†	†
2016	†	†	†	†	†	†	†	†
2017	†	†	†	†	†	†	†	†
2018	31,353	\$8,020,495	121	\$31,872	524	\$141,416	31,998	\$8,193,783
2019	32,295	\$8,148,599	119	\$35,972	595	\$163,222	33,009	\$8,347,793
2020	31,857	\$8,290,227	118	\$32,622	546	\$164,985	32,521	\$8,487,834
2021	30,214	\$7,711,508	133	\$34,925	665	\$204,001	31,012	\$7,950,434

† This item did not have a separate line on returns during these tax years.

## 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 law 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 2013 through 2021. For Tax Year 2021, this deduction reduced income tax revenue to the general fund by \$1,639,725 or \$2.41 per full-year resident taxpayer.

Long Term Care Insurance Premiums								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	11,086	\$29,433,415	1,393	\$4,282,706	198	\$459,421	12,677	\$34,175,542
2014	10,995	\$30,079,682	1,427	\$4,713,851	210	\$533,442	12,632	\$35,326,975
2015	10,756	\$30,500,607	1,419	\$4,705,289	214	\$529,032	12,389	\$35,734,928
2016	10,793	\$30,987,121	1,418	\$4,804,136	235	\$776,408	12,446	\$36,567,665
2017	10,451	\$30,898,836	1,422	\$5,136,137	217	\$567,120	12,090	\$36,602,093
2018	9,721	\$28,930,381	1,191	\$4,339,615	212	\$721,413	11,124	\$33,991,409
2019	9,751	\$29,512,592	1,130	\$4,139,437	205	\$583,102	11,086	\$34,235,131
2020	9,211	\$28,951,256	1,058	\$3,946,828	167	\$479,828	10,436	\$33,377,912
2021	9,069	\$29,135,526	1,041	\$4,098,063	235	\$741,345	10,345	\$33,974,934

# Medical and Dental Expenses: Federal Provision Legislation: N/A

Both federal and state law allow an itemized deduction for a portion of the taxpayer's unreimbursed medical and dental expenses. Expenses 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.

In Tax Year 2012, the deduction for expenses was more than 7.5 percent of adjusted gross income. Beginning in Tax Year 2013, taxpayers younger than 65 could only deduct expenses that are more than 10 percent of adjusted gross income. Federal tax law changes lowered the expenses threshold to 7.5 percent for all taxpayers until Tax Year 2020. Beginning in Tax Year 2020, 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.

Medical Expenses								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	57,445	\$289,795,563	3,170	\$29,067,040	1,126	\$5,858,508	61,741	\$324,721,111
2014	56,074	\$278,443,929	3,198	\$29,850,377	1,073	\$6,623,096	60,345	\$314,917,402
2015	56,183	\$284,136,157	3,007	\$29,160,349	1,024	\$6,375,164	60,214	\$319,671,670
2016	56,383	\$293,717,332	3,158	\$30,398,401	1,023	\$6,703,465	60,564	\$330,819,198
2017	60,310	\$307,625,176	3,308	\$31,767,112	1,197	\$6,487,843	64,815	\$345,880,131
2018	54,824	\$305,327,291	2,602	\$27,120,558	932	\$7,840,943	58,358	\$340,288,792
2019	52,185	\$297,489,660	2,460	\$29,233,391	869	\$7,821,301	55,514	\$334,544,352
2020	47,853	\$275,452,616	2,235	\$27,593,330	861	\$5,784,693	50,949	\$308,830,639
2021	47,090	\$285,501,631	2,172	\$28,352,905	933	\$7,962,980	50,195	\$321,817,516

The table above shows itemized deductions for medical and dental expenses for Tax Years 2013 through 2021. For Tax Year 2021, this deduction reduced income tax revenue to the general fund by \$11,546,980, or \$16.96 per full-year resident taxpayer.

## 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 law 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 2013 through 2021. For Tax Year 2021, this deduction reduced income tax revenue to the general fund by \$25,880,868, or \$38.02 per full-year resident taxpayer.

Medical Insurance Premiums Not Deducted Elsewhere								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	92,845	\$388,204,675	8,475	\$40,764,387	2,213	\$7,808,160	103,533	\$436,777,222
2014	94,095	\$390,392,386	9,007	\$44,109,594	2,125	\$7,480,016	105,227	\$441,981,996
2015	98,528	\$481,950,204	9,085	\$46,594,292	2,275	\$8,162,208	109,888	\$536,706,704
2016	103,805	\$445,884,104	9,571	\$51,676,439	2,728	\$9,434,403	116,104	\$506,994,946
2017	103,991	\$473,418,359	9,734	\$54,746,509	2,775	\$10,288,605	116,500	\$538,453,473
2018	100,134	\$520,492,426	8,580	\$50,692,623	2,518	\$10,505,651	111,232	\$581,690,700
2019	100,332	\$507,233,583	9,275	\$57,113,085	2,416	\$10,366,215	112,023	\$574,712,883
2020	100,311	\$509,733,715	9,122	\$57,517,141	2,414	\$10,574,569	111,847	\$577,825,425
2021	102,380	\$565,919,725	9,765	\$69,843,262	3,152	\$13,460,794	115,297	\$649,223,781

## Per Capita Livestock Fees: 15-30-2131(1)(i), MCA Legislation: HB 124, 2001 Session

Montana taxpayers may deduct the per capita livestock fees paid by the taxpayer during the tax year from their income. Before Tax Year 2018, this deduction was reported with other personal property taxes when the taxpayer itemized their deductions. However, the federal deduction limitation for state and local taxes does not apply to Montana livestock fees and was separated on Montana's income tax return starting Tax Year 2018.

The exemption of livestock fees from taxable income reduces the cost of having livestock subject to the fee. This exemption provides an incentive for livestock ownership.

The following table shows the deductions claimed for per capita livestock fees for Tax Years 2018 through 2021. For Tax Year 2021, this deduction reduced income tax revenue to the general fund by \$3,379, or \$0.00 per full-year resident taxpayer.

Per Capita Livestock Fees								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	†	†	†	†	†	†	†	†
2014	†	†	†	†	†	†	†	†
2015	†	†	†	†	†	†	†	†
2016	†	†	†	†	†	†	†	†
2017	†	†	†	†	†	†	†	†
2018	557	\$66,935	*	\$81	*	\$678	*	\$67,694
2019	552	\$81,369	*	\$35	*	\$2,224	*	\$83,628
2020	528	\$76,631	0	\$0	*	\$5,922	*	\$82,553
2021	493	\$64,548	*	\$17	*	\$447	*	\$65,012

† This item did not have a separate line on returns during these tax years.

\*Not disclosed due to confidentiality concerns.

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

Montana law 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 2013 through 2021. The itemized deduction for political contributions reduced income tax revenue to the general fund for 2021 by \$41,181, or \$0.06 per full-year resident taxpayer.

Political Contributions								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	5,343	\$643,188	185	\$24,439	82	\$9,661	5,610	\$677,288
2014	6,683	\$840,852	208	\$27,772	97	\$10,767	6,988	\$879,391
2015	5,621	\$684,847	209	\$25,325	105	\$11,111	5,935	\$721,283
2016	8,490	\$1,055,050	281	\$36,989	154	\$17,115	8,925	\$1,109,154
2017	6,832	\$838,756	240	\$32,440	133	\$15,210	7,205	\$886,406
2018	7,297	\$939,555	164	\$22,572	102	\$12,974	7,563	\$975,101
2019	6,337	\$780,893	160	\$20,432	111	\$12,468	6,608	\$813,793
2020	8,756	\$1,166,306	205	\$28,477	158	\$19,436	9,119	\$1,214,219
2021	5,264	\$675,348	132	\$18,205	122	\$14,466	5,518	\$708,019

## Other Deductible Taxes: Federal Provision Legislation: N/A

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 Tax Years 2013 through 2021. For Tax Year 2021, the deduction for other taxes reduced income tax revenue to the state general fund by \$540,083, or \$0.79 per full-year resident taxpayer.

Other Deductible Taxes								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	21,508	\$8,636,316	1,612	\$2,798,319	355	\$216,346	23,475	\$11,650,981
2014	20,734	\$7,865,574	1,526	\$2,901,792	358	\$216,468	22,618	\$10,983,834
2015	20,251	\$7,480,154	1,489	\$3,177,156	290	\$301,071	22,030	\$10,958,381
2016	16,400	\$6,342,633	1,533	\$3,092,082	280	\$156,522	18,213	\$9,591,237
2017	15,178	\$6,262,752	1,560	\$3,621,889	302	\$246,158	17,040	\$10,130,799
2018	9,153	\$3,901,158	845	\$1,040,863	193	\$98,999	10,191	\$5,041,020
2019	7,152	\$3,372,436	713	\$4,825,552	140	\$97,051	8,005	\$8,295,039
2020	5,883	\$2,617,365	630	\$7,532,583	113	\$160,146	6,626	\$10,310,094
2021	5,648	\$3,037,712	627	\$6,970,253	127	\$121,086	6,402	\$10,129,051

## State and Local Taxes: Federal Provision Legislation: N/A

Federal law allows taxpayers to choose an itemized deduction for state and local taxes paid. The deduction applies to state and local sales taxes, local income taxes, real estate taxes paid, and value-based personal property taxes. State income taxes are excluded from this deduction for Montana income taxes.

Starting in Tax Year 2018, federal tax law changes limited this deduction to \$10,000 for taxpayers who file tax returns as single, head of household, or married filing jointly tax. For taxpayers who are married filing separately, the deduction is limited to \$5,000 for each taxpayer.

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, 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 \$92.80).

The tables below show itemized deductions for state and local taxes. For Tax Year 2021, the deductions for sales tax or local income tax reduced income tax revenue to the general fund by \$37,622,771, or \$55.27 per full-year resident taxpayer.

State and Local Tax Deduction Limited to \$10,000								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	209,699	\$481,924,198	23,450	\$178,504,393	6,628	\$15,593,011	239,777	\$676,021,602
2014	208,780	\$494,099,279	23,844	\$170,002,165	6,765	\$16,306,881	239,389	\$680,408,325
2015	212,042	\$519,000,445	23,145	\$197,600,830	6,443	\$17,618,418	241,630	\$734,219,693
2016	216,054	\$550,693,459	23,841	\$195,002,176	7,023	\$18,852,374	246,918	\$764,548,009
2017	220,517	\$604,765,477	24,709	\$217,569,650	7,502	\$20,944,954	252,728	\$843,280,081
2018	204,553	\$553,904,721	20,569	\$93,330,078	6,353	\$17,161,634	231,475	\$664,396,433
2019	201,358	\$589,498,152	20,761	\$101,359,325	5,997	\$18,246,174	228,116	\$709,103,651
2020	199,040	\$594,090,801	20,024	\$99,198,163	6,259	\$19,717,808	225,323	\$713,006,772
2021	203,536	\$622,718,879	21,689	\$106,825,856	7,795	\$23,487,268	233,020	\$753,032,003

# 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.

The 2021 Individual Income Tax reform bill (SB 399) eliminated several of Montana's income tax credits, with 17 credits eliminated starting in Tax Year 2022.

## **Adoption Credit: 15-30-2364, MCA Legislation: HB 490, 2007 Session**

The Internal Revenue 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 Tax Year 2019, the maximum federal adoption credit is \$14,080. A taxpayer who takes both the state and federal credits will be reimbursed for up to \$15,080 of the costs of adopting a child. If the actual costs are less than the federal credit, the state credit will provide a double reimbursement for \$1,000 of costs.

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 itemize.

<b>Adoption Expenditures</b>		
<b>Taxpayer Claims State Credit and Maximum Federal Credit</b>		
	<b>Deduction for Federal Taxes</b>	
	<b>Capped</b>	<b>Not Capped</b>
Federal Tax Subsidy	\$14,070.00	\$14,438.62
State Tax Subsidy	\$1,000.00	\$3.74
Net Taxpayer Subsidy	\$13,070.00	\$14,434.88

For many taxpayers, the federal credit was more than their federal tax liability and the state credit may have been more than their state tax liability. In these cases, the interaction of federal and state deductions will only occur in the last year in which the credit was carried forward and was likely to be smaller than shown in the table.

This credit was first available in Tax Year 2007 and expired starting Tax Year 2022. The following table shows credits claimed for Tax Years 2013 through 2021.

<b>Adoption Credit</b>								
<b>TY</b>	<b>Residents</b>		<b>Nonresidents</b>		<b>Part-Year Residents</b>		<b>Total</b>	
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
2013	186	\$210,765	22	\$23,320	10	\$9,998	218	\$244,083
2014	180	\$257,945	23	\$24,030	14	\$15,000	217	\$296,975
2015	183	\$219,789	23	\$27,367	10	\$10,594	216	\$257,750
2016	185	\$222,618	14	\$12,591	10	\$12,582	209	\$247,791
2017	175	\$205,210	17	\$16,291	*	\$5,582	*	\$227,083
2018	151	\$179,974	*	\$7,888	*	\$12,000	*	\$199,862
2019	138	\$182,016	12	\$13,169	*	\$8,453	*	\$203,638
2020	108	\$148,946	*	\$4,039	*	\$1,000	*	\$153,985
2021	126	\$153,283	*	\$10,000	*	\$14,714	*	\$177,997

*\*Not disclosed due to confidentiality concerns.*

In Tax Year 2021, taxpayers used credits of \$133,395 and carried forward credits of approximately \$44,602 to be used in future years. Without the credit, \$133,395 would have been available to spend on other state programs or to reduce taxes. The cost was \$0.20 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 was 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 could 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 was more than the taxpayer’s liability, the excess credit may not be refunded. Excess credits could be carried forward for seven years. If the credit was for a commercial system that produces at least 5 megawatts and was built on a reservation, the credit could 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. The 2019 Legislature (SB 337), expanded the credit to include hydroelectric sources that produce at least 1 megawatt of electrical energy on dams that did not produce power. The 2021 Legislature ended the credit starting Tax Year 2022 (SB 399).

This credit reduced the cost of an alternative energy system by 35 percent. The taxpayer’s cost for each \$1,000 of investment was thus \$650. The taxpayer could deduct depreciation on property for which the credit was granted with no reduction in basis. However, the taxpayer could not claim any other state energy or investment income tax credit or the property tax exemption for alternative energy systems.

An individual taxpayer could claim the credit for investments made by a sole-proprietor business or could claim a share of the credit claimed by a pass-through entity. If the taxpayer itemized their deductions, claiming the state credit reduced the federal deduction for state taxes, and claiming the federal credit reduced the state deduction for federal taxes. The table on the next page shows the state and federal tax subsidies for a \$1,000 investment if the taxpayer was in the top state and federal rate brackets and itemized their deductions.

The table on the next page shows credit use for Tax Years 2013 through 2021.

<b>\$1,000 Expenditure for Commercial Alternative Energy System</b>		
<b>Taxpayer Claims State and Federal Credits</b>		
	<b>Deduction for Federal Taxes</b>	
	<b>Capped</b>	<b>Not Capped</b>
Federal Tax Subsidy	\$170.50	\$174.97
State Tax Subsidy	\$350.00	\$337.93
Net Taxpayer Subsidy	\$520.50	\$512.89

Alternative Energy Production Credit								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	*	\$56	0	\$0	0	\$0	*	\$56
2014	*	\$1,310	0	\$0	0	\$0	*	\$1,310
2015	*	\$13,730	0	\$0	0	\$0	*	\$13,730
2016	*	\$1,843	0	\$0	0	\$0	*	\$1,843
2017	*	\$33,936	*	\$7,126	0	\$0	*	\$41,062
2018	*	\$7,266	*	\$15,237	*	\$1,000	*	\$23,503
2019	11	\$64,474	0	\$0	*	\$1,000	*	\$65,474
2020	*	\$67,413	0	\$0	0	\$0	*	\$67,413
2021	20	\$75,248	0	\$0	0	\$0	20	\$75,248

*\*Not disclosed due to confidentiality concerns.*

This credit was the equivalent to a transfer from the state general fund to pay part of the cost of qualifying private property. In Tax Year 2021, the credit against individual income tax cost the state general fund \$27,466. Credits of more than \$52,000 could be carried forward to future years. The cost per full-year resident taxpayer is \$0.04.

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

Before Tax Year 2022, resident individual taxpayers could 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 exceeded the taxpayer's liability, the excess could not be refunded, but could 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. The credit was available through 1982. The 1983 Legislature extended the credit through Tax Year 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; and 1997, SB 36).

The credit lapsed after Tax Year 1996. The 2001 Legislature reinstated it for investments beginning in Tax Year 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. The 2021 Legislature ended this credit starting Tax Year 2022 (SB 399).

This credit reduced 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 could not deduct depreciation on their homes, so taxpayers could not claim the credit for expenditures that they also deducted. However, through Tax Year 2016, a taxpayer could have also claimed 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 itemized their deductions, claiming the state credit would reduce their federal deduction for state taxes, and claiming the federal credit would also 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 if the taxpayer was in the top state and federal rate brackets and itemized their deductions.

<b>\$1,000 Expenditure for Commercial Alternative Energy System</b>		
<b>Taxpayer Claims Credit, Expenses Not Deductible</b>		
	<b>Deduction for Federal Taxes</b>	
	<b>Capped</b>	<b>Not Capped</b>
Federal Tax Subsidy	\$115.00	\$118.01
State Tax Subsidy	\$500.00	\$491.86
Net Taxpayer Subsidy	\$615.00	\$609.87

The following table shows credit use for Tax Years 2013 through 2021.

<b>Alternative Energy System Credit</b>								
<b>TY</b>	<b>Residents</b>		<b>Nonresidents</b>		<b>Part-Year Residents</b>		<b>Total</b>	
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
2013	830	\$632,607	0	\$0	17	\$14,694	847	\$647,301
2014	800	\$617,949	0	\$0	22	\$19,904	822	\$637,853
2015	735	\$581,523	0	\$0	23	\$21,046	758	\$602,569
2016	827	\$668,542	0	\$0	26	\$22,765	853	\$691,307
2017	742	\$577,371	0	\$0	29	\$23,967	771	\$601,338
2018	627	\$475,285	0	\$0	25	\$23,950	652	\$499,235
2019	752	\$602,423	0	\$0	19	\$20,500	771	\$622,923
2020	712	\$571,185	0	\$0	26	\$20,549	738	\$591,734
2021	875	\$712,898	0	\$0	34	\$30,046	909	\$742,944

This credit was the equivalent to a grant from the state general fund to pay part of the cost of private alternative energy systems. In Tax Year 2021, the credit cost the state general fund \$652,907 and \$90,037 in credits that could be carried forward to future years. Of these, 35 percent were for wood and biomass systems, and 65 percent were for other types of systems. Without the credit, \$652,907 would have been available to spend on other state programs or to reduce taxes. The cost was \$0.96 per full-year resident taxpayer.

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

State 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 \$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.

There is no federal incentive for vehicle conversions, but a federal credit for the purchase of a new alternative fuel vehicle was extended by the Bipartisan Budget Act of 2018. The credit expired starting Tax Year 2022.

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 below shows the change in federal and state taxes for a \$100 expenditure by a taxpayer in the top federal and state rate brackets who itemize on both federal and state returns.

If the conversion is of a business vehicle, the taxpayer could expense or amortize the cost as a business expense in addition to claiming the credit. For a personal vehicle, these costs are not deductible.

<b>\$100 Alternative Fuel Vehicle Conversion Expenditure</b>		
<b>Taxpayer Claims Credit, Expenses Not Deductible</b>		
	<b>Deduction for Federal Taxes</b>	
	<b>Capped</b>	<b>Not Capped</b>
Federal Tax Subsidy	(\$18.50)	(\$18.98)
State Tax Subsidy	\$50.00	\$51.31
Net Taxpayer Subsidy	\$68.50	\$67.67

The table on the next page shows credits for Tax Years 2013 through 2021.

Alternative Fuel Credit								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	16	\$8,183	*	\$1,200	0	\$0	*	\$9,383
2014	16	\$9,905	*	\$3,880	*	\$909	*	\$14,694
2015	12	\$8,189	*	\$3,712	*	\$6,000	*	\$17,901
2016	16	\$8,632	*	\$775	*	\$925	*	\$10,332
2017	12	\$6,194	0	\$0	*	\$1,600	*	\$7,794
2018	18	\$13,431	*	\$1,700	0	\$0	*	\$15,131
2019	21	\$13,933	0	\$0	*	\$1,100	*	\$15,033
2020	15	\$10,605	0	\$0	*	\$500	*	\$11,105
2021	10	\$5,955	*	\$125	*	\$500	*	\$6,580

*\*Not disclosed due to confidentiality concerns.*

This credit is essentially a transfer from the state general fund to help a taxpayer purchase private property. In Tax Year 2021, the individual income tax credit for alternative fuel vehicle conversion cost the state general fund \$5,247. Taxpayers could not use more than \$5,000 of available credits because the credit is non-refundable and cannot be carried forward. Without the credit, either \$5,247 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 less than \$0.01 per full-year resident taxpayer.

# Apprenticeship Credit: 15-30-2357, MCA and 39-6-109, MCA Legislation: HB 308, 2017 Session

State Taxpayers are allowed a credit for employing an apprentice or veteran apprentice as a new employee in a state-registered apprenticeship training program. The credit is worth \$750 per approved apprentice, or \$1,500 per approved veteran apprentice, and may only be claimed for five years per apprentice. The credit is non-refundable and cannot exceed the individual's tax liability.

This credit was first available in Tax Year 2018. The table below shows the credit use for Tax Years 2018 through 2021. The credit reduced the tax liability of taxpayers by \$430,530 in Tax Year 2021, a cost of \$0.63 per full-year resident taxpayer.

Apprenticeship Credit								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	0	\$0	0	\$0	0	\$0	0	\$0
2014	0	\$0	0	\$0	0	\$0	0	\$0
2015	0	\$0	0	\$0	0	\$0	0	\$0
2016	0	\$0	0	\$0	0	\$0	0	\$0
2017	0	\$0	0	\$0	0	\$0	0	\$0
2018	133	\$154,603	*	\$863	*	\$1,010	*	\$156,476
2019	233	\$294,451	*	\$7,207	*	\$781	*	\$302,439
2020	296	\$392,943	14	\$15,755	*	\$790	*	\$409,488
2021	325	\$466,256	16	\$20,395	*	\$5,576	*	\$492,227

\*Not disclosed due to confidentiality concerns.

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

State 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. The 2021 Legislature ended this credit, starting Tax Year 2022 (SB 399).

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.

<b>\$100 Biodiesel Blending or Storage Equipment Expenditure</b>		
<b>Taxpayer Claims Credit, No Change to Depreciation Deduction</b>		
	<b>Deduction for Federal Taxes</b>	
	<b>Capped</b>	<b>Not Capped</b>
Federal Tax Subsidy	(\$5.55)	(\$5.70)
State Tax Subsidy	\$15.00	\$15.39
Net Taxpayer Subsidy	\$9.45	\$9.70

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 up to \$350,000 by a wholesaler. Taxpayers may 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.

Fewer than 10 individuals have claimed the credit each year. The following table shows the total value of credits taken by individuals in Tax Years 2013 through 2021.

<b>Biodiesel Blending/Storage Tank Credit</b>								
<b>TY</b>	<b>Residents</b>		<b>Nonresidents</b>		<b>Part-Year Residents</b>		<b>Total</b>	
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
2013	*	\$2,250	0	\$0	0	\$0	*	\$2,250
2014	0	\$0	0	\$0	0	\$0	0	\$0
2015	0	\$0	0	\$0	0	\$0	0	\$0
2016	0	\$0	0	\$0	0	\$0	0	\$0
2017	0	\$0	0	\$0	0	\$0	0	\$0
2018	*	\$5,030	0	\$0	0	\$0	*	\$5,030
2019	0	\$0	0	\$0	0	\$0	0	\$0
2020	*	\$2,500	0	\$0	0	\$0	*	\$2,500
2021	0	\$0	0	\$0	0	\$0	0	\$0

*\*Not disclosed due to confidentiality concerns.*

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. No credits were claimed or carried forward to future years in Tax Year 2021.

## **Capital Gains Credit: 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 minus 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. With the credit, 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
- 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 2021 Legislature replaced this tax credit with a 30% long-term capital gains deduction starting Tax Year 2024.

The following table shows capital gains credits for Tax Years 2013 through 2021. For Tax Year 2021, the capital gains credit reduced income tax revenue to the general fund by \$142,659,750, or \$209.57 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.

<b>Capital Gains Credit</b>								
<b>TY</b>	<b>Residents</b>		<b>Nonresidents</b>		<b>Part-Year Residents</b>		<b>Total</b>	
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
2013	62,628	\$27,523,134	13,534	\$262,312,945	2,165	\$1,214,702	78,327	\$291,050,781
2014	68,897	\$38,921,806	15,472	\$333,043,375	2,476	\$1,404,501	86,845	\$373,369,682
2015	67,457	\$33,445,616	15,263	\$272,007,058	2,449	\$2,004,163	85,169	\$307,456,837
2016	62,818	\$33,576,490	14,410	\$357,188,908	2,297	\$3,481,699	79,525	\$394,247,097
2017	72,881	\$44,758,820	16,863	\$396,299,151	2,787	\$2,072,261	92,531	\$443,130,232
2018	71,281	\$39,822,120	3,688	\$5,293,985	1,444	\$522,827	76,413	\$45,638,932
2019	73,591	\$50,825,618	3,982	\$5,789,021	1,533	\$737,781	79,106	\$57,352,420
2020	74,137	\$62,915,567	4,466	\$12,218,521	1,902	\$2,151,091	80,505	\$77,285,179
2021	93,649	\$125,399,235	5,381	\$19,745,253	2,710	\$5,966,078	101,740	\$151,110,566

# College Contribution Credit:15-30-2326, 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 Tax Year 1996 but was made permanent by HB 199 of the 1995 Legislative Session. A taxpayer who contributes to a college endowment fund may take both state and federal itemized deductions for the charitable contribution and this credit. The 2021 Legislature eliminated this credit starting tax year 2022 (SB 399).

This credit is essentially a transfer from the state general fund to Montana college endowment funds. The table below 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.

<b>\$100 Contribution to College Endowment Fund</b>		
<b>Taxpayer Claims Credit and Federal and State Deductions</b>		
	<b>Deduction for Federal Taxes</b>	
	<b>Capped</b>	<b>Not Capped</b>
Federal Tax Subsidy	\$30.75	\$31.55
State Tax Subsidy	\$16.90	\$14.72
Net Taxpayer Subsidy	\$47.65	\$46.28

<b>Taxpayer Claims Federal and State Itemized Deductions</b>		
	<b>Deduction for Federal Taxes</b>	
	<b>Capped</b>	<b>Not Capped</b>
Federal Tax Subsidy	\$34.45	\$35.35
State Tax Subsidy	\$6.90	\$4.46
Net Taxpayer Subsidy	\$41.35	\$39.81

<b>Difference Due to Credit</b>		
	<b>Deduction for Federal Taxes</b>	
	<b>Capped</b>	<b>Not Capped</b>
Federal Tax Subsidy	(\$3.70)	(\$3.80)
State Tax Subsidy	\$10.00	\$10.26
Net Taxpayer Subsidy	\$6.30	\$6.47

The itemized deductions reduce the donor's cost to about 55 percent of the donation, and the credit further reduces it to about 50 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 2013 through 2021.

<b>College Contribution Credit</b>								
<b>TY</b>	<b>Residents</b>		<b>Nonresidents</b>		<b>Part-Year Residents</b>		<b>Total</b>	
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
2013	2,662	\$269,473	51	\$6,142	24	\$1,872	2,737	\$277,487
2014	2,833	\$285,949	69	\$9,164	22	\$3,817	2,924	\$298,930
2015	2,942	\$306,734	60	\$10,230	26	\$5,649	3,028	\$322,613
2016	3,101	\$322,604	77	\$10,754	34	\$6,396	3,212	\$339,754
2017	3,089	\$369,846	71	\$13,103	18	\$1,970	3,178	\$384,919
2018	2,403	\$270,911	44	\$8,846	31	\$6,679	2,478	\$286,436
2019	2,495	\$306,088	47	\$9,522	27	\$4,415	2,569	\$320,025
2020	2,259	\$285,980	38	\$8,372	19	\$5,050	2,316	\$299,402
2021	2,165	\$321,724	48	\$13,646	22	\$3,572	2,235	\$338,942

*\*Not disclosed due to confidentiality concerns.*

In Tax Year 2021, this credit cost the state general fund \$310,062. Taxpayers were unable to use \$310,062 of credits because the credit is non-refundable and cannot be carried forward. Without this credit, \$310,062 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 \$0.46 per full-year resident taxpayer.

## 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 those states where the taxpayer 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 find 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 interests in more than one state. The following table shows the credits claimed for Tax Years 2013 through 2021.

TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	12,202	\$27,082,006	0	\$0	268	\$217,481	12,470	\$27,299,487
2014	12,772	\$31,205,001	0	\$0	684	\$757,794	13,456	\$31,962,795
2015	13,301	\$31,375,448	0	\$0	925	\$855,861	14,226	\$32,231,309
2016	13,351	\$31,363,032	0	\$0	460	\$575,796	13,811	\$31,938,828
2017	14,070	\$33,636,066	0	\$0	540	\$502,006	14,610	\$34,138,072
2018	14,021	\$31,680,581	0	\$0	604	\$639,465	14,625	\$32,320,046
2019	14,972	\$44,613,482	0	\$0	675	\$690,143	15,647	\$45,303,625
2020	14,409	\$53,792,718	0	\$0	693	\$5,357,210	15,102	\$59,149,928
2021	16,339	\$77,470,924	0	\$0	851	\$4,917,853	17,190	\$82,388,777

For Tax Year 2021, the credit for other states' taxes cost the state general fund \$80,816,438, and \$80,816,438 in credits were unused because taxpayers had more credits than tax liability. The cost to the general fund was \$118.72 per full-year resident taxpayer.

## **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:

- 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, up to \$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.
- There is a credit for 25 percent of the cost of providing day care information and referral services to employees.
- 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 a 10-year period. The last year when this credit could be claimed was 2014.

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 10-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. The 2021 Legislature eliminated this credit starting Tax Year 2022.

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.

<b>\$100 Expenditure on Daycare for Employees' Dependents</b>		
<b>Difference When Taxpayer Claims Federal Expense Deduction and State Credit Instead of Deduction</b>		
	<b>Deduction for Federal Taxes</b>	
	<b>Capped</b>	<b>Not Capped</b>
Federal Tax Subsidy	(\$6.70)	(\$6.87)
State Tax Subsidy	\$18.10	\$18.57
Net Taxpayer Subsidy	\$11.40	\$11.70

The following table shows the total value of credits claimed against individual income tax from Tax Year 2013 through 2021.

<b>Dependent Care Assistance Credit</b>								
<b>TY</b>	<b>Residents</b>		<b>Nonresidents</b>		<b>Part-Year Residents</b>		<b>Total</b>	
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
2013	12	\$13,525	0	\$0	*	\$2,600	*	\$16,125
2014	*	\$13,528	0	\$0	0	\$0	*	\$13,528
2015	14	\$31,586	*	\$2,200	*	\$851	*	\$34,637
2016	*	\$22,415	*	\$1	*	\$1,970	*	\$24,386
2017	*	\$149,378	0	\$0	0	\$0	*	\$149,378
2018	11	\$77,311	0	\$0	0	\$0	11	\$77,311
2019	14	\$24,634	*	\$5,914	*	\$899	*	\$31,447
2020	17	\$69,634	*	\$2,458	*	\$4,800	*	\$76,892
2021	14	\$54,320	*	\$12,580	*	\$345,200	*	\$412,100

\*Not disclosed due to confidentiality concerns.

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 Tax Year 2021, credits against individual income tax cost the state general fund \$23,399. Without the credit, \$23,399 would have been available to spend on other state programs or to reduce taxes. The cost was \$0.03 per full-year resident taxpayer.

## Earned Income Tax Credit: 15-30-2318, MCA Legislation: HB 391, 2017 Session

Individual taxpayers with income from working or owning a business can claim the federal Earned Income Tax Credit if they meet the requirements and file a federal tax return. The credit is determined by the amount of income and number of qualified dependents the taxpayer reports. With zero qualifying children, a taxpayer could receive a federal tax credit of up to \$529 in Tax Year 2019, depending on their income. The maximum credit amounts in Tax Year 2019 increased to \$3,526 for taxpayers with one qualifying child, \$5,828 for two children and \$6,557 for three or more. The credit is fully refundable.

Taxpayers in Montana are allowed a credit equal to 3 percent of the federal Earned Income Tax Credit on their state income taxes. The credit was enacted by the 2017 Legislature and is refundable.

The table below has the number of credits claimed in Tax Year 2021. The cost of the credit was \$4,936,275 in Tax Year 2021, which is \$7.25 per full-year resident taxpayer.

<b>Earned Income Tax Credit</b>								
<b>TY</b>	<b>Residents</b>		<b>Nonresidents</b>		<b>Part-Year Residents</b>		<b>Total</b>	
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
2013	0	\$0	0	\$0	0	\$0	0	\$0
2014	0	\$0	0	\$0	0	\$0	0	\$0
2015	0	\$0	0	\$0	0	\$0	0	\$0
2016	0	\$0	0	\$0	0	\$0	0	\$0
2017	0	\$0	0	\$0	0	\$0	0	\$0
2018	0	\$0	0	\$0	0	\$0	0	\$0
2019	66,474	\$4,240,321	0	\$0	3,696	\$124,461	70,170	\$4,364,782
2020	62,711	\$3,867,675	0	\$0	3,362	\$110,021	66,073	\$3,977,696
2021	89,015	\$4,756,086	0	\$0	6,266	\$180,189	95,281	\$4,936,275

## 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 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 \$55,000	20% of qualifying expenses

The family member being cared for must have income under \$15,000 if single or under \$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 changed the definitions of eligible family member and eligible costs (HB 750). Amendments by the 1995 Legislature (SB 345) updated references that changed with the creation of the Department of Public Health and Human Services. This credit expired starting Tax Year 2022 as a result of SB 399 from the 2021 Legislature.

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 may not 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. 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 would be \$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 \$302.08.

The table below shows use of the elderly care credit for Tax Years 2013 through 2021.

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 Tax Year 2021, this credit cost the state general fund \$22,040. Taxpayers were could not use credits of nearly \$40,511 because the credit is non-refundable and cannot be carried forward. Without the credit, \$22,040 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.

<b>Elderly Care Credit</b>								
<b>TY</b>	<b>Residents</b>		<b>Nonresidents</b>		<b>Part-Year Residents</b>		<b>Total</b>	
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
2013	43	\$74,466	*	\$4,000	*	\$95	*	\$78,561
2014	41	\$59,626	0	\$0	*	\$4,500	*	\$64,126
2015	39	\$55,637	0	\$0	*	\$90	*	\$55,727
2016	53	\$82,771	*	\$477	*	\$7,373	*	\$90,621
2017	57	\$91,545	*	\$1	*	\$4,986	*	\$96,532
2018	60	\$99,933	*	\$315	*	\$1,000	*	\$101,248
2019	57	\$75,800	*	\$3,000	*	\$6,596	*	\$85,396
2020	47	\$71,757	0	\$0	*	\$3,300	*	\$75,057
2021	31	\$55,051	*	\$2,700	*	\$4,800	*	\$62,551

*\*Not disclosed due to confidentiality concerns.*

## **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 above a smaller percent of income. For taxpayers with income between \$2,000 and \$2,999, the credit refunds part or all of property taxes above 0.6 percent 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 receive a partial refund. 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 general fund.

This credit is essentially a property tax refund administered through the income tax system. 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, to help them stay in their homes. For older taxpayers who rent, it subsidizes the rent they pay.

Taxpayers who claim the credit may 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 12 percent federal brackets. The table below shows federal and state subsidies for a taxpayer in the top state and 12 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.

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

The table on the next page shows the credits claimed with income tax returns for Tax Years 2013 through Tax Year 2021. Additional credits were claimed by taxpayers who did not file income tax returns. For Tax Year 2021, the Elderly Homeowner/Renter Credit cost the state general fund \$7,049,440, or \$10.36 per full-year resident taxpayer.

<b>Property Tax \$100 More Than Credit Percent</b>	
<b>Taxpayer Claims Credit and Federal and State Deductions</b>	
Federal Tax Subsidy	(\$0.83)
State Tax Subsidy	\$106.96
Net Taxpayer Subsidy	\$106.12

<b>Taxpayer Claims Federal and State Itemized Deductions</b>	
Federal Tax Subsidy	\$11.27
State Tax Subsidy	\$6.12
Net Taxpayer Subsidy	\$17.39

<b>Difference Due to Credit</b>	
Federal Tax Subsidy	(\$12.10)
State Tax Subsidy	\$100.83
Net Taxpayer Subsidy	\$88.73

<b>Elderly Homeowner/Renter Credit</b>								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	17,759	\$8,471,344	0	\$0	27	\$14,550	17,786	\$8,485,894
2014	16,355	\$7,834,611	*	\$1,026	16	\$5,740	*	\$7,841,377
2015	16,112	\$7,817,883	0	\$0	22	\$10,962	16,134	\$7,828,845
2016	16,173	\$8,008,009	*	\$1,768	25	\$8,407	*	\$8,018,184
2017	16,261	\$8,294,505	0	\$0	16	\$5,740	16,277	\$8,300,245
2018	16,195	\$8,372,909	0	\$0	28	\$17,460	16,223	\$8,390,369
2019	15,229	\$8,051,148	0	\$0	24	\$9,540	15,253	\$8,060,688
2020	14,615	\$7,837,867	0	\$0	19	\$9,015	14,634	\$7,846,882
2021	13,052	\$7,038,801	*	\$63	19	\$10,576	*	\$7,049,440

\*Not disclosed due to confidentiality concerns.

## 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 referred to them through this program. If the credit is more than the taxpayer's tax liability, the excess can be refunded. 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 starting tax year 2008. The 2015 Legislature expanded the credit to cover lodging provided to families as well as individuals. The 2021 Legislature eliminated the credit starting Tax Year 2022.

The following table shows income tax credits claimed in Tax Years 2013 through 2021. Until Tax Year 2017, fewer than 20 taxpayers claimed the credit each year. In Tax Year 2021, no taxpayers claimed the credit, resulting in no impact to state tax revenue.

Emergency Lodging Credit								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	0	\$0	0	\$0	0	\$0	0	\$0
2014	*	\$500	0	\$0	0	\$0	*	\$500
2015	*	\$247	*	\$180	*	\$90	*	\$517
2016	*	\$2,030	*	\$85	*	\$1,300	*	\$3,415
2017	20	\$9,841	*	\$150	*	\$60	*	\$10,051
2018	17	\$6,019	0	\$0	*	\$360	*	\$6,379
2019	0	\$0	0	\$0	0	\$0	0	\$0
2020	*	\$150	*	\$150	0	\$0	*	\$300
2021	0	\$0	0	\$0	0	\$0	0	\$0

*\*Not disclosed due to confidentiality concerns.*

## 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.

The credit was eliminated starting Tax Year 2022 as a result of SB 399 passed by the 2021 Legislature.

Fewer than 10 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 2013 through 2021.

Empowerment Zone Credit								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	0	\$0	0	\$0	0	\$0	0	\$0
2014	*	\$902	0	\$0	0	\$0	*	\$902
2015	0	\$0	0	\$0	0	\$0	0	\$0
2016	*	\$500	0	\$0	0	\$0	*	\$500
2017	0	\$0	0	\$0	0	\$0	0	\$0
2018	*	\$918	0	\$0	0	\$0	*	\$918
2019	*	\$7	0	\$0	0	\$0	*	\$7
2020	0	\$0	0	\$0	0	\$0	0	\$0
2021	0	\$0	0	\$0	0	\$0	0	\$0

\*Not disclosed due to confidentiality concerns.

## 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 energy-conserving investments in a building. 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 carryforward (SB 138). In Tax Year 2005, the department 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. The 2021 Legislature eliminated this credit starting Tax Year 2022.

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 on the next page 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.

<b>\$100 Home Energy Conservation Expenditure</b>		
<b>Taxpayer Claims Credit, Expenses Not Deductible</b>		
	<b>Deduction for Federal Taxes</b>	
	<b>Capped</b>	<b>Not Capped</b>
Federal Tax Subsidy	(\$9.25)	(\$9.49)
State Tax Subsidy	\$25.00	\$25.65
Net Taxpayer Subsidy	\$15.75	\$16.16

The table below shows energy conservation credits from Tax Years 2013 through 2021. The energy conservation credit is essentially a transfer from the state general fund to help a taxpayer purchase private property. In Tax Year 2021, this credit cost the state general fund \$4,085,936. Taxpayers could not use \$460,927 of credits because the credit is non-refundable and cannot be carried forward. Without the credit, \$4,085,936 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 \$6.00 per full-year resident taxpayer.

<b>Energy Conservation Credit</b>								
<b>TY</b>	<b>Residents</b>		<b>Nonresidents</b>		<b>Part-Year Residents</b>		<b>Total</b>	
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
2013	9,063	\$4,536,016	0	\$0	125	\$68,832	9,188	\$4,604,848
2014	8,499	\$4,360,886	0	\$0	116	\$71,689	8,615	\$4,432,575
2015	7,919	\$4,176,132	0	\$0	92	\$53,482	8,011	\$4,229,614
2016	7,784	\$4,138,900	0	\$0	115	\$62,014	7,899	\$4,200,914
2017	7,266	\$3,970,515	0	\$0	110	\$61,600	7,376	\$4,032,115
2018	7,284	\$4,194,979	0	\$0	91	\$56,720	7,375	\$4,251,699
2019	6,747	\$3,919,022	0	\$0	104	\$62,170	6,851	\$3,981,192
2020	6,856	\$4,063,380	0	\$0	94	\$59,872	6,950	\$4,123,252
2021	7,111	\$4,453,959	0	\$0	133	\$92,904	7,244	\$4,546,863

*\*Not disclosed due to confidentiality concerns.*

Use of the credit was higher in Tax Years 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 Tax Year 2011 and then through Tax Year 2012, but in both cases the extension was probably too late to have much of an effect on behavior.

# 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.

The 2021 Legislature eliminated this credit starting Tax Year 2022.

Homeowners may not 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 cause 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.

<b>\$5,000 Expenditure for Geothermal Heating System</b>		
<b>Taxpayer Claims \$1,500 State Credit and 30% Federal Credit</b>		
	<b>Deduction for Federal Taxes</b>	
	<b>Capped</b>	<b>Not Capped</b>
Federal Tax Subsidy	\$945.00	\$969.76
State Tax Subsidy	\$1,500.00	\$1,433.09
Net Taxpayer Subsidy	\$2,445.00	\$2,402.84

The following table shows credit use in Tax Years 2013 through 2021.

Geothermal Energy System Credit								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	185	\$313,920	0	\$0	*	\$6,257	*	\$320,177
2014	156	\$238,535	0	\$0	*	\$12,000	*	\$250,535
2015	146	\$284,611	0	\$0	*	\$6,284	*	\$290,895
2016	146	\$195,186	0	\$0	11	\$16,000	157	\$211,186
2017	91	\$171,381	0	\$0	*	\$7,500	*	\$178,881
2018	71	\$90,729	0	\$0	*	\$1,000	*	\$91,729
2019	82	\$107,789	0	\$0	*	\$10,000	*	\$117,789
2020	61	\$77,910	0	\$0	*	\$2,565	*	\$80,475
2021	71	\$108,756	0	\$0	*	\$1,500	*	\$110,256

*\*Not disclosed due to confidentiality concerns.*

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 Tax Year 2021, this credit cost the general fund \$86,401, with the remaining credits able to be claimed in the following tax year. Without the credit, \$96,401 would have been available to spend on other state programs or to reduce taxes. The credit cost \$0.04 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 10 employees' health insurance. The credit is \$25 per month multiplied by the percentage of the premium the employer pays, or 50 percent of the premium, whichever is less. 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 10 employees. An employer claiming \$25 per month for 10 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.

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. This credit was eliminated by the 2021 Legislature (SB 399) starting Tax Year 2022. The following table shows credits for Tax Years 2013 through 2021.

Health Insurance for Uninsured Montanans								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	152	\$165,558	*	\$1,148	0	\$0	*	\$166,706
2014	101	\$121,701	*	\$11,119	0	\$0	*	\$132,820
2015	67	\$64,671	*	\$7,564	0	\$0	*	\$72,235
2016	45	\$39,526	*	\$1,273	0	\$0	*	\$40,799
2017	52	\$51,629	*	\$1,341	0	\$0	*	\$52,970
2018	55	\$192,024	*	\$401	0	\$0	*	\$192,425
2019	75	\$74,895	*	\$35	*	\$99	*	\$75,029
2020	53	\$51,224	*	\$611	0	\$0	*	\$51,835
2021	39	\$48,318	*	\$630	0	\$0	*	\$48,948

*\*Not disclosed due to confidentiality concerns.*

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 Tax Year 2021, the credit cost the state general fund \$26,504 in individual income tax revenue. Taxpayers could not use more than \$22,444 of their credits because the credit is non-refundable and cannot be carried forward. Without the credit, \$26,504 would have been available for other programs or tax reductions. The cost of this credit was \$0.04 per full-year resident taxpayer.

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

Taxpayers may take a credit against either 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 U.S.C. 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 be 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 Tax Year 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 Tax Year 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.

<b>\$1,000 Expenditure for Historic Building Rehabilitation</b>		
<b>Taxpayer Claims State and Federal Credits</b>		
	<b>Deduction for Federal Taxes</b>	
	<b>Capped</b>	<b>Not Capped</b>
Federal Tax Subsidy	\$181.50	\$186.26
State Tax Subsidy	\$50.00	37.15
Net Taxpayer Subsidy	\$231.50	\$223.40

The following table shows credits taken against individual income tax for Tax Years 2013 through 2019.

<b>Historic Property Preservation Credit</b>								
<b>TY</b>	<b>Residents</b>		<b>Nonresidents</b>		<b>Part-Year Residents</b>		<b>Total</b>	
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
2013	32	\$492,477	13	\$63,320	0	\$0	45	\$555,797
2014	21	\$443,810	11	\$53,875	0	\$0	32	\$497,685
2015	16	\$363,789	46	\$241,925	0	\$0	62	\$605,714
2016	19	\$301,456	33	\$416,873	*	\$50,000	*	\$768,329
2017	13	\$186,753	30	\$373,205	0	\$0	43	\$559,958
2018	18	\$27,884	24	\$287,573	*	\$796	*	\$316,253
2019	19	\$36,554	35	\$285,746	*	\$16	*	\$322,316
2020	13	\$41,494	30	\$317,235	0	\$0	43	\$358,729
2021	13	\$42,749	17	\$224,282	*	\$12,500	*	\$279,531

\*Not disclosed due to confidentiality concerns.

This credit is effectively a subsidy from the state general fund for rehabilitation of privately owned real estate. In Tax Year 2021, credits against the individual income tax cost the state general fund \$32,062, and credits of \$247,469 were carried forward to be used in future years. Without the credit, \$32,062 would have been available to spend on other programs or to reduce taxes. The cost was \$0.05 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.

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 can 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 below 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.

<b>\$100 Expenditure on Infrastructure Fees</b>		
<b>Difference in Taxes and Taxpayer Cost When Taxpayer Claims Credit and Federal and State Expense Deductions</b>		
	<b>Deduction for Federal Taxes</b>	
	<b>Capped</b>	<b>Not Capped</b>
Federal Tax Subsidy	(\$37.00)	(\$37.97)
State Tax Subsidy	\$100.00	\$102.62
Net Taxpayer Subsidy	\$63.00	\$64.65

The following table shows credits against individual income tax for Tax Years 2013 through 2021.

Infrastructure User Fee Credit								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	*	\$21,203	*	\$17,211	0	\$0	*	\$38,414
2014	10	\$27,269	*	\$9,327	0	\$0	*	\$36,596
2015	13	\$2,832,145	*	\$10,755	0	\$0	*	\$2,842,900
2016	14	\$646,145	*	\$11,587	0	\$0	*	\$657,732
2017	21	\$3,341,669	*	\$11,011	0	\$0	*	\$3,352,680
2018	20	\$6,427,077	*	\$57,084	0	\$0	0	\$6,484,161
2019	*	\$5,019,787	*	\$23,340	0	\$0	*	\$5,043,127
2020	*	\$4,665,962	*	\$21,494	0	\$0	0	\$4,687,456
2021	*	\$4,682,999	*	\$62,650	0	\$0	*	\$4,745,649

*\*Not disclosed due to confidentiality concerns.*

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 into 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 Tax Year 2021, infrastructure user fee credits against individual income tax cost the state general fund \$77,182, and \$4.7 million in credits were carried forward to be used in future years. Without the credit, \$77,182 would have been available to spend on other state programs or to reduce taxes. The cost was \$0.11 per full-year resident taxpayer.

# Innovative Educational Program Credit: 15-30-3110, MCA Legislation: SB 410, 2015 Session

Taxpayers are allowed a credit against any pre-approved donation to the state’s educational improvement account. Through Tax Year 2021, the credit was limited to \$150 per taxpayer, with a limit of \$300 for taxpayers who file a joint return. Starting Tax Year 2022, the maximum credit for each taxpayer was increased to \$200,000. The credit is proportional to the size of the donation made by the taxpayer, up to the credit limit. The credit is non-refundable and can be claimed by individuals, corporations, partnerships, small businesses, estates, and trusts.

The credit was first available in Tax Year 2016. The total amount of credits that can be claimed each tax year is capped, with a limit of \$3 million in total credits in Tax Year 2021. The maximum credit amount was reduced to \$1 million for Tax Year 2022 and \$2 million in Tax Year 2023.

This credit effectively pays the taxpayer for donating to the state’s education improvement account. For example, if an individual donates \$100 to the improvement account, they will be able to claim a credit of \$100. However, if the taxpayer is an individual who itemizes their 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 below 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 who itemize their deductions.

<b>\$100 Contribution to Innovative Educational Program</b>		
<b>Taxpayer Claims Credit, Expenses Not Deductible</b>		
	<b>Deduction for Federal Taxes</b>	
	<b>Capped</b>	<b>Not Capped</b>
Federal Tax Subsidy	(\$37.00)	(\$37.97)
State Tax Subsidy	\$100.00	\$102.62
Net Taxpayer Subsidy	\$63.00	\$64.65

The following table shows the credits claimed on individual income tax returns for Tax Years 2016 through 2021.

Innovative Educational Program Credit								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	0	\$0	0	\$0	0	\$0	0	\$0
2014	0	\$0	0	\$0	0	\$0	0	\$0
2015	0	\$0	0	\$0	0	\$0	0	\$0
2016	35	\$7,601	0	\$0	*	\$100	*	\$7,701
2017	39	\$8,420	0	\$0	*	\$540	*	\$8,960
2018	18	\$3,700	0	\$0	0	\$0	18	\$3,700
2019	*	\$1,651	*	\$150	*	\$1	*	\$1,802
2020	13	\$2,450	0	\$0	0	\$0	13	\$2,450
2021	*	\$1,500	*	\$150	*	\$150	*	\$1,800

*\*Not disclosed due to confidentiality concerns*

## Media Production Credit: 15-31-1001 through 1012, MCA Legislation: HB 293, 2019 Session

Media production companies, and their affiliates, are allowed to claim a credit against their individual or corporate income taxes for any investments made by a state-certified production in the state during the tax year. To claim the credit, the production company must have been approved by the Department of Commerce. The credit is equal to 20 percent of the production expenditures made in Montana during the tax year. Additional credits are allowed for the production based on the compensation provided to residents and non-residents, equipment purchases or rentals, or for spending in underserved areas of the state. In total, up to 35 percent of the production company's base investments can be claimed as credits by the qualified company.

Any unused credits can be carried forward for up to five years or can be transferred to a different taxpayer for the tax year. Transferred tax credits sold by the production companies must be purchased at a price that is equal to at least 85 percent of the credits value. The total number of credits that can be claimed are limited to \$12 million each tax year.

The following table shows the credits claimed on individual income tax returns for Tax Years 2020 and 2021.

Media Production Credit								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	0	\$0	0	\$0	0	\$0	0	\$0
2014	0	\$0	0	\$0	0	\$0	0	\$0
2015	0	\$0	0	\$0	0	\$0	0	\$0
2016	0	\$0	0	\$0	0	\$0	0	\$0
2017	0	\$0	0	\$0	0	\$0	0	\$0
2018	0	\$0	0	\$0	0	\$0	0	\$0
2019	0	\$0	0	\$0	0	\$0	0	\$0
2020	12	\$1,723,316	0	\$0	0	\$0	12	\$1,723,316
2021	18	\$3,991,438	0	\$0	0	\$0	18	\$3,991,438

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

Taxpayers are allowed a credit against individual 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 begins on a new mine or the reopening of a previously closed mine. 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.

This credit expired starting Tax Year 2022 (SB 399, 2021 Legislature).

<b>\$100 Mineral Exploration Expenditures</b>		
<b>Difference in Taxes and Taxpayer Cost When Taxpayer Claims Credit as Well as Federal and State Expense Deductions</b>		
	<b>Deduction for Federal Taxes</b>	
	<b>Capped</b>	<b>Not Capped</b>
Federal Tax Subsidy	(\$37.00)	(\$37.97)
State Tax Subsidy	\$100.00	\$102.62
Net Taxpayer Subsidy	\$63.00	\$64.65

Fewer than 10 individuals claimed the credit in Tax Year 2021. The following table shows the total value of mineral exploration credits against individual income tax for Tax Years 2013 through 2021.

Mineral Exploration Credit								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	*	\$684	0	\$0	0	\$0	*	\$684
2014	*	\$533	0	\$0	0	\$0	*	\$533
2015	0	\$0	0	\$0	0	\$0	0	\$0
2016	*	\$465	0	\$0	0	\$0	*	\$465
2017	*	\$2,020	0	\$0	0	\$0	*	\$2,020
2018	0	\$0	0	\$0	0	\$0	0	\$0
2019	*	\$1,116	0	\$0	0	\$0	*	\$1,116
2020	*	\$9	0	\$0	0	\$0	0	\$9
2021	0	\$0	0	\$0	0	\$0	0	\$0

*\*Not disclosed due to confidentiality concerns.*

## **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, which 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 only 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 their 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 Tax Year 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 Tax Year 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 Tax Year 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 on 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 Tax Year 2019. The credit was extended again during the 2019 Legislature (SB 111) to the end of Tax Year 2025.

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 below 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.

<b>\$100 Contribution to Charitable Endowment Fund</b>		
<b>Taxpayer Claims Credit and Federal Itemized Deduction</b>		
	<b>Deduction for Federal Taxes</b>	
	<b>Capped</b>	<b>Not Capped</b>
Federal Tax Subsidy	\$22.20	\$22.78
State Tax Subsidy	\$40.00	\$38.43
Net Taxpayer Subsidy	\$62.20	\$61.21

<b>Taxpayer Claims Federal and State Itemized Deductions</b>		
	<b>Deduction for Federal Taxes</b>	
	<b>Capped</b>	<b>Not Capped</b>
Federal Tax Subsidy	\$34.45	\$35.35
State Tax Subsidy	\$6.90	\$4.46
Net Taxpayer Subsidy	\$41.35	\$39.81

<b>Difference Due to Credit</b>		
	<b>Deduction for Federal Taxes</b>	
	<b>Capped</b>	<b>Not Capped</b>
Federal Tax Subsidy	(\$12.25)	(\$12.57)
State Tax Subsidy	\$33.10	\$33.97
Net Taxpayer Subsidy	\$20.85	\$21.40

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.

The table on the next page shows qualified endowment credits claimed by individuals for Tax Years 2013 through 2021.

## Qualified Endowment Contribution Credit

TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	587	\$2,073,344	*	\$25,526	*	\$25,509	*	\$2,124,379
2014	613	\$2,471,140	10	\$30,592	*	\$9,279	*	\$2,511,011
2015	616	\$2,461,321	*	\$24,060	*	\$9,545	*	\$2,494,926
2016	641	\$2,708,754	*	\$32,071	*	\$2,046	*	\$2,742,871
2017	728	\$3,157,163	15	\$58,607	*	\$10,020	*	\$3,225,790
2018	597	\$2,528,221	*	\$53,395	*	\$908	*	\$2,582,524
2019	665	\$3,007,492	11	\$77,440	*	\$6,497	*	\$3,091,429
2020	618	\$2,676,780	*	\$53,909	*	\$9,889	*	\$2,740,578
2021	654	\$3,577,812	10	\$50,961	*	\$10,031	*	\$3,638,804

\*Not disclosed due to confidentiality concerns.

In Tax Year 2021, credits claimed by individual taxpayers cost the state general fund \$3,356,828. Taxpayers could not use the remaining credits because the credit is non-refundable and cannot be carried forward. Without the credit, \$3,356,828 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 \$4.93 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 Tax Years 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 Tax Year 2001 and expanded eligible investments to include equipment to reclaim contaminated soils. The 2001 Legislature (SB 92) extended the sunset date to Tax Year 2005 and removed equipment to reclaim contaminated soils from eligible investments. The 2005 Legislature (SB 213) extended the sunset date to Tax Year 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.

<b>\$100 Recycling Equipment Expenditure</b>		
<b>Taxpayer Claims Credit, No Change to Depreciation Deduction</b>		
	<b>Deduction for Federal Taxes</b>	
	<b>Capped</b>	<b>Not Capped</b>
Federal Tax Subsidy	(\$9.25)	(\$9.49)
State Tax Subsidy	\$25.00	\$25.65
Net Taxpayer Subsidy	\$15.75	\$16.16

The following table shows use of the recycling credit by individuals for Tax Years 2013 through 2021. This credit is equivalent to a subsidy from the state general fund for the purchase of private property to be used in recycling.

In Tax Year 2021, the credit against individual income tax cost the state general fund \$517,006. Taxpayers could not use the remaining credits because the credit is non-refundable and cannot be carried forward. Without the credit, \$517,006 would have been available to spend on other state programs or to reduce taxes. The cost to other taxpayers was \$0.76 per full-year resident taxpayer.

<b>Recycling Credit</b>								
<b>TY</b>	<b>Residents</b>		<b>Nonresidents</b>		<b>Part-Year Residents</b>		<b>Total</b>	
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
2013	82	\$289,907	*	\$216	*	\$763	*	\$290,886
2014	97	\$548,118	*	\$14,872	*	\$285	*	\$563,275
2015	71	\$279,657	*	\$1,762	*	\$500	*	\$281,919
2016	101	\$329,343	*	\$4,448	*	\$30	*	\$333,821
2017	106	\$473,540	*	\$27,029	*	\$110	*	\$500,679
2018	91	\$545,086	*	\$12,700	10	\$4,480	*	\$562,266
2019	83	\$426,741	*	\$1,602	*	\$9,195	*	\$437,538
2020	118	\$508,351	*	\$14,187	*	\$53	*	\$522,591
2021	105	\$884,053	*	\$24,274	*	\$1,073	*	\$909,400

*\*Not disclosed due to confidentiality concerns.*

## Research Activities Credit (Expired): 15-31-150, MCA and 15-30-2358, MCA Legislation: HB 638, 1999 Session

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 until 2010. No new credit could be claimed after Tax Year 2010, 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 40 of the IRS code, which expired at the end of Tax Year 2011.

The following table shows credits against the individual income tax for Tax Years 2013 through 2021.

Research Activities Credit (Expired)								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	*	\$73,983	*	\$5,240	0	\$0	*	\$79,223
2014	*	\$72,474	*	\$5,240	0	\$0	*	\$77,714
2015	*	\$72,462	*	\$5,235	0	\$0	*	\$77,697
2016	*	\$795	*	\$4,907	0	\$0	*	\$5,702
2017	*	\$4,591	*	\$3,979	0	\$0	*	\$8,570
2018	*	\$1,303	*	\$1,192	0	\$0	*	\$2,495
2019	*	\$26	*	\$1	0	\$0	*	\$27
2020	*	\$2,676	*	\$281	0	\$0	*	\$2,957
2021	*	\$5,775	*	\$5,601	0	\$0	*	\$11,376

*\*Not disclosed due to confidentiality concerns.*

The credit acts as a transfer from the state general fund to pay 5 percent of a taxpayer's eligible research costs. The number of taxpayers claiming the credit was less than 10 for Tax Years 2011 through 2019 and could not be released.

# Student Scholarship Organization Credit: 15-30-3111, MCA Legislation: SB 410, 2015 Session

Taxpayers are allowed a credit against any preapproved charitable donation to a registered student scholarship organization in the state. Through tax year 2021, the credit was limited to \$150 per taxpayer, with a limit of \$300 for taxpayers who file a joint return. Starting in tax year 2022, the maximum credit amount per taxpayer was increased to \$200,000. The credit is proportional to the size of the donation made by the taxpayer up to the credit limit. The credit is non-refundable and can be claimed by individuals, corporations, partnerships, small businesses, estates, and trusts.

The credit was first available in Tax Year 2016. The total amount of credits that can be claimed each tax year is capped, with a limit of \$3 million in total credits for Tax Year 2019. For Tax Years 2022 and 2023, the maximum credit amounts were changed to \$1 million and \$2 million, respectively.

This credit, in effect, pays the taxpayer for donating to a student scholarship organization. For example, if an individual donates \$100 to an organization, they will be able to claim a credit of \$100. However, if the taxpayer is an individual who itemizes their 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 below 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 who itemize their deductions.

<b>\$100 Contribution to Student Scholarship Organization</b>		
<b>Taxpayer Claims Credit</b>		
	<b>Deduction for Federal Taxes</b>	
	<b>Capped</b>	<b>Not Capped</b>
Federal Tax Subsidy	(\$37.00)	(\$37.97)
State Tax Subsidy	\$100.00	\$102.62
Net Taxpayer Subsidy	\$63.00	\$64.65

The table below shows the credits claimed on individual income tax returns for Tax Years 2013 through 2021.

Student Scholarship Organization Credit								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	0	\$0	0	\$0	0	\$0	0	\$0
2014	0	\$0	0	\$0	0	\$0	0	\$0
2015	0	\$0	0	\$0	0	\$0	0	\$0
2016	130	\$30,474	*	\$5	*	\$1,350	*	\$31,829
2017	123	\$27,732	0	\$0	*	\$150	*	\$27,882
2018	54	\$10,301	*	\$150	*	\$300	*	\$10,751
2019	*	\$1,560	*	\$3	0	\$0	*	\$1,563
2020	30	\$5,690	*	\$251	*	\$300	*	\$6,241
2021	40	\$6,639	*	\$300	*	\$600	*	\$7,539

\*Not disclosed due to confidentiality concerns.

# Trades Education and Training Credit: 15-30-2359, MCA and 15-31-174, MCA

## Legislation: HB 252, 2021 Session

Taxpayers are allowed a credit for training expenses paid by the taxpayer to an unrelated third-party for training of qualified employees in a vocational, technical, or trade profession.

The credit is equal to 50% of the costs incurred by the taxpayer on qualified expenses and is limited to \$2,000 per employee and \$25,000 per employer. The credit is non-refundable and cannot be carried forward or backward.

This credit was first available in Tax Year 2021 and it set to expire after Tax Year 2026. The table below shows the credit use for Tax Year 2021. The credit reduced the tax liability of taxpayers by \$101.409 in Tax Year 2021, a cost of \$0.15 per full-year resident taxpayer.

<b>Trades Education and Training Credit</b>								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	0	\$0	0	\$0	0	\$0	0	\$0
2014	0	\$0	0	\$0	0	\$0	0	\$0
2015	0	\$0	0	\$0	0	\$0	0	\$0
2016	0	\$0	0	\$0	0	\$0	0	\$0
2017	0	\$0	0	\$0	0	\$0	0	\$0
2018	0	\$0	0	\$0	0	\$0	0	\$0
2019	0	\$0	0	\$0	0	\$0	0	\$0
2020	0	\$0	0	\$0	0	\$0	0	\$0
2021	166	\$236,789	7	\$12,959	9	\$6,191	182	\$255,939

# Unlocking State Lands Credit: 15-30-2380, MCA Legislation: HB 444, 2013 Session

A taxpayer is allowed a credit of \$750 for allowing recreational access across the taxpayer's property to an isolated parcel of state land or federal land managed by the U.S. Forest Service or the U.S. Bureau of Land Management. Access must be granted by a contract between the landowner and the Montana Department of Fish, Wildlife, and Parks. A taxpayer granting access across multiple parcels is limited to a maximum of \$3,000 in credits. If a property has multiple owners, they are to share a single credit for granting access. If the credit is more than the taxpayer's tax liability, the excess is to be refunded.

This credit was enacted by the 2013 Legislature and was first available for Tax Year 2014. SB 309, enacted by the 2015 Legislature, increased the maximum credit per taxpayer from \$2,000 to \$3,000 and expanded coverage to providing access to federal land. The 2017 Legislature (HB 498) extended the credit sunset date to the end of Tax Year 2027.

This credit is equivalent to an annual lease payment of \$750 for an easement across private land. The following table shows credits claimed for Tax Years 2013 through 2021. For each tax year, the number of taxpayers claiming the credit was less than 10 and could not be released.

Unlocking State Lands Credit								
TY	Residents		Nonresidents		Part-Year Residents		Total	
	#	\$	#	\$	#	\$	#	\$
2013	0	\$0	0	\$0	0	\$0	0	\$0
2014	*	\$1,086	0	\$0	0	\$0	*	\$1,086
2015	*	\$1,086	*	\$153	0	\$0	*	\$1,239
2016	*	\$1,973	0	\$0	0	\$0	*	\$1,973
2017	*	\$1,973	0	\$0	0	\$0	*	\$1,973
2018	*	\$100	0	\$0	0	\$0	*	\$100
2019	*	\$7,500	*	\$430	0	\$0	*	\$7,930
2020	*	\$2,413	*	\$286	0	\$0	*	\$2,699
2021	*	\$1,500	0	\$0	0	\$0	*	\$1,500

\*Not disclosed due to confidentiality concerns.

# Individual Income Tax Expenditures Summary

## Tax Expenditures by Income

The tables on the following pages 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 13 income groups and the number of non-residents and part-year residents. The first group contains all taxpayers with incomes less than zero. The next nine categories contain the remaining taxpayers and groups them into income deciles. The final three categories contain the final decile broken down into three equal groups based on their income. 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 Household Income Tax Year 2020 (\$ million)

Residents	Returns	Taxpayers	Total Household Income* (\$ million)		Tax (\$ million)		Passive Federal Adjustments to Income		State Adjustments to Income		Itemized Deductions		Credits		Total	
			\$ million	% of Total	\$ million	% of Total	\$ million	% of Total	\$ million	% of Total	\$ million	% of Total	\$ million	% of Total	\$ million	% of Total
Less than \$0	5,141	7,321	(\$295.20)	-0.80%	(\$1.80)	-0.10%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.50	0.30%	\$0.50	0.10%
\$0 to \$6,930	48,485	53,131	\$141.50	0.40%	(\$0.10)	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$4.20	2.80%	\$4.20	0.90%
\$6,931 to \$15,351	48,485	54,202	\$540.20	1.50%	\$2.40	0.20%	\$0.10	0.30%	\$0.60	0.70%	\$0.10	0.10%	\$2.70	1.80%	\$3.50	0.70%
\$15,352 to \$23,800	48,485	55,728	\$951.40	2.60%	\$8.80	0.60%	\$0.20	0.70%	\$3.30	4.10%	\$0.70	0.30%	\$2.20	1.40%	\$6.40	1.30%
\$23,801 to \$32,074	48,486	56,558	\$1,352.90	3.70%	\$22.00	1.50%	\$0.40	1.50%	\$6.60	8.10%	\$2.10	0.90%	\$1.80	1.20%	\$10.90	2.20%
\$32,075 to \$41,628	48,485	58,620	\$1,777.80	4.80%	\$41.70	2.80%	\$0.80	2.90%	\$8.70	10.70%	\$5.70	2.50%	\$1.50	1.00%	\$16.70	3.40%
\$41,629 to \$54,442	48,485	63,227	\$2,315.00	6.30%	\$66.70	4.50%	\$1.30	4.90%	\$9.50	11.60%	\$12.80	5.50%	\$1.70	1.10%	\$25.20	5.20%
\$54,443 to \$71,596	48,486	70,652	\$3,035.40	8.30%	\$98.70	6.70%	\$2.10	7.60%	\$10.50	12.90%	\$22.50	9.70%	\$2.50	1.70%	\$37.50	7.70%
\$71,597 to \$95,606	48,485	80,917	\$4,019.20	10.90%	\$142.80	9.70%	\$2.80	10.50%	\$12.10	14.90%	\$34.90	15.10%	\$4.30	2.90%	\$54.20	11.10%
\$95,607 to \$135,437	48,485	88,387	\$5,477.50	14.90%	\$219.70	14.90%	\$4.20	15.40%	\$12.20	15.00%	\$51.90	22.40%	\$7.20	4.80%	\$75.50	15.40%
\$135,438 to \$162,402	16,162	30,241	\$2,385.90	6.50%	\$105.60	7.20%	\$2.00	7.50%	\$4.10	5.00%	\$21.70	9.40%	\$4.20	2.80%	\$32.10	6.50%
\$162,403 to \$228,380	16,162	30,162	\$3,045.40	8.30%	\$144.30	9.80%	\$3.20	11.80%	\$3.90	4.80%	\$25.20	10.90%	\$8.40	5.60%	\$40.60	8.30%
Over \$228,380	16,162	29,871	\$9,340.80	25.40%	\$505.90	34.30%	\$8.60	31.80%	\$4.30	5.30%	\$44.10	19.10%	\$89.90	60.10%	\$147.00	30.00%
Resident Total	489,994	679,017	\$34,087.80	92.80%	\$1,356.70	91.90%	\$25.80	94.90%	\$75.70	93.10%	\$221.70	95.70%	\$131.00	87.60%	\$454.20	92.80%
Nonresidents	52,471	79,500	\$1,651.00	4.50%	\$76.10	5.20%	\$1.00	3.50%	\$3.20	3.90%	\$5.70	2.50%	\$11.20	7.50%	\$21.00	4.30%
Part-Year Residents	28,935	37,346	\$991.10	2.70%	\$42.90	2.90%	\$0.40	1.60%	\$2.40	3.00%	\$4.20	1.80%	\$7.40	4.90%	\$14.50	3.00%
<b>Total</b>	<b>571,400</b>	<b>795,863</b>	<b>\$36,729.90</b>	<b>100.00%</b>	<b>\$1,475.70</b>	<b>100.00%</b>	<b>\$27.10</b>	<b>100.00%</b>	<b>\$81.30</b>	<b>100.00%</b>	<b>\$231.60</b>	<b>100.00%</b>	<b>\$149.60</b>	<b>100.00%</b>	<b>\$489.60</b>	<b>100.00%</b>

\*Montana Source Income for Nonresidents and Part-Year Residents.

Contact the department at (406) 444-6900 for a large-print copy of this table.

# Income Tax Expenditures by Household Income Tax Year 2021 (\$ million)

Residents	Returns	Taxpayers	Total Household Income* (\$million)		Tax (\$million)		Passive Federal Adjustments to Income		State Adjustments to Income		Itemized Deductions		Credits		Total	
			\$ million	% of Total	\$ million	% of Total	\$ million	% of Total	\$ million	% of Total	\$ million	% of Total	\$ million	% of Total	\$ million	% of Total
Less than \$0	4,430	6,376	(\$179.30)	-0.40%	(\$0.60)	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.40	0.10%	\$0.40	0.10%
\$0 to \$7,075	48,747	53,362	\$174.30	0.40%	(\$0.20)	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$4.30	1.50%	\$4.30	0.70%
\$7,076 to \$14,425	48,747	54,259	\$587.20	1.30%	\$3.10	0.20%	\$0.10	0.20%	\$0.60	1.00%	\$0.10	0.10%	\$3.30	1.20%	\$4.10	0.70%
\$14,426 to \$22,229	48,748	55,833	\$1,009.40	2.30%	\$11.80	0.60%	\$0.20	0.80%	\$2.10	3.80%	\$0.70	0.30%	\$2.50	0.90%	\$5.60	0.90%
\$22,230 to \$30,337	48,747	56,813	\$1,448.70	3.20%	\$29.20	1.50%	\$0.50	1.60%	\$4.30	7.70%	\$2.20	1.00%	\$2.30	0.80%	\$9.20	1.50%
\$30,338 to \$39,890	48,748	58,966	\$1,913.80	4.30%	\$53.20	2.80%	\$0.80	2.80%	\$5.30	9.50%	\$5.80	2.60%	\$2.80	1.00%	\$14.70	2.50%
\$39,891 to \$52,892	48,747	63,884	\$2,511.80	5.60%	\$80.90	4.20%	\$1.30	4.60%	\$6.20	11.20%	\$12.30	5.50%	\$4.70	1.60%	\$24.60	4.10%
\$52,893 to \$69,960	48,747	71,622	\$3,301.50	7.40%	\$116.60	6.10%	\$2.00	7.10%	\$7.40	13.30%	\$21.00	9.30%	\$7.70	2.70%	\$38.10	6.40%
\$69,961 to \$93,530	48,748	81,986	\$4,384.90	9.80%	\$166.90	8.80%	\$2.70	9.60%	\$8.10	14.60%	\$32.50	14.40%	\$12.30	4.30%	\$55.60	9.30%
\$93,531 to \$132,009	48,747	88,331	\$6,049.10	13.60%	\$257.40	13.50%	\$4.20	14.80%	\$8.60	15.40%	\$45.90	20.40%	\$19.80	6.90%	\$78.50	13.20%
\$132,010 to \$157,989	16,249	29,911	\$2,709.40	6.10%	\$126.10	6.60%	\$2.20	7.60%	\$3.00	5.50%	\$18.90	8.40%	\$10.90	3.80%	\$35.00	5.90%
\$157,990 to \$222,025	16,249	29,745	\$3,628.40	8.10%	\$178.70	9.40%	\$3.60	12.60%	\$2.80	5.10%	\$22.20	9.90%	\$19.60	6.80%	\$48.20	8.10%
Over \$222,025	16,250	29,642	\$13,195.60	29.60%	\$703.20	36.90%	\$9.30	32.50%	\$3.00	5.30%	\$51.00	22.70%	\$164.10	57.30%	\$227.30	38.20%
Resident Total	491,904	680,730	\$40,734.90	91.30%	\$1,726.20	90.50%	\$26.90	94.30%	\$51.40	92.50%	\$212.60	94.40%	\$254.80	89.00%	\$545.70	91.60%
Nonresidents	58,150	87,183	\$2,512.70	5.60%	\$118.40	6.20%	\$1.10	4.00%	\$2.40	4.30%	\$7.90	3.50%	\$19.80	6.90%	\$31.20	5.20%
Part-Year Residents	33,395	43,442	\$1,389.40	3.10%	\$63.00	3.30%	\$0.50	1.60%	\$1.80	3.20%	\$4.60	2.10%	\$11.60	4.10%	\$18.50	3.10%
<b>Total</b>	<b>583,449</b>	<b>811,355</b>	<b>\$44,637.00</b>	<b>100.00%</b>	<b>\$1,907.60</b>	<b>100.00%</b>	<b>\$28.50</b>	<b>100.00%</b>	<b>\$55.50</b>	<b>100.00%</b>	<b>\$225.10</b>	<b>100.00%</b>	<b>\$286.20</b>	<b>100.00%</b>	<b>\$595.40</b>	<b>100.00%</b>

\*Montana Source Income for Nonresidents and Part-Year Residents.

Contact the department at (406) 444-6900 for a large-print copy of this table.

# Corporate Tax Expenditures

The 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 state law (15-31-324, MCA), corporations can choose 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. 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 687 in Tax Year 2020 and 616 in Tax Year 2019.

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 show the revenue foregone to be approximately \$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 United States
- 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 can deduct the expenses against income
- 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 analysis 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 three to four times those amounts estimated, or \$6 million to \$8 million. This estimate, which is based upon audit experience, may be conservative, as the number of water's edge filers has almost doubled over the last six years.

## Montana Deductions

### **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 percent for mobile home parks with more than 50 lots; for mobile home parks with 50 lots or fewer, the excluded gain is 100 percent.

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.

### **Deduction for Purchasing Montana-Produced Organic or Inorganic Fertilizer Produced (15-32-303, MCA)**

In addition to 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 and 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 Tax Year 1981 with the 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 for placement in the Montana Tech research library. Montana Tech may 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 percent of the actual value of the data. The deduction was established in 1999 with the passage of SB 625 and is intended to encourage the sharing of mineral exploration information.

### **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 percent of the first \$1,000 expended, 50 percent of the next \$1,000 expended, 20 percent of the third \$1,000 expended, and 10 percent 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 percent of \$1,000, plus 50 percent of \$1,000, plus 20 percent of \$1,000, plus 10 percent of \$1,000, or  $\$1,000 + \$500 + \$200 + \$100$ ).

For non-residential buildings, the taxpayer may deduct 100 percent of the first \$2,000 spent on energy conservation capital investments, 50 percent of the second \$2,000 spent, 20 percent of the third \$2,000 spent, and 10 percent of the fourth \$2,000 spent. If a corporate taxpayer invested \$4,000 in approved energy conservation measures in a non-residential building owned by the taxpayer, it could deduct \$3,000 of the expenses (100 percent of \$2,000, plus 50 percent 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 percent of \$2,000, plus 50 percent of \$2,000, plus 20 percent of \$2,000, plus 10 percent 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 Tax Year 1975 with the passage of HB 663.

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

A taxpayer may deduct an additional 10 percent 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 percent deduction permanent. The deduction originally began in 1991 with the passage of SB 111.

This deduction is the only one for which data is accessible. In the Tax Year 2020 database of corporate taxpayer returns, the total deductions claimed were \$18,707,078. At the general tax rate of 6.75 percent, this is a reduction in tax revenue of \$1,262,728.

# Montana Corporate Tax Credits

Many of these credits are also 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 individual and corporate income taxes. 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 are 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.

## 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 one megawatt
- hydroelectric generators that produce 1 megawatt or more and are installed on dams that otherwise do not produce power
- 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.

The credit was created in 1983 with the passage of HB 755 and has been repealed beginning in Tax Year 2022.

The table shows credits claimed on corporate tax returns for Tax Years 2013 through 2020.

<b>Alternative Energy Production Credit</b>		
<b>TY</b>	<b>Number of Credits Claimed</b>	<b>Total Credits Claimed</b>
2013	*	\$100
2014	0	\$0
2015	0	\$0
2016	0	\$0
2017	0	\$0
2018	0	\$0
2019	0	\$0
2020	0	\$0

*\*Not disclosed due to confidentiality concerns.*

## 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 percent 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 a gross weight of 10,000 pounds or fewer 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 credit was established in 1993 with the passage of HB 219 and has been repealed beginning in Tax Year 2022.

The table shows credits claimed on corporate tax returns for Tax Years 2013 through 2020.

<b>Alternative Fuel Motor Vehicle Conversion Credit</b>		
<b>TY</b>	<b>Number of Credits Claimed</b>	<b>Total Credits Claimed</b>
2013	*	\$379
2014	*	\$4,000
2015	*	\$1,000
2016	0	\$0
2017	0	\$0
2018	0	\$0
2019	0	\$0
2020	0	\$0

*\*Not disclosed due to confidentiality concerns.*

## Apprenticeship Credit (15-30-2357 and 39-6-109, MCA)

Individual and corporate income taxpayers are allowed a credit for employing an apprentice or veteran apprentice as a new employee in a state-registered apprenticeship training program. The credit is worth \$750 per approved apprentice or \$1,500 per approved veteran apprentice, and may only be claimed for five years per apprentice. This tax credit is effective for tax years beginning January 1, 2018, and thereafter.

The credit was established in Tax Year 2017 with the passage of HB 308.

The tables shows credits claimed on corporate tax returns for Tax Years 2017 through 2020.

<b>Apprenticeship Credit</b>		
<b>TY</b>	<b>Number of Credits Claimed</b>	<b>Total Credits Claimed</b>
2017	0	\$0
2018	*	\$3,068
2019	0	\$0
2020	*	\$18,150

*\*Not disclosed due to confidentiality concerns.*

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

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 some restrictions, including that the taxpayer's biodiesel sales must be greater than 2 percent 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.

This credit was established in Tax Year 2005 with the passage of HB 756 and has not been claimed by any corporate taxpayers in the last 8 years. This credit has been repealed, beginning with Tax Year 2022.

## 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, with the remainder going 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).

This credit was established in Tax Year 1997 with the passage of HB 434.

The table shows credits claimed on corporate tax returns for Tax Years 2013 through 2020.

<b>Charitable Endowment Credit</b>		
<b>TY</b>	<b>Number of Credits Claimed</b>	<b>Total Credits Claimed</b>
2013	26	\$50,704
2014	17	\$32,561
2015	15	\$31,436
2016	11	\$25,130
2017	11	\$26,225
2018	13	\$41,806
2019	*	\$23,756
2020	*	\$24,626

*\*Not disclosed due to confidentiality concerns.*

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

Individual and corporate taxpayers are allowed a credit equal to 10 percent 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's 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. This credit was repealed beginning in Tax Year 2022.

The table shows credits claimed on corporate tax returns for Tax Years 2013 through 2020.

<b>College Contribution Credit</b>		
<b>TY</b>	<b>Number of Credits Claimed</b>	<b>Total Credits Claimed</b>
2013	28	\$6,173
2014	31	\$19,300
2015	28	\$6,468
2016	25	\$4,898
2017	28	\$6,756
2018	12	\$2,958
2019	18	\$5,325
2020	15	\$4,971

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

Contractors are required to pay a license fee equal to 1 percent of the gross receipts from government contracts during the year for which the license is issued. The agency or prime contractor withholds the 1 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 5 years.

The table on the next page shows credits claimed on corporate tax returns for Tax Years 2013 through 2020.

<b>Contractor's Gross Receipts Credit</b>		
<b>TY</b>	<b>Number of Credits Claimed</b>	<b>Total Credits Claimed</b>
2013	103	\$613,274
2014	96	\$645,615
2015	91	\$644,922
2016	88	\$319,316
2017	83	\$940,774
2018	75	\$924,808
2019	78	\$729,854
2020	76	\$1,939,697

## **Contributions to Public and Private Schools Credit (15-31-158 and 159, MCA)**

The 2015 Legislature created a non-refundable individual and corporate income tax credit for donations made to the educational improvement account provided for in 20-9-905, MCA, for providing supplemental funding to public schools for innovative educational programs and technological deficiencies. This credit was limited to \$150 per taxpayer through Tax Year 2021 and increased to \$200,000 in Tax Year 2022. The aggregate amount of tax credits allowed was set at \$3 million for Tax Year 2016 and was reduced to \$1 million for Tax Year 2022 and \$2 million for Tax Year 2023.

The 2015 Legislature also created a non-refundable individual and corporate income tax credit for donations made to student scholarship organizations. The individual cap and total credits cap are the same as the educational improvement credit above.

These credits have not been claimed by any corporate taxpayers.

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

There are several employer costs for which dependent care credits can be claimed. If the employer provides day care services to employees' dependents or information and referral services to employees, then a credit against corporation tax can be claimed for a share of the costs. The allowed credit is 25 percent of the cost of the day care assistance, with a limit of \$1,575 per employee receiving the assistance. The day care must be provided by a licensed or registered day care provider that meets IRS requirements. The day care services cannot be part of the employee's compensation. The employer can also claim a credit on 25 percent of the cost of providing day care 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 day care facility to be used by the taxpayer's employees' dependents. The credit is the lowest of one of the following:

- 15 percent of the costs incurred
- \$2,500 times the number of dependents the facility accommodates
- \$50,000

To claim the credit, the facility must meet certain criteria. For example, it must accommodate 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 10-year period, with one-tenth of the credit claimed each year.

The credit was created in 1989 with the passage of SB 282 and was repealed beginning in Tax Year 2022.

The table shows credits claimed on corporate tax returns for Tax Years 2013 through 2020.

<b>Dependent Care Assistance Credit</b>		
<b>TY</b>	<b>Number of Credits Claimed</b>	<b>Total Credits Claimed</b>
2013	0	\$0
2014	0	\$0
2015	0	\$0
2016	0	\$0
2017	0	\$0
2018	0	\$0
2019	*	\$22,111
2020	*	\$42,525

*\*Not disclosed due to confidentiality concerns.*

## **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 credit was created in Tax Year 2003 with the passage of SB 484 and has not been claimed by any corporate taxpayers in the last 8 years. This credit was repealed beginning in Tax Year 2022.

## 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). This credit has been repealed beginning in Tax Year 2022.

The table shows credits claimed on corporate tax returns for Tax Years 2013 through 2020.

<b>Geothermal System Credit</b>		
<b>TY</b>	<b>Number of Credits Claimed</b>	<b>Total Credits Claimed</b>
2013	*	\$1,500
2014	0	\$0
2015	0	\$0
2016	0	\$0
2017	0	\$0
2018	*	\$50
2019	*	\$50
2020	*	\$50

*\*Not disclosed due to confidentiality concerns.*

## 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 non-refundable 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 pro-rated by the same percentage share.

The credit is subject to many restrictions, including that the credit may not exceed 50 percent of the total premium for each employee, 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 credit was established in 1989 with the passage of HB 166 and was repealed beginning in Tax Year 2022.

The table shows credits claimed on corporate tax returns for Tax Years 2013 through 2020.

<b>Health Insurance for Uninsured Montanans Credit</b>		
<b>TY</b>	<b>Number of Credits Claimed</b>	<b>Total Credits Claimed</b>
2013	15	\$11,741
2014	*	\$5,581
2015	*	\$5,750
2016	*	\$350
2017	*	\$68
2018	*	\$50
2019	*	\$900
2020	*	\$2,810

*\*Not disclosed due to confidentiality concerns.*

## 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 in Montana. The credit is 25 percent of the federal credit allowed by 26 U.S.C. 47. The federal credit is 20 percent of the rehabilitation cost of a building certified as having historic significance, or 10 percent 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 credits 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 credit was created in Tax Year 1997 with the passage of HB 601.

The table shows credits claimed on corporate tax returns for Tax Years 2013 through 2020.

<b>Historic Property Preservation Credit</b>		
<b>TY</b>	<b>Number of Credits Claimed</b>	<b>Total Credits Claimed</b>
2013	0	\$0
2014	*	\$85,520
2015	*	\$374,586
2016	*	\$39,653
2017	*	\$50
2018	*	\$50
2019	*	\$53
2020	*	\$50

*\*Not disclosed due to confidentiality concerns.*

## 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 fee it pays.

The total 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 credit was created in Tax Year 1995 with the passage of SB 100 and HB 602.

The table shows credits claimed on corporate tax returns for Tax Years 2013 through 2020.

<b>Infrastructure Users Fee Credit</b>		
<b>TY</b>	<b>Number of Credits Claimed</b>	<b>Total Credits Claimed</b>
2013	*	\$472,732
2014	*	\$741,261
2015	*	\$1,676,702
2016	*	\$706,524
2017	*	\$276,976
2018	12	\$579,462
2019	12	\$264,738
2020	11	\$398,786

*\*Not disclosed due to confidentiality concerns.*

## Media Production Credit (15-31-1001 through 1012, MCA)

The 2019 Legislature created the Montana Economic Development Industry Advancement Act, which provides a tax credit of up to 35 percent of total spending in Montana for media productions within the state. The total credit amount started at \$10 million per year in Tax Year 2019 and was increased to \$12 million per year by the 2021 Legislature. These transferable tax credits are sold by the productions to Montana taxpayers for 85 percent of the credit value.

The table shows credits claimed on corporate tax returns for Tax Years 2019 and 2020.

<b>Media Production Credit</b>		
<b>TY</b>	<b>Number of Credits Claimed</b>	<b>Total Credits Claimed</b>
2018	0	\$0
2019	0	\$0
2020	*	\$5,533,471

*\*Not disclosed due to confidentiality concerns.*

## 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 begins. The credit can be carried forward for 15 years.

The credit was created in Tax Year 1999 with the passage of SB 625 and was repealed beginning in Tax Year 2022.

The table shows credits claimed on corporate tax returns for Tax Years 2013 through 2020.

<b>Mineral Exploration Credit</b>		
<b>Year</b>	<b>Number of Credits Claimed</b>	<b>Total Credits Claimed</b>
2013	*	\$534
2014	*	\$25
2015	*	\$25
2016	*	\$25
2017	*	\$25
2018	*	\$25
2019	*	\$25
2020	*	\$25

*\*Not disclosed due to confidentiality concerns.*

## New and 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 in Montana for the first time.

The credit was created in Tax Year 1975 with the passage of HB 593 and was repealed beginning in Tax Year 2022.

The table shows credits claimed on corporate tax returns for Tax Years 2013 through 2020.

<b>New and Expanded Industry Credit</b>		
<b>Year</b>	<b>Number of Credits Claimed</b>	<b>Total Credits Claimed</b>
2013	0	\$0
2014	*	\$4,221
2015	*	\$2,465
2016	*	\$872
2017	0	\$0
2018	0	\$0
2019	*	\$2,447
2020	0	\$0

*\*Not disclosed due to confidentiality concerns.*

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

Taxpayers are allowed a credit against individual income tax or corporation tax of 15 percent of the costs of investments in depreciable property in Montana that is used primarily for crushing oilseeds for producing biodiesel or lubricants, or to produce 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 several restrictions, including how the credit can be carried forward. Total credits claimed may not exceed \$500,000 and use of the depreciable property for which the credit has been claimed must have begun by Tax Year 2015 for 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 from January 1, 2010, to January 1, 2015
- allowed the credit to apply to bio-lubricants too
- allowed the credit to be claimed on investment in the two tax years prior to when the equipment is used in production

This credit has not been claimed by any corporate taxpayers in the last 8 years, and was repealed beginning in Tax Year 2022.

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

Taxpayers may receive a non-refundable tax credit for increases in qualified research expense and basic research payments for research conducted in Montana. The amount of the credit is determined under Section 41 of the IRC, 26 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 credit was created in Tax Year 1999 with the passage of HB 638 and was repealed beginning in Tax Year 2022.

The table shows credits claimed on corporate tax returns for Tax Years 2013 through 2020.

<b>Qualified Research Credit</b>		
<b>Year</b>	<b>Number of Credits Claimed</b>	<b>Total Credits Claimed</b>
2013	*	\$16,264
2014	*	\$1,627
2015	*	\$300
2016	*	\$223
2017	*	\$150
2018	*	\$100
2019	*	\$100
2020	0	\$0

*\*Not disclosed due to confidentiality concerns.*

## Recycling Credit (15-32-601-611, 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 percent 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, the taxpayer can claim a credit of \$62,500. The credit was to end December 31, 2011, but the 2009 Legislature made the credit permanent (HB 21). An asterisk in the table indicates fewer than 10 corporate taxpayers claimed this credit.

The credit was originally established in Tax Year 1991 by SB 111.

The table shows credits claimed on corporate tax returns for Tax Years 2013 through 2020.

<b>Recycling Credit</b>		
<b>Year</b>	<b>Number of Credits Claimed</b>	<b>Total Credits Claimed</b>
2013	*	\$40,379
2014	*	\$114,755
2015	*	\$20,777
2016	*	\$7,605
2017	*	\$12,982
2018	*	\$38,176
2019	*	\$38,232
2020	*	\$132,349

*\*Not disclosed due to confidentiality concerns.*

## **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 2015 Legislature expanded the statutory definition to include families as well as individuals (SB 175). The tax credit is equal to \$30 for each day of lodging provided, limited to a maximum of five nights of lodging for everyone each year. The individuals must be referred to the lodging establishment by a designated charitable organization. The credit may be claimed only for lodging provided in Montana.

The credit may not be claimed if the individual is displaced by a major disaster declared by the President under federal law (42 U.S.C. 5170 or 5191) and financial assistance for temporary housing assistance is available.

This credit has not been claimed by any corporate taxpayers and was repealed beginning in Tax Year 2022.

## **Unlocking Public Lands Credit (15-30-2380, MCA)**

The 2013 Legislature created a refundable individual and corporate income tax credit for taxpayers that provide access to state land. The 2015 Legislature expanded the credit to those providing public access to any public land and increased the credit amount. The tax credit is equal to \$750 for each qualified access to public land that is provided. The maximum credit a taxpayer may claim in a year is \$3,000.

This credit has not been claimed by any corporate taxpayers.

# Corporate Tax Expenditures - Passive Expenditures

## 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, 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, FYs 2021 and 2022

	FY 2021	FY 2022
<b>Exemptions</b>		
Deferral of income from controlled foreign corporations (normal tax method)	\$6,954,733	\$7,226,579
Deferred taxes for financial firms on certain income earned overseas	\$1,598,715	\$1,804,218
Expensing research and experimentation expenditures	\$847,901	(\$2,839,822)
Exclusion of interest on life insurance savings	\$213,593	\$220,066
Excess of percentage over cost depletion, fuels	\$84,143	\$88,997
Exemption of certain mutuals' and cooperatives' income	\$16,181	\$16,181
Exemption of credit union income	\$256,798	\$284,144
Deferral of gain on sale of farm refiners	\$2,427	\$2,427
Deferral of tax on shipping companies	\$1,618	\$1,618
<b>Deductions</b>		
Accelerated depreciation of machinery and equipment (normal tax method)	\$3,430,441	\$3,145,649
Accelerated depreciation on rental housing (normal tax method)	\$223,302	\$239,484
Deductibility of charitable contributions (education)	\$100,324	\$106,797
Empowerment zones, Enterprise communities, and Renewal communities	\$3,236	\$1,618
Expensing of exploration and development costs, fuels	\$32,363	\$22,654
Expensing of certain multiperiod production costs for farmers	\$1,618	\$1,618
Expensing of certain small investments (normal tax method)	\$6,473	\$12,945
Expensing of exploration and development costs, nonfuel minerals	\$1,618	\$1,618
Expensing of research and experimentation expenditures (normal tax method)	\$847,901	(\$2,839,822)
<b>Other</b>		
Special alternative tax on small property and casualty insurance companies	\$21,036	\$21,036
Special ESOP rules	\$334,953	\$351,135
Special rules for certain film and TV production	\$0	\$0
Tax incentives for preservation of historic structures	\$88,997	\$87,379

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 Executive Budget. The Montana estimates were developed using the ratio of total income subject to tax and total income tax before credits for Montana and federal taxes. Total income subject to tax and total income tax comes from [www.irs.gov](http://www.irs.gov), SOI tax statistics, total returns of active corporations, and from Montana data.

# Property Tax Expenditures

## 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 government budgeting procedures. This law 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 major property tax programs that target homeowners: The Property Tax Assistance Program (PTAP), the Montana Disabled Veterans (MDV) Program, and the Land Value Property Tax Assistance Program.

The Elderly Homeowner/Renter Credit is a 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): 15-6-305, 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 Tax Year 2022, homeowners must report a household income below \$23,385 for one qualified homeowner and below \$31,181 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 \$200,000 of the taxable market value of residential improvements and residential land.

The table below shows that, in Tax Year 2022, there were 21,527 property taxpayers who qualified for PTAP. This program reduced the taxable value of these properties by \$28.007 million, which reduced the state revenue collected by \$2.845 million from the 95 school mills, 1.5 vo-tech mills, and the 6 university mills. Additionally, the reduction in taxable value increased local mills, effectively shifting \$15.293 million in taxes to other taxpayers.

In Tax Year 2022, PTAP participants paid a total of \$18.138 million less that they would have otherwise paid in taxes, an average benefit of \$843 per participant.

## Property Tax Expenditures - PTAP

<b>Tax Year</b>	<b>Participants</b>	<b>Reduction in Taxable Value</b>	<b>Loss in State Revenue</b>	<b>Tax Shifts</b>	<b>Total Tax Benefit to Participants</b>	<b>Avg. Tax Benefit</b>
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
2009	10,716	\$10,088,764	\$1,024,553	\$4,715,210	\$5,739,763	\$536
2010	11,583	\$10,691,795	\$1,086,019	\$5,139,997	\$6,226,016	\$538
2011	13,115	\$11,925,684	\$1,211,511	\$5,769,721	\$6,981,233	\$532
2012	14,013	\$13,130,717	\$1,333,840	\$6,450,295	\$7,784,135	\$555
2013	18,302	\$17,035,076	\$1,730,774	\$8,604,113	\$10,334,886	\$565
2014	19,446	\$18,075,495	\$1,836,544	\$9,333,585	\$11,170,129	\$574
2015	20,397	\$20,491,472	\$2,082,193	\$10,828,944	\$12,911,136	\$633
2016	22,551	\$22,768,947	\$2,313,681	\$12,278,536	\$14,592,217	\$647
2017	22,381	\$24,404,373	\$2,479,756	\$13,622,589	\$16,102,346	\$719
2018	23,021	\$25,488,134	\$2,589,729	\$14,603,900	\$17,193,630	\$747
2019	23,479	\$27,615,293	\$2,805,878	\$15,482,499	\$18,288,377	\$779
2020	22,650	\$27,696,111	\$2,814,211	\$15,725,362	\$18,539,573	\$819
2021	22,474	\$29,075,913	\$2,954,368	\$15,604,819	\$18,559,187	\$826
2022	21,527	\$28,007,306	\$2,845,918	\$15,292,524	\$18,138,442	\$843

# Montana Disabled Veterans (MDV) Program: 15-6-311, MCA Legislation: HB 213, 1979 Session

The Montana Disabled Veterans (MDV) Program reduces property taxes for disabled veterans. 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 MDV benefits as well.

The table below shows that, in Tax Year 2022, there were 3,028 property taxpayers who qualified for MDV. This reduced the taxable value of these properties by \$9.573 million, which reduced the state revenue collected by \$972,630 from 95 school equalization mills, 1.5 vo-tech mills, and the 6 university mills. The reduction in taxable value increased the local mills, effectively shifting \$4.971 million to other taxpayers.

In Tax Year 2022, participants of MDV paid \$5.943 million less in taxes because of this program, an average benefit of \$1,963.

## Property Tax Expenditures - 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	\$3,768,883	\$383,125	\$1,711,423	\$2,094,548	\$1,275
2010	1,800	\$4,001,902	\$406,865	\$1,904,963	\$2,311,828	\$1,284
2011	2,037	\$4,061,664	\$412,888	\$1,937,029	\$2,349,917	\$1,154
2012	2,095	\$4,230,522	\$429,951	\$2,024,742	\$2,454,693	\$1,172
2013	2,147	\$4,413,666	\$448,579	\$2,156,731	\$2,605,310	\$1,213
2014	2,199	\$4,562,601	\$463,708	\$2,268,044	\$2,731,752	\$1,242
2015	2,103	\$4,916,616	\$499,854	\$2,495,371	\$2,995,225	\$1,424
2016	2,383	\$5,324,319	\$541,332	\$2,764,896	\$3,306,227	\$1,387
2017	2,427	\$5,920,080	\$601,769	\$3,176,103	\$3,777,872	\$1,557
2018	2,567	\$6,370,030	\$647,417	\$3,528,561	\$4,175,978	\$1,627
2019	2,660	\$7,266,634	\$738,592	\$3,937,860	\$4,676,452	\$1,758
2020	2,824	\$7,944,119	\$807,196	\$4,315,708	\$5,122,904	\$1,814
2021	2,960	\$9,361,039	\$950,985	\$4,778,511	\$5,729,496	\$1,936
2022	3,028	\$9,573,247	\$972,630	\$4,970,760	\$5,943,390	\$1,963

# Land Value Property Tax Assistance Program: 15-6-240, MCA Legislation: SB 94, 2017 Session

The Land Value Property Tax Assistance Program helps residential property owners if the value of their land is disproportionately higher than the value of their home or other buildings on their land, and the land has been in their family for at least 30 years. The benefit applies to the portion of the property owner's land value that is more than 150 percent of the department's appraised market value of the home and other improvements located on the land, effectively capping the value of the property owners land to 150 percent of the Improvement value. The benefit applies to a maximum of five acres, although there is no maximum on the tax benefit of this program, nor is there an income qualification.

The table below provides some summary data on the properties that received assistance under this program. In Tax Year 2022, there were 166 participants. The reduction in taxable value was equal to \$703,290. The reduction in state taxes was equal to \$71,092. The shift in tax burden to other taxpayers was equal to \$294,711.

## Land Value Property Tax Assistance Program Exemption Tax Expenditure Tax Year 2020 to Tax Year 2022

TY	Exempted Taxable Value	Loss in State Revenue	Tax Shift	Benefit to Participants	Participants	Average Benefit
2020	\$690,142	\$69,748	\$328,471	\$398,219	152	\$2,620
2021	\$663,594	\$67,081	\$281,932	\$349,013	151	\$2,311
2022	\$703,290	\$71,092	\$294,711	\$365,803	166	\$2,204

TY	Market Value of Properties			Associated Tax Savings		
	Min	Median	Max	Min	Median	Max
2020	\$58,346	\$756,390	\$3,197,290	\$37	\$1,756	\$14,891
2021	\$91,929	\$766,610	\$3,372,100	\$16	\$1,564	\$15,386
2022	\$70,485	\$723,138	\$3,372,100	\$19	\$1,540	\$14,832

# 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 Legislation: HB 3, May 2007 Special Session

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 for the first 15 years after the facility begins operation, up to 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 Tax Year 2022, approximately \$236.551 million in market value was reported in this program, providing for an abatement of approximately \$1.347 million in taxes. Approximately \$330,900 of this amount is a reduction in state revenue; the remaining amount was shifted to other taxpayers.

### Energy Production or Development State and Local Tax Abatement

TY	Market Value	Reduction in Taxable Value	Loss in State Revenue	Tax Shifts	Total Tax Benefit to Participants
2012	\$64,844,968	\$972,675	\$98,466	\$463,966	\$562,432
2013	\$176,656,421	\$2,649,846	\$268,027	\$1,137,804	\$1,405,831
2014	\$240,744,779	\$3,611,173	\$365,159	\$1,556,291	\$1,921,449
2015	\$292,397,489	\$4,252,907	\$429,985	\$1,450,428	\$1,880,413
2016	\$265,608,525	\$3,984,127	\$402,397	\$1,533,187	\$1,935,584
2017	\$311,476,994	\$4,352,038	\$439,556	\$1,641,084	\$2,080,640
2018	\$270,122,970	\$3,793,800	\$383,174	\$1,491,642	\$1,874,816
2019	\$264,778,742	\$3,652,952	\$368,948	\$1,445,754	\$1,814,703
2020	\$168,989,059	\$2,214,106	\$223,625	\$763,286	\$986,911
2021	\$163,009,772	\$2,148,898	\$217,171	\$774,672	\$991,843
2022	\$236,551,136	\$3,274,652	\$330,900	\$1,015,684	\$1,346,584

## **Tax Increment Finance Districts: 7-15-4282, MCA Legislation: HB 193, 1974 Session**

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 district, 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 TIF districts, please refer to the property tax chapter of this report.

The TIF increment value is the amount of taxable value of a TIF district less the taxable value when it was formed. All local and state mills are levied against the TIF increment value and the TIF district retains this revenue, except for the 6 university mills.

The state only receives revenue for mills levied against TIF increment value from the 6 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 district can lead to increases in property taxes relative to what the mills would have been without the TIF district for taxpayers located inside and outside the TIF.

Development within a TIF district may necessitate an increase of services by local jurisdictions, whether they are school districts, 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 district.

If development is intended inside a proposed TIF district, but the improvement does not occur before the TIF base is determined, the TIF district may collect revenue that might 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 2022. In Tax Year 2022, the amount of TIF revenue that came from the 95 state education equalization mills and 1.5 vo-tech mills was \$6.988 million.

## TIF Districts - Revenue Generated by Mill Type

TY	Increment	Revenue From Statewide Mills	Revenue From County Mills	Revenue From School Mills	Revenue from City Mills	Revenue From Misc. Mills	Total 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
2015	\$50,785,821	\$4,871,444	\$9,031,894	\$12,909,760	\$5,823,421	\$1,498,020	\$34,134,539
2016	\$52,929,104	\$5,069,499	\$13,090,100	\$10,221,322	\$5,369,837	\$1,618,956	\$35,369,714
2017	\$58,171,093	\$5,571,918	\$10,688,524	\$14,728,273	\$6,639,817	\$2,245,574	\$39,874,104
2018	\$54,926,982	\$5,258,806	\$10,385,468	\$15,769,712	\$6,436,009	\$1,561,221	\$39,411,215
2019	\$72,989,242	\$6,993,062	\$13,560,838	\$20,471,046	\$8,999,505	\$2,408,196	\$52,432,647
2020	\$58,056,977	\$5,571,216	\$11,589,572	\$16,410,663	\$8,042,248	\$1,354,510	\$42,968,208
2021	\$67,214,436	\$6,859,036	\$12,563,265	\$17,320,044	\$9,522,703	\$1,793,353	\$48,058,402
2022	\$68,492,578	\$6,988,183	\$12,563,179	\$18,112,880	\$11,371,706	\$1,969,117	\$51,005,064

# Centrally Assessed Tax Expenditures

The next type of property tax deals with the way Centrally Assessed Properties are valued relative to locally assessed properties.

## **Intangible Personal Property (IPP) Exemption Legislation: SB 111, 1999 Session**

Montana is a unit value state, which means a total unit value of a centrally assessed company is determined, and the relevant portion of the total value is allocated to Montana, using an apportionment formula for property tax purposes. The Montana unit value includes both tangible and Intangible Personal Property (IPP). Since centrally assessed companies are valued as a whole unit and not as a sum of each individual part, the value of IPP must be excluded from the unit value.

Intangible personal property can be exempt Class 8 personal property, or exempt personal property owned by a centrally assessed company. The concept of intangible personal property is not easily grasped as it lacks a physical presence and cannot be seen or touched. IPP is statutorily defined in 15-6-218, MCA.

Unfortunately, these definitions can be ambiguous. In some instances, the statute very clearly defines IPP. Certificates of stock, bonds, promissory notes, licenses, copyrights, patents, trademarks, contracts, software, and franchises are all specifically defined as IPP. However, IPP is also defined as the following more nebulous descriptions: goodwill, property that "has no intrinsic value but is representative of value," or property that "lacks a physical presence."

The department excludes IPP by automatically granting each company a percentage reduction to account for the inclusion of IPP in the unit value. However, a company may claim a larger reduction if it can prove that the value of IPP is greater than the default percentage provided by rule. The fiscal impact of exempting intangible personal property is estimated by calculating the taxable value decrease caused by exempting IPP market value from centrally assessed companies. This decrease is the difference between the taxable value under current law and the taxable value that would exist in the absence of the IPP exemption.

The following table displays the market value of exempt IPP, the impact the exemption has on taxable value, the impact on statewide property taxes, and the estimated amount of tax revenue shifted to local tax taxpayers. In Tax Year 2022, it is estimated state property tax revenues would have been \$18.386 million higher if there was no IPP exemption.

## Intangible Personal Property Exemption State and Local Tax Effects

<b>TY</b>	<b>Exempt Market Value</b>	<b>Reduction in Taxable Value</b>	<b>Loss in State Revenue</b>	<b>Tax Shifts</b>	<b>Total Tax Benefit to Centrally Assessed Companies</b>
2012	\$1,694,045,680	\$106,005,997	\$10,774,142	\$46,527,597	\$57,301,739
2013	\$1,883,034,088	\$117,423,302	\$11,934,115	\$53,480,744	\$65,414,859
2014	\$1,777,563,764	\$112,421,730	\$11,420,628	\$51,779,273	\$63,199,901
2015	\$1,864,874,318	\$116,341,728	\$11,818,446	\$53,397,311	\$65,215,756
2016	\$1,738,771,588	\$111,478,545	\$11,322,582	\$51,124,671	\$62,447,253
2017	\$2,445,472,074	\$154,291,592	\$15,680,073	\$77,326,355	\$93,006,427
2018	\$2,447,543,291	\$153,466,984	\$15,595,004	\$80,224,603	\$95,819,607
2019	\$2,390,922,811	\$151,032,836	\$15,346,013	\$76,664,770	\$92,010,783
2020	\$2,485,862,974	\$157,320,301	\$15,984,335	\$80,955,489	\$96,939,825
2021	\$2,753,790,896	\$172,465,976	\$17,530,867	\$90,403,847	\$107,934,714
2022	\$2,891,328,678	\$180,922,800	\$18,386,332	\$89,960,419	\$108,346,751

## **Generally Exempt Property: 15-6-201 to 15-6-242, MCA Legislation: N/A**

Certain property may qualify for a reduced taxable value. This can be a direct reduction or a reduction of assessed value. In addition, Montana does not tax certain types of property or organizations.

For example, Montana exempts the following from property taxation:

- real property owned by federal, state, and local governments
- public libraries
- irrigation districts not operated for gain or profit
- property owned by municipal corporations, fire districts, and some volunteer fire departments
- property owned by a federally recognized tribe located within the boundaries of the reservation and used for essential governmental services

Montana also recognizes the tax-exempt status of the following organizations:

- church property used for religious worship, clergy residence, or educational or youth recreational activities open to the public
- nonprofit agricultural or horticultural societies
- organizations with specific educational facilities
- low-income housing nonprofits; organizations with nonprofit health care facilities
- cemeteries
- public charities
- public museums, art galleries, zoos, or observatories operating as not-for-profit
- nonprofits that lease railroad right-of-way land for less than \$100 per year
- landowners with land within 660 feet on either side of qualifying transmission right-of-way constructed after January 1, 2007
- organizations with a nonprofit veterans' clubhouse
- organizations with nonprofit facilities used in international sports and athletic event competitions or used in training and practicing for such competitions
- nonprofits organized to furnish potable water to its members (other than for agricultural irrigation)
- nonprofits caring for the developmentally disabled, the mentally ill, the vocationally handicapped, the retired, aged, or chronically ill

Some personal property is specifically exempt from property taxation including:

- the first \$300,000 of Class 8 business equipment
- freeport merchandise and business inventories
- agricultural irrigation systems livestock and the unprocessed products of livestock
- livestock that is subject to a per capita fee
- producer-held grain in storage; unprocessed agricultural products
- poultry and the unprocessed products of poultry
- bees and the unprocessed products of bees
- biological control insects
- some sugar beet equipment
- agricultural implements and machinery worth less than \$100
- down-hole equipment in oil and gas wells
- certain motion picture and television property
- intangible personal property, including software
- harness, saddles, and other tack
- the first \$15,000 or less of handheld tools
- household goods and furniture
- bicycles used for personal use
- personal property intended for rent or lease if it meets specific conditions
- space vehicles and all associated equipment
- title plane owned by a title insurer
- business equipment used in the manufacture of ammunition components
- machinery and equipment used in a canola seed
- oil processing facility, malting barley facility, industrial dairy or milk processing, or in the production of ethanol from grain in the first 10 years
- small electrical generation equipment with a nameplate capacity of less than 1 megawatt
- property subject to registration fees
- certain low-value mobile homes

Some property is contained in the property tax system, such as property owned by a governmental entity, and the tax impact of exempting this property can therefore be estimated. Other types of property are not reported, so the tax impact of exempting these properties cannot be accurately estimated. An example of this would be Class 8 property owners who don't report the value of their business equipment property under \$300,000.

The table below shows the tax impact of some of the property tax exemptions that could be estimated in the property tax database. However, this is an underestimate, as the tax impact cannot be estimated for all types of exempt property.

## TY 2022 Estimated Tax Expenditures for Generally Exempt Property

Exemption Type	Properties	Market Value	Tax Shift	Tax Expenditure
Governmental Exemptions	35,601	12,752,857,136	90,073,678	17,019,160
Non-Profit Health Care	483	1,786,663,883	21,101,156	3,434,566
Religious Exemptions	7,125	1,577,252,181	16,816,562	2,946,607
Charitable Exemptions	1,099	702,617,946	7,646,223	1,312,914
Low Income Housing	401	568,692,238	6,568,646	1,085,530
Educational Exemptions	208	499,104,489	5,769,792	921,399
Developmentally Disabled Org/ Mentally Impaired	339	147,548,564	1,666,077	263,342
Retired/Aged/Chronically Ill	67	142,830,634	1,752,241	273,744
Community Service Building/ Fraternal	321	119,494,075	1,340,086	228,258
Low Value Mobile Home	13,140	86,272,895	615,019	118,263
Art Galleries/Observatories/Zoos/ Museums	106	68,684,234	700,547	130,029
Veteran's Clubhouse	90	22,863,317	251,285	42,830
Cemetery, Mausoleums, Crematories	174	22,096,277	240,954	41,172
Non-Profit Water Association	68	9,830,469	83,699	18,032
Natural Disaster	101	5,253,401	32,627	7,432
Horticulture/Agricultural Societies	3	3,395,057	32,142	6,379
Non-Profit International Athletic Facility	1	397,481	4,534	759
Historic Abatement	3	301,530	3,074	576
Missing	733	135,544,774	1,303,222	242,784
<b>Total</b>	<b>60,063</b>	<b>18,651,700,581</b>	<b>156,001,562</b>	<b>28,093,774</b>

## **New Fiber Optic and Coaxial Cable Exemption: 15-6-135, MCA; 15-6-156, MCA; 15-6-219, MCA Legislation: SB 51, 2021 Session**

Certain new fiber optic and coaxial cables are exempt from property taxation for the first five years; taxation will then phase in at 20 percent a year for the next five years until they are taxed at the normal rate in year ten. To receive and maintain the exemption, the company must reinvest the tax savings from the exemption into the installation of new fiber optic or coaxial cable within two years, and not use federal funds received pursuant to the federal American Rescue Plan Act. There is an annual reporting requirement with the Department of Revenue for companies claiming this exemption.

The fiscal impact of exempting new fiber optic and coaxial cables is estimated by calculating the reduction in taxable value resulting from the exemption. The table below contains the market value of exempt cable, the ensuing decrease in taxable value, the loss in state revenue, and the estimated amount shifted to local taxpayers. Tax Year 2022 is the first year impacted by this tax expenditure.

### **New Fiber Optic and Coaxial Cable Exemption State and Local Tax Effects**

<b>TY</b>	<b>Exempt Market Value</b>	<b>Reduction in Taxable Value</b>	<b>Loss in State Revenue</b>	<b>Tax Shifts</b>	<b>Total Tax Benefits to Communications Companies</b>
2022	\$20,159,589	\$604,788	\$61,180	\$299,022	\$360,202

# Natural Resource Tax Expenditures

## Oil and Gas Tax Expenditures

There are many tax rates for production from oil and natural gas wells, depending on the type of well, when it was drilled, and whether the production is owned by working interest or royalty owners.

The following tax expenditures only apply to working interest owners; the tax rate on royalties is always 15.1 percent. When this section refers to the “regular rate” for oil, that implies a tax rate of 9.3 percent for post-1999 oil wells, or 12.8 percent for pre-1999 oil wells. The “regular rate” for natural gas is 9.3 percent for post-99 gas wells, or 15.1 percent for pre-1999 gas wells.

Estimated expenditures are summarized in a table at the end of this section.

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

Oil and gas produced from a well that qualifies as “new” production are taxed at a reduced rate of 0.8 percent. This reduced rate applies for the first 12 months of production from a conventional vertical well and the first 18 months of production from a horizontally completed well.

New production includes production from new wells, as well as from existing 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 5.8 percent. After this period, the tax rate reverts to the regular rate.

There has been no production reported from horizontally recompleted oil wells since FY 2012.

### **Reduced Rates for Incremental Oil Production from Enhanced Recovery Projects** **Code: 15-36-304, MCA** **Legislation: HB 636, 1985 Session; SB 28, 2019 Session**

Incremental production (excess production generated by an enhanced recovery project) receives preferential tax rates. In any quarter when the average price of West Texas Intermediate (WTI) crude oil is less than \$54 per barrel, incremental production from secondary recovery projects is taxed at 8.8 percent. Otherwise, these wells are taxed at the regular rate.

Incremental production from tertiary recovery projects is always taxed at 6.1 percent. See 15-36-303, MCA, for the definitions and differences between secondary and tertiary recovery projects. These reduced rates provide incentive to keep existing wells open by subsidizing the cost of increasing their productive capacity.

## 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; HB 411, 2015 Session**

In any quarter when the average price received by the well operator is less than \$54 per barrel of crude oil, oil from wells on leases that produce less than 3 barrels per well per day is taxed at 0.8 percent (stripper exemption). If the price received is equal to or greater than \$54 per barrel, this oil is taxed at 6.3 percent.

In any quarter that the average price received by the producer is less than \$30 per barrel, wells drilled on or after January 1, 1999 that produce between 3 and 15 barrels per well per day are classified as stripper wells and are taxed at 5.8 percent on the first 10 barrels. If applicable, barrels 11 through 15 are taxed at the regular rate. If the average price received by the producer is at least \$30 per barrel, post-1999 stripper wells are taxed at the regular rate.

For wells drilled before 1999, the criteria for stripper well classification differs slightly. Pre-1999 oil wells that produce between 3 and 10 barrels per well per day, regardless of the average price received, are classified as stripper wells and are taxed at 9.5 percent. The reduced rates on stripper exemption and stripper oil provide an incentive to keep low-volume wells in production.

## 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 11.3 percent. The reduced rate for stripper gas wells provides an incentive to keep low-volume wells in production.

## Oil and Natural Gas Severance Tax Expenditures

<b>Natural Gas: New Production Tax Holiday</b>						
<b>Fiscal Year</b>	<b>Working Interest Value</b>	<b>Actual Tax Rate</b>	<b>Tax Revenue</b>	<b>Normal Tax Rate</b>	<b>Normal Tax Revenue</b>	<b>Tax Expenditure</b>
2018	\$1,542,607	0.800%	\$12,341	9.300%	\$143,462	\$131,122
2019	\$5,124,041	0.800%	\$40,992	9.300%	\$476,536	\$435,543
2020	\$2,736,537	0.800%	\$21,892	9.300%	\$254,498	\$232,606
2021	\$1,978,145	0.800%	\$15,825	9.300%	\$183,967	\$168,142
2022	\$4,350,072	0.800%	\$34,801	9.300%	\$404,557	\$369,756

### Natural Gas: 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
2018	\$9,532,877	11.300%	\$1,077,216	15.100%	\$1,439,464	\$362,249
2019	\$9,185,609	11.300%	\$1,037,974	15.100%	\$1,387,027	\$349,053
2020	\$7,009,932	11.300%	\$792,122	15.100%	\$1,058,500	\$266,377
2021	\$11,994,832	11.300%	\$1,355,416	15.100%	\$1,811,220	\$455,803
2022	\$15,146,522	11.300%	\$1,711,557	15.100%	\$2,287,125	\$575,567

### Oil: New Production Tax Holiday

Fiscal Year	Working Interest Value	Actual Tax Rate	Tax Revenue	Normal Tax Rate	Normal Tax Revenue	Tax Expenditure
2018	\$29,850,102	0.800%	\$238,801	9.300%	\$2,776,060	\$2,537,259
2019	\$201,183,177	0.800%	\$1,609,465	9.300%	\$18,710,035	\$17,100,570
2020	\$148,706,257	0.800%	\$1,189,650	9.300%	\$13,829,682	\$12,640,032
2021	\$84,746,206	0.800%	\$677,970	9.300%	\$7,881,397	\$7,203,428
2022	\$144,010,262	0.800%	\$1,152,082	9.300%	\$13,392,954	\$12,240,872

### Oil: Incremental Production

Fiscal Year	Working Interest Value	Actual Tax Rate	Tax Revenue	Normal Tax Rate	Normal Tax Revenue	Tax Expenditure
2018	\$0	5.800%	\$0	9.300%	\$0	\$0
2019	\$0	6.100%	\$0	9.300%	\$0	\$0
2020	\$18,870,988	6.100%	\$1,151,130	9.300%	\$1,755,002	\$603,872
2021	\$21,288,739	6.100%	\$1,298,613	9.300%	\$1,979,853	\$681,240
2022	\$0	6.100%	\$0	9.300%	\$0	\$0

### Oil: Stripper Well Production

Fiscal Year	Working Interest Value	Actual Tax Rate	Tax Revenue	Normal Tax Rate	Normal Tax Revenue	Tax Expenditure
2018	\$21,519,867	4.904%	\$1,055,394	9.300%	\$2,001,348	\$945,954
2019	\$23,569,091	6.300%	\$1,484,853	9.300%	\$2,191,925	\$707,072
2020	\$21,540,485	1.351%	\$290,929	9.300%	\$2,003,265	\$1,712,336
2021	\$21,368,574	2.792%	\$596,592	9.300%	\$1,987,277	\$1,390,685
2022	\$30,833,673	5.963%	\$1,838,490	9.300%	\$2,286,532	\$1,029,042

<b>Sum</b>			
<b>Fiscal Year</b>	<b>Natural Gas Expenditures</b>	<b>Oil Tax Expenditures</b>	<b>Oil and Natural Gas Tax Expenditures</b>
2018	\$493,371	\$3,483,213	\$3,976,583
2019	\$784,596	\$17,807,642	\$18,592,238
2020	\$498,983	\$14,956,239	\$15,455,222
2021	\$623,946	\$9,275,352	\$9,899,298
2022	\$945,324	\$13,269,914	\$14,215,237