

MINUTES OF THE HOUSE TAXATION COMMITTEE MEETING  
January 9, 1981

Chairman Nordtvedt called the meeting of the Taxation Committee to order at 8 a.m. on Friday, January 9, 1981 in Room 102 of the State Capitol. All members were present except Rep. Burnett, who was excused and Rep. Brand, who was absent.

Chairman Nordtvedt announced that Fiscal Notes had been ordered on all bills which indicated a possible necessity for them and that they would be available in the near future. He then outlined the basic sequence to be followed for bill hearings in the committee; namely, first proponents would be heard, then opponents; after which testimony would be closed, then questions would be permitted, after which the sponsor would be allowed to make a closing statement.

HOUSE BILLS 13, 18 and 22 were scheduled for hearing and testimony began on HB 13.

HOUSE BILL 13: Rep. Fabrega, the sponsor of this bill, said that it had been drafted at the request of the Revenue Oversight Committee, and that it would allow the Dept. of Revenue to use its own discretion in waiving the interest on a tax penalty if the tax is paid within five days of its due date. At present, the Dept. has the power to waive the penalty, but not the interest. There were no further PROPONENTS for HB 13.

There were no OPPONENTS to HB 13. Ken Morrison, Dept. of Revenue, spoke as neither a proponent nor an opponent, but wished to submit that the granting of discretionary powers does cause problems for the Dept.

QUESTIONS were then asked concerning HB 13. Rep. Bertelsen expressed concern about the potential for abuse of the discretionary privilege. Mr. Morrison responded that the bill did not address this issue and that it was only attempting to allow the Dept. to waive the interest on a penalty it was already permitted to waive. Rep. Williams asked Rep. Fabrega if there were many instances when penalties were waived and Rep. Fabrega replied that this was not the case to his knowledge, but the bill would allow flexibility to treat the taxpayer as an individual. Rep. Sivertsen questioned whether the added language beginning on Line 20 might need in its substance a reference to the five day limit. Rep. Fabrega did not feel this was necessary. Discussion followed concerning setting the cut-off for waiving the interest at \$100. Mr. Morrison stated that setting a limit causes problems, and that the original bill had no monetary limit. The committee members were in agreement, however, that a line had to be drawn somewhere. The \$100 limit was placed by the Revenue Oversight Committee. Rep. Fabrega assured Rep. Williams that for those applying for late filing there would still be an interest charge assessed. Mr. Morrison did not feel that passage of the bill would cause an extra burden to the Dept. of Revenue.

In closing, Rep. Fabrega stressed that the intent of the bill was to eliminate some of the paperwork necessary to collect a few dollars and also it would enable the Dept. of Revenue to treat taxpayers as individuals.

HOUSE BILL 22 was then heard. Rep. Fabrega, the sponsor, said that the bill addressed a problem that developed last fall whereby due to a miscalculation of income to the Foundation Program, the Superintendent of Public Instruction levied an additional tax to the property of the state because she didn't think the budget was going to be met. Under current law the Superintendent is responsible for funding; if estimated needs exceed revenue, the Dept. of Revenue must levy a property tax to fund the Foundation Program. The Superintendent has the best ability to figure out the budget; however, the Superintendent does not have the best ability to estimate taxes. The revenue estimating function should be done by the Office of Budget and Program Planning. The expense side would still be calculated by the Superintendent of Public Instruction under this bill. The Montana Taxpayers Association filed a lawsuit against the Superintendent's office because of the excessive tax levy. However, they also came before the Revenue Oversight Committee and presented their case and the Committee agreed with the need for the change and this bill was the result of that action.

Dennis Burr, Montana Taxpayers Association, then spoke up in favor of the bill, stressing that it simply made some administrative changes. He also said that some of the sources of revenue that go into the Foundation Program are things the Budget Office is normally responsible for estimating. At present the Superintendent's Office makes up their own estimates which might not agree with the Budget Office estimates. It is the Montana Taxpayers Association's contention that the Budget Office estimates are the best available. There were no other PROPONENTS to HB 22.

There were no OPPONENTS to HB 22. Questions were then asked. Rep. Harrington wanted to know what guaranteed that a sufficient amount of money would be in the Foundation Program. Rep. Fabrega replied that one would have to underestimate by 25% because the fiscal year runs out June 30, and it would be unrealistic that the fund would ever be that drastically underestimated. Mr. Burr pointed out that this bill did not deal with that problem and there had been another bill drafted which would eliminate the need for a deficiency levy. The other legislation will be suggesting that appropriations be done on a biennial basis, so that a supplemental budget would have to be presented rather than a deficiency levy being implemented.

In closing, Rep. Fabrega stated that in the past, the revenue estimating function had not addressed the issue of shortfall, and this bill merely deals with who estimates the figures.

HOUSE BILL 18 was then heard. Vice Chairman Sivertsen took over the meeting, so that Chairman Nordtvedt, sponsor of HB 18, could present his testimony. Rep. Nordtvedt said that this bill would exempt a certain amount of interest income from the Montana income tax. For a person filing a single return, the first \$1000 of his earnings from interest would be exempt, and for a joint return, the first \$2000 would be exempt. He submitted that during periods of high inflation, most people weren't really earning money with their interest, and added that in reality today people were being taxed for no effective earnings. This bill is an attempt to try to treat savings in a more equitable way during periods of high inflation. Savings are an important ingredient in the economic health of a society, and Rep. Nordtvedt stated this bill could promote a better Montana economy.

He added that a fiscal note was being prepared on this bill. Rep. Nordtvedt's personal estimates based on recent IRS figures on total interest income and deduction figures for Montana showed that \$235 million was received in interest income in Montana. Interest expense totaled \$131 million (not including home mortgages). This amounted to a net total of \$100 million in interest income potentially tax-free if HB 18 were implemented. The estimated fiscal impact would be about \$7 million per year. Rep. Nordtvedt reiterated HB 18's two basic goals: (1) to create equity for the person who saved during an inflationary economic climate, and (2) to create a stimulus for the economy of the state of Montana.

Ed Sheehy, serving the National Association of Retired Federal Employees, then spoke in favor of HB 18, see prepared statement. Bob Retquam, Montana Bankers' Association, then expressed his agreement with all the previous testimony. He stated that interest earned on savings becomes a very important source of income to senior citizens. He added that the bill would also help generate saving money within the state, money which is now being invested in government agency bonds, because of tax exemptions provided when that avenue is used. He stated that he would like to see the limit for interest income set at \$10,000 rather than \$1,000.

Cliff Christian, Montana Association of Realtors, spoke up in support of HB 18. He said that the construction industry needs money to be in Montana's banks in order to borrow from them. He warned that if the construction industry couldn't get closer to the supply side of things, prices would skyrocket. He stressed that incentives for people to save their money in Montana, such as this bill would provide, were sorely needed. There were no more PROPONENTS to HB 18.

Mr. Ken Morrison, Dept. of Revenue, then testified as neither a proponent nor an opponent. He said that Congress had introduced legislation similar to HB 18, for implementation on the national level.

There were no OPPONENTS to HB 18. Questions were then asked. Rep. Asay wanted to know if the interest on tax exempt bonds was counted in the \$1000 figure. Rep. Nordtvedt replied that it wouldn't be, and that only income that would normally be counted as taxable would be included. The question was raised that if municipal bond buyers went to savings accounts, then would bonds become more competitive. Rep. Nordtvedt replied that if the bill didn't stimulate more total savings, then it would be missing one of its main objectives, which is to encourage people to save more money. He added that some of the tax-free municipality bonds are for higher income brackets and the \$1000 cut-off in the bill ensures that the higher-level taxpayer does not have unlimited access to tax-free status. In response to a question from Rep. Roth, Rep. Nordtvedt stated that if one believed that inflation was a hidden form of taxation, then taxing interest income could be considered a form of double taxation.

Rep. Nordtvedt then closed, adding that presently a federal exemption for interest income of \$200 (\$400 for a joint return) exists, and there has been talk in the new administration that this might be raised to levels similar to those in HB 18.

The hearing on HB 18 was closed and Vice Chairman Sivertsen turned the meeting back over to Chairman Nordtvedt. The Committee then went into EXECUTIVE SESSION. Vice Chairman Sivertsen moved that action be taken on HOUSE BILL 47. Rep. Dozier moved and it was seconded that HB 47 DO PASS; motion carried unanimously.


Chairman Nordtvedt expressed the belief that the rest of the bills up for executive action needed to have Fiscal Notes available before they could be voted on. The Committee was in agreement with him.

Chairman Nordtvedt announced that the Revenue Oversight Committee had voted to request that a bill be drafted to enable the Dept. of Revenue to circulate press releases notifying the public of the higher minimum income requirement for filing personal income taxes. The bill will be coming to the Taxation Committee and will be put through the Legislature quickly in order that the Dept. of Revenue can get the information out prior to the 1981 Income Tax filing deadline.

Regarding the windfall profits tax, Rep. Vinger announced that Congressman Melcher was introducing some legislation which would help the small owner. Rep. Vinger wanted to know if there was anything the Legislature could do to help expedite passage of the bill. Vice Chairman Sivertsen requested a copy of Congressman Melcher's bill for the Committee members to take a look at. Chairman Nordtvedt announced that there were a number of Revenue Oversight Committee reports available for viewing at the Legislative Council, and that much of the material covered in them would be pertinent to legislation this Committee will be considering.

Rep. Underdal suggested that mailgrams might be sent to Congressman Melcher on an individual basis to show support of his proposed legislation. Chairman Nordtvedt added that ultimately a House Joint Resolution could be drawn up, if this was the will of the Legislature.

The meeting adjourned at 9 a.m.



REP. KEN NORDTVEDT, Chairman

da

TAX. 1/9

ILL IN

Date \_\_\_\_\_

SPONSOR Fabrega

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR LONGER FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

TAX. 1/9

COMMITTEE

Date \_\_\_\_\_

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PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

TAX 1/9  
I am Ed Sheehy, a retired Federal Employee. I live at 1731 Fifth Avenue in Helena.

I am currently serving as Legislative Chairman for the Montana Federation of Chapters, National Association of Retired Federal Employees.

One of our principal Legislative Priorities for 1981, as indicated by the Membership throughout the State, is the exemption from State income tax for interest earned on savings.

Inflation is the Number One problem facing Montana's Senior Citizens. What little savings they have accumulated has eroded in value due to the decline of purchasing power of the dollar set aside for the "rainy day". This is why we are here to support House Bill 18 and urge this committee to recommend that it do pass.

I am also submitting a brochure prepared by the Montana Joint State Legislative Committee, NRTA AARP that indicates their interest in this legislation.

Thank you for the opportunity to appear here.

*Ed Sheehy*

# **PRINCIPAL LEGISLATIVE PRIORITIES OF OUR MONTANA MEMBERSHIP FOR 1981**

- Automatic cost of living adjustment in Montana retirement systems
- Expansion of home health care services

## **SUPPORT ITEMS**

- Voting public representation on boards and commissions
- Re-examination of funding patterns for Medicare funds to nursing homes
- Decrease in Montana taxes for the elderly

## **TARGETS OF OPPORTUNITY**

- Crimes against the elderly legislation
- Improvement of Montana's Motor Vehicle Liability Law
- Exemption from state income tax for interest earned on savings

*Ed Sheehy*

# **JOINT STATE LEGISLATIVE COMMITTEE**

## **CHAIRMAN**

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3229 4th Avenue, South  
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Mrs. Vi Thomson  
3239 S. 3rd Street West  
Missoula, MT 59801  
(406) 549-0965

# **MONTANA FACTS FOR YOU TO REMEMBER**



Montana Joint State  
Legislative Committee

National Retired Teachers Association  
American Association of Retired Pe

SL1003MT(1180)

## **MONTANA'S OLDER CITIZENS**

121,000 persons in Montana are over age 60. They account for 21.9% of the voting-age population of our state.

41,700 of these citizens belong to the National Retired Teachers Association or the American Association of Retired Persons.

Because persons 60 and over register and vote in much higher proportions than any other age group, older people constitute as much as 40% - 50% of the actual voters in many elections.

## **NATIONAL RETIRED TEACHERS ASSOCIATION**

NRTA is a nonprofit, nonpartisan organization of retired public and private school personnel. Established in 1947, it is dedicated to helping its members meet the challenges of retirement living and achieve a dynamic maturity of independence, dignity and purpose.

NRTA was founded by Dr. Ethel Percy Andrus, a retired high school principal and an educator for 41 years. It sponsors numerous community service programs through more than 2,400 local RTA units and divisions.

NRTA membership exceeds 530,000 nationally and in Montana is more than 2,400.

## **AMERICAN ASSOCIATION OF RETIRED PERSONS**

AARP was founded in 1958 as a voluntary nonprofit and nonpartisan organization to help improve the quality of life of not only its members, but all older people.

Working through more than 3,000 local chapters, AARP members engage in social, educational and community activities.

AARP membership totals 11.5 million nationally and in Montana exceeds 39,300.

## **MONTANA JOINT STATE LEGISLATIVE COMMITTEE**

Montana members of NRTA and AARP are represented in legislative activities by a Joint State Legislative Committee composed of members of both Associations chosen from a statewide constituency.

Using guidelines developed by the NRTA-AARP National Legislative Council, the Joint State Legislative Committee works to bring about legislation helpful to all older persons and the state community.

The Joint State Legislative Committee in Montana selects its own legislative goals each year and develops priorities to achieve these goals. The Committee communicates the legislative program to members of the state legislature and older citizens of Montana, and then monitors the progress of state legislative activity.

Date 1-9-81

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.



# STATE OF MONTANA

## DEPARTMENT OF REVENUE

MITCHELL BUILDING

HELENA, MONTANA 59601

January 8, 1981

### MEMORANDUM

TO: House Taxation Committee

FROM: Ellen Feaver, Director *Ellen Feaver*

Department of Revenue Comment on HB 17.

The Department has requested Legislation which will raise the interest rate on delinquent income and corporation tax to 15%. The Committee may wish to note the possibility that a much higher interest rate for delinquency may be enacted. It may not be desirable to have the state paying a 15% premium on overpayments.

# STANDING COMMITTEE REPORT

January 15, 1911

MR. SPEAKER

We, your committee on TAXATION

having had under consideration House Bill No. 13

A BILL FOR AN ACT ENTITLED: "AN ACT TO ALLOW THE DEPARTMENT OF REVENUE TO WAIVE INTEREST UPON DELINQUENT TAXES AND PENALTIES IN CERTAIN CASES; AMENDING SECTION 15-1-206, MCA."

Respectfully report as follows: That House Bill No. 13

DO PASS

# STANDING COMMITTEE REPORT

March 4, 1961

MR. **SPEAKER:**

## TAXATION

We, your committee on

having had under consideration ..... House Bill No. 18

A BILL FOR AN ACT ENTITLED: "AN ACT TO REDUCE INDIVIDUAL INCOME TAX ON INTEREST INCOME EARNED BY A TAXPAYER; AMENDING SECTION 15-30-111, MCA."

Respectfully report as follows: That ..... House Bill No. 18, introduced (white), be amended as follows:

1. Title, line 7.

Following: "MCA"

Insert: "; AND PROVIDING AN APPLICABILITY DATE"

2. Page 2, line 6.

Following: "year"

Insert: "in excess of his interest expense for the taxable year, excluding interest expense on a principal residence,"

3. Page 3.

Following: line 14

Insert: "Section 2. Applicability. This act applies to taxable years beginning after December 31, 1960."

AND AS SO AMENDED

DO PASS

Ken Nordtvedt, Chairman.

# STANDING COMMITTEE REPORT

January 14,

1921

SPEAKER:

MR. ....

TAXATION

We, your committee on .....

House

22

having had under consideration ..... Bill No. ....

A BILL FOR AN ACT ENTITLED: "AN ACT TRANSFERRING RESPONSIBILITY FOR THE CALCULATION OF THE FOUNDATION PROGRAMS'S ADDITIONAL STATE LEVY FOR STATE DEFICIENCY AND STATE PERMISSIVE DEFICIENCY LEVY FROM THE SUPERINTENDENT OF PUBLIC INSTRUCTION TO THE GOVERNOR'S BUDGET DIRECTOR; AMENDING SECTIONS 20-9-351 AND 20-9-352, MCA."

House

22,

Respectfully report as follows: That ..... Bill No. ....

introduced (white), be amended as follows:

1. Title, line 10.

Following: "MCA"

Insert: "; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE"

2. Page 6.

Following: line 25.

Insert: "Section 3. Effective date. This act is effective on passage and approval."

AND AS AMENDED

~~DO PASS~~

Ken Nordqvist,

Chairman.