MINUTES

MONTANA HOUSE OF REPRESENTATIVES
51st LEGISLATURE - 1st SPECIAL SESSION

COMMITTEE ON TAXATION

Call to Order: By Chairman Dan Harrington, on June 23, 1989, at 3:30 p.m.

ROLL CALL

Members Present: 19

Members Excused: 0

Members Absent: 3

Staff Present: Lee Heiman, Legislative Council Staff
Donna Grace, Committee Secretary

HEARING ON HOUSE BILL 38

A BILL FOR AN ACT ENTITLED: "AN ACT REDUCING THE TAX RATES ON PROPERTY IN CLASSES EIGHT THROUGH TEN; REVISING DEBT LIMITATIONS OF LOCAL GOVERNMENTS, INCLUDING SCHOOLS, TO REFLECT THE CHANGES IN TAX RATES; PROVIDING MECHANISMS TO REPLACE, WITH STATE GENERAL FUND REVENUES, REDUCTIONS IN REVENUES DUE TO REDUCTIONS IN PERSONAL PROPERTY TAX RATES; PLACING A LIMIT ON THE DEDUCTIBILITY OF FEDERAL INCOME TAX PAID ON MONTANA INCOME TAX; STATUTORILY APPROPRIATING FUNDS TO LOCAL GOVERNMENTS AND, THROUGH THE FOUNDATION PROGRAM, TO SCHOOLS TO REPLACE REDUCTIONS IN REVENUES DUE TO REDUCTIONS IN PERSONAL PROPERTY TAX RATES; AMENDING SECTIONS . . . AND PROVIDING AN EFFECTIVE DATE AND APPLICABILITY DATES."

Presentation and Opening Statement by Sponsor:

Representative Addy, sole sponsor of this bill, stated that he offered the bill only as vehicle, and he suggested discussing the concepts in the bill and working with it in any way. He assured the committee that his pride of authorship was slim.

He stated that in the Kadas-Ramirez bill personal property taxes on business were reduced to a certain level and one of the questions that has to be answered is what that level should be. The manner in which the money is raised is where the question is. How do you fund the loss of that money to local governments? This bill presents one option.

Representative Addy said he began drafting the bill by telling the Legislative Council that he wanted to introduce a bill that funded itself and would bring personal property tax rates down to 8%. He then asked the Legislative Council to decide how much lost revenue that would be and to fund that lost revenue by capping the deductibility of federal income taxes on the state income tax return. As it turned out, the level is the first $7,000 of federal income tax paid by an individual and $14,000 for a married couple. He distributed a handout which shows the impact of this. Exhibit 1. He said he had asked for figures from the DOR and from the LFA and there is some discrepancy in how they are interpreted.

Representative Addy said he preferred this alternative of funding the loss from reduced business personal property tax to raising homeowners rates. The people in his district that really supported I-27 are hostile when the subject of property taxpayers revolt comes up and they are the people on fixed incomes. It would be difficult for some of them to pay even a 11% increase in residential property taxes. This is a way to avoid that. No matter what you pay your property taxes on, you pay it out of income and this is a good way to solve the problem. He had no objection if numbers were to be changed and, again, stated that he offered this as a tool for the committee to consider.

Testifying Proponents and Who They Represent:

None.

Proponent Testimony:

None.

Testifying Opponents and Who They Represent:

Dennis Burr, Montana Taxpayers
Gordon Morris, Association of Counties

Opponent Testimony:

Mr. Burr said he thought that what Representative Addy was trying to do with personal property tax rates is just and proper. He said the Montana income tax rates are among the highest in the nation now, mitigated somewhat by a full deductibility of federal taxes paid. Capping the federal deduction would exacerbate the problem of the high marginal rates. If the $40 million referred to is a one-year figure that would be equivalent to something close to a 20% increase in total income taxes and that would be paid by less than a majority of taxpayers. It would not be spread equally and that was his objection to the bill.

Gordon Morris said he would like to clarify for the record that he was not necessarily an opponent to this bill in its concept but he was opposed to the way it was presented and indicated that in his opinion the bill needs a technical amendment. The best way to do that would be to suggest that the Legislative Council staff person take a look at Senate Bill 22 which is a comparable bill by way of property tax reform having to do with personal property in particular. He would suggest that this bill in adjusting all the bonded percentages does not take into account the resulting effect of the loss of taxable value in county classification. You should include the county classification section of the statutes which is 7-1-2111 and amend that section to compensate for the loss of taxable value associated with the reduction of Class 8 property from 11% to 8% and Class 9 property from 13% to 8% and for Class 10 property from 16% to 8%. Assuming that there is no fiscal note he would assess the loss of taxable value with these proposed changes would be $125,839 per every mill levied in the State of Montana on a statewide basis. His conclusion would be that the bill should be technically amended to take into account the county classification implications. Assuming it was ironclad in terms of replacement revenue, he would withdraw any objections he had to the bill.

Questions From Committee Members:

Representative Giacometto asked Mr. Addy, where it says the first $7,000, and on line 5, it says it's not deductible, he didn't think he was following that. Mr. Addy said he would have to talk to Mr. Petesch about it because he felt that might be a point.

No further questions.

Closing by Sponsor:

Representative Addy said he had no further comments.

HEARING ON HOUSE BILL 37

A BILL FOR AN ACT ENTITLED: "AN ACT REPEALING THE EXISTING STATE INDIVIDUAL INCOME TAX AND IMPOSING A STATE INCOME TAX BASED ON A PERCENTAGE OF THE FEDERAL INCOME TAX PAYABLE ON MONTANA TAXABLE INCOME; . . . AND PROVIDING AN IMMEDIATE EFFECTIVE DATE AND A RETROACTIVE APPLICABILITY DATE."

Presentation and Opening Statement by Sponsor:

Representative Ben Cohen is the major sponsor of this legislation. He said that House Bill 37 is the "son of Senator Walker's bill". When he requested the draft he said he wanted that federal liability bill and when they asked what percentage he told them he wanted it revenue neutral but he didn't know what revenue neutral was so he asked them to draft it at 32% of federal liability and when they had information from the budget office it could be adjusted in committee. Since that time he said he had discovered some other technical problems with the bill and Mr. MacKenzie from D. A. Davidson was at a hearing for another bill and he had pointed out some of the technical problems that could see and that Representative Cohen concurred with. He said the Montana CPA's endorsed this bill if it is, in fact, revenue neutral.

Testifying Proponents and Who They Represent:

Bruce MacKenzie, D. A. Davidson and Co.
Ann Prunuski, M.A.P.P.

Proponent Testimony:

Mr. MacKenzie stated that he was the vice president and general counsel for D. A. Davidson. He said he was neither an opponent or a proponent of this bill but did want to point out to the committee that in Section 7 of the bill at the present time the definition of how the state income tax will be calculated as a percentage of federal taxable income, in sub-section 2, it's federal adjusted income. As the bill works through, it deducts out of federal adjusted taxable income, interest received on obligations of any state, county, territory, municipality, etc. The net affect of this is under the definition in Section 61 of the Internal Revenue code, the federal adjusted taxable income does not include at the present time interest received on municipal and state obligations of any state and to deduct it out again would include it back into the Montana tax interest received on what would normally be taxable bonds issued by states or municipalities. If you were to strike Section 7, 2 (e), you would again be taxing interest received on federally taxable bonds but then you have another problem in that if you deduct out and not recognize in the base of federally adjusted taxable income interest on other bonds out of state, Montana municipalities and the state itself would lose its borrowing advantage it presently has on municipal obligations by providing those obligations with a tax exemption from Montana Income Tax. If you don't tax out state obligations, which you would not do if you base your tax on the federal adjusted taxable income, then those entities would be forced to borrow at the same rate as everyone else does on a national scale. They said that D. A. Davidson had tried, and been successful, in being proponents for municipal bonding on a favorable basis and borrowing at a favorable basis in the state. They would like to be able to keep that favorable basis by making Montana bonds exempt in Montana but not out of state bonds. He suggested that changes be made in the bill to correct this.

Ann Prunuski from the Montana Alliance for Progressive Policy stated that the Alliance was a coalition of seniors, labor, education, low income women and senior groups representing some 40,000 individuals. They were formed in part to address the liberal granting of exemptions and exclusions from taxes that have so seriously eroded the tax base. House Bill 37 presents a unique opportunity to repeal the Montana state income tax system in a dramatic way and retains and improves the productivity of it and also simplifies it. See Exhibit 2.

Testifying Opponents and Who They Represent:

Dennis Burr, Montana Taxpayers
DIck Williams, Retired Public Employees
Fred Patten, AARP
Gene Huntington, Retired Teachers

Opponent Testimony:

Mr. Burr stated that the rate in this bill is too high to be revenue neutral; however, he thought that Representative Cohen would be willing to adjust that. There were some other things he wanted to mention which were reasons they opposed the bill. There is a big hit on two-income families. It also repeals totally deductions for federal taxes paid because they would no longer be a deduction on the federal tax and it puts the state at the mercy of federal tax policy. He said the federal government is not required to balance its budget and they could change fiscal policy either up or down and it would automatically affect revenue in Montana.

Mr. Huntington said the Montana Retired Teachers had no concern with the concept of the bill but they do have a concern with the definition of federal adjusted taxable income because it sets an $8,000 limit.

Dick Williams, President of the Association of Montana Retired Public Employees, stated that they had been testifying daily before this committee for the reasons expounded upon before. They would oppose the portions of this bill that puts a cap on the retirement paid by state retirees.

Fred Patton said he would oppose this bill because of the $8,000 cap.

Questions From Committee Members:

Representative Raney addressed his question to Representative Cohen. He said he understood the retirement deduction is they get to take all the deductions allowed by Uncle Sam. Would they then be able to take an additional $8,000? Representative Cohen said he didn't believe that was correct. He said the Federal Government allowed the $8,000. There is no additional deduction but he will be introducing another bill on Monday morning that he has been working on with PERS and TRS people to address the whole problem of pensions in a real positive way.

Closing by Sponsor: Representative Cohen said there are some people who are not being taxed now who would be taxed under this bill. One way to make those people whole, is their pensions could be increased. It is cheaper for the State of Montana to increase the pensions for all state retirees than it is to extend the benefits to the federal retirees who have much larger pensions than the state employees.

One of the things that is not included in the bill which might be useful for the DOR is to ask that when folks file their state returns, they just file a copy of the federal return. Again, he said he didn't know if this bill would be anything they could deal with within the scope of this session. On the other hand, at least three of the four bills before the legislature dealing with the school problem have 10% surtax on the existing income tax structure and maybe it would be wise to look at something like this. It could be a vehicle to put into one of the other bills. It could be a tool to use as they look at the entire taxation picture in the State of Montana.

HEARING ON HOUSE BILL 42

A BILL FOR AN ACT ENTITLED: "AN ACT TO PROVIDE ADDITIONAL FOUNDATION PROGRAM FUNDING TO SCHOOL DISTRICTS BY ALLOCATING TO STATE EQUALIZATION AID 30 PERCENT OF COAL SEVERANCE TAX COLLECTIONS THAT REMAIN AFTER ALLOCATIONS TO THE PERMANENT TRUST FUND AND THE HIGHWAY RECONSTRUCTION TRUST FUND; TO ABOLISH THE EDUCATION TRUST FUND AS AN ALLOCATION OF COAL SEVERANCE TAX COLLECTIONS; TO APPROPRIATE FUNDS TO THE SUPERINTENDENT OF PUBLIC INSTRUCTION FOR STATE EQUALIZATION AID; AMENDING SECTIONS 15-35-108, 90-6-202, AND 90-6-212, MCA; REPEALING SECTIONS 20-9-513 AND 90-6-211, MCA; AND PROVIDING AN EFFECTIVE DATE."

Presentation and Opening Statement by Sponsor:

Representative Bruce Simon, stated that he represented House District #91, Billings, and he is the chief sponsor of HB 42. He said that this bill was being introduced at the request of the Governor. It simply sets up the mechanism to fund the Foundation Program at zero and zero. The purpose of the bill is to assure that at the very minimum there is a mechanism set in place to fund the current schedules. He said everyone recognizes there will be a proposal coming through to increase the Foundation schedules somewhere along the line but this is an effort to separate the issues so they would know what they were dealing with. There is an appropriation in this bill to allow the Superintendent of Public Instruction to spend all of the money that would be appropriated into the Foundation Program. Additionally, there is a change in the allocation of the coal severance tax. What they have done is simply take the money in the education trust fund that is available right now and put it into the Foundation Program. In the future the money would be allocated in a different way so that all the money would flow into the Foundation Program. This was basically what the bill contains.

Testifying Proponents and Who They Represent:

Dave Darby, OBPP

Proponent Testimony:

Mr. Darby stated that bill itself should not be controversial and does fund current level for both years of the biennium for the Foundation Program. He said the legislature and the Governor's Office were in agreement that it should be done. The Governor, however, has proposed two companion bills to this, HB 41 which would provide a 2% increase to the Foundation Program for FY 1990 and the second bill will be heard in committee tomorrow dealing with personal property tax reform and will identify the revenue source for the 2%.

Mr. Darby said his request is as follows. He recommended that this be considered the primary vehicle for funding the Foundation Program for the two years because it would be cleaner to fund. He passed out a fact sheet, Exhibit 3, providing Foundation Program figures. The sheet points out that there is enough money in the various education pots, the Foundation Program, the Education Trust, the income to the Education Trust, to fund current level for both years of the biennium. There is not enough money to fund current level for both years of the biennium and also the 4% increase that is in House Bill 6. In supporting this bill, his recommendation for the funding for the bill be the various Foundation accounts and the Trust Fund accounts and as far as any increase is concerned, be it the 2% the Governor has recommended or any other will of the legislature, the vehicle for addressing additional school funding would be HB 41 which is the companion bill to this one and that the additional revenue required would be in HB 41. Otherwise, the Foundation Program will be starting out $11 million in the hole for the second year of the biennium.

Mr. Darby said his recommendation is that this bill proceed in the cleanest fashion from the budget point of view. The other thing he would note is that it contains a $12 million appropriation from the general fund. Since the sheet passed out indicates there is adequate funding to cover current levels for both years, certainly an amendment would be in order to reduce that amount to $4 or $5 million for a cushion should the revenue not appear there.

Testifying Opponents and Who They Represent:

Eric Feaver, MEA

Opponent Testimony:

Mr. Feaver stated that they were reluctantly neutral on the bill that was just introduced. However, he said he was concerned about the linkage as presented by the Director of Budget, Dave Darby. If one is to follow what has been proposed, if you were to adopt this legislation you would be adopting the theory that the privilege tax, severance tax, issue would fund any increase in the Foundation Program schedules for the biennium. He said that seemed a bit "iffy". If the politics are there to change severance tax to a privilege tax then perhaps the linkage between HB 42 and HB 41 and a house bill yet to be numbered but soon to be heard, perhaps there is some merit to all of this. He said he did not think the politics were there and since it was the House of Representatives that by an overwhelming majority passed HB 6, he would prefer to take the bird in the hand as opposed to the one in the bush. He would suggest that at this point in time HB 42 with all the linkage is unnecessary. He would also point out that HB 42 does eliminate coal tax allocation forever to the Education Trust. HB 6 takes all the Education Trust money but does not eliminate the coal tax allocation to that trust so there is a slight difference.

<u>Questions From Committee Members:</u>

Representative Gilbert asked Mr. Darby to explain Mr. Feaver's comment about linking of the privilege tax for a funding mechanism. Mr. Darby said he wouldn't disagree with the comment. The Governor has said all along that he acknowledges a need for increased school funding for next year. They have had only 1% per year. He has gone on record of favoring a 2% if the money could be found. The handout shows that there is enough money to fund current level. To fund the additional 2% the Governor is recommending in his personal property tax reform bill to use the first $5.6 million to fund the schools for the next year. The House did vote today on HB 6 and that showed some degree of agreement on a different percentage increase from the one the Governor has acknowledged that he would support. Mr. Darby said his request is simply that whatever additional increase the schools get this year is over and above the money available for the biennium in the Foundation Program or the Trust Fund. The request from the Governor's Office would be to identify the source of the revenue.

Chairman Harrington asked if he could take it that from now on, other than the $5 million, the remainder of the Coal Trust would be dedicated to the personal property tax reduction? Mr. Darby said that was correct. Chairman Harrington asked if that would be taken from the schools and be used for personal property tax reduction. Mr. Darby replied that was correct but only the coal tax portion would go to personal property tax.

Representative Raney asked where that was in the bill. Mr. Darby said it is not there. It is in HB 6 and HB 41. This bill does not address any increase for schools for next year.

Representative Raney asked Mr. Feaver what he knew about this because he didn't see the connection Mr. Feaver saw between this bill and the permanent coal tax trust fund. Mr. Feaver said he could only draw his conclusions based on testimony heard because he had not yet seen the bill which would purport to the Governor's personal property tax reform utilizing a change in taxation of coal severance, changing it to a privilege tax. That is yet for the legislators to see and comment upon and decide what to do with. He did say he had heard testimony both today on this bill and yesterday on HB 41 that basically said that the Governor wants to give a 2% increase to Foundation schedules and his source of revenue for that 2% is the change in the name of the tax, severance to privilege, so personal property tax reform would be driven with that change and he would also drive school funding for at least an increase in the Foundation Program schedules. Therefore, he could see a linkage which causes him to comment on this bill.

Representative Kadas asked Mr. Feaver if the MEA was supporting the privilege tax concept. Mr. Feaver said they did not and he had not said that at any point. What he was saying was that they like HB 6 and if they were going to spend the education trust they liked the way it was being done and HB 42 is not their particular "piece of cake" but, by itself, is innocuous.

Closing by Sponsor: Representative Simon asked that the committee not confuse the issues. This bill does not have any linkage in it, it doesn't say anything about HB 41 or any other bill. This bill simply funds the Foundation Program at zero/zero. It does take money from the Education Trust to do that and it allocates additional money flowing from the coal trust in the future. That is all it does. He said that everyone agrees that the Foundation Program should be funded and there is no argument that it should be funded at least at zero/zero. Most everyone is arguing for an increase. He said they should get it taken care of at zero and then worry about the other arguments that may take place about how increases are to be funded in an entirely different way. This is not a controversial bill and it is not linked to any particular source of income to fund increases. That is a decision that will be made in other bills. The Governor has a suggestion he has made but there are other suggestions out there. Representative Simon stated that this bill contains issues they can agree on and issues they cannot agree on are in other bills.

DISPOSITION OF HOUSE BILL 27

Motion: Representative Elliott moved HB 27 DO PASS.

Discussion: Representative Elliott stated that first of all he would like to point out that people have been taking the DOR to task for proposing this bill after the recent settlement. He would like to point out that this is not the Department's bill -- it was his bill. He didn't know if there was any confusion about the settlement or any concern that counties are reneging on what they agreed to do. He said it wasn't his understanding that counties were allowed to dictate to the legislature on what the legislature may or may not do as far as setting taxation policy is concerned. He realized that there is serious opposition to the bill and he said he would like to ask that it be given a chance on the floor and they could then look at the entire impact of equalization on this bill and it would give him time to run some figures and generate some numbers. Representative Gilbert was interested in looking at the breakdown by company and that information could be supplied. He said he could get any information anyone wanted relative to the bill.

Representative Giacometto said that they had talked about the arbitration agreement that all the counties had signed. He said he had counties that were winners and losers so it doesn't really matter to him because he has both ends. However, it was brought to his attention that on page 1 that this is really an open-ended bill. It says the Department may adopt such other methods for a basis for apportionment as they may see just or proper. Dr. Nordtvedt brought that up in the hearing that this kind of gave him an open hand to do as he saw fit. Even beside that point, once the county went ahead and did this, and he had counties that signed the agreement knowing full well what the possibility was of being either a winner or a loser, he wasn't sure if that was an actual contract or not. The legislature has never been allowed to come in and change agreements and contracts that are in place. This is an area where it might not be an actual contract but the counties went in at their own free will and an agreement was reached. He said he thought the motion should be opposed.

Representative Elliott said that, first of all, Mary Whittinghill, from the Central Assessment Division of the DOR, was at the hearing and could be far more eloquent on the issue than he could be and he asked if she would answer the question. The committee granted permission for her to speak. Exhibit 4. Ms. Whittinghill stated that she was involved in the settlement but she didn't think she was in a position to answer from a legal standpoint how binding the settlement would be on future legislation in terms of the counties and the DOR. She said the Department's attorney would have to answer the question. Representative Elliott stated that perhaps Mr. Nybo could answer the question.

Mr. Nybo stated that he represented Lewis and Clark County in the arbitration process and he was familiar with it although he was not a party to developing the settlement agreement. He thought that clearly that this was all taken in the context of current law. At this point Representative Giacometto objected because he preferred an unbiased opinion and there was no one there who was not affected in one way or another. Representative Elliott stated that Representative Giacometto's question was unanswerable so it is a rhetorical question and he didn't believe those were allowed. Representative Giacometto said he would then withdraw his question.

Representative Good said she also had access to the settlement and all parties agreed that whatever the arbitrator decided, they would live with it. It was her understanding that there was even an appeals period after that and no one followed up on it. She said she thought that was all aside from this issue because what this bill does is ask the legislature to mandate trending as the way the DOR operates.

Representative O'Keefe said he agreed with Representative Good that this is not the issue. Representative Giacometto brought up the issue that lines 23, 24 and 25, page 1, essentially turns it over to the Department of Revenue. As he read it, that was existing law because the Director has that power now and this bill would not give them anything they don't already have. The issue is the trending and he knew it had been used as a scare tactic because they aren't giving them any more powers.

Representative Ellison said that if it was such a good idea he didn't know why other states weren't using it and in regard to that, the DOR does have other methods they can go to. He said he didn't like this one so perhaps Dr. Nordtvedt could come up with another method and he thought they should let him try.

Representative Gilbert said they don't understand trending. He said they had heard it in the hearing and asked a lot of questions but they hadn't asked nearly as many questions as they should have asked. He said they were being asked to mandate major tax policy for the state in an eleven-day special session and he thought the best thing they could do was allow the bill to die gracefully in committee and let Representative Elliott and Dr. Nordtvedt and perhaps some other people during the interim explore different possibilities because this is not a tried and true method because it has only been used in one or two other states. He said they were dealing with an unknown quantity.

Representative Elliott said this unknown quantity has been used for the past three years. Representative Gilbert asked if that was the reason they had the lawsuit. Representative Elliott said it wasn't a lawsuit. It was an issue of protested taxes. What was decided at the arbitration hearing was that the DOR did not have the authority in the statutes to use the trending method but the department has been using the trending method for the past three years.

The only company to formally object to that method by protesting their taxes in several counties was the Montana Power Company.

Representative Gilbert said that was true but this morning there were several other companies that were protesting the bill so perhaps they were just a little negligent about getting it done and he still maintained that, especially since it was determined that the DOR did not have the authority to use the trending method, the only ones who can give that authority is the legislature of the State of Montana. The legislature of the State of Montana is seeing this thing for a part of one day, part of the day today, and has to make a decision. He maintained that there isn't the time or the background. The effect on only one company because of the variances in mill levies throughout the state under current law was $2 million in taxes. If that is true in the other companies, what this has done is become a very effective revenue producer for the State of Montana -- perhaps. But then again perhaps not. He said they just don't know and he would like to see a lot more figures so that he knows, before he starts saying yes, that this is correct.

Amendments, Discussion, and Votes: None.

Recommendation and Vote: Motion failed. Roll call vote, 6 voted yes, 15 voted no.

A motion was then made to table HB 27. On a voice vote the motion passed. HB 27 was tabled.

Representative Kadas stated that he would like to have the opportunity to consider HB 39. Chairman Harrington said there was a meeting at 4:30 and it was now that time. He said he would set a meeting for the next morning. Kadas said it would only take a couple of minutes. Representative Good said she would like to hear it because there were things they really want to know. Chairman Harrington said he had an education meeting. Chairman Cohen said perhaps they could just hear the sub-committee report. The Chairman said it had been a long day and he didn't think it would be right to come back later.

Representative Cohen said that even if they didn't come back in or have executive action, he thought that Representative Kadas could give a report on what the sub-committee discussed. All of the members of the committee, he thought, would feel a lot better if they at least knew what it was.

Chairman Harrington said that they weren't going to take the bill up so it wasn't necessary to hear the sub-committee's report.

Representative Raney suggested they close the hearing and the education committee members could leave and the rest of them who really wanted to know about it could stay and hear what Representative Kadas had to say.

Representative Gilbert said he realized the bill to be heard in education was an important education bill; however, HB 39 is also an education bill and also a very important bill. He said they had stayed late last night in sub-committee and worked on it, got up early this morning and worked on it so they would have it ready to take action on today. He said he thought they were being deprived of that because perhaps another bill has precedent. He said he thought it was not fair to the sponsor and the people who worked on the bill.

Chairman Harrington said he was not going to deal on this bill today but he did say that Kadas could give his explanation. Representative Kadas said that if they weren't going to deal with the bill there was no point in giving his explanation.

Chairman Harrington said he wanted a vote of the committee whether they wanted to stay in the meeting to discuss the issue. Representative Driscoll said he couldn't do that because he was the Chairman and he could do what he wanted.

Chairman Harrington adjourned the meeting.

Announcements/Discussion:

ADJOURNMENT

Adjournment At: 4:45 p.m.

Dan Harrington

REP. DAN HARRINGTON, Chairman

DH/dg

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DAILY ROLL CALL

TAXATION COMMITTEE

DATE June 23, 1989

NAME	PRESENT	ABSENT	EXCUSED
Harrington	✓		
Ream.		✓	
Cohen	✓		
Driscoll	✓		
Elliott	✓		
Ellison	✓		
Giacometto	✓		
Gilbert	✓		
Good	✓		
Grady	✓		
Hanson	✓		
Hoffman	✓		
Kadas	✓		
Koehnke	✓		
O'Keefe	✓		
Patterson	✓		
Raney	✓		
Rehberg	✓		
Schye	✓		
Stang	✓		
Stickney	✓		
Swysgood	✓		

Form CS-30A
Rev. 1985

EXHIBIT 1
DATE 6-23-89
HB 38

STATE OF MONTANA

Office of the Legislative Fiscal Analyst

STATE CAPITOL
HELENA, MONTANA 59620
406/444-2986

JUDY RIPPINGALE
LEGISLATIVE FISCAL ANALYST

June 23, 1989

Representative Kelly Addy
Seat #45
Montana House of Representatives
Helena, MT 59620

Dear Representative Addy:

Limiting the deductibility of federal income taxes for Montana taxpayers increases taxes paid by some who itemize and, consequently, raises revenue to the state. Table 1 shows the estimated revenue gains from capping the allowable deduction at $5,000, $6,000, and $7,000, alternatively, for single taxpayers and twice those amounts for those filing jointly.

Table 1
Revenue Gain from Capping the Deduction
for Federal Income Taxes
1991 Biennium

Cap: Single	Cap: Joint	Revenue Gain (Millions)
$5,000	$10,000	$53.0
6,000	12,000	45.8
7,000	14,000	40.6

Table 2 shows the 1990 federal taxable income levels at which taxpayers begin to lose federal deductibility. For example, a single individual with $26,911 of taxable income is expected to owe $5,000 of federal taxes in 1990. If the taxpayer's income were greater than $26,911, more than $5,000 of federal taxes would be paid; but the taxpayer could not deduct the amount over $5,000 when computing Montana taxes owed.

EXHIBIT 1
DATE 6/23
HB 38

Ex. #1
6-23-89
HB 38

Table 2
1990 Federal Taxable Income Level
at which Caps Become Effective

------ Single ------		------ Joint ------	
Cap	Taxable Income	Cap	Taxable Income
$5,000	$26,911	$10,000	$50,829
6,000	30,482	12,000	57,971
7,000	34,054	14,000	65,114

If I can provide additional information, please contact me again.

Sincerely,

Judith Curtis Waldron
Senior Fiscal Analyst

JCW1:rs:ka6-23

Ex. #1
6-23-89
HB 38

State of Montana
Stan Stephens, Governor

Department of Revenue
Ken Nordtvedt, Director

Room 455, Sam W. Mitchell Building
Helena, Montana 59620

June 22, 1989

MEMORANDUM

TO: Representative Kelly Addy

FROM: Steve Bender, Acting Deputy Director

RE: Impact of Federal Tax Deduction Cap's

Per your request, the following provides information on the impact of limiting the deduction of federal income taxes paid.

The following table provides estimates of the revenue gains under various deduction limits and the income levels where federal withholding equals the limit. The revenue figures are for FY 91.

		Gross Income at Cap	
Deduction Limit	Revenue Gain	Married w/ 2 kids	Single
$6,000/$12,000	$24.7 Million	$45,250	$34,200
$7,000/$14,000	$23.0 Million	$48,360	$38,000
$8,000/$16,000	$21.3 Million	$52,000	$41,600

ANN PRUNUSKI
MONTANA ALLIANCE

2
DATE 6/23/89
HB 37

HB 37: A BILL TO REPEAL EXISTING STATE INCOME TAX AND MAKE MONTANA INCOME TAXES A PERCENTAGE OF THE FEDERAL INCOME TAX PAYABLE

OVERVIEW

This bill would basically do away with the existing state individual income tax system and replace it with a flat percentage (32%) of federal income taxes paid.

WHAT OTHER STATES USE THIS APPROACH

As of 1988, only two states use this approach for state income taxes. Those two states are Vermont which figures state individual income taxes at 25.8% of federal income tax, and Rhode Island which taxes at 23.96%. Colorado adopted a similar approach in 1987 which uses a system of state individual income taxes at 5% of federal taxable income. Since adopting the new system in Colorado, state income tax collections have grown some 22%, mainly as a result of changes due to federal tax reform.

PROGRESSIVITY AND THE INCOME TAX

The real key to evaluating alternative state income tax proposals is whether or not the system being considered is progressive or not. With the Federal Tax Reform Act of 1986, the federal system of income tax is more progressive than it used to be. Congress responded to the fairness and equity issues of income tax and closed many loopholes previously in the income tax system. I've attached some information from the Citizens for Tax Justice's publication, The Sorry State of State Taxes, January 1987. Federal tax reform has certainly led to a more progressive income tax system in other states that have followed this flat percentage approach to state income taxes.

Thsi bill would accomplish several things for Montana state income taxes, among them: 1) Simplifying the preparation of state income tax returns. 2) Aiding in the interpretation of the state income tax law through increased use of federal judicial and administrative determinations and precedents, 3)Improving the enforcement of the state income tax laws through better use of information obtained from federal income tax audits.

RETIREMENT

This bill would establish an $8000 exemption level for **all** pensions and retirement plans. Other bills heard during the special session may want to be joined with this bill to deal with the retirement issue separately.

RATE OF TAX AND REVENUE

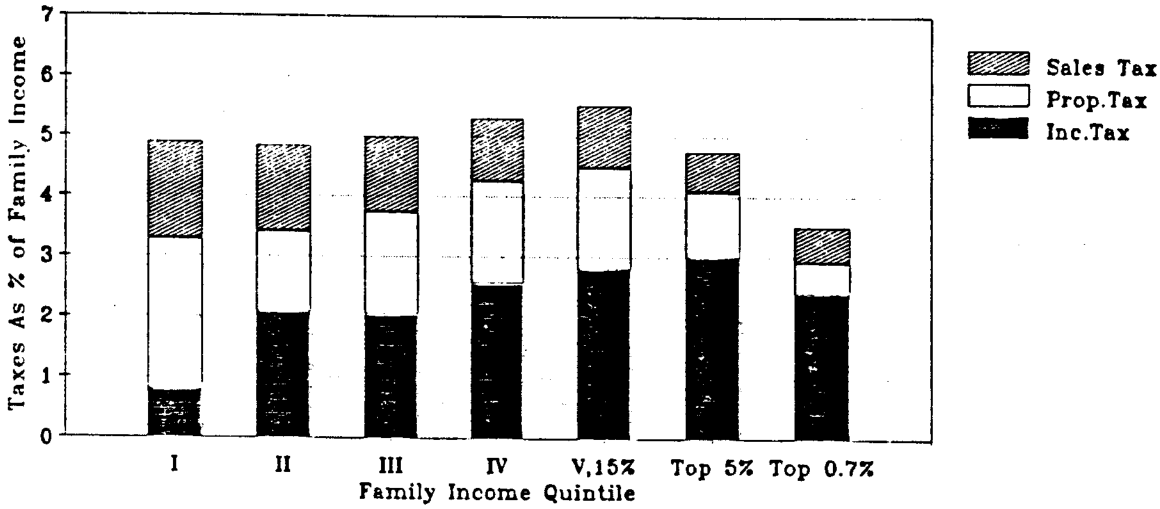
Montana taxpayers would pay 32% of their federal income tax liability for that year. This rate is purported to be revenue neutral. Income tax collections have risen from earlier projections, due to changes in the federal income tax system. It would be very difficult to calculate an exact percentage that would be revenue neutral from the current income tax system in Montana. It was calculated that each 1% of federal tax liability would raise an additional $7.55 million dollars over the biennium in state income tax collections. Raising the rate to 35% then would raise an additional $22.65 million dollars over the biennium.

Ex. #2
6/23/79
HB37

TAXABLE INCOME

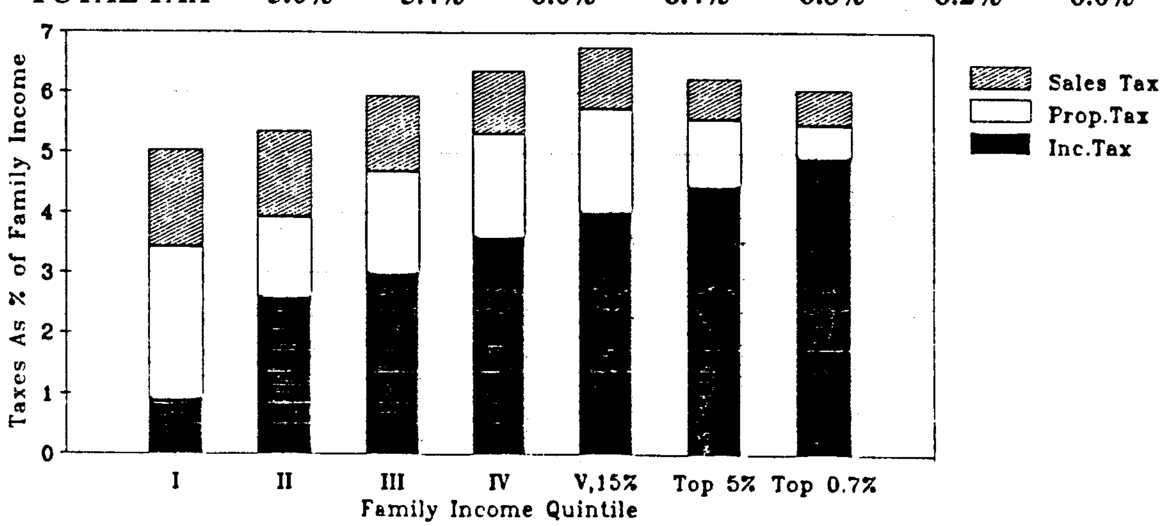
COLORADO TAXES IN 1985
As Shares of Family Income

	I	II	III	IV	V,15%	Top 5%	Top 0.7%
85 INCOME	$9,265	$21,428	$32,160	$45,185	$67,138	$187,678	$613,304
Income Tax	0.8%	2.1%	2.1%	2.6%	2.8%	3.0%	2.4%
Property Tax	2.5%	1.3%	1.7%	1.7%	1.7%	1.1%	0.5%
Sales Tax	1.6%	1.4%	1.3%	1.0%	1.0%	0.7%	0.6%
TOTAL TAX	**4.9%**	**4.8%**	**5.0%**	**5.3%**	**5.5%**	**4.8%**	**3.5%**



COLORADO TAXES UNDER TAX REFORM

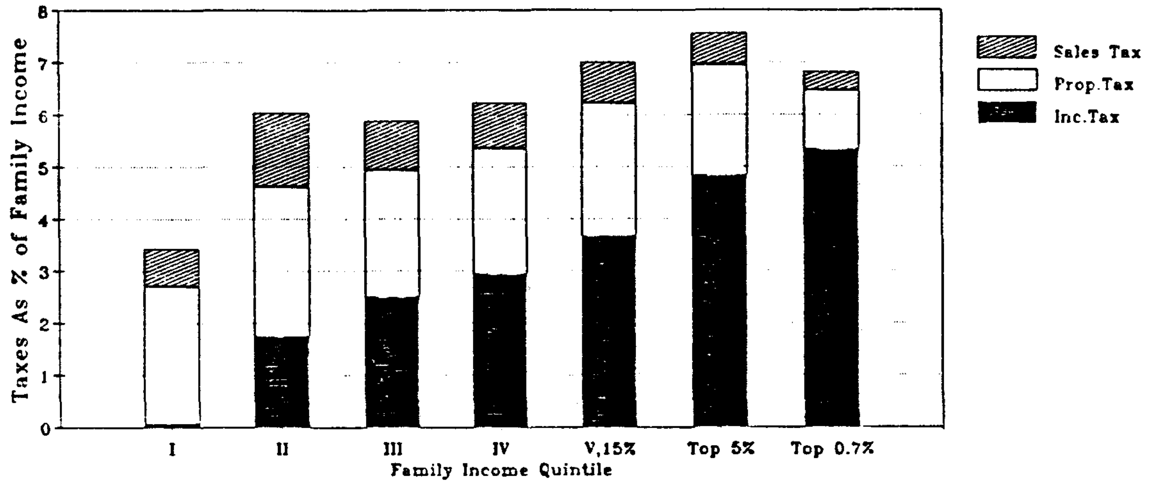
	I	II	III	IV	V,15%	Top 5%	Top 0.7%
Income Tax	0.9%	2.6%	3.0%	3.6%	4.0%	4.5%	4.9%
Property Tax	2.5%	1.3%	1.7%	1.7%	1.7%	1.1%	0.5%
Sales Tax	1.6%	1.4%	1.3%	1.0%	1.0%	0.7%	0.6%
TOTAL TAX	**5.0%**	**5.4%**	**6.0%**	**6.4%**	**6.8%**	**6.2%**	**6.0%**



% OF FED. LIABILITY

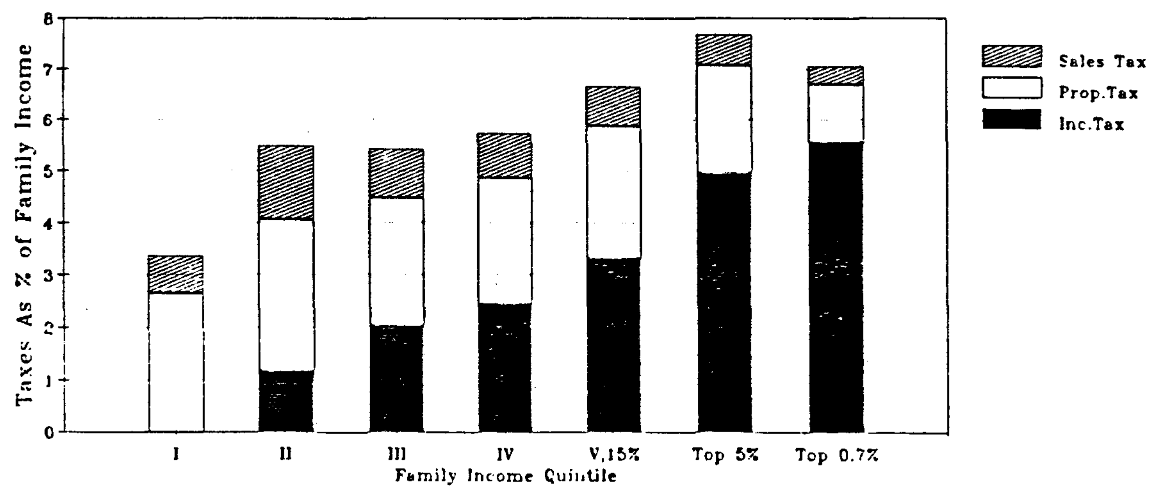
VERMONT TAXES IN 1985
As Shares of Family Income

	I	II	III	IV	V,15%	Top 5%	Top 0.7%
85 INCOME	$8,116	$17,637	$26,189	$36,921	$54,553	$153,274	$500,878
Income Tax	0.1%	1.7%	2.5%	2.9%	3.7%	4.8%	5.3%
Property Tax	2.6%	2.9%	2.4%	2.4%	2.6%	2.1%	1.1%
Sales Tax	0.7%	1.4%	1.0%	0.9%	0.8%	0.6%	0.4%
TOTAL TAX	**3.4%**	**6.0%**	**5.9%**	**6.2%**	**7.0%**	**7.6%**	**6.8%**



VERMONT TAXES UNDER TAX REFORM

	I	II	III	IV	V,15%	Top 5%	Top 0.7%
Income Tax	0.0%	1.2%	2.0%	2.4%	3.3%	5.0%	5.6%
Property Tax	2.6%	2.9%	2.4%	2.4%	2.6%	2.1%	1.1%
Sales Tax	0.7%	1.4%	1.0%	0.9%	0.8%	0.6%	0.4%
TOTAL TAX	**3.4%**	**5.5%**	**5.4%**	**5.7%**	**6.7%**	**7.7%**	**7.1%**

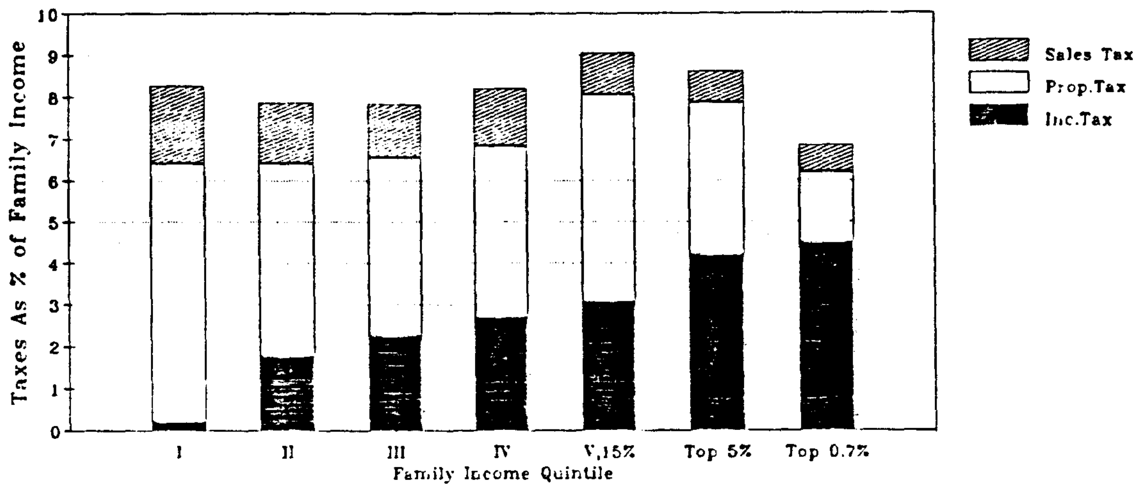


% OF FED. LIABILITY

Ex. #2
6/23/89
HB 37

RHODE ISLAND TAXES IN 1985
As Shares of Family Income

	I	II	III	IV	V,15%	Top 5%	Top 0.7%
85 INCOME	$8,782	$20,188	$30,082	$41,937	$61,518	$171,380	$560,044
Income Tax	0.2%	1.8%	2.3%	2.7%	3.1%	4.2%	4.5%
Property Tax	6.2%	4.7%	4.3%	4.1%	5.0%	3.7%	1.7%
Sales Tax	1.9%	1.4%	1.3%	1.4%	1.0%	0.8%	0.7%
TOTAL TAX	**8.3%**	**7.9%**	**7.8%**	**8.2%**	**9.1%**	**8.6%**	**6.9%**



RHODE ISLAND TAXES UNDER TAX REFORM

	I	II	III	IV	V,15%	Top 5%	Top 0.7%
Income Tax	0.0%	1.4%	2.1%	2.3%	3.1%	4.7%	5.2%
Property Tax	6.2%	4.7%	4.3%	4.1%	5.0%	3.7%	1.7%
Sales Tax	1.9%	1.4%	1.3%	1.4%	1.0%	0.8%	0.7%
TOTAL TAX	**8.1%**	**7.5%**	**7.7%**	**7.9%**	**9.1%**	**9.1%**	**7.6%**

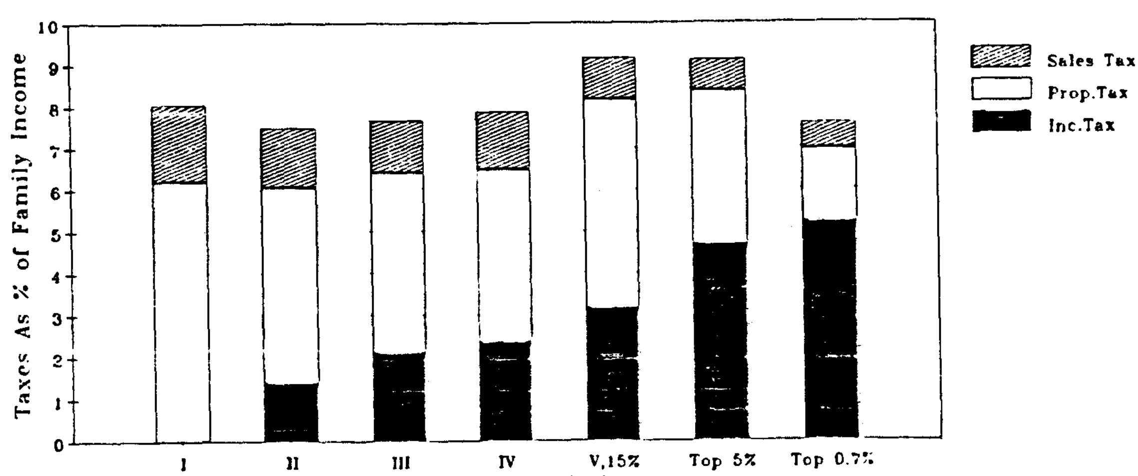


EXHIBIT 3
DATE 6/23/89
HB 42

Office of Budget & Program Planning
Foundation Program Fact Sheet
Figures in Millions

Revenue Data -----		
Foundation Program (Education Trust)	$14.918	
Education Trust Balance	9.575	
Total Education Trust Funds		$24.493
Coal Severance Tax Education Trust Flow		7.583
Lost interest Earnings/Education Trust Diversion		-3.395
Revised Foundation Program Revenue Estimates		11.827
Governor's Pension Reform Proposal		-2.544 [1]
Total Funds Available		$37.964
Expenditure Data -----		
Costs of Current Level Schedules Above Available Earmarked Revenue		$37.749 [2]
Estimated Balance Remaining		$0.215

Footnotes

1] This figures represents the estimated cost of the Governor's pension reform proposal on the foundation program. This proposal would provide a $12,000 inflation adjusted pension exemption for all state,federal and private pensions.

2] The Legislative Fiscal Analyst has estimated the costs of current level schedules above available earmarked revenue to be $39.58 million. The differences are currently being examined and will be resolved at a later date.

State of Montana
Stan Stephens, Governor

EXHIBIT 4
DATE 6/23/89
HB 27

Department of Revenue
Ken Nordtvedt, Director

Property Assessment Division

June 20, 1989

To: Representative Elliot

From: Mary Whittinghill, Bureau Chief
Inter-County Property Bureau
Property Assessment Division

Re: Fiscal Impact of Trended Apportionment

Per your request, attached are changes in market and taxable values for some of the larger centrally assessed companies.

I rechecked some of the properties that had been trended for 1988 to make sure the office equipment was not trended. This is true across the board, although Montana Power had a few cases where the figures reported to the Department included some office equipment that was subsequently trended.

Ex. #4
6/23/89
HB 27

GAIN or (LOSS) in
TAXABLE VALUE
due to TRENDING

1988 (Effect on taxable value for MPC in Rosebud & Yellowstone, and for MDU in R
may need to bbe adjusted because of pollution control.)

	TOTAL	MPC	MST&T	AT&T	MDU	WBIP
BEAVERHEAD	15,924	(6,922)	(3,337)	26,183	0	0
BIG HORN	(4,391)	(92,338)	(32,744)	14,633	(22,297)	128,356
BLAINE	(282,099)	(271,144)	(10,955)	0	0	0
BROADWATER	(55,566)	(58,746)	(10,897)	14,077	0	0
CARBON	(350,680)	(308,952)	(21,764)	0	(17,065)	(2,899)
CARTER	(306)	0	0	0	(36)	(270)
CASCADE	6,162,271	6,020,981	149,444	(8,155)	0	0
CHOUTEAU	(240,421)	(227,255)	(13,167)	0	0	0
CUSTER	(131,874)	0	24,173	14,928	(99,090)	(71,885)
DANIELS	(35,405)	0	(9,921)	0	(25,483)	0
DAWSON	(202,966)	0	26,177	8,998	(136,477)	(101,665)
DEER LODGE	215,710	205,830	9,880	0	0	0
FALLON	3,952	0	11,162	0	(112,255)	105,046
FERGUS	(139,180)	(155,332)	16,181	(29)	0	0
FLATHEAD	(196,351)	(182,127)	(14,224)	0	0	0
GALLATIN	(303,168)	(275,096)	(37,303)	9,231	0	0
GARFIELD	0	0	0	0	0	0
GLACIER	(618,542)	(618,684)	(17,894)	18,036	0	0
GOLDEN VALLEY	(55,111)	(48,958)	(6,153)	0	0	0
GRANITE	12,787	13,033	(11,113)	10,866	0	0
HILL	(308,981)	(331,020)	22,039	0	0	0
JEFFERSON	(63,738)	(115,561)	(22,597)	74,419	0	0
JUDITH BASIN	(54,990)	(42,648)	(12,343)	0	0	0
LAKE	2,467,903	2,476,313	(8,410)	0	0	0
LEWIS AND CLARK	2,825,934	2,852,669	68,829	(95,564)	0	0
LIBERTY	(201,369)	(201,369)	0	0	0	0
LINCOLN	0	0	0	0	0	0
MADISON	345,927	348,529	4,239	(6,841)	0	0
MCCONE	10,928	0	(7,706)	0	(350)	18,985
MEAGHER	(68,151)	(59,107)	(9,044)	0	0	0
MINERAL	(67,765)	(63,637)	(14,883)	10,755	0	0
MISSOULA	(455,717)	(524,665)	75,728	(6,780)	0	0
MUSSELSHELL	(82,405)	(74,975)	(7,430)	0	0	0
PARK	(114,919)	(119,273)	4,522	(168)	0	0
PETROLEUM	0	0	0	0	0	0
PHILLIPS	(115,710)	(86,251)	(4,989)	(410)	(17,167)	(6,892)
PONDERA	(84,588)	(91,517)	(5,842)	12,771	0	0
POWDER RIVER	(8,533)	0	(8,032)	0	(502)	0
POWELL	(133,390)	(147,515)	(3,187)	17,312	0	0
PRAIRIE	(24,255)	0	(2,730)	0	(21,179)	(345)
RAVALLI	(265,673)	(237,748)	(27,925)	0	0	0
RICHLAND	1,192,473	0	(22,502)	0	1,220,821	(5,846)
ROOSEVELT	(149,249)	0	(10,126)	0	(137,639)	(1,483)
ROSEBUD	(10,355,221)	(10,298,315)	(11,633)	10,082	(54,294)	(1,060)
SANDERS	1,111,931	1,120,739	(19,481)	10,674	0	0
SHERIDAN	(76,128)	0	(12,353)	0	(63,775)	0
SILVER BOW	(209,892)	(318,709)	108,843	(27)	0	0
STILLWATER	768,789	735,952	(5,993)	12,071	(4,342)	31,102
SWEET GRASS	(67,065)	(73,611)	(6,878)	13,424	0	0
TETON	(87,673)	(81,657)	(15,139)	9,123	0	0
TOOLE	(113,951)	(175,786)	61,835	0	0	0
TREASURE	7,685	0	(1,105)	8,789	0	0
VALLEY	(199,720)	(97,940)	14,983	(270)	(34,069)	(82,423)
WHEATLAND	(78,285)	(80,667)	2,382	0	0	0
WIBAUX	(23,697)	0	(6,529)	0	(16,786)	(382)
YELLOWSTONE	884,856	1,693,289	(163,954)	(178,130)	(458,013)	(8,335)
	(58)	(190)	135	(4)	(0)	1

Ex. #4
6/23/89
HB 27

GAIN or (LOSS) in
MARKET VALUE 1988
due to TRENDING

	TOTAL	MPC	MST&T	AT&T	MDU	WBIP
BEAVERHEAD	132,701	(57,680)	(27,808)	218,189		
BIG HORN	(36,589)	(769,480)	(272,868)	121,939	(195,810)	1,069,630
BLAINE	(2,350,824)	(2,259,534)	(91,290)			
BROADWATER	(463,052)	(489,554)	(90,805)	117,307		
CARBON	(2,922,333)	(2,574,601)	(181,369)		(142,205)	(24,158)
CARTER	(2,554)				(302)	(2,252)
CASCADE	51,352,256	50,174,845	1,245,369	(67,957)		
CHOUTEAU	(2,003,511)	(1,893,790)	(109,721)			
CUSTER	(1,098,948)		201,443	124,399	(825,748)	(599,042)
DANIELS	(295,038)		(82,678)		(212,360)	
DAWSON	(1,691,367)		218,142	74,995	(1,137,309)	(847,205)
DEER LODGE	1,797,582	1,715,248	82,334			
FALLON	32,937		93,016		(935,462)	875,383
FERGUS	(1,159,836)	(1,294,437)	134,842	(241)		
FLATHEAD	(1,636,262)	(1,517,728)	(118,534)			
GALLATIN	(2,526,403)	(2,292,464)	(310,862)	76,923 -		
GARFIELD	0					
GLACIER	(5,154,518)	(5,155,704)	(149,114)	150,300		
GOLDEN VALLEY	(459,260)	(407,986)	(51,274)			
GRANITE	106,555	108,612	(92,606)	90,549		
HILL	(2,574,838)	(2,758,496)	183,659			
JEFFERSON	(531,154)	(963,007)	(188,307)	620,160		
JUDITH BASIN	(458,252)	(355,397)	(102,855)			
LAKE	20,565,857	20,635,942	(70,086)			
LEWIS AND CLARK	23,549,447	23,772,243	573,573	(796,369)		
LIBERTY	(1,678,079)	(1,678,079)				
LINCOLN	0					
MADISON	2,822,721	2,904,408	35,325	(57,011)		
MCCONE	91,070		(64,216)		(2,920)	158,207
MEAGHER	(567,929)	(492,560)	(75,369)			
MINERAL	(564,710)	(530,310)	(124,022)	89,623		
MISSOULA	(3,797,646)	(4,372,210)	631,065	(56,501)		
MUSSELSHELL	(686,711)	(624,791)	(61,920)			
PARK	(957,659)	(993,940)	37,685	(1,403)		
PETROLEUM	0					
PHILLIPS	(964,247)	(718,761)	(41,574)	(3,415)	(143,062)	(57,436)
PONDERA	(704,901)	(762,645)	(48,681)	106,425		
POWDER RIVER	(71,111)		(66,931)		(4,180)	
POWELL	(1,111,585)	(1,229,293)	(26,561)	144,268		
PRAIRIE	(202,122)		(22,754)		(176,490)	(2,878)
RAVALLI	(2,213,942)	(1,981,230)	(232,712)			
RICHLAND	9,937,275		(187,513)		10,173,504	(48,716)
ROOSEVELT	(1,243,740)		(84,384)		(1,146,994)	(12,362)
ROSEBUD	(86,293,507)	(85,819,294)	(96,941)	84,014	(452,451)	(8,836)
SANDERS	9,266,094	9,339,489	(162,345)	88,950		
SHERIDAN	(634,397)		(102,942)		(531,455)	
SILVER BOW	(1,749,100)	(2,655,905)	907,028	(223)		
STILLWATER	6,406,578	6,132,931	(49,943)	100,592	(36,184)	259,182
SWEET GRASS	(558,875)	(613,428)	(57,315)	111,868		
TETON	(730,608)	(680,474)	(126,161)	76,027		
TOOLE	(949,590)	(1,464,883)	515,292			
TREASURE	64,038		(9,205)	73,243		
VALLEY	(1,664,334)	(816,166)	124,856	(2,253)	(283,910)	(686,862)
WHEATLAND	(652,372)	(672,223)	19,851			
WIBAUX	(197,477)		(54,405)		(139,886)	(3,186)
YELLOWSTONE	7,373,804	14,110,746	(1,366,286)	(1,484,419)	(3,816,779)	(69,458)
	(487)	(1,586)	1,122	(31)	(4)	12

VISITORS' REGISTER

Taxation COMMITTEE

BILL NO. HB 37 DATE June 23 1989

SPONSOR

NAME (please print)	REPRESENTING:	SUPPORT	OPPOSE
Gordon Morris	Maco		
Richard Ellison	AMRPE		X
Fred Patten	AARP		X
Alice Thomas	Retired Teachers		X
Gene Huntington	Retired Teachers		X
Ann Prunuske	MAPP	X	

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

CS-33

ROLL CALL VOTE

HOUSE TAXATION COMMITTEE

DATE 6/23 BILL NO. 27 NUMBER

NAME	AYE	NAY
Ben Cohen		✓
Jerry Driscoll	✓	
Jim Elliott	✓	
Orval Ellison		✓
Leo Giacometto		✓
Bob Gilbert		✓
Susan Good		✓
Ed Grady		✓
Marian Hanson		✓
Robert Hoffman		✓
Mike Kadas	✓	
Francis Koehnke		✓
Mark O'Keefe	✓	
John Patterson		✓
Bob Raney	✓	
Dennis Rehberg		✓
Ted Schye		✓
Barry Stang	✓	
Jessico Stickney		✓
Chuck Swysgood		✓
Bob Ream		
Dan Harrington		✓
TALLY	6	15

Donna Grace
SECRETARY

Dan Harrington
CHAIRMAN

MOTION: do pass