MINUTES OF THE MEETING
TAXATION COMMITTEE
HOUSE OF REPRESENTATIVES
50TH LEGISLATIVE SESSION

March 11, 1987

The meeting of the Taxation Committee was called to order by Chairman Ramirez on March 11, 1987, at 8 a.m. in Room 312B of the State Capitol.

ROLL CALL: All members of the Committee were present, except Rep. Keenan, who was excused. Also present was Dave Bohyer, Researcher, Legislative Council.

CONSIDERATION OF HOUSE BILL NO. 848: Rep. Barry Stang, House District #52, sponsor of HB 848, said the bill addresses the assessment of property used in two states, and would tax such property at a lesser rate in one of those states. He provided an amendment which would reduce the fiscal impact (Exhibit #1), and said the bill is an issue of fairness. Rep. Stang also provided a number of letters in support of the bill (Exhibit #1a).

PROPONENTS OF HOUSE BILL NO. 848: Keith Olson, Montana Logging Association, said many members of his organization work in both Idaho and western Montana, and receive property assessments from both states. He added he believes the bill is a matter of equity.

OPPONENTS OF HOUSE BILL NO. 848: There were no opponents of the bill.

QUESTIONS ON HOUSE BILL NO. 848: Rep. Patterson asked if other states afforded the same opportunity. Rep. Stang replied that Idaho assesses such equipment only for the time it is situated in the state, which creates unfair competition with Montana loggers.

Rep. Williams asked how Montana law works now. Greg Groepper, DOR, replied that if such property is situated in Montana on January 1, it is assessed for the entire year, and if it is situated in the state after January 1, the equipment is prorated for the period in which it is situated in the state, with no provisions for a refund.

Rep. Ellison asked how DOR keeps track of this equipment, and if the bill would also affect construction equipment. Greg Groepper replied licensed equipment would be affected, and unlicensed equipment requires SM (special mobile) plates. He explained that assessors check work sites for such equipment.

Rep. Gilbert asked if the bill would address a situation wherein one worked two days in one state and two days in another state. There was no response.

CLOSING ON HOUSE BILL NO. 848: Rep. Stang explained the bill applies only to the equipment listed on the fiscal note and not to trucks.

CONSIDERATION OF HOUSE BILL NO. 846: Rep. Bob Hoffman, House District #74, sponsor of HB 846, said the bill would provide each county assessor the responsibility for all property assessment within his or her county. He stated the 1972 Constitutional Convention did not intend that DOR be given this broad-based power, and that the bill would return that power to the counties.

Rep. Hoffman advised that during the first six months of this year, DOR's Property Assessment Division spent $85,000. He said DOR does not realize county assessors have other duties, such as preparing tax rolls, making distributions for S.I.D.'s, R.I.D.'s, solid waste districts and fire districts, as well as serving on county planning boards and establishing values within set boundaries.

Rep. Hoffman commented that DOR is not able to do its job, and said that, in many respects, county assessors and appraisers are in competition with each other. He said DOR has the responsibility for financial assessment although there is nothing in statute to this effect. He stated the administration of assessment needs to be in the counties.

PROPONENTS OF HOUSE BILL NO. 846: Sen. John Anderson, Senate District #27, told the Committee that, as a delegate to the Constitutional Convention, he was certain it was not the intent of the Convention to take assessment from the counties. He urged the Committee to support the bill.

Sen. Ed Smith, Senate District #10, said he sponsored a similar bill that will be heard by the House Taxation Committee in the coming week. He provided copies of the Legislative Auditor's report on the DOR's Property Assessment Division, and read from a prepared statement in support of the bill (Exhibits #3 and #4). Sen. Smith said Montana is the only one of a random legislative audit of 13 states to allow state assessment of property.

Marvin Barber, Montana County Assessors, told the Committee that 80% of county assessors polled voted to return assessment to the counties via SB 36, and 66% responded affirmatively to HB 846. He asked the Committee to support the bill.

Don Larsen, Jefferson County Assessor for the past 13 years, said the appraisal schools that clerks are required to attend are very expensive. He commented that county assessors spend an excessive amount of time on paperwork, for which they should receive help from DOR, and that DOR should not be involved in day to day scheduling of work of county assessors.

Lorna Frank told the Committee she represented about 3,500 Montana Farm Bureau members, and requested that the Committee support the bill. Ms. Frank read from a prepared statement (Exhibit #5).

Ray White, Gallatin County Commissioner, said he wanted to talk about management, as counties cannot tolerate state interference. He stated that county assessors are elected officials, but are excluded from any authority. He explained that Gallatin County's computer system is not compatible with the state's, and that Gallatin County has no contact with DOR whatsoever. Mr. White said he believes the state is headed toward centralized assessment.

Julie Hacker, Missoula County Freeholders, stated her support of the bill.

<u>OPPONENTS OF HOUSE BILL NO. 846</u>: Greg Groepper, DOR, asked the Committee to consider the same testimony he gave on Rep. Pistoria`s bill. He explained that DOR is down 70 fte from last year, and has reduced administration costs by 30%, which includes field assessments and appraisals. He added that the Department is asking for work plans to make best use of employee time, and said DOR has a cost rate of $1.80 per $100 in revenue generated.

Mr. Groepper advised that lines 13-18, on page 21, of the bill provides an open-ended appropriation and leaves the state liable in the area of litigation on pages 27-28.

<u>QUESTIONS ON HOUSE BILL NO. 846</u>: Rep. Raney asked what qualifications there are for election to county assessor. Rep. Hoffman replied there are none.

Rep. Raney asked what, if any, educational requirements there are for elected county assessors. Rep. Hoffman replied he had 16 years of education in this area.

Rep. Williams asked if the bill would require constitutional amendment. Sen. Smith replied it would, and said SB 36 provides for that measure.

Rep. Williams asked Sen. Smith how he proposed to raise the necessary 1-5 mills for reappraisal. Sen. Smith replied the Legislature will need to address the matter.

Rep. Williams asked if it might not be more appropriate to combine the positions of county treasurer and county assessor. There was no response.

CLOSING ON HOUSE BILL NO. 843: Rep. Hoffman simply stated the bill would turn back to the counties the business of managing county business.

CONSIDERATION OF HOUSE BILL NO. 843: Rep. Tom Hannah, House District #86, sponsor of HB 843, said the bill would repeal a Senate amendment from the 1985 session, that resulted in doubling railroad taxes. He explained that the bill specifically states it is an act to remove the use of net and gross proceeds of mines from the formula for determining property taxes on certain transportation property.

PROPONENTS OF HOUSE BILL NO. 843: Stan Kaleczyc, Helena attorney representing Burlington Northern, said the bill resolves outstanding issues for tax years 1987 and beyond, and commented he believes that most of the Committee heard the same arguments last session.

OPPONENTS OF HOUSE BILL NO. 843: There were no opponents of the bill.

QUESTIONS ON HOUSE BILL NO. 843: Rep. Williams asked what effect the bill would have on the agreement with the airlines. Mr. Kaleczyc replied he was not certain, but believes that was separate litigation, and that the airlines would be bound by those terms.

Rep. Williams asked what the tax bill would be if net and gross proceeds remain as they are. Mr. Kaleczyc replied the court did not issue an injunction, and Burlington Northern and DOR agreed on the amount to be paid and the amount to be protested, i.e., the same amount in 1986 as was paid in 1985.

Rep. Williams asked Mr. Keleczyc to obtain the numbers on the value of railroad property and to remove net and gross proceeds in estimating 1985 and 1986 taxes, and to compare that figure with the $8.5 million paid by BN in 1984. Rep. Williams also asked DOR to do the same.

CLOSING ON HOUSE BILL NO. 843: Rep. Hannah replied there is enough natural disadvantage without doubling BN's taxes, and said it is appropriate to look at this issue as the Legislature plans the restructuring of Montana's tax system.

<u>CONSIDERATION OF HOUSE BILLS NO. 833 AND 834</u>: Rep. Jack Ramirez, House District #87, sponsor of the bills, said HB 833 would submit to the qualified electors of the state, an amendment to Article VIII of the Montana Constitution to set limitations, including a limit on total state government taxation in each fiscal biennium on state taxation.

Rep. Ramirez stated HB 834 would restrict state taxation and implement an amendment to Article VIII of the Montana Constitution that will be submitted to the qualified electors of Montana that also sets restrictions on total state government taxation and that the proposed implementation act be submitted to the qualified electors of Montana. He advised that both bills provide for an immediate effective date.

Rep. Ramirez commented he does not believe substantial cuts have been made in government spending, as expected by the public. He advised there are institutional barriers, because 75-80 percent of the budget is for elementary and secondary education, the university system, and welfare. Rep. Ramirez stated there is a need to assure the public that things are not out of control, which is accomplished by HB's 833 and 834.

Rep. Ramirez advised the bill would put a constitutional limit on state revenue beginning with any base year (1989 in the bill). He stated section 15, lines 6-13 on page 2, provides limited adjustments for population growth, inflation, and changes in economic activity. Rep. Ramirez explained that statutory limitations exist now, but are not given the attention they deserve. He stated that a number of states, California, Tennessee, Hawaii, Michigan, Arizona, and South Carolina, have enacted this legislation, which provides a balanced tax system. Rep. Ramirez advised that a sales tax cannot exceed 5% as the bill is written.

Rep. Ramirez stated certain caps are needed on property taxes, and that the Property/Sales Tax Subcommittee is working toward meaningful reform on property sales tax. He said the next provision, subsection (5) needs to be rewritten and that provisions on page 3, (6), offer protection to local governments.

Rep. Ramirez said HB 834 is the enabling legislation, containing definitions and formulas, and that there may be some mechanical or technical problems. He pointed out that language concerning revenue that exceeds 1 percent more than the limit on page 2, (3), of HB 834, needs to be removed. Rep. Ramirez advised that the limit can be exceeded if the Legislature perceives a situation to be an emergency.

PROPONENTS OF HOUSE BILLS NO. 833 AND 834: Lorna Frank, Montana Farm Bureau, provided a statement left by Vera Cahoon, Missoula County Freeholders Association, in support of both bills (Exhibit #4).

OPPONENTS OF HOUSE BILLS NO. 833 AND 834: There were no opponents of the bills.

TECHNICAL COMMENTS ON HOUSE BILLS NO. 833 AND 834: Dan Bucks, Deputy Director, DOR, advised that page 2, (4), of HB 833, has the potential to create dual and triple mill levies, as written. He said section 1, (a) and (b), of HB 834, measure revenue by comparing total revenue to personal income in the state, which is not appropriate because a large portion of revenue is not paid out of personal income. Mr. Bucks said the experts do not agree on alternative methods of measuring fiscal capacity, but do agree that the worst method is to use personal income as it leaves out business corporate earnings.

QUESTIONS ON HOUSE BILLS NO. 833 AND 834: Rep. Raney asked if the statute of limitations were currently expended. Rep. Ramirez replied the statute was passed in 1981, and the limit was exceeded in 1983. He offered to provide additional information for Rep. Raney.

Rep. Williams said he questioned the language, "total state government taxation", and asked for an explanation. Rep. Ramirez advised that the bill would limit state governments' overall revenue and add limits on property taxes. He commented that language may need to be clarified.

Rep. Ream asked if there were a problem with using personal income as a measure for revenue because it fluctuates more than total resources. Rep. Ramirez advised he would welcome suggestions on this, because the most accurate reflection of these factors needs to be incorporated into statute.

CLOSING ON HOUSE BILLS NO. 833 AND 834: Rep. Ramirez said the fact that there are not a lot of opponents or proponents of the bills, speaks well for them. He stated the legislation won't satisfy real tax revolutionaries, but would provide balance for middle income taxpayers and those dependent upon government assistance, by providing assurance that the relative size of government will remain about the same. Rep. Ramirez commented he believes the bills will get a lot of support in averting a disastrous situation, while promoting good, solid economic growth.

CONSIDERATION OF HOUSE BILL NO. 768: Rep. Jack Ramirez, House District #87, sponsor of HB 768, said the bill would reinstate capital gains treatment to its status prior to federal tax reform. He explained another bill would have added an inflation factor, but was unsatisfactory as written, causing him to be uncertain that the bill would accomplish its original intent.

PROPONENTS OF HOUSE BILL NO. 768: There were no proponents of HB 768.

OPPONENTS OF HOUSE BILL NO. 768: Ken Morrison, DOR, commented there could be a technical problem in how capital assets are referred to in the bill. He stated it would be easy to amend that statute to accomplish the goal of the bill, but believes it is easier to conform to federal tax laws.

Rep. Mike Kadas, House District #55, read from information he received from DOR (Exhibit #6), and said higher income groups really benefit, making the bill clearly a tax giveaway. Rep. Kadas advised that page 2 of Exhibit #6, shows the 1981 statistics on how capital gains were used, mostly for corporate stock transactions, and personal residence deductions. He said a large portion of other statistics is government bonds, and that the bill would encourage Montanans to invest in out-of-state corporations, which is not good for the state.

Jim Murray, Executive Director, Montana AFL-CIO, read from a prepared statement in opposition to the bill (Exhibit #7), and said the bill is, basically, unfair in its treatment of capital gains exclusions and benefits only the wealthy. Mr. Murray said the bill amounts to an income tax giveaway that the state can't afford, and the fiscal note indicates the state will lose $8.22 million in FY88 and $6.24 million in FY89. He stated he wondered where the people from last session are today, who strongly contended that such legislation was decoupling.

Ken Peres, Economist, Montana Alliance for Progressive Policy, read from a prepared statement in opposition to the bill (Exhibit #8).

Phil Campbell, Montana Education Association, said he opposed the bill because the fiscal note indicates a loss in school revenue which the state can't afford right now.

QUESTIONS ON HOUSE BILL NO. 768: Rep. Gilbert asked if it would be more regressive for offspring to want to sell family farms, if the bill did not pass. Chairman Ramirez replied he is convinced that capital gains treatment will be reinstated in some form, as it has gone too far the other way. He commented an inflation factor for assets held for a period of time is needed, as stated by Phil Campbell.

Rep. Keenan asked if federal reform "flip-flopped" changes made in 1981. Chairman Ramirez replied it goes beyond the change in 1981, which was a legitimate purpose for the treatment of capital investments.

Rep. Keenan asked if this were the "trickle-down" theory or the Economic Recovery Tax Act of 1981. Rep. Ramirez replied no to both questions.

Rep. Ellison asked if Rep. Ramirez had information on how inflation figures were impacted. Rep. Ramirez replied he did not, and that he was more concerned about individuals who have planned for years.

Rep. Williams asked how a ranch sale would be handled. Rep. Ramirez replied that there would be a one-time exclusion of $62,000 on a home, which can be lost if not used, and the proceeds must be reinvested within two years.

Rep. Williams commented that a landowner in Yellowstone County was able to deduct every improvement made to his land during 20 years of ownership.

Rep. Harp advised that Mr. Vasquez, Policy Economics, stated that over a period of four or five years, capital gains will no longer be of consequence to business, as it will be excluded. Ken Morrison, DOR, responded that both Mr. Vasquez' and DOR's estimates appear to be valid, and that it is difficult to ascertain who is correct.

Rep. Ream asked Ken Morrison if he had a breakdown of this information. Mr. Morrison replied he was uncertain, but would attempt to obtain it.

<u>CLOSING ON HOUSE BILL NO. 768</u>: Rep. Ramirez said he believed some real injustices would occur as persons who have invested for 20 or 40 years are hurt, and that the Committee needs to take a close look at this issue.

<u>ADJOURNMENT</u>: There being no further business before the Committee, the meeting was adjourned at 12 noon.

Jack Ramirez

Representative Jack Ramirez, Chairman

DAILY ROLL CALL

HOUSE TAXATION COMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date Mar 11, 1987

NAME	PRESENT	ABSENT	EXCUSED
REP. RAMIREZ		✓	
REP. ASAY		✓	
REP. ELLISON		✓	
REP. GILBERT		✓	
REP. HANSON		✓	
REP. HARP		✓	
REP. HARRINGTON		✓	
REP. HOFFMAN		✓	
REP. KEENAN			✓
REP. KOEHNKE		✓	
REP. PATTERSON		✓	
REP. RANEY		✓	
REP. REAM		✓	
REP. SANDS		✓	
REP. SCHYE		✓	
REP. WILLIAMS		✓	

CS-30

#1
3-11-87
HB 848

HB 848 - Introduced Bill

Amendments

1. Page 1, line 14
   Following: "15-6-138(1)(g)"
   Insert: "on January 1 of the year for which the refund is due"

19
3-11-87
HB 848

March 6, 1987

Barry Stang
State Representative
Capitol
Helena, Montana 59601

Dear Spook:

I am writing this letter in regard to a bill which is now being considered in the legislature, dealing with the pro-rating of equipment taxes.

As loggers we spend at least 6 to 8 months per year logging in the State of Idaho where we have to pay property tax on our equipment. In the winter months our equipment is usually in the State of Montana. The present law now requires us to pay a full years tax on the equipment if it is in the State on January 1st. In reality we are being taxed double on this equipment, both States are profiting from one peice of equipment.

I strongly urge you to vote in favor of any measure that would tax the equipment fairly and on a pro-rated basis.

Thank you for your time and consideration in this matter.

Sincerely yours,

Ken Verley

Kenneth D. Verley
Contract Logger
518 Quartz Loop
Superior, Montana 59872

EXHIBIT 1a
DATE 3-11-87
HB 848

DAW Forest Products Company

Superior Operation - 480 Diamond Road, Superior, Montana 59872 - (406) 822-4221

March 6, 1987

Mr. Berry Stang
House of Representatives
State Capital Building Helena
Helena, MT 59601

Representative Stang,

Your support and passage of a bill which will allow Montana equipment owners (Idaho-Montana) would greatly reduce the burden of paying taxes on equipment based in Montana and operated in Idaho fifty (50) percent of the year.

I am told if the equipment is out of state on January 1 of each year, but in state January 2, the owner can prorate his equipment. If the equipment is in the state on January 1, the owner has to pay taxes on his equipment for the whole year in Montana, plus pay another states six (6) months worth of taxes. This little catch in the law should be changed. Montana needs to keep competive with other states.

Sincerely,

Herb H. Nash

Herb H. Nash
Resource Manager

HHN:dl

1a
3-11-87
848

2/7/87

DEAR SPOOK,
I THINK BILL 848
WOULD BE MORE FAIR TO LOGGERS
THEN WHAT WE HAVE AT PRESENT TIME

THANKS
Bert Arnold
Box 160
St Regis Mont
59866

OFFICE OF

Mineral County Treasurer—Superintendent Of Schools

ILLYE ANN BRICKER
Treasurer—Supt. of Schools

P.O.Box 100
Superior, Montana 59872

Phone: 406-822-4542

EXHIBIT 1a
DATE 3-11-87
HB 848

January 7, 1987

Mr. Barry "Spook" Stang
Capital Station
Helena, Montana 59620

Dear Spook,

Here is the information you requested on the revenue from logging equipment for Mineral County in 1986.

Trucks, Trailers and R.P.O.'s	9,856.27
Taxes and SM licensed equipment	1,902.83
Logging machinery on Miscellaneous tax bills	18,222.46
	29,981.56

not included in HB 848

Some equipment is used on logging jobs and sometimes on other jobs which don't qualify the equipment as logging equipment, so it depends a great deal on the kind of work being done. The above figures are based on whatever paid the 75% logging rates on GVW or SM logging equipment owned by a logging company.

I asked Toots if she'd like to comment on the bill you want to propose, and she said so many of the loggers complain about having to pay taxes in two states, that they have trouble paying their Miscellaneous taxes on their equipment and many don't pay. These taxes are hard to collect and maybe a tax break like you propose would help them to be able to pay what they should.

Feel free to contact our office if we can be of any further assistance to you.

Sincerely,
Carolinn
Carolinn S. Risk

cc: office file

EXHIBIT 1c
DATE 3-11-87
HB 848

J DOUBLE A, INC.

JOHN A. OR JUNE ANDERSON

BOX 325, SUPERIOR, MT 59872

2-6-87

Dear Representative Barry Stang,

We are in support of your bill pro-rating taxes on equipment while being used on jobs in the state of Montana.

Thank you for your fine work in Helena.

Sincerely,

June A. Anderson - Mineral County
John A. Anderson Superior Mt.

EXHIBIT 1a
3-11-87
848

2-6-87

Dear Represenative Barry Stang,

I support your bill on pro-rating taxes on equipment while being used in Montana.

It is nice to know you are looking out for the logger.

Sincerely

Sonja Godin
Box 322
Superior, Mt. 598

EXHIBIT 1a
DATE 3-11-87
HB 848

Superior, Mont.
March 6, 1987

Mr. Barry Stang
House Represenative
Helena, Mont.

Dear Mr. Stang,

We Appriciate your Support in Trying to get The Bill passed To pro-Rate Equipment. This is such a unfair Tax as most of The loggers in This area work about as many months in Idaho As They do montana, usually the work in montana is done during the winter so that makes us have to pay a full yr To Mont. and approximently six months in Id. So ~~wge~~ we get taxed Twice, for at Least ~~one~~ six months

Sincerely,
Joe Demmon
Cheryl Demmon

[redacted]

1a
3-11-87
848

Superior, Mont.
March 5, 1987

Mr. Barry "Spook" Stang
House Represenative
Capital Building
Helen, Montana 59604

Dear Mr. Stang,

We need all the support we can get, to get the bill passed so we can pro-rate our equipment. It is so unfair the way it is now because the equipment is always in Montana during the winter months so we have to pay a full years tax in Mont. and our equipment is almost always in Idaho at least six months out of every year. That makes us paying taxes twice for at least six months a year. We feel that pro-rating is the only fair way, so you are only subject to the tax in Montana and Idaho for the months that equipment is working in them states.

Your co-operation and support has been greatly appriciated.

Sincerely,

Michael T. Bailey
Dana Bailey

1a
3-11-87
HB 848

Superior, Mont.
March 6, 1987

Mr. Barry Stang House
House Rep. #
Helena, Mont

Dear Mr. Stang,

We are writing you about House Bill No. 848.

We need everyone's support in getting a law passed so that we can pro-rate our Equipment, as it is very unfair the way it is right now. We have to pay Mont. a full years taxes & Idaho for how many Months we work in Idaho, and we are usually in Idaho at least six months out of every year.

Sincerely,
Michael J. Bailey

1a
3-11-87
848

March 6, 1987

Dear Mr. Stang,

I am writing to you concerning the Prorating of Equipment.

We would greatly appreciate your support in getting the law on this changed, as I feel that it is unfair.

We have to pay a full year in Montana, and in Idaho we only pay for the months that we work there, which is usually 5 or 6 months of the year, so I feel that I am having to pay for half a year twice.

Sincerely
Ted Cummings
Superior, Mt.

EXHIBIT 1a
DATE 3-11-87
HB 848

Barry Stang

This Letter is To Thank you for your work on The bill To prorate The Equipment Tax between The States.

Thanks for the Help

Jim Ratzlaff

Jim Ratzlaff
Box 778
Superior MT. 59872

EXHIBIT 19
DATE 3-11-87
HB 848

Superior, Montana
March 6, 1987

Mr. Barry Stang
House Representative
Helena, Montana

Dear Mr. Stang,

We Appriciate you trying to get a bill passed to pro-rate equipment. This is such a unfair tax where everyone works in Idaho as much as they do Montana, and we feel that it is only fair that we should only be taxed for what ever months we are in each State.

Thank you for your support it is greatly appriciated.

Sincerely,

Gary & Gail Bailey

VARCO LOGGING, INC.

NORMAN VAUGHAN
406-822-4270

Office 406-822-4460
P.O. Box 68, Superior, MT 59872

JOE RICKETT
406-822-4289

EXHIBIT k
DATE 3-11-87
HB 848

Representative Barry Stang
State Capitol
Helena Montana

Dear Barry

We support your bill on pro-rating taxes on equipment. We feel it is unfair to have to pay taxes for a full year on equipment used for only a few months in the winter and early spring, and then when we move to Idaho as we do every year usually in May or June ,we have to pay taxes to that state for the remainder of the year. This situation is indicitive of most of the loggers in Mineral County.

Thank you for your efforts in our behalf.

Sincerely

Joe Rickett

fa
3-11-87
848

Box 453

Superior, Montana 59872

March 6, 1987

Representative Barry "Spook" Stang

State Capitol

Helena, Montana 59620

Dear Spook,

Please give all consideration possible to legislation regarding pro-ration of taxes for logging equipment. It is unfair taxation having to pay 12 months Montana tax when the equipment possibly works in Idaho for 6 months and is paying Idaho tax for those 6 months.

Sincerely

Jim

James M. Harris

2 J Logging

VARCO LOGGING, INC.

Office 406-822-4460
P.O. Box 68, Superior, MT 59872

NORMAN VAUGHAN
406-822-4270

JOE RICKETT
406-822-4289

1a
3-11-97
848

Representative Barry Stang
State Capitol
Helena Montana

Dear Barry

We support your bill on pro-rating taxes on equipment. We feel it is unfair to have to pay taxes for a full year on equipment used for only a few months in the winter and early spring, and then when we move to Idaho as we do every year usually in May or June ,we have to pay taxes to that state for the remainder of the year. This situation is indicitive of most of the loggers in Mineral County.

Thank you for your efforts in our behalf.

Sincerely

Joe Rickett

1a
3-11-87
848

DEPARTMENT OF REVENUE

TED SCHWINDEN, GOVERNOR

STATE OF MONTANA

MITCHELL BUILDING

HELENA, MONTANA 59620

March 5, 1987

MEMO

TO: Representative Spook Stang

FROM: Steve Bender, Chief SB
Research Bureau

RE: Fiscal Note for HB 848

This memo is intended to provide some additional information on the fiscal note we prepared for your bill to allow refunds of certain duplicate property tax payments.

As I noted in our phone conversation, we do not have good information on the amount of property taxes paid to other states on property assessed in Montana. We, therefore, consulted with property tax officials in order to provide a "best guess" estimate of the affects of your proposal.

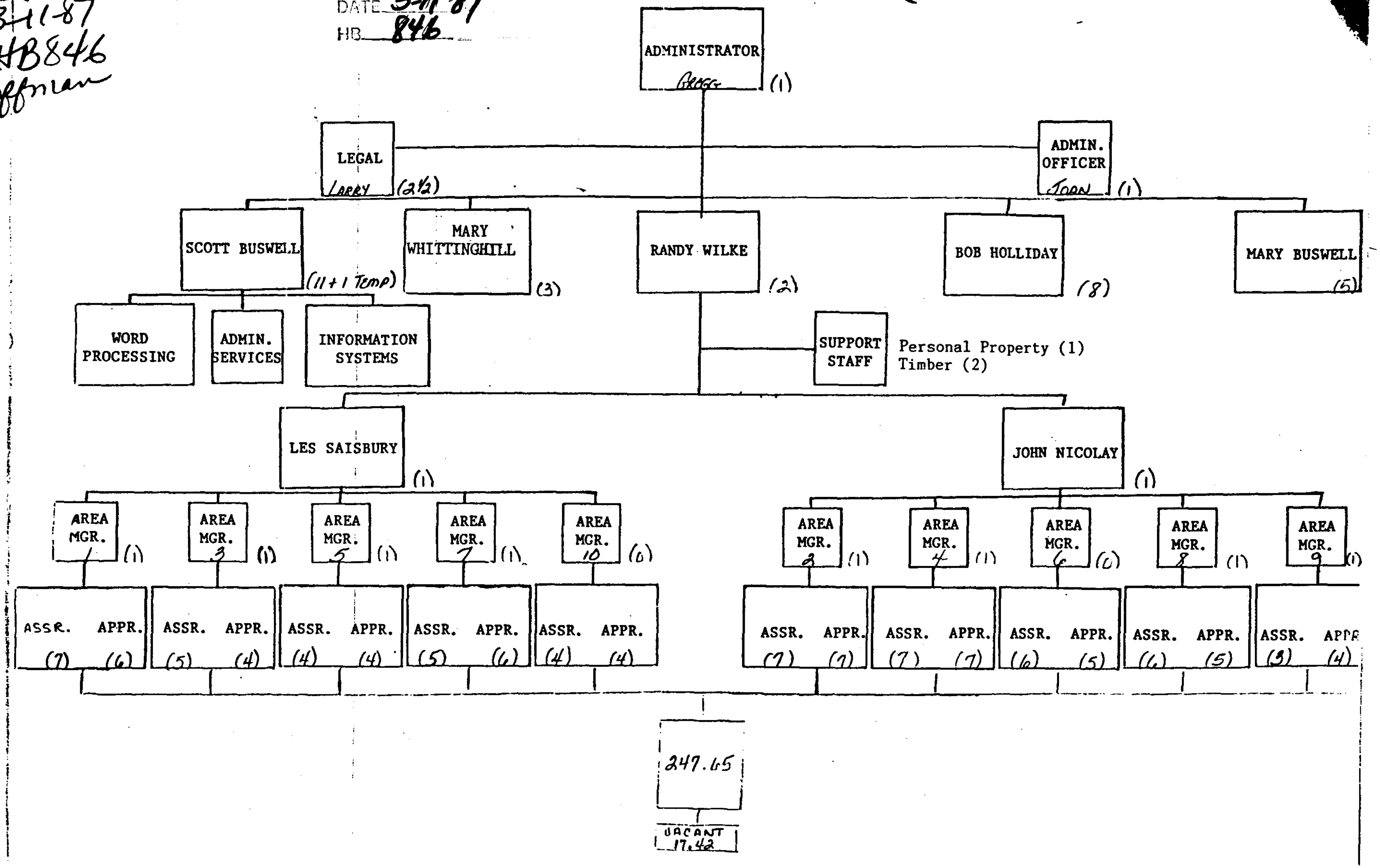
The estimate presented on the note may be best viewed as an upper bound of the reduction in property taxes. It assumes that the full amount of Montana property taxes would be refunded on the portion of the properties that migrate out-of-state. We implicitly assumed that all of these properties would be assessed in another state and pay taxes at least as great as Montana's.

More importantly, however, the note obviously assumes that prorated property taxpayers would be eligible for a refund (e.g. 100% of the drilling rigs migrate out-of-state). After our conversation, I reread the bill to see if the refund was limited to properties assessed for a full year. I did not see any mention of this limitation.

The inclusion of prorated taxpayers is probably the main reason why the estimate is so high. An amendment to limit refunds to properties assessed for a full year's taxes (which I infer from our conversation was your intent) would drastically reduce the cost of the proposal.

Ex #2
3-11-87
HB846
Hoffman

EXHIBIT #2
DATE 3-11-87
HB 846



HB 846
3-11-87
Sen. Smith
From Leg. Aud. rpt.

House Bill 846 #3
3-11-87
846
(Senator Ed Smith)

Table 1
State Expenditures Relating to Property Tax Functions
Fiscal Years 1973 through 1986

	- - - - - - Property Assessment	- - - - - -		- State Tax - Appeal Board
Fiscal Year	General Fund	Other Funds	Total Funds	General Fund
1973	$ 211,901	$ -0-	$ 211,901	$ -0-
1974	940,570	2,927,519	3,868,089	141,517
1975	5,512,446	320,247	5,832,693	171,736
1976	6,618,614	48,986	6,667,600	181,506
1977	6,771,955	251,172	7,023,127	181,486
1978	7,660,394	438,547	8,098,941	172,958
1979	6,703,697	366,207	7,069,904	239,308
1980	6,863,339	282,778	7,146,117	238,742
1981	7,362,774	52,378	7,415,152	248,103
1982	23,467,308	-0-	23,467,308	255,960
1983	24,879,500	-0-	24,879,500	255,086
1984	10,494,852	-0-	10,494,852	291,059
1985	11,121,733	9,000	11,130,733	295,575
1986	11,563,146	25,000	11,588,146	320,338
Total	$130,172,229	$4,721,834	$134,894,063	$2,993,374

PROPERTY ASSESSMENT

Budget Item	Actual Fiscal 1986	Appropriated Fiscal 1987	- - Current Level - - Fiscal 1988	Fiscal 1989	% Change 1987-89 Biennium
F.T.E.	465.40	418.62	394.25	394.25	(24.37)
Personal Service	$ 9,683,647	$ 8,379,991	$ 8,343,044	$ 8,342,128	(7.63)
Operating Expense	1,661,658	1,709,303	1,511,608	1,416,316	(11.8)
Equipment	242,847	57,466	115,061	105,805	(26.45)
Total Expenditures	$11,588,152	$10,146,760	$9,969,713	$9,909,249	(8.54)
Fund Sources					
General Fund	$11,563,152	$10,146,760	$9,969,713	$9,904,249	(8.43)
State Special	25,000	-0-	-0-	-0-	(100.00)
Total Funds	$11,588,152	$10,146,760	$9,969,713	$9,904,249	(8.54)

The Property Assessment Division is responsible for performing all tasks necessary to secure a fair, just, and equitable valuation of all taxable property among counties, between different classes of property, and between individual taxpayers. Specific duties include reappraising all real property every five years, auditing taxable values to be sure they reflect market value, centrally assessing railroads, public utilities, and airlines, defending the department in tax appeals before county and state tax appeal boards and the courts, and conducting schools for assessors and appraisers.

The current level budget provides a 8.6 percent decrease in overall operating expenses caused by the personnel reduction for completing the reappraisal cycle and for the 5 percent and pay plan funding cuts. There is a 24.37 FTE reduction from the fiscal 1987 authorized level after the 5 percent and pay plan cuts to the 1989 biennium current level FTE.

Operating expenses are budgeted to decrease 12.1 percent as expenditures relating to the completion of the last reappraisal cycle are not continued into the 1989 biennium. Equipment expenditures are budgeted to decrease 26.5 percent in the 1989 biennium.

This division is funded from the general fund.

Fiscal 1986: Comparison of Actual Expenses to the Appropriation

The following table compares fiscal 1986 actual expenditures and funding to allocations as anticipated by the 1985 legislature.

NUMBER OF IMPROVEMENTS PER DAY PER APPRAISER BY COUNTY NECESSARY TO COMPLETE REAPPRAISAL DURING FIVE-YEAR CYCLE

	A	B	C	D
	Improvements	Number of Appraisers	Number of Parcels Per Appraiser (A÷B)	Cycle Parcels Per Day (C÷1200)*
Beaverhead	6,080	1	6,080	5.07
Big Horn	4,592	1	4,592	3.82
Blaine	3,510	1	3,510	2.92
Broadwater	2,140	1	2,140	1.78
Carbon	8,041	1	8,041	6.70
Carter	1,370	1	1,370	1.14
Cascade	40,699	9	4,522	3.76
Chouteau	5,878	1	5,878	4.89
Custer	6,776	2	3,388	2.82
Daniels	2,745	1	2,745	2.28
Dawson	6,716	2	3,358	2.79
Deer Lodge	6,286	1	6,286	5.23
Fallon	2,411	1	2,411	2.00
Fergus	9,069	2	4,535	3.77
Flathead	39,107	7	5,587	4.65
Gallatin	27,479	6	4,580	3.81
Garfield	1,432	1	1,432	1.19
Glacier	4,960	1	4,960	4.13
Golden Valley	1,502	1	1,502	1.25
Granite	4,146	1	4,146	3.45
Hill	10,703	3	3,568	2.97
Jefferson	7,053	1	7,053	5.87
Judith Basin	2,957	1	2,957	2.46
Lake	16,978	3	5,659	4.71
Lewis and Clark	28,087	5	5,617	4.68
Liberty	1,743	1	1,743	1.45
Lincoln	20,379	2	10,190	8.49
Madison	9,152	1	9,152	7.62
McCone	2,236	1	2,236	1.86
Meagher	2,726	1	2,726	2.27
Mineral	3,266	1	3,266	2.72
Missoula	39,871	8	4,984	4.15
Musselshell	4,775	1	4,775	3.97
Park **	8,677	2	5,372	4.48
Petroleum	569	1	569	0.47
Phillips	3,944	1	3,944	3.28
Pondera	4,256	1	4,256	3.54
Powder River	1,543	1	1,543	1.28
Powell	4,354	1	4,354	3.62
Prairie	1,526	1	1,526	1.27
Ravalli	19,694	3	6,565	5.47
Richland	6,935	2	3,468	2.89
Roosevelt	5,556	1	5,556	4.63
Rosebud	5,650	1	5,560	4.63
Sanders	8,090	1	8,090	6.74
Sheridan	4,270	1	4,270	3.55
Silver Bow	23,577	6	3,930	3.27
Stillwater	4,400	1	4,400	3.71
Sweet Grass**	2,067	0	-	-
Teton	4,533	1	4,533	3.77
Toole	4,674	1	4,674	3.89
Treasure	589	1	589	0.49
Valley	8,054	2	4,027	3.35
Wheatland	1,848	1	1,848	1.54
Wibaux	956	1	956	0.79
Yellowstone	61,141	10	6,114	5.09
Total/Average	521,890	112	4,660***	3.88***

*Based on 240 days per year multiplied by the 5-year reappraisal cycle (240 X 5 = 1200). The 240 days is an estimate based on days off for vacation, sick leave, etc.

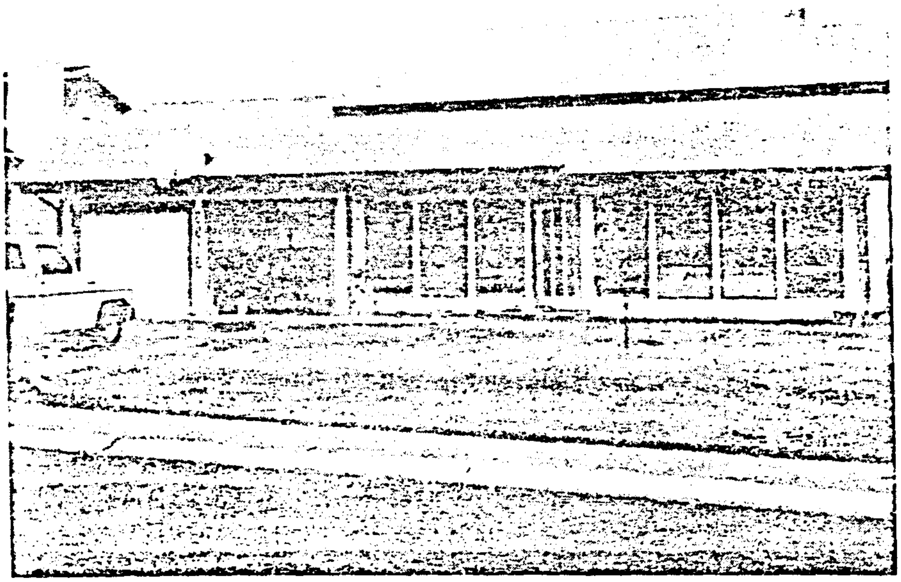
**Park County appraisal staff complete real property appraisals in both Park and Sweet Grass Counties.

***These figures represent averages.

Source: Compiled by the Office of the Legislative Auditor

Illustration 29

RESIDENTIAL PROPERTY COMPARISONS



COUNTY A

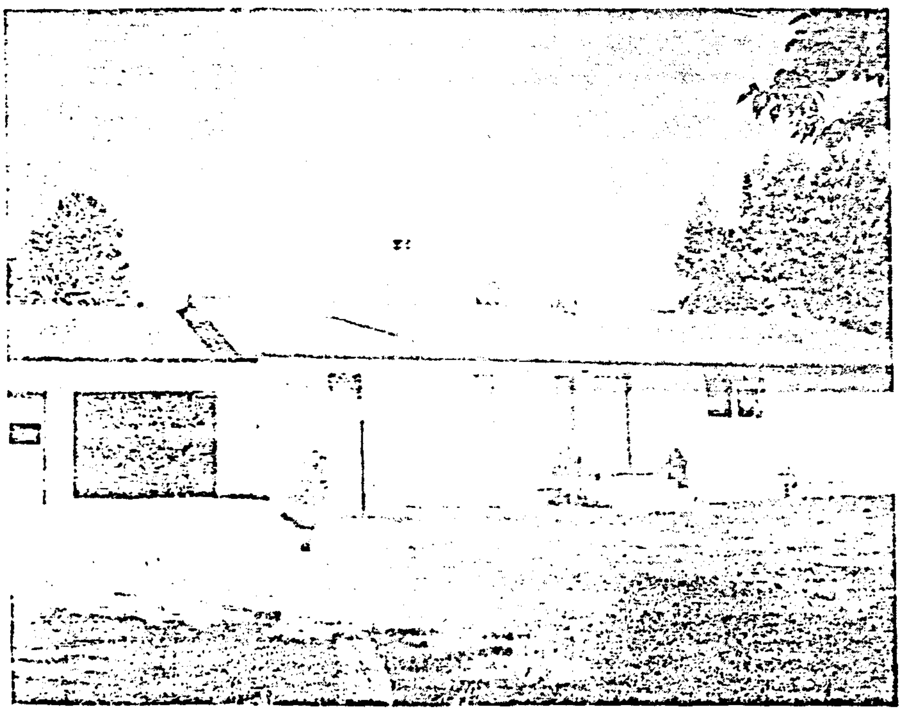
Built in 1983

Typical/average construction

Quality Grade: 1F6 Good

Physical Depreciation: 11%

1986 appraised value: $52,915



COUNTY B

Built in 1983

Typical/average construction

Quality grade: 1F5 Average

Physical Depreciation: 1%

1986 appraised value: $55,042

Illustration 21

RESIDENTIAL PROPERTY COMPARISONS

COUNTY C

Built in 1900

Typical/average construction

Quality grade: 1F3 Fair

Physical Depreciation: 35%

1986 appraised value: $21,789

COUNTY D

Built in 1900

Typical/average construction

Quality grade: 1F6 Good

Physical Depreciation: 80%

1986 appraised value: $24,376

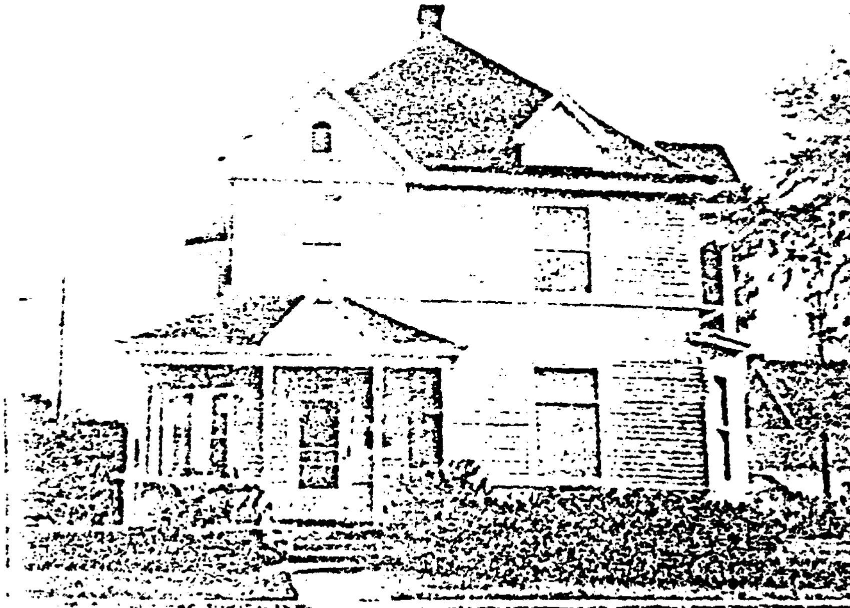


Illustration 22

technique to estimate lot values. We found a subdivision in that county where lots of various sizes were all priced at $9,000 using the statistical technique. In another county an appraiser valued land at $7,000 a lot in a particular subdivision even though market data showed land sales from $10,000 to $13,000 per lot. The property value was computed per front foot based on sales data.

We also reviewed appraisal methods used by the division to value commercial properties. To ensure the processing of commercial property information was accurate, four commercial properties were valued using the Marshall Valuation Service's computer as well as manually. These properties were selected at random by a county appraisal supervisor and were valued by us, a certified division appraiser, and area managers. A comparison was made of the results and we found the valuations varied and the division appraiser's valuations did not agree with the Marshall Valuation automated results in any of the four cases. The following table shows a comparison of computer generated Marshall system valuations with the manual valuations. (The Marshall Computer System is discussed further on page 82.)

COMPARISON OF MARKET VALUATIONS FOR SELECTED COMMERCIAL PROPERTIES

Some Counties on Computer

Property	Marshall System Valuation	Division Appraisers' Manual Valuation	Area Managers' Manual Valuation
A	$ 65,051	$ 56,223	$ 65,480
B	133,142	149,831	135,782
C	156,950*	199,969	199,952
D	11,265	6,922	11,485

*According to division officials the Marshall Computer System does not figure an interior finish construction which would have added about $43,150 to the Marshall System Valuation.

Source: Compiled by the Office of the Legislative Auditor

Illustration 23

MONTANA VS. THIRTEEN OTHER STATES

Category	States Contacted	Montana
Responsibility	13 - County Level Control	State - Administers/ Directs
County Organization	6 - Elected Assessors 3 - Appointed Assessors 4 - Elected & Appointed Assessors at County Level	Elected County Assessors (generally) & State Appraisers
Reappraisal Cycle	2 - Six years 1 - Five years 3 - Four years 2 - Two years 2 - Annual 1 - 80% annually 2 - None	Five years
Certification Requirements for Assessment Personnel	8 - Yes 5 - No	Appraisers - Yes Assessors - No
State Monitoring Procedures	3 - Audits 2 - Sales Assessment Ratio Studies 1 - Field Reviews 2 - Reviews by Request Only 5 - None	Audits Limited Sales Assessment Ratio Studies Area Manager Reviews Work Progress Reports

Source: Compiled by the Office of the Legislative Auditor

Illustration 18

Montana (Property Assessment Division) also "controls" property valuation in the state, leaving the various counties the responsibility of carrying out its directives. Other contacted states generally only administer and support property valuation at the state level, leaving "control" to the counties.

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

SCOTT A. SEACAT
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:
JAMES GILLETT
FINANCIAL-COMPLIANCE AUDITS
JIM PELLEGRINI
PERFORMANCE AUDITS
LEGAL COUNSEL:
JOHN W. NORTHEY

February 19, 1987

Senator Ed Smith
Montana State Senate
Capitol Station
Helena, Montana 59620

Dear Senator Smith:

At your request, we collected some additional information relating to our performance audit of the Property Assessment Division. The attached memorandum presents information on other states we contacted, the replacement cost approach to valuation, public access to property valuation information, and the number of county tax appeals in 1986.

If I can provide further assistance, please let me know.

Sincerely,

Scott A. Seacat
Scott A. Seacat
Legislative Auditor

Attachment

OFFICE OF THE LEGISLATIVE AUDITOR

PROPERTY VALUATION AND TAX APPEALS INFORMATION

Legislative Request (87L-45)

Other States Discussed in Property Assessment Division Performance Audit Report

Vermont
New Hampshire
Maine
Iowa
Nebraska
South Dakota
Illinois
Kentucky
Minnesota
Idaho
Washington
Oregon
Virginia

Replacement Cost Approach to Valuation

Section 15-8-111, MCA, notes that all taxable property must be valued at some percentage of its market value. The statutes do not specify that a certain approach to valuation, either cost, market or the income approach, must be used. Appraisal theory allows for one or all three approaches to be used to determine property value depending on appraiser judgment, and other circumstances. For example, in some cases no sales data is available which limits use of the market approach.

Section 15-7-106, MCA, requires the Department of Revenue to offer courses in appraisal methods. The cost approach is one of the appraisal methods taught to appraisers. The Montana Appraisal Manual states "the use of the cost approach involves determining the present new cost of reproducing the subject building with an identical structure or replacing it with a less costly but equally functional structure of more modern design." To estimate present market value the replacement cost must be reduced by the amount that physical depreciation (of the building itself) and functional obsolescence (because of the location of the building) has reduced the market value of the building below the present replacement cost.

The Property Assessment Division relies on the cost approach (replacement cost less depreciation) to conduct mass appraisal on the approximately 520,000 property improvements (homes, commercial buildings, etc.) located in Montana. Market sales information is used as a check against the cost approach valuation, especially on older buildings where physical depreciation has different effects.

Public Access to Property Valuation Information

A Property Assessment Division official stated that a memo was sent to county appraisal offices requesting that taxpayers be allowed to view property valuation data for up to five properties during each visit to their office. The limitation of five properties was decided upon because some taxpayers were requesting access to a large number of properties which took county office staff away from completing their normal duties.

The division also does not allow public access to property valuation data for a particular reappraisal cycle until values are finalized and entered on the County Assessment Roll. For example, property values generated for the 1986-1990 reappraisal cycle will probably not be finalized until early 1991. Therefore, taxpayers will not have access to property value data related to the 1986-1990 cycle until early 1991.

County Tax Appeals

During the Property Assessment Division audit, we contacted each county tax appeal board and requested data on the number of county tax appeals filed with each board. This type of data was not available from the division or from the State Tax Appeal Board. We received responses from 45 of 56 county tax appeal boards and summarized the data during September 1986. The total from these responses was 11,517 appeals.

DEPARTMENT OF REVENUE

TED SCHWINDEN GOVERNOR

STATE OF MONTANA

MITCHELL BUILDING

HELENA MONTANA

Recd - Thur - Feb, 19, 1987
Paul K. Pistoria

February 13, 1987

TO: All Cascade County Appraisal and Assessment Staff

FROM: Cascade County Management Team

RE: Telephone Call Policy

In order to better utilize staff time and meet our statutory deadlines, the following policy on telephone use is adopted and takes immediate effect.

Cascade County Policy Statement (87-1):

1. There will be one person in the appraisal office and one person in the assessor's office designated to answer the phone. Once a head clerk has been selected, one individual will be designated to answer the phone for both the assessment office and the appraisal office.

2. Requests for legal descriptions, specific land and improvement information, market or taxable value information, or estimates of tax or value information will not be given over the phone. If the request for information is made by long distance phone call, the caller will be asked to request the information in writing.

   EXCEPTION: Phone call requests for information from individual property owners will be honored, provided the request is limited to information on their own property. In no situation will estimates of value or estimates of tax be provided over the phone.

3. Personal calls for employees will not be forwarded. The telephone receptionist will take messages and will ensure that each employee is notified of the calls. All phone messages may be picked up at the telephone receptionist's station.

   EXCEPTION: The restriction on personal phone calls does not include emergency or long distance calls.

4. Emergency phone calls will always be forwarded to the employee. If an employee is expecting an important phone call (ie. doctor, family illness, emergency, etc.), the telephone receptionist should be advised of the anticipated call.

5. Employees shall not initiate personal phone calls during normal business hours, unless they are "emergency" in nature.

Progressive disciplinary action will be initiated against employees who violate this policy.

This policy has been implemented as one of several steps required to strengthen the management structure of the Cascade County appraisal/assessment office. At the conclusion of this assessment year, the policy will be reviewed. If the situation has improved to the point where greater taxpayer assistance is possible, portions of the policy may be rescinded.

ROEW:cr
rw11e

Ed Ramstad
Jean Pesavini
Phyllis Thompson
Mabel Merrill
Denise Mallo

PROPERTY TAX APPEAL FORM NUMBER 1

(Please Read Instructions on Back of Form before Completing)

File this appeal with the county tax appeal board on or before the first Monday in June or within 15 days of the time you receive your Notice of Change in Valuation of real property or your Assessment List of personal property from the Department of Revenue. (For the purpose of a tax appeal, your notice of taxes due from your County Treasurer is not considered a notice of change or assessment.) Please see Instructions #1 & #2.

FOR COUNTY BOARD USE
Date appeal filed: 5-22-86
C. B. Docket No.: #8

(Please Type or Print)

NAME: Smith Farms Inc. PHONE NO. (H) 483-5484 (W)

If name shown on tax rolls is other than taxpayer's, please indicate above.

MAILING ADDRESS: Box HC 412 (Street or Box No.) Dagmar Mt. (City or Town) 59219 (ZIP)

I hereby make application to the Sheridan County County Tax Appeal Board for adjustment in the appraised value of the following described property:

(The following Section must be completed in full to be considered.)

LEGAL DESCRIPTION OF PROPERTY:

City or town property: Lot(s) ______ Block(s) ______

____ Addition or ____ Subdivision *(Check one)* ______ *(Name)*

Street Address: ______

Rural Property: No. of Acres 870 Section 31 Township 32 Range 58

	Appraised Value set by Department of Revenue	Appraised Value as Determined by Taxpayer	FOR USE BY COUNTY BOARD
Land			
Buildings	#11712.00	# 6800.00	$8,000.00
~~Personal Property~~ Buildings mobile home	7483.00	# 3500.00	$4,500.00

Reasons for appeal: Value appraised much higher than original cost. Depreciated value for income tax purpose #5800.00 Just a utility building used for a 50 ft Open Front shed for a few months in winter

Name of person who conducted your hearing, as provided in Sections 15-1-303 and 15-7-102, MCA. (See Instruction #2). ______

Signature of taxpayer: Smith Farms by Doug Smith Date: ~~Feb~~ May 22, 8

Printed name of person signing appeal: DOUG SMITH

STAB FORM (Revised 1986)

February 19, 1987

Senator Ed Smith
Capitol Station
Helena, Montana 59620

Dear Senator Smith:

This is a letter in reply to our discussion yesterday concerning property appraisals.

We bought our house in July, 1987. I received a G. I. Loan which required an appraisal. Tabberachi of Cut Bank made the appraisal, and the appraisal was $50,000; current market value!

We paid $49,900 for the house. The State of Montana reappraised the house the same week, but that appraisal was $104,000. I would sell the house to the State of Montana for $104,000, if I could, but I can't.

I feel the reappraisal is more than double the actual value of our home.

Sincerely,

Doug Abelin

Doug Abelin
205 2nd Ave. So. East
Cut Bank, MT 59427

Lee Witte called and said that he had built a shed using poles, used tin and scrap materials. Using the going wages for carpenters, the amount per square foot was $2.30. The Department of Revenue quoted figures out of the "Manual". The "Manual" said the amount was $7.41, and the state employee said, "That ($7.41) was the amount it was going to be..."

Office of
COUNTY ASSESSOR
ARLETTA C. DERLETH
Gallatin County
Bozeman, Mt. 59715

February 13, 1987

This letter is in response to the newspaper articles regarding the Legislative Audit and the Legislative Audit that was conducted on the Department of Revenue.

I am presently the Assessor of Gallatin County and one of those counties chosen for the audit conducted. When we were informed that a Legislative Audit would be performed on the Department of Revenue, I felt elated that <u>finally</u> Assessors would have an opportunity to state their point of view to that body of representatives, who we felt sure were not being informed of the Department of Revenues actions and policies that were creating mass upheaval at the local level.

After reading the results of the audit, I feel that Assessors concerns were not heard, and that the Department of Revenue had the final say, with the solution to those problem areas defined in the audit being, eliminate the office of Assessor as an elected official. This has been their goal for many years. The elimination of this office, as an elected position, would ultimately be one less voice to represent the people of Montana. I emphasized, during the audit, that as an elected official, Assessors have the responsibility to their constituents to administer an office efficiently, <u>implementing the mandated Laws and Rules and Regulations</u> in a courteous manner. Consistently, taxpayers are complaining about the treatment they receive from State Department of Revenue employees, and their attitudes. This attitude is one of the contributing factors to the <u>disillusionment</u> of state government that we are now experiencing. If a taxpayer does not like the reception they receive in the Assessors Office statewide, those Assessors are vulnerable at the election polls, as they should be.

Assessors have been conveniently blamed for all the problems and errors that resulted from reappraisal. Instructions were given by the Department of Revenue and Area Managers, to get the values on the taxroll through downloading the values from the computer in Helena to the local computers (don't check anything), just get it done and send out assessments. They felt it was the taxpayers responsibility to review the assessment for errors. My feeling was, "you put garbage in, you get garbage out." This was not an efficient or professional manner in which to treat the taxpayers or the county. This procedure would have also resulted in Gallatin County and the school districts setting their budgets on an erroneous value. I made the decision to check all values on ~~an~~ individual basis, resulting in a month and one half of taking home edit sheets and checking the information four hours each and every night. As a result of Senate Bill 20, which was inacted by special legislation in June,1986, an additional workload was added. The Department of Revenue instructed my office, through Area Managers, that we were to return to agricultural value, only those parcels that were 20 acres or more. Any property that qualified by being contiguous and totaling 20 or more acres, was to be left alone and if taxpayers complained, handle them on a one to one basis, correcting only those who complained. This was not the intent of the Law. I was then put in the position of either complying with Senate Bill 20 or statutorily establishing a value for the County by the second Monday in August. With the approval of the Gallatin County Commissioners, the decision was made to manually edit all property owners in Gallatin County to determine if they qualified for Senate Bill 20, being contiguous and totalling 20 or more acres. We felt that the Law mandated this and the best interests of the taxpayer were being considered by insuring a correct tax statement, even though that bill was mailed late. This was not the responsibility of the Assessor, but was necessitated because of the lack of direction by the Department of Revenue to local appraisers to comply totally with Senate Bill 20. The "Tax Assessment Mess" was created by the Department of Revenues lack of communication with local offices. The whole reappraisal was implemented by the Department of Revenue on the computer in Helena. No input was solicited from individual counties as to the format each county needed to insure matching of existing taxrolls in each county; therefore approximately 40% was not compatible, that 40% had to be manually figured on a one to one basis to insure a correct assessment. Now we have been instructed to edit all of the Department of Revenue records and correct them so a mirror image of our county record exists on the state computer. If the effort had been made to do this initially, we would not have to re-edit 25,000 parcels.

The Assessors are mandated with the responsibility of posting the real estate values, as they are submitted by the Appraiser,to the assessment taxroll. The discrepancies in values of lots, are not created in the Assessors office (due to Assessors discretion) but in fact are derived in the Appraisers office, which is under the direct control and supervision of the Department of Revenue. The discrepancies are due to the Appraiser's discretion in depreciation factors, which was stated in the audit. Incorrect information submitted on transmittal forms to the Department of Revenue, is one of the major causes of error in valuations.

Another concern I have, is the lack of concern the Department of Revenue has for maintaining local records. With the implementation of more control at the State level, we inevitably decrease local governments function in the whole taxation process. Local government has a definite interest in tax assessment and should have more voice in procedures. With the lack of staff,and the paper work imposed on the assessors and appraisers requiring the constant editing of state records, the major function of those offices (which is assessing and appraising all personal and real property) has suffered greatly.

In conclusion, I urge you to consider voting for that legislation proposed to return control of the Assessor and the Appraisal Offices to the local governing bodies, with the Department of Revenue responsible for establishing the schedules and depreciation tables to be used statewide for equalization, not administering those local offices. I feel the majority of Assessors have been responsible elected officials' and have done a good job in representing their constituents.

Thank you for you time and consideration.

Sincerely,

Arletta C. Derleth
Gallatin County Assessor

x #5
B 833-834
-11-87

EXHIBIT #4
DATE 3-11-87
HB 833-834

WITNESS STATEMENT

NAME Dean Cohoon BILL NO. 833-34

ADDRESS Star Rte Bonner DATE 3/11/87

WHOM DO YOU REPRESENT? Missoula Co. Freeholders, Assn.

SUPPORT X OPPOSE ______ AMEND ______

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

We urge a "do pass" on this bill. We as taxpayers believe this is a very good piece of leg. & going far to do something worthwhile for the taxpayers. We must start somewhere to limit taxation & spending—

CS-34

EX #4
3-11-87
HB846

#5
3-11-87
846

MONTANA
FARM BUREAU
FEDERATION

P.O. Box 6400
~~502 South 19th~~
Bozeman, Montana 59715
Phone (406) 587-3153

TESTIMONY BY: Lorna Frank

BILL # HB-846 DATE March 11, 1987

SUPPORT XXX OPPOSE

Mr. Chairman, members of the committee, for the record, my name is Lorna Frank, representing approximately 3500 Montana Farm Bureau members throughout Montana.

Property taxes have reached their punitive level andthe state should restrict itself in regard to the property tax field. Property tax relief should be a part of any tax reform. We believe the appraisal, assessment and taxing authority should be the responsibility of county government.

Farm Bureau urges you to give HB-846 a do pass recommendation. Thank you.

We also recommend that County assessors be elected by the voters of the County and be responsible to the voters of their County and their Commissioners and their salary paid by each local government, and not by the Department of Revenue.

SIGNED: Lorna Frank

FARMERS AND RANCHERS UNITED

Rep. Kadas

Ex 6
3-11-87
768

EXHIBIT #6
DATE 3-11-87
HB 768

Capital Gains Data: Tax Year 1985.

Income Bracket ($000)	Number in Bracket	Total Income in Bracket	Number Who Claim	Total Income of Claimers	Amount Claimed	ave. amount claimed
0	17,680	20,308,470	720	786,410	1,763,860	2449
2	23,740	71,287,880	1,400	4,299,340	1,207,040	862
4	21,640	107,572,340	1,720	8,562,400	1,727,560	1016
6	19,640	137,417,470	1,820	12,858,690	1,543,180	857
8	17,320	155,569,370	2,000	17,759,870	2,016,380	1008
10	15,940	175,341,020	2,060	22,746,200	2,754,480	1337
12	14,240	184,484,160	1,780	22,981,220	2,778,080	1561
14	13,180	197,365,890	2,160	32,197,690	3,142,740	1455
16	12,740	216,359,960	1,880	32,145,840	3,750,800	1995
18	11,400	216,485,920	1,980	37,702,080	3,410,560	1722
20	25,422	570,902,669	4,481	100,539,169	7,637,126	1704
25	21,600	593,146,040	3,520	96,614,040	7,399,000	2101
30	19,780	639,820,170	3,900	126,188,170	7,735,820	1983
35	14,281	533,462,001	3,180	119,209,130	7,216,260	2269
40	11,750	498,223,701	3,181	135,336,501	8,749,146	2751
45	7,258	343,536,704	1,832	87,000,033	5,550,133	3032
50	5,231	274,106,357	1,841	96,619,908	9,242,708	5023
55	3,662	209,489,713	1,359	78,059,424	3,894,266	2865
60	2,261	140,663,220	966	60,088,218	4,220,165	4369
65	1,807	121,414,859	795	53,485,551	4,508,699	5671
70	1,185	85,751,529	598	43,269,801	2,979,668	[illegible]83
75	900	69,605,846	554	42,855,063	3,350,562	[illegible]048
80	1,176	99,556,449	699	59,142,737	4,871,244	6969
90	757	71,717,153	486	46,044,723	6,148,659	[illegible]51
100	504	52,708,030	353	36,916,059	5,264,097	[illegible]912
110	329	37,816,213	238	27,371,811	2,480,047	10420
120	1,884	470,056,302	1,426	380,949,596	79,960,805	57114
	287,307	6,294,169,436	46,929	1,781,729,674	195,303,085	4162

Sales of Capital Assets, 1981 and 1982

By Bobby Clark and David Paris*

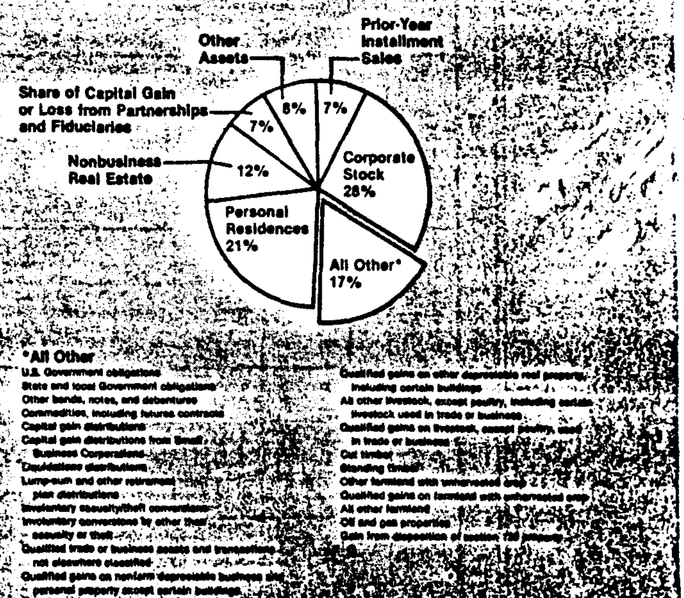
For Tax Year 1981, there were 8.4 million individual returns [1] reporting a gross gain or loss from sales of "capital assets." The gross gain less loss reported totaled $122.9 billion. For Tax Year 1977, the last previous year for which capital transactions were tabulated, there were 8.8 million returns reporting gains less losses totalling $46.5 billion. There are many reasons for this 164 percent increase, one being the changes in tax laws since 1976 which affected the taxation of capital gains and losses.

Even though there was a significant increase in the gross gain (less loss) from 1981 sales of capital assets [2], the amounts included in adjusted gross income (AGI) and the increases in taxes reported on these gains were not as significant. The increases in gains and losses during the 1976-81 period were partly due to inflation and also to law changes which effectively decreased the tax rate on gains. Although the lengthening of the required holding period for short-term gains may have offset this decrease to some extent. This change in the holding period is described below.

For 1973, 1977, and 1981, detailed data were obtained on the sales of capital assets that were associated with the net capital gains and losses included in AGI [3]. This article focuses on 1981 data for the asset types that accounted for most of the increase in gross gain for 1981 over 1977 [4]. For instance, as shown in Figure A, five asset types accounted for 75 percent of the gross gains reported for 1981. The most significant of these were corporate stock and sales of personal residences. As shown in Figure B, these same five asset types showed a substantial increase from 1977 to 1981.

Figure A

Percentage Distribution of Gross Gains from Sales of Capital Assets, by Type of Asset, 1981



For 1981, there were more than 28.6 million sales of capital assets transactions reported. As expected, corporate stock transactions was the asset type most frequently reported. These transactions numbered more than 13.6 million or approximately 48 percent of the total. The second most reported type of transaction was prior-year installment sales. They were reported approximately 2.1 million times. Sales of commodities, capital gain distributions, shares of capital gain or loss from partnerships and fiduciaries, and sales of personal residences were next in order; each type was reported slightly more than one million times.

SHORT-TERM AND LONG-TERM TRANSACTIONS

The number of short-term transactions, i.e., transactions involving assets held for 12 months or less, increased from 5.6 million in 1977 to 11.6 million in 1981. The large increase in

*Individual Statistics Branch. Prepared under the direction of Michael Coleman, Chief.

#1 3-11-87
HB 768

MONTANA STATE AFL-CIO
AFL CIO
APRIL 29 1956

Box 1176, Helena, Montana

JAMES W. MURRY
EXECUTIVE SECRETARY

ZIP CODE 59624
406/442-1708

TESTIMONY OF JIM MURRY ON HOUSE BILL 768 BEFORE THE HOUSE TAXATION COMMITTEE, MARCH 11, 1987

GOOD MORNING. FOR THE RECORD MY NAME IS JIM MURRY AND I AM HERE TODAY ON BEHALF OF THE MONTANA STATE AFL-CIO TO TESTIFY IN OPPOSITION TO HOUSE BILL 768.

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, IT IS OUR BELIEF THAT THE FEDERAL TAX REFORM ACT OF 1986 TOOK GREAT STRIDES IN MAKING THE FEDERAL TAX SYSTEM MORE EQUITABLE TO THE TAXPAYERS OF THIS NATION. THIS PROGRESSIVE MEASURE WAS LONG OVERDUE NOT ONLY BECAUSE IT LOWERED TAX RATES IN THE INDIVIDUAL TAX BRACKETS, BUT BECAUSE IT ALSO CLOSED MANY OF THE LOOPHOLES AND SPECIAL TAX BREAKS THAT PRIMARILY BENEFITTED WEALTHY INDIVIDUALS AND LARGE CORPORATIONS. ONE OF THESE LOOPHOLES WAS THE CAPITAL GAINS EXCLUSION. HOUSE BILL 768 UNWISELY PROPOSES TO REINSTATE THE CAPITAL GAINS EXCLUSION INTO MONTANA'S INCOME TAX CODE. WE ARE OPPOSED TO THIS BILL FOR THREE FUNDAMENTAL REASONS.

OUR FIRST OBJECTION TO HOUSE BILL 768 ARISES FROM THE BILL'S BASIC UNFAIRNESS. A CAPITAL GAIN RESULTS WHEN A CAPITAL ASSET, SUCH AS A STOCK OR BOND OR BUILDING IS BOUGHT, HELD FOR SIX MONTHS, AND THEN SOLD FOR A PROFIT. THIS PROFIT IS THEN LABELED A CAPITAL GAIN, AND UNDER THE PROVISIONS OF THIS BILL, 60 PERCENT OF THIS PROFIT WOULD NOT EXIST FOR TAX PURPOSES.

THE INEQUITY OF THE CAPITAL GAINS EXCLUSION ARISES BECAUSE ALL WAGE AND SALARY INCOME IS TAXED AFTER LEGITIMATE DEDUCTIONS ARE EXCLUDED. OBVIOUSLY, IT IS THE WEALTHY INDIVIDUALS OF OUR STATE WHO WOULD BE THE MOST LIKELY TO PURCHASE A CAPITAL ASSET.

THE SECOND REASON WHY THE MONTANA STATE AFL-CIO IS OPPOSED TO HOUSE BILL 768 IS BECAUSE IT AMOUNTS TO AN INCOME TAX GIVE-BACK THAT OUR STATE CANNOT AFFORD. THE PROBLEMS OF MONTANA'S BUDGET DEFICIT ARE WELL KNOWN. CURRENT ESTIMATES PLACE OUR BUDGET DEFICIT AT AT LEAST $81 MILLION FOR THE NEXT BIENNIUM AND OTHERS SET THE FIGURE MUCH HIGHER. AT A TIME WHEN MASSIVE PROGRAM CUTS ARE ALREADY BEING PROPOSED IN ALL AREAS OF GOVERNMENT, IT DOES NOT MAKE SENSE TO FURTHER EXACERBATE BUDGET SHORTFALLS.

ACCORDING TO THE FISCAL NOTE ATTACHED TO THIS BILL, IN FY 88, THE STATE OF MONTANA WOULD LOSE $8.22 MILLION AND ABOUT $16.44 MILLION IN FY 89. THIS AMOUNTS TO A BACK-BREAKING REVENUE LOSS OF $24.66 MILLION DURING THE NEXT TWO YEARS. AT A TIME WHEN OUR STATE IS SWIMMING IN A VIRTUAL SEA OF RED INK, THIS BILL IS NOT A RESPONSIBLE FISCAL MOVE.

THE THIRD REASON, MR. CHAIRMAN, IS THAT TWO YEARS AGO WE APPEARED BEFORE THIS COMMITTEE TO ARGUE THAT CAPITAL GAINS LOOPHOLES SHOULD BE CLOSED. IN NO UNCERTAIN TERMS, THE OPPONENTS OF THAT PROPOSAL ARGUED AGAINST DECOUPLING

FROM THE FEDERAL TAX CODES CITING NATIONAL TAX POLICIES AND MAINTAINING THAT MONTANA MUST FOLLOW WASHINGTON'S LEAD. ONE OF THEIR STRONGEST CONTENTIONS WAS THAT DECOUPLING WOULD CAUSE TREMENDOUS BOOKKEEPING PROBLEMS FOR AFFECTED TAXPAYERS.

WHERE ARE THOSE WHO OPPOSED DECOUPLING TWO YEARS AGO? THEY SEEM TO BE SINGING A DIFFERENT SONG.

MEMBERS OF THE COMMITTEE, THE FEDERAL TAX REFORM ACT OF 1986 HAS GIVEN THE MONTANA LEGISLATURE THE UNPARALLELED OPPORTUNITY TO RIGHT MANY OF THE TAX INEQUITIES THAT HAVE EXISTED IN OUR INCOME TAX STRUCTURE. FEDERAL TAX REFORMS HAVE CLOSED MANY OF THE LOOPHOLES THAT HAVE MADE ADVOIDANCE OF FEDERAL TAX RESPONSIBILITY POSSIBLE. IF MONTANA CHOOSES TO FOLLOW THE FEDERAL LEAD, WE TOO HAVE THE OPPORTUNITY TO PUT TAX AVOIDERS BACK ON OUR STATE TAX ROLLS. TO DO SO WOULD MAKE OUR TAX STRUCTURE FAIRER TO <u>ALL</u> OUR CITIZENS.

UNFORTUNATELY, HOUSE BILL 768 ATTEMPTS TO STIMIE AN EFFORT TO MAKE MONTANA'S INCOME TAX STRUCTURE MORE EQUITABLE BY REINSTATING AN OBVIOUS LOOPHOLE IN OUR TAX CODES. IT WOULD ALSO PROPOSE A TAX GIVEAWAY OF AT LEAST $24.66 MILLION. THIS IS, IN OUR OPINION, A VERY IMPRUDENT STEP.

FOR THESE VERY COMPELLING REASONS, WE URGE YOU TO GIVE HOUSE BILL 768 A "DO NOT PASS" RECOMMENDATION.

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PRES
HB 768

HB 768: RE-INSTITUTING PREFERENTIAL TREATMENT FOR CAPITAL GAINS

EXHIBIT #8
DATE 3-1-87
HB 768

Mr. Chairman and members of the committee, my name is Ken Peres. I am an economist working for the Montana Alliance for Progressive Policy.

We oppose this bill for three basic reasons:
- loss of revenue
- loss of fairness
- loss of economic development

1) LOSS OF REVENUE

According to the fiscal note attached to this bill:
- $24.66 million loss over the biennium, including
  - $15.78 million loss to the general fund
  - $ 6.16 million loss to school foundation program
  - 2.71 million loss to debt service fund

Obviously, these revenue losses come at a time of deep fiscal crisis for both the state general fund and schools.

2) LOSS OF FAIRNESS

*Income From Capital Gains Given Tax Preference Not Available To Income From Wages or Salaries.

Unlike waged income that is taxed at regular rates, capital gains income will continue to be taxed preferentially: the state will pretend that 60% of capital gains income does not exist for tax purposes.

An example of the differential treatment given capital gains and waged income follows:

	$100,000 capital gain	$100,000 wage income
tax exempt	60,000	0
taxable income	40,000	100,000
Montana tax rate	10%	11%
Montana tax bill	3,155	9,699

The preferential treatment of capital gains violates one of the major principles of fairness: taxpayers with the same income are taxed differently.

*Only a Small Number of Montana Taxpayers Benefit From The Preferential Treatment Given to Capital Gains
- -only 16.3% of Montana Households itemized capital gains in 1985

3) LOSS OF ECONOMIC DEVELOPMENT

I do not know of any study showing that the preferential treatment of capital gains induces people to invest, rather than spend their money. It has been demonstrated that individuals may tend to switch from one form of investment to another in order to take advantage of the preference. And it is becoming increasingly apparant that certain types of investment, such as land speculation, absentee farming, and plow out should be discouraged rather than subsidized.

It does not seem logical for the people of Montana, through their tax structure, to absorb blindly a substantial volume of speculative risk when the investments may be inefficient, unproductive and even counter-productive.

*Preferential Treatment of Capital Gains May Be Economically Inefficient According To The U.S. Treasury Department

"Along with other provisions that establish special tax treatment for particular sources and uses of income, the preferential tax rate for capital gains is one of an elaborate series of tax incentives for particular businesses and investments. These incentives impede the efficiency of an economy based on free market principles. This undeclared government industrial policy largely escapes public scrutiny, yet it increasingly controls the form and content of business and investment activity." (Tax Notes, December 3, 1984)

*Preferential Treatment of Capital Gains May Be Counter-Productive

"Current tax laws provide insufficient incentive for many investors to risk their savings in new businesses, and excessive incentive to place their savings into non-productive assets which add nothing to the strength of the ecoomyh. The purely speculative returns on such investments as gold, silver, gems, paintings, stamps and antiques represent the diversion of scarce capital from productive investment." (Statutes of California)

*Preferential Treatment of Capital Gains Is Especially Inefficient and Counter-Productive for Agriculture

"In total [these tax rules - especially capital gains] increase the attractiveness of owning farm assets and lead to 1) larger investmens by non-farm people in farm assets, 2) larger farms owned and/or operated by those farmers who are aable to exploit tax opportunities, and 3) more corporate farms..." (USDA, Another Revolution in US Farming.

"The capital gains feature of the current [pre-1987] federal income tax provisions appears to be a major incentive for converting rangeland to cropland...the capital gains feature provides greater incentives to those at higher marginal tax rates who are not going to retain cropland for production but who are going to take capital gains as soon as other advantages are dissipatged.

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3-11-87
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VISITORS' REGISTER

House Taxation COMMITTEE

BILL NO. HB 768 DATE March 11, 1987

SPONSOR Ramirez

NAME (please print)	REPRESENTING	SUPPORT	OPPOSE
Ken Morrison	DOR		—
KEN PERES	MT ALLIANCE		✓
Jim Murry	Mont. AFL-CIO		✓
Mike Kadas	HD 55		✓
Phil Campbell	MEA		✓

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

CS-33

HB 833

VISITORS' REGISTER

EXHIBIT
DATE 3-11-87
HB 833

House Taxation COMMITTEE

BILL NO. HB 833 DATE March 11, 1987

SPONSOR Ramirez

NAME (please print)	REPRESENTING	SUPPORT	OPPOSE
Dan Bucks	DOR	Neither Technical	Comment
Vera Cahoon	Msla Co. Freeholders	X	
Julie Hacker	Msla Co. Freeholders	✓	

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CS-33

DATE 3-11-87
HB 834

VISITORS' REGISTER

House Taxation COMMITTEE

BILL NO. HB834 DATE March 11, 1987

SPONSOR Ramirez

NAME (please print)	REPRESENTING	SUPPORT	OPPOSE
Lorna Frank	Mt. Farm Bureau	✓	
Dan Bucks	DOR	Neither Technical	→ Comments Only
Julie Walker	Msla Co. Freeholders	X	
Vera Cahoon	Msla Co. Freeholders	X	

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CS-33

HB 843

DATE 3-11-87
HB 843

VISITORS' REGISTER

House Taxation COMMITTEE

BILL NO. HB 843 DATE March 11, 1987

SPONSOR Hannah

NAME (please print)	REPRESENTING	SUPPORT	OPPOSE
STAN KALECZYC	Burlington Northern	X	
Phil Campbell	MEA		X

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CS-33

EXHIBIT
DATE 3-11-87
HB 846

VISITORS' REGISTER

House Taxation COMMITTEE

BILL NO. HB 846 DATE March 11, 1987

SPONSOR Hoffman

NAME (please print)	REPRESENTING	SUPPORT	OPPOSE
Marvin Barber	Mt assessors assoc	x	
Ray White	Gallatin Co Comm	✓	
Lorna Frank	MT Farm Bureau	X	
J. Brunner	Granz. Cattlefeeders	✓	
Vera Cahoon	Msla Co. Freeholders	✓	
Julie Hacker	Msla Co Freeholders	X	
Don Larson	Assessors Assoc.	X	

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CS-33

HB848

EXHIBIT
DATE 3-11-87
HB 848

VISITORS' REGISTER

House Taxation COMMITTEE

BILL NO. HB 848 DATE March 11, 1987

SPONSOR Stang

NAME (please print)	REPRESENTING	SUPPORT	OPPOSE
Marvin Barber	MT assessors assoc	X	

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