

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

April 7, 1987

The fifty-ninth meeting of the Senate Taxation Committee was called to order at 8:00 A.M. on April 7, 1987 by Chairman George McCallum in Room 413/415 of the Capitol Building.

ROLL CALL: All committee members were present.

CONSIDERATION OF HB 904: Representative Harp, House District 7, presented this bill to the committee. He said this bill revises the Montana income tax system and deals with the equalization of the school foundation program. It also provides for the windfall tax reform windfall reserve account. The main purpose of this bill is for simplification of the Montana system. Even though Montana income tax is below the national average, the perception is that because we have a high marginal rate, the premise follows that Montana has high taxes. This bill eliminates 10 brackets and puts them in 3 brackets, 4-6-8. One of the arguments and misunderstandings of the provisions of this bill is what the Federal Tax Reform Act did in October, 1986. This state has always coupled its policy with the federal tax system. Now that some of the cards have been reshuffled and the advantages we have enjoyed have changed, we no longer want to be tied to the federal government. We are sitting here today \$100 million out of wack, and that includes all of the revenue that we are receiving from the windfall, which is some \$76 million. By coupling with the federal government we are doing some good things for family, doubling the personal exemptions and the standard deduction for married withholding rises to \$1200. What this bill does for two years is to place a surtax on, which raises \$45 million. The effects of this bill, 55% of Montana households will receive a tax income reduction, 10% will see no change and 35% will experience increases. For the combined federal and state tax, 76% of all Montana households will receive a reduction and 15% will receive an increase. Fifteen percent will see a considerable increase because of what happens on the federal level with capital gains and passive loss. All retirees will be taxed equally with \$3600 exempt from taxation.

PROPOSERS: Eric Feavor, Montana Education Assn., gave

testimony in support of this bill. This bill does provide significant income tax reform. It simplifies the income tax in this state, lowers and establishes new rates, retirement income is exempted and equalized at \$3600 and does establish a surtax at 10%, which is dedicated to fund the foundation program or balance the budget. There is a \$96 million appropriation for 0-0 funding of the foundation program. We are fearful of amendments and oppose any amendments that will restore loopholes and tax exemption, reduce the rates to 3-5-7, to make this a referendum issue, replace the surtax with a raid on the permanent coal trust and any amendment to appropriate less than \$96 million to the foundation program. This bill balanced the budget but in no way does it answer the question of how we will deal with I-105. We can provide our school districts with the same amount of money they are getting now but we will have no ability to respond to the growing needs of our public schools in the state:

Bruce Moerer, representing the School Board Assn., gave testimony in support of this bill. This bill is critical to the foundation program for 0-0 funding and it is important that the appropriation be made to give funding. In looking around the state you will see what schools are going through just to remain constant. Teachers are being layed off and salary schedules frozen.

Earl Riley, representing the Montana Senior Citizens Assn., gave testimony in support of this bill. This bill appears to be a solution to a dilemma. Lets get this budget balanced and get on with what needs to be done. He would hope that the 10% surtax is sufficient.

Jesse Long, representing School Administrators of Montana, gave testimony in support of this bill. He supports this bill primarily to maintain the 0-0 foundation program schedules. It is critical that those schedules not be decreased in any manner or means. He supports the surtax so long as it is directed to the foundation program or in support of the schools. He is concerned with the taxing provision of the Teachers Retirement System benefits. The program already doesn't take adequate care of retired administrators and now the tax will be paid on that sum of money. We oppose amendments that would raid the education trust fund.

Don Judge, representing the Montana State AFL-CIO, gave testimony in support of this bill. A copy of his written statement is attached as Exhibit 1.

Barbara Archer, representing the Women's Lobbyist Fund, furnished written testimony in support of this bill, attached as Exhibit 2.

Leo Barry, representing the Association of Montana Retired Public Employees, gave testimony in support of this bill. This bill has some good points and some bad points. It is clear something must be done at the state level to react to the Federal Tax Reform. His particular interest is with the retirement benefits. Public employee retirement benefits have been before this committee twice, in SB 307 and SB 74. When retirement benefits were originally exempted for taxation, public policy was that they would try to hire, attract and keep good people in public service. Salaries were not high then in comparison to the private sector. One of the benefits was to exempt them from income taxes. We have a number of people who entered the system and retired on the assumption that their benefits would not be taxed. He would suggest that those people who entered the system and retired on that assumption, be grandfathered.

Terry Minow, representing the Federation of Teachers and the Montana Federation of State Employees, gave testimony in support of this bill. She supports this bill as it does providing funding for public schools and it is a way to balance the budget. As an advocate for public schools, 0-0 for the foundation program is the minimum that this state can afford and even with 0-0 many schools in the state will suffer, especially if the provisions of I-105 are in place. She supports this bill because it does make our tax system more fair, something that this state needs in order to be able to provide adequate funding for schools and other state services.

Representative Kadas, House District 55, gave testimony in support of this bill. This has been a bipartisan bill in the House. People have seen this bill as essential to both the economic development and fairness in Montana taxation and essential to Montana to balance the budget this biennium. This bill ties in with federal reform so that taxpayers who have to pay federal tax will be paying state tax. Taxpayers who don't have to pay federal tax will not have to pay state tax. It simplifies our income tax system dramatically. It does a lot for economic development and lowering the marginal rate.

John LaFaver, Director, Department of Revenue, gave testimony in support of this bill. Up until 2-3 weeks ago he thought that it was a sure thing that this

legislature would pass meaningful tax reform. HB 904 is probably the last chance that the legislature has to pass meaningful tax reform in this legislature. This is the same bill that the subcommittee worked hard on and is in the same form that came out after all of the subcommittee's work, with two major exceptions, the AMT has been taken out, Mr. LaFaver would advocate that be reinstated, and there is a surcharge that has been added. He has heard of some amendments that were proposed in the newspaper by Senator Aklestad and he has analyzed those and provided the committee with some comparison, which are attached as Exhibit 3. The first chart shows the effective tax rates at various income levels under HB 904 and the bill as proposed by Senator Aklestad, represented by SROP. He proposes using the 4-6-8 rates but then would keep the deduction on federal income tax at \$6,000 for joint returns and \$3,000 for single and would reinstate the 60% capital gains exclusion so that Montana would be unique in the way they handle capital gains. The charts show what you would expect with this type of proposal

Ken Perez, representing the Montana Alliance for Progressive Policy, gave testimony in support of this bill. A copy of his written statement is attached as Exhibit 4.

OPPONENTS: Dennis Burr, representing the Montana Taxpayers, gave testimony in opposition to this bill. This is the last vehicle you have to get some money to balance the state budget, according to John LaFaver, and it has become high priority. It is disappointing to him that people have the concept that this is the method, we can balance the budget and leave Helena without providing any meaningful tax reform. You have heard this is a method of ability to pay not of using revenue to fund state government. Take a close look at the bill, does progressivity mean that you pay a larger percentage of tax on income taxes. There were 10 brackets to reach \$35,000 and then a flat proposal after that. With this we will reduce that to 3 brackets and reach the maximum bracket at \$12,000. Montana income tax will be regressive compared to what it has been in the past. Montana is 24th in rating in income tax among the 50 states, this bill will easily put us in the top 10.

William E. Spahr, Great Falls, gave testimony in opposition to this bill. A copy of his written testimony is attached as Exhibit 5.

George Anderson, CPA from Helena, representing MONTREC, gave testimony in opposition to this bill. Our objective is that we should have fair taxation in the state and should have something to encourage economic development, something that helps the state and does not hinder it. Montana needs to attract large investment and expand our tax base. We have large amounts of natural resources, low energy costs, high labor productivity, good educational system and excellent living conditions. All of this should be attracting business and not hindering it. Our problem is because of our business climate. If business does come to the state and is successful, we proceed to tax it out of business. How do you create a better business climate, you allow business to make a profit. Taxes are the second or third largest expense that business has. This bill reduces the tax base, it does not increase it, it shifts the burden to the upper income groups. He would not call it progressive, he would call it aggressive. Simplification is good but you have to be careful with simplification because sometimes it is not fair. We must get from this legislature a balanced and reformed tax system. We must have a broader base. If HB 904 passes in its present form, we will go out and get 15% of the taxpaying electorate of this state to sign petitions to put HB 904 on the ballot.

Gary Carlson, CPA on behalf of the Montana Society of CPA's, gave testimony in opposition of this bill. A copy of his written statement is attached as Exhibit 6.

George Allen, representing the Montana Retail Assn., gave testimony in opposition of this bill. He questioned how much of a tax increase we are really talking about. He opposes this bill for the reasons that have been presented and for the fact that they haven't been up-front on how much we are really increasing the taxes.

Alve Thomas, a retired teacher, gave testimony in opposition to this bill. He furnished the committee with an amendment that would grandfather retirees retired on or after January 1, 1988, attached as Exhibit 7.

Robert N. Holding, representing the Montana Association of Realtors, gave testimony in opposition to this bill. We do not think this bill leads to economic reform or tax reform and does not address or answer I-105. This bill, with the income tax increases, will help change the economic situation, it will destroy it.

Joe Upshaw, representing American Association of Retired Persons of Montana, gave testimony in opposition to this bill. This bill contains a serious injustice to the

people who have already retired in the state. This bill should be grandfathered to take into consideration people who are already retired.

Mons Teigen, representing the Montana Stockgrowers and Cattlemen, gave testimony in opposition to this bill. His written statement is attached as Exhibit 8.

Lorna Frank, representing the Montana Farm Bureau, gave testimony in opposition to this bill. A sales tax, along with this measure, will raise Montana taxation 288%.

Judy Rolfe, representing herself as an independent business woman from Bozeman, gave testimony in opposition to this bill. Business in this state cannot afford any more of these types of taxation procedures.

Tom Ryan, representing himself as a retired teacher and a member of the Retired Teachers Board, gave testimony in opposition of this bill. He is working for 2400 retired citizens who are still around and trying to get by on their pensions. This was a pact they had with the state of Montana for exempt retirement benefits.

Irvin Delhinger stood in opposition to this bill.

QUESTIONS FROM THE COMMITTEE: Senator Crippen referred to Gary Carlson's testimony in reference to the main street druggist. He asked John LaFaver if he would consider that individual a wealthy individual.

John LaFaver said he does not think anyone has said that the tax increase in HB 904 is for the wealthy. The increase that you will find in HB 904 and SB 307, or those that would pay a higher tax, are those that are now paying below average tax rates from people earning the same amount. There are people in relatively low income levels who will be paying more and that is because they are now paying lower than the average taxes.

Senator Crippen asked Gary Carlson to respond.

Gary Carlson said this druggist does not have any passive losses, capital gains or investments. He said he would furnish the committee with the specific information and that is provided in Exhibit 6.

Senator Halligan said to Gary Carlson you have mentioned your opposition to an alternative minimum tax. There still will be people in the system that will pay no tax.

Gary Carlson said the new changes brought about by tax reform has caused a situation that the taxpayers do not clearly understand, nor the tax preparers, on the impact of the AMT.

Senator Halligan said if we kill this bill then we just allow some form of federal pass through and do not reach the goal of equity and fairness. Shouldn't we make sure that the effective rates people are paying in Montana are progressive, where now they are not.

Gary Carlson said if you take the graphs that the Department of Revenue produced, 60% of the taxpayers pay 95% of the tax. Fifty percent of the filers below \$20,000 will be paying 5% of the income tax in the state of Montana.

Senator Mazurek asked John LaFaver what would be the impact of grandfathering the existing retirees with full exemption and putting \$3600 on for future retirees.

John LaFaver said the fiscal impact would be the same as in SB 74.

Senator Mazurek asked Gary Carlson if your principal objection on this structure is on the rates, how would you change it.

Gary Carlson said he would broaden the brackets up to \$18,000 and make the rates 1-3-5, and would broaden the margins enough to provide revenue that would equal current tax law. He would be up front with the taxpayer that from this point we have got our tax simplification piggybacked to the federal law and then we need to have x amount of surtax to meet our expenditure growth.

Senator Crippen said you would not have the capital gains or the deduction for federal income tax. Those would be eliminated.

Gary Carlson said as presented in HB 904, those would be eliminated.

Representative Harp closed.

The meeting recessed at 10:05 A.M. to reconvene later in the day.

The meeting reconvened at 1:30 P.M., April 7, 1987, with all committee members present.

FURTHER CONSIDERATION OF HB 377: Bruce A. MacKenzie, representing D. A. Davidson & Co., furnished written testimony in opposition to the inclusion of a tax on personal services relating to the sale and purchase of securities, attached as Exhibit 9.

Senator McCallum asked if we wanted to tax services.

Senator Halligan asked Dave Bohyer what rationale was used in taxing some services and not others.

Dave Bohyer said he did not use any rationale, he used Minnesota as the base for HB 377, Idaho as the base for SB 333 and New Mexico as the model for SB 395.

Senator Crippen said service commissions on the sale of securities would be exempt.

Senator McCallum said that would be one of the services. What perimeter do we want to hold the sales tax into.

Senator Brown said we should make it as broad as possible.

Dave Bohyer said the three bills have distinct alternatives, HB 377 does not tax services, SB 333 taxes some services and SB 395 taxes all services except medical services.

Senator Lybeck asked what was the rationale used for exempting medical services.

Senator Eck said the difference is that medical services are a necessary service.

Dave Bohyer said in SB 395 the legal services are taxable unless the relationship between the attorney and the client is an employee/employer relationship.

John LaFaver said there is one other area where lawyer services are exempt. If an attorney hires another attorney to assist him and pays that other attorney and that entire fee is charged to someone else for whom the ultimate work is being done. The service that is for resale is not taxed. If an attorney hires another attorney, on salary but on contract for a particular case, there is no sales tax on that sale but there would be a sales tax on the ultimate expense that he would have.

Senator Hirsch made a motion that the committee adopt the exemption sections in the grey bill, sections 9-22. On the question of exempting professional services, higher education, and education in general, is going to be a recipient of some of these dollars. We have agreed we are not going to use the sales tax revenues exclusively for property tax reduction. They are going to be recipients of some of the dollars and, therefore, the professional people of the state should contribute to that. We are becoming a self-oriented society and he thinks we would be remiss if we did not include those in our tax. If this does take effect and the people go for it, there isn't a lot of time that the tax will be in effect. The whole argument about exemption exclusions can be argued in the next legislative session.

Senator Lybeck said once we adopt this we will have to live with it from now on. He realizes that time is in great demand but we should utilize it as best we can.

Senator Eck agrees with Senator Hirsch. There are some areas that she might like to look at but she watched this in the House.

Senator Brown said in these sections we exempt food products. The role model the bill was developed from was the New Mexico law and in New Mexico they give rebates based on level of income. From the standpoint of administration of the tax, base broadening and more progressive, he would prefer to go that way.

Senator Eck said that is a good point. She thinks what this is in HB 377 is a political decision. Most people think a sales tax is less regressive if you exempt food. It makes more sense to put in a rebate to cover food.

Senator Severson said for the most part you are talking about people, who will be getting a rebate, that probably do not pay income tax to start with.

Senator Crippen asked Dave Bohyer to explain the rebate in SB 333.

Dave Bohyer said in SB 333 it didn't matter whether you paid income tax or not, you got the rebate.

Senator Lybeck said a simpler way is to put the tax straight across on everything and then give a credit.

Senator Crippen said why can't we keep food and drugs exempt and still have a rebate to make it less regressive.

Food and drugs will cost \$10 million a percent. If you wanted to also provide a rebate, you could do that also. You take a family making very little, a low income family of four, they would get back about \$196 in rebate, will not have to pay any tax on food and drugs and if they are renters will even be eligible for a renters credit and could make money on this deal. It certainly hits the argument of being regressive in the head.

Senator Crippen made a substitute motion that we leave the provisions in the grey bill pertaining to exemptions for food and drugs and in addition we add to the bill rebate provisions similar to the ones in SB 333.

Senator Neuman does not agree with that. He thinks we should be as broad based as we can to start out with. The same thing will happen as has happened with the property tax system. We started out broad and then started giving it away. Tax everything and then increase the money that you give back.

John LaFaver said from an administrative standpoint he would argue don't do both. You compound the complexity of the tax and compound the administrative expense. He would advocate one or the other.

Senator Severson asked John LaFaver what kind of administrative problems would we have with a rebate system. How extensive would it be and how expensive would it be.

John LaFaver said it would basically come off the same system in place now for low income property tax relief. It is done through the income tax system but it is relief that is provided whether or not there is an income tax liability. There would be a particular from that would be filed. You would get a rebate, per exemption, regardless and the low income people would receive a higher amount per exemption than the higher income.

Senator Crippen's motion failed 5-7, see attached roll call vote sheet.

Senator Hirsch's original motion was to adopt the exemption sections 9-22.

Senator Mazurek is not sure he understands whether or not utility bills are exempt under this proposal.

Dave Bohyer said they are taxed. There is an exemption for government agencies.

Senator Eck said low income people can't do anything about utility bills. She had thought they could be exempt.

Senator Mazurek said with a \$100 a month average utility bill, that amounts to about a \$50 sales tax on one utility bill alone in a year. A substantial portion of everybody's pay goes to utility bills, even renters.

Senator Hirsch pointed out that section 8 deals with utilities and his motion was directed to sections 9-22.

Senator Neuman asked if most states exempt gasoline.

Senator Eck said gasoline tax, by constitution, can only be allocated to highway use.

Senator Hirsch motion carried 9-3, see attached roll call vote.

Senator Halligan made a motion to exempt advertising. The motion carried 7-5, see attached roll call vote sheet.

Senator Crippen would like to discuss the tax on security commissions. He asked if they are exempt.

John LaFaver said they are not exempt under this bill.

Senator Crippen said if we tax securities commissions, how do you tax those when you effect a transaction through an 800 number.

John LaFaver said it would be in the law that transactions that take place in Montana would have a sales tax.

Senator Crippen asked how they would collect the tax.

John LaFaver said you would have to audit out of state firms to the extent they are making sales in Montana.

Senator Crippen said what if you are on cable TV and you pick-up the advertisement from a Denver station.

John LaFaver said this is a major issue, much larger than a sales tax issue.

Jim Lear said we have adopted sections 9-22 and we need some clarification in section 16. His first reading was that line 5 was referring to interest only as being exempt. On lines 7 and 8 the sale of stocks, bonds, or securities are exempt from the sales tax. We need to clarify that this language does not refer to interest on the sales but receipts.

Senator Hager said are we suggesting adding dividends, interest, sales and receipts.

Senator Severson said isn't that commission actually taken out as the interest is approved.

Bruce MacKenzie said no, that is not correct. The commission is taken out at the time of the sale. The tax is imposed strictly on the commission, not on the face value of the security. If you tax the face value you will have a gold mine.

Senator Crippen would move that commissions not be taxable.

Jim Lear said with regard to section 16, the Department has indicated those transaction are not taxable. It is not talking about commissions but the sale of securities.

Senator Mazurek asked how other commissions are treated under this, real estate commissions or livestock commissions.

John LaFaver said livestock commissions are exempt but all other commissions are taxable under the provisions of the bill, including real estate commissions.

Senator Crippen's motion failed.

Senator Eck said what this does provide is that you can deduct those things that can be purchased that will result in a sale somewhere down the line.

Senator Crippen referred to section 31(b) and said the sale of that home would be subject to the tax but would the material that went into the home be subject to a tax.

Dave Bohyer said in this bill construction people do not pay a sales tax on construction materials. The construction contractor does not pay the tax but when you buy the finished product from the contractor you pay the tax.

Senator Lybeck said he purchased the house from the contractor and wanted to sell it and did sell it to Senator Neuman. Does Senator Neuman pay the tax again.

Dave Bohyer said there is a one time sales tax on houses. There is no tax on a house if it has been lived in before.

Senator Eck asked what if I buy material to improve my home.

Dave Bohyer said if you go out to UBC and buy the material you will be charged a sales tax on those materials. When someone puts the material together on the improvement, you pay him for his services. If someone buys the material and puts it together, you pay a sales tax on the bill he presents to you. When you sell your house there will be no additional tax on that sale.

Senator Hirsch made a motion that the committee adopt sections 23-41.

Senator Eck made a substitute motion on page 24, lines 6 and 7, to strike "or architectural service". The amendment would allow their services out-of-state to be deducted under the provisions of the bill.

The motion carried with Senator Halligan opposed.

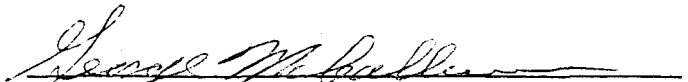
Senator Mazurek asked if the service is taxed on the amount billed or the amount received.

Dave Bohyer said under this bill you can tax it either way.

Senator Halligan said what about on an installment purchase, how do you apportion a sales tax.

Dave Bohyer said you pay the tax on the \$2,000 purchase price, even though the contract is over 24 months.

Senator Hirsch's original motion to adopt sections 23-41 of the grey bill, was considered. The motion carried with Senator Lybeck opposed. The meeting adjourned at 2:55 P.M.


SENATOR GEORGE MCCALLUM, Chairman

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ROLL CALL

TAXATION

COMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date 4-7-87

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.

DATE April 7, 1987

COMMITTEE ON

Senate Education

VISITORS' REGISTER

HB 904

NAME	REPRESENTING	BILL #	Check One	
			Support	Oppose
William E. Bill "Gator"	Govt	904		✓
Genevieve S. Adair	Retired Teachers	904		✓
Eric Flaver	MEA	904	✓	
Don Judge	MT STATE AFL-CIO	HB 904	X	
Alve Thomas	Retired Teachers			✓
Roy Gallin	Retired Teachers			✓
Carol Mosher	Mt. Battle Women	HB 904		✓
Timothy J. Rofe	Mont. Automobile Dlr.	HB 904		✓
EARL J. KELLY	M. S. C. A.	904	✓	
Mons Teigen	Mt. Stockgrowers Assn	904		X
Ted Rollins	SELF	904		X
Dean Mansfield	Montana Auto Dealers	904		✓
Leo Berry	Ass of Mt. Retired Public Em.		Amend	
Janette Hallan	MT Petroleum	904		✓
Lana Frank	MT. Farm Bureau	904		✓
Ch. Brunner	Heavy Construction Coalition	904		✓
Glenn Anderson	Alumni's Lobby Fund	904	✓	
George Allen	MT. Retail Assoc	904		✓
Darryl B. Carlson	MT Society of CPA's	904		✓
Tom Kruger	Seniors/Ret Teachers	904	Amend	Amend
Bob Corcoran	Boysman Chamber of Comm	904		✓
Ray Shackelford	OPI	904	✓	
Bruce W. Moerer	MSBA	904	✓	
Ann E. Delinger	MBMDA	904		✓
James Long	SAM	904	✓	
Joe Leggett	AARP	904		X

(Please leave prepared statement with Secretary)

DATE _____

COMMITTEE ON

HB 904

[illegible]

(Please leave prepared statement with Secretary)

NAME: J. Walker DATE: 4-7-87

ADDRESS: MR Bonner

PHONE: 244-5521

REPRESENTING WHOM? Missoula Co. Truckholders Assn

APPEARING ON WHICH PROPOSAL? HB904

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

COMMENTS: Montana business can't afford this
tax. We are asking for tax relief not
increased tax burdens. Make this state a
proper place to do business by reducing the burden.
We suggest cuts in the budget at all levels
and provision of services at a much
lowered level. (If you want suggestions,
we would be happy to provide a list)

A tax is a tax whether its income tax, sales tax,
property tax, gas tax, use tax,
etc. and comes out of the pockets of the working,
productive people and the few industries we have left.
Give this bill a do not pass

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

23. It should be noted:
Those asking for increased taxes
are the ones who will benefit
from them -



JAMES W. MURRY
EXECUTIVE SECRETARY

Box 1176, Helena, Montana

ZIP CODE 59624
406/442-1708

TESTIMONY OF DON JUDGE BEFORE THE SENATE TAXATION
COMMITTEE, APRIL 7, 1987 ON HOUSE BILL 904

GOOD MORNING, MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, FOR THE RECORD MY NAME IS DON JUDGE AND I AM HERE TODAY ON BEHALF OF THE MONTANA STATE AFL-CIO TO TESTIFY IN SUPPORT OF HOUSE BILL 904.

FOR THE PAST 77 DAYS, THIS BODY HAS BEEN GRAPPLING WITH CRITICAL CHOICES. HOW DO WE FUND STATE GOVERNMENT? HOW DO WE PROVIDE ESSENTIAL PUBLIC SERVICES? WHO IS GOING TO PAY FOR THESE SERVICES? HOW DO WE RAISE NEEDED TAX REVENUE WITHOUT ENACTING UNFAIR TAXATION?

OF ALL THE PROPOSALS BEFORE THIS BODY, WE BELIEVE THAT HB 904 IS THE REVENUE VEHICLE YOU SHOULD WORK WITH. OUR REASON IS SIMPLE: IT'S THE ONLY TAX REFORM PROPOSAL BEFORE YOU THAT IS PREDICATED ON AN INDIVIDUALS ABILITY TO PAY.

THE FEDERAL TAX REFORM ACT OF 1986 WAS CREATED TO REINVIGORATE THIS FUNDAMENTAL NOTION OF TAX FAIRNESS. FOR YEARS, LOOPHOLES AND SPECIAL TAX BREAKS HAVE ALLOWED OUR WEALTHIEST CITIZENS AND LARGE CORPORATIONS TO PAY LITTLE OR NOTHING IN FEDERAL INCOME TAXES. IN FACT, SOME CORPORATIONS HAVE EVEN TAKEN A NET GAIN FROM FEDERAL TAXES PAID BY OTHERS!

FORTUNATELY, THE CONGRESS OF THE UNITED STATES, AFTER DECADES OF CATERING TO SPECIAL INTEREST GROUPS, FINALLY CRIED "ENOUGH!" AND IN A RARE BIPARTISAN DISPLAY, REFORMED OUR FEDERAL INCOME TAX CODES. THE TAX REFORM ACT OF 1986 LOWERED INDIVIDUAL TAX RATES. IT ALSO CLOSED MANY LOOPHOLES AND SELECTIVE TAX

SENATE TAXATION

EXHIBIT NO. 1

DATE 4-7-87

BILL NO. H.B. 904

BREAKS USED BY WEALTHY INDIVIDUALS AND LARGE CORPORATIONS TO SKIRT PAYING THEIR FAIR SHARE IN TAXES. IT HAS LOWERED TAX RATES FOR MOST OF US AND PLACED TAX AVOIDERS BACK ON OUR PAYROLL.

MEMBERS OF THE COMMITTEE, IT IS OUR FIRM BELIEF THAT HB 904 CLOSELY PARALLELS THE LETTER AND SPIRIT OF THE FEDERAL TAX REFORM ACT OF 1986. IT LOWERS STATE INCOME TAX RATES FROM A MAXIMUM OF 11 PERCENT DOWN TO 8 PERCENT. MOREOVER, IT CLOSSES MANY LOOPHOLES, PARTICULARLY CAPITAL GAINS EXCLUSIONS, THAT HAVE BEEN USED FOR TAX AVOIDANCE. LIKE OTHERS, WE EXPECT THAT THERE MAY BE CERTAIN COMPONENTS OF HB 904 THAT WE MAY NOT BE PARTICULARLY FOND OF. BUT, IN THE WHOLE, WE BELIEVE THE BILL IS FAIR.

BECAUSE HB 904 PLACES A TEMPORARY, TWO YEAR, 10 PERCENT SURCHARGE ON INCOME TAXES, IT HAS BEEN LABELED BY OPPONENTS AS BEING ONE OF THE LARGEST TAX INCREASES IN MONTANA'S HISTORY. LADIES AND GENTLEMEN, THESE INDIVIDUALS ARE SIMPLY TWISTING THE FACTS.

HB 904 RECOGNIZES THAT MONTANA IS EXPERIENCING AN INTENSE, BUT HOPEFULLY, SHORT -TERM BUDGET SHORTFALL. THE BILL CALLS FOR A 10 PERCENT SURCHARGE TO RECOUP PART OF THIS BUDGET SHORTFALL. MOREOVER, THE SURCHARGE IS AUTOMATICALLY SUNSETTED AFTER TWO YEARS.

ON THE OTHER HAND, THE MAJORITY OF SPOKESMEN WHO STAND IN OPPOSITION TO THIS BILL ARE THE SAME PEOPLE WHO ARE CLAMORING FOR A GENERAL SALES TAX. UNFORTUNATELY, THESE INDIVIDUALS FAIL TO TELL YOU SOME VERY IMPORTANT ITEMS. THE FIRST IS THAT A GENERAL SALES TAX, AS OPPOSED TO EQUITABLE TAX REFORM EMBODIED IN HB 904, IS THE MOST REGRESSIVE FORM OF TAXATION IMAGINABLE. IT TURNS THE ABILITY TO PAY PRINCIPLE, EMBODIED BY THE FEDERAL TAX REFORM ACT, SQUARELY ON ITS HEAD.

THE SECOND OMISSION IS THAT A GENERAL SALES TAX, EVEN WITH PROPERTY TAX RELIEF, WOULD SIGNIFICANTLY INCREASE OVERALL TAXES FOR MOST OF OUR CITIZENS.

SENATE TAXATION

EXHIBIT NO. 1

DATE 4-7-87

WE'VE GIVEN YOU THOSE STATISTICS BEFORE.

FINALLY, THE 10 PERCENT SURCHARGE IS A TEMPORARY MEANS TO RAISE REVENUE. CONVERSELY, A GENERAL SALES TAX IS NOTHING LESS THAN A PERMANENT NEW LAYER OF TAXATION, WHICH WILL HIT ORDINARY MONTANANS HARDEST.

THE CHOICE IS YOURS. TAX REFORM OR CONTINUED TAX DEFORM. FAIR TAXATION OR REGRESSIVE TAXATION.

HB 904 IS THE REVENUE VEHICLE YOU CAN USE TO HELP SOLVE THIS STATE'S FISCAL CRISIS AND TO ENACT WISE AND FAIR TAX REFORM. WE URGE YOU TO SUPPORT HB 904 WITHOUT AMENDMENTS. THANK YOU.

SENATE TAXATION

EXHIBIT NO. 1

DATE 4-7-87

BILL NO. H.B. 904

WOMEN'S LOBBYIST FUND

Box 1099
Helena, MT 59624
449-7917



Testimony HB 904, Apr. 7, 1987, Senate Taxation Committee

Mr. Chairman and members of the committee:

My name is Barbara Archer. I represent the Women's Lobbyist Fund, a coalition of 39 groups and over 6500 individuals. The WLF supports HB 904.

A large proportion of WLF constituency are middle and low income women. With the declining economy, tax and economic policy has become very important to this constituency. Many aspects of HB 904 meet WLF guidelines of 1) fairness, 2) adequacy, and 3) reinvestment in Montana's economy.

HB 904 begins to close some taxation loopholes. Loopholes generally give the most breaks to the ones who have the most ability to pay and the most ability to generate new income to make up for the tax loss. HB 904 does this by eliminating the deduction for federal income taxes, which has most benefitted persons with the highest incomes.

We also support following the federal policy on capital gains, which this bill proposes.

With a 10% income tax surcharge, HB 904 generates revenue to adequately fund state and local government, which provides needed services for WLF constituency. A surcharge is generally temporary and has served well in the past to tide the state over rough economic times.

While this bill is not perfect, we find that it most nearly meets the needs of WLF constituency and the average taxpayers in Montana of any major tax legislation proposed thus far. We particularly ask you to support the three items mentioned, eliminating federal income tax deductions, following federal policy on capital gains, and the 10% income tax surcharge. We strongly urge support of HB 904.

Thank You.

SENATE TAXATION

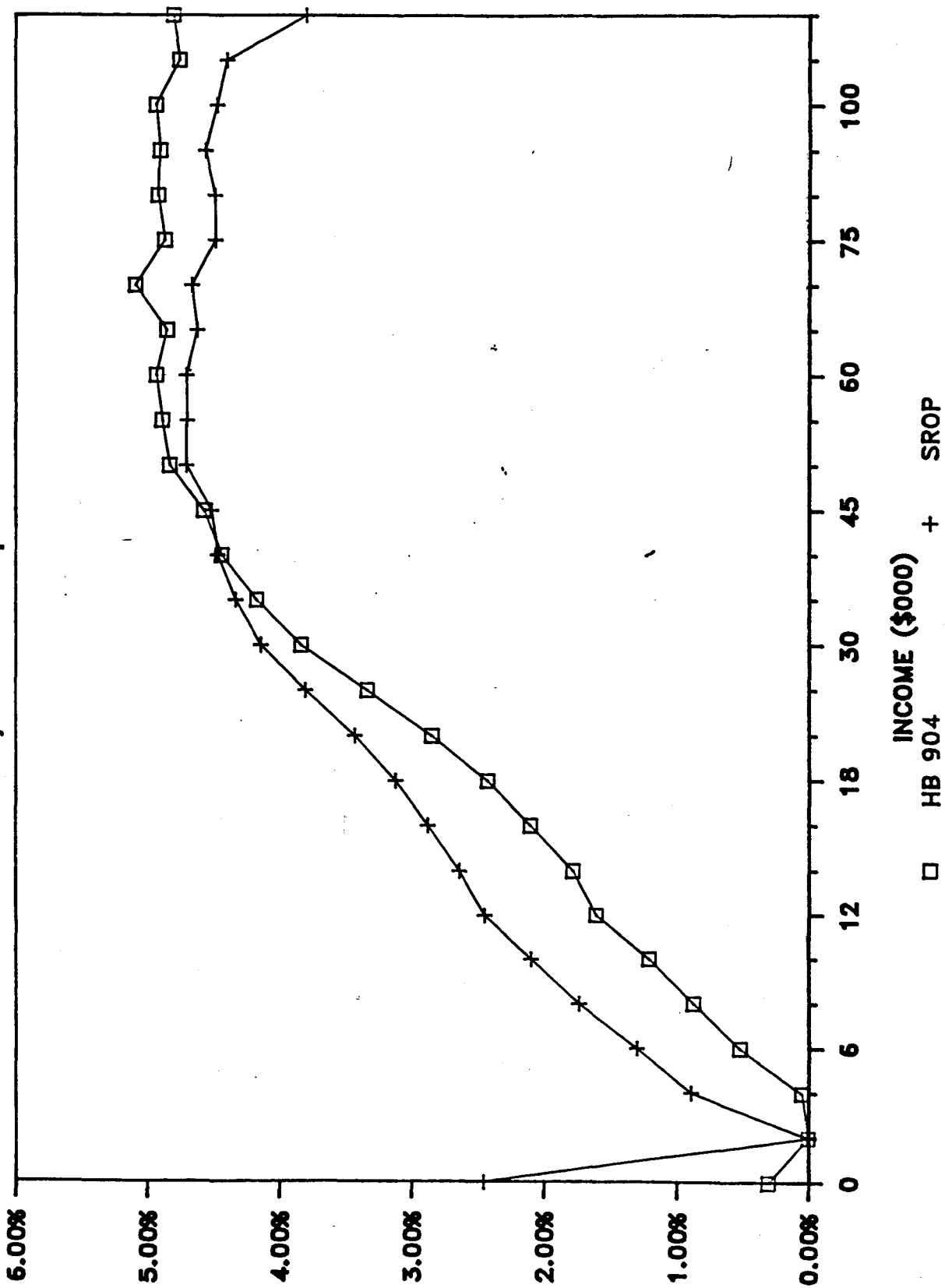
EXHIBIT NO. 2

DATE 4-7-87

BILL NO. H.B. 904

Effective Tax Rates With Fed Offset

By Income Group



SENATE TAXATION

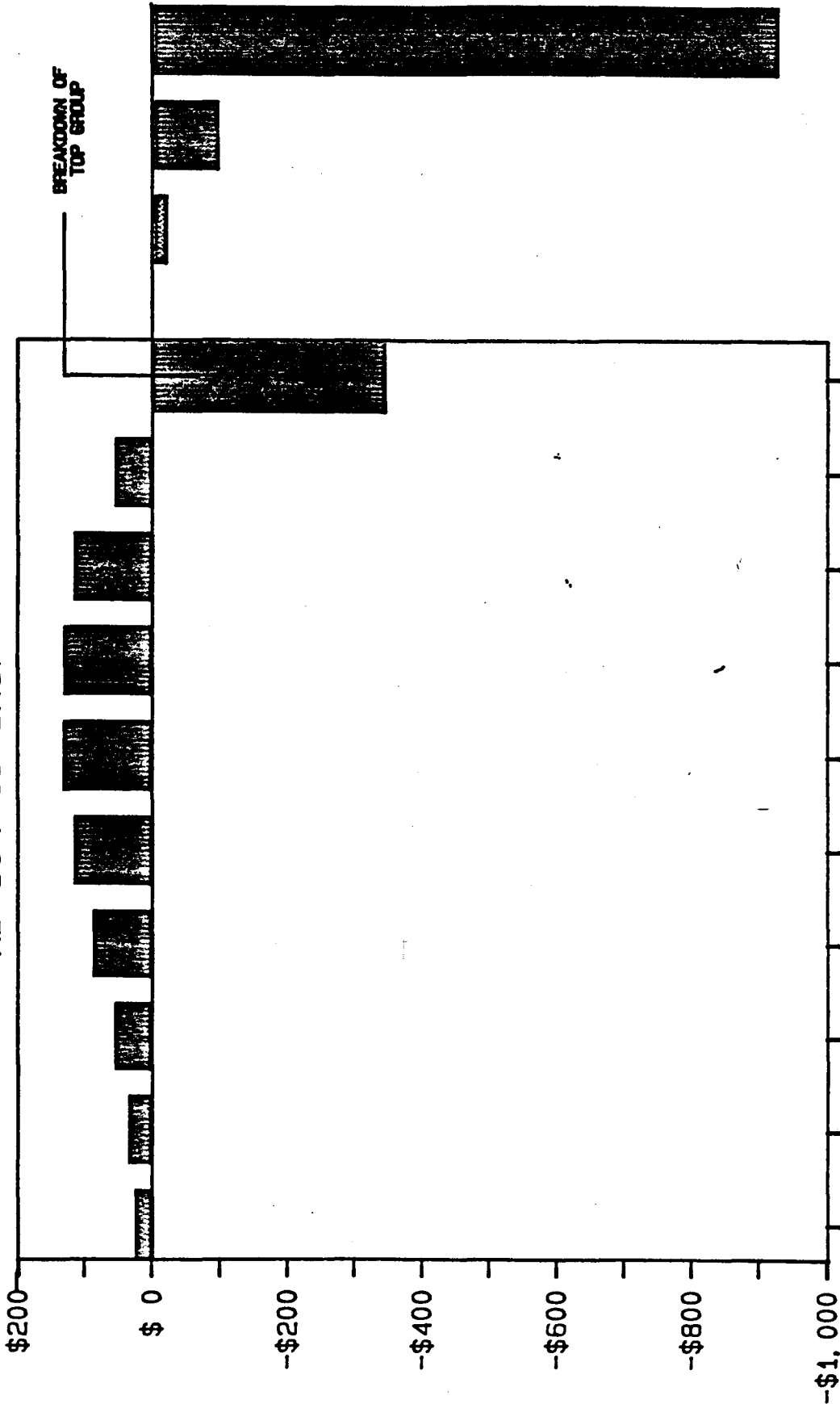
EXHIBIT NO. 3

DATE 4-7-87

BILL NO. HB 904

\$ CHANGE IN STATE INCOME TAX

HB 904 to SR0P



\$43,500 \$48,500 \$63,000
to to to
\$48,500 \$63,000 \$93,500
-19.57 -85.75 -825.50

\$0 \$3,000 \$5,500 \$8,500 \$11,500 \$15,750 \$20,500 \$25,500 \$33,000 \$43,500
to to to to to to to to to to
\$3,000 \$5,500 \$8,500 \$11,500 \$15,750 \$20,500 \$25,500 \$33,000 \$43,500 \$93,500
Average Change \$25.48 34.64 54.92 87.10 115.91 131.55 130.80 115.48 55.01 -347.31

SENATE TAXATION

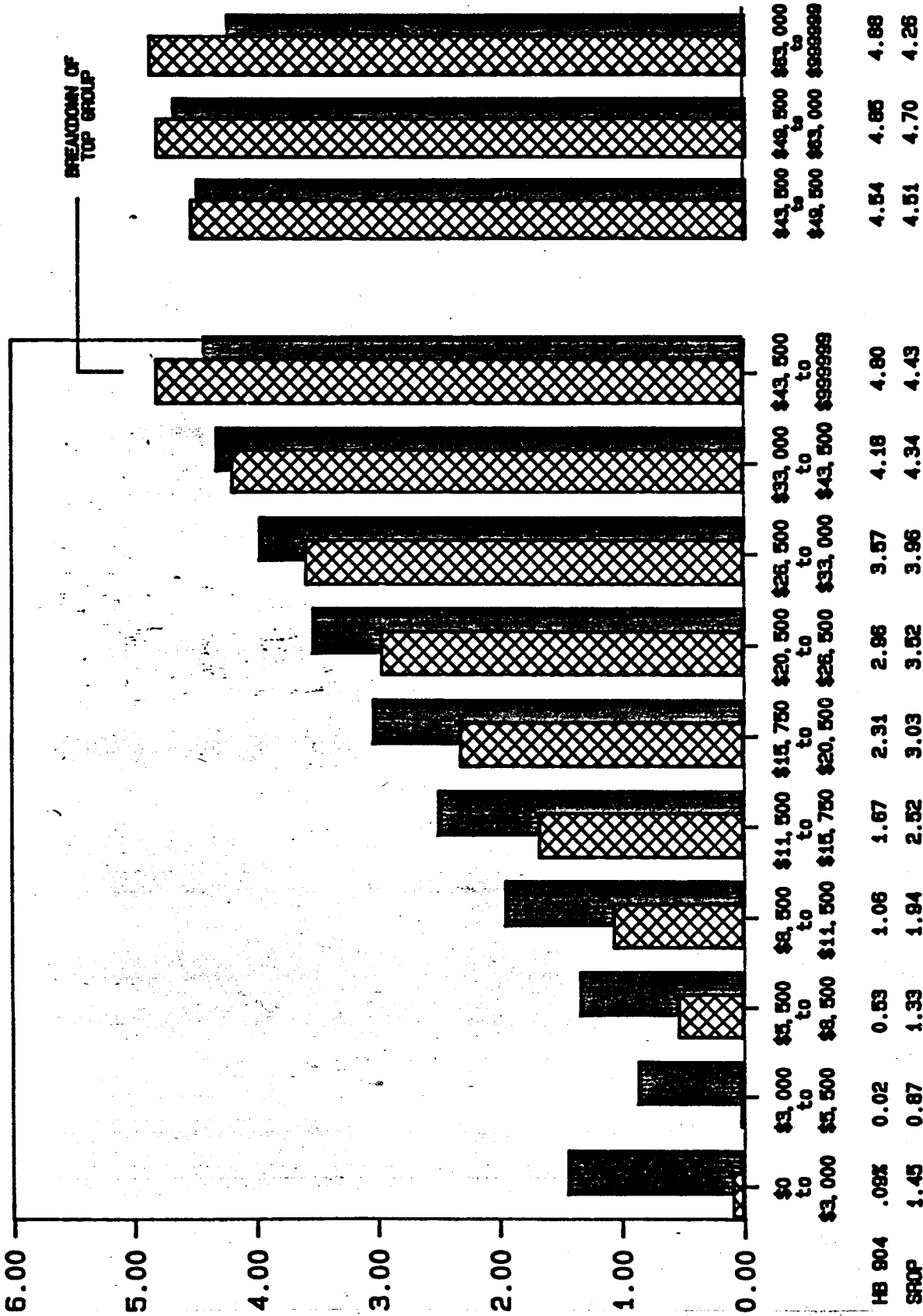
EXHIBIT NO. 3

DATE 4-7-87

BILL NO. H.B. 904

EFFECTIVE TAX RATES

HB 904 to SRDP (After Adjusting for Federal Offset)



Percent

SENATE TAXATION

EXHIBIT NO. 3

DATE 4-7-87

BILL NO. H.B. 904

TESTIMONY OF KEN PERES ON HB 904
MONTANA ALLIANCE FOR PROGRESSIVE POLICY

HB 904: INDIVIDUAL INCOME TAX REFORM

Mr. Chairman and members of the committee, my name is Ken Peres. I am an economist working for the Montana Alliance for Progressive Policy. The Alliance supports the general concept of income tax reform included in HB 904. It is not a perfect bill from our standpoint - but even as a compromise we feel it is a step in the right direction.

I hope that we can all agree on one thing: our current income tax system is unfair and in need of reform. Years of erosion through special interest tax breaks have left a tax system which is both confusing and unfair. That's why we support the concept of broadening the tax base, believing that our tax system is more fair with a broad base rather than our current system which is riddled with special loopholes. This testimony will address the implications of HB 904 in relation to three areas: revenue, fairness, and economic development.

REVENUE

HB 904 In Conjunction With Federal Tax Reform Still Amounts To An Overall Tax Decrease for Montanans

Federal tax reform reduces taxes for Montana individual by \$110 million in calendar year 1988. HB 904's surtax amounts to less than 1/4 of this amount. Even after including the increase in state revenue due to federal reform, the increase in total state taxes (HB 904 + Increase due to federal reform) is little more than 1/2 the reduction in federal taxes.

While Montanans will pay less taxes overall, more of their tax dollars will remain in Montana. Conversely, less of these tax dollars will go to the federal government. This makes sense since the federal government has been decreasing its monetary contribution to Montana over the past decade while increasing the state's funding responsibility for many programs left in the federal lurch.

HB 904 Is Revenue Neutral In Relation To Current Law - Except For The Temporary 10% Surtax

Without the 10% surtax, HB 904 raises the same amount of revenue as current law. (see chart)

* HB 904 Raises \$45.5 Million Over the Biennium.

The only major increase in state tax collections over current law results from the temporary 10% surtax which raises \$44.5 million over the biennium. HB 904, according to the

SENATE TAXATION

EXHIBIT NO. 4

DATE 4-7-87

*** HB 904 Could Be Made Even More Fair By Changing the Rate Structure And Instituting a Minimum Tax**

The proposed closing of the deduction of federal taxes loophole allows a decrease in the current 9%, 10% and 11% rates to 8%. The problem lies with the fact that the rates stop being progressive after only \$12,000. Does the average Montana household with a taxable income of \$15,750 belong in the same tax bracket as those earning \$150,000?

As originally introduced HB 904 included an alternative minimum tax. In its present form HB 904 does not include a minimum tax. A minimum tax similar to the federal minimum tax would be easy to administer. It would also insure that all Montanans able to pay taxes would at least pay some Montana taxes.

ECONOMIC DEVELOPMENT

*** Lower Top Marginal Rates May Affect Some People's Perception of Montana's Tax Structure**

We are told this could affect Montana's business climate - even though many studies have shown that the rate of individual income taxes does not affect a state's economic performance.

*** HB 904's Treatment of Capital Gains Is Consistent With The New Federal Tax Reform Act And Makes Sense In Terms of Fairness**

Before the Tax Reform Act of 1986, capital gains were given preferential tax treatment. Namely, 60% of a capital gain was exempt from taxation. The Tax Reform Act of 1986 basically treats a capital gain as ordinary income - that is, no portion is tax exempt. However, the special treatment of capital gains resulting from the sale of a home is retained. Taxpayers over age 55 are allowed a 1 time sale of their residence in which the entire capital gain is tax exempt. All other homeowners can defer any gain they make on the sale of a home if they buy another home within a two year period.

However, in general the preferential treatment of capital gains is unfair.

-Income from capital gains is given a tax preference not available to income from wages or salaries. For example, suppose HB 904 was amended to exempt 60% of a capital gain. The result:

\$100,000 capital gain		\$100,000 wage income
tax exempt	\$60,000	\$0
taxable	40,000	\$100,000
HB 904 tax bill	3,830	7,670

The taxation of the wage income is double that of capital gains.

-Only a small number of Montana taxpayers actually benefit from the preferential treatment of capital gains. Specifically, only 16.3% of Montana households itemized capital gains in 1985.

-The preferential treatment of capital gains primarily benefits the wealthiest Montanans.

the 0.5% of households earning more than \$120,000 and itemizing capital gains (1,884 households) obtained \$12,221,000 for an average tax savings of \$8,570 per return.

the 6.4% of households earning less than \$21,000 and itemizing capital gains (18,378 households) obtained less than \$950,000 for an average tax savings of \$54.

83.7% of Montana households obtained no direct benefit from the the preferential treatment given to capital gains

HB 904's Treatment of Capital Gains Makes Sense In Terms of Economic Development

I do not know of any study showing that the preferential treatment of capital gains induces people to invest, rather than spend their money. It has been demonstrated that individuals may tend to switch from one form of investment to another in order to take advantage of the preference. And it is becoming increasingly apparant that certain types of investment, such as land speculation, absentee farming, and plow out should be discouraged rather than subsidized.

It does not seem logical for the people of Montana, through their tax structure, to absorb blindly a substantial volume of speculative risk when the investments may be inefficient, unproductive and even counter-productive.

*** Preferential Treatment of Capital Gains May Be Economically Inefficient According to the U.S. Treasury Department**

"Along with other provisions that establish special tax treatment for particular sources and uses of income, the preferential tax rate for capital gains is one of an elaborate series of tax incentives for particular businesses and investments. These incentives impede the efficiency of an economy based on free market principles. This undeclared government industrial policy largely escapes public scrutiny, yet it increasingly controls the form and content of business and investment activity." (Tax Notes, December 3, 1984)

*** Preferential Treatment of Capital Gains May Be Counter-Productive**

"Current tax laws provide insufficient incentive for many investors to risk their savings in new businesses, and excessive incentive to place their savings into non-productive assets which add nothing to the strength of the ecoomyh. The purely speculative returns on such investments as gold, silver, gems, paintings, stamps and antiques represent the diversion of scarce capital from productive investment." (Statutes of California)

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*** Preferential Treatment of Capital Gains Is Especially Inefficient and Counter-Productive For Agriculture**

"In total [these tax rules - especially capital gains] increase the attractiveness of owning farm assets and lead to 1) larger investments by non-farm people in farm assets, 2) larger farms owned and/or operated by those farmers who are able to exploit tax opportunities, and 3) more corporate farms..."
(USDA, Another Revolution in US Farming.)

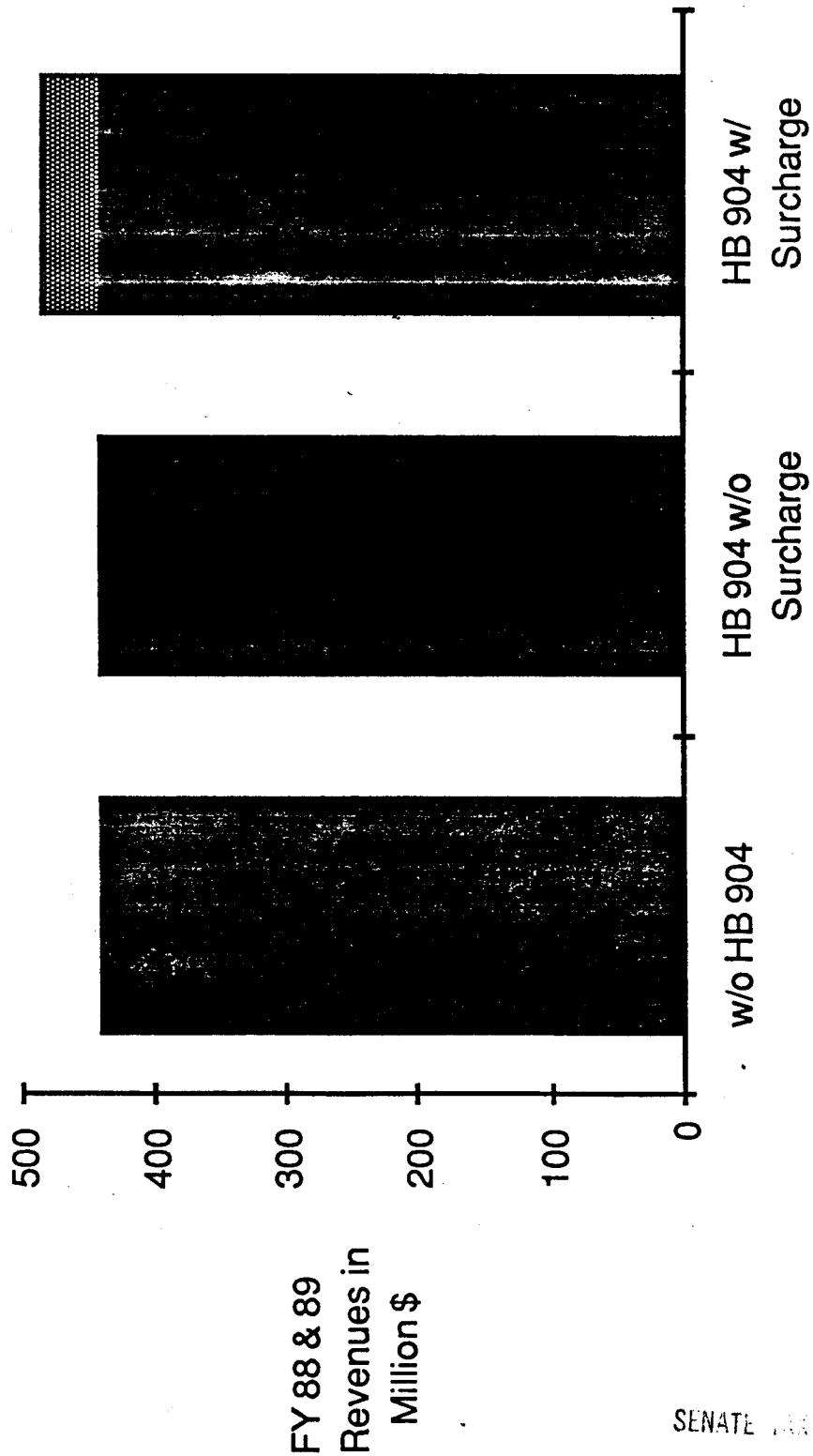
"The capital gains feature of the current [pre-1987] federal income tax provisions appears to be a major incentive for converting rangeland to cropland...the capital gains feature provides greater incentives to those at higher marginal tax rates who are not going to retain cropland for production but who are going to take capital gains as soon as other advantages are dissipated.

In order to expense conversions costs the first year, the investor must have a tax liability on ordinary income from other sources." (Cooperative & Extension Service "Economic Incentives for Converting Rangeland to Cropland," MSU.)

While the relationship between the preferential treatment of capital gains and economic development has not been proven - that between education, the fiscal health of government and long term capital improvements AND economic development has been well established.

We do not know where the the foregone revenue will be spent; we do know that the revenue gained by closing the capital gains loophole will be spent in Montana for essential governmental services.

Revenue Comparison: Without HB 904, With HB 904 But no Surcharge, and HB 904 with Surcharge



Source: HB 904 Fiscal Note

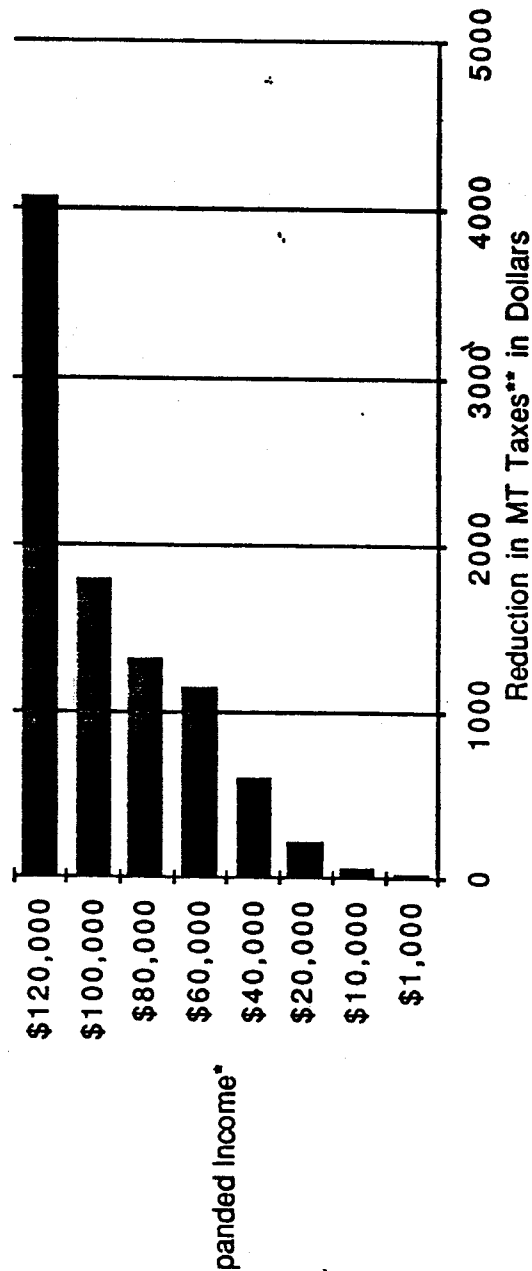
SENATE JOURNAL

EXHIBIT NO. 4

DATE 4-7-81

BILL NO. H.B. 904

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



Source: Montana Department of Revenue

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

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

SENATE TAXATION

EXHIBIT NO. 4

DATE 4-7-87

BILL NO. 118

2020 Fourth Avenue North
Great Falls, Montana
59405

April 7, 1987

Senator George McCallum
Chairman Senate Taxation Committee
Senate Office Building
State Capitol, Helena, Montana

Dear Senator McCallum:

Thanks for the opportunity to appear before your committee on Tuesday, regarding HB 904. It really is too bad that a bill of this dimension must be given such limited time. In reality, this bill should be placed in a special committee within the Legislative Council, perhaps, for a year or so of study, or should be placed with a bi-partisan committee of the House and Senate for a two year study period. There is absolutely no doubt in my mind that the ramifications of this bill are so broad that the average Montanan has little conception of the changes inherent in our tax structures should this bill become law.

I think it was most unfair of the House to have such limited hearing in this matter, and the general public had a difficult time getting any information about when a hearing in the Senate would be. Only through a stroke of luck was I able to get the information on Monday at 4 p.m. about your committee's Tuesday a.m. hearing. I think this was most unfortunate and unfair to the many many people here who wished to appear but could not do so. While it is always true that many points are repeated both pro and con, the fact remains that the general public does not have paid lobbyists and has to rely upon attending hearings themselves.

Nevertheless, I should like to summarize the points which I attempted to make and which I neglected to write and leave with the committee secretary.

1. I still believe that the tax free status of my Teachers' Retirement System funds was really a part of a contract regarding my teaching years. Naturally, it is not a written and/or subsequently binding contract for legal purposes. Nevertheless, I hasten to add it provided a considerable incentive to remain in a profession which in its early years was certainly non-productive financially. Too, I ask you to remember that I had no choice about contributing to the system; that policy was state law. Consequently, any money which I might have invested, other than in the Teachers Retirement System, was not free for such investing, and only in later years would any teacher have been able to invest funds outside of the system because pay was not too high in those early years. In fact, pay is still not high for any beginning teachers. Had I not remained in the state service for the 36 years I did, I would not have had a decent retirement. And, as I noted to your committee, had I foreseen the possibility of rule making regarding taxation, I could well have stayed on for a number of years and certainly would have tried to make some sort of investment to compensate for the changes that 904 now proposes, which will certainly reduce my spendable income. As I noted to your committee, every dollar taken from the taxpayers pocket, is one less dollar for the main street merchant.
2. One thing which bothers me greatly about the taxing policies being suggested for change in the Legislature this year, has to do with the tremendous breaks being given to corporations such as Burlington Northern, Columbia Falls Aluminum, oil and gas interests, mining, and even attempts to do the same for farming and ranching, which we all do know desperately needs help.

SENATE TAXATION
EXHIBIT NO. 5
DATE 4-7-87

The property tax initiatives on this last fall's ballot are but a minor indication of the mental thinking of the people of this state, and what do I see in 904? A tax increase for most, a significant one for me and many like me, and no property relief. It really doesn't seem fair. I ask you to remember that the corporate tax relief your legislative bodies have generated are actually MONIES GOING OUT OF STATE to stockholders of the corporations or groups which have successfully sought and gotten relief. How can one say such relief will benefit Montana?

During the sessions I served, I sponsored and voted for (and was often subsequently condemned by my democratic friends for so doing,) certain legislation aimed at stimulating development within the state. It just didn't happen, and that legislation has been around for some 25 years. We even passed at one time, and I presume it is still on the books, a bill to provide at least a 5% or more benefit in projects let for bidding, yet most of the bids go out of state anyway. I think this was even raised in later sessions. It just doesn't work that way.

3. I noted that since retiring in 1981, my net income has eroded by at least 18 per cent. Think of that! It has gone out through non-return in any tangible way, in no additional assets. I cite the following: water rates up, gas, electric, telephone increases; premiums on car insurance doubled because of my age, (and I have never had an accident or moving violation), house insurance increased by more than 50 per cent and I live in the same house; increased premiums for Medicare, Blue Shield-Blue Cross, and AARP insurance; an inflation rate in the six year period of about 18 per cent alone, and five per cent already indicated for this year; no property tax rebate, and in spite of reclassification, a tax increase. Shall I go on? I am almost certain you too know what I am writing about.

And how can I replace this income lost which 904 now will attempt to further erode? I am not able to perform much work physically, I have let my teaching certificate lapse and maybe I shouldn't teach anyway, for one is inclined to become a bit cynical, and that is not a good mental state.

Thinking back, I remember serving in the House in 1961, 1963, 1967, and 1969. I also served a two year term on the Great Falls city council. During my legislative service, I had to take a leave of absence without pay from my teaching position, a terrible sacrifice, yet I did it in hopes of improving our state. I actually lost retirement time to do this service. For the four terms, I think I was credited with one full year in the system, which I had to buy. Of course I was fortunate to get that, in spite of the fact that for most of that time I served on the legislative council or some other group and always was traveling back and forth to Helena. You know how that goes.

4. I mentioned that perhaps someone might wish to carry a resolution making an intense study of properties not on the tax rolls, due either to political pull or because they are social, fraternal, religious, or charitable and so on. You will be astounded. Why should not these groups be required to support the state as well? The monies raised by many of these groups, religious or otherwise, leave Montana for other states or countries, and our losses are in the millions of dollars. I urge your committee to suggest or undertake such a study as this. It is long overdue.
5. I believe the tax bill regarding teacher retirement will have a detrimental effect on school costs in another way. If benefits are taxed upon retirement, high ~~paid~~ teachers and administrators will choose to remain rather than be encouraged to retire as many of us have been in the past half dozen years, opening the way for younger and bottom scale teachers. Think about this; school districts have enough trouble already with budgeting. I know that had I known six years ago what I now know, I should have remained in the profession.
6. Finally, as I noted before your committee, the state is planning to freeze salaries of all state workers for the next biennium; massive cuts have been made; the Federal government has tried to lower taxes, yet 904 intends to raise them. One of the witnesses this a.m. said just that, basically, a significant group will see large tax increases.

There is no doubt in my mind that some of the statements made by several of the lobbyists this a.m. about going to the public to get a 15 per cent voter referendum on almost any tax bill, and especially this one, will succeed. Such action would paralyze state government, whether this or any sales tax bill ever gets out of the legislative halls.

I urge you to consider grandfathering (I am one, and perhaps you are too,) some relief into this bill for those of us who have already retired. I also suggested a minimum tax such as a surcharge on the net income for tax purposes a person filing with the IRS will pay. For instance, if I pay \$1000 in Federal taxes, perhaps a 2 or 3 or 4 per cent figured on the taxes I owe the IRS, and then I just file a copy of the IRS and enclose the check and that is it. This may not even have merit, for I know of some people who would have a heckuva time paying any more taxes of any kind any time.

The story I told your committee about one of the first bills I introduced in 1961, asking for a guarantee of \$100 a month for retired teachers, was an honest-to-God truth. Teachers are not in that bad a condition today, but I hasten to remind you that education has always been the first to suffer the burdensome cuts in any monies of any kind, and is always the last to receive additional monies when times are good.

We try, all of us, to staff our schools with good teachers. Don't injure those of us who in the past ~~tried~~ our best to perform service to our schools, community and state considering the tax free status of our pensions as a contract along with our service and teaching contract. I trust you can work something out. What this state needs is statesmanship and outstanding leadership now as never before. We do not need division, for referendums will only polarize forces and work to the detriment of any recovery, socially, economically, or politically.

I do not envy you your position and work. Having been there, I know you, as well as most senators and representatives who are there, work hard, get little pay, and even less credit. Yet, as you know, it is a job which has to be done.

Sincerely yours,


William. E. Spahr

P.S. Maybe you would like to share this with some of your members. I also would like to add that if Feaver were on my staff and were I governor and had he come to a committee with threats as he did to your committee regarding changes and so on, I'd have kicked his butt out and as of 5 p.m. today he'd be somewhere slopping pigs.

SENATE TAXATION

EXHIBIT NO. 5

DATE 4-7-87

FILE NO. H. B. 904

NAME: Mary B Carlson DATE: 4/7/87

ADDRESS: Box 1147 Helena

PHONE: 442 - 3540

REPRESENTING WHOM? MT Society of CPA's

APPEARING ON WHICH PROPOSAL: HB 904

DO YOU: SUPPORT? AMEND? OPPOSE? XX

COMMENTS:

Opposed Because of the rate
structure proposed:

Large tax burden of income tax
is shifted dramatically
within 50% of the income
taxpayer

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

SENATE TAXATION

EXHIBIT NO. 6

DATE 4-7-87

BILL NO. H.B. 904

APRIL 7, 1987
TESTIMONY BY GARY B. CARLSON, CPA
ON BEHALF OF THE MONTANA SOCIETY OF CPAs

HB 904 - BEFORE THE SENATE TAXATION COMMITTEE

For over two months the Montana Society of CPAs has worked for tax simplification with members of this committee. It of course started with SB 307, evolved through the special subcommittee to this committee to become the "gray bill". Now our membership; even though in the pressure packed waning hours of tax season; are taking notice. Clients are beginning to call - of course upset - some members are seeing red.

I feel this episode is an analogy of the Pete (SB 307) and Repeat (HB 904) story.

We will not repeat our SB 307 story; much was accomplished between February 19 and the middle of March in compromise on the proposal for individual tax return filing simplification. Even last week - the spite was here - Rep. Harp proposed amending HB 904 and the alternative minimum tax was removed. We strongly oppose putting this provision back in - a major unknown impact.

Our membership is now telling us (the committee representing Montana CPAs) that they can't tell HB 904 is a "good book from the cover"!

The Montana Society goes on record as opposing HB 904 because of the rate structure contained in the bill. We feel strongly the bill is camouflaging a mammoth tax increase from the taxpayers of the State of Montana -- compounding the windfall with further income tax increases.

If this legislature must choose to raise additional revenue from individual income taxes, be up front with the taxpayers.

SENATE TAXATION

EXHIBIT NO. 6

DATE 4-7-87

BILL NO. H.B. 904

To refresh your recall of February 19th and February 24th when we presented the MSCPA database information: graphs from our nonstatistical database returns showed major increases in income taxes comparing the windfall to 1985 actual, SB 307 and another proposal alive at that time.

In February we emphasized the proposal was a major shift in tax burden. The shifting of responsibility to 50% of the individual income taxpayers.

These proposed rates (in HB 904) taken in tandum with fuel tax increases, workers' compensation costs, sales taxes and probably many others is hitting our main street businesses.

Take our successful druggist:

Schedule C	\$25,000
Wife	10,000
Interest & Dividends	4,300
Other income	1,500

Two IRAs	(4,000)	\$36,800	AGI
Children Raised -			
2 Exemptions			
Federal itemized deduction	<u>2,200</u>		

1985 actual tax	\$683
1987 (904) without surtax	\$2,130
10% surtax	<u>213</u>
	\$2,343
	=====

Increase: \$1,660
 % of Increase: 243%

We have rerun our now statistical database information to reflect HB 904 in comparison to the 1985 actual taxes, '88 no law change, HB 904, and changing 904 rates to 1, 3 & 5%.

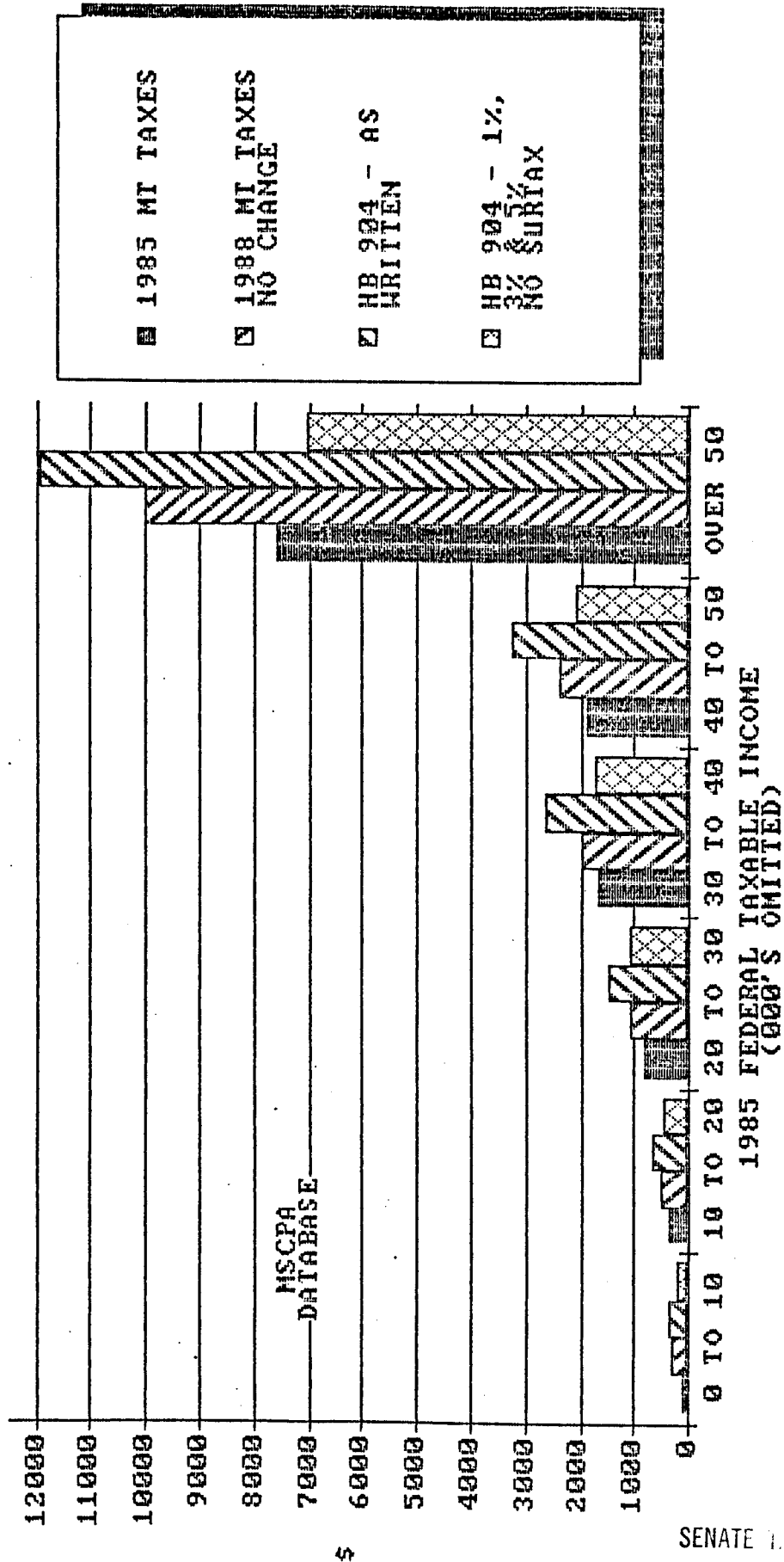
SENATE TAXATION

EXHIBIT NO. 6

DATE 4-7-87

BILL NO. 110

MONTANA TAXES UNDER VARIOUS PROPOSALS



SENATE TAXATION

EXHIBIT NO. 6

DATE 4-7-87

BILL NO. H.B. 904

We feel strongly this committee should recommend a permanent rate structure more closely paralleling the current revenue before the windfall and then be up front with the taxpayers on the amount of income tax surtax needed to meet your expenditure goals.

This will take lowering the rates and possibly broadening the proposed brackets -- changing to 1-3-5% isn't even enough.

If you can't find a strong concensus for lowering the rates in 904 and then we support leaving individual income tax law as is; but, tell the taxpayers plainly and clearly about the tax increase due to the windfall.

The comparative % of income taxes paid:

1984 - 48-50% of the taxpayers paid 82% of the taxes.

1985 - 50% of the taxpayers paid 92% of the taxes.

1987 - (307) 50% would pay 94%

HB 904 50 % would pay 95% - 47.5% by the top 10%

Some people will have fast feet. I have one client who left January 1, 1987. Two years ago we analyzed the difference between Montana and Arizona taxes - about \$200.

We discourage dangling separate new items on to HB 904 (such as Capital Gains.)

1986 - paid Montana \$2,500 taxes

1987 - paid Montana 0 taxes

5,000 returns X 2,500 = 12.5 million

10,000 returns X 2,500 = 25 million

We do favor tax simplification in filing Montana returns, but the price is too high (rates).

We strongly oppose HB 904 as presented with its current rates. It is a shift of tax burden.

SENATE TAXATION

EXHIBIT NO. 6

DATE 4-7-87

APRIL 7, 1987
TESTIMONY SUPPLEMENT
ON BEHALF OF THE MONTANA SOCIETY OF CPAs

HB 904 - BEFORE THE SENATE TAXATION COMMITTEE

MAINSTREET DRUGGIST:

Tax characteristics from 1985 return modified by TRA '86 changes to reflect 1988 taxable income.

	<u>1988</u>
Schedule C	\$25,300
Wife Compensation	10,000
Interest and Dividends	4,400
Other Income	<u>1,100</u>
Gross Income	40,800
 IRAs	 (4,000)
	=====
Adjusted Gross Income	\$36,800
	=====

Results in the same AGI as 1985 - therefore NO impact to this taxpayer on income side due to TRA '86.

Taxable income (1988):	
AGI	\$36,800
Standard Deduction	(5,000)
Exemptions	<u>(3,900)</u>
 Federal Taxable Income (1988)	 \$27,900
	=====

Montana income taxes		<u>Change</u>	<u>%</u>
1985 - actual	\$683		
1988 - no change in Montana law	718	+35	5%
1988 - HB 904, No Surtax	1,900	+1,217	178%
1988 - HB 904, 10% Surtax	2,090	+1,407	206%

This illustration differs from our oral presentation because it uses 1988 for calculations rather than 1987. Almost all other data presented to the committee has been 1988; therefore, we chose to use '88 for this illustration.

The basic reasons for changes in 1988 HB904 increases are:

- A) No deduction for federal income taxes
- B) Loss of ability to file married filing separately on Montana return.

SENATE TAXATION
EXHIBIT NO. 6
DATE 4-7-87
BILL NO. H.B. 904



THE MONTANA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
Diamond Block Building • 44 West Sixth Avenue • P.O. Box 138 • Helena, Montana 59624-0138 • Telephone 406/442-7301

April 13, 1987

TO: The Honorable George McCallum

FROM: Gary B. Carlson, Legislative Committee Chairman

RE: STATE INCOME TAX PROPOSALS

As a profession, we are concerned the *permanent* state income tax rates, under consideration by the legislature, camouflage a huge income tax increase, compounding the "windfall" with additional tax increases. Not only do we question Department of Revenue projections, we feel the public is unaware of the potential impact. In addition, the income tax burden shift reflected in current proposals is unacceptable. The \$208 million current law base revenue figure provided by the Department of Revenue includes a \$24 to \$30 million increase, known as the "windfall."

We do support rates of 2, 4 and 6 percent, with the addition of a *temporary surtax* to address the projected revenue shortfall, and broadened tax brackets. In this manner, legislators would be "up front" with taxpayers: an income tax increase is required to fund state revenue needs.

On the back, we have reproduced the tax profile of a Main Street business, distributed to the Senate Tax Committee on April 7, which shows the impact of various tax scenarios.

We question the simplification aspect of continuing capital gains at the state level. The deviation from federal policy complicates the return filing process.

If you would like additional information, please contact me at 442-3540.

SENATE TAXATION

EXHIBIT NO. 6

DATE 4-7-87

FILE NO. 4.B 904

APRIL 7, 1987
TESTIMONY SUPPLEMENT
ON BEHALF OF THE MONTANA SOCIETY OF CPAs

HB 904 - BEFORE THE SENATE TAXATION COMMITTEE

MAIN STREET BUSINESS:

Tax characteristics from 1985 return modified by TRA '86 changes to reflect 1988 taxable income.

	<u>1988</u>
Schedule C	\$25,300
Wife Compensation	10,000
Interest and Dividends	4,400
Other Income	<u>1,100</u>
Gross Income	40,800
IRAs	(4,000)
	=====
Adjusted Gross Income (AGI)	\$36,800
	=====

Results in the same AGI as 1985 - therefore there is NO impact to this taxpayer on income side due to TRA '86.

Taxable income (1988):	
AGI	\$36,800
Standard Deduction	(5,000)
Exemptions	<u>(3,900)</u>
Federal Taxable Income (1988)	\$27,900
	=====

Montana income taxes		<u>Change</u>	<u>%</u>
1985 - actual	\$683		
1988 - no change in Montana law	718	+35	5%
1988 - HB 904, (4,6,8%) No Surtax	1,900	+1,217	178%
1988 - HB 904, 10% Surtax	2,090	+1,407	206%

This illustration differs from our oral presentation because it uses 1988 for calculations rather than 1987. Almost all other data presented to the committee has been 1988; therefore, we chose to use '88 for this illustration.

The basic reasons for changes in 1988 HB904 increases are:

- A) No deduction for federal income taxes
- B) Loss of ability to file married filing separately on Montana return.

Amend House Bill No. 904, Second Reading Copy

1. Page 27, line 4.

Following: "received"

Insert: "by a person, who retires on or after January 1, 1988,"

2. Page 27.

Following: line 7

Insert: "(d) all benefits received by a person, who retires before January 1, 1988, as an annuity, pension, or endowment pursuant to any public retirement plan under Title 19, chapters 3 through 9 and 13;"

jhl/hb904cw4.txt

SENATE TAXATION

EXHIBIT NO. 7

DATE 4-7-87

BILL NO. HB 904

NAME Mons L Teyden ^{House} BILL NO. 904
ADDRESS Box 1679 Helena DATE 4/7/87
WHOM DO YOU REPRESENT HL 5 stockgrowers & cattlewomen
SUPPORT _____ OPPOSE X AMEND _____

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

Our organizations do not believe that increasing income taxes is the way to achieve tax equity. We have suggested instead the passage of a sales tax such as HB 377.

On a personal note, as a recent retiree the depletion of retirement benefits, annuities etc is resented. This bill if enacted would increase my own income tax to the state by 12 1/2%. Please do not pass.

SENATE TAXATION

EXHIBIT NO. 8

DATE 4-7-87

BILL NO. H.B. 904



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Montana 59401

Members:
Midwest Stock
Exchange Inc.
Pacific Stock
Exchange Inc.
Securities Investor
Protection Corp.

April 7, 1987

Senator George McCallum, Chairman
Senate Taxation Committee
Helena, Montana

Re: Sales Tax on Brokerage Commissions

Dear Senator McCallum

Section 1 of Senate Bill 395 presently provides that a tax be imposed upon total commissions or fees derived from the sale or purchase of securities. It is my understanding that the sub-committee of the Senate Taxation Committee is contemplating including this provision within House Bill 377 as an alternative sales tax proposal. The Securities Industry Association and D. A. Davidson & Co. in particular vigorously oppose inclusion of a tax on personal services relating to the sale and purchase of securities.

We believe that the operation and structure of the securities industry is unique and one in which state taxes on commissions from stock, bonds and other securities transactions can be virtually uncollectable. The securities business may be transacted from almost anywhere in the country because most brokers have 800- number line for their clients use. In the event Montana decides to place a tax of any consequence on the commissions paid by the customer, those citizens wishing to avoid the tax can do so simply by opening an account with a broker out-of-state. The state of Montana would create an incentive, by taxation for business to leave the state.

Moreover, by placing a tax on commissions, either sales or another type of tax, you would disadvantage those broker dealers who have chosen to live, do business, and pay taxes in the state of Montana. Out-of-state brokers could prospect clients in the state of Montana by offering the absence of the sales tax. In our opinion, as the oldest brokerage firm located within the state of Montana with over fifty years experience in securities sales and marketing, out-of-state brokers with this type of advantage would be extremely successful.

There is a second important aspect of placing Montana based brokers at a disadvantage to securities firms. Characteristically, Montana based securities firms will be the first place Montana corporations go when seeking to raise capital. On the industry side, a Montana office of a broker will be most inclined to try to raise capital for a Montana based business, helping themselves as they help the client. If a sales tax were imposed in Montana, out-of-state brokers

SENATE TAXATION

EXHIBIT NO. 9

DATE 4-7-87

BILL NO. H.B. 377


would have an advantage over in-state brokers in terms of an investment banking function since they could offer to sell the securities of the business without the burden of a sales tax. This would have the effect of making Montana businesses look outside the state for their venture capital and restrict the ability of Montanans to participate in successful businesses located within the state.

Taxes are collected efficiently only where a state has a captive audience and it is inconvenient for a taxpayer to avoid paying the tax. Property income taxes are inconvenient to avoid for they involve moving one's residence. In this case, imposing a sales tax on securities transactions does not involve a captive audience and it is convenient to avoid them with a simple phone call.

Finally, it should not be forgotten that a substantial number of citizens of Montana are retired and live on the income generated through past investments, particularly securities. This tax will place an additional cost directly on those cost conscious individuals, and provide an incentive for them to look elsewhere to do their securities business.

We respectfully urge you to either remove the provisions of Senate Bill 395 which tax securities transactions or to provide an adequate exemption.

Sincerely,


Bruce A. MacKenzie
Vice President & General Counsel

BAM/gjw

SENATE TAXATION

EXHIBIT NO. 9

DATE 4-7-87

BILL NO. H.B. 377

ROLL CALL VOTE

SENATE COMMITTEE TAXATION

Date April 7, 1987 Bill No. HB 377 Time 2:07 P.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 Crippen's motion to leave the provisions in
the grey bill pertaining to exemptions for food and drugs
and in addition add to the bill rebate provisions.

The motion failed 5-7.

ROLL CALL VOTE

SENATE COMMITTEE TAXATION

Date April 7, 1987 Bill No. HB 377 Time 2:15 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 Hirsch's motion to adopt the exemptions
section 9-22. The motion carried 9-3.

ROLL CALL VOTE

SENATE COMMITTEE TAXATION

Date April 7, 1987 Bill No. HB 377 Time 2:20 P.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 Halligan's motion to exempt advertising.

The motion carried 7-5.