

MINUTES OF THE MEETING OF THE HOUSE TAXATION COMMITTEE  
February 16, 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 Representatives Keenan and Nilson, who were excused but came into the meeting later.

Testimony was heard on HB 621, HB 637 and HB 648. Executive action was taken on HB 26, HB 62, HB 86, HB 482, HB 621 and HB 637.

HOUSE BILL 621

REPRESENTATIVE JACK RAMIREZ, District 61, sponsor of the bill, said HB 621 is basically designed to adopt the new federal statutory requirements so Montana law conforms to federal law. He said the principal change is on page 1, line 16, where the number of shareholders is increased from 10 to 35. This will enable the beneficiaries or trustees of the estate to continue to own shares and be qualified as shareholders. He said time for the election is within 30 days following the taxable year. There is also a provision on page 7, lines 22 and 23 for inadvertent termination. If a taxpayer inadvertently makes a mistake the department can look at the circumstances and this gives them a little flexibility.

This bill in and of itself doesn't have any fiscal impact, but he said it might have an impact with other bills dealing with investment credit. This could cause an increase in the number of corporations eligible to make the election since the number of permitted shareholders is increased. They then would be eligible for the tax credit and that could have a tax impact. He felt this could be taken care of by limiting the tax credit or having some other restrictions.

Proponents

WALTER MURFITT, State Bar of Montana, said this bill would bring Montana code into harmony with federal code. He urged the committee give the bill a do pass.

JANELLE FALLON, representing the Montana Chamber of Commerce, said one of their aims is to keep taxation for small businesses from getting overcomplicated, and as this bill gets things in line with the federal laws, it is a favorable option to take.

There were no opponents testifying on HB 621.

JERRY FOSTER, representing the Department of Revenue, said he was speaking neither as a proponent nor an opponent of the bill. He said the department had been concerned about the effective date but can live with that now. He said there is a potential large revenue impact from raising the shareholders from 10 to 35 as this could bring in some rather huge corporations that would be eligible for the investment credit. He said if the committee passes this bill they should look closely at the investment credit bills to take care of that.

REPRESENTATIVE RAMIREZ, in closing, said he felt the bill was good in the interest of uniformity and he felt the adjustments should be made in the investment credit bills rather than amending this bill.

REPRESENTATIVE UNDERDAL asked if it was necessary to change shareholders from 10 to 35 to comply with the federal law. Representative Ramirez said the reason for doing this is that in closely held family corporations, the 10 shareholder limit is not enough. The corporation may have started with a couple of brothers but has now increased to more than 10. This is an added reason besides conforming to federal law.

The hearing on HB 621 was closed.

#### HOUSE BILL 637

REPRESENTATIVE REX MANUEL, District 11, sponsor of the bill, said HB 637 was introduced because of the ruling that is up for discussion tomorrow by the Department of Revenue. This ruling increases irrigated land valuations. It raises the taxes considerably. This bill was introduced to clear up the language by giving them some guidelines when they do their reclassification. He said he had recently gone to an agriculture meeting where it was explained what they were trying to do. He said it was very evident they were using a very complicated system based on figures furnished by Montana State University. He passed out copies of the proposed rates. (See EXHIBIT 1.) Representative Manuel said they had used the average when computing their method and he said the average doesn't always work. He said their figures for summer fallow and dryland are correct but from there on their method is all wrong. He said grasslands went from \$18 to \$35 which is almost the same as dryland farm land; but grassland only produces about one-third what dryland farming does. Tillable irrigated land is altogether too high. Representative Manuel said if that figure is used it would indicate that the 3% of tillable irrigable land raises half the production in the state. He said he would like to see hay production used as a standard. The alfalfa crop is a universal crop and the department should use something on which we have figures. He felt this would be a fair way of establishing land values and capitalization.

Proponents

DENNIS BURR, representing the Montana Taxpayers Association, said this is an important bill to consider mostly because the current statutes provide no guidance to the Department of Revenue as to their methods of deriving values for tax purposes for irrigated land. He said using a conglomerate of crops would impart a larger value than if you are using hay production; and so people that raise hay on their irrigated land have too high values assigned. Mr. Burr said an important part of the bill is subsection 3, on page 2. He said he envisions the department will have to adopt rules that say how they arrived at net income and the capitalization rate to produce the values for tax purposes. He said we know they are using the net income now but we don't know the components of the net income - are water costs and depreciation figured in? How did they arrive at net income from gross income?

JOHN HOLTER, representing the Montana Farm Bureau echoed previous testimony and strongly recommended a do pass on HB 637.

JIM HALVESON, representing the Association of Counties, said we always need more money to operate local government but we don't need to raise revenue by this type of proposal from the Department of Revenue.

WILL BROOKE, representing the Montana Stockgrowers, said they met with the Department of Revenue and reviewed the four alternatives. They found the capitalization of net income to be the most accepted form. They support HB 637.

REPRESENTATIVE GLENN JACOBSEN, District 1, spoke in support of the bill. He said there is a bill in the Agriculture Committee to place a moratorium on the Department of Revenue for doing anything different from what they are doing now. There will also be a resolution to do a study in the interim. (The bill is a committee bill.) We need Representative Manuel's bill to incorporate most of these things into the committee bill.

REPRESENTATIVE TOM ASAY, District 50, said he is in favor of the bill. It is a vehicle to be used to put some continuity in the Department of Revenue methods of taxation.

ESTHER RUUD told committee members that the Montana Cattlemens Association favors HB 637.

There were no opponents testifying on HB 637.

REPRESENTATIVE MANUEL, in closing, said without some guidelines for the Department of Revenue, we are getting back to taxation without representation.

REPRESENTATIVE DOZIER asked if HB 637 passes and the reappraisal cycle is complete, would it still increase the value of agriculture land. Representative Manuel said if reappraisal is left the way it is with the proposed rule and this bill passes, it would lower the tax. This is a fair taxation method.

LES SAISBURY, Department of Revenue, said he is neither a proponent nor an opponent to HB 637. If HB 637 passes there will be an increase in the value but not the same increase as is proposed in the administrative rule.

REPRESENTATIVE DEVLIN asked the sponsor of the bill to explain the maximum, medium and minimum tillable irrigated land. Representative Manuel said there are different parts of the state that can grow different things so the Department of Revenue came up with three different classes of production capacity.

LES SAISBURY said there is a requirement, by statute, to use soil data when grading agricultural lands. Land has to be classified by its agricultural use and then graded by productive capacity and soil. As far as developing values, the department uses the length of the growing season and the types of crops that can be grown.

REPRESENTATIVE DEVLIN asked if he was correct in saying the department uses the formula that heavily favored production rather than classification. Mr. Saisbury said the formula was weighted heavier towards production based on irrigation.

REPRESENTATIVE MANUEL said high revenue crops are high risk crops.

REPRESENTATIVE NORDTVEDT asked what the values would be if they were based on just hay and not the crop cycles. Mr. Saisbury said the values would be similar to those values on wild hay. The values might even be lower depending of the amount of expenses that go into it.

REPRESENTATIVE SWITZER said when you take production figures and have a variation in crop expenses from one area to another, the expenses for that crop may vary by as much as \$250 per acre and the tonnage will vary. How do you account for that? Mr. Saisbury said there is no compensation for that. We are working with averages - average income, average expenses, etc. The difference is largely based on the rotation classification those lands are put into. The soil classification is the determining factor in what level of value will be placed on an acre of land. It is determined by income and expenses attributed to crops in rotation over a period of time.

REPRESENTATIVE SWITZER said the department uses the soil classifications to a greater degree than the average production, which

can't help but be impacted by the operators. Mr. Saisbury said that is true but the department tries to stay away from valuing differences in management and go back to the soil.

MR. SAISBURY said the department is not an opponent to this bill. Under the present system, the other crop factors were involved in determining the net income on an acre of irrigated land. The department wants to get better direction from the legislature.

CHAIRMAN YARDLEY asked what is the current status of the administrative ruling now. Mr. Saisbury said there is an administrative rule hearing at 10:00 a.m. today and there will be another hearing in Glendive on February 28th. There will be quite a period of time before the administrative rule is accepted. There has to be a hearing, the department will then receive responses regarding the hearing, the department will respond to those responses and those responses will be given to the hearings officer who attends the hearings. House Bill 637 would pinpoint the direction on the valuing irrigated land, so it would have quite an effect on the administrative rule.

CHAIRMAN YARDLEY asked what effect does HB 637 have on the proposed rule change. Mr. Saisbury said it would have quite an effect. If this bill passes, it would pinpoint the direction on the valuing of irrigated lands. The other part of the bill, dealing with capitalized net income approach, is the method that has been employed since 1963 and is in the proposal that the department is making

CHAIRMAN YARDLEY asked what was the change in the department's approach of valuation. Mr. Saisbury said, basically, there was no change in the approach to the valuation except that there were two adjustments that were made in the case of irrigated lands in 1963 that the department is not proposing to make. In the case of all agricultural land, in 1963 the values were arrived on the basis of capitalized net income per acre. That capitalized net income per acre on all other agricultural uses then became the current assessed value that the department used for property tax purposes. In the case of irrigated lands, however, there was a 40% factor taken against that capitalized net income which reduced the base value by 60%. For incremental increases for the cost of applying water there is a corresponding decrease in the assessed valuation on those lands. The department views that as an inequity since the water cost itself is a particular operating expense that has been isolated and used for reducing the assessed valuation in the case of irrigated lands only. There are no procedures or policies for doing the same with other types of agricultural lands. The results of removing those two adjustments accounts for the major increase in irrigated lands over the other agricultural lands.

REPRESENTATIVE NORDTVEDT asked if water costs are included in the capitalized net income approach. Mr. Saisbury said yes. Representative Nordtvedt asked why, then, is there a water cost adjustment in addition to counting water costs. Mr. Saisbury said there is a variability in the costs of applying water throughout the state in the irrigation districts. He said he does not know why that was done.

REPRESENTATIVE NORDTVEDT said it has been alluded to that the 60% reduction was to account for the high labor ingredient of operating irrigated lands that was not included in the calculation of net income of land. Mr. Saisbury said labor was included as an individual operating expense in finding the net income on an acre.

REPRESENTATIVE YARDLEY said real estate other than farm property is taxed at 8.55%. What is the taxable percentage on agricultural land. Mr. Burr said it would be 30%.

REPRESENTATIVE NILSON is present at the meeting at this time.

REPRESENTATIVE SWITZER asked if the Department of Revenue uses insurance rates in their assessing of the productive capabilities of land. Mr. Saisbury said they use those rates in assessing the productive level of the ground.

The hearing on HB 637 was closed.

#### HOUSE BILL 648

REPRESENTATIVE KEN NORDTVEDT, District 77, sponsor of the bill, said HB 648 is an investment credit bill. It puts basic investment credit at 20% of the federal investment credit, which is what we had up until this last biennium. The second part of the bill provides for an additional investment credit for business activities making a commitment to growth. There will be an additional 3% investment credit if a business is investing in more new machinery and equipment than the business is depreciating.

REPRESENTATIVE NORDTVEDT said HB 658 solidifies the 20% tax credit and creates a bonus situation for a growing operation.

#### Proponents

JANELLE FALLON, representing the Montana Chamber of Commerce, said HB 648 would not have a broad application but for those businesses that would use the credit, it would be helpful. The Montana Chamber of Commerce supports HB 648.

#### Opponents

HARRY FOSTER, representing the Department of Revenue, said he

is appearing on behalf of the Director of the Department of Revenue in opposition to HB 648. The cost of HB 648 would be \$24 million for the biennium. That amount was not considered in the executive budget and there is no measure of replacing the money. The Department of Revenue opposes the bill because the state of Montana cannot afford it.

REPRESENTATIVE NORDTVEDT, in closing, said there is another situation where a business is investing in more equipment than they are depreciating. In the initial start-up of a new business, almost all investments would be in excess of depreciation and would be eligible for the bonus.

REPRESENTATIVE NORDTVEDT said the bulk of the \$24 million cost of this bill is to keep the basic tax credit we thought we had on the books. The cost of the bonus feature is \$3 million out of the \$24 million.

The hearing was closed on HB 648.

At this time, Chairman Yardley called the meeting into Executive Session.

#### EXECUTIVE SESSION

CHAIRMAN YARDLEY passed out copies of data comparing the impact involved with the various elderly tax relief bills. (See EXHIBITS 2 and 3.) Jim Oppedahl, legislative researcher for the Legislative Council, went over those exhibits with the committee.

REPRESENTATIVE NEUMAN left the meeting at this time.

#### House Bill 26

REPRESENTATIVE JACOBSEN offered the following amendment to HB 26:

Page 3, line 10.  
Following: "applies"  
Strike: "on and after April 30, 1983"  
Insert: "to production occurring after  
March 30, 1984"

REPRESENTATIVE JACOBSEN moved the AMENDMENT to HB 26.

REPRESENTATIVE JACOBSEN said the amendment will cut the fiscal note in half because it doesn't affect the first year of the biennium.

CHAIRMAN YARDLEY said the amendment basically delays the effective date of HB 26 for one year. Representative Jacobsen said that was correct.

The motion to AMEND HB 26 was voted on and PASSED unanimously.

REPRESENTATIVE VINGER moved previously offered amendments to HB 26. (See EXHIBIT 4.)

The motion was voted on and PASSED unanimously.

REPRESENTATIVE VINGER said it is only fair that the state give something to eastern Montana for roads. This is not asking too much.

REPRESENTATIVE NORDTVEDT said he thought HB 26 was one of the worst bills this committee has seen. The tax base of the counties is dominated by property tax revenue from production which is called net proceeds tax. Counties get revenue from that tax to build roads, help schools, etc. Most of these expenses are picked up by the net proceeds tax. Counties have a tax base and they do not need any more revenue. The 5% to the schools is a smoke screen. That money comes from the general fund into the school equalization funds. Representative Nordtvedt said the counties do not need any more of the severance tax - they have all the net proceeds tax they need.

REPRESENTATIVE WILLIAMS said he has respect for state and local governments but had to agree with everything said by Representative Nordtvedt.

REPRESENTATIVE JACOBSEN said the 5% to the schools will be an earmarked amount that will not have to go into the foundation program.

REPRESENTATIVE ABRAMS moved HB 26 DO PASS AS AMENDED.

The motion was voted on and PASSED. A roll call vote was taken and all committee members present voted yes except Representatives Bertelsen, Dozier, Nordtvedt, Williams and Yardley. Representatives Keenan and Neuman were excused during the vote.

REPRESENTATIVE VINGER left the meeting at this time.

#### House Bill 62

REPRESENTATIVE WILLIAMS moved HB 62 BE TABLED.

The motion was voted and PASSED unanimously. Representative Vinger left a proxy vote, voting yes for a table motion.

#### House Bill 86

REPRESENTATIVE WILLIAMS moved HB 86 BE TABLED.

The motion was voted on and PASSED. All committee members present



voted yes except Representative Switzer, who voted no. Representative Vinger had left a proxy vote, voting for a table motion.

House Bill 482

CHAIRMAN YARDLEY said this bill concerns prepayment of property taxes by oil and gas construction companies.

REPRESENTATIVE SWITZER moved to TABLE HB 482.

JIM OPPEDAHL went over proposed amendments to HB 482. He said the amendments would decrease the taxable rate from 8.55% to 3% and that the prepayment be made upon request from the Board of County Commissioners.

REPRESENTATIVE KEENAN was present at this time.

REPRESENTATIVE NORDTVEDT asked if the total taxes paid would be less. Jim Oppedahl said this bill will not change the tax liability but the companies would pay prepaid taxes on a 3% interest rate instead of 8.55%.

CHAIRMAN YARDLEY said the companies would pay the balance of taxes in the regular years the taxes are due.

REPRESENTATIVE BERTELSEN said, comparatively speaking, this law will not work.

REPRESENTATIVE SWITZER said this kind of expense is not what is holding oil and gas companies back. The problem is not as great as it seems.

The motion to TABLE HB 482 was voted on and PASSED unanimously.

House Bill 621

CHAIRMAN YARDLEY said the intent of HB 621 is good in that it correlates federal and state small business corporation tax.

REPRESENTATIVE BERTELSEN moved HB 621 DO PASS.

The motion was voted on and PASSED. All committee members voted yes except Representatives Dozier, Keenan and Ream, who voted no. Representative Vinger left a proxy vote, voting yes. Representatives Neuman and Nordtvedt were excused during the vote.

House Bill 637

REPRESENTATIVE JACOBSEN moved HB 637 DO PASS.

REPRESENTATIVE WILLIAMS asked why this committee could not hold the bill until after the Department of Revenue has the hearings because he said he doesn't know that the way to approach the valuation of agricultural land is to put it all in hay production.

REPRESENTATIVE NORDTVEDT was present at this time.

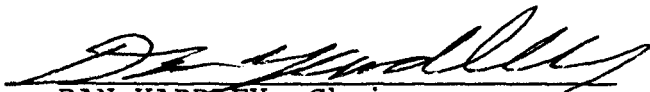
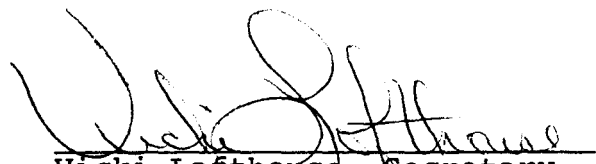
REPRESENTATIVE ASAY said HB 637 gives the true production capabilities. The Department of Revenue needs this bill.

REPRESENTATIVE SWITZER said alfalfa is a fair and fortunate guideline because it can be grown all over the state. He said land should be taxed on quality but not on the income from that land.

REPRESENTATIVE WILLIAMS said he would like to see figures on what this bill would do to the tax base of the counties.

The motion of DO PASS was voted on and PASSED. A roll call vote was taken and all committee members voted yes except Representatives Nordtvedt, Williams and Yardley, who voted no. Representative Vinger left a proxy vote, voting for the do pass motion. Representative Neuman was excused during the vote.

The meeting was adjourned at 10:45 a.m.

  
DAN YARDLEY, Chairman  
Vicki Lofthouse, Secretary

# LOCAL

Income Single Person	Income Married Couple	Percentage Multiplier
\$0 - \$1,000	\$0 - \$1,000	0%
1,001 - 2,000	1,001 - 2,000	10%
2,001 - 2,800	2,001 - 3,000	20%
2,801 - 3,600	3,001 - 4,000	30%
3,601 - 4,400	4,001 - 5,000	40%
4,401 - 5,200	5,001 - 6,000	50%
5,201 - 6,000	6,001 - 7,000	60%
6,001 - 6,800	7,001 - 8,000	70%
6,801 - 7,600	8,001 - 9,000	80%
7,601 - 8,000	9,001 - 10,000	90%

# STATE

Household income	Amount of reduction \$	0-999
\$0	\$0	
1,000-1,999	the product of .006 times the household income	
2,000-2,999	the product of .016 times the household income	
3,000-3,999	the product of .024 times the household income	
4,000-4,999	the product of .028 times the household income	
5,000-5,999	the product of .032 times the household income	
6,000-6,999	the product of .035 times the household income	
7,000-7,999	the product of .039 times the household income	
8,000-8,999	the product of .042 times the household income	
9,000-9,999	the product of .045 times the household income	
10,000-10,999	the product of .048 times the household income	
11,000-11,999	the product of .050 times the household income	
12,000 & over	the product of .050 times the household income	

10:00 A.M.  
 1<sup>st</sup> Floor Conference Room of the  
 Mitchell Building at 5<sup>th</sup> and Roberts Street

Class	Ag Values		Average Value
	1963 Average Value	Original Proposal	Currently Proposed
Nonirrigated Farmland (Summerfallow)	\$34.59	\$ 28.25	\$ 36.51
Nonirrigated Farmland (Continuous Crop)	56.26	48.03	49.40
Grazing	18.12	17.68	35.87
Wild Hay	32.34	84.90	102.83
Tillable Irrigated *	—	—	—
Maximum	40.64	162.39	415.25
Medium	34.57	122.84	241.34
Minimum	30.95	101.87	125.11

\*1963  
 Irrigated Land  
 Values before  
 60% Reduction and  
Water Cost Adjustments

Maximum	\$113.26
Medium	97.94
Minimum	89.33

Change in Agricultural Values

+92% Over All Ag. Land

This is based on a weighting of the percentages of each agricultural class found in the state applied to the average percent change in value of each class as proposed.

SENIOR CITIZEN PROPERTY TAX RELIEF

INCOME (other/social security)

TAX	15/5	14/5	13/5	12/5	11/5	10/5	9/5	8/5	7/5	6/5	5/5	4/5	3/5	2/5	1/5
\$865	φ	φ	φ	φ	φ	φ	φ	φ	φ	φ	φ	φ	87	57	557
\$576	φ	φ	φ	φ	φ	φ	φ	φ	φ	φ	φ	φ	58	115	172
\$288	φ	φ	φ	φ	φ	φ	φ	φ	φ	φ	φ	φ	29	58	86
\$865	115	150	150	150	150	150	150	150	150	150	150	150	150	150	150
\$576	φ	φ	φ	φ	φ	φ	φ	φ	φ	φ	φ	φ	150	150	150
\$288	φ	φ	φ	φ	φ	φ	φ	φ	φ	φ	φ	φ	150	150	150

Based on:  
Single person income; taxes for a \$75,000, \$50,000, and \$25,000 residential market value; 300 miles.  
Data in parentheses represents amount of relief available under formula if no maximum benefit ceiling.

Proposed Amendments HB 26

1) Title, line 6.

Following: "EDUCATION"

Insert: "IF THERE IS NO INCREASED PRODUCTION WITHIN  
THE COUNTY"

2) Page 1, line 25.

Following: line 24

Insert: "(b) if there is no increased production  
within the county:"

3) Page 1, line 25.

Following: line 24

Strike: "(b)"

Insert: "(i)"

4) Page 2, line 2.

Following: "(4);"

Insert: "and"

5) Page 2, line 3.

Following: line 2

Strike: "(c)"

Insert: "(ii)"

6) Page 2, line 7.

Following: "{b}"

Strike: "(d)"

Insert: "(c)"

7) Page 2, line 8.

Following: "(2) (a)"

Strike: "through (2) (c)"

Insert: "and (2) (b)"

8) Page 3, line 2.

Following: "(2) (b)"

Insert: "(i)"

WITNESS STATEMENT

Name Esther Reed Committee On Taxation  
Address Calvinville, Iowa Date 2-16-83  
Representing Montana Cattlemen's Assn. Support X  
Bill No. HB 637 Oppose \_\_\_\_\_  
Amend \_\_\_\_\_

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1. Mr. Chairman and members of the Committee, the Montana Cattlemen's Association favors this bill.
- 2.
- 3.
- 4.

Itemize the main argument or points of your testimony. This will assist the committee secretary with her minutes.

NAME: John Holter DATE: 16 Feb. 83

ADDRESS: Bozeman

PHONE: \_\_\_\_\_

REPRESENTING WHOM? Montana Farm Bureau Federation

APPEARING ON WHICH PROPOSAL: HB-637

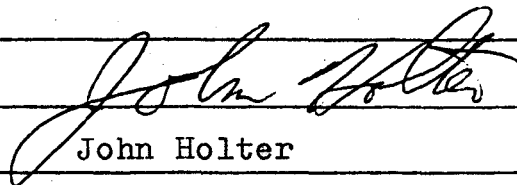
DO YOU: SUPPORT? XXX AMEND? \_\_\_\_\_ OPPOSE? \_\_\_\_\_

COMMENTS: Mr. Chairman,

The Montana Farm Bureau Federation Supports HB-637.

The MFBF Has policy which is addressed by this legislation.

HB-637 strengthens exactly what the legislative intent is  
regarding the classification of agricultural land. Mr. Chairman,  
the MFBF recommends a do pass report on HB-637.

  
John Holter

Montana Farm Bureau Federation

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.



STATE OF MONTANA

REQUEST NO. 336-83

FISCAL NOTE

Form BD-15

In compliance with a written request received February 7, 19 83, there is hereby submitted a Fiscal Note for House Bill 637 pursuant to Title 5, Chapter 4, Part 2 of the Montana Code Annotated (MCA).

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.

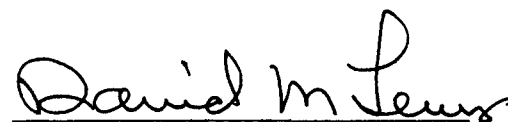
DESCRIPTION OF PROPOSED LEGISLATION:

House Bill 637 specifies that the Department of Revenue must use a capitalized net income methodology in valuation of agricultural land; provides an exception for irrigated land; requires the department to adopt rules; and provides a delayed effective date.

FISCAL IMPACT:

The department is attempting to use the capitalized net income approach to value agricultural land for the next reappraisal cycle. It appears from the work completed thus far that the proposal will have a revenue impact. Limiting the assessed value of irrigated land to its income producing ability in hay production will result in lower values relative to its value when other crops are considered. This limitation will result in a loss of property tax revenues in tax years after 1985.

FISCAL NOTE 12:I/1



BUDGET DIRECTOR

Office of Budget and Program Planning

Date: 2-9-83

## STATE OF MONTANA

REQUEST NO. 331-83

## FISCAL NOTE

Form BD-15

In compliance with a written request received February 7, , 19 83 , there is hereby submitted a Fiscal Note for House Bill 648 pursuant to Title 5, Chapter 4, Part 2 of the Montana Code Annotated (MCA).

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 648 allows an additional investment credit for the cost of a qualified investment that exceeds the taxpayer's depreciation; and provides an applicability date and an immediate effective date.

ASSUMPTIONS:

- 1) Individual and corporate tax revenue estimates under current law were obtained from the Office of Budget and Program Planning.
- 2) The investment credit law expired December 31, 1982 and does not revert to the prior law of 20% of federal investment credit.
- 3) An equal dollar amount of eligible assets are acquired each year but are adjusted upward by an inflation rate of 5% each year.
- 4) The 3% adjustment of the cost of the investment over total depreciation, where it would affect the taxpayers, is assumed to add an extra 10 to 15% to the cost.
- 5) Total carryback refunds for both individuals and corporations are expected to be \$3 million each year of the biennium. Carryover costs are reflected in the biennial estimates.
- 6) The cost for forms is estimated to be \$1,000 each for corporate and individual returns per year.

FISCAL IMPACT:

	<u>FY 84</u>	<u>FY 85</u>
Individual Income Tax		
Under Current Law	\$ 166.427M	\$ 175.459M
Under Proposed Law	158.889M	267.619M
Estimated Decrease	<u>\$ (7.538M)</u>	<u>\$ (7.840M)</u>
Corporate License Tax		
Under Current Law	\$ 41.904M	\$ 48.817M
Under Proposed Law	37.379M	44.141M
Estimated Decrease	<u>\$ (4.525M)</u>	<u>\$ (4.676M)</u>

Continued  
BUDGET DIRECTOR

Office of Budget and Program Planning

Date: 2-9-83

TOTAL REVENUE

Under Current Law	\$ 208.331M	\$ 224.276M
Under Proposed Law	196.268M	211.760M
Estimated Decrease	<u>\$ (12.063M)</u>	<u>\$ (12.516M)</u>

General Fund

Under Current Law	\$ 131.347M	\$ 141.552M
Under Proposed Law	123.627M	133.542M
Estimated Decrease	<u>\$ (7.720M)</u>	<u>\$ (8.010M)</u>

School Foundation

Under Current Law	\$ 51.308M	\$ 55.294M
Under Proposed Law	48.292M	52.165M
Estimated Decrease	<u>\$ (3.016M)</u>	<u>\$ (3.129M)</u>

Sinking Fund

Under Current Law	\$ 22.575M	\$ 24.329M
Under Proposed Law	21.248M	22.952M
Estimated Decrease	<u>\$ (1.327M)</u>	<u>\$ (1.377M)</u>

Local

Under Current Law	\$ 3.101M	\$ 3.101M
Under Proposed Law	3.101M	3.101M
Estimated Decrease	<u>\$ -0-</u>	<u>\$ -0-</u>

LONG-RANGE EFFECTS OF PROPOSED LEGISLATION:

The proposed legislation, if adopted, makes permanent the investment tax credit of 15-30-162 and 15-31-123 at 20 percent of the federal credit for eligible investments plus 3 percent of the excess of an investment over a taxpayer's total depreciation.

TECHNICAL NOTE:

It is unclear whether the provision that a taxpayer may claim an additional 3 percent credit for the excess of an investment over the taxpayer's total depreciation applies singly to each investment made or to the total of investments made in any given year. If the former case applies, then the taxpayer may be required to perform one or more calculations on the tax form to account for the difference. Tax forms will have to be expanded to meet the possibility of several such calculations. If the latter case applies, then only one additional calculation will be required. However, the cost to the state will be greater than is shown in the fiscal note, which assumes the former case.

In addition, the cost of the 3 percent provision may vary according to the cycle of ACRS depreciable property. That is, the investment credit will be greater if the cost of the investment is applied primarily against first year depreciable property rather than older property under ACRS.

# STANDING COMMITTEE REPORT

February 16, 1933

SPEAKER:  
MR. ....

We, your committee on TAXATION .....

having had under consideration HOUSE Bill No. 621 .....

First reading copy (White color) .....

A BILL FOR AN ACT ENTITLED: "AN ACT TO GENERALLY REVISE THE PROVISIONS RELATING TO THE TAXATION OF SMALL BUSINESS CORPORATIONS; AMENDING SECTIONS 15-31-201, 15-31-202, 15-31-205, AND 15-31-207, MCA; REPEALING SECTION 15-31-206, MCA; AND PROVIDING AN APPLICABILITY DATE."

Respectfully report as follows: That HOUSE Bill No. 621 .....

DO PASS

DAN YARDLEY, Chairman.

# STANDING COMMITTEE REPORT

February 16, 1983

**SPEAKER:**

MR. ....

## TAXATION

We, your committee on .....

having had under consideration ..... HOUSE Bill No. 637

First reading copy ( White )  
color

A BILL FOR AN ACT ENTITLED: "AN ACT SPECIFYING THAT THE DEPARTMENT OF REVENUE MUST USE A CAPITALIZED NET INCOME METHODOLOGY IN VALUATION OF AGRICULTURAL LAND; PROVIDING AN EXCEPTION FOR IRRIGATED LAND; REQUIRING THE DEPARTMENT TO ADOPT RULES; AMENDING SECTION 15-7-201, MCA; AND PROVIDING A DELAYED EFFECTIVE DATE."

Respectfully report as follows: That ..... HOUSE Bill No. 637

DO PASS

..... DAN YARDLEY, .....  
Chairman.