

TAXATION SUBCOMMITTEE
HOUSE BILL 3

Rep. Edward Lien, chairman of the subcommittee on HB 3, called the meeting to order at 3:00 p.m., in room 428A, Capitol Building, Helena, on January 27, 1977. Representatives Steve Waldron and Harrison Fagg were present. This meeting was called for additional information and consideration. Ann Mary Dussault, sponsor of this bill, asked Senator Watt to speak on it.

Keith Anderson, President of Montana Taxpayers Association, Helena, handed out Exhibits A, B, C explaining the way they see this bill would affect incomes of varying amounts. Under exhibit B, rates to provide replacement revenue from loss of property tax would be 8.65%; under Exhibit C, the rate would be 6.70%. The question of how this tax would be replaced should there be no income during times of depression was raised. The income figures shown on these exhibits is estimated at 2½ times the income necessary for a residence costing that amount. This is a gross income tax.

Sen. Watt didn't agree with Anderson's figures. John LaFaver, fiscal analyst for the legislative auditor's office, had prepared figures on the income that might be generated from this proposed tax, and had arrived at 1.3%; and after pulling out all social security and military disability payments, a 1.79% figure. So it would be quite possible to make other exemptions from this tax and still come up with not more than 2%.

William Groff, Director of the DOR, handed out Exhibits D and E, showing how incomes from Montana people are figured, and showing allowable deductions. Exhibit E shows major sources of personal income in Montana. Tax-exempt bonds are not counted since they are accounted for in other places. Normally the tax on adjusted gross income is about 20%. There would be a violent discrepancy between counties - 1.99% to a high of 25.41%. HB 3 does away with the state 40 mill school levy, and it will make the tax vary from school district to school district, from area to area, etc. There will be an entirely different picture from one area to another. The personal income definition will cause an awful lot of lawsuits.

Sen. Watt advised HB 3 won't replace all the property tax - the first year it will replace one-half and could continue replacing only one-half. This bill could be amended to exempt welfare, retirement, etc. incomes, unless people file an income tax. By allowing exemptions, the revenue would be less. Present millages vary. When this bill would be in complete operation, the real equivalent would be about 1/10 of a mill, which will turn out to be 1.93% taking on a total income of \$3 billion dollars. The bill is basically right, but would have to be carefully rewritten.

There would be a change in farm inventory and an adjustment would have to be made. Since farm inventories cannot be changed, they were pulled out of LaFaver's figures. Montana adjusted gross is a base of \$5.8 billion dollars. The total property taxes are \$70 million dollars. This does not contain reappraisal figures. The average statewide on property is 193 mills as it is more accurate to be consistent in the department. Sen. Watt figured 200 mills and valued that against the \$300 million adjusted base.

It is Mr. Groff's philosophy that gross income has never been a successful tax because it is unfair. Sixty percent of the people in Montana are already under the \$5,000 bracket. His philosophy is to use an additional surcharge, whereby it is taken from the people who can afford to pay, and you will catch a lot of people who don't own anything.

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An attorney's opinion should be obtained on these matters: 1. Can this be construed to be an income tax and do other deductions apply to it? 2. A determination of the legality of methods of collections should be made. There are problems in defining "gross income". Under HB 3 the tax applies just to the income received and works the same as a gross income tax.

LaFaver advised that if this is construed to be an income tax, several other problems present themselves. If bonds are made out so that they have to be paid by millage, they will have to be paid that way.

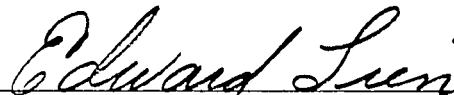
Senator Watt agreed that HB 3 should be checked by an attorney as to whether it would be considered an income or a replacement tax.

Groff advised this bill would be extremely hard to administer. The question of whether current mill levies could be held if this act should pass in court arose. Should it be declared Constitutional, the rates would have to be adjusted to fit. The question of where to apply tax revenue when a farmer farms in several counties, but lives in a city was raised. Strikes do not make the income level drop as drastically as \$1.00 a bushel wheat does. The biggest impact of this proposed tax is on people with the lowest gross income.

The committee and sponsor requested that a letter be sent to the attorney for the legislative auditor asking for an opinion as to whether HB 3 is constitutional and if it would be considered an income or a replacement tax. Also what the effect would be on present and future bonding obligations, either municipal or county, school bonds, etc. The 1972 Constitution requires that all property be assessed and taxed, and in another section says absolutely the opposite.

Committee hearing adjourned at 4:00 p.m.

Dr. M. F. Keller, Great Falls, left a statement supporting HB 3, attached.



REP. EDWARD LIEN, Chairman

Subcommittee on HB 3