

MARCH 9, 1981

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

The 40th meeting of the committee was called to order at 8:05 a.m. in Room 415 of the State Capitol Building, Chairman Pat Goodover, presiding.

ROLL CALL: All members were present except Senator Towe who was excused.

CONSIDERATION OF HOUSE BILL 121:

"AN ACT TO CLARIFY PROVISIONS RELATING TO THE LOCAL IMPACT AND EDUCATION TRUST FUND; PROVIDING FOR THE DISPOSITION AND INVESTMENT OF UNEXPENDED BALANCES IN THE LOCAL, IMPACT FUND ACCOUNT."

Rep Conroy said this bill would allow the impact account to raise to 10 million dollars before money reverts to the educational trust fund account and tries to preserve the integrity for the way the bill was passed in 1975.

PROPOSERS: James Mockler, Montana Coal Council, felt the problem is front-end money. The bill does not change the allocation, just clarifies how the funds will go and allows that before coal funds revert they build to 10 million dollars. It allows the funds to be built for future impact. There were no further proponents or opponents. Senator Conroy closed by saying there are areas that need the funds now and mentioned Resources 89.

Questions from the committee: Senator Crippen; What was the reasoning behind the creation of local impact and ETF. Senator Eck responded that the impact part wasn't in there to begin with, but thought the ETF was in the original bill. She agreed that there is no real reason for it and we have heard earlier testimony about the need for impact funds. She didn't feel that 10 million dollars was a lot of money. James Mockler said that on page 5, lines 10-13, was the original language. The hearing was closed on House Bill 121.

CONSIDERATION OF HOUSE BILL 156:

"AN ACT TO ENLARGE TAX CREDITS FOR BUSINESS INVESTMENT AND TO ENCOURAGE CREATION OF JOBS; PROVIDING AN EFFECTIVE DATE AND PERIOD OF APPLICABILITY."

Rep. Nordtvedt, District 77, said HB 156 is aimed at enlarging tax credits in connection with economic growth. Ten percent federal investment credit is given on the federal income tax. Montana has only a 2% credit. This bill would double the state investment credit under the following circumstances:
1) Any investment in a given year that exceeded the depreciation being taken that year in property would be given an additional

March 9, 1981

2% above and beyond what was being taken that year, 2) A brand-new business would be allowed this bonus 2% when it started if it was a business that had made a commitment to expansion, and 3) to handle effects of inflation on business depreciation. Because of inflation, one is not getting the full depreciation value needed to replace machines which have risen in cost.

This bill is self-funding. Analysis shows it takes about a \$30,000 investment to support one job in Montana's economy. A 2% credit is \$600. The job created will pay income tax to the state which will return in one year the investment credit. The other part of this bill deals with another credit on the books--credit available only to corporations. If they expand their payroll more than 30%, they get a 1% tax credit for 3 years on the payroll expanded. This bill changes that to 2% and extends the same credit to non-incorporated businesses. If new jobs are created, this kind of credit is self-funding from the viewpoint of the state treasury. We are asking an additional 3% payroll credit. The average tax take on Montana income tax is about 3.6% of income, so that in one year you would collect more than the 3% additional credit. Rep. Nordtvedt believed this bill, in addition to stimulating the economy, is a benefit to the state treasury because of an increased tax base.

A proposed amendment was offered by Rep. Nordtvedt on line 9 after "to" to insert "(and 3)" because bonus tax credit should be allowed subject to the same limitations of section 4. Other sections should be re-numbered. Also, on page 6, line 2, after "4", add "(and 5)".

PROPOSERS: Janelle Fallon, Montana Chamber of Commerce.

There were no more proponents or opponents, so questions were called from the committee.

Sen. Severson to Nordtvedt: How will the 2% be applied?

Nordtvedt: On line 15, we copied exact language. There will be a credit of 2% for total new wages as wages are defined. Only new wages paid to Montana employees count and there has to be a 30% expansion.

Sen. McCallum to Nordtvedt: How would this bill affect the taxes that, say a construction company would pay, that bought 3 or 4 earth movers?

Nordtvedt: Suppose there was an existing construction company that has old stuff they are depreciating. If their purchases of new equipment in a year exceeded the total depreciation they are taking on existing equipment, then by the amount their new inventories exceeded the depreciations they would get a 2% credit. Suppose the business was depreciated \$100,000 a year and that year they made a \$150,000 expenditure to new equipment. Their first \$100,000 would be subject to 2%, but the \$50,000 would receive a 4% investment credit.

Elliott: Are you planning for recapture tie in? Nordtvedt answered it was on page 3, line 3.

Eck: This relates the tax credit to all small business. Suppose you just limited to small businesses, which eliminates manufacturing and construction?

Nordtvedt: I think we have to start with the assumption that people who are using their own money tend not to invest in non-productive things. If you have a going business that makes a commitment to investment, it creates new jobs or increases productivity, so even if it creates productivity of existing jobs it increases taxable value to the state.

The hearing was closed on HB 156.

CONSIDERATION OF HOUSE BILL 237:

"AN ACT TO PROVIDE A CREDIT AGAINST INDIVIDUAL INCOME LIABILITY UNDER TITLE 15, CHAPTER 30, MCA, FOR CAPITAL EXPENDITURES FOR ENERGY-CONSERVING PURPOSES; ELIMINATING THE DEDUCTION FROM INDIVIDUAL INCOME TAX LIABILITY FOR SUCH EXPENDITURES; PROVIDING AN APPLICABILITY DATE,"

Rep. McBride, District 85, said 237 changes what is a credit tax deduction for energy and conservation materials to a credit. The reason is that all other tax incentives for energy conservation and renewable resource investments are all tax credits, and this makes it consistent. The level of 10% was set partly out of a translation of what the deduction was as a credit. The tax credit specifically applies to residential and also non-residential type buildings--an apartment building could qualify for this. Where small businesses are using the individual income tax form of paying taxes some effect will be felt in the commercial sector as well. Page 1, line 24 and 25, the actual credit is limited. The average amount people invest is \$600--that would be a credit of \$60.

PROPONENTS: Leo Berry, Dept. of Natural Resources; Karen Strickler, Montana League of Women Voters. There were no opponents and Rep. McBride closed. She said if you consider that many of our senior citizens are living in older homes, an incentive like this means something. This is a way to get the landlords to do something rather than the single residents.

Senator Severson asked if this is a big enough figure, as a \$1500 or \$3000 investment is very minimal. Rep McBride agreed with him, and said it may be, in the long run, that we have to look more carefully.

Mr. Berry: We looked at a higher rate for increasing incentives, and this doesn't offer much. When we offer more incentive, then we have a loss of revenue to the state.

Senator Manley to John Clark: In talking about loss of revenue --how many of these bills that we have passed affect your work load?

Clark: It's not that bad because we are into it now. We have the mechanism in place. Changing this deduction to a credit will not change very much and doesn't affect work load. The only problem we have is writing an administrative rule.

Goodover: The fiscal note indicates that with 10%, the impact on school equalization fund is 1 million dollars.

Senator McCallum wondered how this will work with the grants or loans they are getting from MPC.

McBride: I did talk with some people concerning that and, whether or not you take out a loan from the power company or the bank, your capital investment is the same so you would still qualify.

The hearing was closed on House Bill 237.

Senator Goodover presented a request for a committee resolution that was worked upon the 34% question, and said it had to go out today. It is the result of a select committee composed of Senators Turnage, Goodover and Norman, Representative Williams and Sivertsen, Ellen Feaver and Helen Peterson and addresses the question of what to do with lawsuits we have now for 1978, 1979 and 1980. The select committee arrived at a solution to allow DOR to use a base 10% figure and permit DOR to negotiate each case on its merits and try to settle the pending cases. There was an indication both from STAB and DOR they have read this and this bill is alright with them. Senator Brown moved the committee accept this as a resolution.

After considerable discussion the question was called on the motion. The vote was against adoption by an 8-5 vote.

DISPOSITION OF SENATE BILL 221:

Cort explained amendments to SB 221.

Senator McCallum made a motion to adopt amendments to SB 221. Senator Crippen dissenting.

Senator McCallum then moved the bill be given a DO PASS as amended. The motion carried unanimously.

A report was called for on Senate Bill's 96 and 383.

Amendments haven't been typed yet on SB 383. Cort said he would have amendments for SB's 96 and 383 for consideration tomorrow.

DISPOSITION OF HOUSE BILL 237:

The Chairman said he had discussed this bill with the appropriations committee and Ken Nordtvedt. In discussing separate bills to be covered under appropriations listed as "other" in the budgets; this bill with a 10% figure on the expenditure has major impact on the appropriations committee. Committee had amended to 5% and on the floor it was amended to 10%. It still will create problems at 10% and he hoped that we would insert the 5%.

Senator Manley moved that the 10% be reduced to 5% in the two places in the bill.

The motion carried with Senators S. Brown and Eck voting no.

Bob Brown moved that House Bill 237 be given a DO PASS, as amended.

Senator Elliott, commented that House Bill 237 is a bill that dips into the general fund. It should be economically viable on its merit. The proper place for this type of activity is with the power companies. There is a program where they lend to people, it becomes a lien against the property and doesn't have to be repaid until property is sold. It takes care of elderly who can't afford insulation. I oppose attempts to interfere with the income-tax structure.

The question was called on the motion. House Bill 237 was given a BE CONCURRED IN by an 11-1 vote.

The Chairman said Senate Bill 150 and House Bill 156 would be assigned to a sub-committee composed of Senators Crippen, Hager and Eck. The bills are both on small business--one has an impact, and one doesn't.

The Chairman asked the committee how they felt about evening meetings being held on adjournment. There will be a meeting on adjournment today.

DISPOSITION OF SENATE BILL 102:

John Clark said there was a revised fiscal note on SB 102. What was used in the fiscal note was using the average across the state. The revised note was based on Class IV property, and 3.1 million dollars is the impact.

Senator Eck: If we consider this, I would like to submit my standard amendment which would provide that the state would reimburse the local government for its loss.

McCallum: The bill we made the mistake on last session also had veterans in it. Are they in this? The answer was the veterans are back in.

Elliott: We could probably insert after children "as defined" and then refer to IR code defining dependents.

John Clark: This is administered at the local level. If people go to assessor's office the assessors office has no connection with the IR code, and it does create a problem. We would prefer not to get into the IRC,

Cort read general definition of dependent.

Senator Elliott moved the amendments to SB 102 as they were proposed. Senator Eck made a motion that her standard amendment be added saying that the money lost would be put back in the county. The vote on this motion failed.

Senator Elliott moved SB 102 be amended, as discussed by the committee. This motion carried for a DO PASS, as amended, for SB 102.

The meeting was adjourned at 10:00 a.m.


SENATOR PAT GOODOVER, CHAIRMAN

ROLL CALL

TAXATION COMMITTEE

47th LEGISLATIVE SESSION - - 1981

Date 3/09/81

NAME	PRESENT	ABSENT	EXCUSED
Goodover, Pat M., Chairman	✓		
McCallum, George, Vice	✓		
Brown, Bob	✓		
Brown, Steve	✓		
Crippen, Bruce D.	✓		
Eck, Dorothy	✓		
Elliott, Roger H.	✓		
Hager, Tom	✓		
Healy, John E. "Jack"	✓		
Manley, John E.	✓		
Norman, Bill	✓		
Ochsner, J. Donald	✓		
Severson, Elmer D.	✓		
Towe, Thomas E.			✓

Each day attach to minutes.

DATE March 9, 1981

COMMITTEE ON TAXATION

VISITORS' REGISTER

NAME	REPRESENTING	Bill#	Check One	
			Support	Oppose
		237, 121, 156		
<i>James M. ...</i>	<i>MA Coal Council</i>	121	<input checked="" type="checkbox"/>	
<i>Susan Strickler</i>	<i>MIT League Women Voters.</i>	237	<input checked="" type="checkbox"/>	
<i>W S Gosnell</i>	<i>DNR - Energy</i>	237	<input checked="" type="checkbox"/>	
<i>... Berry</i>	<i>DNR</i>	237	<input checked="" type="checkbox"/>	
<i>... Hurlbert</i>	<i>Dist 77</i>	156	<input checked="" type="checkbox"/>	
<i>John Clark</i>	<i>DEPT OF ...</i>	156, 237		
<i>Janette Fallon</i>	<i>Mount. Chamber</i>	156	<input checked="" type="checkbox"/>	

(Please leave prepared statement with Secretary)

Date March 9, 1981 Resolution Bill No. _____ Time 9:05

NAME	YES	NO
SEN. McCALLUM (Vice-Chairman)		✓
SEN. BOB BROWN	✓	
SEN. STEVE BROWN	✓	
SEN. CRIPPEN		✓
SEN. ECK	✓	
SEN. ELLIOTT	✓	
SEN. HAGER		✓
SEN. HEALY	✓	
SEN. MANLEY		✓
SEN. NORMAN	✓	
SEN. OCHSNER	✓	
SEN. SEVERSON		✓
SEN. TOWE	✓	
SEN. GOODOVER (CHAIRMAN)	✓	

8 - 5

Betty Dean
Secretary

Pat M. Goodover
Chairman

Motion: For accepting as comm bill resolution
on 34% case.

(include enough information on motion--put with yellow copy of committee report.)

STANDING COMMITTEE REPORT

March 9

19 81

PRESIDENT:

MR.

TAXATION

We, your committee on

Senate

Bill No. **221**

having had under consideration

Senate

Bill No. **221**

Respectfully report as follows: That.....

be amended, as follows:

1. Page 6, line 7.

Following: "payable"

Insert: "as follows:

(a) one-half of such taxes shall be payable"

2. Page 6, line 13.

Following: line 12

Insert: "(b) one-half of such taxes shall be payable on or before 5 p.m. on May 31 of each year, and in the event the same are not paid on or before said date, the same shall be subject to the same interest and penalty for nonpayment as delinquent property taxes under 15-16-102."

And, as so amended,

DO PASS

STANDING COMMITTEE REPORT

March 9, 1

1981

MR. PRESIDENT:

We, your committee on TAXATION

having had under consideration HOUSE Bill No. 237

MC BRIDE (BOB BROWN)

Respectfully report as follows: That HOUSE Bill No. 237,
third reading bill, be amended as follows:

1. Page 1, line 25.

Following: "(ii)"

Strike: "10%"

Insert: "5%"

2. Page 2, line 4.

Following: "(ii)"

Strike: "10%"

Insert: "5%"

4/C
And, as so amended,

~~UNLESS~~ BE CONCURRED IN

GOODOVER,

Chairman.

Date Mar. 9, 1981 House Bill No. 237 Time _____

NAME	YES	NO
SEN. McCALLUM (Vice-Chairman)	✓	
SEN. BOB BROWN	✓	
SEN. STEVE BROWN	✓	
SEN. CRIPPEN	✓	
SEN. ECK	✓	
SEN. ELLIOTT		✓
SEN. HAGER	✓	
SEN. HEALY	✓	
SEN. MANLEY	✓	
SEN. NORMAN		
SEN. OCHSNER	✓	
SEN. SEVERSON	✓	
SEN. TOWE		
SEN. GOODOVER (CHAIRMAN)	✓	

11 - 1

Betty Dean
Secretary

Pat M. Goodover
Chairman

Motion: Do pass, as amended.

(include enough information on motion—put with yellow copy of committee report.)