MINUTES OF THE HOUSE TAXATION COMMITTEE MEETING
February 4, 1981

A meeting of the House Taxation Committee was held on Wednesday, February 4, 1981 at 8:00 a.m. in Room 102 of the State Capitol. All members were present except Reps. Brand, Roth, and Underdal, who were excused. HOUSE BILLS 63, 455, 474, and 475 were heard and EXECUTIVE ACTION was taken on HOUSE BILLS 156, 237 and 371.

The first bill to be heard was HOUSE BILL 475, sponsored by Rep. Gene Ernst. This bill readjusts the dates of the tax incentive for gasohol and repeals the Governor's power to withdraw the incentive. Cordell Johnson, representing Energy and Resource Management, Billings, then rose as a PROPONENT. He distributed a paper entitled, "Facts About Montana Agriculture and the Alcohol Fuels Industry;" see Exhibit "A." This bill takes present law and extends the time limits on the tax cuts for gasohol. Also the bill would repeal the authority of the Governor to suspend the tax break under certain conditions; this is important because gasohol plants will involve extensive expenditures of money and the investors aren't willing to provide funding if the Governor can "blow the whistle" on the tax incentive. He encouraged a DO PASS recommendation from the Committee on HB 475.

Bruce Kania then spoke regarding both HB 338 and HB 475. He feels the two bills should be merged. If the Highway Department needs more money, it should get it, and it shouldn't be contingent on gasohol funding. Indications are that a compensatory tax provision would reduce the risk of other out-of-state producers importing their product into Montana and enjoying the tax difference. The Attorney General is being consulted in this matter. He expressed opposition to the Governor's ability to negate the tax break. The Legislature will help gasohol producers determine what price they will market their product for; he encouraged the Legislature to include the compensatory provision in this bill.

Ken Hoffman, a chemical engineer working with Mr. Kania, then spoke in support of the bill. He believes that the incentive to start a plant is important and also pointed out that the tax break would be phased out after a period of time. Right now, we have a technically and economically sound approach in alcohol production. The financial community isn't going to be interested in producing unless it is a financially sound proposition and because of the newness of gasohol, there are several handicaps to be overcome.

Jim Manion, Montana Auto Association, then spoke, neither as a PROPONENT nor as an OPPONENT. He believes gasohol is a viable alternative; however, he has some concerns regarding the potential damage to the Highway Trust Account under this bill. Because of these fears the Governor was originally given the prerogative to suspend the schedule, and he feels the reasoning behind the Governor's removing the tax break wouldn't be arbitrary. He sees the same jeopardy for the Highway Account by extending the tax break. He encouraged the Committee to consider the other tax incentives which gasohol plants in the State have.

Questions were then asked. Rep. Zabrocki wanted to know if the exemption would be on the ethanol or on gasohol or on the gasoline that is used to make the gasohol, and was told it is on the gasohol. Rep. Zabrocki expressed concern that people might put alcohol in their gas to take advantage of the tax break. Mr. Kania replied that a producer would charge 40 cents to $1 more per gallon on his product because this is the amount of the savings to the retailer on a gallon of ethanol.

Mr. Manion, in response to Rep. Sivertsen, said that even though Interstate projects in Montana might be abandoned, there were other roads in Montana that were totally funded by the State, and this was a good argument to protect the Highway Account.

Rep. Williams asked Mr. Johnson for the amount of the difference in the retail price of gasohol with and without the tax reduction. He replied that the cost of the product would not go down because of the tax reduction, and he believed the difference would go to manufacturer profit. He added that the whole idea of seeking the incentive was so that the product could be made competitive with the price of gasoline.

Rep. Williams wanted to know if Mr. Kania's business got any tax credits for being a new industry. He said that they got a few but they consider them tax credits on the wrong end of the operation. In addition none of the tax credits have anywhere near the impact that HB 475 has.

Mr. Johnson stated that the statutory definition of gasohol specifies that it must be made from agricultural products from Montana, and he has a question concerning whether something could be treated as gasohol in Montana if it didn't meet this definition.

Mr. Kania stated that at present, gasohol is being marketed in two places in Montana, but it is from out-of-state ethanol. Rep. Williams wanted to know if at present the gasohol being blended in Montana was getting the tax break. Mr. Oppedahl (Legislative Council Committee Staff) agreed to research this question.

Rep. Harp wanted to know how many plants would be started in Montana without the present tax incentives. Mr. Kania replied that it would probably be only one: his; and he expressed doubt that the State would be able to support him.

Rep. Williams expressed concern about the potential for abuse, when producing gasohol with Alternative Energy Grant money. An example would be producing alcohol for other purposes than gasohol production. Mr. Kania pointed out that he was not connected with the consumer beverage-grade production of alcohol.

Rep. Dozier pointed out that the original legislation on this matter had included the provision giving the Governor his power so that the measure could gain passage. He wanted to know how this bill was going to affect the gasohol program. Mr. Kania replied that the production of gasohol had enough variables tied to it, and reiterated his opposition to the Governor's authority in this matter. He pointed out that the Highway Fund would indirectly get more money from the ethanol industry, which would generate more consumption of gasohol.

Mr. Manion stated that the tax break would hopefully encourage gasohol production and if production got to be a substantial thing, many people would be spending their money on gasohol and the State would lose revenue from the regular gas tax. This, coupled with people going to economy cars, will mean that less gas will be used.

Mr. Johnson said that the bottom line is that the reason the Governor's provision should be taken out of the law is because investment capital cannot be attracted with such a provision. As far as the Highway Department's funding, the Legislature could still control that in other ways.

Rep. Harp pointed out that, in the early 70's at the time of the original gas shortage, gasohol production had been encouraged for the sake of energy conservation. He wondered what incentive the customer would have to purchase gasohol if the price of gasohol was the same as that of gas. Mr. Hoffman replied that he had talked to a filling station operator and was told that people appeared to be willing to pay up to 6 cents more in order to take advantage of the superior performance of gasohol because of its higher octane level. Rep. Hart said that he felt it would take a lot of advertising to get people to start using gasohol. Mr. Hoffman said that this wasn't the case, and the time for gasohol has arrived.

Rep. Ernst then closed. This is a fledgling industry, and it needs incentives to get started.

HOUSE BILL 455, sponsored by Rep. Huennekens, was then heard. He stated that this bill recognizes and establishes the fact that there are three different types of real property. The bill establishes within basic Class 4 three subclasses: residential, commercial, and industrial. It also establishes the principle by law that there may be a difference in taxation within a particular group. The constitutional and statutory element that requires equity in a class of property does not require identical approaches between different classes of property.

There were no PROPONENTS to HB 455. There were no OPPONENTS. Questions were then asked. Rep. Zabrocki wanted to know if this bill based taxation on land usage. Rep. Huennekens replied that this was not the case; the only difference was essentially that there are some lands with improvements that are essentially residential, others that are commercial and others that are essentially industrial, statutorily. Class 4 taxes them all at the same taxable value. The base year for evaluation is also addressed in the bill.

Rep. Bertelsen requested an explanation of the problem of trying to reevaluate property based on the same year. Rep. Huennekens said that evaluations were always behind schedule five years. If the State was going to complicate reevaluating all three properties at the same time, it would be too costly and/or impossible.

Rep. Williams expressed support for the concept. He wanted to know where the percentage of assessed value would be set, however, within the three classes. Rep. Huennekens replied that this bill just recognized that there were three classes. Rep. Williams asked him if the Department of Revenue would be establishing different values. Rep. Huennekens said this was the Legislature's business and not the Department's. He also said that the bill was trying to deal with the problem of a different base year. He said that houses are not being valued at their 8% value at all; a 1972 book is used and true market value is therefore not used.

Rep. Bertelsen asked Mr. John Clark (Department of Revenue) if he saw any problem with the bill. He suggested that there was a Senate Committee bill which took a similar approach, but did not involve the Class system.

Rep. Nortdtvedt solicited Rep. Huenneken's opinion on the approach the Senate Committee bill took.

Rep. Huennekens said that it would be agreeable; however, if something like this was done, he wondered if District Judges wouldn't have to force the State to treat unlike properties by similar means.

Rep. Huennekens then closed.

Rep. Williams commented that passage of this bill would put the Department of Revenue in a questionable position regarding assessing. Without a repealer section on the definition of properties, he wanted to know what these three classes would do. Mr. Clark said that the problem that the bill was addressing is the problem that was run into in the last appraisal cycle. Commercial property was done based on 1976 and residential property was based on a 1972 basis.

Rep. Bertelsen wanted to know what amount of money was involved in current lawsuits concerning the "34% case." He was told that the Department of Revenue was trying to settle this out of court. Millions of dollars are involved. Some appraisals are perhaps too high; probably all of them will have to be reduced. The impact on each county will depend on the mix of property in the tax base.

Rep. Williams suggested that it might be time to pull all real property and improvements completely out of the classification system and provide a separate statute for them.

The hearing was then closed on HB 455.

The hearing on HOUSE BILL 63, sponsored by Rep. Jack Moore, was then held. This bill gives people who retire in the private sector under a private pension plan a $3,600 exemption from income taxation. This is the amount of the exemption allowed for federal retirees. The fiscal impact of the bill is unknown because the number of people this would affect is not known.

Linda Anderson, representing the Low Income Senior Citizens Advocacy, then rose in support of the bill. She stated that this bill was passed by the Legacy Legislature, and she urged a DO PASS recommendatior from the Committee.

Mr. Ed Sheehy, Montana Chapter of the Retired Federal Employees, then rose in OPPOSITION to the bill. He supported the concept of the bill but wanted to know why only federal employees were looked at when arriving at the $3,600 figure. He objected to the bill's not addressing those retired on public pensions plans from other states where they would have enjoyed the $3,600 exemption. He asked if it is fair to exempt all benefits from the teacher's retirement and the public employees retirement system, why is it fair to tax others' pensions? He expressed the belief that Civil Service Annuities should also be exempted. He submitted that public employees who are exempted from Social Security actually pay more taxes than people of comparable income who are paying to Social Security. He distributed a handout; see Exhibit "B." In addition, he submitted several letters concerning the issue; see Exhibit "C." He stated that the bottom line was: just who is escaping what tax burden. He made it clear that he was not attacking the right to exclude teachers retirement from the Montana Income Tax, but if it is fair to exempt them, retirement income from all sources should be exempted.

John Clark, Department of Revenue, then rose to make comments. He explained that the other exclusions in the bill arose from statutorily created retirement systems. The Department has some problem with some of the language in the bill because it is a little ambiguous. Also, a technical problem exists with reference to Section 408 of the IRS Code.

Questions were then asked. Rep. Moore expressed the belief, that since all public servants got some type of exemption, people in the private sector deserved some benefit also.

Rep. Dozier said that, under current law, people could be taxed on investment in the IRA, and he was curious if this bill would affect that. Mr. Clark said that there was an exception in the law which covered IRA's. Rep. Moore requested assistance in drafting a technical refinement, if necessary, so that no one would be avoiding taxation under this bill.

Rep. Moore then closed. He said that Mr. Sheehy hadn't really been addressing the private sector, and the public sector wasn't addressed in this bill. If the technical amendments from the Department of Revenue could be worked out, this bill would benefit a lot of people in the State. He stated that at one time he had estimated the fiscal impact of this measure would amount to a \$500,000 - \$1.2 million loss in State revenue. The hearing on HOUSE BILL 63 was then closed.

Mr. Sheehy stressed that he was still curious as to what Rep. Moore would be doing for the people on public retirement from out-of-state.

The Committee then went into EXECUTIVE SESSION while awaiting for the sponsor of HOUSE BILL 474 to arrive.

HOUSE BILL 391 was considered. The bill had previously been amended by the Committee to provide that charitable contributions could be added to the standard deduction. The new Fiscal Note showed an impact of possibly \$200,000 per year. Rep. Vinger moved that HOUSE BILL 391 DO PASS.

Rep. Dozier said that he had a problem with the bill, because he believed that the programs which would benefit from increased donations would better benefit from proper funding.

Rep. Asay spoke up in favor of private donations.

Rep. Dozier said: (1) charitable contributions are given not as a tax write-off, but because the people believe in the cause. (2) The Government should be addressing these problems.

Rep. Nordtvedt said that if a standard deduction was normally being taken, and a charitable contribution was made that would make it worthwhile to itemize, the bill wouldn't apply. However, the bill would benefit those people who still wouldn't have enough to itemize.

Rep. Oberg pointed out that part of the standard deduction was already designed to include a sum for charitable contributions. He submitted that if the bill was passed, people would be given a double deduction.

Rep. Dozier expressed concern that the bill would generate more requests for additions on to the standard deduction.

Rep. Devlin made a substitute motion that the bill DO NOT PASS.

Rep. Vinger rose in opposition to the substitute motion, pointing out that the bill would enable lower income people to do more for their dollars and in addition, the people who are itemizing are able to take advantage of every deduction.

Rep. Williams asked Mr. Clark, (Department of Revenue) if the standard deduction didn't actually have a built-in advantage; did it allow more than has been contributed under charitable contributions by many people. Mr. Clark said that there is a place where the standard $2,000 deduction isn't a very reasonable limitation; people don't reach that, but as one goes further and further up, the $2,000 does become a limitation.

Rep. Sivertsen said he wanted to know if this bill was really going to be of much advantage to the people who might want to make use of it.

Rep. Nordtvedt stated that the average standard deduction had a marginal return of 5%, so this bill would allow a $100 charitable contribution to get a $5 reduction on the State income tax.

Rep. Hart stated that the figure would depend on what tax bracket the individual was in, and added that unless the contribution was sizeable, the savings wouldn't be that much.

Rep. Nordtvedt said the range was $2 - $11. This bill would also be a symbolic gesture to the "standard deduction people" that their contributions were recognized.

Rep. Vinger said that the bill would give people some incentive to make contributions.

The question was called for, and the motion of DO NOT PASS carried, with Reps. Harp and Burnett opposed.

HOUSE BILL 237 was then discussed. The tax credits for energy-conserving expenditures would be almost twice as much as the benefit to be arrived at from making the deduction on the tax. The credits are at the 10% level and the deduction is usually in the 5% marginal tax bracket.

Rep. Dozier moved that HB 237 DO PASS. Rep. Nordtvedt moved to amend the bill and adjust the tax credit to 5%. (See Exhibit "D.") He was in support of having a tax credit because this would allow anyone to take advantage of the provision regardless of their income, and with the rate at 5%, the total amount of money involved would be left at the same level. He pointed out that under the present system, people with high incomes get large deductions because of their tax bracket. It was brought out that individuals using the standard deduction were presently able to take advantage of the deductions also.

The question was called for on the amendment. Motion carried, with Reps. Oberg, Dozier, and Hart opposed. The question was then called for on the motion of DO PASS AS AMENDED. Motion carried unanimously.

Control of the meeting was turned over to Rep. Sivertsen so that the Committee could take action on Rep. Nordtvedt's HOUSE BILL 156. Rep. Harp moved that it DO PASS. Rep. Nordtvedt explained the bill.

Rep. Oberg expressed reluctance to vote on a bill without any fiscal impact estimate.

Rep. Nordtvedt said, regarding the job creating portion of the bill: the average Montana income tax is 5.7% of the taxable income. If there is a 2% credit given for three years (an increase of 1% from present law), he was certain the State would get its money back in one year, and then some, from the new jobs which would be created because of the provision. He pointed out that a 30% or more increase in payroll was needed to take advantage of the tax credit. The job credit can be taken by any company who feels it is justified. The bill would also allow unincorporated businesses to take advantage of the credit.

Rep. Dozier disagreed with the bill because it would be self-defeating for the established businessman.

Rep. Harp stated that on new investments and total depreciation figures, very seldom would any corporation be able to make such a significant change where investments would outgrow depreciation. He expressed support of the Chamber of Commerce's testimony which suggested a 20% figure.

Rep. Nordtvedt disagreed. If one has an on-going concern that is maintaining its status quo and there was no inflation, that business would be reinvesting according to the amount of depreciation which was occurring.

Rep. Harp said that when a depreciation schedule was being set up, it was based on lifetime figures. All equipment is not going to run out at once.

Rep. Nordtvedt said that $100,000 worth of depreciable property on a five-year plan would be figured as depreciating at a rate of $20,000 per year, and if that amount isn't being reinvested per year, the company would be at a complete standstill. He added that many businesses would qualify for the bonus credits because of inflation.

Rep. Harp submitted that he felt the bill was being too restrictive on depreciation.

Rep. Nordtvedt then distributed some proposed amendments; see Exhibit "E."

Mr. John Clark (Department of Revenue) said that he believed the amendments cleared up the problem with the definition of the word "investment." The question on the motion to amend the bill was called for; motion carried unanimously. It was pointed out that this amendment to the Codes did not change the treatment of small businesses. Rep. Williams expressed concern that the amendment might be broadening the scope of the bill. Rep. Nordtvedt told him that it was just making the reference to include everyone who paid income taxes, and this is just the statutory language that is under the personal income tax system in Montana.

The question was then called for on the motion of DO PASS HB 156 AS AMENDED. Motion carried, with Rep. Dozier opposed.

HOUSE BILL 43 was then considered. Rep. Dozier moved that it DO PASS. Rep. Fabrega then arrived and the hearing on HOUSE BILL 474 was opened. In 1975 there was a similar bill which was passed, and it stayed in the books until 1977, at which time, it was dropped out because it became one of the factors in "MELDA." The only thing that is different about this bill is that it provides that the local government must have approved of implementations of this measure by resolution. He discounted on the rationale that money was being given away because the improvements would be made anyway. This bill gives local option without any of the side effects of the former situation. This bill will make the difference between whether a building is rebuilt or torn down, based on a $1 million taxable valuation.

Ruth Baenen, President of the Montana Assessor's Association, then rose, stating that she felt this bill would be hard to implement. Appraisers are having a hard time now keeping up with the construction phases. She stressed that no further revenue should be lost in the counties.

Mr. John Clark (Department of Revenue) then rose neither as a proponent nor as an opponent.

There were no OPPONENTS to HB 474. Rep. Fabrega stated that the bill would increase the additional value on a building on a schedule of five years. After the remodeling is completed, the assessment is made.

Rep. Asay said the city might lose even more revenue if the building was torn down.

Rep. Fabrega then closed.

Ms. Baenen then brought up the language, "first year after construction" and pointed out that sometimes construction goes on for years and years, and for this reason the bill would be hard to implement.

Rep. Devlin wanted to know if the city could put a limit on the time of remodeling. Rep. Fabrega replied that commercial remodeling usually was done fairly quickly. Rep. Sivertsen pointed out that the individual wouldn't get the credit until the project was appraised. He didn't think this aspect of the bill should be a source of concern. Rep. Fabrega pointed out that on new buildings, periodical assessments are done on the construction, but this is not the case when an older building is being remodeled.

The hearing on HOUSE BILL 474 was then closed.

The Committee then went back into EXECUTIVE SESSION. The question was called for on HOUSE BILL 43. A straw vote was taken, and the decision was made to postpone discussion on the bill until a later meeting.

The meeting was adjourned at 11:00 a.m.

K Nordtvedt

Rep. Ken Nordtvedt, Chairman

da

VISITORS' REGISTER

HOUSE [illegible] COMMITTEE

BILL [illegible]

Date [illegible]

SPONSOR [illegible]

NAME	RESIDENCE	REPRESENTING	SUPPORT	OPPOSE
[illegible]	[illegible]	[illegible]		
[illegible]	"	[illegible]		
JOHN CLARK	HELENA	DEPT OF REV		

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

NAME ______________________________ BILL No. __________

ADDRESS ______________________________ DATE __________

WHOM DO YOU REPRESENT ______________________________

SUPPORT __________ OPPOSE __________ AMEND __________

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

FORM CS-34
1-81

FACTS ABOUT MONTANA AGRICULTURE AND THE ALCOHOL FUELS INDUSTRY

Motor Fuels Tax Exemption

Modifications Necessary to Improve Chapter 576, Laws of 1979, Sec.15-70-204 MCA (HB-402)

1. Alcohol Fuel Production Benefits Montana Farmers:

   Nearly 50% of the barley and 70% of the wheat grown in this state is exported at costs approaching $1.00/bu. for Montana farmers. Alcohol production would create an additional local market for Montana grain which would give our farmers the option of saving transportation costs.

2. Alcohol Production Will Reduce Montana's Fuel Imports:

   We are an energy-rich state. However, most of our energy comes in the form of solid fuels such as coal. Montana must actually import oil and gas to meet our annual consumption requirements. A recent study by Brelsford Engineering determined that Montana refined slightly over 48 million barrels of oil in 1977. Only 32.7 million barrels were produced in the state that year, however. The difference between the amount produced and the amount refined represents our import requirements. Considering the high price of oil on the world market as well as curtailment of Canadian crude to the U.S., we should begin now to compensate for the deficit with locally-produced alcohol fuels.

3. Alcohol Fuels Are A Truly RENEWABLE RESOURCE:

   Alcohol fuels are most often produced from grain. All the original protein, vitamins and minerals in the grain are recovered in the conversion of grain to alcohol. The resulting by-product is a high quality feed for livestock. Little of the original food value in the initial grain stock is lost, therefore alcohol production and livestock feeding are very compatible industries. Thus grain and alcohol are one of the most immediately available, energy and cost-efficient renewable resources the state can produce. Once established, the alcohol fuel industry will strengthen Montana's reliance on renewable resources and reduce the state's imports of liquid transportation fuels.

Alcohol fuels are still relatively expensive to produce. As the price of oil continues to rise, alcohol fuels will become price-competitive with gasoline. Montana Law 15-70-204 was designed to stimulate immediate production by providing tax breaks which improve the economics until alcohol fuels become price-competitive with gasoline. The following refinements of the Act would substantially improve its provisions and should be considered by the 1981 Legislature.

1. Advance By 4 To 6 Years The Entire Phase-Out Period Of The Act:

As the Law now stands, the state tax on gasohol is reduced from ~~9~~8¢/gallon to 2¢/gallon from April, 1979 to April, 1985. After April, 1985, the tax is increased to 4¢/gallon. The tax is again increased to 6¢/gallon in April, 1987, and the tax break is phased out entirely in April, 1989. To account for reasonable design and construction time, the tax break should not begin to be phased out until at least April, 1989. This would allow an alcohol producer with current plans for construction and start-up about 5 to 6 years of the full tax break. The federal government realized this need and recently extended their alcohol fuel tax break until nearly the end of this century. As a state that wishes to strengthen its agricultural economy while promoting the production of renewable resources, we should follow the federal government's lead and extend our alcohol fuel tax breaks. It is important to note that the Act does not call for the state to pay producers a rebate from its own treasury. Rather, it simply reduces the tax burden imposed on the production of this renewable fuel.

2. Promote The Marketing Of More Concentrated Alcohol Fuels:

One gallon of pure denatured alcohol when diluted with 9 gallons of gasoline will produce 10 gallons of gasohol. According to the CRUDE OIL WINDFALL PROFITS TAX ACT OF 1980, the federal government will provide one tax break for alcohol sold as gasohol and a tax break 10 times greater for alcohol sold as pure denatured alcohol fuel. In both cases, the tax break per gallon of pure alcohol is the same. The Montana law (Act 15-70-204) does not compensate for the various concentrations of alcohol in a fuel. A producer can therefore not afford to market pure denatured alcohol even though a large potential market exists for this product on Montana farms and ranches. Use of more concentrated alcohol fuels should be encouraged by providing a tax break on a per-gallon-of-alcohol basis, whether the alcohol is used directly or diluted in other fuels.

3. Eliminate the Ability Of The Governor To Suspend The Act:

Commercial alcohol plants require multi-million dollar investments. At present, the state tax incentives are critical to the economics of alcohol production. Many proposed Montana alcohol plants have failed to advance beyond the feasibility stage because of the threat of the unilateral suspension of the tax breaks. As the Act now stands, the Governor can suspend the Act without legislative approval. The powers granted to the Governor create a climate of economic uncertainty which discourages investments in this field. This uncertainty should be removed by amending the Act to eliminate the ability of the Governor to suspend the Act.

This statement is submitted to the Committee on Taxation in support of House Bill 475.

Cordell Johnson

Cordell Johnson
Registered Lobbyist

Points:

One of these bills should go thr
committee, to be passed ~~by~~ into law,
What should this bill contain

1. In light of recent development
should include a "compensatory tax"
~~[illegible]~~ Ethanol facilities are not
a free ride, but at least in-state facil
are prepared to partially reimburse revenue lost ~~by~~
State Highway Dept. thru the gasohol differen
Projections indicate amounts returned to State
~~[illegible]~~ department
Rep. Nordvedt's bill may ~~[illegible]~~
than revenue ~~to~~ gained via the gasoline tax,
The compensatory tax would norm
go to state general fund, but since no
scale ethanol plants are currently on line, t
not represent a loss to the state. Once th
differential phases out, the compensatory tax
~~[illegible]~~ add to state revenues. This provisi
a strategic tax incentive, ~~that, [illegible]~~
~~establish a competitive [illegible] price for [illegible]~~
~~[illegible]~~ without negatively impacting State ~~[illegible]~~
Funds.

Other Bonuses:

1. Compensatory tax provisions repr
simply a means by which in-state producer
ethanol can reimburse the State Highway Fund
not taxed ~~collected~~ via the gasoline tax. Since the re
tax comes on net profit of an ethanol plant,
position of investors in this high-risk [illegible]
field is strengthened; that is, the price [illegible]
sold in Montana will reflect the gasohol tax saving
[illegible] On the other hand, ~~[illegible]~~ in light [illegible]

compensatory provision, out of state producers, are not [illegible] in an apropriate position to participate in the State's tax differential, unless they can devise a means by which they compensate Montana [illegible] on a similar basis, which is doubtfull, ~~especially since~~ ~~a $6\frac{3}{4}$% tax on their Net profit would very~~

Finally, this provision represents a creative new aproach to taxation that will encourage entrepreneurs to take the risks necessary to make things happen. When something has to be done to make energy realistic, this kind of creative foresight inspires producers like myself to ... go ahead. Ethanol production pencils out. With the state allowing a differential, a lower tax on gasohol than gasoline, & being compensated thru a tax on profits, investors can feel safer about servicing the front end monetary requirements of an ethanol production facility,

This is an excellent supplement to the pending gasohol legislation,

~~thank~~ you

Ken, discuss 1. Removal of Gov.s ability to terminate,

2. Compromise on timetable,

Gene Ernst: Will he (can he) team up with Nortvedt on one bill?

VISITORS' REGISTER

HOUSE [illegible] COMMITTEE

BILL [illegible] Date [illegible]

SPONSOR [illegible]

NAME	RESIDENCE	REPRESENTING	SUPPORT	OPPOSE
Ruth Barnes	Libby	Assessor's Assoc.		✓
[illegible]	[illegible]	De[illegible] [illegible]		

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITORS' REGISTER

HOUSE [illegible] COMMITTEE

BILL [illegible] Date [illegible]

SPONSOR

NAME	RESIDENCE	REPRESENTING	SUPPORT	OPPO
R O Sheehy	1731 5th Ave Helena	Retired Federal Employees	Amend	
[illegible]	10 [illegible] E. [illegible]	self	✓	
[illegible]	2107 Lockey	Self	✓	
JOHN CLARK	HELENA	DEPT OF REV		

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

HB 63

EXHIBIT "B" HB 63 TAXATION 7/4/81

Civil Service Employee Annuitants and Survivor Annuitants, as of September 30, 1978

Monthly Annuities	Annual Up To:	Employee Annuitants	Percent of Total	Cumulative Percentage	Survivor Annuitants	Percent of Total	Cumulative Percentage
$ 25- 100	$ 1,200	26,661	2.3	2.3	29,034	7.0	7.0
100- 150	1,800	41,727	3.6	5.9	52,052	12.5	19.5
150- 200	2,400	33,255	2.9	8.8	98,750	23.7	43.2
Under $200	......	101,643	8.8	8.8	179,836	43.2	43.2
200- 300	3,600	72,478	6.3	15.1	81,880	19.7	62.9
300- 400	4,800	105,354	9.2	24.3	60,524	14.5	77.4
400- 500	6,000	135,881	11.8	36.1	40,311	9.7	87.1
Under $500	......	415,356	36.1	36.1	362,551	87.1	87.1
500- 600	7,200	128,356	11.2	47.3	21,527	5.2	92.3
600- 700	8,400	118,044	10.3	57.6	11,687	2.8	95.1
700- 800	9,600	117,499	10.2	67.8	7,428	1.8	96.9
Under $800	......	779,255	67.8	67.8	403,193	96.9	96.9
800- 1,000	12,000	146,379	12.8	80.6	7,524	1.8	98.7
1,000- 1,250	15,000	97,708	8.5	89.1	3,688	.9	99.6
1,250- 1,500	18,000	51,259	4.5	93.6	1,344	.3	99.9
1,500- 1,750	21,000	30,851	2.7	96.3	441	.1	100.0
1,750- 2,000	24,000	18,925	1.6	97.9	135	-	
2,000- 2,500	30,000	17,739	1.6	99.5	35	-	
Over 2,500	30,000+	6,026	0.5	100.0	8	0.9	100.0
	TOTAL	1,148,142	100.0		416,368	100.0	100.0
		416,368			416,368		100.0
		1,564,510	Total Employee & Survivor Annuitants				

Average Employee Annuitant

$709 Month - $8508 Year

Average Survivor Annuitant

$296 Month - $3552 Year

Distribution of Federal Retirement Benefits

The chart below is taken directly from the latest official OPM publication entitled, "Federal Fringe Benefit Facts 1979," which gives statistical information on the various fringe benefit programs administered by that agency.

This table below indicates the geographical distribution of benefits paid under the Civil Service Retirement System. Th column headed, "Dec. 1978 Total eligible active population" carries the number of active workers in each state. The "Total number on roll" column indicates the combined number of retiree annuitants and survivor annuitants. Average monthly annuity levels for your own state can be determined by dividing the number of recipients of each category into the total monthly annuities amounts indicated in the corresponding column.

Updated figures for the fiscal year ending October 1, 1980 will not be available for publication until at least the Spring of next year, so the following statistics can be used as the latest published figures,

Residence	Dec. 1978 Total eligible active population	Retirement: (as of October 1, 1979)					
		Total number on roll	Total monthly annuities (000's)	Number annuitants	Annuitants monthly annuities (000's)	Number survivors (individuals)	Survivors monthly annuities (000's)
STATES							
Alabama	59,857	33,688	$ 21,815	24,793	$ 19,009	8,895	$ 2,806
Alaska	15,339	3,156	2,395	2,570	2,173	586	222
Arizona	34,473	26,367	19,075	20,820	17,087	5,547	1,988
Arkansas	18,408	16,241	10,357	12,306	9,110	3,935	1,247
California	290,052	183,128	122,505	138,213	107,834	44,915	14,671
Colorado	47,932	25,829	17,964	20,086	15,993	5,743	1,971
Connecticut	21,035	9,964	6,584	6,848	5,476	3,116	1,108
Delaware	4,990	3,038	2,072	2,167	1,773	871	299
District of Columbia	208,051	55,046	42,739	42,500	37,883	12,546	4,856
Florida	79,264	110,732	82,589	86,167	73,777	24,565	8,812
Georgia	75,941	40,998	26,047	30,032	22,555	10,966	3,492
Hawaii	25,005	13,143	10,205	10,619	9,263	2,524	942
Idaho	10,517	6,198	4,169	4,809	3,710	1,389	459
Illinois	101,687	49,239	31,153	34,933	26,318	14,306	4,835
Indiana	40,165	23,040	13,702	16,468	11,648	6,572	2,054
Iowa	19,050	14,393	8,610	9,984	7,157	4,409	1,453
Kansas	22,576	16,549	10,216	12,088	8,789	4,461	1,427
Kentucky	34,264	21,372	12,494	15,509	10,703	5,863	1,791
Louisiana	31,384	17,439	11,102	12,673	9,495	4,766	1,607
Maine	9,242	9,137	5,733	6,526	4,876	2,611	857
Maryland	130,370	67,859	57,118	50,376	49,859	17,483	7,259
Massachusetts	57,760	43,871	27,571	30,388	23,024	13,483	4,547
Michigan	53,350	24,447	15,794	17,493	13,388	6,954	2,406
Minnesota	29,417	18,538	12,167	13,520	10,365	5,018	1,802
Mississippi	26,794	14,919	9,384	10,711	8,001	4,208	1,383
Missouri	65,048	33,752	22,135	24,944	19,092	8,808	3,043
Montana	12,366	6,098	4,108	4,674	3,612	1,424	496
Nebraska	15,423	9,810	6,270	7,021	5,333	2,789	937
Nevada	9,218	6,579	4,661	5,259	4,228	1,320	433
New Hampshire	14,672	8,212	5,303	5,840	4,528	2,372	775
New Jersey	68,650	42,045	29,174	29,677	24,744	12,368	4,430
New Mexico	26,451	14,015	9,790	11,112	8,790	2,903	1,000
New York	166,194	92,646	56,664	63,995	47,237	28,651	9,427
North Carolina	41,840	28,570	18,241	20,882	15,780	7,688	2,461
North Dakota	8,316	3,461	2,081	2,485	1,748	976	333
Ohio	89,444	49,394	33,600	35,270	28,740	14,124	4,860
Oklahoma	46,834	33,111	20,554	25,234	18,170	7,877	2,384
Oregon	26,797	20,026	13,894	15,500	12,341	4,526	1,553
Pennsylvania	128,018	79,712	51,587	57,290	44,072	22,422	7,515
Rhode Island	9,390	9,440	5,838	6,881	5,029	2,559	809
South Carolina	31,358	20,740	13,517	14,970	11,660	5,770	1,857
South Dakota	9,865	5,146	3,014	3,759	2,577	1,387	437
Tennessee	68,043	22,138	14,468	15,748	12,337	6,390	2,131
Texas	148,022	89,500	58,413	66,490	50,968	23,010	7,445
Utah	34,565	19,455	12,792	15,187	11,457	4,268	1,335
Vermont	4,424	2,656	1,809	1,885	1,534	771	275
Virginia	144,075	88,832	73,502	65,990	64,512	22,842	8,990
Washington	58,882	43,865	28,943	33,093	25,517	10,772	3,426
West Virginia	15,723	8,705	5,448	6,428	4,726	2,277	722
Wisconsin	26,206	16,329	10,080	11,808	8,548	4,521	1,532
Wyoming	6,398	2,991	1,893	2,267	1,660	724	233
Total	2,723,145	1,605,559	$1,091,339	1,186,288	$948,206	419,271	$143,133
TERRITORIES	34,735	9,244	4,966	7,713	4,508	1,531	458
FOREIGN COUNTRIES	94,448	25,402	9,199	18,903	7,599	6,499	1,600
GRAND TOTAL	2,852,328	1,640,205	$1,105,504	1,212,904	$960,313	427,301	$145,191

Jan. 21, 1981
Butte, Mt.

Mr. Ed Sheehy
1731 Fifth St.
Helena, Mt.

Dear Ed.

I Am Writing You In Regard House Bill #62 - As You Know All of Federal Employees Have To Pay Both Federal & State Tax on Our Retirement - We Also Aren't Able To "Double Dip" As We Are Not Eligible for Social Security - So With Inflation & The Deflated Dollar It Is Getting Harder & Harder For Many Retirees To Get By. So When This Bill Comes Out On The Floor I Hope You Lawmakers Will Give It Favorable Support -

I Am A Member of National [illegible] Federal Employees

All our Members [illegible] [illegible] [illegible] Ed [illegible] Be [illegible] Appreciate Your Help In Getting This Bill Exemption Upgraded In Our Behalf

Truly Yours
Sheila McCarthy
[illegible]
Butte, Mt. 59701

716 West Granite
Butte, Mont. 59701
Jan 21, 1981

Mr. Ed. Sheehy,
Helena, Mont. 59601

Dear Ed:

As to House Bill #63:

Due to inflation $3600 State Income Tax exemption for retired Federal Employees in no longer adequate. Many of these retirees have to depend entirely on their annuity for survival. As you know Federal Employees have to pay both Federal and State Income taxes on their full annuity, so we feel we should have a higher exemption, as Social Security recipients are tax free.

If you are called to testify in our behalf on this bill we would [illegible] effort [illegible] to have this exemption up-graded.

Thanking you, I am

Sincerely

Robert E. S[illegible]

FLATHEAD CHAPTER [illegible]

National Association of [illegible]

[illegible] SECRETARY [illegible]

Bigfork, Montana
Jan. 28, 1981

Mr. Edmund F. Sheehy
1731 South 5th Ave.
Helena, Montana 59601

Dear Edmund:

The efforts of the Montana State Federation of Chapters of NARFE to endorse HB63 are well taken. As is well known, any individual recipient of Social Security is exempt from Federal income tax. It is little known but a fact that all Railroad and Railway Express retirees receive annuities that are completely tax free. Therefore, in the spirit of equality, retired Federal employees should not be discriminated against.

As of May, 1980, the average Federal annuity was $709.00 per month; over 100,000 retirees receive under $200.00 per month. HB63, a bill to exempt from income tax private or corporate retirement not in excess of $3600.00, would be a real benefit to the age group where earnings have constantly decreased because of the inflation spiral.

You have the complete support of Flathead Chapter No. 646, which has a membership of well over one hundred.

Sincerely,

Norval T. Ostroot

Norval T. Ostroot
Pres., Chapter 646, NARFE
180 Holt Drive
Bigfork, Montana 59911

spen

Income tax exclusion

Rep. Jack Moore of Great Falls has a bill before the legislature (HB 63) to exempt from income taxation private or corporate retirement benefits not in excess of $3,600.

This prompts two questions:

Where did Mr. Moore come up with the $3,600 figure?

What consideration is given to a person such as a teacher whose benefits are based on a public retirement system in another state?

Perhaps another question is whether age should be a factor in allowing benefits.

In 1961, two Republican members of the legislature, with the support of then-Gov. Nutter, brought into law the present $3,600 exemption given to federal retirees. This was to recognize that people who did not have the supplemental benefits of social security may be entitled to a tax break.

What HB 63 presupposes is that all retirement benefits are under one umbrella and benefits from one should be taken into account when determining benefits of another. I believe that there are many people in and around the Legislature who are not aware that the city of Great Falls has never extended the benefits of social security to its policemen. This is an example of how difficult it is to compare benefits or the reasons for special tax treatment.

Montana has approximately 6,100 persons receiving civil service annuities. Of these, 4,674 receive benefits on the basis of their employment and contributions that average $772 monthly, and there are 1,424 receiving reduced benefits, as survivors, that average $348 monthly. This income is taxable under federal income tax and after the $3,600 exclusion state income tax.

A person with average earnings under social security retiring at age 65 in 1981 can get $532 in benefits plus an additional allowance of $266 for his wife, non-taxable.

I believe that Rep. Moore should hear from the people of Great Falls as to what's fair in income tax exclusion.

EDMUND SHEEHY, retired federal employee, 1731 5th Ave., Helena

Letter to Editor Great Falls Tribune

MONTANA STAT[illegible]
NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES
611 Livingston Ave.
Missoula, Mt. 59801

January 22, 1981

The Honorable Kenneth Nordtvedt, Chairman
House Taxation Committee
Montana State Legislature
Helena, Mt. 59620

RE: HB-63

Dear Chairman Nordtvedt:

The Montana Federation represents local chapters located at Bozeman, Billings, Great Falls, Helena, Butte-Anaconda, Missoula, Hamilton, Polson and Kalispell.

We have been concerned for years as inflationary pressures eroded the $3600 State tax exemption on our annuities. A resolution passed our State convention last April asking that our annuities be tax exempt, at least to the extent of the highest amount a Social Security recipient can receive.

As of October 1979, Montana had 4674 Civil Service annuitants receiving $3,612,000 monthly, or $772 each. There were 1424 surviving spouses receiving $496,000 monthly, or $348 each. These statistics make it quite evident that we are not the "fat cats" as normally depicted.

Since PERS and teacher retirees receive annuities comparable to ours, plus Social Security-all tax free, we feel that our request is very reasonable.

We are certainly sympathetic for those with private retirement systems, who have had no tax break in the past. Our only comment is that HB-63 is too conservative, and completely out of tune with the times. Every retiree should be entitled to a tax exemption at least equal to that given to those receiving Social Security.

We earnestly hope that your committee sees fit to act favorably upon our request.

Sincerely,

Everett E. Woodgerd,
President

OK as corrected - BR7

Em 114

HOUSE BILL 237, introduced (white), be amended as follows:

Page 1, line 25
Following: "(ii)"
Strike: ~~"10"~~ "10%"
Insert: ~~"5"~~ "5%"

w/ percentages the whole figure should be stricken & reinserted (as w/ dollar figures, etc.)

Page 2, line 4.
Following: "(ii)"
Strike: ~~"10"~~ "10%"
Insert: ~~"5"~~ "5%"

AND AS AMENDED
DO PASS

OK
-3f7

SUGGESTED AMENDMENTS TO HB 156

1. Page 2, line 4.
Following: "allowed"
Strike: "if the total"
Insert: "on the"
Following: "amount"
Insert: ",if any,"
Following: "of"
Insert: "qualifying"

2. Page 2, line 5.
Following: "business"
Insert: "that"

3. Page 5, line 21.
Following: "allowed"
Strike: "if the total"
Insert: "on the"
Following: "amount"
Insert: ",if any,"
Following: "of"
Insert: "qualifying"

4. Page 5, line 22.
Following: "business"
Insert: "that"

VISITORS' REGISTER

HOUSE Taxation COMMITTEE

BILL HB 474 Date 2/7/81

SPONSOR Fabrega

NAME	RESIDENCE	REPRESENTING	SUPPORT	OPPOSE
H. Ruth Baenen	Libby	Assessor's Assoc.		✓
JOHN CLARK	HELENA	DEPT OF REV.		

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

STANDING COMMITTEE REPORT

February 7, 1981

MR. SPEAKER:

We, your committee on TAXATION

having had under consideration House Bill No. 63

A BILL FOR AN ACT ENTITLED: "AN ACT TO EXEMPT FROM INCOME TAXATION PRIVATE OR CORPORATE RETIREMENT BENEFITS NOT IN EXCESS OF A CERTAIN AMOUNT; AMENDING SECTION 15-30-111, MCA; AND PROVIDING AN EFFECTIVE DATE."

Respectfully report as follows: That House Bill No. 63, introduced (white), be amended as follows:

1. Page 2, lines 5 and 6.
Following: "received" (line 5)
Strike: "by a retired person"

2. Page 2, line 10.
Following: "Code"
Strike: ","
Insert: "of 1954, or"
Following: "as"
Insert: "that section may be labeled or"

AND AS AMENDED

DO PASS

Rep. Ken Nordtvedt, Chairman.

STATE PUB. CO.
Helena, Mont.

STANDING COMMITTEE REPORT

February 7, 19 81

MR. SPEAKER

We, your committee on TAXATION

having had under consideration HOUSE Bill No. 474

A BILL FOR AN ACT ENTITLED: "AN ACT TO PROVIDE A GRADUATED SCHEDULE FOR THE TAX RATE APPLICABLE TO IMPROVEMENTS ON REAL PROPERTY; PROVIDING FOR LOCAL GOVERNMENT APPROVAL IN THEIR JURISDICTION; AMENDING SECTION 15-6-134, MCA; PROVIDING AN IMMEDIATE EFFECTIVE DATE."

Respectfully report as follows: That HOUSE Bill No. 474

DO PASS

REP. KEN NORDTVEDT, Chairman.

STATE PUB. CO.
Helena, Mont.