The Policy Institute

"Good Bills Given Little Consideration in the 2011 Legislature"

By Molly Severtson, Executive Director

June 17, 2011

The Policy Institute blends authoritative research and hands-on political engagement to create public policy based on economic justice, fair taxation, corporate accountability and environmental responsibility.

Now that the dust has settled from the 2011 Montana Legislature, it is appropriate to look beneath the surface of the session – beyond the headline-grabbing bills: the spear-hunting bill, the nullification bills and the bill that would have ended the Endangered Species Act in Montana – to look at a couple of bills that were really good ideas, but were given little consideration during the session.

One of these bills was Senate Bill 398, introduced by Sen. Christine Kaufmann of Helena, which would have increased the progressivity of Montana's income tax system by adding a high-income tax bracket to the tax code. As it stands, Montana's income tax rates are almost flat, with a tiny bit of progressivity at the bottom end, meaning that a family with a taxable income of $14,000 a year pays the same tax rate (6.9%) as a family with a taxable income of $4 million a year. Montana is also one of the only states in the nation which taxes families living in poverty (6% for those with a taxable income of $3,000 a year).

Sen. Kaufmann's bill would have increased the tax rate on taxable income of $250,000 a year and more to 11%. This change in the tax code would have brought in more than $80 million a year starting in fiscal year 2013.

The idea that progressivity – or ability to pay – is inherently the fairest type of tax system is an idea that goes back millennia, including the Biblical story of the widow's mite. The idea behind supporting a progressive system is this: For a family making $20,000 a year, it is much harder to give up say 5% of their income – or $1,000 – than it is for a family making $300,000 a year to give up the same percentage of their income because their basic needs – and then some – are already being met. Therefore, it is fair to tax people at an increasing percentage in accordance with their income. The impact of each of the different tax rates on those families will be felt in much the same way, making the system fair.

It is also true that high-income people benefit at a higher level from the social infrastructure supported by a stable tax system, including public safety and public roads. If you own a profitable business on a busy street, you benefit at a higher level from people being able to access your business than someone who simply uses the same road to drive to a modest-paying job. It is to your great benefit that the road be maintained, and so it follows that you should contribute a higher percentage of your income to support it.

These are important issues that should be debated by our representatives in the legislature. But while the spear-hunting bill was passing out of the Fish and Game Committee 7-3 and passing 2nd and 3rd readings in the Senate, passage of SB 398 was never even voted on in the Senate Taxation Committee, let alone debated on the Senate or House Floors.

Another bill worthy of careful consideration was Sen. Mary Caferro's Senate Bill 360, a bill that would have enacted a refundable, state-level earned income tax credit – or EITC – in Montana. Republican hero President Ronald Reagan is often quoted as touting the federal EITC as, "the best anti-poverty, the best pro-family, the best job-creation measure to come out of Congress."

As structured in SB 360, a state EITC in Montana would have cost the state about $33 million per year, less than half of what SB 398 would have brought in. In addition, studies have shown that low-income families typically put their EITC right back into the local economy, paying a month's rent, buying groceries or making a needed car repair.

Initiatives to enact EITCs have often been met with bi-partisan support in other states, and in the 2009 Montana Legislature, an EITC bill passed out of the House of Representatives with Republican support, but in this session, just like SB 398, SB 360 got very little consideration in the Senate Taxation Committee. The bill was tabled on March 12 and died in committee.

Undoubtedly, the topic of tax fairness is complex and should be vigorously debated. Several important principals are related to tax fairness, including the equity of a tax system (whether or not it treats those at the same income levels and different income levels fairly), the simplicity of a tax system (whether or not it allows excessive loopholes and is understandable) and a tax system's exportability (the extent to which the system taxes out-of-state individuals and businesses which benefit from the state's infrastructure).

The knee-jerk reaction of many legislators, especially those on the far-right end of the political spectrum, is a continual cry for lower taxes in the name of economic development despite the fact that reliable studies have consistently shown that state tax rates have little effect on business decisions. However, the quality of a state's infrastructure has been shown to have a large effect on such decisions, and the state's infrastructure – its roads, its public safety, its educated workforce – are all supported by a strong, stable tax system.

Overall, this legislative session was mostly one of defense for progressive taxation advocates, and the hard work of many people prevented many bad bills from passing. But the time taken to debate the legitimacy of bills Gov. Schweitzer called "frivolous," "silly," and "just bad ideas," took time from serious bills that deserved serious debate and serious consideration including Senate Bills 398 and 360.