MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

February 19, 1987

The twenty-seventh meeting of the Senate Taxation Committee was called to order at 8:00 A.M. on February 19, 1987 by Chairman George McCallum in Room 325 of the Capitol Building.

ROLL CALL: All committee members were present.

CONSIDERATION OF SB 307: Senator Neuman, Senate District 21, presented the sections of this bill dealing with property tax relief and individual income tax reform. His written presentation is attached as Exhibit 1.

PROPONENTS: John LaFaver, Director, Department of Revenue, gave testimony in relation to this section of the bill. He said the major objective of SB 307 is to make the tax preparation process simpler. The Montana Society of CPA's came to us with the idea that we could simplify taxes significantly in Montana if we calculated the Montana tax directly from the windfall tax return. SB 307 is an attempt to put into place the recommendations that we received from the CPA's. He referred to the proposed Montana Individual Income Tax Return in the packet of information furnished to the committee February 16, 1987 and attached as Exhibit 2. He reviewed the process by which the form would be prepared and stated it is obviously much simpler than the tax system that we have in place. The impact on thousands of Montana taxpayers, who have very different amounts of income, different sources of income, and different economic circumstances, obviously is more complex. There are major provisions of the bill that serve to lower taxes and to increase taxes. The bottom line, in looking at all taxpayers, is that it is revenue neutral. The amount of standard deduction and the amount of exemptions are substantially increased. By that provision taxes are lowered by about 50% in Montana. Also, the federal income tax deduction is eliminated because that deduction is not allowed on the federal form. This offsets the change in deduction and exemptions and adds back $45 million. Since the federal procedure does not distinguish between different types of pension income, we equalize and pattern our approach after theirs. That adds $4.1 million revenue. The federal system allows the deduction of state income tax as a deduction against tax paid. That is a deduction that the state does not allow and lowers that by $9 million. We would require that the status that is used by the taxpayer in filing the federal form has to be the same on the state form, whether married filing jointly or whatever. That would raise tax revenue by $10 million. Offsetting that, we lowered the state tax rates from the rate structure that tops out at 11% to a three bracket structure that tops out at 8%. That lowers tax revenues by about $13 million. Finally, the last major provision, we provide low income property tax relief and that costs about $5.5 million. There are a number of interactions between these provisions and miscellaneous provisions that add about $18 million but you look at the interaction of all of those variables and the bottom line is the same amount of tax paid. Virtually every taxpayer is affected by the provisions which lower and raise tax liability. For example, a public retiree would be impacted by the positive higher exemptions and deductions and lower tax rates. Those provisions would tend to lower the amount of tax that public retirees pay. Those provisions would be modified by taxing a portion of the pension income that the retiree is receiving. The amount of income is obviously the most important determinent in the amount of taxes paid. He referred to charts that were furnished as Exhibit 2, February 16, 1987, which show the effective tax rates from current law to proposed law. As the charts indicate, they are lower than current law up to about$26,500 of income and then they are slightly higher than current law in income levels above that. Another exhibit on February 16, 1987, is a pie chart entitled "% Who Change -- State Income Tax, Current Law to Proposed Law", which summarizes all of the taxpayers and shows that 60% pay less state tax under the provisions of SB 307, 10% realize no change and about 30% would pay higher state tax under the provisions of SB 307. He referred to the accompanying chart with the same title and said this chart gives more detail of the taxpayers who pay more and less in each of the income levels. The majority of taxpayers below $26,500 pay less state tax under the provisions of SB 307. When you move above that, a majority pay more but even in the highest income brackets, significant numbers pay less tax under the provisions of SB 307. At the highest level, 30% of the taxpayers with income above $43,500 actually pay less state tax under the provisions of SB 307 than under current law. Those who pay more are concentrated in the higher income levels and are now paying significantly less than the average tax rate for taxpayers in their income level. There are significant changes caused by federal tax reform that we have to take into account. The last chart entitled "% Who Change -- Total Income Taxes Old Law to Proposed Law", compares state and federal income tax before any reform federal or state and after both state and federal reform. That shows 77% will pay less total tax than they paid before, 10% will see no change in their tax and 13% will pay more total tax than they did prior to federal or state reform. The accompanying chart with the same title shows the information by income level. The majority of taxpayers at every income level pay less total tax after state and federal reform than paid before. Many of the highest income earners who paid more state tax under SB 307, are those who pay relatively low tax rates now. He referred to the charts furnished in Exhibit 2, January 16, 1987, which illustrate the disparity in the highest income earners and charts that analyze the disparity between married joint taxpayers and married separate and the tax burden on private retirees.

Don Reed, Montana Alliance for Progressive Policy, gave testimony in support of this bill. A copy of his testimony is attached as Exhibit 2.

Ed Jasmin, a member of the Governor's Economic Transition Task Force, gave testimony in support of this section of the bill. He said we had some specific recommendations with regard to the income tax in our report. Senate Bill 307 addresses those specific recommendations with regard to the top income rate in income tax brackets and tax simplification.

Eric Feaver, Montana Education Association, gave testimony in support of this section of the bill. He is in support of the Governor's proposal to simplify the income tax portion of our tax codes. It is a good idea and he would urge favorable consideration. He would like the committee to clarify what is the true impact of the Governor's proposal to tax retirement benefits. If this can be balanced out with other factors in the proposal, it is not a bad idea. If the committee determines there is a balance, he would suggest grandfathering those who are already retired from further taxation, so that the current tax free retirement income they are receiving from this state would remain tax free. For those who will retire in the future, change the benefit formula to times the number of years, divided by 60. That will cost the state approximately $277,000 annually to provide that benefit formula change. That small cost could be applied to the employer and employee. If applied to the employer it would increase the employer contributions rate from 7.42% of income earned to 8.2% and would serve long range objectives to enhance the retirement benefits.

Joe Upshaw, American Association of Retired Persons, gave testimony in support of the concept of SB 307. A copy of his testimony is attached as Exhibit 3.

Elmer Hausken, gave testimony in support of the concept of this bill. A copy of his written statement is attached as Exhibit 4.

Kay Foster, representing the Governor's Council on Economic Development, supports this section of SB 307. She supports the individual income tax base broadening and rate reducing portion of SB 307. Among the major concerns of the business climate subcommittee were the complication of the individual income tax system and the significant 11% high marginal tax rate. We commend the portion of the bill that would handle and address that and urge support of this portion.

Terry Carmody, Montana Farmers Union, gave testimony in support of this section of the bill. The approach to property tax relief seems to answer some of the concerns voiced by the taxpayers in I-105 and CI-27. The Montana Farmers Union is in support of this portion of the bill.

Terry Minow, Montana Federation of Teachers, Montana Federation of State Employees, gave testimony in support of the Governor's bill. She believes it addresses concerns for a comprehensive, fair and progressive tax reform. It closes many of the loopholes that we believe should be closed. This bill provides a vehicle that can be used to reform Montana tax codes.

Sue Fifield, Montana Low Income Coalition, gave testimony in support of this portion of the bill. She said we are glad to see low income being addressed in the tax section of this bill and support this portion of the bill.

Earl Riley, Montana Senior Citizens Association, supports this section of the bill as long as it is amended along the lines suggested by Joe Upshaw, American Association of Retired Persons.

OPPONENTS: Alve Thomas, Legislative Chairman, Retired Teachers Association, gave testimony in opposition to this section of the bill. A copy of his testimony is attached as Exhibit 5.

Ed Sheehy, representing Retired Federal Employees, gave testimony in opposition to this section of the bill. A copy of his testimony is attached as Exhibit 6.

Everett E. Woodgerd, federal retiree and speaking for over 200 chapter members from Missoula of the National Association of Retired Federal Employees, gave testimony in opposition to this bill. A copy of his statement is attached as Exhibit 7.

Terry Minow, Montana Federation of Teachers and Montana Federation of State Employees, gave testimony in opposition to this section of the bill. She said we have concerns about including retirement income in taxable income and believe that is one area of the bill that should be amended.

Leo Barry, representing the Association of Montana Retired Public Employees, gave testimony in opposition to this section of the bill. His association represents approximately 4,000 members who are retired and who will be affected by this bill. They are concerned with the portion of the bill dealing with taxation of retirement benefits. He said what we are dealing with is public policy. The policy for this particular provision was set many years ago when the public employee retirement system was created and reasons were provided for those exemptions. For many years the state system lagged behind the private sector in terms of salaries and benefits and one of the benefits established was to exempt the retiree's benefits at the time of retirement. The average PER retiree nets $361 a month and for many years they were not eligible to be a part of the social security system. They have started to change that public policy and to look at the retirement system and benefits package of all public retirees. The public policy should be to support and retain qualified, capable employees and when you lag behind the private sector you are losing in hiring or keeping employees. You are looking at one part of the package when you look at tax benefits, you are not looking at the public policy. State salaries have caught up with the public sector over the past several years. He believes there should be a cut off date for those people who have already retired. If you want to tax any retirement benefits, he thinks we are making a serious mistake. He would appreciate the committee modifying the section of the bill dealing with retirement benefits.

Sherwood C. Trotter, Missoula, senior citizens and retired federal employees, gave testimony in opposition to this bill. A copy of his written testimony is attached as Exhibit 8.

Vern Erickson, Montana State Firemen's Assn., gave testimony in opposition to this bill. He is opposed to taxing retirement benefits.

Gary B. Carlson, Montana Society of CPA's, gave testimony in opposition to this section of the bill. A copy of his testimony is attached as Exhibit 9.

George Anderson, CPA, Helena, gave testimony in opposition to this section of the bill. He commended the Department of Revenue for simplification but he also supports the Montana Society of CPA's position because that is real simplification and accomplishes many of the tax broadening features that we need. He supports lowering the rates but he does not support lowering the rates as has been done in this bill. The alternative minimum tax provisions in this bill are a real danger. In reality corporations will end up paying more tax than they did before and many individuals will end up paying more tax than they did before. He realizes that this state needs economic development and to get economic development we have to have some people who do have high incomes. He agrees with trying to help low income people but he thinks we are taxing to the point of driving high income people out. More study is definitely needed on this bill.

Dennis Burr, Montana Taxpayers Association, gave testimony in opposition to this section of the bill. When you go to a system as is proposed by this bill, you are gaining simplicity at the expense of allowing someone else, the federal government, to state Montana income tax policy and determine the amount of income that will be raised. He said any change the federal government makes, will have a direct impact on Montana taxes.

Tom Ryan, a retired educator, gave testimony in opposition to this section of the bill. He quit construction work to become a teacher and one of the reasons for that move was because the retirement benefits had an attractive tax free status.

<u>QUESTIONS FROM THE COMMITTEE</u>: Senator Severson said we have not heard from a big section of the retirement people here today. Those are retired people from a business, farm, small corporation, who make their retirement in the old American way. In heading toward retirement years, they put a little money away toward that point in time when they plan to retire. He asked John LaFaver how this will affect those people.

John LaFaver said the impact on those individuals would be essentially the same as provided for and laid out for all taxpayers. The general public in that economic circumstance will have an average to below average total income and the majority of taxpayers in those economic circumstances would have lower effective tax rates under the provisions of SB 307 than they have now. To the extent that the retirement income is part of savings that has already been taxed, money being pulled out of savings for current consumption, would not be taxed under the provisions of SB 307. That is not income and would be treated similarly to the way we propose to treat the public retirees. Contributions that public retirees have made to their retirement plan and have paid tax on, are not taxed as it is pulled out. The only portion that is taxed under the provisions of SB 307, is the portion that is not taxed at the front end.

Senator Severson said when you are saying these retirees will be on the lower end, you certainly are not saying much for the business climate of the state.

John LaFaver said he did not intend to be judgmental in any way. Data, nationwide, shows that those who are receiving pension income generally are at the middle to lower end of the income spectrum.

Senator Crippen said to Senator Severson's question, that there would be an increase in a situation he was referring to. For someone with a total income of $25,000, part of which could be the sale of a business, which would be long term capital gains, his taxes paid would more than double. The more income that you have, if you sold the business and got more money than that over a period of time, that rate could go up as much as four times under the Governor's proposal.

John LaFaver disagreed with Senator Crippen. He said he is simply wrong. He is taking a provision in the Federal Reform Act which modifies the capital gains treatment and saying that the provisions of SB 307 somehow are a part of that. SB 307 does not change the current law in the treatment of capital gains. If the topic is, should we change the federal law or somehow change current law to wash that out, then that is another matter. The impact of SB 307 is not to change, in any way, the way that capital gains are taxed in Montana.

Senator Mazurek said to John LaFaver, with respect to retirees you said that most retirees would benefit from the standard deduction exemption and his impression was that there would be some sort of wash for most retirees. He said if that is the case, why will this bill generate an additional 4.1 million from retirees.

John LaFaver said the provisions in SB 307 are not a wash for all retirees. If he gave that impression he should not have. It is a wash for all taxpayers. For low income pensioners, whether they have their entire income coming from a pension or not, under the higher standard deduction of $5,000 and then raising the value of exemptions by over 100%, that will continue to leave most low income pensioners tax free and will not change their tax status. An example of a retiree that would pay more state tax under this proposal would be one who has a relative high pension, recently retired, has no other income and has only one exemption; that retiree would pay more state tax. From that example, to the low income pensioner with more than one exemption, that retiree would pay less.

Senator Mazurek asked where he would define low income, where it is a wash, and go up from there.

John LaFaver said it is a complex matter of what is the combined income that the retiree has. Very few retirees only have income from public pension.

Senator Eck asked Mr. LaFaver to respond to Gary Carlson's suggestion regarding the minimum tax, that it be done with very few calculations using the federal minimum.

John LaFaver said he hasn't talked at length with Mr. Carlson on that idea, but it strikes him as one that should be pursued from a simplification standpoint.

Senator Hager said it appears that you are making most of the retirement income in the different groups taxable except for benefits from the railroad retirement account.

John LaFaver said that is the only retirement income that is prohibited by federal law from state taxation.

FURTHER CONSIDERATION OF SB 307: Chairman McCallum opened the hearing to the section of the bill dealing with property tax relief.

PROPONENTS: Alec Hansen, representing the Montana League of Cities and Towns, gave testimony in support of certain segments of the Governor's Tax Reform Package, specifically those that directly affect the interest of the municipal governments. This is one area of the bill that does affect cities and towns and we support the extension of the property tax credit for low income people. This is property tax relief. This bill provides property tax relief in the only way acceptable to the municipal governments in this state. We have said that a major property tax reduction without replacement is not reform. The cities in Montana cannot stand a dramatic reduction in property tax revenues and continue to function. If we are going to have property tax reductions, we will have to have some kind of replacement. This bill reduces property tax for low income people but it will not severely reduce local government revenue. We will still be able to function. This bill meets the critical test of providing some property tax relief without upsetting the budget of local governments in the state of Montana.

OPPONENTS: Al Donahou, Montana Tax Reform Education Committee, gave testimony in opposition to this bill. He referred to I-105 and CI-27 and said the people of this state expressed their desire that the state lower property tax substantially. If the legislature does not get this message, a new form of CI-27 will come again and the people of Montana will vote to do away with property tax and not just limit property tax. SB 307 is not responsive to the people who voted for I-105 and CI-27.

QUESTIONS FROM THE COMMITTEE: Senator Crippen asked Ed Jasmin what organization he testified for.

Ed Jasmin said the Governor's Economic Transition Task Force.

Senator Crippen asked what recommendations the task force made to the administration.

Ed Jasmin said some other recommendations were the repeal of the unitary tax, reduction of the coal severance tax, a local option tax, broadening the tax base to include a sales tax.

Senator Neuman closed.

ADJOURNMENT: The meeting adjourned at 10:08 A.M.

George McCallum

SENATOR GEORGE McCALLUM, Chairman

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ROLL CALL

TAXATION COMMITTEE

50th LEGISLATIVE SESSION -- 1987 Date 2-11-87

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.

COMMITTEE ON Senate Taxation DATE February 19, 1987

VISITORS' REGISTER SB-307

NAME	REPRESENTING	BILL #	Check One Support	Oppose
Everett E. Woodgerd	Nat'l Assn of Retired Fed. E			✓
Sherwood C. Trotter	"			✓
Ed Sheeley	Nat Assn Retired Fed Emp			✓
Alice Thomas	Retired Teachers Assoc			✓
Mark [illegible]	Retired Teachers			✓
Ethel Nelson	Mont. Retired Teachers			✓
Opal Holm	Mt. Retired Teachers Assn			✓
Mary B Carlson	MT Society of CPA's	307		
Don Reed	MAPP		✓	
Genevieve Adair	Retired Teachers	307		✓
Leo Berry	AMPRE	307		✓
Jim Sabinen	Assn. of MT Retired Pub. Empl.	307		✓
Hazel C. Murray	NARFE			✓
Helen C. Crowley	NARFE			✓
Al Donohue	Montana Tax Reform Education Committee	307		✓
Terry Carmody	Mont Farmers Union	307	✓	
~~Bob Heffel~~	~~MONTRFC~~	307		✓
Ken Givens	AMRPE	307		✓
Bob Kramer	" "	307		✓
Jim [illegible]	AARP	307		
Charlie Brooks	Governor's Office	"	✓	
Joe Upshaw	AARP	307	✓ (Both)	✓
Bryan Enderle	Missoula Chamber of Commerce	307		
Dennis Burr	MONTAX	307		✓
Ed Jasmin	Gov. Econ Trans Task Force		✓	
Alex Hansen	Mt. Chamber of Commerce			

(Please leave prepared statement with Secretary)

DATE (SB307

COMMITTEE ON Senate Taxation

VISITORS' REGISTER SB 307

NAME	REPRESENTING	BILL #	Check One Support	Oppose
Tom Ryan	Self-Retired Educator	307		✓
George D Anderson	Mont Chamb-Montana	307		✓
Catherine F. Madden	Teachers' Retirement	307		✓
Grace E. Madden	" "	307		✓
Ray Foster	Gov. Council on Economic Developm.	307	✓	
Terry Minow	MT FED Teachers	307	✓	
Sue Fifield	MLIC	307	✓	
Val M. Matross	Teacher's Retirement	307		✓
S. Keith Anderson	Mont. Taxpayers Assoc.	307		Oppose Income Section as written

(Please leave prepared statement with Secretary)

NAME: Everett E. Woodgerd DATE: 2-19-87

ADDRESS: 611 Livingston Ave Missoula, Mt 59801

PHONE: 543-5819

REPRESENTING WHOM? Nat'l Association of Retired Federal Employees
Missoula Chapter #322

APPEARING ON WHICH PROPOSAL: SB-307

DO YOU: SUPPORT? ______ AMEND? ✓ OPPOSE? ✓

COMMENTS: ______

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

NAME: Sherwood C. Trotter DATE: 2/19/87

ADDRESS: 2105 Gerald, Missoula 59801

PHONE: 543 4993

REPRESENTING WHOM? Natl Asso Retired Fed. Emp.

APPEARING ON WHICH PROPOSAL: SB 307

DO YOU: SUPPORT? ______ AMEND? ______ OPPOSE? ✓

COMMENTS: ______

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

NAME: BD JASMIN DATE: 2-18

ADDRESS: 626 MONROE

PHONE: 442-5401

REPRESENTING WHOM? GOV. BROWN TRANSITION TAX FORCE

APPEARING ON WHICH PROPOSAL: S.B. 307

DO YOU: SUPPORT? ✓ AMEND? OPPOSE?

COMMENTS:

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

STATEMENT OF
SENATOR TED NEUMAN

SB307

FEBRUARY 18, 1987

THE PERSONAL INCOME TAX PORTION OF SB307 IS IN MANY RESPECTS THE HEART OF THE BILL. IT ADDRESSES THREE SERIOUS PROBLEMS WITH THE PERSONAL INCOME TAX:

MOST OBVIOUSLY, OUR TAX IS TOO COMPLEX. FOR MANY TAXPAYERS IT TAKES MORE TIME AND EFFORT AND EXPENSE TO COMPLY WITH STATE INCOME LAWS THAN WITH THE FEDERAL LAWS. AND LET'S REMEMBER, THAT THE COST OF PREPARING TAX RETURNS IS A KIND OF TAX IN ITSELF. THERE'S A WAY TO ELIMINATE THIS WASTED TIME AND MONEY AND THIS BILL HAS THE SOLUTION.

THE TAX IS UNFAIR. A TAX SYSTEM THAT TOTALLY EXCUSES ONE-FOURTH OF SOME OF THE HIGHEST INCOME EARNERS FROM PAYING ANY STATE TAX IS OBVIOUSLY NOT FAIR. A TAX SYSTEM THAT ALLOWS TAX-PAYERS WITH EQUAL INCOMES TO PAY WIDELY DIFFERING TAXES TO SUPPORT PUBLIC SERVICES EARNS THE SUSPICION AND DISRESPECT OF HONEST TAXPAYERS. THIS BILL WILL HELP ASSURE THAT TAXPAYERS WITH ROUGHLY EQUAL STANDARDS OF LIVING WILL PAY ABOUT THE SAME TAX.

FINALLY, THE TOP TAX RATE OF 11% IS TOO HIGH. EVERY TAX STUDY DONE IN PREPARATION FOR THIS LEGISLATURE, BY OUT OF STATE TAX EXPERTS AND UNIVERSITY ECONOMISTS AGREES THAT THE TOP RATE SHOULD BE LOWERED. WE'VE HEARD CONCERNS THIS WEEK THAT THE CHANGE IN CAPITAL GAINS TREATMENT IN FEDERAL LAW WILL HURT INVESTMENT INCENTIVES. IF WE DON'T LOWER THE STATE'S TOP MARGINAL RATE, INVESTMENT MAY BE DISCOURAGED.

THESE THREE PROBLEMS: COMPLEXITY, UNFAIRNESS AND EXCESSIVE TOP MARGINAL RATES CAN BE SOLVED QUITE SIMPLY.

SENATE TAXATION
EXHIBIT NO. 1
DATE 2-19-87
BILL NO. SB-307

Our ~~OUR~~ PROPOSAL IS TO ADOPT FEDERAL TAXABLE INCOME AS THE BASE OF THE STATE INCOME TAX. OUR CURRENT TEN TAX BRACKETS THAT RANGE TO 11% WOULD BE REPLACED BY A THREE BRACKET STRUCTURE 4-6-8%.

USING FEDERAL TAXABLE INCOME FOR STATE PURPOSES WILL SHORTEN THE TAX FORM TO ONE PAGE WHILE REMOVING FEATURES THAT CREATE TAX INEQUITIES AMONG SIMILARLY SITUATED TAXPAYERS: THE DEDUCTION FOR FEDERAL TAXES, THE SPECIAL BREAK FOR MARRIED SEPARATE HOUSEHOLDS, VARIABLE RETIREMENT INCOME EXCLUSIONS, AND NUMEROUS SPECIAL CREDITS OR DEDUCTIONS.

FOR MOST TAXPAYERS THE LOSS OF SPECIAL TAX BREAKS WILL BE MADE UP BY THE NEAR DOUBLING OF PERSONAL EXEMPTIONS, AN INCREASED STANDARD DEDUCTION, A DEDUCTION FOR THE PRIOR YEAR'S STATE INCOME TAX WHICH IS AUTOMATICALLY A PART OF FEDERAL TAXABLE INCOME, AND LOWER TAX RATES.

THE NET RESULT WILL BE THAT ABOUT 60% OF MONTANANS ARE ESTIMATED TO RECEIVE A TAX DEDUCTION. TAXPAYERS WILL BE TREATED MORE EQUITABLY, AND INCENTIVES FOR BUSINESSMEN WILL INCREASE THROUGH THE LOWER TOP RATE.

I NEED TO EMPHASIZE THAT THIS PROPOSAL IS ESSENTIALLY REVENUE NEUTRAL.

money from alternative minimum is used for strippers wells and capital companies credit.

THAT IS, IT RAISES ABOUT THE SAME REVENUE AS WOULD BE RAISED UNDER PRESENT STATE LAW -- AND IT DOES SO MORE EQUITABLY. IF YOU CONSIDER THE PRESENT COSTS OF COMPLIANCE AS A TYPE OF TAX, YOU MIGHT CONCLUDE THAT THIS PROPOSAL ACTUALLY CUTS TAXES AS IT SIMPLIFIES THE PROCESS.

FINALLY MR. CHAIRMAN, WE PROPOSE EXPANDING LOW INCOME PROPERTY TAX RELIEF. RIGHT NOW, MONTANANS WITH INCOMES BELOW $20,000 PAY HIGHER PROPERTY TAXES IN RELATION TO THEIR INCOMES THAN THOSE ABOVE THAT LEVEL. THE AVERAGE IS ABOUT 50-75% HIGHER. OUR PROPOSAL EXTENDS THE PROPERTY TAX RELIEF NOW AVAILABLE ONLY TO SENIOR CITIZENS TO ALL THOSE WITH MODEST INCOMES.

The Montana Alliance for Progressive Policy

P.O. Box 961 Helena, MT 59624 (406) 443-7283

SB 307: Individual Income Tax Reform

Mr. Chairman and members of the committee, for the record my name is Don Reed and I'm here on behalf of the Montana Alliance for Progressive Policy in general support of the the individual income tax reform provisions of SB 307.

I hope that we can all agree on one thing: that our current income tax system is unfair and in need of reform. Years of erosion through special loopholes have left a tax system which is confusing and unfair. That's why we support the concept of broadening the tax base, believing that our tax system is more fair with a broad base rather than our current system which is riddled with special loopholes. This testimony will address the following issues: General Comments on Current Income Tax, Deduction of Federal Taxes, and Rate Structure.

General Comments on Current Income Tax

The logical starting point for any discussion of income taxes is with the subject of income and how it's distributed. Page three of this handout is a graph of income distribution in Montana.

The individual income tax is Montana's most progressive tax. Rates increase as taxable income increases. Therefore, it best reflects the principle of taxation according to one's ability to pay.

There are several factors which significantly reduce the progressivity of the individual income tax: statutory rates stop increasing for those with taxable income greater than $45,600 and special tax deductions, exclusions and credits which primarily benefit those on the top end of the income scale.

The result is that many -- but certainly not all -- wealthy individuals are not pulling their weight. A 1986 Montana Department of Revenue study of 1984 calender year data found that:

* 14% of Montana households earning more than $120,000 a year paid no Montana income tax.
* 20% of all households earning more than $120,000 a year paid less than $1,000 in state income taxes.
* 26% of households earning more than $100,000 a year filing joint returns, paid no state income tax.

My final general observation is that Montana's existing income tax is not high. For FY 1984, Montana's $207 individual income tax per capita was well below the $274 national average. Montana's individual income tax as a percentage of personal income, 2.1%, was also below the national average of 2.4%.

Education Senior Citizens Women Conservation Labor Agriculture

SENATE TAXATION
EXHIBIT NO. 2
DATE 2-19-87
SB 307

Deduction of Federal Taxes

We supported closing this loophole during the 1985 general session of the legislature. It's still a good idea for several reasons: the benefit of this loophole goes predominantly to those earning over $120,000 annually and closing the loophole will make our income tax more fair.

The last page of this handout is a chart which shows the distribution of tax savings among taxpayers deducting federal income taxes in Montana in 1983. On average, the deduction is most valuable to those making $60,000 annually and more. The average deduction for those making over $120,000 annually was $4,077, 19 times greater than the $216 tax savings for those earning $20,000.

Closing this loophole will lead to relatively minor increases for the 50% of Montanans with incomes below $15,750 and moderate increases for the 20% of Montanans earning $15,750 to $26,250. Based on Department of Revenue statistics, the majority of the increased revenue from this provision of SB 307 (55%) would come from Montana's top 10% in income who earn over $43,500. This should make those in the top income brackets full participants in our tax system.

Rate Structure

The existing rate structure stops being progressive after $45,600 annual taxable income. The weakest part of the governor's proposal is the rate structure. By so significantly expanding the income base, SB 307 is able to lower rates dramatically. The problem lies with the fact that the rates stop being progressive after only $12,000 of annual taxable income. Based on Department of Revenue's estimates used to calculate the rates the mean taxble income under the proposal will be $15,750. In other words, the proposed rates stop getting progressive below the average taxable income. Does the average Montana household with a taxable income of $15,570 belong in the same tax bracket as those earning $150,000?

Finally, if the legislature decides that we need additional revenue to balance the budget, this is one likely source to examine. Changes in the rates and brackets could both make the income tax more fair and provide additional revenue.

Thank you for this opportunity to testify.

SENATE TAXATION
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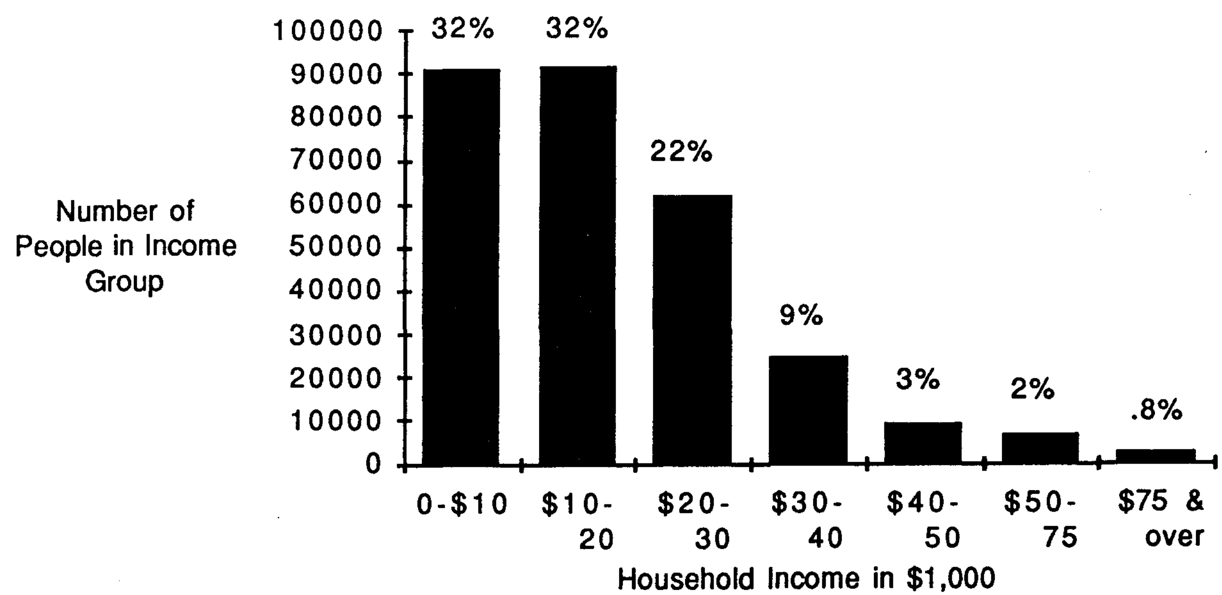
DATE 2-19-87
BILL NO. S.B. 307

SENATE TAXATION
EXHIBIT NO. 2
DATE 2-19-87
BILL NO. S.B. 307

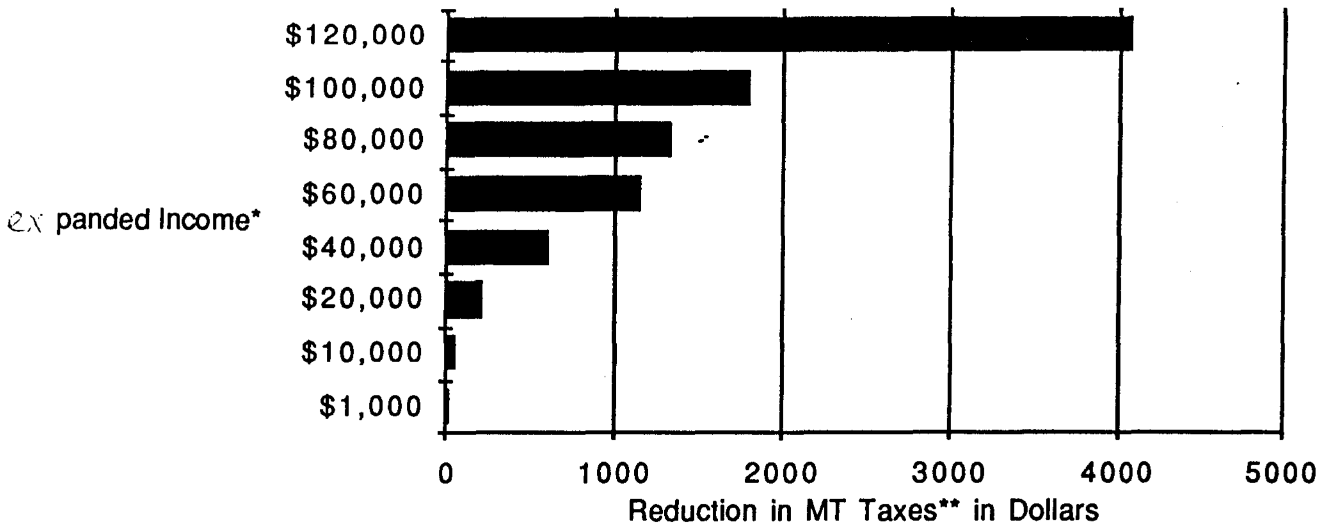
Montana Household Income Distribution, 1979



Source: "State of Montana 1980 Census of Population, Report 3: Social Indicators for Planning & Evaluation," U.S. Dept, of Labor Report

SENATE TAXATION
EXHIBIT NO. 2
DATE 2-19-87
BILL NO. S.B. 307

Distribution of Tax Savings Among Taxpayers Deducting Federal Income Taxes For Montana Tax Purposes, 1983



Source: Montana Department of Revenue

* Expanded income is less than gross income but is as close as Dept. of Revenue could come using Montana tax returns.

** The tax reductions listed are averages for taxpayers in each expanded income bracket.

MR CHAIRMAN, MEMBERS OF THE COMMITTEE,

FOR THE RECORD, I AM JOE UPSHAW OF THE AMERICAN ASSOCIATION OF RETIRED PERSONS. I WILL SAY AT THE OUTSET THAT WE ARE GENERALLY VERY MUCH IN SUPPORT OF THE CONCEPT OF SB 307 AS IT IS A GREAT STEP IN ALEVIATING THE SHORTCOMINGS THAT PLAGUE THE MONTANA TAX SYSTEM. WE ARE WELL AWARE OF THE NEED FOR A BROAD BASED TAX SYSTEM TO SUPPORT THE FISCAL NEEDS OF MONTANA, AND A GOOD INCOME TAX LAW CAN BE AN INTEGRAL PART OF THIS SYSTEM. SOME OF THE ESPECIALLY GOOD FEATURES OF THIS BILL ARE: EXPANSION OF LOCAL PROPERTY TAX RELIEF; THE BUILT IN ADJUSTMENTS FOR THE RECENT PROPERTY REAPPRAISAL; EXPANSION OF THE ELDERLY PROPERTY TAX RELEIF WITH ITS BUILT IN AUTOMATIC APPLICATION PROVISIONS; THE BROADER TAX BASE WITH LOWERING OF THE PERCENTAGES IN INCOME TAX CALCULATION, TO NAME A FEW. WE RETIREES HAVE DEMONSTRATED OUR FAITH IN MONTANA BY OUR REMAINING HERE AFTER RETIREMENT; AND WE TRUST THAT YOU HAVE THE SAME TRUST IN US. YOU, AS OUR LEGISLATORS, HAVE A TREMENDOUS JOB BEFORE YOU. IN LIGHT OF THIS, WE PLEDGE TO SUPPORT YOU IN ANY FAIR AND EQUITABLE TAX SYSTEM THAT YOU DETERMINE IS THE BEST FOR OUR STATE.

WE CANNOT, HOWEVER, FULLY SUPPORT THE BILL AS WRITTEN AND WE WILL OPPOSE THE BILL IF THE CHANGES I AM ABOUT TO ADDRESS ARE NOT MADE. YOUR ATTENTIO IS INVITED TO PAGE 26, LINE 17 THRU LINE 22 OF SB 307. THIS AND OTHER RELATED PORTIONS OF THE BILL WOULD REMOVE ALL DEDUCTIONS FOR RETIREMENT INCOME, NAMELY THE ~~4¢~~ $360) FOR PRIVATE SECTOR RETIREES, $3600 FOR CIVIL SERVICE AND MILITARY RETIREES, AND <u>ALL</u> RETIREMENT FOR STATE EMPLOYEES. THE WORD " FAIRNESS" IS MENTIONED SEVERAL TIMES AMONG THE WHEREASES ON PAGES ONE AND TWO, AND IN PREVIOUS CONVERSATIONS WITH THE REVENUE DEPARTMENT DRAFTERS OF THE BILL, I HAVE BEEN ASSURED THAT THE BILL IS ENTIRELY REVENUE NEUTRAL. I CAN ASSURE YOU THAT WE RETIREES IN MONTANA SEE THE BILL IN ITS PRESENT FORM NEITHER FAIR NOR REVENUE NEUTRAL FROM ~~THEIR~~ OUR POINT OF VIEW, BUT AS SOMETHING BALANCED ON ~~THEIR~~ OUR BACKS. FIRST, LET US EXAMINE THE FAIRNESS OF THE BILL. I WOULD LIKE ~~TO~~ PARTICULARLY ~~LIKE~~ TO SPEAK OF THE PUBLIC RETIREES WHO ARE <u>NOW</u> RETIRED. WHEN THESE PEOPLE WERE INITIALLY EMPLOYED IN THE PUBLIC SECTOR, THEIR WAGES WERE FAR BELOW THOSE ENJOYED BY PRIVATE INDUSTRY.

SENATE TAXATION
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THIS WAS RECOGNIZED BY THE FEDERAL AND STATE GOVERNMENTS AND THIS DIFFERENTIAL WAS SUPPOSEDLY COMPENSATED FOR BY A GOOD RETIREMENT SYSTEM WITH CERTAIN TAX DEDUCTIONS. WHEN THESE PERSONS MADE THEIR DECISIONS TO REMAIN AS PUBLIC career EMPLOYEES, THEIR CHOICE WAS CERTAINLY INFLUENCED BY THE ADVANTAGES OF THE RETIREMENT SYSTEMS AND ACCOMPANYING TAX BREAKS WHICH WOULD SOMEWHAT OFFSET THE LOWER PAY. WITH THEM, IT BECAME A CONTRACT, AND THEY FAITHFULLY WORKED FOR MANY YEARS, FULLY EXPECTING THE PROMISED ANNUITY TO BECOME A REALITY. UPON RETIREMENT, THEY KNEW THAT THEY HAD FULFILLED THEIR BARGAIN AND NOW IT WAS TIME FOR THE EMPLOYER TO FULFILL HIS. THIS SHOULD BE A LIFETIME RETIREMENT WITH A PREDERTERMINED AND GUARANTEED NUMBER OF DOLLARS PERMONTH. THE PROPOSED REMOVAL OF THE PROMISED AND EXPECTED TAX DEDUCTION IS NOTHING LESS THAN A BREACH OF FAITH ON THE PART OF THE STATE. TO ADD A LITTLE ICING ON THE CAKE, LET US LOOK AT THE EARLY RETIREE. DURING THE PAST TWO YEARS, THE BAD FISCAL CONDITION HAS MANDATED A REDUCTION IN COSTS IN VARIOUS DEPARTMENTS IN MONTANA GOVERNMENT. TO ACCOMPLISH THIS, THE STATE HAS PAINTED A ROSY PICTURE OF IT EARLY RETIREMENT. THIS MUST BE A BITTER PILL FOR ~~THOSE~~ one WHO ACCEPTED THE EARLY RETIREMENT FOR THE CONVENIENCE OF THE STATE AND WHO ~~IS~~ [illegible] NOW LOOKING FORWARD TO AN UNEXPECTED TAX ON HIS ANNUITY!!! I AGAIN ASK YOU - IS THIS REALLY FAIR?

I HAVE EXTENDED FIGURES USING THE CASE OF THE FEDERAL EMPLOYEE WHO WOULD LOSE THE $3600 DEDUCTION. AT EVERY LEVEL, IF HIS TAXABLE INCOME WAS INCREASED BY THE PROPOSED $3600, HE WOULD PAY IN THE NEIGHBORHOOD OF $350 more ~~PER~~ ANNUM IN STATE INCOME TAX. HOW ABOUT THE STATE RETIREE WITH LOSS OF THE DEDUCTABILITY ON 3 OR 4 TIMES THAT AMOUNT - DISASTER!! HOW CAN THIS BE REVENUE NEUTRAL IN HIS EYES? THE BILL IS SAID TO TAKE MANY PEOPLE OFF THE INCOME TAX ROLLS. MAYBE SO - BUT HOW ABOUT THOSE RETIREES THAT WOULD MOVE ON TO THE TAX ROLLS BY WAY OF LOSING THIS DEDUCTION?

SENATE TAXATION
EXHIBIT NO. 3
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JUST ONE MORE COMMENT - PLEASE DO NOT TELL US THAT RETIREES ARE TAKEN CARE OF BY ADDING LITTLE GOODIES FOR THE ELDERLY. In the Tax Syst THIS IS NOT A POINT - AS RETIREES ARE NOT NECESSARILY ELDERLY, AND ELDERLY ARE NOT NECESSARILY RETIREES. ALSO, IT WAS MENTIONED THAT WE MIGHT BE COMPENSATED BY AN ADJUSTMENT OF THE ZERO BRACKET. NONSENSE.

NOW, BACK TO WHAT WE FEEL WOULD BE A FAIR ADJUSTMENT. FIRST, WE FEEL THAT , TO MAKE THE BILL PALATABLE, SOME CONSIDERATION MUST BE GIVEN TO THE RETIREE FROM THE PRIVATE SECTOR, AS HE TOO IS CERTAINLY DESERVING OF A BETTER TAX BREAK FOR ~~HIS~~ Any Participating Pension Plan ~~ANNUITY~~, SECONDLY, WE PROPOSE THAT ALL RETIRED PERSONS ELIGIBLE FOR THE PREVIOUS DEDUCTION AS OF 31 DEC, 1987, BE ALLOWED TO RETAIN THEIR DEDUCTIONS AT THE SAME LEVEL.

AS I STATED EARLIER, THIS IS AN EXCELLENT PIECE OF LEGISLATION AND WE CAN FIND IT VERY ACCEPTABLE IF THE PROPOSED CHANGES ARE MADE.

THANK YOU FOR YOUR KIND ATTENTION, AND IN LEAVING, I URGE YOU TO INCORPORATE THESE SUGGESTED CHANGES INTO THE BILL.

SENATE TAXATION
EXHIBIT NO. 3
DATE 2-19-87
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SENATE TAXATION
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GOVERNOR'S PROPOSED STATE INCOME TAX REVISION

The proposal would eliminate the deduction now in effect for all annuities received under any Montana public empoyees plan. Additionally, it would eliminate the $3600 deduction for Civil Service and Military retirees as well as the $360 for civilian retirees. Following is an example of how the new proposal would effect a federal annuitant if his $3600 deduction was removed. Bear in mind that the Montana public employee would be taxed on ALL of his annuity. He then would be paying far more than the federal retiree.

Taxable Income (New Proposal)	Taxable Income if $3600 was not taxed and old tax tables were used	Tax Under Proposed Plan	Tax Under Present Method
$4000	$400	$160	$8
$5000	$1400	$210	$29
$10000	$6400	$510	$241
$15000	$11400	$870	$525
$20000	$16400	$1270	$919
$25000	$21400	$1670	$1341
$30000	$26400	$2070	$1795
$35000	$31400	$2470	$2265

This shows a substantial increase at all levels. The plan also states that it adds a large number of persons to those that will NOT be paying income tax. This cannot be entirely true as stae retirees who are in the lower bracket and not presently being taxed will now be added rather than removed.

NAME: ELMER HAUSKEN DATE: 19 FEB 87

ADDRESS: 400 HIGHLAND - HELENA

PHONE: 442-7319

REPRESENTING WHOM? AARP & MYSELF

APPEARING ON WHICH PROPOSAL: SB 307

DO YOU: SUPPORT? ________ AMEND? ________ OPPOSE? ________

COMMENTS: I AM A VOLUNTEER, UNPAID, REGISTERED LOBBYIST FOR THE AMERICAN ASSN OF RETIRED PERSONS REPRESENTING THE 10,000 MEMBERS OF AARP RESIDING IN MONTANA, AND I SUPPORT THE AARP POSITION. AS AN INDIVIDUAL I FEEL STRONGLY ABOUT EQUITY IN TAXATION. I'VE HAD TO WORK VERY HARD ALL MY LIFE AND FEEL I AM AS GOOD AS ANYONE ELSE. BECAUSE OF THAT I RESENT NOT BEING TREATED EQUALLY ON MY MT. TAX RETURN. MANY RETIRED PEOPLE FEEL THE SAME WAY. LET EVERYONE PAY THE SAME RATE ON EVERY DOLLAR, IN ACCORDANCE WITH INCOME LEVEL AND TAX RATES, AND ALL RETIREMENT INCOME BE MT. INCOME TAX EXEMPT, AS THE STATE OF ILLINOIS DOES.

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

SENATE TAXATION
EXHIBIT NO. 4
DATE 2-19-87
BILL NO. SB-307

NAME: Clive Thomas DATE: 1-19-87

ADDRESS: 1703 Highland - Helena

PHONE: 443-3094

REPRESENTING WHOM? Retired Teachers Assoc

APPEARING ON WHICH PROPOSAL: S.B. 307

DO YOU: SUPPORT? ______ AMEND? ✓ OPPOSE? ______

COMMENTS:

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

SENATE TAXATION
EXHIBIT NO. 5
DATE 2-19-87
BILL NO. SB-307

Testimony given 2-19-87 to the Senate Taxation Committee

Alve Thomas, Chairman Legislative Committee, Montana
Retired Teachers Association

We oppose the provisions in S. B. 307 that would impose an income tax on state retirement benefits.

Montana's Teacher Retirement system was created in 1937 and amended in 1947 to make membership mandatory for all certified teachers and administrators in Montana public schools.

Both laws excluded all payments made to retired teachers from any state income tax. Many of our members contributed from 30 to 40 years since the bill was enacted under the assumption that pensions accrued would not be subject to a state income tax. We believe this is a contract that should not be abrogated.

In 1958 the question of the legality of taxing teacher retirement was addressed to the Montana Attorney General and I would like to read part of his official opinion.

I quote:

> "Exemption from taxation, execution and assignment. The pensions, annuities, or any other benefits accrued or accruing to any person under the provisions of this act and the accumulated contributions and cash and securities in the various funds created under this act are hereby exempted from any state, county or municipal tax of the state of Montana, and shall not be subject to execution, garnishment, attachment by trustee process or otherwise, in law or equity, or any other process whatsoever and shall be unassignable except as in this act specifically provided."

SENATE TAXATION
EXHIBIT NO. 5
DATE 2-19-87

The terms "annuity" and "pension" as they apply to the teachers retirement act are defined in parts (16) and (17), respectively, of Section 75-2701, RCM, 1947, as follows:

> (16) "Annuity" shall mean payments for life derived from the accumulated contributions of a member as provided in this act.
>
> (17) "Pension" shall mean payments for life derived from money provided by the employer as defined in this act.

He further states:

> It is clear the act was intended to provide old age security for those who have spent their productive years educating our children at salaries which are often barely above the subsistence level. In effect, the legislature was recognizing the state's unpaid and unpayable debt to those who insure our future by training our young people. In order to assure the maximum benefit of the pension-annuity plan as comprehended by the act.
>
> In a word, it was the clear intent of the legislature to maintain the benefits available under the act inviolate and undiminished and to insure them against the incursion of all extraneous claims. It is that clear intent we must adhere to and implement wherever and whenever possible.
>
> I conclude, therefore, that payments made to retired teachers under the teachers retirement system are exempt from the state income tax and need not be reported as income for state income tax purposes.
>
> Very truly yours,
> FORREST H. ANDERSON
> Attorney General

We believe that it is not ethical, moral or legal to tax those who are presently receiving state [illegible] ~~provisions~~.

The average payments to retired teachers this year is $542 dollars a month and the average length of time a retiree spent in Montana schools was 26 years. The retirement system does not have a cost of living adjustment, so many who retired 10 or 15 years ago have seen their purchasing power erode because of inflation. To tax away another 4 or 5% of their income would be totally unfair and unjust.

The Retired Teachers Association of Montana have not taken a position on all of S. B. 307 but recommends that the provisions in the bill to tax retirement benefits be deleted.

Thank you for your consideration.

SENATE TAXATION
EXHIBIT NO. 5
DATE 2-19-87
BILL NO. S B

NAME: Ed Sheehy DATE: Feb 19-87

ADDRESS: 1731 Fifth Ave Helena

PHONE: 443-5782

REPRESENTING WHOM? Retired Federal Employees

APPEARING ON WHICH PROPOSAL: SB 307

DO YOU: SUPPORT? ______ AMEND? ______ OPPOSE? ✓

COMMENTS: ______

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

SENATE TAXATION
EXHIBIT NO. 6
DATE 2-19-87
BILL NO. SB-307

NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES

REGION 9 • WASHINGTON • OREGON • MONTANA • IDAHO • ALASKA

EDMUND F. SHEEHY

NATIONAL FIELD VICE PRESIDENT

1731 - 5th AVENUE • HELENA, MT 59601

TELEPHONE (406) 443-5782

STATEMENT ON SENATE BILL 307

In trying to decide where I should live in retirement, I recently purchased a book entitled "Retirement Edens Outside the Sun Belt". He rated places as "good or excellent for retirement purposes. Locations in Idaho, Washington, Oregon, North Dakota and Utah received the nod but the author found none in Montana. Montana's profile for retirees for tourism or a retirement destination is simply not good. Montana continues to take away incentive to attract and keep retirees in this state by taxing social security benefits and now is proposing to fully tax all retirement benefits and eliminate the earned interest credit that the governor made applicable only to those over age 65.

According to 1985 figures from the government there are 7,633 federal retiress living in this state that bring into the state's economy a monthly gross retirement benefit of $7,396, 383. I submit that this is something we should try to keep and to increase. Echoing the slogan of 1968 you are asking this select group to pay more. We can only respond "What for?" The situation is many of these retirees are like me and have children or grnadchildren that live great distances from Montana. You are forcing me to consider living in Texas on a permanent basis.

Many states and regions are consciously trying to attract retirees. They no longer think in terms of tourism as we view it. While the tourist drives through the state, buys gasoline, a meal and a motel room on the way out, the retiree becomes a part of the taxpaying community with stable and dependable sources of disposable income that is free to be spent on a variety of services. Montana to build its economy should make an effort to capitalize on this huge source of outside income.

There are ten states that do not have income taxes, five states fully exempt federal retirement benefits for state income tax purposes. At present there are twenty seven states that give a partial exemption and in some of those states the legislature is considering bills to increase the partial exemption. When you are looking at a select group that brings into the economy on a monthly basis $7,396,383 Montana should be providing tax incentives to attract and keep that kind of income. The bureau of census will show that Montana has not done as well as other western states in adding retirees to the total population. In-migration of retirees to all other western states as a percentage of the total population , even to Alaska is far in excess of Montana's. If you are sincere about building Montana try to keep the retirees you have and make Montana attractive as a retirement destination.

Ed Sheehy

Ed Sheehy

SENATE TAXATION
EXHIBIT NO. 6
DATE 2-19-87
BILL NO. SB-307

Your State Income Tax Exemptions

Treatment of U.S. Annuities Differs Widely

Civil Service Annuities and State Income Tax Exemptions

STATES WITH NO PERSONAL INCOME TAXES

Alaska
Connecticut
Florida
Nevada
New Hampshire
South Dakota
Tennessee
Texas
Washington
Wyoming

STATES EXEMPTING TOTAL AMOUNT OF CIVIL SERVICE ANNUITIES

Alabama
Hawaii
Illinois
Kansas
Massachusetts
Pennsylvania

STATES ALLOWING PARTIAL EXEMPTIONS OF CIVIL SERVICE ANNUITIES OR RETIREMENT INCOME

Arizona—$2,500.

Arkansas—$6,000.

Colorado—$20,000.

Delaware—2 exclusions: 1) $2,000 if earned income less than $2,500 and AGI under $10,000; joint return exclusion of $4,000 with less than $5,000 earned and AGI under $20,000. Must be 60+ or totally disabled. 2) Amounts received as pension exempted up to $2,000.

District of Columbia—$3,000 for 62+ for Federal and District retirees.

Georgia—$4,000 for 62+ and permanently or totally disabled.

Idaho—$9,120, single. $13,680, joint. $9,120, unmarried survivor of annuitant. Must be 65+, or 62 and disabled. Amounts reduced by SS or RR benefits received.

Indiana—$2,000 exemption for most civil service retirees 62+. Amounts reduced by SS or RR benefits received.

Iowa—$5,627, single. $8,184, joint. Must be 62+ or disabled. Amounts reduced by SS benefits received.

Kentucky—Federal civil service annuities excluded from gross income for persons 50+ subject to following limitations of earned income and maximum annuity exclusion:

$3,000 or less—$4,000 excluded
$3,001 to $4,000—$3,000 excluded
$4,001 to $5,000—$2,000 excluded
$5,001 to $6,000—$1,000 excluded
Over $6,000—none

Louisiana—$6,000 for 65+.

Maryland—Exclusion for those 65+, and anyone totally and permanently disabled to a maximum exclusion of $8,600 for 1986, reduced by any SS or RR benefits received.

Michigan—$7,500, single; $10,000, joint.

Minnesota—Greater of: (1) $11,000 exemption reduced $1-for-$1 each dollar in excess of $17,000 federal AGI; or (2) $11,000 exemption reduced by SS received and reduced $1-for-$1 each dollar in excess of $23,000 federal AGI.

Mississippi—$5,000. An additional $1,500 for 65+.

Montana—$3,600.

New Jersey—$10,000, joint return. $7,500, single return, and $5,000 if married and filing separately. Additional amounts ($6,000, joint; $3,000, single or married filing separately) can be deducted if ineligible for SS. Must be 62+.

New Mexico—$3,000 for civil service annuitant under 65; $6,000 for all 65+ within income limits.

New York—$20,000 for 59½+.

North Carolina—$3,000.

North Dakota—$5,000. Amount reduced by SS benefits received.

Ohio—Retirement income credit in graduated amounts ranging from $0 if yearly annuity amount is less than $500 to $200 credit for annual annuities exceeding $8,000. Also, $50 tax credit against total tax liability at age 65+.

Oklahoma—$4,000.

Oregon—$3,400 unless income exceeds $25,000 at which point exclusion is zero.

Puerto Rico—$2,500 for civil service annuitants under 60. $4,000 for 60+.

South Carolina—$3,000.

Utah—$4,800 under 65; $6,000 for 65+.

Virginia—All taxpayers 62+ get tax credit of 5 percent of the following base amounts:

$7,560 at age 62	$8,580 at age 64
$8,028 at age 63	$9,120 at age 65+

Base amounts reduced by SS and RR benefits received; and further reduced by twice the amount of federal AGI in excess of $12,000 computed separately for husband and wife. Tax credit unavailable to persons whose federal AGI is $16,560 or more.

West Virginia—$8,000 for persons 65+.

Note: SS=Social Security; RR=Railroad Retirement; AGI=Adjusted Gross Income. For 62+, 65+, read age 62 and over, 65 and over, etc.

SENATE TAXATION
EXHIBIT NO. 6
DATE 2-19-8

Id sent to 17 Legisl 1/27

MONTANA STATE FEDERATION OF CHAPTERS
NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES

611 Livingston Ave.
Missoula, Mt. 59801

January 22, 1987

The Honorable Ted Schwinden
Office of Governor
Capitol Station
Helena, Mt. 59620

ATTN: CHARLES BRIGGS

Dear Ted:

As related to you in Helena yesterday, there are some serious flaws in your proposed tax reform package. While we certainly agree that the present system, as it applies to annuities and pensions, is an indefensible hodge-podge, it should be possible to correct the problem without making the state unattractive to retirees.

An assault on the retirement community started with your 1986 budget, when the decision was made, and upheld by the 1985 Legislature, to become one of twelve states that tax Social Security. (Exhibit 1) Enactment of your presently proposed tax reform package, allowing no pension or annuity exemptions, would place Montana in the unique position of being one of five states that apparently wish to discourage retirees as residents. (Exhibit 2)

Although the amount of PERS, Social Security, Teacher Retirement, Military and private pensions has not been researched, it certainly dwarfs the 90 million dollars of federal retirement paid annually in Montana. (Exhibit 3)

If our information is correct, elimination of tax exemptions for PERS retirees and teachers, for example, would also place many of them in a position of paying income tax on their Social Security. And all retired couples in the $35,000-$40,000 bracket would see their state income tax increased by over $1,000 per year, if calculated on the federal taxable amount.

The amount of retirement income spent in Montana is substantial,and certainly important to the states economy- so why be one of the very few that taxes Social Security, and allows no pension or annuity exemptions? We consider this a clear signal retaining or attracting affluent retirees to Montana is of no consequence. Most elderly couples have children outside Montana beckoning them to move closer. Why push them over the brink with a confiscatory tax policy? If your objective is to achieve equity among retirees on a revenue neutral basis, simply exempt all retiree annuities and pensions by a fixed amount-say $7500.

Montana has a lot to offer, but retirees are comparing your tax policy with that of other states. If you want their business, you must remain competive, it's that simple. (Exhibit 4)

We respectfully request that you re-examine your tax reform package, with this in mind.

SENATE TAXATION
EXHIBIT NO. 6
DATE 2-19-87

Sincerely,

Everett E. Woodgerd

64th OREGON LEGISLATIVE ASSEMBLY--1987 Regular Session

House Bill 2230

Ordered printed by the Speaker pursuant to House Rule 12.00A (5). Presession filed (at the request of Joint Interim Revenue and School Finance Committee)

SUMMARY

The following summary is not prepared by the sponsors of the measure and is not a part of the body thereof subject to consideration by the Legislative Assembly. It is an editor's brief statement of the essential features of the measure **as introduced.**

Increases amount of retirement income exclusion allowed to federal civil and military retirees for each tax year from $3,400 to $6,000 of retirement benefits. Increases amount of household income taxpayer can receive before becoming ineligible for exclusion.

Applies to tax years beginning after 1986.

A BILL FOR AN ACT

Relating to taxes imposed upon or measured by income; creating new provisions; and amending ORS 316.680.

Be It Enacted by the People of the State of Oregon:

SECTION 1. ORS 316.680 is amended to read:

316.680. (1) There shall be subtracted from federal taxable income:

(a) The interest or dividends on obligations of the United States and its territories and possessions or of any authority, commission or instrumentality of the United States to the extent includable in gross income for federal income tax purposes but exempt from state income taxes under the laws of the United States. However, the amount subtracted under this section shall be reduced by any interest on indebtedness incurred to carry the obligations or securities described in this section, and by any expenses incurred in the production of interest or dividend income described in this section to the extent that such expenses, including amortizable bond premiums, are deductible in determining federal taxable income.

(b) The amount of any federal income taxes accrued by the taxpayer during the taxable year as described in ORS 316.685, less the amount of any refunds of federal taxes previously accrued for which a tax benefit was received.

(c) Amounts received by a retiree, or the surviving spouse of a retiree in the taxable year in compensation for or on account of personal services rendered in prior years, from a pension, annuity, retirement or similar fund under a public retirement system established by the United States, including the retirement system for the performance of service in the Armed Forces of the United States, or by this state or any municipal corporation or political subdivision of this state (but excluding the Public Employes' Retirement System established by ORS chapter 237). In the case of a public retirement system established by the United States, including the retirement system for the performance of service in the Armed Forces of the United States, the maximum amount excludable from taxable income from such pensions or annuities shall be in the amount of [*$3,400*] **$6,000**. However, if the taxpayer is under 62, the [*$3,400*] **$6,000** subtraction is reduced dollar for dollar to the extent of any earned income, as defined in subsection (3) of this section, received during the taxable year. If the taxpayer receives [*$25,000*] **$45,000** or more of household income, as defined in ORS 310.630, the subtraction is zero.

NOTE: Matter in **bold face** in an amended section is new; matter [*italic and bracketed*] is existing law to be omitted.

MONTANA STATE FEDERATION OF CHAPTERS
NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES
611 Livingston Ave.
Missoula, Mt. 59801

February 19, 1987

TESTIMONY BEFORE THE SENATE TAXATION COMMITTEE--SB-307

MR, CHAIRMAN AND MEMBERS OF THE COMMITTEE. MY NAME IS EVERETT E. WOODGERD, A FEDERAL RETIREE, AND SPEAKING FOR OVER 200 CHAPTER MEMBERS FROM MISSOULA OF THE NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES.

THE GOVERNOR SAYS THAT (QUOTE) "UNDER CURRENT LAW, THE UNEQUAL TREATMENT OF RETIREMENT INCOME IS ONE OF THE LARGEST SOURCES OF COMPLAINT AGAINST THE TAX SYSTEM BY RETIRED CITIZENS. THE CHANGE WILL RESULT IN EQUAL TREATMENT OF ALL REITIREMENT INCOME".(UNQUOTE)

WE APPLAUD THE CONCEPT--BUT DEPLORE HIS PROPOSED TREATMENT. IT WOULD ELIMINATE ALL TAX EXEMPTIONS FOR THIS ENTIRE GROUP. IT EXPOSES HIS STATEMENT AS AN EXAMPLE OF POLITICAL RHETORIC AT ITS WORST.

TWO YEARS AGO, IN KEEPING WITH THE GOVERNORS REQUEST, MONTANA BECAME ONE OF TWELVE STATES THAT FINDS IT NECESSARY TO TAX SOCIAL SECURITY BENEFITS.

~~SIXTEEN~~ Ten STATES HAVE NO INCOME TAX--AND ~~29~~ 35 OTHERS HAVE SOME TYPE OF RETIREMENT INCOME EXEMPTION. NOW HE IS PROPOSING THAT MONTANA BECOME ONE OF ONLY FIVE STATES THAT SOCKS IT TO THE ELDERLY POPULATION BY HAVING NO TAX EXEMPTION OF ANY KIND. THEY WOULD BE GUARANTEED A SUBSTANTIAL TAX INCREASE.

THERE ARE NUMEROUS REASONS ~~FOR~~ FOR GIVING A LITTLE EXTRA CONSIDERATION TO SENIORS--BUT SPEAKING STRICTLY FROM A BUSINESS STANDPOINT--MONTANA CAN'T AFFORD TO DRIVE ITS ELDERLY POPULATION TO ANOTHER STATE, SIMPLY BECAUSE OF A CONFISCATORY TAX SYSTEM.

FEDERAL RETIREES ALONE BRING OVER $7,500,000 INTO THE STATE EACH MONTH--THATS OVER $90,000,000 PER YEAR. THIS ISN'T A DROP IN THE BUCKET COMPARED TO REVENUE GENERATED THRU SOCIAL SECURITY, TEACHERS RETIREMENT, PERS, PRIVATE--AND OTHERS. IT IS ALL CLEAN MONEY THAT'S LARGELY SPENT LOCALLY. MONTANA COULD AND SHOULD BE AN ATTRACTIVE DESTINATION RETIREMENT STATE.

WE URGE THAT YOU MAKE IT SO BY MODIFYING OR REJECTING S.B.-307.

THANK YOU FOR YOUR TIME.

EVERETT E. WOODGERD

SENATE TAXATION
EXHIBIT NO. 7
DATE 2-19-87
BILL NO. SB-307

MONTANA STATE FEDERATION OF CHAPTERS
NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES
611 Livingston Ave.
Missoula, Mt. 59801

January 22, 1987

The Honorable Ted Schwinden
Office of Governor
Capitol Station
Helena, Mt. 59620

ATTN: CHARLES BRIGGS

Dear Ted:

As related to you in Helena yesterday, there are some serious flaws in your proposed tax reform package. While we certainly agree that the present system, as it applies to annuities and pensions, is an indefensible hodge-podge, it should be possible to correct the problem without making the state unattractive to retirees.

An assault on the retirement community started with your 1986 budget, when the decision was made, and upheld by the 1985 Legislature, to become one of twelve states that tax Social Security. (Exhibit 1) Enactment of your presently proposed tax reform package, allowing no pension or annuity exemptions, would place Montana in the unique position of being one of five states that apparently wish to discourage retirees as residents. (Exhibit 2)

Although the amount of PERS, Social Security, Teacher Retirement, Military and private pensions has not been researched, it certainly dwarfs the 90 million dollars of federal retirement paid annually in Montana. (Exhibit 3)

If our information is correct, elimination of tax exemptions for PERS retirees and teachers, for example, would also place many of them in a position of paying income tax on their Social Security. And all retired couples in the $35,000-$40,000 bracket would see their state income tax increased by over $1,000 per year, if calculated on the federal taxable amount.

The amount of retirement income spent in Montana is substantial,and certainly important to the states economy- so why be one of the very few that taxes Social Security, and allows no pension or annuity exemptions? We consider this a clear signal retaining or attracting affluent retirees to Montana is of no consequence. Most elderly couples have children outside Montana beckoning them to move closer. Why push them over the brink with a confiscatory tax policy? If your objective is to achieve equity among retirees on a revenue neutral basis, simply exempt all retiree annuities and pensions by a fixed amount-say $7500.

Montana has a lot to offer, but retirees are comparing your tax policy with that of other states. If you want their business, you must remain competive, it's that simple. (Exhibit 4)

We respectfully request that you re-examine your tax reform package, with this in mind.

Sincerely,

Everett E. Woodgerd

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EXHIBIT NO. 7
DATE 2-19-87
BILL NO. S.B. 307

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Exhibit (1)

IN AT LEAST 12 STATES:

Taxes On Your Social Security May Affect Your State Tax, Too

A portion of some individuals' social security benefits were taxed for the first time in 1984 with 2.8 million federal tax returns reporting taxable social security income.

Part of social security benefits may be subject to federal taxation if a person's adjusted gross income plus nontaxable interest and one-half of their social security benefits exceed a base amount.

The base amounts which trigger the tax, set by the Social Security Amendments of 1983, are $25,000 for individuals, $32,000 for couples filing jointly, and zero for couples filing separately. The amount to be taxed will be the lesser of one-half of benefits for the year, or one-half of the excess over the base amount.

Because of this law, taxpayers should carefully examine their respective state tax laws to see if there also might be a new state tax liability because of federal taxation of social security benefits.

Several states are NOT affected by the federal law because: (1) there is no state personal income tax liability; (2) their taxation computation does not "piggy-back" the federal income tax code; or (3) specific laws were enacted exempting social security retirement benefits from state tax liability.

MORE TAXATION—MAYBE

To date, we are aware that taxpayers in the following states MAY have an increased state tax burden because of the federal taxation of social security benefits:

Colorado	**Nebraska**
Iowa	**North Dakota**
Kansas	**Oklahoma**
Louisiana	**Rhode Island**
Missouri	**Utah**
Montana	**Vermont**

Residents of any of these states who receive social security income should check with local state tax offices for complete information.

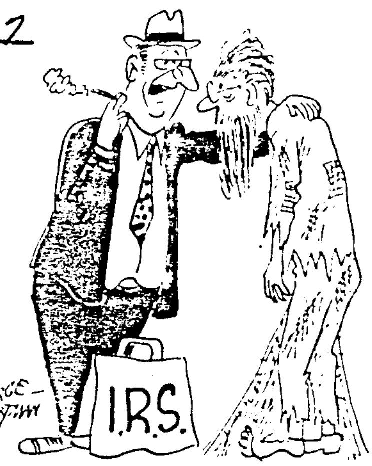
A REAL CHALLENGE

Dear Editor:

Enclosed is my check in the amount of $589.80 from Chapter 99 for the NARFE Building Fund.

This check brings this chapter's contribution to the Building Fund to $1,000 this year. We challenge other chapters to meet this contribution.

A. D. Fitzgerald
Baton Rouge, Louisiana



—George Hartman
"Rip Van Winkle! How about those 20 years of back taxes?"

Exhibit 2

Your State Income Tax Exemptions

Treatment of U.S. Annuities Differs Widely

SENATE TAXATION
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DATE 2-19-87
BILL NO. S.B. 3?7

Civil Service Annuities and State Income Tax Exemptions

STATES WITH NO PERSONAL INCOME TAXES	STATES EXEMPTING TOTAL AMOUNT OF CIVIL SERVICE ANNUITIES
Alaska	Alabama
Connecticut	Hawaii
Florida	Illinois
Nevada	Kansas
New Hampshire	Massachusetts
South Dakota	Pennsylvania
Tennessee	
Texas	
Washington	
Wyoming	

STATES ALLOWING PARTIAL EXEMPTIONS OF CIVIL SERVICE ANNUITIES OR RETIREMENT INCOME

Arizona—$2,500.
Arkansas—$6,000.
Colorado—$20,000.
Delaware—2 exclusions: 1) $2,000 if earned income less than $2,500 and AGI under $10,000; joint return exclusion of $4,000 with less than $5,000 earned and AGI under $20,000. Must be 60+ or totally disabled. 2) Amounts received as pension exempted up to $2,000.
District of Columbia—$3,000 for 62+ for Federal and District retirees.
Georgia—$4,000 for 62+ and permanently or totally disabled.
Idaho—$9,120, single. $13,680, joint. $9,120, unmarried survivor of annuitant. Must be 65+, or 62 and disabled. Amounts reduced by SS or RR benefits received.
Indiana—$2,000 exemption for most civil service retirees 62+. Amounts reduced by SS or RR benefits received.
Iowa—$5,627, single. $8,184, joint. Must be 62+ or disabled. Amounts reduced by SS benefits received.
Kentucky—Federal civil service annuities excluded from gross income for persons 50+ subject to following limitations of earned income and maximum annuity exclusion:

$3,000 or less—$4,000 excluded
$3,001 to $4,000—$3,000 excluded
$4,001 to $5,000—$2,000 excluded
$5,001 to $6,000—$1,000 excluded
Over $6,000—none

Louisiana—$6,000 for 65+.
Maryland—Exclusion for those 65+, and anyone totally and permanently disabled to a maximum exclusion of $8,600 for 1986, reduced by any SS or RR benefits received.
Michigan—$7,500, single; $10,000, joint.
Minnesota—Greater of: (1) $11,000 exemption reduced $1-for-$1 each dollar in excess of $17,000 federal AGI; or (2) $11,000 exemption reduced by SS received and reduced $1-for-$1 each dollar in excess of $23,000 federal AGI.
Mississippi—$5,000. An additional $1,500 for 65+.
Montana—$3,600.
New Jersey—$10,000, joint return. $7,500, single return, and $5,000 if married and filing separately. Additional amounts ($6,000, joint; $3,000, single or married filing separately) can be deducted if ineligible for SS. Must be 62+.
New Mexico—$3,000 for civil service annuitant under 65; $6,000 for all 65+ within income limits.
New York—$20,000 for 59½+.
North Carolina—$3,000.
North Dakota—$5,000. Amount reduced by SS benefits received.
Ohio—Retirement income credit in graduated amounts ranging from $0 if yearly annuity amount is less than $500 to $200 credit for annual annuities exceeding $8,000. Also, $50 tax credit against total tax liability at age 65+.
Oklahoma—$4,000.
Oregon—$3,400 unless income exceeds $25,000 at which point exclusion is zero.
Puerto Rico—$2,500 for civil service annuitants under 60. $4,000 for 60+.
South Carolina—$3,000.
Utah—$4,800 under 65; $6,000 for 65+.
Virginia—All taxpayers 62+ get tax credit of 5 percent of the following base amounts:

$7,560 at age 62	$8,580 at age 64
$8,028 at age 63	$9,120 at age 65+

Base amounts reduced by SS and RR benefits received; and further reduced by twice the amount of federal AGI in excess of $12,000 computed separately for husband and wife. Tax credit unavailable to persons whose federal AGI is $16,560 or more.
West Virginia—$8,000 for persons 65+.

Note: SS=Social Security; RR=Railroad Retirement; AGI=Adjusted Gross Income. For 62+, 65+, read age 62 and over, 65 and over, etc.

S. S. ON BACK

EXHIBIT 3

MONTANA

Oct - 1985

Federal Annuities were Increased by 1.3% JAN. 1, 1987

SENATORS

Baucus, Max (D)

Melcher, John (D)

CONGRESSIONAL DISTRICT	REPRESENTATIVE	NUMBER OF ANNUITANTS (includes survivors)	MONTHLY GROSS ANNUITY
1	Williams, Pat (D)	4,381	$ 4,381,305
2	Marlenee, Ron (R)	3,252	3,015,078
	TOTAL	7,633	$ 7,396,383

$969 - Average

ALL TAXABLE

PAY 10% For Spouse Benefits

Annuitants - 5967 - $1080
Survivors - 1666 573

National Average $1119

Annual - $88,756,596

30 MILLION RECEIVE SOCIAL SECURITY RETIREMENT BENEFITS

7.9 MILLION******PRIVATE PENSIONS

2.9 MILLION******STATE & LOCAL GOVERNMENT PENSIONS

1.8 MILLION******FEDERAL ANNUITIES

781,000**********RAILROAD RETIREMENT PENSIONS

16 STATES DON'T TAX CIVIL SERVICE ANNUITIES

29 STATES HAVE PARTIAL CSRS PARTIAL EXEMPTIONS (INCLUDING MONTANA**$3600)

12 STATES TAX SOCIAL SECURITY (COUPLE INCOME OF OVER $32,000) ***INCLUDING MONTANA

SOCIAL SECURITY---~~1985~~ 1986

MAXIMUM BENEFIT FOR RETIREE***AGE 65******************~~$717~~ 760******PLUS 50% for SPOUSE

~~$359~~ 380 *****(AGE 65)

TAX FREE UP TO $32,000 ~~$1076~~ 1140

MEDICARE BENEFITS***PART A****INCLUDED**NO CHARGE

PART B****MONTHLY PREMIUM (OPTIONAL BENEFIT)

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Exhibit 4

January 21, 1985

To:

From: Leroy Keilman

Subject: A Method to Economically Develop and Build Montana Through Designating Montana a Destination Retirement State

Personal income comes not only from gainful employment, but from nonwork sources. In 1979, 27 percent of personal income of people in rural areas was from nonwork sources as pensions, retirement, annuities, etc.

Nonwork income enables people to live wherever they wish. While tourists drive into Montana and leave, the people over 60 who receive nonwork income become a part of our tax paying community and are free to spend on a variety of services giving a boost to our service sector employment.

While local economy and thus service jobs come from agriculture, etc., the big push for services comes from nonwork income. Over 40 percent of the increase in personal income of people in rural areas across the nation comes from this type of income.

Now many states and regions are trying to attract retirees.

I believe Montana should develop this economically sound, clean, and pollution free resource by developing climate to hold our retired people and those about to retire in the state and attract more to come in.

Two methods I suggest would be (1) a sound advertising program of our beautiful state; its elbow room, top hunting and fishing, outdoor summer and winter sports, etc., and (2) also like Florida, Texas, Nevada, etc., we also could drop our income tax for these seniors. (All state, county, municipal retirees and retired teachers already receive this benefit.) These two methods along with a few other ideas could truly economically benefit all the citizens of Montana.

Leroy Keilman
837 Radford Square
Billings, MT 59105

Percentages and ideas from Lloyd Bender, USDA Economist, MSU, Bozeman, Montana, during his talk to "Rural Agriculture Areas Development Committee" 1984.

His material is attached.

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My name is Sherwood C Trotter. I am from Missoula, appearing today as a Senior Citizen and a retired Federal Employee. I suggest that taking away items that retirees may deduct from their Montana income at income tax time, is not in the best interest of Montana. Instead Montana should seriously consider increasing various retirees deductions.

Retirees can be a source of substantial new revenues, easier and faster than anything else I can think of. They bring in new money without requiring a job, they do volunteer work in their communities, they do not impact the schools because their children are grown and they spend most of their money in the state where they live.

At the present time there are 10 States that have no personal income tax at all. In addition there are 6 States exempting the total amount of Federal Civil Service Annuities and 7 States

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that allow a greater State Income Tax Exemption than does Montana. So from the standpoint of State Income taxes there are 33 States that give retirees a better break than does Montana.

There is a very active & positive push going on in many States to retain & attract retirees. I think it could be easier, and more productive than any of the efforts I have heard about attempting to bring in small businesses. And it doesn't require a new agency or any bureaucracy to set it in motion.

But it does require Montana to make itself financially attractive. And I suggest that retaining or improving State Income Tax Exemptions is a wise and prudent way to go

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NAME: Gary B Carlson DATE: 2/19/87

ADDRESS: Power Block Box 1147 Helena

PHONE: 442-3540

REPRESENTING WHOM? Montana Society of CPA'S

APPEARING ON WHICH PROPOSAL: SB 307 Sec. 9-34 86-91 & 113
Individual Income tax Reform

DO YOU: SUPPORT? ______ AMEND? XXX OPPOSE? ______

COMMENTS: Simplification supported - Go step further and utilize federal tax rather than taxable income.
Sec 16: MT Alternative minimum tax - amend section to simplify and streamline
Sec 17: Consider taxing refunds from years beginning Prior to 1/1/87 even if received past 1987
Sec 18: Non residents needs streamlining - Now Confusing + possibabely ackward.
Sec 23. Innocent Spouse - we support the change
Sec 25 Extensions - this can be simplified, need to be amended for a technical mistake.
Sec 29. Sub "S" - need to correct problem of double taxation on Fed "S" shareholders of MT corporations which did not elect.

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

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February 19, 1987

TESTIMONY BY GARY B CARLSON, CPA

ON BEHALF OF

THE MONTANA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

SB307 - Sections 9-34, 86-91 and 113: Individual Income Tax

Simplification for filing individual income tax returns is a bold and agressive move.

On June 25, 1986, five CPAs and two Montana Society of CPAs' Executive staff members held a news conference on the Capitol steps during the Special Session. Our purpose was to announce our profession's suggestions to simplify the filing of individual tax returns. The result of the conference? No one showed up!

There is a message: CPAs aren't known for bold public moves. However the effort was noted.

An effort to condense the filing of individual returns from 3, 4 or 5 pages of forms to a single page is a tremendous step - not one without painful decisions. Taxpayers who prepare their own returns, as well as paid preparers - CPAs and others - welcome the effort and will appreciate it.

We urge additional simplification.

Important impacts result from the shift to beginning with Federal taxable income - many of the current adjustments are difficult to explain.

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If the legislature can and will accept the Federal philosophy now in place, used to determine taxable income, return filing in Montana can achieve simplification.

We propose a further bold step: Utilize <u>Federal tax</u>

- o Income tax + alternative minimum tax + lump sum distributions + IRA tax

- o Determine the applicable % which should be taxable in Montana.

$$\frac{\text{Federal taxable income + interest - non-taxable}}{\text{Federal Taxable Income}} = \%$$

If we used the North Dakota approach, we would have the following formula:

<u>Federal tax x % x MT single rate = tax</u>

Establishing the Montana tax rate is the important issue on which to focus.

Many Montanans will be forced into higher tax brackets by the Federal Tax Reform Act of 1986 and the elimination of Monana adjustments to income (such as retirement income exclusions) <u>and</u> the elimination of the common practice of filing separate returns by married couples on a single tax form. This change affects many two-wage-earner families - many state employees as well as many other taxpayers. The Department of Revenue can inform us of the number of filers on which this will have an impact.

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To offset the increased taxable income, the rates must be dropped and the tax brackets widened to avoid a state windfall.

This revenue impact is a legislative choice.

The Montana Society of CPAs has offered a perspective and resources. We are a licensed profession; licensed for our independent prospective. We are in the final stages of reviewing a member-generated database, assembled from actual 1985 taxpayer returns, converted to 1988 taxable income and reflecting the impact of the 1986 Tax Reform Act on Montana taxpayers. The purpose of our work is to provide additonal data to be used in your deliberations, showing:

o the change in taxable income

o the "Federal windfall"

o the current tax, based on current Montana tax law

o the effect of SB307 on Montana taxpayers

We hope to complete our report to the legislature next week, and review it with the chairmen of the Senate and House Taxation Committees to determine its usefulness and mode of dissemination to the Committees.

Our preliminary comments, regarding SB307 are as follows:

o Section 9, page 17, line 11

o Section 13, page 26, lines 17-22

consider defining <u>net</u> <u>taxable</u> <u>income</u> as a % of the

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Federal

o Section 14, pages 28-29

consider change from Governor's proposed three rates to <u>one</u> (essentially a move from <u>ten</u> rates to <u>one</u>)

o Section 16, page 31 - Montana Alternative Minimum Tax

eliminate complexity - as written, it will require a <u>new</u> state tax form, similar to form 6251. This is not simplification; it is a revenue generator.

Two alternatives exist:

1. Adopt a provision like the present Montana tax of lump sum distributions from retirement plans (10% of Federal). A % of the Federal Alternative Minimum Tax which sets a minimum rate of tax at 21%. If you want to collect at a Montana rate of 7%, set Montana formula at 33 1/3 % of Federal tax - an add-on amount to normally-calculated Montana income tax. A much simpler approach.

2. The second alternative is to set the Montana tax as a % of Federal tax which would be defined to include the Federal Alternative Minimum Tax.

o Section 17, page 34, line 17 - refunds of Federal tax received in <u>1987</u> taxable. Should cover later years as well as any Federal refund related to a return filed for a year beginning prior to 1/1/87: amended returns or audits could result in refunds past 1987.

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- o Section 18, non-residents - pages 39 - 43. We feel this section needs further consideration - simplification needs to be accomplished - alternatives should be reviewed to clarify the calculation of the amount of non-resident income taxable. Maybe it can be reviewed to determine if it parallels Section 19, covering part-year residents (pages 43 & 44).
- o Section 23, page 52, line 13 - so called innocent spouse. We support the additions recommmended; however we urge the DOR to exercise consistent discretion which is <u>fairly</u> and equitably applied.
- o Section 25, page 56, line 23 - Extensions of time to file. Article 2 does <u>not</u> conform to Federal extension procedures. We urge revision to the Federal to conform: four months' automatic (8-15) and two months' addtional under Article (4), page 57-58. We also support a procedure which would allow the preparer to file a copy of the Federal tax form with the state - eliminates another state form. Another option: do not require preparer to file the copy with the state; just submit a copy of the Federal form with the state return.
- o Small Business Corporation. This needs special attention. We cannot locate a provision in the proposal tying Montana to Federal taxable income which would eliminate the double taxing of a Montana taxpayer if a corporation is

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"S" for Federal purposes (income is taxable), and not "S" for Montana, therefore the income is not taxable.

In closing, we fully support simplification. It surprises many people that CPAs would propose and support simplification: tax return preparation is a revenue source for CPAs. Amendments to SB307 proposals are needed; caution is needed in some areas such as Alternative Minimum Tax. Please do not take a simplification idea and further complicate the filing of returns. DO NOT emulate the Federal Congress.

At one time, the 1986 act was going to be called the "Tax Simplification and Equity Act" - NOW ! (show printed Act) . . . The Tax Reform Act of 1986.

The definition of a loophole will cause much controversy. A loophole is a loophole . . . capital gains . . . passive/active activities . . . meals and entertainment . . . retirement income exemptions . . . etc.

We urge simplification of Montana tax return filing.