MINUTES OF THE SELECT
COMMITTEE ON ECONOMIC DEVELOPMENT

April 8, 1983

HOUSE BILL 917

Chairman John Vincent called the meeting to order at 9:00 a.m. in Room 224A.

Chairman Vincent opened the meeting by telling members of the committee and witnesses that he considered this hearing an opportunity to learn more about House Bill 917 and other bills the House has moved through the Senate. He stated it is also just a beginning. He reminded members that they had talked before about an interim committee to look at this bill, but couldn't see just sitting around in the final days of the session and not doing anything. He called for discussion on the bill today in an academic sense rather than talking about politics.

Chairman Vincent directed questions to start the discussion: Who will benefit? Who will pay? Are we shifting the tax burden here? Who are we shifting it from and to? Who's going to benefit from this and who's going to pay? How much are they going to pay? How much will they pay in relationship to their ability to pay? What kind of progresstivity do we have? He said that in the United States more than one-half of the people do not have any taxable property. Who is going to benefit from elimination of the property tax if 50 per cent or more do not have taxable property? He said he did not have answers to those questions, but those answers are needed. The same kinds of questions need to be asked with regard to the other tax bills.

Chairman Vincent called on Representative Fagg to begin with his presentation. Representative Bob Ellerd began. He agreed with the remarks of the chairman. He acknowledged the political significance of the proposal and said it was not expected to get the proposal through this session, but merely to begin consideration.

REPRESENTATIVE HARRISON FAGG said the number one issue to look at in reviewing economic development in Montana is taxes. This is an attempt to do something about the property tax because there is not another more regressive, unfair tax. A good example, he said, is the Yellowstone Club Subdivision in Billings, where the property owners pay the same taxes as property owners in downtown Billings; but water is pumped 18 miles to the subdivision and sewage returns the same distance. Police and fire protection is expensive, too, because of the distance, but the taxes are the same. "We've got to drastically adjust taxes or get rid of them," he said.

REPRESENTATIVE FAGG commented that the concern about property taxes is because the bulk of the taxes are paid by homeowners through the bank. In the meantime, the money collected by the banks sits in the banks and the banks invest it and make money from it. The person paying the tax never even sees it. If you don't pay a property tax, you're going to have a spendable income that you never had before. This would be somewhere between $500 and $600 across the state. Assuming 300,000 homeowners in Montana, that would amount to an increase in spendable income of $150 million. That would be an incredible transfusion into the economy of Montana. All of a sudden you have a spendable income out there that has never been used before. It would be used for shoes, pants, cars, houses.

REPRESENTATIVE FAGG continued by saying the utility rate base should be cut because we're freezing taxes on utilities and eliminating taxes on industrial property up to 50 per cent. To eliminate 50 per cent of the taxes on the four Colstrip units would have a substantial impact on rate bases. We're going to have some rebounds there that we haven't addressed.

There are many things that haven't been addressed by the Governor's economic development program. If an interim committee is established, some of these things should be addressed. Governmental controls, overregulation, freight rates, should be looked at. Another thing is the tax base, and large tax bases are preferred.

Referring to his book about the proposal, Representative Fagg noted all residential taxes of land and real property would be eliminated. All agricultural dwellings and improvements would be eliminated from the tax base. All commercial real property taxes would go; not on the land, but on the building itself. Fifty per cent of industrial taxes on real property improvements would be eliminated. Fifty per cent because perhaps some of the major businesses should continue to be taxed. All taxes on mobile homes, livestock, farm machinery, would go; a renter rebate would be provided for low income levels. A new program -- New Environments for the Elderly and Disabled (NEED) -- would set up a trust fund for senior citizens and the aged, and a surplus to be used in other areas would be provided.

REPRESENTATIVE FAGG commented that passage of this bill would cut taxes by about $550 to every property owner, and provide an average rental credit of about $130. It would all be done by constitutional amendment, and that's the bill before the committee today - to lock all these things in because the problem with sales taxes and changes in the tax structure is that another Legislature can come along and tamper with them.

Again, what has been done is to eliminate taxable values (he referred to chart 4 on page 4 of publication): one hundred and five million dollars worth of land; $431 million worth of real property improvements; and a total taxable valuation of $660 million or almost 30 per cent of the taxable base on property in Montana.

A figure that remains to be verified is the average mill reduction. The Revenue Department has come up with figures on chart 6. The Legislative Fiscal Analyst basically agrees with the figures.

Assume the average mill levy on agricultural land is $210, and so on down through improvements. That's the best guess we can get from state government. In one year, $190 million worth of property taxes would be eliminated or almost 40 per cent of the property taxes -- which proves a good point: we're eliminating about 30 per cent of the taxable base, but the items we're eliminating have a high millage. Forty per cent of the property taxes would be eliminated.

We projected this would come in in 1985 and 1986. They used a four per cent inflation rate on property and 3.25 per cent on sales. Counting inflation, $419 million worth of taxes would be eliminated. That's what property owners won't pay.

We're freezing the tax base on everything else. This is where we'll see a reduction in our rates, or at least a slowdown in inflated utility rates because if the taxes are frozen, they won't be reflected back in the tax base. This will have a direct benefit to the consumer. When you take taxes off industrial properties that have been regulated, they can't pass that back on any longer and they'd have a tax reduction so you could see a tax reduction to the consumer as far as their utility rates are concerned.

The rental reduction would meet the concern that a sales tax would have a negative effect on low-income people. The low-income are renters, and we have adopted a circuit-breaker approach to give rebates to low-income families. By taking a family with an income of up to $5,000, 19,915 units would be in this classification. There would be a total income of $49 million that we're reducing, but we're reducing the average family in this category to $187.50. The taxable level to reach this would be $3,750. The family that has a sales taxable income of $3,750 would not pay any sales tax because they get a rebate back in that amount. We've taken care of the regressive quality.

As you go up in the rental incomes, you get less and less cut. Representative Fagg's thought on this is that the more well-to-do family should be knowledgeable that his landlord isn't paying any property tax, and he should be able to demand of his landlord a rental reduction. The well-to-do renter is going to pay more taxes than he has in the past.

Another group to pay more under this proposal are the young people. By buying refrigerators and stoves in new homes, they'll be paying a disproportionate share. Likewise, in 40 years they'll be in a position of being ready to retire, and we've set up a retirement fund or this senior citizens rent subsidy. We would set aside $5 million under the sales tax income biannually as a resource indemnity trust fund. Now they will be paying more at first, but they will never pay property tax for the rest of their lives under this proposal. In the long run, they're going to be the winners; and, because the tax payments are less on property, they will qualify for a better home.

In the sales tax, and how much money the sales tax will collect, the Montana Taxpayers Association says collections off the property tax would be almost $500 million. The LFA estimates about $320 million on today's markup. But there are some deductions. The primary deductions are...we didn't put any tax on alcohol because alcohol and tobacco are taxed heavily now. We put no tax on gasoline and motor fuel because it is highly taxed. The motor vehicle tax is slightly different because now the new vehicle tax is 1½ per cent, so we just added 3½ per cent. We eliminate prescription drugs and all food and consumption. Those figures are adjusted because 75 per cent of grocery store sales is food and the rest would be taxed. Using the LFA figures, we projected $465 million in '85-'86. This has been challenged as being too low. If it is too low, we would never go to the five per cent after a future study. We would use 3½ per cent or four per cent.

There are some savings and costs. It's been estimated the budget for levying and appraising taxes would be roughly $20 million. Fifty per cent of that could be saved without having to appraise. We would save about $10 million as far as the Department of Revenue is concerned, but there are costs. We have factored in five-tenths of one per cent as collection costs because the Ma and Pa on the street will be collecting this tax - about one million dollars. There would be a sales collection cost to the state of about $1.5 million, so there would be a savings of about $7.5 million in state government cost.

So far, we've raised $465 million in sales tax, saved about $7.5 million from the Department of Revenue, and we've increased income tax collections about $4.5 million. No longer will you be deducting your property tax on your income tax. Either through savings or revenues collected, about $476 million of new money in the State of Montana.

Who pays the tax and how does it overall affect the taxpayers of Montana? The Department of Commerce says there are three categories of income levels: $15,000 a year lower income; $25,000 a year middle income; and $38,000 higher income. These are not the welfare or the poor. These are the income-bearing groups of the population. We can safely assume the lower incomes are included from the tax and we can throw them out. We have these three basic categories of family earnings. A family of 3½ people would be making these earnings.

The Department of Revenue gave these figures - you take off the items not taxed under a sales tax. You would come down to a taxable consumption of $6,000 under the $15,000 figure on which sales tax would be paid; at the intermediate level, roughly $8,000; and at the higher level, about $11,000. Under this scenario, the average family would pay $297, $425 or $587 in taxes. It's not a four per cent tax at this point. It's an effective tax on earnings of 1.9, 1.7 and 1.5 per cent, effective on earnings of the individual. The hypothetical Montana family budgets show the average Montana family in the lower bracket would pay $135 in sales tax or $345 per family in the middle bracket. This would be 1.7 per cent of their total income. We've taken some of the regressive quality out of it. The lower people are not paying it and the people that are actually paying it are not paying a great deal.

How would this reflect against an average homeowner in Montana? If you take market values of $50,000, $75,000 and $100,000, and assess them to get a taxable value and apply this against an average mill levy of 315 mills, the average $50,000 home in Montana pays $674 in taxes; the average $75,000 home pays $1,011 in taxes; and the $100,000 pays $1,349 in taxes.

Take the higher values the family might be paying on sales taxes -- $297, $425 and $587 -- the average family in Montana is going to save $586. The average family should save somewhere in the neighborhood of $500 to $600 after they pay their sales taxes.

How does this relate to the taxes across the State of Montana? Taking typical cases, in Butte, with a high 413 mill levy, the lowest bracket would be $585; the middle bracket would save about $900 in taxes, and on up to a savings of $1,179 on a $100,000 home. In Terry, the figures would be $297, $467, $600.

Who's going to pay the additional revenue? Obviously, it's a tax shift. In the first place, the out-of-state tourist is going to pay a big, big share of it. By 1985, nearly $16 million will be paid by the traveling public through Montana. That's taxes we're not collecting today. If the average Montana family pays $135 in taxes (from page 26), if you increase that for inflation, they in turn would pay about $135 million or about 57 per cent of the new money raised by 1986. So we're getting about 13 per cent of the new money from out of state people; about 57 per cent comes from the citizens of Montana. There is an unaccounted section of about 30 per cent of where does this money come from. This would come from taxes paid by businesses in the conducting of the business. Business supplies, equipment, etc., would pay sales taxes. New families on major purchases would pay about three per cent of that additional 30 per cent. New construction would be paying about eight per cent of it. Government business supplies about 10 per cent of it. Representative Fagg commented that he wasn't sure if that figure is right. Construction and farm equipment would pay some of it; mining extraction equipment would be bringing some more in; cities and county government would be paying taxes on their purchases.

This is a tax before you spend. Everyone has gone through these figures and no one can find any big errors in these figures. There's going to be $500 saved by every family in Montana, and those families are going to do one of two things: they're going to bank it which will give us more lending power, or they're going to spend it. I think most of those families will spend it. You are rebating taxes for people to spend. They're going to spend this $500 and that's going to start the whole pendulum going and everybody on main street is going to see some of those dollars.

In terms of where the bill has been criticized, we do have a section in the bill that says "all future taxes, if there are increases in budgets, it will come through income taxes". That has brought us some criticism. It is a shift to a possible income tax increase, but there it is a form of tax indexing because basically the city governments and school governments are going to get continual increases in proportion to inflation. As the cost of goods and commodities inflate, obviously the sales tax is going to inflate. They're going to get a direct portion. All the existing taxes that are being eliminated would be paid back to the jurisdiction. Every unit of government would get exactly the same amount of dollars they're getting today. Future increases in their budgets...(tape ends).

REPRESENTATIVE FAGG said he would be happy to answer questions. Chairman Vincent called for questions.

REPRESENTATIVE FABREGA asked how the dollars that school districts get from property taxes would be replaced. Representative Fagg called it a matter of mechanics. He said the Department of Revenue would rebate directly. For future increases, they would have to rely on increased sales tax revenues. Once the base is established, that's how the sales tax revenue is distributed in the future.

An unidentified witness asked if Representative Fagg was saying it wasn't worked out how the tax that is collected is forwarded to the state. Representative Fagg said "we think we do". He said a joint sales tax and property tax would be collected for a six-month overlap period. Then the property tax would drop and the sales tax would come on. There would be a reserve. The gentleman asked about banks and if there would be a tax on a new home. Representative Fagg said there would be no tax except on materials in the home.

Wilbur Rehman, a concerned individual representing himself, asked about who will pay. Representative Fagg repeated earlier statements about the tourist and resident percentage breakdowns. He said it was important to remember the poor person would get a rebate. Mr. Rehman said it seems as if the tax burden is shifted from those most able to pay -- the upper income brackets -- to the middle income and working brackets. Representative Fagg said the well-to-do renter will be paying more taxes. He said there was no question about that.

REPRESENTATIVE VINGER asked about the effect on the senior citizen. He said it would be an advantage. Representative Fagg said that there's not a senior citizen in Montana that would pay a nickel in property tax. He said about $60 million would come from out-of-staters. Everybody will pay an average of $135 in taxes.

Witness Bob Virts called the 25 per cent figure for taxable grocery store items "absolutely ridiculous". He also questioned the figure of 300,000 homeowners as "way off". He said the sales tax would discourage tourists. Representative Fagg said the 25/75 per cent split came from the Department of Commerce. The renter figure comes from census figures. He said he questioned whether anyone plans a vacation because of the sales tax.

REPRESENTATIVE TED SCHYE asked about rural counties and when the property tax levels would be frozen. Representative Fagg said he assumed January 1, 1985.

CHAIRMAN VINCENT called on Representative Nordtvedt to testify.

REPRESENTATIVE NORDTVEDT said the real crucial issue about the bill is that it selectively eliminates some of the property tax. He said any responsible study should then show how it compares with lessening the property tax load in the state. He said he calculated per capita property taxes paid in the state and then divided the counties into four categories (see sheets attached). He said the property taxes paid in the oil, gas and coal counties are much higher than the average, while the rural timber counties and the rural agricultural counties pay substantially more tax per capita. He said the numbers represent the schools, local governmens and contributions to school state programs.

This bill leaves the property tax on net proceeds and all agricultural land, but takes it off urban land. There is no consistency there. He suggested all land be taxed and improvements not be taxed. In any study, the load on each of the kinds of counties should be made. He said the bill eliminates more of a burden on urban people than on rural people. It would further exasperate the differences because rural agricultural people pay more property tax per capita. He said it was not clear why home lots, city commercial lots, industrial lots, etc., should be tax-free, but rural land is taxed.

Another question should be asked is whether some Montanans get a better tax reduction than others. He said it looks like the great bulk of property tax reductions would be in western Montana and eastern Montana would get less reduction.

In problems of distribution of sales tax revenue, it would reimburse taxing jurisdictions for their lost property tax revenue. A problem is that would be tied in indefinitely and the high tax areas would be rewarded. Another frugal area would be penalized. We wouldn't want to freeze this in the Constitution, especially since the sales tax would be raised in a per capita manner. A reasonable thing would be a five-year phase out. The way the bill is written, there would be a mad rush in 1984 for every taxing jurisdiction to raise their taxes.

The two main studies I see to determine the winners and the losers show the present formula, Representative Nordtvedt commented, is highly skewed to the big spending, urban areas and everyone else picks up the tab. It's ironic about how who's paying property taxes on a dollar basis doesn't necessarily final mill levies.

One of the big bombshells on this bill is that it constitutionally allows local income taxes to be levied by school districts, county governments and city governments, to make up additional revenues if they're not satisfied with the replacement revenues. The income tax is the one closest correlated to economic growth; the higher the income tax, the slower the economic growth because high taxes tend to discourage producing income.

We are known as a high income tax state and a high property tax state. To shift further burdens on to the income tax would be somewhat anti-productive. Representative Nordtvedt said he assumes this would be a piggyback tax and each local jurisdicition would tax on an income tax as some fraction of the state income tax. You'd soon find you'd build up such an incredible lobby to raise income taxes. You should look at a system that creates a well-balanced, moderate distribution of the tax burden. The savings of $500 per family means the direct tax on the home and the direct sales tax on consumptive purchases may show a $500 benefit to that family, but that doesn't show the whole effect on the state. The only new money to the State of Montana is the tax on goods, about $30 million or $35 per capita. The rest of the money that would have to come in the $500 per family savings has got to show up on small business & large business in the state. That includes agriculture, who pays on implements and other capital expenditure. It does no good to a family to have to pay less on their home, but more on the small business. This $500 per family should be taken with a grain of salt and is not really a pertinent number in discussing the impact on Montana. We know the great bulk of that number has got to show up on the small and large business community of the state.

The businesses will have to pass on the cost of business, so it will come back to the consumer not only in the price -- they'll pay higher prices as well as a sales tax. That's a third area of study -- to look at who will pay this missing revenue that shows up as a direct savings to the typical family.

REPRESENTATIVE NORDTVEDT continued by saying that he thinks if they ever do seriously consider a sales tax, it should go to eliminate some other taxes, but it should be done in a cleaner form than this. This looks like a significant tax shift from urban people to rural, agricultural people. It looks like a reward for high taxing areas of the state and a penalty for the more frugal area. If this is pursued, the distribution formula should be more tied to a per capita basis, which is how the taxes are raised. One should seriously re-do this whole idea of constitutionally introducing local income taxes because past studies have shown the problem with Montana's tax system is too much reliance on an income tax, as well as a property tax.

There are two things to be said about a property tax. One is that the $618 per capita figure is among the top of the states, but more than $120 of that is being paid by coal, oil and gas production. The $500 figure in per capita property tax being paid puts us about 15th in the states. We're number 17 in income tax. Furthermore, this $500 in per capita is tilted toward the rural people. The real burden is on rural people -- you can see that in the average rural county versus urban county. If you looked at the average tax burden on the home in Montana, we're about a middle state. We're not high and not low. If there's a property tax problem, it's because we rely too heavily on property tax to fund our public schools. Our burden to support local government is $200 per capita in the state, not unreasonable at all. In fact, it has gone down in real dollars the last 10 years. The property tax load that has exploded are the school property taxes. If we do go to a sales tax, Representative Nordtvedt suggests that constitutionally we look first to primarily earmarking the bulk of revenue to fund state school foundation programs at near 90 or 100 per centof basi education. That would solve most of the property tax burdens.

CHAIRMAN VINCENT called for questions from the committee.

REPRESENTATIVE FABREGA inquired about the rural taxation -- is it really a shift or is that where we are now? Representative Nordtvedt said the present situation shows a normal rural county has a higher property tax burden per capita than the urban county. His strong guess is that under this proposal we will further exaggerate that difference. Representative Febrega asked how an up-front sales tax payment on a capital investment would compare to a long-range millage on the same investment. Representative Nordtvedt answered that it may be just a shift to an up-front situation rather than a real shift.

REPRESENTATIVE TOM ASAY asked about the local governments and the income tax. Would there be any merit in looking at a reduced rate in the sales tax and leaving a certain level of property tax for county or local government? Representative Nordtvedt said there would be local property tax remaining under this proposal. In Richland County, for instance, almost all the local taxes -- net proceeds and agricultural land -- would remain in place and his guess is it would get very little back under the distribution formula. There'll be some very strange things happening because now that the law is determining property tax, classifications will be made by the Legislature of the whole state, but the property taxes paid will be highly localized in a few of the counties.

REPRESENTATIVE HARRISON FAGG said regarding the per capita, he did not understand why that was being used. (tape ends) Representative Nordtvedt defended the method saying these are the total tax burdens being generated by the people and business in each county. It's a start to see some trends. Representative Nordtvedt said he didn't understand why Representative Fagg made a distinction between taxes people pay from one pocke to another.

REPRESENTATIVE FAGG said Representative Nordtvedt's figures show rural counties pay roughly $700 and get back roughly $280 per capita. But in Yellowstone County, it looks like about $400 to $500 and the average is going to get back $160 per capita. The rural counties are the clear winner on the thing. Representative Nordtvedt commented that that was Representative Fagg's guess.

REPRESENTATIVE ELLERD said he represents a farm and ranch area and has talked to many in his district. They find that paying sales taxes on new equipment is not a disadvantage. He said there were other areas that would be freed from the property tax that would favor agriculture: seed, livestock, grain storage, everything above ground that a farmer or rancher would have. The figure to be paid would be less because of depreciation.

An unidentified gentleman spoke about tourists. He commented that Washington State does not nick the toursit because for one dollar a year a tourist can buy a tax exemption card. The $30 million tourist figure is "still way out of line".

REPRESENTATIVE NANCY KEENAN spoke of the three ways of controlling property taxes: the appraisal, the mill and the taxable percentage. What this proposal has done is made it so the remaining taxable property does not increase. So the Legislature could come in and raise the utility tax from 15 to 30 per cent. The reamining property would continue to be appraised under Section 15-7-111, MCA. Representative Fagg said the percentage sections would be eliminated. Regarding the appraisal portion, he said Representative Keenan may have a point. He said the Legislature could also alter the exemptions, and tax food, prescription drugs and the like.

REPRESENTATIVE HAL HARPER said he agreed with Representative Fagg when he said the property tax was one of the most progressive taxes we have and we ought to get rid of them. He agreed with most of Representative Nordtvedt's testimony, which showed these figures presented were a shot in the dark. He asked about Representative Nordtvedt's statement that income taxes would inhibit economic development in the state more than other taxes, but then later it's one part of the other. Representative Nordtvedt said there was a correlation between increasing tax burden and lower economic growth. Common sense says what you tax you discourage, what you don't tax you encourage. We don't want to create a tax system that overloads income as a source of our tax revenue.

CHAIRMAN VINCENT said the correlation is not at all certain, and cited increased consumption of tobacco and alcohol. Representative Nordtvedt said there are other factors.

REPRESENTATIVE JAY FABREGA asked the rationale for making the urban land tax exempt.

REPRESENTATIVE FAGG said all residential land was exempt, on the farm or the city. Representative Fabrega asked about the philosophy tax -- is it meant to tax ability to produce income or tax invested weath? Representative Fagg said he was trying to tax the base of all industry and income-producing property, in other words, the land. The residence was excluded because it didn't produce income. The farmer's land is taxed. The downtwon land is taxed, but improvements aren't. Representative Fabrega said the property tax should tax invested dollars and could not justify taxing the investment in various properties differently.

REPRESENTATIVE NORDTVEDT said another aspect of property tax is a user fee to finance fire and police protection, services, etc. To eliminate it would not have any philosophical base unless it was accompanied by user fees. Moreover, the property tax is not burdensome in terms of local government support -- only $200 a person. It's when burdens for schools are tacked on that the connection becomes more vague.

Dave Goss, representing the Billings Area Chamber of Commerce, read his written testimony (attached).

Pat Underwood, representing the Montana Farm Bureau, said the Farm Bureau has no trouble with the bill as written. It is fair. In 1972, the Farm Bureau opposed the sales tax, but that was because it was an additional tax. This is different because it would eliminate a tax. Since 1981, the Bureau has favored a sales tax in lieu of a property tax. Our big fear is that what will happen is that between the 1985 and the 1991 sessions we would say there's going to be a sales tax anyway and it's going to be an additional tax. If we have a sales tax, we'd rather have some say-so over it and see it relieve something. That's the biggest thing we'd like to see happen. This bill has a lot of merit and is certainly worth studying.

Wilbur Rehmann, Helena, said he questioned who pays and where the shift takes place in our tax structure. He said that both Representatives Fagg and Nordtvedt see a strong correlation between taxes and economic growth, but the studies he (Rehmann) said he has read show that is not a major factor in the decision of where to locate. Another tax axiom is that when someone pays less, the rest of us pay more. That's how Rehmann said he feels about a sales tax. He commented that when we reduce our emphasis on property taxes, which he doesn't feel are as regressive as Representatives Nordtevedt or Fagg do, then the rest of us who don't have as much property as Burlington Northern or any other large property owner pay the burden that is given up by the large property owners. He questioned the need to change the basic philosophy of taxation in Montana. The ability to pay should in fact be considered as a primary responsibility for anybody and not just an equitable tax for everyone regardless of income or property. He said a study should look at a basic philosophic issue in taxation, and this bill addresses a major shift in that. He said he is fearful the state will change its basic philosophy of taxation with this bill and a constitutional amendment, but it's going to hit all of us, regardless of our ability.

Rehamnn continued by saying other tax proposals, including those by Representatives Kemmis and Fabrega, retain that philosophy. Another point about this bill is that when the question of exemptions is addressed, where do you draw the line? Why shouldn't soap be exempted -- shouldn't we allow low-income people to be clean? Why shouldn't services like legal or tax accounting fees be taxed? By basing taxation on ability to pay, that complex question of exemption is taken care of, be it progressive income taxes or progressive property taxes rather than a sales tax. The shift this bill and constitutional amendment suggest is very regressive and is a frightful portent for the future of Montana.

REPRESENTATIVE NORDTVEDT said he never said he thought property taxes were regressive.

A gentleman who made comments earlier and identified only by "Ron" said he did not work in a bank. He said Representative Fagg was right, banks pay taxes the end of November and the end of May or June. The critical point is that if this ever is adopted, it's important to collect it quarterly. If you don't, some other people other than the banks will be using the money as opposed to the state using the money half a year. It probably would be hard to collect it less than quarterly. Those people who are making that five per cent would still have the opportunity to use that money for the quarter of the year and that would offset any expenses incurred in collecting the money.

Don Reed of the Environmental Information Center in Helena said that from the basis of Representative Nordtvedt's remarks, the information required in a study would be hard to get. Representative Nordtvedt commented that we could go a fair amount of way by existing data from sources like Maxine Johnson's outfit in Missoula and the Department of Revenue's tax collection data broken down by county, and also some recalculation of the property tax burden by city and county under proposed legislation, and also to do the same thing on the distribution size formula and see how the sales tax revenue is distributed on a per capita basis. But there will always be a little bit of doubt. The real guessing will be how much of the increased tax burden on the small business will be passed on to consumers in higher prices, and how much they'll absorb in lower property margins.

REPRESENTATIVE FAGG said he was just beginning to get the kind of data he wanted a month or so ago. Texas has an in-depth study and we should go to other states. He said his data was accurate as far as we've come. There is a shift to somebody and he doesn't think that person is clearly identified yet. There's a clear winner in this thing and it's going to be the person who owns a house. There's no question there's a clear winner there. There's got to be some losers and one clear loser is the person coming into Montana - $60 million worth at once. There is 25 per cent of the sales tax collected as of today that's nebulous as to where it comes from. There's no question in my mind that a large block of that is going to be from big purchases. He cited coal shovels, refrigerators, and that sort of thing.

REPRESENTATIVE FABREGA said there would be winners and losers only if there was an equitable system right now. The question is where is the shift and until we determine a philosophy of taxation that would address equity...that's what we need to get to, is who should be paying it. I look at taxes as the rent you pay for using the social economic system. Okay, how do you guage that rent? My commitment to income taxes is that you can look at the square footage of a basement, but that square footage is not comparable to the square footage of a penthouse on the 50th floor that gives you a magnificent view. That's why I see the progressive tax in the income tax system as the rent you pay. But when we talk of winners and losers, are you satisfied we have an equitable, reasonable distribution of the tax burden now?

REPRESENTATIVE NORDTVEDT said he referred to winners and losers compared to the status quo which he does not defend as an ideal. Representative Fabrega said some of the losers have been enjoying a free ride and now...we should find out who are the gainers and who are the losers under this legislation because they may improve Representative Fabrega's notion of equity or go against it. Representative Fabrega said the study should look at who's paying taxes and why and how do those taxes relate to the benefits received from the system. Representative Nordtvedt said the bill was a radical change in the tax system and before we make a radical change we should understand who's paying taxes now and whether that fits our notion of equity and the proper distribution of loads today.

REPRESENTATIVE FAGG said everyone was concerned with the shift in income taxes and he knows plenty of professional people in Billings in the $75,000 to $100,000 range who don't pay any income taxes. This is going to hit those guys real hard because those are the people who drive the Cadillacs and the Lincolns, have the fur coats and go out to the country club and spend a lot of money on restaurant food. He said there is a shift there.

REPRESENTATIVE ELLERD said the bill is for the people and certainly is not a Republican Party bill. He said it was his bill and Representative Fagg's bill, and didn't go to anybody with it. We feel that now is the time to bring it before the people. It's a replacement tax, it's not an added tax. Possibly one of these days we will have a sales tax that will be an added tax. Representative Ellerd praised the chairman for the fair hearing.

REPRESENTATIVE MIKE KADAS asked Representative Nordtvedt about his remarks about state support of the foundation program under this proposal. Representative Nordtvedt said the theory of what was done last session was that the local levies were getting high and people wanted a reduction in those levies. So the state appropriated large increases in state support above inflation believing that these injections of state money would reduce local levies. What we found is that they did indeed slow the growth of levies so in some sense they slowed the growth of the property tax levies, but the great bulk of that state money went to increased real cost to run our schools. It was not transferred down to the taxpayer. If we enacted the sales tax and decided the state should use the bulk of the revenue to fund, say, 90 per cent of the cost of basic education, there would have to be accompanying legislation to somehow slow the real cost of spending. We don't have a handle right now. We have a system that tried to split responsibility between the state and the local voted levy. That kind of reform could be created. We'd have to do something to control the growth in real cost of education without destroying local control of education. That is the ultimate challenge.

CHAIRMAN VINCENT said the Legislature in thepast has done some capping, but that is another issue.

REPRESENTATIVE STELLA JEAN HANSEN said in many areas the property taxes can no longer be shifted to the renter because rents are radidly coming down while the tax base is going up. Somewhere we have to shift the property tax burden because in Missoula nobody is buying investment property unless they've got the capital. They're not making any money off of it.

In closing, Representative Fagg said he agrees with Representative Hansen. He commented that you can't get rents to subsidize what we're paying in interest and the taxes we're paying. This would help that a great deal. He said he disagreed that taxes don't have any bearing on the location of businesses. He said the taxation situation in Montana must be studied in terms of economic development, and that is the only area where he is critical of the Governor's program. It overlooks government regulation. (tape ends)

CHAIRMAN VINCENT said the bill was a start at looking at a thorough analysis of the tax structure. He praised those at the hearing for the way the hearing was conducted. He said the committee would review Representatives Kemmis and Harper's bills. He said the next Legislature will face tough decisions about taxation.

John Vincent

JOHN VINCENT, CHAIRMAN

Joyce Andrus

Joyce Andrus, Secretary