

MINUTES OF THE MEETING  
TAXATION COMMITTEE  
MONTANA STATE SENATE

April 7, 1977

The sixty-fourth meeting of the committee was called to order on the above date in Room 415 of the Capitol Building by Chairman Mathers.

ROLL CALL: Roll call revealed Sens. Manning and Healy absent, excused.

The following witnesses were present:

Fern Flanagan	Self
Arthur L. Roe	NARFE & Self
Everett Woodger	"
Marian L. Duncan	"
Margaret H. Smith	"
Thomas Smith	"
Steve Turkiewicz	Mont. Assoc. of Counties
Robert W. Corcoran	Dept. of Rev.
John M. Clark	"
Manse Hutchinson	"
Dennis Burr	"
Ray Dore	"
W. Keith Anderson	MonTax & Self
Clark Pyfer	Self & CPA's
Norman Loun	Self
Bill Hanson	UPI
Mons Teigen	Mont. Woolgrowers & Stockgrowers
Tom Winsor	Mont. C of C
Glen Drake	League Cities & Towns
Don Bower	Bozeman

CONSIDERATION OF HB3: Rep. Dussault, Dist. 95, said the bill is a tax measure that has been introduced in past sessions by Sen. Watt. The bill has some changes in it, made in the House, and is based on a premise that taxes on housing is essentially not fair and is regressive. This bill, she continued, removes all taxes on taxable property, replaces exactly the revenues lost by a percentage tax on adjusted gross income. She said this is one of the changes in the bill made by the House. She stated further that the bill first had a definition of total personal income which would include social security retirement, pensions, welfare, alimony, etc., but House amendments made it instead adjusted gross income. Although the bill is complex, she felt the intent of it was simple and administration of it will work; the bill will do what it says it will do. The property tax will be replaced by the adjusted gross income of approximately 2.4% statewide average tax. Anyone who votes whether 18 or 65 and votes to add taxes at the local level will share in the responsibilities of paying those taxes, she continued. Persons existing on fixed incomes, those with lost income through job layoffs, etc., will not have to move out of their homes as this bill will take off property tax,

and replace it with the adjusted gross income tax.

Mr. Larson, an economist, spoke also as a proponent of the bill and said although it is very innovative he thought it would eliminate much of the continual tinkering with property tax. He said he felt the property tax is rapidly becoming an anachronism and said his primary interest in the bill is because he felt property tax is becoming less and less effective, because as the tax base narrows with acts such as MELDA, variances with tax base will be with us for a long time. He said he felt the bill will make the tax base much more equitable. Sen. Rasmussen next spoke and said in campaigning he felt property tax was the single greatest concern with people and sympathized with the problems they had in trying to hang onto their homes as their income decreased. He said he felt the equitable method is to tax someone according to their ability to pay, and feels the income tax relates directly to an individual's ability to pay.

Rep. Fabrega, Dist. 44, also spoke on the bill and said when the bill was presented to the Taxation Committee in the House he was opposed to it but he said those areas to which he objected had been cleaned up, citing certain incomes that had been previously declared as non-taxable. He said property taxes at present are high and in a way they remove the incentive to expand, remodel, etc. The bill goes the first year into a 50% phase-in, so the \$30 million must be replaced. By that time, he said, there would be money available to compensate to the local governments for their lost property tax revenues. He said he believed the bill merits some consideration and should have a trial run.

Sen. Watt also spoke and said he hereby stated his objections to any testimony from anyone present from the executive branch of the government. He continued, saying there are people who are lobbyists and they have a right to testify, however, it has been established that there are other who are not. This was established by the Governor when he took the finance committee and the others to court, he continued. The court decision was made and the law is established of the separation of powers. Therefore, he further stated, if anyone from the executive branch of the government is here to represent the opinions of the Governor, I will take it to court, he said, and it will be known in advance that this is a violation of the separation of powers. I will have an attorney if we go to court, he stated. He said too that such representatives are in violation of another law, that is they are not registered lobbyists. He said it has always been the practice of this committee to invite people to testify. He said some of the things that have happened to HB3 are strictly against the law and so it is up to these people, the representatives of the government, if they wish to testify. He said he had no testimony himself, but merely stated the aforementioned to make clear his position.

The Chairman then asked Sen. Watt if he had objection to representatives of the Department of Revenue being present. Sen. Watt replied he had no objections if they provided the committee with the facts, if questions are directed at these representatives.

Sen. Roskie said he wondered if the committee was going to apply this concept of rules that have been violated in this session in both houses and if there is need to question someone from the executive if they would be able to do so. Sen. Turnage pointed out that it appeared agency people were acceptable when they are 'on our side' on some legislation, but that they were in the wrong when they were not in favor of the bill. He stated further that in regard to the separation of powers, there is a provision in the constitution which provides a check and balance and that there is every reason to have the executive 'to check on us as we check on them.' He concluded saying if we believe in the separation of powers then we have to have the Department (representatives) here.

Chairman Mathers then stated he would rule that we will hear all the opposition to the bill with the exception of the Department. When the hearing is concluded the committee can question the Department of representatives and they may present their statements. We will conduct the committee meeting in the same way we always have, he continued, and said the representatives can then respond to any of our questions.

Following the Chairman's ruling he asked for other proponents of the bill and then heard the opponents. Mr. Anderson was first to present his testimony. He distributed several exhibits to support his testimony, see Exh. #1, containing levies for the various counties of the state, broken down into county, high school, general, vo-tech, city levies. His testimony is contained in Exh. #2, and a letter from Aby of Dain, Qualman and Quail is in Exh. #3.

Mrs. Flanagan then spoke as an opponent and presented her testimony to the committee, see Exh. #4, attached. Mr. Roe spoke also as an opponent and his statement is contained in Exh. #21 also attached. Mr. Woodgerd presented a formal statement stating his reasons for opposing the bill, statements contained in Exh. #22. Mr. Pyfer appeared next in opposition and said the bill appeared to resemble more an 'accountant's relief act' as he felt the bill has many complications and accountants would benefit since they would be needed to help people keep their finances straight under this legislation. He said some are concerned about property tax but he felt this bill would simply add an additional burden to implement it the first year and he thought keeping the records and making the reports would be a monumentous job. Mr. Teigen presented testimony and said there might be times when there would be a significant amount of income for one year in agriculture in particular, but that this is unpredictable. The businesses carry a substantial burden in the tax field so revenues from agriculture would be difficult to estimate. He distributed Exh. #5 showing the form that is submitted by farmers and ranchers to further illustrate the complicated methods that must be gone through, further supporting the claim of other opponents of the complicated nature of the bill. Also he mentioned the difficulty of assessing farm and ranch homes in isolated, rural areas, as compared to similar homes in some of Montana's cities.

Mr. Winsor said he had found a surprise in the bill, a tax incentive for non-resident landlords to help them increase the capacity of the housing market. He said he believed this is an unfair use of incentive and he felt this particular replacement of property tax does not allow a deduction on Montana income tax and he believed this was in error.

Mr. Drake then spoke and said the League opposes the bill and are opposed to any bill that will add to the cost of government and not deliver anything further to the citizenry a \$ for \$ service. The Fiscal Note shows how much the cost of administering would be but does not address itself to the implementation of the act and it could be much greater. He said he believed there would also be problems with investments, if the state has a lien on your real property, eventually they might be able to collect but this bill would not allow for any such lien to be imposed, thus enforcement problems are increased. He said the Fiscal Note indicates no impact on local government and he said this is not correct. He continued saying there would be increased duties for the county officials and additional costs will have to be borne by the local governments. Mr. Bower spoke next and presented a statement, Exh. #23, and said he is opposed to the bill.

Following this last opponent, Rep. Dussault made a closing statement, asking the committee to make careful consideration of each of the points the opposition had made. She said Sen. Watt could answer the majority of those points. In rebuttal she replied to Mr. Anderson who said there were approximately 4 major problems with the bill but she felt the 4th problem focused mainly on the administration. She said because of the need to have a listing of persons paying taxes, with the amendment now changing the income to adjusted gross, it is necessary to have a listing of taxable property and the Department of Revenue is in the process of doing just that so 70 to 80% of habitable property is on the books and the rest will be rentable property. She said her primary concern with the opposition comes from the people who should be benefiting the most from the bill, people on retired and fixed incomes. She said she thought the amendments should take care of most of their objections through the adjusted gross amendment. She said the problems mentioned for rentals had been discussed with economists who said they simply will not happen, as they said the market will take care of that problem. She then distributed additional testimony: explanation of mill equivalent, #6; statement showing state annual property taxes, habitable property taxes, gross income statewide, etc., Exh. #7; a letter from the Fiscal Analyst regarding HB3, #8; letter from Sen. Murphy, #9; cover letter from Mr. Kellogg of City of Missoula and copy of letter to Gov. Judge regarding changing from property tax to income taxation, #10; letter from citizen regarding inequities he believes exist in present tax system, appraisals, etc., #11; letter from Missoula County Assessor regarding burden of property tax, #12; letter from private citizen also regarding difficulty in getting urban renewal, difficulty in meeting taxes, #13.

Sen. Turnage then made a statement for the record saying in the interest of the first amendment of the U.S. Constitution and open legislative meetings and to strike a blow against intimidation, he wanted it known that he did personally invite Mr. Dore and other personnel of the Department of Revenue to be present at the meeting and to participate. He continued, saying he asked Mr. Dore to explain the bill in detail, and furnish written statements. His list and request are in writing, see Exh. #14.

Sen. Watt stated his objections to this and said he believed it was a countering of the law and separation. He said he had no objection to the presentation by Mr. Dore and would suggest to Sen. Turnage that he did not believe he had asked these representatives to appear here, that they were here on their own accord, directly or indirectly. He said he believed this was out of order as he had been 'badgered' by the Governor and those representing him.

Chairman Mathers then stated he had also asked the representatives of the D. of R. to be present and Sen. Turnage said over a month previous he had talked to Director Groff asking him to come over and give testimony on this bill. Chairman Mathers said he could testify to that also. Sen. Goodover said he wished to reaffirm that they must hear everything there is to hear about the bill in order to make a judgement on the bill and agreed the representatives were needed at such hearings. The Chairman then permitted Mr. Dore to make his statement on the invitation of the Chairman.

Mr. Dore then read from his prepared statement which is Exh. #5, attached.

Sen. Brown asked since this bill passed the House is there also a possibility that it could pass the Senate and he asked if so, would the Governor veto it. Mr. Dore replied he had no idea and had prepared his statement on the bill itself with no suppositions as to its future.

At this point Chairman Mathers recognized Rep. Dussault who wished to comment on the question raised by Sen. Brown. She said the Governor is on record both privately and publicly saying he will veto HB3 if it reaches his desk. She continued, saying the Governor feels there is some conflict between this bill and others.

At the conclusion of her statement, Chairman Mathers stated there will be no other references to the Governor's opinion of the bill, as 'he is not sitting on this committee.'

Sen. Turnage then said he would like to hear about the legal problems with the bill and Mr. Corcoran of the D. of R. was invited by the Chairman to present his testimony and he had prepared testimony which he presented to the committee, see Exh. #16. Mr. Corcoran said the legal issues are many, referring in particular to areas of deduction for income tax that might require rulings. He stated his concern with some of the definitions such as "habitable property" and "somewhat larger" as examples. He also mentioned the concern they had with the reciprocity area, mentioning

in particular the treaty with Canada and the difficulties that would be encountered with them, as well as with other states, saying it would perhaps be necessary to renegotiate with them on tax credits. He further anticipated problems with in-state and out of state residents, with those who establish residences and move after the January 1st date. His prepared testimony illustrated 24 new statutes signed by the Governor which could conflict with this bill.

Mr. Clark was asked to present his financial charts and he distributed reduced copies of the larger charts which he explained to the committee. His testimony is contained in Exh. #17 and #18, attached. He said there would be deficit financing and counties would again have to borrow money as their revenues would not be forthcoming from the state in time to meet their budgets. Their revenues are paid back to them by the state following the two tax assessment periods following November and May tax billings. He said his calculations showed the percentage would be about 2.9% rather than 2%. He said that smaller agricultural communities would have more difficulty as their income is less stable.

The Chairman then called on Mr. Burr who had also been invited to speak on the bill. He had testimony contained in Exh. #20, attached, concerning the administrative problems of the bill, and addressed himself to these. He went through the points referred to in Exh. #20 and touched on each of them briefly.

Following his testimony a number of questions were posed by the committee. Sen. Roskie asked about the question of 'habitable property' and the possibility of trading commercial property and investing in residential, thus he could then realize a considerable profit in savings on property tax.

Mr. Clark was again questioned about the rate of withholding and if it would not be sufficient to meet local governments' anticipated expenses for the first 6 months of the taxable year. He countered, saying the 1% withholding is not enough.

CONSIDERATION OF HB141: Rep. Huennekens said this bill was at the request of the D. or R. and with the committee's permission he would let them explain it more thoroughly. He said the bill cleared up a number of problems and also limits the homestead tax relief to 1978-79 only and provides what the state share of tax liability is to be. He said the amount of money local governments are not able to collect will vary with the appropriation. House amendments changed this by changing the total tax share liability.

Mr. Burr said the main aim of the bill is to require an application be filed to qualify for the relief. He said the bill is now structured so counties will not sustain a loss and mentioned also there should be another amendment to change the effective date.

Following a brief discussion on the bill, the amendments were accepted.

7-4/7

Sen. Turnage Moved Adoption of the Amendments to HB141.  
His motion was carried unanimously.

DISPOSITION: Sen. Watt then Moved HB141 As Amended, Be  
Concurred In. The motion carried unanimously. Note for the  
record the absence of Sens. Healy and Manning.

There followed some additional discussion as to whether this  
bill would conflict with HB3 should it pass.

The Chairman then called for adjournment of the meeting.

*W. Mathers*  
\_\_\_\_\_  
WILLIAM MATHERS CHAIRMAN

ROLL CALL

SENATE TAXATION COMMITTEE

45th LEGISLATIVE SESSION - - 1977

Date 4/4/77

NAME	PRESENT	ABSENT	EXCUSED
SEN. WATT	✓		
SEN. BROWN	✓		
SEN. GOODOVER	✓		
SEN. HEALY			✓
SEN. MANNING			✓
SEN. NORMAN	✓		
SEN. ROSKIE	✓		
SEN. TOWE	✓		
SEN. TURNAGE	✓		
CHAIRMAN MATHERS	✓		

Each day attach to minutes.



HOUSE  
BILLS

COMMITTEE ON

TAXATION

DATE

4/7/77

3, 141

## VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One	
			Support	Oppose
Frank Flanagan	Self	HB 3		✓
Arthur L. Roe	NARFE & self	HB 3		✓
Robert E. Woodard	NARFE & self	HB 3		✓
William J. Duncan	NARFE & Self	HB 3		✓
August H. Smith	NARFE & Self	HB 3		✓
James F. Smith	NARFE & Self	HB 3		✓
Joe Turkiewicz	MT Assoc. of Counties	HB 3		
Robert W. Corcoran	DEPT OF REV	HB 3		✓
John M. Clark	DEPT OF REV	HB 3		✓
Keith Anderson	Man Tax & Self	HB 3		✓
Clark P. J. J.	self & CBA's	HB 3		✓
William J. J.	self	HB 3	✓	
Bill Hanson	URO			
Wesley Feigen	West Woolgrowers & Shodgrowers	HB 3		X
Robert J. Hutchinson				
D. Burke	DEPT. - REV			
Ray Dore				
John W. W.	Mont. Col. C	HB 12		X
John W. W.	Seas of C. & T.	HB 3		X

## TREASURE COUNTY - 1976-77

(All levies are given in mills)  
 Taxable Valuation - \$3,737,342  
 1975-76 Taxable Valuation - \$3,504,897

*Exh. #1*

STATE FUNDS	6.00	TOWN OF HYSHAM	
		Taxable Valuation - \$429,509	
COUNTY FUNDS		All Purpose Levy	65.00
General	27.00	Bond Interest & Sinking	14.00
Road	15.00*	TOTAL	79.00
Bridge	1.66	(Last year 81.20)	
Extension Agent	1.39		
Fair	.24		
Airport	.11		
Ambulance	1.00		
Sub-Total ( Last year 51.82)	46.40		
High School General	15.00		
State Permissive	.60		
Transportation	1.24		
Retirement	3.31		
Sub-Total	20.15		
General School	25.00		
State Permissive	1.00		
Retirement	4.07		
Sub-Total	30.07		
GRAND TOTAL	102.62		

## HIGH SCHOOL DISTRICT LEVIES

Dist. Name or Number	General Fund	Insurance	Adult Educ.	Transp. Fund	Bond Int. & Sink.	Total Mills
Hysham	11.12			1.88	5.35	18.35

## SCHOOL DISTRICT LEVIES

Dist. No.	General	Dist. Transp.	Tuition	Insurance	H. S. Special	Bond Int. & Sink.	Total Mills
7	13.25	4.30	.13		18.35		36.03

## SPECIAL DISTRICTS

Soil Conservation	1.50
Hysham Cemetery	.45
Rancher Cemetery	2.00

Not levied against taxable valuation of municipalities.

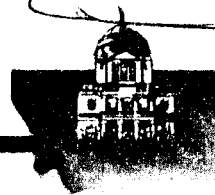
2-4-76 #2  
**MONTANA TAXPAYERS ASSOCIATION**

P. O. BOX 4909

1706 NINTH AVE.

HELENA, MONTANA 59601

406/442-2130



S. Keith Anderson  
Montana Taxpayers Association  
Re: House Bill 3

In reviewing taxation measures certain criterion should be satisfied including:

1. Is the tax relatively fair? Does it unduly penalize certain groups of people?
2. Is it a stable source of revenue?
3. Will it raise sufficient revenue at moderate rates to justify its enactment?
4. Is it easy and economical to administer?

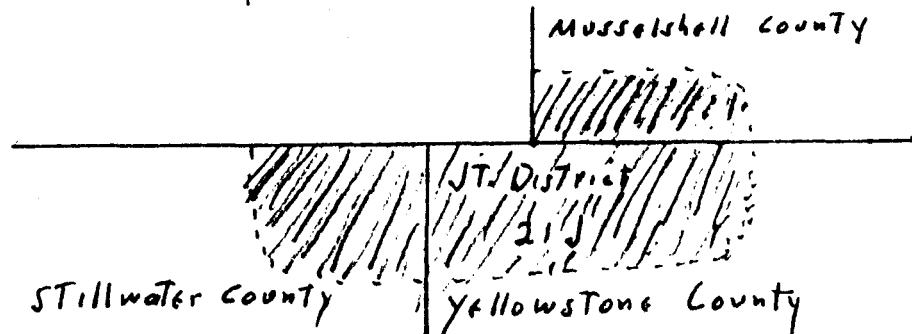
For the purposes of this hearing, I will address number 4--the problems of administration. The fiscal note indicates that this bill would be unusually costly to administer. An analysis of House Bill 3 explains the unusual high cost of administration if enacted.

- I. A. The Department of Revenue will have to determine the mill levy equivalent for each mill levy extended in any taxing jurisdiction in Montana.
- B. The Department of Revenue will have to determine a listing of all the "habitable property" in Montana.
- C. The Department of Revenue will have to pinpoint the location of every individual in Montana (approximately 400,000) who makes in excess of \$600 a year. (In excess of \$600 per year, means the amount defined--on lines 11 & 12 of page 5 of the bill and lines 24 & 25 of page 8.)

This means:

1. Every person in the state who makes in excess of \$600 a year for the purpose of determining a mill equivalent for state mill levies.
2. Every person in each of the 56 counties who makes in excess of \$600 a year for the purpose of determining the mill equivalent for county government.
3. Every person in each of the 126 incorporated cities and towns who makes in excess of \$600 a year for the purpose of determining the mill equivalent for city and town government.
4. Every person in each of the 333 special districts who makes in excess of \$600 a year for the purpose of supporting such districts as cemetery, hospital, planning, fire, soil conservation and the like.

- a. Special districts do not necessarily follow school district boundaries.
  - b. Special districts can encompass parts of several school districts.
  - c. Special districts can overlap other, or parts of other, special districts.
5. Every person in each of the 166 high school districts within the 56 counties who makes in excess of \$600 a year.
  6. Every person within the 413 elementary operating and 34 non-operating districts that are within the 166 high school districts who make in excess of \$600.
  7. Every person that makes in excess of \$600 a year within the 26 joint elementary and 13 joint high school districts.
    - a. Joint districts are school districts that operate across county lines -- districts in two or more counties.
    - b. An example: Yellowstone Joint District 21J



8. Every person that makes \$600 a year within the bonding area of a school district that has annexed other school districts that have bonds.
  - a. Each school district annexed to a home district retains the separate funding of the bond issue.
  - b. A single school district, therefore, can have one or more bond issues that must be paid off by the property (in this case the income tax payer) in that bond area.
  - c. Example:

	Mill Levy 1976-77	
Gallatin #7-Bozeman	3.50 mills	} This is a single district
7-11-61	1.73 mills	
7-44-77	1.19 mills	
Missoula #1(1959 & 1960 issue)	2.27 mills	} This is a single district
1A (1958 & 1961 issue)	1.88 mills	

d. These situations exist throughout the state. Each person that makes in excess of \$600 a year would have to be isolated within the bonding area of the original bond issue. And each person would have to be isolated within the area of each district that has been annexed to the home district.

e. It is obvious that Montana has a mobile population with in and out of state migration as well as in and out of county migration and in and out of school district migration.

D. For the purpose of House Bill 3, the Department of Revenue would have to ferret out:

1. Each person that moved in or out of state each year.
2. Each person that moved from one county and school district to another each year.

II. A. Determination of mill equivalent for income taxation purposes.  
Determination of mill levy for property.

The Department of Revenue would have to determine:

1. The total taxable valuation in each of the 1,128 (for 1976-77) taxing jurisdictions for counties, cities, school districts and special districts. (The number of taxing jurisdictions vary from year to year.)

2. The Department of Revenue would have to determine the gross income pinpointed within each of the 1,128 taxing jurisdictions along with the individuals generating that income.

3. The Department of Revenue would have to have detailed budget information for each of 1,128 budgets to be adopted. Such as:

- a. Proposed budget
- b. Cash balances available for the new tax year.
- c. Non-property tax sources of revenue such as license fees, payments in lieu of taxes, refunds, and the like.

4. After the budget is finalized the Department of Revenue would have to determine what part of each of the individual budgets has to be funded through property taxes and what part funded through a "mill equivalent" against income in the particular taxing jurisdiction.

5. Each taxing jurisdiction has 1 or more levies applied to fund functions of government.

- a. Counties - as many as 29 levies (Missoula County)
- b. Cities - as many as 12 levies (Poplar)
- c. High school districts - as many as 8 plus multiple bonds
- d. Elementary districts - as many as 9 plus multiple bonds
- e. County wide levies - as many as 10

The Department would have to determine the mill equivalent and the property tax for each of the budgets within the individual taxing jurisdiction.

6. For fiscal 1976-77, it was necessary for 4,421 separate mill levies to be determined. If H.B. 3 was applied to 1976-77, the

Department of Revenue would have to determine 4,421 mill equivalents against income for the support of local governments and the public schools.

The Department of Revenue would have to calculate and/or verify 4,421 mill levies against property or a total of 8,042 levies before the second Monday in August when local budgets are finalized and mill levies set by county officials.

B. This in effect, would necessitate the establishment of a central courthouse at the state capitol to house all the records having to do with budgeting and assessments from the 56 courthouses so that the Department of Revenue would have the information to administer House Bill 3.

C. Additional objections to House Bill 3,

1. Special levies voted by many school districts yearly are voted against property. There is no provision in Montana law to vote a "special levy" against income. Likewise, there is no provision to pay a special levy voted against property from a gross income tax.

2. The same applies to bonds. Bonds are voted against property and property can be seized by the state for payment of obligations. Income that doesn't exist cannot be seized.

D. House Bill 3 should be defeated because it does not satisfy the most elementary criterion of a satisfactory tax.

4/6/77

# Montana Taxing Jurisdictions 1976-77

## Total Property Tax Levies Imposed 1976-77

Form 4256 Counties

COUNTIES	CITIES & TOWNS	SPECIAL DISTRICTS	HIGH SCHOOL DISTRICTS	ELEM. SCHOOL DISTRICTS	LEVIES CALCULATED FOR 1976-77
Beaverhead	2		2	9	66
Big Horn	2	5	3	7	60
Blaine	2	11	4	14	88
Broadwater	1	4	1	3	52
Carbon	5	14	6	10	141
Carter	1	1	1	11	64
Cascade	4	2	5	14	132
Chouteau	3	10	4	9	115
Custer	2		1	14	61
Daniels	2	4	3	3	66
Dawson	2	1	2	9	86
Deer Lodge	1	6	1	3	53
Fallon	2	1	2	5	52
Fergus	5	4	6	16	107
Flathead	3	20	4	23	152
Gallatin	5	15	6	18	161
Garfield	1		1	15	47
Glacier	2	2	2	3	38
Golden Valley	2	2	2	3	33
Granite	2	5	2	3	43
Hill	2	6	6	10	136
Jefferson	2	11	2	6	81
Judith Basin	2	4	3	5	95
Lake	3	18	5	9	118
Lewis and Clark	2	10	2	11	93
Liberty	1	1	2	3	39
Lincoln	4	3	3	9	65
Madison	4	20	4	5	104
McCone	1	4	1	8	55
Meagher	1	4	1	5	45
Mineral	2	8	3	4	89
Missoula	1	11	2	13	124
Musselshell	2	4	2	3	43
Park	2	13	4	9	89
Petroleum	1	1	1	1	24
Phillips	3	4	4	9	96
Pondera	2	2	3	10	87
Powder River	1	1	1	12	54
Powell	1	4	1	7	58
Prairie	1	2	1	2	34
Avalli	3	10	6	7	88
Richland	2	4	4	10	120
Roosevelt	6	4	6	7	83
Rosebud	1		5	8	60
Sanders	3	10	5	9	99
Sheridan	4	11	5	7	67

Stillwater	1	8	5	9	114
Sweet Grass	1	3	1	5	72
Teton	3	3	4	10	70
Toole	3	5	2	8	71
asure	1	3	1	1	26
Valley	3	5	5	8	100
Wheatland	2		2	4	46
Wibaux	1	3	1	2	36
Yellowstone	3	8	6	15	141

56

126

333

166

447

4421

Does not include 102 special districts financed by flat dollar amount or other dollar formula.





#3

6 January 1977

Mr. Edward Nelson, Vice President  
Montana Taxpayers Association  
136 East Sixth Avenue  
Helena, Montana 59601

Re: Montana Replacement Tax

Dear Ed:

After careful review of the so called "Watts" bill, it is my opinion that public bonds, such as County, School District, High School District, and City bonds, could not be marketed.

For example, what would happen if an individual was taxed \$10,000 and his house was worth \$50,000 and he decided to leave the State.


How could the tax of \$10,000 be collected from a non-resident?

There are substantially other parts of the bill, which in my opinion you are already well informed about.

If you need any more specific answers concerning the marketability of municipal bonds, please do not hesitate to let me know.

Very truly yours,

DAIN, KALMAN & QUAIL

  
Stanton Aby  
Vice President

SA/pf

Exh. # 4

Senate Taxation Committee

April 7, 1977

Senator Mathers and Committee Members:

I am Fern Flanagan of Helena, Montana, a retired teacher. I wish to speak in opposition to House Bill 3. I am a renter and a retired person on a fixed income. It appears to me that the net result of this act for me and others in my position would be a minimum of an additional 2% income tax with a possibility of more. It would not serve as a replacement tax for me because my rental fee at present is based in part upon the amount of taxes the landlord pays on the property in which I live. It is inconceivable to me that in this time of scarce housing any landlord will reduce rents even though he may be getting tax relief. I am aware of the section of the bill relating to Information to Tenants but it is only information and does not guarantee any rebate to tenants, nor do I see any possibility that even the information to tenants can be enforced. It is evident to me that enactment of this bill would amount to tenants having to pay approximately thirteen months rent per year instead of twelve. I consider this bill grossly unfair to those of us who pay rent for our homes and an alarming prospect for retired citizens.

# Montana Individual Income Tax Return—1976

 or fiscal year beginning 1976 and ending 19 *Eph. #5*

PLACE LABEL HERE

Correct label if necessary. File on or before April 15, 1976 (fiscal year taxpayer—see instructions)

Your First Name & Middle Initial		LAST NAME		Your Social Security No.		Your Occupation	
Spouse's First Name & Middle Initial		Spouse's Social Security No.		Spouse's Occupation			
If married ENTER							
MAILING ADDRESS		Number and Street or Rural Route		City, Town or Post Office		State Zip Code	

FILING STATUS CHECK ONE	1 <input type="checkbox"/> Single	2 <input type="checkbox"/> Married filing joint return	3 <input type="checkbox"/> Married and both filing separate returns on this form	4 <input type="checkbox"/> Married and both filing separate returns on separate forms	5 <input type="checkbox"/> Married filing separate return and spouse is not filing
----------------------------	-----------------------------------	--	--	---	--

CHECK ONE	1 <input type="checkbox"/> Resident Full Year	2 <input type="checkbox"/> Nonresident Full Year	3 <input type="checkbox"/> Resident Part Year	Give date of change.
-----------	---	--	---	----------------------

Gubernatorial Campaign Fund:	CHECK 1 <input type="checkbox"/> IF YOU WISH TO DESIGNATE \$1.00 OF YOUR TAXES FOR THIS FUND	CHECK 2 <input type="checkbox"/> IF SPOUSE WISHES TO DESIGNATE \$1.00 (This will not increase your tax or reduce your refund.)
------------------------------	--	--

If combined separate filing is elected, use Column A for husband and Column B for wife. For all other returns, use Column A only.

## INCOME REPORTED ON FEDERAL RETURN (Lines 1 through 12):

	COLUMN A—for husband, joint, separate or single	COLUMN B (for wife)
1. Wages, salaries, tips, etc. (Attach withholding forms. If unavailable, attach explanation)		
2. Dividend income ( <b>less exclusion</b> )		
3. Interest income		
4. Net rent or royalty income ( <b>attach schedule</b> )		
5. Net business income (attach copy of Schedule C)		
6. Net farm income (attach copy of Schedule F)		
7. Gain or loss from sale or exchange of property ( <b>attach schedule</b> )		
8. Partnership income or loss ( <b>list name</b> )		
9. Other income (specify)		
10. Total of lines 1 through 9		
11. Adjustments for sick pay, moving expense, etc. ( <b>schedule must be attached</b> )		
12. Total income per Federal return (Subtract line 11 from line 10)		
13. Adjustments from page 2, Schedule A		
14. Montana adjusted gross income (line 12 plus or minus line 13)		
15. Deductions—If you elect the standard deductions, check here <input type="checkbox"/> and enter 10% of line 14 but not more than \$500 (not more than \$1,000 if married filing a joint return). If you itemize deductions, enter total from page 2, Schedule B		
16. Subtract line 15 from line 14 and enter balance here		
17. Enter exemption deduction from page 2, Schedule C		
18. Taxable income (subtract line 17 from line 16)		

19. Tax liability from tax computation schedule at bottom of page 2					19
20. Enter 10% of amount on line 19					20
21. Total tax liability ( <b>add lines 19 and 20</b> )					21
22. Combine amounts shown on line 21, Columns A and B					22
23. Montana tax withheld (attach withholding statements)					23
24. Payments and credits on 1976 Estimated Tax					24
25. Out of State tax credit, see page 4 of Instructions.					25
26. Contractor's Gross Receipts Tax Credit ( <b>attach schedule</b> )					26
27. Total of lines 23, 24, 25 and 26					27
28. Combine amounts shown on line 27, Columns A and B					28
29. If tax (line 22) is larger than payments and credits (line 28) enter Balance Due here and pay in full with this return. If balance due is less than \$1.00 file return without payment					29
30. If payments and credits (line 28) are larger than your tax liability (line 22) enter Overpayment here. <b>Refund or credit will be made only if \$1.00 or more</b> (allow at least 6 weeks for your refund check)					30
31. Amount of line 30 to be: <b>Refunded \$</b>					17
32. Amount of line 30 to be: <b>Credited To 1977 estimated tax \$</b>					

Make remittances payable to: State Treasurer Mail tax forms to Montana Department of Revenue, Income Tax Division, Helena, Montana 59601.

Penalties \$	
Interest	
Total \$	

Name of person or firm preparing return

I, the undersigned, declare that I have examined this return, including all accompanying schedules and statements, and to the best of my knowledge and belief it is a true, correct and complete return made in good faith.

**84-4903.13. Rules and regulations:** The state department of revenue hereby empowered to make all necessary rules and regulations for carrying out and enforcing this act.

**History:** En. Sec. 13, Ch. 208, L. 1959;  
and Sec. 167, Ch. 516, L. 1973.

#### Amendments

The 1973 amendment substituted "department of revenue" for "board of equalization" at the beginning of the section.

**84-4905. (2295.5) Adjusted gross income. (1)** Adjusted gross income shall be the taxpayer's federal income tax adjusted gross income as defined in section 62 of the Internal Revenue Code of 1954 or as that section may be amended, and in addition shall include the following:

(a) Interest received on obligations of another state or territory, or county, municipality, district, or other political subdivision thereof:

(b) Refunds received of federal income tax, to the extent the deduction of such tax resulted in a reduction of Montana income tax liability.

(2) Adjusted gross income does not include the following which are exempt from taxation under this act:

(a) Interest income from obligations of the United States government, the state of Montana, county, municipality, district, or other political subdivision thereof:

(b) All benefits received under the Federal Employees Retirement Act in excess of three thousand six hundred dollars (\$3,600).

(c) All benefits paid under the Montana Teachers Retirement Act which are specified as exempt from taxation by section 75-6215.

(d) All benefits paid under the Montana Public Employees Act which are specified as exempt from taxation by section 68-1303.

(e) All benefits paid under the Montana Highway Patrol Retirement Act which are specified as exempt from taxation by section 31-221.

(f) Montana income tax refunds or credits thereof.

(g) All benefits paid under sections 11-1925, 11-1926, and 11-1927 to retired and disabled firemen, their surviving spouses and orphans.

(h) All benefits paid by first or second class cities for the policemen's retirement system provided for by the Metropolitan Police Law.

(3) \* \* \* [Same as parent volume.]

**History:** En. Sec. 5, Ch. 181, L. 1933; and Sec. 1, Ch. 167, L. 1947; amd. Sec. 1, Ch. 260, L. 1955; amd. Sec. 1, Ch. 58, L. 1963; amd. Sec. 1, Ch. 129, L. 1965; amd. Sec. 1, Ch. 236, L. 1971; amd. Sec. 1, Ch. 158, L. 1975; amd. Sec. 1, Ch. 411, L. 1975.

#### Compiler's Notes

This section was amended twice in 1975, once by Ch. 158 and once by Ch. 411. Neither amendatory act mentioned or incorporated the changes made by the other. Since the amendments do not appear to conflict, the compiler has made a composite section embodying the changes made by both amendments.

Section 68-1303, referred to at the end of subdivision (2)(d), was repealed by

Sec. 63, Ch. 323, Laws of 1973. For similar provision in present law, see sec. 68-2502.

#### Amendments

Chapter 236, Laws of 1971, added "district, or other political subdivision thereof" to the end of subdivision (1) (a); added "the state of Montana, county, municipality, district, or other political subdivision thereof" to the end of subdivision (2) (a); and made minor changes in phraseology.

Chapter 345, Laws of 1971, deleted former subdivision (2) (b); and redesignated former subdivisions (c), (d), (e), (f), and (g) of subsection (2) as subdivisions (b), (c), (d), (e), and (f), respectively.

Chapter 158, Laws of 1975, substituted

21/11

Joel M. & Verna J. Knutson  
1120 Missouri Avenue  
Butte, Montana 59701

Rep. Ann Mary Dussault  
Missoula, Montana 59801

Dear Ann Dussault:

We have read in the Montana Standard dated March 29th; of your interest in changing the Montana Property Tax laws..

May we please state some of our views?

We have lived in a run-down neighborhood for approx. seventeen years and own a run-down home in same. After nearly thirty years of marriage and five children we have finally managed to build ourselves a decent new home in a decent neighborhood.

We find that we will have to rent our new home from the county for almost \$100.00 a month property tax plus our monthly payment. This to us is insane! Even if we could afford this now how in the world could we possibly stay in this home after retirement?

There is so much talk about individual rights these days and the most precious one of all is being taken away, which is, to own your own home- now and after retirement.

We have never asked for any help of any kind and have tried to work things out by ourselves but we are now asking ourselves Why?

Our married children are faced with these same problems. Aren't they, or us entitled to have decent homes? Or are we to just work so that we may pay taxes for someone else to spend (all on others) never a reward for trying to help ourselves?

We feel we are entitled to our new home without renting it from the county.

One young couple has already given up their new home as there was no hope to keep it for themselves. After doing most of the work themselves as we did--- it really hurts to find that we can't have what we have worked a lifetime to have.

We haven't moved into our new home yet and wonder if we dare as we will probably loose it.

There was talk of Urban Renewel in our present area several years ago and we attended all the meetings. The question always asked by the people involved was, How much will our taxes go up? When told they most definately would go up it was voted down.

Thank you for being interested and for listening to us express the way we feel about property taxes.  
It's not that we do not want to pay our (fair) share but too much is just too much!

Sincerely Yours

# MISSOULA COUNTY

STATE OF MONTANA  
DEPARTMENT OF REVENUE  
OFFICE OF THE ASSESSOR  
DOUGLAS W. CAMPBELL  
MISSOULA COUNTY COURTHOUSE  
MISSOULA, MONTANA 59801

4 April 1977

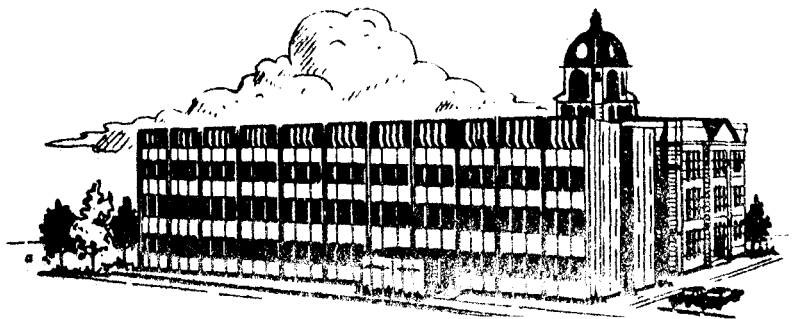
Senate Taxation Committee:

RE: House Bill # 3

We are all aware, I believe, that probably the biggest complaint of Montana taxpayers today is the increasingly heavy burden that the property tax is putting on the homeowner. It is becoming increasingly more difficult for young couples to be able to afford a home other than a mobile home and even on those, the taxes may be \$500 to \$600 a year. If the current prediction is correct that by 1985 the medium priced home will cost \$90,000, who will be able to pay the tax on such a home? At the present mill levy such a home would be subject to a tax of nearly \$300 a month. The retired and elderly who are fortunate enough to own a fairly nice home are sometimes finding that their fixed incomes are not adequate to enable them to live and also keep up the taxes on their home. It is a sad thing to contemplate such people having to sell the home they have worked so hard for because they can not afford the tax.

It would seem that property tax relief for the homeowner should be a top priority and that is why I believe that House Bill #3 should be given serious consideration as an alternative to the tax on dwellings.

*Douglas W. Campbell*  
*Missoula County Assessor*



1/1  
4  
April 5, 1977

Committee on Taxation  
Montana State Senate  
Helena, MT 59401

Re: House Bill #3

Gentlemen:

I understand that the above bill is now in your committee for consideration. I would like to urge favorable action on the part of your committee on this bill for the following reasons:

1. I have several years experience in making home mortgage loans in the Missoula area. Payments on these mortgages require budgets for real estate taxes and in the process of setting up these budgets and analyzing them annually, I have been astounded by the variations in the taxable values of like properties. These differences exist primarily because it is impossible for the Department of Revenue officials to keep all records current without a huge staff of appraisers and office personnel. These differences in value cause grossly unfair distortions in the taxes paid by residents of this county and, I am sure, other areas of the state. House Bill #3 would correct these inequities and allow the Revenue Department appraisers to concentrate on the value of other real estate which would still be subject to ordinary taxation.

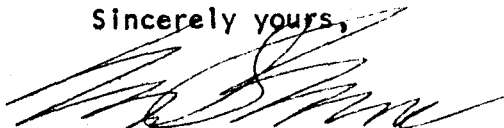
2. It is reasonable to require every franchised resident to bear responsibility for their actions at the polls. All ~~the~~ voters presently are able to pass special levies and bond issues and approve additional public services which are funded by taxes on real estate. Many of these voters have no direct responsibility for the increased costs and, again, House Bill #3 would, to some extent, eliminate this problem.

3. Senior citizens on limited income need some protection from the rising cost of government. This bill would give it to them.

4. I believe landlords would pass savings back to their tenants voluntarily but in any event, the market would force them to do so, assuming the rents they currently are receiving are in line with the market.

In closing, I urge you to consider this bill favorably and to send it to the floor with a "due pass" recommendation.

Sincerely yours,



M.G. Moss

1536 E Dickinson  
Missoula MT.

MGM:jo



# Western Bank

WESTERN MONTANA NATIONAL BANK

11 January 1977

Rep. Ann Mary Dussault  
House of Representatives  
State Capitol Building  
Helena, Mt., 59601

Dear Representative:

Property taxes are of critical concern to homeowners here, many of whom are retired with fixed incomes.

I urge you to do everything possible to effect a change from property taxation to income taxation.

Those with a low fixed income are particularly vulnerable to property tax increases and possible forced sales of homes they have sacrificed to own.

Please now act favorably on the equitable proposal to change the basis from property revenue taxes to an income tax.

Very sincerely

FRENCH KELLOGG  
City Of Missoula Council  
Ward #1





# Western Bank

WESTERN MONTANA NATIONAL BANK

Jan. 11, 1977

Governor Tom Judge  
Capitol Building  
Helena, Mt., 59601

Dear Tom:

There are many retirees in Missoula who are particularly vulnerable to property tax increases and who mention these concerns to me frequently.

Their main concern is that their incomes remain fixed.

Your present property tax relief plan, for which they voted, is commendable and both the well to do and the low income people here thank you for the support.

I urge you, however, to keep an open mind on the proposed income tax substitute for property taxes.

My feeling, and that of others in my area appears to be, is that without a nice income a nice home must go--and probably also the owner. But where?

Best regards

FRENCH KELLOGG  
City Councilman



*The Big Sky Country*

**MONTANA STATE SENATE**

April 6, 1977

SEN. TERRY MURPHY  
DEMOCRATIC FLOOR LEADER  
DISTRICT NO. 40  
CARDWELL MONTANA 59721  
PHONE 406/285 6646

MEMORANDUM

TO: Representative Ann Mary Dussault  
FM: Senator Terry Murphy  
RE: Testimony in favor of HB 3

House Bill 3, known as the "Watt Bill" is a concept of taxation in which I have been interested since 1971. I would ask the Taxation Committee to very seriously consider this bill. Many alleged problems have been pointed out by opponents. I think these objections can be overcome. The bill can work, and I believe it can work very well, in alleviating the property tax burden in some cases.

Please consider what "adjusted gross income" means. This will allow deduction of business expense by farmers and other business people. It will not be a burdensome tax under these circumstances. House Bill 3 can thus be a way to really reduce the reliance on the property tax system in funding local government.

TM

/jo

*Terry Murphy*

Lx

January 22, 1977

TO: John D. LaFaver, Legislative Fiscal Analyst  
FROM: Robert J. Robinson, Associate Fiscal Analyst  
SUBJECT: H.B. 3 - Property Tax Replacement Act.

The following information pertains to a legislative request concerning House Bill No. 3.

Value of Habitable Property

A. Up to this time the mass appraisal has appraised and recorded 119,227 houses at an average appraised value of \$12,571.

B. A rough estimate of the number of homes in the state might be 150,000 to 155,000. The mass appraisal unit estimates 156,200 single family homes.

C. The taxable value of 156,200 homes with an average appraised value of \$12,571 = \$235,630,824.

Appraised Value ( $156,200 \times \$12,571 = \$1,963,590,200$ )  
Taxable Value ( $(\$1,963,590,200 \times .12 = \$235,630,824)$ )

D. The mass appraisal program estimates there are 34,936 mobil homes with a total taxable value of \$21,527,563.

E. Class 8 real property (special tax category) includes 1,353 homes with a taxable value of \$355,974.

F. The sum of the taxable value of single unit habitation is \$257,514,361.

House Units	\$235,630,824
Mobil Units	21,527,563
Class 8 Units	<u>355,974</u>
	\$257,514,361

G. There is no documented information on the number of apartments, duplexes and multiple habitable domiciles. The 1970 census estimates that 18.87% of the housing units are duplexes, triplexes, fourplexes or apartments with five or more units.

H. If we assume multiple unit structures have a taxable value of 18.87% of the single unit value, the total taxable valuation of habitable domiciles in Montana may be approximately \$306,107,321.

Single Unit		\$257,514,361
18.87% Multiple Units	x	<u>1.1887</u>
		\$306,107,320.92

I. The department of revenue estimates that an average of 193 mills are levied on property throughout Montana. If 193 mills were levied on \$306,107,321 of taxable value, the income would be \$59,078,713.

Total Taxable Value of Domiciles	\$306,107,321
193 Mills	<u>x .193</u>
	\$59,078,712.95

#### Personal Income

The Survey of Current Business estimates Montana personal income for 1975 at \$4,054,000,000 up 11.21 percent from \$3,645,516,000 reported for 1974.

I was unable to get a breakdown of 1975 Montana personal income by category. I have assumed that all segments increased in the same proportion as the total to estimate 1975 income by categories.

Retirement income paid in Montana by the public employees retirement system and the teachers retirement system was \$23,182,240 in fiscal 1976.

P.E.R.S	\$11,498,274
T.R.S	<u>11,683,966</u>
Total	\$23,182,240

If the social security pension and retirement payments in 1976 were reduced from the personal income estimate of 1975, it would take a tax of 1.79 percent on the remainder to generate \$59,078,713.

1975 Montana Personal Income	\$3,617,845,000
1976 Social Security & Disability	(295,000,000)
1976 Public Emp. & Teacher Ret.	<u>(23,182,240)</u>
Net Personal Income	\$3,299,662,760

However, it must be emphasized that these calculations assume that all taxable personal income will be reported. To the extent it is not reported, the effective rate will climb.

RE: HB 3

Figure Rounded

Total yearly property taxes	\$250M
Habitable property taxes	60M
To be replaced <u>1st</u> yr. 1/2	30M
Total adjusted gross income	\$2,800,000,000.00
A.G.I. subject to withholding	<u>2,200,000,000.00</u>
A.G.I. of self-employed and retired	600,000,000.00

To replace \$30M from \$2.8 billion requires 1.07%

(this is a state-wide average)

1% will be withheld in Calendar year 1978=\$22M Remaining \$8M will be collected after Income Tax Reports are filed April 15, 1979. The \$8M will be from the self-employed, the retired, and from adjustments on the tax of those who paid withholding.

The A.G.I. (adjusted gross income) is the figure on line 14 of the Montana Income Tax Form. It is the figure remaining after the cost of earning the income is subtracted: i.e. the cost of operating a farm, or ranch, or business, or profession, etc.

The trade off is that no taxpayer will pay property taxes on habitable property as defined in HB 3 after the law is fully implemented.

2  
X

Everyone can understand the concept of HB 3. Much of its detail is only important to those who will administer it.

The following is for those who wish to understand the M-E, the Mill-Equivalent. The mill-equivalent is not used in the first year (see Section 8, Introductory Period). Thereafter it is determined and remains the same year after year.

In HB 3 over  $\frac{1}{4}$ th of all taxable property will remain on the tax rolls and have millage assessed against it just as we are now doing. Between  $\frac{1}{5}$  and  $\frac{1}{4}$ th of all property is habitable property and will go off the tax rolls. This lost revenue will be replaced by having mill-equivalents assessed against adjusted gross income: A.G.I.

A mill-equivalent will be a fraction of a mill. Perhaps it will be  $\frac{1}{10}$ th of a mill, but we want the statistics gathered in the Introductory Period before definitely deciding the fraction.

Of course, a mill is just a percentage to be assessed against taxable valuations. A mill-equivalent is just a percentage to be assessed against adjusted gross income: A.G.I.

In all local governments budgets must first be prepared and agreed upon. Secondly, the exact number of dollars must be raised to meet each budget. As of now millage levied against known taxable valuations is the only way we can exactly meet predetermined budgets. HB 3 is the only way ever proposed to exactly meet a predetermined budget based on ability to pay, i.e. the adjusted gross income of all citizens.

Let us presume: 1. The mill-equivalent will be  $\frac{1}{10}$ th of a mill  
2. The taxable valuation is \$1,000,000. 3. The A.G.I. is \$10,000,000.  
4. The predetermined budget is \$400,000.

Our formula would be as follows:

Mills	X	T.V.	+	M-E	X	A.G.I.	=	Budget
200		\$1,000,000.		20		\$10,000,000.	=	\$400,000.

Another illustration ( X county)

Mills		T.V.		M-E		A.G.I.		Budget
165	X	\$8,000,000.	+	165	X	\$48,000,000.	=	\$2,112,000.
		1,320,000.				792,000.		

In this illustration 165 mills is typical of rural counties (some are lower and some are higher). Note that we always use the same number of M-Es (mill-equivalents) as we use Mills. 165 M-Es = 1.65% of each taxpayer's A.G.I. (adjusted gross income)

Larson - Emanuel -  
 Rasmussen -  
 Fabrega

Keith Anderson

Preparation  
 of Powers  
 checks  
 and balances  
 Lobbyist

1<sup>st</sup> amendment 4650

1. Intimidation

← Mr. Dore and all <sup>Personnel</sup> employees  
 of the D. R. -  
 Individually & collectively

I want you to explain the  
 bill in detail, including  
 but not limited to the  
 areas of:

1. Fiscal Impact
2. Administrative Problems
3. Costs
4. Effect on other Tax  
 laws

Furnish Written Statements  
 immediately

(X/14)



When I start asking  
The Dept. Rec. question  
be sure to get into the  
uninteresting preliminary remarks

4/7  
#15  
/ /  
Kare

MR CHAIRMAN, MEMBERS OF THE COMMITTEE, I AM RAYMON DORE,  
INCOMING DIRECTOR OF THE MONTANA DEPARTMENT OF REVENUE.

IT IS OUR NORMAL CUSTOM TO TESTIFY IN AN INFORMAL MANNER AND  
AS SUCCINCTLY AS POSSIBLE FOR THE PURPOSE OF CONSERVING YOUR TIME.  
BECAUSE OF THE COMPLEXITIES AND FAR REACHING IMPLICATIONS OF THIS  
BILL WE ARE, WITH THE CHAIR'S INDULGENCE, ALTERING OUR USUAL FORMAT.  
IN THE INTERESTS OF PRECISION I WILL BE ADDRESSING YOU FROM A  
PREPARED TEXT. AS SOON AS I HAVE COMPLETED MY REMARKS I WILL BE  
CALLING UPON THE ADMINISTRATORS OF THE DIVISIONS THAT WILL BE  
AFFECTED BY HB 3 WHO WILL ELABORATE MORE TECHNICALLY UPON THE  
POINTS I WILL DISCUSS GENERALLY.

IN ANY PREVIOUS TESTIMONY I HAVE GIVEN BEFORE THIS COMMITTEE,  
I HAVE CONFINED MY REMARKS TO FACTUAL AND TECHNICAL COMMENTS,  
PRIMARILY BECAUSE, AS I HAVE STATED ON PREVIOUS OCCASIONS, I VIEW  
MY JOB AS MORE THAT OF A TAX ~~MECHANIC~~ <sup>ADMINISTRATOR</sup> THAN THAT OF A TAX PHILOSOPHER.  
TAX POLICY IS NOT MINE TO DETERMINE - - CONSTITUTIONALLY THAT MISSION  
IS RESERVED TO YOU. HOWEVER, BECAUSE THIS BILL WOULD SEND US OVER  
~~UNCHARTED SEAS~~ <sup>UNCHARTED SEAS</sup> ~~UNCHARTED SEAS~~ <sup>UNCHARTED SEAS</sup> I WILL BE MAKING SOME PHILOSOPHICAL COMMENTS IN  
ORDER TO DIRECT YOUR ATTENTION TO THE CONCLUSIONS WHICH MAY BE  
DRAWN FROM THESE UNTESTED PREMISES.

ADMINISTRATIVELY SPEAKING I AM MORE CONCERNED WITH THE  
REPERCUSSIONS OF THIS BILL THAN I AM WITH ANY OTHER LEGISLATION  
INTRODUCED THIS SESSION. MOST OF MY REMARKS WILL BE CONCENTRATED  
ON THIS AREA OF CONCERN.

- 2 -

IN THE LIMITED AMOUNT OF TIME WE HAVE HERE I CANNOT DISCUSS ALL OF THE PHILOSOPHICAL CONFLICTS AND CONSIDERATIONS OF THIS BILL, SOME OF WHICH WILL ONLY BECOME APPARENT AS WE ATTEMPT TO ADMINISTER IT.

COMPREHENSION OF ALL OF THESE COULD COME ONLY AFTER AN EXHAUSTIVE STUDY OF ALL EXISTING MONTANA STATUTES AND THE FEDERAL CODES DEALING WITH THE FEDERAL-STATE RELATIONSHIP, SUCH AS, REVENUE SHARING, RECIPROCAL INFORMATION EXCHANGES AND THE INTERACTION OF THE FEDERAL INTERNAL REVENUE CODE WITH THE MONTANA INCOME TAX STATUTES UPON WHICH THE TAX IMPOSED BY THIS BILL IS PIGGY-BACKED.

THE FORMS OF TAXATION UTILIZED IN THE UNITED STATES ARE VERY DEFINITE, TRADITIONAL FORMS WELL TESTED AND WIDELY UNDERSTOOD BY THE TAXPAYING CITIZENRY. FOR EXAMPLE, SUCH FORMS OF TAXATION AS REAL ESTATE, PERSONAL PROPERTY OR AD VALOREM, EXCISE, <sup>and</sup> STAMP TAXES HAVE BEEN WITH US IN EVERY STATE SINCE THIS COUNTRY BEGAN AND ORIGINATED IN THE COUNTRIES OF OUR FOREFATHERS. INCOME TAXES, A MORE RECENT INNOVATION, HAVE BEEN WITH US AT THE FEDERAL LEVEL SINCE 1913, AND HAVE BEEN ADOPTED BY MOST OF THE STATES MANY YEARS AGO.

BECAUSE OF THE WIDE SPREAD USE OF THESE TRADITIONAL FORMS THE AVERAGE CITIZEN HAS A REASONABLE UNDERSTANDING OF HIS OR HER REPORTING RESPONSIBILITIES, DUE DATES, METHODS OF PAYMENT AND METHODS OF CALCULATION. THIS UNDERSTANDING HAS COME ABOUT BECAUSE OF TENS OF THOUSANDS OF STATUTES, RULINGS, REGULATIONS AND COURT DECISIONS.

AS STATED PREVIOUSLY, THE BILL BEFORE YOU WILL LEAD US  
ACROSS ~~UNCHARTERED~~ <sup>UNCHARTED</sup> TAX SEAS. IT DENIES BY ITS LANGUAGE THAT IT  
IS AN INCOME TAX AND DENIES BY ITS TITLE THAT IT IS A PROPERTY  
TAX. THIS MEANS THAT THIS TAX WILL BE IMPOSED WITHOUT THE  
BENEFIT OF LEGAL PRECEDENT OR TRADITION AND WITHOUT CONTEMPLATION  
BY THE CONSTITUTION OF THE UNITED STATES AND THE STATE OF MONTANA.

AS BOB CORCORAN, OUR CHIEF COUNSEL WILL TESTIFY, WE  
ANTICIPATE SERIOUS CONSTITUTIONAL CHALLENGES IN THE AREAS OF EQUAL  
PROTECTION, VAGUENESS, AND UNEQUAL TREATMENT. I CANNOT FORECAST THE  
RESULT OF THESE LEGAL TESTS BUT I THINK I CAN SAFELY PREDICT THAT  
THE LITIGATION WILL BE EXTENSIVE AND ENDURING AS WE ALL ATTEMPT  
TO LEARN THE NATURE OF THIS UNTESTED AND UNIQUE FORM OF TAXATION.

WE HAVE GRAVE CONCERNS IN MANY AREAS. FOR EXAMPLE, WHAT  
CONFLICTS EXIST WITH THE THOUSANDS OF MONTANA STATUTES ON OUR BOOKS?  
I WOULD LIKE TO OFFER AS AN EXAMPLE THE STATUTES GOVERNING  
CONFIDENTIALITY OF INCOME TAX DATA ALREADY ON OUR BOOKS AND TO  
BE FURTHER STRENGTHENED BY BILLS INTRODUCED THIS SESSION. THESE  
STATUTES REQUIRE ME AS DIRECTOR TO ~~REFUSE TO~~ <sup>REFUSE TO</sup> DIVULGE THIS INFORMATION TO ~~ANYONE~~ <sup>ANYONE</sup>  
~~ONE~~ WHO IS STATUTORILY UNAUTHORIZED TO RECEIVE IT UNDER THREAT OF  
EXTREME PENALTIES. YET THIS BILL REQUIRES ME TO SHARE THIS SAME  
DATA WITH HUNDREDS OF COUNTY EMPLOYEES, PERSONS NOT AUTHORIZED BY  
EXISTING LAW.

OUR PERSONAL INCOME TAX DIVISION IS POSSIBLY ONE OF THE  
MOST EFFICIENT DIVISIONS IN STATE GOVERNMENT. <sup>WITH ONLY 55 FTE</sup> ~~THAT~~ DIVISION COLLECTS  
APPROXIMATELY 100 MILLION <sup>DOLLARS</sup> IN PERSONAL INCOME TAXES. ~~WITH ONLY 55~~  
~~PERSONS~~. ASIDE FROM THE INTERNAL EFFICIENCY OF THE DIVISION, THIS  
LOW-COST COLLECTION AND ENFORCEMENT PROGRAM IS POSSIBLE ONLY  
BECAUSE OF THE INFORMATION SHARED WITH US BY THE INTERNAL REVENUE  
SERVICE. WE RECEIVE THIS INFORMATION FROM THE INTERNAL REVENUE  
SERVICE PURSUANT TO AGREEMENTS ~~WITH THEM~~ WHICH REQUIRE COMPLIANCE  
WITH FEDERAL CONFIDENTIALITY STATUTES RECENTLY STRENGTHENED BY THE  
1976 TAX REFORM ACT. <sup>IT IS LIKELY THAT</sup> ~~IF~~ THE SHARING OF THIS INFORMATION WITH THE  
COUNTY EMPLOYEES <sup>COULD</sup> ~~WOULD~~ BE DEEMED TO BE A BREACH OF THE FEDERAL  
STATUTES <sup>WHICH WOULD RESULT IN THE LOSS OF</sup> ~~WE COULD LOSE~~ OUR INFORMATION SHARING AGREEMENT. ~~AND~~ OUR  
ENFORCEMENT COSTS WOULD <sup>THEN</sup> ~~DRAMATICALLY~~ ESCALATE. ~~IF WE ARE TO~~  
~~MAINTAIN THE SAME EFFECTIVE COLLECTION RESULTS.~~

CLEARLY, THE DEPARTMENT OF REVENUE WOULD BE PLACED IN A  
GUARANTEED SUICIDAL POSITION BY THIS BILL - - TO COMPLY WITH THE  
INFORMATION SHARING PROVISIONS OF THIS BILL WOULD BE A VIOLATION  
OF SEVERAL OTHER LAWS AND VICE VERSA.

MYRIAD OTHER CONFLICTS EXIST, SOME BUT FAR FROM ALL OF  
WHICH ARE AS FOLLOWS:

1. A BILL PASSED THIS SESSION CONTINUES THE EXEMPTION OF  
MILITARY PAY FROM STATE INCOME TAX -- DID THE LEGISLATURE  
ALSO INTEND TO EXEMPT MILITARY PERSONNEL FROM PAYING  
PROPERTY REPLACEMENT TAX ON RESIDENCES THEY MAY OWN ~~THEM~~  
IN MONTANA ?

2. A BILL IS BEFORE YOU TO EXEMPT THE FIRST \$1000 OF NATIONAL GUARD PAY FROM INCOME TAXES. WAS IT THE AUTHOR'S INTENTION TO RELIEVE THESE NATIONAL GUARDSMEN OF PROPERTY REPLACEMENT TAX ON \$1000?
3. EXISTING LAW EXEMPTS ENROLLED INDIAN TRIBE MEMBERS LIVING ON THEIR OWN RESERVATIONS FROM INCOME TAXATION. IS IT THE LEGISLATURE'S INTENT TO ALSO EXEMPT THEM FROM PROPERTY REPLACEMENT TAXATION EVEN THOUGH THEY LIVE ON FEE LAND?

THESE ARE BUT A FEW EXAMPLES OF CONFLICTS WHICH WILL BE DISCUSSED IN MORE DETAIL BY OUR CHIEF COUNSEL.

WHENEVER I HAVE TESTIFIED BEFORE YOU ON BILLS WHICH PROPOSE TO AMEND OUR INCOME TAX STATUTES BY ADOPTION OF FEDERAL AMENDMENTS YOU HAVE INSISTED THAT THE LANGUAGE TO ACCOMPLISH THIS CHANGE BE ORIGINAL LANGUAGE AND NOT A MERE INCORPORATION OF THE FEDERAL CHANGE BY REFERENCE. I WOULD LIKE TO CALL YOUR ATTENTION TO THE FACT THAT BY THE VERY NATURE OF THIS BILL YOU WOULD BE INCORPORATING BY REFERENCE EVERY FEDERAL STATUTE, REGULATION, RULING AND COURT DECISION WHICH DEFINES ADJUSTED GROSS INCOME INTO ~~A CONSIDERABLE PORTION OF OUR~~ PROPERTY TAX SYSTEM. NOT ONLY WOULD OUR INCOME TAX SYSTEM BE DEPENDENT UPON THE WISHES OF CONGRESS BUT SO WOULD A LARGE PORTION OF OUR PROPERTY TAX SYSTEM. ~~BE SUBJECT TO CONGRESSIONAL ADJUSTMENT~~ AS AN EXAMPLE, THE 1976 TAX REFORM ACT MODIFIED ADJUSTED GROSS INCOME BY ELIMINATING SICK PAY EXCLUSIONS, EXTENDING THE LONG-TERM CAPITAL GAIN HOLDING PERIOD, ALLOWING PERIODIC ALIMONY PAYMENTS OR ~~AS~~ DEDUCTIONS IN DETERMINING ADJUSTED GROSS INCOME AND EXTENDING THE NET OPERATING LOSS CARRYOVER FROM FIVE TO SEVEN YEARS.

ALTHOUGH EXISTING STATUTES AUTOMATICALLY ALLOW THESE CHANGES IN OUR INCOME TAX BASE, DO WE WANT THEM TO AFFECT OUR PROPERTY TAX BASE? WILL WE ALWAYS WANT FUTURE CHANGES TO AFFECT THE PROPERTY TAX BASE?

OVER THE PAST SEVERAL SESSIONS THE LEGISLATURE HAS LABORED LONG AND HARD TO FIND A SOLUTION TO INCOME SPLITTING PROBLEMS. NO ONE IS HAPPY WITH OUR PRESENT SITUATION. ONE PROPOSAL WAS CONSIDERATION OF THE FEDERAL FAMILY INCOME CONCEPT BY USE OF JOINT TAX TABLES. ~~IN OUR PRESENT FINANCIAL SITUATION, ONE~~

~~ABSOLUTE IS THAT NO MATTER HOW THE TABLES ARE CONSTRUCTED,~~  
*IF* EXISTING REVENUES MUST BE PRESERVED, THIS AUTOMATICALLY MEANS  
*^* THAT NO MATTER HOW <sup>PROTOTYPE</sup> ~~THE~~ TABLES ARE CONSTRUCTED, TO ACCOMPLISH EQUITY FOR THE JOINT FILERS, AN INCREASE WOULD RESULT FOR EITHER THE SINGLES OR MARRIEDS FILING SEPARATELY, OR BOTH. THESE TABLES HAVE BEEN REJECTED THIS SESSION BECAUSE OF THE TAX SHIFT THAT WOULD HAVE RESULTED.

WHILE THIS SHIFT HAS BEEN REJECTED FOR INCOME TAX PURPOSES, THE BILL BEFORE YOU <sup>CAN</sup> ~~WILL~~ RESULT IN SHIFTS OF THE TAX BURDEN, <sup>TO THE LESS AFFLUENT</sup> *^* TO BE ADDRESSED MORE SPECIFICALLY BY JOHN CLARK, ADMINISTRATOR OF OUR RESEARCH DIVISION. I NOTE THAT SOMEONE WAS QUOTED IN THE APRIL 3, 1977, EDITION OF THE INDEPENDENT RECORD AS NAMING THIS THE "INVERSE ROBIN HOOD" EFFECT.

I AM NOT SURE THAT THE RESULT IN THE CASE OF RENTAL PROPERTY IS EXACTLY WHAT WAS INTENDED. BECAUSE OF CERTAIN TAX INCENTIVES GRANTED BY CONGRESS TO STIMULATE CONSTRUCTION OF NEW RESIDENTIAL RENTAL PROPERTY, LANDLORDS OWNING SUCH PROPERTY CAN TAKE ADVANTAGE OF 200% DECLINING BALANCE DEPRECIATION AND IN CERTAIN OTHER CASES EVEN MORE LIBERAL DEPRECIATION. IT IS NOT DIFFICULT FOR AN ENTERPRISING C.P.A. TO LEGALLY STRUCTURE A NEW RESIDENTIAL PROJECT IN SUCH A

MANNER SO THAT APPROXIMATELY THE FIRST 8 YEARS OF THE PROJECT WILL PRODUCE A TAX LOSS (NEGATIVE ADJUSTED GROSS INCOME). THERE ARE FURTHER TAX INCENTIVES WHICH AT THAT POINT ENCOURAGE THE LANDLORD TO SELL THE PROJECT AND REALIZE A CAPITAL GAIN WHICH IS 50% SHELTERED FROM INCOME TAX. BY VIRTUE OF THIS BILL, NO PROPERTY REPLACEMENT TAX WOULD BE PAID ON THE PROJECT BY ~~THE~~ <sup>THIS</sup> LANDLORD.

FOR THE FIRST 8 YEARS. BEGINNING WITH THE 9TH YEAR TAX WOULD BE PAID IF THE PROJECT IS SOLD AT A GAIN, HOWEVER, ONLY 50% OF THE GAIN WOULD ENTER THE TAX BASE. IS IT THE INTENTION TO ALLOW ONE FEDERAL TAX INCENTIVE TO HAVE A THREEFOLD EFFECT THROUGH SHELTERS FROM FEDERAL INCOME TAX, STATE INCOME TAX AND PROPERTY REPLACEMENT TAX? OF COURSE, IF THE PROPERTY IS SOLD AT A LOSS THE LANDLORD OF THIS HYPOTHETICAL PROJECT WILL NOT PAY ANY PROPERTY REPLACEMENT TAX. WHILE THE LANDLORD IS CLEARLY WELL INSULATED FROM THIS TAX, THERE ARE NO GUARANTEES IN THIS BILL THAT SUCH SAVINGS WILL BE PASSED THROUGH TO THE TENANTS VIA A RENT REDUCTION.

WITHOUT QUESTION THE COLLECTION EFFECTIVENESS OF RESIDENTIAL REAL PROPERTY TAXES WILL BE IMPAIRED WHICH MAY CAUSE THE BOND MARKET TO VIEW OUR OBLIGATIONS MORE AS REVENUE OBLIGATIONS THAN AS SECURED OBLIGATIONS WHICH COULD RESULT IN MARKETING DIFFICULTIES AND HIGHER INTEREST RATES.

THE SUCCESS OF THIS BILL AS A REVENUE MEASURE RESTS HEAVILY UPON THE TIMELY FILING OF RETURNS BY APRIL 15 AND THE SUBMISSION OF ESTIMATED TAX PAYMENTS. SERIOUS TECHNICAL PROBLEMS EXIST HERE.



FOR EXAMPLE, THE BILL CONTAINS NO PROVISIONS FOR EXTENSION OF THE RETURN FILING DUE DATE. WHILE THE CRITICAL TIMING REQUIRED BY THE FOR PROPER INTERACTION WITH THE COUNTIES AND TAXPAYERS SEEMS TO SUGGEST AN ABSOLUTE FILING DATE OF APRIL 15, APPROXIMATELY 5,000 TO 10,000 TAXPAYERS TAKE ADVANTAGE OF THE AUTOMATIC EXTENSION PROVISIONS WHICH ALLOW INCOME TAX FILINGS THROUGH JUNE 15. A PORTION OF THESE TAXPAYERS OBTAIN FURTHER EXTENSIONS BEYOND JUNE 15. THEREFORE IT IS CLEAR THAT THE INFORMATION NEEDED TO EQUITABLY ADMINISTER THIS BILL WILL NOT BE AVAILABLE WHEN IT IS NEEDED.

THE ESTIMATED TAX PAYMENT PROVISIONS DO NOT CONTAIN PENALTIES FOR FAILURE TO COMPLY YET THE TIMING OF THE REVENUE FLOW IS CRITICAL AND DEPENDS UPON STRICT COMPLIANCE. WE WOULD SUGGEST THAT COMPLIANCE WITH THESE PROVISIONS WILL BE EXTREMELY POOR BECAUSE OF HARD EXPERIENCE WITH THE ESTIMATED INCOME TAX PAYMENT PROVISIONS WHERE COMPLIANCE IS EXTREMELY WEAK. PERHAPS AN AMENDMENT ADOPTING A PENALTY PROVISION COULD SOLVE THIS PROBLEM, HOWEVER, ATTEMPTS TO SECURE LEGISLATION TO ADOPT PENALTIES FOR FAILURE TO RENDER ESTIMATED INCOME TAX PAYMENTS HAVE FAILED IN THE THREE PREVIOUS SESSIONS OF THE LEGISLATURE.

~~REGARDLESS OF THE EFFECTIVENESS OF THE ESTIMATED TAX PROVISIONS WITHOUT APPROPRIATE PENALTY PROVISIONS~~ IT APPEARS THAT THE REVENUES WILL NOT BE AVAILABLE WHEN NEEDED. AS JOHN CLARK CAN DEMONSTRATE REVENUE TIMING PROBLEMS WILL AT ONE POINT PRODUCE AN 18 MILLION <sup>DOLLAR</sup> DEFICIT REPLACEMENT TAX BALANCE.

WITH FURTHER REFERENCE TO THIS AREA OF CONCERN, THE BILL CONTEMPLATES THAT ALL INDIVIDUAL INCOME TAX FILERS UTILIZE THE CALENDAR YEAR. THIS IS NOT THE CASE.

← SEVERAL HUNDRED INDIVIDUAL TAXPAYERS UTILIZE A FISCAL YEAR AND IT IS OUR IMPRESSION THAT TAXPAYERS WHO ELECT A NON CALENDAR YEAR TEND TO BE TAXPAYERS WITH LARGER INCOMES WHO ARE UTILIZING A NON CALENDAR YEAR FOR ~~MORE~~ SOPHISTICATED PLANNING REASONS.

THERE ARE MANY OTHER AREAS OF REAL AND POTENTIAL CONFLICTS WHICH EITHER CANNOT BE ENVISIONED OR TIME DOES NOT PERMIT ME TO DISCUSS. I HAVE MERELY ATTEMPTED HERE TO HIGHLIGHT SOME CONCERNS IN ORDER TO DEMONSTRATE THAT WHILE THE BILL MAY HAVE ~~SOME~~ <sup>SOME</sup> MERITS, EXHAUSTIVE STUDY OF OUR TAX AND OTHER STATUTES WOULD BE NECESSARY TO PROPERLY UNDERSTAND WHERE IT IS LEADING US.

IN ADDITION TO THE ADMINISTRATORS I HAVE MENTIONED, DENNIS BURR, THE ADMINISTRATOR OF OUR PROPERTY TAX DIVISION WILL DISCUSS HIS SPECIFIC CONCERNS. WITH YOUR PERMISSION I WILL NOW DEFER TO BOB CORCORAN.

BECAUSE OF THE GRAVE UNCERTAINTIES WE  
~~RESPECTFULLY~~ <sup>RESPECTFULLY</sup> URGE YOU NOT TO PASS THIS BILL  
~~AND TO REFER~~  
BECAUSE OF THE NEED FOR FURTHER STUDY.

*Corcoran*

#16

Conflicts with State Statutes

- A. Serviceman legislation (H.B. 168-Moore)
  - 1. not income, no exemption
- B. Confidentiality Legislation
- C. JointReturn-Income Splitting Legislation
- D. Bond Legislation.
- E. In Lieu Fees/Property Tax Legislation
- F. Cost of Living PERS increases
- G. Homestead allowance legislation
- H. Local Government Legislation
- I. Corrective Legislation on Code-Taxation
- J. Administrative Legislation on Tax Appeals
- K. Exemption and Deduction Legislation
- L. Landlord/Tenant Legislation
- M. Personal Property Tax Legislation (H.B. 89) (H.B. 379)
  - 1. Mobile Home Delinquency Legislation (H.B. 113)
- N. Approval of Rules/Regulation Legislation
- O. Computation of New Levy on Tax Jurisdiction (H.B. 321)
- P. Assessment Classes Legislation
- Q. Property Tax Notice Legislation (H.B. 363)
- R. Pension Increase Legislation
- S. Business Inventory Legislation
- T. Tax Incentive for Declining Population

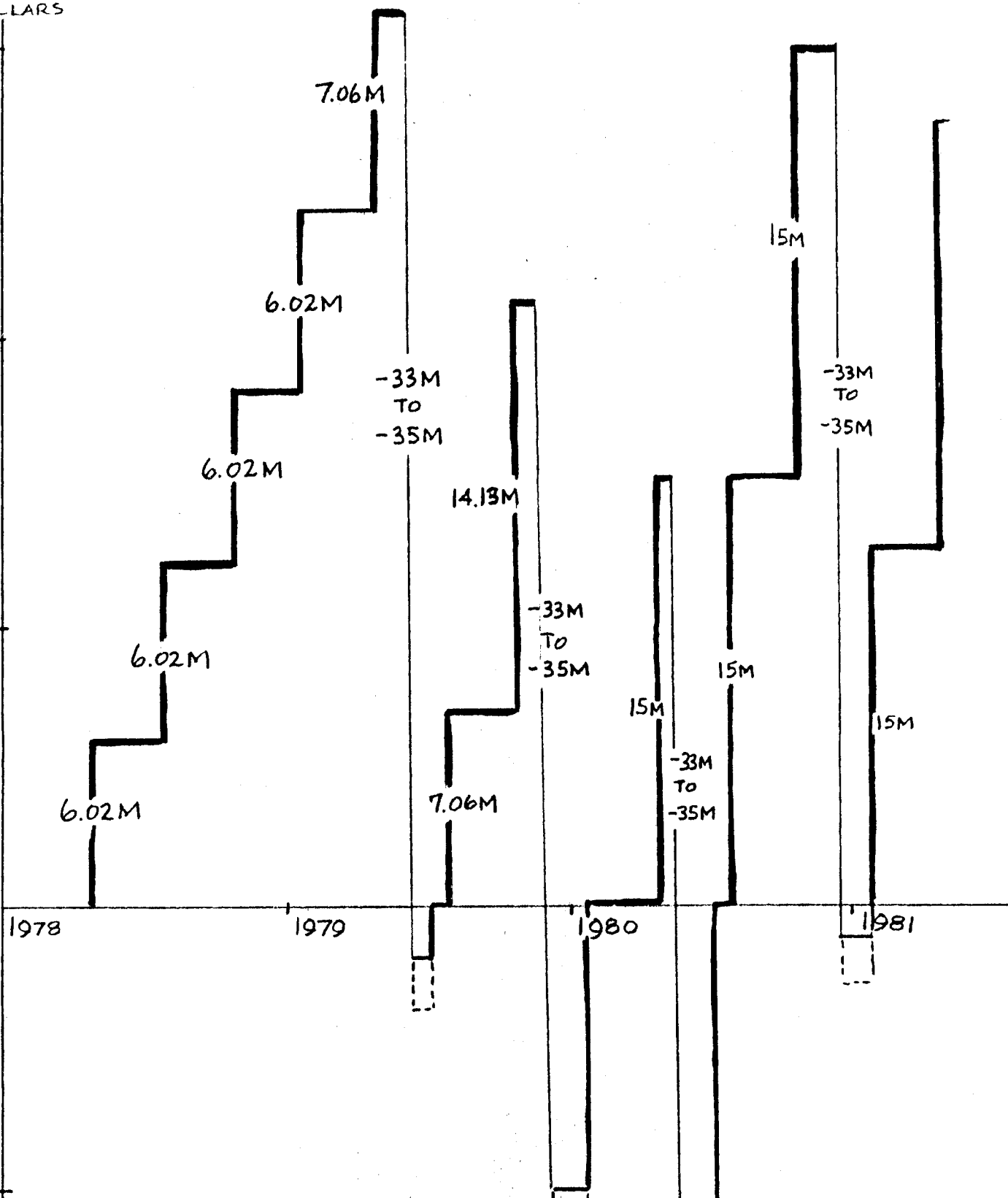
4/7

@20.8%

#17

	1978	1979	1980
AGI	3.65 B	4.28 B	4.53 B
PAYROLL	2.41 B	2.83 B	3.00 B

MILLIONS  
OF  
DOLLARS



Stillwater County  
School District #6  
Columbus

\$11,540,540  
3,055,669  
1,367,496

\$1,398,251  
477,164 (2)  
425,284 (3)

12.1%  
15.6%  
31.1%

Total Taxable Value

Taxable Value  
Habitatable Property (1)

Percentage  
of tax base

- (1) Does not include any multifamily housing due to lack of data  
(2) Includes only those additional houses in district #6 but not in #6C (No additional mobile homes)  
(3) Includes 5% of the value of mobile homes in Stillwater County

Thus, the replacement tax on habitable property must pay 12.1% of the amount levied statewide and countywide 15.6% of the school budget and 31.1% of the city budget. In the following we consider only the habitable property in Columbus.

Amounts required 1976-77

County 467410  
less roads 137625  
Net County 329785  
Schools 321978  
City 93876  
State 91535

Habitable property in Columbus must contribute

County . . . .121 x 329785 x  $(\frac{425284}{1398251})^a$  = \$ 12,137  
City . . . .311 x 93876 = 29,195  
State . . . .121 x 91535 x  $(\frac{425284}{1398251})^a$  = 3,369  
School . . . .156 x 321978 = 50,229  
Total amount of replacement tax required \$ 94,930

<sup>a</sup> This fraction expresses Columbus' share of countywide levy

There are 426 houses in Columbus. If we add 5% (16) of the mobile homes in Stillwater County to the total and estimate an additional 40 multifamily units, we have 482 dwelling units in the city itself. In this event, the residents of each dwelling unit will be required to pay an average of \$196.95 ( $\frac{\$94,930}{482}$ ) in "replacement tax". Using data from the 1975 income tax analysis we find that Stillwater County residents had an average adjusted gross income of \$6,645 and paid an average of \$230 in state income tax. Utilizing this average adjusted gross income, it appears that the rate for replacement tax in Columbus (school district 6) would have to be 2.96% ( $\frac{196.95}{6645} \times 100\%$ ) which is considerably higher than the average 2% figure which has been the subject of so much discussion.

*Burr* # 20

1. No Delinquency Levy

Section 11 provides for estimated tax payments to be made on or before September 30. The payments are 2% of the taxpayer's estimated adjusted gross income for the first six months of the year. However, there is no penalty for failure to either report the income or make the estimated tax payment.

2. No County Enforcement

Section 10 provides for actions brought by the county attorney at the request of the county treasurer to recover delinquent taxes, penalties and interest. There is no property to place on lien against in the case of renters or persons who sell their home and move. This provision will provide major problems for county attorneys.

3. Filing Requirements

Section 6(9) establishes January 1 as the date for determining situs for taxpayers subject to withholding. This raises three problems.

- 1) A taxpayer who moves to a new location continues to be taxed in the jurisdiction of his January 1 situs even though he may spend the great majority of the year in a different jurisdiction.
- 2) Montana residents with income earned outside of the state will pay the replacement property tax on this income even though it is exempt from the present Montana income tax.
- 3) Section 11 pertaining to taxpayers not subject to withholding has no provision for situs of these taxpayers. Serious constitutional problems are present in all three cases.

4. Tax Appeals

Section 4, page 6, provides that the Department of Revenue will hear appeals first, then county tax appeal boards, then S.T.A.B. Section 5 provides an initial appeal to the county tax appeal boards. If the appeal is on jurisdiction between counties, which county appeal board should hold the hearing?

5. Benefit Provision

Section 3(i)(a) states that every person is presumed to have a

document. But each head of household shall be entitled to only one unit qualifying as habitable property in any year and all other buildings he may occupy will not be considered habitable property. This means that if a person trades in a mobile home for a new one after January 1 or moves from an apartment or old house to a new house, the second structure will be taxed as property for the remainder of the year. That individual will pay both the replacement tax and the property tax on his new home.

#### 6. W-2 Tax Computation

The present income tax is essentially self administered as the taxpayer computes his tax liability subtracts the tax withheld from his income and pays the state the balance or receives a refund. Under the provisions of Section 8(2)&(3) the department must determine the mill equivalent for the jurisdiction in which each taxpayer has situs, figure the tax for each taxpayer, match the amount withheld or paid as an estimate and send the taxpayer a statement showing each amount and the balance to be paid or refunded. In addition the department must calculate the amount due each jurisdiction and pay that amount. All this must be accomplished in approximately 2 months.

#### 7. Definition of Habitable Property

Section 3(1)(b) permits the exemption of land "somewhat larger" than a typical city lot if complimentary to the dwelling and not income producing. Department makes determination subject to appeals procedure. A great number of appeals can be expected if the department attempts to limit size of lots.

#### 8. Duties of County Assessor

Section 5(1) requires county to assessor to mail all persons who do not file income tax returns a form for the replacement tax. In most instances the assessor does not now know the names or addresses of these people. Field surveys, essentially a census, must be conducted to identify renters, new residents, and new wage earners who have not previously filed income tax returns. The assessor will have to maintain a list, separate from the assessment role, for non property taxpayers.

#### 9. Separate Appraisals for Structures Containing Both Habitable and Non-Habitable Property

The department must separately value the habitable portion of structures which are also used for non habitable purposes. Examples are apartments located in commercial establishments and detached garages also used for income producing purposes. Since the habitable portion is tax exempt, the owner will argue for an enhanced value for that portion and a reduced value for the nonhabitable portion. A great number of tax appeals may be expected.



## Question PHASE-IN Provisions

IT IS NO EASIER TO ADMINISTER ~~HA~~ THE TAX FOR  $\frac{1}{2}$  YEAR THAN IT IS FOR A WHOLE YEAR. IF ANYTHING IT IS

HARDER BECAUSE WE MUST ADMINISTER BOTH THE REGULAR PROPERTY TAX AND THE REPLACEMENT TAX.

# STANDING COMMITTEE REPORT

April 7

19 77

MR. **PRESIDENT**

## **TAXATION**

We, your committee on

having had under consideration

**HOUSE**

Bill No. **141**

Respectfully report as follows: That

**HOUSE**

Bill No. **141,**

third reading bill, be amended as follows:

1. Amend page 4, section 5, lines 7 and 8.

Following: "property"

Strike: "BY APRIL 15 OF THE YEAR FOR WHICH RELIEF IS PROVIDED"

2. Amend page 4, section 5, line 11.

Following: "sought"

Insert: ", or within 30 days of distribution of the forms by the department, whichever is later"

AND AS SO AMENDED,

BE CONCURRED IN

~~DO XXXX~~

*PA.*

(2)

the already established  
State Income Tax. At  
least if it were combined  
with the State Tax we  
would not require the  
added over burdening  
~~burdening~~ ~~precept~~ to collect  
it. The taxable income  
is determined under  
the same law in H.B. 3  
as the State Income  
Tax. Under H.B. 3 ~~the~~ <sup>the</sup> ~~law~~ <sup>law</sup> ~~of~~  
does not receive credit for  
the deduction that  
~~the~~ <sup>he</sup> ~~is~~ entitled to in  
the State Income Tax.  
While this is called

a property replacement  
tax, where are the  
adequacies against the  
devaluation of a property

(1) Arthur S. Roe

"Property Tax Replacement  
Act" H.B. 3.

We urge the defeat  
of this bill.  
We feel that we do  
not need any more  
drive another income  
tax. Under an obsolete  
or the imagination can  
you call this anything  
but an income tax?  
A county income tax.  
Should this bill become  
law we can then begin  
to look for a profit  
as city income tax.

If it were desirable  
to set up another such  
tax in lieu of property  
tax, there being, may I  
ask is it not desirable

(3)

become law. In other words what is there to prevent another property tax from being imposed in addition at a later date. History shows only a record of increasing property taxes never a reduction.

H.B. 3 provides no limitations on the taxing power of the county. Since the quotient between what the county says it needs and the taxable income of the county determines what the tax payer shall pay. There is no

(4)

efficient non president county government.

There appears to be some grave inequities in H.B. 3. In the first place taxing the income has no relation to the value of the property tax which is being replaced. For example, if I have a very moderate or low priced home, but a substantial income I can look forward to a much higher tax than if I paid ~~the~~ property tax. On the other hand, if I have a substantial home but a relatively low income

②

people do not dare to  
make out their own  
tax returns. The cost  
of this service runs  
up the cost of collecting  
the tax because it is  
deductible and so it  
results in higher tax.  
Who is there to  
prevent ~~the~~ HB3  
from doing the same  
thing if it becomes  
law? On the other  
hand, the property  
tax is a direct tax  
and collectable and  
well established tax.  
I cannot see where  
charging another  
million tax in law.

By Property Tax no.

③

to a less level.

The "is called relationship" that is overly complicated.

It adds but adds,  
more complex and  
undesirable record  
keeping on the tax  
payer's addition to  
the ~~other~~ <sup>new</sup> record,  
keeping in place upon  
the State Department  
the history of the  
present volume. It  
has been a fear  
one. The more so  
called reform we have  
~~the more it becomes~~  
~~that it is not~~

understand the within  
it has become clear  
to the man whose needs

(7)

probation. He will  
have to pay the tax  
whenever the collection  
meets.

If H.B. 3 should  
become law, perhaps  
next we can look  
forward to a city where  
that also.

NAME EVERETT E. WOODGERD Bill No. HB-3ADDRESS 611 LIVINGSTON AVE MISSOULA Date 4-7-77WHOM DO YOU REPRESENT? NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES & SELFSUPPORT            **OPPOSE** XXXXX **AMEND**           

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

- 2-4 BUILDING TAX WILL VARY ACCORDING TO TAXING JURISDICTION; AND SEVERAL WITH NO LIMITATIONS
- 3-6 LOTS MAY BE ALLOWED PROVIDING THEY COMPLEMENT THE BUILDING, ARE NOT INCOME PRODUCING---AND DO NOT LEND THEMSELVES TO SEPARATION AND DEVELOPMENT  
IT APPEARS THAT A 40 ACRE LOT ZONED ONE HOUSE PER LOT, WITH NO INCOME WOULD NOT BE TAXABLE.
- 5-11 TOTAL PERSONAL INCOME MEANS ADJUSTED GROSS INCOME AS DEFINED IN 84-4905  
THIS BILL AS INTRODUCED, INCLUDED SOCIAL SECURITY, AND ALL RETIREMENT INCOME-----NOW ---MONTANA PUBLIC EMPLOYEES, TEACHERS, HIGHWAY PATROL, FIREMAN AND POLICEMAN ARE EXEMPT. (Retirement Income)  
NEITHER ALTERNATIVE INDICATES THAT MUCH PLANNING HAS GONE INTO THIS BILL.
- 5-24 ESTABLISH A CENTRALIZED COMPUTER SYSTEM.  
BIGGER BUREAUCRACY---MORE EXPENSE---MORE BIG BROTHER
- 6-13 ESTABLISH AND MAINTAIN A SEPARATE LISTING OF ALL HABITABLE PROPERTY  
CONSTANT CHANGE-----ADDED EXPENSE
- 6-21 TAX ADJUSTMENTS FOR HABITABLE PROPERTY PROCESSED SEPARATELY FROM OTHER TAX INFORMATION  
MORE ADDED EXPENSE
- 7-11 PROVIDE FORMULAS TO BE USED IN CALCULATING MILLAGE TO BE APPLIED TO TAXABLE PROPERTIES, AND TO THE MILL EQUIVALENTS TO BE APPLIED TO TOTAL PERSONAL INCOME TO MEET INDENT.
- NO LIMITATIONS
- 7-20 COUNTY OFFICIALS SEND TAX FORM TO EVERY PERSON IN COUNTY REQUIRED TO FILE RETURN UNDER THIS ACT.  
MORE EXPENSE-----WHERE DO THEY OBTAIN THIS INFORMATION?
- 8-10 THE DEPARTMENT SHALL ALSO ENCLOSE THIS FORM WITH STATE INCOME TAX FORM.  
MORE DUPLICATION -----MORE EXPENSE---MORE CONFUSION
- 8-21 EVERY EMPLOYER WITH ANNUAL INCOME IN EXCESS OF \$600 MUST FILE RETURN.  
NEEDLESSLY BOYS MUST FILE
- 10-19 EACH EMPLOYER MUST WITHHOLD 2% FROM WAGES  
ADDED EXPENSE FOR EMPLOYERS
- 11-7 EACH EMPLOYER MUST FILE QUARTERLY RETURNS  
MORE EXPENSE FOR EMPLOYERS
- 12-1 EMPLOYER SHALL NOTIFY ALL EMPLOYERS AND COUNTY TREASURERS CONCERNED IF CHANGES DOMICILE  
COMPLETELY UNWORKABLE---BUT VERY TIME CONSUMING FOR OFFICIALS
- 13-7 THE TOTAL PERSONAL INCOME OF THE RESIDENTS OF EACH GOVERNMENTAL UNIT SHALL BE DETERMINED---REVENUE TO BE REPLACED SHALL BE DIVIDED BY TOTAL PERSONAL INCOME OF THE RESIDENTS TO ARRIVE AT QUOTIENT---QUOTIENT TIMES EACH TAXPAYER'S INCOME DETERMINE TAX/  
NO LIMITATIONS-----LARGE VARIATIONS BETWEEN GOVERNMENTAL UNITS



17-1 LANDLORD SHALL INFORM TENANT IN WRITING OF HIS INTENTION OF REDUCING THE RENT.  
MORE RED TAP

18-21 LANDLORD SHALL INFORM TENANT IN WRITING OF HIS INTENTION OF REDUCING THE RENT.  
AND HIS INTENTIONS CONCERNING A REDUCTION OF RENT.  
MORE RED TAP-----MORE LANDLORD-TENANT PROBLEMS

### SUMMARY

PROPERTY TAX ON YOUR DEDICILE IS NOW DEDUCTIBLE FROM STATE INCOME TAX---SO A CHANCE  
OWNER WOULD HAVE AN INCREASE IN STATE INCOME TAX.

NO PROBLEMS WILL BE SOLVED AND NO TAX RELIEF WILL BE PROVIDED.

THEY PEOPLE GENERALLY HAVE TAX SHELTERS FOR INCOME TAX PURPOSES----BUT OWN  
EXPENSIVE HOMES AND PAY A HIGH PROPERTY TAX----THIS BILL WOULD PROVIDE NO METHOD OF  
CHIPPING TAXES FROM THESE PEOPLE.

MANY RETIRED PEOPLE HAVE DISPOSED OF THEIR HOMES AND ARE LIVING ON VERY LIMITED MEANS  
IN RETIREMENT HOMES-----THIS BILL WOULD PLACE AN ADDED FINACIAL BURDEN ON THEM.

THE PROPERTY TAX COLLECTING SYSTEM IN BOTH COUNTY AND STATE WOULD HAVE TO BE EXPANDED.

THERE WOULD BE MORE FORMS TO COMPLETE BY EMPLOYERS EMPLOYED & RETIRED ON  
PROVIDE.

THE BILL NO WAY OF PROJECTING THE MILLAGE FIGURE FOR COMPUTING THE PROPERTY TAX  
AND  
THERE ARE NO LIMITATIONS ON THE AMOUNT THAT MAY BE COLLECTED.

ASK THAT YOU VOTE AGAINST THIS BILL-----THANK YOU.



Mr. Chairman and members of the Committee

I am John C. Bower, President of the Dayton Chapter of the National Association of Retired Federal Employees. I am also Chairman of the Legislative Committee for the State Federation of the above mentioned association.

I have been instructed to encourage the defeat of House Bill No. 3 because it would:

1. - Complicate our tax system instead of simplifying it.
2. - Be expensive to administer.
3. - Result in inequities to many taxpayers.
4. - Require more record keeping and reporting by employers.
5. - Concentrate more taxing authority in state government.

Thank you for the opportunity to consider this bill with you.