

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

March 10, 1987

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

ROLL CALL: All committee members were present.

CONSIDERATION OF SENATE BILL 392: Senator Eck, Senate District 40, presented this bill to the committee. She said this bill provides a different way of valuing personal property. During meetings she attended during the last year, it became apparent that Montana taxes personal property at a higher rate than other states. This bill values personal property from the depreciation schedule on the income tax. This means that personal property value is that bottom line, not including things that are built down, and does become part of real property. By becoming a part of real property, they would be taxed at a lower percent. Section 2, on page 5, defines class 6 property, which is everything now included in classes 8, 9, and 10. She furnished the committee with an amendment to the bill which deals with the applicability date, and language that provides sufficient revenue to replace any revenue lost must be provided for this bill to take effect. Amendment is attached as Exhibit 1. Senator Eck reviewed the bill with the committee. She said we don't have a fiscal note, but if we leave this at 8%, the loss of revenue would be about \$24 million. If we decrease the percent down to 4%, the impact would be about \$48 million per year. This bill would mean a cut in personnel at the Department of Revenue in Helena and in the number of local appraisers needed in each staff office around the state. As we go through the process of reforming our tax system, she thinks this is something we should look at.

PROPOSERS: Greg Groepper, Administrator, Property Assessment Division, gave testimony in support of this bill. He said we are proponents of this bill because it represents an administrative cost savings. There are significant costs involved with how we gather the information for property tax services. We are talking in the neighborhood of around 100 FTE's that would be eliminated if this is implemented.

Gary Carlson, Montana Society of CPA's, gave testimony in support of this bill. We are proponents of the utilization of the depreciation schedules for simplification of the assessment process. We feel that all businesses do

have depreciation schedules and would be utilizing those for the property tax process.

OPPONENTS: None.

QUESTIONS FROM THE COMMITTEE: Senator Severson asked Gary Carlson how many different ways can property be depreciated in regard to the property we are talking about.

Gary Carlson said the Tax Reform Act of 1986 changes the depreciation system, effective January, 1987. The Federal Tax Reform Act does allow for acceleration of depreciation from assets that would qualify for three year accelerated depreciation. He is not sure if those things are listed in this class. There is a five year class and a new 7 year class. There is an election in the provision to go with straight line or you could change the depreciation life for as long as 12 years.

Senator Severson asked if this bill were passed, would that be an incentive to depreciate as fast as you could.

Gary Carlson said you are probably right. They would choose to accelerate to lower both income tax and property tax.

Senator Neuman said when you depreciate it to zero there is no tax.

Senator Eck said that is right.

Senator Lybeck asked when a fiscal note would be available.

Senator Eck said it will be coming up in a few days and will probably not be very accurate.

Senator Eck closed by stating she realized that in doing this that it is not completely fair in that some people will be able to depreciate their property faster than others. Maybe some equipment dealers will find that there will be real incentives to keep their old stuff and fix it up instead of buying new.

CONSIDERATION OF SB 393: Senator Eck, Senate District 40, presented this bill to the committee. She said what this proposal does is to follow the method that the accountant suggested a few weeks ago on SB 307. It takes a percentage of the federal minimum tax. She questions whether the percentage is right. We followed the federal changes in federal tax until we came to adopting the alternative

tax and we didn't follow on that. She would be happy to lay this on the table if the committee should wish to go along with the subcommittee's recommendations on SB 307.

PROPONENTS: None.

OPPONENTS: Gary Carlson, Montana Society of CPA's, gave testimony in opposition to this bill. They do support tax simplification. They oppose this bill from the standpoint of implementation of the alternative minimum tax on individual taxpayers in Montana because of the significant changes of the Tax Reform Act of 1986. No one understands the impact of those changes to individuals or corporations. Montana is proposing in SB 307 and SB 393, to use a rate significantly above the 59% or 60% rate utilized at the federal level. As a result, it will shift some tax burden to those individuals who will be subjected to the alternative minimum tax at the federal level.

QUESTIONS FROM THE COMMITTEE: Senator Lybeck said in filing federal income tax, we apply for a refund under agricultural designation on motor oil, diesel and gasoline. If the state still allows us the refund for agricultural designation, this will give us a double deduction.

Gary Carlson said the alternative minimum tax would not affect the refund or in any way cause additional tax on income as the result of gas and oil tax at the federal level. He reviewed the procedure for calculation of the alternative minimum tax. The taxpayers determine whether his alternative minimum tax is higher than his income tax. If the regular income tax exceeds the alternative minimum tax calculation, there is no alternative minimum tax. If the regular income tax is lower than the alternative minimum tax, then this results in an add on tax federally.

Senator Brown said with the 1986 Federal Tax Reform, can we be confident that there won't be taxpayers who will pay less than the minimum.

Gary Carlson said he is confident there will be. There are changes that are totally new, that we have never had before, and we should use extreme caution considering implementing an alternative minimum tax. As professionals, and taxpayers themselves, we don't know what will happen to them.

Senator Eck closed by stating the minimum tax is not going to be simple to address, but she thinks it is very important for the legislature to address it.

She thinks it does make a difference to the taxpayers to be assured those people who are doing well will pay some tax to the state of Montana.

CONSIDERATION OF SENATE BILL 391: Senator Crippen, Senate District 45, presented this bill to the committee. This bill addresses a problem that has come about because of the recent reappraisal cycle and the problem deals with defining market value and what market value is. This bill essentially provides an assessment cap on class 4 property, class 12 property and class 14 property. In the law we know that taxable property must be assessed at 100% of market value, or as otherwise provided. This bill provides that the classes of property listed shall be assessed at 100% of market value, or an amount represented by 200% of the assessed value for the 1985 tax year, whichever is less. Representative Ramirez has a bill in that deals with this problem, and he is in support of that bill.

PROPONENTS: None.

OPPONENTS: Greg Groepper, Administrator, Property Assessment Division, gave testimony in opposition to this bill. What Senator Crippen is trying to address with this bill is a legitimate problem. The five year reappraisal cycle started with a good year for residential sales and when commercial property had already peaked. There are some dissatisfied people. There are potential problems if we address the situation as this bill proposes. He does not disagree with Senator Crippen, but said this mechanism is not quite as good as Rep. Ramirez's to address the problem.

QUESTIONS FROM THE COMMITTEE: Senator Severson said one area was missed as far as appraisal is concerned. The problem with appraisal was not in the building, or in the trailer, but in the piece of ground under the farm buildings, the trailers, or house; that is where the values came from and where the errors were made.

Senator Crippen agreed.

Senator Severson said always before, the lot and the house were taxed together, and in this appraisal they were appraised separately, with a large figure placed on the land.

Greg Groepper said we separated the land and buildings in the valuation so the taxpayer would have a better idea of the market value of the property.

Senator Severson said in his area the acre that was appraised with the farmsteads was appraised similarly to subdivision land. He disagreed with being appraised as tract land; it is used as a part of the farm, whether it be for parking of machinery or for farm buildings.

Greg Groepper said the law says it should be assessed at market value and the sale of other comparable use property.

Senator Eck said a lot of the problems we are talking about are really legislative directions that this committee gave. She believes the whole concept of this bill needs to be addressed.

Senator Neuman said if you are going to keep it neutral, then you should cap the top and bottom.

Senator Crippen said you wouldn't have that problem if the appraisals were done every year. The whole point in using 1985, was to provide something that kept it even. That is the hazard of the game when you deal with averages.

Senator Crippen closed by stating he believes Senator Ramirez' bill is the best way to handle the problem. He also said market value and how we handle it is a problem.

CONSIDERATION OF A COMMITTEE BILL: Jim Lear said a bill requesting draft was presented to Chairman McCallum, which would provide funding to the Department of Revenue for administration of special revenue accounts for tax check-off programs. The check-off programs that he is aware of are the wild game program and the agricultural check-off. Apparently the necessary money to provide for the administration of those check-offs is not available. This would provide a mechanism for funding the check-off programs. The statutory appropriation would have to be deleted from this bill as drafted, and reinserted in the House. The committee bill request is attached as Exhibit 2.

John LaFaver said what the Department would prefer is to start the ball rolling here; for the bill to go to this committee, take the statutory appropriation language out of the bill and move to amend that back in the House. This bill is attempting to coordinate the action of the Taxation Committee with the Appropriation Committee. In the past years check-offs have been put on income tax. That imposes an administrative expense to the Department. Last session bills were passed that gave us the authority to meet our expenses through money that came through the check-off, but we did not have the spending authority through

appropriations to do that. This bill would apply to present check-offs and to future check-offs and give statutory spending authority.

Senator Severson made a motion that the committee request a committee bill as outlined by Jim Lear. The motion carried with committee members present. Senators Mazurek and Brown were not at the meeting at the time of this vote.

DISPOSITION OF SENATE BILL 228: Senator Halligan moved that Senate Bill 228 DO PASS AS AMENDED.

Senator Crippen asked Senator Van Valkenburg to explain this bill.

Senator Van Valkenburg said this is a bill that transfers money that would be going into the education and local impact accounts into the general fund and also takes the interest money that is plowed into the permanent trust fund, 15% of the interest from the permanent trust, and transfer that to the general fund. This would amount to about a \$38 million impact to the general fund for FY '87, FY '88 and FY '89. We have to make some steps to move toward balancing the budget, and this is an important step.

Senator Crippen asked if there was any thought down the line to replace this revenue.

Senator Van Valkenburg said if you mean treating this as a loan and then paying it back, no, that was not considered.

Senator Crippen said then by doing this, we are putting the ills of the government on the backs of education. He is in a quandary as to why we are so anxious to invade this particular trust. Senator Keating's bill would also deal with a trust that would essentially provide money to the general fund to help solve some of the problems we are facing - the permanent coal trust. He asked Senator Van Valkenburg if he could see the logic of the difference.

Senator Van Valkenburg said he is trying to find a practical way to balance the budget. There really is no strong opposition to taking this step. He thinks it makes sense to use money that is flowing into that trust rather than going in to the corpus of the trust.

Senator Severson opposes taking this money and putting it in the general fund. He said it should be used for education as it was intended.

Senator Van Valkenburg said we have to appropriate \$94 million

to the general fund to have a 0-0 in the foundation program this year. That is where it is going.

Senator Eck said she hadn't voted for this before and still doesn't like it, but will vote for it in committee to get it onto the Senate floor.

Senator Crippen asked what the original intent of the trust was - for what purpose was the income designed.

Senator Van Valkenburg did not know.

Senator Crippen asked Terry Johnson what is the trust used for now.

Terry Johnson said part of the funds go to the state education. Basically, education, but some to the foundation program.

Senator Crippen said the trust was set up for the income to be used for education.

Senator Halligan's motion carried with Senator Hager opposed and Senator Mazurek and Senator Brown absent.

DISPOSITION OF SENATE BILL 389: Senator Lybeck furnished the committee with amendments to this bill, which are attached as Exhibit 3.

Jim Lear explained that the amendments would change the four figures that appear in the category subsections, and the change would be 30% of the figure that is first written in the bill in each of the four subsections. Additionally, this amendment would add a new subsection which gives special treatment for school buses under subsection (e).

Senator Lybeck said in working with the committee, he thinks we are trying to reach a fair settlement on this permit system. Liquid petroleum gas is only about 3/4 as efficient as regular gasoline powered vehicles on a per gallon basis, and for that reason we felt a 1/4 reduction was appropriate. As an incentive for them to use clean burning fuel, we reduced that an additional 5%. That was the reason for the 30%. In relation to the school buses, a lot of the bids have been established, and it was felt it would not be appropriate to increase this for them. Senator Lybeck made a motion that the amendments be adopted.

Senator Hirsch said the school buses will be getting a hefty break.

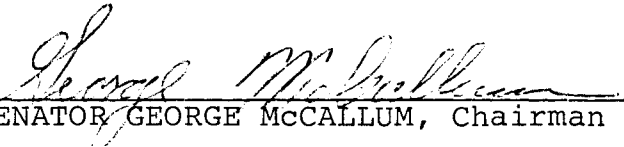
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Jim Lear said if you read the language very closely, you will find buses do not easily fit in any of these categories, and for that reason we treated them the same as passenger cars and light trucks.

The motion carried.

Senator Lybeck made a motion that Senate Bill 389 DO PASS AS AMENDED. The motion carried.

ADJOURNMENT: The meeting adjourned at 10:00 a.m.


SENATOR GEORGE McCALLUM, Chairman

ah

Amend Senate Bill No. 389, Introduced Copy

1. Page 1, line 23.

Strike: "\$155"

Insert: "\$108"

2. Page 2, line 1.

Strike: "\$206"

Insert: "\$144"

3. Page 2, line 4.

Strike: "\$516"

Insert: "\$361"

4. Page 2, line 7.

Strike: "\$2580"

Insert: "\$1806;

(e) school buses used to provide transportation services on contract with school districts in this state, \$60"

SENATE TAXATION

EXHIBIT NO. 3

DATE 3-10-87

BILL NO. SB 389

STANDING COMMITTEE REPORT

March 10,

19 87

MR. PRESIDENT

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

having had under consideration.....SENATE BILL..... No. 389

first reading copy (white)
color

LYBECK WILL CARRY

INCREASE ANNUAL LICENSE TAX FEE ON VEHICLES POWERED BY
LIQUIFIED PETRO. GAS

Respectfully report as follows: That.....SENATE BILL..... No. 389

be amended as follows:

1. Page 1, line 23.

Strike: "\$155"

Insert: "\$103"

2. Page 2, line 1.

Strike: "\$206"

Insert: "\$144"

3. Page 2, line 4.

Strike: "\$516"

Insert: "\$361"

4. Page 2, line 7.

Strike: "\$2550"

Insert: "\$1306;

(e) (X) school buses used to provide transportation services
on contract with school districts in this state, \$60"

AND AS AMENDED

DO PASS

~~DO NOT PASS~~

.....
SENATOR McCALLUM,

.....
Chairman.

STANDING COMMITTEE REPORT

March 10

19 87

MR. PRESIDENT

We, your committee on SENATE TAXATION

having had under consideration SENATE BILL No. 223

first reading copy (white)
color

REVISE ALLOCATION OF COAL SEVERANCE TAX PROCEEDS

Respectfully report as follows: That SENATE BILL No. 223

be amended as follows:

1. Page 16.

Following: line 2

Insert: "NEW SECTION. Section 12. Coordination instruction.

If section 3 of this act and House Bill No. 12 are both passed and approved, the amendment to 20-9-343 (3) (c) contained in House Bill No. 12 is void."

Renumber: subsequent sections

2. Page 16, line 10.

Following: "March 31,"

Strike: "1986"

Insert: "1987"

3. Page 16, line 16.

Following: "approval"

Insert: "or April 1, 1987, whichever occurs later"

AND AS AMENDED

DO PASS

~~DO NOT PASS~~

.....
SENATOR McCALLUM,

Chairman.

ROLL CALL

TAXATION

COMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date 3-10-87

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.

NAME: Gary B Carlson DATE: 3/10/87

ADDRESS: P.O. Box 1147 Helena

PHONE: 442-3540

REPRESENTING WHOM? MT Society of CPA's

APPEARING ON WHICH PROPOSAL B 393

DO YOU: SUPPORT? AMEND? OPPOSE?

COMMENTS:

- Supports from Standard of Simplification

- Oppose rate and implementation

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

NAME: Gary B Carlson DATE: 3/10/87

ADDRESS: P.O. Box 1147 Helena

PHONE: 442-3540

REPRESENTING WHOM? MT Society of CPA's

APPEARING ON WHICH PROPOSAL: SB 392

DO YOU: SUPPORT? AMEND? OPPOSE?

COMMENTS: Support utilization of depr. Schedule
for assessed program for projects
from

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

AMENDMENTS TO SENATE BILL 392
(requested by Senator Eck)

1. Title, line 8.

Following: "PROVIDING"

Strike: "AN"

Insert: "A CONTINGENT"

2. Page 7, line 1.

Following: "at"

Insert: "8% of"

3. Page 14, lines 16 through 19.

Following: "date"

Strike: " -- applicability."

Following: "1987"

Strike: remainder of lines 17 through 19 in their entirety

Insert: "if a bill that provides for sufficient revenue to
replace any revenue lost as a result of this act is
passed and approved."

NEW SECTION. Section 11. Applicability. This act
applies to income tax year 1987 and to property tax year
1988."

4. Page 14,

SENATE TAXATION

EXHIBIT NO. 1

DATE 3-10-87

BILL NO. SB-392

1 BILL NO. _____

2 INTRODUCED BY _____

3 BY REQUEST OF THE SENATE TAXATION COMMITTEE

4
5 A BILL FOR AN ACT ENTITLED: "AN ACT TO PROVIDE FUNDING TO
6 THE DEPARTMENT OF REVENUE FOR ADMINISTRATION OF SPECIAL
7 REVENUE ACCOUNTS FOR TAX CHECKOFF PROGRAMS; AND PROVIDING AN
8 IMMEDIATE EFFECTIVE DATE AND A RETROACTIVE APPLICABILITY
9 DATE."

10
11 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

12 Section 1. Funding for administration of special
13 revenue accounts. (1) To provide the funds necessary to
14 administer the special revenue accounts that are funded
15 annually by means of an income tax checkoff, the department
16 of revenue may charge, for each new fund created after
17 January 1, 1987, the actual and necessary costs to set up
18 the special account and to place the checkoff on the income
19 tax return.

20 (2) In addition to the fees charged in subsection (1),
21 the department shall charge each special revenue account \$1
22 per checkoff contribution or \$2,000, whichever is greater,
23 except that the department may not charge the public
24 campaign fund more than \$500.

25 Section 2. Codification instruction. Section 1 is

SENATE TAXATION
EXHIBIT NO. 2
DATE Montana Legislative Council 3/10/87
BILL NO. Committee Bill

1 intended to be codified as an integral part of Title 15,
2 chapter 30, part 1, and the provisions of Title 15, chapter
3 30, part 1, apply to section 1.

4 Section 3. Extension of authority. Any existing
5 authority of the department of revenue to make rules on the
6 subject of the provisions of this act is extended to the
7 provisions of this act.

8 Section 4. Effective date -- applicability. (1) This
9 act is effective on passage and approval.

10 (2) This act applies retroactively, within the meaning
11 of 1-2-109, to taxable years beginning after December 31,
12 1986.

-End-