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1/31/79

HOUSE TAXATION COMMITTEE
46th Legislature

Chairman Herb Huennekens called the meeting to order at 8:30 a.m., January 31, 1979, in Room 434, Capitol Building, Helena. Rep. Fagg and Lien were absent; all other members came in. Randy McDonald, staff attorney was present.

Bills to be heard were HB 339, HB 398, HB 400.

Rep. Hershel M. Robbins, District #46, Roundup, sponsor of HB 339, explained this bill exempts most all property of the elderly from taxation. It exempts up to \$35,000 of the value of a residence owned by certain retired, widowed, and disabled persons. Exempts what is now Class 15 property.

HOUSE BILL 339 Rep. Vincent said there has been a great deal of talk about tax cuts and HB 339 provides an opportunity for tax relief for the elderly. The fiscal impact would be between \$1.5 and \$2 million each year. It would level off in several years. The impact would depend upon mill levies and taxable valuations.

He there is fairness and tax equity in helping people who really need the help.

Rep. Danny Oberg, District #8, Havre, feels senior citizens are overburdened taxpayers suffering from the crippling effects of inflation. This bill will help people who need it most. Very poor people can get help through various programs. There is a group of elderly who don't make enough income to live satisfactorily, but have enough not to be able to receive supplemental help. Property taxes are a great burden on those people. See testimony attached.

The requirements in HB 339 are pretty stiff - \$35,000 is not unreasonable. \$7,000 for a single person is pretty reasonable. There is around \$400-\$500 per year taxes on a \$35,000 home. This bill can help.

Rep. Paul Pistoria, District #39, Great Falls, mentioned there was 10% inflation increase last year. Most senior citizens have had to dip into their savings. HB 339 gives them a chance not to pay any more property tax with those requirements. Recommend this bill do pass.

Chris M. Willems, representing senior citizens in District 6, has been an officer in Senior Citizens for 8 years. Handicapped senior citizens and widows and widowers could use money they would be able to keep by not paying property taxes on their homes for other more personal things. They need this bill and they support it.

Gail M. Stoltz, Montana Human Resources Development Council Directors Assoc., supports the bill if it would help people to stay in their own home. Recommends do pass. See testimony attached.

Rep. Underdal thinks this is an exceptionally good bill and recommends passage.

Others supporting HB 339 were Claude D. Williams, Missoula Senior Center; Willard and Martha Thompson; Clayton Gilfillan; H. Flechseng.

There were no opponents.

Rep. Robbins closed saying this would exempt all property tax for persons at the lower level of income.

Questions -

Rep. Fabrega thinks HB 339 has such abrupt cut offs. What happens at \$8100? This just changed from 50% to 100%.

Rep. Sivertsen asked what the tax on a \$35,000 house under the present system is. Rep. Fabrega explained the assessed value is about 50-55% of true market value. Mr. Burr, Department of Revenue Property Tax Division, advised a \$35,000 house would be taxed at about \$400.

Representative Huennekens turned the chair over to Rep. Dassinger since he was sponsor of HB 398 and HB 400.

Rep. Jim Burnett came in.

HOUSE BILL 398

Rep. Huennekens, District #68, Billings, sponsor of HB 398, feels the 50% figure used for Class 15 property tax on a residence just can't be right. The fact that \$8100 does not qualify and \$7900 of income does qualify is wrong. A couple with \$7900 income gets the same relief that a couple that earns \$1,000 per year gets. The present law speaks of just income. Under HB 398 the federal adjusted gross income will be used. The federal adjusted gross income does not include social security. Social security varies from person to person. He doesn't think we should include social security; if we start from federal gross would be based on 90% at \$9,000 income. This figure is higher than the present law. \$8,000 would include social security, it would include disability perhaps. Allowing for the fact that inflation has been going up since, the figure was changed and I think this was very necessary.

The council was not able to deal with the \$35,000 credit that you get under the reduced rate. Market value is such a nebulous figure that it can't be used as a base, and are using 1972 figures. Should be going to a rolling assessment. Would rather key into true market value as taxable value - would rather base this maximum value on taxable value so that we could make allowances in the future without hurting people who should be getting the aid I think they deserve.

Income is based on a sliding scale, as shown in the percentage scale on page 3, for taxation purposes on property presently in Class 15.

Rep. Fabrega, cosponsor of HB 398, said there is a need for a sliding scale. Senior citizens have contributed their share during their working years to the cost of government and today there should be some relief. One of the problems with previous laws is that they have such broad cutoffs. He feels this bill addresses that - addresses the problem in a more equitable and fair way.

Larry E. Ryan, Past President of Senior Citizens, Missoula, said any property tax relief for the elderly is long past due. They have to demonstrate their

collective needs before anything will be done. Inflation is the biggest problem. The elderly gets hit most by inflation. \$1 saved in the 40s-50s is worth only half of what it was. Passage of HB 398 will help.

Willard Thompson said anything that can be done to help the elderly is more than welcome. Mrs. Thompson, Missoula, agrees.

Mrs. Claude Willems and Mrs. Larry Ryan, Missoula, approved of HB 398. Also present from Missoula were Henry Flechsing and Clayton Gilfillan who were in support of HB 398.

There were no opponents.

Rep. Huennekens closed saying it is a matter of cost - need a fiscal note. The effect, if there is any, will be nominal. Under the old system a 50% allowance would approximately the same because of varying from 90% to zero - would essentially balance out. Upper income persons won't get quite as much relief. Might lose a little money by exempting social security. Inflation will balance out this exemption of social security. Cost will be considered in this matter.

Questions -

Rep. Nordtvedt said persons at the top will not be getting as much relief. This bill replaces the 50% allowance. Those with incomes above \$10,000 would pay 100%. 90% of total tax based on adjusted gross income.

Rep. Williams asked Rep. Huennekens, since there are 10 categories, how many people fall into each group? How does it affect people. Rep. Huennekens said the adjusted gross data showed relatively straight line in the various categories. Got a readout from the department.

Mr. Flechsing asked if this would exempt veterans' pensions.

Rep. Vinger asked if Class 15 would be needed if this goes into effect.

Rep. Williams thought if you exempt social security, you would create another inequity - social security varies. Rep. Huennekens thinks social security was approached with the view that if you have worked more, you have earned more.

Rep. Reichert advised fireman's pension income is not deducted from the federal, but it is from the state.

Rep. Huennekens said AGI is something that can be checked.

Rep. Fabrega asked Mr. Williams what his feeling was on the sliding scale. Do you like that better than the flat rate? Mr. Claude Williams thinks the sliding scale where the ones making \$6,000 are paying 60% of their taxes, a lot of them could have been on welfare but were too proud to request help.

Rep. Johnson asked what other kinds of income than social security are there? Building and loan and other retirements - some have partial social security, partially railroad, partially another. Some other small incomes.

Rep. Huennekens explained HB 400 puts a maximum value on taxable value of residential dwellings. The taxable value referred to here is based on current true market value. True market value is the true market value of 2-5-10 years ago. This badly needs clarification. Market value is taxed at about 55% of true market value - 5% is on true current market value.

HOUSE BILL This will produce a taxable value of somewhere around 5% - .0855% x 55% goes down around 5% of true market value at local level. You multiply the figure by the millage which may vary from 200-300 mills to produce an actual tax. By using taxable value as the input, you put the responsibility where it belongs - on local government. Giving responsibility to local government will let local governments and local cities decide what millages they want. Can go a bit beyond this - a year's flat figure does something to local government - it allows them to cope with inflation by increasing tax base. In areas of no growth, this wouldn't hold true. Costs will go up but they won't be able to cope with it. He thinks the committee can make some check to cope with the effect of inflation. Could apply a set percentage. Taxable value may increase 2-3.5% a year. Could key a builtin inflation factor using real personal income increasing cpi routes. There are several things that could be done - could make the legislature consider it every two years - the committee can decide.

This is bringing a statutory approach to this problem as opposed to a constitutional approach. The constitution should provide basic framework. This legislature should take the responsibility of doing this. We are in a position to decide what we should be doing about tax revenues. Believe the statutory approach is the correct one. It is necessary that we have something that is capable of responding rapidly and is adaptable - can make minor adjustments.

Rep. Underdal supports the concept of helping handicapped and elderly, but thinks this would be sticking younger people. He doesn't think their residence should be taxed. Must be some other way of taxation; just transferring tax.

Rep. Fabrega is co-sponsor of a senate bill taking this same approach. This bill allows flexibility to local government to increase mill levy. Unless market value increases, there is no larger tax base. 5% of 300 mills makes for a 1½% figure to use to multiply tax base by for tax figure. Have to be very careful not to limit local cities from voting a levy they consider necessary. Maximum valuation would be at 5% of true market value.

Rep. Bertelsen came in.

Rep. Nordtvedt basically supports HB 400. This bill stands on its own. The property tax system is a nightmare. Took him awhile to figure how his taxes are arrived at. This bill will not totally correct property tax system, but will move it in the direction of more clarity to the taxpayer. Rural areas that do not have to raise as much property taxes, do not have to have such high mill levies - the flexibility is kept at the local level. Limiting tax for rural areas serves no purpose. Something based on true market value that has to be updated from year to year. Improvements in real estate values are increased for five years and then taxed at 12% a year so would give local governments an inflation correction without changing their mills. He thinks many of the ingredients in this bill should be incorporated in whatever is decided later.

There were no opponents. Rep. Fagg came in.

Rep. Huennekens in closing said he thinks responsibility for the mess is more on the legislature than on the department. Over the years, there has been inattention under the old system. Different counties were assessing under different ways. This won't bring inflation under control. Thinks it should turn over every year. It is a matter of money. Until we get to annual turnover and true market value, must take care of local government.

Rep. Williams said he doesn't like the constitutional concept - likes statutory concept.

Rep. Huennekens feels the local government body should do this - let local voters make their own decision.

Rep. Reichert mentioned local government expenses depend on property taxes 69% - including education is about 90%. Local governments are at the 65 mill maximum.

Rep. Huennekens is in favor of giving much more authority and flexibility to local government.

Rep. Vinger asked who will establish appraising on my own home? The Department of Revenue under authority of local appraiser.

Rep. Huennekens said appraisals are true market values of 1972. Wants to set forth what market value a tax is based on. True market value is presently based on 1972 figures and will stay that way for awhile.

Rep. Nordtvedt said this bill gives the individual taxpayer the statutory permission of coming in and saying 5% of true market value should be taxable value - if above he is paying too much tax.

Rep. Harrington said Silver Bow County is at 300 mills - what effect could this bill have in increased mill levies? Rep. Huennekens answered the 1972 assessed value compared to true market value in Silver Bow County might go over 5%. 5% x the millage is ok. The taxable value is based on true market value. If your home is listed at more than 5% of true market value, that is an individual problem. As far as the effect on the town, unless the assessor has assessed all the property or most of it is above 5%, he may have to lower it. An assessor may not put on anything over a 5% maximum.

Rep. Bertelsen said houses don't always stay the same - this isn't a simple matter. Can't avoid a periodical check. Rep. Huennekens said this would be handled by the local assessor.

Rep. Reichert said the constitution should be a flexible document within broad standards. She thinks this bill should be statutory. Might want to raise 5% up or down. Would it be best for Department of Revenue? Mr. Burr likes this approach instead of constitutional approach. Puts the department in the position of not having to work around something. Property taxes are regressive. The statutory approach is better. The basic problem is that we will never

put enough funding into the problem to get assessing updated. Have been taking sales reports and are trying to visit every house and use the computer. Can appraise 20% of property each year. Have to put more responsibility on property owners if are not going to put money into appraising costs.

This bill creates a new Class 21 for residential property. Taxable value won't be in the 5% of market value since the present 50% of current market value is law now. The adjustment on lines 20-21 - does it mean 7½%?

Rep. Lien - tax rate of 5% of taxable value to set mill levies by.

Rep. Fabrega said this is creating a different class between residential and other properties. On page 2, line 7, tax is at 2½%. Can the taxpayer defend himself from the present system? He thinks he would need more information than we are giving him. We appraise property March, April and May and send out an appraisal in June, and send out an assessment notice which gives taxable value 8½% of market value. Time of appeal is June and by the time he gets the tax notice, it is too late to appeal - too late to think about it. He thinks if the department uses a variable multiplier and try to be sensible, they can arrive at a fair taxable value.

Rep. Dassinger asked Mr. Burr about annual upgrading of assessments. Mr. Burr said they would probably never be in the year of value with taxes. They are interested in market value and uniformity. Have been using 1972 values and doing houses in the state that way. Using the same manual everyplace - are going ahead some.

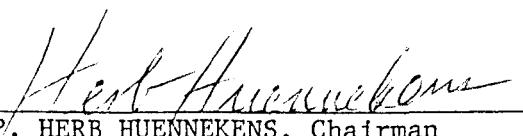
Rep. Lien asked how the department adjusts farm residence values? Mr. Burr said it was kind of inconsistent - use 1972 costs, give 10-15% on a farm house.

EXECUTIVE SESSION:

Rep. Fagg moved amendment to HB 63 be adopted. Unanimously adopted by members present. Rep. Fabrega moved that a committee Statement of Intent be prepared.

HOUSE BILL 63 - Rep. Lien moved HB 63 DO PASS AS AMENDED. Rep. Johnson voted No - all others voted Yes.

Meeting adjourned at 11:15 a.m.



REP. HERB HUENNEKENS, Chairman



Josephine Lahti, Secretary