

## HOUSE TAXATION COMMITTEE

## 46th Legislature

Representative Herb Huennekens, District #68, Billings, called the committee to order February 17, 1979, in room 434, Capitol Building, Helena, at 8:30 a.m. All members of the committee were present except Representatives E.N. Dassinger and Robert Sivertsen. Representative Gilligan was excused. Several members were late. Randy McDonald, researcher was present.

House Bills 630, 633 and 637 were to be heard.

Representative Jack Uhde, District #17, Kalispell, sponsor of HB 630, explained this bill would allow qualifying senior citizens to defer property taxes on their homestead until the homestead owner dies or sells the home. This is an attempt to lighten the tax burden on a limited income home owner who meets other qualifications.

HOUSE BILL

630 HB 630 allows a lien to the state on the homestead for the deferred taxes since the state pays the county for the tax otherwise due to the county, and takes a lien on the home for security. When the home is sold or the owner dies, the taxes become due within 60 days and are to be settled from the estate.

Esther Bengtson, District #59, Yellowstone County, supports the bill which would allow the elderly some tax relief.

Bill Groff, Department of Revenue, supports HB 630, and supports the concept of trying to do something for those who can no longer do very much for themselves. Recommends trying this and come back and take another look at it at the next legislature.

Joe Roberts, Governor's office representative, supports the bill and thinks it is a very workable bill and it has worked in other states.

Ed Nelson, Montana Taxpayers' Association, Helena, does not object to the concept of letting older persons stay in their homes, but he thinks the tax on property is too burdensome on everybody - governmental growth has outstripped the income of people generally. He suggests the committee work this out under Class 15 property; and rather than clouding titles by putting a lien on property, eliminate the tax. This would make one more government program.

Rep. Bertelsen raised the question of what happens when the security is used up and the owner is still living in the house. The owner would be allowed to continue living in the house until the house is sold. If the lien created by the proposed tax relief is not paid off, the state would assume the taxes due, and the tax would be charged a 7% interest rate over the years. This is to try to guarantee a person a home to live in as long as he lives. Other states recommend running with a \$50,000 net worth figure in considering eligibility.

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Mr. Groff, who is a banker, answered a question asked by Rep. Nordtvedt as to whether banks are instituting a negative attitude in this aspect by saying this does not appeal to banks because of the low interest rate when they can charge over 9.5% for home loans at the present time. Rep. Hirsch asked if the private sector would offer such a mechanism to pay the taxes and decrease the equity in the property? Mr. Groff advised banks can't allow over 60% of equity to be used up and still carry a loan. They would have to foreclose.

Rep. Vinger raised the thought of eliminating property taxes completely and not having to be paid back later. No foreclosure could be instituted that way. Rep. Uhde said the state would lose a lot of money if there were no requirement for repayment, and it would not be good to take that much property tax base away from cities and counties. Probably 80-90% of homesteads owned by elderly persons are mortgage-free.

Rep. Fagg asked why the Governor's office put age 62 into their proposal, since younger and middle income people all have problems, and this provides for a comparative disadvantage.

Rep. Uhde said this defers taxes for a few years and the program although subsidized to start with would take care of itself after a few years.

Rep. Richard E. Manning, District 35, Great Falls, as sponsor of HB 633, explained this bill would allow a county to impose a 2¢ per gallon gasoline tax upon approval of the electors in a county-wide election, the revenue from which would be divided between county and cities.

HOUSE BILL      Dan Mizner, League of Cities and Towns, asked that this bill  
633                be sent to the senate where there is another bill relative to  
                     such a tax.

                     Jim Manion, Montana Automobile Association, feels this would  
be a far more equitable way of allowing cities and counties to solve their  
own problems. He supports HB 633.

Jane Lloyd, Billings City Council, Billings, said this would be a good way  
in which to solve the problems of streets and roads in Billings and other  
cities and Yellowstone County. He supports HB 633.

Harold Paulsen, Montana Highway Users, Helena, supports the local option  
approach. There is a great need for repair and maintenance of county roads  
and city streets. Senator Regan has a similar bill in the senate. They  
wholeheartedly approve.

Ken Haag, Director of the City of Billings, supports HB 633. Roads and  
streets need fixing, supports the concept.

David Hunter, City of Helena, supports the bill saying both cities and  
counties are in need of additional revenue for streets and roads. The  
City of Helena is looking for alternative revenues to relieve property  
tax, and the local option portion is especially approved. He offered an  
amendment (attached) which deals with a distribution formula for funds

generated. Also provides an option of adopting a formula mutually acceptable for administration.

Dean Zinnecker, Director of Montana Association of Counties, said the bill is approved in the original form. If the proposed amendment is adopted, approve the say for administration will be agreed upon. The senate bill will require much more administration than this bill, so he approves HB 633.

Marvin C. Beck, I.O.M.A., Deer Lodge, MT. does not oppose HB 633, but offered an amendment to include diesel fuel tax on a statewide basis, but not on a local one. One county may have a truck stop, and if a tax is added, truckers will buy diesel in a county without a tax. A county tax would have to be reported on a separate form from statewide forms, and sent in with a cashier's check to the Department of Revenue for the sale of diesel, which entails another job because this would not go to the same account since it would be returned to the cities and counties from which it originated. If the tax is not in all counties, he would like to see diesel fuel be deleted from HB 633.

This would be agreeable with Rep. Manning since it would cause a problem.

The question of refund on diesel fuel not used for highway purposes was raised by Rep. Lien. How would this be adone? Mr. Zinnecker said this is a problem with the senate bill. Norris Nichols, Department of Revenue Motor Vehicle Division, said this would run into a bugaboo situation. A record of diesel delivered to farmers would have to be kept and they would have to apply for a refund. The Regan bill addresses this point he thinks. It would be necessary to have another form and apply to that county for a refund.

David Hunter suggested changing "may" to "shall" on page 1, line 12.

More revenue would be raised in the cities since most would be able to be refunded in the rural areas. Generally, if there were no refund on diesel fuel tax, there would not be any problem. Rep. Fabrega remarked that more and more vehicles are going to diesel use. He thinks if tax were on a statewide basis on diesel fuel would be better than a local option.

Mr. Nichols said if it were statewide, it could be distributed back on some sort of basis as gas tax is at the present time.

Rep. Vicki Johnson, District #72, Columbus, sponsor of HB 637, explained HB 637 would eliminate inheritance taxes on all property passing to surviving spouse. She feels a couple has worked to earn property and the survivor should be entitled to all the property without paying inheritance tax.

HOUSE BILL Alice Fryslie, representing Montana Cattlemen's Association, et al, supports HB 637. See her testimony attached.

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Terry Murphy, National Farmers Organization, advised that when the inheritance tax was conceived as a method of taxation, it was for the purpose of breaking up large accumulations of wealth. However, it has become

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a revenue measure. This bill does not discriminate between classes of people who own property. Only 1% of farms in the United States had high enough values to be subject to inheritance tax. Inflation in land values makes a farm owner's worth much higher, but does not provide a spendable income unless the farm is sold. Should a man remarry and put his wife's name on title to land, and she should die, he has to pay inheritance tax on her share again.

Tom Stohl, inheritance tax division of the Department of Revenue, opposes HB 637. During the 1975 session a study was made on inheritance taxes. In 1977, SB 31 was concerned with the surviving spouse, and provided for a 50% exemption on all property to the surviving spouse, in addition, it pushed the \$25,000 exemption to \$40,000, so half the exemption, plus \$40,000 out of the other half was exempt. The spouse retained 50% in joint tenancy. For inheritance tax purposes the full value of property is reduced to half when brought into an estate - 50% is reduced again, making 25% includable.

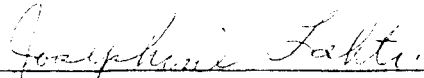
Because of this legislation, about 60% of the surviving spouses have been completely eliminated from payment of inheritance taxes. This leaves only exceptionally large estates. If this is figured out at 2%, it is very close to what inheritance tax will be. The first law passed in 1887 provided for a 1% tax; it was amended in 1923 and came up with a maximum of 8% which is still in effect. The tax rate never exceeds 8%, and provides a 5% discount if paid within 18 months. There is a 6-1/2 year deferral of tax. He does not feel the present inheritance tax laws create the problem that has been pointed out today primarily because when the tax is computed, the effective rate is quite low - rarely does it exceed 4%.

Rep. Johnson feels that it is bad enough to lose a loved one, but to add inheritance tax is overwhelming.

If one spouse dies within 10 years of the other, the inheritance tax paid by the first estate covers any inheritance tax that might be due unless value of estate is greatly increased. There is a full credit for 10 years so children would not have to pay if surviving spouse has already paid tax. After 10 years no credit is allowed. Inheritance tax is figured at 2% on the first \$25,000, 4% on the next \$25,000; 6% on the next \$50,000; 8% on \$100,000 and anything over that.

The meeting adjourned at 10:00 a.m.

  
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REP. HERB HUENNEKENS, Chairman

  
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Secretary