

MINUTES OF THE MEETING
REVENUE ESTIMATING TAXATION SUBCOMMITTEE
50TH LEGISLATIVE SESSION
HOUSE OF REPRESENTATIVES

January 16, 1987

The meeting of the Revenue Estimating Subcommittee was called to order by Chairman Harp at 11:30 a.m. on January 16, 1987, in Room 312B of the state Capitol.

ROLL CALL: All members were present with the exception of Sen. Neuman and Rep. Ellison, who were excused. Also present were Dave Bohyer, Legislative Council, Terry Johnson, OBPP, and Judy Curtis Waldron, LFA.

DISCUSSION OF REVENUE ESTIMATES: Sen. Severson asked how the national ratings fit, when the west coast states are doing so well, and Montana is not. Judy Curtis, LFA, explained that the Consumer Price Index (CPI), measures a mix of goods.

Chairman Harp asked why the OBPP projected a slower increase in inflation for the coming years than the LFA did. Terry Johnson, OBPP, replied his office used assumptions from Wharton Econometrics, who lowered their rates of inflation for CY87-88, but retained their original projections for CY89.

Rep. Williams asked if Montana historically followed the national trend. Mr. Johnson replied that it did in terms of state government and in terms of goods and services, but that Montana is mainly impacted by income tax.

DISPOSITION OF RATES FOR CONSUMER PRICES INDEX: Rep. Sands made a motion that the Subcommittee accept the OBPP projections for CY's 86, 87, and 88, and lower the projection for CY89 to 5.19%.

Sen. Lybeck suggested the Subcommittee use 4.9 or 5% for CY89. Rep. Harrington replied the Subcommittee could not afford to be too conservative or it would have problems.

Chairman Harp asked if there would be an increase in the CPI if the dollar were devalued. Terry Johnson replied affirmatively.

Sen. Hirsch commented that he would prefer to see a difference of not more than 1.4% in CY89.

The motion made by Rep. Sands CARRIED unanimously.

PERSONAL COMSUMPTION EXPENDITURES INDEX: Rep. Williams made a motion that the Subcommittee accept Wharton figures across the board. The motion CARRIED unanimously.

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SHORT TERM INTEREST RATES: Rep. Williams made a motion that the Subcommittee accept the OBPP figures across the board. The motion CARRIED unanimously.

LONG TERM INTEREST RATES: Sen. Severson made a motion that the Subcommittee approve OBPP figures for long term interest rates across the board.

Judy Curtis Waldron, stated that the latest figures from Wharton were 8.2% for FY87, and 9.1% for FY88.

Sen. Severson asked if these figures were too low. Terry Johnson replied that if the bonds were purchased at a discount and a premium were received later, that action could provide misleading information on interest rates.

Sen. Hager suggested the Subcommittee wait until Monday for figures. Sen. Severson withdrew his motions.

Judy Curtis Waldron suggested the Subcommittee pick a model and have the figures presented for that model.

INDIVIDUAL INCOME TAX RATES: Terry Johnson explained Exhibit #1 to the Subcommittee. He said building bonds are retired by the cigarette tax corporate license tax, and individual income tax, and that the Subcommittee must also address the foundation program when it discusses the general fund.

Mr. Johnson explained that Exhibit #2 pertains to general fund gain from federal tax reform and general fund revenue without federal tax reform. He said another \$5.7 million in employer weekly withholding was built into 1987, but not for 1988 or 89.

Judy Curtis Waldron, stated the LFA general fund forecast is just 64% as shown on page 2 of Exhibit #1, Individual Income Tax Distribution Formula. She explained her office used non-farm labor income, which most closely correlates with Montana adjusted gross income.

Rep. Sands asked if the OBPP and LFA included the benefits of the windfall from tax reform. Ms. Curtis replied that both the LFA and OBPP used current law.

Chairman Harp told the Subcommittee they would hear Tom Vasquez, of Washington, D.C. on federal tax reform, within one or two weeks, as there is a need to address situations where current law is not used.

Rep. Williams stated that meeting would be held on a weekend and asked if anyone on the Subcommittee had any objection.

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Dave Bohyer advised subcommittee members that Mr. Vasquez must adjust his schedule at least two weeks ahead, and that Mr. Vasquez is also attempting to persuade members of the Congressional Tax Committees to appear at this meeting.

Chairman Harp stated action needs to be taken on individual income tax projections for 1986, and to look at the distinctions between LFA and OBPP figures.

Sen. Hager, who is a member of the Revenue Oversight Committee (ROC), asked Rep. Williams how the LFA and OBPP figures line up with those of Mr. Vasquez. Dave Bohyer replied, and said Mr. Vasquez felt DOR figures were about 10-15% high, at \$75 million. Mr. Bohyer added that Mr. Vasquez also projects a 19% gain in individual income tax revenue, and said the Advisory Committee on Intergovernmental Relations (ACIR), has also contracted with Mr. Vasquez.

Sen. Lybeck asked why individual income taxes increased in 1972. Terry Johnson replied there was a 40% surtax in 1972, which was cut back to 10% in 1974.

CORPORATE LICENSE TAX: Judy Curtis explained the chart on the last page of Exhibit #1. She commented that audits from past years for historic collections must be removed. She said the LFA used two years' U.S. corporate profits as they are found to be the best variable, but have more deviation than some models. Ms. Curtis advised that her office used Wharton's before-tax figures, then added in the gain from federal tax reform, using DOR numbers.

Ms. Curtis Waldron said the LFA must await more numbers to plan its own analysis, as DOR may be somewhat conservative. She stated the LFA lowered its audit revenue forecasts to \$5 million in 1988 and \$5 million in 1989. Ms. Curtis explained actual profit in 1986 was \$223.2 billion, and that \$10.3 million came from audits.

Chairman Harp asked if the LFA were anticipating a \$3.3 million drop in revenue over a three-year period because of the loss of two auditors. Ms. Curtis replied affirmatively.

Chairman Harp asked if corporate tax would increase because of tax reform. Ms. Curtis advised that the tax laws are general gainers and said no growth is predicted in 1987-88, with some growth anticipated in 1989. She explained that audits were high in 1985-86.

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Terry Johnson, OBPP, advised committee members his forecasts include federal tax reform, a method similar to that used by the LFA. He said his office arrived at a taxable level by taking total receipts, less audit collections and tax credits, then converting them to a taxable income base and adding back in audit collections and tax credits. He said the key difference between the OBPP and LFA is in taking into account the national level of corporate profit and the price of oil.

Mr. Johnson said audit collections are projected to be \$7 million in 1987 and \$6 million in 1988-89, or about \$1 million higher per year than the figures projected by the LFA. He commented the OBPP used a different source to estimate the average forecast of all three methods.

Mr. Johnson explained graph 3, of Exhibit #1, wherein \$8.7 million in credit is claimed on corporate returns for FY83, and \$800,000 for FY84. He said \$7 million in 1986, is from the sale of Colstrip 4, and \$10 million is from audits. He explained the OBPP is projecting a decline in corporation receipts in FY87, and a rebound in FY88-89, as oil prices are anticipated to rebound.

Chairman Harp advised subcommittee members that economic increase projections would be made before the presentation on Oil Severance Tax on January 19.

Terry Johnson suggested the Subcommittee use Judy Curtis' suggestion to come up with figures and said the OBPP and LFA could have the figures to the Subcommittee by Tuesday morning, January 20, 1987.

ADJOURNMENT: There being no further business before the Subcommittee, the meeting was adjourned at 6:35 p.m.

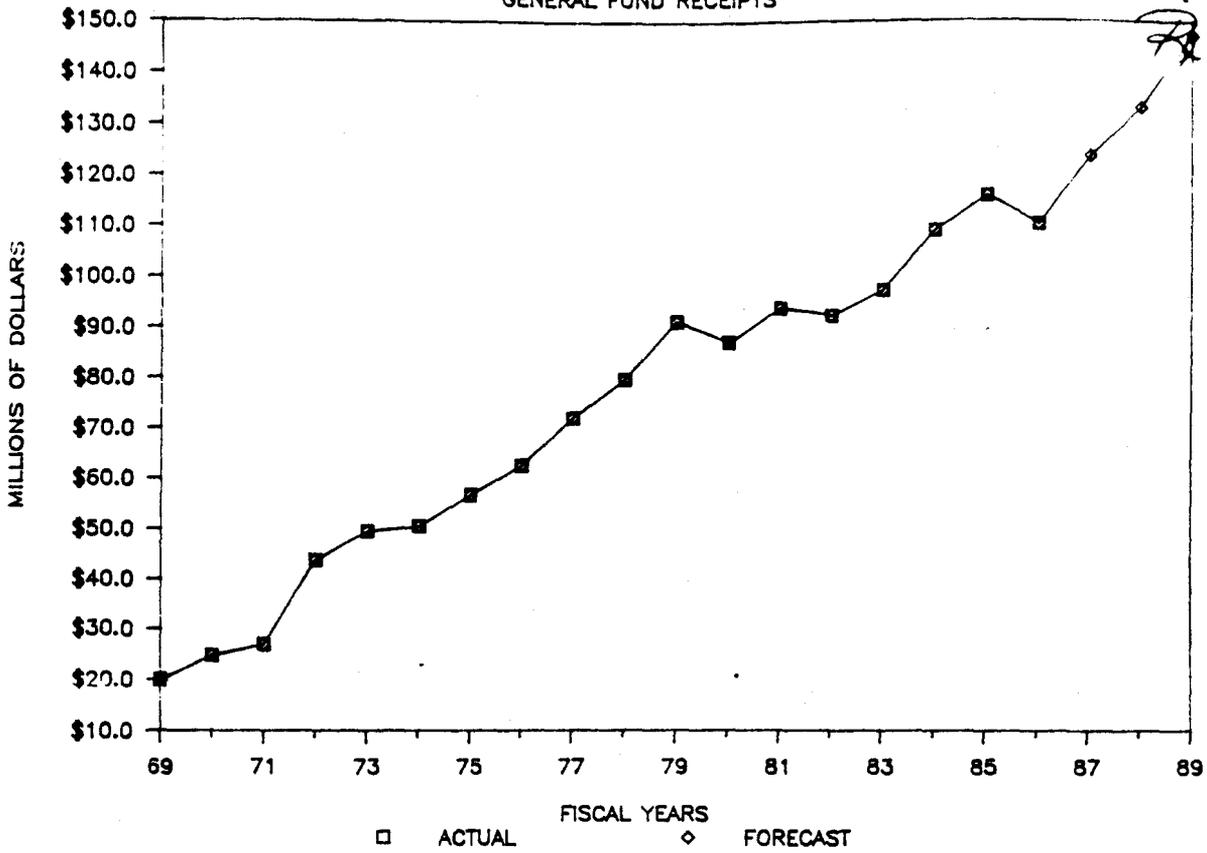

Representative John Harp,
Chairman

JH/be

1-16
 Rev Est
 BPP

INDIVIDUAL INCOME TAX GENERAL FUND RECEIPTS

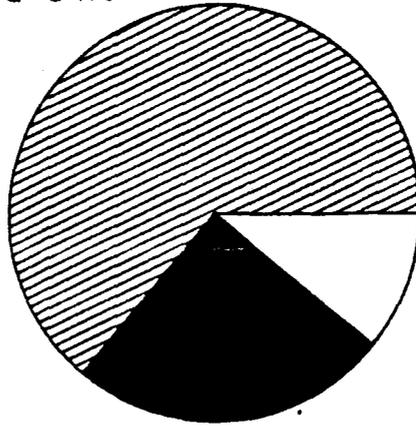
EXHIBIT #1
 1-16-87
 Rev Est Sub



YR	GF RECEIPTS	PERCENT CHANGE
A 69	19.982843	
A 70	24.877342	24.49%
A 71	27.070705	8.82%
A 72	43.620321	61.13%
A 73	49.321939	13.07%
A 74	50.527303	2.44%
A 75	56.703595	12.22%
A 76	62.412990	10.07%
A 77	71.591377	14.71%
A 78	79.117312	10.51%
A 79	90.509280	14.40%
A 80	86.391870	-4.55%
A 81	93.463223	8.19%
A 82	92.034568	-1.53%
A 83	97.152215	5.56%
A 84	109.021660	12.22%
A 85	115.876580	6.29%
A 86	110.218323	-4.88%
F 87	123.741826	12.27%
F 88	133.176454	7.62%
F 89	147.193853	10.53%

INDIVIDUAL INCOME TAX DISTRIBUTION FORMULA

General Fund 64%

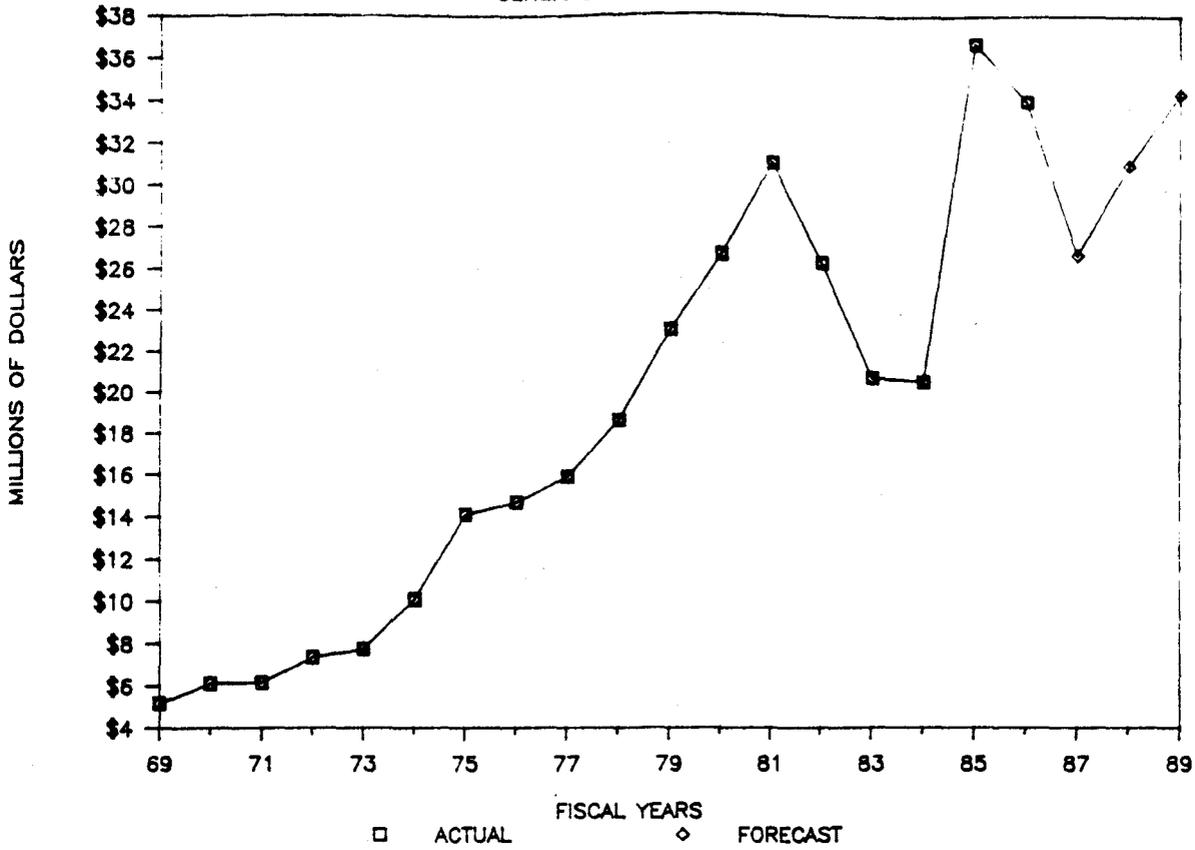


Debt Service 11%

Foundation Program 25%

CORPORATION LICENSE TAX

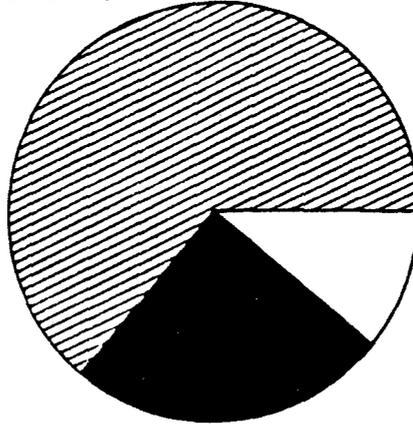
GENERAL FUND RECEIPTS



YR	GF RECEIPTS	PERCENT CHANGE
A 69	5.164751	
A 70	6.102954	18.17%
A 71	6.147716	0.73%
A 72	7.326719	19.18%
A 73	7.716643	5.32%
A 74	10.071143	30.51%
A 75	14.130292	40.30%
A 76	14.732872	4.26%
A 77	15.972633	8.41%
A 78	18.712814	17.16%
A 79	23.098659	23.44%
A 80	26.658417	15.41%
A 81	30.962755	16.15%
A 82	26.234449	-15.27%
A 83	20.733658	-20.97%
A 84	20.547177	-0.90%
A 85	36.657611	78.41%
A 86	33.884815	-7.56%
F 87	26.557816	-21.62%
F 88	30.816492	16.04%
F 89	34.261562	11.18%

CORPORATION INCOME TAX DISTRIBUTION FORMULA

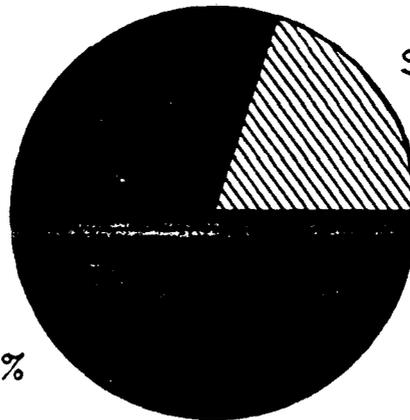
General fund 64%



Debt Service 11%

Foundation Program 25%

CORPORATION INCOME TAX *FINANCIAL INSTITUTIONS* DISTRIBUTION FORMULA



State Portion as Above 20%

Local Governments 80%

OFFICE OF THE LEGISLATIVE FISCAL ANALYST
Individual and Corporate Tax Forecasts and Assumptions

	FY1987	FY1988	FY1989
INDIVIDUAL INCOME TAX			
General Fund Revenue Forecast			
LFA	\$111,050,000	\$107,551,000	\$107,551,000
Executive	\$122,745,000	\$123,115,000	\$123,115,000
Difference	-\$11,695,000	\$15,564,000	\$15,564,000
General Fund Gain from Federal Tax Reform			
LFA	\$2,712,000	\$14,491,000	\$21,099,000
Executive	\$2,534,000	\$12,006,000	\$18,248,000
Difference	\$178,000	\$12,485,000	\$2,851,000
General Fund Revenue without Federal Tax Reform			
LFA	\$113,762,000	\$113,042,000	\$113,042,000
Executive	\$125,205,000	\$135,121,000	\$141,363,000
Difference	-\$11,443,000	\$22,079,000	\$28,321,000
CORPORATION LICENSE TAX			
General Fund Revenue Forecast			
LFA	\$22,915,000	\$21,557,000	\$27,422,000
Executive	\$25,578,000	\$20,816,000	\$24,242,000
Difference	-\$2,663,000	\$1,741,000	\$3,180,000
General Fund Gain from Federal Tax Reform			
LFA	\$625,000	\$3,051,000	\$3,974,000
Executive	\$616,000	\$2,712,000	\$2,577,000
Difference	\$89,000	\$339,000	\$1,397,000
General Fund Revenue without Federal Tax Reform			
LFA	\$23,540,000	\$24,608,000	\$31,396,000
Executive	\$26,194,000	\$23,528,000	\$26,819,000
Difference	-\$2,654,000	\$1,080,000	\$4,577,000
Dept. of Revenue Grants			
LFA	\$2,450,000	\$2,000,000	\$2,000,000
Executive	\$2,000,000	\$2,000,000	\$2,000,000
Difference	\$450,000	\$0	\$0
U.S. Corporate Profits before Taxes (Billions)			
LFA without Tax Reform	\$224.2	\$225.0	\$227.1
Executive (with Tax Reform)	\$225.2	\$224.2	\$225.2