MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE
HOUSE OF REPRESENTATIVES

January 14, 1985

The third meeting of the Taxation Committee was called to order by Chairman Gerry Devlin on January 14, 1985 at 8:05 in room 312-1 of the state capitol building.

ROLL CALL: All members were present. Also present was Dave Bohyer, Legislative Researcher for the Legislative Council and Alice Omang, Secretary.

CONSIDERATION OF HOUSE BILL NO. 62: Representative Bradley, District 79, Bozeman, explained that this bill was to establish a blue ribbon income tax study commission to evaluate alternative methods for structuring Montana's income tax laws to make them simpler and more equitable. She noted that a poll came out that pointed out that four out of five Americans think the personal income tax is unfair and one out of five admitted to cheating on their income taxes. She cited a story from the I.R.S. that told of a woman who sent $300.00 with a note that said she could not sleep because of the qualms she had about tax evasion and the note said that if she still couldn't sleep, she would send more later. She said that on the national level there is some $90 billon of taxes that should legally be paid that are not being paid right now and she said that it was only about $20 billon ten years ago. She indicated that in just about every poll you see, it shows about 99 9/10ths% think the system is too complex. She continued that about half of the tax forms are calculated each year by professional tax preparers.

She stated that this bill calls for a study and she felt that there were good reasons to do a study right now and there were three major forms being considered at the national level. She also thought that, if there was nothing done at the national level, this would be a very timely study and an increasing number of people are questioning the economic wisdom of the system we have. She noted that an in-depth study had not been done for twenty years. She passed out three handouts to the committee. See Exhibits 1, 2 and 3.

She informed the committee that the bill would set up a twelve-member commission and out of those twelve people, she proposed that eight of them would be non-legislators and outside people who had real expertise in income tax, i.e., C.P.A.s, tax lawyers, whatever. She said that it also called for an even balance of people. She indicated that when she started this, she was looking at personal income tax and not corporation income tax and some people have approached her on it and they did not feel that they could be really separated, but she said that the way this is drafted, it allows the committee to go either way. She advised that her intention here was to really concentrate on personal income tax and she would like to come up with something that is fair and that they should all abide by the law. She introduced Dr. John Wicks from the University of Montana.

PROPONENTS: Dr. John Wicks, Professor of Economics at the University of Montana, specializing in state and local finance, indicated that he was speaking as a private citizen and that he supported this bill for three reasons. (1) Tax simplicity is one of the reasons, he said, which is one of the purposes of the bill. He stated that the income tax in Montana is patterned after the federal tax and the purpose of that provision is to make the administration and particularly taxpayer compliance as little as possible, but he felt that if you have a married couple both with substantial income, it very often pays them to file separate returns on the Montana tax, whereas they will file a joint return on the federal tax. He continued because of the deductibility of the federal income tax from the Montana tax, it pays quite a number of Montana taxpayers to take a standard federal deduction and to itemize deductions on the Montana tax and the evidence they have suggests that those taxpayer compliance costs for Montana tax in addition to costs of the federal tax are quite high. He said he would estimate it costs those taxpayers something in the neighborhood of $10 to $20 millon a year

(2) He noted the second reason has to do with equity - who is paying how much tax. He said that there are differences now in the federal and state definitions and different definitions would have different fairness or burden results, but evidence indicates quite strongly that even people with the same levels of income pay quite different amounts of taxes.

(3) He said the third point was that it looks as though there is a fairly good chance some substantial changes in the definition of taxable income will be coming at the federal

level and if you change those definitions, you are not going to change just the amount of revenue, but you are certainly going to change the pattern of burden, distribution, implications of efficiency and how much it costs the taxpayer for compliance, etc.

Eric Feaver, representing the Montana Education Association, said that he was a proponent as is the association and they believe that the state needs the revenue necessary to fund the services and they hope that this will be adopted by the committee.

Alan Eck, representing the Montana Farm Bureau Federation, offered testimony in support of this bill. See Exhbit 4.

Representative Bradley informed the committee that she had requested that Kenneth Morrison from the Department of Revenue to appear to answer any questions.

OPPONENTS: There were no opponents.

QUESTIONS ON HOUSE BILL 62:

Representative Harp asked in talking about the complexity of income tax law, are they not talking more about federal law than state law and he noted that a lot of problems are out of their hands. He noted that Senator Dole, Chairman of the Finance Committee, put out a tax policy and people all over the United States are still trying to figure out what they did back there and he wondered if this committee can keep up with the ever-changing tax laws in the United States.

Representative Bradley answered that she thought he just gave a very good reason for the study and one of the questions is whether the state of Montana should 'piggy back' the way they do. She felt the situation was so unfair and so complicated and the fact that they do change it every session, the professionals have to try and figure out what they did.

Representative Ellison asked if the federal tax changes do not come until late in 1986 and we are trying to measure our state income on this, he wondered if this study might be a little premature.

Representative Bradley answered that this may be too soon, but she would say that the tax changes are too late and she thought it was better that we have somebody who would try to figure out what to do than to have nothing at all.

Representative Ellison asked the same question of the Department of Revenue.

Ken Morrison, Administrator of the Income Tax Division of the Department of Revenue, informed the committee that the proposal made to the president by the treasury department has some effective dates of July 1, 1986 and the changes that they would make on the federal level would be effective during the tax year of 1986 for returns that are filed in 1987. The next time the Montana legislature meets again would be January of 1987 - the tax forms would be developed and prepared for filing after January 1, 1987 and these are developed during the summer of 1986, so there definitely would be a problem adopting these federal changes in the tax forms by not having the tax table adjust the Montana tax to those changes.

Chairman Devlin asked what would Mr. Morrison's department do if there was nothing done and these federal changes came down - how would they accomplish these forms then.

Mr. Morrison replied that he would ascertain that those sections of law that are now 'piggy-backed' would change on the tax forms but not on the tax tables.

Representative Raney asked who the members of the commission would be - one statement Representative Bradley made referred to C.P.A.s and lawyers on the commission - and he felt that one of the reasons our tax structure is as difficult as it is is because it creates an industry all of its own in C.P.A.s and in legal terms.

Representative Bradley responded that she was trying to show some justification for moving it outside just the two bodies - the House and the Senate - and she thought that coming up with something like this with some recommendations and some changes would be very difficult and take a lot of expertise and a lot of time. She continued that she was not trying to load this up with out-of-touch professionals; she hoped there would be some good expertise; these people are to be selected by the leadership of both parties and both houses and should consist of political membership and citizenship membership.

Representative Asay asked if this couldn't be handled through the Revenue Oversight Committee.

Representative Bradley responded that it could be, but she liked the idea of public participation and she thought that this commission would create a lot more public interest than the committee might.

Representative Gilbert asked Representative Bradley to define the terms, "equity, equality, fair and equal".

Representative Bradley responded that she absolutely would not - that she did not want to turn this into a forum - she could tell about all the inequities she thinks exist in the tax system, but she wants to steer clear of that.

Representative Gilbert asked if she would encourage people on that board that make $100,000.00 a year.

Representative Bradley answered that she would be favorable to have anybody who is committed to understanding and designing a fair income tax system, but she stated that she has absolutely no authority as to who would be on the committee.

Representative Switzer directed a question to Dr. Wicks, asking him if after struggling for twenty years with tax laws, did he feel that after twenty years, they would have a simple tax form.

Dr. Wicks replied that it is possible, but whether the legislature wants this, this is obviously up to the legislature. He said that if simplicity is the only goal, then the way that could be accomplished would be to simply make the Montana tax a percentage of the taxpayers' federal tax and that would reduce the administrative costs and lower the compliance cost to almost zero. He said this would result in the same kind of tax that the feds have.

Representative Switzer said that if we are going to make it simple for Montana, they should do just like the feds do, but that won't improve the makeup of the tax form but in 'piggybacking' on the federal forms that Montana uses doesn't necessarily lead to simplicity - it leads to more of a convenience and a lack of conflict and the way to address the whole thing on a simple level escapes him. He continued that the industry that he is from (agriculture) has about 90% roughly of their gross income as expense and he wondered how that could be simplified to the extent that you could keep the industry in business with a flat tax on gross and he felt that all these things just deny the fact that they can have a simple tax.

Dr. Wicks responded that he didn't think anyone is advocating a flat tax on gross - it would be net income, but there are people who would change the definition of net income. He indicated that for a state like Montana, if you were going to try to improve the equity by changing the burden distribution, you should make it as simple as possible for the taxpayer. He said for Montana residents all they would have to have is name, social security number and the question, "What was your federal tax" and multiply it by the following per cent and there is your tax liability. He pointed out that there may be no fairness in that, but it is very, very simple.

Representative Sands stated that if they were going to authorize $28,000.00 on a blue ribbon commission, they should have some idea as to how the existing system is not working properly.

Representative Bradley asked if he was suggesting that it was.

Representative Sands responded that he did not know if it is, but he would like to have some idea as to why the present system is unfair and why it needs to be studied.

Representative Bradley replied that if four out of five people in this country think that it is advantageously beneficial to the rich, then she would want to represent those people and have a study of it. She explained that they are getting to the point where almost 1/5 of the compensation in this country is in non-cash means and what that is leading to is that some $80 billon of lost tax money if this were cash compensation instead of non-cash compensation. She said that one possibility would be to limit the amount of non-cash compensation. She continued that our national code is some 2,000 plus pages now - it has doubled in the past ten years.

Representative Sands asked if she had given any thought to expanding the scope of the bill to include differing tax systems - income tax, property tax and the old question of sales tax.

Representative Bradley answered that she was open to any expansion that this committee thought would be appropriate, but she hoped that it would not be so broad that it becomes too much to chew. She said that she felt it was really quite a separate plan because the proportion that is brought into the state by income tax is the right amount compared to other types of taxes or whether new taxes should be brought in.

Representative Patterson noted that on this bill, it did not specify whether this commission will study individual income tax problems or corporation tax problems or property tax. He asked if this bill should address those specific types of income taxes.

Representative Bradley acknowledged that it does say income tax and it was brought to her attention that it would just limit it to personal income tax although that was her original intent. She continued that some individuals think that you cannot really address that question without corporation income tax as most of the national proposals seem to be doing. She explained that she thought maybe that could be left open and the commissioners who are ultimately selected could decide as to how much they want to do.

Representative Patterson asked if she felt that they could do all this work in nine meetings - he thought that just looking into the tax codes would take several meetings.

Representative Bradley answered that if he wanted to propose a more costly study, that that was fine with her.

Representative Patterson noted that on section 7, they would allow county agencies to cooperate and he wondered how county agencies could provide help or assistance without having to go out and hire specialists to advise them on this.

Representative Bradley replied that she did not know how you could mandate their cooperation but, at least, they have been offered it. She said that she did not care what they did with the wording there, but the thought is that they are not going to just go off on their own - they are out of pure necessity going to be cooperating with the Department of

Revenue to just get the computer analysis of what revenue or tax changes will do.

Representative Cohen addressed Mr. Morrison, indicating that the Department of Revenue has the facilities to assimilate the various changes in the tax code and he asked if it was the intent of the Department of Revenue to have anything to do with such assimilation.

Mr. Morrison responded that they do have some limited abilities to do that, but, so far, they have not gone through any assimilation.

Chairman Devlin asked why this would terminate as late as April 30, 1987, after the legislature is way into session.

Representative Bradley answered that this was for the commission members to be available to come to the legislature and clarify their work and recommendations.

Chairman Devlin noted that usually any recommendations and reports coming from interim committees, which this would fall under, are usually done before the session starts; and this one reads by the tenth day; and he asked if there was any reason to put this ten days into the session. He noted this was in the bill on page 3, section 9, line 19.

Representative Bradley replied that that is to make certain that there is something that is useful and to come at the end of the session.

Representative Devlin indicated that this is a little different than other interim committees where it is presented to the 50th legislature by the tenth legislative day.

Representative Bradley answered that this was fine with her and that she wanted them to have a lot of time to make any recommendations and to get information circulated widely to the public when the hearings will be held.

Chairman Devlin said that he would like to follow up on Representative Patterson's question wherein it says that county agencies should cooperate in the tax study and he wondered what input the counties could possibly have.

Mr. Morrison replied that he could not think of any.

Representative Devlin noted that on line 2, page 2 and on line 6, it reads "democratic and republican" leaders and it should read "democrat and republican".

Representative Switzer asked what are the logistics of following changes that are made in the federal revenue codes that the state 'piggy-backs' on - do the rules and statutes provide that we continue or must those changes be acted on in the legislature by new rules.

Representative Bradley replied that they started out with the federal adjusted gross income, they add certain income such as out-of-state interest income and there are several kinds of income that are subtracted and then they apply the schedules which go from 2% to 11% - 11% being applied on income over $35,000.00.

Representative Switzer asked Mr. Morrison if he would like to comment on that.

Mr. Morrison explained that the way the law currently reads is that we follow the federal as amended so they would follow the federal amendments automatically without action by the Montana legislature.

Representative Sands asked if Mr. Morrison thought it was practical to have any kind of income tax in this state that isn't tied to the federal.

Mr. Morrison answered that he thought when they uncouple from federal laws, they start running into greater administrative costs, but it could be done but he did not know how expensive it would be and how complex the Montana statute would be.

There were no further questions.

Representative Bradley asked if this bill would be sent to appropriations committee if it passes this committee.

Representative Devlin answered that it would almost have to be asit has a pretty good dollar sign.

Representative Bradley said she hoped the committee would pass this and forward it to the appropriations committee.

The hearing on this bill was closed.

CONSIDERATION OF HOUSE BILL 24: Representative Koehnke, District 32, offered testimony in connection with this bill, which would exempt all sewage disposal systems and domestic water supply systems of all residential dwellings from property subject to taxation. See Exhibit 5. He indicated that there would be an amendment to this bill because he never saw the fiscal note until he walked into the meeting. He said that the revenue department is assuming that this will lower the taxes on every house in the state and that is not the case. He informed the committee that the fiscal note states that there are 43,000 farmsteads that are already taxed and 389,000 parcels that have the value added by the presence of such systems recognized. He continued that they are already taxed recognizing the value if you take away the water and sewage system from a farm house, there would be nothing but a storage building, because the first day the women would go to town and the next day the men would follow.

Chairman Devlin asked if his amendment would be along the lines that would cover rural residences.

Representative Koehnke said that that was right.

PROPONENTS:

Robert VanDerVere, who lives on the outskirts of Helena, testified that he has a well and a septic system and told the committee of the problems he has had with these systems and the problems others have had and indicated that these systems can be very costly.

Ken Kelly, representing the Montana Irrigators, Inc., said there were some 500 members in that organization and they rise in support of this bill. He felt that agricultural land is taxed way below any economic reality.

Allen Eck, representing the Montana Farm Bureau Federation, appeared in support of this bill. See Exhibit 6.

Lavina Lubinus, representing W.I.F.E. and living in Lewistown gave a statement in support of this bill. See Exhibit 7.

Terry Carmody of Helena, representing the Montana Association of Realtors, supports this bill as he contends that a water and sewer system of a house is as important as the foundation - the foundations and roofs are not taxed and to segregate out the water system just does not make sense.

There were no further proponents.

OPPONENTS:

Phil Campbell, representing the Montana Education Association, indicated that he did not see the amendment, but the bill as it stands now would have a drastic effect on the school foundation program in this state and it would take $22 millon from local schools. He said that they would oppose the loss of this kind of reduction in the school foundation program.

Gordon Morris, of Helena, representing the Montana Association of Counties, stated that they were opposed to this bill as submitted, but they would reserve their right to take a close look at the proposed amendment. He said that many bills he looked at today all did the same thing - reduce local property taxes and they are opposed to any further reduction.

Charles Gravely, representing the County Assessors, County Treasurers and County Coroners, said that they would oppose the bill as written because of the effect it would have on the county tax base.

Alec Hansen, representing the Montana League of Cities and Counties, said they would reserve judgment until they see the proposed amendment, but if there was this much loss, they would have to be opposed to it.

Gregg Groepper, Administrator of the Property Assessment Division of the Department of Revenue, said that he did not rise as a proponent or an opponent, but he would like to clear up a couple misunderstandings as to what they are doing. He gave the committee a handout, which shows the current situation of property tax right now with regard to value of improvements. See Exhibit 8. He also passed out a letter from John LaFaver, Director of the Department of Revenue, which is Exhibit 9. He stated that certain property owners are being assessed for the value of this improvement - in fact, the vast majority of them are - and certain property owners are not being assessed.

He continued that agriculture in Montana is in a bad way, but many of the measures that are attempting to provide some relief for agriculture struggle with the definition of 'agriculture' vs. 'rural' and they have been trying to come up with some definition that will make it workable.

There were no further opponents.

QUESTIONS ON HOUSE BILL 24:

Representative Asay indicated that they said that the private wells on property that are outside the city limits are already figured in the value of that property and he asked if they were to assess those wells, would that not be double taxing.

Mr. Groepper replied that they do not assess them differently now but if there were a ten-acre tract and a house sits on one acre, they would value one acre of land at an improved value and the other nine acres at an unimproved value. They do not go on and separately tack on an additional tax for the septic system and the well, he continued.

Representative Asay indicated that they would be assessing wells and septic systems separately.

Mr. Groepper answered that they have instructed their appraisers on the example of ten acres to tell them in the market value of that improved lot how much of that improved value is attributed to those improvements and list those separately.

Representative Ream asked if they would clarify what they are going to propose on the amendment.

Representative Koehnke replied that they propose to include the residences in the rural areas - without this, he said, this would cause an additional tax and they are not trying to lower the tax base.

Representative Ream said that he was trying to figure out if he was urban or rural - he lives outside the city and has his own well and septic system.

Mr. Groepper answered that he did not know the answer to what is rural and what is urban and that is what is being suggested. He contended that as an administrative agency that has to be out facing the individuals, they would like some guidance from the legislature of what to apply. He indicated they would have a variety of options - they could say on a legitimate agricultural operation that generates at least 50% of their income from farming (this would be a very small number of properties) or include every place where everyone has put in their own septic tank and well (this would be a very large number of properties because of all the subdivisions). Another option, he continued, is to put the land at market value and they would not have to pick up any improvements.

Representative Ream commented that one of the concerns he had is that there are some subdivisions within his district and one that has a common septic system and one that has a common well and he wondered how they would be handled.

Mr. Groepper replied that at present the small water users' associations made it clear last session that the equipment associated with that in a commonly-owned system is exempt. He explained that a lot with no common sewer system would have less value than the lots that have the rights and abilities to hook up on the open market, and the assessed value would be reflected in that market value.

Representative Williams asked Representative Koehnke to clarify what he proposed to do with the amendment.

Representative Koehnke said they would work with the department on that - what they intend is not to add taxes to people who have private wells and septic systems, but also to not take any revenue away. This will have to be worked out.

Representative Williams asked if his amendment would create a discriminating problem.

Representative Koehnke replied that they would have to do something about the 43,000 farmsteads.

Chairman Devlin informed the committee that out of the 49,400 farmsteads, 43,000 are not taxed and that means about 6,000 are taxed.

Representative Sands questioned why wells and septic systems aren't taxed now.

Mr. Groepper replied that some of them are right now and some are not and explained how this happened.

Representative Sands asked if this is picked up in the value of the farms.

Mr. Groepper responded that no, it is not added to the value of the building - they are now picked up as a separate improvement on agricultural land; and, if not agricultural land, the value of the improvement is shown as the land value.

Representative Patterson asked how many other states have septic and water systems on their tax rolls.

Mr. Groepper replied that he did not know off hand, but that other states operate on market values the same as Montana, but most states give some different consideration on agricultural land.

Chairman Devlin asked if he could find this out without an awful lot of trouble.

Mr. Groepper said that he could sure try.

There were no further questions.

Representative Koehnke said that they have no intention of taking revenue away from the state, they just want to clarify this and help people who are paying taxes unfairly.

The hearing on this bill was closed.

The committee was recessed at 9:45 a.m. and reconvened at 9:53 a.m.

CONSIDERATION OF HOUSE BILL 31:

Representative Williams, District 85, explained that this would eliminate the provisions for keeping a duplicate assessment book and that it is already being done and this bill would make it legal.

PROPONENTS:

Gregg Groepper, Administrator of the Property Assessment Division of the Department of Revenue, stated that they introduced this bill because many of the counties do not need duplicate assessment books and it is unreasonable to require them to have a duplicate book.

There were no further proponents and no opponents.

There were no questions. The hearing on the bill was closed.

EXECUTIVE SESSION:

HOUSE BILL 31: Representative Williams made a motion that this bill DO PASS. The motion carried unanimously.

ADJOURNMENT: There being no further business, the meeting adjourned at 9:58 a.m.

Gerry Devlin

Gerry Devlin, Chairman

Alice Omang

Alice Omang, Secretary

DAILY ROLL CALL

HOUSE TAXATION COMMITTEE

49th LEGISLATIVE SESSION -- 1985

Date January 14, 1985

NAME	PRESENT	ABSENT	EXCUSED
DEVLIN, GERRY, Chrm.	X		
WILLIAMS, MEL, V. Chrm.	X		
ABRAMS, HUGH	X		
ASAY, TOM	X		
COHEN, BEN	X		
ELLISON, ORVAL	X		
GILBERT, BOB	X		
HANSON, MARIAN	X		
HARRINGTON, DAN	X		
HARP, JOHN	X		
IVERSON, DENNIS	X		
KEENAN, NANCY	X		
KOEHNKE, FRANCIS	X		
PATTERSON, JOHN	X		
RANEY, BOB	X		
REAM, BOB	X		
SANDS, JACK	X		
SCHYE, TED	X		
SWITZER, DEAN	X		
ZABROCKI, CARL	X		

DAILY ROLL CALL

HOUSE TAXATION COMMITTEE

49th LEGISLATIVE SESSION -- 1985

Date January 21, 1985

NAME	PRESENT	ABSENT	EXCUSED
DEVLIN, GERRY, Chrm.	x		
WILLIAMS, MEL, V. Chrm.	x		
ABRAMS, HUGH	x		
ASAY, TOM	x		
COHEN, BEN	x		
ELLISON, ORVAL	x		
GILBERT, BOB	x		
HANSON, MARIAN	x		
HARRINGTON, DAN	x		
HARP, JOHN	x		
IVERSON, DENNIS	x		
KEENAN, NANCY			x
KOEHNKE, FRANCIS	x		
PATTERSON, JOHN	x		
RANEY, BOB	x		
REAM, BOB	x		
SANDS, JACK	x		
SCHYE, TED	x		
SWITZER, DEAN	x		
ZABROCKI, CARL	x		

STANDING COMMITTEE REPORT

January 14 1935

MR. SPEAKER

We, your committee on TAXATION

having had under consideration HOUSE Bill No. 31

FIRST reading copy (WHITE)
color

ELIMINATING PROVISIONS FOR KEEPING A DUPLICATE ASSESSMENT BOOK

Respectfully report as follows: That HOUSE Bill No. 31

DO-PASS-

STATE PUB. CO.
Helena, Mont.

GERRY DEVLIN, Chairman.

COMMITTEE SECRETARY

3

George Will

Trib. 4/29/84

Limit tax-free benefits

WASHINGTON — Time was when Jimmy Carter staggered to a podium carrying an armful of volumes and exclaimed: This is the U.S. tax code and isn't it a disgrace to the human race?

He meant that such complexity is bad. Be that as it may, the Senate Finance Committee has labored mightily and given birth to a tax bill 1,334 pages long — with another 1,010 pages of explanation.

Now the full Senate has finished with it and has limited to $15,000 the amount a company can deduct for automobiles for executives. The senators are in medium dudgeon about the fact that companies are buying foreign cars. The $15,000 sum will buy a lot more of a Cadillac or a Lincoln than a Mercedes.

Another provision says that employees will not have to count as taxable income "watches, clocks, rings, emblematic jewelry, certain personal accessories and other traditional retirement or non-retirement awards" worth up to $4,800. Evidently the watch and jewelry lobbies have been heard from.

THESE TWO provisions are small and illustrations of a trend that is contributing enormously to the revenue crisis that is illustrated by the federal deficit.

The trend is the increased substitution of untaxed fringe benefits — payments in kind — for taxable compensation in cash. When Republicans are weary of just lamenting the deficit and Democrats are weary of just praising "fairness," they should deal with this trend.

The trend is now difficult to define or explain. A reasonable definition is that untaxed benefits are tax shelters, often for those who cannot afford the sort of tax shelters (real estate, oil, coal and other ventures) available to more affluent taxpayers. The explanation for the shift toward non-cash compensation is that such a shift is a response to rising taxes.

The great engine of social change in the modern world — war — changed the average citizen's experience with taxation.

It introduced that citizen to the income tax. Until the Second World War, fewer than 10 percent of Americans paid any federal income taxes. And in the two decades before Ronald Reagan was elected, the percentage of Americans subject to at lest a 32 percent tax rate quadrupuled, from one-eighth to nearly one-half. (A 32 percent rate is higher than the highest rate proposed in most plans for a "graduated flat tax.")

Fringe benefits, which are growing faster than the economy, are valued today at $320 billion, or 16 percent of all compensation. If employees received in taxable cash the value of all employer-paid fringe benefits in 1984, government revenue would increase by $83.2 billion.

THE TWO LARGEST items are pensions and health programs.

Employees pay no income or Social Security taxes on employer contributions to pension plans or income earned by pension funds. Employees pay no taxes on health-insurance premiums or direct reimbursements from employers for medical expenditures.

By not treating these items as compensation, the tax system forgoes $56.5 billion and $21.3 billion, respectively.

Other untaxed compensations include employer-paid life and accident and disability insurance, education assistance, legal services and child care. (For executives there are cars and drivers, special dining rooms and country club memberships, all of which inflame populist feelings but do not involve substantial revenue losses.)

By fiscal 1988 the revenue loss from payments in kind rather than cash may nearly double to $152 billion.

Beginning next year, indexation of the tax brackets will eliminate inflation-produced "bracket creep" that floats taxpayers into higher brackets. That will reduce the incentive to demand non-cash compensation.

But already cash is just 76.4 percent of compensation in the auto industry. There is more medicine than steel in a General Motors car. That is, GM spends more for medical care for workers than it spends for the steel in a Buick.

The income tax is still reasonably progressive. In 1981 about 65 percent of all income-tax revenues came from 23 percent of the population — those with incomes of more than $30,000. And 50 percent of revenues now come from the top 10 percent of earners.

BUT THE TREND toward non-cash compensation is regressive. It benefits employees of the strongest companies, which can afford such benefits, and members of strong unions, which can successfully demand such benefits.

A minimal reform would limit the erosion of the tax base by limiting the share of compensation that can be paid in tax-free benefits.

Like any serious tax measure, this would primarily affect the middle class because (as Willie Sutton said when asked why he robbed banks) that is where the money is.

Exhibit 1
HB 62
1/14/85
Bradley

Exhibit 2
HB 62
1/14/85 - Bradley

Comparing Tax Wish Lists

The Treasury trial balloon, released last week, is not the only major tax-reform proposal afloat in Washington. Rival versions were introduced in Congress last year. The Republican plan, sponsored by Congressman Jack Kemp of New York and Senator Robert Kasten of Wisconsin, comes closest to the idea of a "flat tax," a single rate for all taxpayers. The Democratic alternative, sponsored by Senator Bill Bradley of New Jersey and Congressmen Richard Gephardt of Missouri, offers graduated but lower tax rates. Below, the main features affecting individual taxpayers are compared with current tax law:

Category		Current Tax Law	Treasury Plan	Kemp-Kasten	Bradley-Gephardt
Individual Rates	Single	15 brackets from 11% to 50%	0% up to $2,800 of AGI (adjusted gross income) 15% up to $19,300 25% up to $38,100 35% over $38,100	0% up to $2,700 25% flat rate, with 20% exclusion for earned income	0% up to $3,000 14% up to $25,000 26% up to $37,500 30% over $37,500
	Married	14 brackets from 11% to 50%	0% up to $3,800 15% up to $31,800 25% up to $63,800 35% over $63,800	0% up to $3,500 25% flat rate	0% up to $6,000 14% up to $40,000 26% up to $65,000 30% over $65,000
Mortgage Interest		Deductible	Deductible for principal residences only	Deductible	Deductible[1]
Other Personal Interest		Deductible	Deductible up to $5,000	Not deductible except for education loans	Deductible only for investment income
Property Taxes		Deductible	Not deductible	Deductible	Deductible
State and Local Income Taxes		Deductible	Not deductible	Not deductible	Deductible
Charitable Contributions		Deductible	Deductible above 2% of AGI	Deductible	Deductible
Medical Expenses		Deductible above 5% of AGI	Deductible above 5% of AGI	Deductible above 10% of AGI	Deductible above 10% of AGI
Indexing[2]		Yes	Yes	Yes	No
Individual Retirement Accounts		$2,000 tax deductible[3]	$2,500 tax deductible	$2,000 tax deductible	$2,000 tax deductible
Corporate Pensions		Tax deferred[4]	Tax deferred	Tax deferred	Tax deferred
Social Security Benefits		Not taxed for lower and middle incomes	Same as current law	Taxed at lower rates	Same as current law
Capital Gains		60% excluded from income	Taxed as ordinary income	19% excluded for 10 years, then taxed as ordinary income	Taxed as ordinary income
Capital Gains on Owner-Occupied Housing[5]		Yes	Yes	Yes	Yes
Child-Care Costs		Tax credit up to $2,400 (1 child) $4,800 (2 or more)	Deductible up to $2,400 (1 child) $4,800 (2 or more)	No credit or deduction	Deductible up to $2,400 (1 child) $4,800 (2 or more)
Health Insurance Paid For by Employer		Not taxed	Not taxed up to $70 a month (single) $175 a month (family)	Not taxed	Taxed
Life Insurance Paid For by Employer		Not taxed	Taxed	Not taxed	Taxed
Business-Related Entertainment		Deductible	Meals deductible up to $50 a day	Deductible	Deductible
Business Travel		Deductible	Deductible up to twice the travel per diem ($100) for federal employees	Deductible	Deductible

[1] Under Bradley-Gephardt, all deductions are at a maximum rate of 14%

[2] Adjusting tax brackets to inflation

[3] Annual contribution to IRA up to $2,000 is not counted as taxable income

[4] Corporate contribution to pension fund is not counted as taxable income until retirement

[5] Profit on sale of home is not taxed as income if used to buy new home within 18 months

Exhibit 4

MONTANA
FARM BUREAU
FEDERATION

502 South 19th Bozeman, Montana 59715
Phone (406) 587-3153

TESTIMONY BY: Alan Eck, Montana Farm Bureau Federation

BILL # House Bill 62 DATE 1/14/85

SUPPORT X OPPOSE

Mr. Chairman and members of the committee:

For the record my name is Alan Eck. I am representing the Montana Farm Bureau Federation. I am speaking in favor of House Bill 62. The Farm Bureau believes in fair and equitable taxes, and that it is the responsibility of government to make every effort to insure that its tax systems are fair and equitable. We feel that house bill 62 is a step in this direction and ask for a do-pass recommendation.

Alan Eck
SIGNED

Exhibit 5
HB 24
1/14/85

HOUSE BILL 24

The original purpose of HB 24 is to establish a property tax exemption for non-public water wells and sewage systems used for residential or domestic consumption. Its basic assumption is that the State of Montana does not tax publicly owned water and sewage systems; hence, it shouldn't tax privately own systems neither. It is a question of tax equity or fairness.

1. Article VIII, section 5, of the Montana constitution states, in part:

"(1) The legislature may exempt from taxation:

(a) Property of the United States, the state, counties, cities, towns, school districts, municipal corporations, and public libraries, but any private interest in such property may be taxed separately;

(b) Institutions of purely public charity, hospitals and places of burial not used or held for private or corporate profit, places for actual religious worship, and property used exclusively for educational purposes; and

(c) Any other classes of property."

2. Title 14, chapter 6, part 2, MCA, provides the list of "Tax Exempt Property." The legislature, by statute, has created numerous classes of property that are exempt from taxation. These include: all household goods and furniture; bicycles; automobiles and trucks less than three-quarters of a ton; freeport merchandise and business inventories; veterans' clubs; money and bank credits; water conservation projects; irrigation and drainage facilities;

Exhibit 6

MONTANA FARM BUREAU FEDERATION

502 South 19th Bozeman, Montana 59715
Phone (406) 587-3153

TESTIMONY BY: Alan Eck, Montana Farm Bureau Federati

BILL # House Bill 24 DATE 1/14/85

SUPPORT X OPPOSE

Mr. Chairman and members of the committee:

For the record my name is Alan Eck. I am representing the Montana Farm Bureau Federation. I am speaking in support of this bill. The delegates at the 1984 Montana Farm Bureau Convention in December passed policy opposing any effort to tax domestic and agricultural water wells and septic systems. The Montana Farm Bureau would appreciate a do-pass recommendation on House Bill 24.

Alan Eck
SIGNED

certain agricultural products; small amounts of mineral sales; community services buildings; antique aircraft; certain disabled veterans' residences; etc.

3. Is a property tax exemption for non-public sewage disposal systems and domestic water supply systems justified? Is it just, right,or fair to both users of public and non-public water and sewage systems?

The unban homeowner who is served by a public water and sewage system must pay for that service much like the rural homeowner pays his monthly electrical bill for pumping his well water.

The unban homeowner must also pay, through amortization (installment payments),for the construction of the public system, which is exempt from property taxation. But the Montana Department of Revenue is proposing (and is already assessing some homeowners) to tax the private wells and sewage system, based upon its authority in 15-6-101(1) and 15-6-134, MCA. Thus, non-public systems would be taxed while the publicly owned ones are exempt.

If this proposal takes effect, as planned, the urban homeowners would actually be receiving water and sewage service at a rate more competitive than the rural homeowner, who must pay for the cost of the original system, maintenance, and operation costs, <u>plus annual property taxation rates on the related systems.</u>

If we were to enact legislation that taxed publicly owned water and sewage systems, its users could expect to see the cost of the new tax passed on to the consumer in the form of high rates.

In fairness, we must enact legislation to exempt non-public systems for property taxation.

Exhibit 7

WITNESS STATEMENT

Name [illegible] | Committee On [illegible]

Address [illegible] | Date [illegible]

Representing [illegible] | Support [illegible]

Bill No. [illegible] 24 | Oppose

Amend

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1. [illegible]

2.

3.

4.

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

FORM CS-34
1-83

Exhibit 8
HB 24
1/14/85
Groepper

Based on the reappraisal work we have completed to date, our findings are as follows:

1. Mobile Homes: (54,035 parcels) — The value of the improvement (septic tanks and wells) for mobile homes would show up in the land value for the tract under the mobile home. The improvements for these properties are treated the same way as they are for lots and tracts below. This is true statewide.

2. Residences: (233,966 parcels) — The value of the improvement (septic tank, well, hookup to city water and sewer) would be reflected in an increased land value of these properties. That increase is treated the same way as lots and tracts below. This is true statewide.

3. Vacant Lots and Tracts:
   a. 92,939 Improved
   b. 216,858 Unimproved

   If the lot is improved ie. water and sewer have been brought into the lot from the street, or if the lot or tract has a septic tank or well on it, the appraised value of the land has been increased to reflect that improvement. This is true statewide and would include what we refer to as improved suburban tracts. (Those lots or acreages outside of city limits which have water and/or sewer service.) Unimproved lots would not have a well or septic tank and, correspondingly, would not be assessed for that improvement.

4. Farmsteads: (49,440 parcels) — Our findings to date are that septic tanks and wells providing service to farmsteads (residences on agricultural land) were generally not appraised in any county except Flathead, Missoula and Lincoln (see farmsteads, following sheets, approximately 4,300). However, County and State Tax Appeal Board decisions under the Greenbelt law, 15-7-201 through 15-7-213, MCA, have directed us to value an acre of agricultural land at market value in many contested Greenbelt cases. In those cases, the septic tanks and wells are treated the same as lots and tracts above. Counties with multiple properties treated in this fashion are: Gallatin, Sanders, Lake, Park, Mineral and Ravalli. This would amount to approximately 2,000 properties.

Total potential parcels with water well, septic tank or city hookups.

[1+2+3a+4] 430,380

Estimated number assessed

[1+2+3a+6,300] 387,240

Exhibit 9

HB 24
1/14/85

DEPARTMENT OF REVENUE

TED SCHWINDEN, GOVERNOR

MITCHELL BUILDING

STATE OF MONTANA

HELENA, MONTANA 59620

January 4, 1985

Representative Gerry Devlin
Chairman, House Taxation Committee
Capitol Station
Helena, MT 59620

Dear Representative Devlin:

There are two issues that have arisen through reappraisal which will have to be resolved in a consistent fashion beginning 1986.

One issue involves septic tanks and wells on agricultural land. Presently they are taxed in some counties and not in others. The other issue involves arbitrary reductions in the appraised values applied to certain residences, some of which are on agricultural land and some of which are on subdivided land.

Based on the Department's legal review, we would have to take the following approach in 1986 unless legislation is enacted which would change the existing statutory treatment of these properties:

A. Beginning tax year 1986 septic tanks and wells on agricultural land will go on the tax rolls as an improvement if they are not already on the tax rolls. It is our estimate there are over 387,000 properties in Montana for which the increased market value due to septic tanks, wells or city hookups has been assessed and taxed. Out of 49,440 farmsteads, 43,000 farmsteads have not been taxed for this improvement.

   If the Legislature is uncomfortable with these properties being taxed as other similar properties, it would need to exempt septic tanks and wells on agricultural land or direct the Department to value some portion of agricultural land, perhaps an acre, at market value. The market value would reflect any value added to the land by improvement.

B. Beginning in 1986 the Department would remove the arbitrary reduction in appraised value, commonly referred to as a "Farm Home Discount", from residences that have previously enjoyed this discount. Residences presently enjoying this discount are located on agricultural land and subdivisions. It would be the Department's intention to review sales of these properties and adjust the appraised value if it can be supported by market information. If the Legislature is uncomfortable with this approach it would need to enact legislation exempting a certain percentage of the appraised value of residences in certain locations.

This letter is not intended as endorsement for any particular proposal. It is merely the Department's interpretation of existing statutory and constitutional requirements which we are required to enforce.

I would be happy to meet with you and discuss this subject in greater detail at your convenience.

Sincerely

John LaFaver
Director

JL:kc
gg70d
cc: Governor's Office
    Gregg Groepper

WITNESS STATEMENT

NAME Rep. Brady BILL No. 24

ADDRESS Canyon Creek DATE

WHOM DO YOU REPRESENT Self.

SUPPORT ✓ OPPOSE AMEND

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

I would like to speak in support of HB. 24. ~~Wa~~ I have worked against the Dept. picking these wells and sewer system for the last two years. I feel this is a very unfair additional tax to the rural residents.

Thank You.

FORM CS-34
1-81

VISITOR'S REGISTER

HOUSE TAXATION COMMITTEE

BILL HOUSE BILL 24 DATE January 14, 1985

SPONSOR Representative Koehnke

NAME	RESIDENCE	REPRESENTING	SUP-PORT	OP-POSE
GREGG GROEPPER	501 ADAMS	DEPT OF REVENUE		
K.M. Kelly	Helena	Mont. Irrigators, Inc.	✓	
GORDON MORRIS	HELENA	MACo		X
Terry Carmody	Helena	MAR	✓	
Charles Graveley	"	Co Treas; Co Assessors; Co Coroners		✓
Phil Campbell		MEA		X
Mike KOEHNKE	TOWNSEND	Self	✓	
[illegible]	Lewistown	WIFE	✓	
George [illegible]	Kalispell	Mont Dairymen assn.	✓	
Alan Eck	Bozeman	Montana Farm Bureau	✓	
Rep. [illegible]	Canyon Creek	Self	✓	
George Allen	Helena	Mt. Retail Assn.		
Alec Hansen	Helena	MONT LEAGUE OF CITIES		✓
R.A. Ellis	Helena	Self	✓	
J H Boles	Helena	Mt Chamber of Commerce		
[illegible]	Helena	Self	✓	

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

WHEN TESTIFYING PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

FORM CS-33

VISITOR'S REGISTER

HOUSE TAXATION COMMITTEE

BILL House Bill 62 DATE January 14, 1985

SPONSOR Representative Bradley

NAME	RESIDENCE	REPRESENTING	SUP-PORT	OP-POSE
F.H. Boles	HELENA	MT. CHAMBER OF COMMERCE		✓
Alan Eck	Bozeman	Montana Farm Bureau	✓	

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

WHEN TESTIFYING PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

FORM CS-33

VISITOR'S REGISTER

HOUSE TAXATION COMMITTEE

BILL HOUSE BILL 31 DATE January 14, 1985

SPONSOR Representative Williams

NAME	RESIDENCE	REPRESENTING	SUPPORT	OPPOSE
GREGG GROEPPER	501 ADAMS	DEPT OF REVENUE	X	
GORDON MORRIS	HELENA	MACo	X	
Charles Graveley	"	Co Assessors	X	

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

WHEN TESTIFYING PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

FORM CS-33