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Study says state taxes poor more

By CHARLES S. JOHNSON IR State Bureau | Posted: Friday, November 20, 2009 12:00 am

Montana low-and middle-income families pay a larger share of their income in state and local taxes, on average, than do the state's richest households, a new national study concludes.

The Institute on Taxation and Economic Policy, Washington, D.C., research group, analyzed tax structures of the 50 states in a study released this week.

"No one would ever design an income tax with lower tax rates for the best-off taxpayers," said Matthew Gardner, the institute's executive director. "But that is exactly what Montana's tax system overall does....In other words, Montana has an unfair, regressive tax system."

The study divided non-elderly Montana family taxpayers into categories, by income, using 2007 data.

It found the lowest fifth of Montanans by income — those making less than \$16,000 annually — paid on average 6.1 percent of their income in income, property and sales and excise taxes. Their average income was \$8,700 a year.

It rose to 6.2 percent for middle-class families with annual incomes between \$31,000 and \$47,000 a year and average annual incomes of \$37,500.

Yet the highest 1 percent of families, with at least \$434,000 in annual incomes, paid 5.5 percent. This group's income averaged nearly \$1.1 million annually.

Montana's ranking slipped from the institute's 2002 study in part because of a major tax overhaul proposed by Republican Gov. Judy Martz and approved by the 2003 Legislature to lower state income-tax rates and offer tax credits on capital gains.

A 2006 Revenue Department analysis, done by the administration of Democratic Gov. Brian Schweitzer, said these 2003 changes cost the state treasury \$100 million in lost income during their first full year, with taxpayers whose incomes topped \$500,000 receiving 47 percent of the benefit.

State Revenue Director Dan Bucks said the newest study fails to examine the overall level of state taxes.

"Montana always comes out well in those rankings," he said. "Governor Schweitzer has opposed and prevented any state increases in his tenure."

He questioned whether the study included the one-time \$400 property-tax rebate given in 2007 to Montana homeowners and the administration's attempts to collect taxes owed by nonresidents and businesses. Both would cut the percentages on middle-to-low income families

"Even with the fact that Montana has slipped a bit, largely because of (the 2003 law), we're still more progressive than the average state because of the absence of a general sales tax," Bucks said.

Mary Whittinghill, president of the private Montana Taxpayers Association, questioned the latest study and instead cited a 2007 study by the District of Columbia. It found Montana's tax burden for a family of four with an annual income of \$25,000 dropped to the 48th lowest nationally in 2007 from 38th in 1999.

Whittinghill defended the 2003 tax changes, saying the Montana rates were lowered to encourage wealthy people to move here and create jobs.

Tara Veazey, who heads the Montana Budget and Policy Center, said the study provides good information for legislators. She said the center hopes as lawmakers consider revamping Montana's taxes, "they do so in a way that both ensures adequate revenue for important state and local functions and also reduces the disproportionate burden placed on Montana's low- and middle-income families."

A study by another Washington group recently said Montana is one of only a few states to levy taxes on the working poor.