

MINUTES OF THE HOUSE TAXATION COMMITTEE MEETING
February 3, 1981

A meeting of the House Taxation Committee was called to order by Vice Chairman Rep. Bob Sivertsen, February 3, 1981 at 8:00 a.m. in Room 102 of the State Capitol. All members were present except Reps. Brand, Underdal, and Zabrocki, who were excused, and Reps. Williams and Roth, who were absent. HOUSE BILLS 433, 435, and 559 were heard and EXECUTIVE ACTION was taken on HB 389.

The first bill to be heard was HOUSE BILL 433, sponsored by Rep. Bob Dozier. The bill increases the interest rate on delinquent personal income taxes from 9% to 15% and from 12% to 18% when a purposeful or knowing violation is involved.

John Clark, Department of Revenue, rose in support of the bill. Right now, the Department of Revenue is the most generous lender around. It is more advantageous for a person to invest his money and pay the late interest rate on their taxes. In the last four years, tax debts have risen from \$1.8 million to \$3.7 million. See Exhibit "A" for a written statement of the Department's position.

There were no OPPONENTS to HB 433. Questions were then asked. Rep. Burnett asked Mr. Clark what he thought of changing the percentage amount to a floating rate corresponding to the prime interest rate. Mr. Clark said that the federal government set the rate according to a national indicator every year. This makes it more complicated for the Department of Revenue, because on debts that carry over several years, the interest rates have to keep getting changed.

Chairman Nordtvedt pointed out that a bill had been approved which set the rate the State paid on refunds for over payment at the same level as the one the taxpayers would owe the State on delinquent taxes.

Rep. Dozier then closed, and the Hearing on HB 433 was closed.

HOUSE BILL 559, sponsored by Rep. Ted Neuman, was then heard. Rep. Neuman explained the bill; see written testimony Exhibit "B." \$150,000 in tax cuts would be generated by this bill in the coming year. He pointed out that cutting the surtax out completely would cut down on the other tax relief proposals that would be available to enact.

Rep. Nordtvedt then rose in OPPOSITION to HB 559. A handout was distributed which exemplified his objections to the bill; see Exhibit "C." He stated that there were some technical problems with the bill, and he also questioned the basic policy in the bill. This measure would lend itself to "taxpayers tariffs" - sudden jumps in taxes. He suggested some amendments which would accomplish the same purpose as the bill. Another problem with the bill is that it

bases the graduated surtax on adjusted gross income. If wrong computations were made, two people of different income levels would end up paying the same surtax. He then presented the "social policy" point of view: tax rates are rather substantial on middle-income taxpayers. A \$20,000 adjusted gross income would generate a marginal tax rate of 37.7%. This is a real disincentive for people in this category to become more productive and make more money. Therefore, total marginal tax rates have reached a point where incentive to be productive has been severely decreased. At the \$30,000 level, the marginal tax rate probably exceeds 50%. This bill divides taxpayers in classes of who is worthy of tax cuts and who isn't. When the surtax was put on, it was done across-the-board; so the same posture should be maintained and the surtax should be repealed. Fairness and proper social policy that will maximize incentives for being more productive needs to be sought.

Dennis Burr, Montana Taxpayers Association, also rose in opposition to the bill. He feels the income tax reform most wanted by the taxpayers is repeal of the surcharge, and this bill just restructures the rate structure. The surcharge should be repealed; other measures can be enacted to take care of any shortfalls in State government.

Questions were then asked. Rep. Burnett wanted to know if Rep. Neuman had any objections to the proposed amendments. Rep. Neuman said that the Governor preferred the bill the way it was, but personally he had no objection to changing the bill.

Rep. Neuman then closed. Some of the things Rep. Nordtvedt pointed out are valid, and the intent of this bill is to decrease the tax rate, and not increase it. The bill is targeted to the middle and lower income people who suffer the most from inflation. Giving them \$20 million in tax relief would be a good move. The hearing on HB 559 was then closed.

HOUSE BILL 435, sponsored by Rep. Bob Dozier, was then heard. This bill does the same thing basically as HB 433, only in this case it applies to delinquent corporate license taxes. The Fiscal Note explains the real reason behind needing this kind of legislation. These are the people who have the large blocs of money and consequently they find they are getting a pretty good deal from the State.

Jerry Foster, Administrator, Corporate Tax Division, Department of Revenue, then rose as a PROPONENT to HB 435. He explained that the Department had a very aggressive audit program for out-of-state corporations, and this 9% rate has been a big problem for the Department because the corporations procrastinate and stall the State off at 9%, and make money in the meantime by taking short-term notes at 14%. \$4 - 5 million in unsettled debts is out right now. Also, the corporation is able to get a six-month extension for filing and doesn't have to make any tentative tax payments. Last year, 100 corporations got extensions and the Department was \$6 million short

in the Fiscal Year as a result. The money eventually will come in. The corporations said they didn't want to make tentative payments; because of the lower interest payment they could invest their money for a higher percentage. He submitted a statement from the Department of Revenue concerning this bill; see Exhibit "D."

There were no OPPONENTS to HOUSE BILL 435. Questions were then asked. Rep. Nordtvedt wanted to know if there was a higher interest rate provision for corporate negligence, such as there was for the individual taxpayer. He was told there wasn't, but that there was a penalty provision in the law.

Rep. Devlin stated that the counties were having trouble in this area also. Mr. Clark told him that Sen. Steve Brown had a bill which addresses this question, and which moves the delinquent rate to 12%.

Rep. Asay wanted to know if the 10% penalty was levied on all delinquent corporations or just when negligence was discovered. Mr. Foster told him that it was levied as a general rule.

It was explained how the 15% figure was arrived at. The prime rate averaged out to 14.9% in the last year, and this was the basis of their calculations. Rep. Dozier said he felt it was adequate to adjust the rate every two years rather than having a floating rate tied to the prime rate.

Rep. Bertelsen wanted to know who was investigating the out-of-state corporations and was told it was the Department of Revenue, Corporate Tax Division. One auditor does jurisdiction work. Corporations that make sales into the State, don't have offices in the State, but solicit orders, according to regulation aren't subject to the State's jurisdiction. But often the Department finds that salesmen handle complaints, carry merchandise, etc., which throws them into a taxable category. \$5 million in the last 5 years has been generated in this area. The cigarette industry is a good example.

Rep. Dozier then closed. The hearing on HB 435 was closed.

The Committee then went into EXECUTIVE SESSION. The Chairman entertained a motion on HB 389. Discussion took place regarding where the decal should be located. Rep. Oberg stated that Highway Patrol spokespersons had said they had no objections to where a decal was placed. Rep. Bertelsen moved that HB 389 DO PASS. Motion carried unanimously.


HOUSE BILL 221 was then considered. Rep. Burnett requested more time to study the amendments proposed by Montana Power. If the Committee wanted to act on the bill, he made a motion of DO PASS. Rep. Harrington said he would rather study the amendments first.

Rep. Burnett then withdrew his motion. He agreed to make a presentation on the bill in Executive Session on February 4.

The Chairman announced that Executive Action would be taken on HB's 237 and 156 on Feb 4. In addition, Executive Action might be taken on HB's 65, 312, 415, 433 and 435.

Rep. Sivertsen mentioned that for those members of the Vehicle Fee Bill Subcommittee, Mr. Oppedahl had put a booklet together containing all pertinent bills. He requested that the booklet be reviewed, and in the next several days a meeting would be scheduled. He stated the Subcommittee would review each bill and work would then be started on a proposal to address the various concerns that have been expressed in the hearings. He said that ultimately the Subcommittee would put together a bill that was in good form.

The meeting was adjourned at 9:00 a.m.



Rep. Ken Nordtvedt, Chairman

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DEPARTMENT OF REVENUE

HOUSE BILL NO. 433

HB 433 raises the interest rate on delinquent income taxes from 9% to 15% in general and from 12% to 18% when a purposeful or knowing violation exists. Additionally, the interest rate on improper payments to medical vendors will be increased due to the provisions of 53-6-111, MCA, which keys the medicaid payment interest rate to that for income taxes. The interest rate on delinquent withholding taxes is also increased.

The Department of Revenue proposes to raise the rates to more adequately reflect current commercial loan rates. This will take the Department out of the loan business. The increased rates will generate additional income, but this is not the main purpose of this legislation. The Department hopes that the higher rates will encourage prompt payment and reduce delinquencies.

Section Analysis

Section 1. Amends 15-30-142, MCA. On page 3, line 20, the figure 9% is changed to 15%.

Section 2. Amends 15-30-321, MCA, on page 4, line 18, the figure 9% is changed to 15% and on page 5, line 4, the figure 1% is changed to 1.5% (producing a change from 12% to 18% annually).

Section 3. Amends 15-30-323, MCA, on page 6, lines 12 and 20, the figure 9% is changed to 15%.

Section 4. Applicability. The applicability section provides that the higher rates go into effect on April 15, 1981, and apply to taxes that are delinquent and unpaid on that date as well as to taxes that become delinquent thereafter. Thus all outstanding taxes will be subject to the higher rate beginning on April 15, 1981. The higher rate does not apply retroactively, so that accumulated interest is not recomputed.

Section 5. Effective date. The act calls for an immediate effective date.

VISITORS' REGISTER

HOUSE _____ COMMITTEE _____

BILL _____ Date _____
SPONSOR _____

NAME	RESIDENCE	REPRESENTING	SUPPORT	OPPOS
Dennis Carr	HILLVIEW	DEPT OF REV		
Dennis Carr	CLAY	MARTIN		X

IF YOU WANT TO WRITE COMMENTS, ASK SECRETARY FOR LONGER FORM.
PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

HOUSE BILL 559 -

I'm sponsoring HB 559 at the request of the Office of the Governor.

HB 559 is a bill to do away with the income tax surcharge on adjusted gross incomes less than \$20,000 and provide a graduated surtax varying from 1 - 10% on adjusted gross incomes of \$20,000 and above. On incomes of \$1,000 - \$20,000 there would be no surtax. On incomes of \$20,000 - \$23,000 there would be a 1% surtax which would go up 1% for each \$1,000 increase in taxable income to a maximum of 10% on adjusted gross incomes of \$30,000, and would leave the present 10% surtax on incomes over \$30,000.

This bill is designed to allow tax relief to the biggest block of Montana taxpayers - those earning less than \$20,000 adjusted. Approximately 90% of the returns in Montana fall into the \$20,000 and under category. This group is made up of most working men and women, and the greatest number of younger and older individuals, and families with children, who suffer most from the effects of inflation are included in this group.

Many of these taxpayers are the men and women who have most, if not all, of their wages subject to withholding taxes and have little opportunity to avoid paying taxes through the use of capital gains, tax shelters, and any of the other means available to some to avoid or postpone tax liabilities. The average taxpayer in Montana paid about \$345 in state income tax in 1978. HB 559 would allow him about a \$35 break on taxes.

The taxpayers with \$20,000 income would receive the greatest saving while those with lesser or higher income would save less total dollars as indicated by the chart. The average family of four with an adjusted gross income between \$14,000 and \$15,000 a year would receive a \$42 saving, while the upper income family with an adjusted gross of \$28,000 would receive a \$23 saving.

All taxpayers below \$30,000 receive a tax break, and this includes 97% of the total taxpayers in the state and 80% of total dollars paid. The 3% of taxpayers over \$30,000 are treated the same as they are at present.

This committee will be looking at \$150 million in tax cuts this year, and this proposal will target \$20 million of tax relief to the hardest hit Montana citizens, but would still allow some tax dollars to flow into the state coffers.

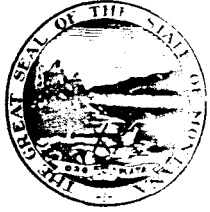
To abandon the surtax completely will cut down on the amount of tax relief we can provide from the various other proposals we have before us.

I urge your favorable consideration and support of HB 559.

COMPARISON OF TAX SAVINGS UNDER
HB559, HB85, and SB30

Adjusted Gross Income (1978 Returns)*	Average Tax Paid	Taxpayer's Savings Under HB559	Taxpayer's Savings Under SB30 and HB85 (Total Repeal)
0 - 999	\$ 2	\$ 0.22	\$ 0.22
1,000 - 1,999	14	1	1
2,000 - 2,999	33	3	3
3,000 - 3,999	57	5	5
4,000 - 4,999	84	7	7
5,000 - 5,999	117	10	10
6,000 - 6,999	155	15	15
7,000 - 7,999	190	18	18
8,000 - 8,999	228	21	21
9,000 - 9,999	265	24	24
10,000 - 10,999	303	28	28
11,000 - 11,999	343	30	30
12,000 - 12,999	382	35	35
13,000 - 13,999	421	39	39
14,000 - 14,999	463	42	42
15,000 - 15,999	508	46	46
16,000 - 16,999	554	50	50
17,000 - 17,999	599	55	55
18,000 - 18,999	650	60	60
19,000 - 19,999	702	64	64
20,000 - 20,999	757	62	69
21,000 - 21,999	815	67	75
22,000 - 22,999	876	63	80
23,000 - 23,999	930	60	85
24,000 - 24,999	988	58	90
25,000 - 25,999	1058	48	96
26,000 - 26,999	1122	41	102
27,000 - 27,999	1204	33	109
28,000 - 28,999	1261	23	115
29,000 - 29,999	1338	12	122
30,000 - 30,999	1396	0	127
31,000 - 31,999	1477	0	134
32,000 - 32,999	1556	0	141
33,000 - 33,999	1628	0	148
34,000 - 34,999	1720	0	156
35,000 - 35,999	1761	0	160
36,000 - 36,999	1824	0	166
37,000 - 37,999	1920	0	175
38,000 - 38,999	1943	0	177
39,000 - 39,999	2023	0	184
40,000 - 40,999	2353	0	214
50,000 - 59,999	3012	0	274
60,000 - 69,999	3656	0	332
70,000 - 79,999	4213	0	383
80,000 - 89,999	4839	0	440
90,000 - 99,999	5364	0	488
100,000 - 109,999	6015	0	547
110,000 - 119,999	6659	0	605
20,000 -	10,469	0	952

*Latest Available Data



The Big Sky Country

MONTANA STATE HOUSE OF REPRESENTATIVES

Ken Nordtved
118 Sourdough Ridge
Bozeman, MT 59715

Committees:
Taxation, Chairman
Natural Resources

There are both problems with HB 559 of a technical nature and also concerning the question of whether this bill is wise social policy.

Technically there is a problem with a graduated surtax superimposed on a graduated income tax bracket structure. Not only is it unnecessarily complicated for the taxpayer and tax return checker, but it leads to taxpayer "tariffs" --- sudden jumps in taxes --- for earning an additional \$1 dollar. Assuming that Montana taxable income runs at about 70% of Montana adjusted gross income for this example, a taxpayer under HB 559 would pay the following "tariffs" whenever his adjusted gross income passed various levels:

Adjusted Gross Income	"Tariff"
\$20,000	\$8.10
22,000	9.36
23,000	9.99
24,000	10.62
25,000	11.25
26,000	11.88
27,000	12.51
28,000	13.14
29,000	13.80
30,000	14.50

A properly designed income tax should smoothly increase with income. The intent of HB 559 can probably be accomplished better by the suggested amendment below. The 10% surtax is phased into the tax brackets starting from \$13,000 taxable income up to \$19,000 taxable income.

15-30-103 is amended as follows:

- (7) on the next \$4,000 3,000 8%
- (8) on the next \$6,000 3,000 9%
- (9) on the next \$15,000 3,000 10%
- (10) on the next \$15,000 11%
- (11) on any taxable income in excess of \$34,000 or any part thereof, 12%

15-30-104 is repealed in its entirety.

Another problem with HB 559 is basing a graduated surtax on adjusted gross income. Such an approach compromises the validity of itemized deductions. Taxpayers with identical taxable income will pay different taxes, depending on their original adjusted gross income.

The problem with HB 559 as social policy is that it increases the graduated nature of the income tax and denies or reduces tax cuts to some of the taxpayers. A single Montanan with \$20,000 adjusted gross income and \$14,000 taxable income, is in a total marginal tax rate (federal plus state plus social security) of 37.7%. That means the taxpayer takes home only 62 cents for every additional dollar earned.

This taxpayer needs and deserves a tax cut, too. Tax cuts for him will increase incentive to work more, save or consume more, and generally increase social productivity. In other words we must take into account factors in addition to need when tax policy is restructured.

Marginal tax rates are too high on Montanans earning \$14,000 in taxable income. It is antiproductive to start cutting out tax reductions for such Montana workers.

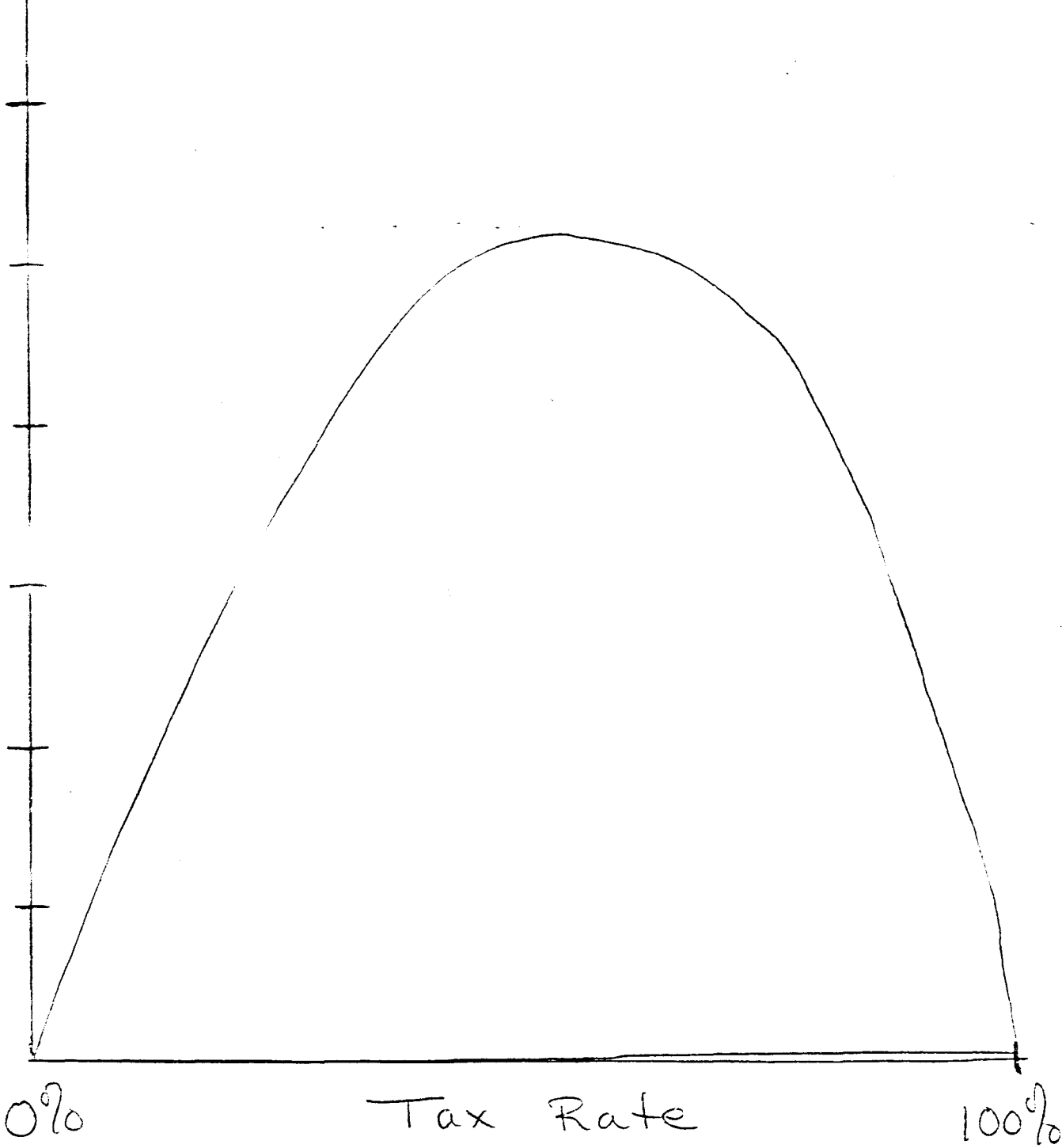
HB 559 divides taxpayers into classes and is thereby faulty and not in the public interest.

HB 559 treats taxpayers differently now when taxes are to be reduced compared with how they were treated when the surtax was put on.

Fairness calls for elimination of the surtax across the board for all Montana income taxpayers.

"Laffer" Curve

Tax Revenue



DEPARTMENT OF REVENUE

HOUSE BILL NO. 435

HB 435 raises the interest rate on delinquent corporate license taxes from 9% to 15%. The Department of Revenue proposes this change to counter the trend towards delinquent accounts. Given the large amounts that can be involved with corporate taxpayers, the disparity between the present interest rate, 9%, and the return that can be earned on unpaid taxes serves as an incentive to put off tax payments. The increase from 9% to 15% will hopefully make this incentive considerably less attractive.

Section Analysis

Section 1. Amends 14-31-502. On page 1, line 33, the figure 9% is changed to 15%.

Section 2. Applicability. This section makes the new interest rate apply on and after May 15, 1981. The application is not retroactive and accumulated interest as of May 15, 1981, will not be recomputed. However, interest after May 15th will accrue on all unpaid taxes at the 15% rate.

Section 3. Effective date. This act is given an immediate effective date.

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HB 433 raises the interest rate on delinquent income taxes from 9% to 15% in general and from 12% to 18% when a purposeful or knowing violation exists. Additionally, the interest rate on improper payments to medical vendors will be increased due to the provisions of 53-6-111, MCA, which keys the medicaid payment interest rate to that for income taxes. The interest rate on delinquent withholding taxes is also increased.

The Department of Revenue proposes to raise the rates to more adequately reflect current commercial loan rates. This will take the Department out of the loan business. The increased rates will generate additional income, but this is not the main purpose of this legislation. The Department hopes that the higher rates will encourage prompt payment and reduce delinquencies.

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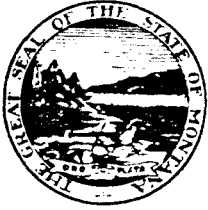
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COMPARISON OF TAX SAVINGS UNDER
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Table with 2 columns: Adjusted Gross Income and "Tariff". Rows show income levels from \$20,000 to \$30,000 and corresponding tariff amounts from \$8.10 to \$14.50.

A properly designed income tax should smoothly increase with income. The intent of HB 559 can probably be accomplished better by the suggested amendment below. The 10% surtax is phased into the tax brackets starting from \$13,000 taxable income up to \$19,000 taxable income.

15-30-103 is amended as follows:

- (7) on the next \$4,000 3,000 8%
(8) on the next \$6,000 3,000 9%
(9) on the next \$15,000 3,000 10%
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(11) on any taxable income in excess of \$34,000 or any part thereof, 12%

15-30-104 is repealed in its entirety.

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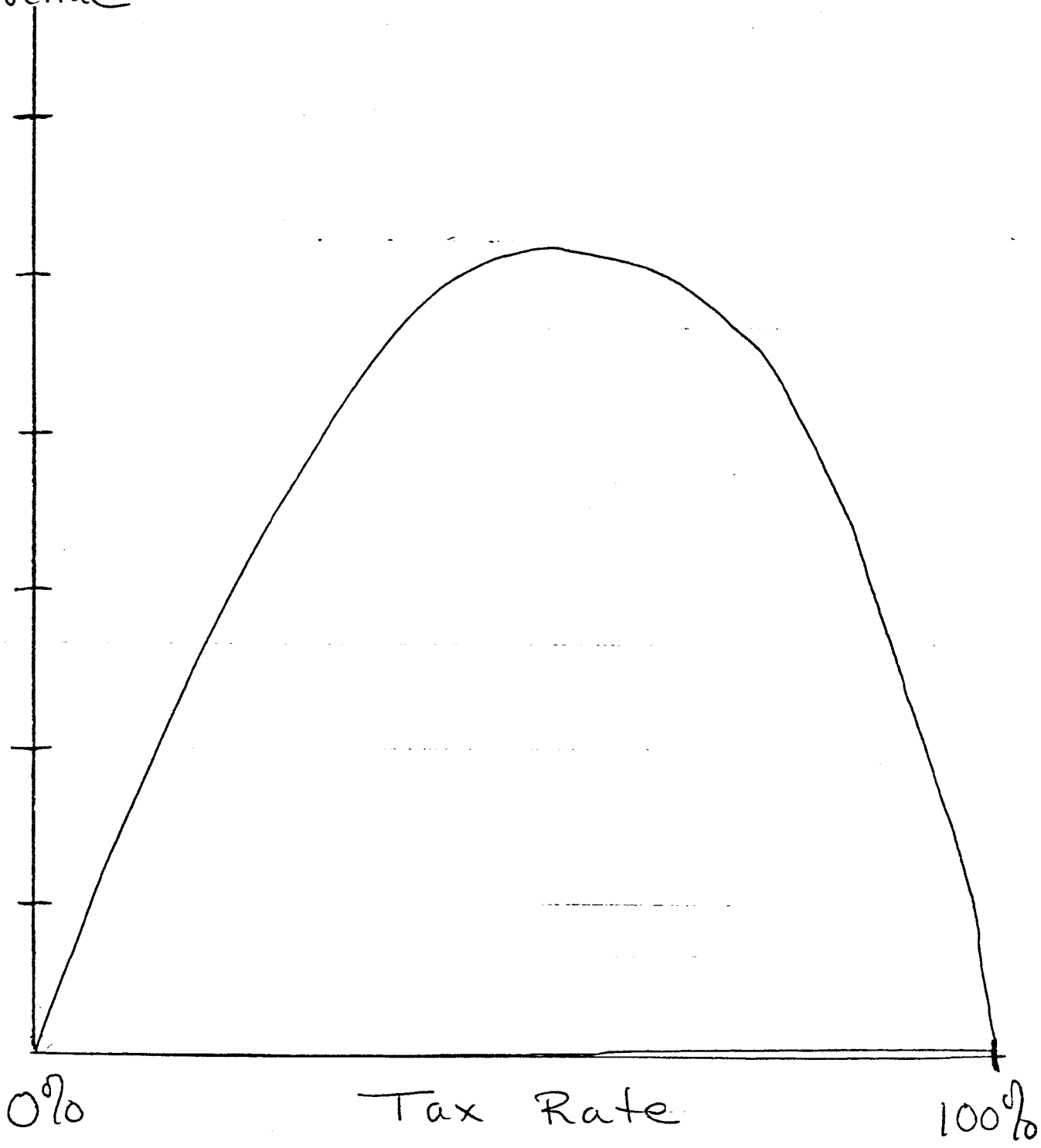
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Section Analysis

Section 1. Amends 15-31-502. On page 1, line 23, the figure 9% is changed to 15%.

Section 2. Applicability. This section makes the new interest rate apply on and after May 15, 1981. The application is not retroactive and accumulated interest as of May 15, 1981, will not be recomputed. However, interest after May 15th will accrue on all unpaid taxes at the 15% rate.

Section 3. Effective date. This act is given an immediate effective date.

STANDING COMMITTEE REPORT

February 6,

1951

MR. SPEAKER

We, your committee on TAXATION

having had under consideration HOUSE Bill No. 433

A BILL FOR AN ACT ENTITLED: AN ACT TO INCREASE THE INTEREST RATE ON DELINQUENT PERSONAL INCOME TAX FROM 9 PERCENT TO 15 PERCENT AND FROM 12 PERCENT TO 18 PERCENT WHEN A PURPOSEFUL OR KNOWING VIOLATION IS INVOLVED; INCREASING THE INTEREST RATE ON IMPROPERLY PAID MEDICAL ASSISTANCE; AMENDING SECTIONS 15-30-142, 15-30-321, AND 15-30-323, MCA; AND PROVIDING AN APPLICABILITY DATE AND AN IMMEDIATE EFFECTIVE DATE."

Respectfully report as follows: That introduced (white) be amended as follows: HOUSE Bill No. 433,

1. Title, lines 6 and 7.
Following: "9 PERCENT TO" (lines 6 and 7)
Strike: "15"
Insert: "12"
Following: "12 PERCENT TO" (line 7)
Strike: "18"
Insert: "15"

2. Page 3, line 20.
Following: "9%"
Strike: "15%"
Insert: "12%"

3. Page 4, line 18.
Following: "9%"
Strike: "15%"
Insert: "12%"

XXXXXX
DO PASS

(Page 1 of 2 pages)

COMMITTEE ON TAXATION AMENDMENTS TO HOUSE BILL 433

4. Page 5, line 4.

Following: "~~1%~~"

Strike: "1.5%"

Insert: "1.25%"

5. Page 6, line 12.

Following: "~~9%~~"

Strike: "15%"

Insert: "12%"

6. Page 6, line 20.

Following: "~~9%~~"

Strike: "15%"

Insert: "12%"

7. Page 6, line 25.

Following: "The"

Strike: "15%"

Insert: "12%"

8. Page 7, line 1.

Following: "or"

Strike: "16%"

Insert: "15%"

AND AS AMENDED
DO PASS

STANDING COMMITTEE REPORT

..... FEBRUARY 6, 19 61

MR. SPEAKER

We, your committee on TAXATION

having had under consideration HOUSE Bill No. 435

A BILL FOR AN ACT ENTITLED: "AN ACT TO AMEND SECTION 15-31-502, MCA, TO INCREASE THE INTEREST ON DELINQUENT CORPORATE LICENSE TAX FROM 9 PERCENT A YEAR TO 15 PERCENT A YEAR; PROVIDING AN APPLICABILITY DATE AND AN IMMEDIATE EFFECTIVE DATE."

Respectfully report as follows: That HOUSE Bill No. 435, ...
introduced (white), be amended as follows:

1. Title, line 7.

Following: "TO"

Strike: "15"

Insert: "12"

2. Page 1, line 23.

Following: "9"

Strike: "15"

Insert: "12"

3. Page 2, line 4.

Strike: "15"

Insert: "12"

AND AS AMENDED

EN-PAGE