HOUSE TAXATION COMMITTEE MEETING MINUTES
March 3, 1981

A meeting of the House Taxation Committee was held on Tuesday, March 3, 1981 at 8:00 a.m. in Room 102 of the State Capitol. All members were present except Rep. Neuman, who was absent. HOUSE BILL 807 was heard and EXECUTIVE ACTION was taken on HOUSE BILLS 18, 293, and 804.

HOUSE BILL 807, sponsored by Rep. Jay Fabrega, was heard. He introduced the bill at the request of the League of Cities and Towns. The bill allocates 6% of the Cigarette Tax to the Cities and Towns to help with the cost of Fire Departments. The Cigarette Tax brings more than $10 million per year in and about $600,000 would be earmarked under this bill. At least 13 Municipal Fire Departments have pension plans and this money would help the Cities meet that additional amount of the payroll they have to match. All of the budgets for Fire Departments of qualifying Cities would be added up and the funds would be proportioned out in relation to the size of the budget in each Fire Department. The 6% figure was arrived at by looking at what percentage of fires are caused by cigarettes, and the cost to the State Fire Department; see Exhibit "A." The Cities feel that the use of cigarettes does contribute to increased demands on Fire Departments and therefore, they would like to have 6% of the tax to help offset the Department budgets.

Vern Erickson, Montana State Firemens Association, then rose in support of the bill. Many of Missoula's fire runs are related to the smoking problem, and the Missoula City Fire Department, which he is a member of, would appreciate support of the bill.

There were no OPPONENTS to HB 807; questions were then asked. Rep. Fabrega stated that the 6% would be from existing revenue, and the tax was not being raised. Rep. Williams wanted to know if this bill had any effect on HB 635. Rep. Fabrega replied that it would have to be coordinated with that bill. He suggested that the 6% be removed from the revenue before it went to the Sinking Fund. He added that a decline in cigarette sales was anticipated.

Rep. Bertelsen submitted that in reality the bill was basically taking the money out of the General Fund. Rep. Fabrega said this was correct, because that is where the tax would go. Rep. Bertelsen said that if the Legislature adopted revenue sharing, it would be a similar operation. Rep. Fabrega said that this bill was a much simpler approach than revenue sharing; it was a sensible way of approaching the matter.

Rep. Fabrega stated that his statistics applied to the entire State. Mr. Erickson offered to get information on the towns that would come under the bill.

It was brought out that the bill only applied to municipal fire departments. The fire department only has to have one employee to qualify; volunteer fire departments wouldn't come under the bill.

However, they are getting an increase in funding because of a switch that has been made elsewhere. Several questions were asked regarding this matter. Rep. Brand wanted to know where the rest of the money above the volunteer fire departments' allotment of 5% went, and Rep. Fabrega stated that the bulk of it went to the General Fund. Premium tax monies amount to about $15 million. The premium tax wasn't levied just for firemen benefits, but also levied in lieu of a corporate license tax for insurance companies.

Rep. Devlin wanted to know if other factors besides cigarettes had been taken into consideration when the statistics were computed, and Mr. Erickson said they hadn't been because they weren't allowed to make any assumptions regarding drinking or drugs. Rep. Roth asked Rep. Fabrega where the monies would go. He said they would go towards reducing the mill levies which would be income into the budget for whatever use they deemed to channel it to. Rep. Fabrega pointed out that the volunteer fire departments were getting a substantially larger chunk of the premium insurance than the regular fire departments.

Rep. Fabrega then closed, and the hearing on HOUSE BILL 807 was closed.

The Committee then went into EXECUTIVE SESSION. Rep. Williams moved that HOUSE BILL 804 DO PASS. This is a Committee bill which addresses the issue that HB 65 addressed. The Subcommittee on HB 65 felt that that bill had been too complicated, and it fouled up the tax classification system. The Department of Revenue was asked to see what would happen if the 1 1/4 miles was changed to one mile. It was discovered that nothing would happen except that the Southwestern Phone Company would be returned to their original tax status. Bob Hoffman (Department of Revenue) said the bill would allow small phone companies to remain in the lower tax bracket. The bill will not affect the larger phone companies, only the rural ones. The provision that the company has to serve a community of less than 800 people ensures this. Rep. Devlin added that the Southwestern Phone company only added two customers, and its taxes jumped from 8% to 15%. The question was then called for on the motion of DO PASS; motion carried unanimously.

The meeting was then turned over to Vice Chairman Sivertsen, and Rep. Nordtvedt spoke on HOUSE BILL 18. An amendment was passed out which stipulated that from the interest income, interest expense other than from home mortgages was used to arrive at the net interest income which would be tax-free. (See Exhibit "B") This bill means to give a tax break on savings only. The person who is getting interest expenses will be receiving a benefit from the loss anyway. Economists recognize that a person who reduces their debt is engaging in an act of savings as much as a person who is putting their money into a savings account. The amendments simply say that interest expense be subtracted from interest income before the computation is made.

Rep. Underdal wanted to know, if a house was sold and interest was received would it be applicable under the bill. Rep. Nordtvedt said that any form of interest income is pulled together to define total interest income, but there were limits of $1,000 and $2,000 depending on whether a single or a joint tax return is filed. Rep. Dozier wanted to know what the fiscal effect of the amendment would be. Rep. Nordtvedt said that the Department of Revenue and he both agreed that the absolute upper limit is reflected in the fiscal impact. The amendment would make the upper limit $6.9 million. He cited the figure of $5.7 million from a handout (Exhibit "C") which assumes that no taxpayer has a level of interest income below the maximum.

The question was then called for on the motion to amend the bill; motion carried unanimously.

Rep. Nordtvedt then moved that HOUSE BILL 18 DO PASS AS AMENDED. He then explained the information in Exhibit "C." The latest IRS income return tabulations were used. The reason fewer people declared interest expense was because not very many people use itemized returns. The average Montana taxpayer had about $590 worth of interest income, over interest expense, including home mortgages. Therefore, about $102 million worth of net interest income above expense was arrived at. The average marginal tax return of 5.6% brings a fiscal impact of $5.7 million. His assumption is that all interest income of Montanans is below the income cutoffs in the bill, and they know this is not really the case, but it gives an upper limit. He stated that a random sample would be taken of 1979 returns by the Department of Revenue. He feels that the impact of the bill will prove to be even less than had been estimated once these statistics are tabulated. Because of high inflation, the typical person with interest income is not enjoying the income at all because of inflation. In reality, they are earning nothing, but the interest is taxed as though it is income, and therefore this is a form of double taxation. This proved to be a disincentive for savings and investment. If capital isn't created out of savings, it is created out of new money, which this country is doing, and this creates more inflation. He said he wanted the bill to be one of the options in the tax relief package which would be considered by the Committee. He added that the upper limit was on a per year basis.

Rep. Dozier said that the average level of income at which interest income was being reported was about $16,000 adjusted gross. According to his estimates, the level would probably be $20,000 unadjusted. If $5.7 million is taken out of the budget, it will have to be picked up somewhere else, and he expressed concern that it would be picked up by persons with lower incomes. Rep. Nordtvedt replied that 90% of the Montana taxpayers had an adjusted gross income of $20,000 or less. 60% of all returns show interest income averaging $1,360. He submitted that Rep. Dozier's conclusion that interest income started at $26,000 was not accurate. Rep. Dozier said that an average was being used, and he didn't feel this was an accurate reflection of the situation. Rep. Nordtvedt said that was why there was a cutoff in the bill.

Rep. Asay said that when the money was in savings, it would generate more taxable income, which would help make up the $5.7 million deficit. He added that it would be money that would stimulate the economy.

Rep. Harrington told Rep. Nordtvedt that one of his problems with the bill was that a couple would be given an additional exemption. The people that don't have the money get an exemption, but people affluent enough to be able to save would get an additional exemption. Rep. Nordtvedt said that this exemption was tied to savings. Before one worries about its effects on the economy, the bill is justified on the merits of the case that interest is not true income. From the economic point of view, it is desirable for all people to save and any kind of general tax law which encourages this will be socially beneficial. Because of the cutoffs, the affluent people will not get any additional incentive to save; the full incentive of the bill is for those who have interest income below $1,000. It is true, a tax reduction is being given to certain people; but it is going towards a socially useful activity.

Rep. Harrington pointed out that one would have to have $30,000 in principle to gain the interest income.

Rep. Oberg pointed out that senior citizens would benefit from the bill. He said he did have a problem when talking about tax incentives like this, however: what happens to the money that the taxes are deferred on? He wanted to know if Individual Retirement Accounts would be excluded when retirement age was reached. Rep. Nordtvedt replied that logically, IRA money would be put into interest-bearing securities, but they would still have the tax-free status.

Rep. Brand was curious how many people would actually benefit from the bill in Montana. Rep. Nordtvedt said that 60% of the tax returns would. Rep. Brand wanted to know what kind of an advantage the bill would have in the case of changing interest rates putting home buyers into different tax brackets as the rates fluctuated. Rep. Nordtvedt said that the bill would only allow the persons with the deposited money to exempt some of the interest income from the income tax; it wouldn't affect the savings and loans, etc. Rep. Brand wanted to know, out of the 60%, how much would be at the limit of $1,000 or $2,000. Rep. Nordtvedt replied that after the sampling could be done, this would be known. The more people at the limits, the less the fiscal impact.

Rep. Brand wanted to know what element in the tax structure of other countries was causing their savings rate to be greater than in the U. S. Rep. Nordtvedt said that they had legislation such as this bill and also, if the savings is of a non-interest bearing form, they never have to pay capital gains taxes on it. As long as the money stays in savings and investment, they aren't taxed. Also, other countries have a sales tax. Rep. Brand wanted to know where the sources were to offset the loss of revenue from passage of this bill. Rep. Nordtvedt said that total spending vs. total revenue would have to be balanced at the end of the Legislative session, and this answer would be arrived at at that time. Rep. Brand stated he would not want to vote on it until he could be sure the budget could be balanced.

Rep. Dozier said that one of the things he found on a visit to the Department of Revenue was that the higher the interest income level was, the greater the regular income level also was,and this escalated rapidly once it hit a certain point. He stressed that surplus income was being addressed in the bill, and he expressed concern that the lower income persons would not benefit by the bill. Also, the number of people reporting interest income were reporting it from Credit Union income. This bill shows tax returns that show only a small amount of interest income. Expendable income oftentimes is not very big. He expressed fear that the lower income people would be taking up the brunt of the tax break.

Rep. Nordtvedt said he felt the less rich people would be benefitted by this bill, also. Rep. Sivertsen submitted that an incentive had never been given to save money in this country. Discussion took place regarding the economics of Japan and Germany.

Rep. Nordtvedt stated that the bill would have to be prioritized with other forms of tax relief. If "X" dollars are available for tax cuts, he feels this should be one of the bills that should be passed.

Rep. Underdal said this bill was an incentive to even the lower income people to save their money. Rep. Switzer said the people who needed the help because of the penalty of inflation would be the ones that would be helped the most under this bill.

Rep. Roth stated that there was a fine line between need and desire and this bill will help give people the realization that they should save their money. Rep. Asay submitted that this bill was not a major revenue matter for the State. Right now, people don't have any incentive to start building their savings, because they receive no benefit from it. He rose in support of the bill.

Rep. Hart pointed out that providing the exemption didn't agree with the federal government's procedures. She stressed that adjusted gross income has been trying to be put into conformity with the Federal Government's procedures. Rep. Nordtvedt said that there were many exceptions already and this one was a simple change, and shouldn't create much of a burden. He added that there was a very good chance that something would be done at the federal level, also.

Rep. Brand said he felt that the majority of people wouldn't have any money to save. He wondered if there were other means of helping that would benefit more people. Rep. Sivertsen brought up other tax relief bills which would accomplish this. He stressed that the inflation rate needed to be attacked and reduced.

Rep. Harrington stated that in essence the bill was giving ordinary taxpayers a $1,000 exemption on their income and a $2000,00 one on their interest income, which in essence is doubling the exemption amount. He objected to this. He said he had a problem in that the amount of interest income that would be declared by the 60% of the tax returns might be unevenly distributed.

Rep. Zabrocki said that money put into savings was the money that funded loans for business; if there is no savings, there are no loans; therefore this bill will help to stimulate the economy.

Rep. Nordtvedt then closed. He read a news item regarding Congressman Pat Williams' tax incentive for a housing savings account. He stated he was not concerned that the bill was only reaching 60% of the people, because it was an incentive to 100% of the people.

The question was then called for on the motion of DO PASS AS AMENDED; motion carried with Reps. Dozier, Hart, Harrington and Brand opposed.

HOUSE BILL 293 was then considered. Rep. Burnett moved that the bill be amended. (See Exhibit "D") The question was called for; motion carried unanimously.

Rep. Sivertsen moved that the bill DO PASS AS AMENDED. Discussion followed. Many assessors are having a difficult time keeping land which has been subdivided appraised on the correct basis. This bill would put clarifying language in the statutes. Mr. Oppedahl (Legislative Council) pointed out that only 1 of the 3 criteria had to be met to come under the bill. The question was then called for; motion carried unanimously.

Rep. Sivertsen announced that on March 5 the Fee Bill Subcommittee would look at the tax bill on automobiles, and a grey copy of the bill would be available.

The meeting was adjourned at 9:50 a.m.

Nordtvedt

Rep. Ken Nordtvedt - Chairman

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VISITORS' REGISTER

HOUSE Taxation COMMITTEE

BILL HB 807 Date 3/3/81

SPONSOR

NAME	RESIDENCE	REPRESENTING	SUPPORT	OPPOSE
Sue Quigley	Bozeman			
Winnie Steele	"			
Rita Stuckey	"			
Lee Johnson	"			
Shirley Wise	"			
Harriett Wyman	"			
Larry Crawford	HELENA	MT. ST. FIREFIGHTERS	X	
V. Erickson	Missoula	MT " " Assoc	X	
[illegible]	Helena	Mont League of [illegible]	X	

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

EXHIBIT A

STRUCTURE FIRES
FROM
SMOKING MATERIALS
(Source: 1979 Montana Fire Incident Reporting System)

FIXED PROPERTY USE	FORM OF HEAT OF IGNITION	HEAT FROM SMOKING MATERIAL #	%
Unclassified	Heat/Smoking Material	3	7.50
Public Assembly Property	Heat/Smoking Material	4	6.77
Educational Property	Heat/Smoking Material	1	11.11
Institutional Property	Heat/Smoking Material	9	36.00
Residential Property	Heat/Smoking Material	77	6.37
Store, Office Property	Heat/Smoking Material	4	4.34
Manufacturing Property	Heat/Smoking Material	1	2.17
Storage Property	Heat/Smoking Material	25	11.73
Special Property	Heat/Smoking Material	4	8.69
TOTALS		104	5.87 of all Structure Fires
Apartments/ Tenants Flats	Heat/Smoking Material	13	13.4

VEHICLE FIRES
FROM
SMOKING MATERIALS
(Source: 1979 Montana Fire Incident Reporting System)

MOBILE PROPERTY	FORM OF HEAT OF IGNITION	HEAT FROM SMOKING MATERIAL	
		#	%
Undetermined	Heat/Smoking Material	1	3.22
Pass/Road Vehicles	Heat/Smoking Material	32	5.15
Freight Road Vehicles	Heat/Smoking Material	6	4.54
TOTALS		39	4.65 of all Vehicle Fires
Outside Fires	Heat/Smoking Material	105	4.85 of all Outside Fires
Road Property	Heat/Smoking Material	61	5.9

DOLLAR LOSS
FROM
SMOKING MATERIALS
(Source: 1979 Montana Fire Incident Reporting System)

FIXED PROPERTY USE	TOTAL DOLLAR LOSS	DOLLAR LOSS BY SMOKING MATERIAL	%
Unclassified	$ 263,476	$ 20,000	7.59
Public Assembly Property	858,050	255,000	28.76
Educational Property	10,315	5	.04
Institutional Property	9,356	905	9.65
*Residential Property	6,035,948	230,116	*
TOTALS	$ 7,177,145	$ 506,026	

*Dollar loss for Residential Properties computed from 60% of total residential dollar loss.

TAXATION 3/3/81
EXHIBIT "B"

PROPOSED AMENDMENTS TO HB 18
Introduced copy

1. Page 2, line 6.
Following: "year"
Insert: "in excess of his interest expense for the taxable year, excluding interest expense on a principal residence,"

2. Page 3, line 15.
Following: line 14
Insert. "Section 2. Applicability. This act applies to taxable years beginning after December 31, 1980."

EXHIBIT

PROPOSED AMENDMENTS TO HB 18
Introduced copy

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, ~~line 15.~~
Following: line 14
Insert. "Section 2. Applicability. This act applies to taxable years beginning after December 31, 1980."

1. Title, line 7.
following: "MCA"
insert: "; AND PROVIDING AN APPLICABILITY DATE"

TAXATION 3/3/81
EXHIBIT "C"

Maximum Fiscal Impact of HB 18

173,000 out of 308,000 Montana federal returns declared interest income. Average per return was $1360.

54,000 declared interest expense of $2430 per return and 47,000 declared home interest expense of $1660 per return.

Net interest income in excess of non-home interest expense is (per return)

$$\$1360 - (2430 - 1660) = \$590$$

$$\$590 \times 173,000 = \$102 \text{ million}$$

$$\$102 \text{ million} \times 5.6\% = \$5.7 \text{ million per year}$$

This is upper limit. It assumes all interest income is below $1000; $2000 limits of bill which is quite unrealistic, but we have no simple way to correct for this until we do a random sampling of returns.

Opposed
HB 18

HOUSE BILL 293, introduced (white), be amended as follows:

1. Page 1, line 17.
Following: "5"
Strike: "40"
Insert: "20"

2. Page 2, line 3.
Following: "~~15%~~"
Strike: "50%"
Insert: "20%"

3. Page 2, line 19.
Following: "use"
Insert: ", as determined in section 1,"

County of Yellowstone

COMMISSIONERS

BILLINGS, MONTANA
59101

February 23, 1981

Tom Asay

TO: All Members of House Taxation Committee
Montana Capitol Building
Helena, MT 59601

Gentle(wo)men:

HB 708 would place a very significant added increase to Yellowstone County's poor fund budget without any benefit to its residents. The Board of Yellowstone County Commissioners oppose this bill and request you work to have it killed.

Sincerely,

BOARD OF COUNTY COMMISSIONERS
YELLOWSTONE COUNTY, MONTANA

James A. Straw, Chairman

M. E. McClintock, Member

Dave Gorton, Member

JAS:bjs

cc: All Yellowstone County
Members of House

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STANDING COMMITTEE REPORT

March 4, 19 81

MR. SPEAKER

We, your committee on TAXATION

having had under consideration HOUSE Bill No. 804

A BILL FOR AN ACT ENTITLED: "AN ACT TO REVISE THE MILEAGE LIMITATIONS ON TELEPHONE COMMUNICATIONS EQUIPMENT THAT QUALIFIES FOR CLASS SEVEN TAXATION; AMENDING SECTION 15-6-137, MCA."

Respectfully report as follows: That HOUSE Bill No. 804

DO PASS

Rep. Ken Nordtvedt, Chairman.

STATE PUB. CO.
Helena, Mont.