

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

February 14, 1987

The twenty-third meeting of the Senate Taxation Committee was called to order at 8:00 A.M. on February 14, 1987 by Chairman George McCallum in Room 325 of the Capitol Building.

ROLL CALL: All committee members were present with the exception of Senators Severson and Brown.

CONSIDERATION OF SB 74: Senator Mazurek, Senate District 23, presented this bill to the committee. He said he was asked to carry this bill at the request of ET, an organization of people across the state who are retired private employees. The members of the ET organization see a serious inequity in the present income tax system. This bill makes two changes in the scheme of things. This bill would give the public employees from states other than Montana, the same treatment as federal retirees. That is the first \$3600 of their state pension from another state would be exempt from income taxes. It also provides that private pension income, to the extent of the first \$3600, would be exempt from individual income tax in the state of Montana. He does not have a quarrel with the exemption given for public employees retirement but the treatment that private retirees get is simply just not fair. This bill has been heard before in a prior session and that is when the federal exemption was placed into the law of \$3600 and at that time it was proposed that we do the same for private retirees and that is where the \$360 exemption came from. At that time it was instituted to generate information to determine the impact. The fiscal note is somewhere in the neighborhood of \$2 million. He would suggest that this \$2 million impact can be placed into the package of tax changes that are being considered this year.

PROPOSERS: Mary Craig, certified public accountant and coordinator of ET, gave testimony in support of this bill. Her testimony is attached as Exhibit 1.

Louis Marquardt, Helena, gave testimony in support of this bill. He has lived in Montana since he was six years old and has been paying taxes in Montana for over 40 years. He didn't realize in filing income taxes as a retired person that there are three different classes of citizens in Montana. He thinks it is discriminatory and he does not understand how the law was put in place. If this bill passes there will be an adjustment on the overcharge to 17,000 retired people in Montana.

Lyle Ziemer, retiree from Northwestern National Insurance Company after 40 years, gave testimony in support of this bill. He said there is no equity when private retirees get an exemption of \$360, federal retirees get \$3600 and the state retirees get all exempted. All we are asking is to be treated equally.

Norris Mabry, Helena, gave testimony in support of this bill. He said there are three different classes of retirees, one gets total exemption, the federal people get \$3600 and the private sector get \$360. The private sector gets one-tenth of what federal retirees get. He said the \$360 is more like an insult. If someone has worked a lifetime, it is his opinion they should at least be exempt from state income tax.

Chase Patrick, Helena, gave testimony in support of this bill. He said he could understand the concern at this time as this will add an additional burden to the state in the next biennium when the budget is so tight. Senate Bill 74 is needed to change an inequity in the tax structure. He does his part in supporting state government but he does not like to have to shoulder the burden for those equally able to do their part. If any amendments are needed, he would hope all the pension income on everyone would be placed on an equal basis.

Alam Taylor, Helena, retired from Mountain Bell, gave testimony in support of this bill. She said she paid a considerable amount of taxes over 31 years. Now she is retired and being discriminated against because she is retired from the private sector of business and not the state or federal. She does not feel she should be treated any differently than the other retirees.

Doug Thomas, retired employee of Mountain Bell, gave testimony in support of this bill. He very strongly supports this bill from the standpoint of discrimination. They are asking to be given the same consideration as the federal retirees receive now.

Earl Riley, Montana Senior Citizens Association, gave testimony in support of this bill. He said he retired under the federal system and presently has the benefit that this bill would provide for private retirees. He would like to see the private retirees receive the same benefits as he receives.

Lloyd Lamb, Helena, gave testimony in support of this bill. He said we do not want to affect the federal retirees or the state retirees on what they are receiving as an exemption

benefit now. They would like to move up from a third class citizen to a second class, at least, where the federal employees are now.

OPPONENTS: None.

QUESTIONS FROM THE COMMITTEE: Senator Crippen asked if anyone knew the average amount of taxable income for the private sector and federal sector, versus the Montana state employees who receive total exemption.

Mary Craig referred to her testimony which states the taxable income for private pensions is \$7,530, for federal pensions is \$4,290 and for state pensions if \$0.00.

Senator Bishop asked if the state employees get an adjustment built into the pension for a cost of living adjustment.

Senator Mazurek said they are fixed at the time of retirement unless the legislature acts. Twice since he has served as a legislator there have been escalators.

Senator Eck said the federal government started taxing pension income above a certain level, she thinks it was \$32,000, and above that they would tax social security. She asked Ken Morrison if that was still built into the new federal tax system.

Ken Morrison said that is still built into the federal system.

Senator Mazurek closed by stating that even although all the people at the hearing did not testify, they all are in support of this bill.

DISPOSITION OF SB 74: Senator Crippen made a motion that SB 74 DO PASS. The motion carried.

CONSIDERATION FOR A COMMITTEE BILL: Senator Gage, Senate District 5, said in our Subcommittee on General Government and Highways we cut all of the budgets for all of the departments that we heard to this point in general funding by 10% and requested them to make those cuts wherever they could within their budget. The Department of Revenue has indicated they can live with \$3.5 million less funding if they have the opportunity to amend some statutes and to make some changes in certain areas of taxation. He is requesting that the Taxation Committee authorize a committee bill which would allow the Department of Revenue to draft legislation that would allow them to cut their spending by \$3.5 million in collection of taxes and assessment of taxes.

Senate Taxation
February 14, 1987
Page Four

Senator Mazurek would so move.

Senator Crippen said if we request the bill and it comes up, does it necessarily have to come before this committee. Can it go back to appropriations where it should belong.

Senator McCallum said if we request it then it has to come to the Taxation Committee. It could be re-referred to another committee.

Senator Halligan asked if he had any idea what statutes they are talking about.

Senator Gage said the general idea is with regard to assessment of personal property. Some of the things they are suggesting is the possibility of taking all agricultural equipment, tools, livestock, grain and those kinds of things off the personal property tax rolls and working a tax neutral shift to real estate. They are also talking of doing the same types of things with regard to commercial property.

The motion carried unanimously.

ADJOURNMENT: The meeting adjourned at 9:00 A.M.


SENATOR McCALLUM, Chairman

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ROLL CALL

TAXATION

COMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date 2-14-87

NAME	PRESENT	ABSENT	EXCUSED
SENATOR CRIPPEN	✓		
SENATOR NEUMAN	✓		
SENATOR SEVERSON		✓	
SENATOR LYBECK	✓		
SENATOR HAGER	✓		
SENATOR MAZUREK	✓		
SENATOR ECK	✓		
SENATOR BROWN		✓	
SENATOR HIRSCH	✓		
SENATOR BISHOP	✓		
SENATOR HALLIGAN, VICE CHAIRMAN	✓		
SENATOR McCALLUM, CHAIRMAN	✓		

Each day attach to minutes.

DATE 3-14-87

COMMITTEE ON

Senate Taxation

VISITORS' REGISTER

SB-74

NAME	REPRESENTING	BILL #	Check One	
			Support	Oppose
Mary L Craig	Equity in Taxation	74	✓	
Clayton E. Smith	EQUITY IN TAXATION	74	✓	
Johnny R. Day	Equity in Taxation	74	✓	
Cassius F. Brinkley	" " "	74	✓	
D. M. Patton	" " "	74	✓	
ELEANOR BERNHARDT	" " "	74	✓	
Toni Marquardt	" " "	74	✓	
Lea Carlson	" " "	74	✓	
B. N. Larson	" " "	74	✓	
C. W. Smallwood	" " "	74	✓	
Bill Stanson	" " "	74	✓	
Chuck Wirth	" " "	"	✓	
W. J. M. Donald	" " "	"	✓	
Howard Williams	" " "	"	✓	
John F. Clark	" " "	74	✓	
R. E. Sifer	" " "	74	✓	
D. S. S. S. S.	" " "	74	✓	
Erving C. Baettger	" " "	74	✓	
Kathleen Best	" " "	74	✓	
Robert Malin	" " "	74	✓	
Rick Malin	" " "	74	✓	
Alma M. Taylor	" " "	74	✓	
Tom Fagardus	" " "	74	✓	
Fran Fagardus	" " "	74	✓	
WILLIAM H. LEE	" " "	74	✓	
Giles' ...	" " "	74	✓	

(Please leave prepared statement with Secretary)

DATE 2-14-87

COMMITTEE ON Senate Taxation

VISITORS' REGISTER

SB-74

NAME	REPRESENTING	BILL #	Check One	
			Support	Oppos
EARL J REILLY	Mont. SENIOR CITIZENS ASSN	74	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Joe Spiroff	Security in Jackson	74	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Bernice Stehmer	AARP	74	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Leonard C Stehmer	self	74	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Wallace Wheeling	self	74	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Genevieve Wheeling	self	74	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Lillian Wheeling	E.T.	74	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Walter Wheeling	" "	74	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Rita Purkey	ASARPO RT	74	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Bonnie Mearns	self	74	<input checked="" type="checkbox"/>	<input type="checkbox"/>
John Mearns	M.P. CO	74	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Kathleen Mearns	self	74	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Norris Mabry	self	74	<input checked="" type="checkbox"/>	<input type="checkbox"/>
ROBERT KOST	SELF	74	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Milton A Johnson	SELF	74	<input checked="" type="checkbox"/>	<input type="checkbox"/>
R. J. Rose	SELF	74	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Doug Thomas	ALL - Volund	74	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Jocci Marguardt	Self	74	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Charles Allen	Self	74	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Elmer J. Harris	" "	74	<input checked="" type="checkbox"/>	<input type="checkbox"/>
ME. Lander	" "	74	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Lyle Zimmerman	" "	74	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Ken M. Prusi	DOR	74	<input checked="" type="checkbox"/>	<input type="checkbox"/>

February 14, 1987

Testimony by:

Mary L. Craig CPA
ET Coordinator

Senators:

You've heard the pleas of the retirees for fair and just treatment of their retirement income.

Private retirees from all spectrums of society from \$ 2,800 a year income to \$ 28,000 a year ask that they might receive the same consideration as their fellow Montanans.

There are 16 states where retirees are not taxed on their retirement income. Other states the amount excluded varies from our \$ 360 to \$ 20,000 in Colorado.

There are 17,000 people being discriminated against, this could be corrected by the passage of SB74. Passing 74 now would be a positive move to show private pensioners their voice is being heard.

Where would the money come from? Teachers retirement is being supplemented by the lottery, why not private retirees ?

We therefore respectfully request you vote to increase private retirement exclusion from \$360 to \$3,600.

SENATE TAXATION

EXHIBIT NO. 1

DATE 2-14-87

BILL NO. SB74

EQUITY IN TAXATION

Q. What is "E.T.?"

A. E.T. stands for Equity in Taxation. Right now in Montana there is no equity in taxation for persons on a private retirement plan. Retirees from state government pay no Mont tax on their PERS retirement. Federal retirees and others can exclude \$3600 of their retirement pension. However, persons on private plans can exclude only \$360!! That is not fair.

Q. How many people would be affected by this change?

A. During 1985 there were ¹⁹⁸⁴ 15,270 persons who took advantage of the \$360 exclusion. Of course, with retirements occurring at an earlier age and more older people each year, this number is expected to grow.

Q. How can this tax law be made more equitable?

A. ET will ask the state legislature to change the law so that all private plan retirees will have the same exclusion as federal retirees - \$3600 per year.

Q. Has anyone tried to change this law before?

A. Yes. This has come up during several of the past sessions. In 1983, HB 231 was introduced and had a hearing but was tabled by the House Taxation Committee and got no farther. There was probably not enough publicity nor grass roots support to insure that it received favorable attention.

Q. How much would this change cost the state in lost revenue?

A. In 1985 the Department of Revenue estimated that the loss to the state would be ^{\$1,954,000} ~~\$1,251,600~~ per year. As the number of private retirees increases, that figure would also increase.

Q. How would the state make up the loss?

A. There are many ways the state can either cut costs or increase revenues without making drastic changes. This tax law change would be built into the revenue estimates just as other changes are. The point is that private retirees should never have been treated so poorly in the first place.

Q. How can we get this law changed?

A. ET is an association of people receiving private pensions (or who will be on a private plan when they do retire.) It is an association that is working for a change in the law to bring about equity for private retirees. ET has drafted legislation which Senator Mazurek and Senator McCallum have introduced. We need your help.

Q. How can I help?

A. You can talk with your legislators and point out the drastic injustice of the present law. You can talk to your friends so they will talk to their legislators. You can put notices in newsletters and papers read by other retirees. You can send a contribution so we can put out more information on this issue and mount our lobbying effort.

Q. How much will the typical private retiree save if the law is changed to allow for the \$3600 exclusion?

A. Here is an example of a person with \$12,000 of retirement income and how it would be taxed in Montana depending upon where it came from:

	Private Pension	Federal Pension	State Pension
Income	\$12,000	\$12,000	\$12,000
Less standard deduction	-1,900	-1,900	-1,900
Less 2 exemptns for "over 65"	-2,120	-2,120	-2,120
Less exclusion of retiremt inc.	- 360	-3,600	-7,890 * STATE EXCLUDES ALL RETIREMENT INCOME
TAXABLE INCOME	\$ 7,530	\$ 4,290	-0-
STATE TAX:	<u>\$284</u>	<u>\$133</u>	<u>-0-</u>
FEDERAL TAX	\$699	\$699	\$ 699

Q. Where can I get more information or send my contribution?

A. For more information, call Mary L. Craig, CPA, 442-4666 or write:

ET
 PO Box 277
 Helena, MT 59624

OPINIONS

2-12-87

Retirees deserve equity in taxation

"ET," to backers of Sen. Joe Mazurek's Senate Bill 74, is not a movie character. "ET" in the legislative sense is equity in taxation.

Legislators and lobbyists are forever talking about equity in taxation, particularly when a sales tax is being discussed.

If legislators are sincere about equity Mazurek's bill should sail through both chambers.

Currently, there is no equity in taxation when it comes to people who retire from the private sector.

Montana law provides that retirees from state government do not have to pay state income taxes on their retirement income. Federal retirees can exclude \$3,600 of their pension from state taxes. Persons who are covered by private pension plans can deduct a measley \$360!

Mazurek's bill would rectify this inequity by allowing private plan retirees to have the same exclusion as federal retirees — \$3,600 a year.

We assume the rationale for exempting state employees' retirement from state income taxes has to do with the assumption that their pay and retirement benefits aren't as generous as those in the private sector. That reasoning probably also has something to do with the fact that federal retirees get a much larger exemption than do private sector retirees.

Whether that line of reasoning is correct or not is open to debate. What isn't open to debate is the fact that in 1985 there were 17,500 private sector retirees who were denied equity in taxation.

The state would lose an estimated \$2 million if private sector retirees were given the same break as federal retirees.

We think it's a loss the state can handle.

SB 74 should become a Montana law

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VIEW

SENATE TAXATION

EXHIBIT NO. 1

DATE 2-14-87

BILL NO. SB 74

Opinion and comment

Private pensioners deserve fair play

If you're retired on a private pension, you're being stewed by Montana tax law.

Private sector retirees in Montana can exclude only \$360 of their retirement income from state taxes.

Federal retirees can exclude \$3,600 of their pensions from state taxes.

And retired state employees, and school teachers, are not taxed at all on their public pensions.

Those differences make tax equity a joke in Montana.

Sen. Joe Mazurek of Helena has introduced a bill (SB 74) that would give private pensioners the same break enjoyed by federal retirees in Montana.

Mazurek's bill would raise the exclusion for private pensioners to \$3,600 from \$360. That's still not as good a break as state employees and school teachers get, but it's a lot better than the raw deal private sector retirees get now.

Public employees have been given a break on state taxes for years. Some people say the reason initially was that since public employees weren't paid much, a tax break would serve as a kind of deferred compensation.

That's not necessarily the case any longer, particularly with federal retirees, whose compensation is not a matter of state interest, anyway.

Senators, tax breaks should not be granted on the basis of whether a retiree worked for government or the private sector. Many private workers also earn low pay over the course of their careers, yet get

only a small break. To be fair, the break should be given on the basis of income.

There's an argument for not giving public sector retirees such large breaks, too. Those who have been paid from tax funds throughout their careers should be the last people to be given special tax breaks.

There is some squawking in Helena that Mazurek's bill would cost the state about \$2 million a year in lost revenue.

No one has put a figure on how much revenue the state already has given away with the tax breaks given to public retirees, but it has to be far more than \$2 million. The state already has given away the store, so an extra \$2 million in the name of simple fairness shouldn't matter that much.

SB 74 would elevate the tax status of private pensioners to that of federal retirees, by giving the private retirees the same \$3,600 deduction already enjoyed by the federal retirees.

It's a big step forward.

The Legislature should pass Mazurek's bill.

Next session, it can concentrate on giving all retirees the same break enjoyed by state retirees and teachers.

PENSION TAX equity doesn't get the attention it should. If you're retired from the public sector, or soon will be, contact your legislators and tell them you'd like to be treated like a first-class citizen. As your lawmakers to support SB 74.

SENATE TAXATION

EXHIBIT NO. 1

DATE 2-14-87

BILL NO. SB-74

STANDING COMMITTEE REPORT

February 14, 1987

MR. PRESIDENT

SENATE TAXATION

We, your committee on

having had under consideration

SENATE BILL

No. 74

first

reading copy (white)
color

EXEMPT FROM TAX OTHER STATE'S PUBLIC PENSION; UP
EXEMPTION PRIVATE PENSIONS

Respectfully report as follows: That

SENATE BILL

No. 74

DO PASS

~~DO NOT PASS~~

SENATOR GEORGE McCALLUM,

Chairman.