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HOUSE TAXATION COMMITTEE
46th Legislature

The committee came to order under Chairman Herb Huennekens, at 9:00 a.m., April 13, 1979, in Room 434, Capitol Building, Helena. Reps. Bertelsen and Gilligan were excused. Rep. Williams was absent. Staff attorney, Randy McDonald was present.

This was an executive session.

Rep. Huennekens asked the committee if they wanted to have committee bills prepared providing tax relief through property and income tax procedures.

Rep. Fagg moved that two bills be prepared subject to discussion previously had on property tax. This was to be done through a calculation based on the actual tax figures received from your county treasurer, and to these tax figures a percentage, 10% was originally suggested, would be deducted as a matter of procedure. The approach would be through a credit against income and in those cases where the income tax liability was not as great as the property tax liability, there would be a rebate. Otherwise the rebate would be sent from the Department of Revenue. A limit of \$100 of property tax would be applied to lessen income tax or receive a refund not in excess of \$100.

The second bill, or part of the package, would be a bill that would address the income side of the package with the element being the exemption, the deduction as far as income tax is concerned would be determined. Would we include indexing? No.

Rep. Fabrega said we are going to start with a ceiling of \$800 exemption with \$2,000 and \$4,000 for income base. A 20% deduction would be used for the standard deduction for the purpose of starting it out.

Rep. Fagg suggested an exception could be made that if revenues increase, could have an increased or reduced deduction.

Rep. Dassinger thought these could be adjusted after we get the bill.

Rep. Fabrega suggested the Department of Revenue be authorized to put in a floating deduction. Once we have the surplus figures as of June 30, 1979, for every million dollars in surplus, the Department of Revenue could increase the exemption by \$10.

Rep. Huennekens said have to establish two things - one that there would be enough money to finance the government and to finance schools, and then make an adjustment in only one thing - the deduction provided there is a surplus.

Rep. Fabrega, assuming a decrease in what remains in question (\$800 exemption will cause something like a \$16.6 million loss) and we are going to have to agree on a certain surplus that is going to have to be maintained in the general fund, if the surplus on June 30, 1979, exceeds the amount agreed upon,

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(say \$8-10 Million) that for every million dollars in increase, the Department of Revenue will adjust the exemption by \$10.

Rep. Huennekens feels there has to be a little more leeway for the department since it is going to have the option to figure what the surplus is going to be left.

Rep. Lien thinks the beauty of that is that it should resolve the issue of what the income is going to be. Perhaps it might go to \$1,000. It will automatically take care of itself.

Rep. Huennekens reminded the committee they are authorizing preparation of such bills at the moment. Adoption also takes a 3/4 vote. Probably there will be some changes at that time.

Rep. Dassinger suggested leaving an escalator clause in and put in a deescalator clause because it might go below \$800; however, that can be put in as an amendment afterwards.

Rep. Fagg wants to have all of the chips on the table by Tuesday.

Staff attorney is to prepare bill without the clause.

Rep. Huennekens advised that HB 398 had been amended drastically by Senator Watt. Rep. Sivertsen said he doesn't want this proposed package without 398. Rep. Fagg reminded that is part of the package. Rep. Fabrega wants 398 to be part of the package. Rep. Reichert asked if it will be an increase to local governments? Don't know.

Rep. Nordtvedt asked if there would be a tax credit on the income tax form. Thinks from the point of view of keeping administrative costs to a minimum this should be done.

Rep. Huennekens prefers a direct payment to the taxpayers. Rep. Harrington prefers a direct payment to people since older people might not have to file an income tax return. Rep. Fagg personally approves making checks out. Rep. Johnson wants checks sent out for refunds.

Rep. Huennekens explained the Department of Revenue has a mailing list that was previously used and they will be mailed the form, otherwise it will be on the income tax form. Might be able to go to a 15% deduction.

Rep. Johnson asked how the people who don't know about the application find out it is available. There will be several places where applications can be obtained.

Rep. Sivertsen mentioned the way the bill was discussed is that we would have the credit and if this other thing is something that you think might have to be considered down the road, maybe you could have that as a side of this and have it drafted up with the 10% credit and if this other thing comes up we would have it ready.

Rep. Huennekens said we would have two drafts.

Rep. Nordtvedt said he would have to oppose the amendment.

Rep. Fagg didn't think the committee is letting down the committee of 10. Recommends bills be drafted with options both ways. Doesn't think we are breaking any allegiance to committee of 10.

Rep. Harrington recommended going ahead with drafting of both bills. He feels very strongly about the refund being sent out by check instead of being an income tax credit.

Rep. Fabrega thought the checkoff on income tax might cost the least, but he has no problem in having it drawn up. He thinks both bills should be drawn up.

Rep. Harrington repeated his statement that he feels this is a property tax refund, and is very important - more so than an income tax deduction. He wants a warrant to arrive for property tax owners.

Rep. Reichert asked if it would be possible to have an option so that those who don't file an income tax can still receive the property tax relief.

Rep. Nordtvedt reminded this wasn't decided in the committee of 10 where the returns went of if by checkoff.

Rep. Reichert would like to have them drawn up as an option.

Randy McDonald, Staff Attorney, saw no problem with drafting bills in accordance with the committee's recommendations.

Rep. Harrington clarified the bill is to be drawn up and looked at. After it reaches the committee, there is no certainty that it would go that way. It could be changed later if not satisfactory.

Rep. Huennekens asked if the motion of addressing the matter of property tax reduction with the two routes of repayment should be adopted. There were No Noes - the necessary 3/4 vote succeeded.

The motion that the staff attorney draw up an income tax bill dealing with the considered deductions was adopted with No Noes - the necessary 3/4 vote carried. There will be two bills drawn up.

SENATE BILL 162 - To submit to electors an amendment to the constitution to place a limit on annual state expenditures. This bill with the constitutional provision will be at odds with a statutory proposal to limit state expenditures.

Rep. Fabrega made a motion that SB 162 be sent to the floor without recommendation. Rep. Sivertsen would like to see a vote from the committee showing recommendation.

Rep. Robbins made a substitute motion of DO NOT BE CONCURRED IN.

Rep. Huennekens told the committee they will be hearing a lot of philosophy and varying concerns and interpretations of the voters, etc. He doesn't think this is the sort of thing that belongs in the constitution and something that changes from time to time should not be dealt with constitutionally. Quite a point was made about how well it is working in Colorado, and then it was found out that

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the Colorado law was statutory. His recommendation is to try out such a limitation statutorily for 2 to 4 years and if the Legislature isn't able to cope with it then it could be reconsidered constitutionally.

Roll Call vote on DO NOT BE CONCURRED IN motion failed 8-9.

SENATE BILL 384 - Rep. Fabrega moved SB 384 BE CONCURRED IN. This bill is to apply to residents of another state not having an income tax of its own - in this case, Wyoming - who earn income in Montana. The spirit of the amendment basically applies to persons who live in another state and work in Montana. This would change the fiscal impact.

John Clark, Department of Revenue, said they have have to substantiate the fiscal impact, but he doesn't expect it to exceed more than \$250,000 in any given fiscal year. See his letter attached.

Rep. Fabrega recommended an amendment be placed in SB 384 to specify the intent is to deal with states that do not have an income tax. The amendment will be prepared by Randy. There were No Noes. Reps. Underdal, Gilligan, Bertelsen were absent. See Standing Committee Report for amendments.

Rep. Fabrega restated his original motion to BE CONCURRED IN AS AMENDED. Reps. Nordtvedt and Johnson voted No. Rep. Dozier mentioned this just allows them their deductions.

SENATE BILL 463 - Question of funding for court costs. Rep. Fagg moved SB 436 BE NOT CONCURRED IN.

Rep. Sivertsen wanted to go on record as being against this bill. If he is back next session, and if these people do have very high court costs in the next interim, then this can be considered. During the interim we can have a supplemental appropriation if an emergency should arise.

Rep. Vinger thought the supplemental budget appropriation might work. Rep. Hirsch mentioned that Rep. South said that if this bill passed, and the money was not appropriated, it would come out of the operation budget of the Department of Administration. It is a very dangerous bill.

Rep. Huennekens thought the only route that is feasible would be to provide the money as an appropriation.

Dean Zinnecker advised the committee that could be easily done by changing Page 2, line 10, following "funds" insert "appropriated for this purpose".

Rep. Huennekens said until the state takes over court costs completely for district courts, the 4 mills is supposed to cover all court costs. He thinks it is needed.

Rep. Reichert asked if the words "reimbursing counties for major criminal trials" should be inserted after "assistance" on page 2, line 13.

Rep. Fabrega advised that amendment still leaves millage at 3 1/2. He suggested it be raised to 4. Need to then remove the present 6 mills and levy and collect a tax sufficient to maintain the normal operation or some such language.

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Rep. Dassinger made a motion to amend to 8 mills, and plan the bill for emergency cases.

Rep. Nordtvedt feels some mills have to be left in there for county operation. If there is an emergency, they would still be at the top millage.

Rep. Fabrega made a substitute motion to amend to 6 mills.

Dean Zinnecker suggested it might be made at various figures for various classes of counties.

Rep. Fabrega moved as a substitute motion for all motions pending, 6 mills for first and second class counties, 5 mills for 3 and 4 class counties, and 4 mills for 5, 6, and 7 classes counties. Reps. Nordtvedt and Dassinger voted No. Motion was adopted.

Rep. Dassinger explained the mills on higher class counties doesn't necessarily hold true. Rep. Nordtvedt feels courts are to not only protect people, they are to protect property. He thinks a flat mill for the whole state is better.

Rep. Fabrega moved to amend on page 2, line 10, strike "ITS" and insert after the word "funds", "appropriated for this purpose. There were No Noes. He then made as a substitute motion SB 463 BE CONCURRED IN AS AMENDED. Motion carried.

As an aside regarding the property tax proposed bill, Bill Groff, Special Legislative Adviser for the Department of Revenue, mentioned the cost for the Homestead tax relief was \$230,000 for the first year and \$203,000 for the second year. Rep. Fabrega asked Dean Zinnecker if it cost the counties much more. Zinnecker said Yellowstone County had added one employee at a cost of \$30,000.

Meeting adjourned at 11:00 a.m.



Secretary



REP. HERB HUENNEKENS, Chairman