

MINUTES OF THE MEETING OF THE HOUSE TAXATION COMMITTEE  
March 23, 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 Abrams, Neuman and Nordtvedt, who were excused.

Testimony was heard on HB 913 and HB 915.

Executive action was taken on HB 755, HB 829, SB 335 and HJR 31.

HOUSE BILL 913

REPRESENTATIVE HAL HARPER, District 30, sponsor of the bill, said HB 913 is an act providing for a replacement income tax for part of the property tax now levied on habitable property. He said it is the latest version of the "Watt proposal" to reduce/replace property taxes and replace them with a tax on income. Representative Harper said this idea has been around before. The measure has always passed the House but has been killed in the Senate.

REPRESENTATIVE HARPER went over the bill with the committee. He offered some amendments to the bill. On page 2, line 18, he suggested striking "part or" so that the governing body of a county could not replace those mills. On page 6, line 8, he suggested striking "gross income" and inserting "taxable income".

Proponents

BOB WATT, originator of the concept of HB 913, said he started working on this concept in 1969. He said HB 913 is a far simpler bill than the bill he had drafted when he was a legislator. Mr. Watt said HB 913 is a permissive bill, it doesn't force counties to go with this idea, the decision would be up to the county commissioners.

TOM RYAN, representing the Montana Senior Citizens Association, said the MSCA passed a broad resolution in their convention that said they would support progressive legislation. Mr. Ryan said he thought this piece of legislation is progressive so, therefore, MSCA supports the bill.

SAM RYAN, a member of the Montana Senior Citizens Association, said he is in favor of the bill.

BOB PALMER, Missoula County Commissioner, said he was testifying on behalf of himself and not for Missoula County. Mr. Palmer said this bill would allow local government officials the opportunity to provide property tax relief to property owners of Montana.

ELLEN FEAVER, Director of the Department of Revenue, said she is appearing neither as a proponent nor an opponent. Ms. Feaver said this is a bill that the Department of Revenue could administer. Ms. Feaver offered some amendments to HB 913 and gave explanations for those amendments. (See EXHIBITS 1, 2 and 3.)

#### Opponents

DENNIS BURR, representing the Montana Taxpayers Association, said there is one problem this committee might want to consider is that with property tax there is a direct relationship between mill levies and increases in taxes that people can see. This concept will obscure the relationship between tax increases and government spending. He asked if the definition of income is supposed to be adjusted gross income or taxable income? He said he doesn't know if the Department of Revenue will be able to administer the rate of replacement income tax. He also said he doesn't think there is enough funding to take care of the administration of this act.

MR. BURR said he feels this bill is too complex for this committee to tackle at this late date of the session. It might be interesting to have the Department of Revenue run through a trial period with a select county to see how this concept would work.

MONS TEIGEN, representing the Montana Stockgrowers Association, the Montana Woolgrowers Association, and the Montana Cowbells, said the organizations he is representing are opposed to this legislation because of the impact it could have on rural Montana. He said he supports the idea of Mr. Burr that the department should have a trial run on this concept over the next two years.

REPRESENTATIVE HARPER, in closing, said this is the first time the Department of Revenue has not appeared as an opponent to the concept. Property tax is the number one tax burden people have at this time. He said property taxes raise money at the expense of the senior citizens and home improvements.

REPRESENTATIVE HARPER said in times of recession, people are hesitant to jump into new concepts. The recommendation that this concept be tried for two years is a good idea. If there is some way to do that, he said he would like to see it done.

Questions from the committee were heard at this time.

REPRESENTATIVE WILLIAMS said since this approach to replacing property tax affects the property taxes, he asked if the sponsor would be willing to put the concept into HJR 31. Representative Harper said he would be willing to do anything to get this concept working.

REPRESENTATIVE DEVLIN asked if this concept has been tried in any other state. Mr. Watt said not to his knowledge.

The hearing on HB 913 was closed.

#### HOUSE BILL 915

REPRESENTATIVE DAN KEMMIS, District 94, Speaker of the House, sponsor of this bill, said this committee has reported out a revenue resolution that projects revenue at \$713 million. House Bill 915 is an act increasing individual income tax rate structures for certain taxpayers; providing a refund to individual income taxpayers in an amount by which the general fund ending balance exceeds \$20 million; increasing the rate of tax on corporations whose net income exceeds \$50,000. Representative Kemmis went over the estimated revenue increases and decreases for the committee. (See EXHIBITS 5-7.) His ending balance was a \$41 million deficit in the state revenues.

REPRESENTATIVE KEMMIS said he introduced this bill because he has been trying to come up with some money for this state. He tried to tell people that the state budget will not handle all the necessary expenditures. He said he has been trying to persuade people that it is not alright to bury a \$12 million deficit in the budget in the form of a pay plan. Representative Kemmis said he feels it is his responsibility to call this problem to the attention of the legislature.

REPRESENTATIVE KEMMIS said the bill was drafted by the Legislative Council and the Department of Revenue.

REPRESENTATIVE KEMMIS said the fiscal note shows a fiscal impact of \$55 million. If we are to fund the Foundation Program, that is where we should be but the figures included are available for adjustment downward. He said he thought he would start where we should be and allow for the figures to be cut down. House Bill 915 will allow us to raise what we minimally need but no more. When the ending fund balance gets to \$20 million, any amount over that would be refunded to the citizens of Montana. He asked that this bill be heard as an option for when the budget estimates start showing we are in trouble.

#### Proponents

REPRESENTATIVE FABREGA, cosponsor of the bill, said he shares the same concerns as Representative Kemmis. A method of balancing the budget on the back of the taxpayers is not a method he said he can support.

REPRESENTATIVE FABREGA said the bill changes the corporation license tax so that 6 3/4% will remain for the first \$50,000

and anything above would go to 8%.

REPRESENTATIVE FABREGA said this bill has equity. The reason for cosponsoring the bill is he believes that this state is in real trouble. We have to raise more revenue unless we want to shift the burden to property taxes or take money from social services.

REPRESENTATIVE RED MENAHAN, District 90, said he had a proposal drafted earlier this session that was very similar to this. In the past, there has been money to spend on social services, etc. However, there is no money now. There is no money to fund education, to give the guards at the prison hazardous pay, or to give the state employees a pay raise. He said the legislators will see the need for this legislation when the budget comes out.

JOHN BOARD, President of the Montana Education Association, said he is in support of HB 915. It is not popular to vote for any tax increase but "necessary action" must be weighed against "popular action". The MEA believes that support for this bill is "necessary action." Mr. Board read a prepared statement to the committee. (See EXHIBIT 8.)

BOB PALMER, a Missoula County Commissioner, said local governments came to this legislature in January, more optimistic than in any other time in recent history. Now the legislature has told us there is no money for the block grant program. There is no guarantee that the legislature is going to fulfill its promise to find other sources of revenue to replace the lost revenue from the business inventory tax. Efforts to raise local option taxes have been defeated by special interest groups. Missoula County is looking at a 6% cut back in basic services. It would be more equitable to raise income taxes at the state level than to raise property taxes at the local level. In order to balance the state budget, taxes will have to be raised at either the local level or state level.

PAT GILFEATHER, a former legislator, said revenue is needed in Montana if you want to keep moving towards the front line. It took a lot of courage to introduce this bill. We need additional money to keep Montana going. Local people will demand certain services, even if they have to pay for those services from their property taxes. But they will not forget if this legislature had a chance to relieve local people of those burdens. If you are going to build Montana, the place to start is with education and not in business. We have problems with businesses because of the high freight rates, geography of Montana, etc. There will be a day when we will have a great demand for technically trained people and we need to educate our young Montanans. We need technical industries that can move from one thing to another. The future lays in what you do today. House Bill 915 is one of the last ones that may come before you on property taxation. This deserves the consensus of the entire legislature.

MARY VANT HULL, a Bozeman County Commissioner, said property taxes will have to go up if this bill or a bill like this is not passed. Property taxes are already higher than they should be. She said people prefer this income tax increase over the property tax increase. House Bill 915 is fair and quite painless. She passed out copies of testimony and a newspaper article. (See EXHIBITS 9 and 10.)

LEON STALCUP, representing the City of Missoula, said Montana's cities and towns are operating under an accumulation of financial problems that threaten the most basic and essential local government services. The fundamental problem of local government finance is the excessive reliance of cities and counties on a single sources of revenue -- the property tax. This revenue base is historically static, and in recent years, property valuations have declined when adjusted for inflation. He said Montana local governments must broaden their revenue base in order to survive. Continual increasing of property taxes is not an acceptable option. That means more local flexibility and more state revenues. If the state must increase taxes to provide property tax relief then he said he calls upon them to do so. (See EXHIBIT 11.)

JIM MURRY, representing the Montana State AFL-CIO, said he supports HB 915. Raising taxes is a very emotional issue, but a couple of things should be clear. First of all, it is clear that essential services should not be slashed, because they have already been cut at the state level and severely reduced at the federal level. When education suffers, it is not just the teachers who pay the price of being laid off. It is the children who get a poorer quality education, and the entire state suffers by the neglect of its most valuable resource. When local governments suffer, it is not just the local government employees who lose their jobs, but it is all the citizens who receive a poorer quality of police or fire protection, of libraries and all the other ways that local government touches our lives.

MR. MURRY said they feel HB 915 is the fairest way to face up to the dilemma. It may not be a popular way, because you as legislators have the option of doing nothing, and forcing local governments and school districts to do what must be done. But fairness sometimes involves having the courage to take unpopular stands, and we applaud Representatives Kemmis and Fabrega for their courage and efforts to be fair. Mr. Murry handed in prepared testimony. (See EXHIBIT 12.)

JACK MUDD, a lawyer from Missoula, said he is concerned because colleges have trimmed their budgets to what they see necessary for social services. What may be politically wise in the short-term will hurt us in the long run. If we do not invest in education now, the students will carry that mark with them.

MR. MUDD said if the state were in a financial emergency, he could see cutting down the essential services but we are not in

a financial emergency. There are many mechanisms to consider in reshuffling the tax base.

JIM MCGARVY, representing the Montana Federation of Teachers, AFL-CIO, said as teachers, they have a big stake in the budget battle going on right now. Unless revenue can be raised, it appears that the school foundation program is going to be seriously underfunded. That translates into teacher layoffs, a lower quality of education and probably property tax increases as well. That is the worst of both worlds. As citizens of Montana, they have a stake in the budget battle as well, and not just because of our jobs.

Essential services cannot be maintained except by some increases in revenue. That will have to happen at the local level if the legislature will not shoulder its responsibilities. Property taxes hit some people harder than others, especially the elderly. A corporation or income tax increase of a temporary nature, as described by Representative Kemmis, is the fairest way to make the best of a bad situation. He asked for this committee's support of HB 915.

TERRY MURPHY, representing the Montana Farmers Union, said if a small income tax increase would offset cuts in services, people would be happy to pay the increase.

MAUREEN BURESON said she owns her own business and she doesn't like paying taxes any more than anyone else. But as a responsible citizen, she said she is becoming aware that we have needs as a community and as a state that we had better not ignore. She said it has become clear to her that to adequately meet the needs which she feels are important, additional revenue will be required. Ms. Bureson read a prepared statement to the committee. (See EXHIBIT 13.)

CELINDA LAKE, representing the Women's Lobbyist Fund, said they support HB 915 because they believe that there will be revenue shortfalls and they believe this is the fairest way to remedy that shortfall. Throughout the budget hearings, we have seen the cuts in state programs and the impact of cuts in federal block grants to the state. We have seen, at the federal and state level, that services for the elderly and for the poor have invariably been the services which were cut. The loss from many of these cuts, such as cuts in education and cuts in aid to dependent children, cannot be made up with increased spending two to four years from now. The damage and suffering will be done. Ms. Lake read a prepared statement to the committee. (See EXHIBIT 14.)

LEE PURDY, representing the Association Students of the University of Montana, said the quality of education is failing fast. There is a need for more revenue and the students support this measure.

NADIEAN JENSEN, Executive Director of the American Federation of

State, County and Municipal Employees, said, as a representative of public employees, she is very much concerned about the budget crunch in this state. This crunch comes about because of the slow economy, large tax cuts given during the last legislative session, and even larger cuts in taxes and services at the federal level. The result is pressure on this legislature to reduce vital services even farther. She urged this legislature to resist that pressure. There are unemployed people who need many of the services provided by the state of Montana and the counties and cities. There are residents of the Boulder River School and Hospital who need the services desperately. There are women and veterans and children who depend on essential government programs.

MS. JENSEN said she knows full well that if the legislature closes its eyes, the problems will not go away. What will happen is that they will simply be shifted to the local level, just as the federal government has shifted the problems to the state level. She said she does not see how the taxpayer is going to avoid tax increases, either in local property taxes or income taxes, despite deep cuts in programs. They support this bill as the fairest way to do what has to be done, rather than pushing the responsibility onto the cities, counties and school districts. (See EXHIBIT 15.)

ALEC HANSEN, representing the Montana League of Cities and Towns, said they started working on local government block grants six months ago. That program had a good chance of passing, but there is no money to finance the program now. If some assistance is not made available to local governments, property taxes will have to be increased.

RAY HART, representing himself, said you don't get something for nothing. Essential state services must be funded adequately, and the state cannot have a deficit. Since resources are not adequate on the present taxes in place, we must see state services deteriorate or raise taxes. He said he favors an increase in income taxes as the fairest way of meeting the need for additional revenue.

GERMAINE CONRAD said if a sales tax is not wanted and you want to maintain state services, then an increase in income taxes is not unreasonable. She asked that HB 915 do pass.

MIKE WARD said he would gladly pay an increase in income taxes. He asked for this committee's support of HB 915.

TOM RYAN, representing the Montana Senior Citizens Association, said we cannot let state owned buildings go year after year without proper maintenance. It is important to invest in kids and colleges. There has to be a safety net and maybe this measure is it.

REPRESENTATIVE DAN HARRINGTON, District 88, said there are many

problems around this state and we need to pass this bill to help take care of those problems. We would be remiss if we did not address these problems.

REPRESENTATIVE NANCY KEENAN, District 89, said even though it has been said it is politically unwise to support this bill, she has no problem doing it. House Bill 915 does one thing, it asks us to dig a little deeper in our pockets to help the state and the people. She said she fully supports this measure and hopes this committee can do the same.

REPRESENTATIVE BOB REAM, District 93, said he has received a lot of mail on this issue. We do need to raise revenue to support state programs. Most of his mail supports the kind of approach contained in HB 915.

#### Opponents

REPRESENTATIVE JACK RAMIREZ, District 64, said there are some philosophical and practical differences as to whether or not we need a tax increase. He said he doesn't believe we need a tax increase. It would be unwise at this time.

REPRESENTATIVE RAMIREZ said the \$713 million projected revenue figure is an increase of \$70 million over last biennium. He said the \$675 million figure does not represent cuts of services. He said we are still funding existing levels of services. He said the education budget was increased by 15.3% over last biennium. The human services budget was increased by 12.6% over last biennium and the institutions budget was increased by 11.7% over the last biennium.

REPRESENTATIVE RAMIREZ said the Building Montana may be a good idea but can we afford it? A difference in 2-3% in the budget will not devastate or destroy essential services. He said he thinks we can provide all services without increasing taxes. The economy is improving and to put in another tax increase would be unwise at this time. We are passing taxes that will affect only small groups. That is not fair. We have a free enterprise system and we cannot destroy incentives to better oneself. There should be something based on the ability to pay. This bill should be defeated. We should remember there is another side of the equation to courage and that is to have the courage to say no.

People in the state have tightened their belts and they want state government to do the same thing. If times get better and we can afford to do more in the future, we will do it then.

REPRESENTATIVE BOB MARKS, District 80, said he is opposed to HB 915. He asked if we really need it. In 1972, a 40% surcharge on income tax was voted in by the people of Montana. Then people



came in and asked to build new programs because there was a big surplus of money in the state budget.

We do not have to balance the budget at the expense of cutting any services. There are hardly any programs that are ongoing that are going to be cut from current level.

There are some problems with the bill. There will be some tax relief for taxable income of \$6,000-\$10,500. In the \$12,000 bracket and up, there will be an increase in taxes, not relief. There are some dramatic tax increases in those brackets. There will be about 22% of the people filing tax returns who will be hit hard by this proposal. Those people pay 64% of the total taxes. The refund (if there is an excess) will be per taxpayer, not per taxes paid. A \$30 million surplus divided by 361,000 taxpayers would equal a \$80 refund. That is a problem. There are a lot of working people who will be affected substantially by this bill.

The estimated revenue from the oil severance tax is going to fall about \$17 million per year and that is why the local governments are saying they need more revenue. In the appropriations bill, the entire Highway Patrol is funded out of the general fund. If it had been funded as it was before, we would have picked up money. If oil prices are what they have been estimated to be, we will gain about \$5-\$6 million in fuel savings. There will be additional savings because of lower fuel costs.

The people who have contacted him tell him they do not want any tax increases. We can make it work with what we have. If we do not start saving now, we will be back in 1995 with a budget four times what it is now.

DAVE LEWIS, Director of the Office of Budget and Program Planning, passed out copies of EXHIBIT 16, his testimony on HB 915. He said the Governor first indicated his opposition to a general tax increase in his State of the State address. He has repeated that opposition on several occasions, and he opposes the income and corporate tax increases included in this bill. House Bill 915 increases corporate income tax for those corporations with more than \$50,000 net income from 6 3/4% to 8%, a 20% increase. This administration is committed to encouraging investment -- not reducing incentives. We are determined to create jobs in the private sector, not expand the size of government. We want to help Montanans through these difficult economic times, not add to their financial problems. These are hard times for most Montanans, and we need to show them that we can make hard choices at the state level. The general tax increase proposed by HB 915 avoids these tough decisions at the expense of the Montana taxpayer. We, therefore, oppose HB 915.

MIKE KUNKE, from Toston, said he opposes the bill because it is a bad bill. We will increase our expenditures to meet our income

but when our income drops, we should tighten our belts and lower our expenditures. The only way to control state spending is to control the income revenue. It is healthy to have a tight revenue year because that is when you weed out the unnecessary programs. This bill addresses redistribution of wealth. He asked this committee to kill HB 915.

DENNIS BURR, representing the Montana Taxpayers Association, said he wants to go on record in opposition to the bill and requested a do not pass.

REPRESENTATIVE KEMMIS, in closing, said out of all the opponents, there was not one who told this committee how we could balance the state budget. The closest they came was to tell us to move the Highway Patrol back to the earmarked fund and that would save about \$12 million. That is the biggest chunk offered to balance the budget. The opponents said to take \$8 million from state agencies - where is that amount going to come out of? The burdens on state government have grown and new burdens have been imposed by the federal government. There are more Montanans interested in using some of the state provided services. We are being asked to shirk our responsibility to property taxpayers, cities, counties, etc.

At a press conference, Representatives Marks and Ramirez said if the foundation program was not set at at least nine and nine, the inevitable result will be an increase in property taxes of Montana. They were right and they deserve credit for being right.

REPRESENTATIVE KEMMIS said Representative Ramirez had said this would be the majority imposing a tax on the minority. This bill does not do that. It goes to a majority of Montanans and asks them to tax themselves.

Questions from the committee were heard at this time.

REPRESENTATIVE REAM asked about the state employee pay raise. Representative Kemmis said using up all the vacancy savings, you still would need \$12 million. Representative Ream asked if this includes all state employees. Representative Kemmis said just the employees on the pay plan. This does not include university faculty. You would be absolutely guaranteeing a wage freeze for university faculty.

The hearing was closed on HB 915.

CHAIRMAN YARDLEY called the meeting into Executive Session at this time.

#### EXECUTIVE SESSION

#### Senate Bill 335

REPRESENTATIVE JACOBSEN moved to reconsider previous action on SB 3

The motion was voted on and PASSED. Representatives Keenan, Abrams, Underdal, Nordtvedt and Neuman were excused during the time of the vote.

REPRESENTATIVE ZABROCKI offered some amendments to the bill.

MR. DAN BUCKS, Department of Revenue, was asked to explain the amendments. He said there is a problem in the current law. There is language that says state and local bonds are exempt from all taxes other than inheritance, gift or estate taxes. In 1979, as a part of precluding federal obligations, the legislature also repealed the exemptions from corporation license tax of income from state and local bonds. Within the last few months, the U.S. Supreme Court struck down a Tennessee law that taxed federal obligations but did not tax state and local bonds. There is a conflict in the law between the 1979 bank law that said the corporation license tax should include this income and this other bonding language that says that it is excluded.

There are subsequent bills passed in 1981 and bills pending in the 1983 legislature that also continue this language that exempted bonds from the corporation license tax. The net income approach to bank taxation is unworkable without this inclusion of income from state and local obligations. If you do not include that, which is what the 1979 law tried to do, you cannot include the federal obligations. Without the federal, state and local obligations, you do not have an effective tax on net income. This amendment states that that income is includable and that it has been since the effective date of the 1979 law and that has been the intent.

REPRESENTATIVE DOZIER asked if this will affect the fiscal impact. Mr. Bucks said no, it just reinforces the position we took in 1979.

REPRESENTATIVE WILLIAMS moved the amendments. (See EXHIBIT 17.)

The motion was voted on and PASSED unanimously.

REPRESENTATIVE ASAY moved a severability clause to SB 335. Jim Oppedahl, legislative researcher for the Legislative Council, was asked to draft that amendment.

The motion was voted on and PASSED unanimously.

REPRESENTATIVE ASAY moved SB 335 BE CONCURRED IN, AS AMENDED,

The motion was voted on and PASSED unanimously.

CHAIRMAN YARDLEY said either he would carry the bill or he would ask Representative Fabrega to carry the bill.

House Bill 755

CHAIRMAN YARDLEY said he would like this committee to reconsider previous action on HB 755.

REPRESENTATIVE BERTELSEN moved to RECONSIDER PREVIOUS ACTION ON HB 755. He said we have a good potential with wind power in Montana and we should go with it.

REPRESENTATIVE DOZIER said he supports the bill because the companies have to show a profit before they get a tax credit.

The motion was voted on and PASSED unanimously.

REPRESENTATIVE BERTELSEN moved HB 755 DO PASS.

CHAIRMAN YARDLEY offered amendments to HB 755. (See EXHIBITS 18 and 19.) He asked Mr. Oppedahl to explain the amendments. Mr. Oppedahl said the first amendments bring in two corporation tax laws and the second amendments adress the issues of repairs.

REPRESENTATIVE HARP moved the proposed amendments to HB 755.

The motion was voted on and PASSED unanimously.

The motion was HB 755 DO PASS, AS AMENDED, was voted on and PASSED unanimously.

House Bill 704

CHAIRMAN YARDLEY said the Senate will accept HB 704 after the 70th legislative day, if it is moved out of the Taxation Committee. He said it was a "gentlemen's agreement".

House Joint Resolution 31

REPRESENTATIVE WILLIAMS asked this committee to pass this resolution out. After the House has taken action on the resolution, there would be a joint meeting between the Revenue Oversight Committee and members of the Taxation Committee to solidify a plan to be presented to the Senate.

REPRESENTATIVE WILLIAMS moved a DO PASS on HJR 31.

The motion was voted on and PASSED unanimously.

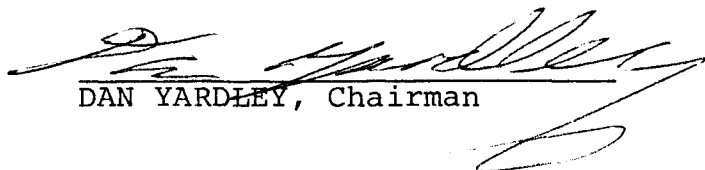
House Bill 829

CHAIRMAN YARDLEY said the sponsor of the bill asked that this bill be tabled in committee.

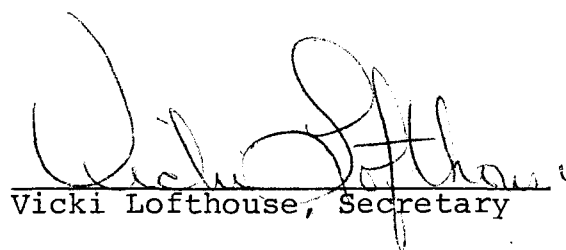
REPRESENTATIVE HARP moved to TABLE HB 829.

The motion was voted on and PASSED unanimously.

The meeting was adjourned at 11:45 a.m.



DAN YARDLEY, Chairman



Vicki Lofthouse, Secretary

Comments from Department of Revenue on House Bill No. 913

1. The definition of "Resident" (page 2, line 7) doesn't provide for persons residing in more than one county during the tax year. The bill is not clear on the replacement tax liability of persons residing in a county only part of a year. With amendment #2, the tax would be paid to the county in which the taxpayer resides at the close of the tax year.
2. Our interpretation of Section 2.(2) is that if, for example, the department was notified of a county's intention to exempt habitable property from tax Sept. 1, 1984, the replacement tax would be effective for tax year 1985 and collected in 1986. If this is a correct interpretation, the county may experience a cash flow problem. The 1st installment of 1985 property tax normally paid in November would not be paid on habitable property and it wouldn't be until May of 1986 that the 1st replacement tax payment would be received by the county. Therefore, the county may lose a half year of tax collections.
3. Amendment #3 is proposed to make the title of Section 9 agree with the language in subsection (1).
4. In Section 11, subsection (2) the department is directed to send replacement taxes to the counties in May and November "collected for that year". This precludes the department from disbursing tax collected from previous years. Amendment #4 clarifies the disbursement provisions of the bill.
5. The department estimates that 1/3 of the replacement tax would be available for disbursement in May and the remainder in November.

6. The department will need an appropriation to fund the initial development costs of the data processing system necessary to account for the tax collections and make the proper disbursements to the counties. Amendment #5 provides for the appropriation.
7. Condominium and apartment owners that are incorporated avoid property tax and avoid having to pay income tax except on their resident income. To be fair these properties should not be incorporated or the owners should make a declaration of ownership so those corporations would also be considered for income tax.
8. We do not split up our records in this fashion currently. Large reshuffle of records is necessary.
9. Old folks reductions. Do we show property at full value or reduced value for replacement purposes? This is also a problem for property qualifying under remodeling.
10. The department recommends a statement of intent to make it clear that replacement taxes are not withheld from employees' wages. This seems to be the intent, and is really the only reasonable way to administer the tax program.

Amendments to House Bill No. 913

1. Title, line 7

Following: "PENALTY"

Insert: "PROVIDING AN APPROPRIATION;"

2. Page 2, line 9

Following: "county."

Insert: "A person residing in more than one county during  
the tax year is considered a resident of the county  
they resided in on the last day of the tax year."

✓ 3. Page 6, line 8

Strike: "adjusted gross"

Insert: "taxable"

4. Page 7, line 17

Following: "collected"

Strike: "for that year"

5. Page 9, line 4

" NEW SECTION. Section 13. Appropriation. The department of revenue shall receive a general fund appropriation of \$59,900 for the initial development costs of the replacement tax. The department is authorized to spend the appropriation and employ personnel required to administer the replacement tax."

6. Page 9, line 5

Following: "Section"

Strike: "13"

Insert: "14"

✓ 7. Page 3, line 21

Insert: "(3) Credits against the state individual income tax provided in Title 15, Chapters 30, 32, and 50 are not allowed against the replacement income tax."



STATEMENT OF INTENT

HOUSE BILL 913

It is the specific intent of the Legislature that the replacement tax shall be collected when the individual income tax return is filed.

It is not the intent of the Legislature to have the replacement tax collected by periodically withholding the tax from wages. If the taxpayer has overpaid the state individual income tax liability, the Legislature intends that the overpayment may be applied to the replacement tax.

3-23-83

## STATE OF MONTANA

REQUEST NO. 501-83

## FISCAL NOTE

Form BD-15

In compliance with a written request received March 21, , 19 83 , there is hereby submitted a Fiscal Note for House Bill 915 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:

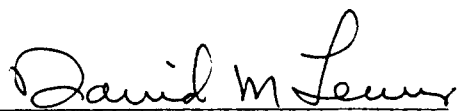
House Bill 915 increases the individual income tax rate structures for certain taxpayers; provides a refund to individual income taxpayers in an amount by which the general fund ending balance exceeds \$20 million; increases the rate of tax on corporations whose net income exceeds \$50,000; and provides an immediate effective date and an applicability date.

ASSUMPTIONS:

- 1) The revenue projections under continuation of the present law were furnished by the Office of Budget and Program Planning.
- 2) Assume that \$3 million in individual income tax receipts and \$5 million in corporation license tax receipts in FY 84 are attributable to taxable years beginning before 1983.
- 3) Assume that the total percentage increases in individual and corporation tax liabilities which would have obtained if the proposed tax rate schedules had been in effect for the 1981 tax year would apply to the "current" portion of anticipated FY 84 and FY 85 receipts.
- 4) Assume that, under continuation of present law, the ending balance of the state general fund will be \$22.257 million in FY 83, \$12.461 million in FY 84, and \$19.299 million in FY 85.

FISCAL IMPACT:

	<u>FY84</u>	<u>FY85</u>
Individual Income Tax Collections		
Under Current Law	\$166.427M	\$175.459M
Under Proposed Law	188.487M	199.420M
Estimated Increase	<u>\$ 20.060M</u>	<u>\$ 23.961M</u>
Corporation License Tax Collections		
Under Current Law	\$ 41.904M	\$ 48.817M
Under Proposed Law	47.015M	55.578M
Estimated Increase	<u>\$ 5.111M</u>	<u>\$ 6.761M</u>

Continued

BUDGET DIRECTOR

Office of Budget and Program Planning

Date: 3-22-83

	<u>FY84</u>	<u>FY85</u>
Total Revenue		
Under Current Law	\$208.331M	\$224.276M
Under Proposed Law	233.502M	254.998M
Estimated Increase	<u>\$ 25.171M</u>	<u>\$ 30.722M</u>
General Fund		
Under Current Law	\$131.347M	\$141.552M
Under Proposed Law	147.215M	160.939M
Estimated Increase	<u>\$ 15.868M</u>	<u>\$ 19.387M</u>
School Foundation Program		
Under Current Law	\$ 51.308M	\$ 55.294M
Under Proposed Law	57.506M	62.867M
Estimated Increase	<u>\$ 6.198M</u>	<u>\$ 7.573M</u>
Sinking Fund		
Under Current Law	\$ 22.575M	\$ 24.329M
Under Proposed Law	25.303M	27.661M
Estimated Increase	<u>\$ 2.728M</u>	<u>\$ 3.332M</u>
Local Governments		
Under Current Law	\$ 3.101M	\$ 3.101M
Under Proposed Law	3.479M	3.531M
Estimated Increase	<u>\$ 0.378M</u>	<u>\$ 0.430M</u>

Examples of proposed Individual Income Tax Schedule:

<u>Taxable Income</u>	<u>TAX PAID</u>		
	<u>Current Law</u>	<u>Proposed Law</u>	<u>Percent Change</u>
\$ 6,000	\$ 218.00	\$ 218.00	0.0
\$ 10,000	\$ 454.00	\$ 460.00	1.3
\$ 16,000	\$ 917.00	\$ 992.00	8.2
\$ 20,000	\$1,273.00	\$ 1,456.00	14.4
\$ 24,000	\$1,638.00	\$ 1,993.00	21.7
\$ 50,000	\$4,294.00	\$ 6,094.00	41.9
\$100,000	\$9,794.00	\$14,507.00	48.1

Examples of Proposed Individual Income Tax Schedule

Gross Income	Taxable Income	TAX PAID			Percent Change	Yearly Increase	Monthly Increase
		Current Law	Proposed Law				
\$ 10,582	\$ 6,000	\$ 218.00	\$ 218.00		0.0	- 0 -	- 0 -
16,806	10,000	454.00	460.00		1.3	\$ 6.00	\$ .50
26,101	16,000	917.00	992.00		8.2	75.00	6.25
32,258	20,000	1,273.00	1,456.00		14.4	183.00	15.25
38,155	24,000	1,638.00	1,993.00		21.7	355.00	29.58
79,617	50,000	4,294.00	6,094.00		41.9	1,800.00	150.00
152,905	100,000	9,794.00	14,507.00		48.1	4,713.00	392.75

Note: Of the 413,232 state income tax returns filed in 1982, 69% or 287,958 would not have been affected by this proposed schedule change.

INDIVIDUAL INCOME TAX

PROPOSED SCHEDULE

<u>Taxable Income</u>	<u>Rate</u>
\$0 - \$1,000.....	2%
1,001 - 2,000.....	3%
2,001 - 4,000.....	4%
4,001 - 6,000.....	5%
6,001 - 7,500.....	6%
7,501 - 9,000.....	7%
9,001 - 10,500.....	8%
10,501 - 12,000.....	9%
12,001 - 13,500.....	10%
13,501 - 15,000.....	11%
15,001 - 16,500.....	12%
16,501 - 18,500.....	13%
18,501 - 20,500.....	14%
20,501 - 24,500.....	15%
24,501 - 49,500.....	16%
49,501 - 99,500.....	17%
99,501 - .....	18%

PRESENT SCHEDULE

<u>Taxable Income</u>	<u>Rate</u>
\$0 - \$1,000.....	2%
1,001 - 2,000.....	3%
2,001 - 3,000.....	4%
3,001 - 4,000.....	4%
4,001 - 5,000.....	5%
5,001 - 6,000.....	5%
6,001 - 7,000.....	6%
7,001 - 8,000.....	6%
8,001 - 10,000.....	7%
10,001 - 14,000.....	8%
14,001 - 20,000.....	9%
20,001 - 25,000.....	10%
25,001 - 35,000.....	10%
35,001 - .....	11%



John C. Board, President

"People  
Who Care"

**Montana Education Association**

1232 East Sixth Avenue, Helena, Montana 59601  
Telephone 406-442-4250

RE: HOUSE BILL 915

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

FOR THE RECORD, I AM JOHN BOARD, PRESIDENT OF THE MONTANA EDUCATION ASSOCIATION, AND I RISE IN SUPPORT OF HOUSE BILL 915.

IT IS NOT POPULAR TO SPEAK FOR AN INCREASE IN TAXES AT ANY TIME, NEITHER WOULD IT BE POPULAR TO VOTE FOR SUCH AN INCREASE, BUT "NECESSARY ACTION" MUST BE WEICHD AGAINST "POPULAR ACTION." THE MEA BELIEVES THAT SUPPORT FOR THIS BILL IS "NECESSARY ACTION."

WHEN THE TAX INDEXING PROPOSAL WAS BEING DEBATED, IT WAS ARGUED THAT, WITHOUT IT, TAXES WERE BEING RAISED WITHOUT THE VOTERS' CONSENT. IT WAS FURTHER ARGUED THAT, IF MONEY WERE REALLY NEEDED, THEN THE ISSUE SHOULD BE FACED OPENLY AND ACTED UPON DIRECTLY.

THE MEA BELIEVES THAT THERE IS A DEFINITE NEED FOR AN INCREASE IN TAXES FOR THE SUPPORT OF ESSENTIAL GOVERNMENTAL SERVICES. ONE OF THOSE SERVICES IS SUPPORT FOR AND MAINTENANCE OF THE STATE'S PUBLIC SCHOOL SYSTEM.

AS A RESULT OF TAX INDEXING, \$25 MILLION WILL BE LOST IN THE FIRST YEAR OF THE NEXT BIENNIUM. AN ADDITIONAL \$15.5 MILLION WILL BE LOST DUE TO THE REPEAL OF THE INCOME SURTAX. AND, ANOTHER \$8.8 MILLION WILL BE LOST AS A RESULT OF THE ELIMINATION OF THE BUSINESS INVENTORY TAX. THAT IS A TOTAL LOSS OF \$49.3 MILLION TO STATE GOVERNMENT IN THE FIRST YEAR OF THE NEXT BIENNIUM. OF THAT \$49.3 MILLION LOSS, \$12.3 MILLION WOULD HAVE GONE TO THE SUPPORT OF PUBLIC EDUCATION IN MONTANA.

WHETHER THIS BILL PASSES OR NOT IS NOT THE CENTRAL QUESTION. THE CENTRAL QUESTION IS, "WILL ESSENTIAL GOVERNMENTAL SERVICES BE MET OR NOT?" WITHOUT THE TAXES TO SUPPORT THESE SERVICES, THOSE LEAST ABLE AND LEAST POWERFUL SHALL BEAR THE BRUNT OF INADEQUATE, BUT NECESSARY SERVICES -- THE POOR, THE ELDERLY, THE

LOWER INCOME WORKING CLASS, AND SCHOOL CHILDREN.

AS FAR AS THE PUBLIC SCHOOLS ARE CONCERNED, THE AVERAGE VOTED PORTION OF THE SCHOOL FOUNDATION PROGRAM CURRENTLY AMOUNTS TO 29.7%. WITHOUT AT LEAST A 9% - 9% INCREASE IN THE STATE'S SHARE TO THE SCHOOL FOUNDATION PROGRAM, THE VOTED PORTION OF THIS PROGRAM WILL HAVE TO BE PLACED BEFORE THE LOCAL PROPERTY OWNER TO DECIDE WHETHER THEIR SCHOOLS SHALL BE SUPPORTED AS IS NECESSARY OR NOT. (ATTACHED IS A TABLE OF EXAMPLES OF ADDITIONAL PROPERTY TAXES THAT WILL BE REQUIRED ON HOMES DUE TO INADEQUATE FOUNDATION PROGRAM FUNDING.) SUCH A DECISION OF SUCH MONUMENTAL PROPORTIONS SHOULD NOT HAVE TO BE DECIDED AT THE LOCAL LEVEL BY LOCAL PROPERTY OWNERS WHO CAN EXPECT AN INCREASE IN THE AVERAGE VOTED PORTION OF THE FOUNDATION PROGRAM TO INCREASE UP TO AT LEAST 40%. TO AVOID THE RAMIFICATIONS OF SUCH A DECISION, THE STATE NEEDS MONEY TO SUSTAIN, NOT ONLY PUBLIC EDUCATION, BUT OTHER NECESSARY SERVICES.

IT IS FALLACIOUS TO SAY THAT THERE WILL NOT BE AN INCREASE IN TAXATION IF THIS BILL FAILS AND THERE ARE NONE WHICH PASS THE LEGISLATURE TO TAKE ITS PLACE. FOR SUPPORT OF PUBLIC SCHOOLS, THERE WILL BE AN INCREASE IN TAXES AND IT WILL OCCUR AT THE LOCAL LEVEL ON THE BACKS OF LOCAL PROPERTY OWNERS. BECAUSE OF THE DISPARITY WHICH EXISTS IN THE VALUE OF TAXABLE PROPERTY WITHIN THE STATE, THIS INCREASE WILL RESULT IN AN INEQUITABLE INCREASE IN TAXATION.

THE MEA MAINTAINS THAT IT IS THE STATE WHICH CAN MOST EQUITABLY TAX, AND IT IS THE STATE THAT CAN PROVIDE THE GREATEST EQUITY IN SUPPORT OF NECESSARY PUBLIC EDUCATION.

IN LIGHT OF THE FACT THAT THIS BILL IS EQUITABLE, AND THAT IT WOULD GENERATE APPROXIMATELY \$12.5 MILLION NEEDED IN SUPPORT OF THE STATE'S PUBLIC SCHOOLS, THE MEA URGES YOUR SUPPORT OF THIS BILL.

# # #

Attachment

**Examples of Additional Property Tax Required on Homes**

**Due to Inadequate Foundation Program Funding**

1983-84

			<u>Assessed Value of Home</u>		
	<u>Sample Percent Increase In Foundation Program Schedule</u>	<u>Added Mills</u>	<u>\$25,000 (Taxable Valuation \$2,137.5)</u>	<u>\$50,000 (Taxable Valuation \$4,275)</u>	<u>\$100,000 (Taxable Valuation \$8,550)</u>
Anaconda	0%	29.1	\$62.20	\$124.40	\$248.81
	2%	23.5	50.23	100.46	200.93
	4%	17.9	38.26	76.52	153.05
Billings	0%	18.0	38.48	76.95	153.90
	2%	14.5	30.99	61.99	123.98
	4%	11.0	23.51	47.03	94.05
Bozeman	0%	20.1	42.96	85.93	171.86
	2%	16.2	34.63	69.26	138.51
	4%	12.4	26.51	53.01	106.02
Butte	0%	26.2	56.00	112.01	224.01
	2%	21.4	45.74	91.49	182.97
	4%	17.0	36.34	72.68	145.35
Clancy	0%	26.3	56.22	112.43	224.87
	2%	20.6	44.03	88.07	176.13
	4%	15.0	32.06	64.13	128.25
Glasgow	0%	19.6	41.90	83.79	167.58
	2%	16.3	34.84	69.68	139.37
	4%	12.9	27.57	55.15	110.30
Great Falls	0%	25.6	54.72	109.44	218.88
	2%	20.3	43.39	86.78	173.57
	4%	15.4	32.92	65.84	131.67
Harlem	0%	31.2	66.69	133.38	266.76
	2%	26.0	55.58	111.15	222.30
	4%	20.6	44.03	88.07	176.13
Helena	0%	27.3	58.35	116.71	233.42
	2%	21.8	46.60	93.20	186.39
	4%	16.3	34.84	69.68	139.37
Kalispell	0%	19.7	42.11	84.22	168.44
	2%	15.2	32.49	64.98	129.96
	4%	10.6	22.66	45.32	90.63
Livingston	0%	21.9	46.81	93.62	187.25
	2%	17.2	36.77	73.53	147.06
	4%	12.5	26.72	53.44	106.88
Missoula	0%	18.3	39.12	78.23	156.47
	2%	14.7	31.42	62.84	125.69
	4%	11.0	23.51	47.03	94.05
Shepherd	0%	21.8	46.60	93.20	186.39
	2%	15.7	33.56	67.12	134.24
	4%	9.7	20.73	41.47	82.94

These examples are based on 7% increases in total general funds and level enrollment.

If public school enrollment decreases, the dollar figures would be larger.

For 1984-85 the dollar figures would be about 7% larger than for 1983-84.

Research Department  
Owen Nelson, Director

MEA 3/8/83



JoAn MENGEL

Chronicle Staff Writer

Fifty percent of the people who work in Bozeman city limits do not pay taxes for city services, City Commissioner

Mary Vant Hull said Monday night.

Vant Hull based the percentage estimate on her study of the employment directory for Montana State University and a survey of local businesses. She said her findings indicate city taxpayers pay for services used by non-residents.

Vant Hull said she believes in tax diversification and suggested a city income tax to collect money from all people who work in the city. Imposition of a local income tax is not allowed now and would require authorization from the Legislature. Vant Hull urged support for a full package of bills to aid local government funding.

She said 47 percent of MSU employees live outside city limits. She said that figure means it would be fair to say 50 percent of all workers in the city live outside city limits. Vant Hull did her study to back up city demands for more funding from the state Legislature.

All local governments are in financial straits because of declining property values, loss of the business inventory tax, a reduction in the taxable valuation of commercial property and state-mandated expenses such as police and fire department pensions, she said.

Vant Hull studied Bozeman census figures and concluded that in 1980 every two city residents were paying taxes to

provide services for one out-of-city employee. The ratio will go to 1-to-1 by 1990 if cities do not get more help from state government, she said.

"City residents alone provide street maintenance and

police and fire protection to a nearly equal number of university students," she said. "Our research shows that only half the people who work in town live in town, so, again, city dwellers alone pay for the services which commuters use all day long. The toll on streets as well as police and fire protection is heavy."

Vant Hull urged her fellow commissioners to write legislators to vote for bills supported by the Urban Coalition and the Montana League of Cities and Towns.

She listed bills establishing the governor's block grant proposal which would provide state funds to local governments, local option taxes, state payment of police and fire pensions, a statewide motel-hotel tax,

an increase in the interest rate on delinquent property taxes to 1 percent a month, and state payments to local governments for service to state-owned property.

Commissioner Judy Mathre said she was worried none of the current bills proposed to help local governments will pass. She said Rep. Bob Ellerd of Bozeman should be encouraged to introduce his bill to allow people to vote for a local sales tax.

"It might be our last chance for anything," she said.



Mary Vant Hull reviewed a Montana State guide and shaded in addresses of staff members who live outside the city limits.

TESTIMONY IN FAVOR OF H.B.915, TO RAISE SOME INCOME TAX BRACKETS, March 23, 1983

Why raise income tax rates?

1. Cities, for just one place, need all the help they can get. Too many revenue sources have been lost; every community is suffering. A drop of \$2030 in our city-wide mill value, for example, costs the city more than \$200,000 on our approximately 100-mill levy this year (due in great part to the 12% rollback on commercial property valuation.) Loss of the business inventory tax costs one city, Bozeman, \$130,000 this next year, if you don't replace it. Isn't it your responsibility to replace it? (Local government also needs higher gas taxes and block grants.)
2. If you say you won't raise taxes, you are kidding yourselves. The people will soon know that no raises in Helena means heavy raising of an already-overburdened property tax.

So why not sit tight in Helena and let property taxes go up by your default?

1. The property tax is already over-loaded, especially for city dwellers and for farmers/ranchers, but also harms suburbanites.
  - A. It is overloaded for city dwellers, because half the people who use our services live outside the city and don't pay city property tax. (see hand-out). However, they are heavy users of city services. For example, in one recent month, our police found that 69% of traffic accidents involved non-city dwellers. Traffic accidents take a lot of police time. Police are the biggest item in our budget, by far.
  - B. It is over-loaded for farmers/ranchers. When we were working for county support for library operations, we found that the average home owner would pay \$2 for library service. But the rancher at the same time would pay \$25, sometimes more, of course. Ranchers/farmers I've talked to feel that suburbanite services should not be paid for so exclusively from the property tax. An income tax would be fairer to them.
  - C. Over-dependence on the property tax means that suburbanites, too, don't receive the services they deem essential. As a city commissioner, I find that many of the comments/complaints I receive about insufficient services (streets, police, library, building inspection, etc.) come from non-city dwellers who don't pay city property tax. Many of them say they would be willing to pay through an income tax since they work in town.

At the same time that we need this tax increase to prevent further burdens on the property tax, services would have to be cut, locally and state-wide, if the state doesn't obtain the revenue that H.B.915 can provide. Locally, you know that services and staff have already been cut and can't take further cuts. We get more complaints about lowered services than anything else.

Statewide, you can all see really necessary, good things being funded inadequately or not at all. Just yesterday, the Billings Gazette told how Sen. Mark Fitchart was pleading for a necessary, \$30,000 project for his area. PSC, too, is not funded up to the level that the Audit Committee recommended. Everyone will suffer (more than H.B. 915's tax increase) if the PSC cannot adequately look out for consumer interests in the coming battles over Colstrip 3 and 4 rate increases.

There are many more cases.

Why this bill? It's fair, it's comparatively painless, it's here, it's now. But most of all, it would rise or fall depending on whose predictions are right about revenues in the next biennium. If revenue is high, these income tax increases will self-destruct. This bill is a safety net we need.

Mary Ann Hull

THE FISCAL STRESS IN LOCAL GOVERNMENTS IS REAL. MONTANA'S CITIES AND TOWNS ARE OPERATING UNDER AN ACCUMULATION OF FINANCIAL PROBLEMS THAT THREATEN THE MOST BASIC AND ESSENTIAL LOCAL GOVERNMENT SERVICES.

THE FUNDAMENTAL PROBLEM OF LOCAL GOVERNMENT FINANCE IS THE EXCESSIVE RELIANCE OF CITIES AND COUNTIES ON A SINGLE SOURCE OF REVENUE -- THE PROPERTY TAX. THIS REVENUE BASE IS HISTORICALLY STATIC, AND IN RECENT YEARS, PROPERTY VALUATIONS - THE ENGINE THAT DRIVES THE ENTIRE SYSTEM -- HAVE DECLINED WHEN ADJUSTED FOR INFLATION.

IN MONTANA, THE ABILITY TO TAX CITIZENS IN ORDER TO RAISE REVENUES IN SUPPORT OF GOVERNMENT FUNCTIONS LIES PRINCIPALLY WITH THE STATE, NOT LOCAL GOVERNMENTS. MONTANA STATE GOVERNMENT RAISES REVENUE THROUGH TAXES ON PERSONAL INCOME, RESOURCE, EXTRACTION, GASOLINE CONSUMPTION, BUSINESS INCOME, LIQUOR AND TOBACCO CONSUMPTION AND INHERITANCES. LOCAL GOVERNMENTS HAVE ONLY THE PROPERTY TAX.

AS AN EXAMPLE OF THE INEQUITY IN TAX BASES, THE SEVEN URBAN COUNTIES IN MONTANA REPRESENT 60% OF THE STATES POPULATION, 60% OF ITS TAXABLE INCOME, YET ONLY 30% OF ITS PROPERTY TAX BASE. THE STATE USES THE INCOME TAX TO SUPPORT ITS SERVICES BUT LIMITS US TO THE PROPERTY TAX, THAT IS FUNDAMENTALLY UNFAIR.

A REASONABLE SOLUTION IS FOR THE STATE TO SHARE A SIGNIFICANT AMOUNT OF REVENUE WITH LOCAL GOVERNMENTS. THIS IS APPROPRIATE FOR TWO REASONS:

1. MONTANA RANKS EIGHT NATIONALLY IN ITS ABILITY TO RAISE REVENUE.

IN OTHER WORDS WE ARE A RATHER RICH STATE AND CAN RAISE REVENUES ON A STATEWIDE BASIS WITH <sup>RELATIVELY LITTLE</sup> LESSER IMPACTS ON INDIVIDUALS.

2. MONTANA RANKS POORLY IN RELATION TO OTHER STATES IN THE AMOUNT OF STATE REVENUE SHARED WITH LOCAL GOVERNMENTS. IN FACT, MONTANA IS ONE OF ONLY 4 STATES WITHOUT A SIGNIFICANT PROGRAM OF REVENUE SHARING WITH LOCAL GOVERNMENTS.

MONTANA LOCAL GOVERNMENTS MUST BROADEN THEIR REVENUE BASE IN ORDER TO SURVIVE. CONTINUAL INCREASING OF PROPERTY TAXES IS NOT AN ACCEPTABLE OPTION. THAT MEANS MORE LOCAL FLEXIBILITY AND MORE STATE REVENUES. IF THE STATE MUST INCREASE TAXES TO PROVIDE PROPERTY TAX RELIEF THEN I CALL UPON THEM TO DO SO.



Box 1176, Helena, Montana

JAMES W. MURRY  
EXECUTIVE SECRETARY

ZIP CODE 59624  
406/442-1708

TESTIMONY OF JIM MURRY, MONTANA STATE AFL-CIO, ON HOUSE BILL 915, HEARINGS OF THE HOUSE TAXATION COMMITTEE, MARCH 23, 1983

I am Jim Murry, representing the Montana State AFL-CIO in support of House Bill 915.

Raising taxes is a very emotional issue, but a couple of things should be clear.

First of all, it is clear that essential services should not be slashed, because they have already been cut at the state level and severely reduced at the federal level.

When education suffers, it is not just the teachers who pay the price of being laid off. It is the children who get a poorer quality education, and the entire state suffers by the neglect of its most valuable resource. When local governments suffer, it is not just the local government employees who lose their jobs, but it is all the citizens who receive a poorer quality of police or fire protection, of libraries and all the other ways that local government touches our lives.

When state employees are laid off, they are not the only ones paying the price. The residents of institutions receive less than the care they deserve as human beings. The unemployed are pinched even more, as are the elderly. It is sometimes difficult to see past the budget numbers, so cold and impersonal, to the people -- the children and men and women behind those numbers.

Our members don't want tax increases. I don't want tax increases either. But the choice doesn't appear to be between an increase or no increase. The choice appears to be in how taxes are to be increased. Will it be a temporary increase in the corporation and income tax, a sales tax, or increases in local property taxes?

Tomorrow we will argue strongly against a sales tax, because it is perhaps the most regressive tax. Property taxes are also somewhat regressive, at least for residential property taxpayers, because retired couples often have a nice home, but with retirement also comes a greatly reduced income.

The budget numbers coming out of the House Appropriations Committee indicate that even after cutting back on many programs, there will still be insufficient revenue to fully fund the local government block grant program or the school foundation program. Cutting back in those areas leads rather directly to property tax increases and/or reduced essential services at the local level. We are also concerned about SRS funding -- AFDC payments, Medicaid, and foster care.

We feel that House Bill 915 is the fairest way to face up to the dilemma. It may not be a popular way, because you as legislators have the option of doing nothing, and forcing local governments and school districts to do what must be done. But fairness sometimes involves having the courage to take unpopular stands, and we applaud Representatives Kemmis and Fabrega for their courage and efforts to be fair.

Testimony of Jim Murry  
Page Two  
March 23, 1983

This bill is fair for three reasons. First, it is progressive. Taxpayers with a taxable income of \$10,000 per year (which is a gross income of approximately \$16,000 per year) would pay approximately \$6.00 more per year in taxes. Taxpayers with a taxable income of \$16,000 per year (which is a gross income of approximately \$26,000 per year) would pay approximately \$75 more per year in taxes. This is not much when you consider the pain it may alleviate in service cuts which otherwise may have to be made, and when you consider the property tax increases which might otherwise replace it. Only those making healthy salaries would pay much more under this bill.

The second reason this is a fair bill, is that it raises the corporate license tax for businesses making more than \$50,000 net. The present corporation tax is unfair, because the corner drug store currently pays at the same tax rate as Burlington Northern, but without the loopholes available to larger companies.

The third reason is that of the three alternatives -- property taxes, a sales tax or income and corporate taxes -- this is the only one which would disappear if times get better. HB 915 contains a circuit breaker to decrease taxes once the general fund balance equals \$20 million at the close of the fiscal year.

No one wants a tax increase, but that is not the question. The question is whether the increase will be forced back to the local level, or whether it will be handled at the state level. It seems clear that no matter what happens, services at all levels are going to be cut.

But will the tax increases be progressive ones so that those who can afford to pay will do so, or will the increases be regressive ones?

We urge you to support House Bill 915 as the best of the three alternatives.

TESTIMONY OFFERED TO THE HOUSE TAXATION COMMITTEE ON HOUSE BILL #915

Mr. Chairman, Members of the Committee:

My name is Maureen Bureson. I live at 706 - 8th Avenue South, Great Falls. I am here in support of House Bill #915.

I own my own business, and I don't like paying taxes anymore than anyone else. But as a responsible citizen, I am becoming very aware that we have needs as a community and as a state that we had better not ignore. It also seems clear to me that to adequately meet the needs which I feel are important, additional revenue will be required.

I am very concerned about the situation local governments are in. And frankly, it seems that past Legislatures have created some of those problems. For instance:

- The State has increased the salaries of elected officials, court reporters, and juvenile probation officers. And it doubled the fee for jurors. But it has not provided sufficient funds to pay for these increased costs to counties.
- The State has limited counties to a maximum of 6 mills to support the District Court. That is totally unrealistic in Cascade County -- and the County has no control over what cases will need to be tried. The State has never provided sufficient funds to cover costs beyond the 6 mill limit they imposed.
- The 1981 Legislature eliminated the Business Inventory tax, and hasn't yet decided whether to continue to reimburse local governments for the revenue they will lose as a result.
- The State mandated a Workfare program, but refused to assume the cost of administering it.
- The 1981 Legislature adopted a flat fee system for motor vehicles. While it replaced the revenue that was lost, local governments' mill value decreased, and that revenue has not been replaced.
- The June Special Session did provide some assistance to counties in dealing with welfare costs, but because the State disallows costs for such things as interest on registered warrants and attorneys' fees in welfare cases, Cascade County comes up about \$55,000.00 short every month.

- Cascade County has lost a lot of jobs since 1980, and has not experienced any growth for some time. As a result, the mill value is decreasing. At the same time, partly because of unemployment, the need for services such as welfare, law enforcement, and public defenders is increasing. People are on Welfare today who never dreamed they'd be "on the dole". More people are committing crimes, some, in order to feed their families, and jail costs increase. They need public defenders because they don't have money to hire their own attorney. And Cascade County cannot deny any of those services.

So local governments are dealing with a smaller tax base; mandated, though inadequately funded programs and salaries from the state level; and increased costs that they have little control over in the court and welfare systems.

They must either receive adequate financial assistance from the State, or at least be allowed the flexibility to raise the revenue they need at the local level with voters' approval.

Either way, my taxes are going up, and I'm here to tell you that I want these problems dealt with; and if it means raising my taxes, so be it.

Another service that I do not want to lose or even see cut is community mental health centers -- especially at this time. Unemployment is at higher levels than it has been for decades; and no one is forecasting much of a decline in the immediate future. Being unemployed is depressing and increases stress within families. Community mental health centers must be adequately funded. Actually, their funding should be increased so they could do more prevention. I realize that increased funding is extremely unlikely, but some times I think if we'd spend money on things like prevention, we'd save money in the long run.

In general, human services, which have suffered the most severe budget cuts at the federal level must receive adequate State support. I suspect there are a lot of people like me who are willing to pay more taxes if the alternative is to allow problems like chemical dependency, child abuse, and domestic violence to grow and fester in our communities. I think a lot of the federal cuts in human services were ill advised. I have come across

a number of people whose experience reflects the statistical studies I've read that pointed out that those cuts hurt the working poor; and that they ended up better off going on welfare rather than trying to make it on a minimum wage salary. I don't want children going hungry or not receiving adequate health care if their parents' can't afford it in order to keep my taxes low.

I'm impressed with the Governor's Build Montana program. It makes sense to me. I think it is a good investment -- and I don't think there is any question that the people of Montana support that approach to creating jobs: rebuilding our highways and using our money to generate capital to support the growth and expansion of businesses in Montana. I want to see Build Montana fully funded, including the Block Grant for Local Governments.

Briefly, two other agencies that I feel strongly should receive adequate support are the Public Service Commission and the Vo-Tech Centers. I think the PSC does an excellent job; and again, a time of high unemployment is not the time to cut vocational training. I'd also like to see work study programs funded.

When I read the paper yesterday, it sounded like the concensus was that House Bill #915 was a lost cause. I really debated whether it was worth my time and the expense to come down here and testify. So I hope your minds are not already made up.

If you can solve the problems that local governments are facing, avoid cuts in human services, fund the Build Montana program, avoid cutting the PSC, the Vo-Tech centers, and work study programs without raising my taxes, I think that is terrific. But if you can't, I want you to know that I'd rather pay the price than lose those services or continue to ignore these problems.

I'd like to thank you for your time, for listening, and for being willing to serve the people of Montana by facing these very hard choices. I certainly don't envy you.



The Women's Lobbyist Fund supports HB 915 because we believe that there will be revenue shortfalls and we believe this is the fairest way to remedy that shortfall. Throughout the budget hearings we have seen the cuts in state programs and the impact of cuts in federal block grants to the state. We have seen at the federal and state level that services for the elderly and for the poor -- most of whom are women and children -- have invariably been the services which were cut. The loss from many of these cuts such as cuts in education and cuts in aid to dependent children can not be made up with increased spending 2 or 4 years from now. The damage and suffering will be done.

damage  
irreparable

At the same time we fool ourselves to think that local governments will not have to increase taxes under the current budget cutbacks. The taxes which will be increased will be much less equitable than this income tax proposal -- for example property taxes which often monically hit hardest the groups already hit by the budget cuts.

No one likes tax increases and no

one likes to vote for one. However, we need  
to remember that just as the public holds  
the legislature responsible for their tax burden,  
they also hold their legislators responsible for  
the failure or success of basic government  
services. <sup>exp. of gov't</sup> HB 915 is a fair and minimum  
tax increase that spreads the burden  
across individuals and businesses in  
Montana. <sup>is minimal and acceptable.</sup> Given past federal and state tax cuts, the increase

The Women's Lobbyist Fund supports  
HB 915 because we believe that it is  
the most responsible and equitable approach  
to the problems we face at all levels of  
government in this state.

EXHIBIT 15  
3-23-83

**MONTANA STATE COUNCIL No. 9**  
**AMERICAN FEDERATION OF STATE, COUNTY AND MUNICIPAL EMPLOYEES**  
Affiliated With A.F.L.-C.I.O.



Gerald W. McEntee  
International President

William E. Lucy  
International Secretary-Treasurer

**COUNCIL OFFICERS**

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George E. McCammon, Treasurer  
Rte 1, Box 144  
Townsend, MT 59644  
Phone 266-3592

Nadlean Jensen

ASSOCIATE Council President

Supporting House Bill 9.5

House Taxation Committee March 23, 1983

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Phone 442-1192

R. Nadlean Jensen  
Executive Director

George F. Hagerman  
Field Representative

Sharon Donaldson  
Field Representative

Linda Williams  
Office Secretary

My name is Nadlean Jensen, and I am the executive director of the American Federation of State, County and Municipal Employees. As a representative of public employees, I am very much concerned about the budget crunch in this state. This crunch comes about because of the slow economy, large tax cuts given during the last legislative session, and even larger cuts in taxes and services at the federal level.

The result is pressure on this legislature to reduce vital services even further. I urge you to resist that pressure. There are unemployed people who need many of the services provided by the state of Montana and the counties and cities. There are residents of the Boulder River School and Hospital who need the services desperately. There are women and veterans and children who depend on essential government programs.

As a representative of both state and local government employees, I know full well that if the legislature closes its eyes, the problems will not go away. What will happen is that they will simply be shifted to the local level, just as the federal government has shifted the problems to the state level.

I cannot see how the taxpayer is going to avoid tax increases, either in local property taxes or income taxes, despite deep cuts in programs. We support this bill as the surest way to do what has to be done, rather than putting the responsibility onto the cities, counties and school districts.

Nobody wants taxes to go up, but that isn't the option. This bill is a better option than forcing the local government units to make the unpopular moves alone.

OFFICE OF THE GOVERNOR  
BUDGET AND PROGRAM PLANNING

EXHIBIT 16  
3-23-83



TED SCHWINDEN, GOVERNOR

CAPITOL BUILDING

STATE OF MONTANA

(406) 449-3616

HELENA, MONTANA 59620

TESTIMONY ON HOUSE BILL 915

The Governor first indicated his opposition to a general tax increase in his State of the State address. He has repeated that opposition on several occasions, and he opposes the income and corporate tax increases included in this bill.

The proposed income tax increases will dramatically impact Montanans as calculated on the current schedules:

Montana Taxable Income	Current Tax	Proposed Tax	Percent Increase
\$ 16,000	\$ 917.00	\$ 992.00	8.2
\$ 20,000	\$1,273.00	\$ 1,456.00	14.4
\$ 24,000	\$1,638.00	\$ 1,993.00	21.7
\$ 50,000	\$4,294.00	\$ 6,094.00	41.9
\$100,000	\$9,794.00	\$14,507.00	48.1

House Bill 915 increases corporate income tax for those corporations with more than \$50,000 net income from 6 3/4% to 8% --- a 20% increase.

This administration is committed to encouraging investment --- not reducing incentives. We are determined to create jobs in the private sector, not expand the size of government. We want to help Montanans through these difficult economic times, not add to their financial problems.

These are hard times for most Montanans, and we need to show them that we can make hard choices at the state level. The general tax increase proposed by House Bill 915 avoids these tough decisions at the expense of the Montana taxpayer. We, therefore, oppose House Bill 915.

March 23,

1983

## 1. Title, line 8.

Following: "GROSS INCOME;"

Insert: "PROHIBITING CONSOLIDATED RETURNS FOR FINANCIAL INSTITUTIONS UNDER THE CORPORATE LICENSE TAX; REAFFIRMING THE INCLUSION OF STATE AND LOCAL BOND INCOME IN THE DEFINITION OF NET INCOME FOR CORPORATION LICENSE TAX PURPOSES;"

## 2. Title, line 9.

Following: "AND"

Strike: "AN"

Following: "APPLICABILITY"

Strike: "DATE"

Insert: "DATES"

## 3. Page 3, line 23.

Following: line 22

Insert: "Section 2. Consolidated returns prohibited. (1) A majority of the corporation license tax collected from financial institutions is paid to local government areas in which each financial institution is located. However, consolidated returns for financial institutions do not reflect the true tax attributable to each local government. In addition, consolidated returns would permit financial institutions to offset income against losses of non-financial institutions, thereby distorting the true income of each financial organization.

(2) In accordance with subsection (1), financial institutions are prohibited from filing consolidated returns under 15-31-141.

Section 3. Reaffirmation of bond income inclusion in definition of net income for corporation license tax purposes. Notwithstanding the provisions of any other law, the income from bonds or other obligations issued by any state or political subdivision of a state are included in gross and net income for purposes of the corporation license tax. Further, such income has been included in gross and net income since the effective date of Chapter 634, Laws of 1979, which law repealed the exclusion of such income from the tax base of the corporation license tax."

Renumber: subsequent sections

Proposed Amendments H.B. 755

Page 2, line 4

Following: "more in".

Insert: "certain depreciable property qualifying under  
section 38 of the Internal Revenue Code of 1954,  
as amended, for"

Page 2, line 21

Following: "those"

Insert: "expenditures that qualify under section 38 of the  
Internal Revenue Code of 1954, as amended, and  
that are"

Proposed Amendments H.B. 755

Page 4, line 6

Following: "allowed by 15-30-162"

Delete: "and"

Insert: ","

Page 4, line 7

Following: "15-31-123,"

Insert: "15-31-124, 15-31-125 and (the credits provided  
by SB 241)

# WITNESS STATEMENT

Name Ray L. Hart Committee On Taxation  
 Address 16 Carriage Way, Missoula Date 3/23/83  
 Representing myself Support ✓  
 Bill No. 915 Oppose \_\_\_\_\_  
 Amend \_\_\_\_\_

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

## Comments:

1. Essential state services must be funded adequately,
2. and the state cannot have a deficit. Since resources
3. are not adequate on the present taxes in place, we
4. must see state services deteriorate or raise
5. taxes. I favor an increase in income taxes
6. as the fairest way of meeting the need for
7. additional revenue.

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



# WITNESS STATEMENT

Name Mary Trigon House Committee On Tupation  
 Address Helena Date \_\_\_\_\_  
 Representing Woolgrowers, Cowbellers Support \_\_\_\_\_  
 Bill No. 913 Oppose X  
 Amend \_\_\_\_\_

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

## Comments:

1. We are concerned about the implications on rural ~~area~~ Montana. The high degree of variability in the ~~total~~ income in some counties is not adequately addressed in the bill.
- 2.
3. The idea of having D. of Rev conduct a preliminary study in a few counties should be considered and the results evaluated before the bill is considered again.
- 4.

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

WITNESS STATEMENT

Name Jim Murray Committee On Taxation  
 Address Helena Date 3-23-53  
 Representing Mont. AFL-CIO Support X  
 Bill No. HB 915 Oppose \_\_\_\_\_  
 Amend \_\_\_\_\_

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1.

2.

3.

4.

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

# VISITOR'S REGISTER

HOUSE

## TAXATION

COMMITTEE

BILL

HB 913

DATE March 23, 1983

SPONSOR

REPRESENTATIVE HARPER

[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 915

DATE March 23, 1983

SPONSOR REPRESENTATIVE KEMMIS

NAME	RESIDENCE	REPRESENTING	SUP- PORT	OP- POSE
John G. Board	1232 E. 6 <sup>th</sup> Ave.	UWEA	✓	
Ed Sulzberger	2816 4 <sup>th</sup> St. Great Falls, Mt.	3 tiered ed. Cilyent J. & S. J.	✓	
R. Nadihan Jensen	775 5 <sup>th</sup> St. Helena	A FSCME	✓	
Tom Rye	Helena	MSEA	✓	
Kath Anderson	Helena	Montana Taxpayers Assn.		✓
James Burr	Clancy	Montana		✓
Long Murphy	DT. Falls	Mont. Farmers Union	✓	
Margaret Burrows	Great Falls	Myself	✓	
John M. Smith	Missoula	Myself	✓	
Ray L. Hart	Missoula	Myself	✓	
Mary Vaut Hall	Bozeman	city council's	✓	
Miko Ward	"	Self	✓	
Lee Purdy	BOZEMAN	ASMSU	✓	
Leon Haley	Missoula	City of Missoula	✓	
Jim M. Jones	Helena	Mont. Fed Teachers	✓	
Rene Brant	Helena	MSEA	✓	
Jim M. Jones	Helena	Mont. AFL-CIO	✓	
D. Belorge	MSHA.	ASUM - U of M	✓	
Mike Vawter	Missoula	City of Missoula	✓	
Colenda Jule	Helena	Women's Lobby Fund	✓	

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

WHEN TESTIFYING PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

WITNESS STATEMENT

Name R. Nadean Jensen Committee On Taxation  
Address Helena Date 3-23-83  
Representing AFSCME Support ✓  
Bill No. HB 915 Oppose \_\_\_\_\_  
Amend \_\_\_\_\_

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1.

2.

3.

4.

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