

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 51st LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By Chairman Harrington, on March 6, 1989, at 9:00 a.m.

ROLL CALL

Members Present: All

Members Excused: None

Members Absent: None

Staff Present: Dave Bohyer, Legislative Council

Announcements/Discussion: Chairman Harrington announced there would be a time allocation of one hour and fifteen minutes each for the proponents and opponents testimony. He also stated a subcommittee would be appointed for this bill and that all technical and committee questions would be held at a later date due to time restrictions.

HEARING ON HOUSE BILL 747

Presentation and Opening Statement by Sponsor:

Rep. Dorothy Bradley, House District 79, requested that other senators and representatives be given the first opportunity to speak in support of the bill since they had other meetings to attend. Rep. Bradley stated the bill was a citizens work product covering the last two years and the intent is to solve five specific problems. The first is the chronic revenue shortfalls in the state. The second is the education costs. The third problem is higher education where the faculty salaries are the lowest in the nation. The fourth problem is local government which has an eroded and frozen tax base. The fifth problem is property taxes that are making Montana fall behind in development, both economical and educational. She stated her bill was broad based, a substantial part of the revenue was earmarked for a rebate, contains a narrow business focus so as to avoid large property tax relief for big corporations, and solves the five problems listed. She stated amendments had been proposed to the bill including Senator Eck's revision of the rebates, a consideration of a renter's credit, and possible exemption of gas and electric utilities for homes and businesses. Rep. Bradley said a lot of the revenue is lost if this is done but that it was a consensus that these are basic necessities and should not be taxed. She said there is a fourth amendment regarding taxing construction material

rather than the end product such as a house.

Testifying Proponents and Who They Represent:

Senator Bruce Crippen, Senate District 45
Senator Dorothy Eck, Senate District 40
Senator Dick Pinsoneault, Senate District 27
Senator Esther Bengtson, Senate District 49
Rep. Jack Ramirez, House District 87
Senator Larry Tveit, Senate District 11
Rep. Don Steppler, House District 21
Rep. Bob Gilbert, House District 22
Rep. John Johnson, House District 23
Senator Cecil Weeding, Senate District 14
Dennis Burr, Montana Taxpayer's Association
Eric Fever, Montana Education Association
Pat Melvey, Underfunded School Coalition
Mike Malone, Montana State University
Maxine Johnson, Montana Chamber of Commerce Tax Committee
Ben Havdahl, Montana Motor Carriers Association
Tammy Hall, Concerned Citizen, Helena
Jim Crane, Publisher, Helena Independent Record
Morris Jaffey, Concerned Citizen, Bozeman
David Large, Professor, Montana State
Gordon Morris, Montana Association of Counties
Bill Shields, Great Falls Chamber of Commerce
Tim Harris, Montana Independent Living Project
Don Lambrose, Montana Ambassadors
Bryan Harlan, Montana State Association of Students
Peggy Haaglund, Executive Vice President, Montana
Association of Conservation Districts
Sharon Cleary, Montana Association of Realtors
Tony Wellwell, Montana Hospital Association
Chase Hibbard, Montana Stockholders Taxation Committee
Kay Foster, Billings Chamber of Commerce
John Lawton, City Administrator and City Council
Representative, Billings
Carol Daley, Montana Small Manufacturing Association
John Nehring, Concerned Citizen, Bozeman
Hayden Ferguson, Concerned Citizen, Bozeman
Charles Walk, Executive Director, Montana Newspaper
Association
Lori Shadoan, Chamber of Commerce, Bozeman
Dave McClure, President, Montana Farm Bureau
Claudette Morton, Executive Secretary, Board of Public
Education
Leon Staleup, Montana Restaurant Association

Proponent Testimony:

Senator Crippen stated he supported HB 747 because the state needs revenue. He said there was an unwillingness or inability to curb spending on the part of the past and the present legislatures. Sen. Crippen stated there is an increased demand for state services and there are many

serious problems such as the education crises, the loss of faculty and programs at the university level, and the wage freeze for state employees. He stated there had also been a property tax revolt with the resultant passage of CI27 and I105. Sen. Crippen said there had been many complaints from citizens that the tax rates in Montana are much too high. He said a sales tax would help balance the tax system. Sen. Crippen stated the state system places too much emphasis on income tax and property tax creating an imbalance. He said there must be more emphasis on the excise sales tax area in the tax system. Sen. Crippen stated many legislators and interest groups oppose the sales tax but they have not offered any viable alternative method to solve the state's many problems.

Senator Dorothy Eck said the state is badly in need of tax reform. She submitted a proposed amendment to the committee that addressed the rebate issue in the bill. (Exhibit 1). Sen. Eck stated poverty level income should be exempt from income tax. She said the rebate issue in the sales tax bill is based upon gross household income. This calculation includes social security, child support, retirement income, and public assistance. She stated these are not included in the Montana adjusted gross income. Sen. Eck said, for that reason, this is higher than the family's adjusted gross income. She stated that according to the Bureau of Labor Statistics, a family of three with an income of \$13,000.00 annually would pay \$100.00 per person in sales tax but with the rebate, this amount would be refunded to them. Sen. Eck said any used items such as a used car or clothing that is purchased is not taxed under this bill. She said many low income people buy such items. She urged support of the bill.

Senator Dick Pinsoneault stated he supported HB 747 because it contains provisions that will provide the protection he believes all the Montana citizens favor. He stated the sales tax would provide a viable revenue source for the state's critical problems. Sen. Pinsoneault said the sales tax will be voted on by the people and food and medicines are excluded. He said the sales tax will also provide substantial property tax relief and the rate of the sales tax cannot be increased without a vote of the people. Sen. Pinsoneault stated the fiscal woes of the state must be addressed. He urged support of the bill.

Senator Esther Bengston stated she proposed a sales tax bill in the last session that failed. She said the tax system imbalance must be addressed and there is greater pressure to do this in the current legislature. Sen. Bengston stated the information on this bill should be given out to the people as soon as possible. She urged support of the bill.

Rep. Jack Ramirez stated he saw no other alternative to the fiscal problems of the state but the implementation of a

sales tax. He said the school equalization problem is a major crises, the property tax burden must be addressed, and the budget imbalance that continues each year must be solved. He stated most of the money raised by the sales tax would go to reduce other taxes. Rep. Ramirez said taxes should be based on the ability to pay and the tax structure currently is improperly structured so that certain people are missed such as those who can shelter all of their income. He said high income and property taxes do not encourage economic development since many industries will not locate in the state when there are less expensive areas. He urged that the committee pass the bill so it could be debated in full on the house floor.

Senator Larry Tveit stated the legislature needed to look to the future of the state. He said revenue is badly needed to solve the many current financial problems. Sen. Tveit stated Montana is an energy rich state, much of which has not as yet been tapped. He stated there is the possibility of increased revenue and jobs from the state's energy sources. However, he said any increase in property taxes would be detrimental to the economic development of the state. Sen. Tveit said he had talked to many business owners who have said they would not locate in Montana due to the tax structure. He stated the sales tax is an alternative to the financial problems facing the state and would not be detrimental to much needed economic development.

Rep. Don Steppler said the state needs a more equitable tax structure. He said the sales tax should be viewed as an alternative to increasing property taxes or the surcharge on state income tax. He asked that the committee consider the proposal carefully.

Rep. Bob Gilbert stated the sales tax would balance the tax system. He said the income tax structure is unfair and the property taxes are too high. He stated this is causing people to leave the state. Rep. Gilbert said the sales tax is the balancing link needed in the state.

Rep. John Johnson stated he was opposed to a sales tax but realized the alternatives were not the solution. He stated he supports the bill as long as the public has the right to vote on it.

Senator Cecil Weeding stated he supported the sales tax primarily due to the school equalization problem. He stated the bill was a good bill and the people would have the opportunity to vote on it.

Dennis Burr stated the personal property taxes in Montana are out of balance not only with other property taxes in the state but with the tax rates imposed in other states. He said that during the last ten to twelve years, property

taxes on real estate and developments have continually been lowered but the rates on personal property taxes are the same as they were in 1975 resulting in an erosion of the property tax base. Mr. Burr stated Montana now has the highest property tax rates and the highest marginal income tax rates in the nation. He said the state has lost over \$300,000,000.00 in property taxes since 1985. As a result of this loss, the school levies do not produce as much money, nor is the foundation funded as well as it once was. Mr. Burr stated this also places an additional burden on the state general fund. He said his organization agrees with the utilities exemption but no tax reduction for utility businesses. He also stated his organization opposes the public vote on the sales tax bill since they feel this is a legislative decision.

Eric Fever thanked Rep. Bradley for her courage in introducing the sales tax bill and the cosigners of the bill. He stated the revenue needs of the state are enormous in human services, infrastructure development, the institutions, public employee compensation, local government, and others. Mr. Fever stated the current revenue producing methods are not sufficient and it is time for serious tax reform. He said the bill is broad based and progressive, taxes a wide array of retail services and goods, but food and medicines are exempted plus low income people receive a rebate. He urged support of the bill.

Pat Melvey stated his coalition brought the lawsuit that resulted in the supreme court decision that the current funding method was unconstitutional. He stated his organization supports any measure that will solve the equalization problems. He urged support of HB 747.

Mike Malone said the state is in a desperate situation. Mr. Malone said Montana income was the highest in the nation in 1950 but currently continues to decline. He said the education system is in peril due to the funding shortages and the low faculty salaries are causing the best teachers to leave the state. Mr. Malone stated there is a great need to face the current problems and take action for the present and the future.

Maxine Johnson spoke in support of the bill. (Exhibit 2).

Ben Havdahl spoke in support of the bill. (Exhibit 3).

Tammy Hall stated she realized there is no easy solution to the state's financial crises. She thanked Rep. Bradley for her courage in sponsoring the sales tax bill and thanked the other legislators for crossing party lines to make this a bipartisan bill. She stated Montana has a great education system and it is vital that this be retained. She said tourism is one of the state's major resources and the sales tax would increase the revenue from this source. Ms. Hall

stated she had a mentally retarded daughter and many people with this problem need assistance. She was also in support of the vote of the people on HB 747. She urged passage of the bill.

Jim Crane spoke in support of the bill. (Exhibit 4).

Charles Walk spoke in support of the bill proposing an amendment to exempt newspapers from the sales tax. (Exhibit 5).

Morris Jaffey said everyone cannot always do everything for themselves. He said the state has not really faced the numerous problems that must be solved. Mr. Jaffey said the bill had been carefully thought out and a great amount of work had gone into it. He urged passage of the bill.

David Large stated higher education in the state was not attracting new young faculty and was also losing experienced instructors as well. Mr. Large said there would soon be a major exodus if a solution to the lack of funds is not found. He said he saw no alternative but the sales tax and therefore urged support of the bill.

Gordon Morris stated he had worked with Rep. Bradley on the bill during the interim and he offered his services as a property tax expert to assist the committee in the examination of the property tax structure as proposed in HB 747. He urged support of the bill and stated the legislature should deal with the issue of costs of the special election on the bill at the present time.

Bill Shields stated his organization supports the concept of the sales tax if it leads to property tax and general tax relief. Mr. Shields said HB 747 represents a compromise but does address a number of important issues. He said the bill does provide some property tax relief and addresses recessivity through the rebate provision. Mr. Shields stated the bill also addresses the problems of funding for higher education and the public education system plus providing needed revenue for local governments and the general fund. He urged support of the bill.

Tim Harris spoke in support of the bill. (Exhibit 6).

Dan Lambrose stated his organization, the Montana Ambassadors, supports and encourages economic growth in the state but Montana is losing ground. He said 12,000 jobs have been lost in the private sector. Since 1980, 28,000 people have left the state. He said his organization is alarmed with the state's economic condition. Mr. Lambrose stated there are three major areas of concern which are jobs, quality education and opportunity. He stated excessive property and income taxes have defeated economic development. He urged support of the bill as a step forward

in finding solutions to these major problems.

Brian Harlan stated the students at Montana State University held an election in which the sales tax bill passed. He said their main concern is the needs of education in the state today and urged passage of the bill.

Peg Haaglund spoke in support of the bill. (Exhibit 7).

Sharon Cleary spoke in support of the bill. (Exhibit 8).

Tony Wellwell stated his organization supported HB 747.

Chase Hibbard stated his organization supported the bill primarily because of the property tax reduction.

Kay Foster spoke in support of the bill. (Exhibit 9).

John Lawton stated the Billings City Council had voted to support a non-regressive sales tax that would provide some funding for local government. He said HB 747 met those requirements.

Carol Daley stated during the last few years, the property tax on the equipment of the small manufacturers she represents, had exceeded their profit and for this reason, they support HB 747.

John Nehring spoke in support of the bill. (Exhibit 10).

Lori Shadoan stated the Bozeman Chamber of Commerce supported the bill.

Hayden Ferguson spoke in support of HB 747. (Exhibit 11).

Dave McClure submitted written testimony only in support of the bill. (Exhibit 12).

Claudette Morton submitted written testimony in support of HB 747. (Exhibit 13).

Leon Staleup submitted written testimony in support of the bill. (Exhibit 14).

Testifying Opponents and Who They Represent:

Joe Tropila, Cascade County Commissioner
Joe Upshaw, Concerned Citizen
Larry Ward, Hard Rock Miner
John Faye, Concerned Citizen
Sam Ryanson, Montana Senior Citizens Association
Dan Young, Concerned Citizen, Billings
Ken Nortveldt, Director, Department of Revenue
Nadiean Jensen, Montana State Council No. 9
Rep. Hal Harper, House District 44

Don Miller, Concerned Citizen
Bob Heiser, United Food & Commercial Workers International
Union
Dan Edwards, International Representative, Oil Chemical
Companies
Ron De Yong, Montana Farmer's Union
Chester Kensley, Montana Senior Citizens Association
Bruce Nelson, Montana Democratic Party Chairman
Judy Jacobson, Senate District 36
James Mular, Chairman, Montana Joint Rail Labor Legislative
Council
Earl Reilly, President, Montana Senior Citizens Association,
Inc.
Don Jensen, AFL-CIO
Joseph Warr, Rainbow Coalition Legislative Coordinator
Gene Fenderson, Montana State Building & Construction Trades
Council
Dave Delzel, Brotherhood of Locomotive Engineers
Diane Sands, Women's Lobby
Marcia Schreder, Co-Chair, Montana Low Income Coalition &
Vice-President, Montanans for Social Justice
Ed Sheeny, Retired Federal Employees
Walt Morris, Business Manager, Bricklayers and Stone-Masons
Union
Walt Costello, Concerned Citizen
John Finch, President, Local Steelworkers Union, East Helena
Derek Peterson, Concerned Citizen
Bobby Newcomb, Concerned Citizen, Helena
Rita Sheehan, Concerned Citizen
John Manzer, Montana Teamsters
Mark Lindsay, Montana Building Industry Association
Charles Brooks, Montana Retail Association
Don Chance, Montana Building Industry Association
Mark Meek, President, Helena Homebuilders Association

Opponent Testimony:

Joe Tropila stated he was neither for nor against the bill but wished to point out several problems. He stated the planned June 13 election would be costly and there would not be sufficient time to prepare. He said there would not be time for absentee ballots to be sent out and returned. He stated the election for the sales tax, if passed, should be held the following year. Mr. Tropila said it would cost the state approximately \$500,000.00 to conduct this special election and these funds are not available in any state budget. He said plans should be made for the cost of the election before passing the bill.

Chairman Harrington asked Mr. Tropila at this point, if he was saying it would be impossible to hold the election on June 13. Mr. Tropila replied it would not, but there must be funding provisions and all of the necessary preparations would be very difficult to achieve by that date.

Joe Upshaw spoke in opposition to the bill. (Exhibit 15).

Larry Ward stated the sales tax would be a burden on the citizens of Montana. He expressed concern that the tax would be continually increased in future sessions of the legislature. He urged opposition to the bill.

John Faye stated his net income was \$14,000.00 annually. He said that 4% of this amount is \$587.20. He said this is not money that will be spent at any store but will be taken as taxes. He stated he did not believe this would be a gain. He said there must be other ways to provide funds, especially by avoiding duplicity in the state government.

Sam Ryanson stated his organization was strongly opposed to any type of sales tax. He urged opposition to the bill.

Dan Young stated he was not opposed to taxation if it was evenly distributed but he said the sales tax would give unfair advantage to corporations. He said he would support fair taxation, but not HB 747.

Ken Norddvelt stated he wished to express several concerns the administration had with HB 747. He stated they were trying to keep spending growth under control. Dr. Norddveltdt said the total tax burden is paid primarily by middle income people. He said if the bill reaches the vote of the people, it should be accompanied by a referendum for a constitutional spending limit. He urged the committee to strongly consider this proposal. Dr. Norddveltdt stated the school equalization is the major item facing the legislature. He said there would be a need of approximately \$200,000,000.00 a year for this solution alone. He stated a spending limit was crucial.

Nadiane Jensen spoke in opposition to the bill. (Exhibit 16).

Rep. Hal Harper stated he believed the fate of HB 747 was critical in terms of what would happen to the tax reform efforts in the state. He said the sales tax is perceived as the only viable solution to tax reform. He said the governor prefers a sales tax as a funding solution and is setting the stage for a sales tax vote. He stated the governor's property tax relief bill has no replacement revenue and is therefore not realistic. Rep. Harper said the legislators supporting the bill are not supporting any other source of new revenue. He stated credit must be given to Rep. Bradley and others who signed the bill for their courage in presenting a sales tax so it could be debated and voted upon, and then the state can move on to other means of tax reform. Rep. Harper said any other means of tax reform lessens the need for the sales tax. He said other efforts at reform have been rejected repeatedly in the past few years. He stated that, if the bill passes in the

legislature, the people must be given enough time to consider it before voting and the June 13 election is not sufficient time. He said this should be done at the next general election. Rep. Harper stated a sales tax is not the only way to balance the budget and it is the duty of the legislators to act responsibly in this situation.

Don Miller stated he wished to commend Rep. Bradley's courage in presenting HB 747. He said the proponents have stated the sales tax is needed to relieve property tax and encourage economic development. Mr. Miller stated with Montana's anti-business attitude, this is not likely to occur. He said the state's regulations and taxes discourage any new business development. He stated education costs could be lowered by cutting the excessive administration costs. He stated he did not stand in support of or in opposition to the bill but he wished to see the bill go to a vote of the people.

Bob Heiser spoke in opposition to the bill. (Exhibit 17).

Dan Edwards stated he grew up in Colorado and he recalled the beginning of a sales tax in that state. He said the tax was raised continually and exemptions to the tax were systematically removed. Mr. Edwards stated he believes the same thing would happen in Montana. He urged opposition to the bill.

Ron De Yong spoke in opposition to the bill. (Exhibit 18).

Chester Kensley stated his organization was strongly opposed to the sales tax. He said the tax would hurt senior citizens and benefit rich corporations. Mr. Kensley stated the rebate provision was not adequate. He said the tax was unfair and urged opposition to the bill.

Bruce Nelson spoke in opposition to the bill. (Exhibit 19).

Senator Judy Jacobson stated she does not believe the people of Montana want a sales tax. She commended the sponsor for her courage but she stated the sales tax is still regressive and effects those least able to pay. She agreed there is a need for new revenue and funding but does not believe a sales tax is the answer. She stated there were other concerns that need to be addressed and all of the problems could not be solved in one two year period. She urged opposition to the bill.

James T. Mular spoke in opposition to the bill. (Exhibit 20).

John Manzer stated the majority of the people in his organization are opposed to any form of sales tax. Mr. Manzer said the bill was deceptive and would place another tax on the middle income people of the state and give the

corporations tax breaks. He stated the coal severance tax is for the future and the future is now. He said this can be used instead of imposing another tax. Mr. Manzer stated education needs assistance but the correction lies in eliminating the excess school districts and administration positions. He urged opposition to the bill.

Earl Reilly spoke in opposition to the bill. (Exhibit 21).

Don Judge spoke in opposition to the bill. (Exhibit 22).

Joseph Warr stated his organization is opposed to HB 747. He stated the committee should think about the Burlington Northern Railroad who will benefit greatly from this tax. He stated the extra money they receive will not be invested in the state as they have previously done, according to Mr. Warr. He urged a do not pass on the bill.

Gene Fenderson spoke in opposition to the bill. (Exhibit 23).

Dave Delzel stated the legislation is unfair and the members of his organization opposes HB 747.

Diane Sands stated her organization opposes HB 747. She said they would only support taxes that are based on the ability to pay. Ms. Sands stated that since women are consistently in the lower income brackets and are not paid as much as men in any position, they would be severely impacted by this legislation. She urged a do not pass on this bill.

Marcia Schreder spoke in opposition to the bill. (Exhibit 24).

Ed Sheeney stated the majority of the members of his organization oppose the sales tax.

Walt Morris spoke in opposition to the bill. (Exhibit 25).

Walt Costello spoke in opposition to the bill. (Exhibit 26).

John Finch stated his organization's membership strongly opposed the bill.

Derek Peterson strongly opposed the bill and urged defeat.

Bobby Newcomb urged opposition of the bill.

Rita Sheehan urged defeat of the bill.

Mark Lindsay submitted written testimony in opposition to HB 747. (Exhibit 27).

Charles Brooks submitted written testimony in opposition to HB 747. (Exhibit 28).

Don Chance submitted written testimony in opposition to HB 747. (Exhibit 29).

Mark Meek submitted written testimony in opposition to HB 747. (Exhibit 30).

Questions From Committee Members: Due to time constraints, Chairman Harrington stated questions would be taken at a later date in executive session on the bill and Rep. Bradley would be asked to attend.

Closing by Sponsor: Rep. Bradley thanked the committee, the proponents, and opponents for a good discussion on a difficult issue. She stated nothing in the way of new revenue has been forthcoming in the session so far. Rep. Bradley stated the administration has proposed a property tax relief bill but it does not include any revenue replacement. She said HB 747 does guarantee replacement. Rep. Bradley stated she was in favor of the public employees receiving a long awaited increase in salary but there must be new revenue to provide for this. She said she had joined other committee members in the last session to pass a bill for a three cent increase in gasoline and diesel fuel. She said the tax is the highest in the nation and is also a sales tax on one of the basic necessities in the state. She stated the rationale for this was the creation of jobs. Rep. Bradley said her bill will create jobs and she felt that everyone on the committee should realize that there comes a time when they all must compromise in certain circumstances regarding sales taxes. Rep. Bradley stated she had worked hard and will continue to work hard to provide for the needy in her human services subcommittee but she stated the state is not providing for these people. She said she had never received any support from Mr. Bruce Nelson, Democratic Party Chairman, for her human services needs but had received a three page letter opposing the sales tax bill. Rep. Bradley stated there is a great need to fund human services programs and the sales tax would assist in this area and that was the primary reason for her introduction of HB 747.

DISPOSITION OF HOUSE BILL 747

Motion: None.

Discussion: None.

Amendments, Discussion, and Votes: None.

Recommendation and Vote: Chairman Harrington stated he will appoint a subcommittee to work on HB 747.

NOTE: Ken Nordtveltdt, Director of the Department of Revenue submitted written testimony on March 7 explaining his remarks about HB 747. (Exhibit 31).

ADJOURNMENT

Adjournment At: 11:55 a.m.



REP. DAN HARRINGTON, Chairman

DH/lj

5215.min

DAILY ROLL CALL

TAXATION

COMMITTEE

51st LEGISLATIVE SESSION -- 1989

Date March 6, 1989

| NAME | PRESENT | ABSENT | EXCUSED |
|---------------------------|---------|--------|---------|
| Harrington, Dan, Chairman | ✓ | | |
| Ream, Bob, Vice Chairman | ✓ | | |
| Cohen, Ben | ✓ | | |
| Driscoll, Jerry | ✓ | | |
| Eliott, Jim | ✓ | | |
| Koehnke, Francis | ✓ | | |
| O'Keefe, Mark | ✓ | | |
| Raney, Bob | ✓ | | |
| Schye, Ted | ✓ | | |
| Stang, Barry | ✓ | | |
| Ellison, Orval | ✓ | | |
| Giacometto, Leo | ✓ | | |
| Gilbert, Bob | ✓ | | |
| Good, Susan | ✓ | | |
| Hanson, Marian | ✓ | | |
| Hoffman, Robert | ✓ | | |
| Patterson, John | ✓ | | |
| Rehberg, Dennis | ✓ | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |

EXHIBIT 1

DATE 3/6/89

HB 747

*Rep. Dorothy
Brasley*

Amendments to House Bill No. 747
First Reading Copy

Requested by Senator Dorothy Eck
For the Committee on Taxation

Prepared by Dave Bohyer
March 6, 1989

1. Pages 53 and 54.

Following: line 24 on page 53

Strike: line 25 on page 53 through line 11 on page 54

| | | |
|-------------|-----------------|-------|
| Insert: "\$ | 0 - 12,999 | \$100 |
| | 13,000 - 14,999 | 50 |
| | 15,000 - 19,999 | 25" |

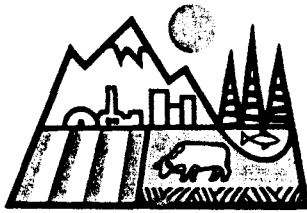


EXHIBIT 2
DATE 3/6/89
HB 747
Rep. H. Bradley

MONTANA CHAMBER OF COMMERCE

P. O. BOX 1730

• HELENA, MONTANA 59624

• PHONE 442-2405

Testimony by Maxine C. Johnson, Chairman
Tax Committee of the Montana Chamber of Commerce

House Taxation Committee March 6, 1989

The Montana Chamber of Commerce supports HB 747. We see the bill as the compromise it is, developed in good faith by Montanans with varying viewpoints. We hope you will support it, for the following reasons.

It is a tax reform measure which will encourage economic development. Our members are willing to support a sales tax only if it involves property tax reform. This bill reduces property taxes for residential and personal property and combines property classes for greater equity. The high personal property tax, which has been sending an anti-business signal, will be lowered. The bill will help solve our school equalization problems, and it will provide some new money for the university system. Good public schools and universities are essential for economic growth.

HB 747 will create a more balanced tax system. Some of you will recall the tax conference sponsored by our two universities before the 1987 session. The tax experts from out of state who discussed Montana's tax system at the conference almost without exception - - - and regardless of political persuasion - - - subscribed to the 3 legged stool concept of state and local taxation. That is, a system based on property, income, and retail sales taxes. They said something many of us did not want to hear -- that we need a sales tax in this state.

Chamber members believe these experts were right. It has become obvious that property taxes and income taxes just won't do the job. We need a new source of revenue, to provide the necessary funding for education, and to eliminate existing property tax inequities which are hurting our prospects for economic development.

While the Montana Chamber supports the bill in general, we recommend two changes. First, we strongly recommend the exemption of all utility charges. And second, we are strongly opposed to the requirement of a vote by the general electorate. We believe legislators are elected to make these tough decisions, and we believe the public will except this bill as your best option. We don't, however, believe they will vote a sales tax, or any other new tax, on themselves.

EXHIBIT 2
DATE 3/6/89
HB 747
Rep. H. Bradley

We remind you of the recent Oregon experience, where before the election the large majority of the voters told pollsters they favored a sales tax. As you all know, they changed their minds when they got to the voting booth.

We urge your careful and favorable consideration of this bill, which we believe is in the best interest of the state. And we urge you to make the decision without a referendum.

EXHIBIT 3
DATE 3/6/89
HB 747
Rep. W. Bradley

STATEMENT OF MONTANA MOTOR CARRIERS ASSOCIATION
TO THE HOUSE COMMITTEE ON TAXATION
ON HB 747 - SALES & USE TAX BILL

Mr. Chairman and members of the Committee. For the record, my name is Ben Havdahl and I am the Executive Vice President of the Montana Motor Carriers Association. MMCA has some 325 motor carrier members ranging in size from one truck operators to carriers with fleets of 300 plus trucks. 95% of them operate in interstate commerce and a large number operate in both interstate and intrastate commerce. MMCA also has some 125 supplier members. All MMCA members will be impacted by the enactment of HB 747.

MMCA supports the concept of the sales and use tax as proposed in HB 747. We support the general property tax relief in the bill although it does not, in our opinion, provide any relief from high personal property taxes assessed on our industry's trucks and trailers. We do feel that the sales and use tax concept that HB 747 will enact is a logical way to adequately finance the needs of state government and other major needs that this Legislature has to address.

We are opposed to other alternatives to fund these needs, namely increased property taxes and/or income taxes.

MMCA does have some problems with certain provisions, or the lack of certain provisions in HB 747 as it now stands and would like to offer suggestions for amendments to the bill in the areas affecting the motor carrier industry in Montana.

EXHIBIT 3
DATE 3/6/89
HB 747
Rep. K. Brinkley

On page 18 in Section 20 of the bill, gasoline or ethanol blended for fuel on which the Montana gasoline tax has been paid is exempt from the proposed sales and use tax.

MMCA would respectfully ask that a similar exemption be placed in the bill for special fuels including diesel fuel on which the Montana special fuels tax has been paid.

It is to be noted that House Bill 747 is based on and appears to be a composite of a similar bill passed by the Senate in the 1987, Legislature, namely HB 377 which was in turn a composite of several sales and use tax bills introduced in that session. The Legislature in 1987, included special fuels including diesel fuel upon which the Montana special fuels tax had been paid along with gasoline as being exempt from sales and use taxes. These fuels are also exempted by other jurisdictions that have enacted a similar sales and use tax law.

Three other sections of the bill deal with deductions from the gross receipts of common carriage of interstate and intrastate property and passengers.

Section 35 (1) on page 25 provides for a deduction of receipts from a transaction in interstate commerce from gross receipts to the extent that the imposition of the sales tax or use tax would be unlawful under the U.S. Constitution. It would appear that this language is broad in its application and would include freight and passengers transported by a for-hire carrier and other carriers operating in interstate commerce.

EXHIBIT

3

DATE

3/6/89

HB

747

Rep. H. Bradley

Section 36 on page 26 further clarifies this deduction in the movement of property and persons in intrastate transportation service, but only if the movement is an extension of a transportation movement of property and persons in interstate or foreign commerce. This provision would presumably include all modes of transportation including regulated motor carriers, private carriers, exempt commodity truckers, railroads and airlines.

However the bill in Section 53 on page 38 requires only a for-hire motor common carrier engaged in interstate or intrastate commerce transportation of property or persons to register as a retailer and pay the tax imposed by HB 747...not collect and pay, but pay the taxes to the state. It would appear that the liability for payment of the taxes to the state is placed on only an intrastate or interstate motor carrier operating under authority by ICC or the Montana PSC. The bill does not place a similar requirement on a private carrier transporting property or persons, nor does it make a similar requirement of an exempt commodity trucker, railroads and airlines...only regulated common motor carriers. This requirement would give an unfair economic advantage to these competitive modes.

There are some 8,000 motor common carriers based outside of Montana that register equipment mileage usage in or through the state and about 1,000 Montana based carriers, all of whom have the potential of transporting property in Montana. Would they all be required to register as a retailer?

EXHIBIT

DATE

HB

3

3/6/89

747

Rep. W. Bradley

The deduction from the gross receipts is clearly established for interstate movement of freight in the bill and since other intrastate modes are not apparently required to comply with the bill's provisions, MMCA would respectfully ask that a similar deduction for intrastate movements by common motor carriers be given those carriers to avoid placing them in an unfair economic disadvantaged position.

The current deduction for interstate freight movement and not intrastate movement penalizes a Montana based business shipping freight within Montana in competition with a shipper based outside of Montana shipping freight into the state. Gross receipts from the instate movement would not be deductible however gross receipts from the interstate movement would be.

Shippers by rail and air and by private carriage within the state would have an economic advantage over shippers within Montana who utilize common motor carriage.

The Senate in 1987, resolved the problem by amending HB 377 to allow the deduction from gross receipts from the transportation of property or persons from one point within this state to another point within the state for all transportation modes and commodities. MMCA would respectfully ask this committee to amend HB 747 in the same manner.

On a final note, Section 42 page 30 of HB 747 provides for a deduction for the value of leased property if used in certain circumstances. MMCA feels that further clarification of this deduction is needed as it applies to the receipts

EXHIBIT 3
DATE 3/6/89
HB 747
Rep. C. Brodsky

from rentals or leasing of vehicles used in transportation of property or passengers by for-hire carriers in intrastate or interstate commerce under regulations prescribed by ICC or the Montana Public Service Commission. We would suggest that language be incorporated to cover the deduction.

A considerable amount of freight is moved by owner operators whom have leased their vehicles to motor common carriers and operate under the carriers authority.

Thank You.

Helena **INDEPENDENT RECORD**

317 Cruse Avenue

P.O. Box 4249

Helena, Montana 59604

(406) 442-7190

EXHIBIT 4

DATE 3/6/89

HB 747

Rep. K. Bricker

March 6, 1989

Mr. Chairman, members of the committee, ladies and gentlemen

My name is Jim Crane. I am the publisher of the Helena Independent Record.

I am here representing the IR and the 3 other Lee newspapers in the state.

I am not here as a supporter or as an opponent of the bill, but to ~~offer~~ ^{support} an amendment which we hope will be attached to it.

As you know, our newspapers seldom speak with one voice on any issue. The Billings Gazette has campaigned actively in support of a state sales tax. The Montana Standard has editorialized strongly in opposition. The Missoulian and the IR have not expressed themselves on the issue recently.

Regardless of the lack of agreement among the newspapers on the sales tax issue, we all agree that applying the sales tax to newspaper circulation would be a mistake.

There are several factors involved in newspaper distribution and sales that argue against sales tax imposition.

First, about 70 percent of our circulation is sold through our carriers, a system mostly made up of boys and girls who buy newspapers wholesale from us and who collect from you.

If the sales tax were to apply to newspapers, we would turn thousands of boys and girls into tax collectors -- with all of the attendant problems.

These kids are independent contractors, not employees of the newspaper. Thus, it would be their responsibility, not ours, to collect, turn in and report the tax. I'd hate to be the state administrator responsible for dealing with a legion of 12-year-old tax collectors.

EXHIBIT

4

DATE

3/6/89

HB

747

Rep. R. Bradley

Second, we're in a very competitive business these days. Not only do the newspapers from Billings, Butte and Great Falls try to compete in Helena with our excellent product, but you also have the opportunity to buy the Wall Street Journal, USA Today, the Spokesman Review, the New York Times -- even the National Enquirer -- in Helena, Montana, by mail or by single copy.

If Montana applies a sales tax to local newspapers, but not to subscriptions to out-of-state publications -- including magazines -- we will be put at a serious competitive disadvantage.

But there's an even broader constitutional implication, I think.

Regardless of what you personally think of the press, newspapers provide a vital public service. Taxing circulation sales would amount to a tax on information. That tax would reduce newspaper sales and readership and most likely would lead to a reduction of the public's understanding of important local, state and national issues.

Finally, taxing newspaper sales would be less onerous if you were to tax radio reception, television reception and delivery of all-advertising publications.

I hope you will consider and adopt the amendment we propose.

James D. Crane
March 6, 1989

ORAL TESTIMONY OF CHARLES W. WALK, EXECUTIVE DIRECTOR
OF MONTANA NEWSPAPER ASSOCIATION ON HB 747 BEFORE THE
HOUSE TAXATION COMMITTEE MARCH 6, 1989.

EXHIBIT 3
DATE 3/6/89
HB 747
Rep. D. Bradley

Mr. Chairman, members of the committee, for the record my name is Charles W. Walk. I am executive director of the Montana Newspaper Association, which includes in its membership all 11 daily newspapers and 65 of the weekly newspapers in Montana.

I am here today to support the amendment to HB 747 which would add the exemption of newspaper circulation revenue to the bill.

The exemption from tax for sales of newspapers is rooted in the First Amendment, and the distain its framers had for taxing the acquisition of knowledge.

These framers of the Constitution believed such "knowledge taxes" placed too much power in the hands of government because the acquisition of news and information is a right, not a taxable privilege.

There is little question from a strictly practical point that such a sales tax on newspapers would, in fact, restrict information...and restrict it from the less affluent population, those people who need the information best provided by newspapers.

Those framers of the Constitution saw this as one of their greatest concerns in the area of taxation. They regarded as an anathema any action by government which put the price of a newspapers beyond the reach of the lowest economic classes.

The addition of a sales tax to the prices of Montana newspapers may bring this 200-year-old fear to reality.

There are at least two other practical reasons why newspaper sales should be exempted from any Montana sales tax legislation.

First, we believe it is inherently unfair to tax one form of information distribution while not taxing other competing modes, such as radio and television and free distribution shoppers.

Second, we also believe it is just as unfair to place a sales tax on our own Montana newspapers while an identical tax can not be levied against out-of-state publications which distribute through the mails. This means, obviously, that such a taxing system would be placing an unfair burden on our own newspapers in their competition with not only newspapers from surrounding states, but with regional and national newspapers and news magazines.

The final practical reason for exempting newspaper circulation revenue from the sales tax deals with the inherent unfairness of placing the tax on all newspapers in the state without regard to their ability to survive the economic impact.

(over)

EXHIBIT 5
DATE 3/6/89
HB 747
Rep. H. Bradley

Proposed amendment to HB 747

1. Page 20, line 14

NEW SECTION. Section 26. Exemption - newspapers.

GROSS RECEIPTS FROM SALES OF NEWSPAPERS AND ADVERTISING SUPPLEMENTS AND ANY
OTHER PRINTED MATTER ULTIMATELY DISTRIBUTED WITH OR AS A PART OF SUCH
NEWSPAPERS.

Renumber subsequent sections.

The smaller, less profitable newspapers would, without question, be the hardest hit by this approach to taxation.

The result could well be fewer newspapers in our rural areas. This would mean economic repercussions up and down the already beleaguered main streets of those affected communities.

It also would mean the further reduction of the dissemination of information at this very basic level of our society.

Circulation revenue tax could be applied in 47 states and the District of Columbia. Thirty-six of those states have chosen not to include circulation revenue in their sales tax plans.

We hope it is obvious why and we hope this committee will adopt the amendment to HB 747 which would place Montana in this lopsided majority if the sales tax is finally implemented here.

Thank you and I would be glad to answer any questions from the committee.

CHARLES W. WALK
MONTANA NEWSPAPER ASSOCIATION

EXHIBIT 6DATE 3/6/89747Tim Harris

MONTANA INDEPENDENT LIVING PROJECT

38 South Last Chance Gulch
Helena, Montana 59601

(406) 442-5755

Toll Free 1-800-233-0805 (VOICE/TDD)

March 6, 1989

Hearing on HB 747

I am Tim Harris and am employed by the Montana Independent Living Project. I am here today for the Project in support of HB 747. When I moved here in 1972, my wife and I left friends, jobs, security, and a sales tax in Illinois. People close to us could not understand our choice of moving to what they considered a suburb of the Yukon. My wife is a native of Billings and has always had a deep affection for the land so movingly described in Travels With Charlie. Beyond that, we were not so sure of what was in store for us for the future.

We have lived here now for 17 years and are in the process of raising four children. The environment here is ideal for raising children, as opposed to overcrowded, overtaxed and underprogrammed areas back east, as we are wont to say. 17 years ago, the splendor of the mountains, the clear water streams, and clean air were enough to keep you here. Try buying your groceries with a picture of the mountains, paying your rent with a snapshot of a mountain stream, or paying your taxes with a bottle of clean air. Somehow, things must change. We must develop a climate that is business friendly, one that encourages economic growth, encourages our youth to stay here, work at a profession and raise their families here. When we moved here, we were told we might have to pay a fee for leaving the U-Haul here because Montana was overrun with U-Hauls. Seems that people were moving in, not moving out. Things sure have changed.

Someone recently said that Montana was the Mississippi of the North. I don't know about you, but that conjures up some pretty horrible notions in me. How can a state with such a high level of literacy be in such a state? What will it take for us to realize that time is passing us by, that other places are growing and we are not? Remember National Geographic and the article about putting a fence around Montana? The medical profession might call that a tourniquet. We need to encourage business activity, economic strength and then watch our tax base grow.

Montanans have been accustomed to a strong human services system which takes good care of its needy. The system must continue to provide top level services to those who need them. But our revenues keep falling short. Our tax base needs expansion and our revenue sources increased. I believe that those people who receive human services will support the sales tax. To continue taking pride in what we do for the needy, we must.

The Montana Independent Living Project urges passage of HB 747 and the people we represent, people with disabilities who are consumers of human services urge passage as well.

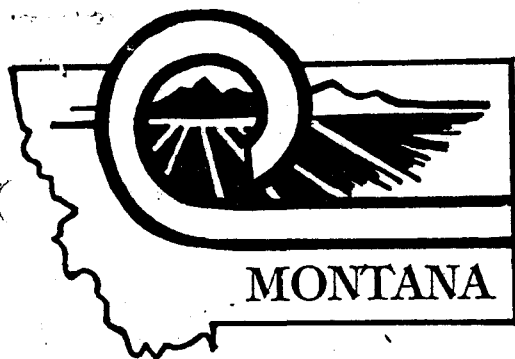


EXHIBIT 7
DATE 3/6/89
HB 747
Rep. H. Bradley

MONTANA

Association of Conservation Districts

1 South Montana 443-5711
Helena, MT 59601
February 17, 1989

Testimony to the House of Representatives Appropriations Committee on
HB 747.

For the Record, my name is Peggy Haaglund and I am executive vice
president of the Montana Association of Conservation Districts.

As some of you are aware and others of you are learning, Montana has
conservation districts that are political sub-division of state
government. The conservation districts, under state law, are
responsible for the conservation of Montana's natural resources on
private, non-government lands. The 59 conservation districts in
Montana which were first formed in approximately 1948 and cover 99% of
Montana.

Conservation districts were formed in the United States after President
Roosevelt recommended each of the states establish conservation
districts. During the Dust Bowl, it became apparent that a better
relationship was needed between the federal, state and local
governments and the people at the grassroots level if we were to
resolve our soil and water conservation problems in an effective,
coordinated manner, based on local needs and priorities.

Today the conservation districts are actively fulfilling their role.
Some of the problems are the same, some of them are different. The
districts are governed by five elected supervisors and two that are
appointed by the incorporated cities in each district.

Because Montana's conservation districts presently derive the majority
of their revenue from property taxes we think that, if enacted, a sales
tax should replace these funds in the event of a property tax cut.
Other states do designate a percentage of their sales tax revenues to
conservation districts or natural resource districts.

Natural resource conservation is important to all Montanans and should
be funded and funded as well as other important programs.

We are told that as HB 747 is presently written, conservation districts
would fall under funding for local government. We have concerns that
this is not the place for us. Under present state law, we can levy 1.5
mills for our operations in each district. The counties do collect our
taxes and often administer them for us but they do not have a say in
the amount levied or in administration of the funds.

Districts have their own staff and their offices are located in the
federal Soil Conservation Service offices.

EXHIBIT 7
DATE 3/6/89
HB 747
Rep. H. Bradley

Page 2 -- HB 747

The conservation districts in Montana are against a sales tax, but MACD and the districts feel that if there is property tax relieve, through a sales tax, that at least 4% of any available revenue from a sales tax should be applied toward natural resource conservation activities and that at least one-fourth or one 1% of that revenue should be allocated to the conservation districts of Montana.

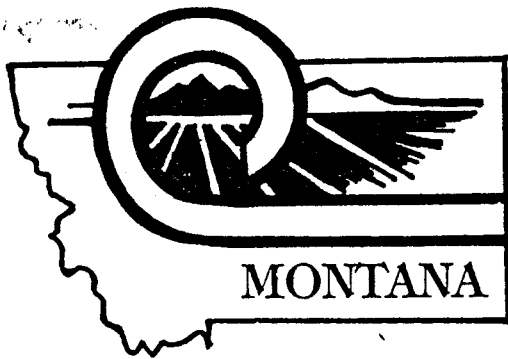


EXHIBIT 7

DATE 3/6/89

HB 747

Rep. K. Brundage

MONTANA

Association of Conservation Districts

1 South Montana (406)443-5711
Helena, MT 59601

A RESOLUTION ADOPTED BY THE LEGISLATIVE COMMITTEE OF THE MONTANA
ASSOCIATION OF CONSERVATION DISTRICTS (MACD) ON SUPPORT OF A
SALES TAX PROPOSAL

WHEREAS, the state of Montana has a problem with a revenue short
fall; and

WHEREAS, property tax relief is important to Montanans, as
evidenced by Initiative 105; and

WHEREAS, natural resource conservation is important to all
Montanans; and

WHEREAS, Montana's conservation districts and other resource
conservation programs derive the majority of their
revenues from property taxes; and

WHEREAS, a sales tax has been proposed as a potential mechanism
for alleviating Montana's revenue short fall;
and

WHEREAS, Montana's conservation districts presently derive the
majority of their revenue from property taxes and a
sales tax should replace these funds in the event of a
property tax cut;

NOW THEREFORE BE IT RESOLVED, the Montana Association of
Conservation Districts supports a sales tax if
a sales tax meets the objective of reducing or
solving Montana's revenue short fall so long as
a sales tax is implemented to the following
terms and conditions:

1. Property taxes are reduced.
2. At least four (4) percent of any available revenue
from a sales tax be applied toward natural resource
conservation activities
3. At least one-fourth (1/4), or one (1) percent, of
the sales tax revenue be allocated to the conservation
districts of Montana.

EXHIBIT 8
DATE 3/6/89
HB 747

Rep. H. Bradley

TESTIMONY OF THE MONTANA ASSOCIATION OF REALTORS
HB 747 - HOUSE TAXATION COMMITTEE
MARCH 6, 1989

Mr. Chairman, members of the Committee, my name is Sharon Cleary. I represent the Montana Association of Realtors.

The Association has long supported the imposition of a sales tax for the purpose of providing relief for Montana's overburdened property tax payers.

When our state ranks near the top in property taxes and overall taxes and yet near the bottom in per capita income; when our state is in the middle of an ongoing economic recession; and moreover, when we continue with the same obviously unfair tax system, it is clear that something is wrong.

We applaud the efforts of Representative Bradley and the other sponsors of HB 747. The Association believes the bill is, generally speaking, a fair tax and one which will go a long way toward providing tax equity in this state.

However, there are two points with which the Association disagrees:

First, the legislature is the governmental body which should make the decision about the sales tax. This body is elected by the people of this state to make decisions. The sales tax is definitely a tough issue. But that's why you are elected--to make tough decisions about tough issues. By deferring the decision on the sales tax issue to the electorate in June, the legislature is shirking its duty.

Therefore, the Montana Association of Realtors urges you to remove the sections of this bill which provide for the submission of the sales tax to the electorate.

EXHIBIT 8
DATE 3/6/89
HB 747
Rep. H. Brod

Second, the Association believes that extending the sales tax to services is counterproductive and unfair.

As Section 12 now reads, wages, salary, commissions or other forms of remuneration are exempt, only if there is a relationship of employment between the person paying the wage and the person receiving it. Applied to the real estate business, the result is extremely inequitable.

Let's assume a person, or for that matter, a corporation, has a large, very expensive piece of property to sell. Let's assume the property has a fair market value of \$1 Million and further that the fair market value is the actual sale price. Assume, for purposes of discussion that a five percent real estate commission would be paid. That would be a \$50,000 commission. The four percent sales, or more properly in this situation, service tax, would be \$2,000. If the person selling the property has the wherewithal, and if he has a \$1 Million piece of property, I believe we can safely assume that he does, he can simply employ a person, full-time, to sell that property and under this bill, the five percent commission would be tax free.

In the vast majority of situations, the person trying to sell property has a home on a city lot, worth between \$40,000 and \$75,000. For purposes of discussion, let's say his property is worth \$50,000 and that \$50,000 is also the sales price. Further, let's assume this person doesn't have the resources to hire someone full-time to sell his property. Instead, as happens in the vast majority of cases, he contracts with a real estate

EXHIBIT 8
DATE 3/6/89
HB 747
Rep. H. Bradley

broker to sell the house and agrees to pay him the assumed five percent commission. That's a \$2,500 commission. Since he can't afford his own private person to sell the property, he pays a sales tax. He pays four percent of the five percent commission, which is \$100.

This is an example of how the little guy pays the tax on services while the big guy doesn't.

The Association would respectfully submit that this scenario is not limited to the field of real estate sales. It applies to many other fields as well. One which comes to mind is legal services. When a corporation employs its own in-house attorney, it does not pay a sales tax on its lawyer's salary. However, when a regular person comes in off the street, for example, to get a divorce, that person pays the sales or service tax on his lawyer's fees.

Turning back to the real estate situation, let's see what happens to the \$2,500 commission our "little guy" paid to his real estate broker, remembering, he has already paid a \$100 service tax. Let's further assume that two percent of the total ^{SALES PRICE} commission goes to the selling agent. That's \$1,000. Since the broker does not employ the selling agent, but rather contracts with him, the broker pays a sales tax, or more properly, a service tax of four percent on that amount. That's another \$40. Plain and simple, this is double taxation.

Getting back to the seller's situation, let's assume that he is like most people and has a sizeable mortgage. Let's assume

EXHIBIT 8DATE 3/6/89HB 747*Rep. H. Bradley*

that the value of his property has fallen since he bought it and that his mortgage, on a \$50,000 home, is \$46,500. He thus gets \$3,500. But wait, he pays the broker that \$2,500 commission and only winds up with \$1,000. The \$100 sales tax is then to him, not just a four percent tax on the commission, but a ten percent tax on his equity.

The Association perceives the exemption for wages, salaries and commissions as being based on the premise that such a tax is nothing but an additional income tax and, in simple terms, a tax on production rather than consumption.

But, logic and common sense tell us that commissions received by a real estate broker, fees paid to a lawyer and even the money paid to a barber are also "wages". Just because they are not earned in a traditional "employment" relationship does not mean they should be taxed.

Logic and common sense tell us that money paid for personal services outside the traditional employment relationship should be tax exempt. I have attached to this testimony amendments proposed by the Montana Association of Realtors which would remove the requirement of approval of the sales tax by the electorate and would exempt all personal services from taxation.

The Association asks that you place these amendments on the bill and that as amended, you give HB 747 a DO PASS endorsement.

Respectfully submitted,

Sharon Cleary
Montana Association of Realtors

EXHIBIT 8
DATE 3/6/89
HB 747

Rep. H. Bradley

MONTANA ASSOCIATION OF REALTORS
PROPOSED AMENDMENTS
TO HB 747

1. Page 16, Line 12.
Following: "receipts"
Strike: "of an employee from an employer".
2. Page 150.
Strike: Lines 18 through 21, in their entirety.
3. Page 154.
Strike: Line 24, Page 154 through Line 11, Page 156.

EXHIBIT 8
DATE 3/6/89
HB 747
Rep. H. Bradley

MONTANA ASSOCIATION OF REALTORS
PROPOSED AMENDMENTS
TO HB 747

1. Page 16, Line 12.
Following: "receipts"
Strike: "of an employee from an employer".
2. Page 150.
Strike: Lines 18 through 21, in their entirety.
3. Page 154.
Strike: Line 24, Page 154 through Line 11, Page 156.



EXHIBIT 9
DATE 3/6/89
HB 747
Rep. H. Bradley

The Sales tax issue is not a new issue to anyone here in the State and that includes the Billings Chamber of Commerce. Prior to the 1987 session, the Billings Chamber identified the need to balance the State's tax system. The studies completed by the Chamber indicated that the best method was a general retail sales tax.

Today, when I leave a copy of my testimony, I will also leave with the Committee copies of both the 1987 and 1989 Chamber Issues Manual. Both documents clearly identify the Billings Chamber's support for a general retail sales tax as a replacement tax. Specifically, we support the use of replacement revenue to lessen the governments' dependence on the property tax.

We have been involved with members of the ad-hoc group, that developed the sales tax bill before you today, for almost a year. We had sincerely hoped that HB-747, when introduced, would have had a higher percentage of the revenue dedicated to replacement with less new revenue. However, the Billings Chamber of Commerce recognizes that HB-747 is a compromise bill designed to address the school equalization issue, to partially reduce governments' reliance on property tax, and

EXHIBIT

10

DATE

3/6/89

HB

747

Rep. H. Bradley

COMPTUTOR

John Nehring

March 6, 1989

Hon. Dan Harrington, Chairman
House Taxation Committee
Helena, MT 59620

Dear Rep. Harrington:

I wish to go on record in support of HB 747, the sales tax bill. In particular, I wish to plead for maximum property tax relief for homeowners and other real property owners. I would be pleased if you would include the attached copy of my study, The "Property Poor"--Montana's Forgotten Minority, in the transcript of today's hearing on this bill. Thank you.

Sincerely,

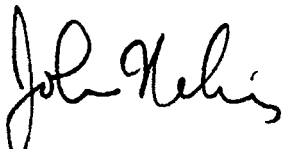

John Nehring

EXHIBIT 10, Pg 2
DATE 3/6/89
HB 747
Rep. H. Bradley

THE "PROPERTY POOR"—MONTANA'S FORGOTTEN MINORITY

John Nehring
COMPTUTOR - Information Management
604 Arnold
Bozeman, MT 59715-6139
(406) 586-0127

January 23, 1989

ACKNOWLEDGMENTS

As a volunteer advocate for Montana's "property poor" during the last two election cycles, I've been castigated frequently by elected officials and private citizens whose primary objective is maintenance of the tax revenue flow. Their (often harsh) criticism clearly showed me that otherwise knowledgeable people are totally unaware of the inequities described in this paper. Thus, I owe my many detractors a debt of gratitude for motivating me to action. Without their persistent prodding, this paper would not have been written.

I thank the Montana Department of Revenue for its kind support in providing much of the raw data used in this paper. Acting Deputy Director Steve Bender, Research Bureau Chief Larry Finch, and researcher Brad Simshaw were especially helpful in their prompt, professional response to my data request.

The rest of my data came from an accounting firm's tax preparation files. To preserve the confidentiality of their clients' financial information, this firm shall remain unnamed. I am, nevertheless, truly grateful for their assistance, without which this paper could not have been written.

Thanks also to Dr. Bruce Beattie of Montana State University and John Baden of F.R.E.E. for their invaluable editorial comments at the draft stage of this paper.

Finally, I owe many thanks to my wife, Patty, for her loving patience and support during the long December and January evenings when I was analyzing my data and attempting to describe my findings.

Of course, the conclusions and biases within this paper are solely my responsibility, as are any errors which may have crept in.

John Nehring
January 21, 1989

TABLE OF CONTENTS

| | |
|---|----|
| Introduction | 1 |
| Definitions and Concepts | 2 |
| Data Sources | 5 |
| Findings - The DOR Sample | 6 |
| Findings - Low Income Property Tax Credit | 10 |
| Findings - The CPA Sample | 13 |
| Conclusions | 20 |
| References | 24 |

LIST OF TABLES

| | |
|---|----|
| Table 1. Ability to Pay: Theoretical Tax Structures | 3 |
| Appendix A. Department of Revenue Data Sample - County Averages | 21 |
| Appendix B. Effect of Low-Income Property Tax Credit | 22 |
| Appendix C. The CPA Data Sample | 23 |

LIST OF ILLUSTRATIONS

| | |
|--|----|
| 1. Theoretical Tax Structures: Percentage Relationships | 4 |
| 2. Regressive Taxes vs. Progressive Taxes: Theoretical Extremes | 5 |
| 3. Montana Income Taxes vs. Income: 291 Yellowstone Co. Returns | 7 |
| 4. Montana Property Taxes vs. Income: 291 Yellowstone Co. Returns | 7 |
| 5. Income Taxes vs. Property Taxes: 2,058 Montana Returns | 8 |
| 6. Montana Income Tax Pctgs vs. Income: 285 Yellowstone Co. Returns | 9 |
| 7. Montana Property Tax Pctgs vs. Income: 285 Yellowstone Co. Returns | 9 |
| 8. Montana Income Tax Pctgs vs Income: 40 Returns with Low-Income Credit | 11 |
| 9. Effect of Low-Income Tax Credit: 40 Returns with Low-Income Credit | 11 |
| 10. Montana Property Tax Pctgs vs. Income: 40 Returns Before L.I. Credit | 12 |
| 11. Montana Property Tax Pctgs vs. Income: 40 Returns After L.I. Credit | 12 |
| 12. Montana Income Taxes vs. Income: 72 CPA Tax Returns | 14 |
| 13. Montana Property Taxes vs. Income: 72 CPA Tax Returns | 14 |
| 14. Montana Income Tax Pctgs vs. Income: 65 CPA Returns | 15 |
| 15. Montana Property Tax Pctgs vs. Income: 65 CPA Returns | 15 |
| 16. Montana Income Tax Pctgs vs. Income: 65 CPA Rtrns (Scale Expanded) | 16 |
| 17. Montana Property Tax Pctgs vs. Income: 28 CPA Returns (Sch A Only) | 17 |
| 18. Montana Property Tax Pctgs vs. Income: 21 CPA Returns (Sch A Only) | 17 |
| 19. Montana Property Tax Pctgs vs. Income: 15 CPA Returns (Bus. Income) | 18 |
| 20. Montana Property Tax Pctgs vs. Income: 12 CPA Returns (Rent Income) | 18 |
| 21. Montana Property Tax Pctgs vs. Income: 14 CPA Returns (Farm Income) | 19 |
| 22. Montana Property Tax Pctgs vs. Income: 13 CPA Returns (Farm Income) | 19 |

THE "PROPERTY POOR"--MONTANA'S FORGOTTEN MINORITY

Introduction

Why has this paper been written at this time? As Montana's new governor and some of our legislators struggle to shape a revenue system that equitably funds necessary education and government services during our second century, they face varied demands from many quarters. This paper has been written to keep general, statewide property tax relief in the forefront of these claims.

Non-mineral property taxes are Montana's largest single source of tax revenue, accounting for nearly two-fifths of all state and local taxes [4:11].¹ The findings of this paper confirm my long-held belief that the burden of these taxes falls disproportionately on those least able to pay, despite legislative attempts to reduce this burden for the very low-income elderly. These overburdened property taxpayers are Montana's "property poor".

There's no shortage of advocates for the poor in general. Legislative committee hearings on matters concerning the poor are packed with such advocates. Advocacy for parents who (for whatever reason) cannot afford quality child care is currently in fashion. Retirees who (for whatever reason) haven't been able to provide adequately for their old age are the focus of perennial concern. The list of poor people's advocacy groups is long. Noticeably absent in the halls of the Capitol, though, are lobbyists for the "property poor".

The "property poor" lack the resources to lobby for their interests. These are people who work long hours just to survive. These are people who have invested their limited financial resources in productive assets which provide jobs, homes, goods and services for themselves, their families, and their fellow citizens. Their struggle to preserve these productive assets leaves the "property poor" with little time and money for political action. More important, the work ethic by which these people live discourages them from seeking government favoritism. And most important, this same work ethic, along with their sense of pride, keeps the "property poor" from drawing public attention to the low income which makes their taxes such a burden.

The results of the invisibility of Montana's "property poor" are documented in this paper. Legislators, like other humans, respond to demands placed upon them. During the past two decades, the demands for more government services in Montana have been financed indirectly through increased property taxes, largely through the default mechanism of funding K-12 education with locally-determined mill levies. And since these increased property taxes are levied with no regard for ability to pay, their burden has fallen increasingly on those least able to bear it.

1. References in this paper (see p. 24) are placed in square brackets in the following format: [Reference number: Page number in the reference].

Not surprisingly, this persistent neglect of Montana's "property poor" led to the "property tax revolt" of 1986, when CI-27, which would have abolished all property taxes, qualified for the November ballot. Unfortunately, the issue of tax fairness got lost in the heated debates over CI-27. Opponents of CI-27, concerned about lost revenue, successfully diverted public attention from the unfair and regressive aspects of the property tax. The Schwinden administration, for example, noted the regressivity of property taxes, but chose to de-emphasize it as an issue [4:6-8].

Nevertheless, voter behavior in the 1986 election certainly was influenced by an underlying perception of unfairness in our tax system. Forty-four percent of state voters supported the CI-27 extreme of property tax abolition while a majority voted to freeze taxes through I-105 (the days of which now appear to be numbered!).

Recent papers by several Montana State University economists [1],[2],[3] have explored thoroughly the progressivity or regressivity of Montana income taxes and of sales taxes in general. The regressivity of property taxes in Montana, however, has yet to be addressed. I hope this paper will begin to fill this conceptual void.

This paper graphically compares the distribution of the property tax burden with that of the state income tax for several sample groups of Montana taxpayers in 1986 and 1987. The income tax is everyone's favorite whipping boy. Yet, the graphs which follow clearly show that the non-mineral property tax burden is distributed far more unfairly than is the comparatively smaller personal income tax load.

Definitions and Concepts

This paper is about tax fairness. Among other things, a fair tax recognizes each taxpayer's ability to pay. Ability to pay is determined by many factors. However, most people agree that a household's level of income is the deciding factor in its ability to pay its taxes. For standardization, I've chosen Adjusted Gross Income (AGI), as reported on individual income tax returns, to be my definition of household income level. Virtually every U.S. household calculates and reports its annual AGI.

The fairness of specific percentage tax rates will always be debated. However, most people agree that households with lower incomes should be taxed at rates no higher than those paid by households with higher incomes. Following this concept, economists classify taxes into three categories:

Progressive - the percentage of income paid in taxes rises as incomes rise.

Proportional - the percentage of income paid in taxes remains constant at all income levels.

Regressive - the percentage of income paid in taxes falls as incomes rise.

EXHIBIT 10
DATE 3/6/89
HB 747
Rep. R. Bradley

Table 1 (below) shows theoretical examples of these three categories of taxes. Figure 1 (overleaf) graphically shows the percentage relationships of these same three examples.

Tax progressivity usually is defined in terms of percentage relationships, as opposed to absolute relationships. For example, the \$90,000 AGI taxpayers in the "Regressive Tax" column of Table 1 pay twice as much in taxes (\$2,000) as the \$20,000 AGI taxpayers (\$1,000). Yet, this column's tax structure is regressive, because the percentage of AGI paid in taxes declines as AGI increases. Thus, Figure 1, which plots taxes paid as a percentage of AGI vs. Adjusted Gross Income, will serve as our standard for comparisons in the various examples shown later. Please note the characteristic downward slope of the regressive tax relationship, as compared to the level slope of the proportional tax relationship, and the upward slope of the progressive tax relationship.

Table 1
ABILITY TO PAY - THEORETICAL TAX STRUCTURES

| AGI | PROGRESSIVE TAX | PCTGE OF AGI | PROPORTIONAL TAX | PCTGE OF AGI | REGRESSIVE TAX | PCTGE OF AGI |
|---------|--------------------|-----------------|---------------------|-----------------|-------------------|-----------------|
| \$2,500 | \$ 0 | 0.0% | \$125 | 5.0% | \$350 | 14.0% |
| 5,000 | 70 | 1.4% | 250 | 5.0% | 500 | 10.0% |
| 7,500 | 180 | 2.4% | 375 | 5.0% | 600 | 8.0% |
| 10,000 | 320 | 3.2% | 500 | 5.0% | 700 | 7.0% |
| 12,500 | 490 | 3.9% | 625 | 5.0% | 800 | 6.4% |
| 15,000 | 675 | 4.5% | 750 | 5.0% | 900 | 6.0% |
| 20,000 | 1,025 | 5.1% | 1,000 | 5.0% | 1,000 | 5.0% |
| 25,000 | 1,400 | 5.6% | 1,250 | 5.0% | 1,100 | 4.4% |
| 30,000 | 1,825 | 6.1% | 1,500 | 5.0% | 1,200 | 4.0% |
| 35,000 | 2,275 | 6.5% | 1,750 | 5.0% | 1,300 | 3.7% |
| 40,000 | 2,775 | 6.9% | 2,000 | 5.0% | 1,400 | 3.5% |
| 45,000 | 3,250 | 7.2% | 2,250 | 5.0% | 1,500 | 3.3% |
| 50,000 | 3,700 | 7.4% | 2,500 | 5.0% | 1,600 | 3.2% |
| 60,000 | 4,675 | 7.8% | 3,000 | 5.0% | 1,700 | 2.8% |
| 70,000 | 5,750 | 8.2% | 3,500 | 5.0% | 1,800 | 2.6% |
| 80,000 | 6,800 | 8.5% | 4,000 | 5.0% | 1,900 | 2.4% |
| 90,000 | 7,925 | 8.8% | 4,500 | 5.0% | 2,000 | 2.2% |
| 100,000 | 9,000 | 9.0% | 5,000 | 5.0% | 2,100 | 2.1% |

1. THEORETICAL TAX STRUCTURES Based on Ability to Pay

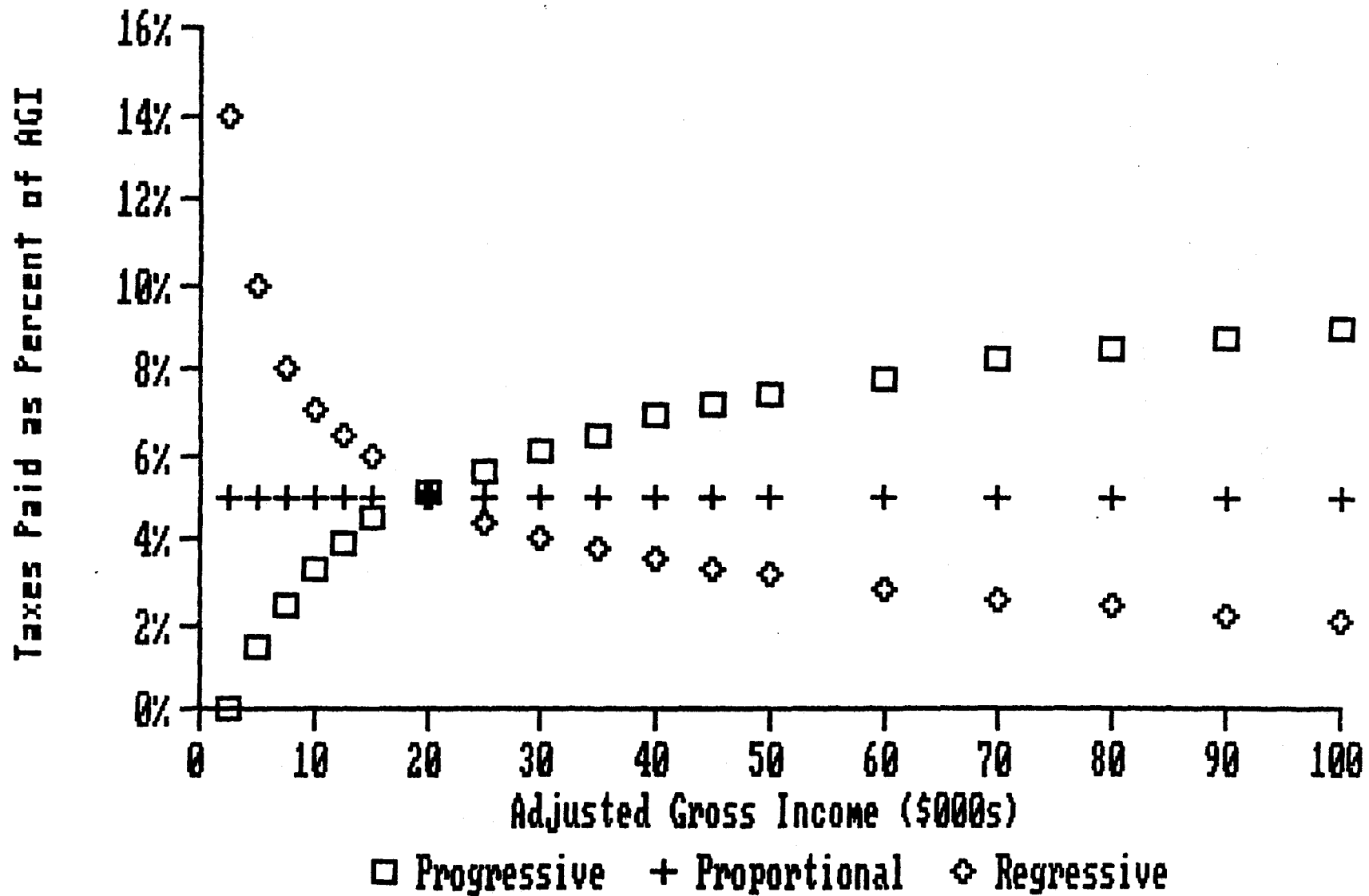
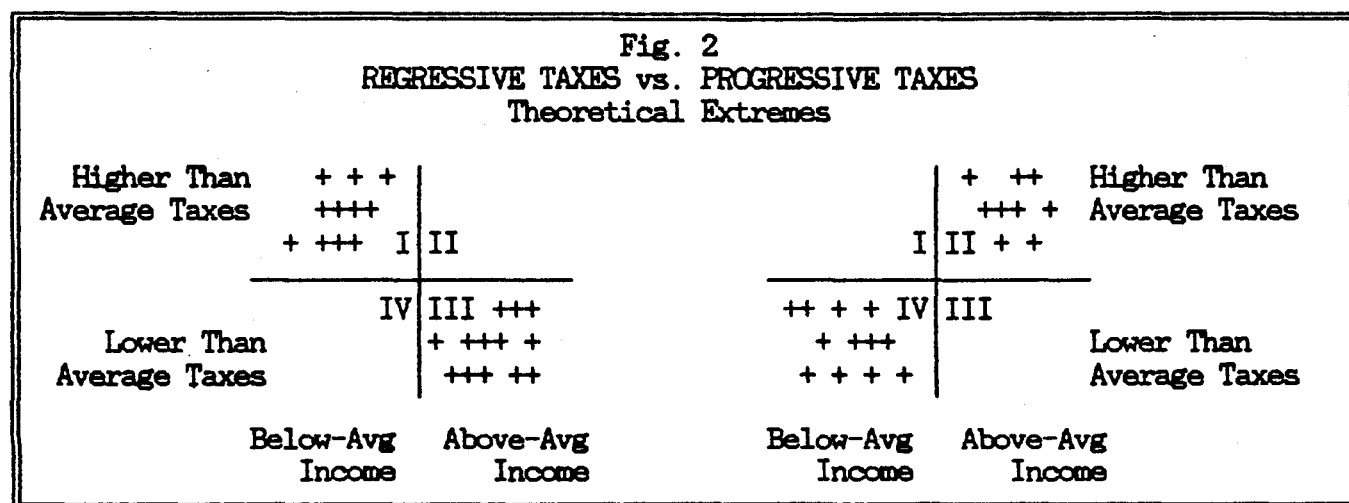


EXHIBIT 10
 DATE 3/6/89
 HB 747
Rep. D. Bradley

There is another way to graphically describe tax progressivity or regressivity. If a sizable proportion of taxpayers with below-average incomes pay above-average taxes, while a sizable proportion of taxpayers with above-average incomes pay below-average taxes, there is a strong suspicion of unfairness within the system.

Consider the two cross-shaped diagrams in Figure 2 below, and the four quadrants into which the two crosses divide each space. Quadrant I includes taxpayers with below-average incomes who pay higher than average taxes, Quadrant II shows those with above-average incomes who pay higher than average taxes, and so on. Most of us would prefer to be in Quadrant III, with above-average incomes and below-average taxes. But, since most of us are not so blessed (the "Lake Wobegon effect" does not apply to incomes), we resent the \$100,000 income folks paying \$500 in taxes who are in this happy status! Conversely, any of us who found ourselves in Quadrant I would consider the tax system very unfair--at least to us! A tax system such as that described by the plusses plotted on the lefthand diagram is quite regressive, while that described in the righthand diagram is more closely based on ability to pay.



Data Sources

The findings which follow are based on data from two separate sources: (1) the Montana Department of Revenue (DOR) and (2) a Montana accounting firm (CPA). DOR provided 1986 income tax data from their standard research sample of 30,000 randomly-selected returns. The DOR data sample represents 3,949 Montana tax returns, 992 of which included separate husband/wife returns on the same form. To make household-by-household comparisons, I combined the two spouses' data on the 992 split returns. All of these tax returns are from full-year Montana residents.

Of the 3,949 returns, 2,058 declared property taxes as an itemized deduction. Unfortunately, there is no way to determine the property taxes paid by the other 1,891 households in this sample. Many of them, of course, paid no taxes directly (although they may have paid all or part of their landlords' taxes indirectly). Others may have paid property taxes but found it more advantageous to take the standard deduction when filing their income tax returns. Still others may have declared their property taxes as a business, farm, or rental property expense.² The DOR does not track these latter types of deductions in its income tax data base.

Because of the uncertainty surrounding the property tax obligations of these 1,891 non-itemizers, my analysis of the DOR data is limited to the 2,058 returns with itemized property taxes. Appendix A shows the averages, by county,³ of this final sample. The taxpayers in this sample reported, on average, Montana adjusted gross income (AGI) of \$25,900 (rounded to the nearest \$100), and paid 2.9% of AGI as Montana income tax and 3.1% of AGI as property tax in Montana.

The CPA sample, by comparison, includes 72 returns from taxpayers who reported, on average, 1987 Federal AGI of \$32,900 (rounded to the nearest \$100), and paid 4.0% of their AGI as Montana income taxes and 5.4% as property tax in Montana. This sample, shown in its entirety in Appendix C, allows analysis of all forms of deductible property taxes, not just those itemized on (federal) schedule A. The CPA sample includes every full-year Montana resident return prepared for the 1987 tax year by the firm which provided my information.

Findings - The DOR Sample

State income taxes paid by Montanans are very closely related to their earned income.⁴ This is no surprise to anyone who files an income tax return, in that tax rates and taxable income are tied mathematically (by law) to adjusted gross income. Likewise, the near-random relationship between property taxes paid and income earned is no surprise to anyone who pays property taxes. Unlike income taxes, property taxes bear no statutory relationship to the taxpayer's income. Figures 3 and 4 show, for Yellowstone County,⁵ this close relationship between income taxes and income, and the near absence of any relationship between property taxes and income.

2. Of the 1,891 non-itemizers, 556 reported business, farm, and/or rental income, with an average AGI of \$6,801.

3. County-by-county comparisons from this table are likely to be misleading, due to the small sample sizes in many counties!

4. And, contrary to popular perception, high-income tax returns with little or no income tax paid are conspicuously absent from the DOR sample!

5. Returns from Yellowstone County comprise about 14% of the DOR sample. My computer's memory limitations did not allow graphics processing of the full DOR sample. Yellowstone County was selected to demonstrate the relationships because its mix of urban and rural residents reflects well the overall demographics of the state.

Fig. 3

MONTANA INCOME TAXES vs. INCOME
291 Yellowstone County Returns

EXHIBIT 10
DATE 3/6/89
HB 747
Rep. Mr. Bradley

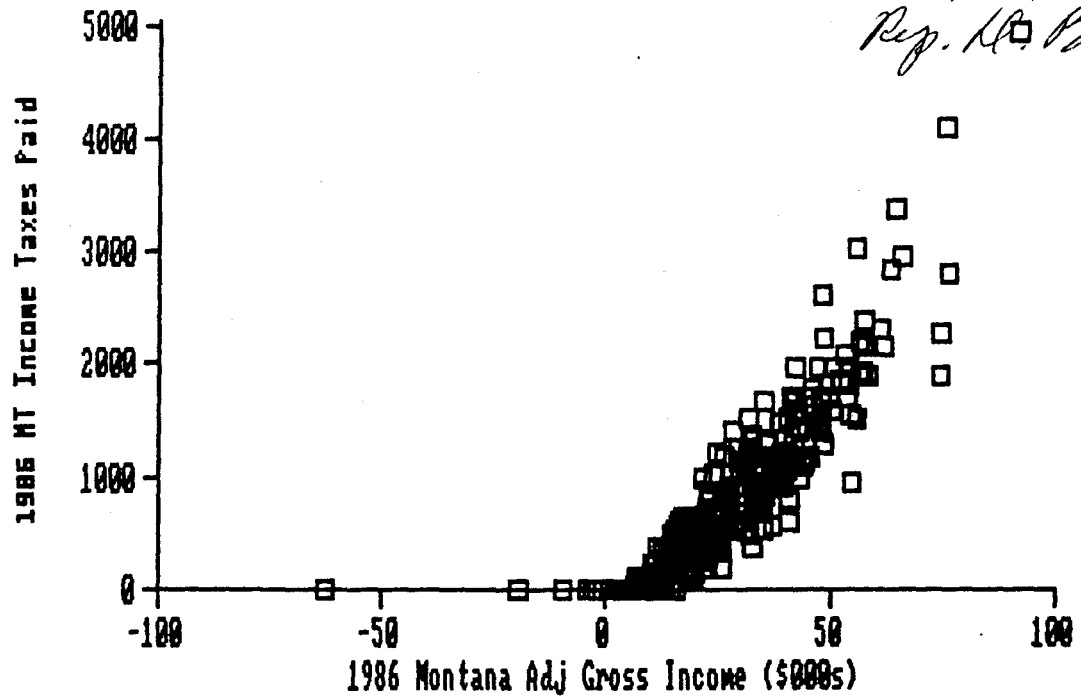
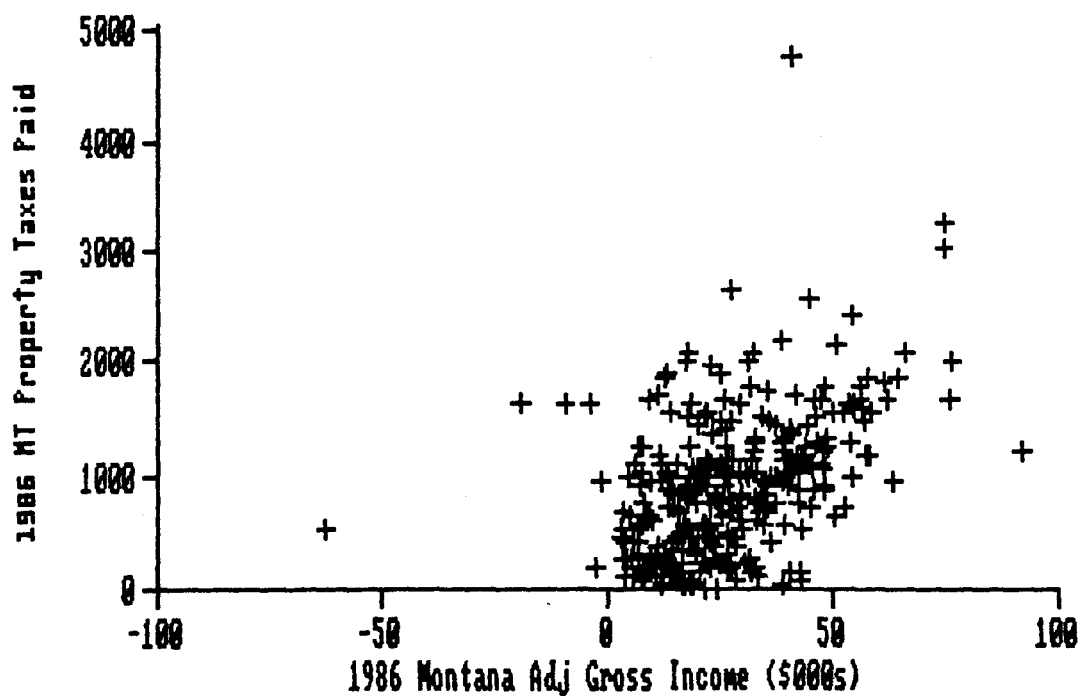


Fig. 4

MONTANA PROPERTY TAXES vs. INCOME
291 Yellowstone County Returns



These two graphs, however, only begin to tell the story. The average 1986 Montana income tax paid by the 291 Yellowstone County taxpayers depicted in Figure 3 was \$791, or 2.9% of average AGI. Of the 121 taxpayers who paid more income taxes than the county average, only 12 (or 4% of the sample of 291) had incomes below the county sample average income. By contrast, these same taxpayers paid, on average, \$915 in deductible property taxes in 1986, or 3.4% of average AGI. Of the 142 taxpayers who paid more than the \$915 average property tax, 53 (or 18% of the sample) had incomes below the county sample average.

The Yellowstone County percentages of lower income taxpayers paying higher than average tax percentages are borne out statewide. For the statewide sample of 2,058 taxpayers, 848 paid more than the \$764 statewide sample average income tax. Of these 848, only 58 (or 2.8% of the sample) had incomes below the statewide sample average. Similarly, 885 taxpayers from this sample paid more than the \$804 statewide sample average property tax. But of these 885, 341 (or 16.6% of the sample) had incomes below the statewide sample average. These statistics are summarized in Figure 5:

| <p>Fig. 5 INCOME TAXES vs. PROPERTY TAXES Sample of 2,058 Montana Tax Returns</p> | | | | | |
|---|-----------------|---------------------|---------------------|---------------------|---------------------------------|
| Above-Average Income Taxes | 58 (2.8%) | I | 790 (38.4%) | 341 (16.6%) | I |
| | | II | | 544 (26.4%) | II |
| | | IV | | | IV |
| Below-Average Income Taxes | 1046 (50.8%) | III | 164 (8.0%) | 762 (37.0%) | III |
| | | Below-Avg Income | Above-Avg Income | Below-Avg Income | Above-Avg Income |
| | | | | 410 (20.0%) | Below-Average Property Taxes |

A comparison of the values in Quadrant I on both sides of Figure 5 shows that lower income taxpayers are about six times as likely to pay above-average property taxes than they are to pay above-average income taxes. This indication of high property tax regressivity is confirmed by Figures 6 and 7 (opposite), which depict the 285 non-negative AGI returns from Yellowstone County. Figure 6 shows income taxes to be quite progressive up to about \$30,000 AGI, and essentially proportional thereafter. Property taxes, by contrast, show a sharply regressive trend below \$30,000 AGI, at which point the relationship also tends to flatten out (at just below the sample-wide average for upper-income taxpayers.

Fig. 6

EXHIBIT 10MONTANA INCOME TAX PCTGS vs. INCOME
285 Yellowstone County ReturnsDATE 3/6/89HB 747

Rep. H. Bradley

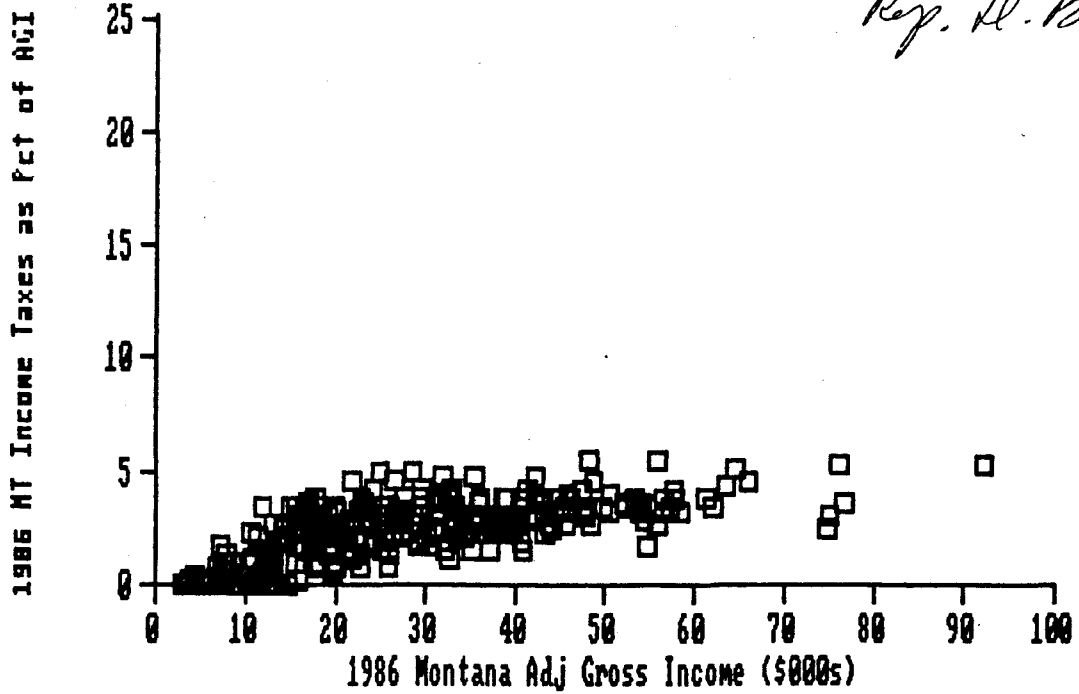
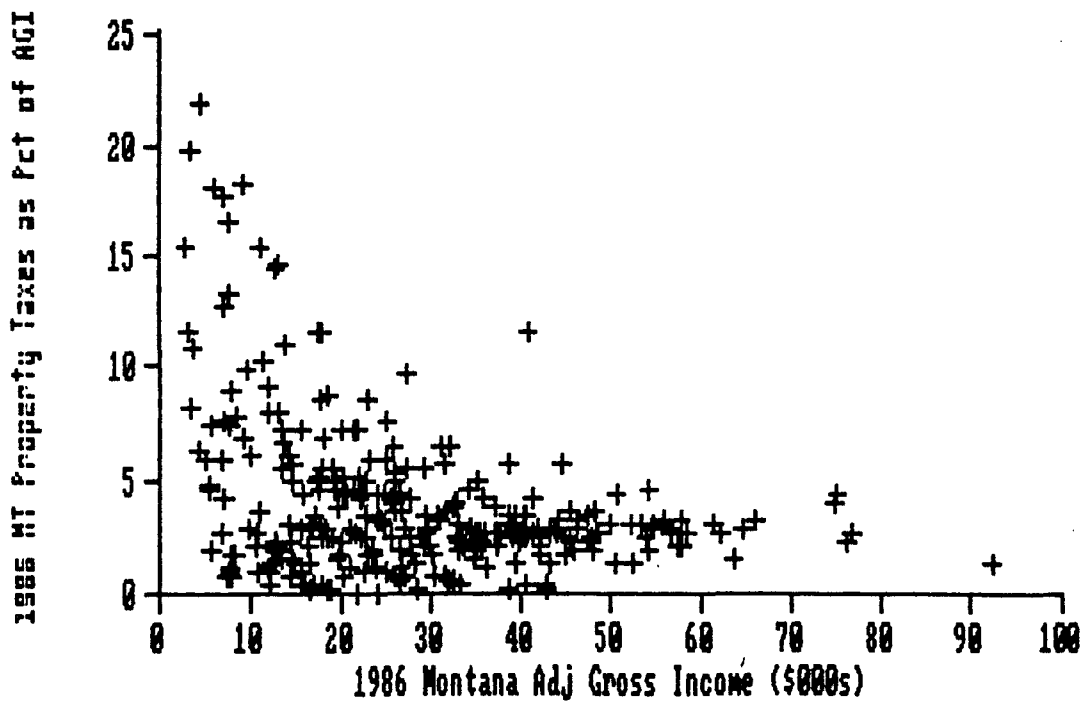


Fig. 7

MONTANA PROPERTY TAX PCTGS vs. INCOME
285 Yellowstone County Returns

Findings - Low Income Property Tax Credit

Montana law [MCA 15-6-134, 15-6-151, 15-30-171, 15-30-172, 15-30-174, 15-30-176, and 15-30-178] provides for a low-income property tax credit of up to \$400 (adjusted since 1985 for inflation) for individuals and couples past the age of 62. This credit is calculated on a sliding scale, based on "gross household income" (GHI). GHI includes not only AGI, but most other monetary benefits (such as child support, public assistance, etc.) that are not normally included in AGI. Individuals with GHI up to \$10,000 and married couples with GHI up to \$12,000 (adjusted for inflation) may file for this credit.

Forty-three returns (just under 2%) from the DOR sample of 2,058 took this low-income property tax credit. The average AGI for these 43 returns was \$5,584, with an average Montana income tax liability of \$32, or 0.6% of AGI. These 43 returns took an average credit of \$213, which reduced their average property taxes paid (\$808) by 28.3%. The entire sub-sample of these 43 returns is listed in Appendix B.⁶

Figure 8 (opposite) graphs the income tax percentages paid by the 40 non-negative AGI taxpayers in this sub-sample, using the same scale as Figure 11, which shows property tax percentages paid after allowing for the credit. As expected in a group of such low-income returns, most of them had no income tax liability to speak of.

Property tax liability for these same taxpayers, though, is a different story. Before the tax credit, these taxpayers paid 14.5% of their AGI, on average, in property taxes. The percentage distribution of this before-credit property tax liability is shown in Figure 10 (page 12). Figure 9 (opposite) displays the tax credit taken as a percentage of before-credit property tax liability, and Figure 11 (page 12) shows property tax percentages after adjusting for the low-income credit. Even after the low-income credit, these very poor taxpayers paid an average of 10.7 percent of their AGI in property taxes--more than three times the percentage paid by the entire statewide sample! Furthermore, Figure 11 reveals a clearly regressive trend even within this specially-treated sub-sample. In summary, the low-income tax credit does make a difference, but not nearly so great a difference as advertised!

6. I have no explanation for the two returns with AGI well above \$12,000 that claimed this credit!

Fig. 8

MONTANA INCOME TAX PCTGS vs. INCOME
40 Returns Taking Low-Income Credit

EXHIBIT 10DATE 3/6/89HB 747

Rep. H. Bradley

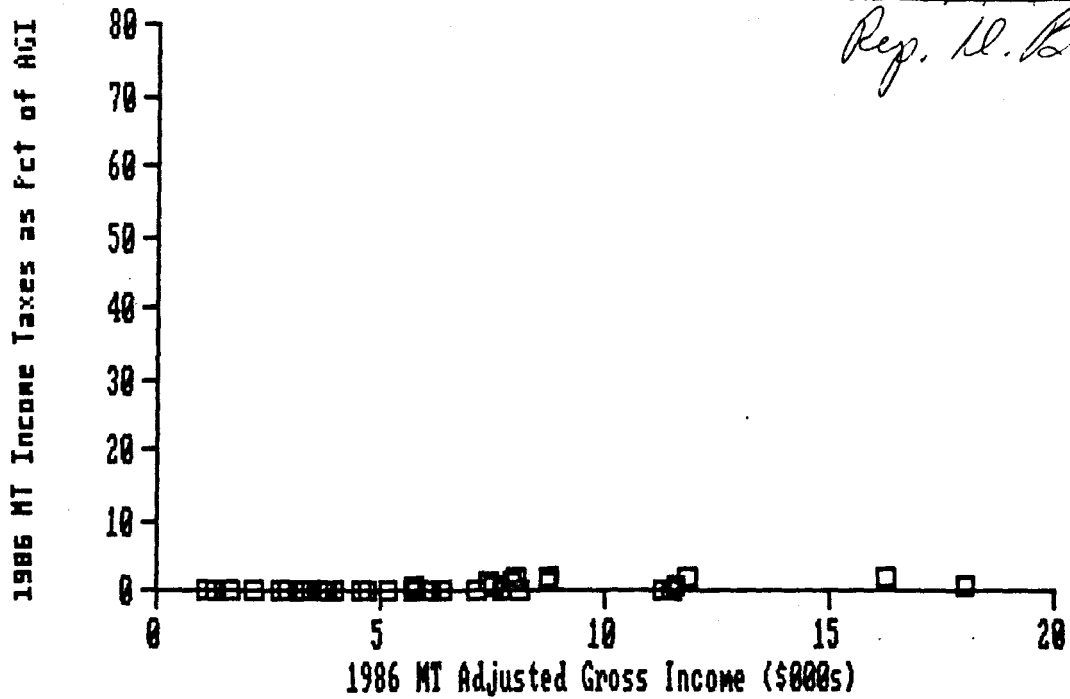
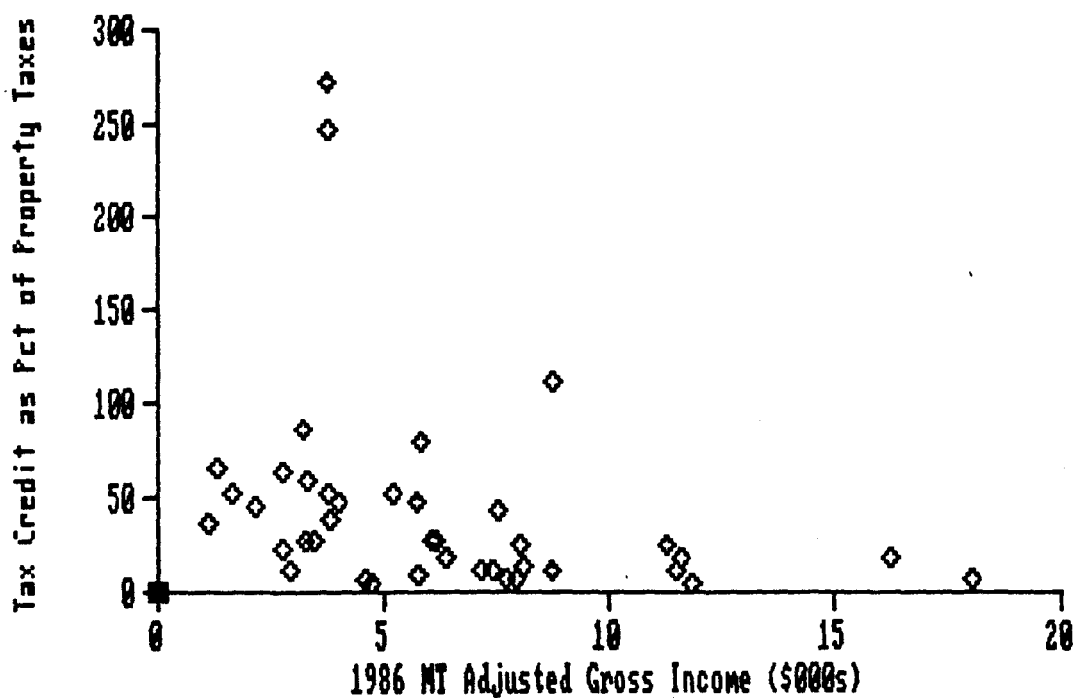


Fig. 9

EFFECT OF LOW-INCOME TAX CREDIT
40 Returns Taking Low-Income Credit



MONTANA PROPERTY TAX PCTGS vs. INCOME
40 Returns Before Low-Income Credit

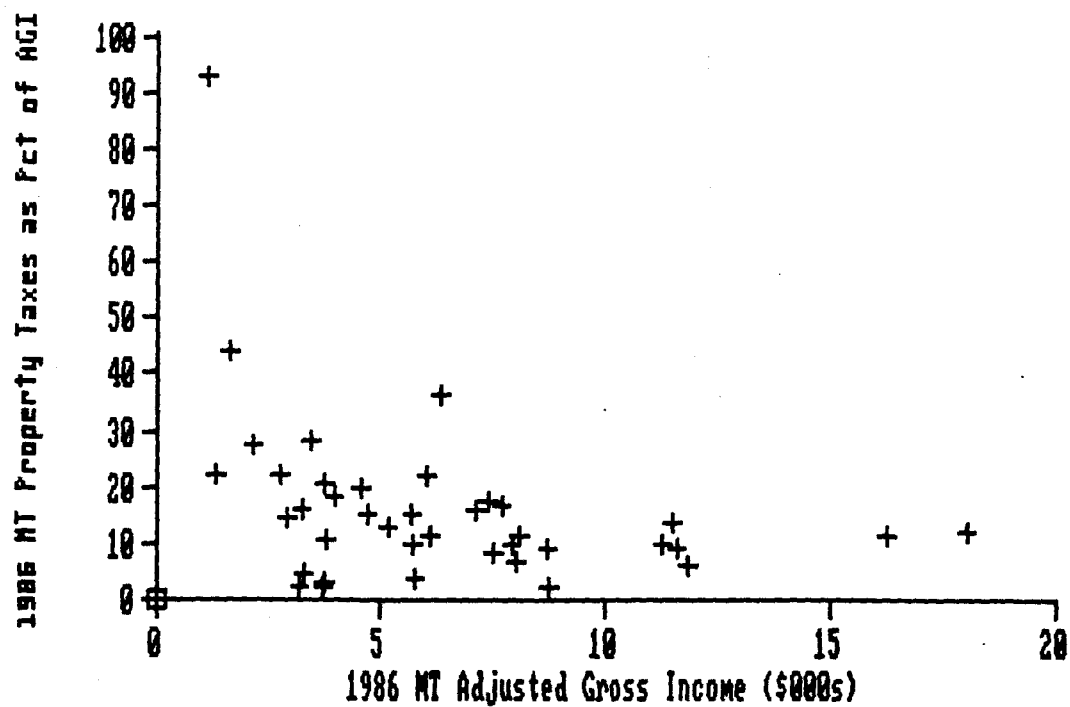


Fig. 11

MONTANA PROPERTY TAX PCTGS vs. INCOME
40 Returns after Low-Income Credit

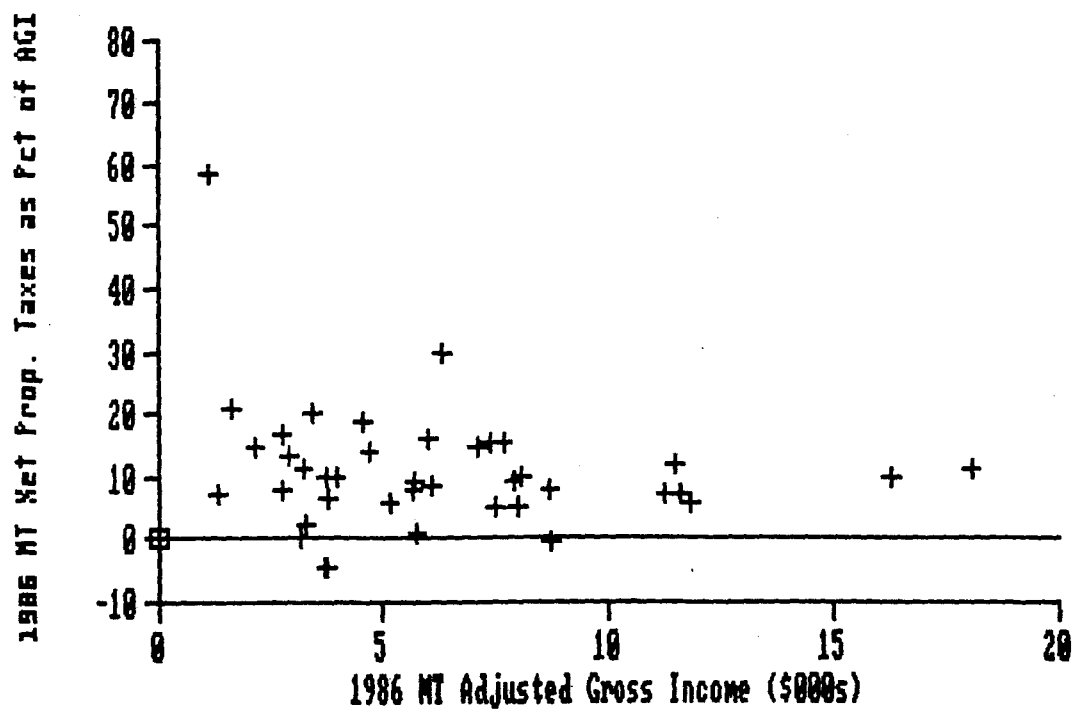


EXHIBIT 10
DATE 3/6/89
HB 747
Rep. H. Brodley

Findings - The CPA Sample

The previous examples, while representative of Montana taxpayers as a whole, grossly understate property taxes paid by those taxpayers whose AGI includes income from business, farm, or rental property. I've partially compensated for this unavoidable deficiency by including similar analyses of 72 tax returns with property taxes paid on property used for business, farm or rental purposes. Appendix C lists this full sample of CPA-prepared returns.

Figures 12 and 13, respectively, plot income taxes and total property taxes paid by these taxpayers. The similarity between these two graphs and Figures 3 and 4 is striking. For both the DOR Yellowstone County sub-sample and the CPA sample, income taxes are very closely related to AGI. Similarly, for both samples, property tax levels are distributed nearly randomly. The only differences between the two sets of graphs are the vertical and horizontal scales, reflecting the higher incomes and taxes of the CPA's clients (which is perhaps why they hire a professional tax preparer!).

Figures 14 and 15 (page 15) plot the income tax percentages and property tax percentages paid by the 65 taxpayers in this sample with non-negative AGIs. These two graphs also correspond closely to their counterparts--Figures 6 and 7, again allowing for the differences in the vertical and horizontal scales. Figure 16 expands the vertical scale for the income tax percentages, to better show the unmistakably progressive trend for these taxes. Contrary to popular belief, professional tax preparers are not able to relieve their upper-income clients of all tax liability! Conversely, as Figure 15 clearly shows, tax preparers have no control whatsoever over the property tax burdens borne by their lower-income clients!

Twenty-eight of the 72 CPA returns report no property taxes other than those itemized on Federal Schedule A. Percentages from these 28 returns are shown in Figure 17, for direct comparison with Figure 7, which also shows percentages of property taxes deducted in Schedule A only. Only the numbers of returns shown differentiate the two patterns. Figure 18 is Figure 17 without the 7 returns having AGI greater than \$50,000, to better show the regressive trend within the most common income range.

The last four graphs display the property tax percentage relationships for small sub-samples of the CPA sample, chosen according to the sources of income reported. The small size of these sub-samples prevents one from drawing any independent conclusions from each of these graphs, other than noting their high percentage rates. Nonetheless, the regressive trends displayed in each graph confirm those found in every other property tax percentage graph. Figure 22 restates Figure 21, without the extreme (157%) example, again to better show the trend within the most common range.

MONTANA INCOME TAXES vs. INCOME
72 CPA Tax Returns

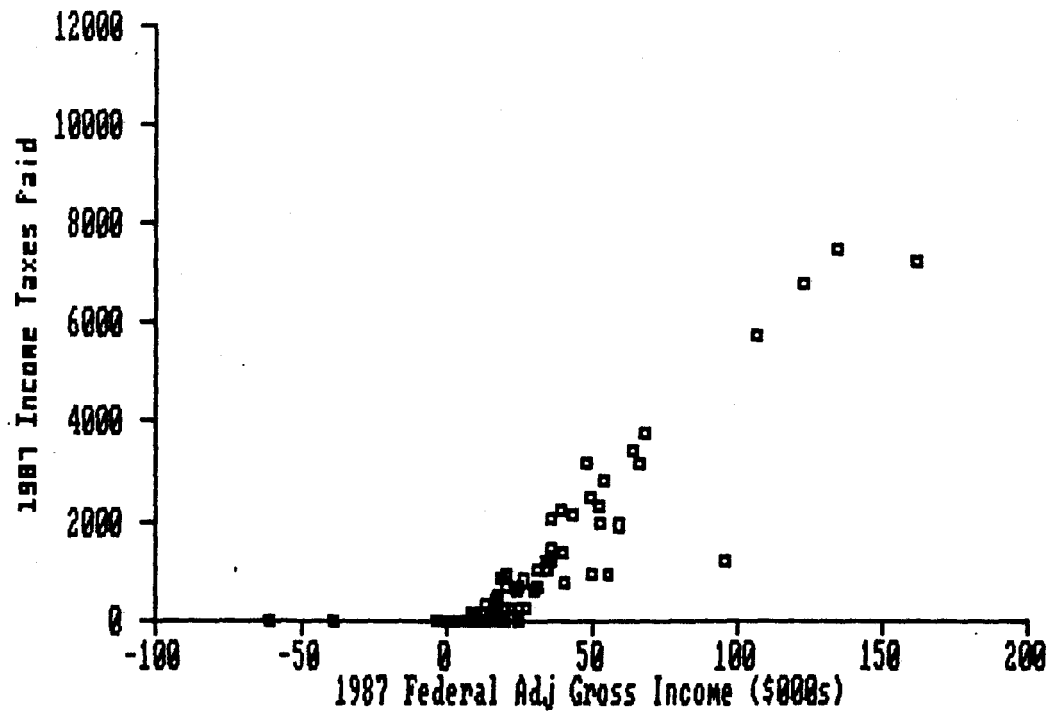
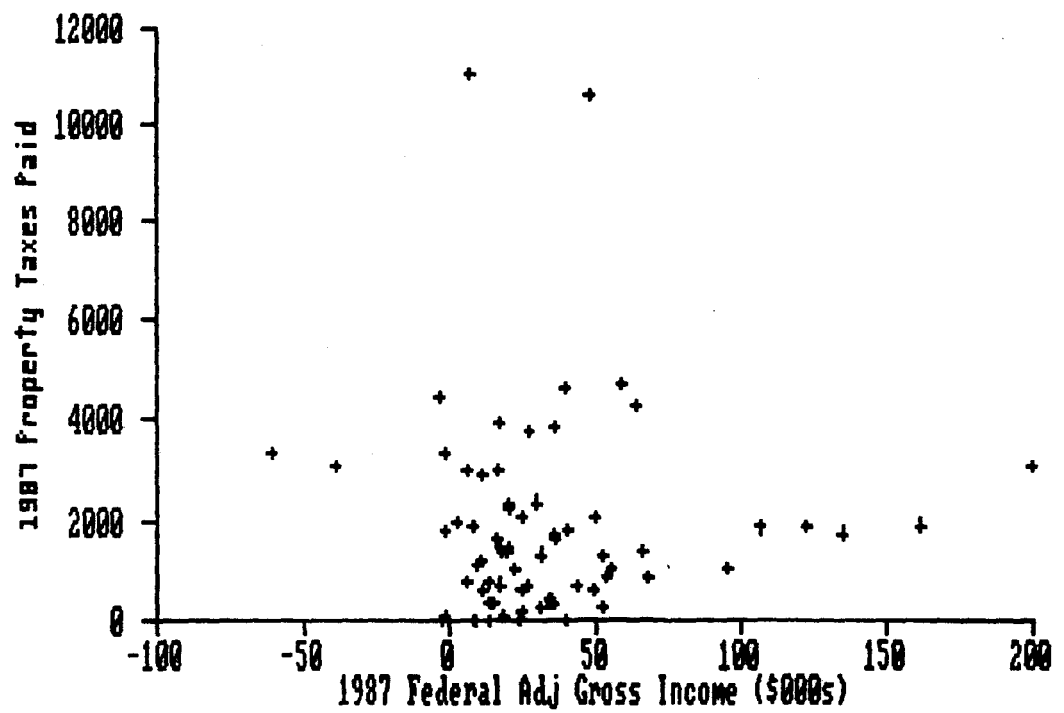


Fig. 13

MONTANA PROPERTY TAXES vs. INCOME
72 CPA Tax Returns



MONTANA INCOME TAX PCTGS vs. INCOME
65 CPA Tax Returns

EXHIBIT 10
DATE 3/6/89
HB 747

Rep. H. Bradley

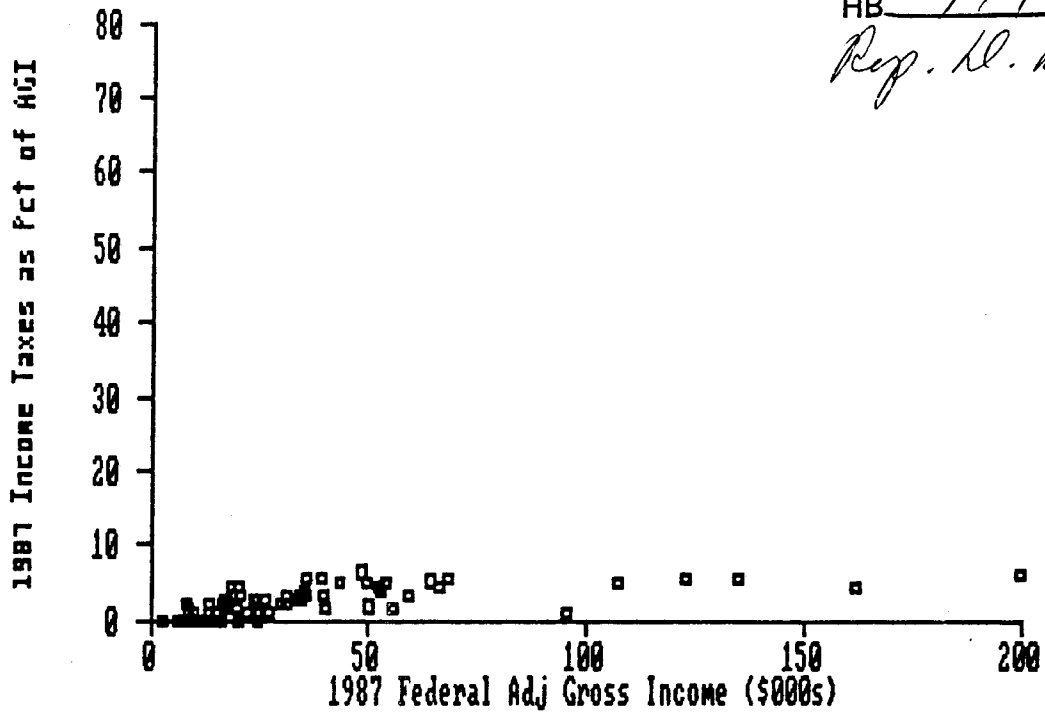


Fig. 15

MONTANA PROPERTY TAX PCTGS vs. INCOME
64 CPA Tax Returns

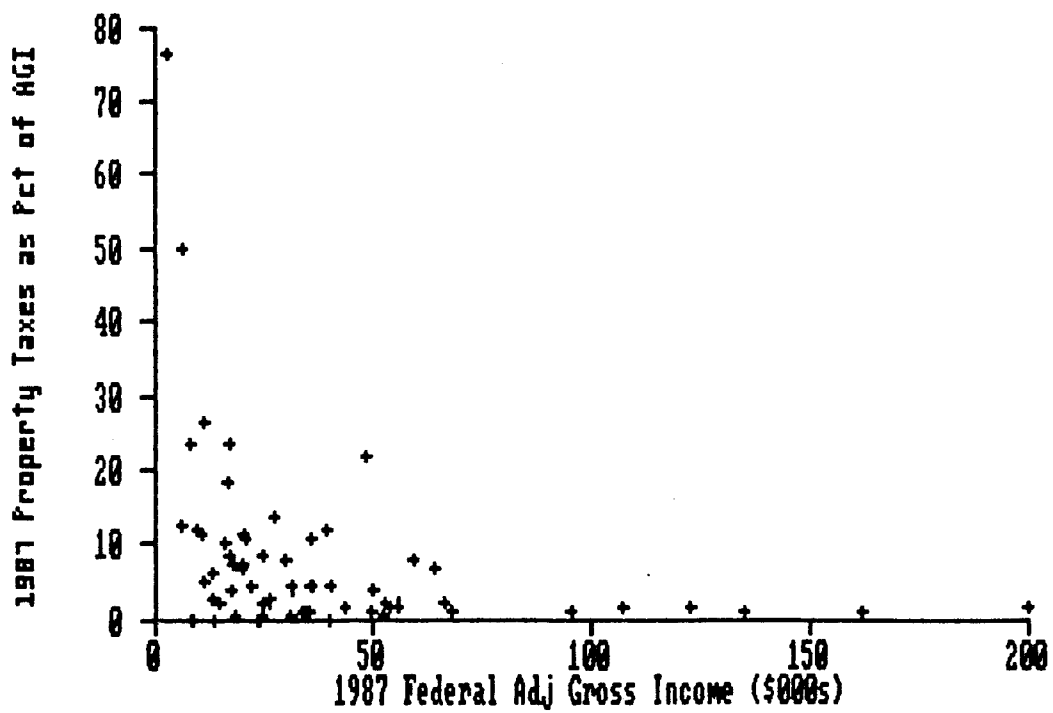
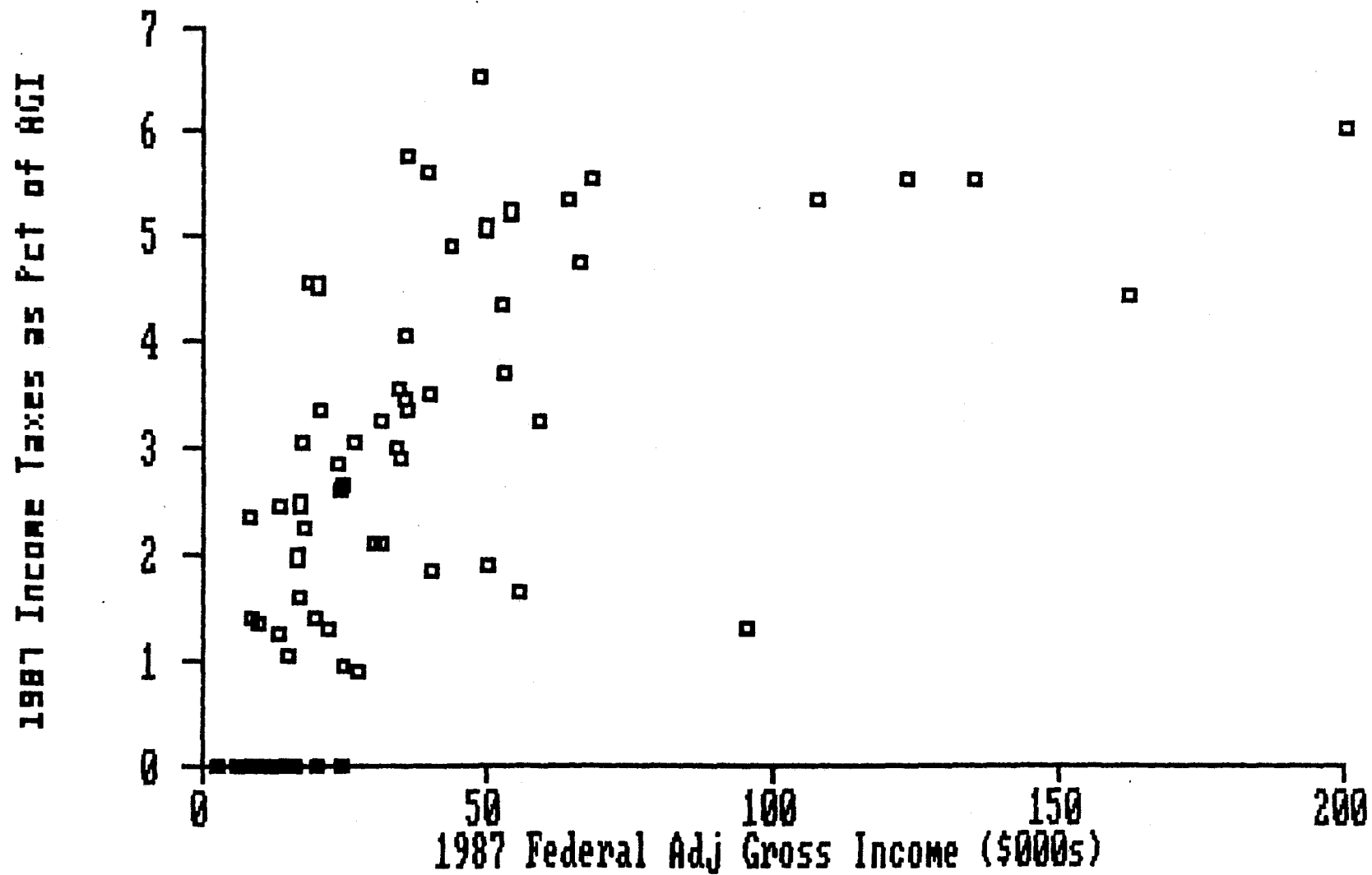


Fig. 16

MONTANA INCOME TAX PCTGS vs. INCOME
65 CPA Tax Returns (Scale Expanded)



MONTANA PROPERTY TAX PCTGS vs. INCOME
28 CPA Returns - Sch A Taxes Only

EXHIBIT 10
DATE 3/6/89
HB 747

Rep. H. Berkeley

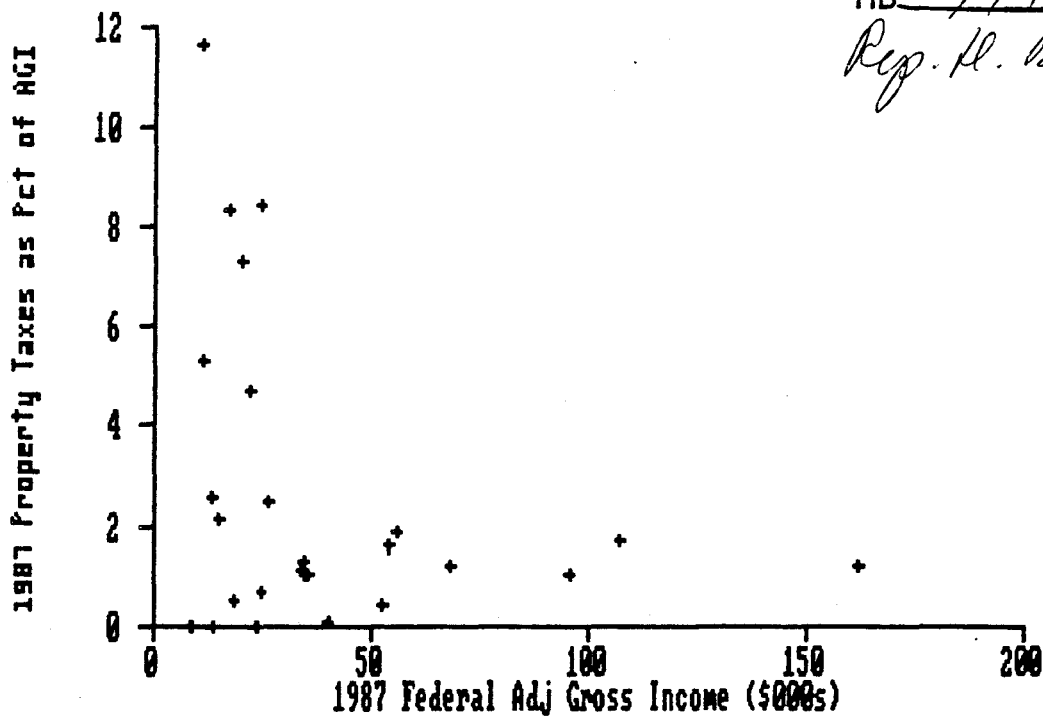


Fig. 18

MONTANA PROPERTY TAX PCTGS vs. INCOME
21 CPA Returns - Sch A Taxes Only

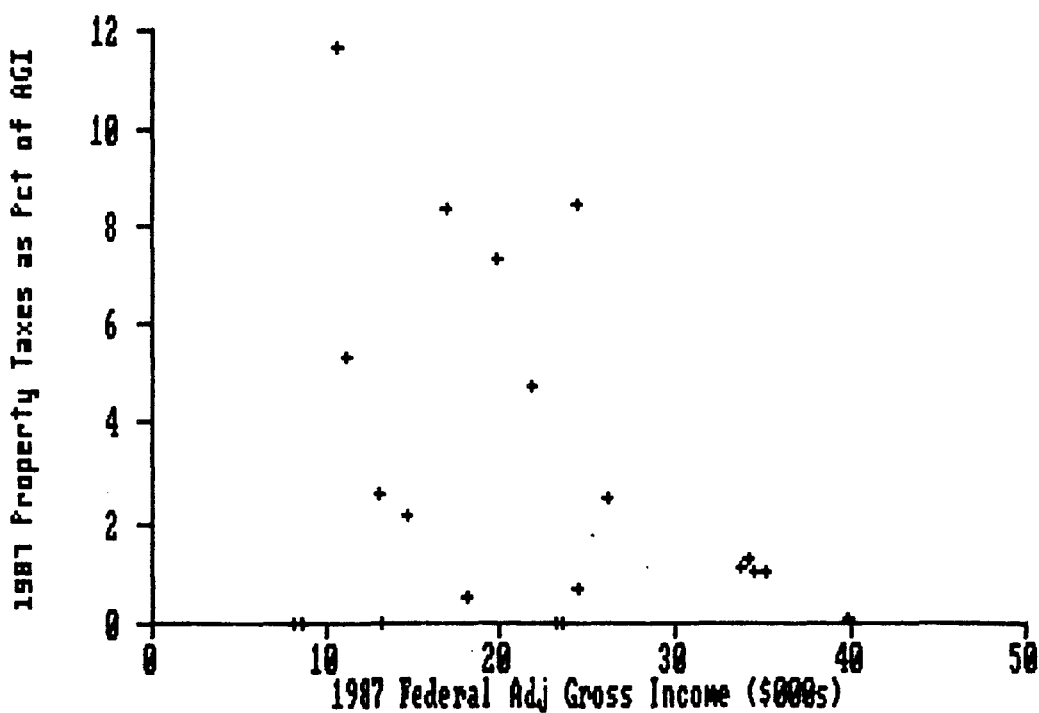


Fig. 19

MONTANA PROPERTY TAX PCTGS vs. INCOME
15 CPA Returns with Business Income

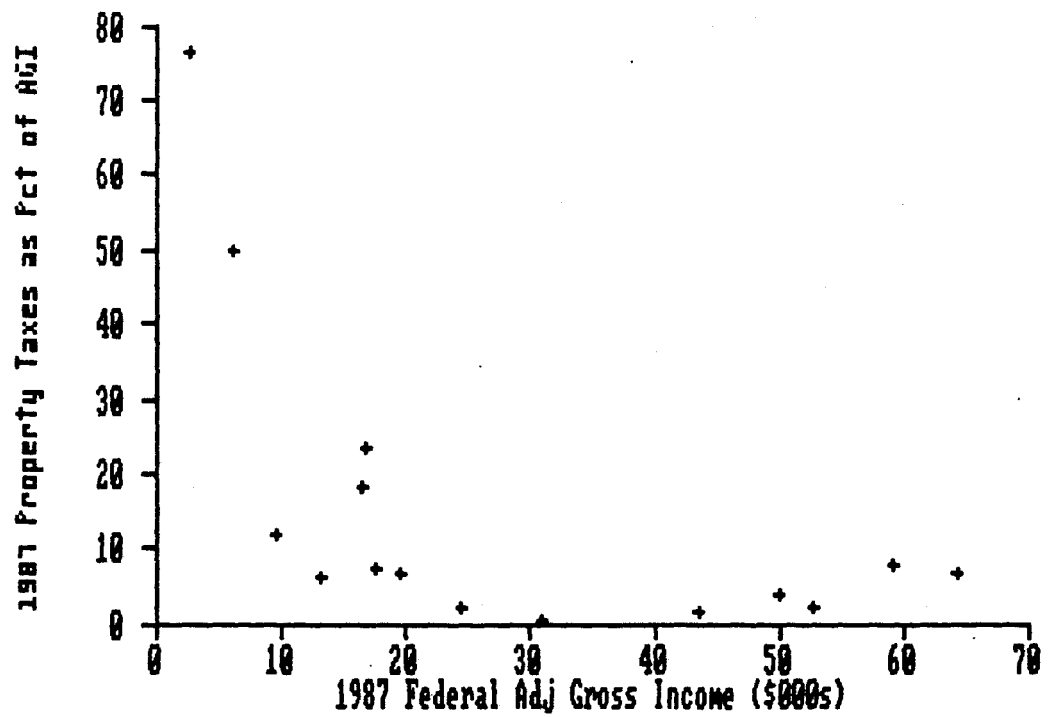


Fig. 20

MONTANA PROPERTY TAX PCTGS vs. INCOME
12 CPA Returns with Rental Income

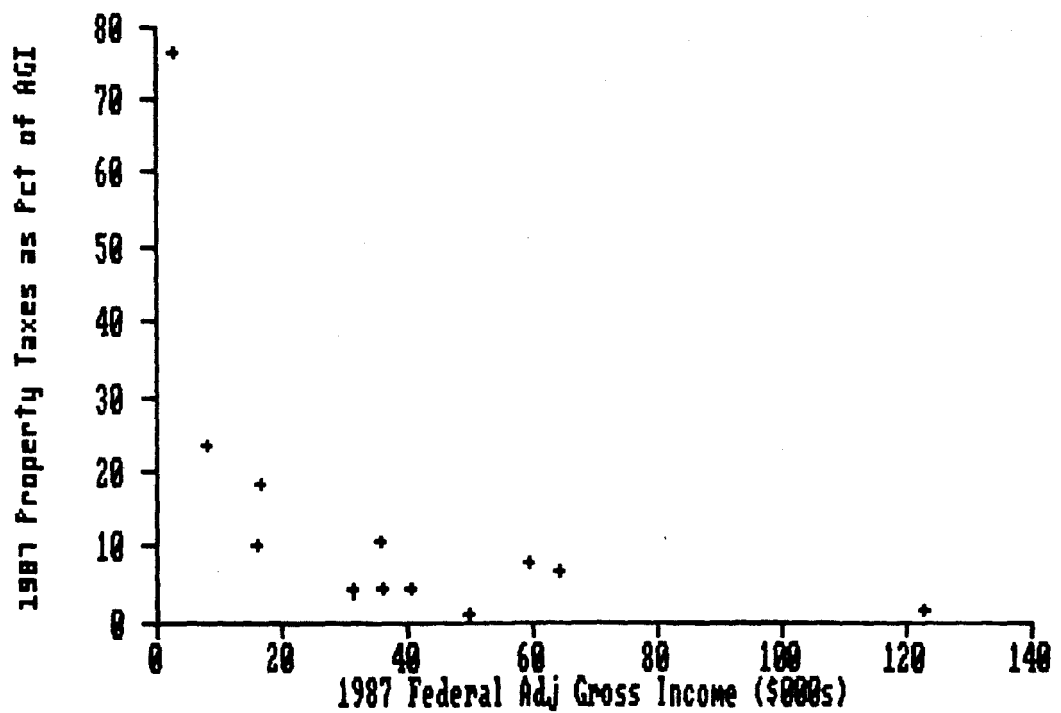


Fig. 21

MONTANA PROPERTY TAX PCTGS vs. INCOME
14 CPA Returns with Farm Income

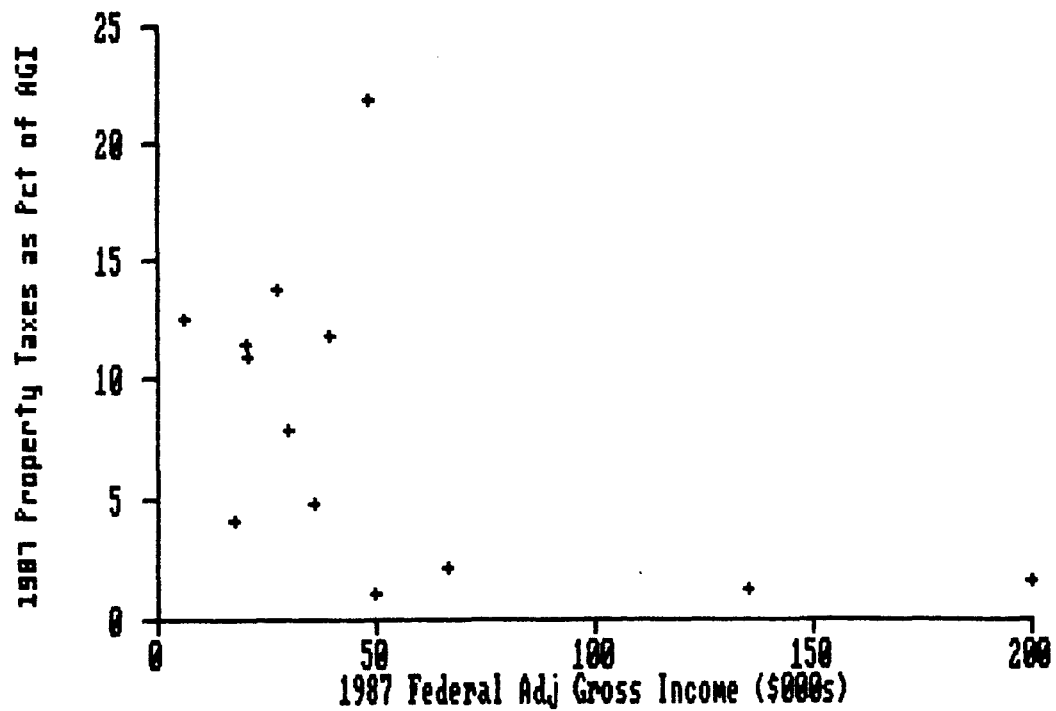
EXHIBIT 10DATE 3/6/89HB 747

Rep. H. Brockway



Fig. 22

MONTANA PROPERTY TAX PCTGS vs. INCOME
13 CPA Returns with Farm Income



Conclusions

The unfairness of Montana's property tax system is not just a mere perception by a few disgruntled property owners. A significant proportion--between 15 and 25 percent--of Montana property owners can be considered "property poor". These taxpayers with below-average incomes pay at least twice as high a percentage of their incomes in property taxes as does the average taxpayer. By comparison, hardly any taxpayers with below-average incomes pay income taxes at even the average rate, much less at twice the average rate!

While many of the "property poor" own no property other than their residence, many others own property used for business, farm, or rental purposes. Data from my relatively small CPA-provided sample of tax returns suggests that lower income taxpayers with such business, farm, or rental property are burdened even more heavily than lower-income taxpayers who are solely homeowners.

Unlike other tax rates, property tax rates (except for the statewide school and university levies) are not set by legislation. Because this is the case, taxpayers cannot seek relief through changes in legislated rates. Thus, "property poor" taxpayers generally have had only three ways to gain meaningful tax relief: (1) sell their property (if possible), (2) vote to cripple their local school districts and towns by rejecting voted levies, or (3) vote to abolish property taxes completely. Both of the first two options are not happy choices for most property owners. Yet, those of us who--in frustration--pushed for the third option have been branded "irresponsible" by the press and by many of our elected officials, from former Governor Schwinden to our city councilmen and women. One can't help but ask what their (as yet undisclosed) plans to help the "property poor" are!

"Band-aid" approaches to property tax relief, such as Montana's low-income tax credit for the elderly, offer little or no help to most of the "property poor". The only permanent relief from the severe regressivity of Montana's property tax system will come from reducing Montana's dependence on property taxes as a funding source for schools and local government. Until this occurs, the ranks--and the frustration level-- of Montana's "property poor" will continue to grow.

Data From Sample of 2058 Montana Income Tax Returns for 1986

| SYM | COUNTY | # OF RETURNS | | RANK | | AVG MT AGI (\$000s) | | RANK | | AVG INC TAX PAID | | RANK | | AVG INC TAX AS % OF AGI | | RANK | | AVG PROP TAX PAID | | RANK | | AVG PROP TAX AS % OF AGI | | RANK | |
|-----|---------------|--------------|------|------|--|---------------------|------|------|--|------------------|------|------|--|-------------------------|------|------|--|-------------------|------|------|--|--------------------------|------|------|--|
| | | RANK | | RANK | | RANK | | RANK | | RANK | | RANK | | RANK | | RANK | | RANK | | RANK | | RANK | | RANK | |
| Be | Beaverhead | 19 | (22) | | | \$25.0 | (27) | | | \$707 | (29) | | | 2.8% | (37) | | | \$543 | (32) | | | 2.2% | (29) | | |
| Bi | Big Horn | 14 | (30) | | | 23.8 | (30) | | | 720 | (28) | | | 3.0% | (21) | | | 556 | (31) | | | 2.3% | (26) | | |
| Bl | Blaine | 7 | (41) | | | 26.9 | (16) | | | 873 | (10) | | | 3.2% | (10) | | | 751 | (16) | | | 2.8% | (20) | | |
| Br | Broadwater | 4 | (48) | | | 30.1 | (3) | | | 947 | (5) | | | 3.1% | (15) | | | 566 | (30) | | | 1.9% | (41) | | |
| Cn | Carbon | 24 | (18) | | | 17.5 | (47) | | | 457 | (47) | | | 2.6% | (40) | | | 766 | (13) | | | 4.4% | (2) | | |
| Cr | Carter | 1 | (53) | | | 15.3 | (49) | | | 181 | (53) | | | 1.2% | (53) | | | 235 | (51) | | | 1.5% | (47) | | |
| Cs | Cascade | 219 | (2) | | | 27.6 | (13) | | | 796 | (18) | | | 2.9% | (30) | | | 959 | (2) | | | 3.5% | (5) | | |
| Ch | Chouteau | 11 | (33) | | | 16.4 | (48) | | | 498 | (43) | | | 3.0% | (21) | | | 338 | (47) | | | 2.1% | (34) | | |
| Cu | Custer | 30 | (14) | | | 22.5 | (35) | | | 650 | (34) | | | 2.9% | (30) | | | 888 | (5) | | | 3.9% | (3) | | |
| Dn | Daniels | 7 | (42) | | | 23.0 | (34) | | | 909 | (6) | | | 4.0% | (1) | | | 503 | (37) | | | 2.2% | (29) | | |
| Dw | Dawson | 36 | (13) | | | 22.4 | (37) | | | 660 | (33) | | | 2.9% | (30) | | | 629 | (20) | | | 2.8% | (20) | | |
| DL | Deer Lodge | 25 | (17) | | | 23.1 | (32) | | | 646 | (36) | | | 2.8% | (37) | | | 639 | (19) | | | 2.8% | (20) | | |
| Fa | Fallon | 7 | (43) | | | 25.6 | (21) | | | 579 | (40) | | | 2.3% | (47) | | | 767 | (12) | | | 3.0% | (15) | | |
| Fe | Fergus | 43 | (11) | | | 22.2 | (38) | | | 532 | (42) | | | 2.4% | (45) | | | 753 | (15) | | | 3.4% | (8) | | |
| Fl | Flathead | 192 | (4) | | | 25.1 | (25) | | | 726 | (26) | | | 2.9% | (30) | | | 835 | (8) | | | 3.3% | (10) | | |
| Gn | Gallatin | 120 | (6) | | | 26.1 | (18) | | | 815 | (14) | | | 3.1% | (15) | | | 723 | (17) | | | 2.8% | (20) | | |
| Gf | Garfield | 2 | (50) | | | 29.8 | (4) | | | 857 | (11) | | | 2.9% | (30) | | | 582 | (27) | | | 2.0% | (39) | | |
| Gl | Glacier | 16 | (27) | | | 28.8 | (7) | | | 900 | (8) | | | 3.1% | (15) | | | 474 | (40) | | | 1.6% | (44) | | |
| GV | Golden Valley | 0 | | | | | | | | | | | | | | | | | | | | | | | |
| Gr | Granite | 6 | (45) | | | 27.3 | (15) | | | 971 | (3) | | | 3.6% | (3) | | | 420 | (43) | | | 1.5% | (47) | | |
| H | Hill | 44 | (10) | | | 24.3 | (28) | | | 782 | (21) | | | 3.2% | (10) | | | 770 | (11) | | | 3.2% | (11) | | |
| Je | Jefferson | 21 | (20) | | | 25.5 | (22) | | | 787 | (20) | | | 3.1% | (15) | | | 531 | (35) | | | 2.1% | (34) | | |
| Ju | Judith Basin | 7 | (40) | | | 26.1 | (18) | | | 903 | (7) | | | 3.5% | (5) | | | 542 | (33) | | | 2.1% | (34) | | |
| La | Lake | 40 | (12) | | | 24.3 | (28) | | | 726 | (26) | | | 3.0% | (21) | | | 764 | (14) | | | 3.1% | (12) | | |
| LC | Lewis & Clark | 165 | (5) | | | 27.9 | (12) | | | 807 | (15) | | | 2.9% | (30) | | | 957 | (3) | | | 3.4% | (8) | | |
| Lb | Liberty | 2 | (49) | | | 25.1 | (25) | | | 800 | (17) | | | 3.2% | (10) | | | 286 | (49) | | | 1.1% | (52) | | |
| Ln | Lincoln | 49 | (9) | | | 25.2 | (24) | | | 741 | (25) | | | 2.9% | (30) | | | 785 | (10) | | | 3.1% | (12) | | |
| Ma | Madison | 18 | (26) | | | 21.4 | (44) | | | 683 | (30) | | | 3.2% | (10) | | | 418 | (44) | | | 2.0% | (39) | | |
| Mc | McCone | 1 | (52) | | | 28.4 | (9) | | | 352 | (49) | | | 1.2% | (52) | | | 610 | (23) | | | 2.1% | (34) | | |
| Me | Meagher | 6 | (44) | | | 22.5 | (35) | | | 803 | (16) | | | 3.6% | (3) | | | 625 | (21) | | | 2.8% | (20) | | |
| Mn | Mineral | 8 | (38) | | | 30.2 | (2) | | | 977 | (2) | | | 3.2% | (10) | | | 574 | (28) | | | 1.9% | (41) | | |
| Ms | Missoula | 210 | (3) | | | 28.3 | (10) | | | 840 | (12) | | | 3.0% | (21) | | | 977 | (1) | | | 3.5% | (5) | | |
| Mu | Musselshell | 8 | (35) | | | 21.9 | (40) | | | 490 | (44) | | | 2.2% | (49) | | | 322 | (48) | | | 1.5% | (47) | | |
| Pk | Park | 29 | (15) | | | 22.0 | (39) | | | 546 | (41) | | | 2.5% | (42) | | | 854 | (7) | | | 3.9% | (3) | | |
| Pe | Petroleum | 0 | | | | | | | | | | | | | | | | | | | | | | | |
| Ph | Phillips | 12 | (31) | | | 13.7 | (53) | | | 401 | (48) | | | 2.9% | (30) | | | 672 | (18) | | | 4.9% | (1) | | |
| Pd | Pondera | 8 | (34) | | | 23.2 | (31) | | | 889 | (9) | | | 3.8% | (2) | | | 518 | (36) | | | 2.2% | (29) | | |
| PR | Powder River | 5 | (46) | | | 14.1 | (52) | | | 349 | (51) | | | 2.5% | (42) | | | 198 | (52) | | | 1.4% | (49) | | |
| Pw | Powell | 14 | (29) | | | 19.4 | (46) | | | 472 | (45) | | | 2.4% | (45) | | | 472 | (41) | | | 2.4% | (25) | | |
| Pr | Prairie | 5 | (47) | | | 21.9 | (40) | | | 661 | (32) | | | 3.0% | (21) | | | 490 | (38) | | | 2.2% | (29) | | |
| Rv | Ravalli | 50 | (8) | | | 21.7 | (43) | | | 628 | (37) | | | 2.9% | (30) | | | 603 | (25) | | | 2.8% | (20) | | |
| Rh | Richland | 26 | (16) | | | 26.1 | (18) | | | 773 | (24) | | | 3.0% | (21) | | | 439 | (42) | | | 1.7% | (43) | | |
| Rv | Roosevelt | 15 | (28) | | | 21.8 | (42) | | | 583 | (39) | | | 2.7% | (39) | | | 482 | (39) | | | 2.2% | (29) | | |
| Rb | Rosebud | 19 | (23) | | | 34.2 | (1) | | | 1142 | (1) | | | 3.3% | (6) | | | 360 | (46) | | | 1.1% | (52) | | |
| Sa | Sanders | 18 | (25) | | | 23.1 | (32) | | | 682 | (31) | | | 2.9% | (30) | | | 604 | (24) | | | 2.6% | (24) | | |
| Sh | Sheridan | 7 | (39) | | | 14.4 | (51) | | | 351 | (50) | | | 2.4% | (45) | | | 160 | (53) | | | 1.1% | (52) | | |
| SB | Silver Bow | 110 | (7) | | | 29.2 | (6) | | | 967 | (4) | | | 3.3% | (6) | | | 864 | (6) | | | 3.0% | (15) | | |
| St | Stillwater | 11 | (32) | | | 29.4 | (5) | | | 776 | (23) | | | 2.6% | (40) | | | 622 | (22) | | | 2.1% | (34) | | |
| Sw | Sweet Grass | 8 | (36) | | | 28.5 | (8) | | | 649 | (35) | | | 2.3% | (47) | | | 573 | (29) | | | 2.0% | (39) | | |
| Te | Teton | 19 | (21) | | | 21.2 | (45) | | | 594 | (38) | | | 2.8% | (37) | | | 584 | (26) | | | 2.8% | (20) | | |
| To | Toole | 18 | (24) | | | 25.5 | (22) | | | 824 | (13) | | | 3.2% | (10) | | | 538 | (34) | | | 2.1% | (34) | | |
| Tr | Treasure | 0 | | | | | | | | | | | | | | | | | | | | | | | |
| V | Valley | 22 | (19) | | | 26.0 | (20) | | | 781 | (22) | | | 3.0% | (21) | | | 790 | (9) | | | 3.0% | (15) | | |
| Wh | Wheatland | 8 | (37) | | | 14.8 | (50) | | | 223 | (52) | | | 1.5% | (51) | | | 245 | (50) | | | 1.6% | (44) | | |
| Wi | Wibaux | 1 | (51) | | | 28.1 | (11) | | | 460 | (46) | | | 1.6% | (50) | | | 382 | (45) | | | 1.4% | (49) | | |
| Y | Yellowstone | 291 | (1) | | | 27.4 | (14) | | | 795 | (19) | | | 2.9% | (30) | | | 926 | (4) | | | 3.4% | (8) | | |

EFFECT OF LOW-INCOME PROPERTY TAX CREDIT:

Appendix B

| (All Data For 1986 Tax Year) | | | | | | | | |
|---------------------------------------|----------------------------------|-----------------------------------|--|---------------------------------|--|---------------------------------------|------------------------------------|-------------------------------------|
| MT ADJ GROSS INCOME (\$000s) | MT INCOME TAX LIABILITY | INCOME TAX AS PCT OF AGI | PROPERTY TAXES DEDUCTED (SCH A) | PROP TAX AS PCT OF AGI | LOW-INC PROP TAX CREDIT TAKEN | L.I. CRED AS PCT OF PROP TAX | NET PROP TAX AFTER CREDIT | NET PROP TAX AS PCT OF AGI |
| -5.3 | \$0 | .0 | \$76 | | \$57 | 75.0 | \$19 | |
| -2.0 | 0 | .0 | 1,235 | | 400 | 32.4 | 835 | |
| -1.4 | 0 | .0 | 952 | | 412 | 43.3 | 540 | |
| | | | | | | | | |
| 1.1 | 0 | .0 | 1,033 | 93.1 | 388 | 37.6 | 645 | 58.2 |
| 1.3 | 0 | .0 | 283 | 21.8 | 189 | 66.8 | 94 | 7.2 |
| 1.6 | 0 | .0 | 722 | 44.5 | 384 | 53.2 | 338 | 20.8 |
| 2.1 | 0 | .0 | 595 | 27.7 | 274 | 46.1 | 321 | 15.0 |
| 2.8 | 0 | .0 | 608 | 22.0 | 139 | 22.9 | 469 | 16.9 |
| 2.8 | 0 | .0 | 603 | 21.7 | 384 | 63.7 | 219 | 7.9 |
| 2.9 | 0 | .0 | 427 | 14.5 | 45 | 10.5 | 382 | 13.0 |
| 3.2 | 0 | .0 | 82 | 2.6 | 72 | 87.8 | 10 | .3 |
| 3.3 | 0 | .0 | 524 | 16.1 | 149 | 28.4 | 375 | 11.5 |
| 3.3 | 0 | .0 | 162 | 4.9 | 95 | 58.6 | 67 | 2.0 |
| 3.5 | 0 | .0 | 967 | 27.9 | 273 | 28.2 | 694 | 20.0 |
| 3.7 | 5 | .1 | 96 | 2.6 | 262 | 272.9 | -166 | -4.4 |
| 3.8 | 0 | .0 | 786 | 20.9 | 416 | 52.9 | 370 | 9.8 |
| 3.8 | 0 | .0 | 114 | 3.0 | 283 | 248.2 | -169 | -4.5 |
| 3.8 | 3 | .1 | 412 | 10.8 | 163 | 39.6 | 249 | 6.5 |
| 4.0 | 0 | .0 | 731 | 18.4 | 343 | 46.9 | 388 | 9.7 |
| 4.6 | 0 | .0 | 916 | 20.1 | 60 | 6.6 | 856 | 18.7 |
| 4.7 | 0 | .0 | 701 | 14.9 | 35 | 5.0 | 666 | 14.1 |
| 5.2 | 0 | .0 | 656 | 12.7 | 347 | 52.9 | 309 | 6.0 |
| 5.7 | 0 | .0 | 848 | 14.8 | 415 | 48.9 | 433 | 7.6 |
| 5.7 | 23 | .4 | 582 | 10.1 | 51 | 8.8 | 531 | 9.3 |
| 5.8 | 9 | .2 | 211 | 3.6 | 168 | 79.6 | 43 | .7 |
| 6.0 | 0 | .0 | 1,345 | 22.3 | 368 | 27.4 | 977 | 16.2 |
| 6.1 | 3 | .0 | 705 | 11.5 | 198 | 28.1 | 507 | 8.3 |
| 6.3 | 0 | .0 | 2,309 | 36.4 | 412 | 17.8 | 1897 | 29.9 |
| 7.1 | 0 | .0 | 1,159 | 16.3 | 133 | 11.5 | 1026 | 14.4 |
| 7.4 | 83 | 1.1 | 1,293 | 17.5 | 156 | 12.1 | 1137 | 15.4 |
| 7.5 | 34 | .5 | 615 | 8.2 | 260 | 42.3 | 355 | 4.7 |
| 7.7 | 2 | .0 | 1,268 | 16.5 | 76 | 6.0 | 1192 | 15.5 |
| 7.9 | 105 | 1.3 | 754 | 9.5 | 46 | 6.1 | 708 | 8.9 |
| 8.0 | 125 | 1.6 | 540 | 6.8 | 130 | 24.1 | 410 | 5.1 |
| 8.1 | 15 | .2 | 944 | 11.7 | 130 | 13.8 | 814 | 10.1 |
| 8.7 | 87 | 1.0 | 770 | 8.8 | 89 | 11.6 | 681 | 7.8 |
| 8.7 | 147 | 1.7 | 176 | 2.0 | 195 | 110.8 | -19 | -.2 |
| 11.3 | 0 | .0 | 1,078 | 9.6 | 268 | 24.9 | 810 | 7.2 |
| 11.5 | 24 | .2 | 1,582 | 13.8 | 187 | 11.8 | 1395 | 12.1 |
| 11.6 | 91 | .8 | 1,017 | 8.8 | 178 | 17.5 | 839 | 7.2 |
| 11.8 | 235 | 2.0 | 730 | 6.2 | 40 | 5.5 | 690 | 3.8 |
| 16.3 | 318 | 2.0 | 1,909 | 11.7 | 347 | 18.2 | 1562 | 9.6 |
| 18.1 | 80 | .4 | 2,216 | 12.3 | 128 | 5.8 | 2088 | 11.6 |
| | | | | | | | | |
| Avg: \$5,584 | \$32 | | \$808 | | \$213 | | \$595 | |
| 100.0% | | .6% | | 14.5% | | 26.3% | | 10.7% |

CPA SAMPLE DATABASE:

EXHIBIT 10
DATE 5/6/89
HB 747
W. B. Boyd

| 1987 FED AGI (\$000s) | 1987 MT INCOME TAXES | MT I.T. AS PCT OF AGI | 1987 PROPERTY TAXES DECLARED ON FEDERAL RETURN | | | | | TOTAL | AS PCT OF AGI |
|-----------------------------|----------------------------|-----------------------------|---|---------|-------|---------|---------|-------|------------------|
| | | | SCH A | SCH C | SCH E | SCH F | | | |
| (61.1) | 90 | | | | | \$3,376 | \$3,376 | | |
| (39.2) | 0 | | \$100 | | | 2,997 | 3,097 | | |
| (3.2) | 0 | | 573 | \$3,858 | | | 4,431 | | |
| (2.6) | 0 | | | | | | 0 | | |
| (1.7) | 0 | | | 62 | | | 62 | | |
| (1.5) | 0 | | 100 | | | 3,223 | 3,323 | | |
| (1.4) | 0 | | 558 | | | 1,238 | 1,796 | | |
| 2.6 | 0 | .0 | 618 | 746 | \$618 | | 1,982 | 76.2 | |
| 6.0 | 0 | .0 | | | | 747 | 747 | 12.5 | |
| 6.1 | 0 | .0 | 1,200 | 1,831 | | | 3,031 | 49.7 | |
| 7.0 | 0 | .0 | | | | 11,019 | 11,019 | 157.4 | |
| 7.9 | 0 | .0 | | | 1,867 | | 1,867 | 23.6 | |
| 8.1 | 191 | 2.4 | | | | | 0 | .0 | |
| 8.6 | 119 | 1.4 | | | | | 0 | .0 | |
| 9.5 | 127 | 1.3 | 542 | 591 | | | 1,133 | 11.9 | |
| 10.6 | 0 | .0 | 1,232 | | | | 1,232 | 11.6 | |
| 11.1 | 0 | .0 | 592 | | | | 592 | 5.3 | |
| 11.2 | 0 | .0 | 2,925 | | | | 2,925 | 26.1 | |
| 13.1 | 0 | .0 | 335 | | | | 335 | 2.6 | |
| 13.2 | 323 | 2.4 | 708 | 79 | | | 787 | 6.0 | |
| 13.3 | 169 | 1.3 | | | | | 0 | .0 | |
| 14.7 | 157 | 1.1 | 314 | | | | 314 | 2.1 | |
| 16.0 | 0 | .0 | 1,539 | | 90 | | 1,629 | 10.2 | |
| 16.5 | 326 | 2.0 | 1,933 | 438 | 601 | | 2,972 | 18.0 | |
| 16.8 | 417 | 2.5 | | 3,950 | | | 3,950 | 23.5 | |
| 17.0 | 274 | 1.6 | 1,421 | | | | 1,421 | 8.4 | |
| 17.2 | 527 | 3.1 | | | | 716 | 716 | 4.2 | |
| 17.6 | 395 | 2.2 | 670 | 670 | | | 1,340 | 7.6 | |
| 18.2 | 831 | 4.6 | 87 | | | | 87 | .5 | |
| 19.6 | 274 | 1.4 | 1,320 | 68 | | | 1,388 | 7.1 | |
| 19.8 | 0 | .0 | 1,441 | | | | 1,441 | 7.3 | |
| 20.1 | 913 | 4.5 | 100 | | | 2,199 | 2,299 | 11.4 | |
| 20.5 | 690 | 3.4 | | | | 2,244 | 2,244 | 10.9 | |
| 21.8 | 279 | 1.3 | 1,031 | | | | 1,031 | 4.7 | |
| 23.4 | 670 | 2.9 | | | | | 0 | .0 | |
| 23.7 | 622 | 2.6 | | | | | 0 | .0 | |
| 24.4 | 0 | .0 | 2,062 | | | | 2,062 | 8.5 | |
| 24.4 | 651 | 2.7 | 391 | 195 | | | 586 | 2.4 | |
| 24.5 | 231 | .9 | 174 | | | | 174 | .7 | |
| 26.2 | 805 | 3.1 | 650 | | | | 650 | 2.5 | |
| 27.1 | 238 | .9 | | | | 3,737 | 3,737 | 13.8 | |
| 29.7 | 629 | 2.1 | | | | 2,359 | 2,359 | 7.9 | |
| 30.9 | 654 | 2.1 | 163 | 54 | | | 217 | .7 | |
| 31.2 | 1,023 | 3.3 | 819 | | 504 | | 1,323 | 4.2 | |
| 33.8 | 1,017 | 3.0 | 378 | | | | 378 | 1.1 | |
| 34.2 | 1,215 | 3.6 | 427 | | | | 427 | 1.2 | |
| 34.6 | 1,006 | 2.9 | 357 | | | | 357 | 1.0 | |
| 35.2 | 1,221 | 3.5 | 353 | | | | 353 | 1.0 | |
| 35.5 | 1,450 | 4.1 | 733 | | | 956 | 1,689 | 4.8 | |
| 35.7 | 2,056 | 5.8 | 904 | | 2,997 | | 3,901 | 10.9 | |
| 36.0 | 1,206 | 3.4 | 833 | | 833 | | 1,666 | 4.6 | |
| 39.3 | 2,201 | 5.6 | 100 | | | 4,519 | 4,619 | 11.8 | |
| 39.8 | 1,397 | 3.5 | 28 | | | | 28 | .1 | |
| 40.3 | 737 | 1.8 | 1,260 | | 559 | | 1,819 | 4.5 | |
| 43.5 | 2,139 | 4.9 | 585 | 103 | | | 688 | 1.6 | |
| 48.3 | 3,145 | 6.5 | | | | 10,573 | 10,573 | 21.9 | |
| 49.5 | 2,522 | 5.1 | | | 515 | 38 | 553 | 1.1 | |
| 50.0 | 962 | 1.9 | 1,672 | 358 | | | 2,030 | 4.1 | |
| 52.4 | 2,292 | 4.4 | 238 | | | | 238 | .5 | |
| 52.7 | 1,947 | 3.7 | 681 | 597 | | | 1,278 | 2.4 | |
| 53.9 | 2,827 | 5.2 | 851 | | | | 851 | 1.6 | |
| 55.6 | 925 | 1.7 | 1,063 | | | | 1,063 | 1.9 | |
| 59.2 | 1,925 | 3.3 | 756 | 1,767 | 2,201 | | 4,724 | 8.0 | |
| 64.3 | 3,458 | 5.4 | 864 | 2,105 | 1,365 | | 4,334 | 6.7 | |
| 66.5 | 3,157 | 4.7 | | | | 1,397 | 1,397 | 2.1 | |
| 68.2 | 3,809 | 5.6 | 836 | | | | 836 | 1.2 | |
| 95.6 | 1,231 | 1.3 | 1,004 | | | | 1,004 | 1.1 | |
| 107.3 | 5,743 | 5.4 | 1,839 | | | | 1,839 | 1.7 | |
| 122.9 | 6,825 | 5.6 | 515 | | 1,352 | | 1,867 | 1.5 | |
| 134.9 | 7,491 | 5.6 | 1,420 | | | 333 | 1,753 | 1.3 | |
| 162.1 | 7,225 | 4.5 | 1,922 | | | | 1,922 | 1.2 | |
| 199.9 | 12,105 | 6.1 | 2,857 | | | 237 | 3,094 | 1.5 | |

Avg: 32.9 \$1,316 4.0% \$640 \$243 \$188 \$721 \$1,791 5.4%

REFERENCES

- [1] Beattie, Bruce R. and Douglas J. Young. 1988. How Progressive is Montana's Income Tax? (Unpublished draft of study prepared for submission to Montana Ag Research, Montana Agricultural Experiment Station, Montana State University, Bozeman.)
- [2] Beattie, Bruce R. and Douglas J. Young. 1988. Montana Taxation and Expenditures: Issues and Options. The Burton K. Wheeler Center, Montana State University, Bozeman.
- [3] Judd, Frederick A., Bruce R. Beattie, Jeffrey T. LaFrance, and Douglas J. Young. 1987. "Are Retail Sales Taxes Regressive?" Montana Ag Research 4(2):6-10. Montana Agricultural Experiment Station, Montana State University, Bozeman.
- [4] Montana Department of Revenue. 1986. Your Taxes in Montana: No. 01 The Present System: Is It Fair? Is It Balanced?, Helena, MT.

EXHIBIT 10

DATE 3/6/89

HB 747

Rep. M. Bradley

THE AUTHOR

John Nehring moved to Bozeman, Montana, in September, 1979. During his first four years in Bozeman he taught flying at Gallatin Field and accounting, economics, management, and public finance at Montana State University. Since 1983, Nehring has been a self-employed computer consultant, specializing in employee training and the development of complex data management systems for small businesses. Nehring graduated from the U.S. Air Force Academy in 1963, and has earned master's degrees in economics and business administration from Georgetown University and the University of Colorado. He is active in Gallatin County politics, and in 1988 ran in the Republican primary for State Superintendent of Public Instruction on a platform of accountability and equitable school funding. In 1986 Nehring was a statewide spokesman for CI-27, which would have abolished all property taxes in Montana.

EXHIBIT 11
DATE 3/6/89
HB 747
Rep. H. Bradley

To: the House Committee on Taxation

From: Hayden Ferguson
1618 Alder Court
Bozeman, MT

Hayden Ferguson
HB 747

IN FAVOR!!! OF IMPLEMENTATION BY THE LEGISLATURE OF A SALES TAX ALONG WITH INCOME TAX AND PROPERTY TAX REFORM.

Past events and the current situation relative to providing absolutely essential services to the people of Montana irrefutably document that the third "leg"--a sales tax--to go with income and property taxes is essential in Montana. Montana is a "third world state" relative to *Educational* social services, and economic development and will surely remain there unless this Legislature makes a change.

The real tragedy of the situation is that the very people that the leaders of the opposition to implementation of a sales tax PRETEND to defend in their opposition, are the very people who have suffered and will continue to suffer the most because of lack of reasonable resources. Thus, that opposition, through their efforts will, if successful, guarantee a lack of reasonable resources, and, thus, CONDEMN those on welfare to a worse than substandard living, those without training to no training, those who work at Warm Springs with a welfare type existence, those in Warm Springs and the prison with sub-standard treatment and over crowding, those in poor school districts a poor education, those without tuition funds no opportunity for higher education, to name only a few.

A disgusting factor about this opposition is that they choose to completely ignore the best recent analysis of sales taxes that I know of--it was written by economic scientists and it shows that a carefully written sales tax is not regressive to lower income people. People whose method of operation is "my mind is made up, don't bother me with facts", are never the best and are usually the worst leaders.

This bill is more careful than the study assumed.

I am a college professor and will soon retire, I do not fear a sales tax but I do fear excessive property taxes. Also, I'm not ignorant of the realities of Montana. I have now or have recently had close relatives confined in Warm Springs and the prison. I know first hand of the lack of treatment, the lack of supervision, the lack of hope in those places. I have now a close relative working at Warm Springs and know well of the pay, or lack thereof, and the working conditions at that place. I have, until fairly recently had relatives attending some of those public schools in Montana where lack of funds made many of the things unavailable that those of you with kids in larger and richer school districts consider essential. My wife and I are currently a major factor supporting a "fatherless" family of five--welfare dependence for that family would mean loss of their home and near starvation. I work at the Land Grant University with the lowest pay and support for agricultural research in the US and I will, again, this spring quarter teach with laboratory equipment that would be an embarrassment at many high schools in Montana. I know that the tuition increase that will be forced by the lack of reasonable resources is going to be devastating to many poor but highly deserving students of Montana.

I implore you to support this sales tax measure, to do otherwise portends

**MONTANA FARM BUREAU FEDERATION**

502 South 19th • Bozeman, Montana 59715
Phone: (406) 587-3153

EXHIBIT 12
DATE 3/6/89
HB 747
Rep. Bradley

BILL # HB 747; TESTIMONY BY: Dave McClure
DATE March 6, 1989; SUPPORT Yes; OPPOSE _____

Mr. Chairman, members of the committee for the record my name is Dave McClure, I am a rancher from Lewistown and currently president of the Montana Farm Bureau.

Farm Bureau supports HB 747, our policy favors replacement of the property tax as the principal source of funding for primary and secondary education with a broader based alternate tax such as the state sales tax.

Our policy also says property taxes have reached their punitive level and the state should restrict itself in regard to the property tax field. Property tax relief should be a part of any tax reform.

We also support a fair and equitable tax and believe a sales tax would be more fair and equitable than the present property tax system.

Farm Bureau supports the amendment to exempt utility bills, this is a basic necessity. Plus the fact that many farmers and ranchers use electricity to operate center pivots to irrigate crops, many other businesses use electricity in their operation.

Farm Bureau supports HB 747 since we see it as a way to replace funds to the counties for SB 184 to be heard in this committee on Friday. SB 184 would treat livestock like any other inventory tax.

We urge this committee to pass HB 747 with amendments.

SIGNED: *Dave McClure*



Board of Public Education

EXHIBIT 13
DATE 3/6/89
HB 747
Rep. D. Bradley
Claudette Morton
Executive Secretary

March 7, 1989

TO: Members of the House Taxation Committee

FROM: Claudette Morton *CM*
Executive Secretary

RE: Testimony to Comment on HB 747

The Board of Public Education, through its study of HJR 16 and as a defendant in the Underfunded Law Suit, is on record as recognizing that additional funding at the state level will be needed to provide the state's share of financing the public school system in an equitable and adequate manner. It has taken the stand that these additional dollars could come from one of two sources--either new sources of revenue or reprioritization of existing funds. The Board has not specifically taken a stand to support a sales tax, but to the extent that it is a new source of revenue, we support it.

Thank you.

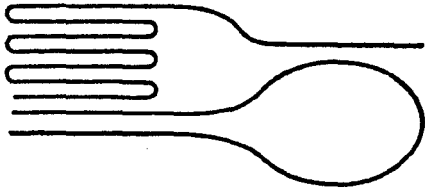


EXHIBIT 14
DATE 3/6/89

Montana Restaurant Association

HB 747
Rep. H. Bradley
Legislative Committee
P.O. Box 7369
Missoula, Montana 59807

Senator Harrington and members of the Committee
My name is Leon Stalcup and I represent today the
Montana Restaurant Association which represents the
over 2000 restaurants in Montana. We find
HB 747 a very thoughtfull and thought provoking
Bill. We support the Bill if there is the inclusion
of a vendor fee of 2-3% of tax collected and
inter company transfers are eliminated from
taxation, utility costs also should be exempt to
retain the progressive nature of this Bill.

EXHIBIT 15
DATE 3/6/89
HB 747
Rep. H. Bradley

I am Joe Upshaw, a private citizen, who is also a senior citizen who is very active at both a national and state level in senior and retired legislative efforts. A good many of you know me as a lobbyist for a major senior organization, but I would like to reiterate that at this time, I am speaking as a private citizen.

I am here with an open mind especially to clarify statements concerning the stand of seniors that you have heard or will hear. I know that to support the needs of all citizens of Montana, monies will have to be provided to pay for these. Granted, many dollars are spent unnecessarily, but on the other hand, the lions share of these dollars are absolutely necessary to pay for these essentials.

We have heard from others that all seniors and retired persons oppose the sales tax without reservation. As an individual senior, I point out that I am a very active member of most Montana senior organizations and I can state, that, as a fact all seniors and retirees are not opposed to the sales ^{tax} of this particular piece of legislation. You are looking at one - ME!

In your deliberations, I ask that you keep this in mind, remember, that your older Montana citizen will listen to the facts and after due consideration, will support the best possible course of action.

Thank you.

Joe Upshaw

MONTANA STATE COUNCIL No. 9

AMERICAN FEDERATION OF STATE, COUNTY AND MUNICIPAL EMPLOYEES
Affiliated With A.F.L.—C.I.O.

EXHIBIT 16
DATE 3/6/89
HB 747
Rep. H. Brad



Gerald W. McEntee
International President

William E. Lucy
International Secretary-Treasurer

COUNCIL OFFICERS

Jim Schweigert, President
102 N. Jordan
Miles City, MT 59301
Phone: 232-5522

Joyce Perszyk, Secretary
635 12th Street
Havre, MT 59501
Phone: 265-9834

George E. McCammon, Treasurer
Rte. 1, Box 144
Townsend, MT 59644
Phone: 266-3592

VICE-PRESIDENTS

Duane Hartman
Rt. 2, Box 2364
Lewistown, MT 59457
Phone: 538-5090

Don Davis
555 Edison
Butte, MT 59701
Phone: 723-5350

Dave Beadles
P.O. Box 307
Boulder, MT 59632
Phone: 225-3706

Leann Schaff
7807 Kerr Drive
Missoula, MT 59803
Phone: 251-3232

COUNCIL STAFF

Headquarters
P.O. Box 5356
Helena, MT 59604
Phone: 442-1192

R. Nadiean Jensen
Executive Director

George F. Hagerman
Field Representative

Sharon Donaldson
Field Representative

Jim Mayes
Field Representative

Debbie Lesmeister
Sec./Bookkeeper

Testimony by Nadiean Jensen before the House Taxation Committee on
House Bill 747, March 6, 1989

Mr. Chairman and members of the Committee, I am Nadiean Jensen, Executive Director of Montana Council #9 American Federation of State, County and Municipal Employees (AFSCME), and we are here today to oppose House Bill 747 which would impose a sales tax on the people of Montana.

Our federation represents a segment of the population which stands to lose the most from the serious lack of state revenues with which you are faced. We are public employees, and we stand to lose our jobs, our dignity and our very existence unless you can find adequate funds to operate government. That is not an enviable task, but it is the one for which you were elected and which you must accomplish for the good of all people of the state.

We are also the men and women who will pay the most under any sales tax. We are the middle income taxpayers who will not benefit from the grand cuts in the property tax which this legislation proposes; who are not eligible for the rebates which are also proposed; and who will be forced to shoulder the burden of paying for the operations of state government if this bill passes.

The simple fact remains that a sales tax is unfair to middle Montana. It really doesn't matter how many bells and whistles you attach to a sales tax to make it more palatable to the voters or how many millions of dollars you can promise to various interest groups. A sales tax is regressive. It is unfair. And it is really unnecessary.

In Montana today, there are many wealthy individuals and corporations who do not carry their fair share of the tax burden because the tax system which you have created contains too many loopholes and inequities. It is possible to adequately fund state government and deal with the needs of education and the University System and offer a decent wage to your employees by closing those loopholes and making certain that everyone contributes according to their own ability to pay.

We oppose any sales tax and promise to work hard for its defeat if such a measure is placed on the ballot. We urge this committee to vote no on House Bill 747

Thank you.

X AGAINST
SALES TAX
Produced by Montana
State AFL-CIO



EXHIBIT 17
DATE 3/6/89
HB 747

Rep. H. Bradley

CHARTERED BY
UNITED FOOD & COMMERCIAL WORKERS INTERNATIONAL UNION
AFL-CIO & CLC

Testimony of Bob Heiser to the House Taxation Committee on House Bill 747, March 6, 1989

Mr. Chairman and members of the House Taxation Committee, for the record, I am Bob Heiser from Billings and I represent the United Food and Commercial Workers International in opposition to House Bill 747.

This legislation would impose a sales tax on the people of Montana and the members of our labor organization would collect this tax at the cash registers of Montana businesses.

First of all, a sales tax is basically unfair. We believe the sponsors of this legislation recognize this unfairness because of all the features they have added to this bill to make it more attractive to the voters. We don't believe that the people will be fooled into voting for a tax which is regressive, no matter how you dress it up.

Secondly, if this legislation is enacted, the battles over what is taxed and what is exempt will be a constant and considerable headache for those who will collect it. Just like we see the parade of special interests demanding their property tax exemptions before the Legislature today, we will see corporate business after corporate business in here year after year to plead their case for sales tax exemptions. They will whittle away at a sales tax until the burden falls even more heavily on the middle and lower income taxpayers.

Finally, the battle over a sales tax is simply unnecessary. The voters will not approve this new tax because they can plainly see the inequities which exist in our present tax structure. They will not be convinced by the arguments that our tax structure is unbalanced because they can see that the wealthy and large corporations have unfair advantages now. They will know that those very same wealthy individuals and large corporations will benefit from the provisions of this legislation. And they will finally demand that fairness become the benchmark of tax policy for our state.

(over)

On behalf of our members, many of whom are among the working poor, we urge you to use fairness and ability to pay as the standards which this legislature uses to address the serious fiscal problems confronting our state. House Bill 747 does not adhere to those standards. It magnifies the present unfairness, it hits hardest at those least able to pay, and we urge you to oppose this legislation.

Thank you.

EXHIBIT 18
DATE 3/6/89
HB 747
Rep. R. Bradley

TESTIMONY ON HB 747

Ron de Yong
Mt. Farmers Union

Mr. Chairman, Members of the Committee,

The proponets of this bill remind me of the old medicine men who came to town selling snake oil. They'd tell the people "What is in this container will answer your prayers and solve all your problems!" All you have to do is give me your hard earned money. There is one major difference, however, between the old medicine men and these new medicine men. The old medicine men only expected you to pay for their snake oil once. THESE NEW MEDICINE MEN DEMAND YOU PAY FOR THEIR SNAKE OIL EVERY TIME YOU COME TO TOWN FOR AS LONG AS YOU LIVE!

We need to take a good hard look at this snake oil and even talk to a few previous customers. Everyone that I've ever talked to in our neighboring states, about a sales tax, has said "DON'T DO IT!" They say "We wish we would have never done it, you don't know how lucky Montana is!"

This bill not only forces us to pay more taxes, it also forces us, if we have products to sell, to become tax collectors for the State, We will be required to get a permit to collect the State's taxes and in some cases post security up to \$10,000 for handling those taxes. And if we don't do it we will be subject to severe penalties.

This is not a simple bill. It contains 158 pages; 7 pages of exemptions, those exemptions include insurance companies, stocks, bonds, securities, dividends, interest, and advertising services. It includes 11 pages of deductions against gross receipts. These deductions are necessary to insure that large corporations and businesses don't pay any of this tax and the average Montanan, struggling to make a living and raise a family, pays it all.

A complicated tax such as this will require a tremendous bureaucracy to monitor and police Montana citizens that are required to collect the tax, to keep tract of exemptions and deductions from gross receipts, to create and monitor what these new medicine men call nontaxable transaction certificates, to keep tract of rebates and penalties. It won't come cheap and as sure as I'm standing here, it won't take long and they'll want a new building to house this bureaucracy! And these costs don't even include the added cost to the retailer in pricing his products, collecting the tax and sending it to the State, and keeping additional records and paperwork!

Now let's take a quick look at rebates to the poor offered in this sales tax. If your Gross Household Income is \$10,000 your rebate is only \$44.00. And that's not the worst of it. If you're a small farmer and gross \$80,000 but have expenses of \$70,000 so that your family is struggling to live on a net income of only \$10,000 (and this is not unusual) you will receive no rebate at all even though you had to pay significantly more in sales taxes because of the additional items that were purchased as part of farm expenses. THIS IS NOT A FAIR TAX!

EXHIBIT 18
DATE 3/6/89
HB 747
Rep. R. Bradley

These new medicine men are asking this legislature that they be allowed to try to sell their snake oil to the people of Montana in June. It's going to cost Montana half a million dollars to hold that election and the people are going to vote it down. Then the Governor will call a special session which will cost the taxpayers still more money to do what should be done in this legislative session in the first place. We already know that we don't want this snake oil and we don't want to spend additional money in an election finding out what we already know. We strongly urge your opposition to HB 747.

Thank You



EXHIBIT 19
DATE 3/6/89
HB 747
Rep. H. Bradley

TESTIMONY OF MONTANA DEMOCRATIC PARTY CHAIR, BRUCE NELSON, BEFORE
THE HOUSE TAXATION COMMITTEE -- MONDAY, MARCH 6, 1989

Thank you Mr. Chairman and members of the Committee. My name is Bruce Nelson, Chairman of the Montana Democratic Party. I come before you in opposition to House Bill 747, based on our platform provision adopted unanimously in Glendive last summer, "We adamantly oppose a general sales tax." The Montana Democratic Party quarter-century opposition to a general sales tax is not based on political considerations, nor am I here today simply because of historical precedent.

Our party re-examines this issue every two years and always comes to the same conclusion -- that a general sales tax is inconsistent with the Democratic belief that the fundamental principle of fair taxation is ability to pay. A general sales tax is one tax that cannot meet that standard. For that reason, we as a party are compelled to fight the imposition of a general sales tax.

The authors of this proposal have, to their credit, recognized the inherent regressivity of the tax and have sought to alleviate it. Others testifying here today will demonstrate why their efforts fall short. What is apparent in this bill, as it is apparent in every general sales tax levied around the country, is that you can't make it progressive -- you can't establish this tax on the solid foundation of ability to pay.

This legislation would result in a massive transfer of the tax burden from business to individuals. Some projections show that business would pay as little as 35% of the tax yet receive 65% of the tax relief. While paying a little over \$100 million,

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 Helena | Deborah Hanson Secretary Miles City | Rich De Jana Treasurer Kalispell | Gail Stoltz Executive Director Helena | Evan Barrett Nat'l Committeeman Butte | Sherlee Graybill Nat'l Committeewoman Great Falls |
| Boni Braunbeck Lewistown | Ralph Dixon Billings | Virginia Egli Glendive | Nancy Harte Helena | Chas Jeniker Butte | Rhonda Lankford Missoula | Debbie Lesmeister Helena |
| Richard Nellen Bozeman | Danny Oberg Havre | Jim Pasma Havre | Brenda Schye Glasgow | Mary Sexton Hamilton | David Smith Missoula | Bill Thackeray Havre |
| Kay Blehm Democratic Women's Club Billings | Marlene Egan Co. Chairs Assoc. Great Falls | Dennis Small Young Democrats Missoula | Sen. Bill Norman Missoula | Rep. John Vincent Bozeman | Sen. Fred Van Valkenburg Missoula | |

EXHIBIT 19
DATE 3/6/89
HB 747
Rep. dl. Bradley

- page two -

TESTIMONY OF MONTANA DEMOCRATIC PARTY CHAIR, BRUCE NELSON
HOUSE TAXATION COMMITTEE
HB 747

March 6, 1989

business receives almost the same amount in tax relief. On the other hand, individuals, low and particularly middle-income people, would pay almost the entire \$120 million of new revenue generated.

What the numbers reveal, is a giant shell game, ultimately designed to pick the pockets of the middle class. That's not fair -- the middle class is already over-taxed and under-appreciated. If business, as represented by the Montana Ambassadors, really believes in good schools, good roads, and good government, then why won't you help foot the bill?

The Montana Democratic Party strongly believes we need more revenue, especially for education, the most important investment society can make. We will cooperate with anyone to develop a reform package, consistent with our platform, that restores public confidence in Montana's current inequitable tax structure and raises the necessary additional funds.

The two key elements of this package are first, eliminating loop holes, broadening the base, and lowering the rates of our income and property tax systems. Second, authorizing voter-approved local option taxes giving local governments the flexibility they need to provide essential public services and to reduce reliance on property taxes. Let's fix the taxes we already have, not add a major new one.

Again, on behalf of the Montana Democratic Party I appreciate the opportunity to testify before you and urge you to report House Bill 747 to the full House with a "Do Not Pass" recommendation.

MONTANA JOINT RAIL LABOR LEGISLATIVE COUNCIL

Post Office Box 642
Livingston, Montana 59047



EXHIBIT 20
DATE 3/6/89
HB 747

Rep. H. Bradley

Council Members

James T. Mular, Chairman
Ray R. West, Vice-Chairman
David B. Ditzel, Secty.-Treas.
Carl J. Knutson, Member

March 6th 1989

BEFORE THE MONTANA HOUSE TAXATION COMMITTEE

In Opposition to HB 747 by Repr. Bradley

Mr. Chairman, Members of the Committee, for the record I am James T. Mular, Chairman of the Montana Joint Rail Labor Legislative Council, which represents approximately 3200 active and retired railroad employees in the state of Montana. We appear in opposition to HB 747 known as the Bradley/Rameriz pocket fleecer. This is a Wooley bill that wasn't shed by Montana sheep. Although the bill would, if enacted, fleece low and middle income workers of their hard earned dollars. Montanan's are not a flock of sheep, and they don't like being herded by tax shepards.

The average Montana active and retired railroad employee pays approximately \$3500 annual state and federal income tax. The Reagan administrations' Income Tax Reform Act deleted state sales tax deduction from federal income taxes. A number of states have sales taxes- But there are no state income taxes.

Ironically HB 747 purports to give property tax relief, which is a deductible item from both federal and state income tax. Any property tax relief arising from this bill would reduce our federal and state property tax dedcutions. Thereby increasing our income taxes.

(MORE REVERSE SIDE)



Brotherhood of
Locomotive Engineers



Brotherhood of
Maintenance of Way Employees



Transportation - Communications
Union



United Transportation Union

We would be paying more income taxes; which is a far greater amount than the state and local property tax relief appearing in this bill.


Proponents of this legislation would recieve the greatest tax relief. Some of them don't even pay state income taxes. And their eyes are focused on getting property tax relief.

Another legislative fleecing occurs. Sales Taxes in other states continue to increase. Legislatures have enacted sur-taxes on their sales tax - Others have legislated local government sales tax.

In conclusion: We allege that Montana Big Businesses and out of state corporations would recieve 60% of the total tax relief appearing in HB 747. On the other hand low and middle income groups would foot the sales tax burden with and increase of 20% of their net income. Take home pay is what the sales tax gobble up.

We strongly urge you kill this legislation. Because it fleeces you and the people of Montana. Thank you for allowing us to appear before this committee in opposition to HB 747.

Respectfully submitted


James T. Mular, Chairman
Montana Joint Rail Labor
Legislative Council,
440 Roosevelt DriveR-1
Butte, Montana 59701
(406) 494-2316

Montana Senior Citizens Assn., Inc.

WITH AFFILIATED CHAPTERS THROUGHOUT THE STATE
P.O. BOX 423 - HELENA, MONTANA 59624

EXHIBIT 21
DATE 3/6/89
HB 747
Rep. H. Bradley



(406) 443-5341

TESTIMONY SUBMITTED ON HB 747
BEFORE THE HOUSE TAXATION COMMITTEE
MARCH 6, 1989

My name is Earl Reilly. I am serving as President of The Montana Senior Citizens Association. This is a grassroots organization that monitors issues and stays attuned to legislation we consider vital to our 6,000+ members and other members of our community.

We have in the 15 years of our existence opposed the sales tax in our annual resolutions. We don't think this tax can be anything but regressive no matter how many gimmicks are attached to it. We don't think this is any exception.

Since this bill showed up last week we have been calling on our phone network across the state to inform our members and get their reaction. This network enables us to cover issues like this very thoroughly.

Let me relate to you their reaction on the sales tax.

1. They resent having to vote on it again. They thought they were heard from in 1972. They questioned the wisdom of spending 80 to 100 thousand dollars when money is so short. They seemed to think the money should go toward education and other necessities.

2. They wonder why the sales tax people can't seem to suggest any other means of raising revenue. The loopholes given to out of state corporations received lots of attention in this regard. They suggested lots of ways to raise money without resorting to a regressive sales tax. They consider this a tricky way to increase taxes with a thinly disguised bit of sugar coating.

3. They were very interested in the names of those sponsoring this bill. Overall they didn't seem very enthusiastic about this bill.

We suggest this bill do not pass.



JAMES W. MURRY
EXECUTIVE SECRETARY

Box 1176, Helena, Montana

ZIP CODE 59624
406/442-1708

EXHIBIT 22
DATE 3/6/89
HB 747
Reg. H. Brodley

Statement of Don Judge on House Bill 747 before the House Taxation Committee, Monday, March 6, 1989

Mr. Chairman, members of the committee, for the record, my name is Don Judge and I'm here today to represent the Montana State AFL-CIO in opposition to House Bill 747.

Working people, who comprise the total membership of our organization, remain opposed to a sales tax for a very simple reason: a sales tax is a regressive tax.

Make no mistake about it: House Bill 747 would raise needed revenue for public services. Unfortunately, it raises most of the \$79 million in net new revenue from the working people of our state, while giving corporations and businesses tens of millions of dollars in property tax breaks.

These are the same working people who were forced to take massive wage cuts by corporate giants like Champion International, Stone Container, and ASARCO. These are the same companies that have been able to maintain profits that they themselves have sometimes called "dramatic." And, these are the same companies that are likely to benefit from the passage of House Bill 747.

These companies benefit because the ultimate purpose of sales taxes is to shift the tax burden off of the corporate world and onto the working people. They'll use any argument to achieve that massive tax shift: sometimes the argument is property tax reduction, sometimes it's to capture so-called tourist tax dollars, and sometimes, like this year, it's funding our public education system. Whatever their argument, the ultimate purpose is to shift taxes off their backs and onto workers. After extracting millions in wage concessions from their employees and enjoying enormous profitability, these companies are back for more.

The sales tax is always viewed as the quick fix to a state's economic difficulties; that's why 45 of the 50 states have sales taxes. The problem with this quick fix is that the opening percentage -- four percent in this case -- has a history of going up and up and up over the years.

Worse yet, the few features in this sales tax designed to make it more tolerable and less regressive are the ones most easily changed. Once a basic sales tax law is on the books, it's not a far stretch of the imagination to foresee subsequent Legislatures changing the exemptions, such as House Bill 747's exemption on food. There are 16 states that don't exempt food purchases from their sales taxes. Not surprisingly, those states are

TESTIMONY OF DON JUDGE
HOUSE BILL 747, MARCH 6, 1989

among those with the most regressive sales taxes according to national studies. I would note that all but one of Montana's neighbors (North Dakota) tax food sales. If one of the arguments for a sales tax is "joining the club," as it has been this year, then we should also be prepared to join the "making a sales tax even more regressive" club of the future.

The regressiveness of House Bill 747's sales tax is most clearly demonstrated by an analysis of where it will generate net new revenue. The bill is expected to generate approximately \$288 million in sales taxes and provide \$209 million in tax relief and rebates. The almost \$79 million remaining in net new revenue will be paid largely by households -- by middle-income taxpayers, retirees, and the working poor.

One of the myths about this year's debate is that the sales tax is Montana's only alternative for raising much-needed revenue. That's absolutely false.

Among the dozen or so other, more progressive, alternatives are placing a cap on federal tax deductions, continuation of an income tax surcharge, establishing an alternative minimum tax for the wealthy, reform of our current income tax system by broadening the base and reducing the exemptions and, applying a larger statewide levy for funding of public schools, equalizing costs for property taxpayers throughout the state.

The name of the game with a sales tax is shifting the burden from those who don't want to pay their fair share to those who can't afford more than their fair share. We urge you to reject this regressive tax bill and focus on more acceptable and more progressive tax alternatives.

For decades, Montanans have fought the corporate interests that have tried to saddle us with sales taxes. Montanans' sentiments have not changed drastically -- we're still dead set against a statewide sales tax. As a practical matter, we believe that the sales tax is not going to be available to help balance the state's budget, because the people won't vote for it. Again, we urge you to reject this regressive tax that is doomed to failure and get on with reform of our current system.

Thank you.

EXHIBIT 23
DATE 3/6/89
HB 747
Rep. H. Bradley



BUILDING AND CONSTRUCTION TRADES COUNCIL
IN AFFILIATION WITH
BUILDING AND CONSTRUCTION TRADES DEPARTMENT
AMERICAN FEDERATION OF LABOR—CONGRESS OF INDUSTRIAL ORGANIZATIONS

Address of Writer _____

TESTIMONY OF GENE FENDERSON ON HOUSE BILL 747, BEFORE THE HOUSE TAXATION COMMITTEE, MARCH 6, 1989

Mr. Chairman, members of the committee, my name is Gene Fenderson and I'm here today to represent the Montana State Building and Construction Trades Council.

Our organization is made up of unions representing the Operating Engineers, Carpenters, Laborers, Cement Finishers, Electricians, Plumbers and Pipefitters, Ironworkers, Bricklayers, Boilermakers and Sheetmetal Workers throughout the state of Montana. These are the people who build and repair our state's roads, bridges and infrastructures. They are hard-working, highly-productive workers who contribute to making Montana grow. On behalf of these workers, we urge you to oppose House Bill 747.

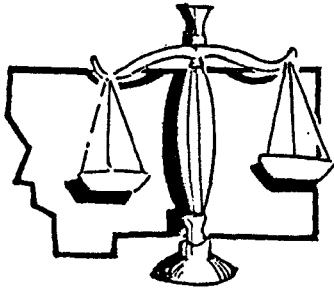
Mr. Chairman, our organization has long been a moving force behind the Montana labor movement's opposition to a sales tax. Resolutions opposing the sales tax from our council and from our affiliated local unions have received unanimous endorsement from our Brothers and Sisters in the Montana State AFL-CIO. And, we stand squarely behind that organization in its efforts to oppose any attempts to impose a sales tax on Montana workers.

Sales taxes are regressive, as anyone can see, but I'd like to tell you how a sales tax would directly impact the working people I represent. Building trades workers don't have cushy jobs. For the most part, they work in dirty conditions and fluctuating climates. They travel to jobs away from home, eat at restaurants and provide their own tools.

What this proposed sales tax would mean to these workers is that they would pay 4% more for their meals away from home while on the job. They would pay 4% more for the gloves, boots, hats, coveralls and other clothing which is necessary for the job and which needs periodic replacement. And, they would pay 4% more for the very tools of their trade, items which also need periodic replacement.

Mr. Chairman, members of the committee, times have been tough for Montana's building trades workers. Lack of work and wage concessions have hit some of these folks hard. Hitting them now with a 4% sales tax would depress their lives even further.

Our members recognize the need to pay taxes for essential public services, but they believe in doing so based on the ability to pay. Income taxes, without loopholes, are the best way to raise needed revenue. We don't need a sales tax and would urge you to oppose House Bill 747.



Montanans For Social Justice

436 North Jackson
Helena, Montana 59601
(406) 442-7752

EXHIBIT 24
DATE 3/6/89
HB 747
Rep. H. Bradley

My name is Marcia Schreder. I am Co-Chair of the Montana Low Income Coalition and First Vice-President of Montanans For Social Justice here in Helena. With a combined membership from these two organizations of over 6,000, I could represent a large number of your constituency. But instead, today I want to address what a 4% sales tax would mean to my family alone.

You're dealing in large numbers--the total population of Montana. A truer test of the impact of any sales tax must be broken down on more of an individual basis. Like any consumer, I had to evaluate, point by point, if a sales tax would help or harm my family.

I considered the point that a few cents at a time makes paying taxes easier on everyone and makes it fairer because everyone pays. The flaw here is that the per cent of my income used for taxes would be much higher than someone in a higher income bracket. I did some investigating of my taxable purchases over the last year that were recorded in my check book. Since I pay for alot of things with cash, I doubled the amount and figured the amount of sales tax that I approximately would have paid-out last year. It came out to 22% of my income from AFDC. Could your budget handle that? I'm not spending my money on luxuries like a new Lincoln Town car or an addition to my house with a jacuzzi and weight room. I'm spending my money on the basics like clothes for a growing four-year-old and toilet paper and aspirin and laundry soap.

I considered the point that tourists would pay a sales tax while in our fair state. If you think a sales tax will lure more tourists, I don't follow that logic. They visit here, happy not to pay a sales tax and this makes them feel they can purchase more while here.

I considered the point that a sales tax would help fund education and relieve local mill levies. As a student at Helena's Vo-Tech, I can't disagree with the need for funding, but I can't justify paying what I feel is an excessive amount above and beyond what I already pay for tuition, books, tools, and the other costs incurred by going to school.

I considered the point that property taxes would be eased or eliminated entirely. If I owned property, I'm sure I'd be all for one of my taxes being eliminated. Unfortunately, I don't own any property. Lowering property taxes, dollar for dollar, with how much a sales tax brings in has property owners sitting up and taking notice. As has happened in other states, property owners bit the carrot held out for them. But those same states saw the needed property taxes return in subsequent years. So much for

EXHIBIT 24
DATE 3/6/89
HB 747
Rep. R. Bradley

I guess the answer to that is to be found in the last point I considered--a rebate to households with an income below \$20,000. My household would qualify for \$140 rebate--\$70 for my son and myself. In considering the plight of the lower-income households in this state, you have at least shown you realize we exist. But the fact that you don't seem to realize this rebate will be counted as income and will thereby lower the amount of social services I qualify for, shows your lack of understanding of how the "system" penalizes a recipient for what you consider a sufficient repayment. My subsidized rent would go up, the amount of food stamps I receive would go down, and my AFDC check amount would be lowered. My buying power each month would be lowered because of these "few cents" per purchase I'm required to pay out. On top of all this, I'm paying out taxes all year that, according to the Federal government, I'm too poor to have to pay in the first place. This all is helping my family? I don't think so!

Now, if this was your evaluation, for the impact on your family, could you say a sales tax would benefit you? My score card says NO--it will hurt me considerably. I see my family would continue to get an education--an education on how the poor stay poor and the rich get more relief.

EXHIBIT 25DATE 3/6/89HB 747

Rep. R. Bradley

SECRETARY'S OFFICE

Bricklayers and Stone-Masons Union

LOCAL NO. 10 OF THE B. M. & P. I. U. OF AMERICA



Lock Box 556

Billings, Montana 59103 3-6 19 89
256-3016

House Taxation Committee

Rep. Dan Harrington
Chairman

Dear Mr. Chairman + Committee Members,

I represent the members of The International Union of Bricklayers + Allied Craftsmen Local #10, Btgs, Mt. As their representative I am hoping this committee understands how strongly we oppose H.B. 747, introduced by Rep. Dorothy Bradley.

Statements have been made that H.B. 747 will help the economy of Montana. Please consider the economy of Wyo., N.D., S.D., Idaho, and numerous other Mid-Western states. They have a sales tax, and are suffering as we are.

Oregon has no sales tax and they are doing fine. We feel this bill would hurt the working people of Montana more than it would help us.

As seasonal workers we have limited, if any income during the winter months. To pay any extra money out for items of need would be devastating in many homes across the state. There are children that would have to go without clothes, or in some cases food, because the extra dollars ^{made} during the summer were eaten up by a sales tax, and not saved for those long winter months of little or no income. The money lost from out-of-state buyers who would stay home + pay their states sales tax, would equal or by-pass the amount generated by a sales tax in Montana. If we must create revenue for the state, let's do it by taxing foreign products sold in Montana, (remember the Girl Scout Cookies sent to our servicemen?).

In closing, we pray that H.B. 747 will not go so far as to cost Montana taxpayers \$500,000 or more, for a special vote in June, and be stopped in committee. Thank you for your hard to come by time.

Sincerely Yours,
Walt Morris

EXHIBIT 26
DATE 3/6/89
HB 747
Rep. H. Bradley

House Taxation Committee

Rep. DAN HARRINGTON, CHAIRMAN
Committee Members.

I STRONGLY OPPOSE HB 747, which would cause a much greater burden on lower income workers than it would on the rich or big business. Sending such an unfair bill to a vote of the people would only cause the waste of 1/2 million or more dollars, on the cost of a special vote, as the voters of Montana would only vote this down one more time.

I pray that the wisdom of this committee will emerge and that they will table this very Bad Bill.

Sincerely,
Walt Costello
3210 Phillip
Biggs, MT 59101

EXHIBIT 27
DATE 3/6/89
HB 747
Rep. H. Bradley

HB 747 4% Sales Tax

Mr. Chairman, committee members, my name is Mark Lindsay, and I am speaking on behalf of the Montana Building Industry Association. Our members are engaged in the full range of construction activities, but we would like to address today the bill's implications *specifically* dealing with housing.

HB 747 in imposing a 4% cost increase on all non-government related building activities, makes no distinction between housing and commercial construction. Housing is a very expensive necessity, the most expensive necessity, which we must have in some compacity. The housing affordability problem in this country has reached a point of quiet desperation. Particularly in Montana where our wage scale tends to be low and economy stagnant, virtually all desiring first time home buyers and our low and moderate income renters have a serious problem.

HB 747 will have a very serious impact on housing affordability in this state, it will cause major distortions in the housing market, and as currently drafted may very well be the death toll for an already *ailing* housing construction industry.

The bill will deny a very major portion of the first time home buyers from ever entering the new home market, It will retard what little activity we have in the move-up market, and in the long run likely cause housing inflation in the existing starter home housing stock. It will also cause significant expense in the short term in new rental housing, and in the mid-term in existing rental housing. It will devastate the home construction industry in that it will create a 4% price differential between new housing and existing housing. And that 4% differential is a very large difference when you are dealing with such an expensive purchase. The bill as currently drafted will hurt a lot of people who can least afford it's impacts - - renters, low and moderate income families, people struggling to buy their first home, and a lot of people in the construction industry who as survivors, are just hanging on during sustained bad times.

We do not understand why an essential and very expensive basic human need like shelter, has been targeted for a 4% price increase, when an item like "advertising" gets exempted from the legislation. We do not understand why a tax dealing with retail goods, gets applied to an item

EXHIBIT 27
DATE 3/6/89
HB 947
Rep. Al. Bradley

like housing.

As currently drafted the Montana building industry Assn. strongly opposes this legislation. At the very least, the bill needs to make a distinction between housing and non-housing related construction, so that the many serious social implications of this bill as regards housing can be avoided.



CONFLUENCE SERVICES

8231 Canyon Ferry Rd., Helena, MT 59601
(406) 475-3029

EXHIBIT

28

DATE

3/6/89

HB

747

Rep. D. Bradley

Representative Jim Elliott
100 Trout Creek Road
Trout Creek, MT.

Dear Representative Elliott;

House Bill 747 as currently drafted, will have far reaching and devastating impacts upon the provision of affordable housing in our State. Housing is the single most expensive essential commodity which we all must shoulder in some capacity. HB 747 will seriously harm low and moderate income families who must rent, and it will have a socially unacceptable impact upon a broad number of aspiring first time home buyers who will be denied access to the housing market due to the bill's housing provisions.

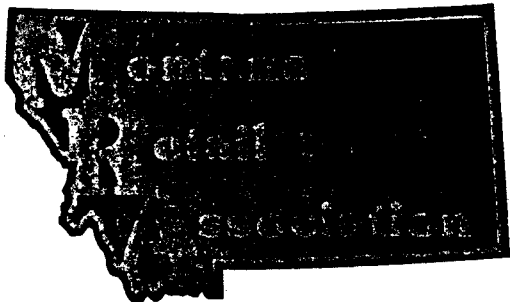
The bill will also have a crippling effect upon the already devastated home construction industry. By imposing a 4% cost increase upon new home construction, but not on the sale of pre-existing homes, the competitive cost disadvantage will be so great that only the very rich will be privileged to buy a new home. I have enclosed for your review the testimony of the Montana Building Industry Association, which describes in greater detail the full and socially unacceptable impact of the Bill on housing.

The clients which I represent are engaged in the full range of construction activity from commercial to residential construction. We would request on behalf of our industry and every citizen in the State who must shoulder the burden of housing costs, that construction activity related to residential construction be exempted from the HB 747 sales tax provisions. This exemption should include the sale of building materials and labor which go into residential construction, as well as exemption from the tax in the final sale of the home.

Without such an exemption, low and moderate families will suffer throughout the State, and first time home buyers will be denied access to the housing market.

Warm Regards,

Don Chance, Montana Building Industry Assn.



Executive Office
318 N. Last Chance Gulch
P.O. Box 440
Helena, MT 59624
Phone (406) 442-3388

EXHIBIT 29

DATE 3/6/89

HB 747

Rep. H. Brodley

TESTIMONY

HB 747

March 6, 1989

9:00 A.M.

Mr. Chairman and Members of the Committee,

For the record, my name is Charles Brooks, representing the Montana Retail Association. I also represent the Montana Tire Dealers Association, the Montana Hardware and Implement Association and the Montana Office Equipment Dealers Association. Combined we represent approximately 1,000 retail establishments.

We appear before you today neither in support or opposition to HB 747. We recently completed a survey of our membership and the results are as follows:

43% response rate to the survey with 63% of those responding favoring a sales tax, provided that it gives real and permanent property tax relief.

85% stated that if a sales tax was enacted that the retailer should receive a fee for collecting the tax and preparing the monthly sales tax returns and the other administrative duties connected with collecting taxes at the point of sale.

76% favor some exclusions, such as food and medicine.

Since we received less than a 50% response to the survey, our Board of Directors feel we must at this time remain in a neutral position on the sales tax issues as our membership could very well be evenly divided. However, we would like to speak to some of the problems that we see in the proposed legislation as draft. Attached to my testimony is a suggested amendment to Section 55, which would allow a vendors allowance of 3% of TAX COLLECTED. Attached you will also find copies of a Executive Summary of a very recent study completed by the University of Arkansas detailing the costs to retailers in that state of SALES AND USE TAX COMPLIANCE. The study concluded that it costs

Testimony
HB 747
Charles Brooks

EXHIBIT 29
DATE 3/6/89
HB 747
Rep. H. Bradley

Arkansas Retailers 2.518 percent of tax collected, if food is exempt from gross receipts than the overall compliance costs were 3.241 percent of tax collected. It is clear from this study a retailer will have additional operating costs to administer a Sales Tax. The suggested Amendment will help offset these costs to Montana Retailers.

At our request, HB 747 has been reviewed by one of the leading tax experts on sales tax legislation throughout the United States and we ask for his recommendations. You will find his recommendations attached to my testimony.

Thank you for the opportunity to appear before you today.



EXHIBIT 29

DATE 3/6/89

HB 747

Executive Office
318 N. Last Chance Gulch
P.O. Box 440
Helena, MT 59624
Phone (406) 442-3388

SECTION 55 AMENDMENT COLLECTION ALLOWANCE

From every remittance of tax to the department imposed by (sections 1 through 68 and 72), "the taxpayer may retain an amount equal to three ~~percent~~ ^{percent} thereof as an allowance for collecting the taxes imposed hereunder; except that no amount may be retained if the remittance is not made on or before the due date, including any extensions thereof granted by the department."

EXHIBIT

29

DATE

3/6/89

HB

747

Rep. W. Bradley

**COSTS TO
ARKANSAS RETAILERS
OF
SALES AND USE
TAX COMPLIANCE**

Prepared by

*Division of Business Studies
Center for Research and Public Policy
University of Arkansas at Little Rock
2801 South University Avenue
Little Rock Arkansas 72204
501-569-8542*

Cynthia B. Boland, Researcher
*With special assistance by
Monte Venhaus*

Publication No. 88-29

December 15, 1988

EXHIBIT 29
DATE 3/6/89
HB 747
Rep. R. Bradley

EXECUTIVE SUMMARY

This study was commissioned by the Arkansas Retail Merchants Association in order to estimate the actual cost to retailers of collecting and remitting sales and use tax in Arkansas. The study was conducted by the Division of Business Studies with computer modeling assistance from Peat, Marwick, Main and Company.

The results of this study shows that the cost of compliance with Arkansas sales and use tax regulations is estimated to be 2.518 percent of total sales and use tax collected. This overall cost represents a composite of the compliance costs incurred by Arkansas retailers, weighted to reflect type and size of retailers, tax features, and the business operating environment within Arkansas. The following is a summary of the findings and conclusions:

- * *Identification of an item's tax status and tax rate at the time of collection is the largest single cost element in sales and use tax compliance. This cost component ranges from 1.617 percent (Furniture Stores - SIC 57) to 5.871 percent (Drug and Proprietary stores - SIC 591).*
- * *The use of sophisticated point-of sale (POS) registers and equipment significantly reduces identification costs for retailers; however, this equipment is usually cost-justified only by high-volume retailing operations.*

EXHIBIT 29
DATE 3/6/89
HB 747
Rep. H. Bradley

- * Compliance costs for retailers are reduced, in part, by their use of the funds during the float period between collection and remittance. This benefit to large retailers is reduced due to recent legislative pre-payment requirements for this select group.*
- * Small retailers (gross sales less than \$1 million) in Arkansas incur relatively larger costs compared to large firms in the same SIC, particularly for cost factors directly related to sales volume. In addition, the small retailer incurs higher identification costs through reliance on less sophisticated calculating equipment.*
- * The two (2) percent discount currently available to retailers is less than the actual cost retailers incur in the collection and remittance of the state sales and use tax.*

In addition to estimates of current compliance costs, a variety of sensitivity analyses were conducted on alternative tax regulation scenarios. The results of these analyses are as follows:

Under previous remittance requirements, all retailers were allowed to invest funds generated from the sales tax for an average of 50 days. Under the new remittance requirements, large retailers are required to remit partial payments of tax liability twice during the current month, thus decreasing the float period for this selected group. The overall compliance cost under previous remittance requirements was estimated to be 2.375% of tax collected (compared to 2.518%

EXHIBIT 29
DATE 3/6/89
HB 747
Rep. H. Bradley

under the new tax regulations). Thus, the effect of this new legislation on compliance cost has been to increase overall compliance cost by six (6) percent. The effect on large retailers has been to increase this groups' tax collection and remittance costs by 26 percent.

The cost effect of exempting the gross receipts and proceeds derived from the sale of food from the Gross Receipts Tax would be an increase in the estimated overall compliance cost to 3.241 percent of tax collected.

By increasing the tax levied from four (4) percent to five (5) percent, the overall compliance cost would be expected to decrease approximately 18 percent to 2.059 percent of tax collected. However, dollar costs would be expected to increase in proportion to the tax increase.

If the tax rate levied were increased to a rate of five (5) percent and the gross receipts and proceeds derived from the sale of food were exempt, the overall compliance cost would be an estimated 2.645 percent of tax collected. This estimate would represent a five percent increase in overall cost compared to costs under current legislative enactments.

In each of the sensitivity analyses performed, the estimated actual compliance cost is in excess of the two percent discount allowance. The original intent of this discount was to compensate retailers for cost incurred in complying with the tax laws and to lessen the amount of delinquency. In selecting an appropriate discount rate, the objective of the state was to strike an optimal balance between losses of state revenues resulting from collection discounts and equitable

EXHIBIT 29
DATE 3/6/89
HB 747
Rep. H. Bradley

compensation to retailers. In the absence of a definitive determination of the actual costs borne by retailers, the two percent figure was selected as a "best estimate." With this study, a more detailed estimate of the actual cost is now available. It is hoped that this study will provide assistance in the event of future amendments to the current tax regulations.

EXHIBIT 29
DATE 3/6/89
HB 747

Rep. H. Brooks

February 28, 1989

Mr. Charles R. Brooks
Executive Vice President
Montana Retail Association
Box 440
Helena, Montana 59624

Dear Charles,

At your request, I have reviewed the draft of HB 747, which would impose a 4% retail sales and use tax in Montana. I have set forth my comments below:

1. A provision should be added to allow a deduction for bad debts.

2. A reasonable vendors collection allowance should be provided to adequately compensate retailers for their costs of collecting the tax. I previously furnished you information on the existing allowance in other states. The legislature must be made aware that retailers collection costs are still quite high despite mechanization. These allowances are also meant to cover costs over and above the actual collection of tax at point of sale. Significant costs are incurred in recording and reporting sales tax information, remittance of sales tax monies to the state and review of sales tax information by state auditors.

3. The bill would subject services to tax. The imposition of tax on services leads to the same type of tax pyramiding which exists under gross receipts tax laws. Many of these services which will be taxed are used by retailers in making sales which will be taxed again. We must, therefore, strive to make Section 28, which provides a deduction for sales of services for resale, as broad as possible and/or seek an exemption for all business and professional services.

4. The bill would subject improvements to real estate to tax. The preferred approach would be to exempt these transactions thereby having the retailer pay a use tax on the cost of materials utilized in an improvement to real estate.

5. The application of the tax to leases or rentals of tangible personal property would be costly to retailers and is not a common feature in all sales and use tax laws. We would favor an exemption for these transactions.

6. An item of vital importance to retailers is the exemption for advertising materials - newspaper advertising supplements, circulars and catalogs. Section 26 as currently drafted provides a fairly broad exemption for advertising services. Since the intent to exempt advertising now seems clear, we should seek to

EXHIBIT 29

DATE 3/6/89

HB 747

Rep. H. Bradley

have the items referred to above listed in the statute. Such action would then leave no doubt as to the construction to be given to the term advertising services.

7. Due to the broad based nature of the tax as proposed, it is crucial to seek the inclusion of an exemption for transactions between affiliated corporations. It is a common feature of most income tax laws as well as broad based sales tax laws to eliminate intercompany transactions from tax.

8. Sections 36 and 53 concerning the taxation of common carriers appear to be in conflict. Under Section 53, those engaged in transporting persons or property in intrastate or interstate commerce are required to register as retailers subject to the tax. Section 36, however, exempts intrastate transportation of persons or property. Finally, there are no specifics on the issue of taxing delivery charges occurring after the sale of merchandise. Clarification is needed in this entire area.

9. There is no provision for administrative hearings on disputed assessments. Hopefully, this is merely an oversight which can be corrected by including the administrative hearing provisions from the income tax law.

10. A provision should be added permitting the use of computer generated returns. These are allowed by most states and ease our compliance burdens.

11. A clarification is needed as to the exemption for drugs. Does the exemption in Section 11 apply to all drugs or only prescription drugs?

12. The penalty provisions in Section 59 and 62 are rather ^{still} (3% month up to 25%). Also, the waiver of penalty language in Section 59 (4) should be added to Section 62.

13. The personal liability provisions of Section 56 (4) are somewhat troublesome as is Section 67 which makes the tax a personal debt of the person responsible for filing the return.

14. The confidentiality provisions of Section 68 are important and should be retained.

Sincerely,

Marc S. Weinstein

Marc S. Weinstein
Senior Tax Attorney
Tax Department

MSW:jc

EXHIBIT 30
DATE 3/6/89
HB 747

Rep. H. Bradley

HB 747 4% SALES TAX

Mr. Chairman, committee members, my name is Mark Meek. I am president of the Helena Homebuilders Assn. and I am speaking on their behalf today. The members of the Helena Homebuilders Assn., despite the organizational name, are involved in a broad array of construction activity-- both commercial and residential. We strongly oppose those provisions of house bill 747 which would impose a 4% cost increase on the provision of new housing.

Housing affordability is at an all time crises. The percentage of Americans who can afford to buy a home has steadily declined to it's lowest level since WWII. Potential first time home buyers are in serious financial circumstances, requiring two incomes and in most instances a lot of financial support from their families, to afford to buy even the most basic housing.

A 4% sales tax if placed in the value of the mortgage would financially disqualify 4% to 6% of the potential first time buyers who would be denied access to the housing market. If the 4% tax becomes part of the closing costs, as it likely would, you would likely be denying 20% to 30% of the first time home buyers, or more, market access.

Housing is an essential commodity. We can not live without it. It is also the most expensive essential that any of us face. It comprises more expense in the average household budget then any other single item. The last thing we need to do is make basic shelter more expensive in this state, given the wage scale, weak economy, and already high expense of housing. Housing is neither a luxury item, nor a routine expenditure. It is a very expensive necessity. The imposition of a 4% cost increase on an item of that nature, is far beyond the bounds of reason. And the impacts would be catastrophic.

The new home construction business is very much a cottage industry. The average homebuilder in Montana is under capitalized, working out of his home, building if he or she is lucky, a couple of houses a year. The home building industry in Montanan has been decimated in previous years, with a decline in homebuilding contractors of over 30% due to bankruptcy or business collapse. Current appraisals on new homes are coming in under builder direct labor and material expense, because of the general decline in existing housing values statewide.

EXHIBIT 30
DATE 3/6/89
HB 747

Rep. H. Brodeur

One of the quirks of HB 747 is that it places a 4% tax on new homes, but not on the sale of existing housing. This will have two major detrimental impacts. When you place a 4% cost disadvantage on a product that is an expensive as housing, you will devastate that product's ability to compete. New home construction which is already in serious shape, will under this proposal, be hammered. the only new houses built will be for the rich.

The second impact is to cause some additional element of housing cost inflation in the existing housing and rental stock, hurting low and moderate income families who rent, and anyone trying to struggle into the housing market.

The housing provisions of this bill will have serious impacts. They will have serious social, economic, and employment impacts. Without amendment to exclude housing, we strongly oppose this legislation. The housing implications of this bill are simply socially irresponsible.

DEPARTMENT OF REVENUE

EXHIBIT 31DATE 3/6/89HB 747
Rep. R. Bradley

MITCHELL BUILDING



STAN STEPHENS, GOVERNOR

STATE OF MONTANA

HELENA, MONTANA 59620

March 7, 1989

Dear House Taxation Committeemembers:

Representative Dorthy Bradley expressed a view that my testimony on HB747 was confusing. In the interests of clarity I give in writing some administration views on HB747.

We are skeptical of any tax measure which creates substantial new revenues for the state to spend and which thereby could permit excessive growth of state expenditures, while incidently solving some other fiscal problems or needs of the state.

Any proposed major change in Montana's tax base should be accompanied by a referendum to the people which would provide for a constitutional provision to limit the growth rate of total state spending or taxing to be less than the growth rate of the peoples' personal income. In particular, this should apply to any sales tax bill whether or not it is sent to the people for their endorsement.

HB747, as written, taxes Montanans \$285 million per year and "rebates" to some Montanans about \$35 million per year --- a net of \$250 million per year. With the new estimated personal income tax collections for the coming biennium (\$46 million more) the basic gap between on-going spending and on-going revenues is less than \$10 million per year. HB747 proposes to dedicate \$100 million per year to fund greater state equalization of school costs, thereby reducing local school property tax levies by \$100 million per year. The cost to reduce personal property and real property to a 3.5% classification is therefore not the \$60 million quoted in various analyses, but is probably \$10 million to \$15 million lower, because local mills will be substantially lower through the school equalization. The great reductions of local school property taxes under state equalization seems to make the need to further reduce local government property taxes or give them new funds debatable.

So we see only about \$150 million of net property tax reductions and about a \$10 million need for other revenue needs of the state. This leaves a disturbing \$90 million per year of new spending authority for the state! Perhaps the sales tax percentage has been set too high?

We also see no revenue allocated to solve some of the problems of excesses in our present state income tax laws.

EXHIBIT

31

DATE

3/6/89

HB

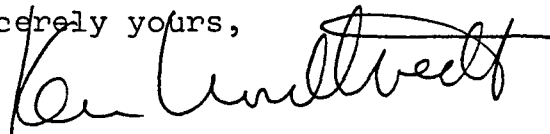
747

Rep. D. Bradley

We would also suggest that low income rebates could much more effectively be delivered by increasing the size of the standard deduction and personal exemption. This would take tens of thousands of low income taxpayers off the rolls and reduce the taxes of those tens of thousands of others who would use the standard deduction rather than the itemized deductions which the higher income taxpayers tend to use more.

I have directed the Department to evaluate the actual amount of property tax reductions which would result from going to a 3.5% classification, assuming that \$100 million per year of non-property tax is used to reduce local school property tax mill levies.

Sincerely yours,



Ken Nordtvedt

c.c. Representative Dorthy Bradley
Other sponsors of HB747

VISITORS' REGISTER

HOUSE TAXATION

COMMITTEE

Page 1
of 7

BILL NO.

HB 747

DATE

March 6, 1989

SPONSOR

Rep. Dorothy Bradley

| NAME (please print) | RESIDENCE | SUPPORT | OPPOSE |
|---------------------|-------------------------------------|-----------|--------------|
| Ben Gordan | MT Motor Carriers Assn | X Amend | |
| Leon Stalcup | MT Restaurant Assn | X Amend | |
| John Nehring | 604 Arnold, Bozeman | X | |
| Jennie Burn | Mon TAX | ✓ | |
| Joe Tropila | GREAT FALLS | | X |
| Bruce Kelly | Bozeman | X | |
| Madine Johnson | Bigfork | X | |
| Chuck Sherry | Bozeman | X | |
| Jammy Hall | Bozeman | X | |
| Mark Limby | Helena | X Amend | X |
| M. Mure | Helena | X Amended | |
| Don Steppeler (Rep) | Brookston | X | |
| John Johnson (Rep) | Glendive | X | |
| Larry Sweet (Sen) | Fairview | X | |
| Larry Ward | Elliston | | X |
| TIM HARRIS | MONT. INDEPENDENT LIVING PROJECT | X | |
| RON DE YONG | MT FARMERS UNION | | X |
| Charles Henson | MONT SEN CITE ASSN | | X |
| Sandy Heffelfinger | Helena Teacher | | X |

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Page 2
of 7

VISITORS' REGISTER
HOUSE TAXATION COMMITTEE

BILL NO. HB 747 DATE March 6, 1989

SPONSOR _____

| NAME (please print) | RESIDENCE | SUPPORT | OPPOSE |
|----------------------|-------------------------|---------|--------|
| HAYDEN Ferguson | Bozeman | X | |
| Joe Upshaw | Helena | | X |
| Joseph Moore | Mt. Rainbow Coalition | | X |
| John M. Finch Jr. | EAST Helena | | X |
| Marilyn J. Wood | Bz | X | |
| Marcia Schroder | MT Low-income Coalition | | X |
| Kara Cahoon | SE Bozeman | | X |
| CORLAUNGEE BUSH | BOZEMAN | X | |
| Gayle Peterson | 312 Harrison | | X |
| DAVID C. LARGE | 721 W. Koch, Bozeman | X | |
| PIERCE C. MULLEN | 11 HILL - BZ | X | |
| Jim Crane | See Newspaper | | |
| Charles Walk | Mont Newspaper Assoc. | | |
| Don Miller | Helena | | X |
| Victorian Jensen | AFSCME | | X |
| Annita Elvira Vaughn | Libby | | X |
| Bob Heiser | U.F.C.W. | | X |
| Donna Johnson | Glendive | X | |
| Kandi Somers | Bismarck ND | X | |

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITORS' REGISTER

HOUSE TAXATION

COMMITTEE

BILL NO. HB 747

DATE March 6, 1989

SPONSOR _____

| NAME (please print) | RESIDENCE | SUPPORT | OPPOSE |
|---------------------|---|---------|--------|
| Linda Brennan | 6824 Hwy 312 Billings, MT | | X |
| Capt Brennan | 7807 12 Mile Rd Shepherd | | X |
| Manial R Young | 5822 12 Mile Rd Blgs MT | | ✓ |
| Julie Brennan | 6292 Krey Lane Shepherd MT | | X |
| Gary Stinchfield | 2108 Fair Park Dr. | | X |
| Ron H. James | 915-16th ST BUTTE, MT. | | X |
| Brian F. Garrity | 715 Holter | | X |
| JAMES KEBBLE | 513 HILLSDALE | | X |
| MICHAEL S. MIZENKO | 2233-8TH AV. SO. FT. FALLS PLUMBERS & FITTERS #139 | | X |
| DARCEE MOE | Browning, Kalispell, Burlington, HOVA | | |
| Rob Bell | Missoula | X | |
| Kay Foster | Billings Chamber | X | |
| John Lawton | City of Billings | X | |
| Jeffery M. Kirkland | Helena | ✓ | |
| DAN C. EDWARDS | Billings | | X |
| Mapine Learn | Proctor | | ✓ |
| Caroline P. Linnery | Whitefish | | |
| Norma Johnson | Whitefish | | X |
| Cora E. Johnson | Whitefish | | X |

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITORS' REGISTER

HOUSE TAXATION

COMMITTEE

BILL NO. HB 747

DATE March 6, 1989

SPONSOR _____

| NAME (please print) | RESIDENCE | SUPPORT | OPPOSE |
|---------------------|---------------------------|---------|--------|
| Elizabeth Hahn | Ronan | | X |
| Iris Murphy | Ronan | X | |
| Linda Dixon | Polson | ? | ? |
| Larry Jensen | Elmo | ? | ? |
| W. B. Sumner | MURA | | |
| Esther Miller | Elmo | X | or |
| Erwin K. Miller | " | X | |
| Betty Escribitt | Proctor | | X |
| Daniel Escribitt | " | | X |
| Al Abonine | Great Falls | X | |
| Gogul Young | Great Falls | X | |
| Mike Shields | Great Falls | X | |
| Bill Shields | Great Falls | X | |
| Anthony L. Wilcox | MT Hospital Assoc, Helena | X | |
| SHARON CLEARY | MT ASSOC OF REALTOR | X | |
| Frank Foot | Malapet | | X |
| Nyasha Humphreys | Helena, Mt. | X | |
| Valerie Larson | Farm Bureau Chetron Mt | X | |
| Lorna Drake | Farm Bureau Boz | X | |

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITORS' REGISTER

HOUSE TAXATION

COMMITTEE

BILL NO. HB 747

DATE March 6, 1989

SPONSOR _____

| NAME (please print) | RESIDENCE | SUPPORT | OPPOSE |
|---|------------------------------|---------|--------|
| Dave McClure ^{Montana} Farm Bureau Lewistown | | ✓ | |
| Chase Hibbard | MT STOCKGROWERS ASSN | ✓ | |
| Jerry Jacks | Mt. Stockgrowers Assn | ✓ | |
| Roberton Yester | Arrest #28 | | ✓ |
| Lenny Minnow | MT | | ✓ |
| Karen Crane | Helena | ✓ | |
| Stuart Crane | Helena | ✓ | |
| Sam Allen | Helena | | ✓ |
| Dennis Lopach | Helena | | ✓ |
| Bob Viets | Helena | | ✓ |
| Jack Canavan | Columbia Falls | | ✓ |
| Don Judge | Montana State AFL-CIO | | X |
| John Manzer | Joint Council (Conserv #2) | | X |
| John S. Fay | 611 9th Helena | | X |
| Gene Henry | 1145 Toole Ct Blau | ✓ | |
| EARL J. REILLY | MONT. SENIOR CITIZENS ASSOC. | | ✓ |
| Donny Kaiser Nelson | Fort Benton | | ✓ |
| Nelson Brown | Helena | | ✓ |
| Eugenia Collins | Billings | | ✓ |

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITORS' REGISTER

HOUSE TAXATION

COMMITTEE

BILL NO. H3747

DATE March 6, 1989

SPONSOR _____

| NAME (please print) | RESIDENCE | SUPPORT | OPPOSE |
|----------------------|------------------------------------|---------|--------|
| <i>Dave Williams</i> | <i>Bellings</i> | | ✓ |
| Mignon Waterman | Helena | ✓ | |
| Bruce Nelson | Fort Benton | | ✓ |
| Paulette Bailey | Helena | | ✓ |
| SONN THORSON | HELENA - MENTAL HEALTH ASSN | | |
| Robert Murphy | Helena | | ✓ |
| And A Clark | Butte | | ✓ |
| Ed Joerin | HELENA | ✓ | |
| Robert Stokroff | ANDERSON TALK | ✓ | |
| ROGER T. WILHBORG | HELENA | | ✓ |
| Mr. Tom Keating | Bellings | ✓ | |
| Donna Sprinkle | Helena | ✓ | |
| Quincy Jackson | Sen. Dist 36 Butte | | ✓ |
| JAMES T. MULAR | NIGHT RAIL LABOR BUTTE COUNCIL | | ✓ |
| Michael Malue | Bozeman | ✓ | |
| Maris Zaffe | Bozeman | ✓ | |
| D. B. DITZEL | BROOK LOCOMOTIVE ENGS. STATE BOARD | | ✓ |
| Gordon Morris | MALE | ✓ | |
| Sen. F. Blancher | I.V.O.F. #400 | | ✓ |

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITORS' REGISTER

HOUSE TAXATION

COMMITTEE

BILL NO. H5747

DATE March 6, 1989

SPONSOR _____

| NAME (please print) | RESIDENCE | SUPPORT | OPPOSE |
|---------------------|-----------------------|---------------------------------|--------|
| Eugen Fensler | Mt State Bldg | | X |
| Laurie Shaban | Bozeman Chamber | X | |
| Coral Daly | Kalispell | X | |
| Kon Jensen | Lt Falls | | X |
| Leslie E. Pott | Black Eagle | | X |
| John C. Ball | Cascade | | X |
| Bob M. Mowbray | Missoula Chamber | X | |
| Thomas J. Mowbray | MPEA | X amend | |
| Carl Harrington | Mont Ass of Chm & Rec | oppose election without funding | |
| Bobbi Uecker | 328 N Ewing / Helena | | X |
| Kevin S. S. S. | Mt Union body | | X |
| Walt Morris | 759 Starlight Dr. Jgs | | X |
| John Fitzpatrick | Pg 601 / Helena | Amend | |
| Walt Corbett | | | X |
| Rita Sheehy | 825 N Robey - Helena | | X |
| Betty Trebaugh | Townsend | | XX |
| Peggy Naglund | MACD | amended ✓ | |
| | | | |
| | | | |

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.