

## HOUSE TAXATION COMMITTEE

## 46th Legislature

Representative Herb Huennekens, Chairman of the House Taxation Committee, called the committee to order at 8:00 a.m., January 9, 1979, in Room 434, Capitol Building, Helena, Montana. All members were present as was Randy McDonald the researcher for the committee.

Bills to be heard were House Bills 72 and 73.

Representative Arlyne Reichert, District #37, Cascade County, sponsored House Bill 72 which was at the request of the Department of Revenue and prefiled.

HB 72      HB 72, explained Representative Reichert, is a bill which would bring the Montana state law regarding exemptions for child and dependent care expenses paid to relatives into conformity with the federal exemptions allowed.

Currently, Montana taxpayers are given deductions for child and dependent care only if they hire persons other than relatives. HB 72 would allow a deduction for child and dependent care paid to relatives, as long as they were paid for services in accordance with Social Security requirements and purposes, and as long as these relatives are not, themselves, dependents of the taxpayer.

Since the federal government has recognized this child or dependent care expense as a legitimate tax deduction since 1974, this bill provides for an immediate effective date for Montana's state tax deduction.

Howard Vralsted, Department of Revenue, supports the bill. The Department suspects that taxpayers are already taking this deduction on their state income tax returns. The loss to the state would be minimal - perhaps \$75,000 per year.

Representative Sivertsen questioned that figure was for one or two-year period, and how enforcement is policed. Mr. Vralsted advised that only in the event of an audit would this deduction be detected.

Representative Lien explained HB 72 would make Montana income tax conform to federal tax payments. If it is legal on the federal tax return, it would be legal on the Montana tax return.

Representative Jay Fabrega, District #44, Cascade County, sponsored House Bill 73, which was introduced at the request of the Department of Revenue. This was a pre-filed bill that had no legislative sponsor when prefiled.

HB 73      Representative Fabrega advised this bill would allow the Department of Revenue to keep Montana income tax returns as simple as possible and be in conformity with the federal returns. Since it is necessary to go to the federal return to determine adjusted gross income for the Montana tax return and it is necessary to maintain relationship with federal law, changes in Montana law are necessary.

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The federal adjusted gross income figure allows a lump-sum distribution from a qualified pension, profit sharing, or stock bonus trust to be deducted. Since Montana uses the federal figure as adjusted gross income, these sums are automatically deducted from Montana's adjusted gross income also. This bill would include in Montana adjusted gross income the amount received as a lump-sum distribution to a taxpayer. This would make an increase in taxpayer taxes and provide the state with approximately \$50,000 more income.

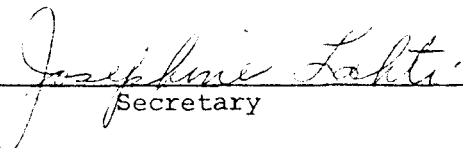
The bill also clarifies that interest income from Montana counties, municipalities, or other political subdivisions only is not included in adjusted gross income.

Montanans also would be allowed to deduct wages and salaries paid since a credit is allowed on the federal return in lieu of deduction of salaries and wages per se, and Montana does not allow for such a credit.

Representative Fabrega explained HB 73 is trying to develop equity. Representative Williams mentioned that under present Montana law lump-sum payments can be taken on a capital gains basis and taken on a 10-year average basis. Mr. Vralsted advised that when taxpayer elects to take the 10-year averaging, that amount is eliminated from adjusted gross income automatically because of the Montana definition of adjusted gross income. Montana law would have the ability to follow federal income and allow 10-year averaging method or do what the 1973 act allows. Representative Fabrega advised application for the 10-year averaging requires a special form and is figured at special rates covering the previous ten years.

Meeting adjourned at 8:30.

  
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REPRESENTATIVE HERB HUENNEKENS, Chairman

  
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Secretary