MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

March 5, 1987

The thirty-fifth meeting of the Senate Taxation Committee was called to order at 8:00 A.M. on March 5, 1987 by Chairman George McCallum in Room 413/415 of the Capitol Building.

ROLL CALL: All committee members were present.

CONSIDERATION OF SB 377: Senator Halligan, Senate District 29, presented this bill to the committee. He said this is a committee bill which resulted after the committee heard HB 136 dealing with the increase in the fuel taxes. The testimony presented by the private contractors for the school district was that the school district budgets have already been set and the contractors would not be able to adjust their bids to deal with this cost increase. This bill would allow a refund of 3 cents per gallon of gasoline or special fuel used by school bus contractors in providing transportation services to school districts in Montana.

PROPONENTS: Jerry Perkin, representing Karst Stage, Inc., gave testimony in support of this bill. As a private contractor in the state of Montana, they run over 400,000 miles for the school district in Bozeman. One of the things they are looking at is the fairness between private sector versus the public sector. They are concerned about the dollars being spent and the cost they have to pass back to the school district. Contractors already pay full state tax on fuels, unemployment insurance on their drivers and taxes on their real property. School districts do not. Over the last three years Karst Stage has put out an average of $20,000 in state fuel tax. This increase would be about $3,400, which Karst Stage would have to pass directly onto the school district. The federal level recognizes the benefit of the busing industry and they do get an exemption from them that they file for on a yearly basis. The majority of their travel in transporting students is on city and county roads. The benefit of this 3 cent tax would not benefit the roads they are traveling on. Contractors, based on last year's figures, traveled 8,175,373 miles in transportation of students. At 5 gallons per mile, with the 3 cent increase we are talking about $49,000 that would have to be passed on to the school districts.

Charles Simonsen, representing KAL Lines, gave testimony in support of this bill. A copy of his written statement is attached as Exhibit 1.

Greg Beach, representing the Beach Transportation Company and the Montana School Transportation Assn., gave testimony in support of this bill. A copy of his written statement is attached as Exhibit 2.

Bill Anderson, Office of Public Instruction, gave testimony in support of this bill. He said this bill is another way for school districts to cut costs and at this particular time the budgets are stripped.

Bruce Moerer, Montana School Board Association, gave testimony in support of this bill. He said we do not feel it is appropriate to ask the property taxpayers to pay an additional fuel tax.

<u>OPPONENTS</u>: None.

<u>QUESTIONS FROM THE COMMITTEE</u>: Senator Eck asked Bruce Moerer if he was really looking out for the interest of the school districts, why didn't he ask for a refund of the whole amount.

Bruce Moerer said that is a good idea but we will take the bill the way it is.

Senator McCallum asked Mr. Simonsen if he had the authority to renegotiate with the schools now.

Charles Simonsen said that is correct, we do have the authority to renegotiate. The school administrators are telling us their budgets are basically froze and they do not know where they will come up with the money for the increases.

Senator McCallum said in his area the contractors charge a dollar a mile or better.

Charles Simonsen said it is more than a dollar a mile. The shorter the route the higher the cost per mile.

Senator McCallum said the long haul truckers are hauling for about $1.00 to $1.25 per mile.

Charles Simonsen said the cost per mile may be higher than the truckers. School buses operate less miles per year, per day than the truckers.

Senator Halligan closed.

DISPOSITION OF SB 377: Senator Crippen made a motion that SB 377 DO PASS. The motion carried with Senator McCallum opposed.

CONSIDERATION OF SB 384: Senator McCallum, Senate District 26, presented this bill to the committee. A copy of his written statement is attached as Exhibit 3.

PROPONENTS: Ted Doney, representing ASARCO, Inc., gave testimony in support of this bill. He said there will be other people testifying about the need for this bill. We thought it would be best to start out with what this bill is doing in the technical sense or legal sense. There are three severance taxes on metal mines in this state under current law. The RIT tax,which goes to the state, Metalliferous Mines License Tax, which this bill deals with, and gross proceeds tax, which goes to the counties. In 1984 there were two district court cases and Judge Bennett in Helena ruled, that when the Department of Revenue calculates the gross value of products of metal mines for purposes of calculating the RIT, that value shall be assessed as the value of the product at the mine mouth. That is how the current RIT is now calculated. The Department was attempting to assess the tax at the point of sale, not at the mine mouth. In SB 384 we are trying to amend the MMLT law to require that tax be assessed in the same manner as the RIT tax. There is no question that under the current law the MMLT is calculated at the point of sale. The bill,as proposed, mirrors essentially the language of the RIT tax law. There is a statement of intent. That statement of intent is simply to clarify that the purpose of this bill is to insure that the MMLT is calculated at the mine mouth and not at the point of sale.

Gary Langley, executive Director of the Montana Mining Association, gave testimony in support of this bill. A copy of his written statement is attached as Exhibit 4.

Terry Erskine, manager of the Troy mine for ASARCO, Inc. and project manager for the proposed Rock Creek Mine near Noxon, gave testimony in support of this bill. A copy of his written statement is attached as Exhibit 5.

John Fitzpatrick, Manager of Montana Pegasus Gold Corporation, gave testimony in support of this bill. A copy of his written statement is attached as Exhibit 6.

Art Wittich, representing Western Energy, gave testimony in support of this bill. In western Montana they have high volume, low grade ore bodies. Some of the projects have been identified to be economic borderline. This bill would encourage mining in Montana.

Ward Shanahan, representing Chevron Corporation, gave testimony in support of this bill. A copy of his written statement is attached as Exhibit 7.

Ray Tilman, representing Montana Resources in Butte, gave testimony in support of this bill. We reactivated an old mine in Butte. Last year we spent some $20 million getting that project going. We just about broke even. This bill and other bills are attempting to encourage people to do business in Montana. This bill is a step in the right direction.

Dennis Burr, representing the Montana Taxpayers Assn., gave testimony in support of this bill. He worked for Jefferson County for a year and there are a lot of small mines in Jefferson County. This tax bothers them as much as any. It infuriates those people because they are paying taxes on minerals that they have produced but have received no income from at all. The miner brings the ore in to be assayed but only gets paid for certain materials, generally silver, gold and sometimes lead. They do pay taxes on the value of that ore and pay taxes on minerals that they do not receive any income from. In Montana it is very marginal whether a mine will remain open and continue to operate. In Jefferson County, extending the life of those mines a few years, would be very healthy for Jefferson County's economy. He questions the impact to the general fund. He believes this will stimulate the industry without losing very much money for the state of Montana.

Don Ingels, representing the Montana Chamber of Commerce, stood in support of this bill based upon the testimony already heard.

OPPONENTS: None.

Rich Marble, Department of Revenue, gave technical comments concerning this bill. The essence of his comments are attached as Exhibit 8.

QUESTIONS FROM THE COMMITTEE: Senator Crippen asked John Fitzpatrick to comment on Rich Marble's comments.

John Fitzpatrick said the technique used by Mr. Marble to calculate value is the most complicated method that they can find to calculate tax and there are other ways that can be utilized. He does not see the computation of the RIT as being that complicated.

Senator Neuman said to Mr. Fitzpatrick, you indicated that there were no new jobs created in mining last year. His information is that there were 500 more jobs created in the hard rock mining industry.

John Fitzpatrick said my reference was to precious metal mining. We did not have any new precious metal mines open up.

Senator Eck said it hasn't been too long ago we went through all the arguments on gross proceeds rather than net proceeds. She asked Ward Shanahan if this was getting back to the same problem.

Ward Shanahan said he thought that might be one of the objectives of the Department of Revenue to try to make it appear that way. The gross proceeds determination is going to be different for each particular mineral you are talking about. With this there would at least be some benefit given for what you actually sell.

Senator Eck said this will be a cost to the counties.

Ward Shanahan said the Metalliferous Mines License Tax and RIT are state taxes.

Senator Eck said you will be assessing those two different ways and won't that be confusing to the counties with the gross proceeds.

Rich Marble said this does not apply to the gross proceeds tax.

Senator McCallum closed.

CONSIDERATION OF SB 386: Senator Keating, Senate District 44, presented this bill to the committee. He said this is a step toward general tax reform to reform the tax structure in the state of Montana. It is incomplete in itself in that it will be tied to other measures that will be coming before the legislature and should be looked at in the light of being a part of a package in tax reform. This bill is a repeal of all personal property taxes, it caps real property at 1% of market value but allows a lesser tax, depending on the taxable value and the mill levy in the district in which the property is situated. It is contingent upon the passage of a general sales tax, specifically that the revenue from the sales tax be returned for education and local government purposes. There is a statement of intent. What the bill does is listed in the handout he furnished to the committee, attached as Exhibit 9. The people in the state of Montana have indicated quite strongly in the last election, that they want some change in the tax structure in the state. Most people are saying property taxes are too high. We have seen people leaning more and more toward a sales tax and they will accept a sales tax if property taxes are reduced.

PROPONENTS: Ward Shanahan, Chairman of the Tax Lawyers Committee, gave testimony in support of this bill. He said you are considering a couple of measures that have to do with personal property tax. If we are trying to attract capital to Montana, one of the ways to do that is to exempt taxes on personal property, which is the machines and equipment.

Kay Foster, representing the Billings Area Chamber of Commerce, gave testimony in support of this bill. A copy of her written statement is attached as Exhibit 11.

Mons Teigen, representing the Montana Stockgrowers Assn., and Montana Cattlewomen, gave testimony in support of this bill. A copy of his written statement is attached as Exhibit 12.

Don Ingel, representing the Montana Chamber of Commerce, stood in support of this bill.

Janelle Fallan, representing Montana Petroleum, stood in support of this bill because she believes it is real, true reform and it gets at the heart of the property tax problem.

Brett Boedecker, representing Montana Forward Coalition, gave testimony in support of this bill. He said we commissioned a study which found and recognized inequity with regard to personal and real property. This bill addresses that inequity.

Harold Ude, representing CENEX, gave testimony in support of this bill. He said our tax structure needs an overhaul and his company, doing business in Montana, supports this bill.

Carol Mosher, representing the Montana Farm Bureau, stood in support of this bill.

Bob Correa, representing the Bozeman Chamber of Commerce, stood in support of this bill.

Gary Langley, Executive Director, Montana Mining Assn., stood in support of this bill.

Dan Bucks, Department of Revenue, gave technical comments concerning this bill. He said you need to coordinate the timing of the reduction in the taxes, with the timing of the receipts of the replacement revenue. There will be a delay between the enactment of a sales tax and the replacement of revenue. He furnished committee members with a handout, prepared by the Department of Revenue, which shows the time frames involved in implementation of a sales tax. This handout is attached as Exhibit 10.

OPPONENTS: Don Judge, Montana State AFL-CIO, gave testimony in opposition to this bill. What this legislation is attempting to do is to say that Montana's wage cuts and Montana's problems are unique to Montana and that is the reason we need this legislation; to create jobs in Montana. Thirty-one states across the United States has the same problem Montana has in attracting and retaining industry. This problem is not created by our tax structure, but generated because of a national economic policy. In I-105 and CI-27, the taxpayers did not say give us a sales tax, they said we want some reductions. There are loopholes to close to raise the additional revenue needed.

Terry Minow, Montana Federation of Teachers, Montana Federation of State Employees, gave testimony in opposition to this bill. She referred to the fiscal note and the loss of revenue indicated. They do believe in substantial tax reform in the state of Montana, but a revenue neutral proposal will not address the revenue shortfall.

Chuck Stearns, representing the City of Missoula, gave testimony in opposition to this bill. A copy of his statement is attached as Exhibit 13.

QUESTIONS FROM THE COMMITTEE: Senator Eck asked Mons Teigen if he was also in support of a sales tax.

Mons Teigen said yes.

Senator Eck asked Brett Boedecker if with a sales tax all the people would pay and almost all the benefit go to large industry.

Brett Boedecker said if that was the only area that had deductions. He thinks you would have to take a look at both personal and real property.

Senator Keating closed.

ADJOURNMENT: The meeting adjourned at 10:05 A.M.

George McCallum

SENATOR GEORGE McCALLUM, Chairman

ah

ROLL CALL

TAXATION COMMITTEE

50th LEGISLATIVE SESSION -- 1987 Date 3-5-87

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.

SENATE Taxation COMMITTEE

BILL SB 384, SB 377 386 SB 384 VISITORS' REGISTER DATE 3-5-87

Please note bill no. (check one)

NAME	REPRESENTING	BILL #	SUPPORT	OPPOSE
Terry Erskine	Asarco Inc	384	✓	
Jerry Perkins	Karst Stage Inc	377	✓	
Bob Correa	Boz. Chamber of Comm.	377	✓	
Rich Marble	Dept Revenue	384	Technical	
Charles Simonsen	Ryder transport (KAL Lines)	377	✓	
Donald Ude	Cenex	SB386	✓	
Art Wittich	Western Energy	SB 384	✓	
Richard Dolan	Asarco	SB384		
Laurel Mosher	Mt. Stockgrowers Mt. Cattle Women Mt. Farm Bureau	SB386	✓	
[illegible]	Asarco Inc	SB 384	✓	
Gary G Langley	Montana Mining Assn	SB384	✓	
Don Ingels	Mt. Chamber of Commerce	SB 384	✓	
Dennis Burr	Montana [illegible]	SB384	✓	
Janelle Fallan	Mt Petroleum [illegible]	SB386	✓	
John Fitzpatrick	Pegasus Gold Corp	SB384	✓	
[illegible]	County [illegible]			
Ward Shanahan	Chevron Corp.	SB384	✓	
[illegible]	[illegible] Transport Co.	SB377	✓	
Don Ingels	Mt. Chamber of Commerce	386	✓	
Gordon Morris	MACo	386		
Eric Feaver	MEA	386		[illegible]
Bruce W. Moerer	MSBA	3??	✓	
Mons Teigen	Mt Stockgrowers Assn	386	✓	
Ward Shanahan	Chevron	386	✓	

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY

SENATE Taxation COMMITTEE

SB BILL 377, 384, 386

VISITORS' REGISTER

DATE 3/5/87

Please note bill no. (check one)

NAME	REPRESENTING	BILL #	SUPPORT	OPPOSE
Ray Tilman	Montana Resources	384	X	
Mary A Lang Cy	MONT. MINING ASSN	386	X	
PAM LANGLEY	MONTANA AGR-BUS ASS	386	X	
Brett Boedecker	Montana Forward Coalition	386	X	
Chuck Stearns	City of Missoula	386		✓
Marvin Barber		386	✓	
Don DeGrafftenreid	Tax Payer	386	✓	
Bill Anderson	OPI	377	✓	
Terry Minow	MT Fed Teachers	386		✓
Don Judge	MT STATE AFL-CIO	386		✓
[illegible]	Billings Mont	386	✓	

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY

KAL LINES

P.O. BOX 31133
425 SUGAR AVENUE
BILLINGS, MONTANA 59107-1133

TELEPHONE: (406) 248-3667

March 5, 1986

To: Members of the Taxation Committee of the State Senate
State Senate
State Capitol
Helena, MT 59601

Subject: SB377 -- Vote For; HB565 -- Vote Against

SB377 is a bill to exempt private school buses from paying the additional 3¢ fuel tax (17¢ to 20¢). HB565 is a bill to tax privately owned school buses. Vote for SB 377. Vote against HB 565.

We ask you to stop the increase in disproportionate costs for private contractor owned buses compared to school-owned buses. Many citizens, school boards and school administrators want to preserve the choice to own or contract school buses in Montana.

HB 565 is suspect in that it singles out privately-owned school buses and does not attempt to put tax on other items which have been exempt (see 15-6-201-C and the decision of the Supreme Court of the State of Montana 1974 in the case of Montana Deaconess Hospital and Picker Corporation vs Cascade County).

We at Ryder Transport, Inc. (aka KAL Lines), would have to underwrite an estimated additional $26,000 to $30,000 in the Montana counties where we operate. (We have paid over $17,000 to date in 1987). We would plan to pass these costs on to the schools which would in turn raise taxes to give us the money to pay the taxes. Approximately 50% of the tax paid on the buses goes to the school, so the school only gets one-half of their money back.

A side issue--this is anti private industry legislation. We hear a great deal of lip service to foster and nurture private industry. Please give private industry at least the same chance as government to do business in our great state.

Respectfully,

Charles M. Simonsen

Charles M. Simonsen
Manager

CMS/jh

SENATE TAXATION
EXHIBIT NO. 1
DATE 3-5-87
BILL NO. S.B. 377

Montana School Transportation Association

March 5, 1987

Dear Senate Taxation Committee Members:

The Montana School Transportation Association urges a do pass recommendation on SB377 regarding a three-cent-per-gallon refund for school bus contractors for the following reasons:a

1) The three-cent-per-gallon State tax increase recently signed into law by the governor means about $49,052 in fuel costs to the bus contractors in our state. This cost will merely be passed along to the school districts in the form of higher transportation charges.

2) An increase in fuel tax discourages private enterprise and puts the contractor at a disadvantage over school owned and operated bus systems. (The contractor already pays all state tax on fuels, whereas the school districts contribute nothing).

3) The increase in fuel tax, in and by itself is not a crucial factor, but combined with the fact that contractors must bear many costs that school district operations don't, it becomes crucial. Here's why:

   a) Contractors already pay full state tax on fuels. School districts do not.

   b) Contractors must pay unemployment insurance on their drivers. School districts do not.

   c) Contractors must pay taxes on their real property. School districts do not.

Thank you for taking these points into consideration.

Sincerely,

Greg D. Beach,
Director
Montana School Transportation Assn.

SENATE TAXATION
EXHIBIT NO. 2
DATE 3-5-87
BILL NO. SB 377

825 Mount Avenue
Missoula, Montana 59801
(406) 549-6121

January 27,1987

The Honorable Dorothy Bradley
House of Representatives
Capitol Station
Helena, Montana 59620

Dear Representative Bradley:

Pursuant to your request, the Montana School Transportation Association has attempted to analyze the effect of the proposed 3-cent increase in diesel and gas tax on contracted school-bus operators.

As evidenced by the enclosed computer print-out from the Office of Public Instruction, contracted buses travel 8,175,373 miles per year transporting students to and from school. At an average of 5 miles per gallon, this means that these buses consume 1,635,074 gallons of fuel annually. On this basis, a 3-cent increase in state fuel tax translates into a $49,052 increase in the cost of pupil transportation.

The Montana School Transportation Association, therefore, urges you to amend the gas and diesel tax bill to exclude contracted bus services for the following reasons:

1. An increase in fuel tax is merely passed on to school districts that contract for busing services. Therefore, a fuel tax increase is, in actuality revenue neutral for the state and only serves to put an additional burden on school budgets.

2. An increase in fuel tax discourages private enterprise and puts the contractor at a disadvantage over school owned and operated bus systems. (The contractor already pays all state tax on fuels, whereas the school districts contribute nothing).

SENATE TAXATION
EXHIBIT NO. 2
DATE 3-5-87
BILL NO. S.B. 377

825 Mount Avenue
Missoula, Montana 59801
(406) 549-6121

3. The increase in fuel tax, in and by itself is not a crucial factor, but combined with the fact that contractors must bear many costs that school district operations don't, it becomes crucial. Here's why:

a) Contractors already pay full state tax on fuels. School districts do not.

b) Contractors must pay unemployment insurance on their drivers. School districts do not.

c) Contractors must pay taxes on their real property. School districts do not.

Many thanks for taking these points into consideration.

Sincerely,

Greg D. Beach
Director
Montana School Transportation Association

SENATE TAXATION
EXHIBIT NO. 2
DATE 3-5-87
BILL NO. S.B. 377

SENATE BILL 384

Senate Bill 384 amends the metal mines severance tax law. It has two purposes. First, it amends the definition of "gross value of product" so that it is consistent with the definition of "gross value of product" as used for purposes of computing the resource indemnity trust tax. Second, by changing the definition of "gross value of product," the metal mines severance tax will be reduced by approximately 1/2 to 2/3.

As this Committee knows, several bills have been introduced this session to reduce taxes on coal and oil and gas. However, until I introduced Senate Bill 384, none had been introduced to reduce the severance taxes on metal mines. Because this Legislature is reviewing the entire tax structure of our state, and because the metal mines severance taxes in Montana are among the highest in the nation, ~~I decided to introduce Senate Bill 384 so tha~~t the mining industry would receive equal consideration with other industries in Montana who have been placed in a position of competitive disadvantage because of our tax structure.

There is no question in my mind that our severance taxes in Montana are too high. The mining industry, like agriculture, must compete in a market place where the price of its product is fixed by outside forces. The mining industry cannot simply raise the price for its product if the cost of producing the product increases; and taxes are part of the cost of producing the product.

SENATE TAXATION
EXHIBIT NO. 3
DATE 3-5-87
BILL NO. SB 384

It must be pointed out that the metal mines severance tax makes a very small contribution to our state's total revenues. In fiscal '86 it brought in only 1.5 million dollars. In addition, this bill does not propose to make any changes in the gross proceeds severance tax on mines which goes to the counties.

We must give the mining industry in Montana the opportunity to compete with other states. Senate Bill 384 will help move us in that direction.

TESTIMONY OF THE MONTANA MINING ASSOCIATION
BEFORE THE TAXATION COMMITTEE OF THE MONTANA STATE SENATE
March 5, 1987

Mr. Chairman, members of the committee, my name is Gary Langley, executive director of the Montana Mining Association.

The Montana Mining Association is a trade association representing every major producer of metals in Montana; mining firms that hope to develop mines in Montana in the future; individual prospectors and miners, and companies that supply goods and services to the mining industry.

The Montana Mining Association appears today in support of Senate Bill 384.

I'd like to begin my testimony with a general discussion of severance taxation in Montana. In previous hearings before this Legislature there has been an impression that the metals mining pays no severance taxes. The fact is that, in addition to corporate taxes paid by other business and industry, mining operations pay three different severance taxes even though they are not specifically called severance taxes. These taxes are: 1) The Metal Mines License Tax; 2) The Resource Indemnity Trust Tax and 3) A Gross Proceeds Tax. The Metal Mines License Tax and the Resource Indemnity Trust Tax both are paid to the state while the Gross Proceeds Tax goes directly to the local government in which the mine is operating.

SENATE TAXATION
EXHIBIT NO. 4
DATE 3-5-87
BILL NO. SB 384

While the Metal Mines License Tax is relatively insignificant to the operation of state government it is an extremely expensive for an individual mine and could mean the difference between success and failure. For example, metal mines currently in production in Montana pay between $400,000 and $800,000 a year in metal mines license taxes depending on the production of the mine.

It is important to remember that these severance taxes are based on production, not profitability, and are paid whether or not a mine makes a profit. In fact, in the case of copper, a mine could lose millions of dollars and still pay a substantial amount in severance taxes.

The mining industry does not necessarily quarrel with the concept of severance taxation. However, if a severance tax is levied it should be at the point of severance. That is the purpose of SB 384.

Montana places the highest tax burden on metal mining of any western state. Two independent studies have confirmed this. In September, 1984 a study conducted by Robert L. Davidoff of the U.S. Bureau of Mines probed hypothetical mining operations in eight western states and Wisconsin. It concluded: "In all cases, Montana had the highest level of tax payments and the lowest rate of return..."

SENATE TAXATION
EXHIBIT NO. 4
DATE 3-5-87
BILL NO. S.B. 384

A similar study was conducted in December, 1984 by Whitney & Whitney, a Nevada-based mining management consulting firm. The firm studied taxes on open pit and underground mining operations in 15 states. It concluded that Montana had "consistently higher taxes" on its mining operation. In fact, Montana's severance and general business taxes are second only to Minnesota.

With the fluctuation of metal prices, Montana's policy of excessive taxation as well as its arbitrary administration of tax policy is making it increasingly difficult for mines here to compete on a world market.

Like farm products, hardrock minerals are commodities. A mining company cannot influence or set the price of its product. The price is established by world market, and Montana minerals must be able to compete in that market. Therefore, production costs of which taxes are a part, determine whether Montana mines are competitive with those in other mineral producing states. Montana must vie with other states to attract new mining ventures and also must prevent the premature closure of mines already in operation. For example, as the life of a mine is extended the grade of the ore decreases while productions costs increase. However, under the current method of calculating the metal mines license tax, no consideration is given to the lower grade of ore or the higher costs of

SENATE TAXATION
EXHIBIT NO. 4
DATE 3-5-87
BILL NO. S.B. 384

extracting it.

In addition to competing with mines in other states, operations in Montana also must cope with international complications. Foreign countries operate their mines at a loss just to provide employment for their people and currency for foreign exchange.

Thus the evidence indicates that there is a legitimate correlation between state tax policy and mineral production. In fact, a recent study by the Bureau of Mines showed that although Montana's mineral production potential is similar to its sister states in the West, our state is bringing up the rear in produced mineral value. Each of our sister states levies a lesser tax burden on mining. In fact, Montana's total tax burden on a base metal operation is ten times higher than if that mine were situated in Nevada.

Mining in Montana is a diverse and vital industry. It also is in a state of transition largely because of improved technology. In recent years the mining industry also has demonstrated a renewed sense of social consciousnes and environmental concern.

Mining provides not only among the highest paying jobs in Montana but those that have extremely important impacts on state and local economies. Because of the earnings experienced

SENATE TAXATION
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DATE 3-5-87
BILL NO. S.B. 384

by those employed in mining companies, sufficient revenues are generated to pay for such state and local services as police and fire protection and the schooling of our children.

The mining industry offers one of the best hopes for the expansion of sound economic activity in Montana. However, the expansion may well depend on state tax policy. Your positive response to SB 384 could make that expansion possible.

SENATE TAXATION
EXHIBIT NO. 4
DATE 3-5-87
BILL NO. S.B. 384

TESTIMONY OF ASARCO, INC.
BEFORE THE TAXATION COMMITTEE OF THE MONTANA STATE SENATE
IN SUPPORT OF SENATE BILL 384
March 6, 1987

Mr. Chairman, members of the Committee, my name is Terry Erskine and I am the manager of the Troy mine for ASARCO, Inc. I am also the project manager for the proposed Rock Creek mine near Noxon.

The base metal mining industry has been an important part of Montana's heritage and continues to play a fundamental part in the basic economy of this state.

The Troy mine is a perfect illustration of this:

* In an area historically known for high unemployment figures, we employ a total of 355 people. This equates to an annual payroll of close to 10 million dollars.

* We purchase supplies and services worth 15 million dollars annually.

* The development and construction of the plant's facilities brought 90 million dollars of out of state capital into Montana.

These figures clearly show that the Troy mine has provided a major industrial base for Northwestern Montana and the multiplier effect of the dollars spent by the mine has provided the impetus for growth in the service and trade industries in the surrounding area.

Unfortunately the Troy mine is not well financially. Yesterday, the official price for silver was $5.45 per ounce on the commodity exchanges.

SENATE TAXATION
EXHIBIT NO. 5
DATE 3-5-87
BILL NO. SB384

We have been facing depressed silver prices for close to 4 years now. In an effort to continue operating the mine, ASARCO has taken drastic measures:

* Staff levels have been reduced.

* Capital expenditures have been limited to only those of a critical nature.

* Major concessions in the cost of supplies have been obtained from our suppliers.

* Our employees have taken a reduction in pay.

ASARCO has made major efforts to reduce cost centers over which we have some control. Now I appeal to you for help in the tax burden we face in this state.

Taxes have a tremendous impact on the Troy mine. We are a low grade, high volume operation. In the best of times, we operate on a low unit profit margin. At today's metal prices, a positive margin does not exist. Yet our tax bill remains essentially the same.

A tax which is not based upon profitability has a significant impact on the life of a mine. As a mine has to absorb all of the costs and cannot pass them on to consumers of their product, a higher tax burden effectively raises the grade of ore necessary to break even. This eliminates the mining of those lower grade ores which shrinks the ore reserves and shortens the life of the operation.

SENATE TAXATION
EXHIBIT NO. 5
DATE 3-5-87
BILL NO. S.B. 384

The proposed revision in the Metalliferous Mines Tax will contribute towards stimulating new mine development. Attracting new capital for major mine developments can only be successful if existing mines can be operated on a sound financial basis.

The level of taxation is definitely not the deciding criteria on whether or not a new mine is developed, but taxes are an important factor in the equation used to make that decision. This is particularly true of our proposed Rock Creek Project which is modeled after our Troy mine.

If the Troy ore deposit was located 20 miles to the west in the state of Idaho, our tax bill would be reduced by more than 40 percent.

The world metal markets have been, and will continue to be cyclical. When metal prices are up and profit margins improve, mine operators are willing to accept their fair share of the tax bill. Conversely, when metal prices are down and mining companies are in a survival mode, the tax burden should reflect that.

I URGE YOU TO SUPPORT SENATE BILL 384.

THANK YOU.

SENATE TAXATION
EXHIBIT NO. 5
DATE 3-5-87
BILL NO. S.B. 384

NAME: John Fitzpatrick DATE: 3/5/87

ADDRESS: Box 176 Jefferson City, MT 59638

PHONE: 406-933-8314

REPRESENTING WHOM? Pegasus Gold Corporation

APPEARING ON WHICH PROPOSAL: SB 384

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

COMMENTS: ① SB 384 will return the metalliferous mines tax to true severance tax levied at the point where the mineral is severed from the earth. Current law is a value-added tax that assesses the mineral following processing. Montana's oil severance tax and the coal severance tax are effectively levied at the point of production, not after processing.

② Montana's tax system is out of balance. As recently noted by researchers from U of M and MSU, Montana is disproportionately reliant on natural resource taxes. In 1986, 23 percent of all state and local taxes collected in Montana was paid by the minerals industry, an industry that employs only 1.5 percent of Montana's workforce. SB 384 is a

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

step toward bringing Montana's tax system back to equilibrium with more balance between businesses and households' obligation to fund the state's governmental activities

SENATE TAXATION
EXHIBIT NO. 6
DATE 3-5-87
BILL NO. SB 384

SB 384
Freeport-McMoRan's Testimony

SENATE TAXATION
EXHIBIT NO. 6
DATE 3-5-87
BILL NO. S.B. 384

Mining industry makes tremendous impact on Nevada economy

RENO—The Nevada minerals industry made a substantial contribution to the economic base and diversification of the state's rural counties during 1986, according to Richard Sumin, president of the Nevada Mining Association.

Sumin, general manager of Battle Mountain Gold Corporation, also noted that the opening of 13 new gold-mining operations during the past year has strengthened Nevada's five-year role as the nation's leading producer of gold.

The new activity created more than 2,000 new jobs within the state's minerals industry, he said.

Comparing calendar year 1984 with calendar year 1985, the number of mining operations producing gold and-or silver declined from 214 to 204 while the number of people employed in these operations actually increased from 4,028 to 4,499, according to a mining association report.

When the 1986 increases are added to the 1985 statistics, there are at least 216 precious-metals mines operating in Nevada with 6,627 people employed by them—a 50-percent increase in employment the past year.

According to Nevada Employment Security Department statistics, the average individual annual wage paid by mining companies is $29,837. This is the highest in the state and comes in well ahead of that paid to construction workers at $24,215. The next closest average annual wage is for workers in transportation, communications and utilities, at $22,658.

Wages paid by mining companies, because they are higher, have a more favorable impact on local and state economies than those in service or assembly-line industries which are among the lowest. Growth of factory assembly-line jobs, for instance, is not necessarily productive since people earning those salaries often aren't generating sufficient tax revenues to pay for government services, such as police and fire protection and schooling for their children.

Although mining jobs account for only 1.4 percent of the state's total work force of 474,900 people, the impacts are broad. In addition to being the largest paychecks offered to rank-and-file employees, most of these paychecks are issued in the rural counties where they are needed most.

Mining companies also contribute to their host communities with the net-proceeds-of-mines tax and sales and property taxes in amounts that can total hundreds of thousands of dollars for each company. In the rural counties, mining companies are nearly always the county assessor's largest taxpayer.

Dennis Bushta, director of industrial relations for Newmont Gold Company in Elko County, made the observation at a public meeting that the company's 700 employees, with their families, add some 2,400 people to the local population. The local economic impact of the company's payroll is something like $30 million a year.

According to State Mines Inspector records, the new operations begun in 1986 were:

—Echo Bay Ltd., McCoy Gold Mine, near Battle Mountain, 130 new jobs;

—Sunshine Mining, Weepah Mine, Silverpeak, 75 new jobs;

—Pegasus Gold Inc., Florida Canyon Project, near Winnemucca, 80 new jobs;

—Silver King, Lone Tree project, near Ely, 60 new jobs;

—Coeur d'Alene Mines Corporation, Rochester Mine, near Lovelock, 200 new jobs;

—Freeport-McMoRan, Jerritt Canyon Mine, near Elko, 75 new jobs;

—Western Goldfields Corporation, Hog Ranch Mine, near Gerlach, 70 new jobs;

—Atlas Corporation, Gold Bar Mine, near Eureka, 30 jobs;

—Placer US Inc., Bald Mountain Project, near Ely, 122 new jobs;

—Standard Slag, Lewis Mine Project, near Lovelock, 27 new jobs;

—FMC Corporation, Gabbs Project, near Gabbs, 191 new jobs; and

—Gold Venture Inc., Inspiration Project, near Austin, 130 new jobs.

Expanding their operations were:

—Echo Bay Ltd., Round Mountain Gold Project in Nye County, expanded operations with jobs increased from 276 to 368; and

—Newmont Mining Corporation, Gold Quarry Mine near Carlin, expanded operations with jobs increased from 260 to 540.

Paydirt – Feb. 1987

NAME Ward A. Shanahan BILL NO. SB 384 McCallum

ADDRESS 301 First Bank Bldg Helena, Montana DATE 3-5-87

WHOM DO YOU REPRESENT CHEVRON CORPORATION

SUPPORT X X X OPPOSE AMEND

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments: Mr Chairman and members of the committee, Chevron appreciates this opportunity to emphasize its position on the severance taxes on mining as well as the levels of taxation of other taxes which affect our industry.

Chevron Resources company is a member of the joint venture which operates the Stillwater mine near NYE Montana. Its investment in Montana is large, and its risks are great. Montana will benefit from Chevron's acceptance of these burdens. But, we appreciate Senator McCallum's introduction of SB 384 to allow a review of the taxes which affect hard rock mining.

Montana's taxes on mining are among the highest in the rocky-mountain west. Montana has three severance taxes on hard-rock minerals; the gross proceeds tax at the local level, the metal mines license and resource indemnity trust tax at the state level. SB 384 would merely make uniform the method of assessment of metal mines license and the resource indemnity trust taxes. This wouldhave the effect of reducing the metal mines license tax.

Mining,which like agriculture sells its product on the world-market, pays its severance taxes regardless of whether it makes a profit or not. There is no comparable example in agriculture or forest products. In addition mining companies pay a very high level of personal property taxes on their machinery and on their real property and improvements.

The environmental and social burdens placed on the mining company under the Hard Rock mining reclamation and Impact acts are themselves tax burdens imposed by government. Their purpose is to make the mining company responible for the direct costs of environmental disturbance and community change brought about by their operations. No other industry in Montana must "pay its way into business" as ours does. All of these costs are part of the "investment" that must be made before any of Montana's mineral wealth enters world trade. It isvalue-added that cannot be recovered if the product is not competitive. It is an investment lost if the costs exceed the sale price. This is the "margin" that we operate on. On the world side a price that we can't control. On the state side a cost of doing business that you determine, not us.

We hope you will give SB 384 your favorable consideration.

SENATE TAXATION
EXHIBIT NO. 7
DATE 3-5-87
BILL NO. SB 384

SENATE TAXATION
EXHIBIT NO. 8
DATE 3-5-87
BILL NO. SB 384

SB 384
Rich Marble Dept of Revenue

Key Points of Testimony (Attach a list or description of exhibits, handouts, etc.)

The stated intent of this bill is to make the metalliferous mines license tax base the same as the tax base for resource indemnity trust tax purposes. The effect is to reduce the metalliferous mines license tax base to 1/3 of what it is now.

There are other ways to accomplish this that we ask you to consider such as (1) dividing the current tax base by three before applying the tax rates, (2) providing specific deductions from the current tax base or (3) reducing the tax rates.

The reason we are requesting that the resource indemnity trust tax base not be used is that it is the most difficult tax base to determine. It calls for a value determination of metals at the mine mouth as the ore is mined.

In order to determine this value it is necessary to begin with the gross value of refined metals and work back to the mine mouth by deducting post extraction expenses such as hauling, milling, smelting and refining costs and then computing a ratio of direct post mine costs to total costs to allocate indirect costs and profit to post mine mouth activity. In theory this may sound workable, but in practice it yields a hodgepodge of results. An example of the computation method has been provided to illustrate the problem.

REVENUE		3,565,147
LESS: POST MINING EXPENSES		
MILLING COST	536,103	
SMELTING & REFINING	228,022	
FREIGHT TO SMELTER	808,252	
MINE MAINTENANCE	58,247	
FLUX HAULAGE & CRUSHING	281,042	
MILL GENERAL	54,887	
MILL MAINTENANCE	116,761	
TOTAL POST MINING EXPENSES		2,083,314
LESS: ALLOCABLE COSTS & PROFIT		546,565
MINE MOUTH VALUE		935,268

SENATE TAXATION
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DESCRIPTION	EXPENSE	DIRECT MINING EXPENSE	POST MINING EXPENSE
DEVELOPMENT	190,880	190,880	
STOPING	281,761	281,761	
DEVELOPMENT	189,200	189,200	
STOPING	2,461	2,461	
MILLING COSTS	536,103		536,103
MILL GENERAL	54,887		54,887
MILL MAINTENANCE	116,761		116,761
RECLAMATION	12,161	12,161	
MINE MAINTENANCE	310,145	251,898	58,247
SMELTING & REFINING	228,022		228,022
FREIGHT TO SMELTER	808,252		808,252
MINE GENERAL	698,813	698,813	
FLUX HAULAGE & CRUSHING	281,042		281,042
DEPLETION	18,658	18,658	
	3,729,146	1,645,832	2,083,314
ALLOCATION FACTOR	1.0000	0.4413	0.5587

INDIRECT COSTS (GENERAL & ADMIN.)	1,004,241
LESS: DEPLETION	18,658
RECLAMATION	12,161
ADD: OTHER INDIRECT COSTS	
BUILDING MTCE.-SUPPLIES	2,585
LABOR BUILDING MTCE.	2,348
TOTAL INDIRECT COSTS	978,355
ALLOCATION FACTOR	0.5587
TOTAL ALLOCABLE COSTS & PROFIT	546,565

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MINE MAINTENANCE

TOTAL MAINTENANCE COSTS		315,078
LESS: INDIRECT EXPENSES		
LABOR-BLDG. MTCE.	2,348	
SUPPLIES-BLDG. MTCE.	2,585	
		4,933
LESS: POST MINING EXPENSES		
LABOR-HAULAGE TRUCKS MTCE.	18,204	
LABOR-ROAD MTCE.	2,047	
LABOR-MOTOR VEHICLE	306	
SUPPLIES-HAULAGE TRUCKS MTCE.	25,790	
SUPPLIES-ROAD MTCE.	4,762	
SUPPLIES-MOTOR VEHICLES	7,138	
		58,247
		251,898

DIRECT MINE EXPENSE	251,898
POST MINING EXPENSE	58,247
TOTAL DIRECT & POST MINE EXPENSE	310,145

SENATE TAXATION
EXHIBIT NO. 8
DATE 3-5-87
BILL NO. S.R 20

SENATE BILL 386

BILL			
Sec. 63	REPEALS		
	15-6-136	(Class 6)	Livestock, poultry, personal property
	15-6-139	(Class 9)	Trucks, furniture, medical equip., etc.
	15-6-142	(Class 12)	Mobile Homes*
	15-6-146	(Class 16)	Watercraft, snowmobiles, tack

*Mobile homes redefined in section 1 as real property or leasehold improvements.

BILL	AMENDS		TO DELETE EQUIPMENT, TOOLS, PERSONAL PROPERTY
Sec. 8	15-6-135	(Class 5)	Rural Electric, Rural Telephone, pollution equipment, new industrial
Sec. 9	15-6-137	(Class 7)	REA, RET - certain sizes
Sec. 10	15-6-138	(Class 8)	Manufacturing, aircraft, rental equipment
Sec. 11	15-6-140	(Class 10)	Radio, television, theaters, trucks, ore haulers
Sec. 12	15-6-141	(Class 11)	Centrally assessed gas and electric, facilities, powerlines, pipelines
Sec. 13	15-6-145	(Class 15)	Railroads
Sec. 14	15-6-147	(Class 17)	Airlines

UNCHANGED

Classes 1, 2, 3, 4, 13, 14

SENATE TAXATION
EXHIBIT NO. 9
DATE 3-5-87
BILL NO. SB 386

Keating

<u>SENATE BILL 386</u>

Section 1 - Tax the lesser of:

a. Taxable value x mills

b. 1% of market value

Section 2 - Market value may increase

Limits do not apply to certain levies

Section 3 - Disbursement of tax

Section 4 - License liens on property

Section 5 - Definitions

Section 6 - Distraint

Section 7 - Real property and improvements are taxable.

Sections 8 through 14 on page 1

Sections 15 through 61 - Technical changes

Section 62 - Repealed sections

Title - 15-6-136, 15-6-139, 15-6-142, 15-6-146 - Repealed classes.

All other sections are technical repealers pertaining to personal property only.

SENATE TAXATION
EXHIBIT NO. 9
DATE 3-5-87
BILL NO. S.B. 386 Keating

DEPARTMENT OF REVENUE

TED SCHWINDEN, GOVERNOR — STATE OF MONTANA — MITCHELL BUILDING

HELENA, MONTANA 5962[illegible]

February 11, 1987

MEMO

TO: Senator Tom Keating
Montana State Senate

FROM: Steve Bender, Chief SB
Research Bureau

RE: Estimated Personal Property Taxes

Per your request, the following table provides estimates of personal property taxes by class for tax year 1986.

Estimated Personal Property Taxes By Class
Tax Year 1986

Class	Tax Liability
5	$ 2,905,015
6	6,621,930
7	2,810,367
8	48,019,824
9	16,556,403
10	5,720,575
11	17,846,436
12	4,475,050
15	7,025,762
16	1,532,403
17	1,462,844
Total	$114,976,609

Additional detail is available on request.

SENATE TAXATION
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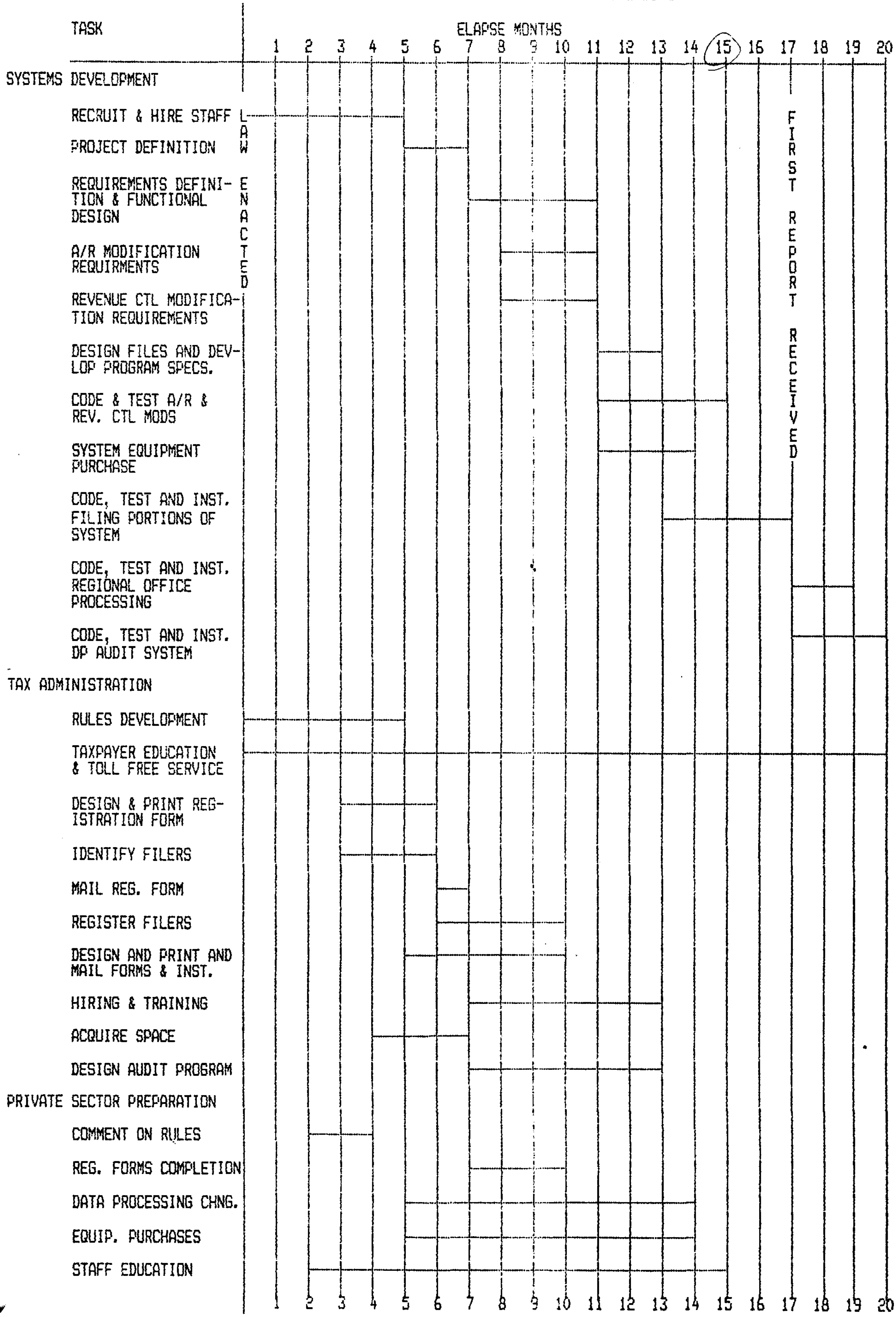
SALES TAX DEVELOPMENT TIME LINE



SENATE TAXATION
EXHIBIT NO. 10
DATE 3-5-87
BILL NO. SB386

Billings
Chamber of Commerce

March 4, 1987

TESTIMONY IN SUPPORT OF SB386

My name is Kay Foster. I appear on behalf of the Billings Area Chamber of Commerce in support of SB386 and its intent to reduce property tax and provide replacement revenue to impacted local governments through enactment of a general sales tax.

The Billings Chamber has studied in depth the state and local tax system in Montana and has published a position paper, which I will submit with this testimony, calling for a balanced, broadly based and equitable tax system. The balanced system which we recommend would include revenue based on income taxes, property taxes and sales tax. Achieving this balance would necessarily require a significant reduction of property taxes and the enactment of a general retail sales and use tax in lieu of the many selective sales taxes which now exist in Montana.

In the report ~~statement~~ we further state "that to the extent that property taxes are reduced in Montana, the state must provide more tax revenues to local governments for nonfederally funded welfare expenditures and elementary and secondary education expenditures. Further, more state revenue may need to be shared with local governments for other local expenditures."

The bill proposed by Senator Keating provides this significant reduction in the property tax burden contingent upon the passage of a general sales tax for replacement revenue. We urge your positive consideration of this bill.

SENATE TAXATION
EXHIBIT NO. 11
DATE 3-5-87
BILL NO. SB386

Billings Chamber of Commerce • P.O. Box 2519 • Billings, Montana 59103 • 406-245-4111

MONTANA TAX REFORM
GENERAL RETAIL SALES AND USE TAX
Billings Chamber of Commerce
October, 1986

As have many Montana citizens, the Billings Chamber of Commerce has long been concerned about the state and local tax system which exists in Montana. During periods of time when the Montana economy is prospering, certain shortcomings of the state and local tax system in Montana have gone unnoticed. However, when Montana is experiencing an economic slow down (as is the case presently), these shortcomings become more obvious and the need for a general tax reform in Montana more pressing. Unfortunately, an economic slow down also provides impetus for changes to the state and local tax system which, measured by most objective standards, are too radical. Montana is in need of objective and rational tax reform. This tax reform can only be achieved if political considerations and pressures and emotional reactions are put aside.

In recent years, numerous studies have been done of state and local tax systems. From these studies, certain characteristics of a high quality state and local tax system have been identified. Some of these characteristics include the following:

(1) The tax system should be <u>balanced</u>. A balanced tax system looks to several different sources for tax revenues in order to minimize overreliance on any one source of tax revenues.

(2) The tax system should be <u>broadly based</u>. A broadly based tax system provides a more even-handed treatment to all taxpayers and tends to keep tax rates lower.

(3) The tax system needs to be <u>equitable</u>. An equitable tax system shields low-income persons' subsistence income from undue taxation and in part provides for a progressive tax system which extracts more tax from higher income persons.

(4) The tax system is designed to raise an <u>adequate</u> amount of <u>revenues</u>.

(5) The tax system is relatively <u>simple</u>. A relatively simple tax system minimizes compliance costs for both taxpayers and governmental agencies.

The one characteristic of a high quality state and local tax system which is emphasized the most is that of a balanced use of income taxes, property taxes and sales taxes. A state and local tax system where income taxes, property taxes and sales taxes each provide 20% to 30% of tax revenues is considered a well-balanced and desirable system. For fiscal year 1984, Montana has raised its total state and local tax revenues as follows: approximately 19.98% from personal and business income taxes, approximately 47.13% from property taxes, approximately 13.08% from sales taxes,

SENATE TAXATION
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approximately 14.06% from severance taxes, approximately 5.10% from license taxes and approximately .66% from other taxes. In light of the desirability of a balance among income taxes, property taxes and sales taxes, it is clear that Montana is entirely too dependent on its property tax. Some predictions indicate that as a result of Montana's current economic slow down, under Montana's present state and local tax system for the current and next several fiscal years, property taxes will raise an even greater portion of the total Montana state and local tax revenues, thus putting the Montana state and local tax system into an even greater imbalance. The trend nationally has been for state and local governments to become less reliant on property taxes. The following chart sets forth the percentage of total taxes raised by the designated states from property taxes for 1984:

State	Property Tax Percentage
Alaska	19.6
Arizona	30.82
California	28.64
Colorado	39.94
Idaho	27.17
Montana	47.13
Nevada	24.67
New Mexico	13.39
North Dakota	24.74
Oregon	45.22
South Dakota	44.41
Utah	30.38
Washington	30.84
Wyoming	45.30

In a study done by Robert Cline and John Shannon, Characteristics of a High Quality State-Local Tax System, September, 1985, Montana (along with four other states) was determined to have the poorest balanced state revenue tax system with regard to income taxes, property taxes and sales taxes. Further, this study rated Montana as one of the five lowest rated states with respect to its state and local tax system overall. (John Shannon is presently a staff researcher and Robert Cline was formerly a staff researcher for the Advisory Commission on Intergovernmental Relations.) Incidently, Idaho (a state with which Montana competes) was one of the five highest rated states with regard to its state and local tax system.

The Billings Chamber of Commerce strongly supports major tax reform to the state and local tax system in Montana, with a primary objective of balancing the amount of tax revenues raised from income taxes, property taxes and sales taxes. This necessarily requires a significant reduction of property taxes and the enactment of a general retail sales and use tax in lieu of the selective sales taxes which now exist (and have existed for many years) in Montana.

3227d

Across the United States, tax revenue from general retail sales and use taxes is the second largest source of state tax revenues. In the fiscal year 1984, tax revenue from general retail sales and use taxes accounted for approximately 32% of all state tax revenues. There are only five states in the United States which do not levy a general retail sales and use tax. Less than 2% of the nation's population resides in these states. A general retail sales and use tax is a desirable source of state (and possibly local) tax revenues in that it is:

(1) capable of producing significant revenues efficiently;

(2) relatively stable;

(3) capable of raising significant revenues from nonresidents, particularly in states with significant tourist travel; and

(4) traditionally the least unpopular tax because it is to some extent voluntarily paid by taxpayers and is collected in small amounts.

In determining a tax rate for a general retail sales and use tax in Montana, it is critical that rates existing in surrounding states be taken into consideration. If the rate is significantly greater than the rate existing in surrounding states, Montana retailers become less competitive.

Any general retail sales and use tax enacted in Montana should for the most part not exempt any retail sales. However, there should be income tax credits or tax rebates allowed to low-income persons to the extent a general retail sales and use tax would otherwise be imposed upon specified levels of subsistence income. This approach makes the tax more progressive in that low-income persons can be relieved of the tax with respect to certain types of purchases (such as unprepared food, prescription drugs and possibly other necessities) without relieving higher-income persons of the tax with respect to such purchases. An exemption of certain retail sales (such as unprepared food and prescription drugs) for all persons necessarily requires imposition of a higher tax rate to all nonexempt purchases for both low-income and higher-income persons in order to raise the same amount of revenue. This makes the tax more regressive in that low-income persons are forced to pay a higher tax on nonexempt purchases.

Any general retail sales and use tax enacted in Montana should also tax most all retail services.

If a general retail sales and use tax is enacted in Montana and a significant decrease in the level of property taxation results, principal residences should be exempted from property taxes up to a specified level in order to ease the property tax burden on low-income persons.

To the extent that property taxes are reduced in Montana, the state must provide more tax revenues to local governments for nonfederally funded welfare expenditures and elementary and

SENATE TAXATION
EXHIBIT NO. 11
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3227d

secondary education expenditures. Further, more state revenue may need to be shared with local governments for other local expenditures. Serious consideration should also be given to local option sales taxes, either general or selective.

The Billings Chamber of Commerce strongly urges the State of Montana to enact a broad-based general retail sales and use tax in place of the selective sales taxes now existing in Montana and to set levels of income taxes, property taxes and sales taxes at levels so that each such tax raises approximately the same percentage of revenue, ranging from between 20% and 30%. Specifically, the Billings Chamber of Commerce urges the State of Montana to adopt a general retail sales and use tax similar to the form of the model legislation drafted by the Advisory Commission on Intergovernmental Relations. This legislation is designed to achieve the closest possible relationship between the tax base and consumer spending. Its broad base allows a lower rate and provides maximum responsiveness of sales tax receipts to economic growth. It also simplifies administration. Rather than exemptions for food and prescription drugs, low-income persons would receive income tax credits or tax rebates in amounts which approximate the amount of sales taxes paid by them on such items. The legislation taxes services and has no exemptions or exclusions except for sales made for resale or for sales of commodities that are intended to become ingredients or component parts of other commodities which when sold will be subject to a sales tax (in order to avoid the imposition of more than one sales tax on one item). The guidelines provided in the legislation exclude from taxable sales: (a) the sale of tangible personal property that is consumed, destroyed, or loses its identity in the manufacture of other property for later sale; and (b) the sale of specific machinery and processing equipment designed exclusively and made for and specifically used in the manufacture of a product or the rendering of a taxable service. The Virginia sales tax law enacted in 1966 was used by the Advisory Commission on Intergovernmental Relations as a framework for its suggested legislation.

This proposal for enactment of a general retail sales and use tax is not intended as a means to raise additional tax revenues (particularly due to current and projected budget deficits). It is instead intended to achieve badly needed general tax reform. Whether current or future budget deficits are to be addressed through additional tax revenues is a separate issue. However, if taxes are increased, the increases must be accomplished so as to further a balanced use of income taxes, property taxes and sales taxes.

3227d

WITNESS STATEMENT

NAME Mons L. Teigen Sen. BILL NO. 386

ADDRESS Box 1679 Helena DATE 3/5/87

WHOM DO YOU REPRESENT? Mt. Stockgrowers Assn - Mt. Cattlewomen

SUPPORT X OPPOSE ____ AMEND ____

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

This bill addresses two concerns that our organizations have had for several years now, that is: the elimination of the personal property tax on livestock and the passage of a statewide sales tax to replace the revenue lost.

We assume the bill will be further modified to meet the technical problems suggested by Dep't. of Revenue.

SENATE TAXATION
EXHIBIT NO. 12
DATE 3-5-87
BILL NO. SB 386

CS-34

NAME: Chuck Stearns DATE: 3/5/87

ADDRESS: 701 W. Spruce Missoula

PHONE: 721-4700 x271

REPRESENTING WHOM? City of Missoula

APPEARING ON WHICH PROPOSAL: SB 386

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

COMMENTS: City of Missoula opposes SB 386 for the following reasons:

1) City Council of Missoula remains strongly opposed to a general sales tax as the response to Initiative 105.

2) Full replacement revenue is not provided for in this bill, but it is assumed for the purposes of fiscal note.

3) City would lose 52% of its property tax revenues or ~ $2,800,000

4) Statewide loss would be approximately 53% or ~$300 million dollars (calculated from pages 111 and 150 of Montana Dept of Revenue Biennial Report 1984-1986). (Excludes City & Town SID assessments)

5) Retroactive Applicability would affect current budget.

Thank you for considering the City of Missoula's position.

Chuck Stearns

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

SENATE TAXATION
EXHIBIT NO. 13
DATE 3-5-87
BILL NO. SB-386

STANDING COMMITTEE REPORT

March 5, 19 87

MR. PRESIDENT

We, your committee on SENATE TAXATION

having had under consideration SENATE BILL No. 377

first reading copy (white)
color

ALLOW REFUND OF 3 CENTS A GALLON ON FUEL USED BY SCHOOL BUS CONTRACTORS

Respectfully report as follows: That SENATE BILL No. 377

DO PASS

~~DO NOT PASS~~

SENATOR GEORGE McCALLUM, Chairman.