

## MINUTES

### MONTANA SENATE 51st LEGISLATURE - REGULAR SESSION

#### COMMITTEE ON TAXATION

Call to Order: By Senator Bob Brown, Chairman, on March 15, 1989, at 8:00 a.m.

#### ROLL CALL

Members Present: Senator Brown, Senator Hager, Senator Eck, Senator Norman, Senator Bishop, Senator Walker, Senator Harp, Senator Gage, Senator Severson, Senator Mazurek, Senator Crippen

Members Excused: Senator Halligan

Members Absent: None

Staff Present: Jill Rohyans, Committee Secretary  
Jeff Martin, Legislative Council

Announcements/Discussion: None

#### HEARING ON SENATE BILL 462

##### Presentation and Opening Statement by Sponsor:

Senator Eck, District 40, sponsor, said the bill imposes an excise tax on restaurant meals, beverages, admissions to entertainment performances and sporting events, rental of motor vehicles, rental of video cassettes, and distributing the proceeds equally between the university system and local governments. Senator Eck said she thinks of the bill as an adjunct to the sales tax. It would tax 18 months to fully implement the sales tax which would result in very little revenue for this biennium. This bill could be part of filling in the gap between passage and implementation of the sales tax. It would also serve the dual purpose of being a continuing source of funding if the sales tax does not pass or sunset if it does pass.

Senator Eck stated the bill is drafted at 4%, as is the sales tax, and takes certain items from the sales tax which can be taxed easily without getting into exemptions and deductions. She felt it could be implemented the same way as the accommodation tax was last session which was done by July 1 following the

session. However, if it became more complex, she felt it could be implemented in stages with eating and drinking establishments being phased in a little more slowly. The Department of Revenue has suggested the bill not take effect until July 1, 1990, and then only if the sales tax does not pass. She stated she did not like that approach, but would not oppose it if everyone else preferred it.

The fiscal note is very conservatively figured, Senator Eck felt. The sales tax provision would provide \$5.5 million per percent in receipts from restaurants and bars. She pointed out \$10 to \$12 million a year for both the university system and local governments is a considerable impact on the budget. Senator Eck said it is possible this could be used as a first step replacement for property taxes.

Senator Eck felt there are still administrative problems in the bill which need to be addressed. Quite a bit of the bill is directly taken from the sales tax bill and the accommodations bill and is intended to be a vehicle which can be worked on later in the session when and if the need for it arises.

List of Testifying Proponents and What Group they Represent:

Carrol Krause, Commissioner of Higher Education

List of Testifying Opponents and What Group They Represent:

Bob Durkee, Montana Tavern Association  
Kevin Tipton, Area Director, Distilled Spirits Council  
of the United States, Inc.  
Steve Wilkon, President, Montana Tavern Association  
Ernie Grasseschi, Great Falls, owner of Borries  
Walter F. Jackovich, Butte tavern owner  
Tandy Kobb, Missoula bar and restaurant owner, Montana  
County Taverns Association  
Jack Traxler, Beach Transportation of Missoula, Montana  
School Transporters  
Leon Stalcup, Montana Restaurant Association  
Roger Knutson, Yellowstone County Taverns  
Gloria Hermanson, Montana Cultural Advocacy  
Roselee Bullock, Rose's Cafe, Basin  
Phil Horning, Minneapolis House, Great Falls  
Tom Ebzery, Comet Entertainment, Video Library, Video  
Excitement  
Debbie Wilken, Steer In Restaurant  
James Miles, Village Inn, Ulm

Margaret Richardson, Montana Innkeepers  
Rob Morawic, Missoula Chamber of Commerce  
Tom Dowling, Montana Food Distributors Association

Bob Fletcher, Bozeman lounge and restaurant owner  
Laurie Shadoan, Bozeman Chamber of Commerce, bar and  
restaurant owner  
Sam Ryan, Helena taxpayer  
James Tutweiler, Montana Chamber of Commerce  
Don Judge, AFL-CIO  
John Fay  
Bob Lemm, President, Montana Liquor Representatives  
Association  
Jim Ahrens, President, Montana Hospital Association

Testimony:

Proponents:

Carrol Krause, Commissioner of Higher Education, supported the bill as a way to fund higher education. He urged the committee to consider the bill as part of the solution to that funding problem.

Opponents:

Bob Durkee, Montana Tavern Association, said the members of the Association resent being "easy marks" and have fought the concept of a "sin tax" for years as an industry. This is a viable industry in the state which contributes much to local communities in both employment and as part of the tax base.

Kevin Tipton, Area Director, State Government Relations, Distilled Spirits Council of the United States, Inc., Denver, Colorado, presented his testimony in opposition to the bill (Exhibit #1).

Steve Wilkon, President, Montana Tavern Association, expressed strong disapproval of the bill and said it is totally discriminatory. He pointed out that the tax on a \$10 bottle of liquor is \$6 or 60%. In 1988 the tavern owners paid over \$10 million in state excise taxes, and over \$3.3 million in license taxes. He felt over \$13 million a year is enough.

Ernie Grasseschi, Borries, Great Falls, opposed the bill on the basis that it is a select sales tax. He said if there is going to be a sales tax it should be fair and

across the board.

Walter F. Jackovich, Butte tavern owner, asked the committee not to pass a selective sales tax such as this.

Tandy Kobb, Missoula bar and restaurant owner, Montana County Taverns Association, presented petitions containing 1409 signatures from restaurant, video, and transportation business patrons opposing the bill (Exhibit #2).

Jack Traxler, Beach Transportation of Missoula, Montana School Transporters, presented his testimony in opposition to the bill (Exhibit #3).

Leon Stalcup, Montana Restaurant Association, presented his testimony in opposition to the bill (Exhibit #4).

Roger Knutson, Yellowstone County Tavern Association, said he represents over 150 businesses in Yellowstone County who are all adamantly opposed to the bill.

Gloria Hermanson, Montana Cultural Advocacy, presented her testimony in opposition to the bill (Exhibit #5). She also presented an amendment which would exempt non-profit organizations from the bill (Exhibit 5a) which, if it were adopted, would enable her to support the bill.

Roselee Bullock, President, Tri- County Tavern Association, stated her opposition to the bill.

Bill Horning, Great Falls bar owner, said the bed tax was introduced by the hotel-motel industry, however, this is certainly not the case with this legislation. He urged the committee not to pass the bill.

Tom Ebzery, Comet Entertainment, Video Library, and Video Excitement, stated opposition to the bill on behalf of the video industry. He said the bill creates an administrative nightmare, the earmarking in the bill is inappropriate, and the bill should be in appropriations rather than this committee.

Debbie Wilken, Steer In Restaurant, representing the restaurant and lounge owners of Three Forks, said this is an unfair tax and urged the committee to oppose the bill.

James Miles, Village Inn, Ulm, expressed opposition to the bill.

Margaret Richardson, Montana Innkeepers Association, asked the committee to kill the bill as it is unfair and discriminatory.

Rob Morawic, Missoula Chamber of Commerce, said the bill is too narrow and basically unfair. He said the state needs a broad based general sales tax.

Tom Dowling, Montana Food Distributors Association, said he represents over 500 grocers in Montana. He raised their concern about food taken out of grocery stores which have delicatessens and how that would be taxed and administered.

Bob Fletcher, Bozeman, said the bill is an embarrassment to the business people of Bozeman. He said they oppose locking revenue to a special fund or use.

Laurie Shadoan, Bozeman Chamber of Commerce and a bar and restaurant owner in Bozeman, opposed the bill as imposing a selective tax. She also expressed support for a broad based sales tax.

Sam Ryan, Helena, a member of the Montana Senior Citizens Association and a taxpayer, said he opposes a sales tax in any way, shape or form, or for any reason.

James Tutweiler, Public Affairs Manager, Montana Chamber of Commerce, said the bill flies in the face of the best advice the Montana Chamber has received in its quest to create a better economy for the state. A piecemeal, selective sales tax, with earmarked funds, is the worst way to proceed if we are trying to develop a consistent and efficient tax system. The bill creates unpredictability and sends a hostile message to people thinking of locating new businesses in the state. He pointed out Montana is already in the doghouse as far as taxes in the United States and said this bill just compounds the problem.

Don Judge, Montana AFL-CIO, presented his testimony in opposition to the bill (Exhibit #6).

John Fay said a sales tax by any other name would smell sweet. He said the tax on mining claims enacted last session eventually involved three different agencies of state government to enforce. He said if we would put an end to duplication we would not need new taxes.

Bob Lemm, President, Montana Liquor Representatives Association, expressed the opposition of that group to the bill.

Jim Ahrens, Montana Hospital Association, said the hospitals in the state provide food services for a lot of people and facilities in the state. He expressed real concern about the impact of the bill on hospital services and the accompanying administrative problems.

Questions From Committee Members:

Senator Mazurek asked why the revenue in the bill was earmarked instead of just going to the general fund.

Senator Eck replied it is earmarked in the these same approximate amounts in HB 747.

Senator Gage asked if sporting events such as tennis, golf, and racquetball tournaments would be included.

Senator Eck said any event where spectators are charged would be included in this provision.

Senator Gage further questioned whether motor vehicle rentals would be included, such as go carts, bikes, snowmobiles.

Senator Eck said the Department of Revenue is looking into that area and will be making a determination of how to handle those vehicles which are rented but not leased. She said if the committee chooses to work on the bill there are several definitions that need to be cleaned up.

Closing by Sponsor:

Senator Eck closed by saying we need to consider excise taxes seriously, especially if we do not pass a sales tax. She said she is not aware of any new taxes proposed on the liquor industry this session. A constituent of hers periodically compiles information for her on the cost of the liquor consumption to the state in terms of welfare, medicaid costs, support services, etc., and the total runs over \$100 million which is hardly offset by the \$13 million the industry pays in taxes per year.

Senator Eck said she did not propose the bill as an argument for a broad general sales tax, but in a sense it is as it does single specific items for taxation. She said she had no problem with the proposed amendment from Gloria Hermanson. She felt the bill would probably be tabled, but submitted it as something that could be used to work from if it becomes necessary. She further felt it might be useful if for no other reason than for

a basis for discussion for setting excise tax policy in the future.

#### HEARING ON SENATE BILL 463

##### Presentation and Opening Statement by Sponsor:

Senator Crippen, District 45, sponsor, said the bill was introduced at the request of the Governor. The bill is a comprehensive income tax return measure that addresses several issues.

First, it combines the present tax brackets into three brackets. The 2%, 3%, and 4% brackets are combined into a 3% bracket, the 5%, 6%, and 7% are combined into a 6% bracket, and the 8%, 9%, 10%, and 11% are combined into a 9% bracket. That, in effect, eliminates the onerous 10% and 11% brackets.

Second, it increases the standard deduction to a flat \$2850 in 1988 and twice that for married, filing jointly.

Third, it increases individual exemption to \$1430 in 1988. On the basis of the two deduction changes, a family of four would have no tax liability unless their adjusted gross Montana income exceeds \$11,420.

Another important feature of the bill is that it adjusts the cost basis of capital assets for inflation in determining capital gain or loss. This indexing has come up in the past and this is a very positive part of the bill.

The bill has a provision that extends the interest exclusion of \$800 to all taxpayers. It is now available only to those 65 year of age and older. The exclusion amount is indexed for inflation.

Senator Crippen said the bill also indexes the pension income exclusion of \$3600 for inflation. There has been a great deal of concern that retirement incomes are not keeping up with inflation and this will do a lot to rectify that situation.

Finally, it allocates 48% of the Bank Tax to the state special revenue fund for state equalization aid to public schools and 32% to all other property tax jurisdictions other than public schools but including the university six mill levy.

Senator Crippen said he has been asked what he is doing introducing a bill with a fiscal note of \$42 million a year. That is a huge loss to the state. He said this is the taxpayers money and look at the gain to them. He pointed out an \$8 million tag for inflation and capital gains, elderly interest exclusions total \$6 million, interest exclusion for inflation \$1.7 million, retirement exclusion for inflation is \$1.131 million, standard deduction change totals \$12 million, the exemption totals \$9.6 million, the bracket consolidation impacts at \$2.6 million. The majority of the changes affect the low-income tax payer.

Senator Crippen submitted this is a substantial piece of legislation. Tax equity and tax reform to be truly effective must be substantial. This is just part of a number of bills relating to tax reform, equity and fairness that we will continue to see in this session. There is a lot to consider and this should receive consideration as part of that reform package.

List of Testifying Proponents and What Group they Represent:

Ken Nordtvedt, Director, Department of Revenue  
Jeff Miller, Department of Revenue  
Dennis Burr, Montana Taxpayers Association

List of Testifying Opponents and What Group They Represent:

Don Judge, AFL-CIO  
Ann Pernowski, Montana Alliance for Progressive Policy  
Tom Bilodeau, Montana Education Association

Testimony:

Ken Nordtvedt, Director, Department of Revenue, spoke to the bill on behalf of the administration. He said there is a provision missing from the bill which would state, "the passage of this bill in total or in part would be contingent on the passage of other revenue measures". The bill is not intended to pass without a corresponding bill which contains a revenue source. He pointed out the bill is very modular and he reviewed it with the committee (Exhibits #8 a,b,c,d, and e).

Director Nordtvedt said some of the provisions of the bill could be enacted and be made revenue neutral and should be passed this session. The standard deduction



liberalization is the right way to compensate working low-income people for a potential sales tax. Elimination of the 10% and 11% bracket does a lot to improve the image of this state and its treatment of taxpayers. The bill has been designed so that the modules can be treated separately and given due consideration on their own merits.

Jeff Miller, Income Tax Division, Department of Revenue, briefly described the technical aspects of the bill. He said there are four items that represent taxpayer convenience issues and technical considerations. They are equal treatment of the Sub S income election for both in state and out of state ownership, requiring all non-residents to source their income so that all non-residents are treated the same, establishing gross income thresholds for non-resident filing, and reducing the time the DOR has to issue a refund from six months to sixty days.

Dennis Burr, Montana Taxpayers Association, said this bill attempts to reduce the high rate brackets and not raise taxes above the current level. He supported the bill on that basis.

#### Opponents:

Don Judge, AFL-CIO, said they appreciate the efforts of Senator Crippen to try to do something to help the working class people of Montana by raising the exemptions and making revisions to the retirement provisions of the income tax. However, he said he is suspicious about the real intent of the bill. He sees this bill as shifting the high tax brackets around to require the mid-income taxpayers to pick up the cost whether in the reform in this legislation in an effort to recapture some lost revenue or in the form of increased taxation in HB 747. He said this bill eliminates the capital gains tax and he said his membership does not benefit from provision as they do not have the money that enables them to deal in capital gains investments. The adjustment for interest exclusion for inflation is also a provision which does not impact the his members as there has to be quite an investment to earn over \$800 interest. He again said he appreciates the intent of some of the language but still feels the bill establishes a great need for a sales tax. His membership feels the income tax is the fairest tax as it is based on the ability to pay.

Mr. Judge felt one way to get rid of the "red flag" tax situation in Montana is to graduate the rate structure

on corporation taxes. He felt the 6 and 1/2% rate on all profits could be raised to 8% on profits above \$250,000 would provide \$5 million per year. At 9% revenue would equal \$10 million a year. He said the state of Montana is real trouble and there is not enough revenue to even balance the books. He urged the committee to reject the bill.

Ann Pernowski, Montana Alliance for Progressive Policy, opposed the bill on the basis that it shuffles the tax brackets and puts the burden on mid-income taxpayers. She expressed strong opposition to the \$800 exclusion applying to only senior citizens and the reopening of the capital gains loophole. The Alliance supports income tax reform which would widen the tax base, lowers rates, closes loopholes, and raises new revenue. She felt there are several other bills in the process which better meet these provisions.

Tom Bilodeau, Montana Education Association, and representing Greg Groepper, Office of Public Instruction, said the primary problem to be solved by this legislature is finding a remedy for equalization funding. This bill is not the way to proceed toward that remedy. The foundation program cannot afford to lose \$22 million over the biennium and the general fund obviously cannot afford to lose \$42 million a year. Not knowing what the funding sources will be, the MEA opposes the bill.

Questions From Committee Members:

Senator Mazurek as Director Nordtvedt what the administration proposes to use as a revenue source.

Director Nordtvedt replied this bill was designed when it became apparent that some major sales tax bills were going to be introduced. None of those bills addressed income tax reform. He said the administration feels this bill should be considered a part of the package if other major revenues are passed by the legislature. He also felt this bill should be amended to tie it to passage of a major revenue bill as it cannot stand by itself and be funded.

Senator Brown said he wants to know what specifically the administration plans to use to fund this bill. He said the bill is full of proposals to spend the money but nothing about raising the money.

Director Nordtvedt said there is a difference between

lowering tax rates on people's income and spending public monies for goods and services that we want to provide. He said he felt he was being totally "up front" when he said this bill cannot stand on its own. It can only be contingently passed if there is something else done to raise the revenue.

Senator Brown asked what something else. He wondered if this was just an academic discussion.

Director Nordtvedt said this bill has clearly followed several sales tax bills that could raise up to \$280 million a year. None of those bills have any provision for using any of that income for income tax reform. Therefore, this bill is presented to say if bills like the sales tax bills get through the legislature \$41 million should be allocated in the modular provisions as presented in the bill. He said the administration is not at the hearing to oppose or endorse the sales tax bills at this point.

Senator Bishop remarked you have to be a mind reader, not a lip reader, in this discussion, because you are not going to get an answer.

Senator Eck asked Director Nordtvedt about limiting exclusions and deductions.

Director Nordtvedt said he testified before the committee earlier in the session asking to end the granting of \$3 million per biennium of 50% tax credits to those who invest in capital corporations. He felt that is the ultimate tax expenditure and yet the bill passed granting those tax credits. He felt the exclusions and credits would have to be reviewed individually to see if they are bona fide measures to arrive at the true net income of the taxpayer. If they are historic tax loopholes with no relationship to the true income of the taxpayer they should probably be eliminated.

Closing by Sponsor:

Senator Crippen said half the revenue in the bill, \$21 million, is used to reduce income tax on the mid-income taxpayer. He submitted the majority of the members of the AFL-CIO are probably middle income taxpayers.

Senator Crippen said he shares the concerns of the MEA about education. But again, the MEA is only concerned about education as the AFL-CIO is concerned about its membership. He emphasized we must look at the whole

picture of income tax reform and the economy. Senator Crippen felt we must do all we can to enhance conditions for all segments of the state's population.

It is the attitude of the legislature that this is "our" money, Senator Crippen said. He maintained it isn't our money, it is the people's money. Senator Crippen said if we are going to look at cutting, we should look at vertical, not horizontal, cuts. He felt the legislature would not chose to cut, therefore, they would have to find another revenue source. He said he had been chided for carrying a bill with a fiscal note the size of this one. However, he said it is time to look at what previous sessions have done to the Montana taxpayers and enact some true reform and change so all Montanans can share in the wealth of the state and the dreams we all have for it.

ADJOURNMENT

Adjournment At: 10:00 a.m.



---

SENATOR BOB BROWN, Chairman

BB:jdr

MIN315.jdr

NAME	PRESENT	ABSENT	EXCUSED
SENATOR BROWN	X		
SENATOR BISHOP	X		
SENATOR CRIPPEN	X		
SENATOR ECK	X		
SENATOR GAGE	X		
SENATOR HAGER	X		
SENATOR HALLIGAN			X
SENATOR HARP	X		
SENATOR MAZUREK	X		
SENATOR NORMAN	X		
SENATOR SEVERSON	X		
SENATOR WALKER	X		

Each day attach to minutes.

SENATE TAXATION

EXHIBIT NO. 1 P1

DATE 3/15/89

BILL NO. SB 462

SENATE BILL 462

TESTIMONY

PRESENTED BEFORE THE

MONTANA SENATE TAXATION COMMITTEE

By

Kevin Tipton

Area Director, State Government Relations

Distilled Spirits Council of the United States Inc.

2033 Grape Street

Denver, Colorado 80207

March 15, 1989

## SENATE TAXATION

EXHIBIT NO. 1 p. 2DATE 3/15/89BILL NO. 513 462

Mr. Chairman and members of the Committee, my name is Kevin Tipton. I am the Area Director for the Distilled Spirits Council of the United States, a national trade association representing over 90% of the manufacturers and importers of liquor products sold in the United States.

The Distilled Spirits Council strongly opposes Senate Bill 462 which proposes to place an additional tax burden on the sale of alcoholic beverages, as well as other common consumer products.

Mr. Chairman, the liquor products sold by Montana's retailers, have been declining in profitability since 1983. This is demonstrated by tax revenue information from the state's Department of Revenue. These figures show that excise taxes on all alcohol beverages in 1983 represented 14% of all excise taxes collected by the state. In 1987, the last year for which complete information is available, alcohol beverages made up barely 9% (9.3%) of all excise tax revenues.

In addition, consumption of most alcohol beverages has declined during the same period. For example, from 1983 through 1987, only wine products had an increase in consumption and that was a modest 4.1%. Liquor consumption has fallen by 23.8% and beer is down by 13.3%. Montana, to a degree, reflects a national consumption trend with liquor down 11.4%, and beer and wine consumption up by 2.7% and 13.0%, respectively.

As you can see by these figures, not only has our industry profitability been declining, but so have state revenues. A tax increase at this time would only aggravate this trend, further reducing the state's revenue base, and any industry profit.

Mr. Chairman, the liquor industry's contribution to the state's treasury is significant. Montana's beverage alcohol industry generates about \$211 million in wages, and accounts for 17,000 direct and indirect employment opportunities. In addition, alcohol beverage industry sales are important to small business. Eating and drinking establishments which would be affected most by this bill employ large numbers of semi-skilled workers with two-thirds of these businesses employing four or fewer people.

If a sales tax measure, such as that proposed is adopted, the pricing structure of all liquor, beer and wine products will have to be revised. In addition, retailers will be required to deal with yet another new layer of government, new forms with new reporting requirements, and new bookkeeping expenses and paperwork costs.

I should also like to point out Mr. Chairman, that with more and more western states competing for lucrative and profitable  
SB 462 TESTIMONY

## SENATE TAXATION

EXHIBIT NO. 1 p. 3DATE 3/15/89BILL NO. SB 462

Kevin Tipton - DISCUS  
March 15, 1989

tourist dollars, passage of this measure will heighten interest in your neighbors. In fact, three of the four states surrounding Montana have a more reasonable tax burden on alcohol beverages.

Lastly, Mr. Chairman, my industry is opposed to this tax measure because it dedicates the revenues to be raised from the sale of certain products, and creates a special statutory reserve fund that handcuffs legislators. This kind of special interest legislation and vitiates the policy-making power of elected representatives by removing an important area of government control - power of the purse - from periodic review and oversight.

Mr. Chairman, please do not misconstrue the liquor industry's opposition to this bill's funding mechanism as lack of concern for what this measure purports to be able to accomplish.

Very simply, the liquor industry does not like this bill because it creates another tax on a product that has been taxed twice before it reaches the retail level. As a result of this unfair taxation, consumers have slowed their buying habits and decreased consumption. And, as a result of that, the revenues expected by lawmakers, such as yourselves, has not lived up to expectations. Mr. Chairman, this bill will only hasten the decline of the already soft market for our product sales while weakening the state's treasury. We urge you to not support the bill as it is written.

Thank you for allowing me the opportunity to speak before you.



680  
PLEASE SIGN

SENATE TAXATION  
EXHIBIT # 2  
DATE 3/13/84  
BILL NO. SB 462  
AGAINST TAXES ON ENTERTAINMENT FOOD BEVERAGES FOOD PRODUCTS SPORTING EQUIPMENT VIDEO CASSETTES RENTAL CAR, BUS, TRAILER OR LEASE RENTAL etc - etc

WE THE UNDERSIGNED PEOPLE ARE AGAINST SENATE BILL NO. 462 INTRODUCED BY, ECF, REAM AND MALLIGAN.

NAME	ADDRESS	OCCUPATION
1. Lawrence Williams - Missoula		John Williams
2. Julie Garner	Ida	Binding
3. Donald Warner	Idaho	Psychologist
4. Dennis Schreder	MSA Madani	
5. Virginia Mary	Idaho	School Teacher
6. Kathleen J. Jett	Missoula	Sub Sand
7. Heather Hart	Missoula	Student
8. Jaychelle Lueker	MSA	Student
9. Kim Hochhalter	MSA	Student
10. Mike Tognastki	MSA	Student
11. Mark Smith	Missoula	Welder
12. Brian Bets	Idaho	dishwasher
13. Lawrence Spitz	C Falls	sales
14. Jeffery	Missoula	work
15. Douglas J. Breke	Townsend, MT	Electrical Controls
16. David Sitten	Townsend MT	Pumps Water Systems
17. Mike Davis	Missoula MT	Davis Transport driver
18. Hugh Linn	2140 50 <sup>th</sup> 7 <sup>th</sup> W	Self Employed
19. Larry Roth	Missoula	Johns
20. Sheila Rust	Missoula	Accts. Payable
21.		
22.		
23.		
24.		
25.		

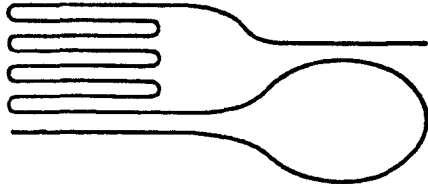
DATE 3/15/89BILL NO. GOOD MORNING. SB 462

MRS. ECK, GENTLEMEN OF THE SENATE TAXATION COMMITTEE,

MY NAME IS JACK TRAXLER, I RESIDE IN MISSOULA AND I REPRESENT BEACH TRANSPORTATION CO. OF THAT CITY AND THE MONTANA STATE SCHOOL TRANSPORT ASSOCIATION, PRIVATE CONTRACTORS IN OPPOSITION TO SENATE BILL 462, INTRODUCED BY SENATORS HALLIGAN AND ECK, AND REPRESENTATIVE REAM.

LOOKING AT FIGURES FROM THE NATIONAL SCHOOL BUSSING ASSOCIATION, WE SEE THAT MONTANA HAS ONE OF THE LOWEST RATES IN THE NATION. WE BELIEVE THAT DISTINCTION BY GOOD MANAGEMENT OF OUR RESOURCE, COMPETITIVE BIDDING ON OUR CONTRACTS, AND ONE OF THE HIGHEST SAFETY RATES IN THE NATION. WE ALSO PAY THE HIGHEST GAS AND DIESEL TAXES, PLUS ALL THE OTHER TAX DERIVED FROM THE WIDE ARRAY OF PURCHASED PRODUCTS USED TO KEEP OUR UNITS IN GOOD REPAIR AND TO MEET STATE AND FEDERAL STANDARDS. WE FEEL THAT THIS ENTIRE BILL IS FLAWED WHILE WE FULLY ACKNOWLEDGE THAT OUR STATE IS IN, TO SAY THE LEAST A TIGHT FINANCIAL BIND. HOWEVER IT IS NOT THE SMALL, MEDIUM OR LARGE BUSINESS FIRMS THAT HAVE CAUSED THAT BIND. THE PEOPLE WHOM ALL OF YOU SERVE PASSED CI-105 BY A LARGE MAJORITY A COUPLE OF YEARS AGO, THEREBY SAVING THE THE STATE FROM THE MORE CATASTROPHIC CI-27. THE MESSAGE WAS, "TAXES ARE TOO HIGH, WE WANT LESS REGULATION, LESS TAXING AND LESS GOVERNMENT, NOT MORE!!"

MRS. ECK, GENTLEMEN, WE ARE SPENDING LARGE SUMS OF MONEY AND COUNTLESS HOURS OF WORK AND ENERGY TO TRY AND LORE MORE BUSINESS INTO OUR BELLOVED STATE. WE ARE TRYING TO PROVIDE MORE JOBS AND OPPORTUNITIES FOR OUR YOUNG PEOPLE BUT IT WILL NOT BE ACCOMPLISHED BY TAX BILLS SUCH AS THIS ONE. JUST IN SETTING UP THE RECORD KEEPING THAT IS DEMANDED IN THIS BILL COULD VERY WELL PUT SOME OF OUR YOUNG ENTREPRENEURS OVER THE BRINK AND OUT OF BUSINESS. WE HOPE, THE MEMBERS OF THIS COMMITTEE WILL BURY THIS BILL AND MAY IT REST IN PEACE, AND LET THE BUSINESS PEOPLE CONTINUE TO DO BUSINESS. WE THANK YOU ALL, AND ASK FOR YOUR CAREFUL CONSIDERATION.

Montana Restaurant AssociationLegislative Committee  
P.O. Box 7369  
Missoula, Montana 59807

Chairman Brown and members of the committee, my name is Leon Stalcup and I am here today representing The Montana Restaurant Association, to testify against SB 462.

SB 462 is a sales tax to be imposed upon selected business to raise money for higher education and local governments.

It may be the Montana University System and local governments need more money, but it seems to us repugnant to pick on a few selected industries to pay the bills. If money is to be raised through a sales tax to pay for the general responsibilities of government, it seems to be more honest that it should be a broad based general sales tax not a very narrow one.

For the above reasons and all the others you will hear today we pray you report out a do not pass on SB 462

Testimony on SB 462

Mr. Chairman  
Members of the Committee

My name is Gloria Hermanson, I reside in Helena. I represent the Montana Cultural Advocacy, a broad cross-section of Montanans committed to the development of our State's cultural resources.

I rise in opposition to House Bill 462 in it's present form. I do, however, with Senator Eck's agreement, propose an amendment to the bill that would exclude activities of non-profit organizations from the legislation. With adoption of the amendment I would withdraw opposition.

Non profit organizations already have a difficult time in Montana both from a funding and a function standpoint. To subject their activities to an excise tax and the attendant accounting and reporting procedures would be a burden the non-profit community simply cannot bear. The exclusion of non-profit organizations from this legislation is essential.

The proposed amendment reads:

1. Page 2.

Following: line 19

Insert: "(c) The term does not include activities that are conducted by non-profit organizations."

I urge adoption of this amendment to SB 462.

SENATE TAXATION

EXHIBIT NO. 5a

DATE 3/15/89

BILL NO. SB462

Amendment to Introduced Copy of SB 462

1. Page 2.

Following: line 19

Insert: "(c) The term does not include activities that are  
conducted by non-profit organizations."



JAMES W. MURRY  
EXECUTIVE SECRETARY

Box 1176, Helena, Montana

ZIP CODE 59624  
406/442-1708

EXHIBIT NO. 6  
DATE 3/15/89  
BILL NO. SB 462

TESTIMONY OF DON JUDGE BEFORE THE SENATE TAXATION COMMITTEE ON SENATE BILL  
462, MARCH 15, 1989

-----

Mr. Chairman and members of the Committee, for the record, I am Don Judge, representing the Montana State AFL-CIO today in opposition to Senate Bill 462.

This legislation would impose a 4 percent excise tax on restaurant meals, beverages, entertainment and sporting events, rentals of motor vehicles and movies. No matter what you call it, Senate Bill 462 is just another, although somewhat broad, selective sales tax which we strongly oppose.

Working men and women remain opposed to this and any other sales tax for a very simple reason: a sales tax is a regressive tax, and the ultimate objective of a sales tax is to shift the burden of taxation from the corporate world onto the shoulders of working people.

The sales tax, or in this case, an excise tax, is viewed as a quick fix to a state's economic difficulties. That's why 45 of 50 states have sales taxes. There are problems with this quick fix, such as the opening percentage -- four percent here -- and the items covered by the tax -- mostly entertainment in this bill -- have a history of going up and up and up and covering more and more goods and services over the years.

Mr. Chairman, this legislation would most directly affect our members in the building and construction trades and railroading professions, who are regularly employed away from home, regularly eat at restaurants, and regularly attend movies while on the road. They have no choice, and would be forced to pay this excise tax in greater proportions than anyone else.

This bill is a step in the door for sales tax advocates and, even more mischievous, it doesn't even call for a vote of the people. Senate Bill 462 is a back-door approach to enact a sales tax.

We are sympathetic for the need for additional revenue for Montana's University System and local governments. There are those who would say that a sales tax is the only alternative for raising much-needed revenue. But, as we have said in the past, there are several more progressive alternatives which we urge you to consider.

The name of the game with a sales tax and with this form of a sales tax is shifting the burden from those who don't want to pay their fair share to those who can't afford to pay more than their fair share. We encourage you to reject this wolf in sheep's clothing and to focus on more acceptable and more progressive tax alternatives.

Thank you.





Post Office Box 124 • Helena, Montana 59624 • Telephone (406) 442-4451

SENATE TAXATION

EXHIBIT NO. 7

DATE 3/15/89

BILL NO. SA 462

March 15, 1989

Sen. Bob Brown, Chairman  
Senate Taxation Committee  
State Capitol  
Helena, MT 59620

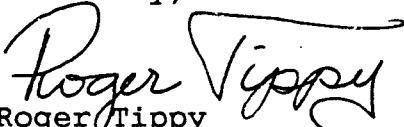
Re: Senate Bill 462

Dear Senator Brown and Committee Members:

The Beer and Wine Wholesalers would be concerned about the timing of this bill as well as its impact on sales of beer and wine in licensed on-premise accounts. As to the timing, selective sales taxes such as this seem to assume that a general sales tax would not even be put to a vote of the people. Would it not be preferable to set up the June 13 special election on a general sales tax and look at proposals like this later, if the sales tax is not approved?

The excise taxes the state already collects on beer and wine, plus a general sales tax if one should be approved, plus a special sales tax of the sort contemplated in SB 462, would tend to distort the state's taxation policy against on-premise consumption of beer and wine. Our position on this bill is one of opposition to the inclusion of beverages already subject to an excise tax.

Sincerely,

  
Roger Tippy  
Executive Secretary

## PROVISIONS OF SB 463

1. Combines Tax Brackets And Eliminates Top Two Brackets
  - 2%, 3%, 4% combine into a 3% bracket
  - 5%, 6%, 7% combine into a 6% bracket
  - 8%, 9%, 10%, 11% combine into a 9% bracket
2. Increases the Standard Deduction to a flat \$2850 (in 1988) and twice that for married, filing jointly.
3. Increases individual exemption to \$1430 (in 1988)

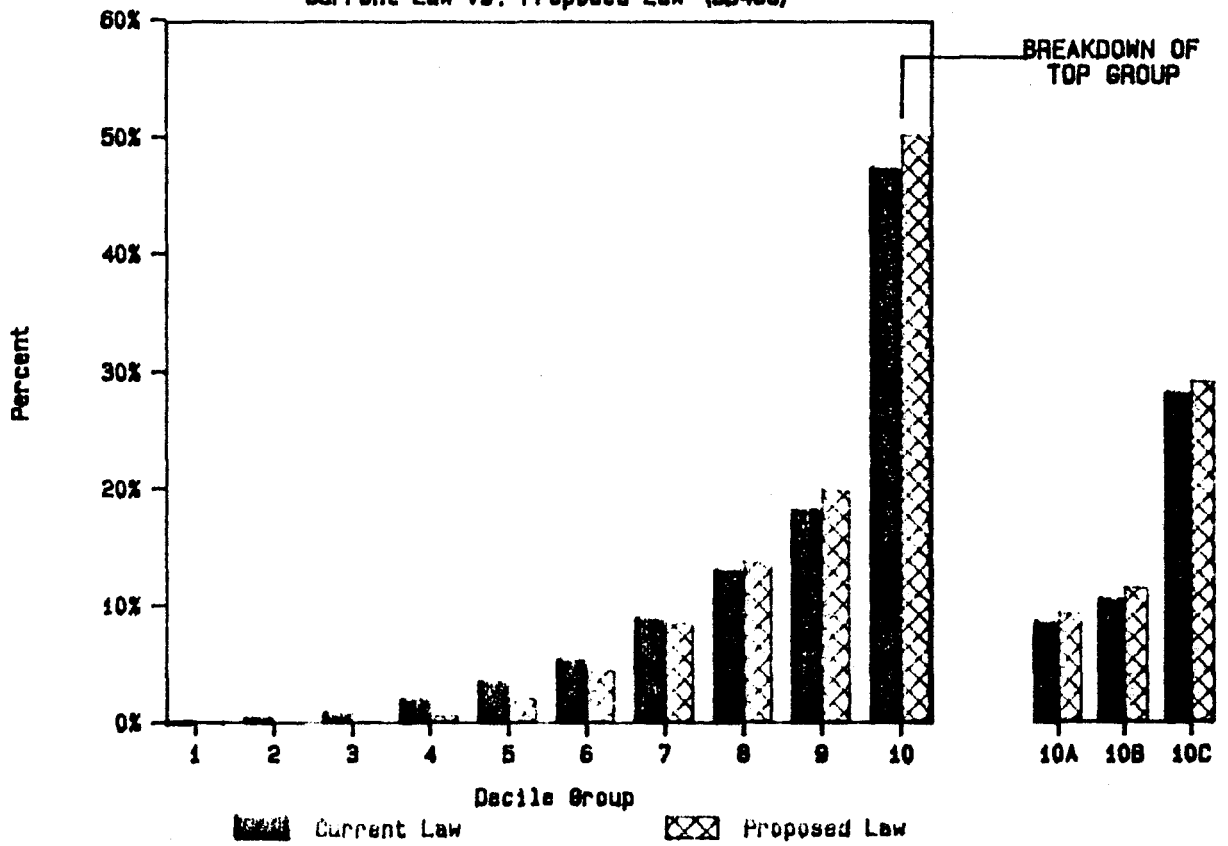
From (2.) and (3.) it is seen that a family of four will have no tax liability unless their adjusted gross Montana income exceeds \$11,420.
4. Adjusts the cost basis of capital assets for inflation in determining capital gain or loss.
5. Extends the interest exclusion of \$800 to all taxpayers. (It is now available only to those 65 years of age and older). The exclusion amount is indexed for inflation.
6. Indexes the pension income exclusion of \$3600 for inflation.
7. Allocates 48% of the Bank Tax to the state special revenue fund for state equalization aid to public schools and 32% to all other property tax jurisdictions other than public schools but including the university six mill levy.

Provisions 2. and 3. take 53,700 households off the income tax rolls. They do not have to file as their tax liability would be zero. Withholding rates would be adjusted accordingly. Also, about 61,000 filers would use the simpler standard deduction rather than the itemized deduction they use now.



# PERCENT OF TOTAL STATE TAX LIABILITY

Current Law vs. Proposed Law (SB463)



EXAMPLES OF COST BASIS INDEXING UNDER SB 463

86  
3/15/89  
BILL NO. SB 463

1976 Consumer Price Index = 60.6  
1985 Consumer Price Index = 109.6  
1987 Consumer Price Index = 118.3  
1988 Consumer Price Index = 123.8

A. Taxpayer bought a building lot in 1976 for \$10,000 and sold the lot in 1988 for \$20,000

$$\text{Nominal Gain} = \$20,000 - \$10,000 = \$10,000$$

$$\text{Real "Gain"} = \$20,000 - \$10,000 \times (123.8/60.6) = (\$429) \text{ Loss!}$$

---

B. Taxpayer bought 100 shares of common stock in 1985 at 19.5 and sold the shares in 1988 at 26.25

$$\text{Nominal Gain} = \$2625 - \$1950 = \$675$$

$$\text{Real Gain} = \$2625 - \$1950 \times (123.8/109.6) = \$422$$

---

C. Taxpayer bought a rare coin in 1987 for \$10,000 and sold it in 1988 for \$50,000

$$\text{Nominal Gain} = \$50,000 - \$10,000 = \$40,000$$

$$\text{Real Gain} = \$50,000 - \$10,000 \times (123.8/118.3) = \$39,535$$

For capital items held less than a year there would be no inflation indexing of basis and taxpayer would declare nominal gain or loss as the actual gain or loss.

STATE TAXATION  
EXEMPT NO. 80  
DATE 3/15/89  
BILL NO. SB 463

From a Bush administration informational release on why they are asking for a new "preference" rate for the taxing of capital gains and losses.

"Inflationary Gains. Although inflation has been kept low under policies of the past eight years, even low rates of inflation mean that individuals who sell capital assets at a nominal profit are paying tax on a "fictional" element of profit represented by inflation. High rates of inflation, such as those that existed in the mid and late 1970s, exacerbate the problem. An income tax should consider only "real" changes in the value of capital assets -- after adjusting for inflation -- in order to avoid unintended high effective rates of tax that actually lower the real after-tax value of assets. Current law taxation of nominal capital gains in full has the perverse result that real gains are overstated (and taxed too highly) and real losses are understated and, in some cases, actually converted for tax purposes from losses to gains. A partial exclusion for long-term capital gains provides a rough adjustment for the inflationary element of capital gains ..."

SB 463 - CHANGE IN TAX LIABILITY  
SINGLE FILER, TWO EXEMPTIONS  
TAX YEAR: 1989

CURRENT LAW  
1989

INCOME	STANDARD DEDUCTION	EXEMPTION AMOUNT	TAXABLE INCOME	TAX
\$2,000	\$400	\$2,400	\$0	\$0
3,000	600	2,400	0	0
4,000	800	2,400	800	16
5,000	1,000	2,400	1,600	33
6,000	1,200	2,400	2,400	57
7,000	1,400	2,400	3,200	83
8,000	1,600	2,400	4,000	115
9,000	1,800	2,400	4,800	147
10,000	2,000	2,400	5,600	179
11,000	2,200	2,400	6,400	215
12,000	2,250	2,400	7,350	267
13,000	2,250	2,400	8,350	313

PROPOSED LAW  
1989

INCOME	STANDARD DEDUCTION	EXEMPTION AMOUNT	TAXABLE INCOME	TAX	DIFFERENCE
\$2,000	\$2,990	\$2,980	\$0	\$0	\$0
3,000	2,990	2,980	0	0	0
4,000	2,990	2,980	0	0	-16
5,000	2,990	2,980	0	0	-33
6,000	2,990	2,980	30	1	-56
7,000	2,990	2,980	1,030	31	-52
8,000	2,990	2,980	2,030	61	-54
9,000	2,990	2,980	3,030	91	-56
10,000	2,990	2,980	4,030	121	-58
11,000	2,990	2,980	5,030	151	-64
12,000	2,990	2,980	6,030	182	-85
13,000	2,990	2,980	7,030	242	-71

**Page 6, Subsection (3). -- Treatment of Sub - S income.**

Amendment is intended to simply and promote uniformity in the treatment of Sub-S corporation income. Eliminates unique accounting for "non-electing" (for MT) Sub-S corps. where the owners currently are required to report distributed gains or losses. They must report accrued gains to fed's. Problem is in instances where state law prevents election for MT purposes (Eck's situation).

As changed, all Sub-S corporations would face similar accounting requirements.

**Page 14, Subsections 2 & 3. -- Taxation of nonresidents**

Treats all nonresidents the same. Currently (2) requires these taxpayers to source income and deductions. (3), however, allows residents of non-income tax states the option of sourcing or proration.

The amendments require all nonresidents to source their income (everyone treated same, including part-years).

**Page 15, Section 7. -- Filing Tresholds**

Extends minimum filing treshold to nonresidents. Now, may have to go through detailed sourcing exercise (income and deductions) to determine they are required to pay little or no tax. The proposed change is intended to prevent this waste of time by relieving of return requirement if their MT income is less than \$1500 single or \$3000 married.

Page 20 top of page.

Reduces time department has to issue a refund from 6 months to 60 days.

COMMITTEE ON Taxation

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One	
			Support	Oppose
Sam Ryan	M.S.C.A	462		X
Marie E. Durkee	Mt Tavern Assn	462		X
Jenno Burr	MT TAXPAYERS ASSOC	462		X
Jenno Burr	mt taxpayers assoc	463	X	
Vandy Roth	M C T A of M T A	462		X
Ann Traxler	Blackhawk Mtn	462		X
Chester Bullock	Silver Saddle Basin	462		X
Rosette Bullock	Rose's Cafe Basin	462		X
Dorothy Traxler	Missoula	462		X
Barbara Foster	The Red Door Lounge	462		X
Ernie Grosseschi	BORRIES MTA	462		X
Phil Honning	MINNEAPOLIS HOUSE	462		X
JOHN TORRINO	LONGHORN LOUNGE	462		X
Joyce Spohnheim	Spoons Saloon & Falls	462		X
James Miles	Village Inn Mtn	462		X
Wubie Wilken	Steer Inn Restaurant	462		X
Leon Stalony	Montana Restaurant Assoc	462		X
Kenn Tipton	DISCUS	462		X
Steve Wilken	MTA - Holiday Falls	462		X
Roger Knutson	Yellowstone Cty Tavern	462		X
Gloria Bergmann	Mt Cultural Grocery	462		X
John W. Neeson	Hide-A-Way Lodge Bldg	462		X
Mike Petraro	Village Inn Pizza Bldg	462		X
Tom Tipton	Mt. View Wholesaler	462		X
Bob Dowling	Mt. View Dist. Inn	462		X
Bob Lemm	Mont. Liquor Reps Ass	462		X

