

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

March 22, 1979

The fifty-fifth meeting of the Taxation Committee was called to order on the above date in Room 415 of the State Capitol Building by Chairman Turnage.

ROLL CALL: Roll call found all the members present. A list of the witnesses providing testimony is attached.

CONSIDERATION OF HOUSE BILL 768: Representative Krogg presented this bill which was an act to exempt property of a veteran of foreign wars who died from wounds recieved in a combat zone. He illustrated an example of a veteran who had first been reported as MIA, then KIA, and his accumulated estate was taxed. He said he believed this was not equitable and asked the committee's consideration for this exemption.

Others appearing as proponents of the bill were Mr. Dirkee and Mr. Fleming. The Chairman called for other proponents, however there were none, nor were there opponents. The committee asked a number of questions. Representatives of the Department of Revenue were present and had no objections, however they felt an amendment should be made to limit the exemptions to conform with the federal laws, limiting to those 'killed in combat zones'.

Senator Towe Moved to Amendmend the bill (see attached Committee Report). Motion was carried.

Senator Brown then Moved HB768, As Amended, Be Concurred In. Motion carried unanimously.

CONSIDERATION OF HOUSE BILL 573: Representative Roth presented her bill which would provide an incentive to home owners to remodel structures with historical value. She said there are limited funds available for resorting these properties, and at present no grants or other incentives to restore such properties. She felt there should be at the least, a tax exemption to encourage such a program, thus was proposing HB573.

The Chairman called for other proponents or opponents, and as there were none, permitted questions from the committee. Representative Roth, on questioning, said there are 93 certified historical sites in the state, and she volunteered to bring in a copy of this register for the committee's further consideration. Hearing closed.

CONSIDERATION OF HOUSE BILL 150: Representative Lien first spoke to the committee on this bill, saying it was the product of numerous hearings by the interim Revenue Oversight Committee. He said the bill had had complete hearings with Department of Revenue, savings and loan associations and the banking community. He said the committee had attempted to explore all avenues in an effort to arrive at a bill acceptable to all concerned entities, including local governments. He said as the bill came out all the moneys went to local governments and none

to the state. The House Taxation Committee thought there was impact to both entities so they amended the bill to the 80-20 split. Representative Fabrega was present to testify concerning his bill as well, and gave a brief history of the taxing of banks in Montana, saying Congress allowed states to choose different methods to be taxed and Montana had chosen the bank share tax. He said the bill eliminates the tax-free status of the interest from municipal bonds. Also, in order to tax the income from federal securities it is necessary to tax state securities as well. He said the Fiscal Note shows a loss but he felt little credence should be given to it.

He continued, saying in 1980 banks would pay about \$5,300,000 in corporation license tax, or about a 400% increase. Due to a negotiated settlement, banks paid over \$5 million in tax and after the court decision the banks paid over \$1 million in bank share tax; of that amount a great deal was paid voluntarily, he said. He said if you will look at corporation license tax, banks will go from over \$1 million to over \$5 million and growth projections bring this even higher. The savings and loan associations will pay an estimated \$500,000 and under this bill they will pay \$800,000 in 1980.

He said under this bill some banks will pay more tax but all of the banks have agreed this is the only thing to do to make the tax equitable. He said further, this would encourage banks to operate more locally, and maybe this would help slow down the flow of bank capital into federal securities.

Mr. Pitts was next witness to testify and stated his agreement with the previous testimony. He gave a number of examples of two nearby banks which paid greatly varied amounts of taxes and said he felt this legislation would tax all of them more equitably. He said 160 banks in 95 cities in the state had been contacted of the results of the study of the Oversight Committee and though many banks would have tax increase, most of them favored this legislation because they believed it gave tax equality. Mr. Bennett also briefly traced the history of bank tax in the state and gave that organization's endorsement of the bill.

Mr. Anderson distributed a review of HB150 showing charts, projected tax incomes for coming years and present tax paid by state banks. He explained further about the compromise reached in 1977, before the problem was put to the Oversight Committee. He also said he was unable to get accurate projections without data from the savings and loan associations. His testimony is contained in Exh. #1. Other proponents were Mr. Albert, who distributed a copy of his testament, see Exh. #2, attached. Other proponents included: Mr. Phillips, Bill Andrews, Earl Johnson, Joe Morse, John Cadby, who stated he represented all 160 banks in the state.

Mary Craig of the Department offered an amendment, see Exh. #3, attached, which would eliminate one of the steps in the process of seeing a portion of the tax was returned to local governments. John Fitzpatrick of the Office of Budget submitted an amendment to change the split to 70-30 to help offset the loss from corporate tax revenue, see Exh. #4. Mr. Zinnecker spoke next and said he was of the opinion held by the banks, that something must be done; however one item

he expressed concern over was the fact that the bill would decrease revenues to local governments and this would increase property taxes. He said it would also decrease valuation and would affecting bonding limitations. He asked that the committee consider the original bill so all the money would go to local government in order to keep property taxes down.

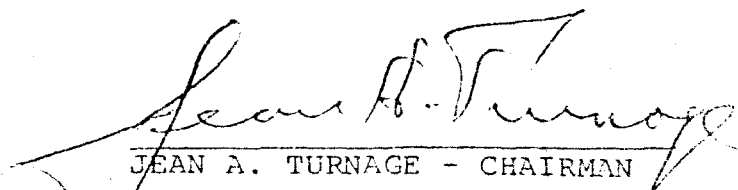
Mr. Mizner testified next, supporting Mr. Zinnecker's comments and said cities and towns have lost taxable valuation in the last several years and hoped the amounts could be raised to help offset some of the losses suffered by cities and towns in those years. Mr. Bulen also stated his agreement with Zinnecker and Mizner.

Chairman Turnage then asked for testimony from opponents and Mr. Canon led off the opposition saying the savings and loan associations take no position with respect to the method of taxation in the bill nor the level of revenue which the bill would generate. He did want to point out some of the effects of the tax as it applies to that association. He distributed considerable written testimony to which he referred in his testimony, see Exh. #5, attached. He also submitted an amendment, part of Exh. #5, attached, which would give a deduction for bad debts incurred.

Following his testimony other opponents rose briefly, to state their objections to the bill and several gave the percentage their taxes would raise, should the bill be passed. First to speak was Mr. Grose who said his firm's taxes would go up 25%; other opponents included Mr. Cadwell, Mr. Firsbie and Mr. McMillan, all of whom supported the amendments of Mr. Canon, and with them could then consider supporting the bill. Others who stated their support with the amendments of Canon included Mr. Sherrick, Mr. Ritchie, Mr. Pennington, Mr. Hauland, Mr. Johnson, Mr. Enger, Mr. Jones, Mr. Bulen, Mr. Chumran. Mr. Huss stated they supported the bill as it came out of the House Taxation Committee. He stated that during the months this measure was considered banking groups had set forth figures of profits and losses and the impact of taxes, whereas, savings and loans would not supply any figures. He said the proposals submitted by Canon was presented in HB735 (from 1977 session) and was rejected then.

Chairman Turnage offered Mr. Canon a chance to reply and Mr. Canon said the figures used in his written testimony were derived from the Fiscal Note prepared by the Department of Revenue and would leave it to the committee to make its judgment on them. The sources, he said, are all contained in his prepared testimony.

Representatives Fabrega and Lien were permitted to close their testimony and said all amendments had been considered but would resist going to the 70-30 split. He did feel, however, that the Department's amendment should be considered because of the time and administrative costs that would be sustained by the local governments. Of the \$5 million in taxes the ratio is about 4 to 1. Following several additional questions the Chairman announced further questioning would have to be done at a future meeting due to lack of time.


JEAN A. TURNAGE - CHAIRMAN

COMMITTEE ON TAXATION

150, 573, 768

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One	
			Support	Opp
Gene Phillips	Cont'd National Bank	HB 150	X	
George D Anderson	Montana Bankers Assn	HB 150	X	
Harold Pitts	" " "	HB 150	X	
Dean H. Albert	" " "	HB 150	X	
Robert L Pennington	American Federal Savings	HB 150	X	as amended
Clarence Reilly	First Federal Savings	HB 150	X	as amended
DAVE SIERKIC	F. Fed S&L - Polson	HB 150	X	as amended
John McMillin	" " "	HB 150	X	as amended
CLARENCE S. FRISBEE	FIRST FED S&L ASSN OF KAL	HB 150	X	AS AMENDED
Ray F. Cattrell	Empire Fed S&L of Livingston	HB 150	X	
Paul J. Chumrae	First Federal S&L Missoula	HB 150	X	as amended
Jack Butler	1st Fed S&L - Gr Falls	HB 150	X	as amended
Jerry Jones	Security Federal S&L Billings	HB 150	X	as amended
HAROLD H. HANGER	Western Federal S. & S. Assn Missoula	HB 150	X	as amended
Ed Sheehy Jr.	Int Savings & Loan League	HB 150	X	as amended
" " "	" " "	" " "	" " "	" " "
Wes Anderson	Nonchambers Bank	HB 150	X	
Earl W. Johnson	First Nat'l Bank - Helena	HB 150	X	
Earl W. Johnson	First Nat'l Bank - Helena	HB 150	X	
Ref Ed Lewis	" " "	HB 150	X	
Mary L. Long	City of Helena	HB 150	X	Neutral
Paul G. Johnson	First Nat'l Bank - Helena	HB 150	X	as amended
Paul G. Johnson	" " "	HB 150	X	as amended
W. D. Dawkins	Helena F.S. & L	HB 150	X	
Paul Kropp	" " "	HB 768	X	
Tony Cunningham	American Legion	HB 768	X	

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One	
			Support	Oppose
John Fitzpatrick	OBPP	150		
Dean Zisnick	Mt Green of Counties	150		
GEORGE T. BENNETT	MONT. BILLS HESSN	150	X	
JOHN CADDY	" " "	150	X	
STEVE GROSE	HOME FEDERAL SAVINGS -	150		
ROBERT HOENE	MONT. SAVINGS AND LOAN LEADER	150		
Paula Fallon	Mont. Chamber of Commerce	150		
Donna Maguire	Mont State Teachers	150	X	
Larry Hess	Mont Ind Bkrs	150		X

Amend
no amendment

AS AMENDED
AS AMENDED

STANDING COMMITTEE REPORT

March 22

19 79

MR. President

We, your committee on Taxation

having had under consideration House Bill No. 768

Respectfully report as follows: That House Bill No. 768,
third reading bill, be amended as follows:

1. Title, line 8.
Following: "DIES"
Insert: "IN A COMBAT ZONE"

2. Title, line 9.
Strike: "IN A COMBAT ZONE"

3. Page 1, line 21.
Following: "dies"
Insert: "in a combat zone"

4. Page 1, line 22.
Strike: "while serving in a combat zone"

~~DO PASS~~
And, as amended,
BE CONCURRED IN

JA

March 22, 1979

Handwritten: 3-22

BEFORE THE TAXATION COMMITTEE
OF THE MONTANA SENATE

WRITTEN TESTIMONY OF DEAN H. ALBERT
ON BEHALF OF THE MONTANA BANKERS ASSOCIATION
IN SUPPORT OF HOUSE BILL 150

Mr. Chairman, Members of the Senate Taxation Committee, my name is Dean H. Albert, a member of the Montana Bankers Association, and Vice President of Bank of Montana System, a holding company owning fifteen banks in Montana. The following testimony is submitted in support of House Bill 150 as it is presently written.

I would like to ask this committee not to lose sight of the fact of the substantial support and unanimity of the Revenue Oversight Committee in introducing this bill. Please keep in mind that all of the House of Representative members on that committee joined in signing the bill, and four of the members of this committee were also members of the Revenue Oversight Committee and Senator Severson also joined that committee in its two years of deliberations.

This bill came about as a result of four years of intensive study by the Montana Bankers Association who probed in depth a variety of methods to tax banks and financial institutions. Experts in the area of bank taxation including economists, accountants and tax specialists were involved in developing and presenting to the Revenue Oversight Committee a substantial amount of information relating to the taxation of financial institutions and these presentations were studied in great depth by the Oversight Committee during their two years of deliberation of how best to tax banks. As a result of these in-depth studies it would appear the Revenue Oversight Committee not only agreed with the bankers testimony that banks were grossly discriminated against in the old form of bank taxation, but the recommended taxation as encompassed in this bill was fair and equitable. The Department of Revenue who cooperated in developing data which ultimately resulted in the submission of this bill did not attempt to refute that prior discrimination.

All of the banks in Montana have supported this bill to gain tax equity in spite of the fact many banks will have to pay a greater tax under this bill than they have been paying previously, but are willing to submit to that increase in the interest of equity and fairness as between banks, other financial institutions and corporate business in Montana.

In spite of the modest decrease in revenues as projected if this bill is adopted, the Committee should be aware that the new form of taxation will have a tremendous impact on some institutions. If the bill had been in effect during 1978 the taxes on banks in our corporation would have increased approximately \$16,000.00, or about 6.4% over the capital tax paid that same year. Under the new bill only three of our fifteen banks would have experienced any tax reduction, but as an example of what some banks may experience under the bill if passed in its present form. One of our banks that in 1978 paid a capital tax of \$3,219.00 under this bill would have paid \$8,226.00 or an increase of 155%. A larger example in both dollars and percentage is another bank which paid \$11,196.00 and under this bill would have paid \$30,912.00, an increase of 176%. A further outstanding example, and perhaps other banks will feel this impact, is a bank which paid \$1,327.00 and under this bill would pay \$7,734.00, an increase of 482%, or nearly six times as much as under the old capital tax law. My point is that in spite of these substantial increases affecting some banks in Montana, bankers are unanimous in support of the bill in order to gain fairness and equity in the taxation of financial institutions. Let me close by saying, in summary, that four years of intensive study brought this bill about, two years of deliberation by the Interim Revenue Oversight Committee has confirmed the equity and fairness of this legislation and hearings before the House Committee on Taxation and the House Subcommittee on Taxation has supported these conclusions and a substantial margin of the House of Representatives have endorsed this as the best means of taxation of financial institutions and my personal recommendation to the Committee is to recommend the bill do pass in its present form.

Respectfully submitted,



Dean H. Albert

SUGGESTED AMENDMENTS TO HOUSE BILL 150

Exhibit 3
D.R. Amend

1. Page 9, line 8
Strike: 5
Insert: 6

2. Page 9
Line 17
Following: Section 5.
Strike: remainder of line 17 through line 12 page 10.
Insert: Department of Revenue - special duties for transmitting corporation license tax revenues collected from banks or savings and loan associations to counties. (1) Within 30 days after receiving corporation license tax returns and payments from banks or savings and loan associations the department of revenue shall transmit to the county treasurer in which the business is located the revenues calculated under Section 6 subsection (B).

Renumber: subsequent subsections.

3. Page 11 line 8
Following: are
Strike: collecting the taxes.

4. Page 11 line 10
Following: Section 6.
Strike: remainder of line 10 through line 18 page 11
Insert: Distribution of corporation license taxes collected from banks or savings and loan associations. (1) All corporation license taxes collected from banks or savings and loan associations shall be distributed in the following manner:

A) 20% must be remitted to the State Treasurer to be allocated as provided in 15-1-501(2):

B) 80% must be allocated to various taxing jurisdictions within the county or counties in which the bank or savings and loan association is located.

Amendments to HB 150

1. Page 11, line 14

Strike: "20%"
Insert: "30%"

2. Page 11, line 16

Strike: "80%"
Insert: "70%"

Handwritten: 20% → 30%
80% → 70%

Handwritten: 3.22

Conroy
Exh. # 5
3-22

HOUSE BILL 150
 The Financial Institutions Tax Act

HB 150 is the Montana Bankers Association-sponsored bill to replace the revenue local government loses as a result of the elimination of the tax on bank shares. The banks contested the constitutionality of this tax and the Montana Supreme Court held that the tax on bank shares to the extent that the value of shares included obligations of the United States was unconstitutional.

To replace this revenue to local governments which in 1976 amounted to \$6.1 M the banks in 1977 lobbied through HB 735 which allowed a partial deduction for federal obligations. This measure expired by its terms on January 1, 1979. Below is a comparison of taxes banks paid to local government before and after the enactment of this tax. The amount of corporation license tax banks and S & L's paid to the state is also shown.

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Taxable value of bank shares	24.3M	18.9M	21.5M	24M
Taxes paid to: Local Government	6.1M	4.8M	5.4M	
State	.8M	.8M	.96M	

Department of Revenue, Taxation
 of Financial Institutions in
 Montana

Under HB 150 banks and savings and loan associations will continue to pay the corporation license tax of 5 3/4% on net income augmented by the income from state, local and federal obligations which have heretofore been exempt from state taxation. All of the income will then be turned back to local government in lieu of the revenue previously generated by the shares tax. Previously all proceeds from the corporation license tax came to the state general fund. Under this proposal 80% of it will go to local governments and 20% to the state. For FY 80 and 81 the revenue impact is as follows:

	<u>80% Local Government</u>	<u>20% State</u>
Total Revenues	FY 80	FY 81
Proposed	5,980,000	6,086,000
Current	7,900,000	8,650,000
Difference	(2,020,000)	(2,574,000)
Local Government		
Proposed	4,720,000	4,869,000
Current	6,000,000	6,500,000
Difference	(1,280,000)	(1,631,000)

PROPOSED AMENDMENT TO HOUSE BILL NO. 150
(Third Reading Copy)

Recess
Common
Amended

1. Title, line 13.

Following: "ASSOCIATIONS;"

Insert: "PROVIDING FOR THE DEDUCTIBILITY FROM GROSS INCOME OF ADDITIONS TO A BAD DEBT RESERVE ACCOUNT IN ACCORDANCE WITH THE INTERNAL REVENUE CODE;"

2. Page 5.

Following: line 7

Insert: (b) In lieu of any deduction for bad debts losses under subsection (2) (a) above, there shall be allowed a deduction by any savings and loan association for a reasonable addition to a reserve for bad debts as provided under section 593 of the Internal Revenue Code of 1954, or a section 593 shall be labeled or amended.

wf
E. J. #

3-22

Renumber: subsequent subsection.

STANDING COMMITTEE REPORT

March 21 19 79

MR. President

We, your committee on Taxation

having had under consideration Senate Bill No. 300

Respectfully report as follows: That Senate Bill No. 300, introduced bill, be amended as follows:

1. Title, line 7.
Following: "90-1-108,"
Insert: "AND"

2. Title, line 8.
Following: "90-2-128"
Strike: ", AND 90-6-210"

3. Page 1, line 13.
Following: "collected"
Strike: "payable"
Insert: "collected"

PCP ASSX

(Continued)

4. Page 1.

Following: line 14

Strike: lines 15 through 25, lines 1 through 25 on page 2, and
lines 18 through 22 on page 3

Insert:

"(1)

July 1, 1979 January 1, 1980
through December through June 30,
31, 1979 1980

Thereafter

trust fund created
in Article IX,
section 5

25%

50%

50%

parks and cultural
projects trust fund

2 1/2%

2 1/2%

2 1/2%

alternative energy
research development
and demonstration
account

2 1/2%

2 1/2%

2 1/2%

local impact account

12 1/2%

12 1/2%

8 3/4%

state equalization aid
to public schools

15%

15%

15%

general fund of the
state

42 1/2%

17 1/2%

21 1/4%

(2) The constitutional trust fund money shall be deposited in the fund established under 17-6-203(5) and invested by the board of investments as provided by law. Income earned from the investment of this trust fund shall be deposited in the general fund, except that \$1,000,000 of this income shall be paid into the coal area highway improvement account during each fiscal year of the 1980-1981 biennium.

(3) Income from the parks and cultural projects trust fund shall be appropriated as follows:

(i) 1/3 for protection of works of art in the state capitol and other cultural and aesthetic projects under the provisions of [section 5]; and

(ii) 2/3 for the acquisition of sites and areas described in 23-1-102 and the operation and maintenance of sites so acquired under the provisions of [section 6]."

5. Page 3, line 25.

Following: "an"

Insert: "existing"

6. Page 4, line 1.

Following: "99-6-211."

Insert: "No further money is payable into this account under the provisions of 15-35-108."

(Continued)

7. Page 4.

Following: line 11

Insert: "(3) Any unobligated funds in the local impact account at the end of each biennium shall be transferred to the general fund."

(4) There is within the earmarked revenue fund an existing trust fund created by the former 15-35-108(2)(h), which is hereby renamed the parks and cultural projects trust fund. Money received from the coal severance tax as provided in 15-35-108 shall be paid into this account."

8. Page 4, line 19.

Following: "90-6-207,"

Strike: "the total of which may not exceed \$1 million during any biennium, except as provided in subsection (5),"

9. Page 5, line 8.

Following: line 7

Strike: lines 8 through 23

10. Page 6, line 19.

Following: line 19

Insert: "Section 5. THERE IS A NEW MCA SECTION THAT READS: Cultural and aesthetic projects grants. (1) Any person, association, or representative of a governing unit seeking a grant for a cultural or aesthetic project from the income of the parks and cultural projects trust fund under the provisions of 15-35-108(3) shall submit a grant proposal to the board of trustees of the Montana historical society by December 1 of the year preceding the convening of a legislative session. The grant proposals must be for the purpose of protecting works of art in the state capitol or other cultural and aesthetic projects.

(2) The board of trustees of the Montana historical society shall present to the legislature by the 15th day of any legislative session a list of grant proposals submitted.

(3) The legislature must appropriate funds from the income earned from the trust fund before any award is granted.

(4) The grant proposals approved by the legislature shall be administered by the Montana historical society.

Section 6. THERE IS A NEW MCA SECTION THAT READS: Acquisition of certain state parks, monuments, or historical sites. (1) Any person, association, or representative of a governing unit may submit a proposal for the acquisition of a site or area described in 23-1-102 from the income of the parks and cultural projects trust fund under the provisions of 15-35-108(3) to the department of fish and game by December 1 of the year preceding the convening of legislative session.

(2) The fish and game commission shall present to the legislature by the 15th day of any legislative session a list of proposals for areas, sites, or objects that were proposed for use as state parks, state recreational areas, state monuments, or state historical sites.

(Continued)

19. Page 7, lines 6 through 13.

Following: line 5

Strike: subsections 2 and 3 in their entirety

Insert: "(2) Any funds paid to the credit of the counties in which coal is mined or to the credit of the countyland planning account and renewable resource development bond account in fiscal year 1980 shall be transferred to the general fund."

20. Page 7, line 14.

Following: "90-1-108"

Strike: ", "

Insert: "and"

21. Page 7, line 15.

Strike: "and 90-6-210,"

And, as so amended,

DO PASS

Date MAR. 22, 1979

ROLL CALL

SENATE TAXATION COMMITTEE

46th LEGISLATIVE SESSION - 1979

NAME	PRESENT	ABSENT	EXCUSED
SEN. GOODOVER (Vice Chairman)	✓		
SEN. BROWN	✓		
SEN. HAGER	✓		
SEN. MANLEY	✓		
SEN. MANNING	✓		
SEN. McCOLLUM	✓		
SEN. NORMAN	✓		
SEN. ROSKIE	✓		
SEN. SEVERSON	✓		
SEN. TOWE	✓		
SEN. WATT	✓		
CHAIRMAN TURNAGE	✓		

Each Day Attach to Minutes.