

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

April 11, 1977

The sixty-sixth meeting of the committee was called to order on the above date in Room 415 of the Capitol Building by Chairman Mathers, at 9:10 a.m.

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

Sen. Watt introduced a number of amendments to HB3, contained in Exh. #1. He went through the list of amendments and explained each as it affected the bill. Following introduction of these amendments and the committee's inspection of them, they agreed to accept them.

Sen. Watt then Moved Adoption of the Amendments in Exh. #1, to HB3. The motion carried unanimously. Note absence of Sens. Healy and Manning.

Exh. #2 was then distributed by Sen. Watt and contained therein were figures showing total yearly property taxes in the state, habitable property taxes, adjusted gross income and an explanation of the method of replacement tax. He then went to Exh. #3 which contained the formula used in arriving at the mill equivalents, by which the Revenue Department can set the mill levies for the counties. He showed how the revenues would be picked up if the AGI (Adjusted Gross Income) went down. He stated that a bad year as far as AGI would affect only county tax, not school or city budgets.

Sen. Watt then explained Exh. #4 which is the Schedule of Implementation of HB3. Sen. Goodover asked about the bonding problems that were brought up at the hearing by the Montana Taxpayers Association and Sen. Watt stated he did not believe there would be any problems in this regard. However, he said, if this should happen, he thought the matter could be brought to court and an order could be issued saying that the mill levies would continue to be levied on property. Sen. Goodover also asked about the collection of taxes on the Indian Reservations. Sen. Towe asked about Special Improvement Districts and how they were to be handled. Sen. Watt replied the bill would not affect SID's. The point was also brought up that this tax is deductible from the Federal as well as the state income tax.

The committee then discussed the problem of taxing properties and the inability of some people on fixed incomes to pay their taxes, thus often having to sell their homes. They discussed the probability that this tax will not touch out of state corporations renting properties within the state and they then considered amending the bill to remove rental properties. However, there were problems with this solution as well the committee concluded.


2-4/11

At this point Sen. Watt announced he planned to move the bill and Chairman Mathers stated he had the proxy vote of Sens. Healy and Manning, both of whom indicated they would cast a "Yes" vote to get the bill out of committee.

DISPOSITION: Sen. Watt Moved HB3 As Amended, Be Concurred In. A roll call vote was taken which resulted in a 6-4 vote, thus the motion carried.

The committee then discussed HB434 again as it relates to Sen. Manley's sprinkler irrigation system bill. They discussed the present laws relating to such exemptions and suggested amendments to the bill. They decided to first discuss the bills with Sen. Manley and Rep. Williams before taking any action on HB434.

Following this decision, the meeting was adjourned.



WILLIAM MATHERS CHAIRMAN

ROLL CALL

SENATE TAXATION COMMITTEE

45th LEGISLATIVE SESSION - - 1977

Date 4/11/77

| NAME | PRESENT | ABSENT | EXCUSED |
|------------------|---------|--------|---------|
| SEN. WATT | ✓ | | |
| SEN. BROWN | ✓ | | |
| SEN. GOODOVER | ✓ | | |
| SEN. HEALY | | | ✓ |
| SEN. MANNING | | | ✓ |
| SEN. NORMAN | ✓ | | |
| SEN. ROSKIE | ✓ | | |
| SEN. TOWE | ✓ | | |
| SEN. TURNAGE | ✓ | | |
| CHAIRMAN MATHERS | ✓ | | |
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SENATE COMMITTEE TAXATION

Date 4/11/77 House Bill No. 3 Time _____

| NAME | YES | NO |
|------------------|-----|----|
| SEN. WATT | X | |
| SEN. BROWN | X | |
| SEN. GOODOVER | | X |
| SEN. HEALY | X | |
| SEN. MANNING | X | |
| SEN. NORMAN | X | |
| SEN. ROSKIE | | X |
| SEN. TOWE | X | |
| SEN. TURNAGE | | X |
| CHAIRMAN MATHERS | | X |
| | | |
| | | |

6 4

Nita Fjeseth
Secretary

William L. Mathers
Chairman

Motion: As Amended, Be Conc. In
ason Exp. #1
Carried

(include enough information on motion--put with yellow copy of committee report.)

Amend HB 3, third reading bill, as follows:

1. Amend page 2, section 3, line 17.

Following: "property"

Strike: "in any year"

Insert: "at any time"

Ech.#1

2. Amend page 5, section 3, line 11.

Following: "INCOME"

Insert: "of a taxpayer, or a taxpayer and spouse filing jointly,"

3. Amend page 5, line 21.

Following: line 21

Insert: "Section 4. Deductible on income tax return. The tax paid under this act is deductible, when reported, against income for purposes of Title 84, chapter 49, in the same manner taxes on personal and other real property are deductible."

Renumber: following sections.

4. Amend page 6, section 4, line 12.

Following: "board"

Insert: ", except that decisions of the department on legal residence may be appealed directly to the state tax appeal board only"

5. Amend page 8, section 4, line 1.

Following: line 1

Insert: "(10) The department shall revise state income tax return forms to require identification of a taxpayer's elementary school district of residence and whether his primary source of income was subject to withholding during the previous taxable year. The department shall utilize the information so furnished for the purpose of administering this act."

6. Amend page 8, section 5, lines 2 through 21.

Following: "(1)"

Strike: "The county" and lines 3 through 23 in their entirety.

7. Amend page 9, section 5, line 5.

Following: "resident."

Insert: "The department may extend this filing deadline for good cause shown, for up to three months, with payment of a late filing fee equal to three-fourths of 1% of the tax due added for each month the return is late."

8. Amend page 9, section 5, line 16.

Following: "determine"

Strike: "questions as to legal residence of taxpayers,"

9. Amend page 16, section 10, lines 20 through 23.

Following: "due."

Strike: "When a taxpayer becomes delinquent, the confidentiality which the department is required by law to maintain does not apply after the matter is placed in the hands of the county attorney."

10. Amend page 20, section 14, lines 8 and 9.

Following: "84-4931"

Strike: "and in [section 10 of this act]"

RE: HB 3

4/11

Encl H.2

Figure Rounded

| | |
|-------------------------------------|-------------------------|
| Total yearly property taxes | \$250M |
| Habitable property taxes | 60M |
| To be replaced <u>1st</u> yr. 1/2 | 30M = 12% of |
| 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=\$22. 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.

X County

$$M-E = \% M \quad \text{Eq. \# 3}$$

Budget \$1,200,000.

A.S.I. 55,000,000.
or 45,000,000.

| | |
|-----------------------------|-------------|
| Total Valuation | 23,600,000. |
| Total Value of H.P. Reports | 5,800,000. |
| Remainder | 17,800,000. |

$$\text{Formula } \left(\frac{\text{Budget}}{1,200,000} \right) \div \left(\frac{\text{T.V.}}{17,800,000} + \frac{\% \text{ A.S.I.}}{5,500,000} \right) = M + M.E$$

.0515 mills or .00515 M.E. 17,800,000. TV
5,500,000 % A.S.I.

$$233 \overline{) 12000000}$$

$$\begin{array}{r} 1165 \\ \hline 350 \\ 233 \\ \hline 1170 \\ 1165 \end{array}$$

will compute also for school city budgets

$$\begin{array}{r} 23300000 \\ \hline .00515 - \text{common rate to county (642) -} \\ \hline 20,000. \text{ A.S.I.} \\ \$103,00000 \text{ tax} \end{array}$$

$$\text{Formula } \left(\frac{\text{Budget}}{1,200,000} \right) \div \left(\frac{\text{T.V.}}{17,800,000} + \frac{\% \text{ A.S.I.}}{4,500,000} \right) = M + M.E$$

.0538 mills or .00538 M.E. 17,800,000. TV
4,500,000 % A.S.I.

$$223 \overline{) 12000000}$$

$$\begin{array}{r} 1115 \\ \hline 850 \\ 669 \\ \hline 1810 \\ 1784 \end{array}$$

$$\begin{array}{r} 22300000 \\ \hline .00538 \\ \hline 20,000. \text{ A.S.I.} \\ \$107,60000 \text{ tax} \end{array}$$

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 $\frac{3}{4}$ 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. | | 200 | | \$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)

OUTLINE OF HOUSE BILL #3

| <u>Page</u> | <u>Section</u> | |
|-------------|----------------|--|
| 1 | 1 | Short Title |
| 1 | 2 | Declaration of Purpose |
| 2 | 3 | Definitions (1) Habitable property (2) Total personal income (3) Governmental unit (4) Department (5) Mill-equivalent |
| 5 | 4 | Duties of the department |
| 7 | 5 | Duties of county officials (1) County Assessors (2) County Commissioners (3) County tax appeals boards (4) Other county, city & town officials |
| 10 | 6 | Withholding |
| 13 | 7 | Nature of funds, disbursement to counties |
| 14 | 8 | Introductory period |
| 15 | 9 | Penalty |
| 16 | 10 | Collection of delinquent taxes |
| 16 | 11 | Taxpayers not subject to withholding |
| 17 | 12 | Information to Tenants |
| 18 | 13 | Applicability to existing law |
| 19 | 14 | Divulging information unlawful |
| 19 | 15 | Severability |

SCHEDULE OF IMPLEMENTATION H.B. 3

246. #4

| | |
|--|---|
| July 1, 1977 | The Act takes effect |
| January 1, 1978 | Withholding of 1% begins |
| Between first Monday in March and second Monday in July 1978 | Department has habitable property listed separately when making reports required by 84-503 |
| Second Monday in August 1978 | Taxable valuations are finalized and mill levies calculated |
| October 1978 | Habitable property tax statements are to be separately prepared and contain notice that only the first one-half is to be paid |
| November 30, 1978 | First half property tax payments due |
| January 1, 1979 | Withholding of 2% begins |
| In spring and summer of 1979 | Update habitable property files but send statements only for special taxing district |
| April 15, 1979 and each year thereafter | On or before this date taxpayers send Income Tax reports to the Dept. of Revenue |
| On or before June 20, 1979 and each year thereafter | Dept. of Rev. mails replacement tax statements to all taxpayers |
| On or before July 5, 1979 and each year thereafter | Replacement tax due, if any, is paid to Dept. of Revenue |
| On or before August 1, 1979 and each year thereafter | Official estimates of A.G.I. for the current year for each governmental unit are reported to proper officials |
| On or before August 1, 1979 and each year thereafter | The Dept. determines the mill-equivalent The Dept. sends to counties a list of delinquent taxpayers. |
| Second Monday in August, 1979 and each year thereafter | Taxable valuations are finalized and mill levies and mill-equivalents are calculated |
| On or before September 30, 1979 and each year thereafter | Taxpayers <u>not</u> subject to withholding shall pay to the Dept. of Revenue 2% of their income for first six months of year |
| October 1979 and each year thereafter | Habitable property tax statements are mailed <u>only</u> for special taxing district taxes |
| Shortly after April 15, 1980 and each year thereafter | The Dept. of Rev. records the A.G.I. reported from each taxing jurisdiction and compares it with the official estimates of the previous July. Slight adjustments in the already determined mill-equivalents are then made in order to obtain the exact number of dollars needed to meet the budget. |

Most of the above dates are those used at present. This schedule shows the

STANDING COMMITTEE REPORT

April 11 1977

MR. PRESIDENT

We, your committee on TAXATION

having had under consideration HOUSE Bill No. 3

Respectfully report as follows: That HOUSE Bill No. 3,

third reading bill, be amended as follows:

1. Amend page 2, section 3, line 17.

Following: "property"

Strike: "in any year"

Insert: "at any time"

2. Amend page 5, section 3, line 11.

Following: "INCOME"

Insert: "of a taxpayer, or a taxpayer and spouse filing jointly,"

3. Amend page 5, section 4, line 21.

Following: line 21

Insert: "Section 4. Deductible on income tax return. The tax paid under this act is deductible, when reported, against income for purposes of Title 84, chapter 49, in the same manner taxes on personal and other real property are deductible."

Renumber: following sections.

~~DICKASEX~~

CONTINUED

4. Amend page 6, section 4, line 12.

Following: "board"

Insert: ", except that decisions of the department on legal residence may be appealed directly to the state tax appeal board only"

5. Amend page 8, section 4, line 1.

Following: line 1

Insert: "(10) The department shall revise state income tax return forms to require identification of a taxpayer's elementary school district of residence and whether his primary source of income was subject to withholding during the previous taxable year. The department shall utilize the information so furnished for the purpose of administering this act."

6. Amend page 8, section 5, lines 2 through 24.

Following: "(1)"

Strike: "The county assessor shall mail on or before February 20, 1979, and each year thereafter to every person in the county required to file a return under this act and who may not be on the list to receive a state income tax form from the department of revenue a brief form which he shall also have available to his office for the general public, together with printed instructions and a strong, opaque return envelope addressed to the proper section of the department in Helena. The department shall also enclose this form with the state income tax form. On this form the taxpayer shall provide name, address, social security numbers of himself and spouse, school district, city or town, and total personal income. He shall also indicate in the space provided for that purpose whether or not his income was subject to withholding for the previous taxable year. ~~The total personal income shall be itemized according to the categories listed in section 3-2.~~ Failure to receive the necessary form by mail does not excuse an individual from securing a form and making a report. ~~The forms and instructions shall explain that the total personal income requires the inclusion of several items not included in federal or state returns, and every resident.~~"

7. Amend page 9, section 5, line 5.

Following: "resident."

Insert: "The department may extend this filing deadline for good cause shown, for up to three months, with payment of a late filing fee equal to three-fourths of 1% of the tax due added for each month the return is late."

8. Amend page 9, section 5, line 16.

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Page 3
HOUSE BILL 3

April 11, 1977
TAXATION COMMITTEE

10. Amend page 20, section 14, lines 8 and 9.
Following: "84-4931"
Strike: "and in [section 10 of this act]"

AND AS SO AMENDED,

BE CONCURRED IN

WILLIAM MATHERS

CHAIRMAN