

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

April 4, 1979

The sixty-sixth meeting of the Taxation Committee was called to order on the above date in Room 415 of the State Capitol Building with Chairman Turnage presiding. (8:00 a.m. meeting)

ROLL CALL: Roll call found all the members in attendance but Senator Roskie, who was excused. Witnesses providing testimony are listed on the attached Register.

CONSIDERATION OF HOUSE BILL 221: Representative Moore introduced his bill which merely raised exemption on personal income tax 15%, and to raise personal exemption to \$1,000. His testimony was brief and the other proponent was Mr. Nelson of MonTax. The Chairman permitted testimony from other witnesses and as there were none, called them for questions from the committee. The hearing on 221 was then closed.

CONSIDERATION OF HOUSE BILL 512: Representative Gerke introduced the bill which would limit General Fund spending and would provide tax relief as well. He said the bill would establish procedure in the state for such limits, and would control the expansion. He further explained his bill and following his presentation Mr. Bousliman, of the Governor's Office testified in support of the bill. Mr. Groff appeared also for that office.

The Chairman called for other proponents, and as there were none, called for testimony from the opposition. Mr. Nelson said he felt governmental growth should be limited but said he had problems in regard to moneys going into the General Fund. He stated his concern that if such moneys go into that fund, school districts would be hurt and this would entail a hike in property taxes. Janelle Fallan also appeared as a witness and said she wondered if there was conflict with the bill insofar as it being constitutional rather than statutory.

Following their testimony the committee asked a number of questions from the witnesses. Mr. Bousliman said one of the main purposes of the bill is to assure that a large General Fund is not built up. Senator Towe asked about the spending limitation in the bill and the formula used. He also asked Mr. Bousliman about the contingency amount; he replied that amount was the reserve and the 5% kept in the fund before it is transferred to the tax relief. The members mentioned there was an 8% growth in last several years and in the event of no growth, they asked how this would affect such limitation. Senator Gerke said this bill was an effort toward trying to put limitations on and said he did not believe they should go to a constitutional amendments. He did not believe the state government should go back to the taxpayers and tell them they were in trouble. The hearing was then closed on HB512.

CONSIDERATION OF HOUSE BILL 287: Representative Huennekins said his bill had most of the material stricken, but the essence of it was that it increases exemptions from \$650 to \$800 and raises the minimum filing amount. Mr. Nelson followed with his testimony, saying the

MonTax Association would appreciate some tax relief also.

There were no other proponents or opponents to the bill and the committee then asked questions and discussed fiscal impact of the measure.

CONSIDERATION OF HOUSE BILL 303: Representative Nordtvedt presented his bill which would adjust tax brackets, exemptions and standard deductions in the individual income tax structure, allowing for inflation. He said he thought such indexing was necessary because high inflation is not a short term condition of the country. He said the Department of Revenue would adjust the taxable rate each year and the taxpayer would compute his final taxes with the tax table which was adjusted to inflation. He distributed an exhibit, #3, attached.

Mr. Nelson of MonTax As'n. spoke as a proponent also, and distributed material supporting his testimony, see Exh. #4, attached. Mr. Davis of the A.P.A. also spoke as a proponent as did Ms. Fallan and Art Cusman.

There were no other proponents or opponents and the committee then discussed the bill, agreeing on amendments.

Senator Goodover Moved HB303 Be Amended. Motion carried. Note for the record Senator Towe voted "No".

The committee also amended the effective date. This motion was made by Senator Goodover, carried.

There followed discussion on the principle of indexing and some of the problems that might be involved. It was pointed out a number of foreign countries are using indexing as are Wisconsin and Iowa. Senator Goodover stated the Revenue Oversight Committee had studied the problem and noted in their manual the results, although not detailed, of such study (see page 7 of Rev. Oversight Comm. booklet.)

CONSIDERATION OF HOUSE BILL 873: Rep. Fabrega was chief sponsor of this bill and said it would tax premiums paid by employees under the workers compensation plan at 2 3/4%. The bill would also require health service corporations to file annual statements with the insurance commissioner. Jim Murphy said he had no objection to the state fund paying a premium tax. He said this bill places the state fund on a more equitable basis with the private carriers but, he said, it will increase rates for the employers.

There were no opponents and the committee then asked a number of questions. They discussed the bill and the impact on the state. Following these questions, the hearing on HB873 was closed.

At this point Rep. Fabrega distributed information from the Department of Revenue regarding HB385. A copy of this financial report is attached, see Exh. #5. Mr. Zinnecker was present also and asked to comment on the report. He said that using these figures, local governments would lose approximately \$6 million. The committee looked over the chart and with Rep. Fabrega and Mr. Zinnecker, attempted to adjust the rates for the smallest possible loss to local governments.

The meeting then adjourned to reconvene this afternoon, 2 o'clock meeting.

late APR. 4, 1979

ROLL CALL.

SENATE TAXATION COMMITTEE

46th LEGISLATIVE SESSION - 1979

Sam
mtg

Each Day Attach to Minutes.

Met again today Position of
Morning (No. 1) Net
No. 2) Net
Toward the m

DATE 4-4-79

COMMITTEE ON

221.
287,303,512,873

VISITORS' REGISTER

DATE

COMMITTEE ON

VISITORS' REGISTER

(Please leave prepared statement with Secretary)



The Big Sky Country

Montana State House of Representatives

REP. KENNETH NORDEY JR.
HOUSE DISTRICT 77
BOZEMAN, MT 59715

(A)

COMMITTEES:
TAXATION
EDUCATION

THE EFFECT OF INFLATION ON THE INCOME TAXES WITHOUT INDEXING

| | | | |
|--------------------|-----------|---------------|-----------|
| Gross Income | \$12,000 | 10% Inflation | \$13,200 |
| Standard Deduct. | (\$1,000) | | (\$1,000) |
| 4 Exemptions | (\$2,600) | | (\$2,600) |
| Taxable Income | \$8,400 | | \$9,600 |
| Income Tax | \$415.80 | 22% Increase | \$508.20 |
| Effective Tax Rate | 3.47% | 11% Increase | 3.85% |

THE EFFECT OF INFLATION ON THE INCOME TAXES WITH INDEXING

| | | | |
|--------------------|-----------|----------------|-----------|
| Gross Income | \$12,000 | 10% Inflation | \$13,200 |
| Standard Deduct. | (\$1,000) | Indexed Up 10% | (\$1,100) |
| 4 Exemptions | (\$2,600) | Indexed Up 10% | (\$2,860) |
| Taxable Income | \$8,400 | | \$9,240 |
| Income Tax | \$415.80 | 10% Increase | \$457.38 |
| Effective Tax Rate | 3.47% | No Change | 3.47% |

The original tax bracket structure reads: $\text{Tax} = \$350 + .07 \times \text{excess over } \$8,000$

The indexed tax bracket structure after
10% inflation reads:

$\text{Tax} = \$385 + .07 \times \text{excess over } \$8,800$

Then add surtax to the results of the above

This exhibit shows that without indexing a taxpayer with a \$12,000 gross income who just keeps up with a 10% inflation finds his income tax up 22%. His real effective tax rate is therefore increased 11%. The same taxpayer under an indexed tax structure would find his taxes up 10% which represents no increase in his real effective tax rate.

This example was for a married taxpayer with four dependents who takes the standard deduction.

H.B. 303

6-4
Fiscal Impact and Exhibit
Proposed Amendment

| <u>Start Indexing</u> | 1/79 | 1/80 | 1/81 |
|-----------------------|------|------|------|
| Based on \$650 Exemp. | 17 | 6.7 | .9 |
| Used on \$1000 Exemp. | — | 8.2 | 1.2 |

(millions of dollars)

page 5 line 23 ~~strike~~ "product to the nearest \$10
insert "resulting bracket boundaries
to the nearest \$100"

page 13 line 8 after "year" insert "and
round up to the nearest \$10."

6-4
Initial
Date: 3/1/79

K. Nordvest

ACIR Recommends Indexing State, Federal Income Taxes

The Advisory Commission on Intergovernmental Relations has recommended indexing both the state and federal individual income tax to forestall the buildup of surplus being created by the progressive rate structure.

"Assuming an annual 6% inflation rate, an annual 4% real income growth, and no tax code changes from 1976 on, the inflation-induced real increase in federal personal income tax revenue would be approximately \$43 billion by 1981," ACIR estimated.

Similarly, according to ACIR, the five year increase in the state sector would be close to \$7 billion.

"Indexing would result in substantial savings to taxpayers," ACIR said.

ACIR recommends full disclosure of the federal and state inflation induced real personal income tax increase as well as indexation of federal and state income taxes — the annual adjustment of personal exemptions, the low-income allowance, the maximum limit of the standard deduction, any per capita credits, and the tax rate brackets by the rate of increase in the general price level.

Five Reasons

ACIR listed five major reasons for recommending that Congress index the federal individual income tax.

Fiscal Accountability — Indexation is needed to insure that higher, effective income tax rates are the product of overt legislative action rather than the automatic consequence of inflation.

Tax Equity — The maintenance of tax equity requires that increases in tax liability be based on real, rather than nominal, income.

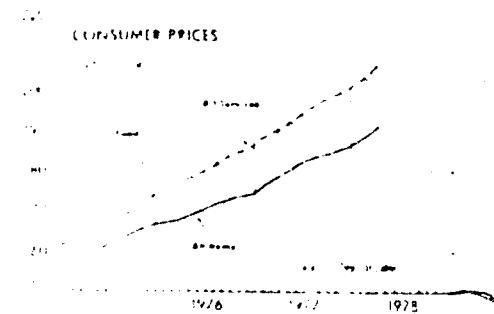
Public Sector Growth — Without indexation, there is a bias in favor of an expanded public sector because inflation automatically pushes taxpayers

into high tax brackets with the consequent unlegislated increase in governmental revenues.

Fiscal Imbalance — In the absence of indexation, inflation aggravates intergovernmental fiscal imbalance because the federal government is the primary collector of the "inflation tax."

Current Inflation Rates — The significance of the above considerations takes on increased importance in these times when inflation is well above historic rates.

Recent jumps in the consumer and wholesale price index clearly exceed the 6% increase predicted by the Council of Economic Advisers for 1978, and raise anew the specter of double-digit inflation, ACIR said.



50-50

3% OF TRADE IN VALUE
NEW AND USED PASSENGER CARS AND LIGHT TRUCKS

| Minimum Fee | No. of Vehicles Paying Minimum Fee | Amount Paid in Minimum Fee | No. of Vehicles Paying 3% of Trade In | Amount Paid From 3% of Trade In | *New Vehicles at 1½% of Trade In | | Total |
|-------------|------------------------------------|----------------------------|---------------------------------------|---------------------------------|----------------------------------|--------------|-------|
| | | | | | Trade In | Total | |
| \$ 10 | 149,981 | \$ 1,499,810 | 238,206 | \$ 10,845,278 | \$ 3,803,760 | \$16,148,848 | |
| 15 | 178,705 | 2,680,575 | 209,482 | 10,424,264 | 3,803,760 | 16,908,599 | |
| 20 | 209,855 | 4,197,100 | 178,332 | 9,784,754 | 3,803,760 | 17,785,614 | |

Total property tax paid on cars and light trucks \$20,569,679

49,510 at 3% of \$20,569,679
49,510 at 1½% of \$20,569,679

39% of
Trade In
based on
1½% of
Trade In

*Based on 1978 sales of 42,264 new passenger cars and light trucks with an estimated S.R.P. of \$6,000.

6,87