

MARRIED TAX FILERS: HIGHLIGHTS FROM 2007 AND 2010

A Report Prepared for the
Revenue & Transportation Interim Committee

By
Stephanie Morrison, Ph. D.

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Legislative Fiscal Division



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REVENUE/TRANS INTERIM COMMITTEE
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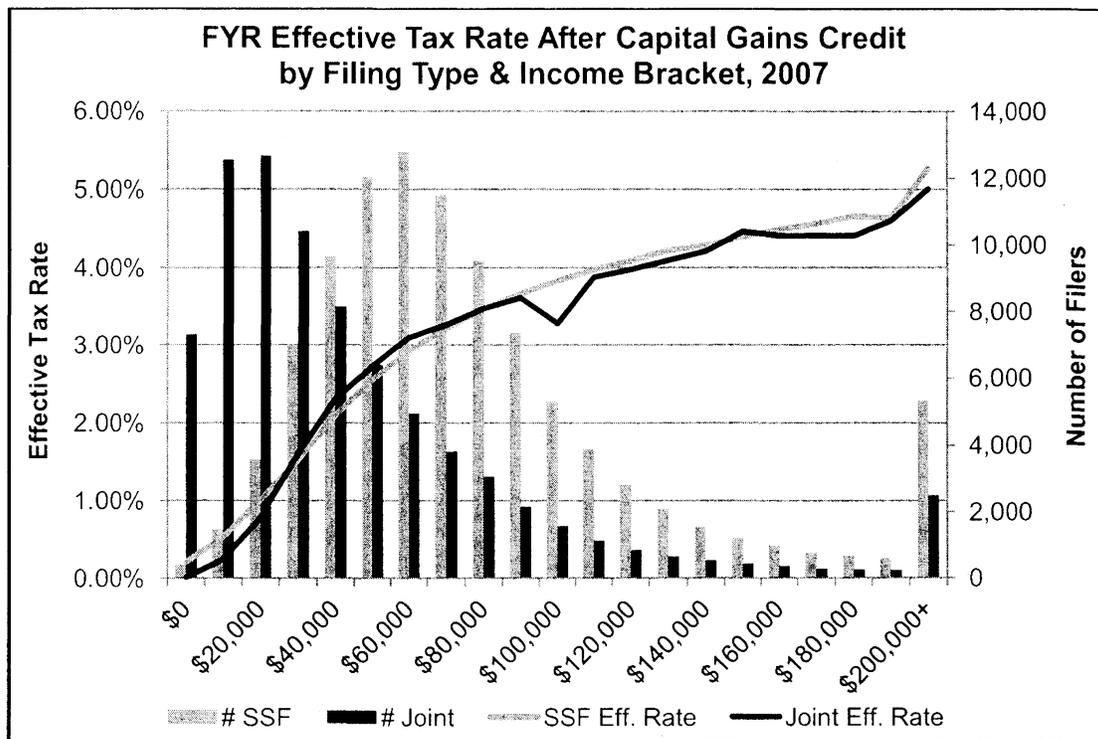
INTRODUCTION

This brief review of married tax filers who file jointly or separately on the same form is a part of the analysis for SJR 13 study of individual income tax. Information regarding the filing choices of Montana married tax filers is frequently requested; attached to this report is the Department of Revenue (DOR) analysis of the impact of requiring or providing an incentive for married taxpayers to use the same filing status for state tax returns as federal tax returns. Although the analysis in that report was based on tax year 2007 data, the report's conclusions of winners and losers under various policy choices is likely consistent with results based more recent data. The DOR report was presented to the Revenue and Transportation Interim Committee on September 18, 2009.

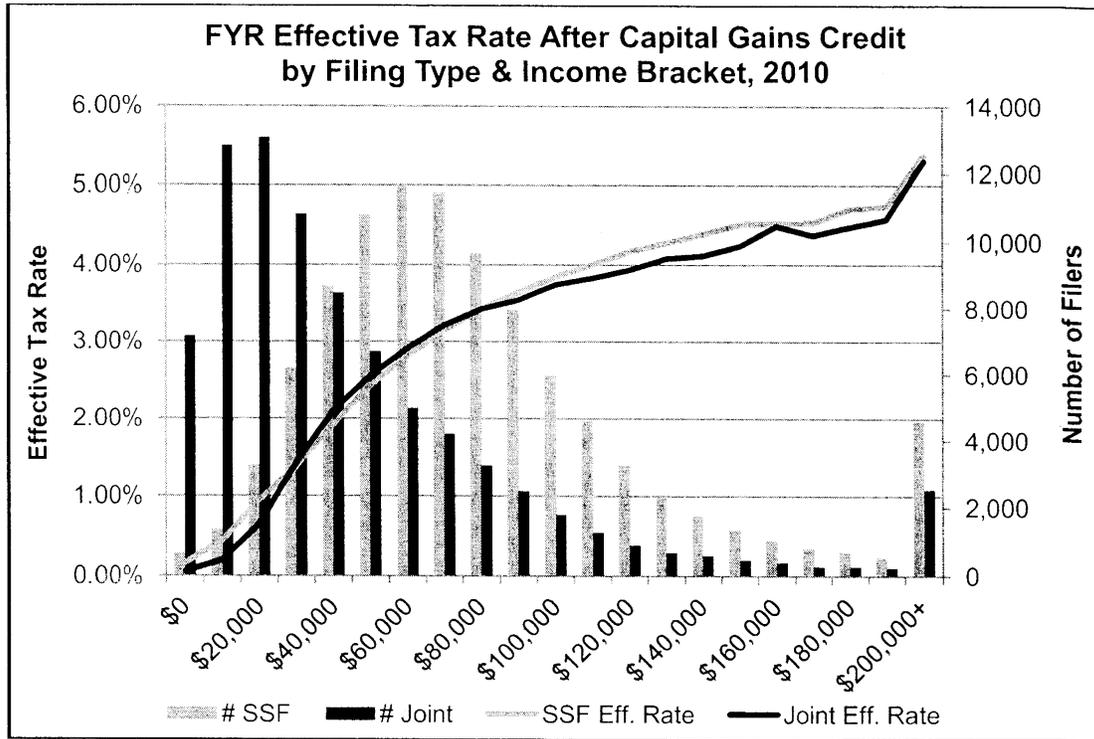
EFFECTIVE RATES BY FILING TYPE AND INCOME BRACKET

The graphs below compare full year resident (FYR) effective tax rates and filing behavior by income bracket for joint filers and separate same form (SSF) filers. The lines depict the average effective rate after the capital gains credit, and correspond to the left axis. The histograms depict the number of filers per income bracket, and correspond to the right axis.

2007 Data



2010 Data



FROM THE DEPARTMENT OF REVENUE REPORT

Federal income tax rates are structured so that married couples with the same taxable income have the same taxes whether they file a joint return or separate returns. Montana rates and exemptions are structured so that most two-income couples have lower taxes if they file separate returns.

Eliminating the incentive for married couples to file separately would require having different rate tables for joint and separate filers, with the brackets in the joint-filer table being twice as wide as the brackets in the separate-filer table. Creating a new rate table for joint filers with rate brackets twice as wide as the existing rate table's would reduce taxes for couples who file joint returns under current law, and reduce general fund revenue (by about \$40 million as of 2009).

Creating a new rate table for separate filers with rate brackets half as wide as the existing rate table's would increase taxes for couples who file separate returns under current law, and increase general fund revenue (by about \$40 million as of 2009).

A revenue-neutral change would require new rate tables for both joint and separate filers and would result in higher taxes for some taxpayers and lower taxes for others.