

TAXATION COMMITTEE
45TH LEGISLATURE

Rep. Herb Huennekens, Chairman, called the House Taxation committee to order February 23, 1977, at 8:00 a.m. in room #434, Capitol Building, Helena. Reps. W. Jay Fabrega and Edward Lien were excused. All other members were present. Bills to be considered are HB 516 and HB 817.

Rep. Melvin Underdal, District #12, Shelby, MT, explained HB 516 has to do with the oil producers' tax on oil and natural gas produced, which is going into an earmarked fund to be used in their various operations. More money is needed

HOUSE BILL for plugging seismic holes drilled for testing. At times they have extra money which is invested with the interest going back to the general fund instead of to the earmarked fund. HB 516

516 states on page 6: "Income and interest from investment of the board's moneys in the earmarked revenue fund shall be credited to the board." At the present time, this is being done by a sort of gentleman's agreement, and HB 516 will make it mandatory. This will provide some money, but not enough to pay for costs of plugging seismic holes.

Don Allen, Montana Petroleum Association, Helena, stated this is simply legalizing what the practice already is. There is some question of whether they were following the dictates of the law. HB 540, Rep. Aageson sponsored does change the formula of the tax, cleaning up the tax by changing to barrels. SB 241 which does deal with the plugging of shot holes also clarifies this. The board comes from the industry and will be an increase to the industry itself. HB 516 is to clarify what is already being done.

Rep. Underdal closed by advising there is a sum in the neighborhood of \$3,000 involved, according to the fiscal note. He asks the committee to adopt this bill.

Rep. Wes Teague, District #69, Billings, handed out amendments to HB 817 of which he is the sponsor. This bill replaces the current property tax on bank shares with a tax on demand and time deposits of .93% of their true and full value. This percentage rate will provide a tax revenue income

HOUSE BILL the same as when it would be applied to bank shares tax.

817 Bill Groff, Department of Revenue, advised that as a result of the law, the DOR had to do something that would be fair and equalize the payments. This bill was prepared by the DOR for Rep. Teague.

Mantz Hutchinson, DOR, explained HB 817. He handed out a chart showing percentage figured by using 1976 taxable value of bank shares and dividing that by the total demand and time deposits, arriving at .93%. The chart also shows the savings and loan deposits having a taxable value of \$5,764,013.

Dean Zinnecker, Executive Director of Montana Association of Counties, explained real property taxes have been increased because of the reduction of taxes allowed by the Legislature. HB 817 is an attempt to correct the inequity in tax, and is one excellent step that should be taken by the committee. It is an attempt to keep the property tax at a lower level and tries to keep real property from being further overburdened.

Dan Mizner, Director of the League of Cities and Towns, said these governing bodies ask consideration for replacing taxes and tax base that have been taken away by other bills, such as the expansion of bringing in the savings and loan companies and other institutions. In trying to equalize the load on the taxpayer, you are simply dropping it on the property level at the local level. He supports the bill. He thinks HB 735 and 817 should be considered together and combined into a joint bill for preserving the tax base of local government.

OPPONENTS:

George D. Anderson, CPA, representing the Montana Bankers Association, Helena, handed out a "Comparison of Possible Tax Collection" chart which is attached, comparing HB 735 and HB 817. HB 817 is trying to tax financial institutions. He explained this chart, and in some cases the tax could be more than the net income. He feels that HB 817 as written would be a completely confiscatory tax.

John Cadby, Montana Bankers Association, Helena, referred to the chart. Banks A and B are excellent examples of any base you use for this tax. Any base that is used does not relate to the ability to pay and this is one of the principle objections to the bank share tax. When you look at deposits as a base for tax you have a completely radical disruptive effect on the tax the banks and towns and cities have become accustomed to. At .93% they would pay about \$113,000; at .75%, \$94,000; and today they pay \$139,000, and so here is a bank that will get its tax cut. A's taxes are reduced considerably and H's jump up. By adopting a deposits tax, a county will have substantial increase or maybe a big loss. It is better to stick to the bank share tax even though it provides a limited deduction of federal obligations, you still have the same amount of money given to the counties. HB 735 at 100% classification will provide counties with the same revenue. He is opposed to HB 817.

Harold Pitts, Montana Independent Bankers, Helena, opposes HB 817. He feels that something should be done to tide this taxation problem over for the next two years and that a study be made on bank taxes, and a bill presented then.

Paul A. Johnson, Montana Savings and Loan League, opposes HB 817 saying it would put them out of business as it is written. See his written testimony. He said this is the first time a tax has been levied against liabilities since deposits are considered liabilities. This is a self-defeating tax since it places a tax on people's savings which are used to finance homes for people in Montana. He strongly urges this bill be killed so they can stay in business. He thinks credit unions should be included along with savings and loans and banks.

Steve Grose, Home Federal Savings, Helena opposes HB 817. He advised that for every \$1 million in deposits, savings and loans have to set aside \$50,000 into a reserve for loans. It costs \$350,000 just to maintain reserves for losses and since \$50,000 was their net income, they wouldn't have had the money with which to pay even the lesser tax. He urges that the bill not pass. See his testimony.

Ernest A. Sandberg, Empire Federal Savings, Livingston, opposes HB 817 saying they just haven't the income available to pay that kind of tax. He can't see how any tax other than one based on income is realistic. See his testimony.

Chuck Mercord, First Federal Savings and Loan, Kalispell, opposes HB 817, saying the subject of taxation is just as uncomfortable to savings and loans as it is to home owners. The tax set out in HB 817 would be larger than the net income of their business, and he doesn't feel S&Ls should be taxed as this tax could tax them out of business.

Bob Pennington, Helena, agrees with Harold Pitts in that more time should be given for study. This tax is not completely equitable between savings and loans and banks as they are not exactly in the same business as banks. All their profits are given to their members. Something more equitable should be worked out.

Ross Cannon, Montana Savings and Loan League, opposes HB 817 as it intensifies the problem in any tax legislation - that of tax equity. He feels S&Ls ought to have the opportunity to participate in the drafting of these bills. He said it must be remembered that banks by large pay very little share tax since a capital share tax is a party ownership tax. If the present lawsuit is won, banks won't pay the tax either. He recommends a two-year interim study. He thinks these quick bills are not the answer to the problem of taxation.

Ronald F. Waterman, First National Bank of Helena, First Bank System, opposes HB 817. This type of tax is not the solution to these problems. Banks are probably the most overtaxed of all businesses in the state of Montana. Only Rhode Island has a .4% tax on deposits of financial institutions which is for doing business in that state, and is on all financial institutions and allows for a number of deductions. The 1976 tax case brought in Lewis & Clark Co. was appealed from the tax appeal board. Exclusions allowed were stocks of state banks and trust companies' real property located within the state. Obligations of the U.S., its territories and possessions are exempt from taxation under the laws of the U.S. A deposit tax could not be imposed on federal obligations which are beyond the taxing powers of the state. HB 817 does not provide for exclusion of U.S. obligations. The concept of imposing a tax on a deposit is inconsistent with good taxation practices.

Gene Phillips, bank of Kalispell, Kalispell, opposed HB 817. He recommends an interim committee provide an equitable method of taxation for financial institutions.

Rep. Teague closed stating HB 817 attempts to equalize the tax on financial institutions. The district court decision came three weeks ago and so this bill was put together quite quickly and is to be based on taxable value instead of taxable rate. The bill should have read taxable value and will have mill levy applied against it.

Regarding credit unions, he wished these could be included, but they are federally exempt. Savings and loans are just like a business that sells merchandise - they guarantee their members a certain percentage. Deposits are considered financial inventory. The total impact on banks will be approximately the same. He thinks it is only fair that if banks have to be taxed, savings and loans should be taxed. He feels Mr. Hutchinson's figures are more accurate than those presented by Mr. Anderson.

Withdrawal shares of S&Ls are comparable with IPC deposits. S&Ls are deposit institutions, and don't have any shares although some do have certificates of deposits. Some don't have demand accounts.

Further information from questions was that mutual corporations have no shares and are able to pay a higher rate of interest to their members. Rates paid by banks and S&Ls are governed by federal regulations. If HB 817 as amended passes, this tax could be deducted from federal taxes. S&Ls are nonprofit corporations. After the tax is computed at the end of the year S&Ls have to pay tax on income after setting aside the amount required to cover their Bad Debt Reserve account which is for the purpose of protecting savings customers. The S&Ls would be willing to sit down and try to work something out if the state or county think they should get more money from them.

The committee recessed to an executive session.

HB 516 - Rep. Underdal moved to recommend HOUSE BILL 516 DO PASS. This motion was unanimously adopted.

Rep. Williams moved to recommend HB 735 and HB 817 be studied together and a subcommittee be appointed. This was approved.

HOUSE BILL 595 - Rep. Fagg moved that HB 595 DO PASS. Rep. Fagg moved amendments proposed for HB 595 be adopted. This motion carried unanimously. The motion of Do Pass was changed to AS AMENDED DO PASS, and was unanimously adopted.

HOUSE BILL 755 - Rep. Bertelsen moved that HB 755 DO PASS. Motion was adopted by all members present.

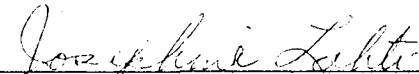
HOUSE BILL 434 - Rep. Williams moved that HB 434 DO PASS. Rep. Waldron moved lines 11, 12, 13, and 14 be deleted. Motion carried with Reps. Fagg and Williams voting No. The Do Pass recommendation was then changed to AS AMENDED DO PASS, which motion was adopted with 11 members voting Yes and Rep. Underdal voting No.

Amendments to above bills may be seen in Standing Committee Reports in Book #1.

Meeting adjourned at 11:00 a.m.



REP. HERB HUENNEKENS, CHAIRMAN



Josephine Lahti, Secretary