

March 16, 1979

HOUSE TAXATION COMMITTEE

46th Legislature

The meeting was called to order in Room 434, at 8:30 a.m., March 16, 1979, by Rep. Herb Huennekens, Chairman. All members were present except Rep. Kenneth Nordtvedt who was excused. Randy McDonald, Staff Attorney was present.

House Bills 151, 501, 629, 256, 11, 321, 221, and 287 were to be heard.

Rep. Huennekens explained the four bills eliminating the surtax would be heard first.

Rep. E.N.Dassinger, District 50, Rosebud County, presented House Bill 501 of which he is sponsor. This bill is an attempt to drop the surtax and have a zero fiscal impact by raising some of the tax brackets to make up for the loss. He provided two handouts (attached) prepared by Tom Wind, Chief of the Research Division of the Department of Revenue. One handout displays the effect of removing the surtax and the other shows the effect of revising the tax brackets and removing the surtax. He estimated the fiscal impact would be \$29.5 million in lost revenue. In all brackets below \$13,000, the taxpayer will be paying less in income tax. Above \$19,000 they will begin to pay more than they are presently paying.

Rep. Dassinger took over chairmanship while Rep. Huennekens explained HB 287.

Rep. Huennekens said HB 287, of which he is sponsor, proposes eliminating the surtax and revising the tax brackets. This bill eliminates the surtax, increases the deductions to \$800, and increases the number of brackets and the rates. The setup in this bill would carry the top bracket figure for Montana purposes to about the bottom of the federal bracket. The loss would be about \$35 million if the Department of Revenue projections are correct. It would increase the number of brackets by \$3,000 increments at the bottom and get larger as it goes up.

Rep. Huennekens resumed chairmanship.

Rep. John Vincent, District 78, Gallatin County, Bozeman, presented HB 256 sponsored by him. He explained this bill was submitted early in the session to provide some grounds for compromise. This bill phases out the surtax over a three-year period and gradually increases the deductions to a final figure of \$1,000. He emphasized that one of the strong points of this bill was that it could be adjusted. Both the phase-out of the surtax and the increase in deductions can be altered to meet available income. He also stated that it would be proper to address either one or the other, the committee may not find it necessary to amend both figures. The strength of HB 256 was to provide the committee with some choices. He also pointed out

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that there was no room for negotiation in an outright repeal of the surtax. He hoped the committee did not feel any obligation to adhere strictly to the time periods mentioned in the bill. The bill is flexible and if compromise is necessary, this bill can easily be adjusted.

Rep. Jack Moore, District 41, Cascade County, presented HB 629 sponsored by him. This bill would reduce the surtax to 0% of the taxpayer's individual income tax liability after December 31, 1978. Receipts shown on the fiscal note attached would decrease about 9.9% if 10% reduction is allowed. He stated there will be some staggering of income tax rates. This will affect around 390,000 individual returns - 9-10-11,000 will have no income tax to pay at all.

HOUSE BILL
629

Rep. Jack Moore also presented HB 221, of which he is sponsor. Every year the standard deduction in computing the net income is 10%. This bill allows a 15% deduction of adjusted gross income. The bill would also increase the maximum standard deduction from \$500 to \$1,000. In the case of a husband and wife, the deduction would be \$2,000 instead of the \$1,000 now allowed. He said HB 221 would have a negative fiscal impact. The estimated impact to the general fund would be \$1.17 million for 1978, \$1.29 million for 1979. Impact to the earmarked fund would be \$751,000 for 1978, \$827,000 for 1979, \$293,000 for 1980 and \$322,000 for 1981. The sinking fund would be negatively affected by \$149,000 and \$152,000.

There were no questions from the committee for Rep. Moore so he was excused so he could return to another meeting.

Rep. Yardley, District 74, Park County, presented HB 151, which he sponsored. This bill is an act to repeal the 10% surtax on the individual income tax because he thinks this is the most unpopular tax we have.

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He also pointed out that this was not to be a permanent tax. In 1971 there was a 40% surtax for one year only. He feels the surtax is unfair because it collects more from the taxpayer than does inflation. He pointed out that the taxpayer has to earn \$10,000 now to live at the same level that he did a few years ago when earning \$5,000. The taxpayer today is paying almost three times as much to make enough money to keep the same standard of living. He urged the committee either recommend his bill or one of the others repealing the surtax.

Rep. Wes Teague, District 69, Yellowstone County, co-sponsor of HB 151 spoke on behalf of the bill. He believes most taxpayers are very conscious of the surtax, especially because it is the last thing added onto their income tax. If this tax can be eliminated or at least cut down, the people of the state would be very conscious of such a tax reduction. He urged favorable consideration by the committee.

The committee now opened hearings on bills relating to another aspect of the income tax personal exemptions.

Rep. Keyser, District 81, Madison County, presented HB 11 of which he is sponsor. This bill was drawn up to give the taxpayers a long overdue tax

HOUSE BILL tax break. There has been a 361% increase in state spending
 and a 252% increase in personal income. In this time the
 11 number of state employees has almost doubled. The income
 tax has outstripped any raises the taxpayer has seen in his
income. The people of Montana either want a break in income taxes or a cut
in government spending. HB 11 would raise the exemptions allowed in comput-
ing taxable income from \$650 to \$1,000 and increase the minimum income re-
quirements for filing returns to \$1,000 for an individual and \$2,000 for a
joint return after December 31, 1978. This bill is geared to everyone, but
would primarily help the young families raising children. Property tax
relief doesn't help them since they often do not own a home or other property.
Property tax has gone up 114%. It is time we realize that the people want
and need tax relief. An initiative referendum is the only alternative. The
fiscal note shows \$38 million loss for the biennium. Rep. Keyser concluded
saying it has been a long time since exemptions were raised and such a move
is long overdue.

Rep. Johnson asked if the sponsor would compromise on the \$1,000 raise, and
maybe go to \$750 because the impact is so great. Rep. Keyser said he would
not attempt to tell the committee how to do this, but compared to the impact
of inflation, \$1,000 is still not enough. He chose \$1,000 because he did
not think the committee would accept a higher figure. The taxpayer loses
more than this in his take home pay to inflation.

Rep. Dassinger presented HB 321 of which he is chief sponsor. Some amendments
were proposed (attached) because when the bill was drawn up he did not know
what monetary amount should be used to properly benefit the
HOUSE BILL whole state. Since that time, he has learned that a \$44
 credit for each allowable dependency relationship claimed
 321 should replace the current \$650 exemption. The effect of
 this bill would be a zero fiscal impact. If the exemption
is raised, all the committee has to do is change the monetary amounts. This
way everyone would be treated exactly alike. The intention of this bill is
to eliminate the greater personal exemptions allowed higher incomes by
giving everyone the same tax credit. The original \$30 figure in the bill
has been changed to \$44 to control the revenue effect.

A handout describing the effect of this bill on various income levels was
given the committee members. He stated that a \$69 credit would have the
same effect as a \$1,000 exemption. Mr. Wind, Department of Revenue, advised
the intention beyond changing the personal exemption allowance into a credit
is because the personal exemption allowance allows persons in the higher
brackets more than it does the lower bracket incomes. The notion of a credit
has arisen. The \$30 credit shown in the fiscal note should be about \$40.44
credit to be equal to the standard deduction. A break would be given to
those in the lower brackets - about 11,000 would be paying higher taxes be-
cause of being in higher brackets.

Ed Nelson, representing the Montana Taxpayers Association, thinks that the
number of bills before the Legislature is a rather clear indication there is
an interest in having some kind of change in the way we tax income because
the way it is done is really degenerating today in relation to inflation.

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Tax rates haven't been raised, but when people try to beat inflation and get a raise, the state gets there first with income tax. Of all the returns filed in Montana, about 63% have incomes of \$6,000 or less, and they pay 15.5% of the tax burden. Incomes above \$36,000 pay 12% of the total tax, but these are only 1/2 of 1% of all the returns in the state. It is nice not to tax the poor, and probably many don't get taxed, and it is good to tax the rich, but there aren't enough of them to go around, so we are talking about the middle group.

We don't want to injure the old folks. Senior citizens as a class are the only ones who have stayed even with inflation. The young people starting out and raising kids have problems. There is a real need to take a serious look at some kind of tax relief for them. From a personal angle, the surtax is an anathema. The surtax is most unpopular with everyone. Something must be done to satisfy people in terms of exemption. The value of that today is significantly less than when it was adopted because of inflation. I do hope that when you make your final deliberation, something has been done to benefit the individual taxpayer. Montana Taxpayer Association members are generally composed of people who have property. Their survey showed 90% wanted adjustment of income tax although they all paid property tax also.

There were no opponents to HB 321.

In closing Rep. Dassinger said we would all like to provide tax relief, but we have to be realistic. We have to compromise and he feels his bill is the vehicle for this compromise.

Questions from the Committee -

Rep. Williams asked Mr. Nelson what he thought would be the best way to give some tax relief. Mr. Nelson felt the biggest problem with his constituency seemed to be property taxes and government spending. He stated that to collect property taxes is very direct and visible to the taxpayer. Income tax is not as visible because most of it is withheld. He has a real question with the government program providing homestead relief because this money comes directly from the income of the taxpayer. He feels that a majority who do not own their own homes and rent, are paying out to the property owners. It is very unfair to make collections through income tax and put it into the Homestead Act. In response, Rep. Williams stated that he could not speak for other districts, but in District 70, 70% were home owners. Rep. Vincent thought from 63% to 70% in his district were home owners, and agreed that property taxes would be a proper way to provide tax relief. He did not think it was accurate to say that a majority of the people are not home owners, especially if you discount the students living in his district. His bill was introduced as a start in dealing with tax relief problems.

Rep. Johnson asked who made up the membership of the Montana Taxpayers Association. Mr. Nelson explained that membership was basically the business communities of Montana, but it also had the income and property taxpayers' support. They have about 2200 members.

Rep. Williams asked for an explanation of the statement that senior citizens are the only ones who have stayed within inflation. This statement was based

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on an article published in National Publications which said the people over 55 have 53% greater buying power than ten years ago because their income is not taxed and is adjusted for inflation - Social Security benefits are part of the help.

Rep. Huennekens said this buying power was not much after taking care of the bare necessities since most senior citizens have very small incomes.

Rep. Dassinger advised most taxpayers in the state make less than \$2,000 taxable income, which about what retirement is at age 55.

Rep. Fabrega likes HB 11 because it does not tax the basic living expenses. Mr. Wind has stated that we can tax people on the basis of benefits received, or on the basis of their ability to pay. He sees no problem with the level of tax exemptions.

Rep. Reichert mentioned the fiscal impacts of these bills range from \$38 million to \$1.79 million. She saw Rep. Vincent's bill as a flexible way to phase out the surtax, which can then be reviewed again by the next session. Any legislature could do this - this bill just provides the vehicle.

Rep. Williams asked, if after making a cut in income tax, we would be likely to see a state-wide mill levy to make up for the loss to the education fund. Rep. Vincent agreed that this would probably be the case - he did not think we could afford to jump from a \$650 exemption to a \$1,000 exemption.

Rep. Williams asked Mr. Nelson how he thought we could keep the school fund properly funded. Mr. Nelson replied that if at the bottom line we have failed to fund the school foundation program and have failed to give tax relief, this will be a main point of public criticism. The taxpayers don't want a deficiency levy, but do want some kind of tax relief. There ought to be no greater impact on property taxes because of income tax relief.

Rep. Vincent feels the people of Montana aren't crying for massive tax relief - they want an indication that the legislators recognize it is a problem. Now is the time to address this problem with some mild form of relief. Most people who are concerned about this are working today and this is the reason there are so few proponents at this meeting today.

Rep. Fagg asked if people were more concerned about income tax reduction or less government. Mr. Nelson thinks there is probably more concern for the amount of government spending. To approach this fairly, we are going to have to approach the problem by looking at all areas.

Rep. Hirsch though probably most taxpayers would like to see a substantial reduction in government and are looking to the legislature and congress to limit this growth. The power of pressure groups is strong, but as a general group he feels people were for less government.

Should HB 501 pass, paperwork would not cost any more than at present altho figures would have to be revised every year with a new set of instructions.

It was felt by Mr. Nelson that should a tax cut be realized, the money could be used not so much to cut government, but to restrain growth.

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EXECUTIVE SESSION

HOUSE BILL 471 - Rep. Fabrega moved that HB 471 DO PASS, He then moved proposed amendments be adopted. Amendments were adopted unanimously, Reps, Nordtvedt, Lien, Harrington were absent. Motion to Do Pass carried with Rep, Sivertsen voting No. Same members were absent.

HOUSE JOINT RESOLUTION 44 - Rep. Dozier moved HJR 44 DO PASS, He then moved proposed amendments be adopted. Rep, Johnson voted no on amendments suggesting that 24 cases is too few for sales promoting purposes. Amendments were adopted. HJR 44 AS AMENDED DO PASS motion carried with No Noes. Rep. Fagg was absent. (Proposed amendments attached)

HOUSE BILL 631 was brought up for discussion. Rep. Burnett said HB 631 will not take away any revenue and in turn will decrease the state cost of state employees plus the fact that you wouldn't have the inventory to carry and ought to be all of this in the particular amendments available to be printed if so desired. We would license the various package stores and would maybe add \$100,000 to it.

This bill was heard in Business and Industry House Committee. It is trying to take the state out of the liquor business, Labor unions and retail clerks were against this bill when heard in B&I. Liquor stores were thinking about striking awhile back. Don't know if they can use this part of the liquor revenue to make adjustments or not.

Rep, Fabrega asked are you saying we could save \$9 million at this time? Rep. Burnett was not saying what could be saved. This doesn't reflect the licensing of the liquor stores. Rep, Huennekens asked what would the gross revenue be. Could we find out what the profit is? Rep. Burnett said this makes about \$22 million and after deducting this amount from it, it brings in an approximate profit of \$16-17 million to the state.

Rep. Fabrega said if we go to wholesale only, obviously will be selling for a lot less and the revenue will drop by probably \$4.3 million or more. Rep. Burnett said wine alone had an 81% markup and have to divorce wine from this and this makes it difficult to do. Rep. Huennekens asked if the committee should wait and see how the wine deal works out, Rep. Dassinger said he can see only a revenue loss in this unless liquor prices are raised. Until we get a detailed report on this as to what loss this bill would cause the state it might be best to wait.

Rep. Sivertsen would like to have a little more information. When we start talking about a loss to the state, we don't know where we got the idea that the state can run a business better than private enterprise. He thinks the people want the state to get out of the liquor business and give it to private enterprise. Rep. Burnett mentioned there has been some discussion about abuse of drinking in liquor stores. Rep. Johnson commented people can get cheaper liquor in liquor stores than in private business, and asked what is wrong with the state being in the liquor business. Rep. Burnett added that when a store doesn't make money under state management, it makes the store into a commission store and then that store makes money.

Rep. Huennekens presented the committee with a proposal for a new committee bill that would allow the state to issue and sell notes in anticipation of

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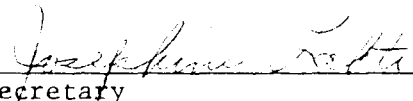
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taxes and revenues appropriated for expenditure during a fiscal year. He explained state income fluctuates, disbursement also fluctuates because of the education fund. We have had a very healthy surplus in the budget, but there will be low points of a negative amount of \$40 million in the state budget. Historically the state had handled this by borrowing from another fund in the state portfolio - short-term portfolios. Short-term lending is up to quite high rates. The state is getting as much as 13-14%. If the state uses that money to handle regular state expenses it has to lose that amount of interest. An alternate route the state can use is tax anticipation bonds - short-term material - mostly six months. They are sold at 5-6% interest and are tax exempt. The state can borrow that money at 5 1/2% and lend it out again at 11 and 12%. The state could cover these cash flow deficits by this medium. By selling tax anticipation bonds at 5 1/2-6% and lending at 11 and 12%, the state would be making a 5% differential and would not be losing the 10-11-12% that it would be losing otherwise. He would like to introduce a bill to allow the state to go into this bond issue.

Meeting adjourned at 11:30 a.m.



REP, HERB HUENNEKENS, Chairman



Secretary