

HOUSE TAXATION COMMITTEE

46TH LEGISLATURE

The House Taxation Committee was called to order by Vice-Chairman Ernie Dassinger at 8:30 a.m. on March 31, 1979, in Room 434, Capitol Building. Absent were Reps. Burnett, Gilligan, Harrington and Johnson. The staff attorney Randy McDonald was present.

Bills to be heard were SBs 167, 168, 187, 522 and 300.

Senator Ed Smith, District 1, Dagmar, chief sponsor of SB 167, said this bill is to raise the personal income tax exemption from \$650 to \$1000.

SENATE BILL 167
The bill would be effective for taxable years beginning after December 31, 1979. Since there has been additional money found, if this date were moved up it would be fine with him. He showed from a chart the net effects of this bill. A family of four in the \$10,000 adjusted gross income level are now paying \$279 and under this bill would pay \$198. This is nearly a 30% reduction. This helps the people that need the help the most. He said 87.1% of the people are in the \$11,000 adjusted gross income level and pay 46.6% of the taxes. These are the people just starting out in life and have a family--they need this help.

Kerry Keyser, Representative from District 81, Ennis, said he would like to see this bill pass. He felt the exemption should be higher--about \$1500 --to break even because of inflation. He suggested the committee keep the bill alive if just for compromise purposes.

S. Keith Anderson, Montana Taxpayers Association, passed out an information sheet prepared by the Utah Foundation and titled "Montana Ranks Near Top in Personal Income Taxes Paid." A copy of this is attached. He said we are the fourth highest state in personal income taxes collected. In a poll of their members they were overwhelmingly in favor of increasing the personal exemptions. Income tax as we know it here is not conducive to capital growth in this state. It is too high and should be reduced. He called the committee's attention to an article on the back of his hand-out sheet dealing with the growth of the personal income tax due to inflation. He urged the passage of the bill.

Janelle Fallon, Montana Chamber of Commerce, said she couldn't add much. In a poll of their members 89% supported the raising of the income tax exemption.

Senator Smith in closing said we should realize the patience of the taxpayer has about run out. Our senior citizens on a fixed income need a tax break.

SENATE BILLS 168 and 187
Senator Pat Goodover, District 22, Great Falls, chief sponsor of SBs 168 and 187 which are the 10% surtax bills. This 10% is part of the 40% that was imposed some time ago when the state needed more income. Efforts have been made to repeal the 10% in recent years and this is another one. SB 187 addresses this also but in a slightly different way. SB 168 is an outright repeal and SB 187 phases the tax out over a three year period. He said he had reduced both bills to keep all options open as

there is a question about how much money would be available. Both bills are the result of discussions at a convention in June. Senator Goodover read from a Taxpayer's Association report that showed the biggest relief would be for the people with incomes below \$21,000 and the biggest part of that is for those below \$10,000--and that is most of the people in Montana.

S. Keith Anderson, Montana Taxpayers Association, said they were in favor of eliminating the 10% surtax in one crack. This is a real irritation for the taxpayers.

Janelle Fallon, Montana Chamber of Commerce, said this is an issue that their membership supports strongly.

There were no opponents. Questions were asked by the committee.

Senator William L. Mathers, District 26, Miles City, the chief sponsor of SB 300, which will reallocate the money received from the coal severance tax and revise programs receiving the money. He said it was a controversial

SENATE BILL 300 bill. He said he has sat on every coal tax committee since we started to tax coal. He said at that time he felt the tax was too high but has changed his mind on that and does not feel it is too high now. The legislature should look at this 102 million that is coming into the state from the coal tax and do something about seeing that it is used properly. It should be examined each session. He left for the record a drawing of the coal tax pie as it was in 1975, as it would be in 1980 under present law, and as it would be if SB 300 passes. He also left a discussion sheet on the bill and this is part of the minutes.

James T. Harrison, Jr., MT Association of Oil, Gas and Coal Company, signed as an amender. He said provision should be made for the impact fund to build to \$10 million, then spill over the excess into the general fund. This would provide a buffer for the possibility of large impacts which could result from two projects coming on line at the same time.

Jim Mockler, Coal Council, felt also that the fund should accumulate to \$10 million. This would be an incentive that is now missing to save. Any money not used now reverts back. This would make a much more workable fund out of it, and we would be able to meet the need of impacted areas.

S. Keith Anderson, Montana Taxpayers Association, spoke in support. He said in a survey of their members 79% felt coal tax money should be used to reduce the property tax and 65% felt it should be used to reduce the income taxes. He felt the bill is an improvement over what we have now.

J. D. Holmes, Montana Institute of the Arts Foundation, spoke in support with a wish to amend. He would like to see Rep. Kemmis' bill providing 1% of the 50% for basic library services blocked into this bill.

Senator Tom Towe spoke as an opponent. He said the pie was carved up four years ago when the bill was originally worked on. He questioned if the legislature should continue to carve it. Senator Towe had several objections to the bill.

The constitutional trust fund would be closed off at 15 million and Sen. Towe was not pleased about locking some potential income from the trust fund. With this bill the extra money will go directly into the foundation program and that in effect is spending money now and not saving for the future. Originally the whole concept of the carving of the pie was to save money for the future so that when the coal development is gone we would have a fund that would be used for schools for the rest of time. Spend only the interest income was the way it was planned. He felt it was a mistake to take more money and put in the general fund which in effect happens when you add to the foundation program. As the coal mined increases and so the coal tax income we could become very dependent on that money to run our state government. We should not become dependent on the coal companies to run our government. Mistake also to suggest we are changing the general outlays of the whole program when we are under challenge from the courts. Sen. Towe mentioned a telephone coversation between Professor Walter Helerstein of the University of Chicago Law School, Senator Mathers, Senator Bob Brown, Roger Tippy and Mike McGrath of the Attorney General's Office concerning this and Mr. Helerstein stated, in his opinion, it would be better not to tamper with the pie at this time. Attached to the minutes is a copy of a memorandum on this to Senator Towe from Mr. McGrath. Sen. Towe said this expressed his sentiments exactly. The bill would reduce the amount set aside for local impact and this is unwise to do now. Unwise to make a legislative determination that we overestimated the impacts. Roads are a good example that we are not meeting all the impact. We should make a determination that we underestimated the impact. Senator Towe said he hoped the bill would not pass but if the committee decided to do so, he had some amendments that would make it a little more palatable. These are attached.

Senator Manning spoke in opposition. He felt this would be a threat to the coal tax suit. He said there have been bills to use this coal money for everything from senior citizens to streets and roads--don't seem to see the need to save for the future. It doesn't measure up to the original intent of the original bill. The burning of fossil fuels is a dead end road and we should concentrate on renewable resources and things like that.

Ted Doney, Director, Department of Natural Resources and Conservation, spoke as an amender, asking for the reinstating of the renewable resources development program. He discussed the program, mentioning it is the only program with money available to use for water projects which are very much needed. He mentioned different water projects where these funds have been and will be used. It is also used in attempts to control saline seep. We would be fore-going the possibility of bringing in federal matching funds,also, for the various projects. Mr. Doney distributed a booklet describing the program which is attached.

Bob Biggerstaff, MT Association of Conservation Districts, also asked that the renewable resource development program be amended back in as it was before. He said it is the only program that can be used for promoting the development of renewable resources.

Steve Dougherty, Northern Plains Resource Council, felt any stand that has the potential of affecting the law suit should be looked at very closely. He opposed the bill.

Senator Harold L. Dover handed out suggested amendments (a copy of which is attached) which would enable gasohol development to obtain 40% of the money granted under the renewable resources program. This would help with the present fuel shortage, be a market for the wheat and provide by-products that could be cattle feed or with its gluten content be a good source of human food.

In closing Senator Mather said we will have to come to a decision if we are or are not going to use more of the money now. He said Sweden has developed a way to make a petroleum jelly from coal that can be moved through pipelines. He felt it is only a matter of time before our coal will go by slurry pipeline as the demand for it increases. The railroads would be unable to handle it. Senator Mathers said he had always opposed the renewable resource program as it is covered by federal programs and there is no need for the state to be in this area.

During questions from the committee Senator Towe was asked to explain his amendments. He did this and he commented that he had worked on the gasohol program, felt it had merit, but he foresaw a problem with earmarking the alternative energy program. The grant should stand the same as any other grant.

Rep. Nordtvedt asked how much should be set aside for future generations. It is throwing some of our taxes down a rat hole. If we used it for real property and education of present people and more public buildings it would preserve the value for the future more than stocks and bonds. Senator Towe responded that our coal supply is finite--lots of it but still finite and once the mineable coal is gone what will we have for financing these programs. He felt we should look to the future.

Rep. Nordtvedt said we set aside 50% of the money in the trust fund. A succeeding legislature could determine the state is in trouble and 3/4 of the body could spend that money. He felt setting aside 50% could be real dangerous. They could feel easy come--easy go. Senator Towe said this was the will of the people as of three years ago to set aside the money.

SENATE BILL 522

Senator Jean A. Turnage, District 13, Polson, chief sponsor of SB 522, which is by request of the Senate Taxation Committee, said this was a viable alternative to the Homestead Relief Act. He said this would allow a \$50 credit against the individual income tax for property tax on a residence, either directly or indirectly through rent payments for the taxable year on the residence. In order to claim this a residence has to be maintained in Montana for at least 10 months of the year. Only one person can claim a credit on a residence, and no person can claim more than one credit. Cost of administration will be minimal as the forms will go out with income tax forms. He said it would be \$56,000 for the first year and \$53,000 for the second year which he said compares very favorably with the \$700,000 it costs for the Homestead Relief Act we now have. If you pay no income tax but do pay rent you are entitled to a refund of \$50. He said assuming there are 250,000 households of which 40.6% are rented and 59.4% are owned and 90% of these will claim the credit it would cost 11.4 million each year or 22.8 for the biennium. This bill would give equal treatment to both renter and owner and would have a multiplier effect in the community without being truly inflationary. He said he hoped the Governor would send a letter up recommending this bill rather than his.

Ed Nelson, Montana Taxpayers Association, felt this was a good bill and the direction the legislature should go.

Bill Groff said if you want to give renter's relief, let's do that. He could foresee a number of problems such as it wouldn't apply to renters in places like Eagle Manor that do not pay taxes; what about where two or three share an apartment--who claims and what if all do; kids at the universities claiming; a person living in a house but not paying rent. Computers wouldn't catch these things--how will it be policed? He said if we want renter relief let's sit down and find out something that will really work.

In closing Senator Roskie reminded the committee the bill did have bipartisan support as it came out of the Senate with only two opposed.

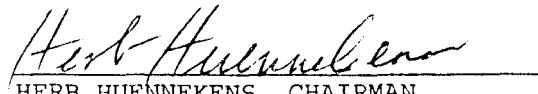
Rep. Bertelsen said he was opposed to both the Homestead Tax Relief and this one. He felt it was a modified form of welfare that takes from people to give to people.

Rep. Nordtvedt said he took a professional deduction for books he had bought. He asked how this was policed. Rep. Fabrega also questioned if Mr. Groff felt renters were more likely to cheat than homeowners. Mr. Groff responded that this would be hard to police--we must remember if would affect 137,000 people. There would be an additional 40 to 50 thousand people who never filed. He said if we are going to give renter relief let's do it in a more simplified way.

Rep. Hirsch said if we are going to give renter relief the standard deduction should be raised. Rep. Underdal felt the bill should be amended so it could be tied to Montana residency. Rep. Sivertsen agreed with Rep. Hirsch that raising the standard deduction was a good idea as it would cover the people that pay the income tax and are paying for the whole ball of wax anyway. Senator Turnage said he could foresee no problems with raising deductions. He said this legislature is going to pass either this bill or the Homestead Tax Relief bill as the people are not going to vote against property tax relief, as that is what is concerning the people back home.

Mr. Groff agreed that something would be done. He felt the Homestead Relief has been very good for the older people and the ones with the smaller homes-- did not provide too much in proportion for the ones with a big house. He said vote according to the area you represent.

Meeting adjourned at 11 a.m.



HERB HUENNEKENS, CHAIRMAN



Emelia A. Satre, Asst. Sec.