Tax Expenditures

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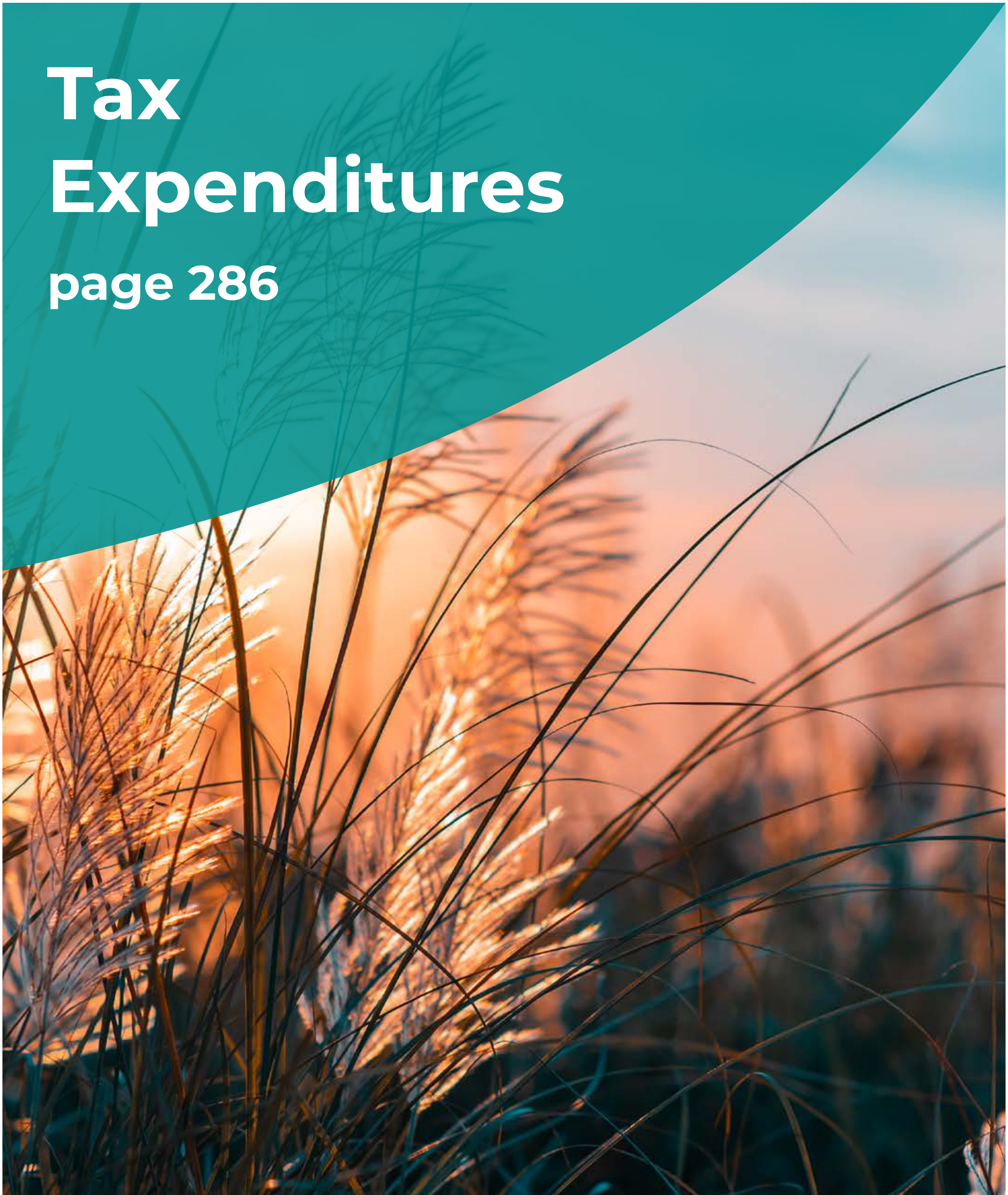

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Contents

Introduction

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

What are Tax Expenditures and Why Measure Them?

When a state agency has a program to accomplish a goal, such as paving state highways, operating prisons, or funding local school districts, the program will have a direct cost to taxpayers, i.e. the taxes they must pay to finance the program. The program's budget spells out how much the program will cost and how the money will be spent.

When the state tax code contains provisions that give incentives for taxpayers to behave in certain aways, such as saving more or donating to charities, this also has a cost to taxpayers. Without the special provisions, general taxes could be lower or more revenue could be available to provide public services. This cost to the state budget, and ultimately to other taxpayers, is called a tax expenditure.

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

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

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

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

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

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

How are Tax Expenditures Measured?

There are two components to measuring tax expenditures:

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

Since the introduction of the tax expenditure concept by the U.S. Department of the Treasury in 1967, there has been considerable controversy about what should be considered a tax expenditure and about what baseline should be used in estimating a special provision's revenue impact.

In part, the controversy has been about technical points of economic theory. It has also been an ideological argument between proponents of different visions of an ideal tax system. This controversy has obscured the goal of tax expenditure reporting, which is to serve as a starting point for evaluating whether special features of the tax law should be continued, modified, or replaced.

For each tax considered, this report first identifies the general structure of the tax – the general rules defining the tax base and the normal rate structure. The report then identifies exceptions from these general rules. The exceptions may take the form of special, limited exemptions from the tax base, special rates with limited applicability, or tax credits. For each special provision, it explores how the special provision affects qualifying taxpayers, the state budget, and other taxpayers.

This report presents the amount of each tax expenditure based on information from actual tax returns, such as the amount of credits claimed or the reduction in tax liability due to reported exclusions or deductions. It does not attempt to estimate the changes in behavior a tax incentive has induced or the additional revenue that would result from repealing it.

How Should This Information be Used?

Ideally, policymakers would give tax expenditures the same kind of scrutiny that they give direct program expenditures. They would consider the likely costs and results of new proposals and periodically evaluate the actual costs and impacts of existing tax expenditures. This evaluation would examine each tax expenditure's effectiveness and its cost-effectiveness.

Evaluating a tax expenditure's effectiveness would require having a clear statement of its purpose and measuring whether it accomplishes that purpose. In general, a tax expenditure's purpose is to change taxpayers' behavior in some way. An effective tax expenditure would produce a large change in taxpayers' behavior for a small cost in lost revenue. An ineffective tax expenditure would reward people for doing what they would have done, anyway.

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

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

The table on the next page (Table 9.1) lists all of the tax expenditures in this report, as well as each expenditure's code for reference, year of enactment, and bill and chapter reference

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Tax-Exempt Organizations

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

Table 9.1 Tax Expenditures and Reference Information

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

Table 9.1 Tax Expenditures and Reference Information (continued)

Tax Source	Tax Expenditure	Expenditure Type	Law	Session/ Year	Legislation
Individual Income Tax	Montana Achieving a Better Life Experience Act Account Deposits	Adjustment to Gross Income	15-30-2110(12)		
Individual Income Tax	Montana Medical Savings Account	Adjustment to Gross Income	15-61-101 to 205	1995	HB 560
Individual Income Tax	National Guard Life Insurance	Adjustment to Gross Income	15-30-2117(3)	2005	HB 761
Individual Income Tax	Partial Exclusion of Capital Gains on Pre-1987 Installment Sales	Adjustment to Gross Income	15-30-2110(13)	1987	HB 904
Individual Income Tax	Partial Interest Exclusion for the Elderly	Adjustment to Gross Income	15-30-2110(2)(b)	1981	HB 18
Individual Income Tax	Partial Pension Exemption	Adjustment to Gross Income	15-30-2110(2)(c)	1963	HB 232
Individual Income Tax	Passive Tax Expenditures	Adjustment to Gross Income	15-30-2110(1)	1955	HB 354
Individual Income Tax	Sale of Land to Beginning Farmers	Adjustment to Gross Income	80-12-211	1983	SB 316
Individual Income Tax	Small Business Investment Company Dividends	Adjustment to Gross Income	15-33-106	1981	HB 834
Individual Income Tax	Student Loan Interest Deduction	Adjustment to Gross Income	Federal Provision		
Individual Income Tax	Loan Repayment Through Quality Educator Loan Assistance Program	Adjustment to Gross Income	15-30-2110(14)	2019	HB 211
Individual Income Tax	Third Party Repayment of Health Care Professional's Student Loans	Adjustment to Gross Income	15-30-2110(13)	2003	SB408
Individual Income Tax	Tier I Railroad Retirement	Adjustment to Gross Income	Federal Provision		
Individual Income Tax	Tier II Railroad Retirement	Adjustment to Gross Income	Federal Provision		
Individual Income Tax	Tips	Adjustment to Gross Income	15-30-2110(2)(f)	1983	HB 841
Individual Income Tax	Unemployment Compensation	Adjustment to Gross Income	15-30-2101(10)	1979	HB 363
Individual Income Tax	Worker's Compensation	Adjustment to Gross Income	15-30-2110(2)(g)	1985	SB 72
Individual Income Tax	Casualty and Theft Losses	Itemized Deduction	Federal Provision		
Individual Income Tax	Charitable Contributions	Itemized Deduction	Federal Provision		
Individual Income Tax	Child and Dependent Care Expenses	Itemized Deduction	15-30-2131(1)(c)	1977	HB 47
Individual Income Tax	Federal Income Tax	Itemized Deduction	15-30-2131(1)(b)	1933	HB 328
Individual Income Tax	Home Mortgage Interest	Itemized Deduction	Federal Provision		
Individual Income Tax	Light Vehicle Registration Fees	Itemized Deduction	15-30-2131(1)(h)	1999	HB 540

Table 9.1 Tax Expenditures and Reference Information (continued)

Tax Source	Tax Expenditure	Expenditure Type	Law	Session/ Year	Legislation
Individual Income Tax	Long Term Care Insurance Premiums	Itemized Deduction	15-30-2131(1)(a)(iv)	1997	SB 151
Individual Income Tax	Livestock Fees	Itemized Deduction	15-30-2131(1)(i)	2001	HB 124
Individual Income Tax	Medical and Dental Expenses	Itemized Deduction	Federal Provision		
Individual Income Tax	Medical Insurance Premiums	Itemized Deduction	15-30-2131(1)(a)(iii)	1995	HB 202
Individual Income Tax	Other Deductible Taxes	Itemized Deduction	Federal Provision		
Individual Income Tax	Political Contributions	Itemized Deduction	15-30-2131(1)(d)	1979	HB 407
Individual Income Tax	State and Local Taxes Limited to $10,000	Itemized Deduction	Federal Provision		
Individual Income Tax	Adoption Credit	Credit	15-30-2364	2023	HB 225
Individual Income Tax	Apprenticeship Credit	Credit	15-30-2357, 39-6-109	2017	HB 308
Individual Income Tax	Capital Gains Credit	Credit	15-30-2301	2003	SB 407
Individual Income Tax	Credit For Other States' Taxes	Credit	15-30-2302	1941	HB 38
Individual Income Tax	Earned Income Tax Credit	Credit	15-30-2318	2017	HB 391
Individual Income Tax	Elderly Homeowner/Renter Credit	Credit	15-30-2337 to 15-30-2341	1981	SB 337
Individual Income Tax	Historic Property Preservation Credit	Credit	15-30-2342, 15-31-151	1997	HB 601
Individual Income Tax	Infrastructure Users Fee Credit	Credit	17-6-316	1995	SB 100 and HB 602
Individual Income Tax	Innovative Educational Program Credit	Credit	15-30-3110	2015	SB 410
Individual Income Tax	Jobs Growth Incentive Credit	Credit	15-30-2361, 15-31-175	2021	HB 629
Individual Income Tax	Media Production Credit	Credit	15-31-1001 to 1012	2019	HB 293
Individual Income Tax	Pass-through Entity Tax Credit	Credit	15-30-3328	2023	SB 554
Individual Income Tax	Qualified Endowment Credit	Credit	15-30-2327 to 2329	1997	HB 434
Individual Income Tax	Recycling Credit	Credit	15-32-601 to 604	1991	SB 111
Individual Income Tax	State Land Access Credit	Credit	15-30-2380	2013	HB 444
Individual Income Tax	Student Scholarship Organization Credit	Credit	15-30-3111	2015	SB 410
Individual Income Tax	Trades Education and Training Credit	Credit	15-30-2359, 15-31-174	2021	HB 252

Table 9.1 Tax Expenditures and Reference Information (continued)

Tax Source	Tax Expenditure	Expenditure Type	Law	Session/ Year	Legislation
Corporate Income Tax					
Corporate Income Tax	Water's Edge Election	Special Election	15-31-322 to 15-31-324	1987	HB 703
Corporate Income Tax	Capital Gains Exclusion for Mobile Home Park	Deduction	15-31-163	2009	HB 636
Corporate Income Tax	Deduction for Donation of Exploration Information	Deduction	15-32-510	1999	SB 625
Corporate Income Tax	Deduction for Purchasing Montana-Produced Organic Fertilizer Produced as a Byproduct	Deduction	15-32-303	1981	SB 322
Corporate Income Tax	Energy-Conservation Investment Deduction	Deduction	15-32-103	1975	HB 663
Corporate Income Tax	Recycling Material Qualifying for Deduction	Deduction	15-32-609 and 610	1991	SB 111
Corporate Income Tax	Alternative Energy Production Credit	Credit	15-32-401 to 407	1983	HB 755
Corporate Income Tax	Alternative Fuel Motor Vehicle Conversion Credit	Credit	15-30-2320	1993	HB 219
Corporate Income Tax	Apprenticeship Credit	Credit	15-30-2357 and 39-6-109	2017	HB 308
Corporate Income Tax	Biodiesel Blending and Storage Tank Credit	Credit	15-32-703	2005	HB 756
Corporate Income Tax	Charitable Endowment Credit	Credit	15-31-161 and 162	1997	HB 434
Corporate Income Tax	College Contributions Credit	Credit	15-30-2326	1991	HB 894
Corporate Income Tax	Contractor's Gross Receipts Tax Credit	Credit	15-50-207	1967	HB 530
Corporate Income Tax	Dependent Care Assistance Credit	Credit	15-31-131 and 133	1989	SB 282
Corporate Income Tax	Empowerment Zone New Employees Tax Credit	Credit	15-31-134	2003	SB 484
Corporate Income Tax	Geothermal Heating Credit	Credit	15-32-115	2005	SB 340
Corporate Income Tax	Health Insurance for Uninsured Montanans Credit	Credit	15-31-132	1989	HB 166
Corporate Income Tax	Historic Property Preservation Credit	Credit	15-31-151	1997	HB 601
Corporate Income Tax	Infrastructure Users Fee Credit	Credit	17-6-316	1995	SB 100 & HB 602
Corporate Income Tax	Innovative Educational Program Credit	Credit	15-31-158 to 15-31-159	2015	SB 410
Corporate Income Tax	Jobs Growth Incentive Credit	Credit	15-31-175	2021	HB 629
Corporate Income Tax	Mineral Exploration Incentive Credit	Credit	15-32-501 to 509	1999	SB 625

Table 9.1 Tax Expenditures and Reference Information (continued)

Tax Source	Tax Expenditure	Expenditure Type	Law	Session/ Year	Legislation
Corporate Income Tax	Montana Economic Development Industry Advancement Act (Media Production Credit)	Credit	15-31-1001 to 1012	2019	HB 293
Corporate Income Tax	New and Expanded Industry Credit	Credit	15-31-124 to 127	1975	HB 593
Corporate Income Tax	Oilseed Crushing and Biodiesel Production Facility Credit	Credit	15-32-701 and 702	2005	HB 756
Corporate Income Tax	Qualified Research Credit	Credit	15-31-150	1999	HB 638
Corporate Income Tax	Recycling Credit	Credit	15-32-601 to 611	1991	SB 111
Corporate Income Tax	Short Term Temporary Lodging Credit	Credit	15-31-171	2007	HB 240
Corporate Income Tax	Trades Education and Training Credit	Credit	15-31-174	2021	HB 252
Corporate Income Tax	Unlocking Public Lands Credit	Credit	15-30-2380	2013	HB 444
Corporate Income Tax	Corporate Passive Deduction Expenditures	Passive Expenditure			
Property Tax					
Property Tax	Property Tax Assistance Program	Residential Property	15-6-134	1979	HB 398
Property Tax	Disabled American Veterans Program	Residential Property	15-6-211	1979	HB 213
Property Tax	Intangible Land Value Property Exemption	Residential Property	15-6-240	2017	SB 94
Property Tax	Energy Production or Development Tax Abatement	Economic Development	15-24-3111	2007	HB 3
Property Tax	New Fiber Optic and Coaxial Cable Exemption	Economic Development	15-6-135, 156, and 219	2021	SB 51
Property Tax	New Manufacturing Machinery, Fixtures, and Equipment	Economic Development	15-6-138	2023	SB 530
Property Tax	Intangible Personal Property Exemption	Centrally Assessed	15-6-218	1999	SB 111
Property Tax	Tax Increment Finance Districts	Other	7-15-4282	1974	HB 193
Property Tax	Generally Exempt Property	Other	See Section for Detail	Various	Various
Oil and Gas Tax					
Oil and Gas Tax	New Production Tax Holiday	Reduced Rate	15-36-304	1977	HB 553
Oil and Gas Tax	Reduced Rate for Oil and Gas Wells Completed After 1998	Reduced Rate	15-36-304	1977	HB 553
Oil and Gas Tax	Reduced Rates for Horizontally Recompleted Oil Wells	Reduced Rate	15-36-304	1993	SB 18
Oil and Gas Tax	Reduced Rates for Incremental Oil Production from Enhanced Recovery Projects	Reduced Rate	15-36-304	1985	HB 636

Table 9.1 Tax Expenditures and Reference Information (continued)

Tax Source	Tax Expenditure	Expenditure Type	Law	Session/ Year	Legislation
Oil and Gas Tax	Reduced Rates for Stripper Exemption and Stripper Oil Wells	Reduced Rate	15-36-304	1999	HB 661
Oil and Gas Tax	Reduced Rates for Pre-1999 "Stripper" Gas Wells	Reduced Rate	15-36-304	1999	SB 530

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

Table 9.2 Individual Income Tax Expenditures – 2023

Individual Income Tax Expenditures - 2023	Number	$
Capital Gains Credit	65,536	$77,730,688
Credit for Other States' Taxes	15,513	$69,814,800
Federal Income Tax	192,520	$64,106,417
Mortgage Interest and Insurance Premiums	124,193	$59,951,132
Charitable Contributions	146,635	$50,005,469
State and Local Taxes	190,195	$38,778,093
Medical Insurance Premiums	104,011	$27,805,768
Deductions for the Self-Employed	71,911	$21,173,733
Medical and Dental Expenses	46,035	$12,257,288
Exempted Military Salary	4,706	$12,194,490
Exempt Tribal Income	5,506	$10,272,654
Elderly Homeowner / Renter Credit	15,195	$10,035,293
Interest on Federal Government Bonds	30,356	$9,698,094
Tip Income and Gratuities	22,109	$6,506,115
Partial Pension Exemption	48,419	$5,453,272
Unemployment Compensation	15,440	$4,981,818
Earned Income Tax Credit	56,502	$4,047,850
Individual Retirement Account Deduction	11,575	$3,929,463
Tier I and Tier II Railroad Retirement Benefits	3,378	$3,885,600
Health Savings Account Deduction	12,609	$3,246,951
Qualified Endowment Credit	590	$2,948,736
Partial Interest Exclusion For Elderly Taxpayers	89,479	$2,705,958
Media Production Credit	22	$2,589,812
Adoption Credit	205	$1,906,579
Long-Term Care Insurance Premiums	8,357	$1,526,310
Student Scholarship Organization Credit	47	$1,470,326
Montana Medical Care Savings Account	5,120	$1,419,950
Family Education Savings Account	5,675	$1,245,132
Student Loan Interest Deduction	25,921	$1,080,645
Innovative Educational Program Credit	54	$764,211
Apprenticeship Credit	424	$617,027

Table 9.2 Individual Income Tax Expenditures – 2023 (continued)

Individual Income Tax Expenditures - 2023	Number	$
Other Deductible Taxes	5,404	$467,424
Light Vehicle Registration Fees	29,243	$443,463
Medical Marijuana Provider Expenses	74	$392,294
Recycling Credit	78	$362,703
Infrastructure Users Fee Credit	*	$246,298
Health Care Professional Student Loan Repayment	74	$116,904
Casualty and Theft Losses	35	$83,081
Political Contributions	5,951	$45,512
Highly Compensated Employee Health Benefits	105	$42,211
First-Time Home buyer Account	186	$40,160
Worker's Compensation	148	$39,832
Mobile Home Park Capital Gain Exclusion	*	$39,602
Trades Education and Training Credit	25	$25,101
ABLE Accounts	198	$23,993
Quality Educator Loan Assistance Program	597	$13,935
Business Purchases of Recycled Material	88	$12,401
Per Capita Livestock Fees	495	$8,436
Historic Property Preservation Credit	*	$6,028
National Guard Life Insurance Premiums	13	$5,836
Archer MSA Deduction	17	$2,887
Small Business Investment Company Dividends	20	$2,380
Unlocking State Lands Credit	*	$2,215
Child and Dependent Care Expenses	191	$2,179
Disability Retirement Income	14	$936
Sales of Land to Beginning Farmers	0	$0
Farm and Ranch Risk Management Account	*	$0
Jobs Growth Incentive Credit	0	$0

** Not disclosed due to confidentiality concerns*

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Table 9.3 Corporate Income Tax Expenditures – 2022

Corporate Income Tax Expenditures - 2022	Number	$
Water's Edge Election	757	$8-12 million
MEDIA Credit	*	$6,202,042
Recycled Material Qualifying for Deduction	*	$1,472,434
Contractor's Gross Receipts	55	$1,340,768
Qualified Research Credit	*	$284,123
Infrastructure Users Fee Credit	*	$263,474
Historic Property Preservation Credit	*	$88,638
Recycling Credit	*	$88,538
Alternative Energy Production Credit	*	$75,229
Apprenticeship Tax Credit	13	$66,868
Innovative Education Credit	*	$50,000
Charitable Endowment Credit	*	$47,526
Student Scholarship Organization Credit	*	$4,925
Geothermal Heating System Credit	*	$258
Jobs Growth Incentive Credit	0	$0
Trades Education and Training Credit	0	$0
Capital Gain Exclusion for Mobile Home Park	--	--
Deduction for Donation of Exploration Information	--	--
Deduction for Purchasing Montana-Produced Fertilizer	--	--
Energy Conserving Investments Deduction	--	--

** Not disclosed due to confidentiality concerns*

Table 9.4 Property Tax Expenditures – 2024

Property Tax Expenditures - 2024	Number	$
Generally Exempt Property	156,628	$45,772,545
Intangible Personal Property Exemption	170	$15,807,532
Tax Increment Finance Districts	N/A	$9,537,470
Property Tax Assistance Program	30,468	$6,690,113
Montana Disabled Veterans Program	3,455	$1,538,225
New Fiber Optic and Coaxial Cable Exemption	12	$432,642
Energy Production or Development Tax Abatement	5	$370,990
New Manufacturing Machinery, Fixtures, and Equipment	11	$225,369
Intangible Land Value Property Exemption	231	$164,538

Table 9.5 Natural Resource Tax Expenditures – 2024

Natural Resource Tax Expenditures - 2024	Number	$
Oil New Production Holiday (Oil Production Tax)	114	$12,804,125
Oil Stripper Well Production (Oil Production Tax)	2,270	$2,318,622
Natural Gas Pre-1999 and Less than 60 MCF/day (Gas Production Tax)	6,024	$1,074,484
Natural Gas New Production Tax Holiday (Gas Production Tax)	95	$701,396
Oil Horizontally Recompleted Wells (Oil Production Tax)	60	$1,452,522
Oil Tertiary Incremental Production (Oil Production Tax)	0	$0

Individual Income Tax Expenditures

Tax Expenditures: Individual Income Tax

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

- the taxpayer's adjusted gross income, which generally includes cash receipts and the value of nonmonetary compensation, minus costs related to earning income
- an exemption for each taxpayer and dependent, and a standard deduction, both of which are subtracted from adjusted gross income to give taxable income
- the tax rates, which in Montana take the form of a graduated rate schedule with the first increments of income taxed at lower rates. The total of the personal exemption and standard deduction can be viewed as defining an initial rate bracket with a zero tax rate.

Tax expenditures for the income tax take four forms:

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

Definition of Adjusted Gross Income – Passive Expenditures

Tax Expenditures in the Definition of Adjusted Gross Income

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

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

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

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

Montana tax returns do not include information that would allow reliable state-level estimates of individual passive tax expenditures. Total passive tax expenditures can be roughly estimated from the estimates of federal tax expenditures published by the congressional Joint Committee on Taxation (JCT).

Based on JCT estimates, federal tax expenditures created approximately $912 million in Montana passive tax expenditures. This amount, multiplied by the ratio of adjusted gross income reported on federal returns with a Montana address to adjusted gross income reported on all federal returns (0.31 percent), and the ratio of the top Montana rate to the top federal rate (18.2 percent), results in passive tax expenditures of $512 million due to the federal definition of total income.

Other passive tax expenditures arise from specific adjustments to gross income. These items are listed on both federal and state tax returns. For Tax Year 2023, these adjustments are on Schedule 1 of Montana's Form 2. These items are sometimes called federal adjustments to income or above-the-line deductions.

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Five above-the-line deductions should not be considered tax expenditures. Four of these allow taxpayers to deduct unreimbursed costs of doing their jobs or otherwise earning income. The first four above-the-line deductions are:

- the deduction for educator expenses
- the deduction for business expenses of reservists, performing artists, and fee-basis local government officials
- the deduction for expenses of moving for members of the Armed Forces
- the deduction for penalties for early withdrawal of savings
- the deduction for alimony paid, which ensures that income allocated between former spouses is taxed to the person who ultimately receives it

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

Deductions for the Self-Employed: Federal Provision

Legislation: N/A

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

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

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

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

The costs of the exclusions for employees are included in the figure for passive tax expenditures. The following tables show these deductions for Tax Years 2015 through 2023.

Table 9.6 One-Half of Self Employment Tax

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	60,556	$89,922,276	9,844	$41,834,447	2,565	$2,528,989	72,965	$134,285,712
2016	61,088	$88,099,153	9,774	$43,246,206	2,596	$2,625,927	73,458	$133,971,286
2017	61,605	$89,951,840	10,037	$40,555,635	2,627	$2,823,065	74,269	$133,330,540
2018	60,312	$85,230,666	9,452	$43,488,645	2,740	$2,661,760	72,504	$131,381,071
2019	62,562	$96,409,633	10,486	$51,753,246	2,947	$3,409,125	75,995	$151,572,004
2020	61,661	$99,987,176	9,714	$60,590,983	3,025	$3,711,978	74,400	$164,290,137
2021	66,384	$114,394,252	11,412	$95,495,562	3,782	$4,620,291	81,578	$214,510,105
2022	67,523	$120,009,724	12,366	$73,105,084	3,437	$4,583,404	83,326	$197,698,212
2023	68,710	$124,011,990	12,169	$72,972,046	3,089	$3,786,934	83,968	$200,770,970

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Table 9.7 Contributions to Qualified Self-Employed Retirement Plans

TY	Residents		Nonresidents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2015	2,641	$49,414,662	1,364	$44,931,667	69	$1,336,748	4,074	$95,683,077
2016	2,658	$50,148,146	1,408	$46,243,338	77	$1,275,171	4,143	$97,666,655
2017	2,679	$51,530,999	1,499	$51,744,670	95	$2,157,835	4,273	$105,433,504
2018	2,239	$41,034,938	1,313	$48,785,296	69	$1,153,009	3,621	$90,973,243
2019	2,494	$51,970,436	1,540	$57,362,334	95	$2,194,690	4,129	$111,527,460
2020	2,543	$55,866,698	1,432	$51,890,759	110	$2,354,376	4,085	$110,111,833
2021	2,745	$65,102,113	1,606	$60,859,550	107	$2,693,723	4,458	$128,655,386
2022	2,726	$64,922,623	1,719	$70,634,655	110	$3,407,946	4,555	$138,965,224
2023	2,699	$66,345,746	1,819	$76,206,812	74	$1,836,306	4,592	$144,388,864

Table 9.8 Self-Employed Health Insurance Premiums Deduction

TY	Residents		Nonresidents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2015	24,554	$138,208,738	5,395	$54,472,657	522	$2,138,891	30,471	$194,820,286
2016	24,485	$145,127,725	5,396	$57,881,920	463	$2,204,967	30,344	$205,214,612
2017	23,377	$152,651,623	5,430	$60,668,262	476	$2,598,515	29,283	$215,918,400
2018	21,107	$139,368,732	4,806	$54,633,071	442	$2,216,325	26,355	$196,218,128
2019	21,748	$148,882,955	5,449	$65,536,437	497	$2,750,877	27,694	$217,170,269
2020	21,012	$138,780,789	5,066	$63,226,854	479	$2,819,629	26,557	$204,827,272
2021	21,161	$143,629,871	5,405	$67,357,543	586	$3,380,678	27,152	$214,368,092
2022	21,452	$149,819,439	5,904	$77,136,544	527	$3,030,415	27,883	$229,986,398
2023	21,189	$156,003,629	5,824	$81,564,956	416	$2,172,375	27,429	$239,740,960

Health Savings Account Deduction: Federal Provision

Legislation: N/A

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

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

The following table shows HSA deductions for Tax Years 2015 through 2023.

Table 9.9 Health Savings Account Deduction

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	9,743	$34,820,388	1,440	$6,646,471	323	$849,707	11,506	$42,316,566
2016	11,828	$41,310,075	1,612	$7,369,209	426	$935,438	13,866	$49,614,722
2017	12,203	$43,149,496	1,692	$7,865,067	436	$923,775	14,331	$51,938,338
2018	11,939	$41,366,481	1,617	$7,236,979	457	$915,478	14,013	$49,518,938
2019	12,832	$45,824,799	1,750	$8,256,363	430	$916,820	15,012	$54,997,982
2020	12,600	$45,569,798	1,655	$8,080,558	492	$1,097,516	14,747	$54,747,872
2021	12,397	$46,892,804	1,821	$9,107,331	606	$1,466,321	14,824	$57,466,456
2022	12,972	$48,365,484	1,997	$10,045,477	570	$1,385,751	15,539	$59,796,712
2023	12,609	$50,306,359	1,936	$10,303,753	494	$1,028,964	15,039	$61,639,076

Individual Retirement Account Deduction: Federal Provision

Legislation: N/A

An Individual Retirement Account (IRA) is a tax-advantaged account for retirement savings. Taxpayers are allowed an above-the-line deduction for contributions to a traditional IRA. For most taxpayers, the deduction was limited to $6,500 in Tax Year 2023. The limit is $1,000 higher for taxpayers at least 50 years old. Higher-income taxpayers who participate in one of several types of pension plans have a lower limit that depends on their income.

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

The following table shows IRA deductions for Tax Years 2015 through 2023.

Table 9.10 Individual Retirement Account Deduction

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	13,176	$65,361,123	1,425	$9,379,560	417	$1,544,536	15,018	$76,285,219
2016	13,240	$66,073,642	1,382	$9,201,406	452	$1,849,560	15,074	$77,124,608
2017	13,194	$67,053,676	1,395	$9,424,326	442	$1,645,468	15,031	$78,123,470
2018	12,060	$60,604,691	1,271	$8,428,998	387	$1,557,223	13,718	$70,590,912
2019	12,093	$63,021,981	1,268	$8,839,514	436	$1,525,690	13,797	$73,387,185
2020	11,815	$65,218,041	1,226	$8,771,679	434	$1,651,087	13,475	$75,640,807
2021	11,330	$64,537,851	1,229	$8,988,081	444	$1,970,418	13,003	$75,496,350
2022	11,713	$62,122,400	1,374	$9,373,971	508	$1,800,580	13,595	$73,296,951
2023	11,575	$62,796,894	1,279	$9,371,280	446	$1,625,240	13,300	$73,793,414

Student Loan Interest Deduction: Federal Provision

Legislation: N/A

Taxpayers may deduct up to $2,500 of interest they paid on student loans for either their own or their dependents' post-secondary education. The deduction phases out for incomes between $75,000 and $90,000 ($155,000 and $185,000 for a joint return) and may not be claimed by a taxpayer who is claimed as someone else's dependent. This deduction provides a subsidy to taxpayers who borrow to pay for either their own or their dependents' education. This provides an incentive for taxpayers to invest more in their own or their dependents' educations. It also provides an incentive to increase the proportion of education expenses financed by borrowing.

The following table shows student loan interest deductions for Tax Years 2015 through 2023.

Table 9.11 Student Loan Interest Deduction

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	44,987	$46,402,195	3,372	$3,596,607	4,455	$4,898,571	52,814	$54,897,373
2016	46,722	$46,125,127	3,375	$3,584,420	4,525	$4,824,229	54,622	$54,533,776
2017	47,360	$46,843,507	3,364	$3,498,850	4,542	$4,905,421	55,266	$55,247,778
2018	46,898	$46,949,461	3,326	$3,542,997	4,415	$4,749,345	54,639	$55,241,803
2019	47,046	$48,349,339	3,476	$3,764,753	4,390	$4,680,305	54,912	$56,794,397
2020	37,397	$24,835,659	2,735	$1,988,189	3,255	$2,404,119	43,387	$29,227,967
2021	17,413	$12,688,481	1,398	$1,169,244	1,784	$1,545,994	20,595	$15,403,719
2022	14,277	$11,281,776	1,281	$1,230,389	1,482	$1,459,673	17,040	$13,971,838
2023	25,921	$16,659,122	2,364	$1,802,732	2,526	$1,856,602	30,811	$20,318,456

Archer MSA Deduction: Federal Provision

Legislation: N/A

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

The following table shows the Archer MSA deductions for Tax Years 2021 through 2023.

Table 9.12 Archer MSA Deduction

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	0	$0	0	$0	0	$0	0	$0
2016	0	$0	0	$0	0	$0	0	$0
2017	0	$0	0	$0	0	$0	0	$0
2018	0	$0	0	$0	0	$0	0	$0
2019	0	$0	0	$0	0	$0	0	$0
2020	0	$0	0	$0	0	$0	0	$0
2021	17	$31,841	*	$3,750	0	$0	*	$35,591
2022	22	$32,879	*	$271	*	$6,306	*	$39,456
2023	17	$48,081	*	$6,671	*	$1,900	*	$56,652

Definition of Adjusted Gross Income

Montana Adjustments to Income

Through Tax Year 2023, Montana had 50 adjustments to Federal Adjusted Gross Income that taxpayers were either allowed or required to make in calculating their Montana Adjusted Gross Income. Some of these Montana adjustments allocate income between spouses filing separate Montana returns when they file a joint federal return. Other state adjustments exist because federal law prohibits states from taxing certain types of income that the federal government taxes. A few exist because the state taxes some types of income that the federal government does not tax. Most exist because the legislature has chosen to exempt certain types of income partly or completely from taxation.

Most of the adjustments in this section were eliminated by the 2021 Legislature starting Tax Year 2024. In addition, starting Tax Year 2024, Montana's personal income tax will no longer based on Federal Adjusted Gross Income, but instead Federal Taxable Income. As a result, the Montana adjustments to income are no longer applied to adjusted gross income, but instead applied to taxable income.

ABLE Accounts: 15-30-2110 (12), MCA

Legislation: SB 399, 2015 Session

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

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

The table below lists exempt income reported on Montana income tax returns for Tax Years 2015 through 2023.

Table 9.13 ABLE Account Deposits

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	0	$0	0	$0	0	$0	0	$0
2016	17	$42,190	0	$0	*	$3,525	*	$45,715
2017	35	$78,670	0	$0	*	$3,125	*	$81,795
2018	69	$171,910	0	$0	*	$10,482	*	$182,392
2019	108	$242,259	0	$0	*	$250	*	$242,509
2020	137	$365,139	0	$0	*	$6,870	*	$372,009
2021	164	$442,144	0	$0	*	$9,800	*	$451,944
2022	161	$380,383	*	$1,005	*	$8,002	*	$389,390
2023	198	$520,131	*	$3,000	*	$3,025	*	$526,156

** Not disclosed due to confidentiality concerns*

Business Purchases of Recycled Material: 15-32-609, MCA through 15-32-611, MCA

Legislation: SB 111, 1991 Session

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

The deduction is available to corporations and to the owners of sole-proprietor businesses and pass-through entities. The following table shows individual income tax deductions for purchases of recycled material since Tax Year 2015.

Table 9.14 Business Expense for Recycled Materials

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	101	$240,929	*	$100	*	$3,025	*	$244,054
2016	105	$327,567	*	$291	*	$5,809	*	$333,667
2017	90	$279,218	*	$47	*	$200	*	$279,465
2018	98	$938,108	*	$62	*	$1,437	*	$939,607
2019	103	$617,354	*	$1,051	*	$3,652	*	$622,057
2020	110	$483,000	0	$0	*	$355	*	$483,355
2021	91	$640,035	*	$11,533	*	$1,770	*	$653,338
2022	84	$904,440	*	$2,561	*	$1,721	*	$908,722
2023	88	$288,638	*	$125	*	$6,045	*	$294,808

** Not disclosed due to confidentiality concerns*

Capital Gain Exclusion from Sale of Mobile Home Park: 15-31-163, MCA

Legislation: HB 636, 2009 Session

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

The table below contains the income exempted from Montana income tax for Tax Years 2018 through 2023.

Table 9.15 Capital Gains Exclusion From Sale of Mobile Home Park

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	0	$0	0	$0	0	$0	0	$0
2016	0	$0	0	$0	0	$0	0	$0
2017	0	$0	0	$0	0	$0	0	$0
2018	0	$0	0	$0	0	$0	0	$0
2019	*	$1,506,856	0	$0	0	$0	*	$1,506,856
2020	0	$0	0	$0	0	$0	0	$0
2021	0	$0	0	$0	0	$0	0	$0
2022	*	$787,338	0	$0	0	$0	*	$787,338
2023	*	$3	*	$807,246	0	$0	*	$807,249

** Not disclosed due to confidentiality concerns*

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Disability Retirement Income: 15-30-2110(10), MCA

Legislation: SB 464, 1985 Session

Taxpayers who were under the age of 65 and permanently disabled could exclude up to $5,200 of disability retirement income. The amount taxpayers could exclude was reduced by any amount by which their pre-exclusion adjusted gross income exceeded $15,000. This exclusion increased the after-tax income of permanently disabled taxpayers with low incomes.

This exemption expired at the end of tax year 2023.

The following table shows disability income excluded since Tax Year 2015.

Table 9.16 Exempt Disability Retirement Income

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	31	$137,022	0	$0	*	$5,200	*	$142,222
2016	36	$171,297	*	$5,200	*	$5,063	*	$181,560
2017	37	$170,951	0	$0	*	$5,200	*	$176,151
2018	38	$161,933	*	$4,800	0	$0	*	$166,733
2019	28	$115,731	*	$8,480	*	$19,900	*	$144,111
2020	28	$118,893	0	$0	0	$0	28	$118,893
2021	18	$79,046	*	$7,102	*	$5,200	*	$91,348
2022	18	$92,658	0	$0	*	$3	*	$92,661
2023	14	$61,548	0	$0	*	$10,400	*	$71,948

** Not disclosed due to confidentiality concerns*

Exempt Tribal Income: Federal Provision

Legislation: N/A

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

The following table shows exempt tribal income reported on Montana returns since Tax Year 2015.

Table 9.17 Exempt Tribal Income

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	6,172	$204,787,286	17	$349,962	41	$1,281,013	6,230	$206,418,261
2016	6,255	$216,137,415	21	$544,256	32	$1,266,686	6,308	$217,948,357
2017	6,152	$254,049,703	24	$558,530	64	$1,259,708	6,240	$255,867,941
2018	6,012	$238,297,833	14	$571,165	36	$870,434	6,062	$239,739,432
2019	5,848	$230,915,588	29	$753,965	52	$1,039,519	5,929	$232,709,072
2020	5,606	$436,859,218	17	$678,936	34	$910,027	5,657	$438,448,181
2021	5,415	$224,169,249	18	$522,414	34	$1,088,133	5,467	$225,779,796
2022	5,496	$255,683,004	15	$501,192	37	$1,454,952	5,548	$257,639,148
2023	5,506	$405,640,646	11	$341,054	25	$1,024,547	5,543	$412,549,738

** Not disclosed due to confidentiality concerns*

Expenses Incurred by Medical Marijuana Providers: 15-30-2131, MCA

Legislation: SB 333, 2017 Session

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

The table below has exempt income reported on Montana income tax returns for Tax Years 2018 through 2023.

Table 9.18 Expenses Incurred by Medical Marijuana Providers

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	0	$0	0	$0	0	$0	0	$0
2016	0	$0	0	$0	0	$0	0	$0
2017	0	$0	0	$0	0	$0	0	$0
2018	56	$982,343	*	$23	*	$1,000	*	$983,366
2019	60	$4,306,185	*	$12,514	*	$100	*	$4,318,799
2020	65	$4,344,305	0	$0	0	$0	65	$4,344,305
2021	71	$5,757,939	0	$0	*	$14,982	*	$5,772,921
2022	66	$7,920,136	0	$0	0	$0	66	$7,920,136
2023	74	$6,671,294	0	$0	0	$0	74	$6,671,294

** Not disclosed due to confidentiality concerns*

Family Education Savings Accounts: 15-62-101, MCA through 15-62-302, MCA

Legislation: HB 536, 1997 Session

Section 529 of the Internal Revenue Code allows states to set up higher education savings programs. These programs allow taxpayers to set up an account for a designated beneficiary, usually a child or grandchild. States may give special tax treatment to deposits to a qualifying account; withdrawals to pay the beneficiary's education expenses are not included in Federal Adjusted Gross Income, which means that account earnings are tax free.

Montana taxpayers may exclude up to $3,000 of contributions to one or more Family Education Savings Accounts from adjusted gross income each year. Any withdrawals that are not used for higher education expenses are taxed at the highest income tax rate. The 2013 Legislature (SB 117) expanded the deduction to include deposits to other states' college savings plans. The 2021 Legislature also expanded the types of expenditures from the accounts that qualify as tax free spending to those covered in 26 U.S. Code 529. The new tax-free expenses include K-12 tuition, certain expenses for registered apprenticeships, and the repayment of student loans.

This program encourages families to save for their children's education by lowering the cost of saving any given amount. The tax expenditure from the federal exclusion of account earnings is included in the estimate of passive tax expenditures. The state exclusion of deposits to an education savings account creates an additional tax expenditure.

The following table shows deposits to Montana Family Educations Savings Accounts since Tax Year 2015.

Table 9.19 Family Education Savings Account Deposits

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	3,311	$10,525,352	110	$405,000	63	$181,822	3,484	$11,112,174
2016	3,473	$11,083,019	112	$424,186	56	$188,042	3,641	$11,695,247
2017	3,807	$12,361,878	142	$539,923	68	$194,936	4,017	$13,096,737
2018	4,167	$13,454,571	157	$587,391	60	$178,158	4,384	$14,220,120
2019	4,596	$15,038,959	178	$678,180	80	$218,240	4,854	$15,935,379
2020	4,673	$15,524,119	186	$681,445	96	$310,602	4,955	$16,516,166
2021	5,494	$18,807,708	218	$880,870	120	$425,702	5,832	$20,114,280
2022	5,609	$18,997,754	239	$903,139	108	$365,228	5,956	$20,266,121
2023	5,675	$19,202,170	217	$835,776	104	$327,751	5,996	$20,365,697

** Not disclosed due to confidentiality concerns*

Farm and Ranch Risk Management Accounts: 15-30-3001, MCA through 15-30-3005, MCA

Legislation: SB 245, 2001 Session

The 2001 Legislature created Farm and Ranch Risk Management Accounts as a tool for family farms to deal with uneven and uncertain income. An individual or family farm corporation could set up an account and deposit up to 20 percent of their net income from agriculture each year, with a limit of $20,000. The 2021 Legislature eliminated this program starting tax year 2024, so that no new funds could be deposited into an account and no new accounts could be created.

Deposits to a risk management account before tax year 2024 are excluded from adjusted gross income. Funds deposited in an account must be withdrawn within five years. Income and withdrawals from the account are taxable.

Federal law allows farmers to average income over three years for income tax purposes. The additional tax smoothing allowed by Montana Farm and Ranch Risk Management Accounts has seen very little use. No deposits were made in Tax Years 2019 through 2023. The tables below show exempt deposits and taxable withdrawals since Tax Year 2015.

Table 9.20 Family Farm and Ranch Risk Management Accounts

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	0	$0	0	$0	0	$0	0	$0
2016	*	$1,941	0	$0	0	$0	*	$1,941
2017	*	$1,056	0	$0	0	$0	*	$1,056
2018	*	$1,154	0	$0	0	$0	*	$1,154
2019	0	$0	0	$0	0	$0	0	$0
2020	0	$0	0	$0	0	$0	0	$0
2021	0	$0	0	$0	0	$0	0	$0
2022	*	$803	0	$0	0	$0	*	$803
2023	*	$1,000	0	$0	0	$0	*	$1,000

** Not disclosed due to confidentiality concerns*

Table 9.21 Farm and Ranch Risk Management Account Taxable Distributions

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	*	$993	*	$132	0	$0	*	$1,125
2016	*	$3,500	*	$1,457	0	$0	*	$4,957
2017	0	$0	*	$14,480	0	$0	*	$14,480
2018	*	$3,443	*	$2,403	0	$0	*	$5,846
2019	*	$6,293	*	$1,992	0	$0	*	$8,285
2020	*	$2,394	*	$7,712	*	$1,010	*	$11,116
2021	*	$46,804	*	$5,460	0	$0	*	$52,264
2022	*	$4,629	*	$9	0	$0	*	$4,638
2023	*	$801	*	$1	0	$0	*	$802

** Not disclosed due to confidentiality concerns*

First-Time Home Buyer Accounts: 15-63-101, MCA through 15-63-205, MCA

Legislation: HB 599, 1997 Session

Through Tax Year 2023, Montana law allowed residents who have never owned a home to establish a First-Time Home Buyer Account. Deposits of up to $3,000 per year ($6,000 for a married couple filing a joint return) and account earnings were exempt from taxation. Funds in the account must be used for the down payment and closing costs on a single-family house within 10 years after the account is established. If funds are withdrawn for another use or are not used within 10 years, they must be reported as taxable income. This program attempted to encouraged home ownership by reducing the cost of saving for a down payment.

The 2021 Legislature (SB 399) eliminated the income exemption for deposits made into the home buyer accounts after December 31, 2023.

The following tables show exempt deposits and earnings and taxable withdrawals.

Table 9.22 First-Time Home Buyer Account Deposits

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	214	$678,938	*	$1,820	10	$33,480	*	$714,238
2016	215	$706,088	*	$6,000	*	$18,000	*	$730,088
2017	217	$691,899	*	$8,800	*	$6,003	*	$706,702
2018	226	$731,601	0	$0	*	$12,001	*	$743,602
2019	241	$753,212	0	$0	*	$23,004	*	$776,216
2020	262	$1,000,174	*	$1,200	12	$45,200	*	$1,046,574
2021	251	$962,219	*	$2,000	*	$40,711	*	$1,004,930
2022	221	$972,820	*	$3,000	*	$21,000	*	$996,820
2023	186	$674,039	0	$0	*	$21,382	*	$695,421

** Not disclosed due to confidentiality concerns*

Table 9.23 First-Time Home Buyer Account Nonqualified Withdrawals

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	11	$29,261	0	$0	0	$0	11	$29,261
2016	13	$27,839	0	$0	0	$0	13	$27,839
2017	*	$11,317	*	$250	0	$0	*	$11,567
2018	*	$31,301	0	$0	0	$0	*	$31,301
2019	15	$17,465	0	$0	*	$5,000	*	$22,465
2020	14	$90,090	0	$0	*	$780	*	$90,870
2021	24	$70,200	0	$0	*	$4,460	*	$74,660
2022	16	$51,430	*	$78	0	$0	*	$51,508
2023	12	$45,637	0	$0	*	$12,042	*	$57,679

** Not disclosed due to confidentiality concerns*

Health Benefits Limited to Highly Compensated Employees: 15-30-2110(2)(h), MCA

Legislation: SB 72, 1985 Session

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

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

The 2021 Legislature ended this exemption starting tax year 2024.

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

The following table shows federally taxable health insurance premiums excluded from Montana Adjusted Gross Income since Tax Year 2015.

Table 9.24 Employer-Provided Health Insurance Not Available To All Employees

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	103	$439,835	10	$49,135	*	$5,000	*	$493,970
2016	130	$563,180	*	$15,031	*	$16,620	*	$594,831
2017	155	$646,073	*	$7,880	*	$29,886	*	$683,839
2018	141	$743,590	*	$88,760	*	$13,417	*	$845,767
2019	124	$550,391	*	$24,881	*	$19,122	*	$594,394
2020	138	$694,294	*	$28,042	*	$4,048	*	$726,384
2021	115	$568,229	*	$1,446	*	$10,201	*	$579,876
2022	91	$501,614	*	$46,794	*	$20,087	*	$568,495
2023	105	$670,584	*	$31,462	*	$5,645	*	$707,691

** Not disclosed due to confidentiality concerns*

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

Legislation: N/A

Federal law and court decisions prohibit states from taxing interest on federal government bonds. Montana law exempts interest on federal bonds from taxation. The following table shows exempt federal interest since Tax Year 2015.

Table 9.25 Interest on Federal Government Bonds

TY	Residents		Nonresidents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2015	14,678	$20,245,070	2,872	$52,382,952	420	$560,967	17,970	$73,188,989
2016	15,995	$23,737,395	3,084	$75,315,859	414	$593,914	19,493	$99,647,168
2017	17,472	$25,990,828	3,436	$285,464,468	443	$873,541	21,351	$312,328,837
2018	19,323	$31,134,949	3,617	$275,323,996	534	$898,469	23,474	$307,357,414
2019	21,943	$47,045,746	4,687	$546,813,819	625	$1,185,510	27,255	$595,045,075
2020	20,179	$32,425,710	4,208	$192,177,430	573	$2,010,844	24,960	$226,613,984
2021	19,036	$27,050,136	3,754	$35,084,940	556	$985,377	23,346	$63,120,453
2022	23,585	$47,207,761	5,496	$201,693,547	631	$1,460,328	29,712	$250,361,636
2023	30,356	$139,105,688	7,859	$1,211,751,590	821	$5,879,142	39,036	$1,356,736,420

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

Session: SB 378, 2015 Session

Montana exempts the military salary of residents who are on active duty in the armed forces. This includes members of the Montana National Guard who are serving in a homeland defense activity or contingency operation.

The following table shows the amount of income subject to this exemption since Tax Year 2015.

Table 9.26 Active Duty Military Salary

TY	Residents		Nonresidents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2015	4,537	$170,649,803	85	$3,798,088	156	$5,378,956	4,778	$179,826,847
2016	4,541	$174,056,632	74	$2,861,817	156	$5,030,357	4,771	$181,948,806
2017	4,650	$180,870,093	91	$4,077,258	194	$6,160,503	4,935	$191,107,854
2018	4,812	$198,113,363	954	$46,738,719	403	$12,103,039	6,169	$256,955,121
2019	5,167	$214,409,324	1,013	$50,183,267	419	$13,804,500	6,599	$278,397,091
2020	4,848	$212,067,156	857	$44,002,418	320	$10,463,016	6,025	$266,532,590
2021	4,955	$223,462,683	875	$44,361,887	432	$15,226,554	6,262	$283,051,124
2022	4,908	$231,079,130	1,021	$57,426,192	417	$16,622,634	6,346	$305,127,956
2023	4,706	$238,092,021	969	$53,418,748	371	$14,390,316	6,046	$305,901,085

Montana Medical Care Savings Accounts: 15-61-101, MCA to 15-61-205, MCA

Legislation: HB 560, 1995 Session

Federal law has created two mechanisms, the Archer Medical Savings Account and the Health Savings Account, for taxpayers or their employers to set aside pretax funds to pay medical expenses. Deposits to these accounts and distributions from these accounts to pay medical expenses are excluded from Federal Adjusted Gross Income. This means that they also are excluded from Montana Adjusted Gross Income. The tax expenditure from this federal exclusion is in the section on federal adjustments to income.

In Tax Year 1997, the legislature created a similar state program. The main difference is that the federal programs are limited to taxpayers whose only health insurance is a high-deductible policy, while the state program does not have this limitation. The 2023 Legislature (SB 550) also expanded the types of qualified medical expenditures to include any direct fee associated with a direct patient care agreement as well as any expenses paid by a member to a qualified health care sharing ministry. The purpose of these accounts appears to be to encourage taxpayers to set aside funds ahead of time to cover medical costs that will not be covered by insurance.

Before Tax Year 2023, taxpayers could exclude up to $4,500 of their contributions to an account during a year and any withdrawals from an account that are used to pay medical expenses. Starting in Tax Year 2024, the exclusion from taxable income increased to $4,500 and is set to be adjusted each year for inflation. This exclusion means that earnings kept in the account are also not taxed.

Funds may be withdrawn for other purposes, but then the amount withdrawn is treated as income.

The following tables show exempt medical savings account deposits and earnings and taxable withdrawals.

Table 9.27 Montana Medical Care Savings Accounts

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	6,233	$19,574,075	0	$0	98	$138,910	6,331	$19,712,985
2016	6,036	$19,419,283	0	$0	99	$158,784	6,135	$19,578,067
2017	6,101	$19,759,187	0	$0	100	$144,077	6,201	$19,903,264
2018	5,110	$19,589,251	0	$0	35	$47,828	5,145	$19,637,079
2019	5,354	$22,651,337	0	$0	37	$98,099	5,391	$22,749,436
2020	5,185	$22,743,005	0	$0	49	$133,358	5,234	$22,876,363
2021	5,175	$23,986,330	0	$0	51	$165,303	5,226	$24,151,633
2022	5,106	$24,217,502	0	$0	43	$103,336	5,149	$24,320,838
2023	5,120	$25,393,441	0	$0	36	$199,170	5,156	$25,592,611

Table 9.28 Medical Savings Account Nonqualified Withdrawals

TY	Residents		Nonresidents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2015	71	$135,323	0	$0	*	$40,937	*	$176,260
2016	50	$93,482	*	$8,622	0	$0	*	$102,104
2017	63	$122,519	*	$1,000	*	$9,303	*	$132,822
2018	156	$348,943	0	$0	*	$137,248	*	$486,191
2019	198	$426,060	0	$0	*	$19,223	*	$445,283
2020	210	$520,415	0	$0	*	$12,141	*	$532,556
2021	182	$476,861	0	$0	*	$3,088	*	$479,949
2022	217	$869,951	0	$0	*	$104,173	*	$974,124
2023	199	$689,284	0	$0	*	$28,959	*	$718,243

** Not disclosed due to confidentiality concerns*

National Guard Life Insurance Premiums: 15-30-2117(3)

Legislation: HB 761, 2005 Session

Before Tax Year 2024, the state would reimburse members of the National Guard or Reserve who were on active duty for premiums they pay for military group life insurance. This reimbursement was treated as income for federal income tax, but the state exempted it from taxation. This exemption increased the after-tax income of Guard and Reserve members, increasing the financial incentive to join or remain in the Guard or Reserves. It also provided an incentive for Guard and Reserve members to purchase military group life insurance.

The National Guard life insurance reimbursements, and the corresponding state income tax exemption for the reimbursements, was eliminated by the 2023 Legislature (HB 89). The reimbursements are no longer available starting Tax Year 2024.

The following table shows exempt Guard and Reserve life insurance premium reimbursements since Tax Year 2015.

Table 9.29 National Guard Life Insurance Premiums

TY	Residents		Nonresidents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2015	20	$10,766	0	$0	0	$0	20	$10,766
2016	25	$15,633	0	$0	*	$170	*	$15,803
2017	28	$28,304	0	$0	*	$778	*	$29,082
2018	14	$17,792	*	$408	0	$0	*	$18,200
2019	21	$34,481	*	$19,059	0	$0	*	$53,540
2020	26	$194,456	0	$0	*	$714	*	$195,170
2021	*	$4,822	0	$0	0	$0	*	$4,822
2022	26	$29,357	0	$0	*	$4,182	*	$33,539
2023	13	$110,053	0	$0	*	$22,848	*	$132,901

** Not disclosed due to confidentiality concerns*

Partial Interest Exclusion for Elderly Taxpayers: 15-30-2110(2)(b), MCA

Legislation: HB 18, 1981 Session

Through Tax Year 2023, taxpayers who were at least 65 years old could exclude up to $800 of interest income from their Montana taxable income. This exemption was eliminated starting Tax Year 2024 by the 2021 Legislature.

The following table shows interest income excluded since Tax Year 2015. This exemption provided a limited incentive for retirees to hold interest-paying assets, such as corporate bonds, rather than assets that pay other types of income. The primary effect of the exemption was to reduce tax paid by older taxpayers. However, it also provided a limited incentive for retirees to locate in Montana rather than in a state without a similar exemption.

Table 9.30 Partial Interest Exclusion for Elderly Taxpayers

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	64,139	$30,087,414	10,135	$7,973,410	1,172	$550,550	75,446	$38,611,374
2016	65,312	$30,687,228	10,475	$8,296,402	1,277	$575,776	77,064	$39,559,406
2017	69,725	$33,284,834	11,098	$8,805,973	1,458	$664,040	82,281	$42,754,847
2018	72,006	$36,035,566	10,677	$8,611,233	1,525	$735,052	84,208	$45,381,851
2019	76,703	$41,744,457	11,944	$10,333,249	1,632	$883,476	90,279	$52,961,182
2020	74,882	$38,240,518	11,645	$9,718,363	1,650	$806,405	88,177	$48,765,286
2021	73,706	$32,290,033	11,978	$9,169,320	1,986	$835,453	87,670	$42,294,806
2022	80,549	$37,966,773	12,781	$10,401,002	1,815	$907,844	95,145	$49,275,619
2023	89,479	$56,323,782	13,313	$12,797,872	1,763	$1,219,945	104,555	$70,341,599

** Not disclosed due to confidentiality concerns*

Partial Pension Exemption: 15-30-2110(2)(c), MCA

Legislation: HB 232, 1963 Session / SB 226, 1991 Session

Before Tax Year 2024, taxpayers with Federal Adjusted Gross Income below a threshold could have part of their pension income exempted from taxation. For taxpayers with higher incomes, the exemption amount was reduced by $2 for each $1 that the Federal Adjusted Gross Income exceeds the threshold. Both the threshold and the amount exempted were adjusted for inflation each year. For Tax Year 2023, the amount exempted was $5,060 and the threshold was $42,140. Taxpayers with Federal Adjusted Gross Income between $42,140 and $44,670 were eligible for an exemption of less than $5,060, and taxpayers with incomes over $44,670 were not eligible for the exemption. This exemption ended at the end of Tax Year 2023.

This exemption provided a limited incentive to participate in a retirement system and to keep funds in a retirement plan rather than withdrawing them. It also provided a limited incentive for retirees to locate in Montana rather than in a state without a similar exemption. However, this does not appear to have been the legislative purpose. Montana was one of 23 states that originally exempted state employee pensions from the state income tax. This allowed the state to make smaller pension contributions and resulted in some administrative savings.

In addition, the legislature exempted the first $3,600 of income from federal government pensions. In Tax Year 1989, a group of federal government and military retirees sued states that exempted state pensions, including Montana, arguing that states must give them the same exemption. The states lost, with the U.S. Supreme Court ruling that states may tax different types of income differently but may not tax the same type of income differently depending on who paid it. As a result, the states that had exempted state employee pensions changed their laws in a variety of ways. The Montana Legislature eliminated the exemption for state employee pensions but extended the $3,600 partial exemption to all pension income.

The following table shows pension income excluded from taxation since 2015.

Table 9.31 Partial Pension Exemption

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	44,197	$164,186,433	1,852	$6,551,278	855	$2,833,101	46,904	$173,570,812
2016	45,229	$173,070,990	1,985	$7,357,688	978	$3,361,132	48,192	$183,789,810
2017	44,862	$173,734,004	1,914	$7,179,943	945	$3,314,448	47,721	$184,228,395
2018	44,573	$174,904,162	1,682	$6,242,999	942	$3,290,626	47,197	$184,437,787
2019	45,396	$182,365,023	1,348	$5,198,618	818	$3,091,122	47,562	$190,654,763
2020	46,106	$185,146,420	1,482	$5,619,338	1,045	$3,595,034	48,633	$194,360,792
2021	44,793	$184,243,909	1,339	$5,357,069	928	$3,553,632	47,060	$193,154,610
2022	46,985	$205,312,143	1,426	$6,306,465	877	$3,563,735	49,288	$215,182,343
2023	48,419	$228,981,362	1,503	$6,773,408	730	$3,211,583	50,652	$238,966,353

Sales of Land to Beginning Farmers: 80-12-211, MCA

Legislation: SB 316, 1983 Session

Before Tax Year 2024, Montana allowed taxpayers to exclude up to $50,000 of income from the sale of at least 80 acres to a beginning farmer. To be eligible, a taxpayer's land sale must have been approved by the Montana Department of Agriculture. The deduction provides an incentive for retiring farmers to sell land to someone who will keep it in agriculture rather than convert it to another use.

The following table shows income excluded since Tax Year 2015. Fewer than 10 taxpayers have used the exclusion every year.

Table 9.32 Sales of Land to Beginning Farmers

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	*	$7,918	0	$0	0	$0	*	$7,918
2016	*	$27,569	0	$0	0	$0	*	$27,569
2017	*	$4,377	0	$0	0	$0	*	$4,377
2018	*	$3,955	0	$0	0	$0	*	$3,955
2019	*	$33,234	0	$0	*	$1	*	$33,235
2020	0	$0	0	$0	0	$0	0	$0
2021	*	$77,990	0	$0	0	$0	*	$77,990
2022	*	$14	0	$0	0	$0	*	$14
2023	*	$1	0	$0	0	$0	*	$1

** Not disclosed due to confidentiality concerns*

Small Business Investment Company Dividends: 15-33-106, MCA

Legislation: HB 834, 1981 Session

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

The following table shows income exempted under this provision since Tax Year 2015.

Table 9.33 Capital Gains from Small Business Investment Companies

TY	Residents		Nonresidents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2015	13	$48,730	*	$57,758	*	$69,535	*	$176,023
2016	13	$24,738	*	$29,921	0	$0	*	$54,659
2017	*	$1,449,364	*	$245,044	0	$0	*	$1,694,408
2018	16	$79,928	*	$138,707	*	$56,087	*	$274,722
2019	23	$10,486	*	$297,119	*	$723,789	*	$1,031,394
2020	22	$1,335,337	*	$192,584	*	$145,792	*	$1,673,713
2021	19	$529,940	*	$254,165	0	$0	*	$784,105
2022	23	$222,230	*	$105,912	*	$86,380	*	$414,522
2023	20	$35,540	0	$0	*	$2,943	*	$38,483

** Not disclosed due to confidentiality concerns*

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

Legislation: HB 211, 2019 Session

Starting Tax Year 2020, taxpayers who received loan repayment assistance during the tax year from the Quality Educator Loan Assistance Program could exclude the assistance amount from their adjusted gross income. The exclusion was limited to a maximum of $5,000 for the tax year. The 2021 Legislature eliminated this exemption starting Tax Year 2024.

The table below shows the cost of this exclusion for Tax Years 2020 through 2023.

Table 9.34 Educator Student Loan Repayment included in Federal AGI

TY	Residents		Nonresidents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2015	0	$0	0	$0	0	$0	0	$0
2016	0	$0	0	$0	0	$0	0	$0
2017	0	$0	0	$0	0	$0	0	$0
2018	0	$0	0	$0	0	$0	0	$0
2019	0	$0	0	$0	0	$0	0	$0
2020	83	$190,483	0	$0	*	$15,050	*	$205,533
2021	71	$5,757,939	0	$0	*	$14,982	*	$5,772,921
2022	66	$7,920,136	0	$0	0	$0	66	$7,920,136
2023	74	$6,671,294	0	$0	0	$0	74	$6,671,294

** Not disclosed due to confidentiality concerns*

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

Legislation: SB 408, 2003 Session

There are several private, federal, and state programs intended to encourage health care professionals to locate in under-served areas by making student loan payments for those who do. Federal law excludes repayments made by certain federal and state programs from taxable income. Montana law excluded qualifying repayments from all programs, including programs provided by private health-care facilities for their employees.

The state cost of the federal exclusion is part of the estimate of passive tax expenditures. The additional state exclusions were eliminated starting Tax Year 2024.

The following table shows the cost of the additional state exclusion since Tax Year 2015.

Table 9.35 Health Care Professional Student Loan Repayment Included in Fed. AGI

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	426	$1,234,654	10	$28,757	32	$79,458	468	$1,342,869
2016	425	$1,278,928	13	$34,086	49	$148,114	487	$1,461,128
2017	455	$1,315,847	12	$41,405	49	$136,636	516	$1,493,888
2018	448	$1,422,858	12	$34,351	50	$164,686	510	$1,621,895
2019	467	$1,535,563	21	$55,784	71	$228,584	559	$1,819,931
2020	444	$1,278,535	21	$61,225	33	$111,418	498	$1,451,178
2021	350	$1,116,534	14	$43,575	26	$85,434	390	$1,245,543
2022	344	$1,164,412	16	$50,258	25	$84,887	385	$1,299,557
2023	597	$1,680,338	25	$62,505	53	$175,689	675	$1,918,532

Tier I and Tier II Railroad Retirement: Federal Provision

Legislation: N/A

Railroad retirement benefits are divided into Tier I and Tier II. Tier I is equivalent to Social Security, and Tier I benefits are taxed the same as Social Security benefits. Tier II benefits are similar to a private pension but are based only on railroad earnings. Both sources of income a potentially taxable at the federal level. However, Montana taxes neither source of income.

The tables below show Tier I and Tier II railroad retirement benefits exempted from Montana taxation.

Table 9.36 Tier I Railroad Retirement Benefits

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	†	†	†	†	†	†	†	†
2016	†	†	†	†	†	†	†	†
2017	†	†	†	†	†	†	†	†
2018	†	†	†	†	†	†	†	†
2019	†	†	†	†	†	†	†	†
2020	†	†	†	†	†	†	†	†
2021	†	†	†	†	†	†	†	†
2022	1,802	$28,339,037	85	$1,686,471	18	$268,145	1,905	$30,293,653
2023	2,010	$34,133,687	83	$1,940,125	28	$488,670	2,121	$36,562,482

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

Table 9.37 Tier II Railroad Retirement Benefits

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	2,820	$46,343,176	80	$1,383,942	18	$235,919	2,918	$47,963,037
2016	2,846	$48,318,083	81	$1,341,418	28	$489,381	2,955	$50,148,882
2017	2,878	$50,097,081	85	$1,481,810	29	$430,941	2,992	$52,009,832
2018	2,951	$52,442,866	89	$1,640,449	29	$313,763	3,069	$54,397,078
2019	2,903	$53,205,289	86	$1,641,744	37	$594,601	3,026	$55,441,634
2020	2,883	$53,655,007	78	$1,378,911	27	$365,423	2,988	$55,399,341
2021	2,876	$54,408,208	87	$1,594,030	27	$461,304	2,990	$56,463,542
2022	2,847	$55,194,883	90	$2,025,204	30	$366,270	2,967	$57,586,357
2023	2,787	$56,881,820	85	$1,904,161	34	$487,189	2,906	$59,273,170

Tip Income and Gratuities: 15-30-2110(2)(f), MCA

Legislation: HB 841, 1983 Session

Before Tax Year 2024, tips earned while working for a licensed food service, beverage, or lodging establishment were not taxable in Montana. The reasoning behind this exclusion was that tips should be considered voluntary gifts from a restaurant's patrons to its employees, and gifts generally are not included in taxable income. Federal law considers tips to be taxable compensation for providing services. The 2021 Legislature eliminated this exemption starting Tax Year 2024.

The following table shows tips excluded from income since Tax Year 2015.

Table 9.38 Exempt Tip Income

TY	Residents		Nonresidents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2015	18,795	$67,147,671	1,402	$4,252,879	2,174	$6,809,415	22,371	$78,209,965
2016	19,216	$71,768,259	1,471	$4,468,898	2,291	$7,468,411	22,978	$83,705,568
2017	20,718	$80,661,372	1,691	$5,765,450	2,634	$8,284,592	25,043	$94,711,414
2018	20,189	$81,593,214	1,785	$6,141,529	2,385	$7,870,545	24,359	$95,605,288
2019	21,799	$88,982,140	1,967	$6,928,943	2,621	$8,648,427	26,387	$104,559,510
2020	20,430	$70,780,085	1,803	$5,182,929	2,287	$5,956,110	24,520	$81,919,124
2021	22,069	$105,418,886	2,351	$9,765,435	2,774	$10,477,779	27,194	$125,662,100
2022	23,891	$122,035,317	2,575	$11,138,161	2,726	$11,475,388	29,192	$144,648,866
2023	22,109	$124,077,840	2,398	$11,801,332	2,116	$9,389,968	26,623	$145,269,140

Unemployment Compensation: 15-30-2101, MCA

Legislation: HB 363, 1979 Session

Federal law taxes unemployment compensation. Before Tax Year 2024, Montana law exempted unemployment compensation from its income tax. Starting Tax Year 2024, however, the exemption for unemployment compensation was eliminated.

The following table shows additional state exemptions for unemployment compensation since Tax Year 2015.

Table 9.39 Exempt Unemployment Compensation

TY	Residents		Nonresidents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2015	24,456	$89,447,741	3,933	$20,533,636	1,752	$7,791,931	30,141	$117,773,308
2016	23,437	$94,926,088	3,453	$18,390,875	1,687	$8,100,053	28,577	$121,417,016
2017	21,741	$87,578,113	3,404	$19,041,750	1,480	$6,909,586	26,625	$113,529,449
2018	19,589	$80,750,167	3,027	$16,330,381	1,252	$5,984,762	23,868	$103,065,310
2019	19,506	$82,795,091	2,652	$14,590,281	1,209	$5,793,306	23,367	$103,178,678
2020	80,869	$887,376,585	7,908	$101,781,077	5,547	$68,943,815	94,324	$1,058,101,477
2021	34,489	$302,584,760	5,299	$59,161,752	2,851	$31,179,289	42,639	$392,925,801
2022	15,538	$70,068,144	3,405	$19,998,507	1,207	$6,204,591	20,150	$96,271,242
2023	15,440	$79,275,782	3,099	$22,244,482	992	$6,077,975	19,531	$107,598,239

Worker's Compensation: 15-30-2110(2)(g), MCA

Legislation: SB 72, 1985 Session

Federal law exempts worker's compensation payments, except payments that are reimbursement for medical expenses deducted in an earlier year. Before Tax Year 2024, Montana law also exempted all worker's compensation payments. This additional exemption was eliminated by the 2021 Legislature starting Tax Year 2024. The state revenue loss from the federal exemption is included in the estimate of passive tax expenditures.

The following table shows additional state exemptions for worker's compensation payments since Tax Year 2015.

Table 9.40 Exempt Unemployment Compensation

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	136	$998,080	16	$82,565	*	$4,750	*	$1,085,395
2016	124	$699,707	*	$29,817	15	$112,900	*	$842,424
2017	155	$774,048	*	$105,741	11	$70,428	*	$950,217
2018	182	$1,111,653	*	$50,666	*	$33,832	*	$1,196,151
2019	154	$882,827	*	$64,920	10	$64,745	*	$1,012,492
2020	284	$2,433,726	*	$135,823	15	$131,366	*	$2,700,915
2021	179	$1,354,321	*	$84,622	18	$189,824	*	$1,628,767
2022	141	$994,545	*	$28,124	*	$47,236	*	$1,069,905
2023	148	$983,491	11	$376,423	*	$9,832	*	$1,369,746

** Not disclosed due to confidentiality concerns*

Itemized Deduction Tax Expenditures

In general, itemized deductions provide a partial subsidy or reimbursement for deductible expenses. The amount of the subsidy depends on the taxpayer's marginal tax rate and on the amount by which itemized deductions exceed the standard deduction.

For a taxpayer whose deductible expenses are less than their standard deduction, the fact that an expense is deductible provides no extra benefit to the taxpayer and no cost to the state general fund.

For a taxpayer whose deductible expenses are more than their standard deduction, an extra $100 of itemized deductions reduces tax liability by $100 multiplied by the marginal tax rate.

For example, a taxpayer with taxable income of $6,000 in Tax Year 2023 would be in the 2 percent state tax bracket and the 10 percent federal tax bracket. An additional $100 deduction would reduce this person's state tax liability by $2 and federal tax liability by $10, for a total of $12 if the taxpayer itemizes their deductions. The $100 expenditure that was the basis of the deduction cost the taxpayer $88 and cost the state and federal governments, and ultimately other taxpayers $12.

A taxpayer with a taxable income of $500,000 in 2023 was in the 6.75 percent state tax bracket and the 35 percent federal tax bracket. An additional $100 deduction would reduce this person's state tax liability by $6.75 and federal tax liability by $35, for a total of $41.75 if the taxpayer itemizes. The $100 expenditure that was the basis of the deduction cost this taxpayer $58.25 and cost the state and federal governments, and ultimately other taxpayers $41.75.

Not all itemized deductions are considered tax expenditures. For example, itemized deductions that allow taxpayers to deduct costs of earning income are generally not considered tax expenditures. An example of this type of deduction is the deduction of gambling losses. Taxpayers who report income from gambling can deduct gambling losses up to the amount of reported winnings. This makes the income tax apply to net winnings from gambling.

Before Tax Year 2024

Prior to Tax Year 2024, Montana law generally allowed itemized deductions also allowed by federal law (15-30-2131(1)(a), MCA). There were a few exceptions where Montana law specifically disallowed a federal deduction. Montana law also allowed several itemized deductions that are not allowed by federal law. These additional deductions included the deduction for medical insurance premiums, long-term care insurance premiums, and federal income taxes paid.

Starting Tax Year 2024

After Tax Year 2024, Montana's personal income tax moved from being based on Federal Adjusted Gross Income to Federal Taxable Income. Under this new structure, Montana specific deductions, both standard and itemized, were eliminated and taxpayers determined their Montana taxable income based on federal deduction amounts. The only adjustment to the federal deductions amounts is to add back any Montana income tax deducted at the federal level.

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Casualty and Theft Losses: Federal Provision

Legislation: N/A

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

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

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

The following table shows itemized deductions for casualty and theft losses for Tax Years 2015 through 2023.

Table 9.41 Casualty and Theft Losses

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	334	$5,334,806	30	$1,148,861	22	$97,586	386	$6,581,253
2016	309	$6,744,568	40	$1,965,451	27	$263,256	376	$8,973,275
2017	267	$5,112,316	53	$6,092,544	23	$297,291	343	$11,502,151
2018	448	$4,442,831	32	$670,697	*	$87,003	*	$5,200,531
2019	322	$1,560,011	32	$520,150	10	$25,198	364	$2,105,359
2020	477	$2,825,353	32	$216,179	*	$6,318	*	$3,047,850
2021	305	$1,777,231	34	$298,126	*	$9,814	*	$2,085,171
2022	330	$4,435,344	25	$1,176,086	*	$116,523	*	$5,727,953
2023	35	$2,157,970	*	$183,517	*	$29,384	*	$2,370,871

** Not disclosed due to confidentiality concerns*

Charitable Contributions: Federal Provision

Legislation: N/A

Federal and Montana law allows an itemized deduction for charitable contributions. In any year, this deduction is limited to 50 percent of the taxpayer's adjusted gross income. In addition, gifts to certain types of charities and certain types of gifts are subject to lower limits. A taxpayer whose contributions exceed the limit may carry the excess contributions forward and deduct them in a later tax year. The deduction provides an incentive for taxpayers to contribute to tax-exempt charities by making the taxpayer's cost of the donation less than the amount the charity receives.

The following tables show itemized deductions for contributions for Tax Years 2015 through 2023.

Table 9.42 Charitable Contributions

TY	Residents N	Residents $	Nonresidents N	Nonresidents $	Part-Year Residents N	Part-Year Residents $	Total N	Total $
2015	150,403	$450,272,008	18,378	$551,805,559	4,299	$13,726,971	173,080	$1,015,804,538
2016	150,927	$502,946,119	18,540	$1,857,487,225	4,278	$14,917,531	173,745	$2,375,350,875
2017	151,085	$490,356,062	19,129	$741,475,164	4,341	$13,967,357	174,555	$1,245,798,583
2018	136,747	$447,461,011	15,359	$1,262,677,513	3,564	$13,681,208	155,670	$1,723,819,732
2019	132,059	$494,466,799	15,593	$1,400,677,568	3,272	$14,800,967	150,924	$1,909,945,334
2020	102,298	$474,658,056	13,710	$483,685,968	2,911	$30,895,489	118,919	$989,239,513
2021	131,650	$630,240,590	17,527	$887,866,826	4,441	$30,781,520	153,618	$1,548,888,936
2022	127,436	$585,440,790	16,614	$895,214,917	3,355	$17,717,827	147,405	$1,498,373,534
2023	122,212	$583,088,556	15,726	$1,255,999,332	2,644	$12,828,656	140,582	$1,851,916,544

Table 9.43 Charitable Noncash Contributions

TY	Residents N	Residents $	Nonresidents N	Nonresidents $	Part-Year Residents N	Part-Year Residents $	Total N	Total $
2015	71,039	$90,062,103	9,695	$379,146,416	3,086	$5,979,338	83,820	$475,187,857
2016	72,718	$148,637,209	10,024	$927,313,382	3,379	$8,283,427	86,121	$1,084,234,018
2017	72,383	$118,484,126	10,149	$1,045,453,011	3,329	$5,369,819	85,861	$1,169,306,956
2018	61,347	$73,875,268	7,636	$363,465,342	2,492	$4,023,178	71,475	$441,363,788
2019	55,483	$126,426,919	7,335	$541,144,496	2,205	$6,639,952	65,023	$674,211,367
2020	46,737	$104,422,201	6,128	$211,957,533	1,954	$12,568,872	54,819	$328,948,606
2021	47,835	$181,278,076	6,717	$536,287,154	2,459	$9,593,978	57,011	$727,159,208
2022	47,279	$148,049,106	6,864	$553,107,881	2,015	$6,630,737	56,158	$707,787,724
2023	46,309	$154,222,790	6,474	$524,568,317	1,571	$3,310,706	54,354	$682,101,813

Table 9.44 Carryover of Contributions from Previous Years

TY	Residents N	Residents $	Nonresidents N	Nonresidents $	Part-Year Residents N	Part-Year Residents $	Total N	Total $
2015	2,778	$35,565,096	481	$122,379,344	75	$362,590	3,334	$158,307,030
2016	3,102	$33,937,186	504	$414,328,549	60	$504,653	3,666	$448,770,388
2017	3,477	$42,384,106	577	$205,476,095	76	$1,096,563	4,130	$248,956,764
2018	2,583	$33,969,667	489	$44,141,614	55	$291,779	3,127	$78,403,060
2019	2,314	$30,647,375	466	$233,950,152	48	$2,141,288	2,828	$266,738,815
2020	2,011	$33,893,069	436	$111,051,210	52	$879,665	2,499	$145,823,944
2021	2,894	$53,647,324	497	$127,351,049	65	$512,902	3,456	$181,511,275
2022	2,565	$37,023,310	393	$79,651,809	49	$1,071,845	3,007	$117,746,964
2023	2,338	$41,848,209	356	$101,063,802	44	$769,350	2,738	$143,681,361

Child and Dependent Care Expenses: 15-30-2131(1)(c), MCA

Legislation: HB 47, 1977 Session

Montana law allowed an itemized deduction for up to $4,800 for the expenses of maintaining a household for or providing care for certain dependents while the taxpayer is at work or looking for a job. The dependent could have been a child under 15 or any person who was unable to care for him or herself while the taxpayer is at work. To qualify for the deduction, the taxpayer and spouse, if married, must have had combined Montana Adjusted Gross Income of less than $22,800 if caring for one eligible dependent. The income limit was $25,200 if the taxpayer was caring for two dependents and $27,600 for three or more dependents.

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

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

This deduction was eliminated at the end of Tax Year 2023.

The table below shows itemized deductions for child and dependent care expenses for Tax Years 2015 through 2023.

Table 9.45 Child and Dependent Care Expenses

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	484	$1,050,416	27	$46,766	33	$73,996	544	$1,171,178
2016	548	$1,206,246	28	$66,605	29	$62,376	605	$1,335,227
2017	496	$1,093,360	41	$95,077	34	$82,612	571	$1,271,049
2018	368	$886,905	24	$59,792	21	$54,843	413	$1,001,540
2019	325	$705,164	21	$55,913	14	$29,247	360	$790,324
2020	295	$681,098	19	$48,253	*	$22,591	*	$751,942
2021	271	$679,465	20	$56,452	14	$34,036	305	$769,953
2022	217	$509,733	26	$54,710	*	$9,132	*	$573,575
2023	191	$425,443	21	$59,041	*	$23,047	*	$507,531

** Not disclosed due to confidentiality concerns*

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Federal Income Tax: 15-30-2131(1)(b), MCA

Legislation: HB 328, 1933 Session

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

The cap was introduced by SB 407 (2003 legislative session). The sponsors of this legislation had several goals, which included reducing income tax revenue, lowering the top marginal rate, reducing the number of rate brackets, making the brackets narrower, eliminating the itemized deduction for federal taxes, and having no income group pay more than under prior law. It proved impossible to fully meet all these goals, and the capped deduction was kept, preventing the narrower rate brackets from increasing taxes on middle-income taxpayers. The 2003 Legislature chose not to index the cap for inflation, so that, in real terms, the cap will decrease over time.

This deduction partially or completely avoided having the state levy income tax on income paid to the federal government as income tax. It also had the same effect on taxpayers as having lower tax rates for taxpayers who itemize deductions and whose income put them below the cap on this deduction. This is because each extra dollar of income increased adjusted gross income by 1 dollar but also increased itemized deductions by the federal marginal tax rate times 1 dollar. Thus, an extra dollar of adjusted gross income translated into less than an extra dollar of taxable income.

For example, a single taxpayer with taxable income of $25,000 in Tax Year 2023 would be in the 6.75 percent state tax bracket and the 12 percent federal tax bracket. An additional $100 of income would result in an additional $12 of federal income tax, for an $88 increase in taxable income. Applying the 6.75 percent rate to $88 provides additional tax of $5.94, for an effective marginal tax rate of about 5.9 percent rather than 6.75 percent. For a taxpayer whose federal taxes are above the cap on the deduction, the effective marginal tax rate is 6.75 percent.

This deduction was eliminated starting Tax Year 2024

The following table shows itemized deductions for federal income tax for Tax Years 2015 through 2023.

Table 9.46 Federal Income Tax

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	232,979	$1,297,118,744	33,646	$245,467,280	10,148	$61,093,726	276,773	$1,603,679,750
2016	236,969	$1,325,330,899	33,132	$241,315,861	10,241	$60,477,836	280,342	$1,627,124,596
2017	242,669	$1,367,118,010	34,595	$250,911,791	10,643	$63,443,115	287,907	$1,681,472,916
2018	218,784	$1,199,661,055	29,269	$214,748,520	8,891	$53,607,145	256,944	$1,468,016,720
2019	208,531	$1,153,558,682	30,784	$228,991,454	8,202	$50,830,919	247,517	$1,433,381,055
2020	208,762	$1,164,299,664	30,072	$221,821,966	8,844	$54,323,729	247,678	$1,440,445,359
2021	220,833	$1,259,672,196	33,881	$250,693,510	11,308	$71,046,028	266,022	$1,581,411,734
2022	199,670	$1,178,374,560	28,493	$217,452,653	7,152	$46,589,907	235,315	$1,442,417,120
2023	192,520	$1,151,420,993	27,670	$211,891,825	5,722	$37,144,276	225,912	$1,400,457,094

Home Mortgage Interest and Insurance Premiums: Federal Provision

Legislation: N/A

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

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

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

The following table shows itemized deductions for home mortgage interest and insurance.

Table 9.47 Home Mortgage Interest

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	142,562	$900,243,023	15,218	$146,760,981	4,664	$32,888,662	162,444	$1,079,892,666
2016	144,780	$909,386,335	15,504	$150,336,425	4,888	$34,706,195	165,172	$1,094,428,955
2017	146,491	$932,109,767	15,809	$154,934,319	5,108	$37,201,137	167,408	$1,124,245,223
2018	137,315	$903,558,507	13,293	$136,209,342	4,599	$36,320,490	155,207	$1,076,088,339
2019	136,388	$987,393,435	17,085	$212,703,072	4,813	$41,987,715	158,286	$1,242,084,222
2020	135,162	$979,405,589	16,715	$198,342,853	5,058	$44,816,143	156,935	$1,222,564,585
2021	136,905	$921,441,130	17,912	$191,183,631	6,334	$51,468,005	161,151	$1,164,092,766
2022	128,326	$900,683,824	17,913	$206,708,802	5,079	$51,081,669	151,318	$1,158,474,295
2023	124,193	$1,007,632,419	17,673	$236,358,058	3,955	$49,581,350	145,821	$1,293,571,827

Light Vehicle Registration Fees: 15-30-2131(1)(h), MCA

Legislation: HB 540, 1999 Session

Before Tax Year 2024, Montana taxpayers were allowed to deduct any light vehicle registration fees paid by the taxpayer for a Montana vehicle during the tax year from their income. Before Tax Year 2018, this deduction was reported with other personal property taxes when the taxpayer itemized their deductions. However, the federal deduction limitation for state and local taxes does not apply to Montana light vehicle registrations and was separated on Montana's income tax return starting in Tax Year 2018.

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

This state deduction was eliminated starting Tax Year 2024.

The following table shows the deductions claimed for light vehicle registration fees for Tax Year 2018 through 2023.

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Table 9.48 Light Vehicle Registration Fees

TY	Residents		Nonresidents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2015	†	†	†	†	†	†	†	†
2016	†	†	†	†	†	†	†	†
2017	†	†	†	†	†	†	†	†
2018	†	†	†	†	†	†	†	†
2019	†	†	†	†	†	†	†	†
2020	31,857	$8,290,227	118	$32,622	546	$164,985	32,521	$8,487,834
2021	30,214	$7,711,508	133	$34,925	665	$204,001	31,012	$7,950,434
2022	30,533	$7,913,839	139	$3,043,958	601	$197,535	31,273	$11,155,332
2023	29,243	$7,469,337	113	$46,492	400	$141,613	29,756	$7,657,442

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

Long-Term Care Insurance Premiums: 15-30-2131(1)(a)(iv), MCA

Legislation: SB 151, 1997 Session

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

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

The following table shows itemized deductions for medical insurance premiums for Tax Years 2015 through 2023.

Table 9.49 Long Term Care Insurance Premiums

TY	Residents		Nonresidents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2015	10,756	$30,500,607	1,419	$4,705,289	214	$529,032	12,389	$35,734,928
2016	10,793	$30,987,121	1,418	$4,804,136	235	$776,408	12,446	$36,567,665
2017	10,451	$30,898,836	1,422	$5,136,137	217	$567,120	12,090	$36,602,093
2018	9,721	$28,930,381	1,191	$4,339,615	212	$721,413	11,124	$33,991,409
2019	9,751	$29,512,592	1,130	$4,139,437	205	$583,102	11,086	$34,235,131
2020	9,211	$28,951,256	1,058	$3,946,828	167	$479,828	10,436	$33,377,912
2021	9,069	$29,135,526	1,041	$4,098,063	235	$741,345	10,345	$33,974,934
2022	8,850	$28,916,875	999	$3,993,760	180	$568,926	10,029	$33,479,561
2023	8,357	$28,087,891	888	$3,858,118	143	$470,122	9,388	$32,416,131

Medical and Dental Expenses: Federal Provision

Legislation: N/A

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

In Tax Year 2012, the deduction for expenses was more than 7.5 percent of adjusted gross income. Beginning in Tax Year 2013, taxpayers younger than 65 could only deduct expenses that are more than 10 percent of adjusted gross income. Federal tax law changes lowered the expenses threshold to 7.5 percent for all taxpayers until Tax Year 2020. Beginning in Tax Year 2020, the 10 percent threshold will apply to all taxpayers. This deduction provides a partial reimbursement or subsidy for taxpayers who have high unreimbursed medical expenses in a year.

The table below shows itemized deductions for medical and dental expenses for Tax Years 2015 through 2023.

Table 9.50 Medical Expenses

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	56,183	$284,136,157	3,007	$29,160,349	1,024	$6,375,164	60,214	$319,671,670
2016	56,383	$293,717,332	3,158	$30,398,401	1,023	$6,703,465	60,564	$330,819,198
2017	60,310	$307,625,176	3,308	$31,767,112	1,197	$6,487,843	64,815	$345,880,131
2018	54,824	$305,327,291	2,602	$27,120,558	932	$7,840,943	58,358	$340,288,792
2019	52,185	$297,489,660	2,460	$29,233,391	869	$7,821,301	55,514	$334,544,352
2020	47,853	$275,452,616	2,235	$27,593,330	861	$5,784,693	50,949	$308,830,639
2021	47,090	$285,501,631	2,172	$28,352,905	933	$7,962,980	50,195	$321,817,516
2022	47,764	$304,195,192	2,318	$33,207,055	785	$8,435,245	50,867	$345,837,492
2023	46,035	$316,871,679	2,213	$34,939,073	682	$7,787,583	48,930	$359,598,335

Medical Insurance Premiums: 15-30-2131(1)(a)(iii), MCA

Legislation: HB 202, 1995 Session

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

This deduction was eliminated at the end of Tax Year 2023.

This deduction provided a partial subsidy to taxpayers who buy their own health insurance.

The following table shows itemized deductions for medical insurance premiums for Tax Years 2015 through 2023.

Table 9.51 Medical Insurance Premiums Not Deducted Elsewhere

TY	Residents		Nonresidents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2015	98,528	$481,950,204	9,085	$46,594,292	2,275	$8,162,208	109,888	$536,706,704
2016	103,805	$445,884,104	9,571	$51,676,439	2,728	$9,434,403	116,104	$506,994,946
2017	103,991	$473,418,359	9,734	$54,746,509	2,775	$10,288,605	116,500	$538,453,473
2018	100,134	$520,492,426	8,580	$50,692,623	2,518	$10,505,651	111,232	$581,690,700
2019	100,332	$507,233,583	9,275	$57,113,085	2,416	$10,366,215	112,023	$574,712,883
2020	100,311	$509,733,715	9,122	$57,517,141	2,414	$10,574,569	111,847	$577,825,425
2021	102,380	$565,919,725	9,765	$69,843,262	3,152	$13,460,794	115,297	$649,223,781
2022	104,377	$565,333,261	9,868	$71,152,792	2,458	$11,485,999	116,703	$647,972,052
2023	104,011	$660,771,330	9,708	$68,050,135	2,111	$10,329,195	115,830	$739,150,660

Per Capita Livestock Fees: 15-30-2131(1)(i), MCA

Legislation: HB 124, 2001 Session

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

This deduction was eliminated starting Tax Year 2024.

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

The following table shows the deductions claimed for per capita livestock fees for Tax Years 2018 through 2023.

Table 9.52 Per Capita Livestock Fees

TY	Residents		Nonresidents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2015	†	†	†	†	†	†	†	†
2016	†	†	†	†	†	†	†	†
2017	†	†	†	†	†	†	†	†
2018	†	†	†	†	†	†	†	†
2019	†	†	†	†	†	†	†	†
2020	528	$76,631	0	$0	*	$5,922	*	$82,553
2021	493	$64,548	*	$17	*	$447	*	$65,012
2022	544	$83,399	*	$5,194	*	$1,694	*	$90,287
2023	495	$200,538	0	$0	*	$2,768	*	$203,306

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

** Not disclosed due to confidentiality concerns*

Political Contributions: 15-30-2131(1)(d), MCA

Legislation: HB 407, 1979 Session

Montana law allowed taxpayers an itemized deduction for up to $100 of contributions to candidates for political office or to political parties. Federal law does not allow a comparable deduction. This deduction provided a subsidy for taxpayers making political contributions totaling up to $100.

The last year to claim this deduction was Tax Year 2023.

The following table shows itemized deductions for political contributions for Tax Years 2015 through 2023.

Table 9.53 Political Contributions

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	5,621	$684,847	209	$25,325	105	$11,111	5,935	$721,283
2016	8,490	$1,055,050	281	$36,989	154	$17,115	8,925	$1,109,154
2017	6,832	$838,756	240	$32,440	133	$15,210	7,205	$886,406
2018	7,297	$939,555	164	$22,572	102	$12,974	7,563	$975,101
2019	6,337	$780,893	160	$20,432	111	$12,468	6,608	$813,793
2020	8,756	$1,166,306	205	$28,477	158	$19,436	9,119	$1,214,219
2021	5,264	$675,348	132	$18,205	122	$14,466	5,518	$708,019
2022	6,389	$847,647	147	$21,830	95	$11,808	6,631	$881,285
2023	5,951	$770,120	127	$17,000	68	$9,578	6,146	$796,698

Other Deductible Taxes: Federal Provision

Legislation: N/A

Federal and state law allows itemized deductions for several other types of taxes, including the generation-skipping transfer tax and income taxes paid to other countries. This deduction avoids having the state levy income tax on income paid as tax to the United States or another country. As with other deductions for taxes, the effect on taxpayers is similar to having lower rates as long as taxpayers with higher incomes tend to pay more of the deductible taxes.

The following table shows itemized deductions for other taxes from Tax Years 2015 through 2023.

Table 9.54 Other Deductible Taxes

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	20,251	$7,480,154	1,489	$3,177,156	290	$301,071	22,030	$10,958,381
2016	16,400	$6,342,633	1,533	$3,092,082	280	$156,522	18,213	$9,591,237
2017	15,178	$6,262,752	1,560	$3,621,889	302	$246,158	17,040	$10,130,799
2018	9,153	$3,901,158	845	$1,040,863	193	$98,999	10,191	$5,041,020
2019	7,152	$3,372,436	713	$4,825,552	140	$97,051	8,005	$8,295,039
2020	5,883	$2,617,365	630	$7,532,583	113	$160,146	6,626	$10,310,094
2021	5,648	$3,037,712	627	$6,970,253	127	$121,086	6,402	$10,129,051
2022	5,485	$2,818,356	616	$1,489,561	104	$176,298	6,205	$4,484,215
2023	5,404	$3,129,203	629	$1,426,267	100	$137,290	6,133	$4,692,760

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State and Local Taxes: Federal Provision

Legislation: N/A

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

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

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

For example, a taxpayer who lives in another state but has Montana income spends 90 percent of any extra income on purchases that are subject to their home state's 8 percent sales tax.

For every $100 of extra income, this person will have $7.40 of extra sales tax deductions, so that an extra $100 of gross income is only $92.80 of taxable income. If they were in the 6.75 percent top rate bracket, their effective marginal rate was 6.26 percent (6.75 percent x $92.80).

The table below show itemized deductions for state and local taxes.

Table 9.55 State and Local Tax Deduction Limited to $10,000

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	212,042	$519,000,445	23,145	$197,600,830	6,443	$17,618,418	241,630	$734,219,693
2016	216,054	$550,693,459	23,841	$195,002,176	7,023	$18,852,374	246,918	$764,548,009
2017	220,517	$604,765,477	24,709	$217,569,650	7,502	$20,944,954	252,728	$843,280,081
2018	204,553	$553,904,721	20,569	$93,330,078	6,353	$17,161,634	231,475	$664,396,433
2019	201,358	$589,498,152	20,761	$101,359,325	5,997	$18,246,174	228,116	$709,103,651
2020	199,040	$594,090,801	20,024	$99,198,163	6,259	$19,717,808	225,323	$713,006,772
2021	203,536	$622,718,879	21,689	$106,825,856	7,795	$23,487,268	233,020	$753,032,003
2022	196,126	$634,229,242	21,533	$114,207,015	6,049	$20,166,946	223,708	$768,603,203
2023	190,195	$676,103,837	21,752	$120,349,506	4,951	$17,542,263	216,898	$813,995,606

Tax Credits

Tax credits offset tax liability for taxpayers who make specified expenditures or take specified actions. Tax credits are not part of the basic structure of the income tax and are therefore tax expenditures. Credits generally give taxpayers an incentive to make certain expenditures by providing a partial subsidy for those expenditures, which lowers the taxpayer's cost. The amount of subsidy a taxpayer receives depends on whether the taxpayer can also claim a federal deduction or credit, whether the taxpayer could claim a state deduction for the same expenditure, and whether the taxpayer must choose between a state deduction and the state credit, or can claim both.

For each credit, this section shows taxpayer subsidies, taking the interactions of state and federal taxes into account, for taxpayers whose federal taxes are above and below the cap on the state deduction for federal taxes.

Sometimes, a taxpayer will have a credit or combination of credits that is greater than their tax liability. If a credit is refundable, the taxpayer receives a direct subsidy equal to the difference between the credit and tax liability, and the cost to the general fund is the full amount of the credit. If a credit is non-refundable but has a carry-over provision, any excess of the credit over tax liability must be carried forward and applied against tax liability in a later year.

The current cost to the general fund is limited to the tax liability of taxpayers claiming the credit, but some credits claimed one year may be carried forward and reduce general fund revenue in future years. Also, part of the credits claimed in the current year may have been carried forward from earlier years. If a credit is non-refundable and cannot be carried over, the cost to the general fund is limited by the current tax liability of taxpayers claiming the credit.

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

Adoption Credit: 15-30-2364, MCA

Legislation: HB 490, 2007 Session

The Internal Revenue Code allows an income tax credit for costs of adopting a child.

Before Tax Year 2023, a taxpayer who meet the requirements for the federal credit could also claim a credit of $1,000 against their Montana income tax. If the credit was more than the taxpayer's liability, the excess was not refunded, but excess credits could be carried forward for up to five years. This credit was first available in Tax Year 2007 and expired in Tax Year 2022.

Starting Tax Year 2023, however, the state adoption credit was brought back, but was changed significantly. Under the new credit, taxpayers could claim a Montana adoption credit for a qualified adoption even if they did not claim the federal credit. The credit amount was also increased to $7,500 if the eligible child was in foster care under the custody of the state when adopted. If the child was not under the custody of the state, taxpayers would qualify for a $5,000 credit on the year the adoption was finalized. The credit was also made fully refundable.

The following table shows credits claimed for Tax Years 2015 through 2023.

Table 9.56 Adoption Credit

TY	Residents		Nonresidents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2015	183	$219,789	23	$27,367	10	$10,594	216	$257,750
2016	185	$222,618	14	$12,591	10	$12,582	209	$247,791
2017	175	$205,210	17	$16,291	*	$5,582	*	$227,083
2018	151	$179,974	*	$7,888	*	$12,000	*	$199,862
2019	138	$182,016	12	$13,169	*	$8,453	*	$203,638
2020	108	$148,946	*	$4,039	*	$1,000	*	$153,985
2021	126	$153,283	*	$10,000	*	$14,714	*	$177,997
2022	0	$0	0	$0	0	$0	0	$0
2023	205	$1,839,079	*	$7,500	*	$60,000	*	$1,906,579

** Not disclosed due to confidentiality concerns*

In Tax Year 2023, taxpayers reported $1,906,579 Adoption credits on their returns.

Apprenticeship Credit: 15-30-2357, MCA and 39-6-109, MCA

Legislation: HB 308, 2017 Session

State taxpayers are allowed a credit for employing an apprentice or veteran apprentice as a new employee in a state-registered apprenticeship training program. The credit is worth $750 per approved apprentice, or $1,500 per approved veteran apprentice, and may only be claimed for five years per apprentice.

The credit is non-refundable and cannot exceed the individual's tax liability.

This credit was first available in Tax Year 2018. The table below shows the credits reported on income tax returns for Tax Years 2018 through 2023.

Table 9.57 Apprenticeship Credit

TY	Residents		Nonresidents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2015	0	$0	0	$0	0	$0	0	$0
2016	0	$0	0	$0	0	$0	0	$0
2017	0	$0	0	$0	0	$0	0	$0
2018	133	$154,603	*	$863	*	$1,010	*	$156,476
2019	233	$294,451	*	$7,207	*	$781	*	$302,439
2020	296	$392,943	14	$15,755	*	$790	*	$409,488
2021	325	$466,256	16	$20,395	*	$5,576	*	$492,227
2022	384	$596,970	18	$16,889	*	$3,879	*	$617,738
2023	424	$682,857	17	$27,881	*	$1,578	*	$712,316

** Not disclosed due to confidentiality concerns*

Capital Gains Credit: 15-30-2301, MCA

Legislation: HB 407, 2003 Session

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

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

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

Federal law taxes income from capital gains and corporate dividends at lower rates than ordinary income.

Before Tax Year 2024, Montana did not have separate rates for different types of income but did allow a credit equal to 2 percent of capital gains income. If the capital gains credit exceeded the taxpayer's tax liability, the excess credit was not refunded and may not be carried forward or backward to other tax years. This credit was equivalent to taxing capital gains at a lower rate than other income. With the credit, a taxpayer in the top income bracket would be taxed at 6.75 percent on an additional dollar of ordinary income, but at 4.75 percent on an additional dollar of capital gains income.

Starting Tax Year 2024, the 2 percent capital gains tax credit was eliminated. Instead, two different tax rates were created specifically for net-long-term capital gains income. Like at the federal level, these new rates tax capital gains income a rate lower than non-capital gains income. The new tax rates for capital gains income were 3 percent and 4.1 percent.

The income tax would not affect taxpayers' choices between assets that yield a stream of income and assets that provide a return through appreciation if:

- capital gains were taxed (and capital losses were deducted) when they accrue rather than when they are realized
- if capital gains were taxed at the same rate as ordinary income, and
- gains and losses were calculated after adjusting the taxpayer's basis for inflation

In most cases, the preferential treatment of capital gains income creates incentives for taxpayers to invest in assets that produce capital gains rather than producing a stream of income, for taxpayers to make riskier investments, and for taxpayers to hold assets that have appreciated and sell assets that have lost value. However, these incentives may be reversed if taxpayers expect asset price increases to be offset by inflation.

The following table shows capital gains credits for Tax Years 2015 through 2023. The reduction in income tax revenue is less than the total amount of credits claimed because some taxpayers reach zero tax liability without using all of their credit.

Table 9.58 Capital Gains Credit

TY	Residents		Nonresidents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2015	67,457	$33,445,616	15,263	$272,007,058	2,449	$2,004,163	85,169	$307,456,837
2016	62,818	$33,576,490	14,410	$357,188,908	2,297	$3,481,699	79,525	$394,247,097
2017	72,881	$44,758,820	16,863	$396,299,151	2,787	$2,072,261	92,531	$443,130,232
2018	71,281	$39,822,120	3,688	$5,293,985	1,444	$522,827	76,413	$45,638,932
2019	73,591	$50,825,618	3,982	$5,789,021	1,533	$737,781	79,106	$57,352,420
2020	74,137	$62,915,567	4,466	$12,218,521	1,902	$2,151,091	80,505	$77,285,179
2021	93,649	$125,399,235	5,381	$19,745,253	2,710	$5,966,078	101,740	$151,110,566
2022	70,428	$79,894,105	4,372	$17,989,181	1,726	$3,044,966	76,526	$100,928,252
2023	65,536	$67,122,869	3,943	$13,300,881	1,376	$1,822,818	70,855	$82,246,568

** Not disclosed due to confidentiality concerns*

Credit for Other States' Taxes: 15-30-2302, MCA

Legislation: HB 38, 1941 Session

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

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

This credit prevents two states from taxing the same income. Not having a credit for income tax paid to other states would create a disincentive for individuals to work or have business interests in more than one state. The following table shows the credits claimed for Tax Years 2015 through 2023.

Table 9.59 Credit for Other States' Taxes

TY	Residents		Nonresidents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2015	13,301	$31,375,448	0	$0	925	$855,861	14,226	$32,231,309
2016	13,351	$31,363,032	0	$0	460	$575,796	13,811	$31,938,828
2017	14,070	$33,636,066	0	$0	540	$502,006	14,610	$34,138,072
2018	14,021	$31,680,581	0	$0	604	$639,465	14,625	$32,320,046
2019	14,972	$44,613,482	0	$0	675	$690,143	15,647	$45,303,625
2020	14,409	$53,792,718	0	$0	693	$5,357,210	15,102	$59,149,928
2021	16,339	$77,470,924	0	$0	851	$4,917,853	17,190	$82,388,777
2022	17,214	$77,406,239	0	$0	808	$1,918,412	18,022	$79,324,651
2023	15,513	$70,101,811	0	$0	567	$1,034,929	16,080	$71,136,740

Earned Income Tax Credit: 15-30-2318, MCA

Legislation: HB 391, 2017 Session

Individual taxpayers with income from working or owning a business can claim the federal Earned Income Tax Credit if they meet the requirements and file a federal tax return. The credit is determined by the amount of income and number of qualified dependents the taxpayer reports. With zero qualifying children, a taxpayer could receive a federal tax credit of up to $600 in Tax Year 2023, depending on their income. The maximum credit amounts in Tax Year 2023 increased to $3,995 for taxpayers with one qualifying child, $6,604 for two children and $7,430 for three or more. The federal credit is fully refundable.

When first created, taxpayers in Montana were allowed a credit equal to 3 percent of the federal Earned Income Tax Credit on their state income taxes. Starting Tax Year 2024, Montana's credit was increased to 10 percent of the federal credit.

Montana's credit was enacted by the 2017 Legislature and expanded by the 2023 Legislature. The state credit is also fully refundable.

The table below has the number of credits reported on returns through Tax Year 2023.

Table 9.60 Earned Income Tax Credit

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	0	$0	0	$0	0	$0	0	$0
2016	0	$0	0	$0	0	$0	0	$0
2017	0	$0	0	$0	0	$0	0	$0
2018	0	$0	0	$0	0	$0	0	$0
2019	66,474	$4,240,321	0	$0	3,696	$124,461	70,170	$4,364,782
2020	62,711	$3,867,675	0	$0	3,362	$110,021	66,073	$3,977,696
2021	89,015	$4,756,086	0	$0	6,266	$180,189	95,281	$4,936,275
2022	57,363	$3,737,191	0	$0	3,087	$111,341	60,450	$3,848,532
2023	56,502	$3,943,201	0	$0	2,760	$104,649	59,262	$4,047,850

Elderly Homeowner/Renter Credit: 15-30-2337 to 15-30-2341, MCA

Legislation: SB 337, 1981 Session

Taxpayers who are age 62 or older and have a household income of less than $45,000 may be eligible for the Elderly Homeowner/Renter Credit. The credit refunds part or all of the property tax a homeowner pays directly, or a renter pays indirectly, that is more than a certain percentage of household income. For a household with income between $12,000 and $45,000, this percentage is 5 percent. For households with lower incomes, the credit refunds part or all of property taxes above a smaller percent of income. For taxpayers with income between $2,000 and $2,999, the credit refunds part or all of property taxes above 0.6 percent of income. The credit is limited to a maximum of $1,150 per household. The credit phases out for households with income between $35,000 and $45,000.

Taxpayers who receive the Elderly Homeowner/Renter Credit pay their property taxes and then receive a partial refund. Local governments, school districts, the university system, and the state general fund all receive full payments of property taxes on these taxpayers' residences. Then, taxpayers are refunded part of the tax they paid via this credit, which reduces revenue going to the general fund.

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This credit is essentially a property tax refund administered through the income tax system. The credit could be considered a tax expenditure either for the income tax or the property tax.

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

Taxpayers who claim the credit may take an itemized deduction for property taxes on their homes. For a taxpayer who takes the state and federal standard deductions, the credit reduces state income tax by $1 for each $1 by which the taxpayer's property tax exceeds the credit percentage for their income. If the taxpayer itemizes deductions, the credit reduces the federal deduction for state taxes, which increases federal income tax. This increases the state deduction for federal taxes, further reducing state taxes.

A taxpayer who is eligible for the credit may be in any state rate bracket but is likely to be in the 10 percent or 12 percent federal brackets. The table below shows: federal and state subsidies for a taxpayer in the top state and 12 percent federal rate brackets who claims the credit and itemizes; the federal and state subsidies if the taxpayer itemizes but does not claim the credit; and the difference due to the credit.

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

The tables below show the credits claimed with income tax returns for Tax Years 2015 through Tax Year 2023.

Table 9.61 Elderly Homeowner / Renter Credit Offsetting Factors

Taxpayer Claims Credit and Federal and State Deductions	
Federal Tax Subsidy	-$0.82
State Tax Subsidy	$106.81
Net Taxpayer Subsidy	$105.99

Taxpayer Claims Federal and State Itemized Deductions	
Federal Tax Subsidy	$11.28
State Tax Subsidy	$5.99
Net Taxpayer Subsidy	$17.27

Difference Due to Credit	
Federal Tax Subsidy	-$12.1
State Tax Subsidy	$100.82
Net Taxpayer Subsidy	$88.72

Table 9.62 Elderly Homeowner / Renter Credit

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	16,112	$7,817,883	0	$0	22	$10,962	16,134	$7,828,845
2016	16,173	$8,008,009	*	$1,768	25	$8,407	*	$8,018,184
2017	16,261	$8,294,505	0	$0	16	$5,740	16,277	$8,300,245
2018	16,195	$8,372,909	0	$0	28	$17,460	16,223	$8,390,369
2019	15,229	$8,051,148	0	$0	24	$9,540	15,253	$8,060,688
2020	14,615	$7,837,867	0	$0	19	$9,015	14,634	$7,846,882
2021	13,052	$7,038,801	*	$63	19	$10,576	*	$7,049,440
2022	16,242	$10,579,731	0	$0	31	$15,178	16,273	$10,594,909
2023	15,195	$10,022,907	*	$848	28	$11,538	*	$10,035,293

Historic Property Preservation Credit: 15-30-2342, MCA and 15-31-151, MCA

Legislation: HB 601, 1997 Session

Taxpayers may take a credit against either individual income tax or corporation income tax for costs of rehabilitating a certified historic building. The credit is 25 percent of the federal credit allowed by 26 U.S.C. 47(a)(2). The federal credit is 20 percent of the cost of rehabilitation. A certified historic building must either be in the National Register of Historic Buildings or be in a designated historic district and be certified by the Department of the Interior as having historic significance to the district. Only commercial buildings that can be depreciated are eligible for the credit. No credits may be claimed for rehabilitating a private residence. This credit is effectively a subsidy from the state general fund for rehabilitation of privately owned real estate.

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

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

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

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

Table 9.63 $100 Expenditure for Historic Building Rehabilitation

Taxpayer Claims State and Federal Credits		
	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	$18.15	$18.61
State Tax Subsidy	$5.00	$3.74
Net Taxpayer Subsidy	$23.15	$22.36

The following table shows credits taken against individual income tax for Tax Years 2015 through 2023.

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Table 9.64 Historic Property Preservation Credit

TY	Residents		Nonresidents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2015	16	$363,789	46	$241,925	0	$0	62	$605,714
2016	19	$301,456	33	$416,873	*	$50,000	*	$768,329
2017	13	$186,753	30	$373,205	0	$0	43	$559,958
2018	18	$27,884	24	$287,573	*	$796	*	$316,253
2019	19	$36,554	35	$285,746	*	$16	*	$322,316
2020	13	$41,494	30	$317,235	0	$0	43	$358,729
2021	13	$42,749	17	$224,282	*	$12,500	*	$279,531
2022	*	$828	*	$105,872	0	$0	*	$106,700
2023	*	$5,832	*	$346	0	$0	*	$6,178

** Not disclosed due to confidentiality concerns*

Infrastructure Users Fee Credit: 17-6-316, MCA

Legislation: SB 100 and HB 602, 1995 Session

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

If the credit is more than the taxpayer's liability, the excess is not refunded, but may be carried forward for seven years or carried back to the three previous tax years. The credit has not been amended since it was enacted.

This credit, in effect, pays the taxpayer for having local infrastructure extended to serve its business. For example, if a business pays $100 per year to its local government to cover the cost of having sewer service extended to the business, it can claim a credit of $100 and deduct $100 as a business expense. For a taxpayer in the 6.75 percent tax bracket, the net effect would be the same as being paid $6.75 per year to have a new sewer hookup. However, if the taxpayer is an individual who itemizes deductions, the taxpayer's federal deduction for state taxes will be smaller, resulting in higher federal taxes. This may result in a smaller state deduction for federal taxes. The table below shows the net change in federal and state taxes and the net subsidy from claiming a $100 credit for a taxpayer in the top federal and state tax rate brackets.

Table 9.65 $100 Expenditure on Infrastructure Fees

Taxpayer Claims State and Federal Credits		
	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	-$37.00	-$37.95
State Tax Subsidy	$100.00	$102.56
Net Taxpayer Subsidy	$63.00	$64.61

The following table shows credits against individual income tax for Tax Years 2015 through 2023.

Table 9.66 Infrastructure User Fee Credit

TY	Residents		Nonresidents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2015	13	$2,832,145	*	$10,755	0	$0	*	$2,842,900
2016	14	$646,145	*	$11,587	0	$0	*	$657,732
2017	21	$3,341,669	*	$11,011	0	$0	*	$3,352,680
2018	20	$6,427,077	*	$57,084	0	$0	*	$6,484,161
2019	*	$5,019,787	*	$23,340	0	$0	*	$5,043,127
2020	*	$4,665,962	*	$21,494	0	$0	*	$4,687,456
2021	*	$4,682,999	*	$62,650	0	$0	*	$4,745,649
2022	*	$74,578	*	$589	0	$0	0	$75,167
2023	*	$4,196,583	*	$4,759	0	$0	*	$4,201,342

** Not disclosed due to confidentiality concerns*

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

Innovative Educational Program Credit: 15-30-3110, MCA

Legislation: SB 410, 2015 Session

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

The credit was first available in Tax Year 2016. The total amount of credits that can be claimed each tax year is capped, with a limit of $3 million in total credits in Tax Year 2021. The maximum credit amount was reduced to $1 million for Tax Year 2022 and $2 million in Tax Year 2023. The 2023 Legislature (HB 408) increased the maximum credit amount to $5 million in Tax Year 2024.

This credit effectively pays the taxpayer for donating to the state's education improvement account. For example, if an individual donates $100 to the improvement account, they will be able to claim a credit of $100. However, if the taxpayer is an individual who itemizes their deductions, the taxpayer's federal deduction for state taxes will be smaller, resulting in higher federal taxes.

This may result in a smaller state deduction for federal taxes. The table below shows the net change in federal and state taxes and the net subsidy from claiming a $100 credit for a taxpayer in the top federal and state tax rate brackets who itemize their deductions.

Table 9.67 $100 Contribution to Innovative Educational Program

Taxpayer Claims State and Federal Credits		
	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	-$37.00	-$37.95
State Tax Subsidy	$100.00	$102.56
Net Taxpayer Subsidy	$63.00	$64.61

The following table shows the credits claimed on individual income tax returns for Tax Years 2016 through 2023.

Table 9.68 Innovative Educational Program Credit

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	0	$0	0	$0	0	$0	0	$0
2016	35	$7,601	0	$0	*	$100	*	$7,701
2017	39	$8,420	0	$0	*	$540	*	$8,960
2018	18	$3,700	0	$0	0	$0	18	$3,700
2019	*	$1,651	*	$150	*	$1	*	$1,802
2020	13	$2,450	0	$0	0	$0	13	$2,450
2021	*	$1,500	*	$150	*	$150	*	$1,800
2022	20	$209,131	0	$0	0	$0	20	$209,131
2023	54	$763,376	0	$0	*	$11,000	*	$774,376

** Not disclosed due to confidentiality concerns*

Job Growth Incentive Credit: 15-30-2361, MCA

Legislation: HB 629, 2021 Session

Since Tax Year 2022, taxpayers have been able to claim an individual income tax credit for half the Federal Insurance Contributions Act (FICA) paid by an employer for qualified new employees.

To qualify for the credit, an employer must hire new qualifying employees that are associated with a project in the state that "encourages, promotes, and stimulates economic development in the sectors of construction, natural resources, mining, agriculture, forestry, manufacturing, transportation, utilities, or outdoor recreation." The employer must also have net employee growth associated with the qualifying project.

To qualify, new employees must have been hired towards the qualifying project. They must also have an annual wage that is above the qualifying cutoff amount, which is adjusted each year for inflation. The qualifying income amounts were $50,000 in 2022 and $54,530 in 2023. Qualifying employees must also work at least 6 months in the year the credit is being claimed.

If an employer meets the credit requirements, they must apply for a tax credit certificate from the Montana Department of Labor and Industry before they can claim the credit. If the Department of Labor and Industry determines the businesses has met all the necessary requirements, they will issue a credit certificate. With the credit certificate, the employer can claim the Job Growth Incentive credit on their personal income tax returns.

The credit is non-refundable, but taxpayer can carryforward unused credit amounts for up to 10 years. The credit is currently set to expire in Tax Year 2028.

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This credit is unique in that the use of this credit is not considered confidential taxpayer information. Taxpayers who claim the credit consent to the Department of Revenue reporting their use of the credit to the Revenue Interim Committee and Department of Labor and Industry. They also consent to the release of the number of employees used to claim the credit and the number of credits claimed.

The following table shows the credits claimed on individual income tax returns for Tax Years 2022 and 2023.

Table 9.69 Job Growth Incentive Credit

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	0	$0	0	$0	0	$0	0	$0
2016	0	$0	0	$0	0	$0	0	$0
2017	0	$0	0	$0	0	$0	0	$0
2018	0	$0	0	$0	0	$0	0	$0
2019	0	$0	0	$0	0	$0	0	$0
2020	0	$0	0	$0	0	$0	0	$0
2021	0	$0	0	$0	0	$0	0	$0
2022	0	$0	0	$0	0	$0	0	$0
2023	0	$0	0	$0	0	$0	0	$0

Media Production Credit: 15-31-1001 through 1012, MCA

Legislation: HB 293, 2019 Session

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

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

The following table shows the credits claimed on individual income tax returns for Tax Years 2020 through 2023.

Table 9.70 Media Production Credit

TY	Residents		Nonresidents		Part-Year Residents		Total	
	N	$	N	$	N	$	N	$
2015	0	$0	0	$0	0	$0	0	$0
2016	0	$0	0	$0	0	$0	0	$0
2017	0	$0	0	$0	0	$0	0	$0
2018	0	$0	0	$0	0	$0	0	$0
2019	0	$0	0	$0	0	$0	0	$0
2020	12	$1,723,316	0	$0	0	$0	0	$1,723,316
2021	18	$3,991,438	0	$0	0	$0	0	$3,991,438
2022	*	$800,619	*	$91	0	$0	*	$800,710
2023	22	$2,845,824	*	$1	0	$0	*	$2,845,825

** Not disclosed due to confidentiality concerns*

Qualified Endowment Credit: 15-30-2327, MCA through 15-30-2329, MCA

Legislation: HB 434, 1997 Session

Individual taxpayers are allowed a credit of 40 percent of the present value of a planned gift to a qualified endowment, which is a permanent fund held by or on behalf of a 501(c)(3) charitable organization. A planned gift is one of nine types of arrangements specified in the IRS code. Planned gifts basically fall into three categories. In the first, the donor continues to receive income or benefits from the donated assets, either for a fixed term or for life, and the endowment receives the assets at the end of the term or when the donor dies. Examples include charitable remainder trusts and life estate arrangements. In the second category, the endowment receives income from the assets, generally for a fixed term, and then the assets revert to the donor or the donor's heirs. Charitable lead trusts fall into this category. The third category of planned gifts is paid-up life insurance.

Corporations are allowed a credit of 20 percent of a gift to a qualified endowment. Because the concept of planned gifts only makes sense for individuals, corporations are only allowed the credit for an outright gift.

Before Tax Year 2024, the credit was limited to $10,000. Starting Tax Year 2024, the maximum credit amount was increased a maximum of $15,000. A taxpayer with a credit that is larger than their tax liability will not be refunded the excess, and excess credits may not be carried forward or backward to another tax year. A taxpayer may claim the credit for multiple gifts in one year, as long as total credits do not exceed $15,000. A taxpayer who makes eligible contributions in multiple years may take the credit each year. An individual will receive the maximum credit for a gift with a present value of $37,500. A corporation will receive the maximum credit for a gift of $75,000.

The credit originally was 50 percent of the present value of the planned gift with a limit of $10,000. The credit was to sunset at the end of Tax Year 2001. The 2001 Legislature (HB 377) reduced the credit to 40 percent of the present value of the planned gift for individuals and 20 percent of the value of the gift for corporations. It also clarified the definition of planned gift and extended the sunset date to the end of Tax Year 2007. The 2001 Legislature (SB 350) also created an affordable housing revolving loan program and made contributions to the account for this program eligible for the credit. This provision sunset at the end of Tax Year 2004, and the Legislature did not extend it. In August 2002, the Montana legislature met in a special session to deal with revenue shortfalls.

To reduce the costs of the credit in the short run, the Legislature (SB 15) reduced the credit for the period from August 28, 2002, through June 30, 2003, to 30 plrcent for individuals and 13.3 percent for corporations, with a cap of $6,600. The same bill increased the credit for the period from July 1, 2003, to April 30, 2004, to 50 percent for individuals and 26.7 percent for corporations, with a cap of $13,400. The credit returned to its previous levels on May 1, 2004. The 2003 Legislature (SB 143) defined the term “charitable gift annuity” in Montana Code Annotated Title 33, which deals with insurance, and made the credit language refer to that definition. The 2005 Legislature (HB 193) provided for recapture of the tax credit when a gift is returned to the taxpayer. The 2007 Legislature (SB 150) clarified that a building fund or other fund that spends from contributions rather than just from its earnings is not a charitable endowment. SB 150 also extended the sunset date to the end of 2013. The 2013 Legislature (SB 108) extended the sunset date to the end of Tax Year 2019. The credit was extended again during the 2019 Legislature (SB 111) to the end of Tax Year 2025. The 2023 Legislature (SB 506) extended the credit indefinitely and increased the maximum credit amount from $10,000 to $15,000.

The arrangements that can be used for planned gifts are defined in the IRS code, but there is no specific federal tax treatment of planned gifts other than the general deduction for contributions. A taxpayer may not claim the credit for a gift and take a state itemized deduction for the same gift. If the present value of the contribution exceeds the limit, the deduction may be taken on the excess. The taxpayer may take a federal itemized deduction for the full amount of the gift.

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

Table 9.71 $100 Contribution to Charitable Endowment Fund

Taxpayer Claims Credit and Federal Itemized Deduction		
	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	$22.20	$22.77
State Tax Subsidy	$40.00	$38.46
Net Taxpayer Subsidy	$62.20	$61.23

Taxpayer Claims Federal and State Itemized Deductions		
	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	$34.50	$35.39
State Tax Subsidy	$6.75	$4.36
Net Taxpayer Subsidy	$41.25	$39.75

Difference Due to Credit		
	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	-$12.30	-$12.62
State Tax Subsidy	$33.25	$34.10
Net Taxpayer Subsidy	$20.95	$21.48

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

The table below shows qualified endowment credits claimed by individuals for Tax Years 2015 through 2023.

Table 9.72 Qualified Endowment Contribution Credit

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	616	$2,461,321	*	$24,060	*	$9,545	*	$2,494,926
2016	641	$2,708,754	*	$32,071	*	$2,046	*	$2,742,871
2017	728	$3,157,163	15	$58,607	*	$10,020	*	$3,225,790
2018	597	$2,528,221	*	$53,395	*	$908	*	$2,582,524
2019	665	$3,007,492	11	$77,440	*	$6,497	*	$3,091,429
2020	618	$2,676,780	*	$53,909	*	$9,889	*	$2,740,578
2021	654	$3,577,812	10	$50,961	*	$10,031	*	$3,638,804
2022	632	$3,372,075	*	$25,981	*	$750	*	$3,398,806
2023	590	$3,126,367	*	$3,302	*	$1,183	*	$3,130,852

** Not disclosed due to confidentiality concerns*

Recycling Credit: 15-32-601, MCA through 15-32-614, MCA

Legislation: SB 111, 1991 Session

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

If a taxpayer claims a credit in excess of his or her tax liability, the excess credit is not refunded and may not be carried forward or backward to another tax year. An individual may claim the credit directly for an investment made by a sole-proprietor business or may claim a share of the credit for an investment made by a pass-through entity.

The credit was enacted as a credit equal to 25 percent of investments made between Tax Years 1990 and 1995. The 1993 Legislature (HB 519) clarified the definitions used to determine eligible investments. The 1995 Legislature (SB 358) extended the sunset date to Tax Year 2001 and expanded eligible investments to include equipment to reclaim contaminated soils. The 2001 Legislature (SB 92) extended the sunset date to Tax Year 2005 and removed equipment to reclaim contaminated soils from eligible investments. The 2005 Legislature (SB 213) extended the sunset date to Tax Year 2011. The 2009 Legislature (HB 21) made the credit permanent.

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

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

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

Table 9.73 $100 Recycling Equipment Expenditure

Difference Due to Credit		
	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	-$9.25	-$9.49
State Tax Subsidy	$25.00	$25.64
Net Taxpayer Subsidy	$15.75	$16.15

The following table shows use of the recycling credit by individuals for Tax Years 2015 through 2023. This credit is equivalent to a subsidy from the state general fund for the purchase of private property to be used in recycling.

Table 9.74 Recycling Credit

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	71	$279,657	*	$1,762	*	$500	*	$281,919
2016	101	$329,343	*	$4,448	*	$30	*	$333,821
2017	106	$473,540	*	$27,029	*	$110	*	$500,679
2018	91	$545,086	*	$12,700	10	$4,480	*	$562,266
2019	83	$426,741	*	$1,602	*	$9,195	*	$437,538
2020	118	$508,351	*	$14,187	*	$53	*	$522,591
2021	105	$884,053	*	$24,274	*	$1,073	*	$909,400
2022	92	$642,146	*	$162	*	$202	*	$642,510
2023	78	$590,774	*	$150	*	$394	*	$591,318

** Not disclosed due to confidentiality concerns*

Student Scholarship Organization Credit: 15-30-3111, MCA

Legislation: SB 410, 2015 Session

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

The credit was first available in Tax Year 2016. The total amount of credits that can be claimed each tax year is capped, with a limit of $3 million in total credits for Tax Year 2019. For Tax Years 2022 and 2023, the maximum credit amounts were changed to $1 million and $2 million, respectively. The 2023 Legislature (HB 408) increased the maximum credit amount to $5 million in Tax Year 2024.

This credit, in effect, pays the taxpayer for donating to a student scholarship organization. For example, if an individual donates $100 to an organization, they will be able to claim a credit of $100. However, if the taxpayer is an individual who itemizes their deductions, the taxpayer's federal deduction for state taxes will be smaller, resulting in higher federal taxes. This may result in a smaller state deduction for federal taxes. The table below shows the net change in federal and state taxes and the net subsidy from claiming a $100 credit for a taxpayer in the top federal and state tax rate brackets who itemize their deductions.

Table 9.75 $100 Contribution to Student Scholarship Organization

Difference Due to Credit		
	Deduction for Federal Taxes	
	Capped	Not Capped
Federal Tax Subsidy	-$37.00	-$37.95
State Tax Subsidy	$100.00	$102.56
Net Taxpayer Subsidy	$63.00	$64.61

The table below shows the credits claimed on individual income tax returns for Tax Years 2015 through 2023.

Table 9.76 Student Scholarship Organization Credit

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	0	$0	0	$0	0	$0	0	$0
2016	130	$30,474	*	$5	*	$1,350	*	$31,829
2017	123	$27,732	0	$0	*	$150	*	$27,882
2018	54	$10,301	*	$150	*	$300	*	$10,751
2019	*	$1,560	*	$3	0	$0	*	$1,563
2020	30	$5,690	*	$251	*	$300	*	$6,241
2021	40	$6,639	*	$300	*	$600	*	$7,539
2022	39	$590,850	*	$132	0	$0	*	$590,982
2023	47	$1,818,564	*	$500	0	$0	*	$1,819,064

** Not disclosed due to confidentiality concerns*

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

Legislation: HB 252, 2021 Session

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

The 2023 Legislature (HB 245) expanded the number of occupations that qualify for the credit and extended the termination date of the credit from Tax Year 2026 to Tax Year 2028.

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

This credit was first available in Tax Year 2021, and it set to expire after Tax Year 2028. The table below shows the credit use through Tax Year 2023.

Table 9.77 Trades Education and Training Credit

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	0	$0	0	$0	0	$0	0	$0
2016	0	$0	0	$0	0	$0	0	$0
2017	0	$0	0	$0	0	$0	0	$0
2018	0	$0	0	$0	0	$0	0	$0
2019	0	$0	0	$0	0	$0	0	$0
2020	0	$0	0	$0	0	$0	0	$0
2021	166	$236,789	*	$12,959	9	$6,191	*	$255,939
2022	31	$34,641	*	$4,169	3	$2,083	*	$40,893
2023	25	$53,521	0	$0	0	$0	25	$53,521

** Not disclosed due to confidentiality concerns*

Unlocking State Lands Credit: 15-30-2380, MCA

Legislation: HB 444, 2013 Session

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

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

This credit is equivalent to an annual lease payment of $750 for an easement across private land. The following table shows credits claimed for Tax Years 2015 through 2023. For each tax year, the number of taxpayers claiming the credit was less than 10 and could not be released.

Table 9.78 Unlocking State Lands Credit

	Residents		Nonresidents		Part-Year Residents		Total	
TY	N	$	N	$	N	$	N	$
2015	*	$1,086	*	$153	0	$0	*	$1,239
2016	*	$1,973	0	$0	0	$0	*	$1,973
2017	*	$1,973	0	$0	0	$0	*	$1,973
2018	*	$100	0	$0	0	$0	*	$100
2019	*	$7,500	*	$430	0	$0	*	$7,930
2020	*	$2,413	*	$286	0	$0	*	$2,699
2021	*	$1,500	0	$0	0	$0	*	$1,500
2022	*	$1,500	0	$0	0	$0	*	$1,500
2023	*	$1,929	*	$286	0	$0	*	$2,215

** Not disclosed due to confidentiality concerns*

Individual Income Tax Expenditures Summary

Tax Expenditures by Income

The tables on the following pages show the distribution of income tax expenditures between income groups and between residents and non-residents. The left half of the table shows the number of residents in 13 income groups and the number of non-residents and part-year residents. The first group contains all taxpayers with incomes less than zero. The next nine categories contain the remaining taxpayers and groups them into income deciles. The final three categories contain the final decile broken down into three equal groups based on their income. It also shows total income, the percent of total income, total tax, and the percent of total tax for each group. The right half of the table shows total tax expenditures and the percent of the total going to each group for four categories of tax expenditures and for the total.

Table 9.79 Income Tax Expenditures by Household Income Tax Year 2022 ($ million)

Residents	Returns	Tax-payers	Total Household Income*		Tax		Passive Federal		State Adjustments		Itemized		Credit		Total	
			$ million	% of Total	$ million	% of Total	$ million	% of Total	$ million	% of Total	$ million	% of Total	$ million	% of Total	$ million	% of Total
Income range	5,461	7,725	-$256.3	-0.6%	-$0.7	0.0%	$0.0	0.0%	$0.0	0.0%	$0.0	0.0%	$0.6	0.3%	$0.6	0.1%
Less than $0	49,451	54,632	$202.2	0.5%	$0.0	0.0%	$0.0	0.0%	$0.0	0.0%	$0.0	0.0%	$6.4	3.3%	$6.4	1.2%
$0 to $8,581	49,451	55,504	$639.7	1.4%	$3.6	0.2%	$0.1	0.3%	$0.5	1.0%	$0.2	0.1%	$3.5	1.8%	$4.3	0.8%
$8,582 to $17,420	49,451	56,894	$1,106.6	2.5%	$14.0	0.7%	$0.5	1.0%	$1.8	3.6%	$1.1	0.4%	$2.4	1.3%	$5.8	1.1%
$17,421 to $27,283	49,451	57,879	$1,586.5	3.5%	$34.0	1.8%	$0.9	1.8%	$3.7	7.4%	$3.0	1.2%	$1.7	0.9%	$9.4	1.7%
$27,284 to $36,898	49,451	59,574	$2,082.5	4.6%	$60.4	3.2%	$1.4	2.9%	$4.2	8.5%	$7.5	3.0%	$1.2	0.7%	$14.4	2.7%
$36,899 to $47,779	49,451	64,369	$2,701.6	6.0%	$89.7	4.7%	$2.2	4.4%	$5.2	10.3%	$14.8	5.9%	$1.5	0.8%	$23.6	4.4%
$47,780 to $62,150	49,451	72,351	$3,523.5	7.9%	$126.9	6.7%	$3.3	6.5%	$6.2	12.4%	$24.3	9.7%	$2.5	1.3%	$36.3	6.7%
$62,151 to $81,397	49,451	82,657	$4,648.0	10.4%	$178.9	9.4%	$4.6	9.1%	$7.5	15.0%	$36.8	14.8%	$4.2	2.2%	$53.1	9.8%
$81,398 to $10,095	49,451	89,449	$6,349.6	14.2%	$270.5	14.2%	$6.9	13.7%	$8.1	16.2%	$52.9	21.2%	$7.9	4.1%	$75.7	14.0%
$10,096 to $155,872	16,483	30,442	$2,820.6	6.3%	$130.9	6.9%	$3.6	7.2%	$2.8	5.6%	$22.3	8.9%	$5.3	2.8%	$34.1	6.3%
$155,873 to $190,062	16,484	30,395	$3,708.4	8.3%	$182.2	9.6%	$6.6	13.1%	$2.8	5.6%	$25.9	10.4%	$11.2	5.8%	$46.5	8.6%
$190,063 to $277,200	16,484	30,206	$11,787.4	26.3%	$631.7	33.3%	$17.2	34.2%	$3.8	7.5%	$49.4	19.8%	$122.2	63.6%	$192.5	35.6%
Over $277,200	499,971	692,077	$40,900.5	91.3%	$1,722.1	90.7%	$47.3	94.1%	$46.5	93.3%	$238.0	95.5%	$170.7	88.9%	$502.6	92.8%
Resident Total	499,971	692,077	$40,900.5	91.3%	$1,722.1	90.7%	$47.3	94.1%	$46.5	93.3%	$238.0	95.5%	$170.7	88.9%	$502.6	92.8%
Nonresidents	64,329	95,783	$2,681.4	6.0%	$123.0	6.5%	$2.2	4.3%	$2.2	4.3%	$7.0	2.8%	$16.7	8.7%	$28.1	5.2%
Part-Year Residents	32,402	41,632	$1,229.5	2.7%	$53.9	2.8%	$0.8	1.6%	$1.2	2.3%	$4.3	1.7%	$4.6	2.4%	$10.8	2.0%
Total	596,702	829,492	$44,811.3	100.0%	$1,899.0	100.0%	$50.3	100.0%	$49.9	100.0%	$249.4	100.0%	$192.1	100.0%	$541.6	100.0%

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

Table 9.80 Income Tax Expenditures by Household Income Tax Year 2023 ($ million)

			Total Household Income*		Tax		Passive Federal		State Adjustments		Itemized		Credit		Total	
Residents	Returns	Tax-payers	$ million	% of Total	$ million	% of Total	$ million	% of Total	$ million	% of Total	$ million	% of Total	$ million	% of Total	$ million	% of Total
Income range	5,601	7,898	-$234.4	-0.5%	-$0.5	0.0%	$0.0	0.0%	$0.0	0.0%	$0.0	0.0%	$0.6	0.3%	$0.6	0.1%
Less than $0	50,044	55,294	$221.5	0.5%	$0.1	0.0%	$0.0	0.0%	$0.0	0.0%	$0.0	0.0%	$6.7	3.9%	$6.7	1.2%
$0 to $9,238	50,044	55,997	$700.0	1.5%	$4.0	0.2%	$0.2	0.3%	$0.5	0.9%	$0.2	0.1%	$3.3	1.9%	$4.2	0.8%
$9,239 to $18,896	50,044	57,385	$1,208.5	2.6%	$15.3	0.8%	$0.5	1.0%	$1.9	3.2%	$1.1	0.4%	$2.3	1.4%	$5.9	1.1%
$18,897 to $29,388	50,044	58,163	$1,726.7	3.7%	$37.1	1.9%	$1.0	1.9%	$3.8	6.4%	$3.0	1.2%	$1.7	1.0%	$9.5	1.8%
$29,389 to $39,505	50,045	60,169	$2,256.6	4.9%	$64.6	3.3%	$1.5	3.0%	$4.7	7.9%	$7.6	3.0%	$1.3	0.8%	$15.1	2.8%
$39,506 to $51,089	50,044	64,840	$2,909.8	6.3%	$95.6	4.9%	$2.3	4.5%	$5.5	9.4%	$14.8	5.8%	$1.7	1.0%	$24.4	4.5%
$51,090 to $65,925	50,044	72,546	$3,774.6	8.1%	$135.3	7.0%	$3.5	6.8%	$6.7	11.3%	$24.4	9.6%	$2.5	1.5%	$37.2	6.9%
$65,926 to $86,043	50,044	83,411	$4,967.6	10.7%	$189.3	9.7%	$4.7	9.0%	$8.2	13.9%	$37.7	14.8%	$4.1	2.4%	$54.8	10.2%
$86,044 to $11,102	50,044	90,340	$6,761.4	14.6%	$285.7	14.7%	$7.2	13.9%	$9.0	15.2%	$54.7	21.4%	$7.3	4.2%	$78.2	14.5%
$11,103 to $162,810	16,682	30,948	$2,976.3	6.4%	$137.2	7.1%	$3.7	7.1%	$3.3	5.5%	$22.9	8.9%	$4.6	2.7%	$34.4	6.4%
$162,811 to $197,400	16,681	30,858	$3,859.3	8.3%	$188.5	9.7%	$6.5	12.6%	$3.7	6.2%	$27.3	10.7%	$9.6	5.5%	$47.1	8.7%
$197,401 to $282,653	16,682	30,686	$12,071.3	26.0%	$648.9	33.4%	$17.9	34.7%	$7.6	12.9%	$51.7	20.2%	$111.4	64.5%	$188.6	35.0%
Over $282,653	499,971	692,077	$40,900.5	91.3%	$1,722.1	90.7%	$47.3	94.1%	$46.5	93.3%	$238.0	95.5%	$170.7	88.9%	$502.6	92.8%
Resident Total	506,043	698,535	$43,199.3	93.1%	$1,801.2	92.7%	$49.1	94.9%	$54.9	93.0%	$245.4	96.1%	$157.0	91.0%	$506.5	94.0%
Nonresidents	63,473	94,415	$2,165.7	4.7%	$97.0	5.0%	$2.1	4.0%	$3.0	5.0%	$6.4	2.5%	$12.6	7.3%	$24.1	4.5%
Part-Year Residents	29,183	36,896	$1,049.8	2.3%	$44.6	2.3%	$0.6	1.1%	$1.2	2.0%	$3.6	1.4%	$2.9	1.7%	$8.3	1.5%
Total	598,699	829,846	$46,414.8	100.0%	$1,942.8	100.0%	$51.8	100.0%	$59.1	100.0%	$255.5	100.0%	$172.6	100.0%	$538.9	100.0%

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

Revenue Cost Estimates of Tax Expenditures

All of the prior tax expenditure tables in this section reported the amounts reported on taxpayer returns for each of the income tax expenditures. However, the impact to income tax revenues is likely different from the amounts reported on taxpayer returns. For income subtractions and deductions, the impact to income tax revenue is the change in taxable income multiplied by the marginal tax rate applied to the exempted income. For non-refundable tax credits, the impact to income tax revenue is the smaller of the credit amount, or the taxpayer's tax liability after removing all other non-refundable credits.

To determine the income tax revenue impact of each tax expenditure, the tax liability of each taxpayer claiming each tax expenditure listed previously is estimated with and without the tax expenditure in place. The difference between the two liability amounts provides an estimate of the revenue impact of each tax expenditure. Table 9.81 below provides revenue estimates for each of the tax expenditures reported in this section for Tax Years 2018 through 2023.

Table 9.81 Income Tax Expenditure Cost Estimates, Tax Years 2018 – 2023

Tax Expenditure	Tax Year					
	2018	2019	2020	2021	2022	2023
Above-The-Line Deductions						
Deductions for the Self-Employed	$16,931,717	$19,273,883	$19,196,611	$21,647,169	$21,859,517	$21,173,733
Health Savings Account Deduction	$2,674,404	$2,962,810	$2,941,061	$3,104,002	$3,115,221	$3,246,951
Individual Retirement Account Deduction	$3,853,536	$3,992,708	$4,101,284	$4,143,298	$3,917,062	$3,929,463
Student Loan Interest Deduction	$3,046,256	$3,143,433	$1,605,601	$836,977	$736,596	$1,080,645
Archer MSA Deduction	$0	$0	$0	$2,347	$2,199	$2,887
Montana Adjustments to Income						
ABLE Accounts	$9,175	$12,959	$17,835	$23,227	$18,106	$23,993
Business Purchases of Recycled Material	$27,319	$16,005	$16,376	$27,579	$57,264	$12,401
Mobile Home Park Capital Gain Exclusion	$0	$86,430	$0	$0	$37,488	$39,602
Disability Retirement Income	$1,341	$1,243	$1,967	$945	$2,954	$936
Exempt Tribal Income	$8,028,696	$8,155,004	$9,038,501	$9,199,798	$9,990,492	$10,272,654
Medical Marijuana Provider Expenses	$47,953	$278,459	$272,028	$369,000	$512,087	$392,294
Family Education Savings Account	$889,141	$996,676	$1,020,273	$1,259,674	$1,238,214	$1,245,132
Farm and Ranch Risk Management Account	$0	$0	$0	$0	$0	$0
First-Time Home Buyer Account	$47,110	$48,249	$54,137	$57,683	$50,745	$40,160
Highly Compensated Employee Health Benefits	$43,561	$32,270	$42,475	$34,664	$32,818	$42,211
Interest on Federal Government Bonds	$1,956,896	$4,202,655	$2,104,167	$1,707,442	$3,017,907	$9,698,094

Table 9.81 Income Tax Expenditure Cost Estimates, Tax Years 2018 – 2023 (continued)

Tax Expenditure	Tax Year					
	2018	2019	2020	2021	2022	2023
Exempted Military Salary	$10,106,600	$10,866,718	$10,795,321	$11,851,890	$12,126,683	$12,194,490
Montana Medical Care Savings Account	$1,120,860	$1,308,343	$1,266,460	$1,395,302	$1,330,600	$1,419,950
National Guard Life Insurance Premiums	$670	$2,090	$2,341	$321	$1,853	$5,836
Partial Interest Exclusion For Elderly Taxpayers	$1,696,675	$1,986,593	$1,775,434	$1,674,247	$1,882,182	$2,705,958
Partial Pension Exemption	$4,081,128	$4,259,649	$4,265,061	$4,420,373	$4,888,684	$5,453,272
Sales of Land to Beginning Farmers	$273	$1,706	$0	$3,505	$1	$0
Small Business Investment Company Dividends	$10,756	$19,051	$53,715	$35,130	$13,236	$2,380
Health Care Professional Student Loan Repayment	$101,851	$112,249	$88,956	$79,415	$79,466	$116,904
Quality Educator Loan Assistance Program	$0	$0	$10,533	$11,045	$9,536	$13,935
Tier I and Tier II Railroad Retirement Benefits	$1,825,685	$1,805,213	$1,736,881	$1,951,187	$3,578,174	$3,885,600
Tip Income and Gratuities	$4,007,166	$4,419,879	$3,173,995	$5,710,835	$6,474,100	$6,506,115
Unemployment Compensation	$4,774,615	$4,928,741	$45,512,200	$15,724,305	$4,512,411	$4,981,818
Worker's Compensation	$35,103	$34,837	$70,593	$50,807	$28,410	$39,832
Itemized Deductions						
Casualty and Theft Losses	$30,339	$39,393	$18,912	$13,621	$18,912	$83,081
Charitable Contributions	$34,587,639	$42,577,833	$41,016,990	$60,413,912	$41,016,990	$50,005,469
Child and Dependent Care Expenses	$3,695	$2,674	$2,729	$3,294	$2,729	$2,179
Federal Income Tax	$65,508,383	$64,294,384	$63,106,971	$68,620,386	$63,106,971	$64,106,417
Mortgage Interest and Insurance Premiums	$54,728,421	$59,178,885	$56,742,274	$55,873,206	$56,742,274	$59,951,132
Light Vehicle Registration Fees	$494,621	$504,364	$491,824	$475,037	$491,824	$443,463
Long-Term Care Insurance Premiums	$1,547,577	$1,587,328	$1,519,458	$1,639,725	$1,519,458	$1,526,310
Medical and Dental Expenses	$11,680,607	$11,793,947	$10,226,156	$11,546,980	$10,226,156	$12,257,288
Medical Insurance Premiums	$23,076,718	$24,112,624	$23,309,526	$25,880,868	$23,309,526	$27,805,768

Table 9.81 Income Tax Expenditure Cost Estimates, Tax Years 2018 – 2023 (continued)

Tax Expenditure	Tax Year 2018	2019	2020	2021	2022	2023
Per Capita Livestock Fees	$3,817	$4,843	$3,895	$3,379	$3,895	$8,436
Political Contributions	$56,824	$47,111	$69,073	$41,181	$69,073	$45,512
Other Deductible Taxes	$402,497	$467,336	$385,743	$540,083	$385,743	$467,424
State and Local Taxes	$32,717,435	$34,971,310	$34,692,455	$37,622,771	$34,692,455	$38,778,093
Tax Credits						
Adoption Credit	$166,222	$158,271	$114,725	$133,395	$0	$1,906,579
Apprenticeship Credit	$105,446	$205,163	$327,826	$430,530	$515,672	$617,027
Capital Gains Credit	$39,768,749	$50,337,761	$70,356,476	$142,659,750	$94,646,589	$77,730,688
Credit for Other States' Taxes	$31,383,809	$44,078,008	$58,045,684	$80,816,438	$77,764,792	$69,814,800
Earned Income Tax Credit	$0	$4,364,782	$3,977,696	$4,936,275	$3,848,532	$4,047,850
Elderly Homeowner / Renter Credit	$7,575,730	$8,060,688	$7,846,882	$7,049,440	$10,594,909	$10,035,293
Historic Property Preservation Credit	$51,233	$47,131	$44,224	$32,062	$1,240	$6,028
Infrastructure Users Fee Credit	$852,456	$133,930	$9,727	$77,182	$6,208	$246,298
Innovative Educational Program Credit	$3,262	$1,601	$2,300	$1,650	$189,758	$764,211
Qualified Endowment Credit	$2,363,612	$2,905,212	$2,384,519	$3,356,828	$3,130,232	$2,948,736
Recycling Credit	$213,759	$132,406	$307,316	$517,006	$366,388	$362,703
Student Scholarship Organization Credit	$9,321	$1,113	$5,707	$6,544	$520,531	$1,470,326
Unlocking State Lands Credit	$100	$7,930	$2,699	$1,500	$1,500	$2,215
Media Production Credit	$0	$0	$1,537,050	$3,338,049	$443,337	$2,589,812
Trades Education and Training Credit	$0	$0	$0	$101,409	$25,258	$25,101
Job Growth Incentive Credit	$0	$0	$0	$0	$0	$0

Over time, the revenue impact of each tax expenditure is likely to increase as a result of more taxpayers filing Montana tax returns over time and with taxable incomes generally increasing over time. To compare the impacts of each tax expenditure over time, the revenue impact of each tax expenditure for each tax year can be compared to the total number of taxpayers filing a tax return. This comparison provides a comparable per-taxpayer tax expenditure estimate for each tax year. The table below provides a per-taxpayer breakdown of each of the income tax expenditures in this section for Tax Years 2018 through 2023.

Table 9.82 Per Taxpayer Tax Expenditure Cost Estimates, Tax Years 2018 - 2023

	Tax Year					
Tax Expenditure	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Above-The-Line Deductions						
Deductions for the Self-Employed	$25.77	$28.58	$28.27	$31.80	$31.59	$30.31
Health Savings Account Deduction	$4.07	$4.39	$4.33	$4.56	$4.50	$4.65
Individual Retirement Account Deduction	$5.86	$5.92	$6.04	$6.09	$5.66	$5.63
Student Loan Interest Deduction	$4.64	$4.66	$2.36	$1.23	$1.06	$1.55
Archer MSA Deduction	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Montana Adjustments to Income						
ABLE Accounts	$0.01	$0.02	$0.03	$0.03	$0.03	$0.03
Business Purchases of Recycled Material	$0.04	$0.02	$0.02	$0.04	$0.08	$0.02
Mobile Home Park Capital Gain Exclusion	$0.00	$0.13	$0.00	$0.00	$0.05	$0.06
Disability Retirement Income	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Exempt Tribal Income	$12.22	$12.09	$13.31	$13.51	$14.44	$14.71
Medical Marijuana Provider Expenses	$0.07	$0.41	$0.40	$0.54	$0.74	$0.56
Family Education Savings Account	$1.35	$1.48	$1.50	$1.85	$1.79	$1.78
Farm and Ranch Risk Management Account	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
First-Time Home Buyer Account	$0.07	$0.07	$0.08	$0.08	$0.07	$0.06
Highly Compensated Employee Health Benefits	$0.07	$0.05	$0.06	$0.05	$0.05	$0.06
Interest on Federal Government Bonds	$2.98	$6.23	$3.10	$2.51	$4.36	$13.88
Exempted Military Salary	$15.38	$16.11	$15.90	$17.41	$17.52	$17.46
Montana Medical Care Savings Account	$1.71	$1.94	$1.87	$2.05	$1.92	$2.03
National Guard Life Insurance Premiums	$0.00	$0.00	$0.00	$0.00	$0.00	$0.01
Partial Interest Exclusion For Elderly Taxpayers	$2.58	$2.95	$2.61	$2.46	$2.72	$3.87
Partial Pension Exemption	$6.21	$6.32	$6.28	$6.49	$7.06	$7.81
Sales of Land to Beginning Farmers	$0.00	$0.00	$0.00	$0.01	$0.00	$0.00

Table 9.82 Per Taxpayer Tax Expenditure Cost Estimates, Tax Years 2018 - 2023 (continued)

	Tax Year					
Tax Expenditure	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Small Business Investment Company Dividends	$0.02	$0.03	$0.08	$0.05	$0.02	$0.00
Health Care Professional Student Loan Repayment	$0.16	$0.17	$0.13	$0.12	$0.11	$0.17
Quality Educator Loan Assistance Program	$0.00	$0.00	$0.02	$0.02	$0.01	$0.02
Tier I and Tier II Railroad Retirement Benefits	$2.78	$2.68	$2.56	$2.87	$5.17	$5.56
Tip Income and Gratuities	$6.10	$6.55	$4.67	$8.39	$9.35	$9.31
Unemployment Compensation	$7.27	$7.31	$67.03	$23.10	$6.52	$7.13
Worker's Compensation	$0.05	$0.05	$0.10	$0.07	$0.04	$0.06
Itemized Deductions						
Casualty and Theft Losses	$0.05	$0.06	$0.03	$0.02	$0.03	$0.12
Charitable Contributions	$52.64	$63.13	$60.41	$88.75	$59.27	$71.59
Child and Dependent Care Expenses	$0.01	$0.00	$0.00	$0.00	$0.00	$0.00
Federal Income Tax	$99.70	$95.33	$92.94	$100.80	$91.18	$91.77
Mortgage Interest and Insurance Premiums	$83.29	$87.74	$83.57	$82.08	$81.99	$85.82
Light Vehicle Registration Fees	$0.75	$0.75	$0.72	$0.70	$0.71	$0.63
Long-Term Care Insurance Premiums	$2.36	$2.35	$2.24	$2.41	$2.20	$2.19
Medical and Dental Expenses	$17.78	$17.49	$15.06	$16.96	$14.78	$17.55
Medical Insurance Premiums	$35.12	$35.75	$34.33	$38.02	$33.68	$39.81
Per Capita Livestock Fees	$0.01	$0.01	$0.01	$0.00	$0.01	$0.01
Political Contributions	$0.09	$0.07	$0.10	$0.06	$0.10	$0.07
Other Deductible Taxes	$0.61	$0.69	$0.57	$0.79	$0.56	$0.67
State and Local Taxes	$49.79	$51.85	$51.09	$55.27	$50.13	$55.51
Tax Credits						
Adoption Credit	$0.25	$0.23	$0.17	$0.20	$0.00	$2.73
Apprenticeship Credit	$0.16	$0.30	$0.48	$0.63	$0.75	$0.88
Capital Gains Credit	$60.52	$74.64	$103.62	$209.57	$136.76	$111.28
Credit for Other States' Taxes	$47.76	$65.35	$85.48	$118.72	$112.36	$99.94

Table 9.82 Per Taxpayer Tax Expenditure Cost Estimates, Tax Years 2018 - 2023 (continued)

	Tax Year					
Tax Expenditure	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Earned Income Tax Credit	$0.00	$6.47	$5.86	$7.25	$5.56	$5.79
Elderly Homeowner / Renter Credit	$11.53	$11.95	$11.56	$10.36	$15.31	$14.37
Historic Property Preservation Credit	$0.08	$0.07	$0.07	$0.05	$0.00	$0.01
Infrastructure Users Fee Credit	$1.30	$0.20	$0.01	$0.11	$0.01	$0.35
Innovative Educational Program Credit	$0.00	$0.00	$0.00	$0.00	$0.27	$1.09
Qualified Endowment Credit	$3.60	$4.31	$3.51	$4.93	$4.52	$4.22
Recycling Credit	$0.33	$0.20	$0.45	$0.76	$0.53	$0.52
Student Scholarship Organization Credit	$0.01	$0.00	$0.01	$0.01	$0.75	$2.10
Unlocking State Lands Credit	$0.00	$0.01	$0.00	$0.00	$0.00	$0.00
Media Production Credit	$0.00	$0.00	$2.26	$4.90	$0.64	$3.71
Trades Education and Training Credit	$0.00	$0.00	$0.00	$0.15	$0.04	$0.04
Job Growth Incentive Credit	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00

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Corporate Tax Expenditures

The following is a list of expenditures that reduce tax liability for corporate income taxpayers. Many of these expenditures can also be claimed by small businesses, S Corporations, or Limited Liability Companies whose income is “passed through” to the owner, member, or partner and is taxed as individual income.

Water’s Edge Election

Code: 15-31-322 through 324, MCA

Legislation: HB 703, 1987 Session

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

Under state law (15-31-324, MCA), corporations can choose to file as a water’s edge corporation. In doing so, the corporation will pay a higher rate, 7 percent, instead of the normal corporate income tax rate of 6.75 percent, on income apportioned to Montana. Only its domestic (rather than worldwide) income and apportionment factors are included in the apportionment process, with certain exceptions. Under the water’s edge election, foreign affiliates are generally excluded from the process of apportioning income to Montana. Prior to tax year 2023, countries included on a "tax haven" list had to be included in the combined report. The 2023 Legislature repealed the tax haven list, so all foreign income may now be excluded by corporations making the water's edge election.

If the water’s edge election was eliminated completely, additional revenue based on prior audit research is estimated to be $8 million to $12 million. This estimate, which is based upon audit experience, may be conservative, as the number and tax liability of water’s edge filers has almost doubled over the last six years. The number of corporations electing to file water’s edge was 757 in Tax Year 2022 and 767 in Tax Year 2021.

Montana Deductions

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

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

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

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

In addition to the other allowed deductions from gross corporate income, a taxpayer may deduct expenditures for organic fertilizer and inorganic fertilizer produced as a byproduct if the fertilizer was made and used in Montana. The purpose of this deduction is to promote the use of inorganic byproducts and organic matter produced by Montana industries. The deduction was established in Tax Year 1981 with the passage of SB 322.

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

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

The deduction was established in 1999 with the passage of SB 625 and is intended to encourage the sharing of mineral exploration information.

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

A corporate taxpayer may deduct a portion of expenditures on capital investment in a building for an energy conservation purpose from gross corporate income. If the building is a residential building, the taxpayer may deduct 100 percent of the first $1,000 expended, 50 percent of the next $1,000 expended, 20 percent of the third $1,000 expended, and 10 percent of the fourth $1,000 expended.

For example, if a corporate taxpayer invested $4,000 in approved energy conservation measures in a residential apartment building owned by the taxpayer, it would be able to deduct $1,800 of the expenses (100 percent of $1,000, plus 50 percent of $1,000, plus 20 percent of $1,000, plus 10 percent of $1,000, or $1,000+$500+$200+$100).

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

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

The deduction was established in Tax Year 1975 with the passage of HB 663.

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

A taxpayer may deduct an additional 10 percent of expenditures for the purchase of recycled material that was otherwise deductible as a business-related expense. The Department of Revenue defines the types of recycled material that may be used to claim this deduction. The purpose of this deduction is to encourage the use of goods made from reclaimed materials, especially post-consumer materials. The deduction was set to expire at the end of calendar year 2011, but HB 21, passed by the 2009 Legislature, makes the additional 10 percent deduction permanent. The deduction originally began in 1991 with the passage of SB 111.

This deduction is the only one for which data is accessible. In the Tax Year 2022 database of corporate taxpayer returns, the total deductions claimed were $21,813,840. At the general tax rate of 6.75 percent, this is a reduction in tax revenue of $1,472,434.

Montana Corporate Tax Credits

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

There are differences between the tax periods for individual and corporate income taxes. The tax year for individual income tax returns is the calendar year, and data from the tax returns is presented on that basis. The corporate income tax year and filing requirements are based upon the corporation's fiscal year, which can vary from the calendar year.

There is another change in the tables presented in this section due to the availability of a more complete, updated dataset of corporate tax returns. The tables in this section show seven years of history unless the credit has not been in effect that long.

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

Legislation: HB 308, 2017 Session

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

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

Table 9.83 shows credits claimed on corporate tax returns for Tax Years 2017 through 2022.

Table 9.83 Apprenticeship Credit

Tax Year	Number of Credits Claimed	Total Credits Claimed
2017	0	$0
2018	*	$3,068
2019	0	$0
2020	*	$18,150
2021	10	$47,356
2022	13	$66,868

**Not disclosed due to confidentiality concerns.*

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

Legislation: HB 434, 1997 Session

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

Corporations are allowed a credit of 20 percent of a gift to a qualified endowment. The 2013 Legislature passed SB 108, which extends the credit through 2019. Among other changes, the legislation made the definition of a "permanent, irrevocable fund," which can accept donations eligible for the credit refer to the Uniform Prudent Management of Institutional Funds Act (Title 72, Chapter 30).

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

Table 9.84 shows credits claimed on corporate tax returns for Tax Years 2013 through 2022.

Table 9.84 Charitable Endowment Credit

Tax Year	Number of Credits Claimed	Total Credits Claimed
2015	15	$31,436
2016	11	$25,130
2017	11	$26,225
2018	13	$41,806
2019	*	$23,756
2020	*	$24,626
2021	8	$19,176
2022	*	$47,526

**Not disclosed due to confidentiality concerns.*

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

Legislation: HB 530, 1967 Session

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

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

The table 9.85 shows credits claimed on corporate tax returns for Tax Years 2013 through 2022.

Table 9.85 Contractor's Gross Receipts Credit

Tax Year	Number of Credits Claimed	Total Credits Claimed
2015	91	$644,922
2016	88	$319,316
2017	83	$940,774
2018	75	$924,808
2019	78	$729,854
2020	76	$1,939,697
2021	60	$656,217
2022	55	$1,340,768

Innovative Educational Program Credit (15-31-158 and 159, MCA)

Legislation: SB 410, 2015 Session

The 2015 Legislature created a non-refundable individual and corporate income tax credit for donations made to the educational improvement account provided for in 20-9-905, MCA, for providing supplemental funding to public schools for innovative educational programs and technological deficiencies. This credit was limited to $150 per taxpayer through Tax Year 2021 and increased to $200,000 in Tax Year 2022. The aggregate amount of tax credits allowed is capped at $1 million for Tax Year 2022 and $2 million for Tax Year 2023. This credit cap is allowed to increase by 20% each year after TY 2023 if at least 80% of the available credits were claimed in the prior tax year.

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

This credit was claimed by corporate taxpayers for the first time in TY 2022 for a total of $50,000.

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

Legislation: HB 601, 1997 Session

Corporate taxpayers may take a credit against corporation income tax for costs of rehabilitating a historic building in Montana. The credit is 25 percent of the federal credit allowed by 26 U.S.C. 47. The federal credit is 20 percent of the rehabilitation cost of a building certified as having historic significance, or 10 percent of the cost of rehabilitation of a building placed in service before 1936 that has not been certified.

The credit is not refundable if it exceeds the amount of taxes owed, but unused credits can be carried over to the seven succeeding tax years. If the corporation is a partnership or S Corporation, the credit must be attributed to the partners or shareholders in the same proportion used to report the partnership or corporation income or loss for Montana income tax purposes.

The credit was created in Tax Year 1997 with the passage of HB 601.

Table 9.86 shows credits claimed on corporate tax returns for Tax Years 2013 through 2022.

Table 9.86 Historic Property Preservation Credit

Tax Year	Number of Credits Claimed	Total Credits Claimed
2015	*	$374,586
2016	*	$39,653
2017	*	$50
2018	*	$50
2019	*	$53
2020	*	$50
2021	*	$50
2022	*	$88,638

**Not disclosed due to confidentiality concerns.*

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

Legislation: SB 100 & HB 602, 1995 Session

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

The total credit claimed may not exceed the amount of the loan. The credit can be carried forward for seven years and used to reduce tax liability or carried back for three years.

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

Table 9.87 shows credits claimed on corporate tax returns for Tax Years 2013 through 2022.

Table 9.87 Infrastructure Users Fee Credit

Tax Year	Number of Credits Claimed	Total Credits Claimed
2015	*	$1,676,702
2016	*	$706,524
2017	*	$276,976
2018	12	$579,462
2019	12	$264,738
2020	11	$398,786
2021	*	$244,790
2022	*	$263,474

**Not disclosed due to confidentiality concerns.*

Job Growth Incentive Credit: 15-30-2361, MCA

Legislation: HB 629, 2021 Session

Beginning with Tax Year 2022, taxpayers have been able to claim an individual income tax credit for half the Federal Insurance Contributions Act (FICA) paid by an employer for qualified new employees.

To qualify for the credit, an employer must hire new qualifying employees that are associated with a project in the state that "encourages, promotes, and stimulates economic development in the sectors of construction, natural resources, mining, agriculture, forestry, manufacturing, transportation, utilities, or outdoor recreation." The employer must also have net employee growth associated with the qualifying project.

The credit is non-refundable, but taxpayer can carryforward unused credit amounts for up to 10 years. The credit is currently set to expire in Tax Year 2028.

This credit has not been claimed by any corporate taxpayers.

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

Legislation: HB 293, 2019 Session

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

Table 9.88 shows credits claimed on corporate tax returns for Tax Years 2019 through 2022.

Table 9.88 Media Production Credit

Tax Year	Number of Credits Claimed	Total Credits Claimed
2018	0	0
2019	0	0
2020	*	$5,533,471
2021	*	$7,899,298
2022	*	$6,202,042

**Not disclosed due to confidentiality concerns.*

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

Legislation: SB 111, 1991 Session

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

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

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

Table 9.89 shows credits claimed on corporate tax returns for Tax Years 2013 through 2022.

Table 9.89 Recycling Credit

Tax Year	Number of Credits Claimed	Total Credits Claimed
2013	*	$40,379
2014	*	$114,755
2015	*	$20,777
2016	*	$7,605
2017	*	$12,982
2018	*	$38,176
2019	*	$38,232
2020	*	$132,349
2021	*	$125,000
2022	*	$88,538

**Not disclosed due to confidentiality concerns.*

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

Legislation: HB 252, 2021 Session

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

The 2023 Legislature (HB 245) expanded the number of occupations that qualify for the credit and extended the termination date of the credit from Tax Year 2026 to Tax Year 2028.

The credit is equal to 50% of the costs incurred by the taxpayer on qualified expenses and is limited to $2,000 per employee and $25,000 per employer. The credit is non-refundable and cannot be carried forward or backward. This credit was first available in Tax Year 2021, and it set to expire after Tax Year 2028.

This credit has not been claimed by any corporate taxpayers.

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

Legislation: HB 444, 2013 Session

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

This credit has not been claimed by any corporate taxpayers.

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Repealed Tax Credits

The table 9.90 includes tax credits that were repealed for Tax Year 2022 as part of SB 399 in the 2021 legislative session that were claimed on corporate income tax returns for TY 2021 and/or TY 2022. Some of these credits have carryforward provisions, allowing leftover credit amounts from prior years to be claimed on TY 2022 tax returns.

Table 9.90 Repealed Tax Credits

	Tax Year 2021		Tax Year 2022	
	Number of Credits	Total Credit Amounts	Number of Credits	Total Credit Amounts
Alternative Energy Production Credit	*	$50	*	$75,229
College Contribution Credit*	16	$5,227	0	$0
Dependent Care Assistance Credit*	*	$17,325	0	$0
Geothermal Heating System Credit*	*	$302	*	$258
Alternative Fuel Motor Vehicle Conversion Credit*	*	$1,100	0	$0
Mineral Exploration Credit*	*	$25	0	$0
Qualified Research Credit	0	$0	*	$284,123
Total Expenditure on Repealed Credits	**22**	**$24,029**	*****	**$359,610**

*Some of the above credits are claimed on returns that have not been audited yet. The amount of credit claimed may change once these returns are audited. In addition, some of the above numbers represent a carryback of some credits claimed on amended returns received during the fiscal year. Credits claimed on less than 10 returns are indicated by a *.*

Corporate Tax Expenditures - Passive Expenditures

Passive Expenditures

Passive tax expenditures refer to the loss of Montana tax revenue due to federal tax laws. These tax expenditures are not due to actions taken by the Montana Legislature but by our adherence to the definitions of income, exemptions, and deductions set at the federal level. Montana's corporate income tax calculations rely to some extent on these definitions, so if there are changes at the federal level, the tax collected by the state can also be affected.

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

The figures provided in table 9.91 below are an estimate of the impact that Montana's adherence to these definitions has on state income tax collections. The estimates are based on the federal tax expenditures estimated by the U.S. Treasury Department and included in the annual Executive Budget of the United States and are scaled down to Montana proportions. These passive tax expenditures are estimates based on other estimates and should be viewed as approximations. As with other tax expenditures, the figures shown do not necessarily equal the increase in tax revenues that would occur if the provision did not exist.

Table 9.91 Estimated Impact of Passive (Federal) Corporate Tax Expenditures on Montana Tax Revenue

	FY 2023	FY 2024
Exemptions		
Deferral of income from controlled foreign corporations (normal tax method)	$14,774,889	$15,799,173
Exclusion of interest on life insurance savings	$5,446,589	$5,743,306
Excess of percentage over cost depletion, fuels and nonfuel minerals	$321,105	$337,363
Exemption of certain mutuals' and cooperatives' income	$40,646	$40,646
Exemption of credit union income	$882,022	$955,185
Deferral of gain on sale of farm refiners	$8,129	$8,129
Deferral of tax on shipping companies	$4,065	$4,065
Deferral of gain on sale of farm refiners	$2,427	$2,427
Deferral of tax on shipping companies	$1,618	$1,618
Deductions		
Accelerated depreciation of machinery and equipment (normal tax method)	$4,678,376	-$1,036,478
Accelerated depreciation on rental housing (normal tax method)	$1,849,402	$1,959,146
Deductibility of charitable contributions (education)	$2,239,605	$2,365,608
Empowerment zones, Enterprise communities, and Renewal communities	$40,646	$44,711
Expensing of exploration and development costs, fuels	$89,422	$142,262
Expensing of certain multiperiod production costs for farmers	$113,809	$117,874
Expensing of certain small investments (normal tax method)	$1,410,423	$2,837,104
Expensing of exploration and development costs, nonfuel minerals	$4,065	$8,129
Expensing of multiperiod timber growing costs	$89,422	$97,551
Expensing research and experimentation expenditures (normal tax method)	-$16,120,278	-$11,657,326
Other		
Special alternative tax on small property and casualty insurance companies	$491,819	$504,013
Special ESOP rules	$89,422	$93,486
Special rules for certail film and TV production	$40,646	$73,163
Tax incentives for preservation of historic structures	$272,329	$329,234

Sources: Estimates of corporate tax expenditures are calculated by the U.S. Treasury and published annually as a part of the Executive Budget of the United States. The data is in the Analytical Perspectives section of the Executive Budget. The Montana estimates were developed using the ratio of total income subject to tax and total income tax before credits for Montana and federal taxes. Total income subject to tax and total income tax comes from www.irs.gov, SOI tax statistics, total returns of active corporations, and from Montana data.

Property Tax Expenditures

Property Tax Expenditures

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

In general, local governments may levy a certain amount of budget dollars, regardless of the tax base available to them. For that reason, property tax expenditures mostly represent a shift onto other taxpayers, rather than a reduction in tax revenues. The major exception to this is the revenue losses from the fixed statewide mills. In this section, the tax expenditure is reported as the decrease of state revenue caused by each program and the tax shift to other taxpayers is reported as a tax shift.

There are several local option reductions in tax revenue available to local governments, with the largest being the New and Expanding Industry Abatement (15-24-1401). These expenditures are contemplated by local governments and school districts, but do not affect tax dollars levied by the state. For that reason, local abatements are not considered in this section, although they do have tax shifting effects.

Residential Property Tax Expenditures

There are three major property tax programs that target homeowners: The Property Tax Assistance Program (PTAP), the Montana Disabled Veterans (MDV) Program, and the Intangible Land Value Property Exemption.

The Elderly Homeowner/Renter Credit is a credit based on property taxes. However, it is administered through the income tax, so it is classified as an income tax expenditure.

Property Tax Assistance Program (PTAP): 15-6-305, MCA

Legislation: HB 398, 1979 Session

The Property Tax Assistance Program (PTAP) reduces property taxes for low-income households. The program works by reducing the Class 4 tax rate by 80 percent, 50 percent, or 30 percent, depending on the income of the owners. Table 9.92 displays income ranges for different levels of tax rate reduction.

Table 9.92 TY 2024 PTAP Income Levels

Single Min.	Single Max.	Married Min.	Married Max.	Reduction %
0	13,590	0	18,310	80%
13,591	18,580	18,311	27,667	50%
18,581	27,621	27,668	37,019	30%

Table 9.93 contains summary information about the PTAP program.

Table 9.93 Property Tax Assistance Program Tax Expenditure

Tax Year	Participants	Reduction in Taxable Value	Loss in State Revenue	Tax Shifts	Total Tax Benefit to Participants	Average Tax Benefit
2015	20,397	$20,491,472	$2,082,193	$10,828,944	$12,911,136	$633
2016	22,551	$22,768,947	$2,313,681	$12,278,536	$14,592,217	$647
2017	22,381	$24,404,373	$2,479,756	$13,622,589	$16,102,346	$719
2018	23,021	$25,488,134	$2,589,729	$14,603,900	$17,193,630	$747
2019	23,479	$27,615,293	$2,805,878	$15,482,499	$18,288,377	$779
2020	22,639	$27,692,549	$2,813,852	$15,720,994	$18,534,846	$819
2021	22,474	$29,075,913	$2,954,368	$15,604,819	$18,559,187	$826
2022	21,527	$28,007,306	$2,845,918	$15,292,524	$18,138,442	$843
2023	21,505	$32,423,139	$3,294,382	$14,897,922	$18,192,304	$846
2024	30,468	$65,850,305	$6,690,113	$29,713,283	$36,403,396	$1,195

The reduced taxable value from PTAP applies to the first $350,000 in market value of the property. This was increased from a previous cap of $200,000 prior to Tax Year 2024 by HB 189 of the 2023 Legislature. By Tax Year 2023, more than half of properties enrolled in the program had a greater market value than the cap of $200,000. This bill also increased income thresholds for qualification. These changes explain the increase in both average benefit and number of participants from TY 2023 to TY 2024. In addition, in TY 2024 the department utilized property tax rebate data for a targeted post card mailing informing potentially eligible property owners that they may qualify for PTAP. Table 9.94 summarizes the program by tier of exemption percent in Tax Year 2024.

Table 9.94 Property Tax Assistance Program by Exemption Tier

PTAP Reduction Level	Properties	TV Reduction	Properties Over Value Cap	Loss in State Revenue	Tax Shifts	Total Benefit	Average Benefit
30%	4,577	$4,850,387	40%	$492,995	$2,237,844	$2,730,839	$597
50%	4,152	$7,357,573	41%	$747,737	$3,345,147	$4,092,884	$986
80%	21,739	$53,642,345	30%	$5,449,382	$24,130,292	$29,579,673	$1,361
Total	**30,468**	**$65,850,305**	**33%**	**$6,690,113**	**$29,713,283**	**$36,403,396**	**$1,195**

Montana Disabled Veterans (MDV) Program: 15-6-311, MCA

Legislation: HB 213, 1979 Session

The Montana Disabled Veterans (MDV) Program reduces property taxes for disabled veterans. It reduces the residential Class 4 tax rate by 100 percent, 80 percent, 70 percent, or 50 percent, depending on the level of income of qualified veterans. To qualify, the property must be the primary residence of a veteran who was honorably discharged and paid at the 100 percent disabled rate by the Department of Veterans Affairs for a service-connected disability. The spouse of a veteran killed while on active duty or who died from a service-connected disability qualifies for MDV benefits as well. Table 9.95 displays income ranges for different levels of tax rate reduction.

Table 9.95 TY 2024 MDV Income Levels

Single Min.	Single Max.	Married Min.	Married Max.	Surviving Sp. Min.	Surviving Sp. Max.	Reduction %
0	45,803	0	54,963	0	38,169	100%
45,804	50,384	54,964	59,544	38,170	42,750	80%
50,385	54,963	59,545	64,124	42,751	47,330	70%
54,964	59,544	64,125	68,705	47,331	51,911	50%

Table 9.96 contains summary information for the last ten years of the MDV program. Unlike PTAP, there is no cap on tax benefit for MDV. The more generous rate reductions and lack of value cap mean the average benefit to MDV properties is significantly higher than PTAP properties. However, there are only a tenth of the PTAP participants enrolled in MDV due to the qualifications.

Table 9.96 Montana Disabled Veteran Program Tax Expenditure

Tax Year	Participants	Reduction in Taxable Value	Loss in State Revenue	Tax Shifts	Total Tax Benefit to Participants	Average Tax Benefit
2015	2,103	$4,916,616	$499,854	$2,495,371	$2,995,225	$1,424
2016	2,383	$5,324,319	$541,332	$2,764,896	$3,306,227	$1,387
2017	2,427	$5,920,080	$601,769	$3,176,103	$3,777,872	$1,557
2018	2,567	$6,370,030	$647,417	$3,528,561	$4,175,978	$1,627
2019	2,660	$7,266,634	$738,592	$3,937,860	$4,676,452	$1,758
2020	2,824	$7,944,119	$807,196	$4,315,708	$5,122,904	$1,814
2021	2,960	$9,361,039	$950,985	$4,778,511	$5,729,496	$1,936
2022	3,028	$9,573,247	$972,630	$4,970,760	$5,943,390	$1,963
2023	3,243	$14,177,406	$1,440,173	$6,137,639	$7,577,813	$2,337
2024	3,455	$15,139,389	$1,538,225	$6,529,965	$8,068,190	$2,335

Intangible Land Value Property Exemption: 15-6-240, MCA

Legislation: SB 94, 2017 Session

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

Table 9.97 contains summary information of annual tax expenditures associated with this program since Tax Year 2018, which was the first year the program could be utilized.

Table 9.97 Intangible Land Value Property Exemption Tax Expenditure

Tax Year	Participants	Exempted Taxable Value	Loss in State Revenue	Tax Shift	Benefit to Participants	Average Benefit
2018	104	$592,904	$59,909	$291,587	$351,496	$3,380
2019	120	$594,461	$60,072	$285,401	$345,473	$2,879
2020	152	$690,142	$69,748	$328,471	$398,219	$2,620
2021	151	$663,594	$67,081	$281,932	$349,013	$2,311
2022	166	$703,290	$71,092	$294,711	$365,803	$2,204
2023	197	$1,463,532	$147,903	$448,612	$596,515	$3,028
2024	231	$1,627,932	$164,538	$510,303	$674,840	$2,921

There is considerable variance in property value benefits under this program. Table 9.98 contains summary statistics of total tax benefit by property enrolled in the program.

Table 9.98 Summary Statistics for Intangible Land Value Exemption

Total Market Value of Properties				Associated Tax Savings		
Tax Year	Min	Median	Max	Min	Median	Max
2018	$61,422	$798,175	$3,753,800	$114	$2,326	$17,621
2019	$58,346	$756,390	$3,349,040	$37	$1,975	$15,243
2020	$58,346	$756,390	$3,197,290	$37	$1,756	$14,891
2021	$91,929	$766,610	$3,372,100	$16	$1,564	$15,386
2022	$70,485	$723,138	$3,372,100	$19	$1,540	$14,832
2023	$110,797	$1,076,590	$4,933,140	$45	$2,154	$15,271
2024	$105,304	$1,022,200	$4,933,140	$77	$2,149	$15,669

Economic Development Tax Expenditures

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

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

Legislation: HB 3, May 2007 Special Session

The energy production or development tax abatement provides a 50 percent rate reduction on a qualified energy production or development facility and equipment. The tax rate reduction may be in effect during the construction period and for the first 15 years after the facility begins operation, up to a total of 19 years. Currently, the properties that may take advantage of this abatement are Class 14 and Class 15, both of which are normally taxed at 3 percent. Class 15 property that qualifies under this program instead has a statutory tax rate of 1.5%, meaning that for class 15 property that qualifies under this program, it represents a 75% rate reduction. This program changes the tax rate to 1.5 percent for Class 14 property and 0.75% for Class 15 property.

Table 9.99 Energy Production or Development Tax Abatement Expenditure

Tax Year	Market Value	Reduction in Taxable Value	Loss in State Revenue	Tax Shifts	Total Tax Benefit to Participants
2015	$292,397,489	$4,252,907	$429,985	$1,450,428	$1,880,413
2016	$265,608,525	$3,984,127	$402,829	$1,532,755	$1,935,584
2017	$311,476,994	$4,352,038	$439,978	$1,640,662	$2,080,640
2018	$270,122,970	$3,793,800	$383,588	$1,491,228	$1,874,816
2019	$264,778,742	$3,652,952	$369,352	$1,445,350	$1,814,703
2020	$168,989,059	$2,214,106	$223,714	$763,197	$986,911
2021	$163,009,772	$2,148,898	$217,171	$774,672	$991,843
2022	$236,551,136	$3,274,652	$330,900	$1,015,684	$1,346,584
2023	$236,928,247	$3,870,740	$391,017	$1,110,752	$1,501,769
2024	$225,424,801	$3,672,445	$370,990	$1,093,394	$1,464,384

New Fiber Optic and Coaxial Cable Exemption: 15-6-135, MCA; 15-6-156, MCA; 15-6-219, MCA

Legislation: SB 51, 2021 Session

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

The fiscal impact of exempting new fiber optic and coaxial cables is estimated by calculating the reduction in taxable value resulting from the exemption. The Table 9.100 contains the market value of exempt cable, the associated decrease in taxable value, the loss in state revenue, and the estimated amount shifted to local taxpayers. Tax Year 2022 is the first year impacted by this tax expenditure.

Table 9.100 New Fiber Optic and Coaxial Cable Exemption

Tax Year	Exempt Market Value	Reduction in Taxable Value	Loss in State Revenue	Tax Shifts	Total Tax Benefit
2022	$20,159,589	$604,788	$61,180	$299,022	$360,202
2023	$47,899,458	$1,633,542	$165,501	$746,518	$912,019
2024	$113,359,539	$4,270,178	$432,642	$1,788,646	$2,221,288

New Manufacturing Machinery, Fixtures, and Equipment: 15-6-138, MCA;

Legislation: SB 530, 2023 Session

Manufacturing machinery, fixtures, and equipment installed and placed after December 31, 2022 are fully or partially exempt from taxation for five years, and then the normal tax-rate is phased in at 20 percent per year until the tenth year after placement when the property becomes fully taxable. This exemption is unique because it is modeled in part off the new and expanding industry local abatement, where companies must apply to the county commissioners of the jurisdiction the property is placed in. The commissioners may approve either a 90% or 100% abatement of the new manufacturing property, or at a minimum 80%. The unique aspect of this exemption is that it also applies to the state mills, unlike the new and expanding industry abatement.

The fiscal impact of exempting this property is calculated by applying the normal class 8 tax rate to the exempted property and then applying the relevant mills. The first year this program is applicable to is Tax Year 2024. Table 9.101 shows the amount of exempted taxable value, the forgone state mill revenue, and the local tax shifts associated with the exemption.

Table 9.101 New Manufacturing Machinery, Fixtures, and Equipment Exemption

Tax Year	Properties	Reduction in Taxable Value	Loss in State Revenue	Tax Shifts	Total Tax Benefit
2024	11	2,199,141	225,369	1,073,014	1,298,384

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

Legislation: HB 193, 1974 Session

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

The TIF increment value is the amount of taxable value increase of the TIF district after its creation. The normal mills are applied against property in the district, and tax revenue levied against the increment is segregated for the purposes of the TIF district. There is different treatment for which mills are applied to the increment based on the type of district and its creation date. In general, all mills except the 6 university and 1.5 vo-tech school mills are levied against the incremental taxable value to generate revenue for the TIF.

Unlike the other property tax expenditures, there are no tax savings to taxpayers. Instead, the district diverts normal tax dollars for its purposes. Since TIF districts reduces state revenue collections from the equalization mills, it is included in this section, but it should be noted that the beneficiaries of TIF districts are projects that receive TIF funds, not taxpayers within the TIF district. Jurisdictions set mills by subtracting out TIF incremental value within their boundaries, which means that mills are higher than they would otherwise be for these jurisdictions if the TIF did not exist. Apart from the true expenditure of the statewide mills, the other mill categories represent tax increases due to the TIFs existence.

Table 9.102 TIF Expenditure

Tax Year	Increment	Revenue From Statewide Mills	Revenue From County Mills	Revenue From School Mills	Revenue From City Mills	Revenue From Misc. Mills	Total From All Mills
2015	$50,785,821	$4,871,444	$9,031,894	$12,909,760	$5,823,421	$1,498,020	$34,134,539
2016	$52,929,104	$5,069,499	$10,221,322	$13,090,100	$5,369,837	$1,618,956	$35,369,714
2017	$58,171,093	$5,571,918	$10,688,524	$14,728,273	$6,639,817	$2,245,574	$39,874,104
2018	$54,926,982	$5,258,806	$10,385,468	$15,769,712	$6,436,009	$1,561,221	$39,411,215
2019	$72,989,242	$6,993,062	$13,560,838	$20,471,046	$8,999,505	$2,408,196	$52,432,647
2020	$58,056,977	$5,571,216	$11,589,572	$16,410,663	$8,042,248	$1,354,510	$42,968,208
2021	$67,214,436	$6,859,036	$12,563,265	$17,320,044	$9,522,703	$1,793,353	$48,058,402
2022	$68,492,578	$6,988,183	$12,563,179	$18,112,880	$11,371,706	$1,969,117	$51,005,064
2023	$99,816,016	$9,526,262	$13,165,924	$22,368,499	$15,353,542	$2,499,083	$62,913,309
2024	$100,622,560	$9,537,470	$13,917,469	$21,459,739	$16,853,905	$2,612,904	$64,381,487

Centrally Assessed Tax Expenditures

Centrally Assessed Properties have the advantage of a unique exemption not available to locally assessed properties.

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

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

The concept of IPP is not easily grasped as it lacks a physical presence and cannot be seen or touched. IPP is statutorily defined in 15- 6-218, MCA. In some instances, the statute very clearly defines IPP. Certificates of stock, bonds, promissory notes, licenses, copyrights, patents, trademarks, contracts, software, and franchises are all specifically defined as IPP. However, IPP is also defined as the following more nebulous descriptions: goodwill, property that "has no intrinsic value but is representative of value," or property that "lacks a physical presence."

The department excludes IPP by automatically granting each company a percentage reduction to account for the inclusion of IPP in the unit value. However, a company may claim a larger reduction if it can prove that the value of IPP is greater than the default percentage provided by rule.

The fiscal impact of exempting intangible personal property is estimated by applying the appropriate tax rate to the exempted IPP value and applying the relevant mills.

Table 9.103 Intangible Personal Property Exemption

Tax Year	Exempt Market Value	Reduction in Taxable Value	Loss in State Revenue	Tax Shifts	Total Tax Benefit
2015	$1,864,874,318	$116,341,728	$11,818,446	$53,397,311	$65,215,756
2016	$1,738,771,588	$111,478,545	$11,322,582	$51,124,671	$62,447,253
2017	$2,445,472,074	$154,291,592	$15,680,073	$77,326,355	$93,006,427
2018	$2,447,543,291	$153,466,984	$15,595,004	$80,224,603	$95,819,607
2019	$2,390,922,811	$151,032,836	$15,346,013	$76,664,770	$92,010,783
2020	$2,485,862,974	$157,320,301	$15,984,335	$80,955,489	$96,939,825
2021	$2,753,790,896	$172,465,976	$17,530,867	$90,403,847	$107,934,714
2022	$2,891,328,678	$180,922,800	$18,386,332	$89,960,419	$108,346,751
2023	$2,438,106,034	$150,770,681	$15,318,564	$63,960,386	$79,278,950
2024	$2,580,618,389	$155,575,423	$15,807,532	$70,848,968	$86,656,501

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Generally Exempt Property

There are many types of property that are exempt from taxation. Article VIII, Section 5 of the Montana Constitution establishes the right of the legislature to exempt certain property from property taxation. Some of these exemptions are contained explicitly within the definitions of the classes of property, and some are contained in standalone code sections. An example of an exemption contained within a class definition is Pollution Control Equipment. The definition of class 5 property in 15-6-135 (3)(b)(i) states that "Air and water pollution control and carbon capture equipment placed in service after January 1, 2014 and that satisfies the criteria in subsection (2)(d) is exempt from taxation." On the other hand, the Agricultural Processing Facilities Exemption is contained in a standalone code section 15-6-220. Some of the previous expenditures listed in this report fit into this category of expenditures as well. Table 9.104 contains a list of exempt property types and descriptive information about the exemptions. This table is partially sourced from Legislative Audit Division.

Table 9.104 Montana's Exempt Property Type Descriptions

Exemption Type	Statutory Reference (MCA)	Year Enacted	Purpose When Enacted
Pollution Control and Carbon Capture	15-6-135(3)(b)(i)	2015	Exempt equipment mandated by current and future Clean Air and Environmental regulatory acts to promote compliance and public health
Renewable Small Electric Generation	15-6-225	2001	No Documented Purpose
Governmental Exemptions	15-6-201 (1) (a)	1891, 1977, 1993, 2009	No Documented Purpose
Religious Exemptions	15-6-201 (1) (b)	1891	No Documented Purpose
Agricultural and Horticultural Societies	15-6-201 (1) (d)	1891	No Documented Purpose
Educational Exemptions	15-6-201 (1) (e)	1891	No Documented Purpose
Nonprofit Healthcare	15-6-201 (1) (f)	1891	No Documented Purpose
Cemeteries, Mausoleums, Crematories	15-6-201 (1) (h)	1891	No Documented Purpose
Charitable Exemptions	15-6-201 (1) (i)	1891	No Documented Purpose
Art Galleries/Observatories/Zoos/ Museums	15-6-201 (1) (k)	1911	No Documented Purpose
Nonprofit Water Association	15-6-201 (1) (l)	1987	No Documented Purpose
Developmentally Disabled Org/ Mentally Impaired	15-6-201 (1) (n) (i)	1983	No Documented Purpose
Retired/Aged/Chronically Ill	15-6-201 (1) (n) (ii)	1991	No Documented Purpose
Nonprofit International Athletic Facility	15-6-201 (1) (o)	1987	No Documented Purpose
Veteran's Clubhouse	15-6-203	1931	No Documented Purpose
Farm Buildings Less Than $500	15-6-207 (3)	2005	No Documented Purpose
Community Service Building/ Fraternal	15-6-209	1977	No Documented Purpose
Low Income Housing	15-6-221	1999	No Documented Purpose
Transmission Line Right-of-Way Easement	15-6-229	2007	No Documented Purpose

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Table 9.104 Montana's Exempt Property Type Descriptions (continued)

Exemption Type	Statutory Reference (MCA)	Year Enacted	Purpose When Enacted
Temporary Tribal	15-6-230	2011	No Documented Purpose
Abandoned Mobile Homes	15-6-242	2019	No Documented Purpose
Exempt Mobile Homes	15-6-241	2019	No Documented Purpose
Natural Disaster	15-16-611	1979	No Documented Purpose
Navigable River	15-24-1208	1993	Exempt the portion of land which have rivers or streams deemed navigable which were proclaimed state owned as the result of court action
Deeded Exempt Right of Way	15-24-1208	1993	Exempt the portion of land deeded away to government entities for public right-of-ways
Designated Open Space	76-6-104	1969	Preserve open spaces to protect environmental life support systems from degradation and for the general health and welfare of the citizens of the state
The following exemptions are not utilized or entities that do utilize them qualify under a different program			
Property of Incompetent Veterans Held by a Guardian	15-6-203 (2)	1891	No documented purpose.
State Water Conservation Projects	15-6-205	1937	No documented purpose.
Irrigation and Drainage Facilities	15-6-206	1965	No documented purpose.
Property Rented or Leased to a Taxing Unit for Less Than $100 a Year and Used for Public Park, Recreation, or Landscape Beautification Purposes	15-6-201 (1) (p)	2015	Exempt green space in Thompson Falls owned by the railroad and leased to the city for use as open space/a park.
Property Used in the Manufacture of Ammunition Components (Terminates December 31, 2024)	15-24-1410	2015	"The legislature intends to encourage the manufacture of smokeless propellant, small arms, primers, and cartridge cases within the borders of Montana to ensure availability of small arms ammunition for the people of Montana and to fully implement the right to bear arms that the people have reserved for themselves."
Business Incubator	15-24-1802	1989	Encourage the establishment of business incubator organizations, which assist startup companies in their first years by providing shared services such as secretarial telephone, fax, copy, computer, meeting facilities and consulting services.

Table 9.104 Montana's Exempt Property Type Descriptions (continued)

Exemption Type	Statutory Reference (MCA)	Year Enacted	Purpose When Enacted
Industrial Trade Park	15-24-1902	1989	Assist in local development by facilitating the establishment of industrial parks owned by local economic development organizations, which encourages industry to move into the state, thereby promoting job creation and increasing revenue for local governments.
Land and Buildings of a Local Economic Development Organization	15-24-2002	1991	Allow for vacant, rundown buildings to be sold or donated to an economic development organization to help reduce local deteriorating infrastructure and encourage economic development.

Table 9.105 shows the tax impact of some of the property tax exemptions that could be estimated in the property tax database. However, this is an underestimate, as the tax impact cannot be estimated for all types of exempt property. In particular, values on government property are not quality checked with the same diligence as normal property since they will not be taxed. Some designations categories overlap. For example, most right-of-way lands are owned by government entities. Entity level exemptions take precedent in this summary over property level exemptions.

Table 9.105 Montana's Exempt Property Tax Expenditures

Exemption Type	Properties	Exempted Market Value	Reduction in Taxable Value	Loss in State Revenue	Tax Shifts	Total Benefit
Governmental Exemptions	119,406	16,402,626,884	211,195,209	21,471,890	101,359,190	122,831,081
Pollution Control and Carbon Capture	19	2,351,410,706	70,542,321	7,229,986	27,836,296	35,066,282
Non-Profit Health Care	473	2,702,451,290	51,040,831	5,191,530	26,895,783	32,087,312
Religious Exemptions	2,665	2,114,170,334	39,107,672	3,974,481	19,593,012	23,567,493
Charitable Exemptions	1,352	1,220,619,858	23,925,406	2,438,167	11,372,644	13,810,811
Low Income Housing	260	855,515,764	15,914,160	1,620,642	8,832,569	10,453,211
Educational Exemptions	239	890,606,523	16,730,863	1,701,283	8,029,100	9,730,383
Developmentally Disabled Org/ Mentally Impaired	361	202,822,325	3,553,685	361,752	1,953,925	2,315,677
Retired/Aged/ Chronically Ill	52	173,065,755	3,257,698	331,585	1,830,799	2,162,384
Community Service Building/Fraternal	349	155,320,925	2,912,749	295,810	1,489,824	1,785,634
Designed Open Space	968	226,307,304	4,232,930	428,434	1,253,981	1,682,415

Table 9.105 Montana's Exempt Property Tax Expenditures (continued)

Exemption Type	Properties	Exempted Market Value	Reduction in Taxable Value	Loss in State Revenue	Tax Shifts	Total Benefit
Agriculture Processing Facility Exemption	19	85,466,545	2,135,056	218,107	1,141,344	1,359,451
Art Galleries/ Observatories/Zoos/ Museums	115	110,204,759	2,054,186	208,919	948,093	1,157,013
Exempt Mobile Home	10,471	66,225,683	894,047	90,699	400,274	490,974
Veteran's Clubhouse	98	34,637,666	631,193	64,010	315,650	379,659
Cemetery, Mausoleums, Crematories	155	24,433,901	447,489	45,634	235,208	280,843
Non-Profit Water Association	92	14,726,614	263,575	26,817	111,891	138,708
Temporary Tribal Tax Exemptions (15-6-230, MCA)	85	6,380,371	114,419	11,556	53,972	65,528
Natural Disaster	68	6,255,822	101,259	10,258	51,153	61,411
Horticulture/ Agricultural Societies	5	5,159,101	95,763	9,672	40,130	49,802
Transmission Line Right-of-Way	433	4,169,402	90,059	9,107	38,600	47,707
Unknown	88	4,372,811	71,696	7,278	38,333	45,611
Deeded Exempt Right of Way	75	4,373,499	82,659	8,353	34,855	43,207
Farm Buildings Less Than $500	18,612	5,788,024	78,138	7,904	30,393	38,297
Renewable Small Electric Generation	2	497,730	29,864	3,061	20,980	24,041
Property on RR Land Leased to Non-Profit Org.	2	1,199,874	22,678	2,324	12,848	15,173
Navigable River	141	1,228,783	23,224	2,353	8,604	10,957
Non-Profit International Athletic Facility	1	379,254	7,168	724	3,636	4,360
Abandoned Mobile Home (15-6-242, MCA)	22	152,980	2,065	209	685	894
Total	156,628	27,670,570,487	449,558,062	45,772,545	213,933,772	259,706,319

In addition to the exemptions above, some personal property is also specifically exempt from property taxation including:

- the first $1,00,000 of Class 8 business equipment
- freeport merchandise and business inventories
- agricultural irrigation systems livestock and the unprocessed products of livestock
- livestock that is subject to a per capita fee
- producer-held grain in storage; unprocessed agricultural products
- poultry and the unprocessed products of poultry
- bees and the unprocessed products of bees
- biological control insects
- some sugar beet equipment
- agricultural implements and machinery worth less than $100
- down-hole equipment in oil and gas wells
- certain motion picture and television property
- intangible personal property, including software
- harness, saddles, and other tack
- the first $15,000 or less of handheld tools
- household goods and furniture
- bicycles or mopeds used for personal transportation
- personal property intended for rent or lease if it meets specific conditions
- space vehicles and all associated equipment
- title plane owned by a title insurer
- business equipment used in the manufacture of ammunition components
- property subject to registration fees

These exemptions do not have a quantifiable tax expenditure because of the reporting nature of personal property. For example, if the legislature wanted to remove the exemption for household goods and furniture and require every citizen in Montana to report the value of their furniture, the department would not have a way to reliably estimate the revenue that would generate because there is no current reporting requirement. Similarly, the $1 million exemption of business equipment results in hundreds of businesses with personal property less than the exemption threshold. They have no filing requirement as a result, so their property values are not contained in the property tax system. Therefore, no estimate of the tax expenditure associated with these personal property exemptions is given.

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Natural Resource Tax Expenditures

Oil and Gas Tax Expenditures

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

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

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

Reduced Rates for "New" Oil and Gas Production

Code: 15-36-304, MCA

Legislation: HB 553, 1977 Session

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

New production includes production from new wells, as well as from existing wells that have not produced oil or gas during the previous 60 months. This reduced rate is intended to provide an incentive for the exploration, development, and production of oil and gas.

Reduced Rate for Horizontally Recompleted Oil Wells

Code: 15-36-304, MCA

Legislation: SB 18, 1993 Session

The first 18 months of incremental production from a horizontally recompleted well is taxed at 5.8 percent. After this period, the tax rate reverts to the regular rate.

There had been no production reported from horizontally recompleted oil wells until the first quarter of Calendar Year 2024.

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Reduced Rates for Incremental Oil Production from Enhanced Recovery Projects

Code: 15-36-304, MCA

Legislation: HB 636, 1985 Session; SB 28, 2019 Session

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

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

Reduced Rates for Stripper Exemption and Stripper Oil Wells

Code: 15-36-304, MCA

Legislation: HB 661, 1999 Session; HB 658, 1999 Session

In any quarter when the average price received by the well operator is less than $54 per barrel of crude oil, oil from wells on leases that produce less than 3 barrels per well per day is taxed at 0.8 percent (stripper exemption). If the price received is equal to or greater than $54 per barrel, this oil is taxed at 5.3 percent.

In any quarter that the average price received by the producer is less than $30 per barrel, wells drilled on or after January 1, 1999 that produce between 3 and 15 barrels per well per day are classified as stripper wells and are taxed at 5.3 percent on the first 10 barrels. If applicable, barrels 11 through 15 are taxed at the regular rate. If the average price received by the producer is at least $30 per barrel, post-1999 stripper wells are taxed at the regular rate.

For wells drilled before 1999, the criteria for stripper well classification differs slightly. Pre-1999 oil wells that produce between 3 and 10 barrels per well per day, regardless of the average price received, are classified as stripper wells and are taxed at 9.3 percent. The reduced rates on stripper exemption and stripper oil provide an incentive to keep low-volume wells in production.

Reduced Rates for Pre-1999 “Stripper” Gas Wells

Code: 15-36-304, MCA

Legislation: SB 530, 1999 Session

Gas wells drilled prior to January 1, 1999, that produced less than 60,000 cubic feet of natural gas a day during the previous year (stripper wells) receive a preferential tax rate of 11.3 percent. The reduced rate for stripper gas wells provides an incentive to keep low-volume wells in production.

Oil and Natural Gas Severance Tax Expenditures

Table 9.106 Natural Gas: New Production Tax Holiday

Fiscal Year	Working Interest Value	Actual Tax Rate	Tax Revenue	Normal Tax Rate	Normal Tax Revenue	Tax Expenditure
2020	$2,737,083	0.800%	$21,897	9.300%	$143,462	$232,652
2021	$1,978,144	0.800%	$15,825	9.300%	$476,536	$168,142
2022	$7,457,276	0.800%	$59,658	9.300%	$254,498	$633,868
2023	$19,597,106	0.800%	$156,777	9.300%	$183,967	$1,665,754
2024	$23,743,035	0.800%	$189,944	9.300%	$404,557	$2,018,158

Table 9.107 Natural Gas: Drilled Before 1999 and Average < 60 MCF/Day in Prior CY

Fiscal Year	Working Interest Value	Actual Tax Rate	Tax Revenue	Normal Tax Rate	Normal Tax Revenue	Tax Expenditure
2020	$7,415,138	11.300%	$837,911	15.100%	$1,058,500	$266,377
2021	$12,001,544	11.300%	$1,356,175	15.100%	$1,811,220	$455,803
2022	$24,048,802	11.300%	$2,717,515	15.100%	$2,287,125	$575,567
2023	$18,781,087	11.300%	$2,122,263	15.100%	$2,835,944	$713,681
2024	$6,901,939	11.300%	$779,919	15.100%	$1,017,169	$255,976

Table 9.108 Oil: New Production Tax Holiday

Fiscal Year	Working Interest Value	Actual Tax Rate	Tax Revenue	Normal Tax Rate	Normal Tax Revenue	Tax Expenditure
2020	$150,619,408	0.800%	$1,204,955	9.300%	$14,007,605	$12,802,650
2021	$84,792,857	0.800%	$678,343	9.300%	$7,885,736	$7,207,393
2022	$240,572,715	0.800%	$1,924,582	9.300%	$22,373,262	$20,448,681
2023	$377,860,866	0.800%	$3,022,887	9.300%	$35,141,061	$32,118,174
2024	$460,507,785	0.800%	$3,684,062	9.300%	$42,827,224	$39,143,162

Table 9.109 Oil: Incremental Production

Fiscal Year	Working Interest Value	Actual Tax Rate	Tax Revenue	Normal Tax Rate	Normal Tax Revenue	Tax Expenditure
2020	$18,870,988	6.100%	$1,151,130	9.300%	$1,755,002	$603,872
2021	$21,288,739	6.100%	$1,298,613	9.300%	$1,979,853	$681,240
2022	$0	6.100%	$0	9.300%	$0	$0
2023	$0	6.100%	$0	9.300%	$0	0
2024	$0	6.100%	$0	9.300%	$0	$0

Table 9.110 Oil: Stripper Well Production

Fiscal Year	Working Interest Value	Actual Tax Rate	Tax Revenue	Normal Tax Rate	Normal Tax Revenue	Tax Expenditure
2020	$19,611,737	0.807%	$158,206	9.300%	$1,823,892	$1,665,686
2021	$21,423,237	2.788%	$597,225	9.300%	$1,992,361	$1,395,136
2022	$45,882,981	5.828%	$2,673,843	9.300%	$4,267,117	$1,593,274
2023	$42,833,421	5.554%	$2,378,763	9.300%	$3,983,508	$1,604,746
2024	$30,653,977	5.327%	$1,632,854	9.300%	$2,850,820	$1,217,966

Table 9.111 Sum of Expenditures

Fiscal Year	Natural Gas Expenditures	Oil Tax Expenditures	Oil and Natural Gas Tax
2020	$499,029	$15,072,208	$15,571,237
2021	$623,945	$9,283,769	$9,907,714
2022	$1,209,435	$22,041,955	$23,251,390
2023	$2,379,435	$33,722,407	$36,101,842
2024	$2,274,134	$40,436,891	$42,711,025