

MINUTES OF THE MEETING OF THE HOUSE TAXATION SUBCOMMITTEE  
ON HOUSE BILL 316  
FEBRUARY 28, 1983

The meeting was called to order at 10:00 a.m. by Chairman Neuman. Representatives Asay and Jacobsen were also members of the subcommittee and they were present.

This was a meeting of the subcommittee appointed to review HB 316 to make recommendations to the full Taxation Committee.

HOUSE BILL 316

REPRESENTATIVE TOM ASAY, District 50, chief sponsor of the bill, said HB 316 is a bill that would transfer agricultural implements and equipment from class eight to class six for purposes of property taxation. He said he has found the property tax system for agricultural implements is more out-of-line than he originally thought. He gave an example where a combine increased \$2,000-\$3,000 more in the '83 tax book than it had in the '82 tax book. Representative Asay said agricultural equipment is out-of-sync with other production equipment. Representative Asay added that not all farm equipment increased in value in the '83 tax book.

REPRESENTATIVE ASAY said in order to have equity in agriculture, we need to have agricultural property in the same type of classification as livestock.

CHAIRMAN NEUMAN noted there would be a \$4 million fiscal impact over the next biennium with the passage of HB 316.

Proponents

JO BRUNNER, representing Women Involved In Farm Economics (WIFE), said the group she represents wants equity in taxation. Agriculture is a business and if other businesses do not have to pay inventory tax, we should not have to pay inventory taxes. Ms. Brunner said they are not against paying taxes but do want equity in taxation.

ERNIE ICOPINI, County Commissioner from Treasure County, said if livestock and machinery were set at a 6% tax, Treasure County would lose only \$14,336 in revenue.

MONS TEIGEN, Executive Secretary of the Montana Stockgrowers Association, asked if Representative Asay was proposing to raise livestock to some other taxation percentage. Chairman Neuman said this subcommittee was trying to come up with recommendations to give to the whole committee as whether or not to go with HB 316 as written or make a compromise somewhere else. He said they had received a suggestion to make a separate tax class for live-

stock and machinery, at 6%. Mr. Teigen said the Stockgrowers Association would oppose that recommendation. They are satisfied with livestock being taxed at 4%.

MIKE YOUNG, representing the City of Missoula, said the whole classification system needs to be looked at. He said retailers, airlines, banks, railroads, etc., all come in and argue their taxes are not equitable. Mr. Young said they may be right but we still have to look at the total classification system. He said there may be other ways of raising revenue for counties, other than taxes. We should not be looking at special interest groups.

GARY FELSTAD, representing Treasure County, said if a rancher had a lot of machinery, the amount taxed on the machinery would offset the increase in the amount of tax on livestock, if livestock was raised from 4% to 6%.

REPRESENTATIVE DEAN SWITZER, District 54, said boosting the tax on livestock to compensate for the tax on machinery was the first he had heard of that idea and he did not agree with that idea.

REPRESENTATIVE ASAY said he would do his best to get HB 316 passed as written but said he really didn't think it would have a very good chance, unless it was amended. Representative Asay said he was upset over the "anti-rural" attitude and agriculture should "take the bit".

DENNIS BURR, representing the Montana Taxpayers Association, said when the tax on cattle was lowered from 8% to 4%, the tax ended up going up about 25¢ per head. He said that was not a tax break because the assessed value kept going up. He said he feels it is not proper for the agriculture people to "ride in" on the elimination of inventory tax. He said he feels each issue has to stand on its own. Mr. Burr said only about 25-30% of local government revenue comes from property tax.

MR. BURR said the classification system needs to be looked at in its entirety. He feels the system, as it is now, is vulnerable to a challenge. The first thing that needs to be done is to figure out what would happen if each type of property that we currently have in the system was put into one classification and then see what would happen to the local governments' tax base.

JESSE MONROE, representing the Department of Revenue, said the department opposes any bill that would reduce taxable value without a replacement. Continual changing from one class to another is going to harm more than help. He agreed that the entire classification system needs to be looked at.

REPRESENTATIVE SWITZER said this legislature is accepting a 15% growth in the state budget as a fact of life. He said we should be looking at having the same amount of government as we have money and not more money for a greater amount of government.

MR. TEIGEN said there is disparity between agricultural equipment and livestock. Livestock will go up, if the farm economy gets better, but agricultural equipment will not increase in value. That is like comparing apples and oranges, with the amount of money one will earn as compared to what the other will cost.

MS. BRUNNER said she agreed with Representative Switzer. She said the statement that agricultural equipment and livestock cannot be considered inventory is wrong because agriculture is a business and the equipment and livestock would be the inventory.

REPRESENTATIVE HUGH ABRAMS, District 56, said the biggest concern is the inequity of the tax structure. He said he, also, would like to see the whole taxation structure restructured.

CHAIRMAN NEUMAN said he feels the chances of getting this bill through in its present form would be difficult. He asked for suggestions on how we could relieve the counties of the loss of revenue as a result of the passage of a bill like HB 316.

MR. ICOPINI said Treasure County could live with the loss of revenue but he didn't know if the other counties could because he didn't know what their loss would be. If HB 316 passed as written, Treasure County would lose \$60,000 in revenue.

MR. BURR said on a percentage basis, counties will not lose a lot of revenue from this bill but when you add up all decreases in revenue as a result of all classification changes which affect the counties, there will be a large loss of revenue.

REPRESENTATIVE JACOBSEN said one problem with farm machinery is that it keeps increasing in value. When wheat prices and livestock prices dropped, machinery prices did not.

MR. BURR said if property taxes produce less revenue, the state will have to kick in more money to make up for that loss.

CHAIRMAN NEUMAN said he would close this meeting on the testimonial portion of HB 316 and open the meeting to suggestions on a new approach to the whole property tax system.

MR. BURR said one suggestion would be to look at how everything would sort out with one tax classification. Then you could see the inequities that exist. In the past, we have been

taking everyone off the same base instead of putting everyone on the same base.

REPRESENTATIVE GENE ERNST, District 47, said he would like to replace property tax on the heavy end, like schools running 60-70%, by replacing it with another source like income tax. We should use a broader base across the state to fund education instead of using property tax.

JOHN MAHAN, a farmer from Yellowstone County, suggested putting a sales tax on agricultural machinery.

REPRESENTATIVE SWITZER said the interim committee that studies the classification system should scrutinize where the money is being spent and then see if each agency, department, school, etc., is returning services.

REPRESENTATIVE ASAY said he wants to hear any suggestions on HB 316 that would make it a more workable bill. Mr. Icopini said any reduction in that classification would help.

MR. MONROE said the Department of Revenue would like the bill to have an effective date of 1984. Chairman Neuman said anything the interim study committee comes up with would not be effective until 1986.


REPRESENTATIVE ASAY asked if it would be out-of-line to include language, in HB 316, that used equipment cannot increase in value. Mr. Monroe said the department is tied into the statutes. Chairman Neuman asked if the statutes could be changed to say the valuation of the equipment could never exceed the purchase price. Mr. Burr said you could use original cost depreciation rather than replacement cost depreciation. He said inflation is driving prices up. The Department of Revenue would not use books except to establish the original cost of the equipment and then the department could use a depreciation schedule. Representative Jacobsen suggested taking the equipment off the tax roles after the equipment is 8-10 years old. Chairman Neuman asked if we could come up with some data as to the effect that would have on taxation. Mr. Monroe said the department feels they cannot treat equipment differently. Mr. Burr said the department does that now.

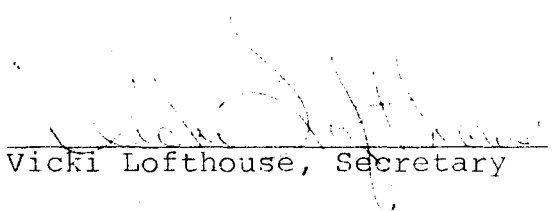
CHAIRMAN NEUMAN said if the loan value is changed on agriculture equipment, it will have to be changed on all machinery. Mr. Monroe said it would be possible to change section 15-3-111, which is the market value statute, to say the wholesale value of a piece of equipment is the loan value.

CHAIRMAN NEUMAN thanked everyone for coming to the meeting and said the subcommittee will meet again in the next few days and try to come up with some concrete recommendations to pass on

to the Taxation Committee, concerning HB 316.

The meeting was adjourned at 11:15 a.m.

  
TED NEUMAN, Chairman

  
Vicki Lofthouse, Secretary