

MINUTES OF THE MEETING  
TAXATION COMMITTEE  
MONTANA STATE SENATE

January 8, 1985

The first meeting of the Taxation Committee was called to order at 8:05 am, January 8, 1985, by Chairman Thomas E. Towe in Room 415 of the Capitol Building.

ROLL CALL: Senators Brown, Eck, Goodover, Hager, Halligan, Hirsch, Lybeck, McCallum, Neuman, Severson and Towe were present. Senator Mazurek was absent at roll call, but joined the committee at 8:08 am.

Senator Towe explained his general intentions regarding the management of the committee. Meetings on Monday and Saturday mornings would be avoided. He will take no executive action if committee members were missing unless it was absolutely necessary. He requested that committee members advise him of absences in advance. He would not as a rule recognize a motion for the previous question when committee members still want to speak. Vice Chairman Mazurek will occupy the chair when Senator Towe is presenting a bill. Jim Lear, staff researcher from the Legislative Council, and Nancy Aagenes, committee secretary, were introduced.

CONSIDERATION OF SENATE BILL 32: Senator Gary C. Aklestad, Senate District 6, was recognized as the sponsor of the bill. He explained that the bill was drafted in a straight-forward manner to exempt producer-held grain in storage from property taxation. He noted the financial crunch of the agricultural profession, saying that it was particularly hard on young farmers. Many farmers store their grain in a Commodity Credit Corporation program hoping to get a higher price at a later time. This grain should be considered as inventory rather than property, and, therefore, not taxed. He pointed out that the bill has been introduced during the last two sessions and it was defeated because businesses were still being taxed for their inventories. Since the bill removing business inventory from property taxation has passed, he felt it is important that grain be recognized in the same manner. He added that Representative Cody and others will add their names to the bill.

PROPONENTS

Terry Murphy, representing the Montana Farmers Union, spoke in favor of the bill. He said it was a logical, fair extension in the gradual elimination of inventory taxes. He said that the Farmers Union had opposed the elimination of tax on business inventory, but that given that was done, this bill should also pass.

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Allan Eck, representing the Montana Farm Bureau, spoke in favor of the bill saying that it had been their policy for years. SB 32 will give the same tax equity that is given to grain growers in other states. His written statement is attached here (Exhibit A).

Mark Rasmussen, President of the Montana Grain Growers, read a written statement (Exhibit B) also attached here.

Boyd Cazier from the Toston Flats testified that he has 138,000 bushels of wheat stored and that he cannot survive without the subsidy on the stored grain. He said that his taxes on the farm were \$3,200 in 1956 and are now \$36,000. He said that the bill is a necessary support to the more efficient family farm.

Bill Williams testified, representing himself and other farmers. He said the existing law is difficult to administer because the grain cannot be taxed until it has been held for seven months. The assessor looks at the records of the UCC filings and the ASCS to determine how much grain is being held. He said that personally he had been taxed for grain he did not have in storage. He pointed out that rotation of the stored grain can avoid the taxation. He said that taxation was only enforced after the business inventory taxes were dropped. He believes the current law is discriminatory to farmers.

George Allen, representing the Montana Retail Association, said that his association supported SB 32.

Steve Kirksey who runs a family farm with his father also supported the bill saying that the current system is discriminatory to farmers.

Senator Max Conover, Senate District 42, said that as a farmer he heavily supported the bill.

Mons Tiegen of the Montana Stockgrowers Association also supported the bill. He said that Rep. Cody will introduce a bill in the house to exempt livestock from property taxation as well.

Ed Butcher, National Farmers Association, rose to support the bill because he said it was discriminatory to tax inventory.

#### OPPONENTS

Phil Campbell of the Montana Education Association opposed the bill. He said that passage would eliminate \$800,000 from the School Foundation Program alone.

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Gordon Morris of the Montana Association of Counties opposed the bill saying that it would remove \$7.2 million in taxable value resulting in a loss of about \$1.5 million in local governments. His opposition he said is from the point of view of erosion of the property tax base.

Greg Groepper, Department of Revenue, said that in lieu of a fiscal note which was not yet prepared, he did have some numbers. They will be reflected on a fiscal note which should come out soon.

The bill represents \$7,200,000 in taxable value, a \$367,226 loss to the general fund, a total tax loss of \$1,406,110 of which \$843,666 is lost to schools.

Senator Aklestad closed saying that the assessors were establishing a higher price for grain in some counties than the loan value set by the CCC, resulting in taxation on that higher theoretical price than on the actual market price. He cautioned the committee against the new fiscal note saying that the fiscal note from last session projected a drop of only \$199,640 in the foundation program compared to the \$843,000 now. He asked the committee not to use this bill as a way of balancing the state budget.

Questions from the committee were called for.

Senator Severson said he wanted livestock and grain in the same bill. Senator Aklestad said that he opposed that. He noted that there are differences between livestock classifications and stored grain.

Senator McCallum pointed out that the potatoe raisers passed a similar bill related to perishable foods.

Senator Halligan asked if the date used in the bill was appropriate. Senator Aklestad explained that it was based on trying to get last years crop exempt.

Senator Halligan then asked if the producer-held grain was significant enough to need a more detailed definition. Senator Aklestad assured him that it was self-explanatory and need not be further defined.

Senator Eck asked about the rotation loophole. Senator Aklestad explained that bins are numbered and the grain can be changed from bin to bin. Mr. Williams said that more commonly farmers will sell the grain under loan and then replace the storage from the new harvest.

Senator Eck asked about the geography of the stored grain. Mr. Groepper said he would see that the committee was given an indication of the impact by county.

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Senator Towe asked how long grain is normally held. Senator Aklestad explained various loan categories and said that a large percentage of the crop is held more than seven months.

Mark Rasmussen explained that a producer must take a loan for nine months and does not receive any storage payment for that initial time.

Senator McCallum asked about revenue loss to Yellowstone County as a result of loss of business inventory taxes. Senator Eck asked Mr. Groepper to find which counties would be highly effected.

Mr. Williams pointed out that during the last two years farmers built additional storage for farmer-owned reserves at the government's incentive. This would affect the fiscal note as there is currently increased storage. He also wanted the committee to know that the bins are taxed as property regardless of whether grain is stored in them.

Senator Aklestad concluded by asking the committee not to dwell on the loan programs but on the issue of whether a farmer's inventory should be taxed.

Senator Towe thanked those testifying on SB 32 and concluded the hearing on the bill. He asked Senator Mazurek to take the chair for hearing on SB 42, SB 44 and SB 47.

CONSIDERATION OF SB 42: Senator Tom Towe, District 46, was recognized as sponsor of the bill. He explained that it was introduced at the request of the Department of Revenue with the endorsement of the Revenue Oversight Committee. The bill deals with the net operating loss computation for individuals. He recognized Ken Morrison representing the Department of Revenue to speak on the bill. Mr. Morrison explained that the computation of net operating losses has been done by an informal arrangement with no statutory authority. This bill is to statutorily recognize the current policy. In recognizing some omissions Mr. Morrison said the Department would suggest amendments to the bill.

#### PROPOSERS

There were no further proponents to SB 42.

#### OPPOSERS

There were no opponents to SB 42.

Questions from the committee were called for.

Senator McCallum indicated concern about the amendments. Mr. Morrison said they would involve the deduction of federal tax on the state return and allowances related to the licensed

vehicle fee.

Senator Goodover asked how it would operate differently from the status quo. Mr. Morrison said that there are no drastic changes, it would only make current practice understandable to new accountants and out-of-state accountants looking at Montana law. Senator Goodover asked about the effect of congressional changes in deductions of state tax from federal returns. Mr. Morrison said that the state would likely piggy-back federal changes.

Senator Mazurek begged leave to ask Clark Pyfer, present in the committee room, his opinion of the bill. Mr. Pyfer said he would trust Mr. Morrison's testimony and would applaud making Montana law correspond to the federal law.

Senator Towe said that the merit for the bill rested with enforcement power for the Department of Revenue.

Senator Goodover asked if the bill would increase taxes. Senator Towe responded that it would probably go both ways, depending on the individual case.

Senator Hager inquired about fiscal impact. Mr. Morrison said that would be difficult to determine. He said he didn't anticipate any as nothing would be done differently as a result of the bill. Mr. Pyfer concurred in that judgment.

The hearing was closed on SB 42.

CONSIDERATION OF SB 44: Senator Towe was recognized as chief sponsor of the bill, also introduced at the request of the Department of Revenue with the quick blessings of the Revenue Oversight Committee. The bill deals with interest income received by nonresidents from installment sales of business property, and makes that income subject to taxation in Montana. Mr. Morrison was recognized and said that the bill would only give statutory force to current policy.

#### PROPOSERS

There were no other proposers for SB 44.

#### OPPOSERS

There were no opposers to SB 44.

Questions from the committee were called for.

Senator Lybeck asked why there is a distinction between residential property and business property. Mr. Morrison said that the Department intent was only to follow existing

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law and not expand on it. Senator Lybeck felt this was discriminatory. Mr. Morrison said an option to change the bill is available, but that the Department had only wanted to clarify an existing statute.

Senator Towe asked that the fiscal impact of making the bill applicable to all property be investigated.

Senator McCallum asked if a resident would be taxed in the same way. Mr. Morrison said, yes. Senator McCallum then asked if a non-resident would be taxed in his state of residency. Mr. Morrison explained that a tax credit would be given in the state where the income was not earned for taxes paid in the state where the income was generated.

Senator Goodover asked if this would inhibit out-of-state investors. Mr. Morrison explained that it was only a matter of where and not if the tax would be paid. Senator Towe said it might encourage people to sell and leave if the bill is not passed.

Senator Hager asked how it would affect a family sale. Mr. Morrison said that the nature of the transaction would not be relevant. Senator Towe pointed out that if the interest had to be imputed it could make a difference. Senator Hager asked about contracts before 1984 and Mr. Morrison said there would be no break in the interpretation of the policy.

Senator Goodover asked if the bill would remove the necessity of appeal and litigation and Mr. Morrison said it would.

The hearing was closed on SB 44.

CONSIDERATION OF SB 47: Senator Towe was recognized as chief sponsor of the bill which was introduced at the request of the Department of Revenue. The bill deals with changes in the definition of earned income to include subchapter S corporation elections in the determination of what is income in the state of Montana when it is earned by non-residents. Senator Towe deferred to Mr. Morrison from the Department of Revenue to discuss the bill. He explained that the way it is currently prorated some individuals could deduct 100 percent of their income here. This bill is more equitable in allocating those deductions.

#### PROPOSERS

There were no further proposers for SB 47.

#### OPPOSERS

There were no opposers to SB 47.

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Questions from the committee were called for.

Senator Hager asked about the effect if the nonresident lived in a state without income tax. Mr. Morrison said it would not effect a person if the other state has an income tax. Senator Hager asked if there would be a fiscal impact. Mr. Morrison answered that the examples worked out by the Department would affect the state's income both ways.

Senator Goodover asked Clark Pyfer if professional accountants have seen the bill. Mr. Pyfer asked Mr. Morrison if losses and gains would come through in the same way. Mr. Morrison said that it was his impression that they would.

The hearing on SB 47 was concluded by Vice Chairman Mazurek and Senator Towe resumed the chair.

Senator Towe said that no executive action would be taken in today's meeting and asked the Senators if they would like to activate a coffee fund. That was done.

Senator Lybeck asked if the bills would generally be held over or acted on. Senator Towe said that if there was any objection to action it would be held until it was no longer possible.

Senator Towe said that fiscal notes should be requested by the committee for all bills in committee. Senator Severson moved to automatically request fiscal notes for all bills assigned to the Taxation Committee. Senator Mazurek remarked that per statute passed last session the impact on county government must also be included. Senator Towe asked for a vote and the motion passed unanimously.

Senator Towe adjourned the meeting at 9:30 am.

  
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Chairman

ROLL CALL

Senate Taxation

COMMITTEE

48th LEGISLATIVE SESSION -- 1985

8:05am Date Jan 85

SENATE  
SEAT

#

NAME	PRESENT	ABSENT	EXCUSED
Senator Brown	✓	✗	
Senator Eck	✓		
Senator Goodover	✓		
Senator Hager	✓		
Senator Halligan	✓		
Senator Hirsch	✓		
Senator Lybeck	✓		
Senator Mazurek		✓	
Senator McCallum	✓		
Senator Neuman	✓		
Senator Severson	✓		
Senator Towe	✓		

Each day attach to minutes.



ROOM 415-413

## TAXATION

# VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One	
			Support	Oppose
Hanell Winter	Intern (Dorothy Ed.)			
Max Genover	Senator			
Pick Robinson	Interna - Akkedel - McCallum			
Cecil Theisen	Intern - Lybeck			
Bill Huber	Senator Maynech Aiel			
Phil Campbell	Mont. Ed. Assoc	SB 32		✓
Tony Murphy	Mt. Farmers Union	SB 32	✓	
Gordon Morris	Montana Ass of Counties	SB 32 64		✓
Bob Burt	Montana Assoc. of Counties	SB 32 64		✓
George Allen	Montana Retail Gro	SB 32	✓	
Ward Scfield	Self	SB 32	✓	
Boyd Cazier	Farmers	SB 72	✓	
Bill Williams	Farmer	SB 32	✓	
LEONARD Lambart	FARMER + Elevator owner	SB 32	✓	
Daryl Williams	Farmer	SB 32	✓	
Thos. J. Zippay	Farmer	SB 32	✓	
Don Furber	Self			
Clark Ruffer	Self			
Loda Hudak	Montana Association of Counties	SB 32 64		✓
Alan Eck	Montana Farm Bureau	SB-32	✓	
Mary Green	Montana Farm Bureau	SB-32	✓	

(Please leave prepared statement with Secretary)

NAME Terry Murphy BILL NO. SB 32  
ADDRESS Box 2447 Great Falls, MT 59403 DATE 1-8-85  
WHOM DO YOU REPRESENT MT Farmers Union  
SUPPORT X OPPOSE \_\_\_\_\_ AMEND \_\_\_\_\_

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

SB 32 is logical + fair extension of Montana's systematic elimination of inventory taxation.

NAME Alan Eck BILL NO. SB-32

ADDRESS 502 S. 19<sup>th</sup> DATE 1-8-85

WHOM DO YOU REPRESENT Montana Farm Bureau

SUPPORT ☒ OPPOSE ☐ AMEND ☐

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

NAME Boyl CAZIER BILL NO. 32

ADDRESS R 1 Box 40 DATE 1-8-85

WHOM DO YOU REPRESENT Farmers

SUPPORT ✓ OPPOSE \_\_\_\_\_ AMEND \_\_\_\_\_

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

NAME B. H. Williams BILL NO. SB 32

ADDRESS RTE. 1 Box 518 Toston, MT 58643 DATE 1-8

WHOM DO YOU REPRESENT Williams Wheat ranch

SUPPORT X OPPOSE \_\_\_\_\_ AMEND \_\_\_\_\_

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

NAME Steven K. Kirksey BILL NO. SB 32

ADDRESS RT 1 Box 2 Tostori MT DATE 1-8-85

WHOM DO YOU REPRESENT Farm owners

SUPPORT X OPPOSE \_\_\_\_\_ AMEND \_\_\_\_\_

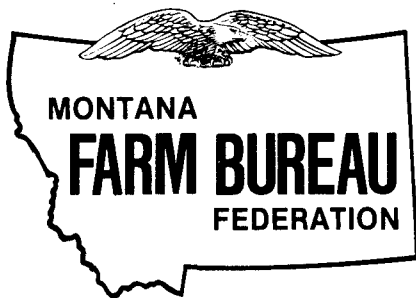
PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

NAME Mons Terjen BILL NO. SB 32  
ADDRESS Helena DATE 1/8/85  
WHOM DO YOU REPRESENT Mont Stockgrowers Assn.  
SUPPORT X OPPOSE \_\_\_\_\_ AMEND \_\_\_\_\_

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:



502 South 19th

Bozeman, Montana 59715

Phone (406) 587-3153

TESTIMONY BY: Alan Eck

BILL # SB 32 DATE January 8, 1985

SUPPORT X OPPOSE

Mr. Chairman. Members of the committee. For the record my name is Alan Eck and I am representing the Montana Farm Bureau Federation. The Montana Farm Bureau Federation supports SB 32. We have written policy calling for this type of Legislation and it has been one of our policies for several years.

There is much about the depressed state of agriculture in the news. Many politicians at all levels have been asking "what can we do to help agriculture". Passage of SB 32 will help give our Montana Grain Farmers tax equity that has already been given to our competitive farmers in other grain growing states.

Mr. Chairman the Montana Farm Bureau urges you and your committee to give SB 32 a "Do Pass" recommendation.

Thank you.

EXHIBIT A

Senate Taxation Committee  
8 January 1985

SB 32

Alan Eck  
SIGNED





SB 32  
8 Jan 85

P.O. Box 1165 • 750 6th Street S.W. • Great Falls, Montana 59403 • 406/761-4596

Mr. Chairman, Members of the Committee:

For the record, my name is Mark Rasmussen. I am a small grain producer from Hogeland, Montana. I am also President of the Montana Grain Growers Association. I would like to testify in support of Senate Bill 32, which would remove the property tax on stored grain.

Several years ago, the Montana Legislature removed the tax on business inventory held for resale. Stored grain, held by the producer, amounts to nothing more than business inventory held for sale. Where a retail merchant buys his inventory from a wholesale supplier or manufacturer, the farmer produces his own inventory. The farmer "purchases" his inventory by way of his production costs, seed, fuel, fertilizer, chemicals, machinery costs, and interest, for example. If the merchant's inventory is not taxed, then neither should the farmer's.

We in the MGGA recognize the difficulty faced by this Legislative Assembly of raising enough revenue to operate the State of Montana for the next biennium. We would ask that the Legislative Assembly recognize the economic difficulties currently faced by Montana agriculture. We are paying property taxes on all of the income-producing items on our farms. Our land is taxed. The machinery we use to cultivate, plant, spray, harvest and transport our crops is taxed. Our grain storage facilities are taxed. When we sell our crops, the income is taxed, by both the state and federal governments.

In the interest of fairness and in the interest of providing some economic relief for Montana farmers, the Montana Grain Growers Association strongly supports the passage of Senate Bill 32, to remove the property tax on stored grain.

EXHIBIT B

Senate Taxation Committee  
8 January 1985

SB 32

MARK RASMUSSEN  
President

ROSS FITZGERALD  
Vice President

HOWARD HAMMOND  
Secretary

GREGG HOLT  
Treasurer