

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

March 9, 1987

The thirty-seventh meeting of the Senate Taxation Committee was called to order at 8:10 A.M. on March 9, 1987 by Chairman George McCallum in Room 413/415 of the Capitol Building.

ROLL CALL: All committee members were present.

CONSIDERATION OF HB 717: Representative J. Brown, House District 46, presented this bill to the committee. She briefly explained that this bill provides for similar taxation for beer sold by wholesalers, regardless of where brewed.

PROPONENTS: Bruce H. DeRosier, Kessler Brewing Co., gave testimony in support of this bill. A copy of his written comments is attached as Exhibit 1.

OPPONENTS: None.

QUESTIONS FROM THE COMMITTEE: Senator Lybeck said there has been some talk of starting some so called "Pub Breweries", that would brew on premise for dispensing on premise. He asked Mr. DeRosier how this would affect a restaurant or supper club.

Bruce DeRosier said it would not affect them. Brew clubs are illegal in Montana. If legalized under this bill, there is still a provision for any beer that leaves the brewery to be taxed. There would not be any loss there.

Representative Brown closed by stating this bill passed in the House 90-3.

DISPOSITION OF HB 717: Senator Mazurek made a motion that HB 717 BE CONCURRED IN. The motion carried with Senator Brown and Senator Neuman absent.

CONSIDERATION OF SB 390: Senator McCallum, Senate District 26, presented this bill to the committee. He said this bill is the result of SB 20 that was passed during the special session changing the classification on tracts of lands 20 acres or more to agricultural land. Governor Schwinden requested Senator McCallum to sponsor a bill that would clean up some of the problems that resulted from SB 20 and this bill is the result of the Governor's concerns. Land that has been classified as

agricultural land will remain in the same tax classification until the land is sold. Greg Groepper from the Department of Revenue, has some problems on commercial property. He will suggest some language that commercial property, 20 acres and larger, will not be classified as agricultural but will be classified as commercial, which is what it should be classified at.

Greg Groepper, Administrator, Property Assessment Division, gave technical comments concerning this bill. When SB 20 passed in the special session it was not directed to commercial or industrial property. Because of the language of the bill, commercial property with more than 20 acres can qualify. To make that clear for this tax year, it might make sense to have the effective date for the commercial and industrial property to be effective retroactively to this tax year.

PROPONENTS: Marvin Barber, Montana Assessors Assn., gave testimony in support of this bill. He said this is a step in the right direction to clean up the problem they have with small tracts of land.

John LaFaver, Director, Department of Revenue, gave testimony in support of this bill. This bill doesn't completely address the concerns that were brought to the Governor after the special session, but it would solve the concerns over time. It seems to be a reasonable compromise in speaking to the concerns expressed last summer.

OPPONENTS: Robert N. Holding, Montana Association of Realtors, gave testimony in opposition to this bill. He understands some of the problems, but in the long pull the association thinks this is something that will work against the sale of property and as a result he opposes the bill.

QUESTIONS FROM THE COMMITTEE: Senator Crippen asked John LaFaver how he would define change of ownership.

John LaFaver said the execution of the contract at the sale.

Senator Crippen said what if you sold some land for \$2,000 an acre and it is put on a contract with \$750 down and will pay the rest over a period of time.

John LaFaver said that transaction would not effect a new transaction. The legal document in the back of that transaction would be the sale.

Senator Brown has heard complaints from constituents with 18-19 acres of land, which is considered as suburban tract, and his neighbor with 20 acres is classified as agricultural. Will this amendment help that problem.

John LaFaver said if both parcels yield \$1500 of income there is not an issue. There is only a issue if they don't. This bill will mean, over time, as the parcels of land 20 acres or larger are sold, they will go on the tax rolls at the price that they are sold for. At that point it will be taxed the same as the small parcel across the road.

Senator Crippen said what if a land owner sells 160 acres of farm land but sells it for another purpose and sells it for \$2,000 an acre. Will that have any reflection on the balance of the land he has kept.

John LaFaver said it would not have any impact on the land that was not sold.

Senator Crippen referred to page 1, line 22, and asked if someone in a subdivision could be considered agricultural land if they qualified with the \$1500 income.

Greg Groepper said he understands the example and there are some out there now that qualify. If you have agriculture activity going on and do not have the receipt but the land that you have is capable of generating enough produce to make the \$1500 income, then you would qualify as agriculture.

Senator Crippen said what if I have a piece of property in the city limits that I raise fruit trees on and make over \$1500 in income. Would that qualify.

Greg Groepper said the example you gave me is the law right now. The only thing that restricts someone in a subdivision is the covenants that prohibit agricultural activity. The amendments make it clear that you have to at least meet that income test of \$1500.

Senator Mazurek said there is a repealer taking away class 19 property, which was the special class set up for property that was precluded from being developed because it was a cliff bank that went straight up or a hill that you could hardly climb up, or something of this nature.

Greg Groepper said since last fall we have only had 25 people apply for class 19 designation and everyone of

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those properties the market value of that property was reduced substantially to reflect the lower market price and then there is a 1/2 tax break on top of that. Our feeling is that something that has generated very few applications, that the market value is already substantially reduced, that we question whether it is worth the time of going through administrative rules and buying forms. If that is what you would like to continue to do, leave class 19 in there.

Senator Mazurek said the reason class 19 was put in there was because of the examples that were shown where the market value has not be reflected.

Greg Groepper said we have found that the people that have applied for that relief, their market value already was substantially reduced and it was like a double deduction.

Senator McCallum closed.

DISPOSITION OF SB 386: Senator Mazurek made a motion that SB 386 BE TABLED.

Senator Crippen said he is not necessarily against the motion, he would prefer this bill be tabled than killed. He is sure this issue will still be around.

The motion carried unanimously. Senator Neuman and Senator Lybeck were absent.

ACTION ON SB 332: Senator Hager said 25 states already exempt these benefits now from taxation. He thinks the return to the state would be high in retaining retired people in the state who spend a substantial amount of money in the state. He made a motion that SB 332 DO PASS.

Senator Brown asked what tier 1 railroad retirement benefits were.

Senator Hager said they are the same to a retired railroad person as social security benefits are to any other person.

Senator Eck said the formula that the feds imposed two years ago is still used.

Senator Hager said yes.

Senator Halligan asked if we would be dealing with this in SB 307.

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Senator Mazurek said presently SB 307 would give everybody an across the board exemption of \$3600. Under federal tax reform social security is taxable.

Senator Hager said this just deals with the social security benefits. Some of them are taxable now and this would change, at the state level, so they are not taxable.

A roll call vote was taken on Senator Hager's DO PASS MOTION. The motion failed 6-6, see attached.

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


SENATOR GEORGE McCALLUM, Chairman

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ROLL CALL

TAXATION

COMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date 2-9-87

NAME	PRESENT	ABSENT	EXCUSED
SENATOR CRIPPEN	✓		
SENATOR NEUMAN	✓ <i>left early</i>		
SENATOR SEVERSON	✓		
SENATOR LYBECK	✓ <i>left early</i>		
SENATOR HAGER	✓		
SENATOR MAZUREK	✓		
SENATOR ECK	✓		
SENATOR BROWN	✓ <i>late</i>		
SENATOR HIRSCH	✓		
SENATOR BISHOP	✓		
SENATOR HALLIGAN, VICE CHAIRMAN	✓		
SENATOR McCALLUM, CHAIRMAN	✓		

Each day attach to minutes.

NAME: BRUCE H. DEKOSIER DATE: MAR 9, 1987

ADDRESS: 1439 HARRIS ST. HELENA

PHONE: 449-6214

REPRESENTING WHOM? KESSLER BREWING Co.

APPEARING ON WHICH PROPOSAL: HB 717

DO YOU: SUPPORT? AMEND? OPPOSE?

COMMENTS: see attached.

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

SENATE TAXATION
EXHIBIT NO. 1
DATE 3-9-87
BILL NO. HB 717

Reasons:

- 1) Uniform collection method would be more efficient for state administration.
- 2) Uniform collection would remedy present inequity between in state and out of state breweries. Currently a Montana brewery is at a disadvantage in two ways:
 - a) A Montana brewery must pay the barrel tax at time of sale from the brewery. An out of state brewery pays no such tax.
 - b) Since other states also collect barrel tax at the wholesaler level (but not at the brewery level) a Montana beer is taxed twice when shipped out of state. This puts the Montana made beer at a distinct price disadvantage and hinders the potential export of a Montana product.

While b) is an important factor to the well being of Kessler Brewing Company, it would have minimal impact on tax collected. During 1986, 45.5 barrels (or \$182.00 in barrel tax) were shipped out of state.

3) Full Support from:

- a) Distributors (wholesalers)
- b) Liquor Division - Gary Blewett
- c) Dept of Revenue - John Hafaver

SENATE TAXATION

EXHIBIT NO. 1

DATE 3-9-87

BILL NO. H.B. 717

ROLL CALL VOTE

SENATE COMMITTEE TAXATION

Date March 9, 1987 Bill No. SB 332 Time 8:58 A.M.

NAME	YES	NO
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	✓	

Aggie Hamilton
Secretary

Senator George McCallum
Chairman

Motion: Senator Hager's motion that SB 332 DO PASS.
Motion failed 6-6.

STANDING COMMITTEE REPORT

March 9, 19. 37.....

MR. PRESIDENT

We, your committee on..... **SENATE TAXATION**.....

having had under consideration..... **HOUSE BILL**..... No. **717**.....

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J. BROWN (MAZUREK)

**PROVIDE SIMILAR TAXATION OF BEER SOLD BY WHOLESALER
REGARDLESS WHERE BREWED**

Respectfully report as follows: That..... **HOUSE BILL**..... No. **717**.....

BE CONCURRED IN

~~DO PASS~~

~~DO NOT PASS~~

.....
SENATOR McCALLUM, Chairman.