MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

January 26, 1983

The twelfth meeting of the Taxation Committee was called to order at 9:00 a.m. by Chairman Pat M. Goodover in Room 415 of the Capitol Building.

ROLL CALL: All members were present.

CONSIDERATION OF HOUSE BILL 65: Representative Jay Fabrega, the sponsor of the bill, said it was requested by the Revenue Oversight Committee. The problem is that in 1977, a bill was passed that allowed corporations to deduct the cost of federal targeted jobs or work incentive programs on corporation tax returns. The Internal Revenue Code allows 50% of the first $6,000 of the first year's wages of each qualified employee, and 25% of the first $6,000 of the second year's wages of each qualified employee. This is a legitimate cost of doing business, but because we are tied to the adjusted gross income based on the federal income tax return forms, Montana is not allowing this deduction on individual income tax returns. The Department of Revenue is holding all of those returns at present and have advised that they are not allowing these deductions. Apparently, Montana courts have ruled in favor of the taxpayer and allowed these expenses as deductions on individual returns.

PROPONENTS

There were no other proponents besides Representative Fabrega.

OPPONENTS

There were no opponents to HB 65.

Questions were called for from the committee.

The Department of Revenue (represented by Dan Bucks) did not have figures available on how much of the credit is represented by first and second year's wages of qualified employees.

The hearing was closed on HB 65.

CONSIDERATION OF HOUSE BILL 66: Representative Fabrega was the sponsor of this bill also. This bill removes the requirement that an out-of-state taxpayer pay the transportation and per diem for a Montana revenue agent who goes to audit them. Revenue agents are sent out of state on a regular basis for income tax audits. Audit collections from taxpayers residing outside of Montana amounted to $123,371 in FY1982; the Department of Revenue collected $8,666 from taxpayers residing out of the state for travel and per diem costs. The fiscal impact figure of $13,500 is covered in the department's budget request, Mr. Bucks stated. The $8,666 collected flows into the general fund. See the copy of fiscal note attached as Exhibit A.

Mr. Bucks said the costs for auditing are significant for the taxpayers living out of state and doing business in Montana. They really get irritated at us. The Motor Fuels Division started it. Legislation such as HB 66 is being adopted throughout the country. Major interstate trucking firms are the ones most affected by this bill. We are talking about Exxon, Mobile, and other companies and transportation firms. Special fuel dealers are affected also (see subsection (2) of section 2 of HB 66).

PROPONENTS

There were no proponents other than Representative Fabrega and Mr. Bucks, who was there for informational purposes.

OPPONENTS

There were no opponents to HB 66.

Questions were called for from the committee.

Senator Turnage suggested that the nature of their business may warrant a different approach. Mr. Bucks responded that his department is auditing the same companies for severance taxes, corporation license and income taxes, and special fuels tax. The taxpayers do not understand why they are billed for out-of-state costs for the special fuels tax but not for the other taxes. He added that the revenue agents are traveling about 60 percent of the time. They have one auditor who does auditing inhouse; the others travel. He also said the motor fuels tax auditors are sent separately.

Senator Elliott asked how many years the Department of Revenue had available to them to audit. Mr. Bucks thought the statute of limitations was 2 or 5 years. He said they would do 5 years on one trip.

The hearing was closed on HB 66.

CONSIDERATION OF SENATE BILL 187: Senator Gary Aklestad, District 6, the sponsor of the bill, stated it will exempt all producer-held grain in storage from property taxation. Under the present tax structure, farmers would have to pay taxes on it for 2 years. These products are being used for government purposes (international bargaining) and that is reflected in the price.

PROPONENTS

Representative Glenn Jacobsen, House District 1, said that in the taxing structure, there are 7 months from harvest time before the grain becomes taxable, so the assessment date is approximately January 1. But if a farmer is trying to equalize his income and holds some of it over, he still starts paying taxes on the grain after 7 months. He may have a large crop one year and a small crop the next year. If he has an average crop, he'll sell it all in the same year. He pays storage and pays for storage facilities. Seed is not taxable. Can it be held for 10 years? That is questionable, he thought.

Jo Brunner, representing Women Involved in Farm Economics (WIFE) submitted written testimony in support of SB 187. See Exhibit B.

Robert Stephens, representing the Montana Grain Growers Association, was not present at the meeting but had previously left a written statement in support of SB 187, and it is attached as Exhibit C.

OPPONENTS

Gregg Groepper, administrator of the Property Assessment Division of the Department of Revenue, stated that the administration is opposed to any tax relief that does not provide replacement revenue.

Senator Towe questioned item (5) under Assumptions on the fiscal note. Mr. Groepper said that grain was not separated from other agricultural products in the state when these statistics were compiled. He also stated that the average rural mill levy is 160 to 170, although some members of the committee felt it was higher than that.

If a bushel of wheat sells for $4 and it is taxed at 4% of its market value, the taxable value is 16 cents. Multiply that by a mill levy of approximately 156 and the tax on a bushel of wheat would be 2.5 cents.

Senator Elliott said that if the county taxes were reduced but the counties' needs remained the same, the burden would fall back onto the real property owners, the farmers themselves. It was noted that in the past, the counties did not receive this money so they would not really be out anything. It would be a windfall for them.

Terry Murphy, representing the Montana Farmers Union, said that equity can go down as well as up. It is not a level type of tax. The grain in storage is cyclical in nature.

Senator Towe told Mr. Groepper that if farmers have anything that comes close to a business inventory, producer-held grain in storage is it. Senator Severson noted that there is more grain in storage now than there has been since the 1960s.

Senator Aklestad said that if the grain is in reserve for 3 years, a farmer could get another 45 cents a bushel on it. He said the farmers are taxed on the grain; they are paying interest to the government on it; they are getting the heat all the way around.

Senator Severson asked what the interest was on the government-owned program. Senator Aklestad said that interest is about 10% right now. It is the same as treasury bills, but trails them by about a month.

Senator McCallum mentioned a bill Representative Fleming had introduced years ago exempting potatoes in storage from taxation.

Mr. Groepper stated he would furnish statistics to the committee for the years 1979, 1980, and 1981.

The committee wondered what would happen if this SB 187 and SB 94 both pass.

Senator Elliott questioned the Department of Revenue report figures for stored grain in Flathead County.

Mr. Groepper explained that because of funding of county assessors, they will go out and pick this up. It applies to all kinds of personal property.

Senator Aklestad said the figures Mr. Groepper is going to furnish will have to be looked at closely because other commodities are figured in the base. There will be less grain in the past years' figures.

In closing, Senator Aklestad said he didn't think the producer-held grain should be taxed when the U.S. government is using it as an international negotiator and bargaining tool.

DISPOSITION OF HOUSE BILL 66: Senator Towe moved that HB 66 BE CONCURRED IN. The motion was seconded and passed unanimously. Senator Towe will carry this bill in the senate for Representative Fabrega.

DISPOSITION OF HOUSE BILL 65: Senator Towe moved that HB 65 BE CONCURRED IN. The motion was seconded and passed unanimously. Senator Turnage will carry the bill in the senate for Representative Fabrega.

The committee adjourned at 10 a.m.

Pat M. Goodover

Chairman

ROLL CALL

SENATE TAXATION COMMITTEE

48th LEGISLATIVE SESSION -- 1983 Date 1/26/83

| NAME | PRESENT | ABSENT | EXCUSED |
|---|---|---|---|
| SENATOR GOODOVER, CHAIRMAN | ✓ | | |
| SENATOR McCALLUM, VICE CHAIRMAN | ✓ | | |
| SENATOR BROWN | ✓ | | |
| SENATOR CRIPPEN | ✓ | | |
| SENATOR ELLIOTT | ✓ | | |
| SENATOR GAGE | ✓ | | |
| SENATOR TURNAGE | ✓ | | |
| SENATOR SEVERSON | ✓ | | |
| SENATOR HAGER | ✓ | | |
| SENATOR ECK | ✓ | | |
| SENATOR HALLIGAN | ✓ | | |
| SENATOR LYNCH | ✓ | | |
| SENATOR NORMAN | ✓ | | |
| SENATOR TOWE | ✓ | | |
| SENATOR MAZUREK | ✓ | | |

DATE January 26, 1983

COMMITTEE ON TAXATION

VISITORS' REGISTER

| NAME (PLEASE PRINT) | REPRESENTING | BILL # | Check One: Support | Check One: Oppose |
|---|---|---|---|---|
| Gregg Groepper D.O.R. | Administration | SB-187 | | X |
| Vivian Marie | MT Legal Services | HB 65 | | |
| Dan Bucks | Dept. of Revenue | HB 65<br>66 | | |
| Rep. Glenn Jacobsen | Sponsor | SB 187 | ✓ | |
| Jo Brunner | W.I.F.E. | 187 | ✓ | |
| Shirley Ball | W.I.F.E. | 187 | ✓ | |
| Terry Murphy | Mont. F.U. | 187 | ✓ | |
| | | | | |

(Please leave prepared statement with Secretary)

SENATE TAXATION COMMITTEE
EXHIBIT A
~~JANUARY 26, 1983~~
BILL NO. HB66

**STATE OF MONTANA**

REQUEST NO. 046-83

# FISCAL NOTE

*Form BD-15*

In compliance with a written request received January 6, , 19 83 , there is hereby submitted a Fiscal Note for House Bill 66 pursuant to Title 5, Chapter 4, Part 2 of the Montana Code Annotated (MCA). Background information used in developing this Fiscal Note is available from the Office of Budget and Program Planning, to members of the Legislature upon request.

DESCRIPTION OF PROPOSED LEGISLATION:

House Bill 66 removes the requirement that a taxpayer pay the costs of an out-of-state motor fuels audit.

ASSUMPTION:

1) The Department of Revenue estimates the costs of out-of-state travel for motor fuels audits to be $13,500 annually.

2) Funds for out-of-state motor fuel audit expense will be appropriated from the highway earmarked account.

FISCAL IMPACT:

| | FY84 | FY85 |
|---|---|---|
| Expenditures for Out-of-State Audits | | |
| (Net of taxpayer reimbursements) | | |
| Under Current Law | 0 | 0 |
| Under Proposed Law | 13,500 | 13,500 |
| Estimated increase in expenditures from the highway earmarked account | 13,500 | 13,500 |

FISCAL NOTE1:EE/1
F.Y. 1982

Audit Collections from tax payers residing out of state - $123,371.00.
Collected for travel and per diem costs from tax payers residing out of state - $8,666.00.

David M. Lewis

BUDGET DIRECTOR
Office of Budget and Program Planning
Date: 1-10-83