SENATE TAXATION
EXHIBIT NO. 4
DATE 1-5-07
BILL NO. SB-61

A

Impacts of Montana Adopting Federal Standard Deduction Amounts
Based on 2004 Tax Returns

Income Group	Income Range	Households	Montana Income Tax: Current Law	Montana Income Tax: Proposed Law	Montana Income Tax: Difference	Households Paying No Tax: Current Law	Households Paying No Tax: Proposed Law	Households Paying No Tax: Difference	Households That Would Switch to Standard Deduction
1	Less than $4,048	39,847	0.03	0.00	-0.03	35,663	39,846	4,183	2,834
2	$4,048 - $8,433	39,848	1.41	0.12	-1.29	13,961	32,555	18,594	2,927
3	$8,434 - $13,367	39,848	4.18	1.84	-2.34	10,939	17,943	7,004	4,401
4	$13,368 - $18,629	39,847	8.61	5.86	-2.76	7,472	11,119	3,647	5,390
5	$18,630 - $25,012	39,848	15.37	12.31	-3.06	4,978	6,291	1,313	5,640
6	$25,013 - $33,470	39,848	25.39	22.51	-2.88	2,953	3,161	208	6,598
7	$33,471 - $44,632	39,847	40.83	38.51	-2.32	1,648	1,734	86	5,502
8	$44,633 - $59,387	39,848	61.54	59.43	-2.11	1,001	1,059	58	4,547
9	$59,388 - $82,211	39,848	95.92	94.12	-1.80	725	746	21	4,091
11	$82,212 - $108,527	19,924	75.19	74.44	-0.75	300	303	3	1,412
12	$108,528 - $246,499	15,939	118.52	118.04	-0.49	153	155	2	701
13	More than $246,499	3,985	169.23	169.14	-0.09	21	21	0	80
Total		398,477	616.22	596.31	-19.90	79,814	114,933	35,119	44,123

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SENATE TAS
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Montana

Working-Poor Families in Montana Are Hit Harder by the Income Tax Than Those in Most Other States

Montana's 2005 income tax threshold

(The income level at which families begin paying income tax)

Rank among the 42 states with income taxes (1 = lowest threshold)

- For single-parent families of three: $8,900 — 2
- For two-parent families of four: $10,800 — 3

Montana's 2005 income tax levied on working-poor and near-poor families

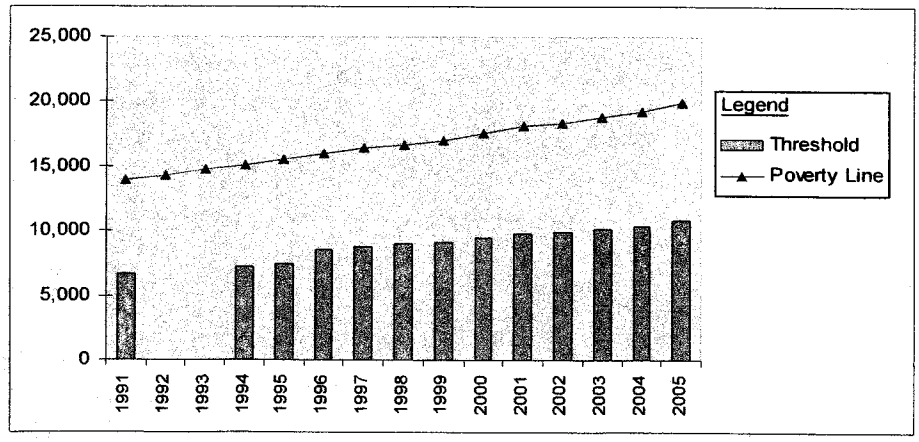
Rank (1 = highest tax)

- For families of three with incomes at the poverty line ($15,577): $143 — 6
- For families of four with incomes at the poverty line ($19,961): $209 — 9
- For families of three with minimum-wage earnings ($10,712): $19 — 5
- For families of three with incomes at 125% of poverty line ($19,471): $284 — 10
- For families of four with incomes at 125% of poverty line ($24,951): $424 — 12

Despite reduced income tax rates, Montana's thresholds remain among nation's lowest.

- Montana's tax threshold for families of four has increased since 1991, but a substantial gap remains between the threshold and the poverty line.
- Montana's 2005 tax rate reduction did not increase its threshold, but it did substantially reduce income tax liability for poor families. Betweem 2004 and 2005, the tax faced by a family of four at the poverty line decreased from $255 to $209.

Income Tax Threshold for Family of Four



Year	Threshold
1991	$6,600
1992	no data
1993	no data
1994	$7,200
1995	$7,400
1996	$8,600
1997	$8,800
1998	$9,000
1999	$9,100
2000	$9,500
2001	$9,800
2002	$9,900
2003	$10,100
2004	$10,400
2005	$10,800

Center on Budget and Policy Priorities

Source: Center on Budget and Policy Priorities, *The Impact of State Income Taxes on Low-Income Families in 2005.* Available online at: http://www.cbpp.org/2-22-06sfp.htm.

#2 Cobb #1 [redacted]

B

cobb ranch

From: Dodds, Dan [ddodds@mt.gov]
Sent: Friday, July 28, 2006 5:17 PM
To: cobbchar
Subject: Income tax standard deduction options

Sen. Cobb,
As you requested yesterday, I looked at more options for changing the standard deduction. Under current law, the minimum standard deduction is about 44% of the maximum standard deduction. I looked at increasing it to 50%, 75%, 90%, and 100% of the maximum. The current maximum state standard deduction is about 72% of the federal standard deduction. I looked at having a single state standard deduction at 80%, 90%, and 100% of the federal standard deduction.

The first row of the table below shows the actual number of 2004 returns in the three lowest income groups where the taxpayer had no income tax liability. The other rows show the percent of households in these income groups who filed a 2004 return but would not owe any income tax under each option. The right-hand column shows the reduction in revenue that would have occurred if each option had been in place in 2004.

Impacts of Changing Montana's Standard Deduction
Based on 2004 Tax Returns

	Percent of Households in Income Group Who Filed a Return but Owe No Tax			Change in F ($ million)
Option	$4,048 or Less	$4,049 to $8,433	$8,444 to $13,367	
Current Law	89%	35%	27%	N/A
Increase Minimum Standard Deduction to 50% of Maximum	93%	36%	29%	-0.34
Increase Minimum Standard Deduction to 75% of Maximum	100%	46%	34%	-2.76
Increase Minimum Standard Deduction to 90% of Maximum	100%	56%	38%	-4.92
Increase Minimum Standard Deduction to 100% of Maximum	100%	61%	40%	-9.64
Set Standard Deduction at 80% of Federal Standard Deduction	100%	68%	39%	-9.64
Set Standard Deduction at 90% of Federal Standard Deduction	100%	75%	42%	-14.71
Set Standard Deduction at 100% of Federal Standard Deduction	100%	82%	45%	-19.90