

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

March 28, 1977.

The fifty-sixth meeting of the Taxation Committee was called to order on the above date in Room 415 of the state Capitol Building by Chairman Mathers at 8:10 a.m.

ROLL CALL: Roll call found all the members present except Sens. Watt and Norman, excused.

The following witnesses were present:

W. Joseph Wilcynski	Mont. Chamber of Comm.
Rep. Ed Lien	
Ottley R. Tschache	Small Business Admin.
Bill Sternhagen	Anaconda Co.
Tom Winsor	Mont. C. of C.
Ed Nurse	Helena C. of C.
Rod Wilson	Billings C. of C.
Ed Nelson	Mont. Taxpayers Assoc.
G. T. Neils	Mont. Logging Assoc.

CONSIDERATION OF HOUSE BILL 552: Rep. Dassinger, Dist. 50, presented the bill, the purpose of which he said was to try to create a tax incentive to encourage industries to locate where there is a declining population. He said there is a decrease in valuation of homes and a resultant increase in the cost per capita in those locations and this bill would give a tax incentive of a 7% tax classification for a 5-year period. He said also industries could not come in unless they were approved by the community, through an election. Mr. Winsor was also a proponent of the bill and said though there were parts they approved of, there were several portions on which they had doubts and felt should be amended. He said moneys had been pumped into the Butte and Glasgow areas, but there were no long-term incentives to encourage people to come in. A number of other towns in the eastern part of the state had also been looked at. He stated his concern with the 10% decrease to bring incentives into place, and he suspected the only area that would be eligible would be Butte. He thought this percentage might be a bit high.

Mr. Winsor also stated his concern with the vote by the electors. He said a company considering such a move has already gone through considerable expense in their initial planning, and then to have their move voted on by that area's electorate, could create adverse conditions for such companies. He felt it should either be a state policy, or it should not be offered at all. Mr. Sternhagen stated his support of the bill, with the amendments suggested by the Chamber, in particular deleting the vote of the people before a business could come into the area.

Chairman Mathers asked for other witnesses and since there were

none, permitted closing. Rep. Dassinger said he felt if there were amendments he suggested they would allow larger industries to come in, such as Generating Plant #5, as the present law did not allow this industry to get in. Also he thought it important that the people have the right to refuse new industry, keeping in mind the severe impact some industries have on small communities.

During ensuing discussion Sen. Goodover asked if this bill would conflict with SB350 and it was agreed they could overlap. Sen. Towe said he thought the 10% was a little high and perhaps this could be amended down to 5%. There followed other discussion and following, the hearing on HB552 was closed.

CONSIDERATION OF HOUSE BILL 706: Rep. Severson, Dist. 7, said this act was to provide reduced property tax for renovations and improvements to properties of Class Nine. He said the bill was laid aside last session because of MELDA, but since it was never implemented, he felt this approach to encourage improvements to property should again be introduced. He felt this would not only stimulate business on the local level, but would also raise tax bases in the areas after the 5-year period. Mr. Nelson was also a proponent of the bill and said that he hoped some kind of legislation like this or SB350 would go through the Legislature. He thought this was a good concept and hoped something could be worked out on the bills. Mr. Drake said he also took a position of support of this type of legislation. Mr. Winsor also rose to give his support to the bill.

Chairman Mathers asked for other proponents or opponents and as there were none, Rep. Severson made a brief closing statement, saying the Fiscal Note showed no real impact because you do not have those improvements at the present time on the books and would merely delay assessment of the improvement. He thought this could do a great deal toward helping the communities.

The Chairman then called for questions by the committee and it was pointed out that SB350 and this bill are much alike, however SB350 sets up an increment type payment. Following this discussion, the hearing was closed on HB706.

CONSIDERATION OF HOUSE BILL 599: Rep. Lien, Dist. 49, said though his bill was relative simple, its effects could be very far-reaching and important to small business in Montana. The bill extends investment credits to the state income tax, continuing Federal increment tax to the state. He said Mr. Winsor had done a great deal of work on this bill and said the investment credit works much better on a state level, converts state tax into a property tax, increases local tax base and would also increase job opportunities. He introduced Mr. Winsor who presented extensive prepared testimony, see Exh. #1, attached. He read his prepared statement and referred to portions of the material included with his testimony bolstering his presentation. Mr. Wilcynski also spoke as a proponent and presented Exh. #2, attached. Mr. Tschache appeared under the authority of Public Law 94-309, permitting him to be Advocate of the Small Business Administration. He had a brochure, Exh. #3, which he also distributed. He said

he felt this type of legislation would help dwindling communities in the state. He said this legislation would address some 95% of all the business in the state. He said in the past 5 years he could not find 5 examples of where the large business loans had been declined because of the size standards. He also suggested the committee note the Fiscal Note as it relates here in Montana. He said he really believed this type of legislation will transplant itself and recreate itself, would expand itself with potential growth and far exceed any cost that might appear at this time. He did not think they should be blinded by the \$3 million impact because this could be wiped out in perhaps a biennium. He thought it would give an incentive to young people to go into business in the state.

Mr. Wilson said he was surprised to learn that 80% of our economic growth in our communities is coming from within the community itself with their own expansion efforts, therefore gave their support of the bill. Mr. Nurse said he represents 650 businesses of Helena, 99% of them small businesses, including farmers and ranchers. He said one thing they favor here is the seasonal aspect. Incomes are quite seasonal in most businesses of the state and it is difficult to create capital formation, which inhibits expansion. Competition is then reduced and he felt this legislation would help greatly the businesses in the state. Mr. Nields said depreciation schedules presently do not cover the replacement costs of machines. As logging methods change, the cost per job has risen substantially and the depreciation schedules do not supply the capital formation to replace that machinery after 3 or 4 years, as it should. He said they have great difficulty in finding capital to replace a machine. Mr. Nelson said this was another opportunity that could add incentive to economic growth for the kind of businesses we have in the state.

The Chairman asked for opponents of the bill and Mr. Dore of the Department of Revenue spoke, saying although he was not opposed to the legislation he does have some concern about it. He used the term "over-heating" in relation to increment credits and said he had concern over this as well as some of the language in the bill, particularly on the term "dominant in the field of operation."

Following his presentation Rep. Lien was permitted to close and he said if there are any amendments needed to clarify any of the definitions he would be prepared to assist with them. He also said he would be happy to work with anyone, including a sub-committee, if it would help to work toward acceptance of this legislation. He also stated that in an average school district, total increment credit would be repaid within 6 years on a local level, dollar for dollar.

The committee then asked a number of questions concerning the 'over-heating' matter again. It was pointed out that it is not necessary that Montana's overheating stay at the same rate; this needs constant monitoring as there is always such a danger. Rep.

Lien said that the intent of his bill is to tie it directly to the Federal level and as theirs is reduced, Montana's would be reduced as well.

Sen. Towe mentioned if a large tax incentive were given to a business on purchase of a considerable amount of equipment there would be a substantial tax impact on the corporation license tax in the state. Rep. Lien agreed and said the figures could be adjusted, one for proprietorships, one for corporations, and could therefore have a dual percentage. It was asked if purchase of additional machinery, equipment for businesses would benefit Montana when such equipment is generally manufactured out of state, but it was pointed out that dealers would realize profits from the sales, thereby stimulating the local economy through such sales, thus the state would also benefit. There was also discussion on the business affiliation problems in and out of the state. Sen. Goodover stated he thought the concept of the bill is good and could have a far reaching effect. He said he did not think the tax climate in the state was good, referring to a packing company that contemplated locating in Montana and then left because of the tax structure, as well as the labor market.

Some of the other problems discussed included the term "small business" brought up for discussion by Sen. Turnage. Rep. Lien said it would qualify with the Federal and it allowed the Department of Revenue to promulgate the rules to define the term. He also asked about having the legislation exclude centrally assessed properties, perhaps limiting it also to businesses employing 5 people or less. Sen. Towe suggested there be limits to firms doing less than \$1 million in sales, perhaps employing less than 20 people. They also discussed the intent of the bill in regard to a carry-back, and what years would be affected.

Following this discussion, the meeting was adjourned and no action taken on any of the bills heard this day.

W. Mathers
WILLIAM MATHERS

CHAIRMAN

ROLL CALL

SENATE TAXATION COMMITTEE

45th LEGISLATIVE SESSION - - 1977

Date 3/28/71

SENATE TAXATION COMMITTEE

House

BILL 552,

552

599, 706

VISITORS' REGISTER

DATE

3/28/76

STATEMENT
on
HB 599 AN ACT TO ALLOW AN INVESTMENT
CREDIT AGAINST INDIVIDUAL INCOME TAX
before the
Senate Taxation Committee
for the
Montana Chamber of Commerce
by
Tom Winsor, Public Affairs Manager
March 28, 1977

E44.441

We believe that Representative Lien and the co-sponsors of House Bill 599 have introduced the most significant piece of legislation to assist the Montana small business community that we have seen for many sessions--and in my opinion, the most significant I have seen in the sessions I have lobbied. The Montana Chamber of Commerce has a membership of approximately 1,300. The majority of those members are small main street businesses.

Session after session, there has been a tendency to put a rein on big business--every time that is done, the small business community is impacted more critically. Most tax incentives on the books do a better job for larger firms. The investment tax credit is the first incentive tailored to assist the small businessman to compete and to expand the job opportunities he offers.

The investment tax credit system has been the most effective means of providing a boost in investment capital for business across the country--through the Federal tax incentive system.

An integral part of the small business community is the family farms and ranches in Montana. This bill addresses their need for investment capital as well. The Federal Government has nearly pre-empted most areas for assisting the agricultural community, the primary impact the State Legislature can do to improve the situation for the agricultural community is to decrease the tax burden.

As you know, the Montana Chamber of Commerce has supported tax incentives to improve the economic environment for manufacturing in the past. The Legislature has passed a good percentage of what we recommended. Two years ago, the Montana Task Force on Economic Development--a joint operation between the business community and the Administration made a series of recommendations for economic development. Those benefits for the economy were related to basic industries such as manufacturing and agriculture--including benefits for sprinkler irrigation. The Chairman of that Task Force was Representative Mel Williams.

In that package, we did not include an investment tax credit. We recommended, instead, a bill providing a Corporate License Tax credit, based on new wages created by a manufacturer expanding an existing operation, or starting a new plant. That bill incidentally was introduced by Representative Jay Fabrega. The bill passed--extending a limited benefit. It did not apply to non-manufacturing businesses, it did not

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MONTANA CHAMBER OF COMMERCE

TESTIMONY BEFORE SENATE TAXATION COMMITTEE ON: Investment Tax Credit

A. Federal Code Section: 38 and 46 through 50

B. Rates:

Tax Reduction Act of 1975 - Tax Reform Act of 1976
After January 22, 1975 and before January 1, 1981 10%

After December 31, 1980 7%

C. Amount of Credit:

Generally the credit cannot exceed the tax liability
Limits:

If tax liability is over \$25,000 the credit is limited to
\$25,000 plus 50% of the tax liability in excess of \$25,000.

Unused credit can be carried back three years and over seven years.

D. Investment:

Credit is available on new and used Section 38 property.

Available on the sum of the cost of "NEW" Section 38 property

Available on \$100,000 of the cost of "USED" Section 38 property

E. Section 38 property:

Depreciable property having a useful life of 3 years or more. Including:

1. Tangible personal property
2. Other tangible property (not buildings or their components) used in
 - a) Manufacturing
 - b) Extraction
 - c) Production
 - d) Furnishing transportation, communications, electrical
energy, gas, water or sewage disposal
 - e) Elevators and escalators
3. Includes research facilities and facilities used for bulk
storage of fungible goods (including liquids or gases)
4. Includes livestock EXCEPT HORSES
5. Property used to furnish lodging is not Section 38 property except
hotel or motel serving transients.
6. Property used by a not-for-profit organization is not qualified.

F. Rates and lives:

<u>USEFUL LIFE</u>	<u>QUALIFIED INVESTMENT</u>
at least 3 yrs but less than 5	1/3
at least 5 yrs but less than 7	2/3
at least 7 or more	100%

