

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

March 12, 1987

The fortieth meeting of the Senate Taxation Committee was called to order at 8:00 A.M. on March 12, 1987 by Chairman George McCallum in Room 413/415 of the Capitol Building.

ROLL CALL: All committee members were present.

CONSIDERATION OF SB 395: Senator Hirsch, Senate District 13, presented this bill to the committee as chief sponsor of the Governor's sales tax proposal. He said he is somewhat disappointed that a resolution that he sponsored in the 1985 session, SJR 40, which would have started, after the general session, looking at tax reform and tax relief, did not get out of committee. He realized at that time that tax reform and tax relief would be an issue in the 1987 session. We are on the threshold of major tax reform in the state of Montana, with major tax relief in the area of property taxation. The legislature is not an active body, but a reactive body, and we are reacting more than acting. We are reacting in this bill to some circumstances which are beyond our control and to a dismantling of the property tax system that is occurring on a daily basis in Montana. We are eroding the property tax base in Montana. We are reacting to problems of over taxation in the area of mineral production, along with addressing the problems of over taxation and over dependence on property taxation in this state. We are reacting finally because a majority of the people are nervous and very upset with the taxation in the state of Montana and this is to address the concerns of the people of this state. We are trying to balance our tax system that is out of balance. There are those in the legislature who feel that we can put on an increased surtax on income but, there again, you do that depending very heavily on income tax and you haven't balanced your system as it would be if you adopted a sales tax proposal. He furnished the committee with a fact sheet on Governor Schwinden's sales tax proposal and a list of exemptions from SB 395 sales and use taxes, which are attached as Exhibit 1. He reviewed this information with the committee. With regard to the issue of placing this before the voters. He feels we should try to place it before them as early as possible. He believes this issue would generate enough interest to provide for a good turn out of voters.

PROPOSERS: John LaFaver, Director, Department of Revenue, gave testimony in support of this bill. He reviewed the comparison sheet, attached as Exhibit 2, which compares

Senator Crippen's bill, SB 333, and the Governor's proposal, SB 395. He said SB 333 would raise approximately \$63 million per a percent, where SB 395 would raise about \$50 million per a percent. Whatever bill is offered to the voters, he is hopeful it will be an easy bill to understand and to administer from the standpoint of the Department of Revenue and, more importantly, from the standpoint of the taxpayers that have to comply.

Senator Crippen, Senate District 45, gave testimony in support of this bill as a co-sponsor. While he does not agree with all of the provisions in SB 395, certainly all of the signers of SB 333 do not agree with all of the provisions in that bill. If we are going to have any tax reform done in this area, we will have to do that on a non-partisan basis. Attitude and willingness is important to negotiate and compromise. He agrees with Senator Hirsch, that if we deal with a referendum, that we cannot afford to wait until 1988. If we are going to go that route, we must do it now. He would hope we would be able to take the best provisions from all the bills that have been presented and meld them into a comprehensive package, along with other aspects of tax relief, and present something to the people of the state of Montana.

Robert VanDerVere, concerned citizen lobbyist from Helena, gave testimony in support of this bill. Usually he does not agree with the Governor on his proposals but on this one he does. He believes this is a good bill.

Dennis Burr, representing the Montana Taxpayers Assn., gave testimony in support of this bill. Throughout the session we have indicated support for a sales tax to reduce some of our other taxes that are above the national average and if necessary to provide revenue for state or local government spending. He agrees with Mr. LaFaver that this bill is put together very well. In particular, he thinks the exemption and deduction sections that are listed are excellent in that they lay-out exemptions that could be melded into other bills, if Senator Crippen's advice is taken. He feels an exemption should be given for utility bills, particularly for companies. A tax on the electrical energy for the Columbia Falls Aluminum Plant would be a great hardship for that plant. Taxes on utility bills are regressive. One of the things that this bill does and the other does not is exempt food and drugs. He is more in favor of taxing those items and providing rebates. One of the reasons is if you exempt food and drugs you have to define all that will be allowed and the Department of Revenue will have to write rules and regulations to define the food and drugs which are exempt. He furnished

the committee with an information sheet on questions of what would be exempt and what would not. This information is attached as Exhibit 3. He supports the vehicle for reducing residential property taxes and feels it complies with I-105. The more expensive residential property will get a smaller percentage tax break as a result of this exemption. This bill does not exempt all personal property. Personal property is redefined to some extent in this bill. The Kaiser Cement Plant at Montana City has tried to maintain that some of the equipment in their buildings is really real property. They built the buildings around some of the equipment and that it should be taxed at 3.86% because it is real estate. They have lost that argument in the past. Apparently now the Department is willing to accept that argument and that equipment would be taxed at 3.86% instead of being exempt. He believes the last section should be taken off the bill. The legislature came here to reform the tax system and they should do that.

Robert A. Henkel, Executive Director, Montana Tax Reform Education Committee, gave testimony in support of this bill. He is one of the three founders of MONTREC, the committee that sponsored I-105. Our initiative called for a reduction in property tax and using an alternative tax to fund schools and counties. The vast majority felt that a sales tax was the best tax to consider. He has three recommendations. If there is a new tax, it must go to the voters for final approval. He agrees the election should be made as soon as possible and not in 1988. The residential property owners are looking for more substantial relief than is indicated in this bill. If a sales tax is placed on the ballot, that it be matched against another replacement tax creating the same amount of revenue as a sales tax.

Gordon Morris, representing the Montana Association of Counties, gave testimony in support of this bill. He does not necessarily agree with the way property tax relief is achieved by this bill. The total exemption of classes of property does not appeal to him. They prefer Senator Crippen's approach as opposed to the total exemption. They would prefer to see the retention of the property taxes on those classes with a reduction rather than full elimination. He supports the particular part of the bill on page 56, lines 1-9, so that we are not doing anything by way of reducing taxable value but taking into consideration that reduction. In looking at Senator Hirsch's bill the property tax relief will not be spread uniformly across the state. To the property tax relief that is going to each and every taxable jurisdiction, he would suggest that the legislature be very careful

to give them that money back by way of sales tax revenue. If it is determined to put this on the ballot, he would encourage putting it on the ballot as soon as possible.

Kay Foster, representing the Billings Chamber of Commerce, gave testimony in support of this bill. They support the measure being voted on by the legislature and not be put before the public; prefer credits rather than exemptions and deductions; and feel that tax replacement to the counties be insured.

Craig Rehm, Montana Forward Coalition and First Interstate Bank of Miles City, gave testimony in support of this bill. He supports this bill as a whole, with some reservations. He would suggest that possibly putting this on the ballot in November, 1988, is too late. He questions whether 3% is enough and that slightly more might be needed to address the problems at hand.

OPPONENTS: Donna Small, Vice Chairman, Montana Democratic Party, gave testimony in opposition to this bill. Her written statement is attached as Exhibit 4.

Don Judge, representing the Montana State AFL-CIO, gave testimony in opposition to this bill. A copy of his written statement is attached as Exhibit 5.

Jay Reardon, citizen of the state of Montana, gave testimony in opposition to this bill. We have given many tax breaks in the past 10 years to encourage business and industry in this state and have not seen any results. The U.S. is in depression and nobody will get any better until we turn this country around and start getting people back to work. A sales tax is not the answer to get this state turned around. All people will pay a sales tax and we will continue to give tax breaks to big business.

QUESTIONS FROM THE COMMITTEE: Senator Eck said she saw nothing on either of these bills that say they address the issue of I-105. One of the requirements to have I-105 repealed states the bill must say that it is in response to I-105.

John LaFaver said the appropriation bill in the House that allocates the money, explicitly says that.

Senator Lybeck asked Senator Hirsch if there was any provision in the bill to limit changing the exemptions.

Senator Hirsch said any future legislature would be free to increase or decrease the amount of exemptions.

Senator Lybeck said we could very easily put the tax up to 8% and eliminate the exemptions.

Senator Hirsch said the legislature could do that.

Senator Severson asked Senator Hirsch to explain what an exemption and deduction were.

Senator Hirsch said deductions are items that can be deducted from gross receipts of a business before calculating sales tax liability. The business would have to state what deductions they are using before calculating the tax. The exemptions are simply outlined on the sheet furnished in Exhibit 1.

Senator Mazurek asked John LaFaver if the phasing in of the reimbursements is related to the phasing in of collection.

John LaFaver said that is not part of this legislation. That is part of the one in the House.

Senator Mazurek said with regard to the phasing in, do you have any information on whether money would be available to the general fund or in time for reimbursement to the counties.

John LaFaver said all of this money goes to local units. The phase in that you are referring to has to do with how you distribute the money that goes to the counties, among the counties. Over a period of 5 years we would phase that in to recognize the relative population and relative value of the mill levy.

Senator McCallum said someplace in this bill there is a reference to fees on trucks. He asked John LaFaver to address that.

John LaFaver said what we are proposing here would be no property tax on those heavy vehicles. In place of that, to partially make up some of that revenue lost, we proposed putting a flat fee on heavy trucks. This would still enable us to realize the administrative savings that we are trying to realize. This would offset some of the loss of revenue that we would have to pay for with the sales tax. This is one way to keep the sales tax as low as 3%.

Senator Severson said it doesn't make any difference how you construct a fee. Those that are the biggest, most expensive, pay less and those that are the least expensive and oldest pay more.

Senator Eck said this vehicle section addresses all property, including those that we have already reduced.

John LaFaver said we are proposing in this bill to repeal all of those. It wouldn't be a matter of reducing them from one to the other. It would be a question of no property tax being placed on those. In some instances it would be this flat fee system.

Senator Eck asked if that would include pickups and light weight vehicles.

Dan Bucks said the bill only addresses those vehicles still on an ad valorem property tax system and transfers them to a fee system.

Senator Lybeck asked Dennis Burr when we should put this to a vote of the people.

Dennis Burr said he does not think this should be put to a vote of the people unless that is decided by the legislature and in that case it should be placed for a vote on the general election.

Senator Lybeck asked Dennis Burr how he would address the initiative that required that the sales tax be put to the vote of the people.

Dennis Burr said he did not recall anything in the initiative that called for a sales tax.

Senator Brown said Donna Small from the Democratic Party, has pledged that she will obtain the necessary petitions to assure the issue will be put on the ballot for the people to approve or disapprove. Fifteen percent can veto what we do. He asked Dennis Burr to respond.

Dennis Burr said he sympathizes with the dilemma but you have to do what you think is best. You legislate by trying to do what your constituents want you to do.

Senator Eck said Mr. Henkel said in his testimony that we need to come up with an alternative to the sales tax to put on the ballot. Would he agree to proposing a surcharge with very little property tax relief.

Mr. Henkel said that is a dilemma facing the legislature, how do you give the property tax relief. You have got to have an alternative built into the decision making process and then it is up to the people to make that decision. It isn't a matter of sales tax, status quo.

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Senator McCallum asked Donna Small if this legislature, in its wisdom, does pass a sales tax, is the AFL-CIO going to try to initiate a petition to veto it.

Donna Small said yes, if you pass a sales tax and it is not referred to the voters.

Senator Mazurek said what if we pass a package with progressive income tax changes and a combination sales tax that addresses the regressive features, would you still do that.

Donna Small said she would have to look at what package you are talking about. You have other options to look at. She does not think a sales tax is necessary.

Senator Crippen asked Donna Small if he was correct in assuming that the Democratic Party is against a sales tax, period.

Donna Small said that is correct.

Senator Crippen said if something is passed by this legislature, you want it to go to the vote of the people.

Donna Small said that is correct.

Senator Crippen said if we do pass something and decide to go to the vote of the people in June or November, what will be the position of your party to decide one way or the other on it.

Donna Small said she is sure the party itself, as a whole, will oppose it. We do not have another platform conference until June, 1988 and our position could not change until that time.

Senator Crippen said given the nature of compromise and negotiations, this legislature may find itself in a position that we would come out with a comprehensive tax relief program that would include a sales tax and might include something involved in SB 307. What would be your position.

Donna Small said she does not make decisions for the Democratic Party and she will not make that decision for them. We would have to look at the proposal. The chances are very good we would oppose it as we feel that the job can be done without a sales tax.

Senator Crippen asked what her position would be on CI-28.

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Donna Small said I pay taxes in this state and I do not think my property taxes are abnormally high and I am willing to pay those.

Senator Hirsch closed.

Chairman McCallum appointed the following committee members to serve on a subcommittee to address the two sales tax bills: Senator Hirsch, Chairman, Senator Crippen, Senator Eck and Senator Hager.

ADJOURNMENT: The meeting adjourned at 10:00 A.M.


SENATOR McCALLUM, Chairman

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ROLL CALL

TAXATION

COMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date 3-12-87

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.

Fact Sheet on
Governor Schwinden's Sales Tax Proposal

1. Broad-based sales or consumption tax designed to tax virtually all final consumption sales except food and drugs.
2. The rate is 3% and raises about \$150 million annually.
3. The funds are to be used entirely to offset property taxes. One-third of the amount goes to lower taxes on single family residences. The remainder is used to repeal most taxes on personal property (equipment). Taxes on machinery are particularly high in Montana. Both the Dakotas exempt personal property because of the adverse impact on economic development.
4. The referendum on this proposal is to be submitted to the voters at the next general election. The importance of a general election is that an issue of such paramount statewide importance should be determined by a maximum number of voters who turn out at general elections. To arrange a hurry-up vote that excludes as many as a third of the voters could invite a subsequent challenge at the general election.
5. The allocation of the \$150 million would be made under provisions of a house appropriations bill using the general services block grant procedures and would be phased in to ameliorate funding reductions in some counties.
6. Administrative costs are minimized with this approach as the savings from personal property administration partially offset the costs of administering the sales tax. This savings will effectively cut net administrative costs of the sales tax about in half, to \$1.7 million annually.
7. In enacting a new, comprehensive tax we must try to write as clear and precise a bill as possible. To do otherwise creates taxpayer uncertainty, controversy and adds to administrative expense. This structure of this bill minimizes uncertainty by clearly stating that all transactions are presumed taxable and then itemizing the deductions and exemptions.
8. Sections 1-7. Create the sales tax and use tax, defines who collects them.

Sections 8-41. Define deductions and exemptions.

Sections 42-66. Administrative provisions.

Sections 67-74. Create heavy vehicle fees and livestock fees to offset personal property.

SENATE TAXATION

EXHIBIT NO. 1

DATE 3-12-87

FILE NO SB 395

Sections 75-96. Deal with local government finance law to reflect lower property values.

Sections 97-141. Repeal personal property taxation.

Sections 142-146. Deal with local government funding to reflect lower property values.

Sections 147-151. Miscellaneous provisions to comport with substantive changes.

Sections 152-163. Repeal livestock tax.

Sections 164-171. Change local government budgeting to recognize sales tax.

172-178. Repealers, codification instructions, rulemaking, severability, saving, effective dates, applicability.

179. Referendum.

Exemptions from SB 395 Sales and Use Taxes

Exempt final use items are groceries, medical services and prescriptions, and wages for personal services.

The apparent intent for most of the other exemptions is to tax only end-use products and services. Thus, exemptions are principally for primary and intermediate products and services destined to be taxed at the time of sale to a final consumer.

Grandfathered items, U.S. government entities, and items in interstate commerce etc. also are exempt.

Sec. 9 - Groceries - Food Products, except food served as meals on or off premises, and products sold for immediate consumption.

Sec. 10 - Medical Services and Prescriptions - Sale of medical services and prescription drugs.

Sec. 11 - Wages - Receipts of an employee for personal services rendered.

Sec. 12 - Agricultural Products - Receipts of a grower, producer, trapper, or nonprofit marketing association from sale of agricultural products.

Sec. 13 - Livestock Feeders - Receipts from feeding, pasturing, penning, or handling or training of livestock prior to sale.

Sec. 14 - Grandfathered Vehicles - Sale of vehicle which was purchased prior to the applicability date of this act.

Sec. 15 - Insurance Companies - Receipts of insurance companies and its agents.

Sec. 16 - Dividends and interest - Receipts from stocks, bonds, or securities or from sale of same.

Sec. 17 - Fuel - Receipts from the sale of gasoline, ethanol blended fuel, or special fuel on which Title 15, Chapter 70 tax has been paid.

Sec. 18 - Occasional sales - Garage sales, of people not in business.

Sec. 19 - Oil, gas, and mineral properties - Receipts from sale or lease of these properties.

Sec. 20 - Minerals - Receipts from sale or use of a mineral as defined in 15-38-103.

Sec. 21- Governmental - U.S. government and use of property by the governing body of an Indian tribe.

Sec. 22 - Personal effects - Our-of-state people establishing an initial residence.

SENATE TAXATION

EXHIBIT NO. 1

DATE

3-12-87

BILL NO.

S.B. 395

Deductions from SB 395 sale and use taxes

The apparent intent for most of the deductions is to tax only end-use products and services. Thus deductions are principally for primary and intermediate products and services destined to be taxed at the time of sale to a final consumer.

Deductions are items that can be deducted from gross receipts of a business before calculating sales tax liability. In most cases, qualifications for deduction are enumerated; including such things as nontaxable transaction certificate, interstate trade, or other qualifying circumstances.

Sec. 23 - Sale of tangible personal property for resale.

Sec. 24 - Sale of services for resale.

Sec. 25 - Sale to a manufacturer.

Sec. 26 - Sale or lease of property to be re-leased or re-sold. Sale of property (other than furniture or appliances) to be leased, and rental or lease of property (other than coin-operated machines and mobile homes) when a nontaxable transaction certificate is presented and the buyer is engaged in a business getting more than 50 % of receipts from leasing or selling tangible personal property of the type leased.

Sec. 27 - Lease for subsequent lease.

Sec. 28 - Sale to contractors.

Sec. 29 - Machinery and equipment used in trade or business.

Sec. 30 - Sale of a construction service to contractors.

Sec. 31 - Sale or lease of real property and lease of mobile homes, not including receipts attributable to furniture and appliances.

Sec. 32 - Transaction in interstate commerce.

Sec. 33 - Intrastate transportation and services in interstate commerce.

Sec. 34 - Sale of certain services to out-of-state buyers.

Sec. 35 - Feed, fertilizers, and agricultural supplies, when sold to farmers.

Sec. 36 - Chemicals and reagents for use in processing ores or oil.

Sec. 37 - Trade-in allowances.

Sec. 38 - Special fuels as defined in 15-70-301, except heating fuels.

Sec. 39 - Sale of certain services used in manufacturing.

Sec. 40 - Re-sale of mobile homes if tax paid once on it.

Sec. 41 - Value property held for lease.

Sec. 42 - A credit is given for out-of-state sales and use taxes on property brought into the state.

Specifically Not Exempt From SB 395 Sales and Use Taxes

Sec. 8 - Gas, water, or electricity by a utility owned or operated by a political subdivision.

SENATE TAXATION

EXHIBIT NO. 1

DATE 3-12-87

BILL NO. S.B. 395

MONTANA ASSOCIATION OF COUNTIES DATA

COUNTY	FY 1986 TAXABLE VALUE	FY 1987 TAXABLE VALUE	CURRENT PROTEST TAX FUND	CURRENT TAX DELINQUENCIES	%
BEAVERHEAD	14,671,349	14,738,196	\$53,836.00	\$275,350.69	11.30%
BIG HORN	127,786,863	124,853,306	\$143,546.69	\$326,134.46	4.00%
BLAINE	44,289,414	42,802,884	N/R	N/R	
BROADWATER	11,369,683	11,379,750	\$253,614.52	\$123,644.74	9.89%
CARBON	30,043,780	29,383,291	\$107,959.62	\$971,985.43	23.00%
CARTER	8,110,125	5,675,781	\$14,443.34	\$100,104.02	12.67%
CASCADE	91,643,719	92,708,968	\$1,688,604.58	\$1,802,828.82	8.83%
CHOUTEAU	30,540,368	29,143,461	\$48,169.75	\$378,110.75	9.65%
CUSTER	18,545,146	17,084,936	\$148,694.56	\$501,657.56	
DANIELS	8,078,248	8,201,052	\$82,186.68	\$126,444.04	10.00%
DAWSON	29,361,690	28,543,647	\$330,301.24	\$294,638.61	6.00%
DEER LODGE	9,349,247	9,331,749	\$147,125.29	\$297,832.27	13.00%
FALLON	123,486,144	129,396,014	\$169,442.40	\$150,349.74	2.53%
FERGUS	22,273,178	21,330,750	\$52,831.86	\$696,874.33	19.40%
FLATHEAD	89,333,836	94,546,759	\$1,348,602.62	N/R	
GALLATIN	62,531,599	66,636,339	\$618,747.86	\$1,220,462.00	11.70%
GARFIELD	7,603,948	9,501,898	\$5,951.85	\$845,367.38	49.00%
GLACIER	48,824,984	47,106,350	\$888,283.48	\$689,959.87	13.00%
GOLDEN VALLEY	5,301,216	5,460,153	\$112,200.95	\$49,177.35	7.00%
GRANITE	5,614,942	6,139,889	\$211,048.96	N/R	
HILL	49,529,959	48,041,059	\$102,309.00	\$1,129,814.54	8.60%
JEFFERSON	17,395,169	17,557,928	\$601,747.93	\$2,056,264.01	47.88%
JUDITH BASIN	9,366,686	9,508,182	\$147,724.77	\$79,216.66	7.00%
LAKE	26,996,012	31,358,518	\$379,020.60	N/R	
LEWIS & CLARK	61,857,651	69,451,316	\$998,542.48	N/R	
LIBERTY	21,928,899	19,724,003	\$53,061.20	\$145,432.68	7.00%
LINCOLN	35,862,494	36,525,610	\$626,999.61	N/R	
MADISON	17,806,981	16,754,704	N/R	N/R	
MCCONE	10,834,162	10,051,573	\$94,751.23	\$157,213.77	12.00%
MEAGHER	8,108,625	7,825,647	\$31,483.19	\$82,282.05	5.00%
MINERAL	4,647,049	5,611,013	\$267,745.42	\$559,372.10	55.73%
MISSOULA	124,716,123	114,534,768	\$550,822.18	\$2,329,342.83	10.74%
MUSSELSHELL	29,153,672	23,788,214	\$33,305.85	\$606,418.72	48.06%
PARK	18,929,185	20,465,935	N/R	N/R	
PETROLEUM	2,969,647	5,657,126	N/R	\$50,261.12	11.00%
PHILLIPS	38,313,122	27,096,954	\$440,772.36	\$344,746.47	11.00%
PONDERA	24,460,491	22,072,651	\$107,560.42	\$538,798.92	16.50%
POWDER RIVER	52,422,694	37,513,875	\$622.93	\$78,413.09	1.76%
POWELL	14,232,649	13,689,985	\$469,509.51	\$151,257.92	3.00%
PRAIRIE	6,681,988	6,110,259	\$77,657.69	\$64,171.52	4.35%
RAVALLI	24,654,791	28,156,339	\$6,628.51	\$919,828.21	24.10%
RICHLAND	112,926,763	102,109,865	\$818,515.06	\$674,146.70	8.80%
ROOSEVELT	79,763,620	77,045,754	\$405,241.74	\$543,036.05	8.21%
ROSEBUD	237,854,469	218,881,371	\$307,736.55	\$271,732.48	2.80%
SANDERS	21,020,745	30,902,689	\$358,008.84	\$234,903.81	7.00%
SHERIDAN	94,257,628	87,458,422	\$41,734.00	\$264,829.00	2.40%
SILVER BOW	44,455,146	37,131,911	\$280,320.17	\$1,941,004.29	18.23%
STILLWATER	15,391,145	16,972,711	\$247,607.00	\$1,826,902.00	9.00%
SWEET GRASS	6,912,972	7,454,566	\$86,404.33	\$114,505.79	10.99%
TETON	20,737,143	19,230,207	\$213,738.39	\$671,576.82	22.81%
TOOLE	48,532,621	43,483,886	\$228,036.79	N/R	
TREASURE	4,661,795	5,325,061	\$94,340.79	\$26,376.88	4.70%
VALLEY	50,509,759	43,320,617	\$334,543.29	\$484,484.28	10.50%
WHEATLAND	7,140,620	7,229,533	\$147,739.57	\$37,525.41	4.00%
WIBAUX	25,340,284	22,900,069	\$20,347.23	\$46,972.14	3.00%
YELLOWSTONE	210,995,106	223,301,910	\$4,130,989.73	\$4,686,361.45	12.00%
TOTAL	2,370,133,344	2,308,209,404	\$19,131,150.61	\$22,956,113.77	10.80%

CRIPPENGOVERNOR

Rate

* 5%

1. 3%

Tax base

* Broad-based retail sales tax
excluding:
- intermediate transactions
- some services2. Broad-based retail sales tax
excluding:
- intermediate transactions
- food
- drugs

Local option

* Yes - maximum of 1%

3. No

Statute of limitations

* 3 years

4. 5 years

Low income credit

* Yes

5. No

Referendum

* No

6. Yes 11/8/88 general election

Property tax relief

* - Single family residences completely
tax exempt
- Multi-family residences completely tax
exempt
- personal property (equipment, mach-
inery, etc.) tax rate halved
- Renter property tax credit - Yes7. - \$16,500 market value exempt
- No change
- Tax exempt with some fees
- No

Distribution of funds

* - .5% administration, 48.6% public
public schools
- 8.6% university system, 38% local
government8. In separate House Appropria-
tions bill. Uses local
government formula, phased in.

Sales tax effective date * 10/1/87

SENATE TAXATION

EXHIBIT NO. 2DATE 3-12-87BILL NO. SB395

9. 6/1/89

Tab. 1 in folder Room 100

Does Anybody Know Why? . . .

The following are just a few examples of sales tax exemptions which appear inconsistent or illogical.

? Chlorine is taxable when used in cooling systems but exempt when used in swimming pools.

? Dog food is taxable as is food for zoo animals. However, feed for horses is exempt.

? V-8 juice is taxable but tomato juice is exempt.

? Ice is taxable but water is exempt.

? Plastic stir sticks sold to bars for one time use are exempt, but other one time use items sold to restaurants (eg: toothpicks, placemats, menus and guest checks) are taxable.

? Food and drinks from vending machines located in public school lunchrooms are exempt. However, food and drinks from vending machines located anywhere else in public schools or at community colleges/universities are taxable. Likewise, lunches sold in public schools are exempt, but meals at community colleges/universities are taxable.

? Nurserymen are considered farmers for the purpose of purchasing (exempt) nursery stock, but producers when their (taxable) nursery stock is sold at retail. However, direct sale of livestock and agricultural commodities defined as horticultural are exempt.

? The sale of pure fruit and vegetable juices by a soft drink bar or roadside stand that is not licensed by the Department of Business Regulation is exempt, but the sale of bottled drinks by the same bars and stands is taxable.

? Charges for altering, repairing or re-modeling clothing are taxable, but charges for drycleaning are exempt.

? A car wash involving just detergents or water softeners is exempt, but the same car wash using wax or any other substance that forms a protective film is taxable.

? Meals sold by churches are exempt, but meals sold to raise money for charitable purposes are taxable.

? The sale of drinking water that contains carbonation or minerals in their natural state is exempt, but the sale of drinking water to which minerals or carbonation have been added is taxable.

? Individual items in a survival kit are exempt if they can be separated as to selling price. If not, the total price of the kit is taxable.

Source: Florida Department of Revenue, Sales and Use Tax Rules and Regulations, November 1985, Florida Tax Service, Statutory Exemptions From Sales And Use Taxes, December 1985 and Florida TaxWatch, Inc.

"Eliminating Exemptions? . . .

It's all a matter of whose ox gets gored. Unfortunately, all of the oxen have a way of turning into sacred cows."

SENATE TAXATION

EXHIBIT NO. 3

DATE 3-12-87

BILL NO. SB-395

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MONTANA DEMOCRATIC PARTY

SENATE TAXATION

EXHIBIT NO. 4

DATE 3-12-87

BILL NO. SB 395

TESTIMONY BY DONNA SMALL, VICE CHAIRMAN, MONTANA DEMOCRATIC PARTY, BEFORE THE SENATE TAXATION COMMITTEE ON SB 395, MARCH 12, 1987

Mr. Chairman, members of the committee, I am Donna Small, Vice Chairman of the Montana Democratic Party. There is little doubt of the position I will take today. The Montana Democratic Party is opposed to a sales tax. During our Platform Convention last July, the following statement was passed unanimously: "We adamantly oppose a general sales tax". The statement is clear. The language is strong. We are against a sales tax.

In these very tough economic times, even Democrats who voted for that statement in July are beginning to look at a sales tax as a solution to our economic problems. But I ask you and them to look again. A sales tax would only make times tougher on our already financially burdened farmers and ranchers, main street businesses and working people who are already suffering enough because of the failed economic policies of the Reagan Administration.

A sales tax is regressive and nothing you do to it can change that. Even when exemptions are made for basic necessities like food and prescription drugs, those with lower incomes pay a larger share of their income in a sales tax. Montana already has selective sales taxes on motor fuels, tobacco, alcohol and insurance companies. As an example of how regressive these taxes are; people making less than \$3,000 a year paid almost 5 times as much of their income in gas taxes as those earning over \$35,000.

Should you decide on a sales tax to remedy our budget problems, I give my pledge to the people of this state that the Montana Democratic Party will gather the necessary petitions to assure that the issue will be put on the ballot for them to approve or disapprove.

One of the reasons I hear for a sales tax is "to make those pay who are not paying anything now". I suggest you look to the income tax as the first place to tax those who are presently not contributing to Montana taxes. Thanks to loopholes, the following inequities presently exist:

--14% of households earning more than \$120,000 per year paid no Montana income taxes

Montana Democratic Central Committee • Steamboat Block, Room 306 • P.O. Box 802 • Helena, MT 59624 • (406) 442-9520

Executive Board

Bruce Nelson Chairman Fort Benton	Donna Small Vice Chairman Billings	Joan Bennett Secretary Great Falls	Rich De Jana Treasurer Kalispell	Blake Wordal Executive Director Helena	Evan Barrett Nat'l Committeeman Butte	Sherlee Graybill Nat'l Committeewoman Great Falls
Helen Christensen Helena	Virginia Egli Glendive	Karen Fenton Bozeman	Chas Jeniker Butte	Debbie Lesmeister Helena	Brodie Moll Conrad	Jim Pasma Havre
Brenda Schye Glasgow	Mary Sexton Hamilton	Barb Skelton Stanford	David Smith Missoula	Bill Thackeray Havre	Chuck Tooley Billings	Mike Ward Bozeman
Kay Blehm Democratic Women's Club Billings	Carol Gordon Co. Chairs Assoc. Colstrip	Dennis Small Young Democrats Missoula	Rep. Hal Harper Helena	Sen. Bill Norman Missoula	Rep. John Vincent Bozeman	Sen. Fred Van Valkenburg Missoula

- 20% of households earning more than \$100,000 per year paid less than \$1,000 in Montana income taxes.
- 26% of households earning more than \$100,000 and filing joint returns paid no Montana income taxes.
- Taxpayers earning more than \$120,000 paid the same percentage of their income in taxes as those earning \$36,000 per year.

If additional revenue is needed to finance the necessary programs of government, it must be derived from taxes based on the ability to pay. Montanans have responded to past financial crunches by using the fairest, most equitable revenue sources. Let us remain true to our traditions.

In 1973, the Legislature exempted stocks and bonds from property taxation-- that exemption excluded an estimated \$13 billion from Montana's 1985 property tax base. This compares to a total of \$16.7 billion of property that was taxed -- 10% of the families benefitted from 70% of that exemption.

Many of these special tax provisions were introduced in the interest of improving economic development in Montana. The evidence suggests that such policies do not work.

Long-term economic development requires investment in human resources, infrastructure, natural resources, knowledge and technology. To the degree that tax policies underfund these public investments, long-term economic development will be adversely affected.

\$282 million in state tax revenues was lost due to business and wealthy individuals tax loopholes. That is twice our deficit as I figure it. The best way out of our fiscal crisis is not to enact new taxes, but to close loopholes. We can then fund government adequately and provide tax relief.

Thank you for giving me this opportunity to express the views of the Montana Democratic Party on this vital issue.

SENATE TAXATION
EXHIBIT NO. 4
DATE 3-12-87
BILL NO. S.B. 395

MONTANA DEMOCRATIC PARTY

SENATE TAXATION

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SENATE TAXATION

EXHIBIT NO. 4

DATE 3-12-87

BILL NO. S.B. 395



JAMES W. MURRY
EXECUTIVE SECRETARY

Box 1176, Helena, Montana

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SENATE TAXATION

EXHIBIT NO. 5

DATE 3-12-87

BILL NO. SB-395

TESTIMONY OF DON JUDGE BEFORE THE SENATE TAXATION COMMITTEE ON
SB 395, MARCH 12, 1987

GOOD MORNING, FOR THE RECORD MY NAME IS DON JUDGE AND I AM HERE ON
BEHALF OF THE MONTANA STATE AFL-CIO TO TESTIFY IN OPPOSITION TO SENATE
BILL 395.

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, IN HIS JANUARY 9, 1987 STATE
OF THE STATE ADDRESS, GOVERNOR TED SCHWINDEN SAID, AND I QUOTE "I REMAIN
CONVINCED THAT A SALES TAX IS NEITHER NECESSARY NOR DESIRABLE IN MONTANA."
ON THIS PARTICULAR ISSUE, WE ARE IN COMPLETE AGREEMENT WITH THE GOVERNOR.

NEVERTHELESS, THE GOVERNOR OBVIOUSLY FELT IT NECESSARY TO ASK THE
LEGISLATURE TO PLACE A REFERENDUM ON THE 1988 BALLOT, WHICH WOULD ASK
MONTANA CITIZENS TO VOTE FOR OR AGAINST A 3 PERCENT SALES TAX AND A REPEAL
ON ALL PERSONAL PROPERTY TAXES. THIS REFERENDUM ALSO EXEMPTS THE FIRST
\$16,500 IN THE MARKET VALUE OF A HOME FROM TAXATION. THIS IS THE SCOPE
OF THE MEASURE BEFORE YOU TODAY.

THE MONTANA STATE AFL-CIO IS OPPOSED TO SENATE BILL 395 BECAUSE
IT SHACKLES OUR CITIZENS WITH A SALES TAX WHILE BUSINESSES AND CORPORATIONS
ARE THE PRIMARY BENEFICIARIES OF ITS PROPOSED TAX RELIEF.

OUR LABOR FEDERATION HAS BEEN ADAMANTLY OPPOSED TO A GENERAL SALES TAX FOR OVER ONE QUARTER OF A CENTURY. AT CONVENTION AFTER CONVENTION, OUR MEMBERSHIP HAS GONE ON RECORD AGAINST SALES TAXES BECAUSE THEY ARE REGRESSIVE AND PLACE THE GREATEST BURDEN ON THOSE AT THE BOTTOM RUNGS ON THE ECONOMIC LADDER. THE POOR, THOSE ON FIXED INCOMES, WORKERS AND SENIOR CITIZENS ALL WOULD PAY AN INORDINATE SHARE OF THEIR INCOMES IN SALES TAXES.

THE RATIONALE BEHIND IMPOSING AN UNFAIR AND INEQUITABLE SALES TAX IS SIMPLE. AS A PERSON'S INCOME INCREASES, THE PROPORTION OF INCOME WHICH IS TAXED FALLS. AS A RESULT, THE WEALTHY ARE TAXED SIGNIFICANTLY LESS AS A PERCENTAGE OF THEIR TOTAL INCOMES THAN THE POOR.

SENATE BILL 395 MAKES A MINOR ATTEMPT TO MITIGATE THE REGRESSIVENESS OF THIS GENERAL SALES TAX BY EXEMPTING FOOD, DRUGS, MEDICAL SERVICES AND AGRICULTURAL PRODUCTS. UNFORTUNATELY, THIS BILL FAILS TO TAKE INTO ACCOUNT THE FACT THAT MANY OF "LIFE'S NECESSITIES" DO NOT FALL INTO THESE CATEGORIES. THE POOR, THE ELDERLY AND OTHERS STILL MUST PURCHASE PAPER PRODUCTS, TOILETRIES, UTENSILS, SOAPS AND DETERGENTS, CLEANING PRODUCTS, SMALL AND LARGE APPLIANCES AND A MULTITUDE OF OTHER ITEMS. AND THREE CENTS ON EVERY DOLLAR'S WORTH OF PURCHASE WILL GO TOWARDS PAYING A SALES TAX.

WHILE WE WERE EXAMINING THE OTHER EXEMPTIONS THAT WERE INCLUDED IN THIS BILL, WE FOUND SEVERAL THAT WERE EXTREMELY DISTURBING. FOR EXAMPLE, DIVIDENDS AND INTEREST DERIVED FROM STOCKS, BONDS AND DEPOSITS ON THEIR SALE WOULD BE EXCLUDED FROM A SALES TAX, AS WOULD BE THE RECEIPTS FROM THE SALE OF OIL, NATURAL GAS OR MINERAL INTERESTS.

THESE ARE PRECISELY THE TYPES OF PURCHASES THAT THE WEALTHY AMONG US ARE MORE LIKELY TO MAKE. AND AS A RESULT, WE WILL BE EMPTYING THE POCKETBOOKS OF ORDINARY MONTANANS WHILE INCREASING THE PROFIT MARGINS OF LARGE CORPORATIONS AND WEALTHY INDIVIDUALS.

FINALLY, THE REPEAL OF ALL PERSONAL PROPERTY TAXES AND THE \$16,500 HOMEOWNERS EXEMPTION HAS BEEN BANDIED ABOUT AS FAIR AND EQUITABLE TAX REFORM. UNFORTUNATELY, THE MAJOR BENEFICIARIES OF THIS SO-CALLED TAX REFORM WILL BE THE BIG BUSINESSES AND WEALTHY CORPORATIONS.

AT FACE VALUE, REPEALING ALL PERSONAL PROPERTY TAXES MIGHT APPEAR TO BE AN ATTRACTIVE OPTION. BUT OF THE APPROXIMATELY \$150 MILLION IN PROPERTY TAX RELIEF GENERATED BY SB 395, AT LEAST \$100 MILLION WILL GO TO BUSINESSES AND LARGE CORPORATIONS. TAX RELIEF FOR WHOM?

MEMBERS OF THE COMMITTEE, MONTANA'S TAX STRUCTURE IS CRYING OUT FOR REFORM, BUT SENATE BILL 395 IS NOT THE ANSWER. THE FEDERAL TAX REFORM ACT OF 1986 SERVES AS AN EXAMPLE OF PROGRESSIVE TAX REFORM. THIS BILL CLOSED MANY OF THE LOOPHOLES THAT MADE FEDERAL TAX AVOIDANCE POSSIBLE, WHILE LOWERING INDIVIDUAL TAX BRACKETS.

AND WE CAN ALSO MAKE PROGRESSIVE REFORMS RIGHT HERE IN MONTANA! ACCORDING TO A JUST COMPLETED THREE YEAR STUDY BY THE MONTANA ALLIANCE FOR PROGRESSIVE POLICY, SPECIAL TAX PROVISIONS AND LOOPHOLES COST OUR STATE AN ESTIMATED \$281,845,000 IN TAXABLE REVENUES IN FISCAL YEAR 1985 ALONE!

SENATE TAXATION
EXHIBIT NO. 5
DATE 3-12-87
BILL NO. S.B. 395

IT IS OUR REQUEST THAT YOU, AS LAWMAKERS, AGGRESSIVELY PURSUE CLOSING THESE TAX LOOPHOLES BEFORE YOU SADDLE THE CITIZENS OF THIS STATE WITH ANY REGRESSIVE SALES TAX MEASURES.

A SALES TAX IS NEITHER NECESSARY NOR DESIRABLE FOR THE VAST MAJORITY OF MONTANANS. THE GOVERNOR IS CORRECT, HOWEVER, IN HIS DECISION REQUEST THAT ANY SALES TAX ISSUE BE PLACED BEFORE MONTANA VOTERS. NEVERTHELESS, IT IS IMPERATIVE THAT BEFORE WE MOVE TO A REGRESSIVE SALES TAX, YOU HAVE EXHAUSTED ALL PROGRESSIVE TAX OPTIONS AVAILABLE TO YOU.

FOR THESE COMPELLING REASONS WE URGE YOU TO OPPOSE SB 395.