

Individual and Corporate Income Tax

page 66



Contents

68	Introduction
70	Individual Income Tax Overview
71	Recent Legislative Changes to Individual Income Tax
74	Calculation of Individual Income Tax
75	Income, Deductions, Credits, and Tax Liability
90	Taxation of Business Income
95	Pass-Through Entities
109	Estates and Trusts
114	Corporate Income Tax Overview

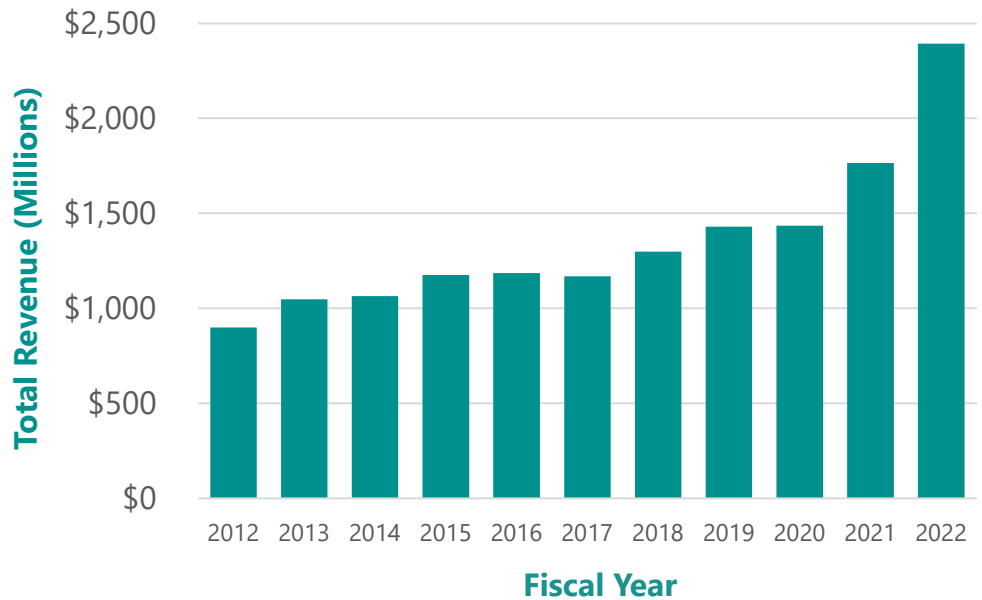


Introduction

The individual income tax is the largest source of state tax revenue. All income tax revenue is allocated to the state general fund, accounting for 61.5 percent of general fund revenue for Fiscal Year (FY) 2022. Income tax revenue is collected primarily through withholding from wages and other periodic payments, quarterly estimated tax payments, and payments made when a return is filed. The following tables show income tax revenue and return filings.

Individual Income Tax Collections

Fiscal Year	Total Revenue
2012	\$898,851,201
2013	\$1,047,789,985
2014	\$1,063,284,408
2015	\$1,175,744,881
2016	\$1,184,827,762
2017	\$1,168,224,644
2018	\$1,297,776,586
2019	\$1,429,010,432
2020	\$1,435,239,997
2021	\$1,765,418,237
2022	\$2,393,807,454



Income Tax Returns and Refunds - Timely Filed Current Year Returns

Tax Year	Returns	Returns with Refund	Percent with Refund	Average Refund
2006	572,256	311,789	66%	\$464
2007	591,874	345,972	71%	\$506
2008	601,078	345,172	70%	\$598
2009	587,425	337,714	70%	\$545
2010	596,021	335,904	68%	\$532
2011	604,758	341,057	68%	\$538
2012	611,360	343,678	68%	\$523
2013	626,654	348,137	67%	\$532
2014	635,045	350,760	67%	\$536
2015	647,329	357,902	67%	\$546
2016	647,855	364,936	68%	\$578
2017	657,720	366,734	67%	\$591
2018*	660,060	404,727	74%	\$504
2019	681,306	424,853	75%	\$535
2020	682,782	423,981	74%	\$566
2021	699,955	418,338	72%	\$612

**The way refunds were reported on returns changed in Tax Year (Tax Year) 2018. In previous tax years, returns by married couples filing separately on the same form had their refund amounts combined and counted as a single return. Starting in Tax Year 2018, the refunds on these returns were separated and counted as two separate returns.*

Individual Income Tax Overview

The Legislature enacted the state income tax in 1933 and has made major changes infrequently. The latest change was enacted in 2003 (effective Tax Year (Tax Year) 2005). This change reduced the number of rates, lowered the top rate, capped the itemized deduction for federal taxes, and provided preferential treatment for capital gains income.

Most differences between the federal and Montana income tax structure reflect the legislative decisions to allow married couples to file separately in Montana when they file jointly for federal tax purposes and to use Montana-specific additions, subtractions, and deductions in determining Montana taxable income.

Federal law provides different rate tables for married couples who file joint and separate returns. Couples generally have lower federal tax if they file a joint return. Most states either require couples to make the same choice between joint and separate returns as they did for their federal taxes, have different rate tables for joint and separate returns, or have a single tax rate so that the choice does not matter. Montana is one of only five states that does not have at least one of these provisions. Because of this, most two-income married couples discover that their tax obligation is reduced if they file a joint federal return and separate Montana returns. This occurs because when they file separately, the spouses can apply the lower brackets of the tax table twice on their combined income, instead of only once when they file jointly.

Montana is one of only six states that allows a deduction for federal income taxes. Montana and two other states have a cap on the deduction, while the deduction is uncapped in three states. Most states do not allow this deduction because not having it allows lower rates. To raise the same revenue, a state that allows the deduction must have higher rates to compensate for the smaller tax base. The 2003 Legislature partially offset the revenue reduction from lower rates by capping the deduction for federal taxes.

The 2021 Legislature made several significant changes to Montana's personal income tax in Senate Bill 399.

Starting Tax Year 2022, sixteen of the state's personal income tax credits were eliminated, including the College Contribution credit, the Energy Conservation credit, the Alternative Energy Systems credit, the Adoption credit, and the Geothermal Systems credit.

Starting in Tax Year 2024, the state's personal income tax will move from basing Montana taxable income on Federal adjusted gross income to Federal taxable income. This change eliminates the state's standard and itemized deductions and personal exemption. It also eliminates most additions and subtractions that are currently used to modify Federal adjusted gross income to determine Montana adjusted gross income.

Taxpayers will also be required to use the same filing status, a joint return or a separate return, as chosen for their federal tax return. Separate rate tables for joint and non-joint returns were also created.

A new income exemption will be allowed for taxpayers who are at least 65 years old.

Montana taxable income will not include the federal Qualified Business Income deduction, which will need to be added back into a taxpayer's Montana income. In addition, the state's 2 percent capital gains income tax credit will be replaced with an income deduction equal to 30 percent of the taxpayer's net long-term capital gains income.

The number of tax brackets that apply to Montana taxable income is also reduced from the current seven brackets to two brackets, which can vary, depending upon the filing status of the taxpayers. The new rates for each bracket are 4.7 percent and 6.5 percent.

Before 1981, the legislature occasionally adjusted rate tables and other tax parameters for the effects of inflation. The 1981 Legislature assigned this task to the department. Each year, the department adjusts rate brackets, standard deductions, personal exemptions, and the partial exemption for pension income for inflation. This prevents increases in individual tax liabilities that are due simply to inflation. Without this inflation adjustment, a person whose income just kept up with inflation would pay higher effective tax rates over time as inflation moved them to higher rate brackets.

Recent Legislative Changes to Individual Income Tax

The following bills passed by the 2019 Legislature affected the individual income tax:

- HB 88** Allowed income to be deducted for contributions to Achieving a Better Life Experience (ABLE) accounts that are held out-of-state.
- HB 211** Allowed taxpayers who receive loan repayment assistance from the Quality Educator Loan Assistance Program to subtract the assistance from their adjusted gross income.
- HB 293** Created the Montana Economic Development Industry Advancement (MEDIA) credit for film and other production. Credit is based on total base investment within the state, production expenditures, and post-production wages. The credit also increased for expenditures in underserved areas. Credit is capped at \$10 million total each calendar year.

- HB 320** Provided an exemption from claims or creditors for assets held in, or distributed from, a Family Education Savings Account or an ABLE account.
- SB 111** Extended the termination date of the Qualified Endowment Tax Credit from Tax Year 2019 to the end of Tax Year 2025.
- SB 207** Allowed taxpayers to deposit an income tax refund into an education savings or ABLE account on their income tax return.
- SB 337** Expanded the facilities that can claim the Alternative Energy Production Credit to include at least 1 megawatt of electrical energy installed on dams that would otherwise would not produce power.

The following bills passed by the 2021 Legislature affected the individual income tax:

- HB 53** Adopted the Multistate Tax Commission model statute for standardizing reporting adjustments to federal taxable income and partnership audit adjustments.
- HB 129** Linked Montana’s 529 education savings plans to federal law, which expands the types of spending that qualifies for account funds.
- HB 191** Increased the Elderly Homeowner / Renter credit income exclusion amount from \$6,300 to \$12,600. The maximum credit amount was also increased from \$1,000 to \$1,150.
- HB 252** Created a tax credit for employers, equal to 50 percent of their training expenses associated with technical, vocational and trade professions.
- HB 279** Increased the maximum per-person credit amount from the Student Scholarship Organization and Educational Improvement Program credits from \$150 to \$200,000. The maximum total credits that can be claimed were reduced to \$1,000,000 for Tax Year 2022 and \$2,000,000 in Tax Year 2023.
- HB 340** Increased the annual film tax credit cap from \$10 million to \$12 million.
- HB 397** Created an income tax credit that is equal to 50 percent of the federal low-income housing tax credit, available to corporations, pass-through entities, and individual taxpayers.
- HB 629** Created a job growth tax credit for businesses that hire at least 10 new qualifying employees from their base employment level in 2021 and reach a total of 15 new qualified employees in a following tax period. The number of required employees is reduced to 5 and 7 qualifying employees, respectively, in counties with a population of less than 20,000.
- SB 41** Revised the tax credit review process and required a review of tax credits at least once every 10 years.

- SB 159** Reduced the top income tax rate from 6.9 percent to 6.75 percent starting Tax Year 2022.
- SB 184** Created a net long-term capital gains income tax rate of 0 percent for qualifying income. The new tax rate applies starting Tax Year 2026.
- SB 253** Changed the state’s medical care savings accounts so that investment options that qualify under the federal health savings accounts are allowed for the state accounts as well.
- SB 269** Excluded the capital gains income reported by a taxpayer from the sale of a mobile home park to a qualified buyer from Montana taxable income.
- SB 399** Changed Montana’s income tax so that Montana taxable income is based on Federal taxable income. The number of individual income tax brackets was reduced from seven to two, with corresponding rates of 4.7 percent and 6.5 percent. The state’s capital gains income tax credit was also replaced with a 30 percent capital gains income deduction. The bill also eliminated 16 other income tax credits. The elimination of the 16 tax credits applies starting Tax Year 2022, while the other changes apply starting Tax Year 2024.

Calculation of Individual Income Tax

Calculation of Montana individual income tax begins with the taxpayer’s Federal Adjusted Gross Income. Several adjustments are made to determine Montana Adjusted Gross Income:

- Income taxed by the state but exempted by the federal government is added.
- Income exempted by the state but taxed by the federal government is subtracted.
- Deposits to Montana tax-advantaged savings accounts are subtracted.
- Taxable withdrawals from Montana tax-advantaged savings accounts are added.
- Net adjustments from filing a joint federal return and separate state returns are added.
- Recoveries of costs deducted in previous years (primarily refunds of federal taxes previously deducted) are added.

The values of the taxpayer’s exemptions, and itemized or standard deductions, are subtracted from Montana Adjusted Gross Income to determine Montana taxable income. The state’s standard deduction amount is set at 20 percent of the taxpayer’s Montana Adjusted Gross Income, with minimum and maximum deduction amounts set. The value of exemptions and maximum and minimum standard deductions are adjusted for inflation each year.

Personal Income Tax Exemptions and Deductions

		Single and Separate Returns		Joint Returns	
Tax Year	Exemption Amount	Min. Standard Deduction	Max. Standard Deduction	Min. Standard Deduction	Max. Standard Deduction
2018	\$2,440	\$2,030	\$4,580	\$4,060	\$9,160
2019	\$2,510	\$2,090	\$4,710	\$4,180	\$9,420
2020	\$2,560	\$2,130	\$4,790	\$4,260	\$9,580
2021	\$2,580	\$2,140	\$4,830	\$4,280	\$9,660
2022	\$2,710	\$2,260	\$5,090	\$4,520	\$10,180

Income, Deductions, Credits, and Tax Liability

Tax liability is calculated from the rate table. The rate table shows the tax rates to apply to taxable income, that is, income after making all federal and state adjustments and subtracting exemptions and deductions. The rate table is adjusted yearly for inflation. The following tables show the upper limit on taxable income subject to each rate and the number of full-year resident returns with taxable incomes that do not exceed the bracket. Non-resident and partial-year resident returns are not included in the table below or in any of the tables in this section. This is due to a significant portion of the income reported on these returns not being taxable by the state.

Marginal Tax Rate Income Limits

Tax Year	2018	2019	2020	2021	2022*
1.0%	\$3,000	\$3,100	\$3,100	\$3,100	\$3,300
2.0%	\$5,200	\$5,400	\$5,500	\$5,550	\$5,800
3.0%	\$8,000	\$8,200	\$8,400	\$8,400	\$8,900
4.0%	\$10,800	\$11,100	\$11,300	\$11,400	\$12,000
5.0%	\$13,900	\$14,300	\$14,500	\$14,600	\$15,400
6.0%	\$17,900	\$18,400	\$18,700	\$18,800	\$19,800
6.9%	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited

*The top rate was reduced to 6.75 percent from 6.9 percent, starting in 2022.

Tax Year 2019 Full-Year Resident Returns

Tax Rate	Primary Return	Spouse Return	Total	% Total
0.0%	82,306	9,136	91,442	15.5%
1.0%	26,288	3,534	29,822	5.0%
2.0%	18,523	3,315	21,838	3.7%
3.0%	23,600	4,480	28,080	4.7%
4.0%	23,044	5,025	28,069	4.7%
5.0%	24,529	5,563	30,092	5.1%
6.0%	29,524	7,518	37,042	6.3%
6.9%	256,244	68,638	324,882	54.9%
Total	484,058	107,209	591,267	100.0%

Any credits the taxpayer may claim are subtracted from the tax liability to determine the net tax. Non-refundable credits can partially or completely offset a taxpayer's tax liability. Refundable credits can more than offset a taxpayer's tax liability, so that the taxpayer receives a payment from the state general fund rather than paying tax. Taxpayers with capital gains income are allowed a non-refundable credit equal to 2 percent of their capital gains. In effect, this credit reduces the taxes on capital gains to a maximum rate of 4.9 percent, compared to the maximum rate of 6.9 percent for other types of income. Other credits generally are a percentage of a certain type of qualifying expenditure the taxpayer has made.

The next six tables show information about individual line items on timely-filed, full-year residents' income tax returns for Tax Years 2020 and 2021. For each line item, the table shows the count of the number of returns with a value on that line and the sum of those values. The total in each count's column is the number of returns with a number on at least one line.

Information in these tables is from unaudited returns as filed by taxpayers. It does not reflect changes or adjustments that taxpayers or the department may make after the extension filing deadline. It also does not include information from late-filed returns.

Montana Individual Income Tax Income Reported on Full-Year Residents' Returns - Tax Year 2020 and

Income Items	Tax Year 2020		Tax Year 2021	
	Count	Total	Count	Total
Wage and salary income	451,075	\$19,543,049,550	452,198	\$21,415,879,013
Taxable interest income	195,082	\$362,962,195	194,514	\$306,748,053
Ordinary dividend income	126,636	\$971,623,904	132,764	\$1,093,004,054
Taxable refunds of state/local income taxes	16,436	\$15,671,916	14,487	\$14,150,960
Alimony received	495	\$12,639,709	412	\$10,754,044
Business income (Schedule C)	81,048	\$818,374,531	84,943	\$1,175,958,679
Capital gains income	126,931	\$3,087,949,380	144,617	\$6,226,899,514
Ordinary income gains	15,562	\$196,232,834	15,802	\$242,808,025
IRA income - Taxable amount	52,943	\$944,137,435	66,745	\$1,301,546,894
Pension and annuity income - Taxable amount	110,691	\$2,632,809,138	112,505	\$2,808,826,126
Rent, royalty, partnership, etc. income	98,512	\$3,283,545,532	99,487	\$4,228,358,591
Farm income	17,470	-\$243,221,944	17,081	-\$322,808,803
Unemployment compensation	83,734	\$887,376,585	35,100	\$302,584,760
Taxable social security benefits	105,604	\$1,320,903,523	112,312	\$1,495,527,083
Other income	71,937	-\$1,093,903,614	34,483	-\$295,992,173
Total Income	587,128	\$32,740,150,674	595,042	\$40,004,244,820

Federal Adjustments to Income	2020		2021	
	Count	Total	Count	Total
Educator expenses	9,583	\$2,290,651	8,757	\$2,117,428
Certain business expenses of qualified individuals	566	\$1,614,350	542	\$1,555,649
Health savings account deduction	13,138	\$45,569,798	13,006	\$46,892,804
Moving expenses for members of the Armed Forces	234	\$427,850	219	\$465,615
One-half self-employment tax	64,894	\$99,987,176	70,035	\$114,394,252
Self-employed SEP, SIMPLE, and qual. plans	2,662	\$55,866,698	2,883	\$65,102,113
Self-employed health insurance deduction	22,174	\$138,780,789	22,403	\$143,629,871
Penalty on early withdrawal of savings	1,169	\$347,010	983	\$256,632
Alimony paid	786	\$15,582,070	667	\$14,249,786
IRA deduction	13,736	\$65,218,041	13,199	\$64,537,851
Student loan interest deduction	39,630	\$24,835,659	18,083	\$12,688,481
Tuition and fee deduction	3,756	\$8,977,256	0	\$0
Archer MSA deduction	N/A	N/A	21	\$31,841
Other deductions	N/A	N/A	1,162	\$6,535,185
Non-Itemized Charitable Deduction	172,540	\$35,447,854	N/A	N/A
Total adjustments to income	259,134	\$502,518,160	118,171	\$472,457,508
Federal Adjusted Gross Income	587,835	\$32,237,632,514	595,044	

**Montana Individual Income Tax
Additions Reported on Full-Year Residents' Returns -
Tax Year (TY) 2020 and 2021**

Montana Additions to Federal Adjusted Gross Income	TY 2020		TY 2021	
	Count	Total	Count	Total
Taxable federal refunds	38,083	\$52,173,195	35,860	\$48,764,723
Recoveries of amounts deducted in earlier years	143	\$308,254	181	\$323,395
Interest on other states' municipal bonds	20,195	\$99,720,315	20,909	\$89,982,624
Dividends not included in federal adjusted gross income	850	\$602,738	952	\$912,495
Adjustment for smaller federal estate and trust taxable distributions	229	\$653,292	219	\$563,497
Medical savings account nonqualified withdrawals	256	\$520,415	219	\$476,861
First-time homebuyer's account nonqualified withdrawals	16	\$90,090	25	\$70,200
Allocation of compensation to spouse	303	\$5,610,746	251	\$4,769,718
Federal net operating loss carryover	7,816	\$861,641,550	5,451	\$544,015,741
Dependent care assistance credit adjustment	52	\$153,663	52	\$119,072
Farm and ranch risk management account taxable distributions	*	\$2,394	*	\$46,804
Federal taxes paid by your S. corporation	267	\$2,183,943	350	\$2,498,764
Title plant depreciation and amortization	*	\$28,476	*	\$1,940
Other additions	39,582	\$304,823,739	2,030	\$18,725,940
Addition to taxable social security benefits	12,624	\$19,197,754	10,015	\$19,393,615
Total Montana Additions	108,639	\$1,347,629,694	67,738	\$730,622,096

**Not disclosed due to confidentiality concerns*

Montana Individual Income Tax Subtractions Reported on Full-Year Residents' Returns - TY 2020 and 2021

Montana Subtractions from Federal Adjusted Gross Income	TY 2020		TY 2021	
	Count	Total	Count	Total
State tax refunds included in Federal Adjusted Gross Income	16,288	\$15,531,326	14,391	\$14,066,657
Federal bonds exempt interest	24,309	\$32,425,710	23,087	\$27,050,136
Elderly interest exclusion	87,047	\$38,240,518	86,636	\$32,290,033
Larger federal estate and trust taxable distributions	411	\$1,997,191	399	\$2,080,051
Exempt income of child taxed to parent	142	\$504,492	146	\$434,401
Recoveries of amounts deducted in earlier years	22	\$146,830	29	\$486,621
Exempt unemployment compensation	83,734	\$887,376,585	35,100	\$302,584,760
Exempt tribal income	5,680	\$436,859,218	5,466	\$224,169,249
Exempt tip income	20,627	\$70,780,085	22,266	\$105,418,886
Exempt worker's comp benefits	285	\$2,433,726	180	\$1,354,321
Exempt health insurance premiums taxed to employee	149	\$694,294	126	\$568,229
Student loan repayments taxed to health care professional	453	\$1,278,535	351	\$1,116,534
Student loan repayments taxed to educator	86	\$190,483	59	\$181,644
Exempt active duty military salary	4,942	\$212,067,156	5,050	\$223,462,683
Exempt life insurance premiums reimbursement (National Guard)	26	\$194,456	*	\$4,822
Medical care savings account exempt deposits	6,924	\$22,743,005	6,980	\$23,986,330
First-time homebuyer exempt savings account deposits	304	\$1,000,174	292	\$962,219
Family education savings account exempt deposits	6,462	\$15,524,119	7,713	\$18,807,708
ABLE account exempt deposits	158	\$365,139	196	\$442,144
Subtraction for spouse filing joint return: capital loss adjustment	356	\$1,994,639	352	\$2,300,501
Subtraction for spouse filing joint return: passive loss carryover	168	\$2,170,858	165	\$3,021,707
Allocation of compensation to spouse	303	\$5,610,746	251	\$4,769,718
Montana net operating loss carryover	5,868	\$691,555,781	4,686	\$422,790,806
Business expense of recycled material	116	\$483,000	99	\$640,035
Wage deduction reduced by federal targeted jobs credit	368	\$5,252,743	417	\$22,718,479
Medical marijuana provider expenses	67	\$4,344,305	73	\$5,757,939
Sales of land to beginning farmers	0	\$0	*	\$77,990
Capital gains from small business investment companies	23	\$1,335,337	20	\$529,940
Certain gains recognized by liquidating corporation	*	\$3,239	*	\$389
Farm and ranch risk management accounts exempt deposits	0	\$0	0	\$0
Donation of mineral exploration information	*	\$2,880	*	\$280
Gain on eligible sale of mobile home park	0	\$0	0	\$0
Passthrough Subtractions Reported on K-1	732	\$22,058,759	790	\$21,705,430
Exempt retirement disability income (under age 65)	28	\$118,893	18	\$79,046
Subtraction for federal taxable Tier II railroad retirement	3,170	\$53,655,007	3,198	\$54,408,208
Exempt pension income	48,269	\$185,146,420	47,084	\$184,243,909
Subtraction to federal taxable social security/Tier 1 railroad retirement	48,871	\$259,822,308	48,044	\$257,478,838
Total Montana Subtractions	248,903	\$2,973,907,957	211,383	\$1,959,990,643

**Not disclosed due to confidentiality concerns*

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

Montana Individual Income Tax Deductions Reported on Full-Year Residents' Returns - TY 2020 and 2021

Deductions	TY 2020		TY 2021	
	Count	Total	Count	Total
Deductible medical expenses	49,160	\$275,452,616	48,516	\$285,501,631
Medical insurance premiums not deducted elsewhere	117,091	\$509,733,715	121,410	\$565,919,725
Long-term care insurance premiums	11,477	\$28,951,256	11,444	\$29,135,526
Federal Income Tax				
Federal income tax withheld*	251,567	\$1,964,050,075	268,703	\$2,366,280,511
Federal income tax estimated payments*	47,301	\$826,397,903	51,925	\$1,097,505,319
Last year's federal income tax paid (e.g. with return)*	64,841	\$619,228,520	63,549	\$788,944,020
Federal income tax from previous years*	1,606	\$5,581,356	1,749	\$8,369,922
Total federal income tax deduction	279,266	\$1,164,299,664	296,413	\$1,259,672,196
State or local sales tax	395	\$309,578	468	\$400,610
Local income taxes	477	\$269,916	519	\$248,428
Real estate taxes	214,033	\$592,473,828	220,014	\$634,679,374
Personal property taxes	141,977	\$60,000,299	143,226	\$58,038,755
Combined State and Local Tax Deduction	231,372	\$594,090,801	238,552	\$622,718,879
Montana light vehicle registration fee	35,999	\$8,290,227	34,356	\$7,711,508
Per capita livetock fee	566	\$76,631	525	\$64,548
Other deductible taxes	6,506	\$2,617,365	6,286	\$3,037,712
Home mortgage interest	155,493	\$979,405,589	158,322	\$921,441,130
Investment interest	6,274	\$36,610,936	6,253	\$37,681,774
Contributions by cash or check	116,987	\$474,658,056	150,424	\$630,240,590
Contributions other than cash or check	53,078	\$104,422,201	54,558	\$181,278,076
Carryover of contributions from previous years	2,166	\$33,893,069	3,146	\$53,647,324
Child and dependent care expenses	303	\$681,098	281	\$679,465
Casualty and theft losses	483	\$2,825,353	310	\$1,777,231
Political contributions	11,709	\$1,166,306	7,027	\$675,348
Gambling losses	1,011	\$12,070,137	1,612	\$25,911,450
Other miscellaneous deductions	1,620	\$5,398,606	1,703	\$8,297,398
Total itemized deductions	314,010	\$4,234,643,626	327,577	\$4,635,391,511
Standard deductions	255,389	\$1,169,452,585	248,675	\$1,175,658,425

*Items either are part of another line or include another line. They are not part of the total.

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

Montana Individual Income Tax Exemptions, Taxable Income, Tax, and Payments Reported on Full-Year Residents' Returns - TY 2020 and 2021

	TY 2020		TY 2021	
Exemptions*	Count	Total	Count	Total
Self Exemption		\$595,053		\$600,961
Self 65 and Over Exemption		\$136,632		\$141,966
Self Blind Exemption		\$1,031		\$989
Total Taxpayer Exemptions	595,053	\$732,716	600,961	\$743,916
Spouse Exemption		\$83,964		\$79,769
Spouse 65 and Over Exemption		\$27,572		\$26,045
Spouse Blind Exemption		\$183		\$161
Total Spouse Exemptions	83,964	\$111,719	79,769	\$105,975
Dependent Exemptions	128,281	\$231,701	129,002	\$233,621
Total Exemptions	595,053	\$1,076,136	600,961	\$1,083,512
Value of Exemptions		\$2,754,908,160		\$2,795,458,380
Taxable Income				
Federal Adjusted Gross Income	587,835	\$32,237,632,514	595,044	\$39,531,794,315
+Montana Additions	108,639	\$1,347,629,694	67,738	\$730,622,096
-Montana Subtractions	248,903	\$2,973,907,957	211,383	\$1,959,990,643
-Deductions	590,314	\$5,404,096,211	596,365	\$5,811,049,936
-Value of Exemptions	595,053	\$2,754,908,160	600,960	\$2,795,458,380
Montana Taxable Income	595,031	\$22,452,349,880	600,939	\$29,695,910,449
Tax Liability Before Credits				
Tax from Tax Table	491,028	\$1,419,595,519	511,220	\$1,851,648,255
Tax on Lump Sum Distributions	*	\$980	27	\$2,181
Recapture of Credits Claimed Previously	23	\$24,567	*	\$2,806
Total Tax		\$1,419,621,066		\$1,851,653,242
Payments				
Montana income tax withheld from wages	469,208	\$1,022,011,217	476,329	\$1,142,404,509
Estimated tax payments	45,564	\$237,835,161	47,188	\$296,581,179
Overpayment applied from previous tax year	21,664	\$52,087,484	23,404	\$58,019,689
Withholding from pass-through entities	1,011	\$4,686,168	1,034	\$5,574,698
Other payments	11,119	\$64,751,014	13,524	\$133,553,798
Total Payments	525,977	\$1,390,333,755	537,985	\$1,644,426,493

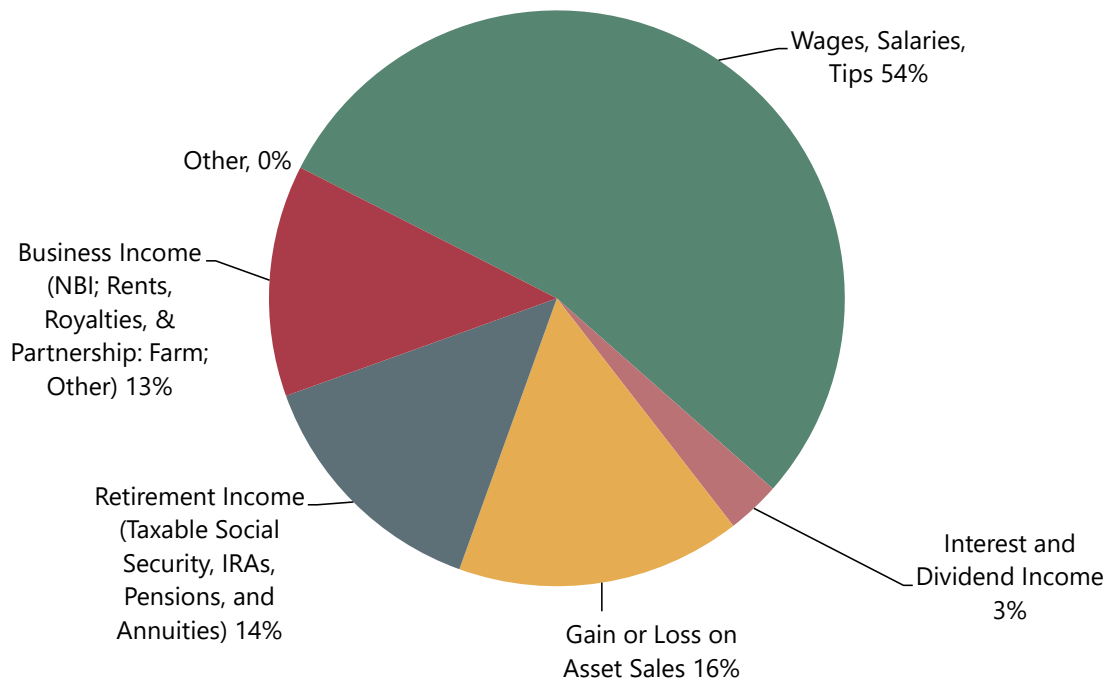
* Taxpayers claim exemptions for themselves and their spouses by checking boxes on the return. The counts for exemptions show the number of returns where the taxpayer claimed at least one exemption for themselves, their spouse, or dependents. The totals column shows the number and type of exemptions claimed. For the taxpayer and spouse, the totals column shows the numbers of basic exemptions and extra exemptions for being 65 or over or blind. For dependent exemptions, the count is the number of returns claiming at least one dependent, and the total is the number of dependents claimed.

Montana Individual Income Tax Credits Reported on Full-Year Residents' Returns - TY 2020 and 2021

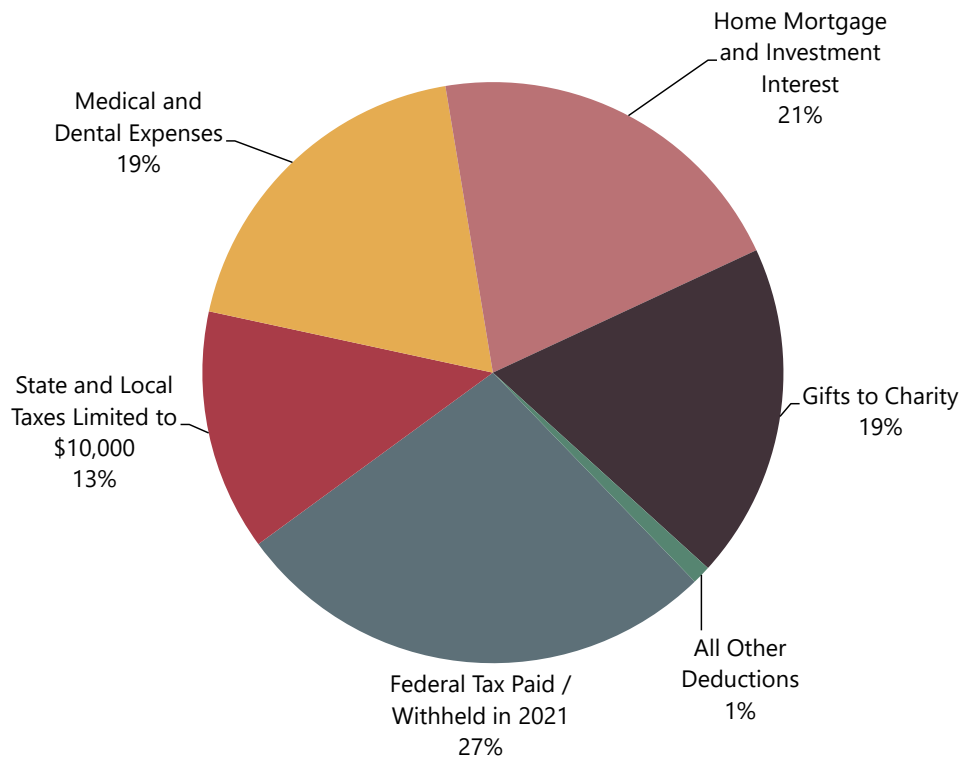
Credits Non-Refundable and No Carryover	TY 2020		TY 2021	
	Count	Total	Count	Total
Capital gains income tax credit	89,830	\$62,915,567	114,722	\$125,399,235
Other states' income tax credit	15,194	\$53,792,718	17,217	\$77,470,924
College contribution tax credit	2,569	\$285,980	2,546	\$321,724
Qualified endowment tax credit	697	\$2,676,780	764	\$3,577,812
Energy conservation tax credit	9,363	\$4,063,380	9,800	\$4,453,959
Alternative fuel tax credit	17	\$10,605	11	\$5,955
Insurance for uninsured Montanan's credit	67	\$51,224	45	\$48,318
Elderly care tax credit	51	\$71,757	32	\$55,051
Recycling tax credit	125	\$508,351	113	\$884,053
Innovation Education credit	15	\$2,450	*	\$1,500
Student Scholarship Organization credit	39	\$5,690	48	\$6,639
Apprenticeship credit	338	\$392,943	376	\$466,256
Trades education and training credit	0	\$0	169	\$236,789
Non-Refundable but with Carryover				
Biodiesel blending/storage tank credit	*	\$2,500	0	\$0
Contractor's gross receipts tax credit	685	\$7,299,809	607	\$6,727,526
Geothermal systems tax credit	73	\$77,910	93	\$108,756
Alternative energy systems credit	682	\$371,721	826	\$462,894
Biomass alternative energy systems credit	353	\$199,464	435	\$250,004
Alternative energy production tax credit	10	\$67,413	22	\$75,248
Dependent care assistance credit	18	\$69,634	15	\$54,320
Historic property preservation tax credit	16	\$41,494	16	\$42,749
Infrastructure user fee credit	*	\$4,665,962	*	\$4,682,999
Empowerment zone credit	0	\$0	0	\$0
Research activities tax credit	*	\$2,676	*	\$5,775
Mineral exploration tax credit	*	\$9	0	\$0
Adoption credit	144	\$148,946	161	\$153,283
Media credit	15	\$1,723,316	20	\$3,991,438
Total Non-Refundable Credits	109,599	\$139,448,299	133,902	\$229,483,207
Refundable Credits				
Earned Income Tax Credit	63,844	\$3,867,675	90,119	\$4,756,086
Elderly homeowner/renter tax credit	14,615	\$7,837,867	13,052	\$7,038,801
Emergency lodging credit	*	\$150	0	\$0
Unlocking state lands credit	*	\$2,413	*	\$1,500
Total Refundable Credits	*	\$11,708,105	*	\$11,796,387
Total Credits		\$151,156,404		\$241,279,594

*Not disclosed due to confidentiality concerns

Breakdown of Income Sources - Tax Year 2021



Breakdown of Itemized Deductions - Tax Year 2021



The following tables show Montana Adjusted Gross Income, deductions, taxable income, and tax liability by decile group for full-year Montana residents. Each decile is 10 percent of the population of full year resident returns, sorted by adjusted gross income. Group 1 is the 10 percent with the lowest incomes, while Group 10 is the 10 percent with the highest incomes. In these tables, married couples who file separate returns on the same form are counted as two returns and their income and tax are counted separately. Non-residents and part-year residents are not included because their tax depends on the fraction of income that is apportioned to Montana, which varies widely for these individuals.

Deciles of Montana Adjusted Gross Income: Full-Year Residents: Tax Years 2020 and 2021

	TY 2020				TY 2021			
Decile Group	Returns	Income Range	Montana Adjusted Gross Income		Returns	Income Range	Montana Adjusted Gross Income	
			\$ million	% of total			\$ million	% of total
1	59,505	less than \$3,232	- \$1,021.9	-3%	60,096	less than \$4,610	- \$318.1	-1%
2	59,505	\$3,232 to \$10,008	\$394.30	1%	60,096	\$4,610 to \$12,182	\$506.4	1%
3	59,505	\$10,009 to \$17,192	\$803.5	3%	60,096	\$12,183 to \$20,214	\$967.7	3%
4	59,506	\$17,193 to \$25,186	\$1,258.9	4%	60,096	\$20,215 to \$28,735	\$1,473.2	4%
5	59,505	\$25,187 to \$33,511	\$1,743.3	6%	60,096	\$28,736 to \$37,586	\$1,989.1	5%
6	59,505	\$33,512 to \$42,807	\$2,268.7	7%	60,096	\$37,587 to \$47,210	\$2,541.0	7%
7	59,506	\$42,808 to \$53,791	\$2,862.2	9%	60,096	\$47,211 to \$59,033	\$3,178.0	8%
8	59,505	\$53,792 to \$68,781	\$3,616.6	12%	60,096	\$59,034 to \$75,652	\$4,009.4	10%
9	59,505	\$68,782 to \$97,689	\$4,819.0	16%	60,096	\$75,653 to \$11,225	\$5,412.4	14%
10	59,506	more than \$97,689	\$13,866.80	45%	60,097	more than \$11,225	\$18,543.4	48%
All	595,053		\$30,611.4		600,961		\$38,302.4	

Deductions by Decile Group - Full-Year Residents - Tax Years 2020 and 2021

Decile Group	TY 2020					TY 2021				
	% Returns Itemize	Itemized Deductions		Standard Deductions		% Returns Itemize	Itemized Deductions		Standard Deductions	
		\$ million	average	\$ million	average		\$ million	average	\$ million	average
1	32%	\$161.50	\$8,497	\$103.60	\$2,559	32%	\$145.70	\$7,505	\$105.30	\$2,588
2	27%	\$114.20	\$6,980	\$106.50	\$2,469	30%	\$123.50	\$6,951	\$106.20	\$2,510
3	34%	\$152.40	\$7,592	\$118.80	\$3,013	34%	\$158.70	\$7,841	\$136.50	\$3,424
4	35%	\$181.00	\$8,708	\$165.00	\$4,263	34%	\$185.70	\$9,098	\$186.80	\$4,706
5	37%	\$197.80	\$9,093	\$189.70	\$5,025	37%	\$196.20	\$8,879	\$198.20	\$5,215
6	47%	\$269.30	\$9,657	\$174.40	\$5,516	52%	\$313.70	\$10,052	\$166.60	\$5,768
7	64%	\$423.80	\$11,136	\$135.70	\$6,326	70%	\$465.60	\$11,063	\$118.90	\$6,602
8	80%	\$595.20	\$12,501	\$86.00	\$7,233	83%	\$630.40	\$12,699	\$76.10	\$7,279
9	86%	\$767.10	\$14,932	\$62.10	\$7,637	88%	\$827.80	\$15,714	\$56.20	\$7,577
10	94%	\$1,372.30	\$24,580	\$27.50	\$7,487	94%	\$1,588.20	\$28,038	\$24.80	\$7,183
All	54%	\$4,234.60	\$11,788	\$1,169.50	\$4,232	55%	\$4,635.40	\$12,432	\$1,175.70	\$4,374

Deductions as Percent of Montana Adjusted Gross Income Full-Year Residents - Tax Years 2020 and 2021

Decile Group	TY 2020			TY 2021		
	Itemized Deductions	Standard Deductions	All	Itemized Deductions	Standard Deductions	All
1	-31%	-21%	-26%	-78%	-80%	-79%
2	102%	38%	56%	81%	30%	45%
3	56%	22%	34%	49%	21%	31%
4	41%	20%	27%	37%	19%	25%
5	31%	17%	22%	27%	16%	20%
6	25%	15%	20%	24%	14%	19%
7	23%	13%	20%	21%	13%	18%
8	21%	12%	19%	19%	11%	18%
9	18%	10%	17%	17%	9%	16%
10	10%	5%	10%	9%	4%	9%
All	17%	18%	18%	15%	16%	15%

Taxable Income and Tax - Full-Year Residents - Tax Years 2020 and 2021

	TY 2020						TY 2021					
Decile Group	Taxable Income			Tax Liability			Taxable Income			Tax Liability		
	\$ million	Average	% of Total	\$ million	Average	% of Total	\$ million	Average	% of Total	\$ million	Average	% of Total
1	\$0.00	\$0	0%	- \$3.00	- \$50	0%	\$0.30	\$5	0%	- \$1.30	- \$22	0%
2	\$78.40	\$1,318	0%	\$0.60	\$10	0%	\$142.60	\$2,373	0%	\$1.20	\$21	0%
3	\$341.00	\$5,730	1%	\$6.10	\$103	0%	\$459.90	\$7,653	1%	\$9.70	\$161	1%
4	\$684.70	\$11,506	3%	\$19.20	\$322	1%	\$866.20	\$14,414	3%	\$27.90	\$464	2%
5	\$1,117.40	\$18,778	5%	\$43.20	\$726	3%	\$1,352.90	\$22,512	4%	\$57.40	\$956	3%
6	\$1,575.00	\$26,468	6%	\$73.00	\$1,226	5%	\$1,805.40	\$30,041	6%	\$87.50	\$1,456	5%
7	\$2,038.00	\$34,249	8%	\$104.10	\$1,749	8%	\$2,320.00	\$38,605	8%	\$122.10	\$2,032	7%
8	\$2,659.30	\$44,690	11%	\$146.10	\$2,456	11%	\$3,019.70	\$50,248	10%	\$169.10	\$2,814	10%
9	\$3,691.30	\$62,033	15%	\$215.70	\$3,625	16%	\$4,253.30	\$70,775	14%	\$250.80	\$4,173	15%
10	\$12,126.00	\$203,777	50%	\$751.70	\$12,632	55%	\$16,584.70	\$275,966	54%	\$1,001.80	\$16,670	58%
All	\$24,311.00	\$40,855		\$1,356.70	\$2,280		\$30,805.10	\$51,260		\$1,726.20	\$2,872	

**Tax as Percent of Montana Adjusted Gross Income
Full-Year Residents - Tax Years 2020 and 2021**

Decile Group	Montana Adjusted Gross Income	TY 2020		Montana Adjusted Gross Income	TY 2021	
		Tax Liability	Tax / Income		Tax Liability	Tax / Income
	\$ million	\$ million	%	\$ million	\$ million	%
1	- \$1,021.90	- \$3.00	0.30%	- \$318.10	- \$1.30	0.40%
2	\$394.30	\$0.60	0.20%	\$506.40	\$1.20	0.20%
3	\$803.50	\$6.10	0.80%	\$967.70	\$9.70	1.00%
4	\$1,258.90	\$19.20	1.50%	\$1,473.20	\$27.90	1.90%
5	\$1,743.30	\$43.20	2.50%	\$1,989.10	\$57.40	2.90%
6	\$2,268.70	\$73.00	3.20%	\$2,541.00	\$87.50	3.40%
7	\$2,862.20	\$104.10	3.60%	\$3,178.00	\$122.10	3.80%
8	\$3,616.60	\$146.10	4.00%	\$4,009.40	\$169.10	4.20%
9	\$4,819.00	\$215.70	4.50%	\$5,412.40	\$250.80	4.60%
10	\$13,866.80	\$751.70	5.40%	\$18,543.40	\$1,001.80	5.40%
All	\$30,611.40	\$1,356.70	4.40%	\$38,302.40	\$1,726.20	4.50%

The table below breaks down the returns based on the Montana Adjusted Gross Income reported on the returns. Unlike the previous tables, which broke down the returns into equal categories, the number of returns in each of the categories below is uneven, with a larger number of returns in the lower income categories and a smaller number of returns in the larger income categories.

Tax Year 2021 Returns by Montana Adjusted Gross Income

Montana Adjusted Gross Income	Primary Return	Spouse Return	Total	% Total
Less Than \$0	20,866	3,512	24,378	4.10%
Between \$0 and \$50,000	288,588	63,122	351,710	58.50%
Between \$50,000 and \$100,000	121,097	31,540	152,637	25.40%
Between \$100,000 and \$150,000	32,061	5,934	37,995	6.30%
Between \$150,000 and \$200,000	10,881	1,891	12,772	2.10%
Between \$200,000 and \$250,000	5,197	963	6,160	1.00%
Between \$250,000 and \$300,000	3,141	581	3,722	0.60%
Between \$300,000 and \$350,000	2,174	354	2,528	0.40%
Between \$350,000 and \$400,000	1,448	230	1,678	0.30%
Between \$400,000 and \$450,000	1,064	170	1,234	0.20%
Between \$450,000 and \$500,000	800	127	927	0.20%
More than \$500,000	4,587	633	5,220	0.90%
Total	491,904	109,057	600,961	100.00%

Taxation of Business Income

Business Structure and Taxation

The legal ownership structure of a business generally determines how income from the business is taxed. Business organization is established by state law. A business operating in Montana may be organized under the laws of Montana (generally Title 35, Montana Code Annotated) or of the laws of another state. States vary somewhat in the options for business organization they allow and in the details of particular business structures.

While tax considerations may affect a business's choice of ownership structure, there are other factors that may have a larger influence. Different business structures give the owners different types of protection from or exposure to the business's legal and financial liabilities. They have different mechanisms for decision making and control of the business's operations, and different arrangements for the sharing of income, expenses, risks, and rewards among the owners.

Business structures offer different levels of privacy or transparency of ownership. How a business is organized can also affect its ability to access capital markets. Most corporations and some types of partnerships can raise funds by issuing new shares. Existing shares can be bought and sold without requiring the other owners' consent. In other business structures, buying and selling ownership interests or raising funds by bringing in new owners may require the other owners' consent. For taxation, the Internal Revenue Code puts all businesses in one of three categories. Montana law generally requires a business to be in the same category for state taxation as it is for federal taxation.

Individuals/Sole Proprietors

Informally organized sole proprietor businesses are not treated as an entity separate from the owner for income tax reporting purposes. The owner of a sole proprietor business must be an individual or a married couple. Some formally organized businesses with a single owner are not sole proprietor businesses and are treated as separate from the owner for income tax reporting purposes. These businesses are called disregarded entities and are subject to filing a Montana information return and income tax withholding on behalf of the owner, when such owner is not a resident. The disregarded entity's income is still reported on the owner's tax return and is taxed as part of the owner's income. If the disregarded entity pays income tax on behalf of the owner, the owner can claim the payment as a refundable credit.

Pass-Through Entities

Partnerships, limited liability companies, and other unincorporated businesses with more than one owner generally are treated as pass-through entities. A corporation with no more than 100 shareholders, with a single class of stock, and with no shareholders that are another business entity or a nonresident alien, may elect to be treated as a pass-through entity. Such a corporation is known as an S corporation because its taxation is laid out in Subchapter S of Chapter 1 of the Internal Revenue Code.

For a pass-through entity, there is no tax on income at the business entity level. The entity calculates its net income and each owner's share of that net income. The owners must include that income (or loss) in the calculation of their taxable income. An owner's income from a pass-through entity is their distributive share of the entity income, whether the income is distributed to the owners or remains in the business to finance expansions or other investments.

When a pass-through entity retains part of its income, the accounting value of each ownership interest is increased by the owner's share of the retained income. If the pass-through pays out more than its annual net income, the excess is treated as a return of a portion of the owner's investment. It is not taxed, and the accounting value of each ownership interest is reduced by the owner's share of the excess distribution.

A pass-through entity is required to file an annual information return showing the calculation of its net income or loss and the distribution of that income or loss to owners. The owners are then responsible for reporting this income on their tax returns and including it in the calculation of their taxable income. If a pass-through entity has a nonresident or second-tier pass-through entity owner, then the pass-through must include the owner in a composite return or withhold income tax on behalf of the owner. Some owners who do not elect to pay composite tax can apply for a waiver of withholding. See the Pass-through Entities section elsewhere in this report.

C Corporations

A corporation that does not meet the requirements to be allowed pass-through entity treatment, or that does not choose pass-through treatment, is taxed on income at the business entity level. The corporation calculates its net income and is taxed on it at the corporate income tax rate. The corporation's income is not directly attributed to the owners. A corporation's owners must include dividends they receive in the calculation of their taxable income. A corporation may pay dividends that are more or less than its net income. If dividends are less than net income, there is no adjustment to the accounting value of individual shares. This allows a corporation to retain profits for reinvestment without the shareholders being taxed on those profits.

The table on the next two pages shows the characteristics of businesses falling into each of the four business tax categories.

Business Structure and Taxation

	Sole Proprietor	Pass-Through Entity (S Corporation or Partnership)	C Corporation	Disregarded Entity
Legal Business Organization	Informal	Partnership, Limited Liability Company (LLC), Corporation, Limited Partnership, etc.	Corporation	Single Member LLC, etc.
May Be Owned By	Individual or Married Couple	Individuals or Other Business Entities	Individuals or Other Business Entities	Individuals or Other Business Entities
Business Income and Owner's Income	The business net income is all attributed to the owner.	The business calculates its net income, and this income is attributed to the owners.	The business calculates its net income. Owners' income is dividends received.	The business net income is all attributed to the owner.
Distribution of Income to Owners	The business net income is the owners' income from the business.	Distributions to owners need not equal businesses' current net income.	Business pays dividends to shareholders. Dividends need not equal businesses' current net income.	Distribution to owner need not equal businesses' current net income.
Taxation	Owner reports income from business as part of income subject to individual income tax.	No tax at the entity level. Owners responsible for tax on income attributed to them.	Business net income subject to corporation income tax. Owners taxed on dividends.	Entity is ignored. Businesses' income is taxed as owner's income.
Reporting	The business receipts and costs are reported on Schedule C of the owners' federal tax return (Schedule F for a farm), and net income is reported on Line 12 for Business Income or Loss (Line 18 for Farm Income or Loss) of the state return.	The business files federal and state information returns. Federal return shows receipts and costs and both show income, deductions, and credits passed through to owners. Owners report their share of net business income from the pass-through as business income (Schedule E and Line 17 of the tax return for individuals). If the business receives dividends, capital gains, or other passive income, owners report those separately on the appropriate return lines.	The business files federal and state corporate income tax returns and a federal information report, Form 1099-DIV, for each owner who received at least \$10 of dividends. Owners report dividends received on their tax returns (Line 9 of state return for individuals).	Income is reported on owner's return. Information return required if owner is a non-resident or another business.

Business Structure, Tax Administration, and Compliance

Taxation of business income can be complicated when a business operates in more than one taxing jurisdiction and when one business entity is partly or completely owned by another. When a business operates in more than one taxing jurisdiction, it is necessary to decide how much of the business's income is taxable by each jurisdiction. When one business entity owns another, or two businesses have a common owner, it can be necessary to decide how much of the common income is due to each business. When affiliated businesses operate across multiple jurisdictions, the complications are compounded.

A general principle, followed by most U.S. state and most countries, is that business income should be taxable by the jurisdiction where the business activity that created the income took place and should not be taxable by other jurisdictions. This is often called the source principle of income taxation. ¹

When a business operates in more than one taxing jurisdiction, each must decide how much of the business's income has its source in that jurisdiction. For example: a company harvests timber and mills it into lumber in Montana and sells the lumber in North Dakota. The company receives all its gross income in North Dakota and pays most of its costs in Montana. Its net income, which is the basis of taxation in both Montana and North Dakota, is due to the combined operation in both states.

Each state decides how much of the combined net income to tax through a process called apportionment. Each state uses a formula to determine an apportionment factor, the portion of the company's business income ² to attribute to operations in the state. Montana uses the double-weighted sales, three-factor apportionment formula where the apportionment factor is a weighted average of the proportions of a company's property, payroll, and sales in a state. Other states use a range of formulas, from equal-weighted, three-factor apportionment, to single sales apportionment. The trend around the country is moving towards single sales apportionment, in conjunction with market based sourcing.

If lumber production in Montana and lumber sales in North Dakota were separate, unrelated businesses, there would be no need for apportionment. The lumber production company's net income would be the difference between its receipts from selling lumber wholesale and its costs of harvesting timber and milling lumber. This net income would be taxable by Montana. The lumber sales company's net income would be the difference between its receipts from retail lumber sales and its costs of buying the lumber wholesale and operating its lumber yards. This net income would be taxable by North Dakota.

¹ *The source principle of income taxation contrasts with the destination principle of consumption taxation. U.S. states and most countries follow the principle that taxes on consumptions, such as sales taxes, should be levied by the jurisdiction where the goods or services are used rather than by jurisdictions where they are made or sold.*

² *Income that is not from a company's normal line of business, such as income from the sale of some of a company's assets, generally is assigned to the state where the assets are located rather than being apportioned.*

If the two companies in this example are affiliates, such as two separate legal entities both owned by a third company, the situation becomes more complicated. Apportionment is still needed because wholesale lumber sales from the mill in Montana to the yards in North Dakota are not considered arms-length transactions with affiliate companies. The transfer prices at which the lumber mill sells to the lumberyards are not determined in a market and do not necessarily reflect the lumber's true value.

From the point of view of the parent company, these transfer prices are irrelevant. The mill's revenue from wholesale sales and the lumberyard's expenses for wholesale purchases cancel each other out. The parent company's net income is the difference between the revenue from retail lumber sales and the costs of timber harvesting, lumber milling, and lumberyard operations.

Montana law addresses this problem through combined reporting. Affiliated companies that are not engaged in clearly identifiably separate businesses are required to file a single, combined return and to apportion the group's income. The Montana timber harvesting and lumber milling company, the North Dakota lumber yard company, and their parent company would file a combined return and should pay the same Montana taxes as if they were a single company.

Another complication can arise when affiliated companies are pass-through entities and there is a tiered ownership structure, with a company that is actually conducting business being owned by a second-tier pass-through entity. The second-tier pass-through entity may be one of several owned by a third-tier pass-through entity, which may be a partnership owned by several fourth-tier pass-through entities, and so on.

As income passes through this chain to the individuals who are the ultimate owners, its original source may be ignored. For example, a person in New York or California who is a partner in a company that owns other companies may be unaware that part of their income from this partnership ultimately comes from business operations in Montana. In this case, they are likely to overlook their obligation to pay income tax in Montana.

Montana law tries to address this problem by requiring pass-through entities with out-of-state owners either to have the out-of-state owners agree to file Montana tax returns, to withhold Montana tax for the out-of-state owners, or to file a composite return and pay Montana tax on behalf of its owners.

Montana law requires individual corporations and affiliated groups to report worldwide income and apportion a share to Montana, with one exception. A group of affiliated companies may make what is called a water's edge election. When a group makes this election, it is only required to include affiliates in its combined report if one or more of these situations exists:

- the primary company owns at least half the stock and at least 20 percent of the affiliate's payroll and property is in the United States
- the affiliate is one of several types of companies defined in federal law that only engage in international trade
- the affiliate has gains or losses from selling U.S. real estate, or
- the affiliate is incorporated in one of the countries listed as tax havens in Montana law

A corporate group that makes the water's edge election is taxed at a rate of 7 percent rather than the normal rate of 6.75 percent.

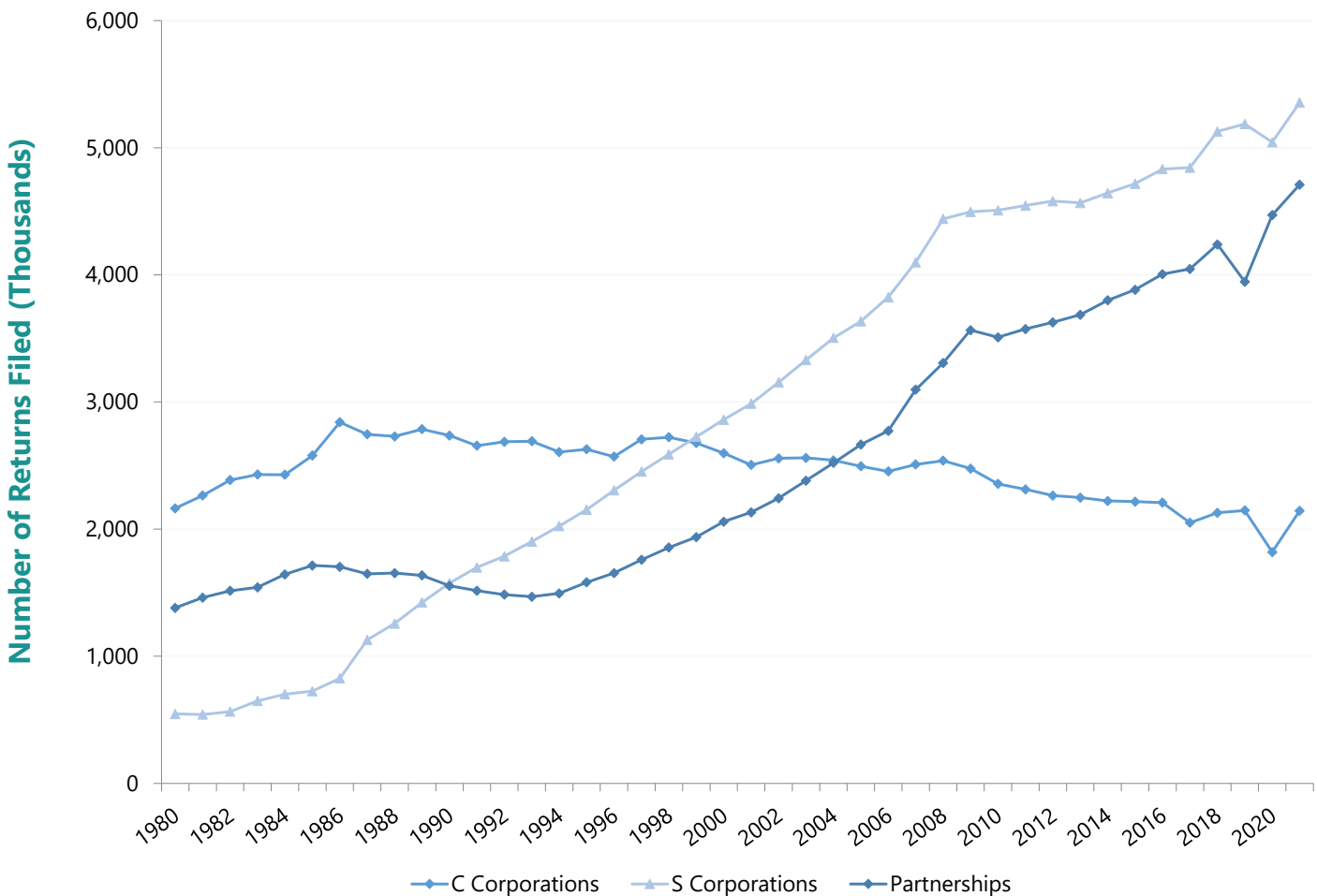
Pass-Through Entities

Growth of Pass-Through Entities

Increasingly, both in Montana and nationwide, business and investment activities are being conducted by pass-through entities. The graph below shows the number of returns filed with the IRS by C corporation versus those filed by pass-through entities (partnerships and S corporations) from 1980 through 2021. The graphs and history in this section are from the Internal Revenue Service's annual Data Book and other Statistics of Income Division reports.

Number of U.S. C Corporation Returns Compared to S Corporation and Partnership Returns (Pass-Through Entities): 1980-2021

Number of U.S. C Corporation Returns Compared to S Corporation and Partnership Returns (Pass-Through Entities), 1980-2021



The number of C corporation returns has declined slightly over the past decades from a peak of 2.84 million returns in 1986 to 2.14 million in 2021. However, C corporations in Montana, and around the country, vary greatly in size. There are large or very large businesses, which engage in operations across many states and even countries, but there are also smaller firms that engage in agricultural operations, are Main Street businesses, or are regional operations. Some of these corporations may have been incorporated before the S corporation structure was available. Others may have been incorporated as C corporations to be better positioned to access capital markets, or for other advantages that a C corporation status provides.

The number of businesses filed as S corporations has grown very rapidly during the last four decades, from 545,000 returns in 1980 to over 5.3 million returns in 2021. Partnerships have also grown significantly, from 1.4 million in 1980 to 4.7 million in 2021.

Over time, Congress has modified the rules governing pass-through entities, particularly S corporations, making those business structures more attractive for business purposes. For example, the number of permitted shareholders has been expanded from the original 10 in 1958, to 35 in 1982, 75 in 1996, and 100 in 2004, where it remains today.

If the business owner has a farm or ranch operation that is operated as a sole proprietorship, the taxpayer reports his or her income on the farm income or (loss) line of the state individual income tax form and attaches a copy of their federal Schedule F, as filed with their federal form. The total number of farms in the United States filing Schedule F has declined from 2.6 million in 1980 to 1.73 million in 2019. However, it should be noted that farms can also operate as partnerships or be incorporated as S or C corporations. Over the same period, the number of non-farm sole proprietorships has grown substantially, from 9 million in 1980 to over 27.8 million in 2019.

Ownership, Income, Deductions, and Credits Reported on Montana Pass-Through Returns

Pass-through entities include:

- Partnerships
- S corporations
- Limited Liability Companies (LLCs)
- Real Estate Investment Trusts (REITs)
- Regulated Investment Trusts (RITs), better known as mutual funds

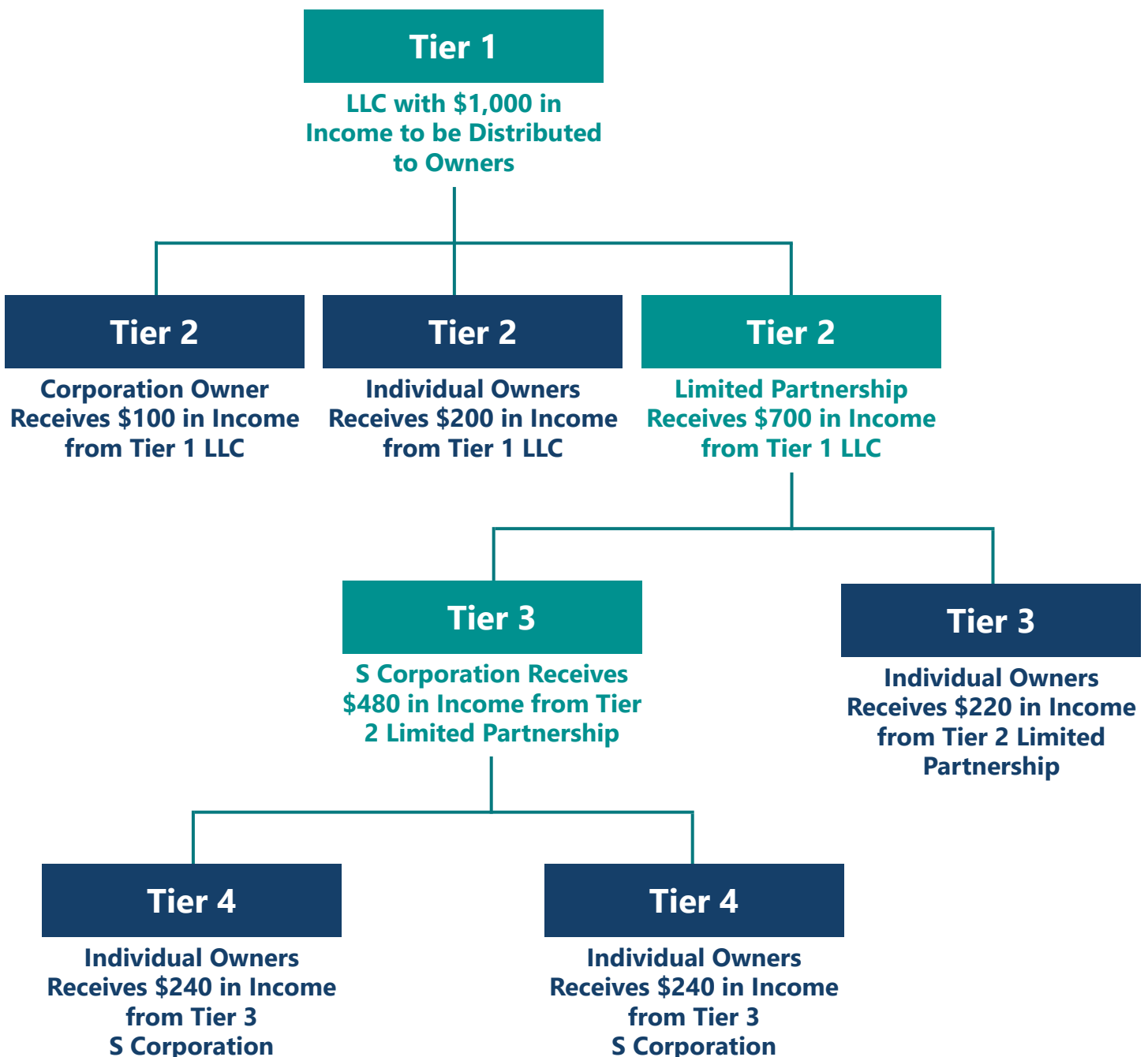
Partnerships are an old, familiar business entity, but S corporations are less well known. The S corporation rules were enacted in 1958; they permit a corporation and its shareholders to elect to be taxed at one level.

The most common type of pass-through entity today is the Limited Liability Company, or LLC. LLCs were created at the state level because state law generally governs business structure. The first LLC statute was enacted in Wyoming in 1977; all states and the District of Columbia now have LLC statutes. However, for federal tax purposes, federal law governs the tax treatment (states generally follow the federal treatment). For taxation purposes, LLCs are generally treated as partnerships, although LLCs with two or more members can elect to be treated as a C corporation or S corporation.

Any single member LLC can elect to be treated as a sole proprietorship if the single member is an individual. If the single member is a corporation, the LLC is treated as a division of the corporation by the IRS. The taxpayer's state filing status must be consistent with its federal filing status: if a business filed as an S corporation at the federal level, it must also file as an S corporation at the state level.

A pass-through entity's income is not taxed. Instead, its income and expenses are reported on the tax returns of the owners. The owners can be corporations, individuals, other pass-through entities, or a mix of all of them. When pass-through entities are owned by other pass-through entities, a tiered business structure is created.

Tiered business structures add complexity to tax administration because the taxpayer may be quite removed from the entity doing business in the state. Because pass-through entities can have a corporation, an individual, a trust, and/or another pass-through entity as a partner, owner, or shareholder, these entities represent a challenge for tax administration. The diagram on the following page shows how complex ownership, or partnership, relationships can become.



Pass-through entities classified as S corporations or partnerships with Montana source income are required to file an information return each year. A pass-through entity must determine what type of owners it has. If the owner is another pass-through entity, a nonresident individual, a nonresident trust, or a foreign C corporation, the pass-through entity must withhold on their distributive share of income. When they file their returns, these owners can claim this withholding as a payment. The withholding is not required if the owner elects to pay composite tax, which also waives the owner's filing requirement in Montana.

The withholding is not required either if the owner obtains a waiver. To obtain a waiver, the owner must qualify and make a separate request. Only non-resident individuals, estates and trusts, and domestic second tier pass-through entities qualify for a waiver. A domestic second-tier pass-through entity is an entity entirely owned directly and indirectly by resident or domestic owners.

The waiver requires the owner to file a timely Montana return, pay taxes, and be subject to the personal jurisdiction of the state with respect to the income from a pass-through entity.

If the agreement is subsequently not met, the pass-through entity must, in all subsequent tax years, withhold the appropriate amount and remit the tax payment directly to the state.

The pass-through information returns must show the total amounts of various types of income, deductions, and credits allocated to the owners.

Pass-through entities operating in more than one state must apportion part of their income to Montana using the same apportionment formula as a C corporation. Pass-through returns must show the Montana source income that was allocated to each owner and indicate whether each owner is considered an individual or another business entity.

Owners of pass-through entities taxed as partnerships may be either individuals or business entities. Shares of S corporations can only be owned by individuals, electing small business trusts, or employee stock ownership plans. However, some types of pass-through entities that are owned by other business entities can elect to be treated as S corporations for tax purposes. The table below breaks out the number of owners reported on the 68,369 Montana Tax Year 2020 pass-through returns by resident and nonresident.

Shares of Pass-Through Owners by Residency Status

Type of Owner	Number	%
Resident Individuals	93,720	18%
Nonresident Individuals	269,386	53%
Montana Business Entities	6,279	1%
Non-Montana Business Entities	140,559	28%
Total	509,944	100%

Overall, individuals comprised 71 percent of the owners associated with Montana's pass-throughs, a slight decrease from the 73 percent in 2018.

The table on the next page shows the number of owners, by resident and non-resident, reported on the 68,369 Montana Tax Year 2020 pass-through returns.

Montana Pass-Through Owners by Residency Status and Pass-through Type

	S Corporations				Partnerships			
	Montana		Multi-State		Montana		Multi-State	
Type of Owner	Owners	%	Owners	%	Owners	%	Owners	%
Resident Individuals	39,799	92%	3,518	10%	43,365	70%	7,038	2%
Nonresident Individuals	3,042	7%	28,294	79%	11,326	18%	226,724	62%
Montana Business Entities	424	1%	80	0%	4,494	7%	1,281	0%
Non-Montana Business Entities	189	0%	4,143	11%	3,173	5%	133,054	36%
Total	43,454	100%	36,035	100%	62,358	100%	368,097	100%

The next table shows the number of returns, types of income, Montana adjustments to income, and deductions that were reported on Tax Year 2020 pass-through informational returns.

Montana-Source Income Passed Through to Owners – Tax Year 2020

Returns	S Corporations		Partnerships	
	Montana	Multi-State	Montana	Multi-State
Income Items	26,279	9,054	21,371	11,665
Salaries and Other Fixed Payments to Owners	\$305,814	\$1,353	\$139,227,202	\$59,830,446
Ordinary Business Income	\$2,072,732,921	\$1,151,703,259	\$528,502,997	\$752,243,802
Real Estate	\$34,378,641	\$7,063,476	\$77,103,336	(\$114,966,167)
Other Rental Income	(\$5,004,838)	\$16,891,971	\$4,894,610	\$15,368,495
Interest	\$25,336,695	\$13,793,522	\$30,781,959	\$49,366,896
Dividends	\$9,447,697	\$7,241,194	\$17,009,104	\$13,213,980
Royalties	\$5,493,361	\$6,407,868	\$25,431,471	\$48,784,463
Capital Gains	\$53,402,599	\$32,937,294	\$132,312,275	\$135,955,168
Gains Taxed as Ordinary Income	\$308,279,867	\$79,320,185	\$335,849,375	\$134,402,070
Other Income	\$3,441,587	\$6,604,023	\$22,957,090	\$21,881,169
Total Income	\$2,507,814,344	\$1,321,964,145	\$1,314,069,419	\$1,116,080,322
Montana Additions to Federal Income	\$3,988,775	\$10,217,317	\$2,877,376	\$13,025,223
Montana Subtractions from Federal Income	\$27,380,349	\$17,195,758	\$8,139,956	\$1,230,480
Deductions				
§179 Expense Deduction	\$67,923,307	\$18,147,366	\$18,130,695	\$5,914,641
Other Expense Deductions	\$1,229,631	\$20,565,499	\$64,957,089	\$284,375,919
Total Deductions	\$69,152,938	\$38,712,865	\$83,087,784	\$290,290,560
Total Montana Source Income	\$2,415,269,832	\$1,276,272,839	\$1,225,719,055	\$837,584,505

When there is tiered ownership, meaning one pass-through entity is a full or part owner of another, both entities will include the income the first-tier entity allocates to the second-tier entity in their returns. Because of this, the combined Montana source income of pass-through entities in the state is less than the combined amounts reported on the returns. The table below shows the Montana source income reported on pass-through returns and the source income after second-tier entity income is removed for Tax Years 2016 through 2020.

Montana Source Income Before and After Second-Tier Income is Removed

Tax Year	Montana Source Income	Tier 2 Income	Net Montana Source Income
2016	\$3,179,714,842	\$265,782,912	\$2,913,931,930
2017	\$3,601,564,076	\$721,374,374	\$2,880,189,702
2018	\$4,024,862,213	\$1,058,422,949	\$2,966,439,264
2019	\$4,318,592,965	\$719,356,906	\$3,599,236,059
2020	\$5,669,967,534	\$1,250,898,708	\$4,419,068,826

When a pass-through entity does something that is eligible for a tax credit, the credit is usually allocated to the owners. Owners can then claim their share of the credit on their tax returns. However, sometimes owners may not be able to claim a credit that is allocated to them. For example, some credit types can only be claimed by individuals. A corporation that owns part of a pass-through entity would not be able to claim those credits.

Some credits can only reduce the current year's tax liability. Owners with no taxable income in the current year would not be able to claim these credits. Because of this, the credits claimed on owners' tax returns can be less than the credits reported on pass-through returns.

The next table shows credits reported on Tax Year 2020 pass-through entity returns. Credits claimed by owners are included in the credits claimed against individual income tax and corporation income tax.

Tax Credits Passed Through to Owners - Tax Year 2020

Credit	S Corporations		Partnerships	
	Montana	Multi-State	Montana	Multi-State
Dependent Care Credit	\$0	\$1	\$15	\$1,201,666
College Contribution Credit	\$8,862	\$1,609	\$1,565	\$3
Insurance for Uninsured Montanans Credit	\$43,285	\$2,700	\$3,556	\$1,200
Credit for Investment in Recycling Equipment	\$314,229	\$33,500	\$173,609	\$64,113
Alternative Energy Production Credit	\$0	\$3,680	\$0	\$0
Contractor's Gross Receipts Credit	\$5,306,377	\$2,716,085	\$263,580	\$341,362
Alternative Fuel Credit	\$0	\$4	\$0	\$0
Infrastructure Users Fee Credit	\$8,197	\$37,817	\$0	\$122,399
Historic Building Preservation Credit	\$0	\$0	\$0	\$64,463
Mineral Exploration Credit	\$9	\$0	\$0	\$0
Empowerment Zone Credit	\$0	\$0	\$0	\$0
Biodiesel Blending Credit	\$5	\$0	\$0	\$0
Oilseed Credit	\$8	\$1	\$0	\$0
Innovative Education Program Credit	\$0	\$0	\$0	\$0
Student Scholarship Organization Credit	\$0	\$7	\$1	\$0
Emergency Lodging Credit	\$0	\$0	\$0	\$0
Unlocking Public Lands Credit	\$13	\$0	\$1,500	\$0
Apprenticeship Credit	\$387,751	\$64,938	\$7,500	\$5,250
Media Credit	\$0	\$16,279	\$0	\$0
Total	\$6,068,736	\$2,860,342	\$451,326	\$1,800,456

Pass-through Distributions and Credits by Industry

When preparing an informational tax return, pass-through entities are expected to provide information on the type of industry work the pass-through is engaged in. The next table provides a list of the Montana source income that was distributed by Montana's S corporations in Tax Year 2020, broken down by industry sector type. As this table shows, there is a significant amount of variation in the amount of income S corporations provided to their respective owners at the industry level. S corporations in the Trade, Transportation, & Utilities sector generated the largest amount of combined Montana source income for their owners, distributing approximately \$920 million in Tax Year 2020. The Professional and Business Services sector and the Construction sector also provided a significant amount of income to their owners, passing through \$687 million and \$814 million in income, respectively.

Montana-Source Income Passed Through to Owners - S Corporations - Tax Year 2020 (Thousands of Dollars)

S Corporations											
	Natural Resources & Mining	Construction	Manufacturing	Trade, Transportation & Utilities	Information	Financial Activities	Professional & Business Services	Education & Health Services	Leisure & Hospitality	Other Services	Unknown /Public Admin
Returns	3,233	6,777	1,331	5,133	435	4,807	6,705	2,268	2,569	1,936	139
Income Items											
Salaries and Other Fixed Payments to Owners	\$0	\$0	\$0	\$15	\$0	\$1	\$0	\$290	\$0	\$0	\$0
Ordinary Business Income	\$92,260	\$773,191	\$148,920	\$829,441	\$34,612	\$333,418	\$623,987	\$207,399	\$104,396	\$74,931	\$1,881
Real Estate Income	\$10,010	-\$828	\$831	\$6,791	\$50	\$19,219	\$1,826	\$775	\$2,333	\$364	\$72
Other Rental Income	-\$1,897	-\$4,756	\$6,452	\$11,403	\$31	\$287	\$177	\$17	\$143	\$31	\$0
Interest	\$6,833	\$7,707	\$1,871	\$10,334	\$210	\$4,685	\$3,472	\$1,280	\$2,246	\$491	\$1
Dividends	\$1,879	\$1,960	\$5,336	\$4,046	\$264	\$1,476	\$877	\$367	\$281	\$204	\$0
Royalties	\$7,439	\$518	\$12	\$278	\$167	\$2,528	\$308	\$341	\$298	\$12	\$0
Capital Gains	\$338	\$11,505	\$2,617	\$12,027	\$1,079	\$26,887	\$18,696	\$3,086	\$7,734	\$2,370	\$0
Gains Taxed as Ordinary Income	\$157,468	\$24,607	\$11,862	\$46,219	\$365	\$68,559	\$30,255	\$21,958	\$24,385	\$1,973	-\$53
Other Income	\$1,081	\$435	\$471	-\$336	\$26	\$355	\$7,021	\$330	\$539	\$124	\$0
Total Income	\$275,410	\$814,340	\$178,373	\$920,219	\$36,804	\$457,416	\$686,619	\$235,843	\$142,354	\$80,501	\$1,901
Montana Additions to Federal Income	\$1,633	\$1,965	\$832	\$1,171	\$1,309	\$699	\$5,884	\$178	\$400	\$21	\$115
Montana Subtractions from Federal Income	\$1,145	\$1,191	\$3,848	\$11,646	\$336	\$302	\$11,263	\$1,207	\$13,283	\$364	-\$8
Deductions											
\$179 Expense Deduction	\$15,985	\$26,749	\$4,053	\$15,551	\$244	\$3,805	\$8,596	\$3,285	\$4,102	\$3,577	\$123
Other Expense Deductions	\$11,089	\$1,375	\$1,569	\$3,502	\$266	\$925	\$2,369	\$91	\$585	\$25	\$0
Total Deductions	\$27,074	\$28,124	\$5,621	\$19,053	\$511	\$4,730	\$10,965	\$3,376	\$4,687	\$3,601	\$124
Total Net Montana Source Income	\$248,824	\$786,990	\$169,736	\$890,692	\$37,265	\$453,083	\$670,276	\$231,437	\$124,783	\$76,556	\$1,901

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

As the table on the next page shows, the amount of pass-through income also varies significantly for Montana's pass-through partnerships. In Tax Year 2020, Financial Activity partnerships generated more than \$1.3 billion in income within Montana; this is more than four times the income generated by any other partnership sector. Unlike S corporations, one partnership pass-through sector reported negative pass-through income for their owners. The Leisure and Hospitality sector as a whole reported a loss of just under \$5 million for Tax Year 2020.

Montana-Source Income Passed Through to Owners - Partnerships - Tax Year 2020 (Thousands of Dollars)

Partnerships											
	Natural Resources & Mining	Construction	Manufacturing	Trade, Transportation & Utilities	Information	Financial Activities	Professional & Business Services	Education & Health Services	Leisure & Hospitality	Other Services	Unknown / Public Admin
Returns	4,123	1,512	651	2,051	345	18,713	2,606	533	1,615	710	177
Income Items											
Salaries and Other Fixed Payments to Owners	\$16,028	\$16,574	\$9,352	\$15,971	\$3,361	\$48,667	\$42,806	\$32,438	\$9,930	\$3,779	\$152
Ordinary Business Income	-\$16,890	\$108,150	\$7,077	\$43,409	\$115,715	\$655,721	\$179,258	\$191,118	-\$19,036	\$11,219	\$5,006
Real Estate	\$14,271	\$681	\$1,100	-\$2,934	-\$330	-\$52,072	-\$2,701	\$538	\$2,023	\$1,504	\$58
Other Rental Income	\$3,455	\$667	\$1,400	\$1,377	\$5,267	\$6,850	\$1,258	\$192	\$933	\$14	-\$1,151
Interest	\$4,764	\$1,382	\$1,265	\$3,710	\$8,246	\$42,624	\$12,512	\$3,858	\$843	\$536	\$409
Dividends	\$1,330	\$58	\$270	\$990	\$12	\$17,989	\$9,037	\$30	\$108	\$378	\$21
Royalties	\$56,700	\$517	\$1,203	\$58	\$247	\$13,617	\$924	\$270	\$158	\$499	\$23
Capital Gains	\$13,361	\$5,723	\$134	\$3,269	\$83	\$192,026	\$58,597	\$3,758	-\$9,061	\$368	\$9
Gains Taxed as Ordinary Income	\$94,032	\$6,229	\$22,339	\$5,116	-\$69,635	\$386,439	\$12,507	\$3,389	\$8,423	\$1,095	\$318
Other Income	\$6,437	\$158	\$4,717	\$2,986	\$1,360	\$22,157	\$11,398	-\$5,291	\$796	\$119	\$1
Total Income	\$193,489	\$140,140	\$48,857	\$73,953	\$64,323	\$1,334,019	\$325,595	\$230,300	-\$4,883	\$19,511	\$4,846
Montana Additions to Federal Income	\$1,942	\$79	\$37	\$132	\$964	\$10,213	\$2,182	\$270	-\$100	\$165	\$19
Montana Subtractions from Federal Income	\$194	\$43	\$615	\$465	\$5	\$1,141	\$138	\$2,856	\$3,906	\$5	\$1
Deductions											
\$179 Expense Deduction	\$10,023	\$3,070	\$1,569	\$3,706	\$203	\$2,625	\$1,380	\$286	\$856	\$278	\$49
Other Expense Deductions	\$92,673	\$2,111	\$3,858	\$45,097	\$30,900	\$95,303	\$62,613	\$2,666	\$13,776	\$157	\$178
Total Deductions	\$102,696	\$5,181	\$5,427	\$48,803	\$31,103	\$97,927	\$63,993	\$2,952	\$14,632	\$436	\$227
Total Net Montana Source Income	\$92,541	\$134,994	\$42,852	\$24,816	\$34,179	\$1,245,164	\$263,646	\$224,762	-\$23,520	\$19,234	\$4,637

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

Pass-through Entities by Size - Number of Owners - Tax Year 2020

Pass-through entities can vary greatly in size. Approximately 53 percent of S corporation pass-throughs reported a single owner, while 69 percent of partnership pass-through entities with Montana source income had two or three owners. Overall, pass-throughs that operate in multiple states tend to have more owners than pass-throughs that only operate in Montana. Among S corporations, about 5 percent of pass-throughs only operating in Montana in Tax Year 2020 had more than three reported owners, while more than 20 percent of multi-state S corporations had at least four owners. During this same time, 26.5 percent of Montana's multi-state partnership pass-throughs had more than eight owners, which is more than 10 times larger than the 2.4 percent of Montana-only partnerships with at least nine reported owners.

Number of Reported Owners	S Corporations				Partnerships			
	Montana		Multi-State		Montana		Multi-State	
	Number	%	Number	%	Number	%	Number	%
1	14,755	56.90%	4,171	44.00%	37	0.20%	63	0.50%
2 to 3	9,881	38.10%	3,348	35.30%	16,981	80.90%	5,931	48.70%
4 to 8	1,183	4.60%	1,310	13.80%	3,466	16.50%	2,956	24.30%
9 to 20	114	0.40%	408	4.30%	426	2.00%	1,224	10.00%
Over 20	21	0.10%	235	2.50%	83	0.40%	2,014	16.50%
Total	25,954	100.00%	9,472	100.00%	20,993	100.00%	12,188	100.00%

Pass-through Entities by Size - Montana Source Income - Tax Year 2020

The following table shows the number and percentages of pass-through entities in six groups based on the entity's Montana source income. As the following table shows, many S corporations and approximately 48 percent of all partnerships reported zero, or negative, Montana source income on their returns. And while S corporations and partnerships tend to be used as business structures for smaller businesses, there are some partnerships and S corporations that have a substantial Montana source income of more than \$5 million. Sixty-four S corporations and 86 partnerships reported more than \$5 million in Montana source income.

Montana - Source Income	S Corporations				Partnerships			
	Montana		Multi-State		Montana		Multi-State	
	Number	%	Number	%	Number	%	Number	%
\$0 or Negative	7,152	27.50%	5,097	52.80%	8,584	40.80%	7,444	60.20%
\$1 to \$10,000	3,114	12.00%	2,383	24.70%	3,376	16.00%	2,596	21.00%
\$10,001 to \$100,000	10,469	40.20%	1,400	14.50%	6,353	30.20%	1,417	11.50%
\$100,001 to \$1,000,000	4,950	19.00%	642	6.70%	2,420	11.50%	714	5.80%
\$1,000,001 to \$5,000,000	309	1.20%	106	1.10%	278	1.30%	141	1.10%
Over \$5,000,000	38	0.10%	26	0.30%	38	0.20%	48	0.40%
Total	26,032	100.00%	9,654	100.00%	21,049	100.00%	12,360	100.00%

The next table shows Montana source income reported by pass-through entities for the same groups provided in the previous table. Most of the income generated by pass-through entities came from entities with over \$5 million in Montana source income. For S corporation pass-throughs, entities with over \$5 million in Montana source income generated approximately \$948 million in Tax Year 2020, 29 percent of all Montana source income generated by Montana’s S corporation pass-throughs. Partnership pass-throughs with over \$5 million in Montana source income generated \$1.6 billion in Montana Tax Year 2020 source income.

Montana - Source Income	S Corporations				Partnerships			
	Montana		Multi-State		Montana		Multi-State	
	\$ million	%	\$ million	%	\$ million	%	\$ million	%
\$0 or Negative	-\$381	-16.10%	-\$110	-12.20%	-\$848	-72.00%	-\$916	-131.70%
\$1 to \$10,000	\$14	0.60%	\$6	0.70%	\$14	1.20%	\$6	0.90%
\$10,001 to \$100,000	\$449	19.00%	\$51	5.60%	\$250	21.20%	\$54	7.70%
\$100,001 to \$1,000,000	\$1,267	53.70%	\$201	22.40%	\$649	55.10%	\$218	31.30%
\$1,000,001 to \$5,000,000	\$583	24.70%	\$231	25.70%	\$548	46.50%	\$290	41.60%
Over \$5,000,000	\$429	18.20%	\$519	57.80%	\$564	48.00%	\$1,045	150.20%
Total	\$2,361	100.00%	\$898	100.00%	\$1,177	100.00%	\$695	100.00%

Estates and Trusts

Taxation of Estates and Trusts

Estates and trusts are legal arrangements where one party holds assets on behalf of or for the benefit of one or more other parties. The details of these legal arrangements can vary widely depending on the purpose of the estate or trust, and because of the variations in the laws of the states in which they were created.

A trust generally is managed by one or more trustees. The estate of a decedent is managed by an executor. The manager of a bankruptcy estate is called a trustee or a debtor in possession, depending on whether the estate is created under Chapter 7 or Chapter 11 of the federal bankruptcy code. Managers of trusts and estates are referred to as fiduciaries because of their fiduciary duty to act in the interest of another party, rather than in their own interest.

When an estate or trust earns income, it may distribute part of or all income to one or more beneficiaries; it may keep all or part of the income. Beneficiaries are taxed on income distributed to them, while the estate or trust is taxed on income it retains.

A trust may also distribute part of the principal to one or more beneficiaries. All estates and many trusts are created with the intention of ultimately distributing all their assets. Distributions from the principal of an estate or trust are not taxable.

Montana taxes the income of a trust or estate as if the trust or estate were an individual, with an exception allowing a trust or estate to take a deduction for income distributed to beneficiaries. Some trusts are created to provide funds for charity and estates, so trusts are also allowed a deduction for charitable contributions.

Estates and trusts may file on a tax year that is different from the calendar year. In this section, information is reported based on the calendar year when the estate or trust's tax year started. Tax years numbered 2020 may have ended any time between December 31, 2020, and December 30, 2021. Returns are due by the 15th day of the fourth month after the end of the tax year, but the estate or trust may receive a six-month filing extension. Thus, 2020 is the most recent tax year for which all returns had been filed and processed as of this report's publication.

Types of Estates and Trusts

The fiduciary must indicate on the Montana return which type of 11 types of estate or trust it is. The following table shows the number of returns in each category for Tax Years 2019 and 2020.

Types of Estates and Trusts	TY 2019	TY 2020
Simple Trust	2,301	2,162
Complex Trust	4,800	4,811
Decedent's Estate	1,571	1,485
Grantor Trust	841	896
Electing Small Business Trust	10	*
Qualified Disability Trust	111	130
Bankruptcy Estate (Chapter 7)	*	15
Bankruptcy Estate (Chapter 11)	*	*
Qualified Funeral Trust	5,327	4,947
Pooled Income Fund	*	*
Other	396	381
Total	15,353	14,829

**Not disclosed due to confidentiality concerns*

A simple trust is a trust where:

- all income is to be distributed to the beneficiaries
- no income is to be used for charitable purposes
- none of the principal is to be distributed

A complex trust is a trust that does not qualify as a simple trust and does not fall into one of the other categories. A decedent's estate is charged with distributing assets in accordance with the decedent's will or state law and preserving assets until they are distributed.

A grantor trust is a trust where the person who created the trust retains control of or an ownership interest in the trust's assets. For both federal and Montana taxes, a grantor trust is treated as a disregarded entity: its income is treated as belonging to the grantor and its income and deduction line items should be reported on the grantor's tax return.

An electing small business trust is a trust that holds shares in an S corporation and for which the trustee has made an election to be taxed under a different section of federal law than generally applies to trusts. Montana taxes for electing small business trusts are the same as other trusts. A qualified disability trust is a trust whose beneficiaries are one or more disabled persons under the age of 65.

A bankruptcy estate holds the assets of a bankrupt individual or business and is charged either with liquidating those assets to repay debts (Chapter 7) or with reorganizing the business (Chapter 11).

A qualified funeral trust is a type of grantor trust set up to pay the beneficiary's funeral expenses.

A pooled income fund is an arrangement where individuals or businesses donate assets to a charity with the provision that the donor is to receive all or part of the earnings from the assets for a fixed period or for life.

Income of Estates and Trusts

Montana law considers a trust to be a resident trust if the trust has sufficient connection to Montana. This includes having the trust having its primary place of administration in Montana, property in Montana, and beneficiaries located in Montana. A trust is classified as a part-year resident trust if sufficient connection with the state has ceased during a year. A trust or estate that is created during a year has a short tax year but is still considered to be resident or non-resident.

All resident trust's income is taxable by Montana, but a trust with income sourced in another state may claim a credit against Montana tax for tax paid to the other state. Montana source income of a nonresident trust is taxable by Montana. As with a non-resident individual, a non-resident trust calculates tax on all its income and then multiplies this calculated tax by the share of its income that has a Montana source.

The following table shows the different types of income reported by trusts and estates. It separately shows income of resident estates and trusts, non-resident estates and trusts, part-year resident estates and trusts. For nonresident and part-year resident estates and trusts, the table shows the average nonresident / part-year resident ratio used in calculating their tax. This is the ratio of total Montana source income to total income from all sources.

Income Reported on Estate and Trust Returns (\$ million)

Type of Income	TY 2019		TY 2020	
	Resident	Nonresident and Part-Year	Resident	Nonresident and Part-Year
Interest	\$16.612	\$370.435	\$14.044	\$196.281
Dividends	\$62.668	\$796.368	\$64.275	\$322.008
Sole Proprietor Business Income	- \$2.130	\$18.334	\$2.323	- \$33.234
Pass-Through Business, Rents, Royalties	\$40.371	\$629.947	\$42.118	\$680.843
Gain or Loss on Asset Sales				
Taxed as Capital Gains	\$121.520	\$1,763.099	\$116.601	\$2,586.275
Taxed as Ordinary Income	- \$3.412	\$30.963	- \$2.379	\$33.065
Other	\$20.031	\$20.108	\$19.595	\$8.171
Total	\$255.659	\$3,629.254	\$256.577	\$3,793.410
Average Resident Ratio for Nonresident and Part-Year Resident Estates and Trusts		0.62%		1.49%

Deductions for Charitable Contributions and Distributions to Beneficiaries

Income earned by a trust or estate generally is put to one of four uses. It may be:

- used to pay costs of the trust
- donated to charity
- distributed to a beneficiary, or
- retained and added to the principal of the trust.

In calculating taxable income, an estate or trust is allowed an itemized deduction for charitable contributions in the same way an individual is. Unlike an individual, an estate or trust is allowed a deduction for income distributed to a beneficiary. An estate or trust may also distribute part of the principal, but this is not deductible for the trust or taxable for the beneficiary. The following table shows deductions for charitable contributions and for distributions to beneficiaries.

	TY 2019		TY 2020	
	Entities with Deduction	\$ million	Entities with Deduction	\$ million
Charitable Contributions				
Resident Estates and Trusts	230	\$5.48	191	\$4.37
Nonresident and Part-Year	466	\$209.80	423	\$96.79
Distributions from Income				
Resident Estates and Trusts	3,424	\$141.85	3,271	\$142.08
Nonresident and Part-Year	1,098	\$910.73	986	\$348.45

Tax Paid by Estates and Trusts

Trusts and estates directly paid about \$3.9 million in Tax Year 2019 and \$5.6 million in Tax Year 2020. The following table shows tax paid by type of trust or estate. Categories with few returns are combined to protect taxpayer confidentiality.

Tax After Capital Gains Credit and Apportionment (\$ million)

Entity Type	TY 2019	TY 2020
Bankruptcy Estates	\$0.000	\$0.005
Decedent Estates		
Resident	\$0.673	\$0.581
Nonresident and Part-Year	\$0.032	\$0.019
Electing Small Business Trusts		
Resident	\$0.000	\$0.000
Nonresident and Part-Year	\$0.000	\$0.000
Grantor Trusts	\$0.005	\$0.000
Simple Trusts		
Resident	\$0.798	\$0.561
Nonresident and Part-Year	\$0.042	\$0.085
Disability, Funeral, Pooled Income, and Other	\$0.013	\$0.053
Complex Trust Not in Another Category		
Resident	\$1.972	\$2.428
Nonresident and Part-Year	\$0.371	\$1.834
All Estates and Trusts	\$3.905	\$5.566

Corporate Income Tax Overview

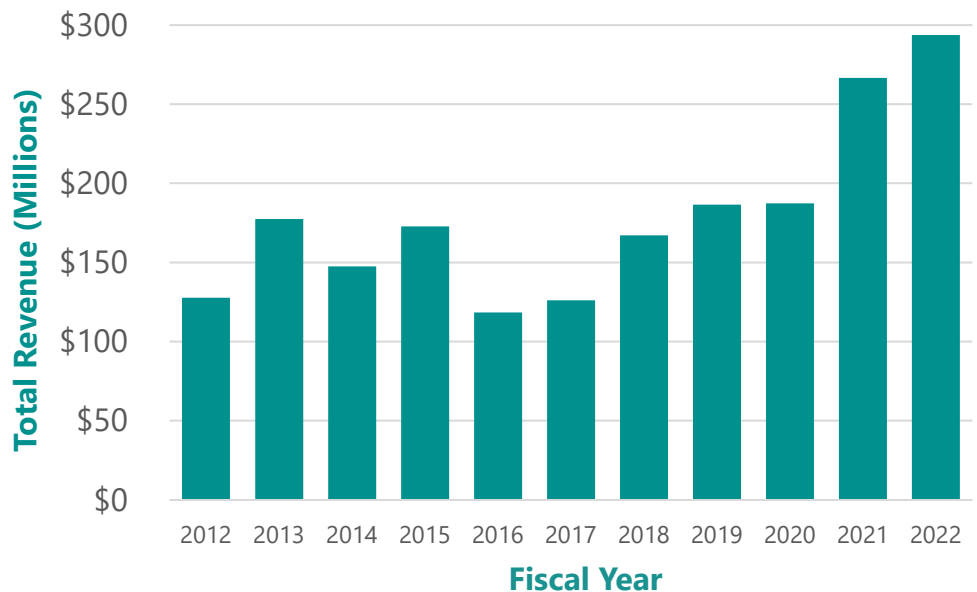
Montana’s corporate income tax is a tax levied on C corporations for the “privilege of carrying on business in this state for the tax year in which the income was earned.” (15-31-101(3), MCA). A corporation includes:

- an association, joint-stock company, common-law trust, or business trust that does business in an organized capacity
- all other corporations, whether created, organized, or existing under and pursuant to the laws, agreements, or declarations of trust of any state, country or the United States; and
- any limited liability company, limited liability partnership, partnership or other entity that is treated as an association for federal income tax purposes and that is not a disregarded entity (15-31-101(1), MCA)

Every bank organized under the laws of the state of Montana, of any other state, or of the United States, and any savings and loan association organized under the laws of this state or of the United States, is also subject to the Montana corporate income tax (15-31-101(4), MCA).

The table below shows total corporate income tax collections for FYs 2012 through 2022. As a rule, corporate income tax collection trends in Montana mirror the general national economy. FY 2021 and 2022 corporate tax revenues were \$266.5 million and \$293.7 million, respectively. Corporate income taxes are deposited in the state general fund.

Fiscal Year	Total Revenue
2012	\$127,774,092
2013	\$177,500,421
2014	\$147,550,091
2015	\$172,731,561
2016	\$118,386,603
2017	\$125,991,635
2018	\$167,099,816
2019	\$186,535,598
2020	\$187,358,214
2021	\$266,517,177
2022	\$293,695,432



The following table provides a breakdown of the last seven years of revenues deposited in the general fund by how they are collected. The table also shows refunds paid.

As the table demonstrates, estimated quarterly payments are by far the largest source of corporate income tax collections, followed by payments with returns.

Corporate Income Tax Collections and Refunds - General Fund

Fiscal Year	Payments With Returns	Estimated Payments	Audits, Penalties, and Interest	Refunds	Total Collections
2016	\$29,079,903	\$108,541,034	\$13,308,491	-\$31,390,463	\$119,538,965
2017	\$31,668,677	\$107,111,190	\$12,318,708	-\$25,851,754	\$125,246,820
2018	\$42,743,886	\$129,097,865	\$26,779,392	-\$24,228,007	\$174,393,137
2019	\$50,422,525	\$137,292,282	\$15,050,080	-\$16,752,844	\$186,012,044
2020	\$50,251,684	\$145,585,206	\$10,871,377	-\$20,028,455	\$186,679,812
2021	\$78,705,971	\$202,062,821	\$11,861,827	-\$26,793,431	\$265,837,187
2022	\$67,156,276	\$224,188,974	\$22,166,050	-\$20,402,997	\$293,108,303
Average	\$50,004,132	\$150,554,196	\$16,050,846	-\$23,635,422	\$192,973,753

Average estimated payments over the past seven years were \$150.6 million. Average annual revenue for payments with returns over the same period was \$50.0 million. The seven-year average of revenue from audits, penalties, and interest was \$16.1 million. Total refunds averaged about \$23.6 million per year.

Over the past seven years, total corporate tax collections averaged about \$193.0 million annually, though there were wide variations in annual collections during that time period, with significantly higher collections the last two fiscal years.

Who pays Corporate Income Taxes?

Only C corporations pay corporate income taxes. Corporations that elect to file as a subchapter S corporation for federal tax purposes are also required to file as a Subchapter S corporation for Montana income tax purposes. Despite the filing requirement, Subchapter S corporations do not pay Montana corporate income taxes. Instead, the owners or shareholders of the S corporation are subject to income tax on income flowed through the S corporation to the owner or shareholder. The owner or shareholder then reports any taxable income on their individual income tax form.

S corporations are discussed in more detail in the section on pass-through entities.

Organizations exempt from the tax include corporations or associations organized and operated exclusively for religious, charitable, scientific, or educational purposes, and whose income does not benefit any stockholder or individual.

Under federal law, unrelated business taxable income of exempt organizations that create more than \$100 of federal tax liability is taxable as corporate income, in the same manner as other taxable corporate income.

Other entities exempt from corporate income tax include:

- labor, agricultural or horticultural organizations
- civic organizations operated exclusively for the promotion of social welfare
- clubs or corporations organized and operated exclusively for pleasure, recreation or other non profit purposes and who do not have any income that benefits any private stockholder or member; and,
- similar nonprofit organizations

To be exempt from state corporation taxes, the corporation must prove it is compliant with all statutory conditions. Research and development (R&D) firms organized to engage in business for the first time in Montana do not have to pay the corporate income tax for the first five years of operation. To receive this exemption, the firm must apply to the Department of Revenue for approval.

Returns Filed for Tax Year 2019		Returns Filed for Tax Year 2020	
Total C Corporations	16,678	Total C Corporations	20,551
S Corporations	66,573	S Corporations	69,095
Total Corporations	83,251	Total Corporations	89,646
C Corporations Paying Minimum Tax*	10,587	C Corporations Paying Minimum Tax*	14,080
C Corporations Paying More Than Minimum Tax	6,091	C Corporations Paying More Than Minimum Tax	6,471
Total C Corporations	16,678	Total C Corporations	20,551

*Includes corporations filing a tax return, but claiming zero or negative taxable income.

Distribution of Corporate Income Taxes

The following table shows the Montana tax liability distribution of the 20,551 corporate returns with a Montana tax liability filed in calendar years 2021 and 2022, reporting on Tax Year 2020. Note that the revenues from the return data will not match the fiscal year revenues in earlier tables because fiscal year revenue is based upon payments.

Tax Year 2020 Distribution of Montana Tax Liability

Regular Corporation Returns	Number	Tax Liability	Percent of Total Liability	Cumulative Percent of Total Liability
Top 100 returns	100	\$152,319,476	67%	67%
Second 100 returns	100	\$20,182,728	9%	75%
Third 100 returns	100	\$11,861,987	5%	81%
Fourth 100 returns	100	\$8,250,368	4%	84%
Fifth 100 returns	100	\$6,062,186	3%	87%
All other returns	20,051	\$30,146,217	13%	100%
Total	20,551	\$228,822,962	100%	N/A

*Includes refunds as negative revenue.

The top 100 returns make up about 67 percent of total tax liability of all corporate taxpayers. The top 500 returns accounted for 87 percent of total Montana tax liability for the group. The other 20,051 returns represented only 13 percent of the total Montana tax liability.

The distribution of corporate income taxes can also be examined by economic sector. Starting with the 2009 tax returns, corporate taxpayers were asked to identify their primary industry as reported on their federal tax forms. The following table shows the distribution of corporate income taxes for the largest sectors.

The largest sector of Tax Year 2020 tax liability was the management of companies and enterprises. This category includes banks and other holding companies and corporate or regional headquarters; it also accounted for about 36 percent of all the corporate income tax liability.

Manufacturing was the second largest sector, with almost 13 percent of all corporate income taxes in Tax Year 2020. This category includes:

- food manufacturing, including grain, oilseed, fruit, and dairy processing;
- bakeries;
- beverages;
- sawmills, millwork, and paper manufacturing;
- petroleum and chemical manufacturing;
- cement and concrete; and
- other activities.

Corporations primarily involved in retail trade paid 12 percent of corporate income taxes; finance and insurance paid 9.6 percent; information paid 4.5 percent; and wholesale trade paid 4.4 percent. All other sectors (including mining, quarrying, and oil and gas extraction, transportation and warehousing, and construction) made up the remaining 21 percent.

Distribution of Corporate Income Taxes

Sector	Tax Liability	Percent of Tax Liability
Management of Companies and Enterprises	\$81,228,301	35.50%
Manufacturing	\$30,121,838	13.20%
Retail Trade	\$27,867,365	12.20%
Finance and Insurance	\$21,919,545	9.60%
Information	\$10,394,091	4.50%
Wholesale Trade	\$10,043,757	4.40%
Real Estate and Rental and Leasing	\$7,187,829	3.10%
Agriculture, Forestry, Fishing and Hunting	\$6,217,044	2.70%
Transportation and Warehousing	\$5,831,748	2.50%
Construction	\$4,894,077	2.10%
Other (<2% per sector)	\$23,117,367	10.10%

In the above chart, it is important to remember that only businesses organized as C corporations pay corporate income taxes. Businesses in certain industries, such as agriculture or legal services, may be more likely to be structured as a pass-through entity, rather than as a C corporation.

Taxable Income and the Tax Rate

The starting point for calculating Montana corporate income tax is the corporation's federal taxable income. To determine net income taxable by Montana, certain adjustments to federal taxable income must be made. For example, municipal bond interest is taxable and must be added to income. Montana also allows certain reductions to income, such as a portion of the cost of energy conservation investments made in a building used for the corporation's business.

After the additions and reductions to federal taxable income required by Montana law, income is then apportioned to Montana to determine the Montana taxable income.

If the corporation conducts taxable business only in Montana, all net taxable income from that business is Montana taxable income. Tax is then levied at a rate of 6.75 percent for net income earned in Montana.

Multi-state C corporations and Pass-Through Entities with net taxable income generated by doing business both inside and outside the state are required to apportion income to Montana based on a three-factor apportionment formula.

Example of Apportionment Factor Calculation for Multi-State Corporation

Payroll in Montana		Total Payroll		Payroll Factor
\$1,000,000	÷	\$10,000,000	=	0.100
Property In Montana		Total Property		Property Factor
\$2,000,000	÷	\$125,000,000	=	0.016
Receipts In Montana		Total Receipts		Receipts Factor
\$8,000,000	÷	\$100,000,000	=	0.080
Apportionment Factor (Avg.)				0.069

Receipts, property, and payroll comprise the three factors used in the apportionment formula. As of July 1, 2021, the apportionment formula is double-weighted sales, where the receipts factor is weighted double relative to the property and payroll factors.

The payroll factor is the ratio of the payroll attributable to the production of business income during the tax period in Montana to total payroll.

Similarly, the property factor is based on the ratio of Montana property to all property, and the receipts factor is based on the ratio of Montana receipts to all receipts.

Once these three factors are calculated, the apportionment factor is calculated using the following formula:

$$\text{Apportionment factor} = (2 \times \text{receipts factor} + \text{payroll factor} + \text{property factor}) / 4$$

That factor is applied against adjusted federal taxable income to produce the net income apportioned to Montana, or Montana taxable income.

The tax is normally levied at a rate of 6.75 percent on net income apportioned to Montana. Exceptions are explained on the next page.

The following is an example of how a multi-state corporation doing business in Montana would calculate its Montana source income, assuming the following facts:

- The corporation has \$1 million in payroll in Montana, out of a total payroll of \$10 million.
- It has \$2 million in property in Montana, out of total property owned by the corporation of \$125 million.
- The corporation has receipts in Montana of \$8 million, out of total receipts for the firm of \$100 million during the tax year.

These factors result in an apportionment factor of 0.069 (see the calculations in the previous table).

If this corporation had a total taxable income of \$10 million, its Montana taxable income is \$690,000 ($\$10 \text{ million} \times 0.069 = \$690,000$) and its state income tax is \$46,575 before credits ($\$690,000 \times 6.75$ percent).

Relying on an apportionment formula simplifies the calculation of taxable income by state for the multi-state taxpayer and for the state tax administrator, but there can still be issues. A simple example is that of a multi-state taxpayer who over-apportions or shifts one or more of the factors—property, payroll or sales—to a state that does not tax corporate income. Apportioning too much in sales or property or payroll to a non-income tax state reduces other states' apportionment factors and so reduces the income taxable in those states.

Montana operates as a worldwide, combined unitary state. A business is unitary when the operations of that business within the state depend on or contribute to the operations of that business outside the state. However, in Montana, corporations can elect to have primarily their United States income included in the apportionment process. Corporations taking this election, called a "water's edge" election, pay the tax at a rate of 7 percent instead of 6.75 percent. Some limits exist on exclusions claimed under the water's edge election (see 15-31-322 and 15-31-324, MCA).

Multinational unitary corporations wishing to file under the water's edge method are required to file a written election within the first 90 days of the tax period for which the election is to become effective. The Department of Revenue must approve the election before the corporation uses it and the election is then binding for three consecutive taxable periods.

Corporations whose only activity in Montana comprises making sales may choose to pay an alternative tax equal to $\frac{1}{2}$ of 1 percent of gross sales if they do not own or rent real estate or tangible personal property in Montana, and if their annual gross income from sales in Montana does not exceed \$100,000.

There is a minimum tax of \$50 for any corporation doing business in the state. If the corporation has no property, sales, or payroll in the state during the tax period, it is exempt from the minimum tax. In Tax Year 2020, 69 percent of corporations paid the minimum tax or less.

All states with a corporate income tax allow corporations a carryforward of net operating losses (NOL). These losses can be deducted against net taxable income in future years. All states limit the number of years a corporation can carry forward losses. Some states, including Montana, allow carryback of net operating losses.

Beginning in Tax Year 2018, the Montana net operating losses of a corporation may be carried back for a period of three years and used to reduce prior years' taxable income. The losses may also be carried forward (for up to 10 years) to reduce taxable income in future years. Loss carrybacks may not exceed \$500,000 per tax period. Prior to Tax Year 2018, losses could be carried back three years and forward seven years without any limitation on the carryback amount.

The table on the next page provides a comparison of Montana's treatment of net operating loss deductions with other states' treatment.

In Montana, if a corporation has net operating losses, it can file an amended return and claim a refund of previously paid taxes for any or all the prior three years, with the \$500,000 carryback limitation per tax period beginning in Tax Year 2018.

For example, a hypothetical Montana corporation had a net taxable income of \$50,000 each year in years 1, 2, and 3. In year 4, it had losses of \$160,000. In year 5, the corporation has become profitable again, with a taxable income of \$60,000. Based upon these assumptions, the corporation would have paid \$3,375 in corporate income taxes ($\$50,000 \times 0.0675$) in years 1, 2, and 3. In year 4, it had net losses of \$160,000, so it only paid the \$50 minimum corporate income tax. In year 4, the corporation could file amended returns for years 1, 2, and 3.

On the amended returns, the taxpayer could claim \$150,000 of year 4 losses against income earned in those prior years, and obtain refunds of taxes paid, or \$10,125 ($3 \times \$3,375$). The remaining \$10,000 of losses would be used as a deduction against year 5 income of \$60,000, thus reducing taxable income from \$60,000 to \$50,000, and reducing the corporation's tax liability by \$675.

Nineteen states follow the federal carryforward and carryback rules, which allow carryforward of 80 percent of losses indefinitely, but no carrybacks. Of the states that do not have federal conformity, 22 do not allow carryback of net operating losses, but allow limited carryforward of losses, from five years up to 20 years. Only five states allow net operating loss carrybacks. Idaho, Mississippi, and Missouri allow two years of carrybacks while Montana and New York allow three years of carrybacks.

California temporarily suspended NOL carryforward deductions for Tax Years 2020 and 2021 for individuals and corporations with more than \$1 million in income.

States with Corporate Income Taxes

Allowed Carryback and Carryforward Periods for Net Operating Loss

Allowed years of carryforward

		5 years forward	8 years forward	10 years forward	12 years forward	15 years forward	20 years forward
Allowed years of carryback	0 years back	Rhode Island	Arkansas	Kansas Michigan New Hampshire* Vermont	Illinois	Alabama Minnesota North Carolina Oregon Tennessee	Arizona Connecticut Indiana Iowa Louisiana Massachusetts Nebraska New Jersey Pennsylvania* Wisconsin
	2 years back						Idaho* Mississippi Missouri
	3 years back			Montana*			New York

*Carryback caps for Montana and Idaho. Carryforward caps for New Hampshire and Pennsylvania

Source: State Tax Handbook. 2017. CHS; Montana Department of Revenue. 2018.

Credits

As with individual income tax, corporations with expenditures that qualify under state law can claim tax credits. Tax credits are applied against the corporation's tax liability, reducing the amount the corporation owes.

For example, a corporation with Montana taxable income of \$3,000 has a tax liability of \$202.50 (\$3,000 x 6.75 percent). However, if the corporation has expenditures that qualify under state law for a credit of \$150, its tax liability is reduced to \$52.50 from \$202.50.

Montana Corporation Tax Credits

Credit	Tax Year 2019		Tax Year 2020	
	Number of Credits	Total Credit Amounts	Number of Credits	Total Credit Amounts
Alternative Energy Production Credit	0	\$0	0	\$0
Alternative Fuel Motor Vehicle Conversion Credit	0	\$0	0	\$0
Apprenticeship Tax Credit	0	\$0	*	\$18,150
Biodiesel Blending and Storage Tax Credit	0	\$0	0	\$0
Charitable Endowment Credit	*	23,756	*	\$24,626
College Contribution Credit	18	\$5,325	15	\$4,971
Contractor's Gross Receipts Credit	78	\$729,854	76	\$1,939,697
Dependent Care Assistance Credit	*	\$22,111	*	\$42,525
Empowerment Zone New Employees Tax Credit	0	\$0	0	\$0
Geothermal Heating System Credit	*	\$50	*	\$50
Health Insurance for Uninsured Montanans Credit	*	\$900	*	\$2,810
Historic Property Preservation Credit	*	\$53	*	\$50
Infrastructure Users Fee Credit	12	\$264,738	11	\$398,786
MEDIA credit	0	\$0	*	\$5,533,471
Mineral Exploration Credit	*	\$25	*	\$25
New/Expanded Industry Credit	*	\$2,447	0	\$0
Oilseed Crushing and Biodiesel Production Facility Credit	0	\$0	0	\$0
Qualified Research Credit	*	\$100	0	\$0
Recycling Credit	*	\$38,232	*	\$132,349
Short-term Temporary Lodging Credit	0	\$0	0	\$0

*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 *.*

Filing Requirements and Estimated Payments

Unlike individual income taxpayers who must file their federal and state returns based upon a calendar year, corporate taxpayers must file tax returns based upon their fiscal year. Corporate income taxpayers must use the same tax period for their state return as they reported for their federal tax return.

As shown in the table in this section, three-fourths of corporate taxpayers (76 percent) have a fiscal year or tax year that is based upon the calendar year. Tax returns for taxpayers using a calendar year as their fiscal year are due May 15.

The second most used fiscal year or tax year is the 12 months ending at the end of June. About 4 percent of corporate taxpayers filing in Montana used a fiscal year ending on June 30th. Tax returns for taxpayers using another period as their fiscal year are due the 15th day of the fifth month after the close of the taxable year. In other words, if a taxpayer's fiscal year ends at the end of June, the tax return is then due November 15.

Automatic extensions are allowed for up to six months following the prescribed filing date. For example, a taxpayer with a fiscal year or tax year that is also a calendar year can use the automatic extension, moving the due date of their return from May 15 to November 15. The taxpayer whose fiscal year is calendar year 2020 would be have a Tax Year 2020 return due date of May 15, 2021, but the taxpayer would now have until November 15 to file under the automatic extension.

A taxpayer whose fiscal year or tax year ends June 30 can obtain an automatic six-month extension that moves the due date for its return from November 15 to May 15 of the following year. For the Tax Year 2020 return for a taxpayer whose fiscal year runs from July 1, 2020 to June 30, 2021, is due November 15, 2021. The taxpayer would then have until May 15, 2022, to file under automatic extension.

Companies with a tax liability of \$5,000 or more must make quarterly estimated payments. For a corporation operating with a calendar year as its fiscal year or tax year, the due dates for quarterly payments are April 15, June 15, September 15, and December 15. For a corporation using another 12-month period as its fiscal/tax year, the due dates for quarterly installments are the 15th day of the fourth month, the 15th day of the sixth month, the 15th day of the ninth month, and the 15th day of the 12th month.

Corporate Income Tax - Tax Year 2020

Tax Year Period Ending	Number of Taxpayers	Percent
12/31/2020	15,597	76%
1/31/2021	377	2%
2/28/2021	218	1%
3/31/2021	762	4%
4/30/2021	206	1%
5/31/2021	219	1%
6/30/2021	849	4%
7/31/2021	183	1%
8/31/2021	210	1%
9/30/2021	742	4%
10/31/2021	758	4%
11/30/2021	430	2%
Total	20,551	100%

Penalties and Interest

Corporations that do not pay taxes when due may be charged a late payment penalty of 1.2 percent per month on the unpaid tax, up to a maximum penalty of 12 percent of the tax due.

Beginning July 1, 2019, the interest on unpaid tax accrues at a rate of 3 percentage points above the prime rate. For January 1, 2020, through December 31, 2020, the rate is 8 percent per year.

Comparison of Corporate Tax Rate with Other States

Forty-four states and the District of Columbia have a tax on corporate income. The comparison table in this section uses data from the Federation of Tax Administrators (as of January 2020) to show the maximum rates for states having a corporate tax. The rates vary from 2.5 percent to 11.5 percent. Many states have a graduated income tax, which is indicated by an asterisk next to the state's name.

This comparison table shows only the maximum rate for each state. The effective or average tax rate in different states can vary substantially, depending upon what the lower rates are and what income they apply to. State tax deductions, exemptions and credits, and other aspects of state taxation policy can substantially reduce the effective tax rate.

Nevada, Ohio, Texas, and Washington do not have corporate income taxes, but impose gross receipts taxes.

South Dakota and Wyoming do not have corporate income taxes or gross receipts taxes.

South Dakota has an excise tax on financial institutions, which starts at 6 percent on a net income of \$400 million or less. The percentage tax declines in steps on net income over that amount.

Wyoming does not have a corporate income tax but does have a corporate franchise tax or license tax of 0.02 percent which applies to the sum of capital, property, and assets located in Wyoming.

Montana's tax rate is 6.75 percent. Idaho's tax rate is 6.5 percent. North Dakota's top corporate income tax rate is 4.31 percent.

Maximum Corporate Tax Rate by State

Rank	State	Maximum Tax Rate
1	New Jersey	11.50%
2	Pennsylvania	9.99%
3	Iowa*	9.80%
3	Minnesota	9.80%
5	Illinois	9.50%
6	Alaska*	9.40%
7	Maine *	8.93%
8	California	8.84%
9	Delaware	8.70%
10	Vermont *	8.50%
11	District of Columbia	8.25%
11	Maryland	8.25%
13	Massachusetts	8.00%
14	Wisconsin	7.90%
15	New Hampshire	7.60%
15	Oregon	7.60%
17	Connecticut	7.50%
17	Louisiana *	7.50%
17	Nebraska *	7.50%
20	Kansas	7.00%
20	Rhode Island	7.00%
22	Montana	6.75%
23	Alabama	6.50%
23	Idaho	6.50%
23	New York	6.50%
23	Tennessee	6.50%
23	West Virginia	6.50%
28	Hawaii *	6.40%
29	Michigan	6.00%
29	Virginia	6.00%
31	Arkansas *	5.90%
31	New Mexico*	5.90%
33	Georgia	5.75%
34	Florida	5.50%
35	Kentucky *	5.00%
35	Mississippi *	5.00%

Rank	State	Maximum Tax Rate
35	South Carolina	5.00%
38	Utah	4.95%
39	Arizona	4.90%
39	Indiana	4.90%
41	Colorado	4.55%
42	North Dakota*	4.31%
43	Missouri	4.00%
43	Oklahoma	4.00%
45	North Carolina	2.50%

*Graduated income tax.

As of Jan. 1, 2022, Federation of Tax Administrators

Select History of Montana's Corporate Income Tax

- 1917** Montana’s corporate license tax was established. The tax rate was set at 1 percent with no minimum tax amount.
- 1933** The corporate income tax rate was raised to 2 percent and established a minimum tax of \$5.
- 1937** The rate was raised to 3 percent, while the minimum tax remained \$5.
- 1957** The rate was raised to 5 percent and the minimum tax increased to \$10.
- 1960 - 1971** The tax rate was changed several times between 1960 and 1971, while the minimum tax was increased from \$10 to \$50 during this time period.
- 1987** The state added the water’s edge election, which includes a tax rate of 7 percent for corporations that elect to file as water’s edge companies.
- 2013** The name of the corporate license tax was changed to corporate income tax. This change applied to tax years beginning after December 31, 2013.
- 2021** The apportionment formula was changed from an equal-weighted three-factor formula to a double-weighted sales three-factor formula.

Corporate Income Tax - Historic Tax Rates and Minimum Tax

Year	Tax Rate	Minimum Tax	Water’s Edge
1987	6.75%	\$50	7%
1971	6.75%	\$50	-
1969	6.25%	\$50	-
1965	5.25%	\$10	-
1960	4.5%	\$10	-
1957	5%	\$10	-
1937	3%	\$5	-
1933	2%	\$5	-
1917	1%	-	-