

HOUSE TAXATION COMMITTEE

46th Legislature

Representative Herb Huennekens, Chairman, called the Taxation Committee to order at 8:30 a.m., February 12, 1979, in Room 434, Capitol Building, Helena. Representatives Harrison Fagg and Dan Harrington were absent. Other members were present, as was Terry Cohea, legislative researcher.

House Bill 213, sponsored by Representative Melvin Williams, et al, was to be heard.

Representative Williams explained HB 213 would repeal the existing 20-class property taxation system of the state into a 10-class system. The taxable percentages are rounded to whole numbers in most cases. See attached charts showing existing property tax classification system and the classes proposed in House Bill 213.

HOUSE BILL

213 Please refer to opening statement made by Rep. Williams and the history of Montana property taxation which explains how HB 213 taxes property.

Rep. Williams feels there is a discrepancy in the fiscal note, since a 5% growth rate would not make for a 1.67% decrease as shown for 1981. He said 60% of property tax revenue goes for education in Montana.

Bill Asher, representing the Agricultural Preservation Association, supports HB 213.

Mons Teigen, representing Montana Stockgrowers Association and Montana Farm Bureau, Montana Farmers Union, and Montana WIFE, wants to see livestock moved from Class 6 to Class 5 in order to bring about equity in the field of taxation. See his proposed amendment attached.

Elmer D. Hanson, Montana Stockgrowers president, wants equal treatment in line with other classes. He feels cattle should be in the same classification as other agricultural goods. See his testimony.

Alice Fryslie, Montana Cattlemen's Association, Helena, supports HB 213 if the classification is changed from Class 6 to Class 5. She feels livestock should be taxed the same as a business inventory. See her testimony.

Paul Ringling, Montana Cattlemen's Association Vice President, supports HB 213 with an amendment to change from Class 6 to Class 5. See testimony.

Ray Gerringa, Montana Cattle Feeders' Association, Boyd, Montana, said people who buy cattle and keep them in feedlots want an amendment changing to Class 5. Supports HB 213 with such an amendment.

George Vogt, cattle rancher from Ravalli County, supports the proposed amendment to place cattle in Class 5. See his testimony attached.

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Merlyn Haubein, Montana Retail Association, Helena, supports HB 213.

Bob Gilbert, Montana Wool Growers Association, Helena, supports HB 213 with Teigen's amendment putting livestock in Class 5.

Joe T. Helle, Dillon, cattle and sheep producer, member of Montana Wool-growers Association, supports amendment to place livestock in Class 5. See testimony attached.

Keith Anderson, Montana Taxpayers Association, supports HB 213 if amendment to place livestock in Class 5 as proposed by Mr. Teigen is adopted. See testimony attached.

Jim Mockler, representing the Montana Coal Council, Helena, questions market value valuation. He thinks market value is as of the day when an item is sold, not after it has been completely refurbished. Stationary mining equipment and office fixtures are having inflation added to them and the equipment is valued at more than its cost. When they are through with their equipment, it is almost worthless - not much mining equipment is ever sold, it is used completely up. He also wants some language incorporated stating that equipment used exclusively for hauling coal and ore is taxed on the purpose for which it is used. Also wanted to know if a piece of equipment that is almost always used for purposes other than hauling, but does move ore or coal on occasion, is still regarded as heavy equipment.

Steve Williams, representing the Anaconda Company, introduced Donald R. Eamon, Senior Tax Representative of the Anaconda Company, Denver, Colorado. He offered extensive testimony and proposed amendments. See attached.

Don Allen, Montana Petroleum Association, is opposed to the bill. He wants to endorse the suggested amendments in the line of pollution equipment. He supports the Teigen amendment also. The change in crude supply and makeup of crude has caused some problems, and needs some clarification on abatement costs. Small refinery in Kevin closed because they could not afford to comply with pollution requirements. Mr. Mockler suggested nailing down actual value for inventory value and he endorses that concept.

Roger Tippy, representing the Montana Dental Association, is opposed to HB 213 classification of dental equipment. He introduced Jim Dunlap, D.D.S. Billings, Montana, representing the Montana Dental Association, who is opposed to HB 213 unless it is amended to show dental equipment placed in another class more relative to dental equipment.

Michael F. Barron, Diamond International Corporation, Coeur d'Alene, Idaho, spoke about the taxation of logs and timber as a business inventory. Their inventory is highest on January 1 as they are stockpiling logs for sawing later in the year. The loggers cannot haul logs when the weather is too bad. Cost of inventory also varies with type of timber cut. It varies from \$1 to \$20 per thousand, and those who cut a good deal of federal timber pay \$150 to \$200 per thousand. This makes for an inequity compared to other holders of business inventories. They are at their very highest inventory at the time of assessment.

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Elroy Letcher, Montana Council of Cooperatives, Helena, supports HB 213, questioning fertilizer application equipment being proposed to be taxed at 11%. If the dealer owns it, it is taxed at 13%. Will they then be taxed at 16% because they are described as a truck? The intent is agricultural equipment whether they are owned by a farmer or dealer and wherever they are located. Does the intent change and will they be taxed commercially or as agricultural equipment? He supports the bill if equipment is taxed on the basis of usage. See testimony attached.

Opponents:

Dean Zinnecker, Director of Montana Association of Counties, Helena, said as taxes are dropped, the average homeowner has to pay more taxes. The reason the fiscal note doesn't show drastic loss is because 24 counties already lost tax basis last year. He recommends there being different classes of property: (a) Net proceeds; (b) Real property; (c) Inventory type of property; and possibly (d) Disabled persons; and (e) Centrally assessed type of property. He left a chart showing county mill values and percentage of increase or decrease for 1970-1979. See attached.

Al Thelen, manager of the City of Helena, representing the City Commission, said the bill reduces tax paid by some and increases it on others. Owners of real property will have to pick up what commercial properties do not pay. See testimony attached.

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Representative Williams closed saying it was/the intent of the committee to make some major changes in taxation. The biggest changes were lowering the rate and not raising taxes. Normal annual growth is estimated at 5%. It is impossible to give every taxpayer the same break if we are going to operate under the property tax classification system. The biggest increase is in the inventory class, and biggest increase is 8.3% in a special class. See his closing statement.

Mons Teigen mentioned that bees are considered livestock. Because livestock values are about 48% higher, the loss in revenue would not be as much as might appear.

Rep. Sivertsen explained the reappraisal made some taxes go up, others go down, and some stayed the same. There was an overall increase of about 7% in state valuation. To accomplish tax reform, some changes will have to be made to accomplish equity. Cattle have provided a windfall revenue to government more than others have - others have not been paying their full share. He thinks things will never stay the same and should not keep things status quo.

Rep. Sivertsen asked Mr. Thelen to explain how he thought homeowner taxes would go up. Shifting from agriculture and industrial taxes, will lower the taxable value, and so the cities will have to raise their levies which affect homeowners in order to provide services demanded.

Rep. Gilligan asked Mr. Teigen when he wants to change classes on livestock if he would classify breeding stock in the same class as production equipment. Mr. Teigen said yes. Many farmers own more than one home. He hoped different types of livestock would not be put in separate categories. Wants all types of livestock treated as what they are - not just as all cows - call a yearling a yearling, a two-year old a two-year old, etc.

Rep. Nordtvedt asked Terry Cohea how Class 3 agricultural taxed at 30% of productive value is figured. She explained productive value is figured from a very complex formula. She has tables showing this formula. Since land has been reclassified, perhaps the productive value is not now tied in. Every piece of land in the state was actually looked at and evaluated last year. Land irrigated under the canal system and sprinkler system are valued differently.

Rep. Fabrega feels there is a discrepancy in cattle valuation since all other industries valuations are based on their commercial value. He suggested eliminating cattle tax and transferring the tax to the land where it is more permanent and not subject to the fluctuations that occur in cattle cycles.

Mr. Teigen explained by eliminating cattle taxation, the burden would be placed on the tax base remaining - land is there and is easily taxable. Agricultural land is being classified and appraised on productivity basis. Market value would practically drive cattle business to the large corporation and large operator - historic justification for going on the productivity basis. He opposes Rep. Fabrega's suggestion on the behalf of agriculture, and recommends continuation of present taxing and raise millage levies. Wants to get it equitable. Mr. Teigen thought the idea of increasing the rate of productive values on land be used to eliminate tax on cattle could be a consideration of the interim committee.

Rep. Sivertsen asked what the effect on persons leasing land would be if taxes were raised on the land. Who and what tax will they be paying?

Mr. Teigen responded saying this would place a burden on the private landowner in comparison with persons using government land. Their organization does not advocate eliminating the cattle tax. Livestock has been carrying property tax burden since 1889, and he thinks if eliminated completely, this would not be fair - their goal is to provide equity.

Rep. Dassinger remarked that Montana uses the property tax classification system of taxation and change in the rates will basically affect budgets of local governments. To give everybody a tax break and to create tax equity, you have a tough problem.

Rep. Sivertsen said broad-based taxation would make everyone pay their fair share of taxes and be more equitable. State and federal lands are paying 'in lieu' revenues for taxes at less rates than privately owned lands. He questions the consistency in broad-based tax field.

Dale Dean, Property Assessment Division of the Department of Revenue advised that in some counties productivity has increased, but the same rates for the same class of land have been used since 1968.

Rep. Bertelsen mentioned that in the inventory type of cattle tax, an owner might be paying a high tax on cheap cattle, or a low tax on high-priced cattle since the rates do not apply at the same time on an animal inventory. When prices for livestock are high, income taxes also go up. Mr. Teigen feels this is a cost of production factor - if your income goes up, it is offset by a cost of production increase. Next year substantial revenues will be paid into income tax as well as into state coffers as a result of the, hopefully, better prices on livestock.

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Asked if he knew of any land leased for taxes, Mr. Teigen said yes.

Rep. Underdal raised the fact that the productivity value of land has been increased because of better technology, better farming practices, etc., penalized by taxation for improving your business of farming.

Mr. Zinnecker said a decrease in property tax would effect county budgets drastically, especially if the counties are at maximum millage levies. Without federal revenue sharing and in lieu taxes, budgets would have to be changed a great deal.

Rep. Fabrega questioned the rationale of Mr. Eamon regarding tax rate on certain vehicles compared with heavy trucks. Rep. Fabrega explained the full cash valuation was the loan value, and the loan value on heavy trucks was a lot lower than on lighter trucks. That is why they are in different classes. Mr. Eamon is to provide an explanation of his request to change classifications.

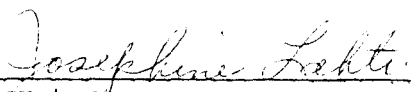
Rep. Hirsch suggested a severance tax and do away with land taxes and the inventory tax by using such a severance tax. Mr. Dean said he had never heard such a tax discussed. The biggest problem with personal property taxes other than real property is getting all the other personal property on the tax rolls. The majority of counties use the honor system.

During executive session the committee discussed HB 213.

Meeting adjourned at 11:30 a.m.



REPRESENTATIVE HERB HUENNEKENS, Chairman



Secretary

Taxation Committee - 8:30 a.m., 2/12/79

TESTIMONY HB 213

(Closing)

Mr. Chairman and Members of the Committee, I believe that I have presented a much improved and workable classification system for taxing property in Montana.

I believe it simplifies and reduces the workload of assessors, reduced red tape and paper work, and the overall workload of the Department of Revenue - and probably most important of all, it makes it easier for taxpayers to understand.

It was not the intent of the sub-committee to make any major change in the overall taxable value of property in Montana. It was the intent of the committee, however, that in accomplishing our two major objectives (1) that similar properties be taxed at the same rate, and (2) to reduce the number of classes, eliminate fractional tax rates and simplify the classification system - to lower rather than raise the tax rate if at all feasible.

As you review the Fiscal Note, I again point out that not one of the 56 counties was increased and the largest decrease in taxable value was Lincoln County with (-4.58%), statewide average is (-1.69%)

You will also note again in review that the survey of 18 cities showed a maximum decrease of (-2.55%) for Fairfield, Montana, with an average decrease of (-1.74%).

Finally, if you use the projected increase on the Fiscal Note for FY 1981, reflecting the normal annual growth in taxable value, which about a 5% increase over 1980, the net result would be an overall increase and more than offset the decrease proposed in HB 213.

Also, I realize in order to accomplish our two major objectives, previously stated, that it was impossible to give every taxpayer the same break.

The percentage decrease in taxable value ranged from 0 to -28.6%.

The percentage increase in taxable value ranged from +0.2% to +8.3%.

I realize that it is difficult to say that this is truly tax equity, but I do believe HB 213 is another step in that direction.

TAXATION COMMITTEE - Monday, 2/12/79

Testimony on HB 213 (Property Tax Classification)

OUTLINE OF TESTIMONY

1. History Montana Property Taxation.
2. Presentation of Classification in HB 213.
Two Handouts - Tax classes in HB 213 and Tax Rates under current tax law - in explaining what we did revising the classification I will be using a different table which includes the taxable values with % change. (Terry Cohea, Mantz Hutchinson & Dennis Burr)
3. Present Fiscal Note.
4. Sources and distribution of property taxes in Montana.
5. Mr. Chairman and members of Committee:
I realize that this proposed HB 213 is not the perfect solution and that there is always room for improvement in anything - but I sincerely believe we have made much progress in simplifying and possibly creating some equity in Montana Property Tax Classification System.

TAXATION COMMITTEE - 8:30 A.M. 2/12/79

TESTIMONY HB 213
(Opening)

Mr. Chairman and Members of the Committee, I am Mel Williams, State Representative, and a member of your committee. HB 70.

I am not only testifying as chief sponsor but also as chairman of the sub-committee that designed and produced HB 213.

I would like to open my remarks this morning with a brief history of Property Tax Classification in Montana.