

HOUSE TAXATION SUBCOMMITTEE

46th Legislature

Representative Edward Lien called the subcommittee to order on February 5, 1979, in Room 431, Capitol Building at 8:05 a.m. Representatives Sivertsen and Williams were present. Other persons were present - see accompanying witness sheet.

Representative Williams proposed input to look at income that can be expected from the banks to be comparable to what they were paying under the 1977 law and currently in 1978. Should be a basic figure. This is roughly \$6.1 million. Leaving out savings and loans, rate would be 10.6% from the banks. Savings & loans - give them the exemption they are asking for - give banks and S&Ls bad debt exemptions spelled out under separate sections of the law. Tax both banks and S&Ls on corporate license tax to keep money to what they did pay in 1978 - 9%. 8.3% - 9%. This will give the state for the general fund what they have been getting. Might figure out 6-3/4% and 2-1/4% to counties. Question of having a committee bill for taxing financial institutions.

Banks didn't pay tax in 1976, but Williams feels they should be obligated to pay what they agreed to pay in 1977 and 1978.

Representative Sivertsen suggesting if left at present circumstances - phase S&Ls in on 20% per year over the next five years, since they loan for homes this would be in the best interests of the economy of our country. Banks do not pay an inventory tax - money is their inventory. Other states have two separate rates for financial institutions and other corporations. Otherwise, eliminate inventory and put everybody on a 9% rate.

Representative Lien raised the question of overtaxing banks. Suggested run this bill through clean with the reserve for bad debts included in the separate federal statute for S&Ls and banks. Federal taxes are being reduced for banks to 6-3/4% and allow for a \$3.6 million loss to the state. Federal is gradually being phased out and all they deduct is for bad debts. Let S&Ls continue under federal statutes. Piggyback federal statutes or run it clean without any amendments. Expect it to be unpopular.

Representative Sivertsen mentioned this makes for a 53% increase in S&Ls tax.

Ross Cannon suggested offering proposed figures to bring it back from 9% to 6-3/4% over a period of time.

Representative Sivertsen said if based on growth, can't mandate any future legislature. However, could put it into law and the next legislature could change it if necessary.

Rep. Lien prefers to come in with a rate that would do the job and let succeeding legislature evaluate it. Rep. Williams said this would take a 9% rate on the proposal.

Representative Sivertsen moved that follow through on granting banks and

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S&Ls the deductions for bad debt reserves and raise rate to 9% with a recommendation that if assets of banks and S&Ls grow, that 9% would be reduced down to 6-3/4% so that all corporations would be taxed at the same rate. Based on growth of financial institutions, could have a schedule by which it could be lowered that we recommend. A 9% rate and 85-15 split would leave it at about the same income as at present.

Rep. Lien thinks it is equity to work back to 6-3/4%.

Rep. Williams advised there is a possibility that since some other corporations other than financial hold federal and municipal obligation bonds, these cannot be taxed at different percentages. If that is true, would it be feasible to amend the present corporation license tax law so all corporations would pay the same rate - 2% is held by other corporations.

Ross Cannon asked if different treatment between corporations is legal - subsequent tax on financial institutions really doesn't affect this. You can tax federal government obligations as long as it is not a discriminatory practice. Maybe could not be legal.

Rep. Lien asked if the 9% will fly through bond houses?

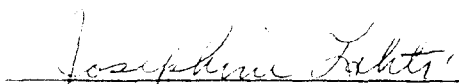
Rep. Sivertsen asked should banks be given a reduction in taxes since we feel that they should participate fully in paying their full share - banks have never said they were overtaxed - they have indicated they were willing to pay their fair share. Recommends working to justify 9%. Questioned having another hearing.

Paul Johnson, Great Falls S&L Association, figured this would increase their tax for 1978 which is \$50,365 - increasing the tax and allowing for a bad debt reserve would increase to about \$71,000 for 1979. Average increase for all S&Ls would be 53%. They would go along with this. Their problem has been that the banks got a big decrease and S&Ls got a big increase.

Cannon asked if it would be feasible to set revenue goals? Paying which would have yielded 6.9% in 1976. If a goal could be maintained at say 5.6% and set rates that produce 5.6% minimum and see if could arrive at a step-down rate set into the bill. If S&Ls could see that it would be stepped down over a period of years, would be better satisfied. Wants rate written into the law.

Representative Sivertsen is to write an amendment to provide for a 9% rate with an 85-15 split with a step-down proposal based on growth.

Meeting adjourned at 8:35 a.m.

  
Secretary

  
REPRESENTATIVE EDWARD LIEN, Chairman