

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE
HOUSE OF REPRESENTATIVES

February 11, 1985

The twenty-third meeting of the Taxation Committee was called to order in Room 312-1 of the state capitol at 8:07 a.m. by Chairman Gerry Devlin.

ROLL CALL: All members were present except Representative Keenan, who was excused. Dave Bohyer, Researcher for the Legislative Council, and Alice Omang, secretary were also present.

CONSIDERATION OF HOUSE JOINT RESOLUTION 21: Representative Fritz, presented House Joint Resolution 21 as an expression of the State of Montana's support of federal efforts currently under way aimed at a more fair, equitable and easier income tax. He stated that when a person with a single source of income has to spend almost an entire week just figuring out what form to use and then finding it may not be correct, it is time for a change. He urged the committee's consideration of this resolution.

There were no opponents or proponents.

QUESTIONS ON HOUSE JOINT RESOLUTION 21: There were none.

Representative Fritz closed and the hearing on this bill was closed.

CONSIDERATION OF HOUSE BILL 544: Representative Iverson, District 12, stated that this bill would establish a tax on compressed natural gas at a rate of 7¢ per 120 cubic feet.

PROPOSERS: John Alke, appearing on behalf of Montana-Dakota Utilities, stated they were in support of this bill. The rate would be close to the rate on gasoline.

Bob Quinn, representing Montana Power Company, feels the 7¢ per gallon is equitable and hopes the committee passes the bill.

Norris Nichols, Administrator of Motor Fuel Division, of the Department of Revenue, proposed an amendment to put this back to gallons.

OPPONENTS: There were none.

QUESTIONS ON HOUSE BILL 544: Representative Williams

asked how many miles could a car travel on 120 cfs.

Mr. Quinn responded it would be 6% less than on gasoline.

Representative Raney asked how much state tax is on a gallon of gasoline. Mr. Nichols responded that there is 15¢ on gasoline and compressed natural gas is one-half of that.

Representative Raney asked about the 6%.

Mr. Alke said this was not entirely correct and he pointed out that in this area the problem is the BTU content. He explained that 120 cubic feet of gas may have an extraordinarily high BTU content, while in other areas the BTU content is very low. He indicated there is tremendous variance in the value of natural gas and that is one of the reasons it's based on the cubic feet basis.

Representative Williams asked why should the BTU content of marketable natural gas vary that much.

Mr. Alke said it varies tremendously; wells on the MDU system have such an extraordinarily high BTU content we have to make sure that it is mixed with gas with a very low BTU content or we literally burn out the appliances used by the customers on our system. It varies by reservoir and it varies by well, he advised.

Representative Sands asked how many BTU's are in a gallon of gas. Mr. Alke responded that if you assume about a thousand BTU gas, 125 cubic feet would be approximately equivalent to a gallon of gas.

Representative Ellison asked if there was any commercial use for compressed natural gas.

Mr. Quinn replied that they are not selling it to anyone else and it takes about a \$50,000 investment for the compression equipment. He informed the committee that they are currently in negotiations with the city of Helena to supply compressed natural gas for up to five of their police cars and that would be considered a commercial sale.

There were no further questions.

Representative Iverson closed by saying if you take an engine apart after you have spent \$1,000 dollars on

natural gas, you won't find one speck of carbon in there--it's clean, it burns clean, the exhaust is clean and, if not only the police cars, but if everyone else were burning compressed natural gas in their vehicles you wouldn't feel like you do this morning.

The hearing closed on House Bill 544.

CONSIDERATION OF HOUSE BILL 677: Representative Cal Winslow stated that this bill deals with the ethanol subsidy that we have presently in the state and from April 12, 1979 to June 30, 1983, gasahol was taxed at 2¢ per gallon instead of the 9¢ per gallon applied to gasoline; to be eligible for this tax subsidy, the gasahol had to (1) contain not less than 10% alcohol produced in Montana from Montana agricultural products and (2) be sold in Montana. He then gave background information on the history of this legislation.

He indicated that the proposal that is before the committee is to take the 50¢ subsidy that is scheduled to drop April 1, and maintain it rather than to continue to decrease it. He advised that ethanol production had a chance to develop when gasoline prices were high; but as they continue to drop it appears that the chances of ethanol being a viable product become less and less, and probably will need more reliance on help and subsidy.

Payton Terry, from Valley Industrial Park in Glasgow, stated that this bill will have an extremely beneficial effect for the farming community through the development of more ethanol plants; this directly affects the job market in Valley County due to the building of a sizable ethanol plant which will employ 100 or more; there would be an additional 157 support jobs. He informed the committee there are many other plants planned in other counties and they propose to burn Montana coal, so the coal severance tax would be paid; it would require a lot of trucks to haul the coal so additional jobs would be created; and it would boost the price of wheat 10-15¢ per bushel.

OPPONENTS: Bill Gosnell, Executive Staff Assistant to the Director of the Department of Highways, spoke for the director who could not attend. He explained that they oppose this bill because the extension of the 50¢-per-gallon indefinitely means there will be

a definite drain on the highway fund - it would have a potential impact of \$3.9 million a year on the highway fund.

There were no further opponents.

QUESTIONS ON HOUSE BILL 677: Representative Iverson asked Representative Winslow about the 18% of the market. Mr. Gosnell said it was an assumption based on the gallon use in 1983 - around 440 million a year at 18% represents 6 or 7 million gallons. He said it was a reasonable number at the time.

Representative Abrams asked what is the value of a gallon of alcohol. Mr. Braunbeck responded that current projections are at \$1.90 per gallon.

Representative Gilbert questioned Representative Winslow what is the percentage of the use of alcohol over the last four or five years. Representative Winslow replied, in 1982, a million gallons were used and, in 1983, about 1,030,000 gallons were used.

Representative Gilbert asked Representative Winslow if he was concerned because this is a subsidized product. Representative Winslow responded that he was more interested in keeping the subsidy, not increasing it - to keep this project going even though it is not a very profit-making business presently.

Representative Asay noted that this was initially used for gasohol and now its use has expanded. He asked if the other different uses will affect the overall market. Representative Winslow said, because of the byproducts they are coming up with, it still draws people into the business. He indicated that the Hardin plant produces electricity as well and they have a contract with Montana Power.

Representative Asay inquired if there were any other tax credits or incentives being used. Mr. Braunbeck said he believed the federal government provides a 6¢-per-gallon subsidy to distributors.

Representative Asay asked if any other states provide this subsidy. Mr. Braunbeck responded that Colorado provides an incentive for imported products simply because they don't have a refinery in Colorado.

Representative Asay questioned what the impact would be on the wheat market. Mr. Braunbeck responded that the additional competition for the wheat provided by the additional refineries would have some effect but he did not know to what extent.

Representative Sands asked Mr. Terry how many gallons would be produced at the plant. Mr. Terry replied he could not answer that question but, they would not use up the present subsidy under current law.

Chairman Devlin asked Mr. Terry to try and get that information for the committee before they take executive action on this bill. Mr. Terry said he would do that.

Representative Ellison asked what would be the value of alcohol as an octane-enhancer. Mr. Braunbeck said there are a number of studies that exist on this issue; he would guess the refineries have very few options on octane boosting other than gasohol; and it is the hope of the alcohol industry to make a real good replacement on the unleaded market by using gasohol, but he said you could do 50 studies and get 50 different conclusions.

The hearing was closed to further questions and Representative Winslow closed by saying the refineries would provide jobs with an average income of around \$18,000 for about 200-300 people. He said we should also look at the fact of the plants burning coal - that brings in revenue and he felt we could use some of that money to subsidize this program. Also, the grain bins in Montana are full and this would address that surplus, he concluded.

The hearing on HB 677 was closed.

DISPOSITION OF HOUSE BILL 151: Representative Devlin said this bill has been referred back to the committee because the sponsor said there were amendments to the bill that were very important but this committee killed those amendments. Mr. Bohyer went over the amendments. Exhibit 1. The sponsor wanted the bill tied to the agricultural use in 15-70-201, MCA, use of gasoline by a person whose major endeavor and private source of income is from the business of farming or ranching.

Representative Gilbert said he pays \$30,000-per-year fuel tax and he asked if he would have to post a \$60,000 bond. Mr. Bohyer said that is not how the amendment

would read. He explained #3 specifically ties this to agricultural users - agricultural users would have to post a \$1,000 bond and the bond for someone whose quarterly tax liability does not exceed \$800 would have to file twice his estimated quarterly payments.

Representative Devlin told the committee that the amendments were passed unanimously but the question was where these amendments came from.

Representative Ream moved to TABLE this bill. The motion to table the bill CARRIED with Representatives Asay, Patterson, Switzer, and Devlin opposing the motion.

DISPOSITION OF HOUSE BILL 596: Representative Williams moved that HB 596 DO PASS. Mr. Bohyer said he forgot to draft up the amendment to make this bill retroactive but this bill can be retroactive if a retroactivity clause is inserted.

Representative Ream moved to adopt the amendment to make this bill retroactive. Representative Devlin asked, if we make this retroactive, would the people who already paid their \$50 get reimbursed. It was determined that no one had paid the \$50 because they didn't realize they came under this.

Representative Sands explained this deals with a small number of people and they are organized for profit purposes; they don't make any money, but the purpose of people belonging to the organization is to make money; and for that reason, they are not a non-profit organization under the current statute. He said he felt it would be appropriate to give them a break in the future but not to make this retroactive.

The motion to accept the amendment FAILED with Representatives Koehnke, Ream, and Schye approving the motion.

The motion that HB 596 DO PASS CARRIED unanimously.

DISPOSITION OF HOUSE BILL 617: Representative Hannah presented amendments and Mr. Bohyer outlined those amendments. Representative Sands moved that HB 617 DO NOT PASS. The motion that HB 617 DO NOT PASS CARRIED unanimously. No motion had been made on the amendments.

Taxation Committee
February 11, 1985
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DISPOSITION OF HOUSE JOINT RESOLUTION 21: Representative Williams moved that HJR 21 DO PASS. Representative Sands moved to amend the bill on page 2, line 6, following "taxpayers" by inserting "in accordance with the tax reform proposals presented by President Reagan."

Representative Sands commented that this is the way it was presented in testimony.


Representative Williams opposed the amendment because he did not think the president has outlined a true tax reform measure; he has made some suggestions and that is as far as it has gone.


A roll call vote was taken on the motion and 10 members voted for the amendment and 8 members opposed it. See Roll Call Vote.

Representative Ream made a substitute motion to TABLE HJR 21. The motion CARRIED with Representative Sands, Representative Asay, Representative Patterson and Representative Hanson opposing the motion.

There was some discussion in regard to the three bills that had been tabled by the committee. Representative Patterson said it would not be worthwhile to assign these bills to a subcommittee as there just does not seem to be much support for the bills and they all have a fiscal impact. The bills in question are HJR 21, HB 311, and HB 548.

ADJOURNMENT: There being no further business, the meeting was adjourned at 9:40 a.m.


GERRY DEVLIN, Chairman


Alice Omang, Secretary

DAILY ROLL CALL

HOUSE TAXATION

COMMITTEE

49th LEGISLATIVE SESSION -- 1985

Date February 11, 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

February 11, 1935

MR. SPEAKER:

We, your committee on TAXATION

having had under consideration HOUSE Bill No. 596

first reading copy (white)
color

AN ACT TO EXEMPT FROM CORPORATION LICENSE TAX PROVISIONS THOSE FARMERS' MARKET ASSOCIATIONS ORGANIZED FOR THE SOLE PURPOSE OF PROVIDING A RETAIL OUTLET FOR VEGETABLES, HANDICRAFTS, AND OTHER PRODUCTS PRODUCED BY THE SELLER;

Respectfully report as follows: That HOUSE Bill No. 596

DO PASS

STANDING COMMITTEE REPORT

February 11, 1985

MR. SPEAKER:

We, your committee on TAXATION

having had under consideration HOUSE Bill No. 617

first reading copy (white)
color

AN ACT INCREASING THE DEDUCTION OF TAX ALLOWED TO A SPECIAL FUEL DEALER FOR SHRINKAGE BUT LIMITING DEDUCTION APPLICABILITY TO THE FIRST 10,000 GALLONS;

Respectfully report as follows: That HOUSE Bill No. 617

DO NOT PASS

~~DO PASS~~

STANDING COMMITTEE REPORT

February 11, 19 85

MR. **SPEAKER:**.....

We, your committee on **TAXATION**

having had under consideration **HOUSE JOINT RESOLUTION** ~~SEN~~ No. **21**

first reading copy (white)
color

**A JOINT RESOLUTION OF THE SENATE AND THE HOUSE OF REPRESENTATIVES
OF THE STATE OF MONTANA SUPPORTING COMPREHENSIVE FEDERAL TAX REFORM
AND SIMPLIFICATION.**

Respectfully report as follows: That **HOUSE JOINT RESOLUTION** ~~SEN~~ No. **21**

Be amended as follows:

1. Page 2, line 6.
Following: "taxpayers"
Insert: "in accordance with the tax reform proposals of President Reagan"

~~DO PASS~~ Tabled:

(7723)

ROLL CALL VOTE

HOUSE COMMITTEE TAXATION

DATE February 11, 1985 BILL NO. HJR 21 TIME _____

NAME	AYE	NAY
DEVLIN, GERRY, Chrm.	✓	
WILLIAMS, MEL, V.Chrm.		✓
ABRAMS, HUGH		✓
ASAY, TOM	✓	
COHEN, BEN		✓
ELLISON, ORVAL	✓	
GILBERT, BOB	✓	
HANSON, MARIAN	✓	
HARRINGTON, DAN		✓
HARP, JOHN	✓	
IVERSON, DENNIS	✓	
KEENAN, NANCY	-	-
KOEHNKE, FRANCIS		✓
PATTERSON, JOHN	✓	
RANEY, BOB	-	-
REAM, BOB		✓
SANDS, JACK	✓	
SCHYE, TED		✓
SWITZER, DEAN	✓	
ZABROCKI, CARL		✓
	10	8

Alice Omang
Secretary Alice Omang

Chairman Gerry Devlin

Motion: To adopt Representative Sand's amendment.

Exhibit 1
HB 151
2/11/85
Rep. Devlin

PROPOSED AMENDMENTS

House Bill No. 151
Introduced Copy

1. Title, line 7.

Following: "RETURN;"

Insert: "EXTENDING THE WAIVER TO USER'S USING THE SPECIAL FUEL IN AN AGRICULTURAL USE; CLARIFYING THAT A PERSON GRANTED THE WAIVER MUST POST A BOND AND SPECIFYING THE AMOUNT OF THE BOND; AND"

Following: "AMENDING"

Strike: "SECTION"

Insert: "SECTIONS 15-70-304 AND"

2. Page 1, line 10.

Following: the enacting clause

Insert: "Section 1. Section 15-70-304, MCA, is amended to read:

"Section 15-70-304. Bonding, release of surety, and additional bond. (1) Except as herein provided, no special fuel dealer's license or special fuel user's permit shall be issued to any person or continued in force unless such person has furnished bond, as defined in 15-70-301 and in such form as the department may require, to secure its compliance with this part and the payment of any and all taxes, interest, and penalties due and to become due hereunder. Upon application, the department may waive the bond requirement of any resident special fuel user who establishes to the reasonable satisfaction of the department that the tax as herein provided is not delinquent or that interest or penalties are not accrued under the provisions of this part. Upon application, the department shall waive the bond requirement of any public contractor licensed under Title 15, chapter 50, who has posted a performance bond conditioned on payment of all lawful taxes with the contracting entity.

(2) The total amount of the bond or bonds required of any special fuel dealer shall be equivalent to twice his estimated monthly tax payments, the total amount of the bond or bonds required of any special fuel user described in 15-70-325(2)(a)(ii) shall be equal to his estimated annual tax payments, and the total amount of the bond or bonds required of any other special fuel user shall be equivalent to twice his estimated quarterly tax payments as hereinafter provided, determined in such manner as the department may deem proper; provided, however, that the total amount of the bond or bonds shall never be less than: (a) \$5,000 for any special fuel user awarded a contract in accordance with 15-70-321 ~~or less than;~~

(b) \$1,000 for any special fuel user described in 15-70-325(2)(a)(ii);

(c) \$500 for any other special fuel user and not less than ; or

(d) \$1,000 for a special fuel dealer."

Renumber: subsequent sections

3. Page 1, line 17.
Following: "(2)"
Insert: "(a)"

4. Page 1, line 19.
Following: "that"
Insert: ": (i)"

5. Page 1, line 20.
Following: "less"
Insert: "; or

(ii) such user's use of special fuel is an agricultural use as defined in 15-70-201.

(b) Each special fuel user, regardless of return filing period, must post a bond as provided in 15-70-304(2)."

