IMPACT OF THE TAX REFORM ACT OF 1986 ON MONTANA RESIDENTS

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Room 325

Joint Information Meeting of:
Senate Taxation Committee
House Taxation Committee

This was a joint informational meeting of the House and Senate Taxation Committees to hear the effects of the Federal Tax Reform Act of 1986 on the state of Montana. Chairman Jack Ramirez of the House Taxation Committee called the roll for the House. Chairman McCallum of the Senate Taxation Committee called roll for the Senate. All members of the Legislature were invited to attend.

ROLL CALL: All members were present for the Senate Taxation Committee. All members were present for the House Taxation Committee with Rep. Harrington excused and Rep. Sands appearing later in the meeting.

Chairman McCallum, Senate Taxation Committee, introduced Mr. Thomas E. Vasquez, President of Policy Economics Group of Washington, D.C., who has done federal tax reform analysis for the Advisory Commission on Intergovernmental Relation and for various states including Montana. He was invited to come to give his insights as to what the implications of the federal tax reform would be for Montana.

Mr. Vasquez focused on the revenue estimating question that affects the windfall to the state. He informed those present that they were welcome to interrupt him at any time if they should have any questions. He explained the methodology of how they did the estimates and what the basis of them were. The Policy Economics Group which was formed in 1983 put together the data base and simulation model in the Treasury Department and the Joint Committee on Taxation and the effects of the Tax Reform Act of 1986 and this allowed them to make estimates at the state level.

The data base is federal income tax returns filed, not state income tax returns filed, but they were actual Montana residents and he said it was not a hypothetical calculation. It was a random sample that statistically produced results that are reliable. There were about 1700 tax returns representing the nearly 400,000 returns filed in the state. He said the computer model computes both federal and state tax liabilities including behavior responses which are extremely important; those behavior responses dealt with capital gains, IRA contributions, charitable giving, passive losses and a number of areas that are critical for the windfall estimates for the state. They included both federal and state tax liability but they first took the tax return and computed current law and then the return runs through a second calculation that computed the tax liability under some proposal and it compared the individual and the taxes he would pay under both circumstances. The results of that simulation are displayed by marital status and form of tax return by income class. He explained that the information which he passed out was the summary of that simulation run. Appendix A shows the federal income tax liability effects of the Tax Reform Act of 1986 for the calendar years 1987, 1988 and 1989. Appendix B reported the same information except for state tax liability rather than federal.

Mr. Vasquez explained that the Federal tax reform increased the tax rate on capital gains and the realizations declined as a result of that increase in tax and the state's revenue would go down because of the reduction in that one type of income source. He pointed out that the state ends up being coupled in more than one way; coupled in a statutory way and also in the sense that behavior responses of taxpayers to federal tax changes can also affect state residents and both effects had to be computed.

In the case of Montana, as with a couple other states, there is a third effect which is that we allow a deduction for federal income taxes paid and there is a substantial change in the federal tax liability of Montana residents - a dramatic reduction in that tax liability.

He stated that they have provided the same estimates for a number of states - about 20 states and the documents should not be viewed as the final deliverable. They intended to sit down with people in the state and see if there were large disagreements on behavior responses or economic forecasts or current law tax liability. They intended to produce a set of documents that everyone would be comfortable with. This information is strictly preliminary until these deliberations are completed.

He said they did not do economic forecasts such as wages and salaries and employment levels in the states. They take the information that is supplied by the state and that is used to extrapolate the data base. In order to set the data base for 1987-88-89 etc. they extrapolated the data base to be identical to the population of returns that would be filed in each one of those years. He said it was a relatively complex set of procedures - it takes the 1986 file of tax returns, increased the dollar amounts because of inflation or just increases in income generally, changes in itemized deductions, changes in home ownership, etc. Their extrapolation procedure is used quite widely as it was designed for the Treasury Department and the Joint Commission and had been tested substantially in the past.

The extrapolation procedure needs an economic forecast and the state supplied that forecast. The forecast they used was the same that was presented in the Governor's budget. It included personal income growth from 1985 to 1986 of 5.32%; from '86-'87 4.7%; from '87 -'88, 5% and '88 to '89, 4.8%. It also included employment growth but actually a decrease in employment of .8% for '85-'86; and increase in employment of .7% in both 1987 and 1988 and a reduction in that growth of .3% in 1989. This was used to extrapolate the data base and the result of that was a set of tax liabilities under current law. By current law he meant a set of tax liabilities as though there was no federal tax reform act at all. He said that was really the key to normalizing the model and they wanted to make sure that it was not producing ridiculous numbers for tax liability.

The state also produces tax liability and they also gave a set of forecasts consistent with the economic forecast that he had just given.

For calendar year of 1987 there was about $180 million of liability; about $181 million in 1988, increasing to about $185 million in 1989. He pointed out that using the economic forecast given to them the model produced tax liabilities that are a little bit higher than those numbers - about $2-3 million higher in each of the three years. He pointed out that they did have to cut back on the amount of income in order to achieve these tax targets.

The output of the models is really the federal tax liability effect and the state tax liability effect of 19 separate divisions. The way that the simulations are done in the very first simulation, current law would be kind of the base case tax proposal that's in the model. Then the first provision is selected that you want to run which in our case is the Dividend Exclusion. That would be the proposed law in what they call Plan Y. The tax liability would now be computed under two different schemes; one under current law and one under current law with one difference and that difference being that the Dividend Exclusion is being disallowed and this change is computed in both federal and state tax liabilities.

The next provision in the run which is the taxation of unemployment compensation has as the base case, current law plus the repeal of the Dividend Exclusion and then in Plan Y it has current law, repeal of the Dividend Exclusion and the full taxation of unemployment benefits. This way we can look independently at the effect of that one single provision and most importantly the effect of that one single provision given that all the other provisions of the Act are in place which is extremely important. Provisions cannot be compared one by one against current law because it would miss all the interactions between provisions. For example, there are two provisions in the bill; one dealing with limitation on interest deductions and a second one dealing with limitation on so-called passive losses or tax shelter losses. Those two provisions affect very similar people. The interest provision generally affects a broader base of people but at the top of the income spectrum those two provisions affect the same people and raise about the same amount of money. If the gain was estimated of the interest limitation provision against current law it would show a revenue gain of some amount. If you estimated the revenue effect of the passive loss provision against current law it would raise around $11 million so there would be a $21 million revenue gain between the two, where if you put both in place at the same time the revenue gain would be about half that amount. The reason is because they are affecting basically the same people. Once interest deductions are disallowed the tax shelter looses by so much that you don't raise much revenue when you apply the passive loss provision. He said it was important to keep this structure in mind as to how this is done. The estimate picks up all the interactions for all the provisions that were estimated before. He explained that there was one drawback to that end and that was the way to decide on stacking the provisions which is relatively arbitrary and if you go back to the interest and passive los provision example, if the passive loss provision is run first it raises $10 million and the interest provision second it raises $5 million. If the stacking order was reversed it would flip-flop - the interest provision would raise $10 million and the passive loss provision raising $5 million. Even when they got through the second provision they would have the correct total amount of revenue - it would be a little misleading when you look at the amount of revenue raised by each one of the provisions because they are so sensitive to where they are in the stack.

What they have done in other states as the state begins its restructuring of the system, they altered the stacking order to what the state needed and ran provisions from step 1 so they had all the correct interaction in place. He wanted to point this out because if, in the deliberations you decide, for good reason, you don't like something like the passive loss provision and you don't want to couple to it, the amount of revenue loss is not exactly what you would see in the book he handed out. Then a separate question would have to be asked which is that, given all the provisions that are estimated in the book are in effect and now the passive loss provision, what is the revenue loss and that would be a different number than what is presented in the report. That is important to keep in mind.

They simulate 19 provisions and also show in the Appendix a grand summary run showing all the effects separately and then one last run that shows current law and the base case tax computation and all the proposals put in place all at once in the proposed law example and that shows the effect on the taxpayers of the combined provisions. That is relatively important especially at the federal level where the tax policy was designed to have rate reductions at the top end that lose quite a bit of revenue, a great deal of low income relief at the bottom and then base broadening to kind of even out the income distribution.

He pointed out that it was important that everyone be very careful in how the numbers are used in the stacking order - the stacking order does indeed matter.

They only ran 19 provisions out of the hundreds that are in the Tax Reform Act of 1986 but while they are small in number they account for most of the dollar amounts that are going on - they account for 98% of all the revenue reducing provisions and about 77% of all the revenue gaining provisions so most of it is covered. He said that the figures he would present later would cover the universe because they had taken the Department of Revenue's estimates for those provisions that they didn't estimate in the model.

Mr. Vasquez went through the 19 provisions which they used and what each would do.

(1) The Tax Reform Act repeals the Dividend Income Exclusion.
(2) All unemployment compensation will be included in adjusted gross income. (This would have no direct impact on the state).
(3) The Act will eliminate the two-earner deduction.
(4) IRA Deductions - the deductions to the fund for high income taxpayers will be eliminated though you can still contribute to an IRA account and enter a tax exempt income on the account but you can't take a deduction for the amount up front.
(5) Depreciation provisions were changed and tightened up reducing what went into place in 1981.
(6) Passive Losses - basically Congress defined investment income into two separate baskets; one called active income basket which is basically portfolio income or income that is earned on interest and dividends or any business that is actively run by the individual. Then, there are the passive losses which are tax shelter activities where there is little or no management. The provision says you can't mix and match income so you can't take losses from passive activities and use them to offset income from active activities or wage income. You can't move losses between these two baskets. This probably won't raise much revenue because it is too easy to get around and he gave a couple of examples of this. This will be phased in over five years.
(7) Changes to the Employee Business and Moving Expenses which is basically that you used to be able to take above-the-line meaning that it was affecting AGI, now it is being treated as an itemized deduction with a 2% floor. It basically limits most, if not all, itemized deductions.
(8) Limit on Non-Business Interest Deductions - it does not affect home mortgage interest. He also explained the home mortgage backed credit cards which are deductible as a home mortgage interest.
(9) Restrictions on Medical Deductions - just takes the floor from 5% of adjusted gross income to 7.5%.
(10) Eliminates Deduction for state Sales Taxes Paid.
(11) Repeal of the Investment Tax Credit.
(12) Changes in the Earned Income Credit which takes up the income floors.
(13) Repeal of Political Contributions Credit.
(14) Change in Personal Exemptions which included a number of items which may be split out. Under the Act of 1986 there was a dramatic increase in the dollar amount of the personal excemption, but in addition, there were two other changes. Basically, one change that stated who was eligible for an exemption. Age and the blind are one exemption. It also affects college students as they can't be claimed as an exemption on one return and file their own return.

About 10% of the returns filed in the U.S. are filed by college students so there would be quite a bit of revenue in that provision. So, the revenue effect of that provision is the combination of increasing dollar amounts and changing the definition of who is eligible for an exemption. He said that in looking through the Montana Income Tax Code they knew that Montana was not coupled to the dollar amount of the personal exemption but they thought they were coupled to the definition of who was eligible for an exemption in the sense that they had the same as the Feds but said that at this point that wasn't correct. Montana has its own definitions of who qualifies so the numbers will have to be adjusted downward for that. There would be about a $4 million windfall to the state if they were coupled to the definition but he didn't think there would be any of that.

(15) Increase in the Standard Deduction.
(16) Changes in Federal Tax Rates - these items are provisions that Montana is not coupled to but they do affect state tax liability in a couple different ways. One is the effect on behavioral responses like charitable giving and the direct deductibility of federal income tax by itemizers in the state.
(17) Elimination of the Capital Gains Exclusion.
(18) Elimination of the Alternative Minimum Tax and finally,
(19) which is not a provision but something that they show separately and is the behavioral response of taxpayers on charitable giving. With a dramatic reduction in tax rates, it costs more after tax to make a charitable contribution so they expect charitable giving to decrease as a result of this and that provides fewer itemized deductions so therefore, a windfall.

He then turned to Table 3, page 28 (three page table). On page 30 is the end result of it. He cautioned the persons present that these estimates are not directly comparable to the windfall estimates that have been seen from the State, at this point; the State's estimates are actual estimates of the cash collections, not of the tax liability that is incurred by residents but rather when those payments are made on a fiscal year basis. The estimates in Table 3 are a tax liability concept so it ignores when the liability will be paid. It just says that in 1987 the windfall to the state is $34 million - most of that will be paid in fiscal year 1988 not in FY87.

He also cautioned that each provision as shown on the table is a net effect of two things - first of all, the State is coupled, so for example, the dividend exclusion, the State will get an increase in tax liability because now it has eliminated the dividend exclusion but the offset to that is that at the federal level the dividend exclusion was also repealed which increases federal tax liability and therefore increases the deduction for that tax on state tax returns. This is the net number of both of those items. So, on page 28, the repeal of dividend exclusion the windfall gain was 0.3 in 1987 or $300,000. That is the net of a gross revenue pickup of $400,000 and then a $100,000 loss because of federal deductibility. He stated that this is a preliminary document until it is known how they want to see these numbers.

Finally, he said it did not include a number of provisions that he had mentioned previously which the Revenue Department has estimated will increase receipts during this 3 year period by about $8 1/2 million and stated that there are additional amounts that have to be added to these estimates in order to get to the complete windfall for the state. These are just the 19 provisions that they used using the simulation model.

They made a rough estimate at what their numbers would look like on a fiscal year basis so there would be some sort of comparison with the state. He said the key, at this point, is how well they match up with the state.

He said they may ultimately want to present it on a fiscal year basis rather than calendar year estimates - the $34.1 million in 1987 increased to $48.4 million in 1988 and $45.8 million in 1989 would translate into a fiscal year receipt number once the provisions were added in that they had estimated in the model of about $6 million in 1987 - these are pure cash numbers on a fiscal year basis; $6 million in 1987, $41 million in 1988 and about $57 million in 1989.

He said that since he did not have the State's withholding table, it was not possible to do an accurate split for each one of the provisions on a fiscal year basis without first speaking to the Revenue Department, which they plan on doing. The fiscal year numbers that are above were based on fiscal year splits that they found in the Federal Tax Reform Implications for Montana that was provided by the Revenue Department. Those numbers presented in that report are on a federal fiscal year basis and not on the state so the $6, $41 and $57 million will be somewhat lower and having learned that so late he didn't have time to change or correct those numbers. They will probably change to something like $4 million, $39 million and $55 million - probably $2 million lower each year because of the time lag of the state's fiscal year. Those numbers compare with the state's figures on a fiscal year basis. He said that in 1988 he was probably in the neighborhood of $14 million higher than the state on a calendar year liability basis. He said that figure is relatively small.

He said that $14 million includes $4 million from revenue gain from the changed definition of who qualifies for a personal exemption in the state. That leaves a difference of about $10 million. The major provisions that were different was first of all, on the business expense deduction where they moved items from above-the-line and moved it down as an itemized deduction it shows about $1 million more revenue than the state shows. The second major item deals with the deduction of non-mortgage interest and they show about a $2 million revenue gain above the state's estimates. The third area is in the medical deductions - increasing the floor from 5% to 7.5% - raising about $1 million more than the state estimates. The next is the case of capital gains and behavioral response on charitable giving - the sum of those two items is about $2-3 million. He said there are a number of provisions where there is a small difference but nothing really major. There is nothing that you can really point to where it would show a gross difference.

He had two more comments before the discussion was opened up for questions from the floor. First, he pointed out the areas of concern as far as the revenue estimating issue was concerned. He said the issue is how long the windfall is around - there are really three provisions that raise a great deal of revenue. In 1989 for example, the passive loss provision and the limitation on non-mortgage interest and capital gains - the sum of those three is about $29 million which is about 60-65% of the total windfall and those are probably the most difficult three provisions that they were able to estimate. It was not because of lack of information - they had all the information they needed - it's a pure behavioral response issue. The passive loss provision will raise significant amounts of revenue in the first three years but by the time you reach 1990-91 the taxpayers will have adjusted to this provision and the revenue gain will be gone. So, we really can't depend on the revenue gain from that provision in the long run.

The second area is consumer interest - as he mentioned before, it is extremely easy to get around the rules. Homeowners can get around the rules very easily. Unless they tighten up on the credit cards that people are getting in the mail allowing people to collateralize their home mortgage he said he thought the revenue gain from that interest provision - it can't go to zero because there is a number of people that itemize and do not own homes and there are a number of people that just are not willing to use their homes to collateralize consumer loans - but he did not believe that the revenue gain was going to grow as dramatically as in the first few years.

The third area which is more complicated is capital gains and he said he did want to present a fair case. In the first three years of capital gains there was little disagreement on what the behavioral response was and therefore what the revenue effect was. They had very similar behavioral responses to those used by the State Department of Revenue and those used by the Treasury Dept. and those used by the Joint Committee. In the first few years there is really two pieces to the behavioral response. The first is the acceleration of realizations out of 1987 into 1986. Everyone knows that the capital gain rate was going to go up January 1, 1987 so you want to realize your gains in 1986. That acceleration does provide additional revenue in April of this year so that gives some revenue in 1987. In his numbers earlier, however, he didn't count that revenue for good reason.

In 1987 whatever you accelerated in 1986, you are going to lose. Then in addition, you get hit with a capital gains tax increase in 1987 which forces people not to sell and reduces realizations again. Capital gains tax is a voluntary tax - you don't pay capital gains tax on accruals; you only pay when you decide to sell. It has been documented that when you increase the tax rate on capital gains it tends to lock people in - they will hold onto their assets longer. If you reduce the tax rate they will tend to sell the asset quicker. The reason for that is quite straightforward. There is the bite that gets taken at the time of the transaction and then you have to have an after tax rate of return that's higher than what you would get if you had held onto the stock and higher enough so that it more than pays for that tax bite that you had to pay at the time of selling. There were only two observations as to what happens when you change the capital gains law. There was an observation in 1978 when they increased the capital gains exclusion to 60% and another in 1981 when the top rate was taken from 70 to 50%. The current capital gains change is not similar to those two and that is the problem. In 1978 the regular tax rate was kept constant but the tax rate on capital gains was reduced. They reduced, dramatically, the tax bite when it was cashed in because the rate on gains was reduced. In addition, they left the regular rate where it was so that means they increased the spread on the amount of taxes paid under the alternative investment versus holding onto the asset. In both of those areas - the decisions on capital gains - they went the same way and forced a lot of unlocking and they gained revenue from the capital gain reductions in 1978 - no question about it.

In 1981 - if you look at gains in 1982-83-84 - capital gains have gone through the ceiling. Historically, they have grown 7-8% a year and between 16-20% for the last three or four years. In part, the reason for that is the rate reductions that went in in 1981. They took the top rate down from 70 to 50% - that automatically reduced the tax rate on capital gains - reduced the rate from 28 to 20% so on the first part of this bite that he talked about - the amount that had to be paid at transaction time went down and that induced more realization and more selling and more revenue. There was no change in the exclusion rate at all. So, in 1981 there would be somewhat less of a behavioral response and that is what happened. That is different from the change this time - in 1986. In 1986 the first thing they did was increase the tax rate on capital gains from 20 to 28% or 33% in a lot of cases. That presents realizations but at the same time they took the gap between the tax rate on regular income or the alternative investment and capital gains and that goes the other way because that would argue for people cashing in. You have effects that go in opposite directions in the tax reform act - you have the increase in capital gains rate at the time of transaction which makes people hold onto their assets longer but on the other side you have narrowed the gap between the tax rate paid on gains and the tax rate paid on interest income or portfolio income. That would tend to make people cash out and realize their gains. He said it was a very hard item to estimate. They took kind of a middle-of-the-road approach - for the first three years it is very similar to what the Department of Revenue is using and what the Joint Committee and what the Treasury Department has used. They assumed a reduction in capital gains of about 50-55% in 1986; about 50% in 1987; 35% in 1988 and a flat 30% thereafter.

There are two extremes: one is the Joint Committee on Taxation. While they have a behavioral response similar to this by the time they get out to 1990 and 1991 they argue that there is no behavioral response on the part of the taxpayers at all.

They say that in those years taxpayers will continue to sell assets at the same rate they were selling without the Tax Reform Act of 1986. If that is correct, the capital gain estimate provided here would continue to grow dramatically in 1990 and 1991 and there would be even more windfall than what he is showing for 1988.

The other side of the coin is the National Bureau of Economic Research and they testified about 1 1/2 years ago that changing the capital gains tax rate this way would reduce realizations by so much that you would actually lose revenue from the increase in the rate. The increase would force people to hold onto their assets. If the National Bureau of Economic Research is correct the windfall would be about $10 million less than what has been presented and in 1989 it would be about $20 million less.

Six or seven months ago when they started working for states there was a knee-jerk reaction at the state level to take the top rate down so they could have a response similar to what the federal government had. He saw the problem as the revenue gain from the windfall grows very rapidly in the first two or three years but then starts flattening out for the reasons he described. Capital gains flattens out, the revenue gains from the passive loss provision will disappear and the revenue gains from the interest limitations will flatten out - it will not have the dramatic growth as in the first few years. You take the windfall that the state is going to spend and you target on spending the full amount - the first few years that's fine but then the windfall flattens out in the latter part of the 1980's and early 1990's but the revenue reductions that are in place continue to grow dramatically and down the road you can find yourselves in a very bad budget position.

He pointed out that we have to be careful to try to devise a plan that makes sure that revenue loss that you are producing really matches the timing and the pattern of the revenue gain from the windfall over time and that is critical. He said there is really one problem we have and that is derived from the way the federal tax policy in this particular case was designed. It was designed by having dramatic rate reductions at the top end and at the bottom end, low income relief. Wealthy people were getting a bigger break than the low income people. The way they made the distribution look somewhat more equitable, they put in base broadeners like the capital gains provision and the passive loss provision which raises money from high income taxpayers. Now, what you are going to do is couple to the windfall provisions which are not going to couple to low income relief and you are not going to couple to the rate reductions so all you have left are these provisions that have a definite skewness to them - the provisions that you are coupling to are coming disproportionately from high income taxpayers. With an income of over $100,000 their state tax liability goes up by 70% and it's all because you are coupling to one part of what was a large package - the individual provisions at the federal level were not put together - there was a purpose to the way they structured it and the ultimate purpose was to provide large total tax reductions at the individual level but also to maintain a distributional parity.

He said you have to be very careful when you start selecting provisions or parts of packages. A good example is in elderly and blind where we are not coupled to the redefinition of elderly and blind but a lot of states are. At the federal level they repealed the elderly and blind exemption but they made up for it by additional standard deductions for those same people so they were kind of balanced out. In most states they are coupled to the elderly and blind exemption but not to the standard deduction change so you couple the one provision and then you are out of balance with what was a complete federal act. We don't have that problem but you have to address, somehow, or be aware of, the distributional impact that you are having on the state.

He said he would, hopefully, try to answer some questions from the floor.

QUESTIONS FROM THE FLOOR:

Rep. Asay: His question concerned the students who could no longer be claimed on the parents' return because he also files a return - would those students not now be required to file their return because of that increase in student deduction?

Mr. Vasquez: He said absolutely and that is another example like the elderly and blind where if the state couples, you disallow that personal exemption. It was made up for at the federal level by an increase in the standard deduction but states don't usually couple to the standard deduction at the federal level.

Rep. Raney: In referring to people with income over $100,000 and their tax liability increasing by 70% - somewhere along the line did you note one way or the other whether they were paying a reasonable tax liability before we coupled on the tax reform.

Mr. Vasquez: He said he just defined reasonable as the existing distribution that the state would have under current law. He just wanted to point out the distribution was changing.

Sen. Eck: She addressed the alternative minimum tax and asked if that was down as a negative because we are not coupled with that tax.

Mr. Vasquez: That is correct. The only reason there is an amount in there at all is that there is an increase in the federal income tax paid because of changes in the minimum tax and, therefore, that increases the state deduction and, therefore, lowers state taxes.

Sen. Eck: The Governor's package does address this and she thinks it addresses it by adopting pretty much what the federal is. What kind of impact would that make if we had been coupled.

Mr. Vasquez: He must be proposing a dramatically lower rate than the federal rate. The federal level is 20%. If he is proposing a 20% alternative minimum tax he will get a lot of money.

Dan Bucks: Under the proposal the rates that apply to alternative minimum tax would be the same rates that apply on the regular tax. In other words 4-6-8% graduated rates for individuals and 6% for corporations.

Mr. Vasquez: He said he couldn't tell what it would raise off-hand. It would raise revenue in the first few years but by the time you got out to 1989 it wouldn't raise any money or very little, would be his guess. Primarily, at the federal level the revenue from the alternative minimum tax basically comes from tax shelter types of investments. Eighty-five percent of the money comes from capital gains. Under the alternative minimum tax you have to throw all your capital gains and under prior law you're only taxing 40%. Once you are taxing capital gains fully, and you already have a passive loss provision and limitation on interest deductions in place as part of the coupling of the bill, he would be surprised that a minimum tax provision could raise much money in the out years. He does not know what you would put into base. There would still be a base in the first couple of years but he would assume it would disappear by the late 1980's. There is nothing left to tax, you have gotten rid of all of the abuses.

Sen. Halligan: The average tax increase for Montana would be about 25%. Would that be over the three year period.

Mr. Vasquez: In 1989 it would increase about 25%. In the earlier years it was about 19% in 1987 and in 1988 and 1989 it was fairly flat at 25%.

Rep. Ream: He referred to item 14 on page 29, and said it is the second largest item in terms of decrease in revenue.

Mr. Vasquez: That is because he made a mistake. There are two parts to that item, the first part deals with the federal deductibility issue. You have an increase in the personal exemption at the federal level and, therefore, a decrease in federal tax liability and resulting increase in state liability because the federal deduction is lower. That is about half of that amount. The other half is incorrect. In our simulations he had assumed we were coupled with the federal definition of who qualifies as an exemption. At the federal level they repealed the additional exemption for aged and blind and repealed the college student personal exemption. Of the $9 million in 1988, $4 million of that is really incorrect. That is the revenue gain you would get simply from coupling to the federal definitions of personal exemptions. The remaining $4 million is from the federal deductibility.

Sen. Crippen: You made the statement, as it stands now if the state does nothing, we will increase the average taxpayer in 1988-1989 25% and that will vary. Then you said, if we do something to negate that and zero in on certain areas and certain taxpayers, that would work for a period of time but as the windfall stays flat or starts to reduce, then our revenue in the future will decrease.

Mr. Vasquez: That is possible. All tax provisions have dramatically different rates on gains or losses. The quickest growing revenue losing provision is rate reduction because it grows at the rate of growth of income but as the brackets creep and people go into higher and higher marginal tax rates it has a second growth. As compared to something like a passive loss provision, which, by its very design, will probably go from a very large revenue gainer in 1987, 1988 and 1989, to nothing by 1990. You want to design a package that produces a time flow of revenue losses, that would not outstrip the windfall in the future.

Sen. Crippen: How do you do that.

Mr. Vasquez: There are lots of ways to do that. There is a large spread between the standard deduction in the state and the standard deduction at the federal level, or at least there will be by the time we get up to 1989 or so. There will be a lot of people in Montana that will be paying state taxes and not federal taxes. Increasing the standard deduction is an item where the revenue loss of that goes very slowly over time.

Sen. Crippen: They didn't eliminate the provisions in the code that deal with capital gains. He asked Mr. Vasquez if he knew why they didn't do that.

Mr. Vasquez: There is no question there are people working to get the capital gains change reversed. One of the things that will prevent that from happening, in his opinion, is an inaccurate revenue estimate. The joint committee has a zero behavior response from the change in capital gains, so it is producing big bucks for these guys out in 1990 and 1991. Now, to go in and lobby for a change in capital gains back to the old way, will show a big revenue loss. He does not believe those numbers but as it turns out it is awfully hard to repeal it.

Rep. Ream: Referred to item 14, page 29, and said there is an increase in the personal exemption that comes off before you derive at that conclusion.

Mr. Vasquez: At the federal level which would reduce federal tax liability.

Rep. Ream: It also decreases state liability.

Mr. Vasquez: The state is not coupled to the dollar amount of the personal exemption. If we put aside the coupling effect dealing with the definition of who qualifies for an exemption and looked at the provision as though he had estimated them correctly, all that you would have seen there is at the federal level a dramatic reduction in tax liability, that translates into smaller deductions at the state level. At the state level you are allowed to deduct federal income taxes paid. So, you will have a smaller deduction because your federal tax liability was reduced and that will increase state taxes. If you were coupled to the dollar amount, you would see big negative numbers there.

Rep. Ramirez: One of the things that you mentioned is that you are using basically the economic assumptions that were used in the Governor's budget and even since that budget has been prepared, some of those assumptions have perhaps changed. Also, there are some disagreements, perhaps, about the optimism of those assumptions. My question, if we want you to use some different assumptions on personal income growth, can we get that information from you and if so will it cost us any money. The other thing that is a factor in this and an important factor, is there has been discussion that Montana taxpayers, individual income taxpayers, will do better on their federal income tax liability than people from other states. We will have a reduction because of the make-up of our economy and so on, we will have a fairly substantial deduction on what Montana individual income taxpayers will pay to the federal government. If you take the reduced federal tax with the increased state tax, that this will be pretty much a wash or perhaps a little bit better than a wash.

Mr. Vasquez: The federal information you automatically get, that is part of the document. It does about wash, the reduction in federal liability just about offsets the increase in state liability.

Rep. Ramirez: Do you use separate assumptions for Montana's economy or do you use the same assumptions that the state has given.

Mr. Vasquez: He uses the same for both. The net effect is about a wash.

Rep. Ramirez: Can we get information that shows how that compares in income brackets. If we are going to try to make these rate adjustments and we have to try to balance this out equitably among the taxpayers, we do not want to over react in the future and we want to phase that out in two or three years because we feel some of these changes will diminish over the next couple of years.

Mr. Vasquez: On a pure equity ground you could devise something that would try to have most people as well off as before, on a combination of state and federal liability. Something you may want to think about, and what your competitor states in effect are doing as well, is that the combination state and federal liability will be going down dramatically. There are two considerations, one is the combined state and federal liability and just who the winners and losers are in that combination. The second is what the competitive position of the state is after this bill was enacted. One of the real problems is the effect of state taxation is now magnified from what it used to be in the past.

Rep. Ramirez: He asked Mr. Vasquez to respond to his question on different assumptions.

Mr. Vasquez: If they are relatively minor changes, keeping in mind that appendix A and B is really a first shot until he deals with everyone, it seems to him that would be absolutely within something he would be willing to change.

Rep. Keenan: Are we affecting the same taxpayers with the 1986 reform as we affected in 1980 with ACRS.

Mr. Vasquez: It is just about a perfect reversal. On the equipment side it is very close to a perfect reversal but then on residential buildings it is even tightened up more than that. At the federal level, for equipment, they repealed the investment tax credit and tightened up on the depreciation, but having repealed the investment tax credit they couldn't go too far with depreciation. They still needed money and where they got the money from was residential property and apartment buildings and office buildings. There is somewhat of a change in the mix. It is not as good as ACRS but somewhere in between.

Sen. Crippen: We have discussed what different states are doing on the windfall and there seems to be a tendency, at least with the larger states, to return all the windfall back to the state taxpayers and the smaller states, and Montana would be in that category, that are hurting more economy wise, would have more of a tendency to keep the windfall. He asked Mr. Vasquez if he had any figures on that.

Mr. Vasquez: Almost all the states now are in deliberations. The biggest state in terms of windfall, New York State, can't really decide what the windfall is at this point. He does not think it is a big state, small state issue, it really is whether or not the state is financially sound as to whether they are returning the windfall or not.

Senator Eck: Going back to the exemption for the blind and aged, by cutting that exemption and adding the extra standard deduction, is that pretty much a wash at the federal.

Mr. Vasquez: It is and it isn't. The notion at the federal level was that there was a bunch of provisions, like the elderly and blind, that were really designed in their inception to provide low income relief. So if you were elderly and blind and had low income, you would have some tax deduction. The policy makers in the joint committee decided that was a fine idea and there should be some allowance for those people. But if there is an elderly person that is making $200,000 a year, that person shouldn't get an extra exemption just because he is elderly. It should be given to the elderly poor. The best way to do that from a revenue point of view, is to get rid of the exemption and put it in a standard deduction because anyone who is making $200,000 a year is an itemizer and they get no standard deduction benefit. For low income elderly, they are as well off as they were before. For high income there is a tax increase but that was by design.

Rep. Ramirez: He asked if Mr. Vasquez would review Appendix B so the committee can see how some of the different category levels are affected by these changes.

Mr. Vasquez: He would like to describe the output of the table first so that people will understand what we are looking at. Early on he described that we compute federal tax liability and state tax liability. This is a table that is just for the state liability and there are two separate pages that appear for each single provision. We estimate nineteen different provisions and then there is this twentieth run and in that run he put current law, what the tax liability would have been before the Tax Reform Act of 1986, and then he put all of the proposals in the simulation. The difference we are looking at in this table, attached as Exhibit 1, is going all the way from pre-Tax Reform Act of 1986 all the way to all of the provisions being in place. Under income classifier he used the federal income definition. That has two meanings to it. First of all it means that to the extent that the state isn't coupled on some items, we nonetheless used federal definitions of income. This is defined for people under current law 1989. Suppose that you have someone with passive losses, so he has tax shelter losses. His losses may be so large that he really has negative income. His AGI would be negative and that is the class he would show up on in this table, even though we know he is very wealthy. The second thing to keep in mind is in the state you allow joint returns of married couples to split. They have an option of splitting or they can take the second earner deduction, either one. In the information that is released by your state, you count each one of the spouses as a separate tax return. If, for example, you have a couple making $40,000, one made $10,000 and the other $30,000, you would show two returns and put one in the $10,000 class and one in the $30,000 class. What he does for purposes of this table, is that even though he computes the tax liability separately for each of those individuals, as holds under the state law, when it is all done he adds everything back up together and they are shown in the $40,000 income class in this table. They are under federal AGI and not state AGI. Their classification is Plan X AGI, which means in this particular case, current law. He reviewed the table with the committees.

Rep. Keenan: She is curious as to whether he believes that Montana behavioral responses were parallel on the federal level.

Mr. Vasquez: They were necessarily in the aggregate but he would argue that if he had a Montanan who is making $200,000 of income and he has $50,000 in capital gains and is situated identically as someone in another state, that his capital gain response would be very close to someone in another state. The fact is there may be more or fewer of those people in Montana than there is in other states. You may find that in the aggregate the response of Montana may be different than what he would find. But for each individual, he would argue that the behavior would be the same.

Rep. Keenan: Does the Federal Tax Reform change the progressivity in effective tax rates at the federal level.

Mr. Vasquez: A little bit. I'm hedging because it depends a lot on what you think the behavioral response is to capital gains. If you believe, in the long run, that there is no behavior response, then you have at the federal level given a bigger tax reduction at the lower end than you have at the top end. If you belive there is a significant behavior response then it is pretty even up and down the line. You have cut taxes pretty much the same, with perhaps a touch more at the top end than at the bottom end. At the state level it is entirely different. You are just taking one part of the federal package, you are not taking the rate reductions. You are altering the distribution of tax liability pay and that is an important consideration. You are not changing your marginal tax rate, so the incentives the tax system is providing the people isn't affected as much as if you were increasing the marginal rate. You want to split those two issues, whether or not you are having people pay more taxes and altering the income distribution, as opposed to changing the inherent incentives of the system, which would be to take the marginal tax rate out. He would have a whole different view of the system that alters the distribution of taxes paid if in one hand you did it by changing marginal rates and in the other hand you did it by income tax base broadening. This is a less severe way of doing it than with tax rates, because then you effect the marginal incentive for that additional dollar of income or additional hour of work and that can have lasting effects.

Sen. Crippen: Let's say that you have a state plan to take the windfall, the $48 million, and you want the plan to be revenue neutral as much as you can for a majority of the taxpayers from within the state. It seems to him you obviously would have to do something with the upper tax brackets, because of the numbers.

Mr. Vasquez: That is right. If the notion is to have a resulting distribution of tax liability that matches the one that you started with, then you do have to reduce rates at the top end more dramatically than at the middle or the bottom.

Sen. Crippen: If you want to have the $48 million you have to have that paid by somebody. If you want to give the greatest relief to the largest number of people but you still want the $48 million, where will the $48 million fall.

Mr. Vasquez: That is a tough question. It is not doable.

Sen. Crippen: Let's say I will go along with the federal tax reform and the only thing I will do in the state is take a percentage. So the deductions or lack of deductions would be identical to federal.

Mr. Vasquez: Your scheme would take the federal liability and multiply it by something. That doesn't help you out of this problem. If you did that and continued to raise the $47 million you would be hitting the identical people that you are hitting here.

Sen. Crippen: Who are those people.

Mr. Vasquez: People with large medical deductions, with dividends, and unemployment compensation.

Sen. Crippen: What about retirement benefits.

Mr. Vasquez: He said he is stumbling with the question because he doesn't have the answer on the plan that he is making. He could produce a computer run that would estimate that.

ADJOURNMENT: The meeting adjourned at 10:35 A.M.

George McCallum
SENATOR GEORGE McCALLUM, Chairman

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ah

ROLL CALL

TAXATION COMMITTEE

50th LEGISLATIVE SESSION -- 1987 Date 2-9-87

NAME	PRESENT	ABSENT	EXCUSED
SENATOR CRIPPEN	✓		
SENATOR NEUMAN	✓		
SENATOR SEVERSON	✓		
SENATOR LYBECK	✓		
SENATOR HAGER	✓		
SENATOR MAZUREK	✓		
SENATOR ECK	✓		
SENATOR BROWN	✓		
SENATOR HIRSCH	✓		
SENATOR BISHOP	✓		
SENATOR HALLIGAN, VICE CHAIRMAN	✓		
SENATOR McCALLUM, CHAIRMAN	✓		

Each day attach to minutes.

DAILY ROLL CALL

HOUSE TAXATION COMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date 2-9-87

NAME	PRESENT	ABSENT	EXCUSED
REP. RAMIREZ	✓		
REP. ASAY	✓		
REP. ELLISON	✓		
REP. GILBERT	✓		
REP. HANSON	✓		
REP. HARP	✓		
REP. HARRINGTON		✓	
REP. HOFFMAN	✓		
REP. KEENAN	✓		
REP. KOEHNKE	✓		
REP. PATTERSON	✓		
REP. RANEY	✓		
REP. REAM	✓		
REP. SANDS	✓		✓ arrived late
REP. SCHYE	✓		
REP. WILLIAMS	✓		

House Taxation/
SENATE TAXATION
EXHIBIT NO. 1
DATE 2-9-87
BILL NO. Joint Hearing

Policy Economics Group Personal [illegible]

STATE TAX LIABILITY FOR [illegible]

Plan X: CURRENT 1989 LAW

Income Classification [illegible]

Plan Y: CONFERENCE BILL
ALL PROPOSALS

Data for: FEDERAL FILERS ONLY
1989 Levels of Income

INCOME CLASS (DOLLARS)	NUMBER OF RETURNS SAMPLE (UNITS)	NUMBER OF RETURNS AGGREGATE (000'S)	TAXABLE RETURNS PLAN X (000'S)	TAXABLE RETURNS PLAN Y (000'S)	ADJUSTED GROSS INCOME PLAN X ($ MIL)	ADJUSTED GROSS INCOME PLAN Y ($ MIL)	ADJUSTED GROSS INCOME CHANGE ($ MIL)	TAXABLE INCOME PLAN X ($ MIL)	TAXABLE INCOME PLAN Y ($ MIL)	TAXABLE INCOME CHANGE ($ MIL)
######## < 5000	374	54.8	24.6	28.6	-132.3	-100.4	31.9	35.2	65.0	30.8
5000 < 10000	226	56.7	50.0	51.3	383.6	401.4	17.7	186.7	221.9	35.3
10000 < 15000	162	48.3	34.3	34.3	547.1	570.6	23.4	223.9	259.1	35.2
15000 < 20000	125	39.1	34.1	35.4	610.0	637.0	27.0	353.9	389.1	35.2
20000 < 30000	198	57.8	52.8	54.6	1278.7	1318.8	40.1	694.3	802.8	108.5
30000 < 50000	228	64.2	63.0	63.0	2215.5	2286.1	70.6	1376.0	1529.9	153.9
50000 < 100000	196	21.9	21.5	21.6	1197.1	1285.0	87.9	756.3	879.4	123.1
100000 < 200000	119	2.5	2.4	2.5	288.1	344.8	56.7	177.3	240.0	62.7
200000 <#######	71	.3	.3	.3	115.4	173.1	57.7	52.4	112.8	60.4
TOTALS	1699	345.6	282.9	291.6	6503.2	6916.4	413.3	3855.9	4501.0	645.1

INCOME CLASS (DOLLARS)	ITEMIZED RETURNS PLAN X (000'S)	ITEMIZED RETURNS PLAN Y (000'S)	DEDUCTIONS PLAN X ($ MIL)	DEDUCTIONS PLAN Y ($ MIL)	EXEMPTIONS PLAN X ($ MIL)	EXEMPTIONS PLAN Y ($ MIL)	STATE TAX CREDITS PLAN X ($ MIL)	STATE TAX CREDITS PLAN Y ($ MIL)	MINTAX PLAN X ($ MIL)	MINTAX PLAN Y ($ MIL)
######## < 5000	10.2	11.9	28.7	35.5	41.9	20.5	.0	.0	0.0	0.0
5000 < 10000	7.5	11.2	102.9	107.0	94.1	72.4	.2	.2	0.0	0.0
10000 < 15000	25.9	26.5	223.2	226.4	100.5	85.5	2.8	2.8	0.0	0.0
15000 < 20000	23.8	20.8	189.5	189.4	88.0	78.8	1.9	1.6	0.0	0.0
20000 < 30000	48.7	47.1	416.6	357.2	176.8	166.4	1.3	.7	0.0	0.0
30000 < 50000	62.4	58.8	636.1	556.9	208.7	203.5	.9	.6	0.0	0.0
50000 < 100000	21.9	21.9	371.0	338.6	78.0	75.0	1.4	.9	0.0	0.0
100000 < 200000	2.5	2.5	102.4	97.4	8.8	7.7	.4	.1	0.0	0.0
200000 <#######	.3	.3	61.8	59.2	1.2	1.0	.0	.0	0.0	0.0
TOTALS	203.1	201.1	2132.1	1967.8	798.0	710.9	9.1	7.0	0.0	0.0

INCOME CLASS (DOLLARS)	TAX (POSITIVE PORTION) PLAN X ($ MIL)	TAX (POSITIVE PORTION) PLAN Y ($ MIL)	TAX (POSITIVE PORTION) CHANGE ($ MIL)	OUTLAYS (NEGATIVE PORTION) PLAN X ($ MIL)	OUTLAYS (NEGATIVE PORTION) PLAN Y ($ MIL)	OUTLAYS (NEGATIVE PORTION) CHANGE ($ MIL)	TAX (NET OF OUTLAYS) PLAN X ($ MIL)	TAX (NET OF OUTLAYS) PLAN Y ($ MIL)	TAX (NET OF OUTLAYS) CHANGE ($ MIL)
######## < 5000	.7	2.0	1.2	0.0	0.0	0.0	.7	2.0	1.2
5000 < 10000	5.2	6.5	1.3	-.2	-.2	0.0	5.1	6.3	1.3
10000 < 15000	6.9	7.9	1.0	-2.2	-1.8	.4	4.7	6.0	1.4
15000 < 20000	13.1	15.1	2.0	-.4	-.4	0.0	12.8	14.8	2.0
20000 < 30000	28.5	34.7	6.2	0.0	0.0	0.0	28.5	34.7	6.2
30000 < 50000	70.3	82.3	12.0	-.0	0.0	.0	70.3	82.3	12.0
50000 < 100000	44.7	55.4	10.8	-.1	-.0	.0	44.6	55.4	10.8
100000 < 200000	13.4	19.9	6.5	0.0	0.0	0.0	13.4	19.9	6.5
200000 <#######	5.0	11.5	6.5	0.0	0.0	0.0	5.0	11.5	6.5
TOTALS	187.8	235.3	47.5	-2.8	-2.4	.4	185.0	232.9	47.9

FRI., 6 FEB., 1987 5:47 PM ** Run 920

House Taxation/
SENATE TAXATION
EXHIBIT NO. 1
DATE 2-9-87
BILL NO. Joint Hearing

Policy Economics Group Person[illegible]

STATE TAX LIABILITY FOR: [illegible]

Plan X: CURRENT 1989 LAW

Income Classifiers: [illegible]

Plan Y: CONFERENCE BILL
ALL PROPOSALS

Data for: FEDERAL FILERS ONLY
1989 Levels of Income

INCOME CLASS (DOLLARS)	NUMBER OF RETURNS SAMPLE (UNITS)	NUMBER OF RETURNS AGGREGATE (000'S)	TAXABLE RETURNS PLAN X (000'S)	TAXABLE RETURNS PLAN Y (000'S)	ADJUSTED GROSS INCOME PLAN X ($ MIL)	ADJUSTED GROSS INCOME PLAN Y ($ MIL)	ADJUSTED GROSS INCOME CHANGE ($ MIL)	TAXABLE INCOME PLAN X ($ MIL)	TAXABLE INCOME PLAN Y ($ MIL)	TAXABLE INCOME CHANGE ($ MIL)
######## (5000	374	54.8	24.6	28.6	-132.3	-100.4	31.9	35.2	66.0	30.8
5000 (10000	226	56.7	50.0	51.3	383.6	401.4	17.7	186.7	221.9	35.3
10000 (15000	162	48.3	34.3	34.3	547.1	570.6	23.4	223.9	259.1	35.2
15000 (20000	125	39.1	34.1	35.4	610.0	637.0	27.0	353.9	389.1	35.2
20000 (30000	198	57.8	52.8	54.6	1278.7	1318.8	40.1	694.3	802.8	108.5
30000 (50000	228	64.2	63.0	63.0	2215.5	2286.1	70.6	1376.0	1529.9	153.9
50000 (100000	196	21.9	21.5	21.6	1197.1	1285.0	87.9	756.3	879.4	123.1
100000 (200000	119	2.5	2.4	2.5	288.1	344.8	56.7	177.3	240.0	62.7
200000 (#######	71	.3	.3	.3	115.4	173.1	57.7	52.4	112.8	60.4
TOTALS	1699	345.6	282.9	291.6	6503.2	6916.4	413.3	3855.9	4501.0	645.1

INCOME CLASS (DOLLARS)	ITEMIZED RETURNS PLAN X (000'S)	ITEMIZED RETURNS PLAN Y (000'S)	DEDUCTIONS PLAN X ($ MIL)	DEDUCTIONS PLAN Y ($ MIL)	EXEMPTIONS PLAN X ($ MIL)	EXEMPTIONS PLAN Y ($ MIL)	STATE TAX CREDITS PLAN X ($ MIL)	STATE TAX CREDITS PLAN Y ($ MIL)	MINTAX PLAN X ($ MIL)	MINTAX PLAN Y ($ MIL)
######## (5000	10.2	11.9	28.7	35.5	41.9	20.5	.0	.0	0.0	0.0
5000 (10000	7.5	11.2	102.9	107.0	94.1	72.4	.2	.2	0.0	0.0
10000 (15000	25.9	26.5	223.2	226.4	100.5	85.5	2.8	2.8	0.0	0.0
15000 (20000	23.8	20.8	189.5	189.4	88.0	78.8	1.9	1.6	0.0	0.0
20000 (30000	48.7	47.1	416.6	357.2	176.8	166.4	1.3	.7	0.0	0.0
30000 (50000	62.4	58.8	636.1	556.9	208.7	203.5	.9	.6	0.0	0.0
50000 (100000	21.9	21.9	371.0	338.6	78.0	75.0	1.4	.9	0.0	0.0
100000 (200000	2.5	2.5	102.4	97.4	8.8	7.7	.4	.1	0.0	0.0
200000 (#######	.3	.3	61.8	59.2	1.2	1.0	.0	.0	0.0	0.0
TOTALS	203.1	201.1	2132.1	1967.8	798.0	710.9	9.1	7.0	0.0	0.0

INCOME CLASS (DOLLARS)	TAX (POSITIVE PORTION) PLAN X ($ MIL)	TAX (POSITIVE PORTION) PLAN Y ($ MIL)	TAX (POSITIVE PORTION) CHANGE ($ MIL)	OUTLAYS (NEGATIVE PORTION) PLAN X ($ MIL)	OUTLAYS (NEGATIVE PORTION) PLAN Y ($ MIL)	OUTLAYS (NEGATIVE PORTION) CHANGE ($ MIL)	TAX (NET OF OUTLAYS) PLAN X ($ MIL)	TAX (NET OF OUTLAYS) PLAN Y ($ MIL)	TAX (NET OF OUTLAYS) CHANGE ($ MIL)
######## (5000	.7	2.0	1.2	0.0	0.0	0.0	.7	2.0	1.2
5000 (10000	5.2	6.5	1.3	-.2	-.2	0.0	5.1	6.3	1.3
10000 (15000	6.9	7.9	1.0	-2.2	-1.8	.4	4.7	6.0	1.4
15000 (20000	13.1	15.1	2.0	-.4	-.4	0.0	12.8	14.8	2.0
20000 (30000	28.5	34.7	6.2	0.0	0.0	0.0	28.5	34.7	6.2
30000 (50000	70.3	82.3	12.0	-.0	0.0	.0	70.3	82.3	12.0
50000 (100000	44.7	55.4	10.8	-.1	-.0	.0	44.6	55.4	10.8
100000 (200000	13.4	19.9	6.5	0.0	0.0	0.0	13.4	19.9	6.5
200000 (#######	5.0	11.5	6.5	0.0	0.0	0.0	5.0	11.5	6.5
TOTALS	187.8	235.3	47.5	-2.8	-2.4	.4	185.0	232.9	47.9

Policy Economics Group Personal Income Tax Model

DISTRIBUTION OF STATE TAX CHANGE AND NUMBER OF RETURNS AFFECTED FOR MONTANA

Plan X: CURRENT 1989 LAW — Income Classifier: FEDERAL PLAN X AGI

Plan Y: CONFERENCE BILL
ALL PROPOSALS — Data for: ALL RETURNS
1989 Levels of Income

INCOME CLASS	PRESENTLY TAXABLE RETURNS MADE NONTAXABLE		PRESENTLY NONTAXABLE RETURNS MADE TAXABLE		RETURNS WITH A CHANGE IN TAX LIABILITY: TAX DECREASES		RETURNS WITH A CHANGE IN TAX LIABILITY: TAX INCREASES		RETURNS WHICH CHANGED THEIR TYPE OF DEDUCTION	
(DOLLARS)	NUMBER OF RETURNS (UNITS)	AMOUNT OF TAX DECREASE ($ MIL)	NUMBER OF RETURNS (UNITS)	AMOUNT OF TAX INCREASE ($ MIL)	NUMBER OF RETURNS (UNITS)	AMOUNT OF TAX DECREASE ($ MIL)	NUMBER OF RETURNS (UNITS)	AMOUNT OF TAX INCREASE ($ MIL)	NUMBER OF RETURNS (UNITS)	AMOUNT OF TAX CHANGE ($ MIL)
######## (5000	0.	0.000	130.	.001	0.	0.000	893.	.013	403.	.001
5000 (10000	0.	0.000	1230.	.027	0.	0.000	4101.	.127	0.	0.000
10000 (15000	0.	0.000	0.	0.000	631.	-.040	20769.	.918	0.	0.000
15000 (20000	0.	0.000	1292.	.196	0.	0.000	22086.	1.638	4080.	.063
20000 (30000	0.	0.000	1635.	.086	0.	0.000	46213.	5.829	2223.	.342
30000 (50000	0.	0.000	68.	.117	51.	-.000	61447.	11.930	3912.	.399
50000 (100000	0.	0.000	90.	1.372	0.	0.000	21929.	10.786	55.	.060
100000 (200000	0.	0.000	80.	2.230	0.	-.000	2473.	6.459	0.	0.000
200000 (########	0.	0.000	17.	1.415	15.	-.005	275.	6.537	0.	0.000
ITEMIZE, Total	0.	0.000	4540.	5.445	697.	-.045	180187.	44.236	10592.	.866
######## (5000	0.	0.000	3535.	.712	0.	0.000	21723.	1.212	2161.	.656
5000 (10000	0.	0.000	142.	.005	0.	0.000	27449.	1.150	3790.	.207
10000 (15000	0.	0.000	0.	0.000	83.	-.001	8290.	.496	686.	.031
15000 (20000	0.	0.000	0.	0.000	88.	-.001	5843.	.379	1044.	.039
20000 (30000	0.	0.000	0.	0.000	0.	0.000	5366.	.360	625.	.044
30000 (50000	0.	0.000	0.	0.000	0.	0.000	754.	.070	306.	.005
50000 (100000	0.	0.000	0.	0.000	0.	0.000	0.	0.000	0.	0.000
100000 (200000	0.	0.000	0.	0.000	0.	0.000	0.	0.000	0.	0.000
200000 (########	0.	0.000	0.	0.000	0.	0.000	0.	0.000	0.	0.000
NON-ITEMIZE, Total	0.	0.000	3677.	.717	171.	-.001	69425.	3.667	8611.	.981
######## (5000	0.	0.000	3665.	.713	0.	0.000	22617.	1.224	2564.	.657
5000 (10000	0.	0.000	1371.	.032	0.	0.000	31551.	1.277	3790.	.207
10000 (15000	0.	0.000	0.	0.000	714.	-.040	29059.	1.414	686.	.031
15000 (20000	0.	0.000	1292.	.196	88.	-.001	27929.	2.017	5043.	.102
20000 (30000	0.	0.000	1635.	.086	0.	0.000	51579.	6.189	2847.	.386
30000 (50000	0.	0.000	68.	.117	51.	-.000	62200.	12.000	4217.	.404
50000 (100000	0.	0.000	90.	1.372	0.	0.000	21929.	10.786	55.	.060
100000 (200000	0.	0.000	80.	2.230	0.	-.000	2473.	6.459	0.	0.000
200000 (########	0.	0.000	17.	1.415	15.	-.005	275.	6.537	0.	0.000
ALL RETURNS, Total	0.	0.000	8217.	6.162	868.	-.046	249612.	47.903	19203.	1.847

IMPACT OF THE TAX REFORM ACT OF 1986 ON MONTANA RESIDENTS

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IMPACT OF THE TAX REFORM ACT OF 1986
ON MONTANA RESIDENTS

Appendix B

Changes in State Tax Liability
Under Current Montana Law