

HOUSE TAXATION COMMITTEE MEETING MINUTES  
February 24, 1981

A meeting of the House Taxation Committee was held on Tuesday, February 24, 1981 at 8:00 a.m. in Room 102 of the State Capitol. With Vice Chairman Rep. Bob Sivertsen presiding, all members were present except Chairman Rep. Ken Nordtvedt, who was excused for the first part of the meeting. HOUSE BILLS 768 and 776 were heard.

HOUSE BILL 776, sponsored by Rep. Dan Harrington, was heard first. This bill would create a board similar to the Coal Board to govern over the impact of ferrous mining in Montana. The Board could award grants for impact funding. Some amendments to the bill were distributed; see Exhibit "A." The present metal mining tax is not increased by this bill, he pointed out. There is going to be much more metal mining in the State and this Board would be an answer to that to help in the impacted areas. Not too much of it has happened yet because of the economic slowdown of ARCO and its subsidiary the Anaconda Company. He submitted that the Metal Mines License tax is basically a severance tax. He then gave a history of the tax. The tax is based on the gross value of the product. 95% of the tax comes out of the Butte mines. It brings in, according to the Governor, \$2.5 million per year, or \$2 million per year according to the Budget Office. The Anaconda Company claims the figure is \$2.2 million. Because metal mining is going to be branched into different areas of the State, it is important to have this Board. Any impacted areas affected by a slowdown will have the ability to ask for a grant and the amendment was submitted to make sure of this. This bill should have been enacted a long time ago to guarantee these areas are aided when there are setbacks.

Dan Mizner, Executive Director of the Montana League of Cities and Towns rose in support of the bill. This kind of a fund can do much to be of help in the impacted areas and this is exemplified by the Coal Board's accomplishments. Rep. Burnett wanted to know why an appropriation from the General Fund wasn't pursued. Rep. Harrington said he didn't think the bill was taking the wrong approach to funding. The board would be set up to take care of future impacts. As the impact grows, the fund should grow. The 25% back is similar to what the Coal Board is presently getting.

Rep. Burnett wanted to know if the bill was creating more bureaucracy. Rep. Harrington replied that he felt the Board was necessary, and the bill was not aimed at any special area; it would be on a State-wide basis. He added that if the Department of Community Affairs was not going to be available to provide for a locale for the Board, then the bill would have to be amended to give this authority to another agency.

Rep. Williams brought up Rep. Ellison's bill. He suggested these two bills might be put together; the other bill is in the Business and Industry Committee.

Rep. Underdal asked Rep. Harrington where the three members of the

Board not addressed in the bill would be chosen from. Rep. Harrington replied that this was the same language that the Coal Board operated under.

It was brought out that \$625,000 for the last year would have been generated, if this bill had been in effect.

Rep. Brand wanted to know what the gross value figure was based on. Rep. Harrington said that the amount of ore that was being taken out was used as the base. Rep. Brand questioned the reliability of the figures supplied, and wanted to know who was going to make the determination as to the value of the mines. Rep. Harrington said nothing in this area would be changed, and the mining company would still be setting the figures. Hopefully, the State would soon be getting a copy of these records.

Rep. Harrington then closed. He stressed that the industry would be growing in the State and the impact money is going to be needed. When a boom situation ends, the layoffs are considerable, and impacts like this need financial help.

The meeting was then turned over to Rep. Nordtvedt.

HOUSE BILL 768, sponsored by Rep. Steve Waldron, was then heard. He submitted that the inventory tax was one of the most regressive taxes. The problem with doing away with the tax is that local governments will lose a considerable amount of revenue. So, rather than eliminating the revenue, he suggested that either a work privilege tax or a percentage of the State income tax be given to local governments. He stated that he was not very satisfied with the way the bill was written. For example, he felt that the provision for a work privilege tax was regressive. Also, the way the language on page 2 is written, a person could be taxed twice. He has talked with the Chamber of Commerce and they would like to work on the bill with him and get it amended properly. It is not his intention nor is it acceptable to have a replacement tax that is a dollar for dollar replacement. The intentions of the bill are: (1) to get rid of a regressive tax; and (2) to provide alternative means of raising revenue for local governments. He requested that the Committee defer action on the bill until the amendments could be worked up.

Dan Mizner, Executive Director of the Montana League of Cities and Towns, then spoke up in support of the concept of the bill. He called the Committee's attention to the number of bills which would reduce the taxable valuation of Cities, Towns, and Counties. He stressed that a way of making this up is needed. This bill gives an alternative source of revenue. The Legislature can help the taxpayers tremendously and equalize the load by giving some tax alternatives to the local governments.

Dennis Burr, Montana Taxpayers Association, then rose in support of the part of the bill repealing the inventory tax but in OPPOSITION to

the rest of the bill. He disagreed that the tax was significant enough to require a replacement tax. Regarding a Senate Fiscal Note, \$7 - 8 million per year in inventory tax revenues is generated; about 1.6% of property tax collections. Elimination of the tax would be barely a ripple in local government finances. Also, this bill has the same problem as some of the other bills which indicate that the Department of Revenue shall take care of the tax; this should be addressed more specifically. A 20% tax on income would amount to more than \$36 million, so \$7 million of Business taxes would be replaced with \$37 million of income taxes. He submitted that the inventory tax should be eliminated and no replacement be made.

John Clark, Department of Revenue, then made some comments. He said there would be administrative problems with the bill. HB 384 and this bill both have ambiguous language and he expressed willingness to work with the sponsor to clear up the language.

Questions were then asked. Rep. Sivertsen submitted that the impact of this bill might be more significant than had been anticipated if SB 47 passed. Mr. Burr said he didn't think this was the case, and even with cattle revenue eliminated, the impact under this bill would probably only be increased to 3%. Rep. Sivertsen wanted to know if property valuations had really been falling that much in the cities. Mr. Burr replied that he had reservations about this. He added that property taxes were 35% of local budgets, so it is not like they are the only source of revenue.

Rep. Sivertsen wanted to know what Mr. Mizner felt the most logical way to approach the problem was. Mr. Mizner said the source of revenue most representative across the board was the income tax, and some approach incorporating this tax was probably the best source of revenue and the best representative tax across the State. Rep. Sivertsen said that if this was used for local governments, the General Fund would be depleted. Mr. Mizner replied that considering the State surplus at present, only the surplus would be depleted. He felt a little bit of the surplus should be left in the Fund, however.

Rep. Williams asked Rep. Waldron what his definition of "employee" was. Rep. Waldron said that he was not very happy with the entire concept of the work privilege tax, and asked the Committee to focus their attention on the State Income tax provision. Therefore, the definition of "employee" would be someone who paid income taxes. Rep. Williams submitted that the 20% of income tax was actually revenue sharing, and wanted to know why total revenue sharing wouldn't be just as appropriate a step. Rep. Waldron replied that this bill would not be taking money away from the State that would be going to the State. Rep. Williams wanted to know about the decision giving the County the authority to take advantage of this bill. The local people wouldn't have a voice in it, he submitted. Rep. Waldron agreed. Rep. Williams wanted to know if the inventory tax would be handled

on a local level. Rep. Waldron confirmed this.

Rep. Burnett submitted that a surtax was being set up which simply moved revenue from the General Fund to the local areas. Rep. Waldron agreed that in a sense that was what the bill did.

Rep. Asay commented that the bill would probably cause irritation among City Employees. Rep. Waldron said there were some problems with the bill, but he felt they could be worked out. Simply doing away with the Inventory tax would harm local governments if the lost revenue wasn't replaced; the bill is simple enough that the problems could be worked out.

Rep. Dozier commented that the tax was being taken off business and being put on the individual. Rep. Waldron replied that in a sense it was removing a tax from business, but making up the tax was split among business and individuals. He reiterated that there would not be a dollar for dollar replacement of the inventory tax by the income tax.

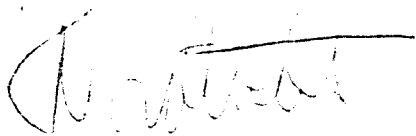
Rep. Brand submitted that one of the disadvantages of the bill would be that the businesses affected might move out of the area which has a high tax. Rep. Waldron didn't agree with this claim, and submitted that the tax structure of an area doesn't influence where a business locates; this is one of the lower priorities on their decisions.

Rep. Nordtvedt asked Janelle Fallan if the Chamber of Commerce had any position on the bill at this point in time. She replied that there seemed to have been a communication breakdown at some point along the line on this bill between the Sponsor and the Chamber. Rep. Waldron said that the percentage of the surtax was the problem he saw with the bill, and also there was a problem with a possibility of taxing people twice.

Rep. Waldron then closed. In response to Mr. Burr's statements, he expressed surprise that \$8 million wasn't very much money. He also disagreed with the assumption that not many areas would experience an impact from a reduction of the inventory tax. This bill offers a means of doing away with the tax, insures that the revenue would be replaced, and provide a means of raising alternate revenue. He said he had met with Chamber of Commerce representatives the week before and there was a problem in that organization with getting together with the Board of Directors. As far as administrative problems, HB 122 in 1977 had a local option income tax for local governments, and it had been worked out with the Department of Revenue and was found workable.

The hearing on HB 768 was then closed.

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



Rep. Ken Nordtvedt, Chairman

# VISITORS' REGISTER

HOUSE *Taxation* COMMITTEE

ILL MB 774

Date 2/24/88

ENSOR *Harmonization*

[illegible]

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Amendments to House Bill 776

1. Page 3, lines 6 through 11.  
Strike: lines 6 through 11 in their entirety

Harrington

# VISITORS' REGISTER

HOUSE TAXATION COMMITTEE

PULL 7B 268

Date 2/24/81

**SPONSOR** Waldron

[illegible]

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

# STANDING COMMITTEE REPORT

March 7,

1931

MR. **SPEAKER**

We, your committee on **TAXATION**

having had under consideration **HOUSE** Bill No. **776**

A BILL FOR AN ACT ENTITLED: "AN ACT TO PROVIDE GRANTS TO LOCAL GOVERNMENT UNITS FROM THE METAL MINES LICENSE TAX TO LESSEN ECONOMIC HARDSHIP CAUSED BY METAL MINING; PROVIDING THAT LOCAL GOVERNMENT UNITS HAVING METAL MINES WITHIN THEIR JURISDICTION ARE TO BE THE PRIMARY RECIPIENTS OF SUCH GRANTS; AND CREATING A METAL MINES BOARD TO ADMINISTER THE GRANTS."

Respectfully report as follows: That **HOUSE** Bill No. **776** introduced (white), be amended as follows:

1. Page 1.  
Following: line 13  
Strike: "6"  
Insert: "7"
2. Page 1, line 15.  
Following: "mines"  
Insert: "license"
3. Page 1, line 16.  
Following: "cyclical"  
Strike: "hard times"  
Insert: "economic hardship"
4. Page 3, lines 6 through 11.  
Strike: subsection (2) in its entirety

~~DEPOSE~~  
(Page 1 of 2 pages)



## COMMITTEE ON TAXATION AMENDMENTS TO HOUSE BILL 776:

5. Page 4, line 1.

Following: "board"

Strike: "are"

Insert: "shall be"

6. Page 4, line 23.

Following: "if"

Strike: "\_\_\_\_ Bill No. \_\_\_\_ [LC 1350]"

Insert: "Senate Bill No. 432"

AND AS AMENDEDDO PASS