MINUTES OF THE MEETING OF THE HOUSE TAXATION COMMITTEE
February 8, 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 except Representative Keenan, who was excused, and Representative Vinger, who was excused until later in the meeting.

Testimony was heard on HB 536, HB 582, and HB 587.

HOUSE BILL 582

REPRESENTATIVE DEAN SWITZER, District 54, sponsor of the bill, said HB 582 is a continuation of HB 380, it is a continuation of the "Build Montana" theme. House Bill 582 is a result of the Environmental Quality Council's hard-rock mining study.

REPRESENTATIVE SWITZER said there are a lot of legitimate business expenses that are not allowed. He went over the new language contained on pages 3 through 5 of the bill. All the expenses seem to be normal business costs and should be deducted.

Proponents

WARD SHANAHAN, representing Pfizer, Inc., pointed out a drafting error in the bill. There is a request for an amendment to remove the drafting error that was not contained in the bill drafting request. Mr. Shanahan passed out copies of a prepared statement concerning HB 582 and the proposed amendments. He went over those amendments with the committee. (See EXHIBIT 1.)

GLENN KEYES, controller at the Pfizer Plant at Dillon, Montana, said the intention of this bill is to remove uncertainties of mining costs. The Department of Revenue will not allow certain expenses such as a payroll clerk who does payroll through a computer system. The cost is considered unnecessary. Mapping of mines is also considered an unnecessary cost. Mr. Keyes said expenses such as overhead, burden, and inventory are all necessary costs to a mining business and should be deductible.

EARL LOVICK, manager of administration for W. R. Grace and Company, said that company has a vermiculite mine near Libby, Montana. We are subject to the net proceeds law and feel House Bill 582 should be passed. The net proceeds law is very old, it is archaic. It was designed when mines were simple in comparison to what they are today. Costs were easy to identify and isolate as pertaining to mining and milling of ore. This is no longer true.

MR. LOVICK said HB 582 defines and allows necessary costs of conducting business of mining, milling, and selling minerals.

He gave the following as examples of essential costs which should be deductible items for computing net proceeds of mines for property tax purposes:

1. Boiler and machinery insurance and public liability insurance, incidental to the mining and milling operation.

2. Costs of welfare and retirement fund payments.

3. Costs of gross mineral and excise taxes and administration costs attributable to the support of the mine or to the concentration process.

4. It would include costs for office, clerical, plant, security, engineering, geological and assaying and sampling services, and those administration costs allocatable to the Montana mining operation.

Examples of those necessary costs and services which are essential to the mine operation, but which may be removed from the mine site are: research necessary to improve the metallurgical recovery process. The end result of which is preservation of a resource.

Administration costs which covers such items as preparation of payroll, purchasing of necessary supplies and materials, accounting for all aspects of the operation. Operators for computers which record the statistical data, ore deposits, ore mining plans, control mining areas and mill feed.

In short, this bill is amending existing laws as a housekeeping matter only and brings this law into compliance with modern techniques of doing business. (See EXHIBIT 2.)

REPRESENTATIVE GLENN MUELLER, District 21, said HB 582 is purely an equity situation. He said he is amazed many of the previous mentioned costs have not been deductible before. This bill doesn't ask for any special favors, it asks for equity. We are trying to help employ people to get our economy in gear. This is one small step you can take.

Opponents

ED MCCAFFEN, representing Montana Association of Counties, said he does not want to deny justifiable exemptions, however, a bill such as this leaves many loopholes that would be difficult to monitor. You should look at the business expense exemptions before setting a precedence.

DAN BUCKS, Deputy Director of the Department of Revenue, said he has two concerns with the bill:

1. Passage of HB 582 will result in an annual loss of revenue of $600,000. The bill provides for no replacement revenue. Most of the loss will be borne by 14 counties.

2. He believes the present law is reasonable and equitable. The net proceeds tax is part of the property tax system. Deductions allowed are not all the deductions you can take on income tax. It is a substitute for assessing values of minerals underground. Montana taxes only that portion that is extracted each year. The deduction allowed equalizes value of minerals that have different direct extraction costs.

MR. BUCKS said no businessman is able to deduct from property taxes any other taxes that are paid. Businessmen cannot deduct clerical, data processing or lawyer costs. They are not appropriate deductions in the property tax context.

REPRESENTATIVE SWITZER, in closing, said the Department of Revenue gave him a fiscal note, which they had produced yesterday. The fiscal note brings out that the net proceeds, statewide, are $6,069,000. There would be a $600,000 loss to revenue, $8,460 loss to the universities levy, $56,400 loss to the school levy and $240,000 loss to counties.

REPRESENTATIVE SWITZER said there are probably some deductions that have to be monitored but that would not be different than any other business.

REPRESENTATIVE HARRINGTON asked if net proceeds takes the place of the tax on underground minerals instead of the cost of removing the minerals. Mr. Shanahan said the net proceeds tax is a remainder of the tax it used to be. It gave all mining operations a deduction on net proceeds. This industry produces a commodity, like agriculture, and we want it taxed like agriculture. Net proceeds is in lieu of trying to value minerals in the ground.

REPRESENTATIVE HARRINGTON asked if this bill passes, the deduction would be used for income tax as well as mineral extraction costs. Mr. Shanahan said that was correct. There are two different deductions. One is a deduction on county tax and one is a deduction on income tax. You don't pay less on one.

REPRESENTATIVE UNDERDAL said if you put too much tax on any industry, you tax them out of existance. Then where will you get your tax. Mr. Bucks said if the tax is fairly arrived at and reflects the value of the product, there would be no problems.

A proceeds tax does not tax full value of property each year, only the share of deposit extracted each year. The tax burden is not onerous, it is fair and reasonable.

REPRESENTATIVE JACOBSEN said we should not consider agricultural products with mining. One is renewable and one is not.

REPRESENTATIVE DEVLIN said the new points of HB 582 are points that are not now allowed. Don Hoffman, Natural Resources Bureau Chief, Department of Revenue, said these costs are costs that we would not allow now. Representative Devlin asked why insurance is not allowed. Mr. Hoffman said insurance costs are costs of doing business but not costs of extracting minerals because of limitations placed on the Department of Revenue by saying they could not go beyond the point of beneficiation.

REPRESENTATIVE ASAY asked if the mine structures and improvements are over and above net proceeds tax. Mr. Lovick said that was correct.

REPRESENTATIVE WILLIAMS asked if he was correct in assuming the reason for this bill is because the mining industry feels the taxes are too high. Mr. Lovick said it is because they feel they are paying an increased burden. They are not being allowed deductions for expenses that should be deductions.

CHAIRMAN YARDLEY asked if you can compare deductions with this types of net proceeds tax to other deductions on other types of net proceeds tax. Mr. Bucks said these deductions are very comparable to oil and gas net proceeds tax. He said we do not allow overhead administrative costs against oil and gas net proceeds at the present time and they are not allowed with mining at the present time either.

MR. BUCKS said how is the Department of Revenue to determine what part of the administration costs (of a person located in another state) or how much of a person's time is actually taken by the Montana mine.

REPRESENTATIVE BERTELSEN said we are always faced with equality of taxation between groups. If this bill is passed, won't the oil and gas companies come in for the same consideration. Mr. Bucks said he believes that will happen.

REPRESENTATIVE VINGER is present at the meeting at this time.

The hearing on HB 582 was closed.

HOUSE BILL 587

REPRESENTATIVE JACK SANDS, District 68, sponsor of the bill, said HB 587 was requested by the Governor's Council on Management.

House Bill 587 increases the fees placed on cigarette vendors. Right now the fee is $10 for one to nine machines and $50 for ten or more machines. The bill would change the fees to $8 per machine. That amount is necessary to recover operating costs. The bill would generate additional revenue for the state of $8,000. Administration costs include the maintenance of a file on each vendor, listing his name, address and location of each machine.

Proponents

JIM MADISON, Administrator of the Miscellaneous Tax Division, Department of Revenue, said equity requires there be a distinction as far as vending machine owners. Currently, the owner of ten cigarette vending machines pays exactly the same license fee as the owner of 200 cigarette vending machines. For this reason, the department feels there is an equity question and the bill should receive favorable consideration.

Opponents

TOM MADDOX, representing the Montana Association of Tobacco and Candy Distributors, said Representative Sands has given this bill a "cloak of distinction" as coming from the Governor's Council on Management. Actually, the council is broken down into subgroups. Only two persons were assigned to this subject. The association Mr. Maddox represents feel those two people were unqualified to deal with this matter. There is little equity because this has been confined to just cigarette vending machines. There is a $5 license fee for cigarette retailers and an $11 minimum store tax. Each vending machine position is a retail outlet (this is alluded to in the bill). There is no equity there because the retail license is $5 and a vending machine will be $8.

The effective date of this bill is July 1, 1983. If someone wanted to start a new machine in June, they would have to pay the fee for the month of June and then pay the fee again in July because the bill says the fee cannot be prorated and shall be annual. If the fee is raised to $8 per machine, you will eliminate people from this business.

MR. MADDOX said the revenue estimate of $8,000 is wrong. He said the state keeps a detailed record of every machine in the state and the number of cigarette vending machines is closer to 1,800. The revenue on that number of machines would be more like $15,000.

REPRESENTATIVE SANDS, in closing, said the Governor's Council on Management indicated the increase in the fee is necessary for operating costs. The fees have been on the books and not changed since 1969. He said the codes specify that cigarette vending machines cannot be considered a place of business.

REPRESENTATIVE DEVLIN asked how much it costs to administer this program. Mr. Madison said it is difficult to come up with specific costs, but labor-wise $6,000-$8,000 would be pretty accurate.

REPRESENTATIVE DEVLIN asked if candy machine vendors pay a license fee. Mr. Madison said no. Representative Devlin asked if records were kept on candy machines. Mr. Madison said no.

REPRESENTATIVE DOZIER asked if vending machines that contain candy, food and cigarettes are licensed as cigarette machines. Mr. Madison said yes they are.

REPRESENTATIVE NORDTVEDT asked what kind of administrative work is involved with the cigarette vending machine records. Mr. Madison said there is an application kept for every owner that lists the owner's name, address and machine locations. From that application, the Department of Revenue sends out decals for the machines.

REPRESENTATIVE WILLIAMS asked if the vendor also has to buy a retailer license. Mr. Madison said a vendor is not required to have any other state license but some cities require vending machine licenses.

CHAIRMAN YARDLEY asked why a record is kept on every machine. Mr. Madison said if unstamped cigarettes start showing up from one machine, the department could take away that vendor's license.

REPRESENTATIVE VINGER asked who checks the machines to make sure the fee has been paid. Mr. Madison said there is an inspector from the department who does that work.

REPRESENTATIVE JACOBSEN asked if the vending machines are listed as property on the property tax roles. Representative Zabrocki said they are.

REPRESENTATIVE VINGER asked if the machine decals are really necessary. Mr. Madison said they are used for quick identification.

The hearing was closed on HB 587.

HOUSE BILL 536

REPRESENTATIVE TED NEUMAN, District 33, sponsor of the bill, said HB 536 will replace Montana corporation license tax with financial institutions franchise tax measured by gross receipts. Currently, Montana has a corporation license tax, applied to financial institutions, of 6 3/4% of the net income. There is a quirk in the federal law which says you can't tax income from federal laws except a nondiscriminatory franchise tax. With the tax that is presently constituted, we do not allow financial institutions to deduct the interest income they receive from the federal obligations in computing their net income. Savings and loan associations have taken the Department of Revenue to court and the supreme court agreed with the financial institutions in that we were taxing what the federal government said we could not tax. Montana is in the position of not being able to tax financial institutions in any way other than a property tax. House Bill 536 is one of three bills that have been introduced this session designed to levy the nondiscriminatory tax to financial institutions. House Bill 536 takes the approach of applying the tax to the gross receipts of the financial institutions and that includes the tax exempt income.

The gross receipts tax has several advantages over the other proposals. One proposal is a deposits tax which has a lot of the same advantages of this tax. The other proposal does not have these advantages. The gross receipts tax taxes the ability to pay. The more you make, the more you pay. The administrative cost of this tax is $500,000. The tax will be paid to the state and then allocated back to the counties. The state keeps 20% and the counties get 80%.

An important feature of this tax is that it gives a more stable tax base to the local taxing jurisdiction. The tax on net income goes up and down and varies tremendously with the "financial health" of the institution. A gross receipts tax, as being proposed, including tax exempt, has the advantage that the fact if the court rules that the tax exempt portion of the income is held to be against the federal statute, we would still have a base in which to tax because the gross receipts still will be taxed. The percentage that is applied against the gross receipts can be varied up and down so that the money that is needed from the financial institutions can be received.

The fiscal note for HB 536 shows a larger impact than what the sponsor of the bill was told. He did not intend for the bill to have as substantial impact as it does and so when this bill is considered in executive session, the committee want to adjust the percentage to try to replace the economic loss.

The effective date of the bill is a contingent effective date. The bill would become effective if, and only if, a final determination is reached in current pending litigation, and all potential appeals are exhausted or barred, that the interest income from certain federal obligations is not includable in the net income measurement base of the Montana corporation license tax, in which case and as of that time this act becomes effective. If this act becomes effective, it applies to taxable years beginning after December 31, 1982.

Proponents

ED MCCAFFEN, representing the Montana Association of Counties, said this bill would eliminate a lot of confusion of the interpretation of the law.

DAN BUCKS, Department of Revenue, said in 1979 the bank shares tax was repealed. That tax was a property tax on money used to do business. It was replaced with the corporation license tax applied to financial institutions with the addition of interest from federal obligations as well as state and municipal obligations. Last year, the Montana Supreme Court ruled the corporation license tax would not include income from certain federal obligations in the base that is used to determine the amount of corporation license tax. The department believes this case could result in refunds to corporations from financial institutions of $8 to $9 million. Eighty percent of which would have to be paid by local governments. Further refunds would also have to be paid by the state to nonfinancial corporations as a consequence of the case. Future revenues from corporation license tax to financial institutions will be decreased by at least one-half, if not more. Mr. Bucks said the fiscal note on this bill may need to be revised. He said this tax would be simple to administer.

MIKE YOUNG, representing the City of Missoula, said the tax base is down to about 11%. Bills such as this bill will restore part of that tax base. He said the net income doesn't really measure the ability to pay. We need to have a stable tax base.

Opponents

JIM BENNETT, President of the First Citizens Bank in Billings, said there is a bill in the Senate which he thinks is a more equitable bill because it is based on the ability to pay. He said banks do want to pay their fair share of taxes and that should be based on an income tax basis. He said gross receipts tax can be manipulated. It would take two to three people from the Department of Revenue to check out the banks. The gross receipts tax would cause some businesses in Montana to go out of state. A gross receipts tax would take two-thirds of the income a bank receives. He said he feels the federal problem on government obligations can be circumvented by disallowing deductions of carrying those bonds. Gross receipts does not have anything to do with the ability to pay.

GEORGE BENNETT, an attorney for the Montana Bankers Association, said the last section of the bill states this is an attempt to address a problem because of litigation. The legal problems find their roots in federal law as interpreted by the Montana Supreme Court. This legislature put both savings and loans and banks under the corporation license tax. The federal law, with respect to United States' obligations permits certain taxation and permits nondiscriminatory franchise or other nonproperty taxes on corporations. That is a description of the Montana corporation license tax which was deemed a franchise tax. The Montana Supreme Court, in its decision, is not clear to whether they are saying the corporation license tax act is not a franchise tax.

House Bill 536, compared to the other two bills in the Senate, holds a lot more hazards.

GEORGE ANDERSON, representing the Montana Bankers Association, said HB 536 contains many flaws. When you look for a tax you look for different things like:

1. You would like a nice stable tax base. A base that is going to stay the same from year to year.

2. You ought to tax the ability to pay.

3. There should be an inability of the taxpayer to manipulate the tax.

4. The tax should not discourage investment.

5. The tax should not manipulate the interest rate of that institution.

Gross income can be manipulated, it would discourage banks from making loans. That would directly affect interest rates. Taxes are paid by the consumer and the consumer will pay interest rates to the financial institutions. There would be an increase in interest rates.

MR. ANDERSON said the fiscal note assumes financial institutions will have growth in gross income of 10% per year, compounded. That is not a possibility. The most fatal flaw of the bill is that at the present time, under the supreme court case, the banks and all other corporations that have federal obligation income have the right to file a claim for refund.

MR. ANDERSON urged a do not pass on HB 536.

TOM BUDEWITZ, representing Montana Savings and Loans, said the savings and loans are in agreement with the banks. The effects of this kind of tax on savings and loans would not be good. He said the gross receipts have nothing to do with the ability to pay or what should be required to pay. The depositors of savings and loans will pay the tax on gross receipts and when they withdraw, they pay more tax on interest. He said this kind of an act does not have to be adopted when the legality is in question.

DAVID WENDLI, representing the Security Banks of Montana, said with a 1% tax of gross receipts, there will be no profits. A gross receipts tax will be passed onto the borrower at increased interest rates.

TOM HARRISON, representing the Montana Bank System and Bank of Montana, addressed the stable income necessary to city and county governments.

JOHN CADBY, representing the Montana Bankers Association, said he wished to go on record in opposition to this bill. It is not often one can get 165 banks to agree on anything but they do on this bill.

REPRESENTATIVE NEUMAN, in closing, addressed the ability to pay issue. He said to say gross receipts is not a stable measure is to assume net income is more stable. He said that is not the case. If gross receipts income is not stable, net income is even less stable. Any increase in tax will be passed onto the consumer. In the past, banks have been considerate of small businessmen and have kept the interest rate low.

REPRESENTATIVE NEUMAN said there are two senate bills which deal with this issue. The "bankers' bill" would make a ratio of tax exempt income and apply it to net income to get a figure you can get a tax on. Using that tax exempt income as a numerator in any fraction to get net income, you are using that tax exempt income again. Gross income rose during tough times of the last several years. Most other businesses experienced a drop in gross income. Banks can turn tough times into profits.

The hearing on HB 536 was closed.

The meeting was adjourned at 11:25 a.m.

DAN YARDLEY, Chairman

Vicki Lofthouse, Secretary

Glenn Keyes, Dillon
NAME Ward A. Shanahan, Helena BILL NO. House Bill 582

ADDRESS 301 First National Bank DATE February 8, 1983

Mr Keyes is Controller at the Pfizer Plant at Dillon

WHOM DO YOU REPRESENT I am an attorney for PFIZER Inc. which has a mine in Madison County and a Beneficiation plant at Barretts near Dillon.

SUPPORT X X X X OPPOSE AMEND X X

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments: The Bill should be amended to remove a drafting error that was not contained in the bill drafting request.

On page 3 of the introduced bill line 13 should read:

"13 liability insurance paid for the mine, reduction works or beneficiation process."

On page 3 of the introduced bill line 14 should be stricken:

"14 ~~(13) cost-of-reduction-or-beneficiation-process;~~"

On page 3 of the introduced bill subparagraphs (14), (15) and (16) should be renumbered as (13), (14) and (15).

Explanation: The amendment corrects the intent of the bill which is to allow a deduction for insurance expenses related to those parts of a mineral processing operation which are within the definition of "mining" as it has been defined by the Montana Supreme Court. Pfizer Inc v Madison County 161 Mont 261, 505 P2d 399 (1972).

It is the intent of the bill to remove the uncertainties over deductions for mining costs. The Department of Revenue has challenged the company's claims to many costs which are reasonable and necessary for any modern mining operation to be successfully maintained. For example:

1. Although the cost of conversion of the product into money has been in the act for many years the department continues to disallow expenses related to this cost.

2. Although clerical, accounting, security, engineering, and geological services are all necessary to the operation, record keeping, reporting requirements and technical problems at the mine, disputes have arisen between the company and the department as to what "necessary" means. ..and whether it includes these labor costs.

3. The "net proceeds tax" is a property tax on a basic industry just like agriculture. But agriculture is given the benefit of valuing its property on "productivity" rather than a market value. These deductions in this bill achieve the same effect for non-metal mining. They achieve a productive value yielded to the producer, rather than a value which fails to reflect the costs of production. Although it is computed in a similar way to the income tax, it is paid to the county and local government.

Respectfully,

Ward Shanahan-Helena (442-8560)

EXHIBIT 2
2-8-83

Zonolite
Construction Products Division

GRACE

I am Earl D. Lovick, Manager of Administration for W.R. Grace & Company.

We have a vermiculite mine near Libby; we are subject to the Net Proceeds law and feel House Bill 582 should be passed.

The net proceeds law is very old, it is archaic. It was designed when mines were simple in comparison to what they are today. Costs were easy to identify and isolate as pertaining to mining and milling of ore. This is no longer true.

This bill defines and allows necessary costs of conducting business of mining, milling, and selling minerals.

The following are examples of essential costs which should be deductible items for computing net proceeds of mines for property tax purposes:

1. Boiler and machinery insurance and public liability insurance, incidental to the mining and milling operation.

2. Costs of welfare and retirement fund payments.

3. Costs of gross mineral and excise taxes and administration costs attributable to the support of the mine or to the concentration process.

4. It would include costs for office, clerical, plant, security, engineering, geological and assaying and sampling services, and those administration costs allocatable to the Montana mining operation.

Zonolite
Construction Products Division

GRACE

Examples of those necessary costs and services which are essential to the mine operation, but which may be removed from the mine site are: research necessary to improve the metallurgical recovery process. The end result of which is preservation of a resource.

The removal of tremolite asbestos from the concentrate which is a hazardous substance and which must meet standards adopted by MSHA (Mine Safety & Health Administration) and by NIOSH (National Institute of Occupational Safety & Health).

Administration costs which covers such items as preparation of payroll, purchasing of necessary supplies and materials, accounting for all a spects of the operation. Operators for computers which record the statistical data, ore deposits, ore mining plans, control mining areas and mill feed.

In short, this bill is amending existing laws as a housekeeping matter only and brings this law into compliance with modern techniques of doing business.

FACTS REGARDING HOUSE BILL 532

1. THE NON-METALS MINING INDUSTRY IN MONTANA PAYS REAL AND PERSONAL PROPERTY TAXES JUST LIKE EVERY OTHER TAXPAYER.

THE NET PROCEEDS OF MINES TAX IS A TAX UNIQUE TO THE NON-METALS MINING INDUSTRY AND IN ADDITION TO OTHER PROPERTY TAXES.

2. PASSAGE OF HOUSE BILL 532 WILL NOT RESULT IN A LOSS OF $600,000 TO LOCAL GOVERNMENTS AS DEPARTMENT OF REVENUE OFFICIALS HAVE CONTENDED. SEVERAL NON-METAL PRODUCERS ARE EITHER IN LITIGATION OR NEGOTIATIONS WITH THE DEPARTMENT ON THE INTERPRETATION OF PROPER DEDUCTIONS. THE $600,000 LOSS REPRESENTS THE DEPARTMENT OF REVENUE'S POSITION ON THE NEGOTIATIONS AND LITIGATIONS.

3. HOUSE BILL 532 WOULD ONLY PROVIDE FOR SPECIFIC DEDUCTIONS THAT ARE NECESSARY BUSINESS EXPENSES.

4. THE NET PROCEEDS OF MINES TAX GOES DIRECTLY TO CITIES, COUNTIES AND SCHOOL DISTRICTS. IT RAISED ABOUT $1.5 MILLION IN 1981, NOT $6 MILLION AS THE DEPARTMENT OF REVENUE CONTENDS.

Total tax paid per ton at Libby mine $5.28

Total tax at S. Carolina mine. 76¢

VISITORS' REGISTER

HOUSE Taxation COMMITTEE

BILL HOUSE BILL 536 Date February 8, 1983

SPONSOR Rep. Neuman

NAME	RESIDENCE	REPRESENTING	SUP-PORT	OP-POSE
Dennis Whitter	Billings	Security Banks of MT		X
Tony Sudenitz	Townsend	Savings & Loan		X
Jim Bennett	Billings	First Citizens Bank		X
John Cadby	Helena	MT Bankers Assn		X
Ed McCaffree	[illegible]		X	
George Anderson	Helena	MT Bankers		X
Mike Young	Missoula	City of Missoula	✓	
GEORGE T. BENNETT	HELENA	MT. BKRS ASSN		X
Bill Verwolf	Helena	City of Helena	✓	
Ron Lundgren	~~[illegible]~~ Helena	Montana Savings & Loan		X
Larry A. Dreyer	Helena	American Federal S & L Assn.		X
Tom Harrison	Helena	Montana Bankers System Bank of Mont. System		X

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Form CS-33
1-81

VISITORS' REGISTER

HOUSE Taxation COMMITTEE

BILL House Bill 582 Date 2-8-83

SPONSOR Rep. Switzer

NAME	RESIDENCE	REPRESENTING	SUP-PORT	OP-POSE
Glenn Mueller [illegible]	Libby	Rep. Dist 21	✓	
Ed McCaffree [illegible]	[illegible]	[illegible]		✓
Earl D Lovick	Libby	W. R. Grace & Co.	✓	
GARY LANGLEY	HELENA	MONT MINING ASSN	✓	
Ward Shanahan	Helena	PfizerInc	✓	
[illegible]	Dillon	Pfizer Inc	✓	

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Form CS-33
1-81

VISITORS' REGISTER

HOUSE Taxation COMMITTEE

BILL HB 587 Date 2-8-83

SPONSOR Rep. Sands

NAME	RESIDENCE	REPRESENTING	SUPPORT	OPPOSE
James Madison	Helena	Dept of Revenue	X	
THOMAS MADDOX	"	MT. Assn. of TOBACCO-CANDY Distributors.		X

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Form CS-33
1-81

STATE OF MONTANA

REQUEST NO. 281-83

FISCAL NOTE

Form BD-15

In compliance with a written request received January 31, , 19 83 , there is hereby submitted a Fiscal Note for House Bill 536 pursuant to Chapter 53, Laws of Montana, 1965 - Thirty-Ninth Legislative Assembly. Background information used in developing this Fiscal Note is available from the Office of Budget and Program Planning, to members of the Legislature upon request.

DESCRIPTION OF PROPOSED LEGISLATION:

House Bill 536 imposes upon banks and savings and loan associations a financial institutions franchise tax measured by gross receipts in lieu of the Montana corporation license tax and provides a contingent effective date and an applicability date.

ASSUMPTIONS:

1) Corporation license tax estimates under current law for FY 84 and FY 85 were obtained from projections made by the Office of Budget and Program Planning.
2) Gross receipts of financial institutions are assumed to grow at 10% per year from a base of $1,061.660 million in 1981.
3) Expenditures for administering the proposed financial institutions franchise tax include $500 annually for forms and instructions; $1,500 annually for data processing; and $3,000 for data processing system development in FY 84.

FISCAL IMPACT:

	FY 84	FY 85
Corporation License Tax		
Under Current Law	$ 41.904M	$ 48.817M
Under Proposed Law	38.028M	44.941M
Estimated Decrease	$(3.876M)	$ (3.876M)
Financial Institutions		
Under Current Law	$ -0-	$ -0-
Under Proposed Law	12.846M	14.131M
Estimated Increase	$ 12.846M	$ 14.131M

Continued

David M Lewis

BUDGET DIRECTOR

Office of Budget and Program Planning

Date: 2-4-83

	FY 84	FY 85
TOTAL REVENUE		
Under Current Law	$ 41.904M	$ 48.817M
Under Proposed Law	50.874M	59.072M
Estimated Increase	$ 8.970M	$ 10.255M
Operating Expenses		
Under Current Law	$ -0-	$ -0-
Under Proposed Law	.005M	.002M
Estimated Increase	$ .005M	$ .002M
NET EFFECT		
Under Current Law	$ 41.904M	$ 48.817M
Under Proposed Law	50.869M	59.070M
Estimated Increase	$ 8.965M	$ 10.253M
General Fund		
Under Current Law	$ 24.834M	$ 29.258M
Under Proposed Law	25.977M	30.569M
Estimated Increase	$ 1.143M	$ 1.311M
School Foundation		
Under Current Law	$ 9.701M	$ 11.429M
Under Proposed Law	10.149M	11.942M
Estimated Increase	$ .448M	$ .513M
Sinking Fund		
Under Current Law	$ 4.268M	$ 5.029M
Under Proposed Law	4.466M	5.254M
Estimated Increase	$ .198M	$ .225M
Local		
Under Current Law	$ 3.101M	$ 3.101M
Under Proposed Law	10.277M	11.305M
Estimated Increase	$ 7.176M	$ 8.204M

EFFECT ON COUNTY OR OTHER LOCAL REVENUE OR EXPENDITURES:

Given the 80% allocation of the franchise tax to local governments, revenues to local tax jurisdictions will increase by $7.2 million in FY 84 and by $8.2 million in FY 85.

LONG-RANGE EFFECTS OF PROPOSED LEGISLATION:

The franchise tax will provide a reliable source of revenue for state funds and local taxing jurisdictions. The possibility that local governments and the state will have to provide refunds will be substantially reduced. Local taxing jurisdictions are the primary recipient of financial institutions taxes. If the assumed growth rate in gross receipts hold, then local jurisdictions will receive between $25 million and $30 million in the following biennium.

FISCAL NOTE 10:Y/2

HB536

STATE OF MONTANA

REQUEST NO. 305-83

FISCAL NOTE

Form BD-15

In compliance with a written request received February 2, , 19 83 , there is hereby submitted a Fiscal Note for House Bill 582 pursuant to Chapter 53, Laws of Montana, 1965 - Thirty-Ninth Legislative Assembly. Background information used in developing this Fiscal Note is available from the Office of Budget and Program Planning, to members of the Legislature upon request.

DESCRIPTION OF PROPOSED LEGISLATION:

House Bill 582 clarifies the deduction provisions of the net proceeds tax on mines applicable to nonmetallic mines and mining claims.

FISCAL IMPACT:

The proposal should have a significant impact on taxes collected from miscellaneous mines net proceeds, although it is impossible to estimate the precise impact since the likely increase in deductions is not known.

The department has estimated the loss in net proceeds resulting from the allowance of a deduction for taxes paid on mineral production. In 1982, miscellaneous mines net proceeds totalled $6,069,290 statewide. The deduction of taxes on production would decrease net proceeds by approximately $1,410,000; producing a revenue loss of $8,460 to the university levy, $56,400 to the school equalization levy and $241,480 to the producing counties each year.

Extending deductions for insurance, employee benefits, beneficiation, an administrative costs serve to further the revenue loss. Administrative costs could result in a 20 to 25% additional reduction in the net proceeds of miscellaneous mines.

FISCAL NOTE 11:B/1

David M Lewis

BUDGET DIRECTOR

Office of Budget and Program Plann

Date: 2-8-83

STATE OF MONTANA

REQUEST NO. 304-83

FISCAL NOTE

Form BD 15

In compliance with a written request received February 2, 1983, there is hereby submitted a Fiscal Note for House Bill 587 pursuant to Chapter 53, Laws of Montana, 1965 - Thirty-Ninth Legislative Assembly. Background information used in developing this Fiscal Note is available from the Office of Budget and Program Planning, to members of the Legislature upon request.

DESCRIPTION OF PROPOSED LEGISLATION:

House Bill 587 revises the definition of "cigarette vendor" and provides a license fee of $8 for each cigarette vending machine operated in Montana.

ASSUMPTIONS:

(1) The number of licensed wholesale and retail dealers and vendors will remain at approximately the level reported for FY 82, as follows:

2,111	retailers
41	wholesalers
392	vendors with less than 10 machines
32	vendors with 10 machines or more

(2) Approximately 2,400 cigarette machines will be licensed annually.

(3) The average number of machines per vendor with fewer than ten is 5, and the average number of machines per vendor with ten or more is 14.

(4) Fees for wholesale and retail licenses will remain at $50 and $5, respectively.

FISCAL IMPACT:

	FY 84	FY 85
Cigarette License Fees		
Under Current Law	$16,165	$16,165
Under Proposed Law	31,805	31,805
Estimated Increase	$15,640	$15,640
Earmarked Revenue Fund for Cigarette Enforcement		
Under Current Law	$16,165	$16,165
Under Proposed Law	31,805	31,805
Estimated Increase	$15,640	$15,640

LONG-RANGE EFFECTS OF PROPOSED LEGISLATION:

The proposed legislation represents a substantial increase in fees paid by vendors with more than one machine, which may result in an increased price to the consumer.

David M Lewis

BUDGET DIRECTOR

Office of Budget and Program Plannir

Date: 2-8-83

FISCAL NOTE 11:E/1

STANDING COMMITTEE REPORT

March 10, 19 83

MR. SPEAKER:

We, your committee on TAXATION

having had under consideration HOUSE Bill No. 582

First reading copy (White)
color

A BILL FOR AN ACT ENTITLED: "AN ACT TO CLARIFY THE DEDUCTION PROVISIONS OF THE NET PROCEEDS TAX ON MINES APPLICABLE TO NONMETALLIC MINES AND MINING CLAIMS; AMENDING SECTIONS 15-23-502 AND 15-23-503, MCA."

Respectfully report as follows: That HOUSE Bill No. 582

~~DO PASS~~ DO NOT PASS

DAN YARDLEY, Chairman.

STATE PUB. CO.
Helena, Mont.

COMMITTEE SECRETARY

STANDING COMMITTEE REPORT

February 11, 19 83

MR. SPEAKER:

We, your committee on TAXATION

having had under consideration HOUSE Bill No. 587

First reading copy (White)
color

A BILL FOR AN ACT ENTITLED: "AN ACT TO REVISE THE DEFINITION OF "CIGARETTE VENDOR"; AND TO PROVIDE A LICENSE FEE OF $8 FOR EACH CIGARETTE VENDING MACHINE OPERATED IN MONTANA; AMENDING SECTIONS 16-11-102 AND 16-11-122, MCA."

Respectfully report as follows: That HOUSE Bill No. 587

~~DO PASS~~ DO NOT PASS

DAN YARDLEY, Chairman.

STATE PUB. CO.
Helena, Mont.

COMMITTEE SECRETARY