

MINUTES OF THE MEETING OF THE HOUSE TAXATION COMMITTEE
January 25, 1983

The meeting was called to order at 8:00 a.m. by Chairman Yardley. Roll call was taken and all committee members were present.

Testimony was heard on HB 294 and HB 297 during this meeting.

Executive action was taken on HB 169, HB 188, HB 202, HB 241 and HB 286 during this meeting.

HOUSE BILL 294

REPRESENTATIVE KEN NORDTVEDT, District 77, sponsor of the bill, said HB 294 deals with a problem brought to the attention of the Revenue Oversight Committee shortly after the 1981 legislative session, creating a tax credit for elderly on their property taxes. Different retirement incomes were treated differently. The House of Representatives amended the bill so that no retirement income would be counted as income. The Senate would not go along with that amendment but would go with not counting social security as income. House Bill 294 would provide for counting all retirement incomes but then subtracting an amount equal to the maximum amount one could earn each month from social security, which equals \$750 per month. All taxpayers would be treated the same.

There were no further proponents to HB 294.

Opponents

ELLEN FEAVER, Director of the Department of Revenue, said she wants to bring some problems to the attention of this committee. She referred to HB 294 and said page 2, subsection (5), line 22, refers to household income meaning all income except payments received under federal social security. She said she thinks that language should be stricken. She referred to Section 2, page 3, line 20, and said it seems that section will give authorization for a deduction per household and that, together with the language on page 1, line 22, would result in a duplicate deduction. Ms. Feaver said she may not be reading the bill correctly, but that is how she has interpreted the bill. As a result of their interpretation of the bill, the fiscal note was prepared accounting for a duplicate deduction. Ms. Feaver said there was also a concern on page 3, line 21, with the word "claimant". She said it could be interpreted that if two elderly people lived in the same household there could be two deductions. She said claimant is used in the rest of the statute as being one refund eligible for each household.

REPRESENTATIVE NORDTVEDT referred to page 1, line 22, of the bill and said the language in that subsection is from a statute called "definitions". He doesn't think the deduction is made twice in HB 294. Representative Nordtvedt said it is clearly the intent of the Revenue Oversight Committee to have the deduction only once per household so that should be clarified in this bill.

REPRESENTATIVE UNDERDAL asked what the fiscal impact would be if HB 294 is passed. Ms. Feaver said the fiscal note was drafted on the double deduction and the impact would be \$1.7 million per year. She said you cannot take half of the amount for the one deduction as the fiscal note impact. The Department of Revenue will redo the fiscal note. Chairman Yardley asked if they needed a formal request from this committee to make a revised fiscal note. Ms. Feaver said they did need a formal request. Chairman Yardley requested her to recompute a revised fiscal note on HB 294.

The hearing was closed on HB 294.

HOUSE BILL 297

REPRESENTATIVE DAN HARRINGTON, District 88, sponsor of HB 297, said the bill is an act to allow for an exemption of income, not to exceed \$5,000, received from any retirement plan, except those already stated in the Internal Revenue Code, for purposes of Montana individual income tax.

REPRESENTATIVE HARRINGTON said the main purpose of the bill is to gain equality of the \$3,600 exemption received by public employees. Those people who are not public employees receive a \$360 exemption. The effect of the \$360 exemption is so minimal that most people do not even claim it. The main economic advantage will primarily be gained by those people 65 years of age or older.

REPRESENTATIVE HARRINGTON said the last legislature passed an \$800 senior citizen exemption on interest income which he feels was premature because the lower income people who would not qualify for that exemption were not given the \$3,600 exemption which is given to public employees.

REPRESENTATIVE HARRINGTON said he raised the income exemption to \$5,000 for all employees. He doesn't know why only public employees were given the \$3,600 exemption and it is time all retired employees be given that exemption. He feels \$5,000 is a good amount and all retired employees should get at least the \$3,600 if not the \$5,000 as provided in HB 297.

Proponents

ED SHEEHY, representing the National Association of Retired Federal Employees, said the \$3,600 exemption was enacted by the

1961 Legislature. The intent was not to tax retirement benefits or consider those benefits in setting the budget for operating state government. He said perhaps inflation is the culprit.

MR. SHEEHY said HB 297 will recognize the fact that cost of living increases need not be considered as a source of potential taxes. (See EXHIBIT 1.)

JOE THARES, representing 750 retired employees of Mountain Bell who did not want to retire, said HB 297 is a fairness bill to cover those employees who were previously exempted.

ARTHUR ROE, representing the National Association of Retired Federal Employees, said HB 297 puts all retirees on a common basis. They have appreciated the \$3,600 exemption but through inflation that deduction has been eroded and it is time for an increase. He said it will help the economy, somewhat, by raising the exemption to \$5,000.

SHERWOOD TROTTER, representing the National Association of Retired Federal Employees, said a bill such as this helps to attract and retain retirees in our state. By either keeping a few retirees in Montana or by attracting a few new ones to our state, we would easily offset any potential tax loss that might occur through raising the tax exemption from \$3,600 to \$5,000. (See EXHIBIT 2.)

Opponents

ELLEN FEAVER, Director of the Department of Revenue, said the last legislature enacted the \$360 exemption for private pension plans in order to collect data to see what would happen to the state's revenue. There is a bill in the Senate now to raise the \$360 exemption to \$3,600 for all retired employees. If the \$3,600 exemption passes, the fiscal impact to the state will be \$1.1 million per year of the biennium. If HB 297 passes, at the \$5,000 exemption, the fiscal impact will be \$2.3 million per year of the biennium.

REPRESENTATIVE HARRINGTON said HB 297 is self-explanatory. It brings out the point of discrimination and we had better face up to the problem now.

REPRESENTATIVE REAM asked why there is such a difference in the fiscal notes of the senate bill versus HB 297. Ms. Feaver said the \$5,000 exemption puts most people into a different tax bracket. She said there are an estimated 14,000 people in Montana that are collecting various types of retirements.

CHAIRMAN YARDLEY said this committee will not take action on this bill until a fiscal note has been received.

The hearing on HB 297 was closed.

CHAIRMAN YARDLEY called the meeting into Executive Session.

EXECUTIVE SESSION

House Bill 168

REPRESENTATIVE DOZIER moved HB 168 DO PASS.

REPRESENTATIVE NORDTVEDT said he opposes the motion. If we increase the earmarking of this money, the programs will not receive the degree of scrutiny in appropriations then if they had to go to the general fund to plead their case.

REPRESENTATIVE DOZIER said he has to oppose his motion. He said HB 168 will give more money to the institutions when the intent is to give more money to individual programs.

REPRESENTATIVE WILLIAMS made a substitute motion that HB 168 DO NOT PASS.

A roll call vote was taken and all committee members voted yes except Representatives Harp, Nilson and Ream, who voted no. Representative Neuman abstained. The motion PASSED.

REPRESENTATIVE DOZIER left the meeting.

House Bill 188

REPRESENTATIVE NORDTVEDT moved HB 188 DO NOT PASS.

REPRESENTATIVE HARRINGTON said he feels some license increases are okay for the larger stores but would be a real burden to the small stores.

REPRESENTATIVE DEVLIN said if fees are increased at the state level, the local levels may raise their fees, too, which would be doubling the cost of the fee to the vendor.

REPRESENTATIVE NORDTVEDT had to leave the meeting and asked Chairman Yardley to record his vote as "yes" for the motion of do not pass.

REPRESENTATIVE NEUMAN reminded committee members of the proposed amendments offered by Representative Pistoria.

The motion of DO NOT PASS was voted on and PASSED. A roll call vote was taken and all committee members voted yes except Representative Dozier, who was absent.

House Bill 202

REPRESENTATIVE VINGER moved HB 202 DO PASS.

The motion was voted on and PASSED. All committee members voted yes except Representatives Abrams, Jacobsen, Underdal and Zabrocki, who voted no. Representative Dozier was absent.

House Bill 241

REPRESENTATIVE UNDERDAL moved HB 241 DO PASS.

REPRESENTATIVE REAM moved the following amendments:

Page 1, line 12.
Following: line 11
Strike: "10"
Insert: "7"

REPRESENTATIVE HARP said he contacted some owners of large mobile home parks and they had not heard about this bill. He said he thinks the bill is legislation for a few people. He said he hates to see government get involved with things we cannot regulate and the penalties are too high.

The amendment was voted on and PASSED. All committee members voted yes except Representatives Asay and Bertelsen, who voted no. Representative Dozier was absent.

REPRESENTATIVE ASAY made a substitute motion that HB 241 DO NOT PASS AS AMENDED.

REPRESENTATIVE WILLIAMS said he would like to hold off on any action on this bill until this committee has a chance to talk with mobile home park owners.

REPRESENTATIVE ASAY said we do not need private individuals as enforcement agents.

REPRESENTATIVE HARRINGTON said this is the greatest problem the county assessors have. He feels this is the only way to get a handle on the situation.

REPRESENTATIVE NEUMAN said if a fine is to be inflicted upon someone it should be inflicted upon the owner of the mobile home who doesn't pay the taxes.

JIM OPPEDAHL, Legislative Council staff researcher, said the Department of Revenue gives the county treasurers stickers and those stickers are issued to mobile home owners when their taxes, interest and penalties are paid. Those stickers are to be put in a conspicuous place so that if there was a question as to whether or not taxes have been paid on the mobile home, one could look for that sticker and know.

The motion of DO NOT PASS AS AMENDED was voted on and PASSED.

A roll call vote was taken and all committee members voted yes except Representatives Harrington, Nilson, Ream, Underdal, Williams and Zabrocki. Representative Dozier was absent.

House Bill 206

REPRESENTATIVE HARRINGTON moved HB 206 DO PASS.

REPRESENTATIVE HARRINGTON moved the following amendment to HB 206:
(See EXHIBIT 3.)

Page 2, lines 24 through line 2 on page 3.

Following: "and"

Strike: line 24 on page 2 through line 2 on page 3
in their entirety.

Insert: ". The property remaining on that list may
be purchased by any person who pays to the county
treasurer the taxes due on that property together
with any accrued interest and penalty."

REPRESENTATIVE UNDERDAL said that amendment eliminates the auction portion of a sale.

REPRESENTATIVE NORDTVEDT said he would like to talk with Representative Ramirez, sponsor of the bill, before a vote is taken on the amendment or the bill.

CHAIRMAN YARDLEY said he will hold action on this bill until later this week.

House Bill 316

REPRESENTATIVE ASAY said he would like to have a subcommittee appointed to study this bill and get some public input.

CHAIRMAN YARDLEY said this committee cannot take action on this bill because we have not received a fiscal note yet but he would appoint a subcommittee to study the bill.

REPRESENTATIVE WILLIAMS said the idea of studying the property classification system is good but you have to study all property classifications. You have to study where the impact will be and how you will make up for that fiscal impact. It would be a waste of time for a subcommittee to work on such a limited area as what is contained in HB 316.

MS. FEAVER told the committee there was going to be a meeting of the Revenue Oversight Committee and the property classification system problem is going to be addressed at that meeting. She said either this state will be involved in litigation all the time because of the property classification system or this state will have to deal with the problems faced by the property classification system.

CHAIRMAN YARDLEY appointed a subcommittee on HB 316 to make a decision as to whether they can work out the problems or not. Representative Neuman will be the chairman of the subcommittee and Representatives Asay and Jacobsen will serve on the subcommittee.

House Bill 286

REPRESENTATIVE NILSON passed out copies of amendments to HB 286. (See EXHIBIT 4.) The amendments are as follows:

Page 1, line 16.

Following: "compensation"

Strike: "of"

Following: "\$25"

Strike: "\$45 a"

Insert: "each"

Following: "day"

Insert: "commensurate to that of the daily rate of
a grade 8, step 2, classified state employee"

REPRESENTATIVE NILSON moved HB 286 DO PASS.

REPRESENTATIVE NILSON moved the amendments to HB 286.

REPRESENTATIVE NORDTVEDT opposed the amendments saying step grade levels are obtained by bargaining and he thinks it is inappropriate to put quasialected officials in a pay plan that is obtained by collective bargaining.

REPRESENTATIVE SWITZER said he doesn't like seeing any board members tied to a pay plan.

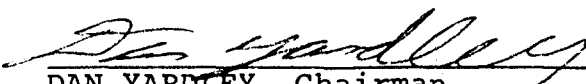
REPRESENTATIVE DEVLIN said the last raise was in 1973. He thinks the original bill is simple and he liked it.

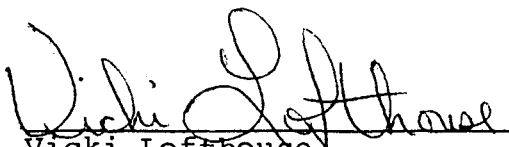
REPRESENTATIVE UNDERDAL also opposed the amendments.

The motion of accepting the amendments was voted on and FAILED. All representatives voted no except Representatives Dozier, Harrington, Nilson, Ream and Williams.

REPRESENTATIVE NILSON'S motion of HB 286 DO PASS was voted on and PASSED. All committee members voted yes except Representative Switzer, who voted no.

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


DAN YARDLEY, Chairman


Vicki Lofthouse

NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES

REGION 9 • WASHINGTON • OREGON • MONTANA • IDAHO • ALASKA

EDMUND F. SHEEHY

NATIONAL FIELD VICE PRESIDENT

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STATEMENT IN SUPPORT OF HOUSE BILL NO. 297

In 1961 the Montana Legislature enacted into law the provision that all benefits not in excess of \$3600 received under the Federal Employees Retirement Act would be exempt from Montana Income Tax. In 1967 the average civil service annuity was only \$3240 and the 1967 dollar only equaled forty cents in purchasing power in 1980. It appears that the intent of the legislature in 1961 was not to tax retirement benefits or to consider them in setting the budget for operating state government. Perhaps inflation is the culprit here.

Montana has 6,776 residents who are receiving a civil service annuity. This brings into Montana a Monthly Gross Annuity of \$6,060,191. Scheduled cost of living increases of 3.3 percent for those under age 65 and 3.9 per cent to those age 65 or over will increase the monthly gross annuity on payments that will begin May 1, 1983. I suggest that enactment of HB 297 will simply recognize the fact that cost of living increases need not be considered as a source of potential taxes. In the 22 years that Montana has not changed the \$3600 exemption other states have made it attractive for retirees to come to live in their states. Colorado fully exempts civil service annuities from state income tax and gives almost a full exemption to all other pension plans including public pensions that may have been earned in the State of Montana.

There are 46,208 Civil Service Annuitants in the State Of Washington, Some of these people could be enticed to consider Montana as a retirement home if we had a better policy of taxing retirement benefits. I can't think of a better way to build Montana.

Ed Sheehy

FACTS OF LIFE FOR FEDERAL ANNUITANTS

The image of the youthful federal retiree with an over-generous pension simply cannot be supported by the facts:

- 55% of federal annuitants do not receive social security or any other form of pension.
- The average civil service annuitant receives \$918 a month (or roughly \$11,000 a year).
- Last year, federal annuitants were deprived of \$563 income (on average) when they lost their second COLA.
- Last year, annuitants participating in the Federal Employees Health Benefits Program, were hit with an average of 31% premium increase. In addition, they had to deal with increases in deductibles with co-insurance at the time when medical services have an increasing importance in their lives.
- 22.6% of all federal annuitants receive less than \$500 a month. 31.1% receives less than \$600 a month.
- 74.7% of all survivors of fed. annuitants receive less than \$500 a month.
- Less than 1% of all annuitants receives more than \$30,000 a year.
- 89% of all federal annuitants retire at age 62 or later. Two-thirds of all federal annuitants retire at age 65 or later.
- Social security benefits are tax-free. Annuities are taxed; 10.6% of annuity payments returns to the Treasury.

CONGRESSIONAL DISTRICT	REPRESENTATIVE	NUMBER OF ANNUITANTS	MONTHLY GROSS ANNUITY
01	Pat Williams (D)	2781 3927	\$3,613,331
02	Ron Marlenee (R)	2718 2849	\$2,446,440

H 6060 191

FEDERAL POSTAL EMPLOYEES, ANNUITANTS AND ANNUITY PAYMENTS
(EMPLOYEES '80 ANNUITANTS '81)

<u>STATE</u>	<u>CONGRESSIONAL DISTRICT</u>	<u>NUMBER EMPLOYEES</u>	<u>NUMBER ANNUITANTS</u>	<u>MONTHLY GROSS ANNUITY-(\$)</u>
Alaska	01	15,497	3,653	3,848,888.00
State Totals:		15,497	3,653	3,848,888.00
Idaho	01		4,238	3,890,361.44
	02		<u>2,624</u>	<u>2,227,601.00</u>
State Totals:		11,239	6,862	6,117,962.44
Montana	01		3,927	3,613,551.33
	02		<u>2,849</u>	<u>2,446,640.00</u>
State Totals:		12,816	6,776	6,060,191.33
Oregon	01		5,459	5,620,748.00
	02		5,581	4,797,189.00
	03		5,281	4,955,525.00
	04		<u>5,235</u>	<u>4,694,363.00</u>
State Totals:		28,791	21,556	20,067,825.00
Washington	01		6,176	5,575,748.93
	02		4,772	4,514,125.66
	03		6,714	6,091,204.00
	04		5,031	4,549,324.00
	05		5,500	4,831,218.66
	06		14,235	12,595,355.30
	07		<u>3,780</u>	<u>3,410,009.00</u>
State Totals:		62,961	46,208	41,563,985.55

CIVIL SERVICE EMPLOYEE ANNUITY
BY AMOUNT OF MONTHLY ANNUITY

AS OF SEPTEMBER 30, 1981

Monthly Annuities	Annualized	Total No. of Annuitants	Percent of Total	Cumulative Number of Annuitants	Cumulative Percentage of Total
\$99 or Less	\$1188 or Less	17,676	1.34	17,676	1.3
100 - 149	1200 - 1788	23,314	1.76	40,990	3.1
150 - 199	1800 - 2388	33,595	2.54	74,585	5.6
Subtotal Less Than \$200	Less Than \$2400	74,585	5.65	74,585	5.6
\$200 - 299	\$2400 - 3588	51,992	3.94	126,577	9.6
300 - 399	3600 - 4788	62,490	4.73	189,067	14.3
400 - 499	4800 - 5988	82,872	6.27	271,939	20.6
Subtotal Less Than \$500	Less Than \$6000	271,939	20.58	271,939	20.6
\$500 - 599	\$6000 - 7,188	104,674	7.92	376,613	28.5
600 - 699	7200 - 8,388	114,380	8.66	490,993	37.2
700 - 799	8400 - 9,588	107,208	8.11	598,201	45.3
800 - 899	9600 -10,788	103,404	7.83	701,605	53.1
900 - 999	10800 -11,988	111,546	8.44	813,151	61.5
Subtotal Less Than \$1,000	Less Than \$12,000	813,151	61.55	813,151	61.5
\$1000 - 1,249	\$12000-14,988	195,809	14.82	1,008,960	76.4
1250 - 1,499	15000-17,988	116,067	8.78	1,125,027	85.2
1500 - 1,749	18000-20,988	65,917	4.99	1,190,944	90.1
1750 - 1,999	21000-23,988	43,235	3.27	1,234,179	93.4
2000 - 2,249	24000-26,988	29,564	2.24	1,263,743	95.6
2250 - 2,499	27000-29,988	20,520	1.55	1,284,263	97.2
2500 - 2,749	30000-32,988	14,241	1.08	1,298,504	98.3
2750 - 2,999	33000-35,988	9,431	.71	1,307,935	99.0
Subtotal Less Than \$3,000	Less Than \$36,000	1,307,935	99.00	1,307,935	99.0
\$3000 AND OVER	\$36,000 AND OVER	13,278	1.00	1,321,213	100.0
GRAND TOTAL		1,321,213	100.00	1,321,213	100.0

AVERAGE EMPLOYEE ANNUITY \$ 962/Month
\$11,544/Year

SOURCE: Federal Fringe Benefit Facts, 1981
Office of Personnel Management
Table B-10

January 25, 1983

To Committee Members
Regarding HB 297

My name is Sherwood C. Trotter, address 2105 Gerald, Missoula Montana 59801. I am representing the National Association of Retired Federal Employees as 1st Vice President of Missoula Chapter # 322.

I suggest that the State Government is very wise to consider raising the tax exemption for retirees to \$5,000⁰⁰. First it shows concern and compassion for those present senior citizens faced with declining resources and trying to subsist on a dollar which is valued at about $\frac{1}{3}$ of the dollar value at the time the original law was passed.

Secondly it helps place Montana in a strong competitive position as a good place in which to retire. By either keeping a few retirees in Montana or by attracting a few new ones to our State, we would easily offset any potential tax loss that might occur through raising the tax exemption from \$3,600⁰⁰ to \$5,000⁰⁰.

Therefore I encourage favorable action on
HB 297

Sherwood C. Trotter
1st Vice President NARFE

EXHIBIT 3
1-25-83

Amend HB 206 as follows:

Page 2, line 24 et seq. by striking "by taking bids on property remaining on that list. The deadline for entry of a bid is 3:00 p.m. on the day fixed for sale. Sale will be made to the person who has entered the highest bid on each parcel advertised," and inserting ". The property remaining on that list may be purchased by any person who pays to the county treasurer the taxes due on that property together with any accrued interest and penalty."

PROPOSED AMENDMENT TO H.B. 286

1. Page 1, line 16.

Following: "compensation"

Strike: "of"

Following: "\$25"

Strike: "\$45 a"

Insert: "each"

Following: "day"

Insert: "commensurate to that of the daily rate of a grade
8, step 2, classified state employee"

VISITOR'S REGISTER

HOUSE TAXATION COMMITTEE

BILL HB 294

DATE 1-25-83

SPONSOR Nordvest

[illegible]

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

WHEN TESTIFYING PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITOR'S REGISTER

HOUSE _____ TAXATION _____ COMMITTEE _____

BILL HB. 297DATE 1-25-83SPONSOR Hairington

NAME	RESIDENCE	REPRESENTING	SUP- PORT	OP- POSE
JOE THARES	HELENA	MTN BELL RETIRED EMPLOYEES	X	
Sherwood C. Fother	MISSOULA	National Assoc of Retired Fed. Empls.	X	
Arthur L. Roe	MISSOULA	NARFE (Nat. Assoc. of Retired Fed. Employees)	X	
Allen Haggler	HELENA	NARFE	X	
John A. Ellsby	"	NARFE	X	
Edna McPherson	"	NARFE	X	
Irene C. Everett	HELENA	NARFE	X	
Gregory Henderson	"	"	X	
Donna Sherry	HELENA	NARFE	X	
Gertrude Speer	"	NARFE	X	
Lewis W. Speer	"	"	X	
Tom Ryan	"	MSA	X	
Klone Brunton	"	MSA	X	
W. H. H.		Revenue		X

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

WHEN TESTIFYING PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.