

# TAX STRUCTURE AND TRENDS

## BIENNIAL REPORT - THE MONTANA DEPARTMENT OF REVENUE



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## Introduction

The Department of Revenue collects state taxes and values property for state and local property taxes. These taxes provide funding for state and local governments, local schools, and the state university system. This section puts the department's tax-related activities in context by giving an overview of state and local government finance in Montana, and by comparing Montana's tax system to other states' tax systems.

This section starts with a brief introduction to state and local government finance in Montana. It gives a breakdown of spending by state and local governments in Montana, including school districts, and it shows the sources of funds for that spending. Next, it gives a summary of all the taxes the Department of Revenue collects or administers. This is followed by a history of tax collections, with taxes combined into four broad groups. The section ends with information comparing Montana's state and local taxes to state and local taxes in other states.

## Government Functions and Revenue Sources

Governments provide several types of services to individuals, businesses, and other entities in their jurisdictions. Governments raise the revenue to pay for those services in a variety of ways.

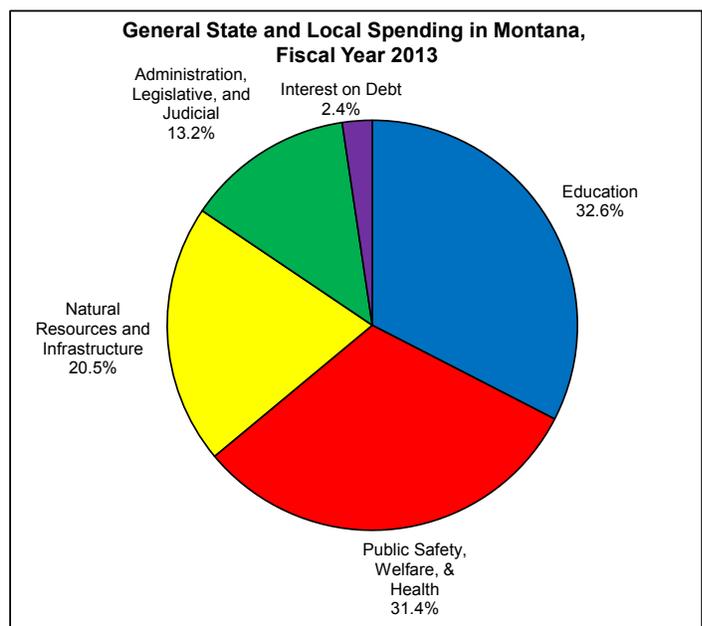
In the United States, private businesses and nonprofit groups provide many of the goods and services that people want. Businesses provide goods and services that can be sold to their customers at a profit. Non-profit groups provide goods and services that donors are willing to pay for or volunteers are willing to provide. Governments provide other services that lawmakers have concluded their constituents want and are willing to finance, like police and fire protection, that benefit the entire community rather than just individuals. Governments also provide services like road systems, where the costs of charging individual users and excluding those who don't pay are prohibitive. In other cases, governments provide services like sewer systems, where benefits - in this case public health - are obtained only if everyone participates. In some cases, governments provide services like public education of children to ensure that they are available to everyone regardless of their ability to pay.

Governments pay for these services by raising revenue in several ways: they collect taxes, charge fees, earn interest, sell property, and receive transfers from other governments.

Taxes are payments to a government that are not made in exchange for a particular good or service. Examples are income and property taxes. The amount of the tax generally depends on characteristics of the taxpayer, such as the taxpayer's income or the value of the taxpayer's property. Tax revenue may be earmarked for specific uses or deposited in the government's general fund.

Fees are payments that are made in exchange for particular goods or services. Tuition at a state college and charges for filing legal documents are fees. The amount of the fee generally depends on the service received, not on the person receiving it. Some payments, such as for vehicle registration, could be considered either taxes or fees.

Governments also receive revenue from normal business transactions. For example, governments earn interest on investments and sell surplus property, such as used motor pool vehicles. Local governments operate utilities that may sell water, electricity, or natural gas. State and local



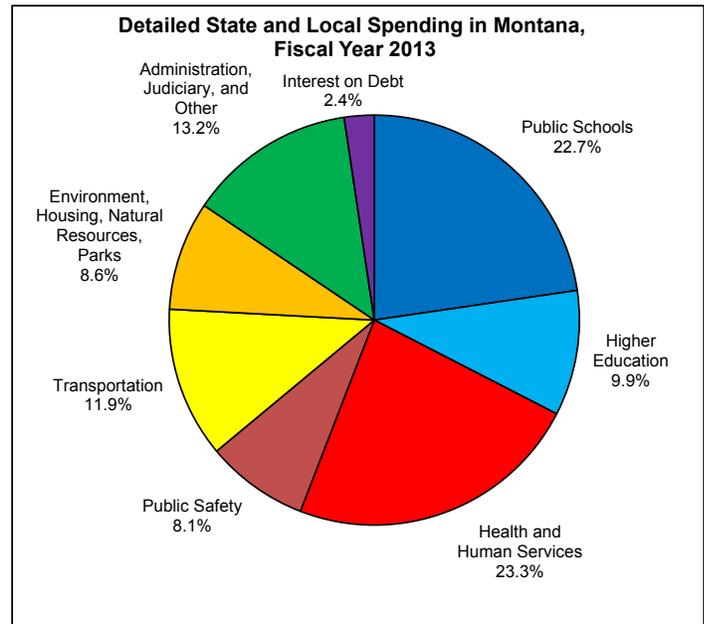
## State and Local Government Finance in Montana

governments also receive intergovernmental transfers from the federal government, and local governments receive transfers from state governments. These transfers include federal payments to states for Medicaid and state support for local school districts. In Montana, transfers include the House Bill 124 entitlement share payments to local governments, which have replaced local taxes brought to the state since 2001.

### State and Local Spending

The chart on the right shows the percentage of state and local spending in Montana in each of eight general categories for the fiscal year ending June 30, 2013.<sup>1</sup> Education, including public schools and the university system, accounted for a little less than one-third of total spending. Health and human services accounted for a little less than one-fourth of total spending. This includes Medicaid, public health programs, and income support programs. Other categories account for smaller shares of total spending.

Somewhat more than half of total state and local government spending occurs at the state level, and somewhat less than half at the local level. The table below shows the breakdown for fiscal year 2013. It shows direct spending to provide government services. It excludes state transfers of funds to local governments and school districts because those amounts are included in local spending.



State and Local Government Direct Expenditures on Government Services, FY 2013 (Excludes Local Government Utilities and State Liquor Enterprise)		
	\$ million	% of Total
State Direct Expenditures (Excludes Transfers to Local Governments and School Districts)	\$4,688	57%
Local Expenditures	\$3,511	43%
<b>Total</b>	<b>\$8,198</b>	<b>100%</b>

The next two charts on page 10 show state and local spending separately. The left-hand chart shows state spending, including transfers to local governments and school districts, as well as direct spending. The right-hand chart shows local spending.

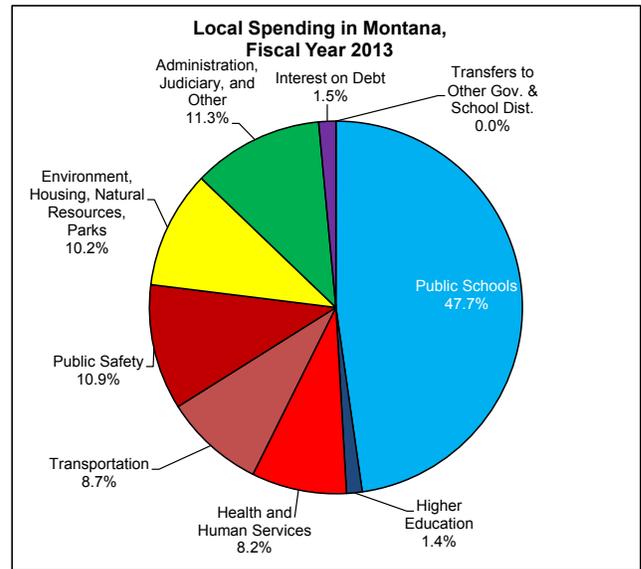
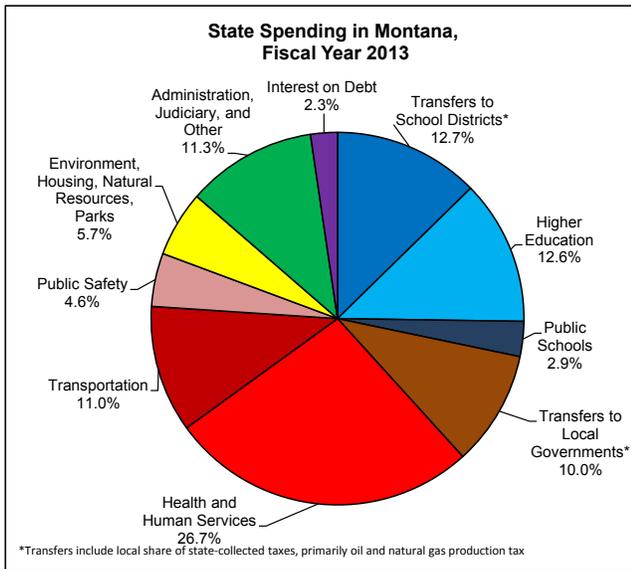
Almost one-quarter of state spending is transfers to local governments and school districts.

The transfers to local governments include the local share of state-collected taxes, primarily the oil and gas production tax, and Entitlement Share payments. The local share of oil and gas tax was originally a local tax. In the 1990s, the legislature combined state and local taxes on oil and gas production into a single state-collected tax with revenue split between the state and local taxing jurisdictions. Before 2001, a large number of revenue sources, including gambling taxes and motor vehicle registration fees, were split between the state and local governments. House Bill 124, passed by the 2001 Legislature, moved collection of almost all these taxes and fees to the state and replaced the local revenue with formula-based Entitlement Share payments.

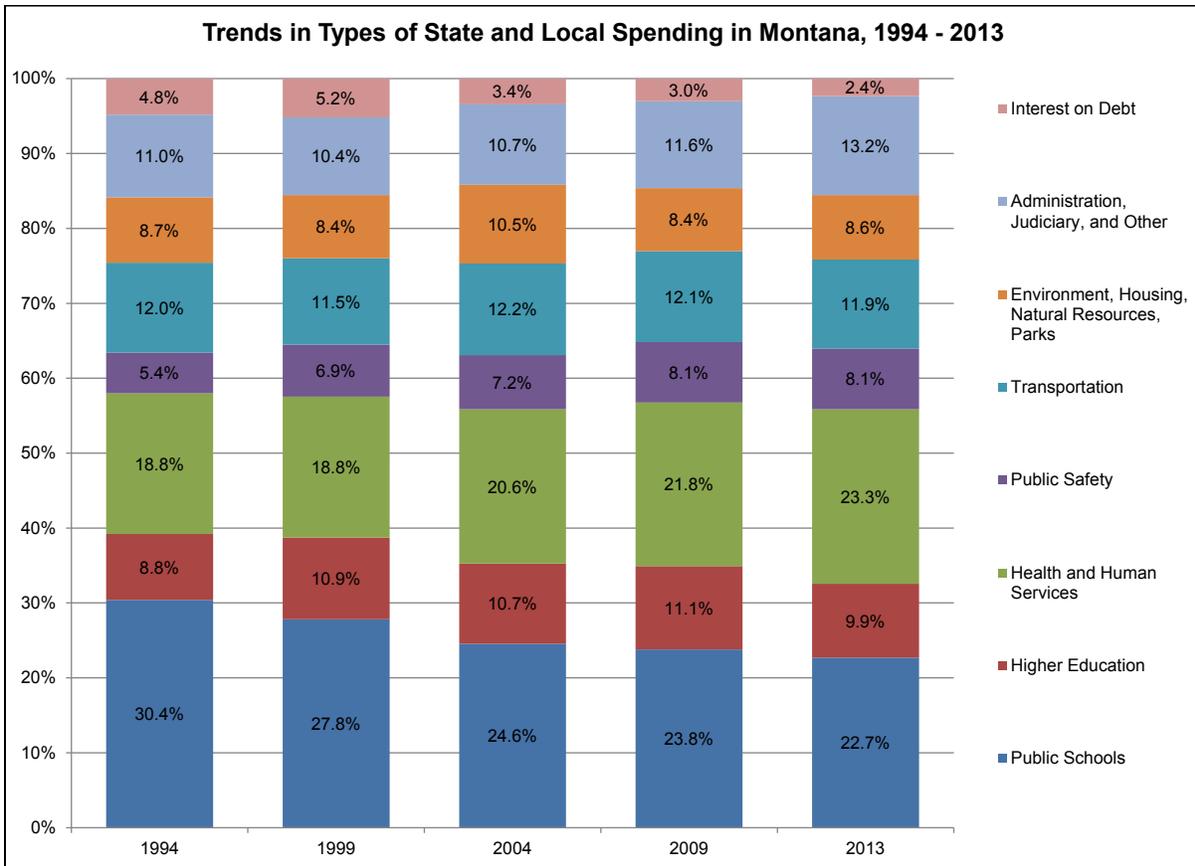
The transfers to school districts include direct state payments for education along with school districts' shares of state-collected taxes and Entitlement Share payments.

<sup>1</sup> In this section, information on combined state and local spending and state and local revenue from all sources is from the U.S. Census Bureau's annual survey of state and local governments. This is the only source for combined state and local data that is collected consistently across states. For comparisons between states, it is important to use combined state and local data because taxing and spending are divided between state and local governments differently in different states. The most recent fiscal year for which the Census Bureau has compiled data is 2013. Information on Montana state and local tax collections through fiscal year 2016 is from the state accounting system and Department of Revenue records.

# State and Local Government Finance in Montana



Direct spending for public schools is primarily local, accounting for almost half of local spending. Higher education spending is almost all at the state level, accounting for about 13 percent of state spending. Health and human services spending is significant at both the state and local level, accounting for 27 percent of state spending and 8 percent of local spending. Spending on other functions also occurs at both levels. This includes transportation, public safety, and general government administration.



Over the past 20 years, the types of spending at the state and local levels have shifted in several areas. The share of spending on public schools has declined, from 30 percent in fiscal year (FY) 1994, to 25 percent in FY 2004 and to 22.7% in FY 2013. At the same time, the share of state and local government spending on public safety and health and human services has increased from 24.2 percent in FY 1994 to 31.4 percent in FY 2013. The chart on the previous page shows the percentage of state and local spending in Montana for each of the eight general spending categories for fiscal years 1994, 1999, 2004, 2009, and 2013.

### State and Local Revenue

The charts on the following page show the sources of funds to pay for state and local spending. The top left chart shows state government revenue, and the top right chart shows revenue for local governments and school districts.

State taxes are the largest source of state revenue, making up 46 percent of the total. Transfers from the federal government, at 38 percent of the total, are the next largest source of state revenue. This includes federal funding for Medicaid and other state programs and federal education funds that are passed on to school districts.

Charges and fees make up 9 percent of state revenue. Three-fourths of the charges and fees are university system tuition and fees. This category also includes income from state lands. Interest earnings on trust funds and other state accounts are about 3 percent of state revenue, and about 4 percent is from miscellaneous sources.

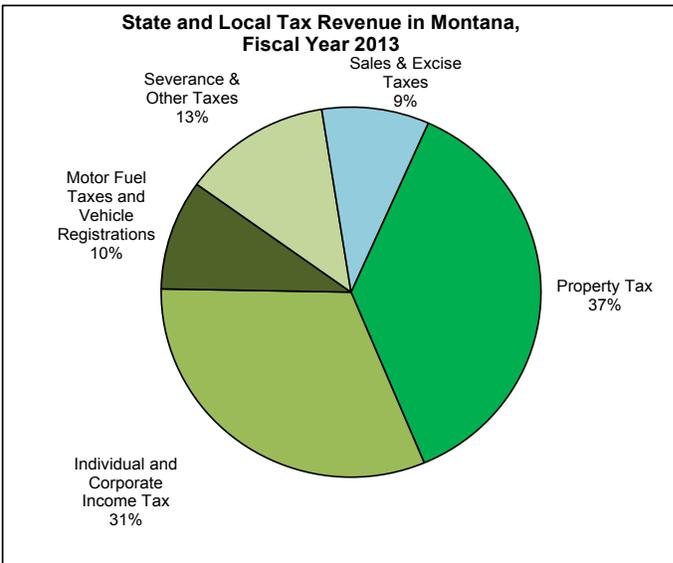
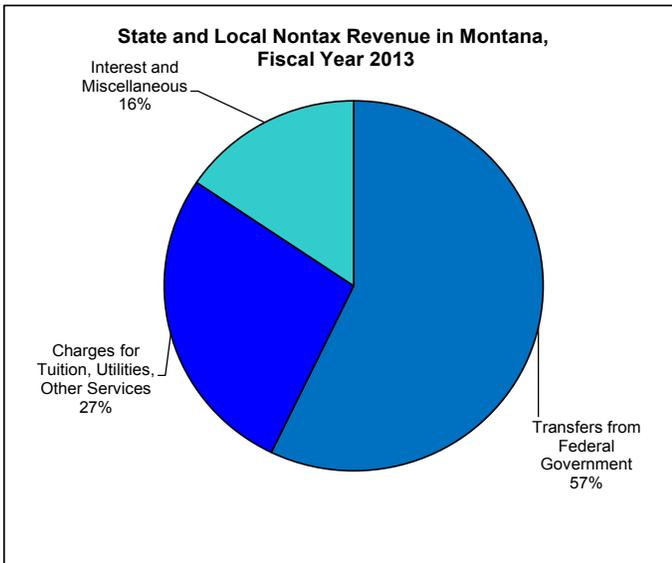
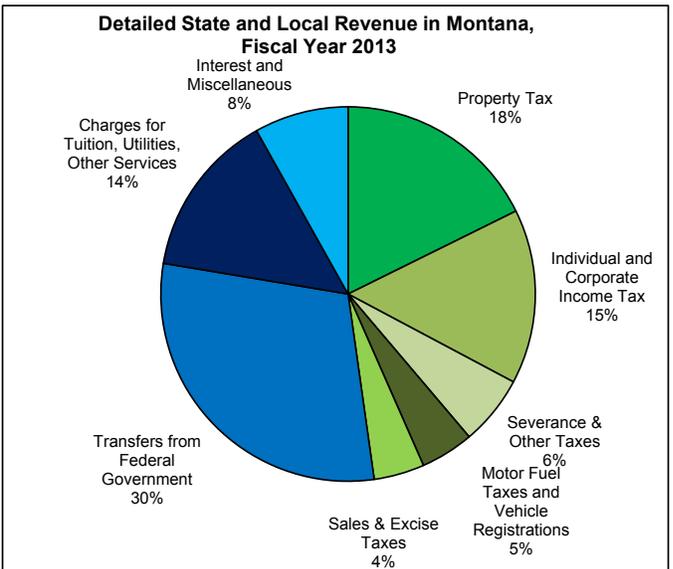
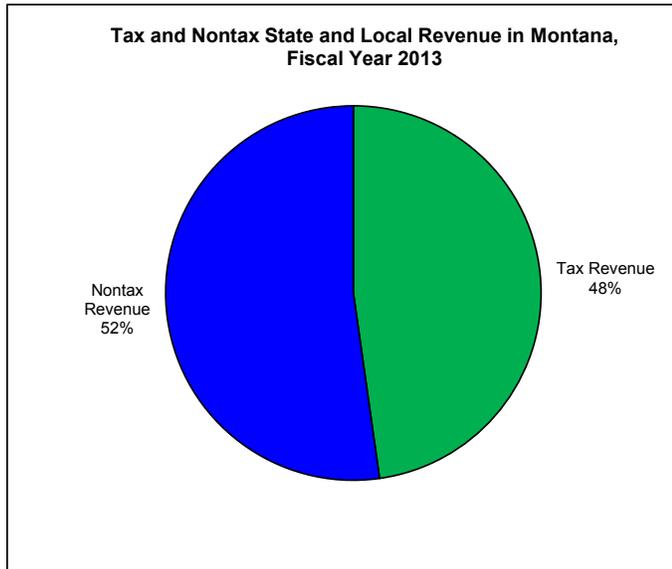
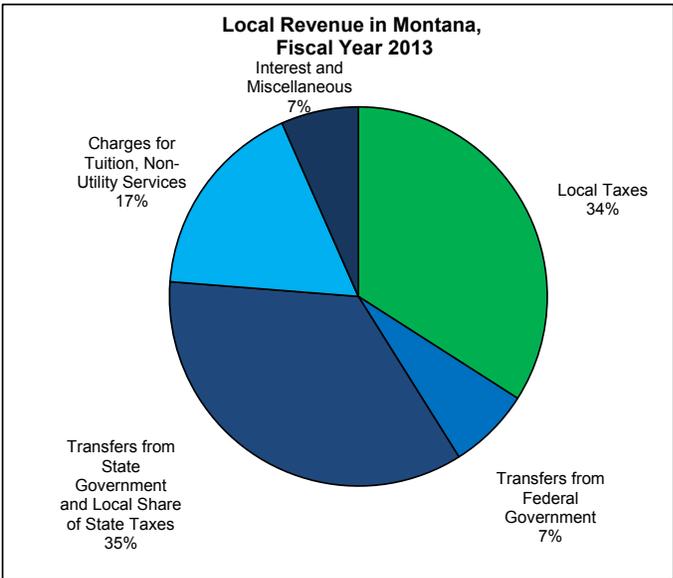
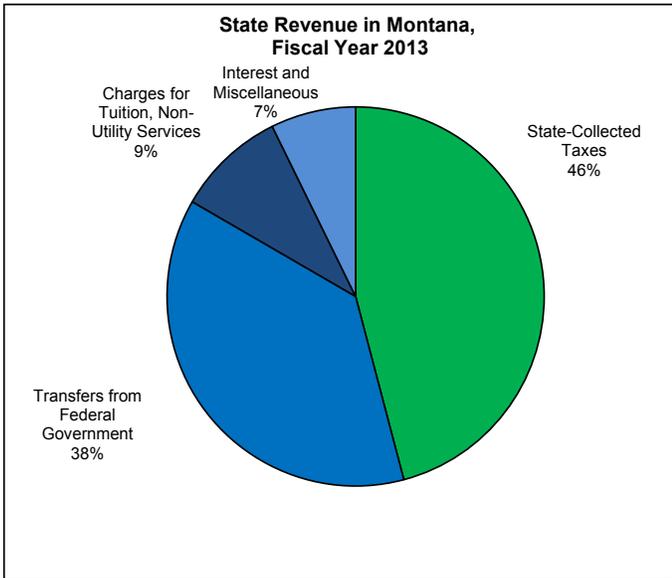
Transfers from the state and federal government, including the local share of state-collected taxes, and local taxes each are slightly more than one-third of local revenue. Charges for local services make up 17 percent of local revenue. Transfers from the federal government and revenue from miscellaneous sources, including interest, each account for 7 percent.

The remaining four charts show combined state and local revenue. Because state and local governments and school districts are combined in these charts, transfers between levels of government are not shown.

The chart on the left side of the middle of the page shows that revenue is almost evenly split between taxes and all other sources. The chart on the right shows total revenue with taxes broken down into five types and other revenue sources broken down into three types.

The charts on the bottom of the page show state and local tax revenue, on the left, and nontax revenue, on the right.

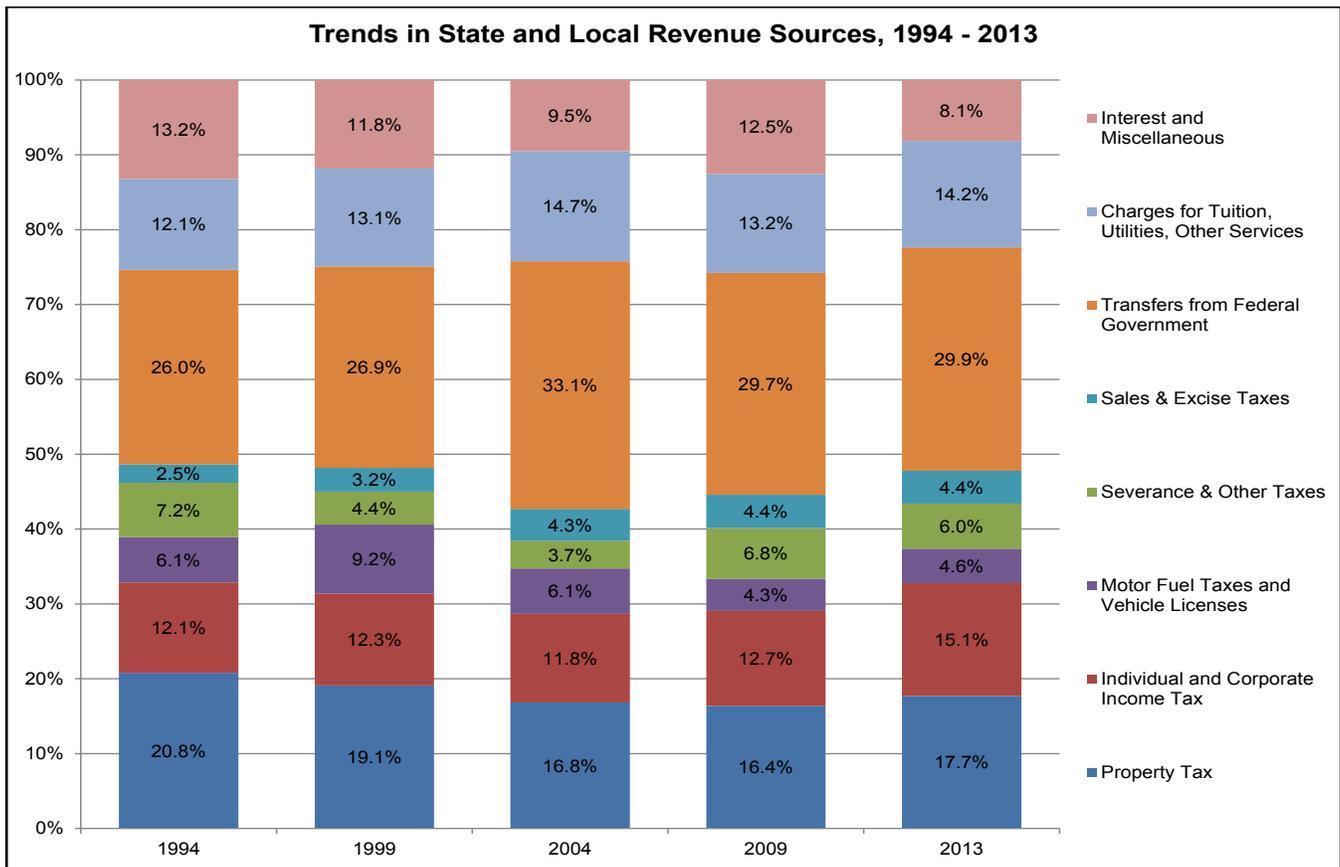
# State and Local Government Finance in Montana



## State and Local Government Finance in Montana

The sources of state and local revenue have changed in relative importance over time. This is shown in the following graph. Transfers from the federal government have varied over time, partly due to the fact that state revenue tends to grow slowly or even fall in a recession while the federal transfers to state and local governments continue or are even increased. From 1994 to 2004, the share of state and local revenue coming from the federal government increased from 26 percent to 33 percent. In 2009 and 2013, it was 30 percent.

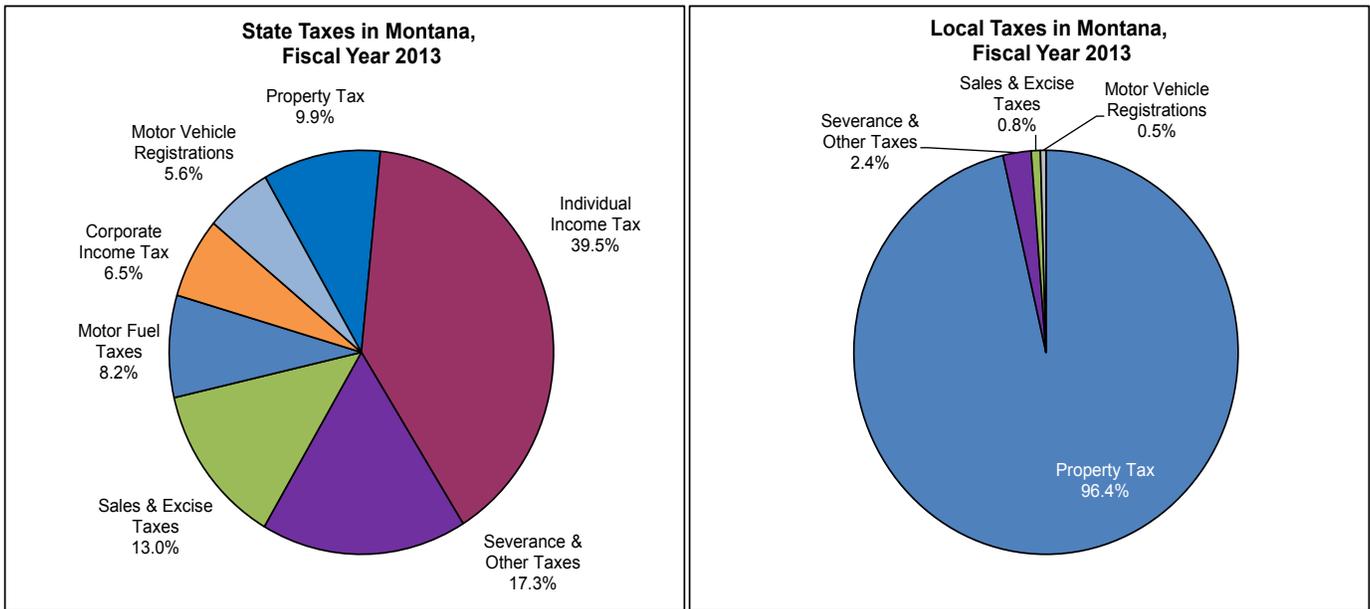
Changes in the other shares reflect both changes in the state economy and state and local legislative actions. For example, the share of severance and other taxes decreased from 1994 to 2004 as low oil and gas prices led to falling production. This share increased from 2004 to 2008 as higher prices and new technology led to increased production. As another example, the share of sales and excise taxes increased between 1999 and 2004 primarily because the legislature created new taxes on lodging and rental cars.



### State and Local Taxes

The two pie charts on the next page show state and local tax revenue. The state collects a wide variety of taxes. The largest source of state tax revenue is the individual income tax. In FY 2013, severance and other taxes made up the second largest category. The oil and gas production tax was about two-thirds of this category, with the remainder composed of mining taxes and other miscellaneous taxes. While it is collected at the state level, about half of the oil and gas tax is distributed to local governments and school districts. Montana does not have a general sales tax, but selective sales taxes account for about 13 percent of state tax revenue. Statewide property taxes are earmarked for public schools and the university system. Revenue from the 95 mills levied for schools is deposited in the state general fund, where it covers about one-third of state funds transferred to school districts. Motor fuel taxes are earmarked for the highway system and a few, small, related uses.

# Department of Revenue Tax Collections



Local government and school district tax collections come almost entirely from property taxes. The coal gross proceeds tax, which is the locally-collected severance tax, was originally a property tax, but the legislature changed it to a flat rate tax on the value of production in 1975 so that all mines would pay the same rate. Local option sales taxes collected by resort communities and local option vehicle taxes are each less than 1 percent of local tax collections.

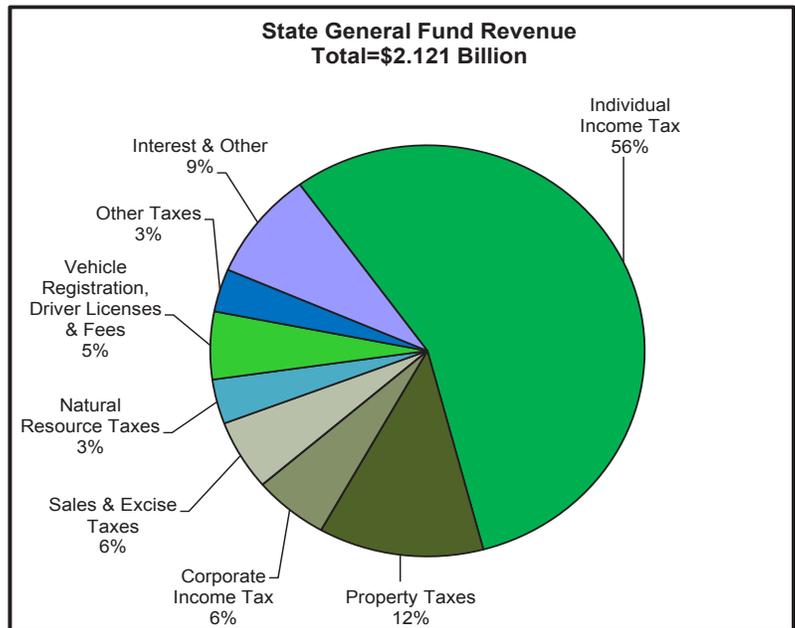
The following table shows how each type of tax was allocated between state and local governments in the fiscal year ending June 30, 2016. For the state share, it shows the allocation between the state general fund and earmarked uses. Each column shows the allocation of one type of tax. The bottom row shows the percentage of total state and local tax revenue from each type of tax. The rest of each column shows the percentage of collections of each type of tax that went to local governments, school districts, the state general fund, and various earmarked state funds in fiscal year 2016.

For taxes that the state collects, the table shows the share that is distributed to local governments and school districts. However, it does not reflect the fact that half of revenue going into the state general fund is distributed to local governments and school districts.

Allocation of Montana State and Local Taxes, FY 2016							
	Property Tax	Individual Income Tax	Severance & Other Taxes	Sales & Excise Taxes	Motor Fuel Taxes	Corporate Income Tax	Motor Vehicle Licenses
<b>Local</b>							
Governments & Special Districts	42.22%	-	15.50%	0.90%	-	-	-
Schools	39.11%	-	17.31%	-	-	-	-
<b>State</b>							
General Fund	17.54%	100.00%	37.79%	45.04%	-	100.00%	69.85%
University System	1.12%	-	0.79%	1.14%	-	-	-
Health & Human Services	-	-	-	20.70%	-	-	-
Regulation & Agency Operations	-	-	0.56%	14.19%	-	-	4.22%
Public Safety	-	-	2.21%	1.68%	0.04%	-	-
Transportation	-	-	-	0.05%	96.81%	-	22.99%
Environment	-	-	4.94%	0.29%	3.15%	-	-
State Buildings	-	-	3.92%	0.33%	-	-	-
Trust Funds (inc. Retirement)	-	-	16.97%	0.29%	-	-	0.16%
Parks, Recreation, Tourism	-	-	-	15.41%	-	-	2.78%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
<b>% of Total from Each Tax</b>	<b>38.45%</b>	<b>30.34%</b>	<b>4.30%</b>	<b>14.09%</b>	<b>5.82%</b>	<b>3.08%</b>	<b>3.93%</b>
<b>Total From Each Tax (\$ millions)</b>	<b>\$1,492.481</b>	<b>\$1,177.719</b>	<b>\$166.763</b>	<b>\$547.001</b>	<b>\$226.117</b>	<b>\$119.539</b>	<b>\$152.374</b>

# Department of Revenue Tax Collections

The graph to the right shows the breakdown of general fund revenue for the fiscal year ending June 30, 2016, including taxes and nontax revenue. The individual income tax is by far the largest single source of revenue for the general fund, and accounts for over half of state general fund revenue. The second largest source is property tax from the 95 mill statewide school equalization levy, which accounted for 12 percent of general fund revenue. Other revenue categories each accounted for less than 10 percent of general fund revenue.



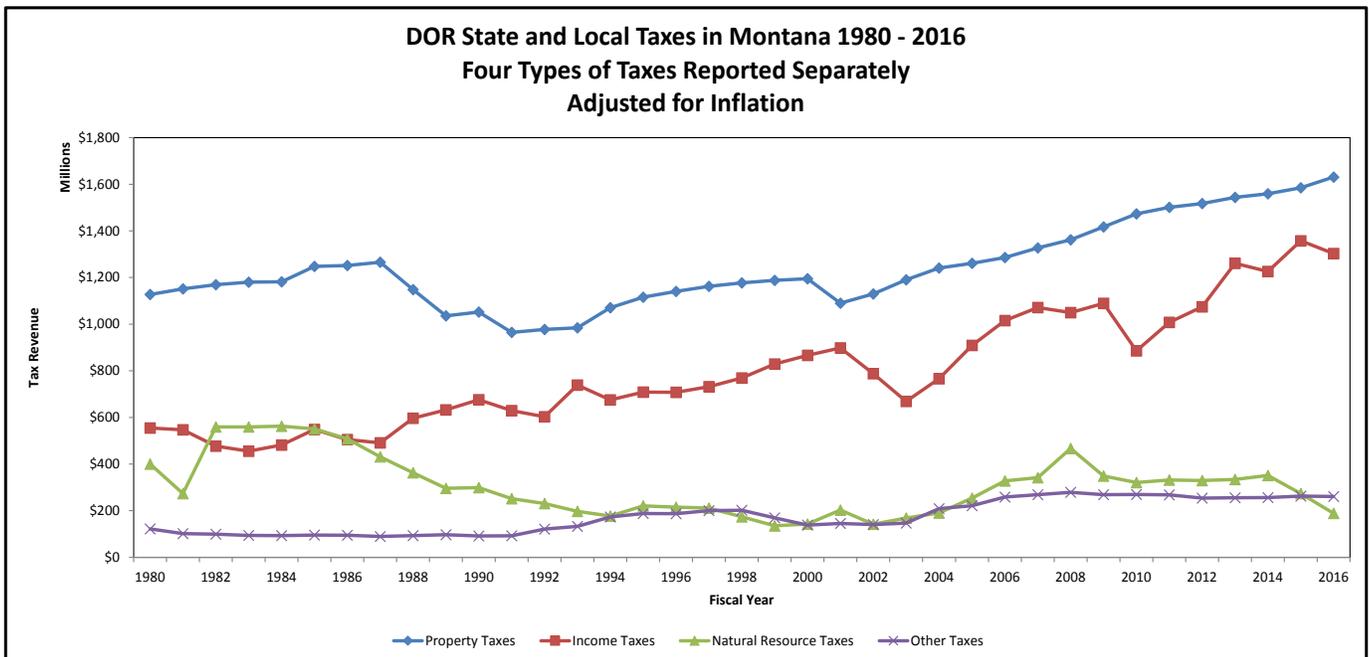
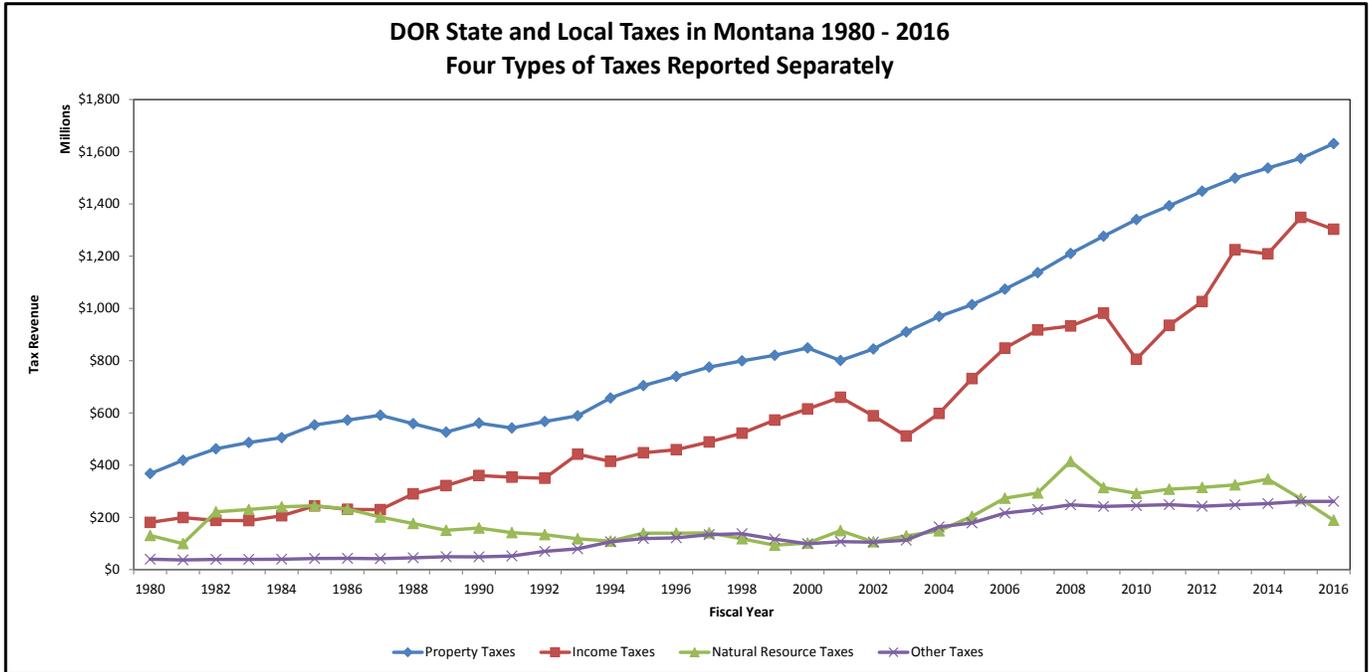
The following table shows Department of Revenue collections of state taxes for fiscal years 2010 through 2016. For taxes where revenue is split between the state and local governments, this table shows only the state share. Details on each tax can be found in later sections of this report.

The Department of Revenue collects about 80 percent of state tax revenue. Other agencies that collect at least 1 percent of state tax revenue are the Department of Transportation (motor fuel taxes), the Commissioner of Securities and Insurance (insurance taxes), and the Department of Justice (gambling taxes).

Department of Revenue State Collections - Fiscal Years 2010 - 2016							
	2010	2011	2012	2013	2014	2015	2016
<b>Individual Income Tax</b>							
Income Tax Withheld	\$ 644,991,064	\$ 685,192,810	\$ 734,240,351	\$ 783,631,123	\$ 816,681,159	\$ 875,304,260	\$ 904,652,951
Income Tax All Other	72,843,307	130,897,162	164,610,850	264,158,862	246,603,249	300,440,621	280,174,810
Subtotal	717,834,371	816,089,973	898,851,201	1,047,789,985	1,063,284,408	1,175,744,881	1,184,827,762
<b>Corporation License Tax</b>	87,906,411	119,045,890	127,774,092	177,500,421	147,550,091	172,731,561	118,386,603
<b>Natural Resources Taxes (State Portion)</b>							
Bentonite Tax	267,113	410,025	494,248	352,050	172,039	219,172	286,081
Coal Severance Tax	44,529,619	54,970,717	52,742,627	56,573,818	57,676,184	60,891,414	60,358,548
Oil and Gas Production Tax	107,641,181	112,529,043	110,123,693	120,794,398	135,766,496	92,502,365	45,537,806
Resource Indemnity Trust Tax	1,711,844	2,146,960	2,343,678	2,112,327	2,278,971	3,303,038	2,335,153
Metalliferous Mines License Tax	8,606,371	10,653,330	9,936,518	13,222,539	10,457,348	10,947,952	5,691,074
Subtotal	162,489,015	180,300,050	175,146,517	192,703,082	206,178,999	167,644,769	113,922,580
<b>Other Taxes, Licenses and Services</b>							
Cigarette Tax	77,071,487	74,090,938	75,533,075	74,790,040	73,839,772	71,843,320	73,219,123
Telecommunications Excise Tax	23,523,474	22,049,967	21,459,017	20,651,872	19,656,770	18,256,517	16,774,868
Lodging Facility Use Tax	17,132,174	19,718,227	22,257,882	23,332,178	24,486,047	27,127,478	27,910,664
Inheritance/Estate Tax (Net)	90,544	43,165	59,718	1,676	3,741	35	62
Sales Tax - Accommodations	12,330,846	14,240,586	15,606,496	16,719,931	17,725,159	19,696,526	21,492,606
Nursing Facility Bed Tax	14,928,685	14,609,167	14,294,205	13,719,662	13,929,619	13,485,243	13,232,878
Hospital Utilization Fee	21,290,112	21,819,469	21,238,158	21,703,642	22,179,418	23,626,972	22,667,834
Emergency Telephone 911 System	13,801,647	13,376,568	13,212,111	13,062,990	13,009,356	12,947,304	13,120,489
Electrical Energy Production Tax	4,713,429	4,332,363	4,481,361	5,066,602	4,279,845	5,132,926	4,536,484
Abandoned Property	12,491,906	7,276,154	7,188,318	8,827,032	12,882,668	10,196,308	9,554,713
Tobacco Products Tax	11,210,117	11,492,465	12,024,144	12,386,794	12,562,721	12,894,293	13,131,013
Wholesale Energy Transaction Tax	3,556,056	3,945,547	3,427,411	3,558,221	3,112,284	3,795,377	3,516,131
Public Service Commission Tax	2,493,209	4,739,380	2,461,936	2,608,068	4,910,861	3,254,094	2,897,229
Sales Tax - Rental Vehicles Tax	2,807,415	3,149,201	3,419,763	3,523,211	3,521,324	3,906,745	4,269,438
Contractor's Gross Receipts Tax	6,969,395	6,803,285	(3,041,921)	(137,587)	887,078	3,256,741	2,397,493
Rail Car Tax	2,579,263	2,130,192	2,273,412	2,178,957	2,418,072	3,706,309	3,594,460
Consumer Counsel Tax	530,981	1,243,187	1,523,517	1,063,563	1,444,344	1,469,750	1,002,553
TDD Telecommunications Service Fee	1,361,947	1,350,111	1,325,236	1,317,336	1,430,128	1,321,811	1,334,146
Intermediate Care Utilization Fee	913,971	931,535	882,024	951,767	906,220	906,155	1,036,982
Other Taxes and Licenses	120,069	122,424	127,592	152,681	151,784	165,793	160,547
Subtotal	229,916,727	227,463,929	219,753,456	225,478,635	233,337,211	236,989,696	235,849,713
<b>Liquor Taxes, Profits, and Licenses</b>							
Liquor Profits and License Fees (to GF)	9,322,967	9,363,108	9,559,079	10,584,631	10,560,209	11,253,438	11,373,175
Liquor, Beer, and Wine Taxes	28,196,405	28,699,909	30,266,107	31,438,970	32,471,220	33,908,378	34,706,138
Subtotal	37,519,372	38,063,017	39,825,185	42,023,600	43,031,429	45,161,815	46,079,313
<b>TOTAL COLLECTIONS</b>	<b>\$ 1,235,665,896</b>	<b>\$ 1,380,962,859</b>	<b>\$ 1,461,350,452</b>	<b>\$ 1,685,495,723</b>	<b>\$ 1,693,382,138</b>	<b>\$ 1,798,272,722</b>	<b>\$ 1,699,065,971</b>

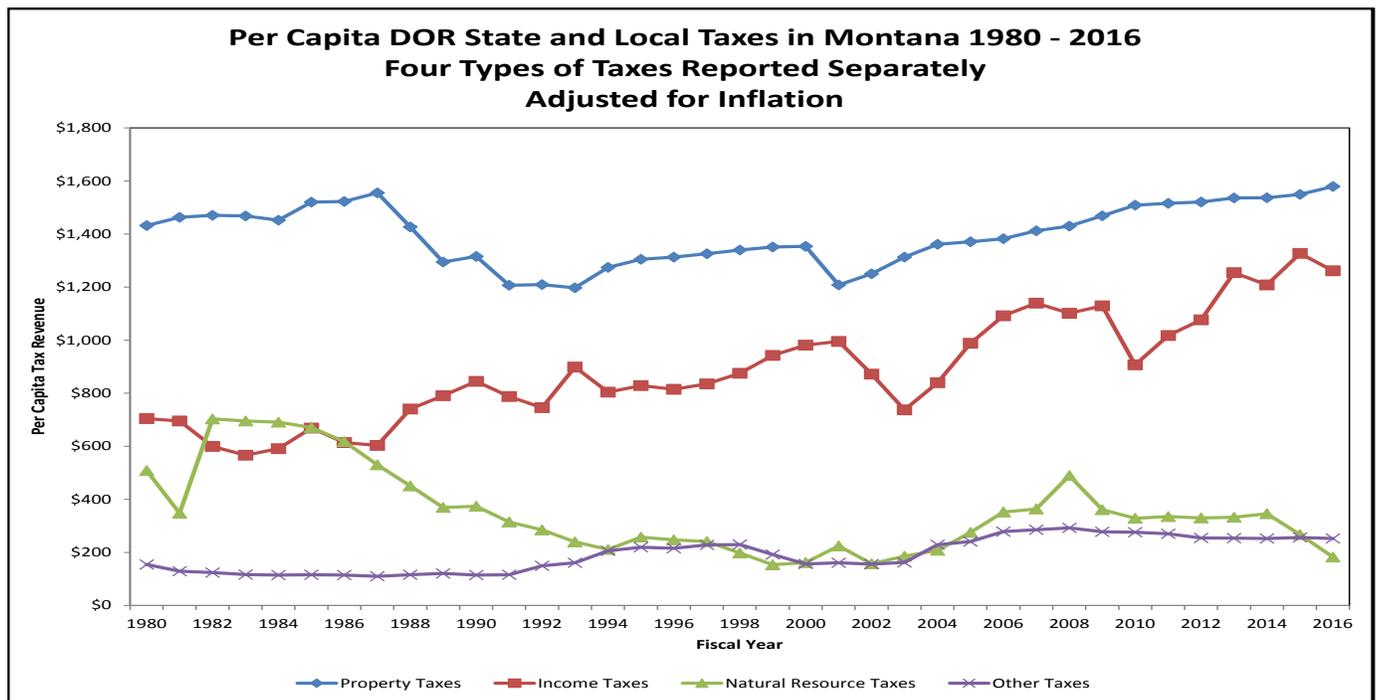
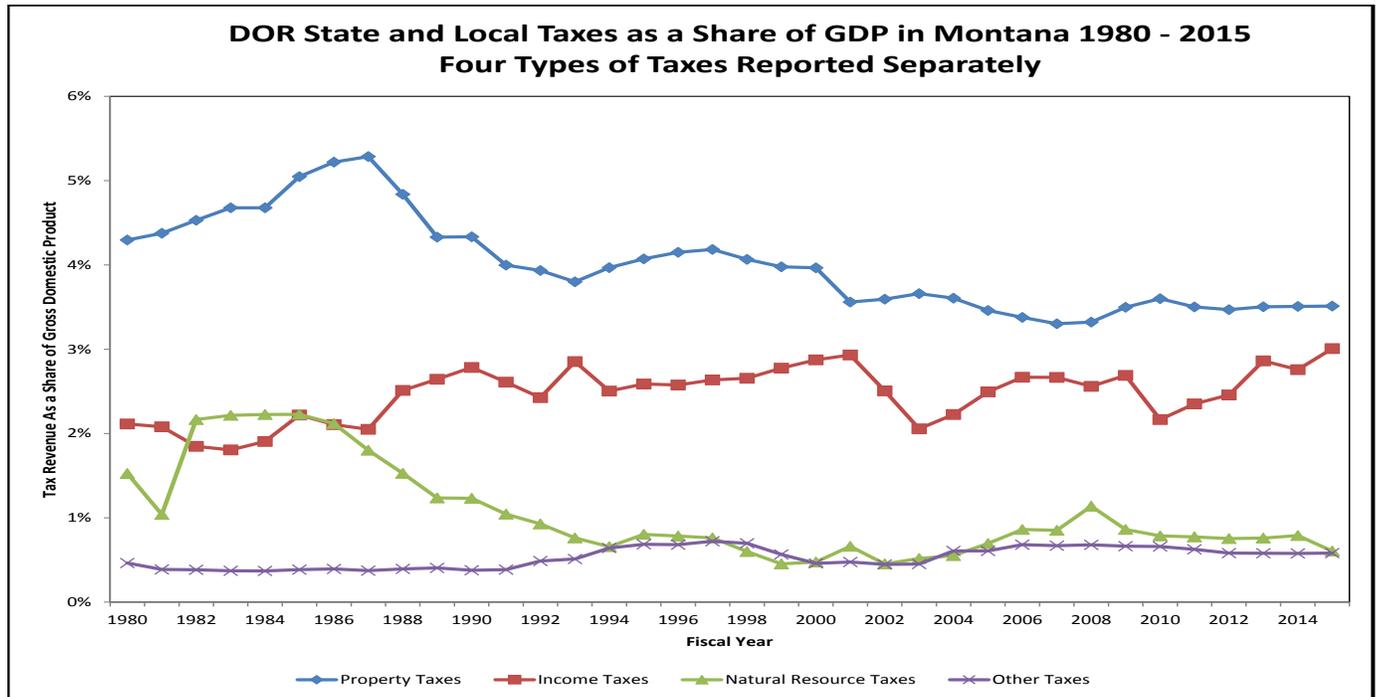
# Montana Tax Trends

The two graphs on this page show total collections of taxes, divided into four categories, for fiscal years 1980 through 2016. The first shows the actual amount of collections each year. The second shows collections adjusted for inflation, with each year's collections shown in terms of their value in 2016.



# Montana Tax Trends

The two graphs on this page also show total collection of taxes in Montana, divided into the same four categories, for fiscal years 1980 through 2016. The first graph shows the amount of collections for each tax type as a share of Montana's gross domestic product for the same period. The second shows the amount of revenue collected on a per capita basis. The second chart is also adjusted for inflation, with each year's collections show in terms of their 2016 value.



## Montana Tax Trends

The following table shows how taxes are grouped in the graphs on the previous two pages:

<p><b><u>Property Tax</u></b></p> <ul style="list-style-type: none"> <li>● Taxes Based on Mill Levies</li> <li>● Special Improvement Districts (SID)</li> <li>● Rural Improvement Districts (RID)</li> <li>● Other Fees</li> </ul>	<p><b><u>Income Taxes</u></b></p> <ul style="list-style-type: none"> <li>● Individual Income Taxes</li> <li>● Corporate Income Taxes</li> </ul>
<p><b><u>Natural Resource Taxes</u></b></p> <ul style="list-style-type: none"> <li>● Coal Severance Tax</li> <li>● Coal Gross Proceeds Tax</li> <li>● Metal Mines License Tax</li> <li>● Metal Mines Gross Proceeds Tax</li> <li>● Resource Indemnity and Groundwater Assessment Tax</li> <li>● Miscellaneous Mines Net Proceeds Tax</li> <li>● Bentonite Tax</li> <li>● Oil and Natural Gas Severance Tax</li> <li>● Cement and Gypsum Taxes</li> </ul>	
<p><b><u>Other Taxes</u></b></p> <ul style="list-style-type: none"> <li>● Lodging Facility Use Tax</li> <li>● Accommodations Sales Tax</li> <li>● Rental Vehicle Tax</li> <li>● Cigarette Tax</li> <li>● Tobacco Product Tax</li> <li>● Cigarette Seller Licenses</li> <li>● Liquor License Tax</li> <li>● Liquor Excise Tax</li> <li>● Beer Tax</li> <li>● Wine Tax</li> <li>● Alcoholic Beverage License Fees</li> <li>● Telephone Company Tax and Retail Telecommunication Tax</li> <li>● Emergency Telephone System Fee</li> <li>● TDD Telecommunications Fee</li> <li>● Electrical Energy Producers' Tax</li> <li>● Wholesale Energy Transaction Tax</li> <li>● Consumer Council Tax</li> <li>● Public Service Commission Tax</li> <li>● Unclaimed Property</li> <li>● Public Contactor's Gross Receipts Tax</li> <li>● Inheritance and Estate Tax</li> <li>● Nursing Facility Bed Tax</li> <li>● Intermediate Care Facility Utilization Fee</li> <li>● Hospital Facility Utilization Fee</li> <li>● Rail Car Tax</li> </ul>	

The charts on the next page show the mix of taxes in fiscal year 2013 for Montana, for the average of all 50 states, and for Idaho, North Dakota, South Dakota, and Wyoming. The charts on the following page show the mix of state and local spending for the same states.

The chart in the upper left corner of the next page shows the average percentage of tax revenue from each type of tax for all states. Property taxes, sales taxes, and individual income taxes together account for 85 percent of state and local tax revenue. This combination of taxes is often referred to as the “three legged stool” of state and local taxation.

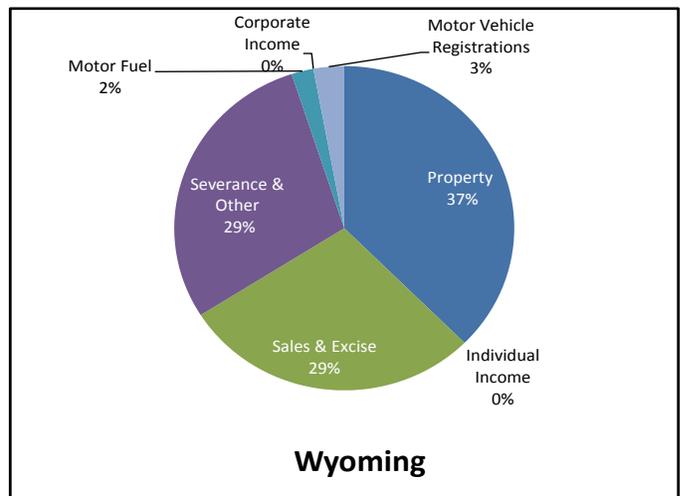
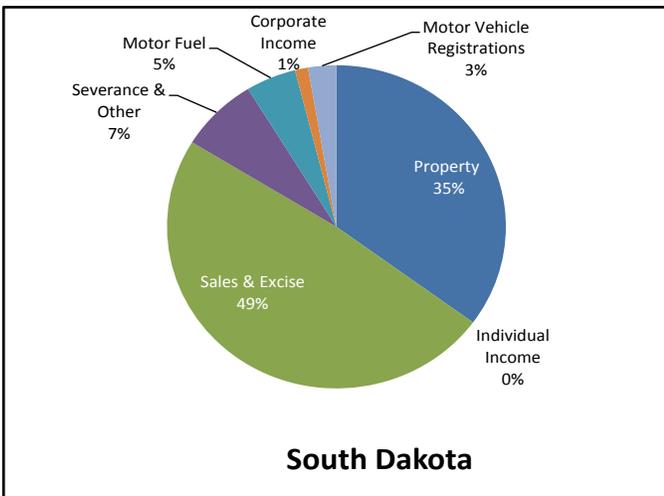
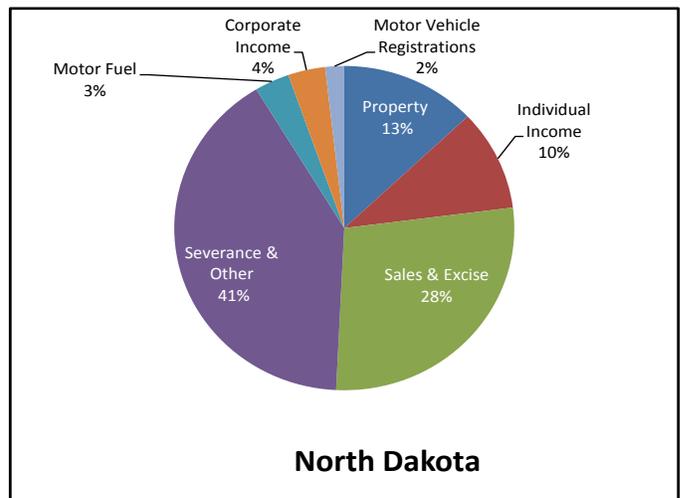
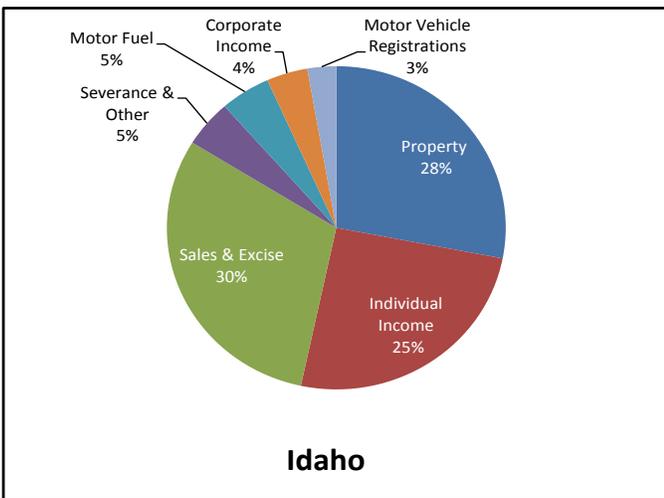
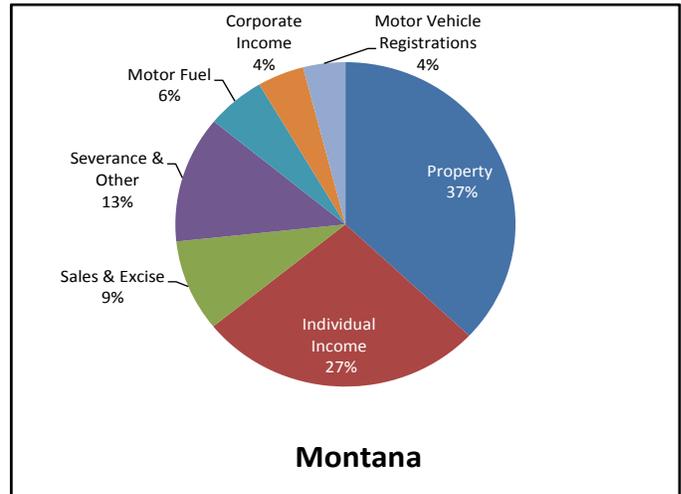
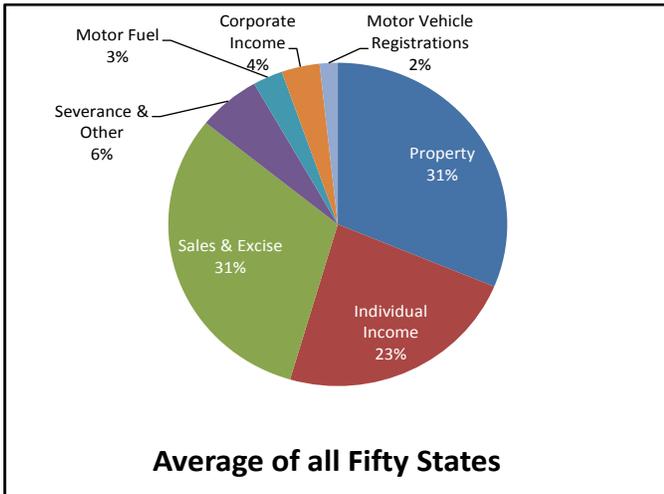
Compared to the average, Montana gets a much smaller share of tax revenue from sales and excise taxes and a somewhat larger share from each of the other types. Of the four neighboring states, only Idaho looks like the average state. In North Dakota, severance and other taxes were over 40 percent of total collections in fiscal year 2013. North Dakota’s share of revenue from sales and excise taxes was about average, but the shares from income and property taxes were a little less than half the average. South Dakota and Wyoming do not have individual income taxes and Wyoming does not have a corporate income tax. South Dakota compensates by receiving a somewhat higher proportion of tax revenue from property taxes and a much higher proportion from the sales tax. Wyoming receives a much higher-than-average proportion of tax revenue from the severance and other category.

The mix of spending shows much smaller differences between states. All of the states in the region devote a slightly smaller-than-average share of spending to public schools. Montana, Idaho, and South Dakota

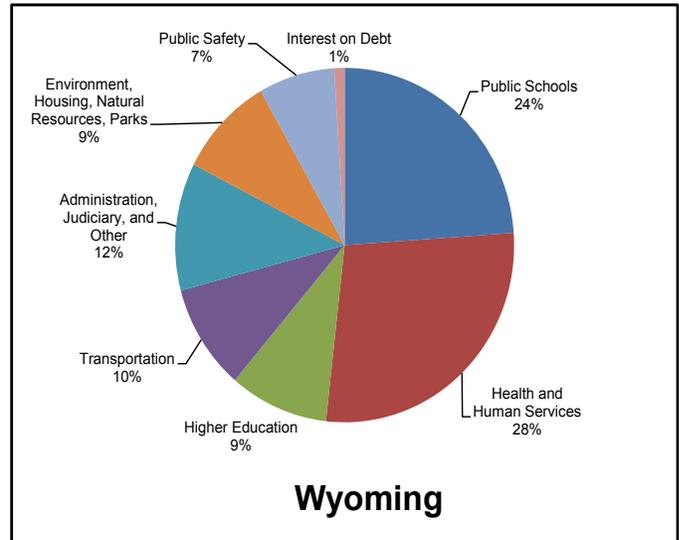
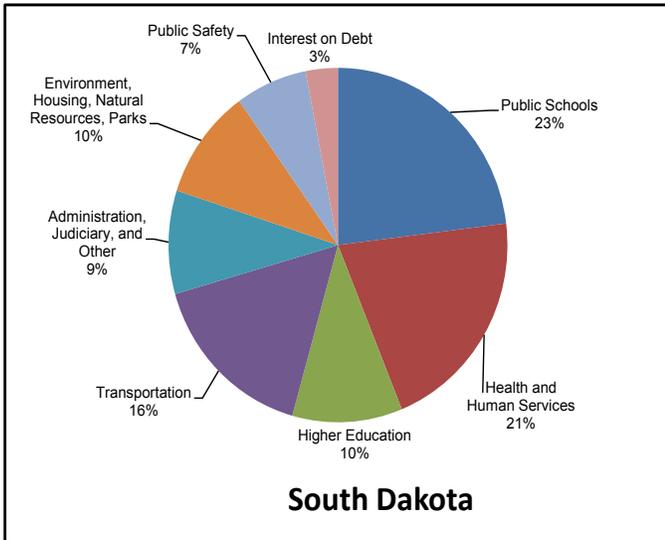
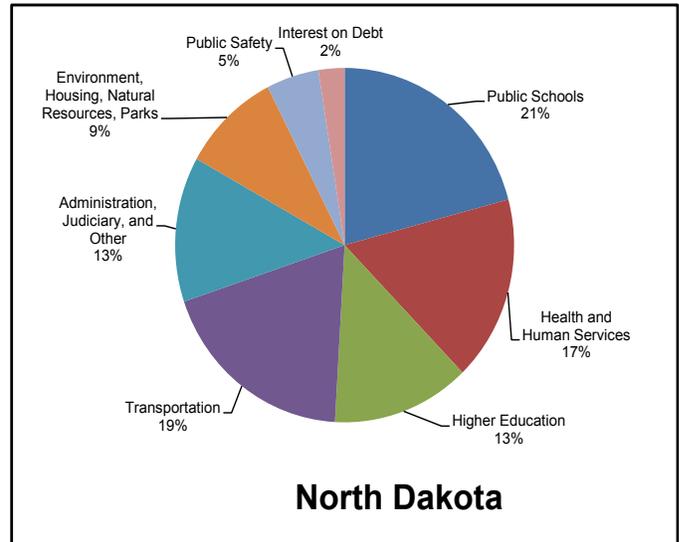
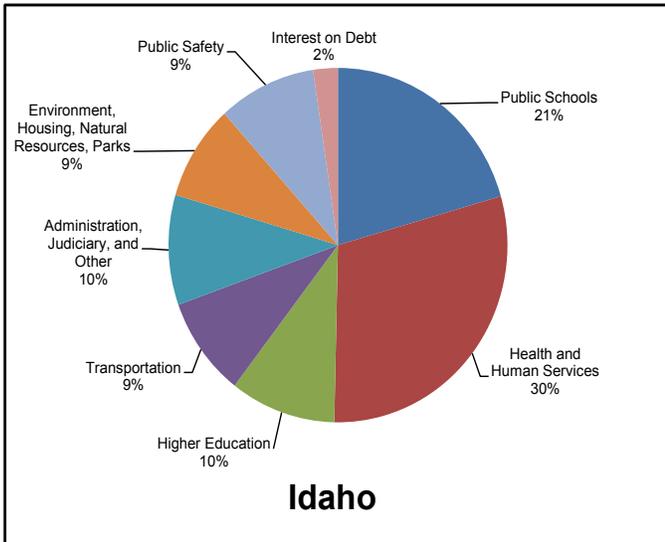
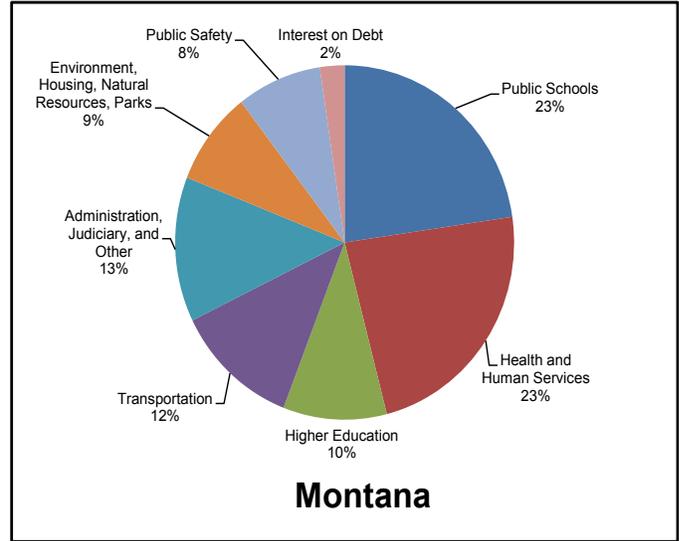
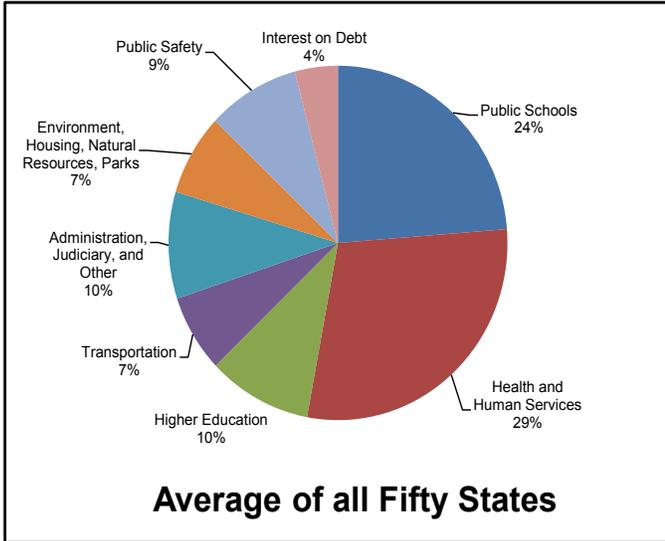
# Taxes and Spending in Montana and Other States

devote the same proportion to higher education as the average state, while the proportion is slightly lower in Wyoming and higher in North Dakota. Montana and the Dakotas devote a smaller-than-average share of spending to health and human services, while Idaho and Wyoming are close to the average. Transportation's share of spending is higher than average in all the states in the region.

## State and Local Taxes in Fiscal Year 2013



State and Local Spending in Fiscal Year 2013



### How Does Montana's State and Local Revenue System Measure Up?

There are many ways to evaluate state and local revenue systems. People and businesses care about different aspects of revenue systems because state and local taxes affect them differently: A tax system that is attractive to one person or business may be unattractive to another. For example, a family with a large mortgage may benefit from itemized deductions for property taxes and home mortgage interest while a family who lives in an apartment would not. A business with large investment in buildings and fixed equipment may prefer a location with low property taxes even if it has a high sales tax, while a business with few fixed assets but large expenses for supplies may prefer the opposite.

This section presents an analysis of Montana taxes based on the ideas in the National Conference of State Legislatures' (NCSL) Principles of a High Quality State Revenue System. The NCSL first published this document in 1992 and has updated it several times since then.<sup>1</sup> The NCSL's nine principles can be stated as follows:

1. The elements are complementary rather than contradictory. Individual state taxes should harmonize with each other, and state and local taxes should complement each other rather than conflict.
2. Revenue should be reliable for both government and taxpayers. Revenue should be adequate to fund state and local government functions, and there should not be wide fluctuations in revenue from one year to the next. Taxpayers should not face frequent and significant changes in tax rates and structures.
3. There should be a balanced mix of revenue sources. All taxes have strengths and weaknesses, and a system with multiple taxes is more likely to be able to offset the weaknesses of one with the strengths of another. Multiple taxes also allow lower rates for individual taxes.
4. The revenue system should be fair. While there are many disagreements about tax fairness, there are a few widely-accepted principles: Taxpayers in similar circumstances should pay similar taxes. The ratio of taxes to income should not be higher for low income taxpayers than for higher income taxpayers. And, taxes on low-income people should be low.
5. Taxes should be easy to understand and easy to comply with.
6. Taxes should be easy to administer in a fair, efficient, and effective manner.
7. A state's taxes should be competitive with taxes in other states and countries while financing a competitive level of infrastructure and public services. Competitiveness should be measured by the state's entire package of taxes and public services, not by the special treatment given to specific groups of taxpayers.
8. A high-quality revenue system minimizes its impacts on taxpayer decisions and state budgeting decisions, and any such impacts should be explicit. Tax systems affect taxpayer decisions by imposing higher taxes on some activities than on others. Sometimes this is intentional, as with targeted tax credits, and sometimes it is a consequence of adopting certain types of taxes. Tax systems affect budgeting decisions primarily through earmarking of particular taxes.
9. A high-quality revenue system is accountable to taxpayers. The processes for setting and changing taxes should be public and accessible. Taxpayers should be aware of the taxes they pay, and the legislature should regularly review special provisions of the tax code.

For each of the NCSL's principles, the rest of this section presents information on ways that Montana either conforms to or differs from the principle. Where possible, it also compares Montana to the other states.<sup>2</sup>

<sup>1</sup> The latest version, updated in 2007, can be found on the NCSL website at <http://www.ncsl.org/research/fiscal-policy/principles-of-a-high-quality-state-revenue-system.aspx>.

<sup>2</sup> A number of organizations publish state tax comparisons that reflect the particular interests of that organization. For example, The Tax Foundation ([www.taxfoundation.org](http://www.taxfoundation.org)) publishes an annual "State Business Tax Climate Index," The Institute on Taxation and Economic Policy

### Complementary

The Principles document lists several ways that state and local taxes can fail to be complementary: State and local governments may compete for the same tax base, the state may impose spending mandates on local governments, and the state may impose limits on local governments' ability to raise revenue.

In Montana, both the state and local governments levy property taxes, so there is some degree of competition for tax base. In the past, the state and local governments shared a variety of taxes. The 2001 Legislature replaced this with a system where these taxes are collected by the state, and local governments and school districts receive fixed entitlement share payments. The oil and natural gas production tax continues to be shared. Before 2003, the state and local shares were partly determined by property tax mill levies, but the 2003 Legislature made state and local shares fixed percentages.

The state mandates minimum and maximum spending levels for school districts, but also provides state funding.

The state imposes a limit on annual property tax revenue growth, but allows voter-approved levies to exceed the limit.

The state limits local government taxing authority to property taxes, a local sales tax in communities that qualify as resort areas, a local option gasoline tax, and a local option vehicle registration fee.

### Reliable

The Principles document gives three aspects of reliability: revenue does not fluctuate too much, taxpayers are not subject to frequent rate and base changes, and revenue grows at about the same rate as desired spending.

The graph on the following page compares states on the variability of state and local tax revenue. It shows states and the District of Columbia ranked by a measure of the relative variability<sup>1</sup> of revenue growth over the period 1993 to 2013. Montana is highlighted in blue, and the four surrounding states and the U.S. average<sup>2</sup> have darker shading than other states.

Montana ranks 34th, with somewhat higher-than-average relative variability. The stability of a state's revenue depends on its tax structure and how that structure interacts with the state's economy. In general, states with the most volatile taxes tend to have less diverse tax structures and to be more dependent on volatile taxes such as corporate tax and severance taxes.

### Balance

The Principles document states that, "All taxes have their advantages and disadvantages, but reliance on a diverse assortment can cancel out their biases." An unbalanced tax system relies on one or two taxes for most of its revenue. The next two graphs compare states on their share of taxes from the largest tax type and from the two largest tax types.

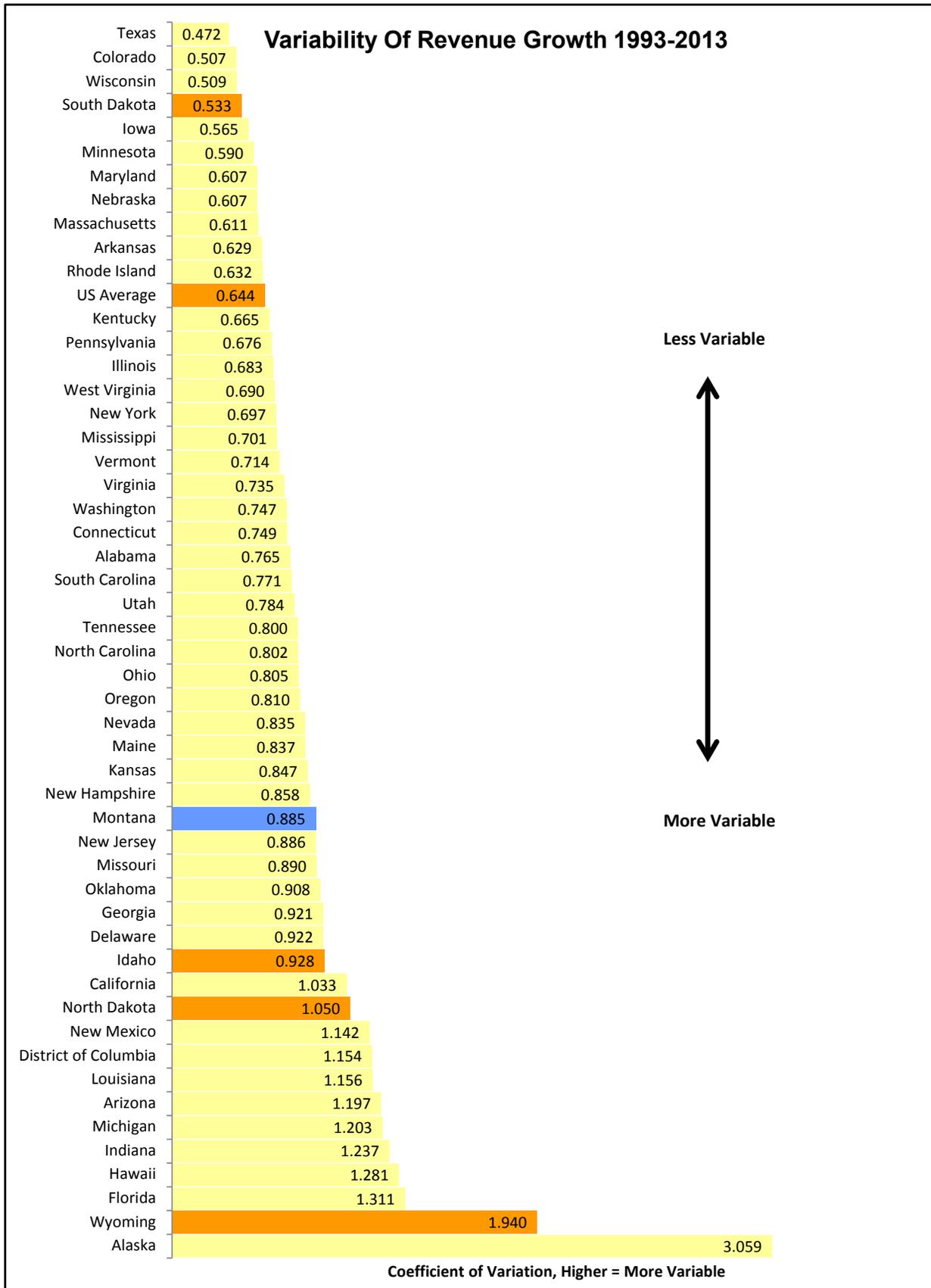
The conventional view is that a balanced tax system would get most of its revenue from the "three-legged stool" of income, property, and sales taxes, but balance can be achieved in other ways. Despite not having a general sales tax, Montana has one of the more balanced tax systems, as measured by the percent of revenue from one or two taxes, with 37 percent from one tax and 64 percent from two taxes. For Montana, selective sales and excises taxes and severance taxes together make up about the same share of revenue as general sales taxes do for other states.

(www.itepnet.org) periodically publishes "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," The Council on State Taxation (www.cost.org) produces an annual report "Total State and Local Business Taxes," and the Office of the Chief Financial Officer of the District of Columbia (cfo.dc.gov) publishes an annual report "Tax Rates and Tax Burdens in the District of Columbia – A Nationwide Comparison."

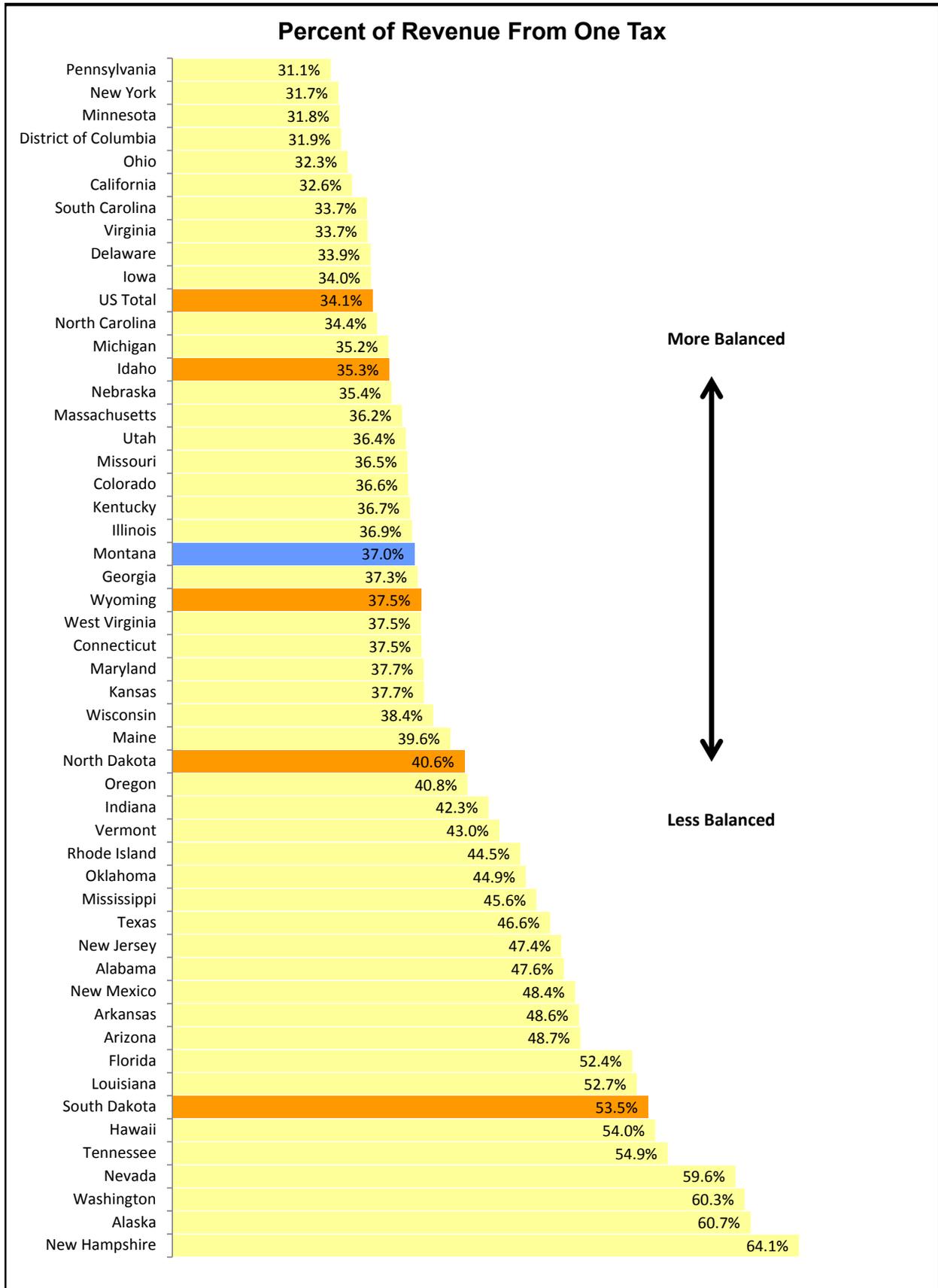
1 The coefficient of variation is a measure of relative variability. A higher CV indicates that the variation in annual growth rates is a larger percentage of the average growth rate.

2 In this section, U.S. averages are calculated from total revenue for all fifty states. They are not the average of the fifty state numbers.

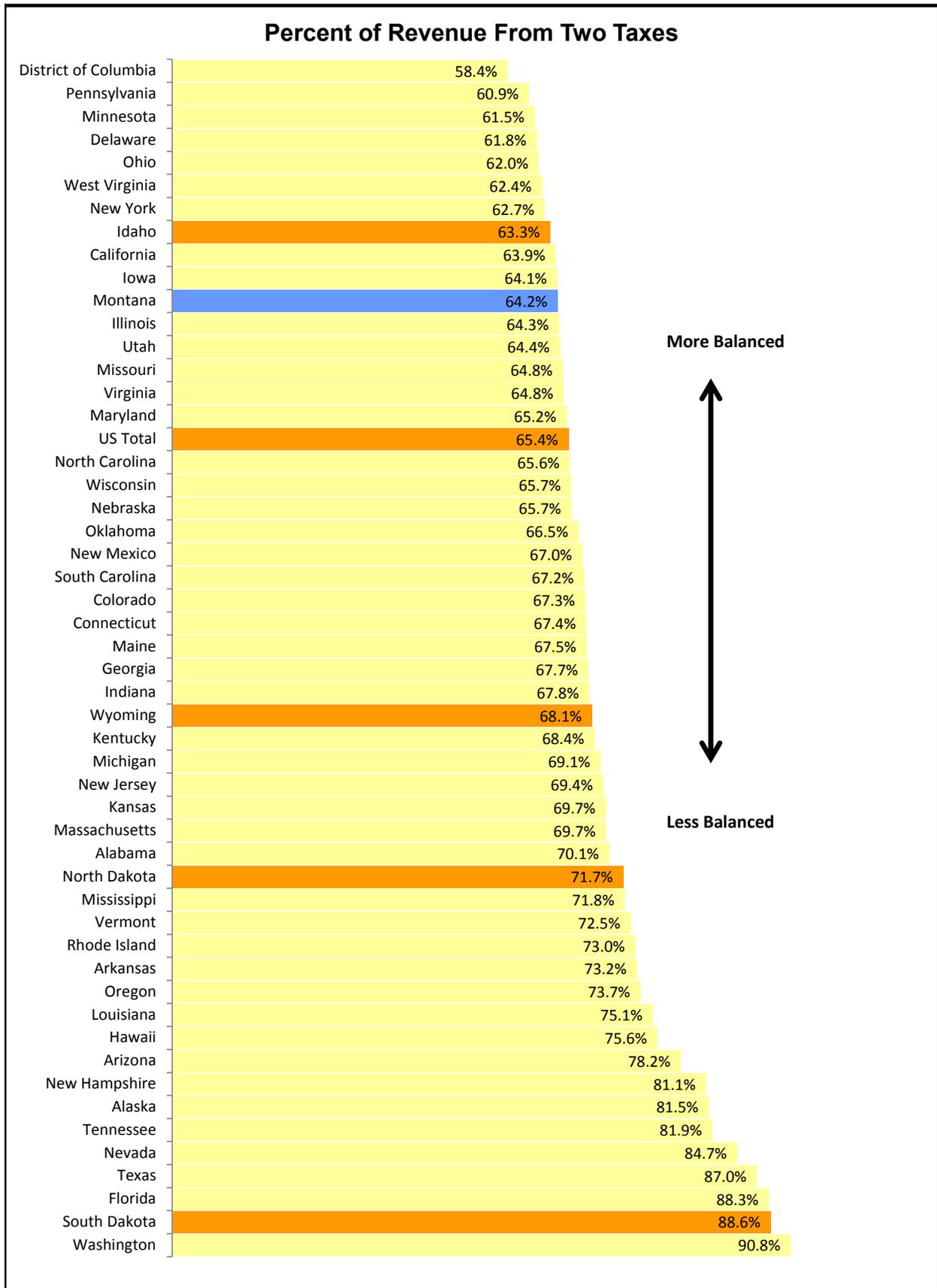
# Comparison of State Taxes



# Comparison of State Taxes



# Comparison of State Taxes



# Comparison of State Taxes

## Equity

The Principles document recognizes that views on equity differ, but gives three minimal principles of tax equity: taxpayers in similar circumstances should pay similar taxes, regressivity should be minimized, and taxes on low-income individuals should be minimized.

### Similar Circumstances and Similar Taxes

For most Montana taxes, taxpayers who are similar, in terms of having similar tax bases, pay similar taxes. There are two exceptions. One is the income tax, where taxpayers with similar income may have very different tax liabilities if they differ in their ability to take advantage of the itemized deductions and tax credits that the state allows. For example, a taxpayer with a mortgage on a house can claim itemized deductions for mortgage interest and property taxes. This is likely to result in this taxpayer having lower income tax liability than an otherwise identical taxpayer who rents and cannot claim these deductions.

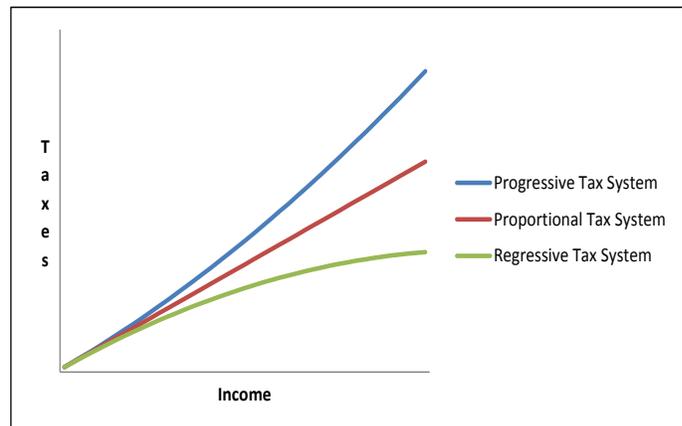
In general, the Montana property tax system is designed so that similar properties will have similar taxable values and any differences in taxes will be due to differences in local mills. In some cases, differences in local mills reflect differences in local services. For example, if residents of one town choose to have more parks and recreation facilities than residents of a similar town, the first town is likely to have higher property taxes to pay for the additional facilities. Differences in local mills may also reflect differences in the costs of providing local services. If the cost of living is higher in one area than another, school districts in the higher-cost area may have to levy more mills so they can pay teachers higher salaries to induce them to live and work in the higher-cost area.

However, one of the main determinants of mill levies in a taxing jurisdiction is the amount of industrial and commercial property in the jurisdiction. Jurisdictions with large amounts of industrial and commercial property relative to the population tend to have low mill levies. Otherwise similar jurisdictions with little or no industrial or commercial property tend to have higher mill levies. This can result in similar properties with similar taxable values paying very different amounts of property tax for the same public services.

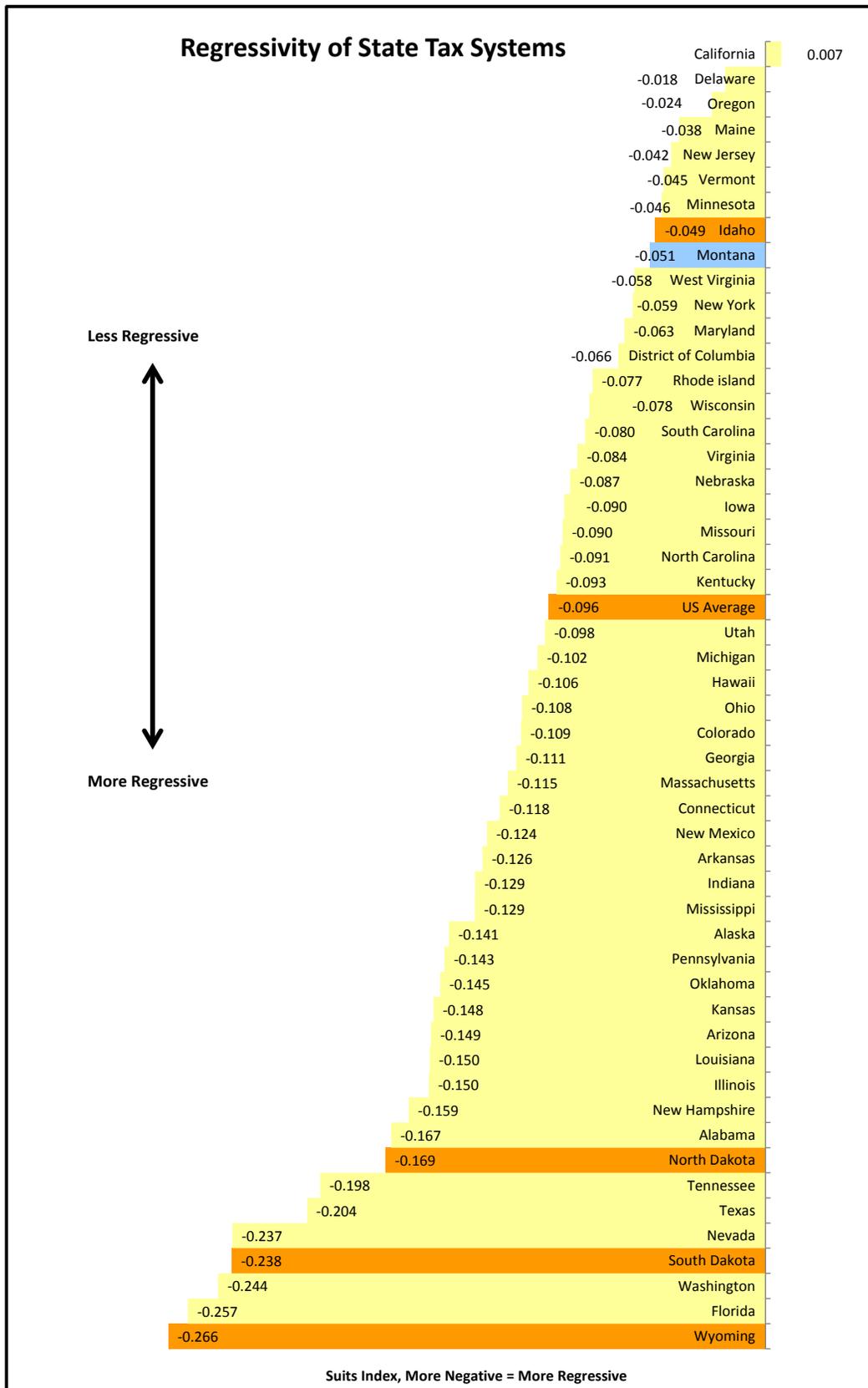
### Taxes as a Proportion of Income

A tax system is defined to be proportional if the ratio of taxes to income is the same for taxpayers with different incomes. It is progressive if the ratio of taxes to income is higher for taxpayers with higher incomes and regressive if the ratio of taxes to income is lower for taxpayers with higher incomes. The graph to the right illustrates these concepts. The red line shows a proportional tax system, where taxes are the same proportion of income at all income levels. The blue line shows a progressive tax system, where taxpayers with higher incomes pay a higher percentage of their incomes in taxes. The green line shows a regressive tax system, where taxpayers with lower incomes pay a higher percentage of their incomes in taxes.

The graph on the next page shows a measure of progressivity or regressivity, the Suits index, for each of the 50 states and the District of Columbia. The Suits index is positive for a progressive tax system, zero for a proportional tax system, and negative for a regressive tax system. A larger negative number indicates a more regressive tax system. The Suits index is always between -1 and 1. If all taxes were paid by the person with the highest income, the Suits index would be equal to 1, and if all of taxes were paid by the person with the lowest income, the Suits index would be equal to -1.<sup>1</sup>



<sup>1</sup> Suits Indices in the graph are calculated from information in Carl Davis, Kelly Davis, Matthew Gardner, Harley Heimovitz, Sebastian Johnson, Robert S. McIntyre, Richard Phillips, Alla Sapozhnikova and Meg Wiehe, Who Pays: A Distributional Analysis of the Tax Systems in All



## Comparison of State Taxes

As the graph shows, almost all state tax systems are regressive – taxpayers with higher incomes pay a smaller portion of their income in taxes. While state income taxes often are progressive, property and sales taxes together generate more revenue than the income tax in all states except for Delaware.

Property taxes are regressive because, while higher-income individuals typically have more expensive houses, taxpayers' personal real estate holdings generally do not increase proportionally with their income. Taxpayers with higher incomes are more likely to own business property, but property taxes, like other costs, generally are passed along to customers.

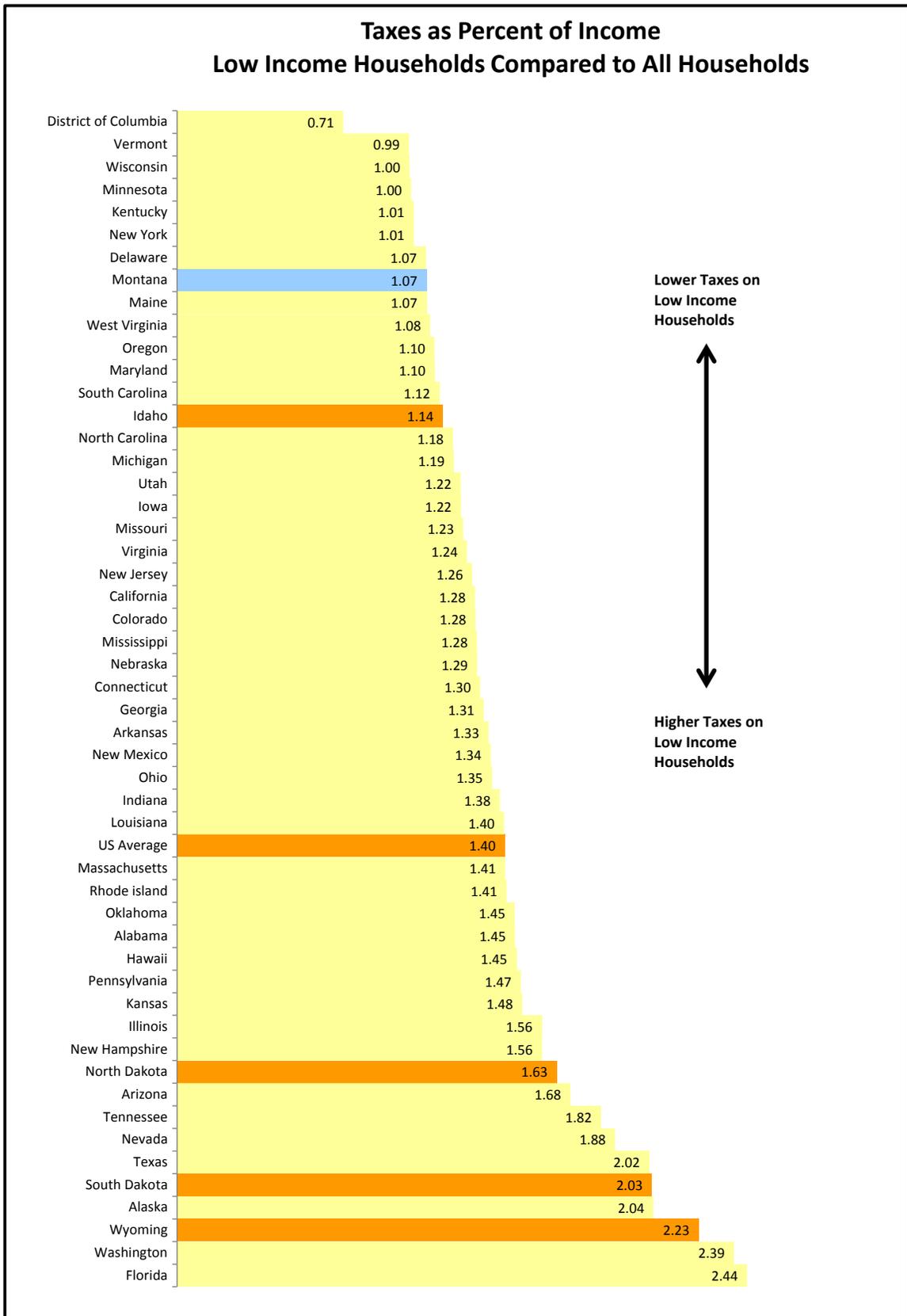
Sales taxes generally are regressive because services and other nontaxable purchases make up a larger percentage of higher-income taxpayers' spending and because higher-income taxpayers typically spend a smaller fraction of their income. Higher-income taxpayers are more likely to be accumulating wealth by spending less than they receive, both in any year and over their lifetimes.

Montana has one of the less regressive tax systems as measured by the Suits index.

### Taxes on Low Income Households

The next graph compares the percentage of income going to state and local taxes for the fifth of taxpayers with the lowest incomes to the same percentage for all taxpayers. The number for a state is less than one if low-income taxpayers pay a smaller share of their income in state and local taxes than other taxpayers. It is more than one if low-income taxpayers pay a larger share of their income in state and local taxes.

Montana low-income taxpayers pay 1.07 times as large a share of their income in state and local taxes as taxpayers as a whole. This is one of the lower ratios, and well below the national average of 1.40. There are four states where the ratio is 1 or less. The seven states with no income tax have the highest ratios, with low-income taxpayers paying at least twice as large a share of their income in state and local taxes in six of the seven.



### Easy to Understand and Comply

Ideally, paying for public services would be as simple and straightforward as possible. The taxpayer would receive a bill, be able to easily verify that the amount was correct, and have a convenient way to pay.

Whether a state's tax system is easy to understand and easy to comply with depends on the types of taxes collected, as well as on the details of the specific taxes. Some taxes are inherently harder to understand or harder to comply with. The way a tax is implemented can also make it easier or more difficult to understand and comply with. A state that relies more on taxes that are hard to understand and comply with will have a tax system that is harder to understand and comply with than a state that relies more on taxes that are inherently easy to understand and comply with.

Characteristics of a tax that influence whether it is easy to understand and comply with include:

- Whether the taxpayer receives a bill or self-assesses (files a return),
- If the tax is self-assessed, the ease or difficulty of the process,
- If tax is billed, whether the taxpayer can easily verify that the tax assessment is correct, and
- How the tax is paid.

The process for resolving disputes between the taxpayer and the taxing jurisdiction also affects the ease of complying with a tax, but is generally similar between taxes and across states. In general, the taxpayer can request an informal review, proceed to a formal review with the department, appeal before a quasi-judicial body such as the state tax appeal board, and ultimately appeal before state, and possibly federal, courts. One difference between taxes is who initiates the process. With taxes that are billed, the process generally begins with the taxpayer disagreeing with the taxing authority's assessment. With taxes that are self-assessed, the process generally begins when the taxing authority audits the taxpayer's return, disagrees with the self-assessed tax, and assesses additional tax.

### Billed or Self-Assessed

The property tax is billed to taxpayers, though some types of property are self-reported.

Sales taxes and excise taxes generally are assessed by the vendor as part of the ultimate taxpayer's bill for the taxable good or service.

Individual and corporate income taxes are self-assessed. So are the severance taxes and most business taxes.

Unlike the typical state, Montana does not have a general sales tax. Because of this, a taxpayer in Montana self-assesses a larger proportion of tax transactions than a taxpayer in the typical state. However, the effort required to self-assess taxes depends on the number of returns a taxpayer must file and the effort each return requires, not on the tax due with each return. A taxpayer in a state with a sales tax in addition to income and property taxes will have to file about the same number of returns as they would in Montana.

### Ease or Difficulty of Self-Assessment

How difficult it is for taxpayers to file returns for a tax depends on the length and complexity of the return and on additional record keeping the tax requires.

### Personal Income Tax

The income tax is self-assessed. Taxpayers are required to complete and file an annual return. This requires some degree of record keeping, organization, and planning. The ease of filing returns differs between taxpayers. For taxpayers whose income is all in forms for which they receive a W-2 or 1099 at the end of the year, such as wages or interest, and who take the standard deduction and do not claim any credits, filling out a return can be fairly simple. For taxpayers who have business income, itemize deductions, or claim a

## Comparison of State Taxes

credit, there is a greater need to keep records, and completing a return takes more time and effort.

Like most states, Montana has tied its income tax closely to the federal income tax. For taxpayers who are required to file a federal income tax return, the closer the state return is to the federal return, the easier it is for taxpayers to file their state return. Montana's income tax return is modeled on the federal return, and for many taxpayers, all of the information on income and deductions used in calculating their state income tax is the same information they used on their federal returns.

All states have some differences from federal law – in types of income that are taxed or exempt and in the itemized deductions and credits allowed. Montana has more differences from federal law than most states.<sup>1</sup>

One significant difference is that Montana is one of a few states that do not require married couples to make the same choice between a joint return and separate returns that they made for the federal income tax. Federal law provides different rate tables for joint and separate returns, and almost all married couples have lower federal tax liability if they file a joint return. Montana has one rate table for all taxpayers. Most married couples with two incomes have lower state tax liability if they file separate returns, while married couples with one income generally have lower state tax liability if they file a joint return. Many couples file a joint federal return and separate state returns, which makes the process slightly more complex. In addition, many couples calculate their state tax both ways because it is not immediately obvious which will result in lower tax liability. This can significantly increase the time and effort required to file a state return.

Federal law prohibits states from taxing some types of income that the federal government taxes, and many states have chosen to exempt some other types of income. States are also allowed to tax some income that the federal government has chosen to exempt. All state income taxes have a definition of adjusted gross income that has some differences from the federal definition. As the following table shows, Montana has more differences than most other states.

Taxpayers who itemize deductions need to keep track of deductible expenditures and to fill out additional schedules on their tax returns. States that either allow the same itemized deductions as federal law or do not allow any itemized deductions impose the smallest costs for additional record keeping and filing returns. A majority of states that have itemized deductions have at least one difference from federal law – they do not allow the itemized deduction for state income tax that federal law allows. Some states have more differences from federal law, either allowing additional deductions or not allowing some federal deductions. As the table to the right shows, Montana has more differences from federal itemized deductions than any other state.

Number of Differences from Federal Adjusted Gross Income States with Broad Income Taxes	
Fewest Differences	6
Most Differences	26
Average Number of Differences	14.6
Montana Differences	25

State Itemized Deductions	
Same as Federal	6 states
No Itemized Deductions	11 states
Standard Deduction plus Percent of Federal Itemized Deductions	1 state
1 difference from Federal Deductions	10 states
2 or 3 differences from Federal Deductions	11 states
4 to 7 differences from Federal Deductions	4 states
8 differences from Federal Deductions	1 state (Montana)

Montana law also provides for a smaller standard deduction than federal law, which results in more taxpayers itemizing deductions on their state returns than on their federal returns. Fifty-five percent of Montana income tax returns itemize deductions while only 28 percent of federal returns filed from Montana itemize.

Tax credits reduce taxes for eligible taxpayers, but require them to keep track of expenditures that are the basis of a credit and to fill out additional schedules. As the following table shows, Montana has more credits than most states, but there are states with many more credits than Montana. The additional work can vary

<sup>1</sup> Comparisons in this section are based on a review of 2012 state tax returns and instructions and on information in Individual Income Tax Provisions in the States, Wisconsin Legislative Fiscal Bureau, January, 2011.

Number of Income Tax Credits	
No Credits	2 States
1 to 10 Credits	6 States
11 to 20 Credits	13 States
21 to 30 Credits	12 States (Montana)
31 to 40 Credits	8 States
41 to 50 Credits	0 States
More Than 50	3 States
<b>Average</b>	<b>22.6</b>

greatly between credits, and only a subset of taxpayers claim any one credit, so the number of credits measures only one aspect of the additional compliance cost from tax credits.

For taxpayers who do not use them, these provisions do not make complying with the income tax more difficult. However, a majority of Montana taxpayers are affected by one or more of the differences from federal law. A little more than half of Montana married couples file separate returns on the same form while 95 percent of married couples file joint federal returns. A little more than half of Montana returns are subject to at least one of the state additions to or subtractions from federal adjusted gross income. About 55 percent itemize deductions and 8 percent claim at least one tax credit.

### Corporation Income Tax

The corporate income tax also is tied to federal law. The Montana return begins with federal taxable income from the taxpayer's federal return. Montana has some adjustments to federal taxable income, and most taxpayers are affected by at least one. In particular, taxpayers must add back any Montana corporation tax deducted in calculating federal taxable income. Montana also has a large number of tax credits for corporations, but only about two percent of corporate returns claim a credit.

The most difficult state-specific aspect of the Montana return is the apportionment of the income of multi-state corporations to Montana. The form itself is not difficult, but filling it out requires keeping records of the location of the corporation's sales, payroll, and property. However, a multi-state corporation has to make an apportionment calculation for each of the states where it pays corporation tax, so the extra record keeping is not all attributable to Montana.

### Selective Sales and Excise Taxes and Severance Taxes

The returns for Montana's sales and excise taxes and severance taxes generally are relatively short and straightforward. Most are one page, and ask the taxpayer to list either total or taxable sales, subtract a few deductions, and multiply the net amount by a tax rate. However, having the information to fill out the forms may require significant record keeping. Much of the information needed to fill out the tax forms is information that most businesses would be keeping anyway, such as total sales and various expenses, but some records may only be needed for taxes, such as which sales are taxable and which are exempt.

The ease of self-assessing can be partly judged by the fraction of returns with problems. For taxes where returns are filed by a business, the fraction of returns with math errors or other inconsistencies ranges from about one in ten to almost one in two. For comparison, the error rate on individual income tax returns is about one in four.

### **Ease of Verifying Tax Bills**

#### Property Tax

Property tax payers receive an annual statement showing the department's valuation of their property and an annual bill showing the calculation of tax. To verify the valuation, the taxpayer generally needs to contact the department's county office and talk with an appraiser. Montana has a more complicated tax calculation than many states, and it can be difficult to understand. For residential and commercial real estate, a percentage of the assessed value is exempted. Then an assessment ratio, which differs between classes of property, is applied to give taxable value.

The tax on a property is calculated by multiplying the taxable value by state and local mill levies and adding any local fees. Few taxpayers understand the local budgeting processes that determine mill levies. This often leads taxpayers to expect a change in their property taxes based on their assessment notice which turns out to be quite different from any change that they see when they ultimately receive their tax bills.

To verify that the correct mill levies and fees have been applied to the taxable value, the taxpayer generally needs to contact the county treasurer's office.

#### Selective Sales and Excise Taxes

These taxes are billed to the ultimate taxpayer as part of the bill for the taxed goods and services. Generally, the tax is stated separately. If the tax applies to the entire amount of the sale, it is straightforward for the taxpayer to check that the rate was applied correctly. If part of the sale is taxable and part is exempt, it may be difficult for a taxpayer to check whether the rate was applied only to taxable transactions.

### **Ease of Payment**

#### Property Tax

Property tax payments are due twice a year. The need to make two significant cash payments requires planning on the part of the taxpayer. Most homeowners who have a mortgage make monthly payments to a financial institution that then makes the biannual tax payments.

#### Personal Income Tax

Taxpayers are required to make payments during the year of at least 90 percent of the current year's tax liability or 100 percent of the previous year's tax liability. Any excess payments are refunded when the taxpayer files a return, and any shortfall must be paid at that time. Payments during the year may be made by withholding or quarterly estimated payments. Most taxpayers who receive periodic payments can choose to have income tax withheld from these payments. Taxpayers must complete a form W-4 to begin the withholding process or to adjust the amount withheld. After that, withholding is automatic for the taxpayer, but adds another step to the payroll process for employers and other payers. Taxpayers who make estimated payments generally have to keep track of their income, calculate the amount to pay each quarter, and make sure that funds are available to make the payments. About eight in ten individuals or couples have taxes withheld from wages or other periodic payments, and about one in ten make estimated payments. About one in twenty do both.

#### Corporation Income Tax

Corporations are required to make quarterly payments during a tax year. Any excess or deficiency is made up when the corporation files its return. Making periodic tax payments generally will not be significantly different from making payments to suppliers or employees or paying dividends to shareholders. These are things businesses do routinely, and making four additional payments a year should have minimal cost.

## Comparison of State Taxes

### Selective Sales and Excise Taxes

The ultimate consumers pay these taxes as part of their payment for taxable goods and services. There generally is no additional effort involved.

Vendors who collect these taxes from their customers must calculate the tax, track the amount collected, and remit it to the state periodically. The tax calculation generally can be automated as part of the billing process, and is done as part of a transaction the vendor would be making anyway. Remitting the tax generally is no different from making the other types of payments that a business makes and should have minimal additional costs.

### Severance Taxes

Severance tax payments are due with the taxpayer's periodic return. Making these periodic payments generally is no different from making other payments a business makes and should have minimal additional costs.

### **Easy to Administer Fairly, Efficiently, and Effectively**

A tax that is easy to administer fairly, efficiently, and effectively will have a low cost for the tax agency to either assess the tax or process and verify tax returns. It will have few opportunities for taxpayers to evade the tax, and it will not create disparities in how taxpayers are treated.

### **Cost to Assess or Process Returns**

The tax agency's cost to administer a tax depends on the number of taxpayers and the time and effort the agency must expend per taxpayer. The number of taxpayers varies between types of taxes. Taxes that are paid directly by most individuals or businesses have many returns. Taxes that are paid by a few taxpayers or that are collected from many taxpayers by a few vendors have fewer returns to process.

The time spent per taxpayer depends on the length of the return and the amount of information that must be recorded. It also depends on the time that must be spent verifying and correcting a typical return.

To some extent, there may be a tradeoff between taxpayers' ease of compliance and the tax agency's ease of administration. For example, having a tax billed rather than self-assessed shifts most of the effort of calculating the tax from the taxpayer to the tax agency. Conversely, requiring taxpayers or third parties to provide additional information on sales or income would increase the effort required to comply with the tax, but could reduce the auditing effort required to administer a tax effectively.

### Property Tax

The property tax is a relatively expensive tax to administer, primarily because it is billed rather than self-assessed. Montana's property tax has some complexities that make it more expensive to administer than property taxes in some states, but it does not have some complications found in other states.

The Department of Revenue assesses all property in the state, certifies the total taxable value for each taxing jurisdiction, and certifies the value of new property to be used in calculating each taxing jurisdiction's spending limits under 15-10-420, MCA. Each local taxing jurisdiction calculates its mill levy or levies based on its budget and taxable value. The department calculates tax for each taxable property, and then county treasurers print and mail property tax bills to each property owner. This process is relatively expensive. The budget for the department's Property Assessment Division is almost twice as large as the budget for the Business and Income Tax Division, which administers the individual and corporate income taxes and all the excise and selective sales taxes other than alcohol taxes.

These functions are common to the property tax systems in all states. In Montana, more of these functions are performed by the state and fewer are performed by local jurisdictions than in other states. Montana is the only state where all property assessment is a state function. In most states, property assessment is

## Comparison of State Taxes

mostly or entirely a local function. In most states, a state agency oversees and supports local assessors, and in most states, property that crosses county lines, such as railroads or pipelines, is assessed by the state.

Property assessment is a state function in Montana for a combination of historic and practical reasons. The 1972 Constitutional Convention made property assessment a state function after hearing widespread concerns about lack of uniformity in appraisals done by county assessors. Montana is one of eleven states with statewide property taxes, and in these states it is important that assessments be uniform statewide as well as within local jurisdictions.

Identical properties need to have the same assessed value within a taxing jurisdiction to ensure that they pay the same taxes. However, the taxes on individual properties in a jurisdiction will be the same whether assessments are all at market value or are uniformly high or low. This is because property taxes are based on a taxpayer's share of taxable value in a jurisdiction, not on the absolute value of the taxpayer's property. A taxpayer with 0.01 percent of the taxable value in a jurisdiction will pay property taxes equal to 0.01 percent of the taxing jurisdiction's revenue requirement. Millage rates are set by dividing a jurisdiction's revenue requirement by its taxable value. If, for example, all properties in a jurisdiction are over-assessed by 10 percent, the mills will be 10 percent lower than if assessments were at market value, and taxes will be the same as if assessments were at market value.

In states with only local property taxes, assessments need to be uniform within each local taxing jurisdiction, but do not need to be uniform across jurisdictions. If assessments are 10 percent higher than market value in Town A and 10 percent lower than market in Town B, taxpayers in both jurisdictions pay the same taxes as if both towns assessed at market value.

When the state levies property taxes, either assessments need to be uniform statewide or some adjustment needs to be made for differences between local assessment practices. Montana has made assessment a state function. Most of the other states with state property taxes provide state oversight for local assessors. Washington conducts annual sales-assessment ratio studies and uses the results to adjust state mills in each county to compensate for differences in local assessment practices.

While assessing property at the state level increases the state cost of administering the property tax, it eliminates most local costs. It is not clear how state assessment affects the total of state and local costs.

The basis for property taxation is the market value of property. Determining the tax from market value can be simple or complex. In some states, all property is assessed at its market value and the tax equals market value multiplied by a tax rate. In other states, property is assessed at a percent of its market value, the percent may vary between classes of property, some types of property may be assessed on something other than market value, part of a property's value may be exempt from taxes, or different rates may apply to different properties.

When property is assessed at less than full market value, the ratio of assessed value to market value is called the assessment ratio. Property tax rates give the ratio of tax to taxable value. In Montana, they are expressed in mills, or dollars of tax per thousand dollars of taxable value. Some states express rates as a percent, or dollars of tax per hundred dollars of taxable value. Property tax rates may either be set in statute or determined annually by dividing a taxing jurisdiction's revenue requirement by its total taxable value.

The following table shows the number of states with uniform taxation of all property (except agricultural land, which is generally assessed on its value in its current use rather than its market value), and the number that treat classes of property differently either through different assessment ratios or different mill levies.

More than half of states have some departure from uniform taxation. The largest group, which includes Montana, has classes of property with different assessment ratios, but uniform millage rates. Montana has the largest number of different assessment ratios – 12, including two for business equipment depending on how much the taxpayer owns. Six states have uniform assessment ratios, but have at least one situation where a property class pays a different millage rate. Three states have classes with different assessment

## Comparison of State Taxes

ratios and different millage rates. One state, California, does not base taxes on market value. Property taxes in California are based on purchase price partially adjusted for inflation. This is equivalent to having a different assessment ratio for property sold each year.

State With Uniform and Nonuniform Taxation of Property Classes	
One Assessment Ratio and Uniform Mills	22
One Assessment Ratio and Nonuniform Mills	6
Multiple Assessment Ratios and Uniform Mills	19 - including Montana
Multiple Assessment Ratios and Nonuniform Mills	3
Tax Not Based on Market Value	1

Many states exempt part of the value of some types of property. The exemption can be for a fraction of a property's value, a fixed dollar amount, or a specified quantity of property. The following table shows the number of states that do and do not give partial exemptions.

States With Partial Property Tax Exemptions	
Partial Exemption	19 - including Montana
No Partial Exemption	32

Most of the states with a partial exemption have a homestead exemption, usually exempting the taxpayer's principal residence and the land it sits on, up to a maximum value or acreage. Four states, including Montana, exempt a fraction of the value. This is equivalent to a lower assessment ratio for homestead property, but appears to be harder for taxpayers to understand.

Four states, including Montana, exempt a dollar amount of business personal property. Montana also exempts a fraction of the value of commercial and industrial real estate.

Having multiple classes of property with multiple assessment ratios requires some additional costs for record keeping and data processing. It also requires the department to make sure that each parcel is classified correctly. The partial exemptions for residential and commercial real property add a step to the calculation of taxes, but the cost is relatively low.

Montana's property tax does not have some features that make property tax administration more complex and more costly in other states. Some states have mill levies that apply to some classes of property and not to others. For example, school district levies may be applied to residential property but not commercial property, or public safety levies may be applied to buildings but not land. This requires a layer of record keeping and a step in the tax calculation that are not required in Montana. Some states have caps on increases in the assessed value of individual properties. These caps take several forms, and in some cases require assessors to track several values for each property, such as current market value, purchase price adjusted for inflation, or purchase price adjusted by an arbitrary growth rate, and use the lowest. This also requires additional layers of record keeping and additional steps in the tax calculation that are not required in Montana.

States With Cap on Assessed Value Growth	
Cap	9
No Cap	42 - including Montana

## Comparison of State Taxes

### Personal Income Tax

The provisions of the Montana income tax that make it more difficult for taxpayers to file returns also generally make it more expensive for the department to process and audit returns. Building the ability to handle separate returns filed on the same form and the large number of line items into the department's data processing system required significant up-front costs. They also require considerable extra work when the system is upgraded and somewhat increase the cost of processing each return and storing the information on it. The large number of state credits and the differences from the federal definition of income and federal itemized deductions create more line items on returns that must be verified and may need to be audited to ensure high compliance.

Increasing electronic filing has affected the cost of administering the income tax in both positive and negative ways. The department has had to invest in additional data processing systems to allow taxpayers to file electronically. As more taxpayers have filed electronically, the department has been able to print fewer tax booklets. Electronic filing also greatly reduces the kind of mistakes in adding and copying numbers that taxpayers tend to make when filling out returns by hand.

### Sales and Excise Taxes

Not having a general sales tax significantly reduces the cost of administering Montana's tax system. In states that have both a general sales tax and an income tax, the costs of administering the two taxes generally are in the same range. Sales tax is collected by almost all businesses making retail sales and many businesses making wholesale sales. Thus, there is a large number of sales tax returns to process. And, significant effort is required to verify that an individual taxpayer applied the tax to the correct transactions and collected and remitted the correct amount of tax.

Montana's selective sales and excise taxes generally have a relatively small number of taxpayers, ranging from a few hundred up to about 10,000. Processing and verifying individual returns can take significant resources. Some of these taxes have relatively high rates of errors on returns and verifying that the tax was applied to the correct sales can be time consuming.

### Severance Taxes

Most severance taxes have a small number of taxpayers and relatively simple returns. The oil and gas production tax is an exception. Part of the revenue from this tax is allocated to the county and school district where each well is located. This means that, in addition to the normal processing and verifying of returns, the department must calculate the distribution of revenue separately for each return.

### **Opportunities for Non-Compliance or Gamesmanship by Taxpayers**

The more opportunities a tax has for noncompliance or gamesmanship, the more expensive it will be to administer fairly, efficiently, and effectively because the tax agency will have to spend more time auditing taxpayers, searching for nonfilers and nonpayers, and dealing with questionable appeals.

### Property Tax

Taxpayers are responsible for reporting business equipment annually. The department attempts to identify new construction, but taxpayers are also asked to self-identify new construction or other changes to real estate. The only real opportunity for noncompliance for most property is a failure to report business equipment or new construction.

The appeals process offers some opportunities for gamesmanship. Taxpayers who appeal their assessments merely have to assert that the assessment is too high. They do not have to provide an alternative valuation. This essentially places the burden of proof on the department to explain and defend its valuation. There is also a procedural asymmetry. The department must argue that its valuation is correct, while the taxpayer argues that one or more components of the department's assessment result in a value that is too high.

There is no party questioning whether the department's value might be too low. This can give taxpayers an incentive to appeal in the hope that the tax appeal board or a court will find some reason to lower the department's assessment with essentially no risk that it will be raised. For homeowners and small businesses with limited resources and expertise, this probably is not a significant problem. For large industrial taxpayers, the potential savings from significantly reducing property tax assessments can pay for in-house or hired expertise and drawn-out appeals. For these taxpayers, the structure of the appeals process makes it rational to automatically appeal in the hope that the tax appeal board or a court can be convinced that there is something wrong with the department's assessment or the department can be convinced to settle for a lower valuation.

### Personal Income Tax

Since the income tax is self-assessed, taxpayers have numerous opportunities not to comply with the tax. They can understate their income, overstate their deductions, and claim credits that they are not eligible for. When taxes are withheld from taxpayers' income and there is third-party reporting of income, taxpayers are much more likely to comply. Taxpayers must either risk a high probability of being caught or convince their employers to collude with them in evading tax. The IRS estimates that income is under-reported by less than 5 percent for types of income such as interest and dividends where the payer is required to report payments on a form 1099. For wages and salaries, where employers withhold tax and report income on form W-2, the IRS estimates that income is underreported by about one percent. The IRS estimates that income from sole-proprietor businesses and pass-through entities, where neither withholding nor third-party reporting is required, is underreported by at least 50 percent.

### Sales and Excise Taxes

Since sales and excise taxes are included in the bill the taxpayer receives for another transaction, the ultimate taxpayer has little choice about complying. The main compliance issues with these taxes are vendors who do not collect the tax or do not remit tax they collect, and ensuring that the tax is applied to the correct base. Sometimes new or temporary businesses do not collect a tax, either from ignorance or because they do not expect to be caught. Vendors sometimes do not apply tax to taxable transactions because they are misinformed. Vendors also sometimes collect tax from customers but either under report sales or misreport some taxable sales as nontaxable.

With a general sales and use tax, the main compliance issue arises from out-of-state purchases. In all states with a general sales and use tax, the tax is on the buyer, but is collected by the seller. When a resident of a sales tax state buys something from an out-of-state seller, the buyer has a legal obligation to pay the tax, but the seller may not have a legal obligation to collect it. This is not a problem with Montana's selective sales and excise taxes.

### Severance Taxes

Since severance taxes are self-reported, there are opportunities for noncompliance. Producers may not file returns because they are unaware of the tax or because they do not think they are likely to be caught. Producers may under report production or under report the value of production, particularly if there is no arms-length transaction to measure the value of production at the point in the process where the tax is imposed.

### Fairness of Administration

Whether a tax is administered fairly is a different question than whether the tax is fair. A tax may be unfair if, for example, it imposes wildly different taxes on taxpayers in similar circumstances. Administration of a tax may be unfair if, for example, the cost to comply is much higher for some taxpayers than for others or if some group of taxpayers find it easy to evade the tax while others pay.

The property tax and the personal income tax are the two taxes that pose the greatest challenges for fairness in administration.

## Comparison of State Taxes

### Property Tax

Two properties with the same value and in the same class should only have different property taxes if they face different local mill levies. This will be the case if the department's assessments of property value are uniform.

Assessing property values is a much more difficult and involved process than determining the tax base for other taxes. For most other taxes, the tax base is either the value of a market transaction, such as income earned or goods sold, or some physical quantity, such as tons of a mineral mined or packs of cigarettes sold.

For property tax, there is an observable, current market transaction only for a fraction of properties every year. For properties that have not sold recently, the department has to estimate the price at which they would sell. And even for properties that have sold recently, the department has to estimate how much, if any, the value changed between the date when it sold last and the reappraisal date.

The department has a number of tools for making these estimates. For residential property, the main tool is statistical modeling which uses the prices and characteristics of homes that have sold recently to estimate the contribution to a home's price of various characteristics such as location, size, age, number and type of rooms, type of construction, etc. Another tool is direct comparison with a limited number of similar properties that have sold recently. Other tools used for estimating the value of income-producing properties include estimates of the cost of constructing a similar building and estimating the present value of the stream of rent or other income that the property could produce.

For all of these appraisal tools, there is a tradeoff between the effort and cost that goes into appraisal and the accuracy of the estimated value of individual properties. For example, statistical models do a good job of estimating the average value of a certain type of house in a certain neighborhood, but may not pick up unique features that make the value of a particular house higher or lower than average. Collecting additional information and using it to build more sophisticated models can lead to more accurate individual appraisals, but increases the cost of the appraisal process.

### Personal Income Tax

The primary difficulty in administering the income tax fairly comes from differences in the ease of non-compliance for taxpayers in different circumstances. Taxpayers with income from wages and salaries, interest, corporate dividends, or pensions have their income reported to the IRS and the department and may have tax withheld from their payments. Taxpayers with income from a sole proprietor business or a pass-through entity do not have the same third-party reporting and withholding requirements. IRS research indicates that taxpayers whose income is not subject to third-party reporting or withholding under-report income and under-pay tax at much higher rates. Most credits and deductions also are based on information that is self-reported by the taxpayer with little or no third-party verification.

Maintaining acceptable compliance and fairness between taxpayers requires the department to audit and verify a sample of returns with items where there is no third-party verification and to search for non-filers. Increasing fairness of administration by reducing non-compliance by taxpayers with income, deduction, or credit items without third-party reporting can be done, but only by imposing additional costs, either on the department for additional auditing or on taxpayers through additional reporting requirements.

### **Competitive**

People and businesses consider taxes and government services in deciding where to locate. State and local governments often compete by providing special tax treatment for specific industries or groups of residents. However, with their requirements to have a balanced budget, state and local governments can only cut taxes for one group by raising taxes for another or by cutting services. Governments can compete by giving special treatment to favored groups at the cost of higher taxes or fewer services for everyone else, or they can compete by efficiently providing a level of services that citizens want at the lowest possible cost.

## Comparison of State Taxes

Even without consciously competing, states make themselves more or less attractive to certain types of taxpayer because of their mix of taxes and the features of individual taxes. Taxpayers generally prefer the taxes they pay to be lower, and may not care about taxes they do not pay. For example, retirees may be attracted by low property taxes, while young families may find large income tax exemptions for dependents attractive. Taxpayers may also be attracted by the quality of specific public services, such as schools or roads.

The table on page 40 and the graphs on pages 41 - 45 show taxes per person for the 50 states and the District of Columbia. The table shows property taxes, sales and gross receipts taxes, individual and corporate income taxes, other taxes, and the total, for states in alphabetic order. The graphs each show state rankings for a single tax. The table on page 46 and the graphs on pages 47 - 51 are organized the same way but show taxes per dollar of residents' income.

These tables do not show taxes paid by a typical individual or the percent of income a typical individual pays in taxes. States differ in the shares of taxes paid by individuals and businesses and by residents and non-residents. Several organizations publish comparisons that attempt to adjust for these differences. The Tax Foundation<sup>1</sup> attempts to adjust for taxes each state receives from out-of-state taxpayers. The District of Columbia<sup>2</sup> compares taxes for hypothetical families in each state. The Institute on Taxation and Economic Policy<sup>3</sup> estimates taxes as a percent of income for income groups in each state.

### Accountability

In an accountable tax system, taxpayers know what they pay and what their taxes buy. Taxpayers also know how taxing and spending decisions are made and have the opportunity to participate in and influence those decisions.

Taxes differ in how obvious they are to taxpayers and in how easy it is for taxpayers to compare the amount they are paying for public services to the amount they pay for other goods and services. With taxes that are billed or that require taxpayers to file a periodic return, taxpayers can easily see the total amount they pay for the period. In the case of property taxes, the bill can also tell taxpayers what they are paying for particular public services, such as roads, schools, and public safety. With sales and excise taxes, it is much less obvious to a taxpayer how much they are paying per period. Even when excise taxes are stated on a bill, customers paying the bill are likely be only vaguely aware of the amount of tax. When businesses are taxed with the intention that they pass the tax on to customers, the ultimate taxpayers will be unaware of the tax. When businesses are taxed to pay for public services that the businesses use, the cost will be passed on to customers in the same way as other costs of doing business.

In Montana, taxing and spending decisions are made by the legislature and elected local officials. In addition, local property tax increases that exceed half the rate of inflation must be put to a vote.

The principles document also stresses that provisions of the tax code that have aims other than raising revenue should be explicit and should be reviewed regularly, ideally every budget cycle. Tax preferences are an alternative to spending as a way to accomplish legislative goals, and they should be given the same type of scrutiny. One of the tools of that scrutiny is a tax expenditure report. Such a report should explain each tax expenditure's purpose and how it works, measure its revenue cost, and evaluate its effectiveness and cost-effectiveness in accomplishing its purpose.

Montana is one of 42 states that produces a periodic tax expenditure report. It begins on page 256 of this Biennial Report. Only four states' reports include evaluations of effectiveness and cost-effectiveness. Montana is not one of the four, and the Montana Legislature does not review tax expenditures as part of the budget process.

1 <http://www.taxfoundation.org>

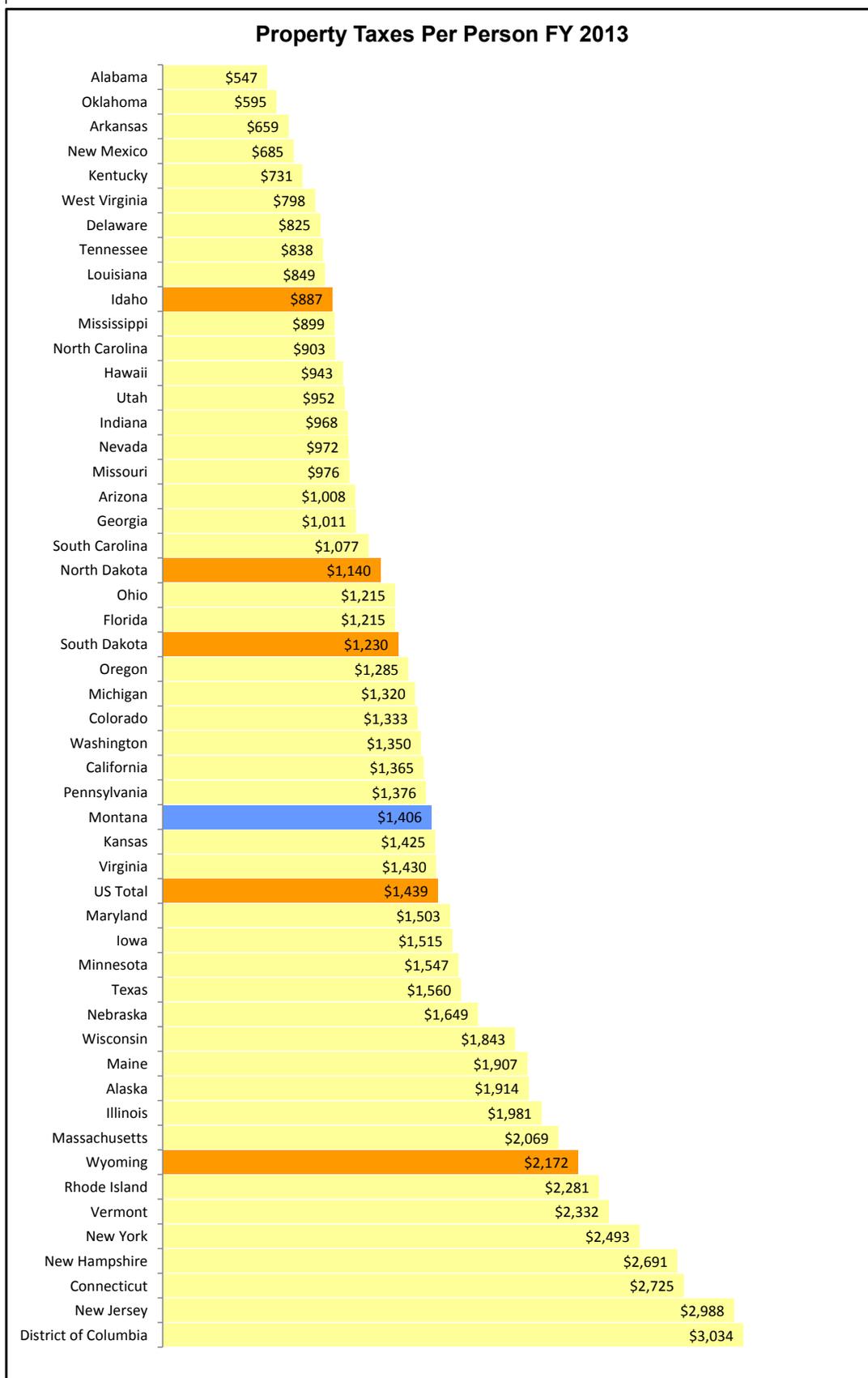
2 <http://cfo.dc.gov>

3 <http://www.itepnet.org>

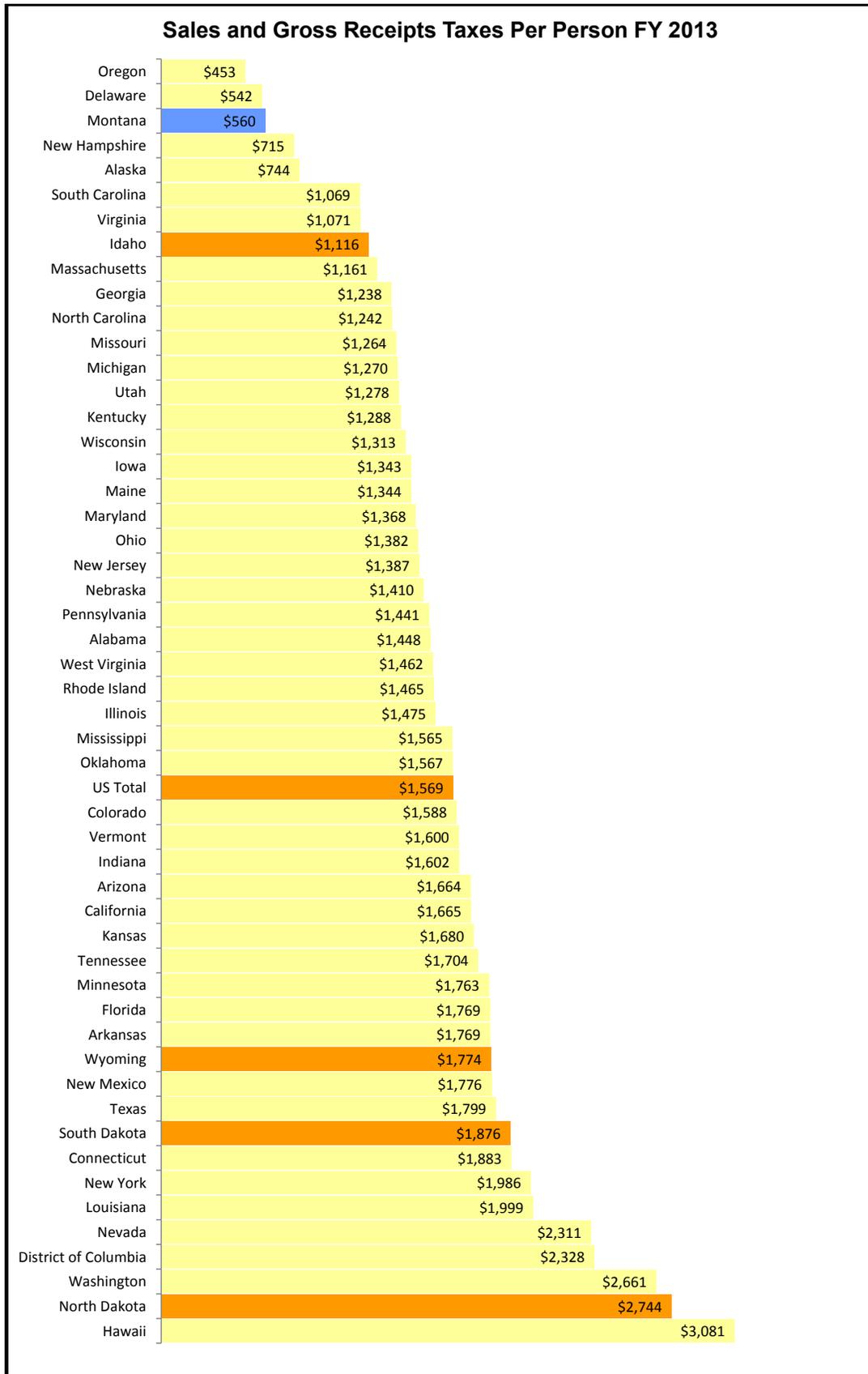
# Comparison of State Taxes

Taxes Per Person - FY 2013										
State	Property Tax		Sales and Gross Receipts		Individual and Corporate Income Tax		Other Taxes		Total	
	\$	Rank	\$	Rank	\$	Rank	\$	Rank	\$	Rank
Average of All States	\$1,439		\$1,569		\$1,237		\$354		\$4,599	
Alabama	\$547	51	\$1,448	28	\$765	39	\$285	34	\$3,046	51
Alaska	\$1,914	11	\$744	47	\$856	37	\$5,700	1	\$9,214	2
Arizona	\$1,008	34	\$1,664	19	\$612	43	\$131	50	\$3,415	45
Arkansas	\$659	49	\$1,769	13	\$1,032	31	\$179	48	\$3,638	37
California	\$1,365	23	\$1,665	18	\$1,933	6	\$363	19	\$5,325	14
Colorado	\$1,333	25	\$1,588	22	\$1,172	25	\$245	37	\$4,338	24
Connecticut	\$2,725	3	\$1,883	8	\$2,329	3	\$322	25	\$7,258	5
Delaware	\$825	45	\$542	50	\$1,624	10	\$1,621	4	\$4,612	20
District of Columbia	\$3,034	1	\$2,328	4	\$3,226	1	\$932	5	\$9,520	1
Florida	\$1,215	29	\$1,769	14	\$106	46	\$288	32	\$3,377	46
Georgia	\$1,011	33	\$1,238	42	\$957	33	\$117	51	\$3,323	47
Hawaii	\$943	39	\$3,081	1	\$1,320	15	\$363	18	\$5,707	9
<b>Idaho</b>	<b>\$887</b>	<b>42</b>	<b>\$1,116</b>	<b>44</b>	<b>\$926</b>	<b>35</b>	<b>\$236</b>	<b>39</b>	<b>\$3,165</b>	<b>49</b>
Illinois	\$1,981	10	\$1,475	25	\$1,629	9	\$288	31	\$5,374	13
Indiana	\$968	37	\$1,602	20	\$1,060	30	\$163	49	\$3,793	34
Iowa	\$1,515	17	\$1,343	35	\$1,283	18	\$317	26	\$4,459	21
Kansas	\$1,425	20	\$1,680	17	\$1,155	27	\$196	46	\$4,456	22
Kentucky	\$731	47	\$1,288	37	\$1,286	17	\$202	45	\$3,508	41
Louisiana	\$849	43	\$1,999	6	\$646	42	\$300	28	\$3,795	33
Maine	\$1,907	12	\$1,344	34	\$1,282	19	\$285	33	\$4,819	16
Maryland	\$1,503	18	\$1,368	33	\$2,221	4	\$375	16	\$5,468	11
Massachusetts	\$2,069	9	\$1,161	43	\$2,201	5	\$292	30	\$5,723	8
Michigan	\$1,320	26	\$1,270	39	\$957	34	\$203	43	\$3,750	35
Minnesota	\$1,547	16	\$1,763	15	\$1,902	7	\$335	21	\$5,547	10
Mississippi	\$899	41	\$1,565	24	\$726	40	\$240	38	\$3,430	44
Missouri	\$976	35	\$1,264	40	\$1,016	32	\$203	44	\$3,459	43
<b>Montana</b>	<b>\$1,406</b>	<b>21</b>	<b>\$560</b>	<b>49</b>	<b>\$1,199</b>	<b>23</b>	<b>\$632</b>	<b>6</b>	<b>\$3,796</b>	<b>32</b>
Nebraska	\$1,649	14	\$1,410	30	\$1,272	20	\$323	24	\$4,654	18
Nevada	\$972	36	\$2,311	5	\$0	48	\$592	7	\$3,875	30
New Hampshire	\$2,691	4	\$715	48	\$493	44	\$299	29	\$4,197	27
New Jersey	\$2,988	2	\$1,387	31	\$1,615	11	\$317	27	\$6,306	6
New Mexico	\$685	48	\$1,776	11	\$723	41	\$490	10	\$3,673	36
New York	\$2,493	5	\$1,986	7	\$3,140	2	\$428	12	\$8,047	4
North Carolina	\$903	40	\$1,242	41	\$1,254	21	\$209	42	\$3,608	38
<b>North Dakota</b>	<b>\$1,140</b>	<b>31</b>	<b>\$2,744</b>	<b>2</b>	<b>\$1,198</b>	<b>24</b>	<b>\$3,738</b>	<b>2</b>	<b>\$8,820</b>	<b>3</b>
Ohio	\$1,215	30	\$1,382	32	\$1,311	16	\$366	17	\$4,275	25
Oklahoma	\$595	50	\$1,567	23	\$909	36	\$421	13	\$3,492	42
Oregon	\$1,285	27	\$453	51	\$1,726	8	\$445	11	\$3,909	28
Pennsylvania	\$1,376	22	\$1,441	29	\$1,402	14	\$408	14	\$4,627	19
Rhode Island	\$2,281	7	\$1,465	26	\$1,171	26	\$211	41	\$5,129	15
South Carolina	\$1,077	32	\$1,069	46	\$785	38	\$263	36	\$3,194	48
<b>South Dakota</b>	<b>\$1,230</b>	<b>28</b>	<b>\$1,876</b>	<b>9</b>	<b>\$44</b>	<b>47</b>	<b>\$357</b>	<b>20</b>	<b>\$3,508</b>	<b>40</b>
Tennessee	\$838	44	\$1,704	16	\$234	45	\$330	22	\$3,106	50
Texas	\$1,560	15	\$1,799	10	\$0	48	\$503	9	\$3,862	31
Utah	\$952	38	\$1,278	38	\$1,096	29	\$183	47	\$3,510	39
Vermont	\$2,332	6	\$1,600	21	\$1,226	22	\$264	35	\$5,423	12
Virginia	\$1,430	19	\$1,071	45	\$1,411	13	\$325	23	\$4,238	26
Washington	\$1,350	24	\$2,661	3	\$0	48	\$404	15	\$4,416	23
West Virginia	\$798	46	\$1,462	27	\$1,100	28	\$539	8	\$3,898	29
Wisconsin	\$1,843	13	\$1,313	36	\$1,425	12	\$223	40	\$4,804	17
<b>Wyoming</b>	<b>\$2,172</b>	<b>8</b>	<b>\$1,774</b>	<b>12</b>	<b>\$0</b>	<b>48</b>	<b>\$1,848</b>	<b>3</b>	<b>\$5,794</b>	<b>7</b>

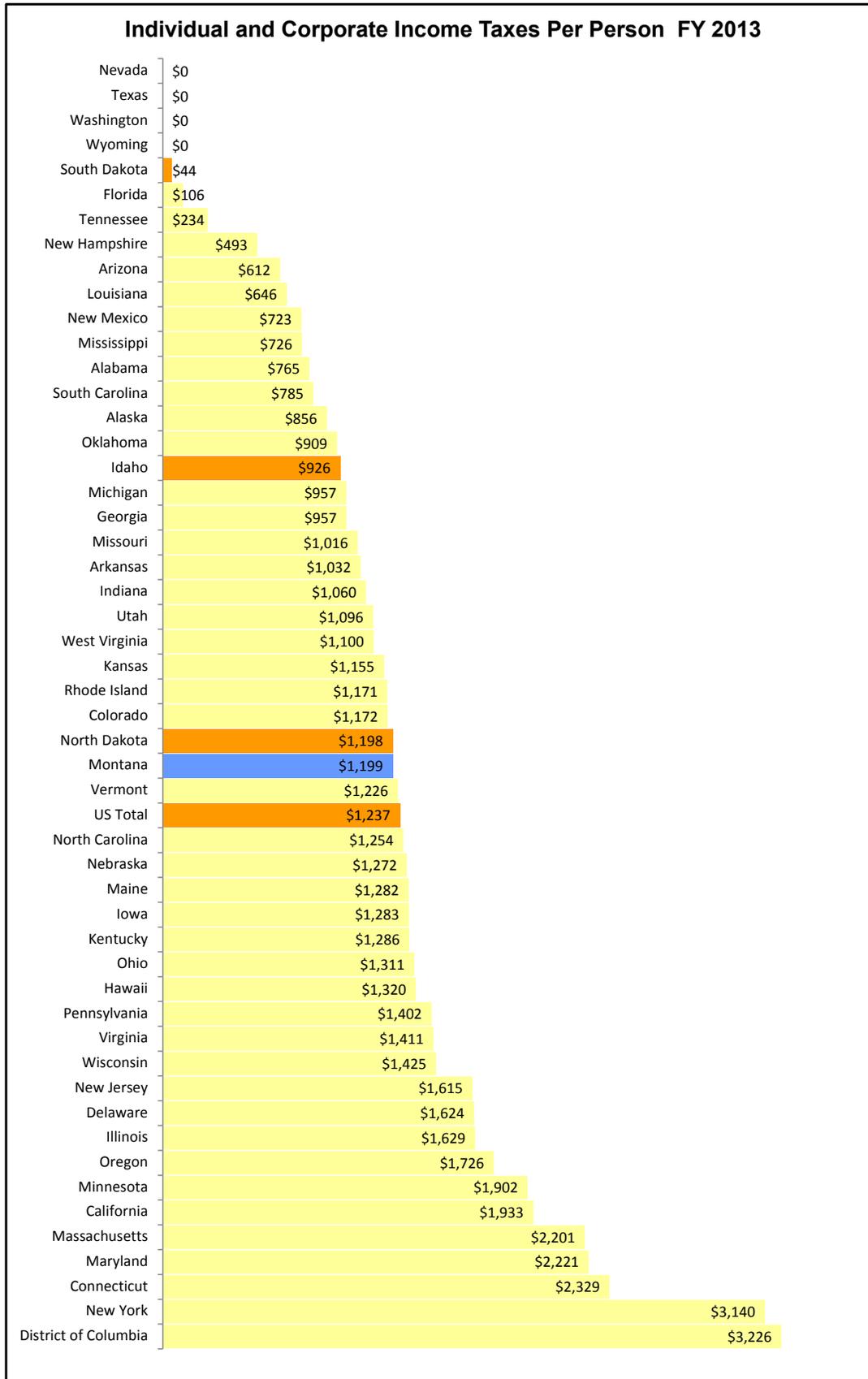
# Comparison of State Taxes



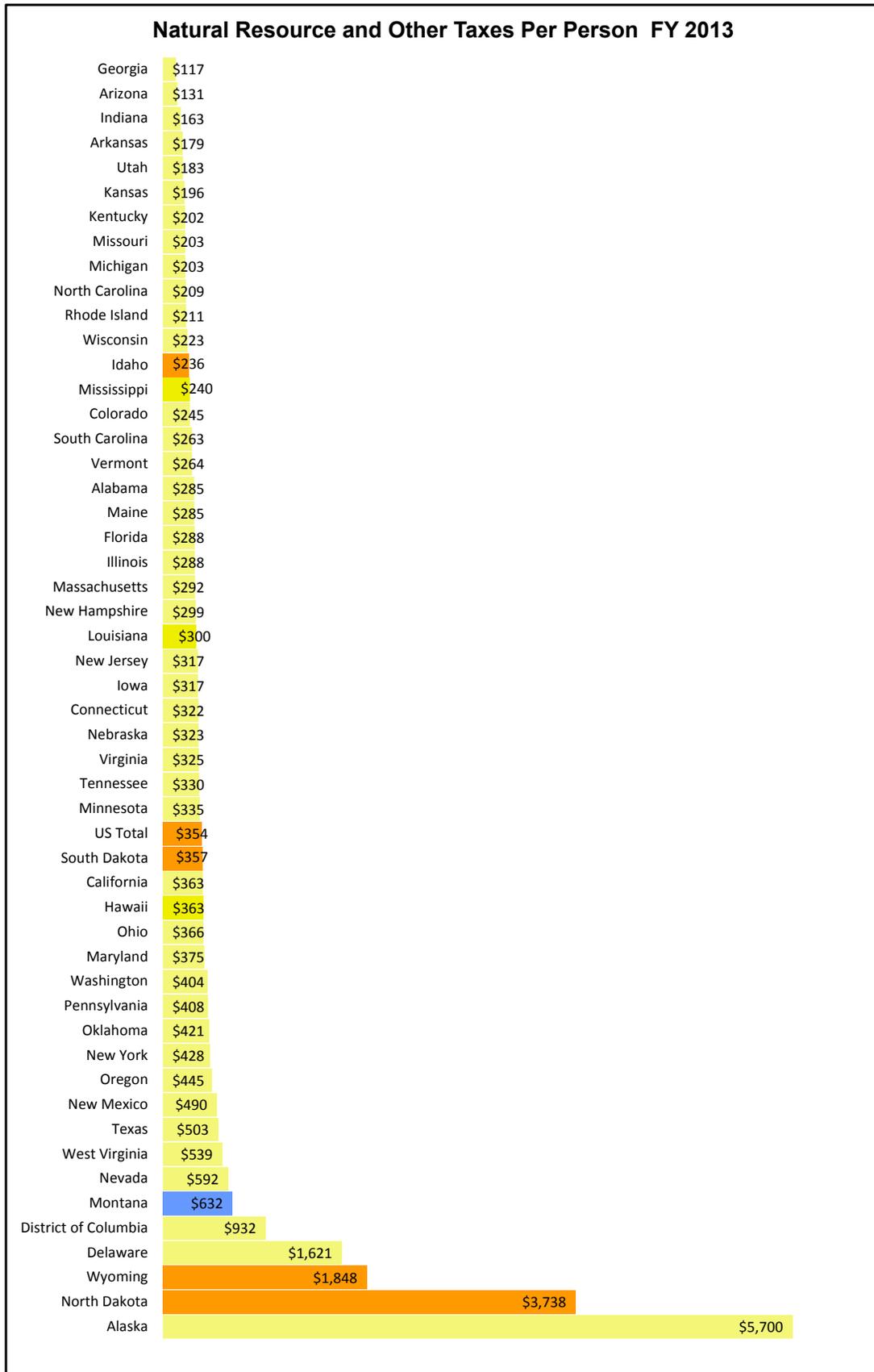
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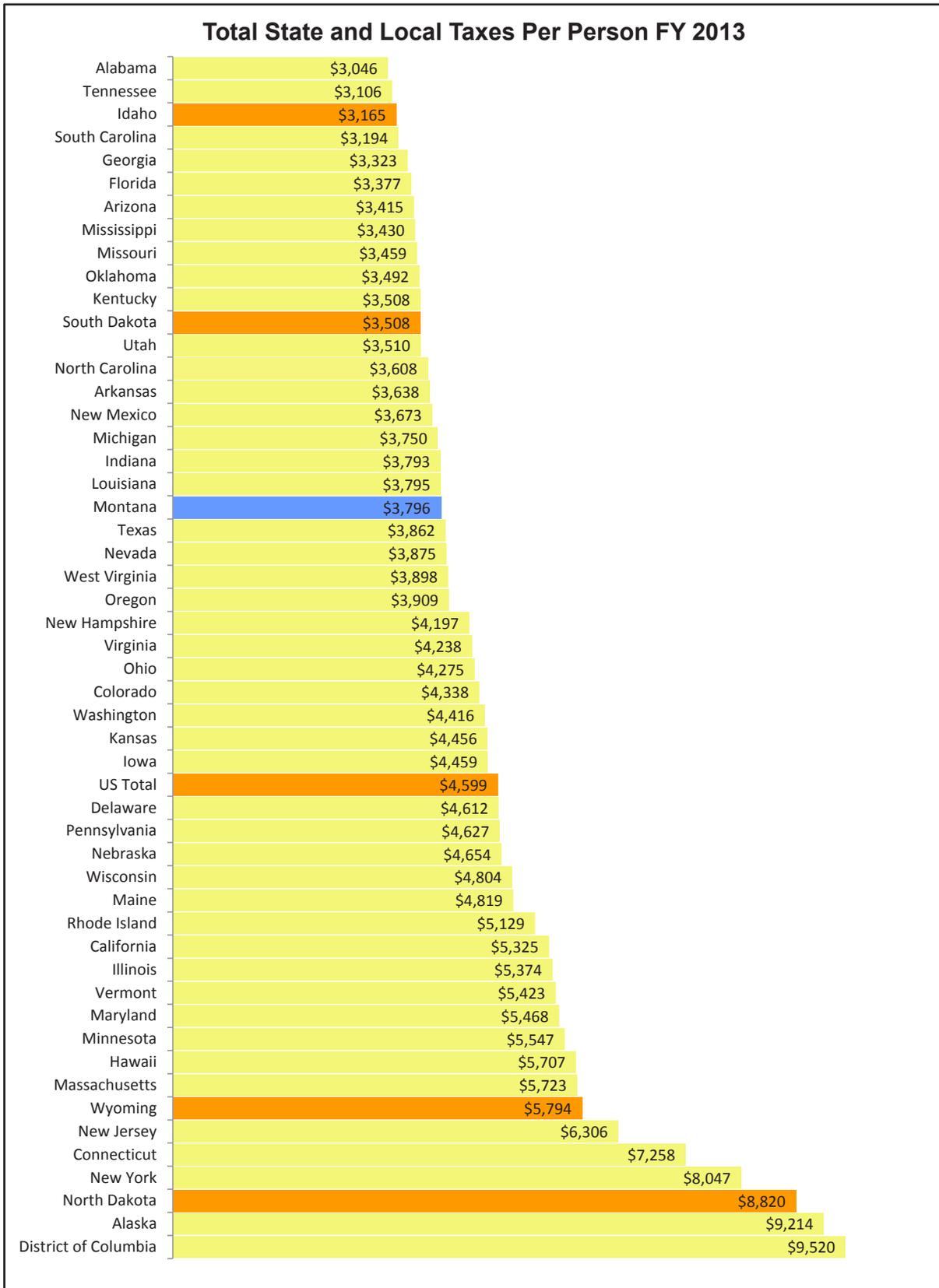
# Comparison of State Taxes



# Comparison of State Taxes



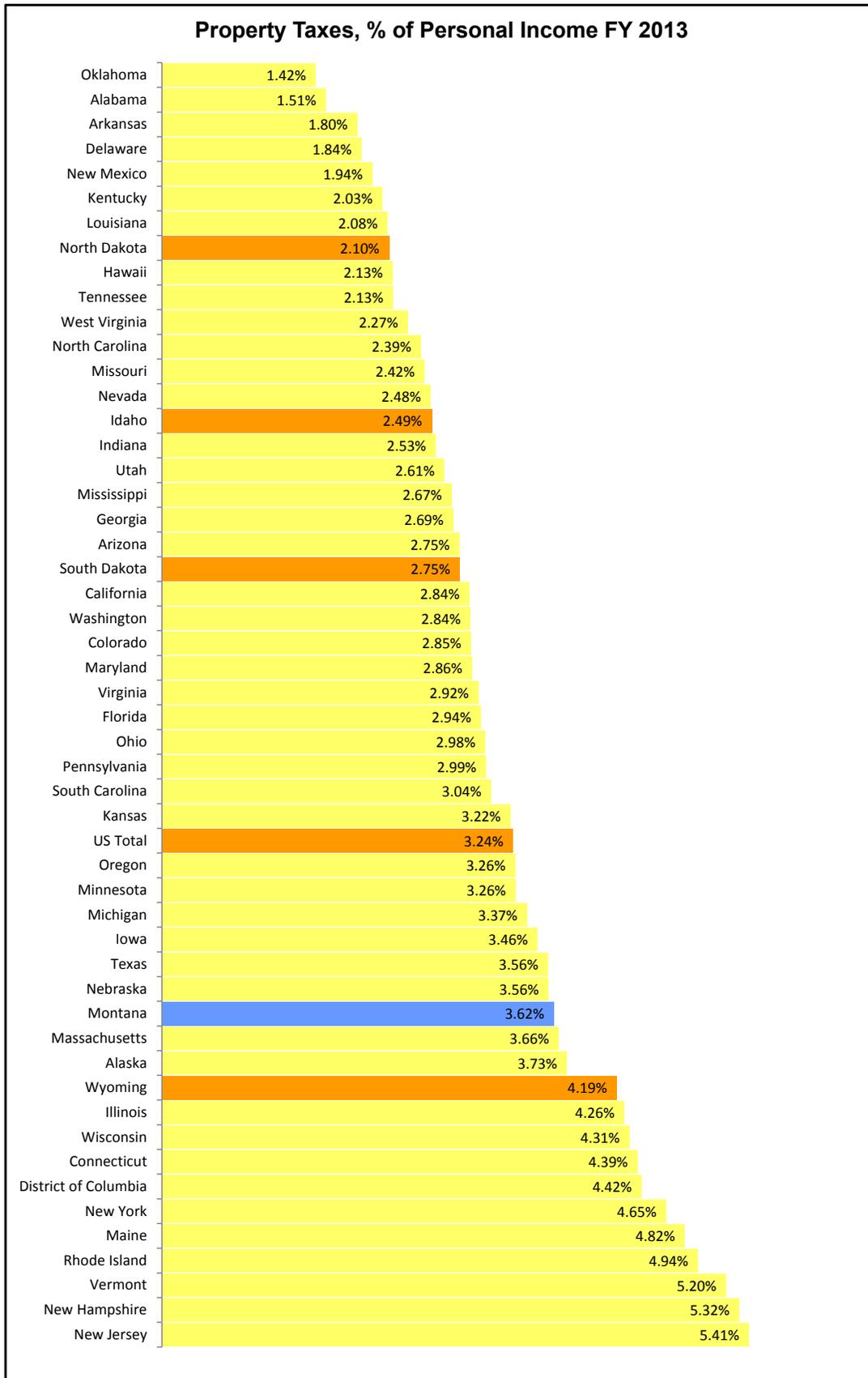
## Comparison of State Taxes



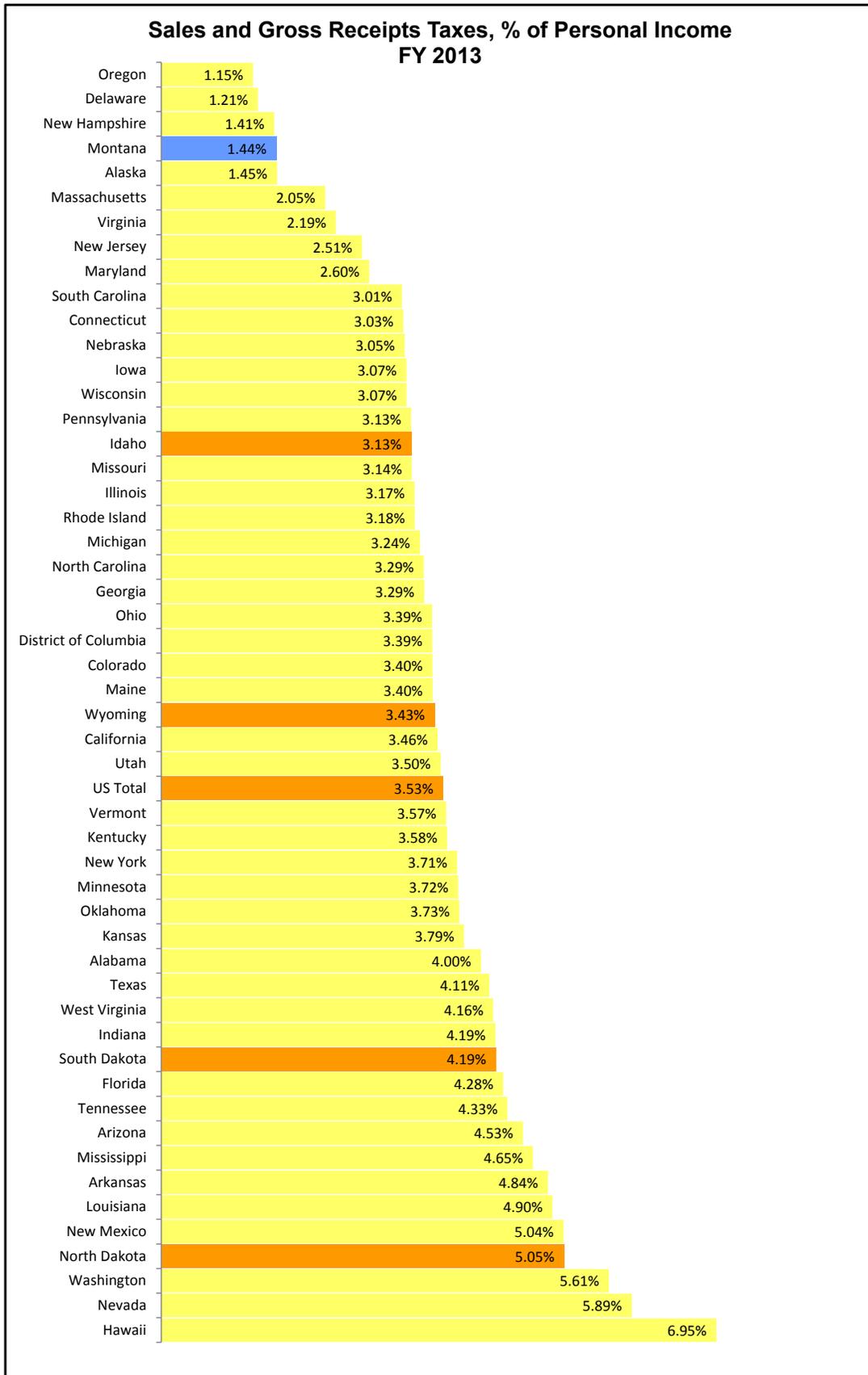
# Comparison of State Taxes

Taxes as a Percent of Personal Income - FY 2013										
State	Property Tax		Sales and Gross Receipts		Individual and Corporate Income Tax		Other Taxes		Total	
	\$	Rank	\$	Rank	\$	Rank	\$	Rank	\$	Rank
<b>Average of All States</b>	<b>3.24%</b>		<b>3.53%</b>		<b>2.78%</b>		<b>0.80%</b>		<b>10.35%</b>	
Alabama	1.51%	50	4.00%	16	2.11%	39	0.79%	20	8.42%	46
Alaska	3.73%	12	1.45%	47	1.67%	41	11.12%	1	17.97%	1
Arizona	2.75%	32	4.53%	9	1.67%	42	0.36%	50	9.30%	37
Arkansas	1.80%	49	4.84%	7	2.82%	24	0.49%	46	9.96%	27
California	2.84%	30	3.46%	24	4.02%	5	0.75%	21	11.07%	16
Colorado	2.85%	28	3.40%	27	2.51%	33	0.52%	39	9.28%	39
Connecticut	4.39%	8	3.03%	41	3.75%	8	0.52%	41	11.69%	9
Delaware	1.84%	48	1.21%	50	3.62%	9	3.62%	3	10.29%	20
District of Columbia	4.42%	7	3.39%	28	4.70%	2	1.36%	9	13.88%	4
Florida	2.94%	25	4.28%	11	0.26%	46	0.70%	30	8.18%	49
Georgia	2.69%	33	3.29%	30	2.55%	30	0.31%	51	8.84%	42
Hawaii	2.13%	43	6.95%	1	2.98%	20	0.82%	17	12.88%	5
<b>Idaho</b>	<b>2.49%</b>	<b>37</b>	<b>3.13%</b>	<b>36</b>	<b>2.60%</b>	<b>29</b>	<b>0.66%</b>	<b>32</b>	<b>8.88%</b>	<b>41</b>
Illinois	4.26%	10	3.17%	34	3.51%	11	0.62%	33	11.56%	10
Indiana	2.53%	36	4.19%	13	2.77%	25	0.42%	49	9.90%	29
Iowa	3.46%	17	3.07%	39	2.93%	21	0.72%	24	10.19%	22
Kansas	3.22%	21	3.79%	17	2.61%	28	0.44%	48	10.06%	25
Kentucky	2.03%	46	3.58%	21	3.57%	10	0.56%	37	9.75%	32
Louisiana	2.08%	45	4.90%	6	1.58%	43	0.73%	23	9.30%	38
Maine	4.82%	5	3.40%	26	3.24%	14	0.72%	25	12.18%	6
Maryland	2.86%	27	2.60%	43	4.23%	4	0.71%	27	10.41%	19
Massachusetts	3.66%	13	2.05%	46	3.89%	7	0.52%	43	10.12%	23
Michigan	3.37%	18	3.24%	32	2.44%	34	0.52%	42	9.57%	34
Minnesota	3.26%	19	3.72%	19	4.01%	6	0.71%	28	11.70%	8
Mississippi	2.67%	34	4.65%	8	2.16%	38	0.71%	26	10.20%	21
Missouri	2.42%	39	3.14%	35	2.52%	32	0.50%	44	8.58%	45
<b>Montana</b>	<b>3.62%</b>	<b>14</b>	<b>1.44%</b>	<b>48</b>	<b>3.08%</b>	<b>17</b>	<b>1.62%</b>	<b>5</b>	<b>9.76%</b>	<b>31</b>
Nebraska	3.56%	15	3.05%	40	2.75%	26	0.70%	29	10.06%	24
Nevada	2.48%	38	5.89%	2	0.00%	48	1.51%	7	9.88%	30
New Hampshire	5.32%	2	1.41%	49	0.98%	44	0.59%	34	8.31%	48
New Jersey	5.41%	1	2.51%	44	2.93%	22	0.57%	36	11.43%	11
New Mexico	1.94%	47	5.04%	5	2.05%	40	1.39%	8	10.42%	18
New York	4.65%	6	3.71%	20	5.86%	1	0.80%	18	15.01%	3
North Carolina	2.39%	40	3.29%	31	3.32%	13	0.55%	38	9.55%	35
<b>North Dakota</b>	<b>2.10%</b>	<b>44</b>	<b>5.05%</b>	<b>4</b>	<b>2.20%</b>	<b>36</b>	<b>6.87%</b>	<b>2</b>	<b>16.22%</b>	<b>2</b>
Ohio	2.98%	24	3.39%	29	3.22%	15	0.90%	13	10.49%	17
Oklahoma	1.42%	51	3.73%	18	2.17%	37	1.00%	12	8.32%	47
Oregon	3.26%	20	1.15%	51	4.38%	3	1.13%	11	9.91%	28
Pennsylvania	2.99%	23	3.13%	37	3.05%	18	0.89%	14	10.05%	26
Rhode Island	4.94%	4	3.18%	33	2.54%	31	0.46%	47	11.11%	14
South Carolina	3.04%	22	3.01%	42	2.21%	35	0.74%	22	9.00%	40
<b>South Dakota</b>	<b>2.75%</b>	<b>31</b>	<b>4.19%</b>	<b>12</b>	<b>0.10%</b>	<b>47</b>	<b>0.80%</b>	<b>19</b>	<b>7.83%</b>	<b>51</b>
Tennessee	2.13%	42	4.33%	10	0.59%	45	0.84%	16	7.90%	50
Texas	3.56%	16	4.11%	15	0.00%	48	1.15%	10	8.82%	43
Utah	2.61%	35	3.50%	23	3.00%	19	0.50%	45	9.60%	33
Vermont	5.20%	3	3.57%	22	2.73%	27	0.59%	35	12.09%	7
Virginia	2.92%	26	2.19%	45	2.88%	23	0.66%	31	8.66%	44
Washington	2.84%	29	5.61%	3	0.00%	48	0.85%	15	9.30%	36
West Virginia	2.27%	41	4.16%	14	3.13%	16	1.53%	6	11.08%	15
Wisconsin	4.31%	9	3.07%	38	3.33%	12	0.52%	40	11.24%	12
<b>Wyoming</b>	<b>4.19%</b>	<b>11</b>	<b>3.43%</b>	<b>25</b>	<b>0.00%</b>	<b>48</b>	<b>3.57%</b>	<b>4</b>	<b>11.19%</b>	<b>13</b>

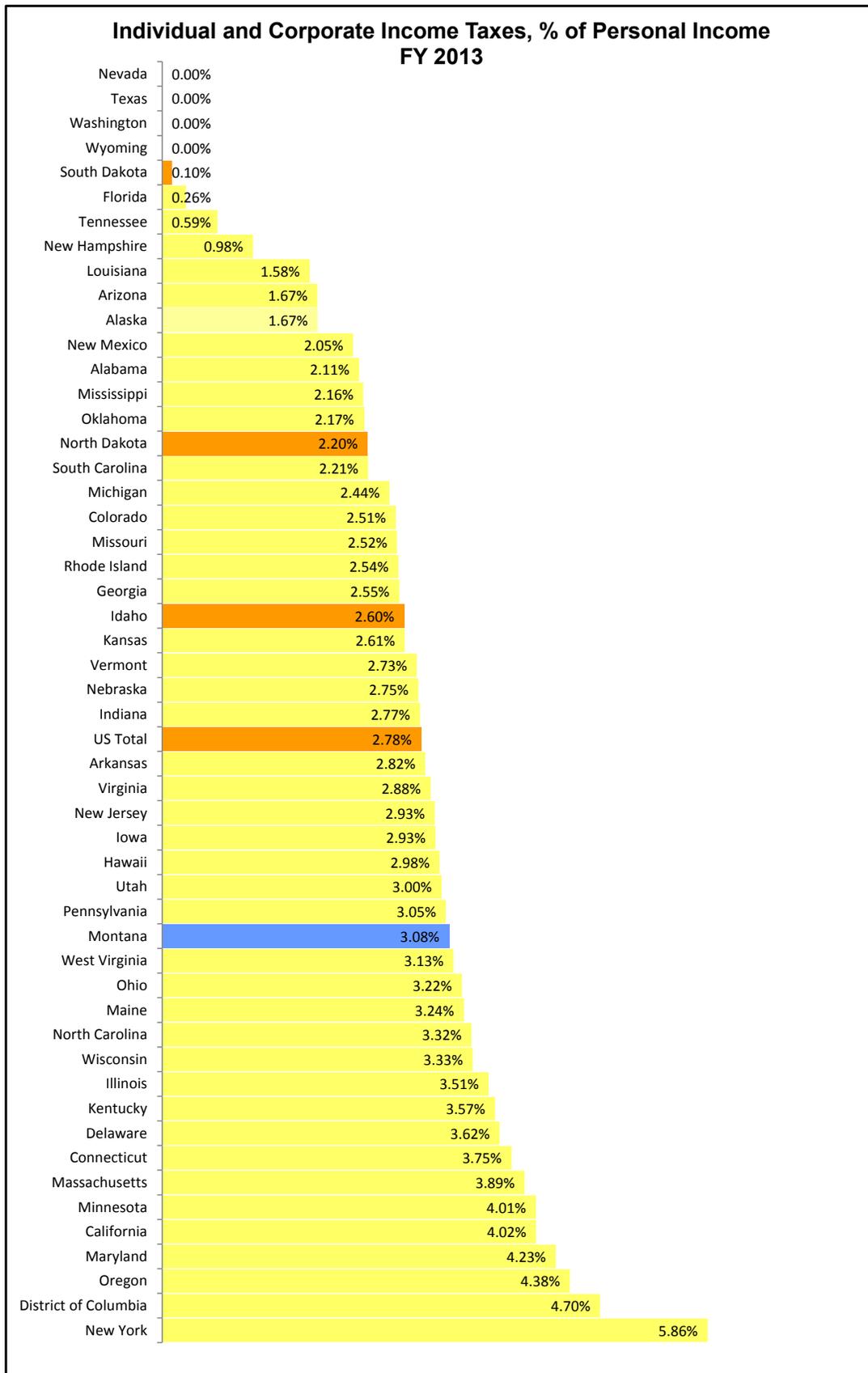
# Comparison of State Taxes



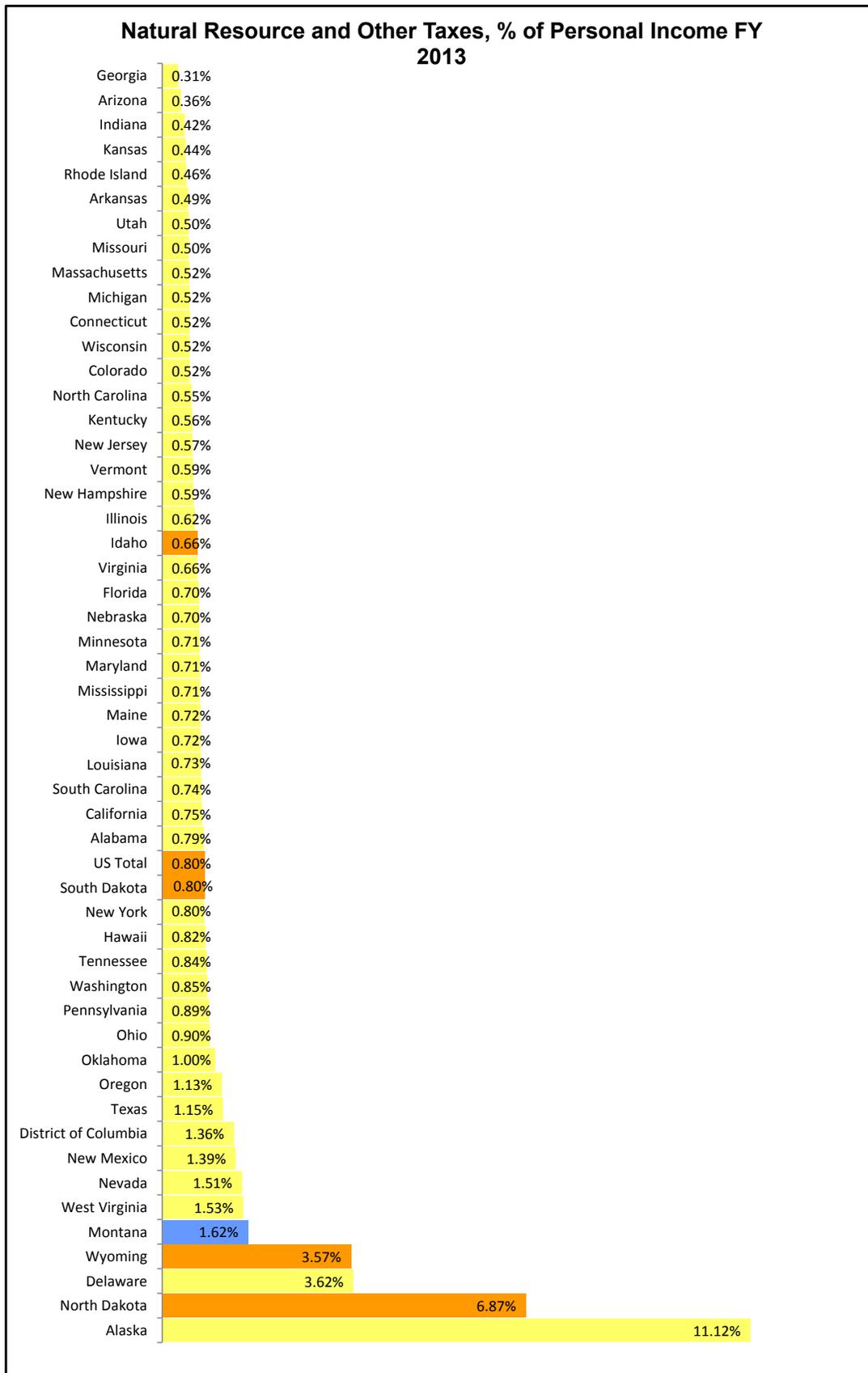
# Comparison of State Taxes



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# Comparison of State Taxes



## Comparison of State Taxes

