

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 52nd LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION JOINT SESSION

Call to Order: By co-chairman, Senator Mike Halligan, on January 9, 1991, at 8:30 a.m.

ROLL CALL

Members Present: Roll was not taken

Staff Present: Lee Heiman, Legislative Council
Jill Rohyans, Secretary, Senate
Mona Spaulding, Secretary
House of Representatives

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Announcements/Discussion:

CO-CHAIRMAN SEN. MIKE HALLIGAN introduced himself and **CO-CHAIRMAN REP. DAN HARRINGTON**. Informational sessions will be held today and tomorrow, 8:30 a.m., by the department of revenue. Income and corporate tax areas will be covered today. Property tax, oil and gas, coal, retirement and excise tax areas will be covered tomorrow. Questions will be entertained. This is not a formal hearing. Roll will not be taken. **CO-CHAIRMAN SEN. HALLIGAN** introduced **Denis Adams, Director**, and **Judy Rippingale, Deputy Director - Tax Policy, Department of Revenue**.

Mr. Adams made welcoming statements. Taxes, Base of Government Services, EXHIBIT 1, constituted his first presentation: The taxation cycle generates income to provide services. An analysis of individual income taxes for 1989 for Montana resident households was examined. Total federal adjusted gross income for all resident households was \$7.03 billion. Of that, Montana taxable income was \$4.15 billion, or 59% of the federal adjusted gross income. Montana has 306,000 resident households. The average household income is almost \$23,000. The average Montana taxable income is \$13,562.

Mr. Adams defined relevant terms used in the report and presented documentation from **EXHIBIT 1** titled as follows:

Reconciliation of Total Income from all Sources (Federal)
and Montana Taxable Income, Full-Year Resident Filers - 1989
Tax Year

Montana Income Tax Analysis, All Taxpayers, Comparison of
Itemized vs. Standard Filers

Montana Income Tax Analysis, Effective Rate by Income
Bracket

Mr. Adams said the effective tax rate is based on federal gross income. Federal adjusted gross is the federal adjusted gross income for taxpayers whose taxable income falls within the related income bracket. Total tax liability refers to the Montana tax collection.

Montana Income Tax Analysis, Summary of Itemized Deductions

Calculations as based on 1989. Mr. Adams said a federal tax deduction was claimed on 252,000 returns when only 236,000 itemized returns were filed because total returns actually equal taxpayers.

Individual Income Tax as a Percent of State Personal Income,
Montana Compared to Neighboring States

How does Montana's Individual Income Tax System Differ from
that of Other States

SEN. DOROTHY ECK asked if inheritance tax was related to personal income tax. Mr. Adams answered that it was not, but was a tax where Montana is in a minority. It is often looked at by retirees when comparing Montana to other states.

Total RTS Tax Capacity and Tax Effort, 1975-88

1083 Per Capita Capacity and Revenue, Selected Bases

Montana Income Tax Analysis, all Taxpayers - 1989

Montana Income Tax Analysis, all Households - 1989

Percentage Increase in Tax Rate from Eliminating FITD, CY
1988

The graph shows it doesn't take much income before the tax starts escalating rapidly.

Montana Income Tax Analysis, % Increase in Tax Due to
Eliminating Federal Income Tax Deduction

Average Income Tax Rates

Tax Impacts of Tying to Federal Tax Liability Revenue-
Neutral Flat Rate of 28.78 Percent, Full-Year Residents -
1989

In response to REP. BEN COHEN's question, Mr. Adams stated that calculations were based on federal tax liability. three other states which tie their individual income tax to the federal tax liability are North Dakota, which has a 14% rate; Rhode Island, which has a 22.96% rate; and Vermont, which has a 28% rate.

Average State Income Tax Rates

SEN. THOMAS TOWE asked for clarification between this chart and the earlier one. Mr. Adams said the earlier chart was tied to federal tax liability, this one to federal taxable income. By tying to federal taxable income, rates are brought down to 4, 5, 6 and 7% vs. 28.78%.

REP. BOB REAM asked if both charts were based on a sample, or all taxpayers. Mr. Adams said the latest one was based on all taxpayers as it was tied to all federal tax returns. The earlier one was based on a sample and on federal taxable income.

REP. ED MCCAFFREE asked if states other than the three currently using a percent of federal tax have tried and dropped that method. Mr. Adams was not aware of others. He said that several have gone the other way using federal taxable income as opposed to a percentage of federal tax. REP. JIM ELLIOTT stated that other states have tried that method and backed off because the rate charged decreased and increased according to the multiplier needed to achieve revenue neutrality from year to year. Taxpayers were delighted when the rate decreased and infuriated when it increased. Mr. Adams said calculations for the next biennium show very little drop in rate needed to generate revenue shown in the governor's budget. Individual income taxes would be in the 28.5- 28.7%.

SEN. TOWE asked if the percentage was known for federal taxable income represented in the second chart. Mr. Adams said it was based on 1988 figures which reflected 4, 5, 6 and 7%. 1989 data is being analyzed to see if the percentages hold true. It will be provided when available. SEN. TOWE said the chart does not reflect a flat rate, rather it is four separate, graduated rates - 4, 5, 6 and 7%. Mr. Adams concurred.

Advantages of Tying State Income Tax to Federal Income Tax

Disadvantages of Tying State Income Tax to Federal Income Tax

Major Advantage of Tying State Income Tax to Federal Taxable Income

Tax Impacts of Tying to Federal Adjusted Taxable Income

Progressive Rate Schedule with Rates Varying from 4 to 7
Percent; Full-Year Residents - Tax Year 1988

Mr. Adams said 1989 calculations are being run and will be provided.

SEN. TOWE asked for clarification as to where the 4, 5, 6 and 7% figures fall relative to the chart. **Mr. Adams** said on federal taxable income:

4% rate applies between	\$	0	and	\$	5,000
5% rate applies between		5,000	and		10,000
6% rate applies between		10,000	and		15,000
7% rate applies in excess of		15,000.			

Montana Income Tax Analysis, Administrative Savings
Associated to Tying to Modified Federal Taxable Income or
Federal Tax Liability

Mr. Adams said electronic filing is being simplified and is producing savings. In the past only taxpayers expecting refunds could file electronically. This year a test is being done allowing taxpayers with a tax liability to file electronically.

Given these assumptions fewer taxpayers will be filing returns because Montana has a very low threshold under which taxpayers must file returns; a large number of taxpayers at the lower income levels will be lost.

REP. REAM asked if audit savings could be expected. **Mr. Adams** said no. State auditors now work in conjunction with the Internal Revenue Service. Only 1-2% of returns are audited. It is still necessary to monitor non- and part-time resident returns.

Answering **REP. ELLIOTT**, **Mr. Adams** said current federal law would apply regarding carry forwards unless the legislature made other provisions.

SEN. TOWE asked for an explanation of savings for FTE error sheets. **Mr. Adams** said FTEs refer to personnel associated with processing error sheets. The error sheets would be eliminated if the Montana system were tied to the federal system. **SEN. TOWE** asked why, with a simple form, there would not be a more substantial drop in the number of FTEs needed. **Mr. Adams** said federal tapes come out 6-8 months later than the information is currently compiled. If/when federal tapes are available earlier, more FTE expense could be eliminated.

Montana Income Tax Analysis, Impacts of Tying Montana Tax to
Modified Federal Taxable Income or Federal Tax Liability

Mr. Adams said the Department of Revenue will try to accommodate additional analysis which might be required by the committee. Call **Judy Ripplingale** or himself.

General Statements and Questions:

If taxpayers perceive rates as too high, two things can happen: taxpayers can leave the State or Congress can intervene.

A problem generating tax revenues was experienced in 1990 when Congress exempted the State's ability to tax interstate transportation workers. At least two million dollars tax revenue is lost each year. Prior to the change, transportation workers, rail and motor carriers spending more than 50% of their time in Montana were taxed. The largest impact involves crews based out of Sheridan, WY; Spokane, WA; and motor carriers out of Billings and Missoula. If a job requires crossing state lines, even if a driver works 90% in Montana, Montana tax can be avoided.

A report is currently being completed which reviews 26 taxpayers who have paid no Montana individual income tax and have federal adjusted gross income in excess of \$100,000. **Mr. Adams** is looking for a common trend which is permitting this exclusion. There appears to be none. The report will be provided.

REP. COHEN asked if the administration proposes tying federal adjusted taxable income with rates varying from 4 to 7 percent. **Mr. Adams** said the proposal was not sponsored by Governor Stephens' administration. It is a study requested earlier by the legislature. **REP. COHEN** asked if the administration had a proposal for income tax reform. **Mr. Adams** said it did not.

The presentation on individual and corporate income tax ended. **CO-CHAIRMAN SEN. HALLIGAN** requested **Mr. Adams** to make his corporate tax presentation.

Mr. Adams gave statistics based on fiscal year (FY) 1990 filings: total number of corporations filing returns was 21,425. Of that total 5,425 are S corporations. S corporations are often referred to as small business corporations as they have a limited number of shareholders. The net income for these corporations flows through to the individual shareholders and is taxed as individual income. S corporations have a \$10 filing fee and file a return.

Of the regular corporations, there were 16,118 returns. Of these, 9,416 returns paid only the minimum \$50 fee and had no taxable income. 6,702 corporations paid more than the \$50 minimum. **EXHIBIT 2** pertains to regular corporations.

Percent of Tax Paid by Top 50 Corporate Taxpayers

The top 50 corporations in FY 1989 (less than 1% of the 6,702 corporations paying more than \$50), paid 41.85% of the

total corporate tax. By FY 1990, the top 50 corporations paid approximately 50%. The top 100 paid 60%. The top 100 corporate taxpayers in Montana all had taxable incomes in excess of \$1,000,000.

Many of the top 100 corporations have multi-state operations. Multi-state operations generally file on a unitary basis which allocates and apportions net income among the various states where business is conducted. Montana may pick up or lose income as determined by a 3-factor formula. There is confusion among corporate taxpayers as to how to approach the State of Montana because Montana looks at larger corporations on a case-by-case basis.

Top 50 Corporate Taxpayers by Industrial Classification, FY 1990

Corporation License Tax Revenue by Industrial Classification, FY 1990

The Biennial Report, section on corporate taxes, FY 1990, shows total revenue considerably higher than shown here. It is accounted for through the settlement of significant audits and \$83.5 million dollars in one-time estimated tax payments picked up through mandated estimated corporate tax.

Corporate Income Tax Collections, FY 1981-1990

Corporate tax collection does not vary over a large range. Variations have more relation to national figures than to Montana, although 1987 probably relates to the downturn in the oil industry.

Audit figures do not correlate with tax since audits may be several years in the collection process. SEN. TOWE asked if it was safe to predict a regular and accurate benefit of from \$8-9,000,000 per year. Mr. Adams said yes. SEN. TOWE asked if revenue expected from corporate license tax should be calculated as \$46.7 million plus \$8-9 million from audits. Mr. Adams said that he had not looked at the assumptions underlying the \$46.7 million figure, and did not know if audit revenue was included.

Maximum State Corporation Tax Rates, Montana vs. Other States

44 states have corporate income or license tax. 15 of the 44 have graduated tax; 29, including Montana, have a flat rate. The median rate is about 7%.

SEN. ECK asked how Montana compared with other states, especially regarding minimum tax rate. Mr. Adams said

a more detailed analysis could be provided. There is a range from 2% to 9%. This chart is indicative of upper income. SEN. ECK asked if many other states used the concept of minimum tax. Mr. Adams said that information has been available to the Department of Revenue only from the state tax service reports; if it has not been specifically mentioned, it has not been used. Therefore, information is not complete for all states.

SEN. TOWE asked how the 7% median was computed since some states are based on graduated rates and others, like Montana, used a flat rate. Mr. Adams said for the 15 states which use graduated rates, the top rate has been used.

Additional Revenue if the Montana Corporate Tax Rate were:
At the Median Rate of 7%; Increased by One Percentage Point
to 7.75%:

The remaining sections are summaries taken from the Tax Expenditure Report, which will soon be issued. They show tax benefits which corporations receive together with the cost to the State of Montana.

Interest Differential Credit

Its purpose is to provide incentive for low-cost conservation materials and promote conservation of fossil fuels.

Montana Capital Company Credit

The credit can be used by individuals or corporations. REP. REAM asked how many people have taken advantage of the credit. Mr. Adams said not a large number. He will provide information for both individuals and corporations.

Contractors Gross Receipts

Investment Tax Credit

Carry forward from this tax is still being used up.

New/Expanded Industry Credit

The purpose was to provide incentive for economic development and job creation. A problem exists in that, if a product is being made in the state, competitors can be kept out.

Employer Provided Dependent Care Assistance Credit

Mr. Adams said the last two benefits receive minimum usage. SEN. TOWE asked why. Mr. Adams said no consistent pattern could be seen from year to year to develop a trend.

CO-CHAIRMAN SEN. HALLIGAN asked for general questions on corporate tax.

SEN. TOWE asked if the administration had any proposals. Mr. Adams said no, there was only clean up work.

REP. COHEN asked how much write off was occurring each year from individual or other income tax. Mr. Adams said the receivable was between \$18-20,000,000, even after the transfer. Collection efforts are transferred to the State Auditor's office at a certain point and held as a bad debt. Within the receivables, \$4-5,000,000 at any one time are payroll tax withholdings, \$14-15,000,000 are individual and corporate taxes. Some are in bankruptcy proceedings. Concerted efforts to make reductions have not been successful.

SEN. TOWE asked why the top 50 corporations pay such an enormous percentage of the total tax; was it due to inactive corporations. Mr. Adams said of the 9,000 total, there were between 3-4,000 inactive corporations. 5-6,000 are paying the minimum \$50 fee. Why they aren't showing taxable income has not been analyzed.

REP. REAM, referring to 26 high income taxpayers who paid no Montana income tax, asked what would result with a change to percentage of federal taxable income. Mr. Adams said he would provide that information.

Mr. Adams concluded his presentation on background information for corporate and individual income taxes. CO-CHAIRMAN SEN. HALLIGAN announced the agenda for January 10, 8:30 a.m., room 325, chaired by REP. HARRINGTON: Property, retirement, oil, gas, coal and severance taxes.

ADJOURNMENT

Adjournment: 10:10 a.m.

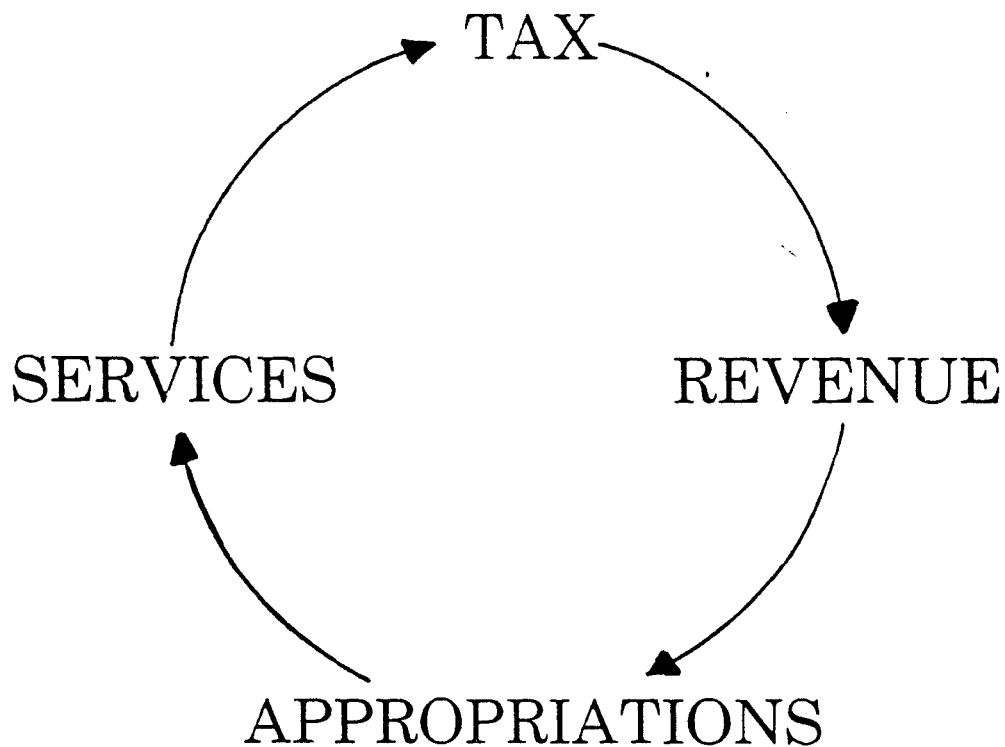
SEN. MIKE HALLIGAN, Co-Chairman


REP. DAN HARRINGTON, Co-Chairman


MONA L. SPAULDING, Secretary

TAXES

BASE OF GOVERNMENT SERVICES



MONTANA INCOME TAX ANALYSIS

ALL RESIDENT HOUSEHOLDS

TAX YEAR 1989

	TOTAL FEDERAL ADJUSTED GROSS INCOME	MONTANA TAXABLE INCOME	PERCENTAGE
Income	\$7.03 Billion	\$4.15 Billion	59%
Number of Resident Households	306,000	306,000	----
Average Income	\$ 22,973	\$ 13,562	59%

Reconciliation Of Total Income From All Sources (Federal) And Montana Taxable Income

Full-Year Resident Filers - 1989 Tax Year

Item of Information	Line	Total Reported	Number of Returns	Average per Return
TOTAL INCOME FROM ALL SOURCES (FEDERAL)	17	7,116,004,341	381,342	18,660
Payments to an IRA, Keogh, etc.	18	45,507,765	27,017	1,684
Other adjustments	19	41,196,032	20,884	1,973
TOTAL FEDERAL ADJUSTMENTS	20	87,039,367	44,331	1,963
FEDERAL ADJUSTED GROSS INCOME	21	7,028,964,974	381,329	18,433
MONTANA ADDITIONS:				
Interest on state, county, etc. bonds	22	36,528,885	11,079	3,297
Federal income tax refunds	23	91,237,145	98,557	926
Other additions, transfer alloc.	24	149,525,797	19,665	7,604
TOTAL ADDITIONS	25	277,291,827	119,526	2,320
FAGI PLUS ADDITIONS	26	7,306,256,801	381,640	19,144
MONTANA REDUCTIONS:				
Capital gains exclusion	27	22,844,513	10,770	2,121
Interest exclusion for elderly	28	46,053,055	51,867	888
Interest exclusion for savings bonds	29	58,428,925	19,735	2,961
Income from non-Montana sources	30	7,745,493	719	10,773
Exempt retirement income	31	306,067,287	44,148	6,933
State refund	32	23,127,635	49,527	467
Other reductions, transfer alloc.	33	274,034,214	42,643	6,426
TOTAL REDUCTIONS	34	738,301,122	151,821	4,863
MONTANA ADJUSTED GROSS INCOME	36	6,567,955,679	379,053	17,327
STANDARD DEDUCTIONS		241,793,913	162,279	1,490
ITEMIZED DEDUCTIONS		1,705,371,210	219,853	7,757
EXEMPTION VALUE		882,762,000	381,926	2,311
MONTANA TAXABLE INCOME	40	4,146,597,340	324,143	12,792

MONTANA INCOME TAX ANALYSIS
ALL TAXPAYERS
COMPARISON OF ITEMIZED VS. STANDARD FILERS

ITEM	ITEMIZED	STANDARD
# OF RETURNS	236,483	183,151
TOTAL RETURNS	419,634	419,634
PERCENT	56.4%	43.6%
TAXABLE INCOME	3,493,790,169	928,578,356
# OF RETURNS	236,483	183,151
AVG. TAXABLE INC.	14,774	5,070
AVG. STD. & ITEMIZED DEDUCTION	7,612	1,423
ITEM. OR STD. DEDUCTION AS A % OF TAXABLE INCOME	51.5%	28.1%

EXHIBIT 1
DATE 1-9-91
HB Joint Session

MONTANA INCOME TAX ANALYSIS

EFFECTIVE RATE BY INCOME BRACKET

TAX RATE	INCOME BRACKET	FEDERAL ADJUSTED GROSS	TOTAL TAX LIABILITY	RETURNS %	AVERAGE TAX PER #TAXPAYER	EFFECTIVE TAX RATE
2% - 5%	0 - 9,000	\$ 3,878,420,460	\$ 22,913,985	60.3	252,145	91 0.59%
6% - 7%	9,000 - 15,000	1,593,272,445	37,428,828	17.1	71,721	522 2.35%
8%	15,000 - 21,000	1,302,538,225	42,615,443	10.7	44,696	953 3.27%
9%	21,000 - 30,000	1,191,763,255	46,974,926	7.2	30,248	1,553 3.94%
10%	30,000 - 52,500	956,859,281	40,453,168	3.5	14,773	2,738 4.23%
11%	52,500 +	1,496,940,939	75,394,369	1.2	5,106	14,766 5.04%
TOTAL		\$10,419,794,635	\$265,780,719	100%	418,689	\$635 2.55%

MONTANA INCOME TAX ANALYSIS

SUMMARY OF ITEMIZED DEDUCTIONS

ITEM	<u>TOTAL AMOUNT</u>	<u># OF RETURNS</u>	<u>AVERAGE</u>
FEDERAL TAX	\$875,286,145	252,464	\$3,467
MORTGAGE INT.	335,045,664	102,836	3,258
MEDICAL	162,495,760	75,359	2,156
PROP.& OTHER TAXES	139,860,139	247,874	564
CONTRIBUTIONS	136,229,269	144,118	945
BUSINESS & OTHER EXPENSES	76,203,585	50,528	1,508
INVESTMENT INT.	33,928,004	9,856	3,442
PERSONAL INT.	21,357,866	112,004	191
MOVING EXP.	12,714,702	5,014	2,536
CHILD & DEP CARE	2,826,262	2,648	1,067
CASUALTY LOSSES	2,550,317	572	4,459
MISC. EXP.	<u>1,805,173</u>	2,204	819
TOTAL	\$1,800,302,886		

**Individual Income Tax as a Percent of State Personal Income
Montana Compared to Neighboring States**

1988

U.S. Average	1.99%
Montana	2.35%
Colorado	2.13%
Idaho	2.21%
North Dakota	1.33%
Oregon	3.12%
South Dakota	0.00%
Utah	3.09%
Wyoming	0.00%

Source: SURVEY OF CURRENT BUSINESS, Volume 69, No. 8, U.S. Department of Commerce, Bureau of Economic Analysis, (August 1989), Table 1 (for total personal income, page 34.

STATE GOVERNMENT TAX COLLECTIONS IN 1988, GF-88-1, U.S. Department of Commerce, Bureau of the Census, (June 1989), Table 3 (for state individual income tax collections), page 3.

**Individual Income Tax as a Percent of State Personal Income
Montana Compared to Neighboring States**

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STATE GOVERNMENT TAX COLLECTIONS IN 1988, GF-88-1, U.S. Department of Commerce, Bureau of the Census, (June 1989), Table 3 (for state individual income tax collections), page 3.

HOW DOES MONTANA'S INDIVIDUAL INCOME TAX SYSTEM DIFFER FROM THAT OF OTHER STATES

January 7, 1991

<u>Tax Item</u>	<u>Financial Impact</u>	<u>Comments</u>
RETIREMENT EXCLUSION	\$328.3 million	Not based on age or ability to pay
UNEMPLOYMENT BENEFITS	N/A	One of 13 states
ELDERLY INTEREST EXCLUSION	\$ 47.7 million	One of very few states
TIP INCOME	N/A	One of very few states
MARRIED-SEPARATE FILING	\$ 26.3 million (tax)	One of 10 states
SOCIAL SECURITY BENEFITS	\$ 63.4 million	One of 13 states
CAPITAL GAINS EXCLUSION	\$ 25.9 million	Pre-1987 gains only
FEDERAL TAX DEDUCTION	\$ 76.8 million (tax)	One of 10 states
HIGH MARGINAL RATE	11 %	Highest marginal rate
ALTERNATIVE MINIMUM TAX	None	Only 4 states have
INHERITANCE TAX	\$ 8.1 million	One of 18 states

COMPARISON OF TAXES AMONG THE STATES

- * 1988 State Fiscal Capacity and Effort Report
 - Advisory Commission on Intergovernmental Relations
 - Published August of 1990

- * The Representative Tax System (RST) and the Representative Revenue System (RRS) are designed to:
 - 1) measure the relative fiscal capacities, or revenue-raising abilities, of states and their local governments;
 - 2) measure tax effort, or the relative extent to which these governments utilize their tax bases.

- * FISCAL CAPACITY - the relative per capita amount of revenue states would raise if they used the national average tax rates applied to all commonly used tax or revenue bases.

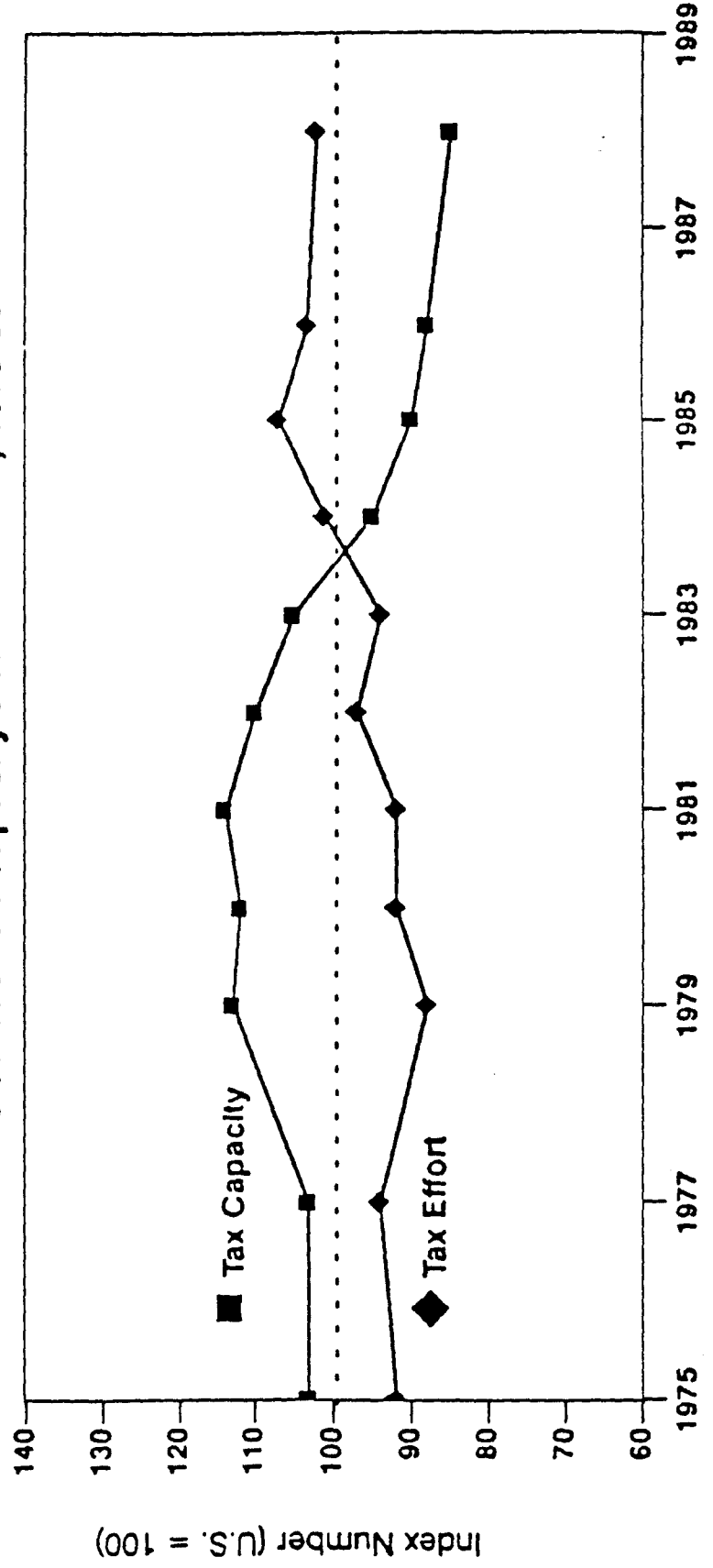
- * FISCAL EFFORT - the ratio of its actual revenues to its estimated capacity; measures the extent to which a state and its local governments are taxing their available resources relative to the national average.

Montana

1988 RTS Tax Capacity = 85

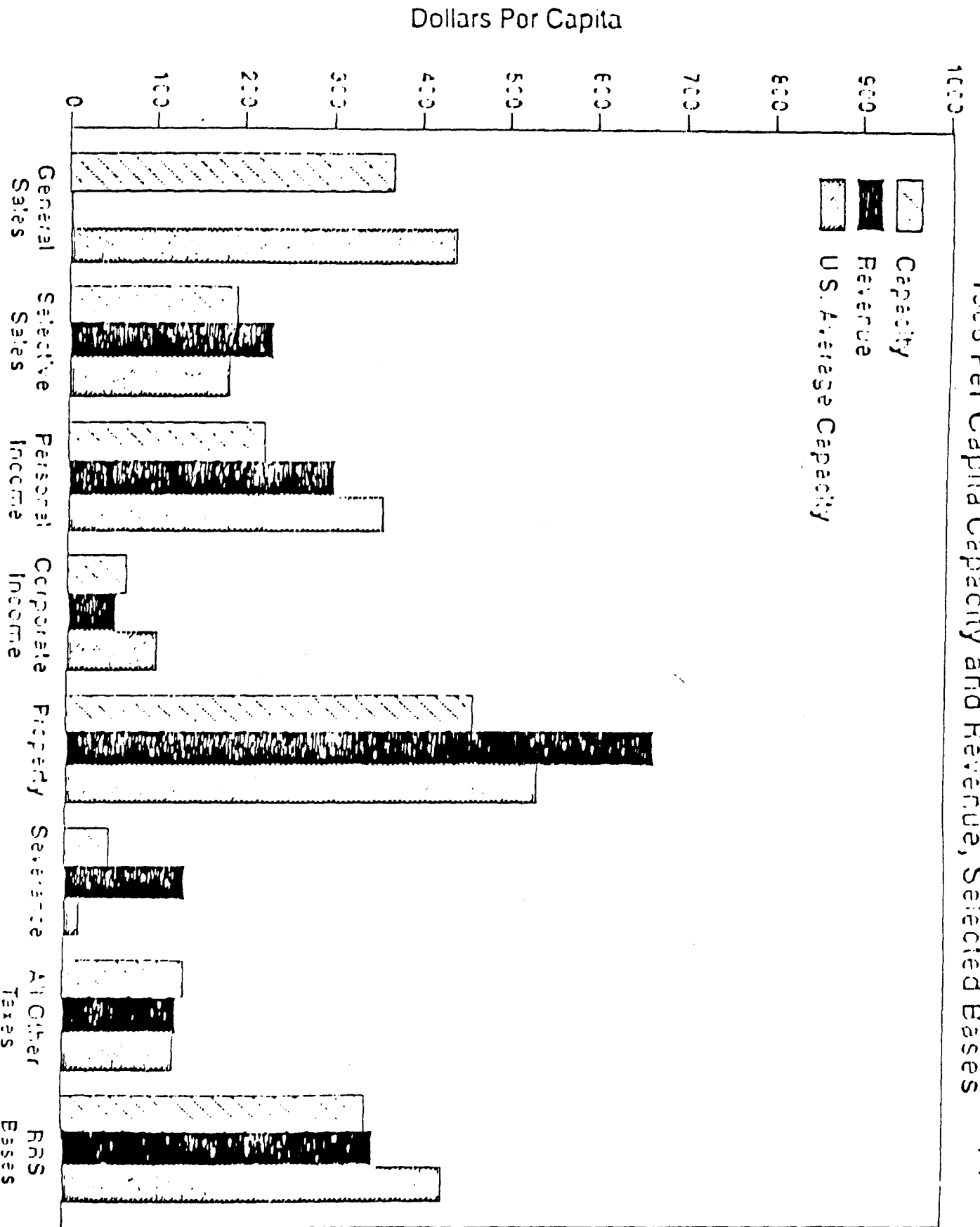
1988 RTS Tax Effort = 102

Total RTS Tax Capacity and Tax Effort, 1975-88



1983 Per Capita Capacity and Revenue, Selected Bases

Exhibit # 1
1/9/84 Jt. Meeting



MONTANA INCOME TAX ANALYSIS
ALL TAXPAYERS

TAX YEAR 1989

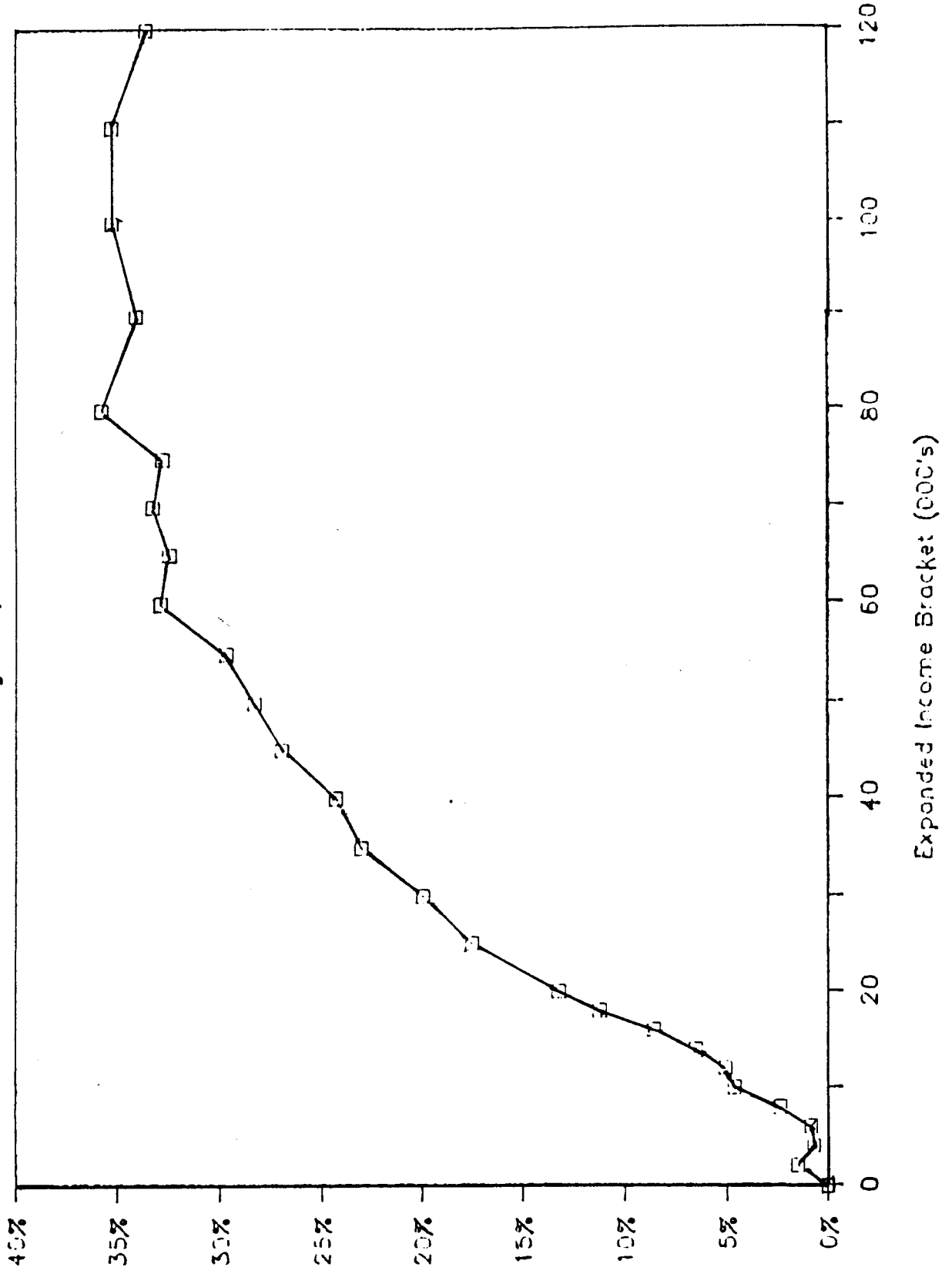
MAGI	MT TAXABLE INCOME	FED REFUND ADDITION	FEDERAL TAX DEDUCTED	CURRENT TAX	ADJUSTED TAX	CHANGE IN TAX	PERCENT CHANGE
- 11,999	519,847,883	14,870,885	61,235,444	15,716,600	16,044,430	327,830	2.08
12,000- 16,999	476,205,566	9,140,559	53,387,954	18,963,593	20,279,262	1,315,669	6.93
17,000- 24,999	802,270,305	16,110,265	118,490,135	38,141,334	44,030,678	5,889,344	15.44
25,000- 49,999	1,508,164,538	35,172,545	301,231,342	90,787,558	114,187,521	23,399,963	25.77
50,000- 69,999	310,183,227	6,975,516	78,659,905	23,073,983	30,511,417	7,437,434	32.23
70,000- 99,999	174,966,228	4,320,301	50,177,845	14,535,136	19,726,350	5,191,214	35.71
00,000-119,999	65,551,146	1,377,194	21,582,776	5,842,423	8,137,546	2,295,123	39.28
20,000-	565,179,632	18,447,075	190,187,288	58,839,459	79,480,643	20,641,184	35.08
TOTALS-	4,422,368,525	106,414,340	874,952,689	265,900,086	332,397,847	66,497,761	25.00

EXHIBIT 1
DATE 1-9-91
HB Joint Session

TAX YEAR 1989		MONTANA INCOME TAX ANALYSIS ALL HOUSEHOLDS					01/08/91 R6800531.1
MAGI	MT TAXABLE INCOME	FED REFUND ADDITION	FEDERAL TAX DEDUCTED	CURRENT TAX	ADJUSTED TAX	CHANGE IN TAX	PERCENT CHANGE
- 11,999	313,207,435	8,025,900	40,031,238	9,131,741	9,525,356	393,615	4.31
12,000- 16,999	271,766,102	4,817,304	27,581,694	10,316,981	11,153,527	836,546	8.10
17,000- 24,999	510,987,694	10,573,980	66,282,943	22,628,130	25,501,642	2,873,512	12.69
25,000- 49,999	1,670,753,434	41,048,383	295,319,874	90,060,628	109,202,815	19,142,187	21.25
50,000- 69,999	630,527,920	14,025,744	136,999,765	39,837,345	50,985,291	11,147,946	27.98
70,000- 99,999	291,124,323	6,342,782	74,158,370	21,448,047	28,444,481	6,996,434	32.62
100,000-119,999	87,632,480	1,789,807	24,575,356	7,192,221	9,689,144	2,496,923	34.71
120,000-	646,369,137	19,790,440	210,003,449	65,284,993	87,895,591	22,610,598	34.63
TOTALS-	4,422,368,525	106,414,340	874,952,689	265,900,086	332,397,847	66,497,761	25.00

PERCENTAGE INCREASE IN TAX RATE FROM

Eliminating FID, CY1988



MONTANA INCOME TAX ANALYSIS

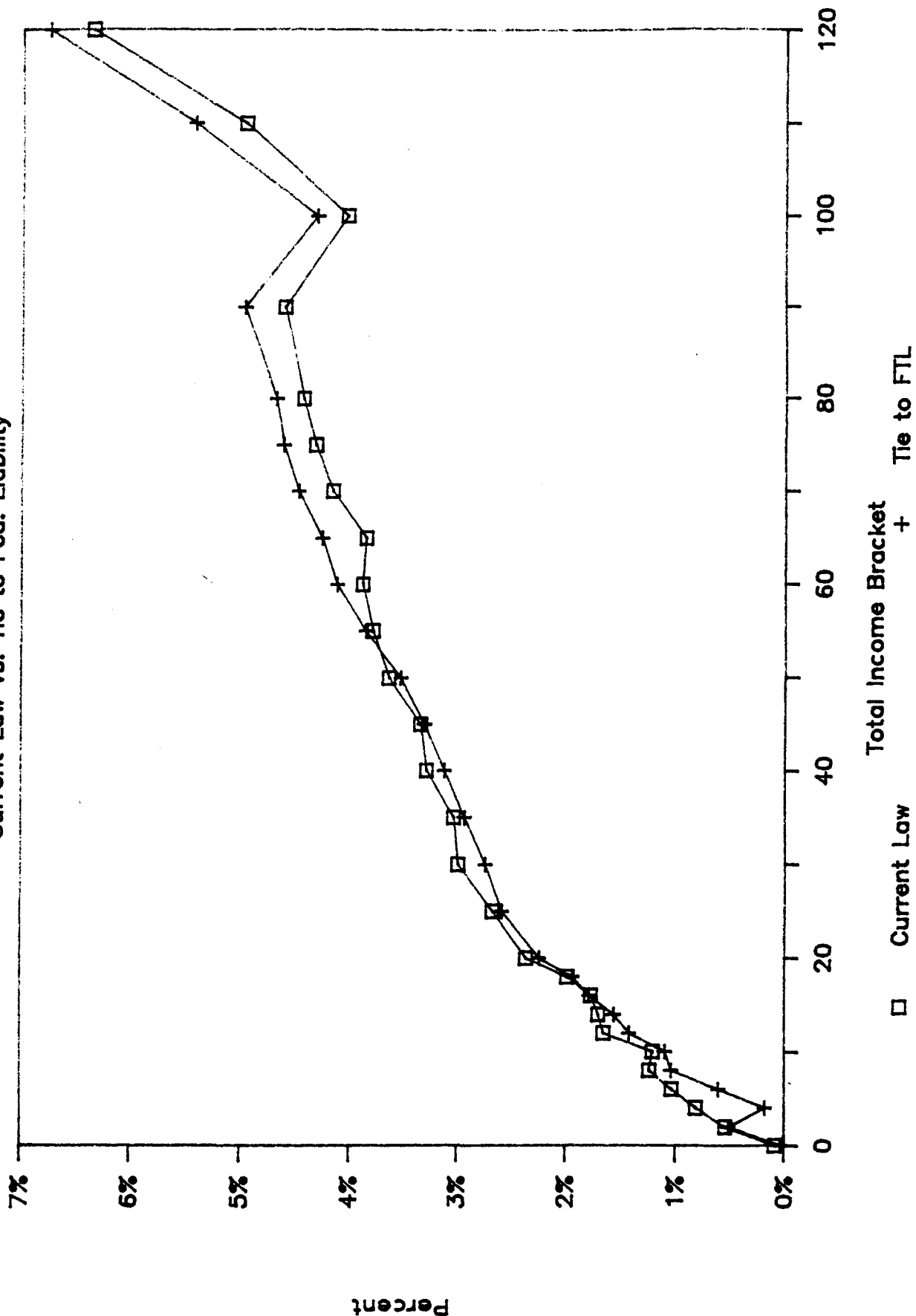
% INCREASE IN TAX DUE TO

ELIMINATING FEDERAL INCOME TAX DEDUCTION

BRACKET	MT. TAXABLE	CURRENT TAX AS A %	PROPOSED TAX AS A %	% INCREASE
-11,999	\$519,847,883	3.0%	3.1%	3.3%
12,000-16,999	\$476,205,566	4.0%	4.3%	7.5%
17,000-24,999	\$802,270,305	4.7%	5.5%	17.0%
25,000-49,999	\$1,508,164,538	6.0%	7.6%	26.7%
50,000-69,999	\$310,183,227	7.4%	9.8%	32.4%
70,000-99,999	\$174,966,228	8.3%	11.3%	36.1%
100,00-119,999	\$65,551,146	8.9%	12.4%	39.3%
120,000	\$565,179,632	10.4%	14.1%	35.6%
TOTAL	\$4,422,368,525	6.0%	7.5%	25.0%

AVERAGE INCOME TAX RATES

Current Law vs. Tie to Fed. Liability

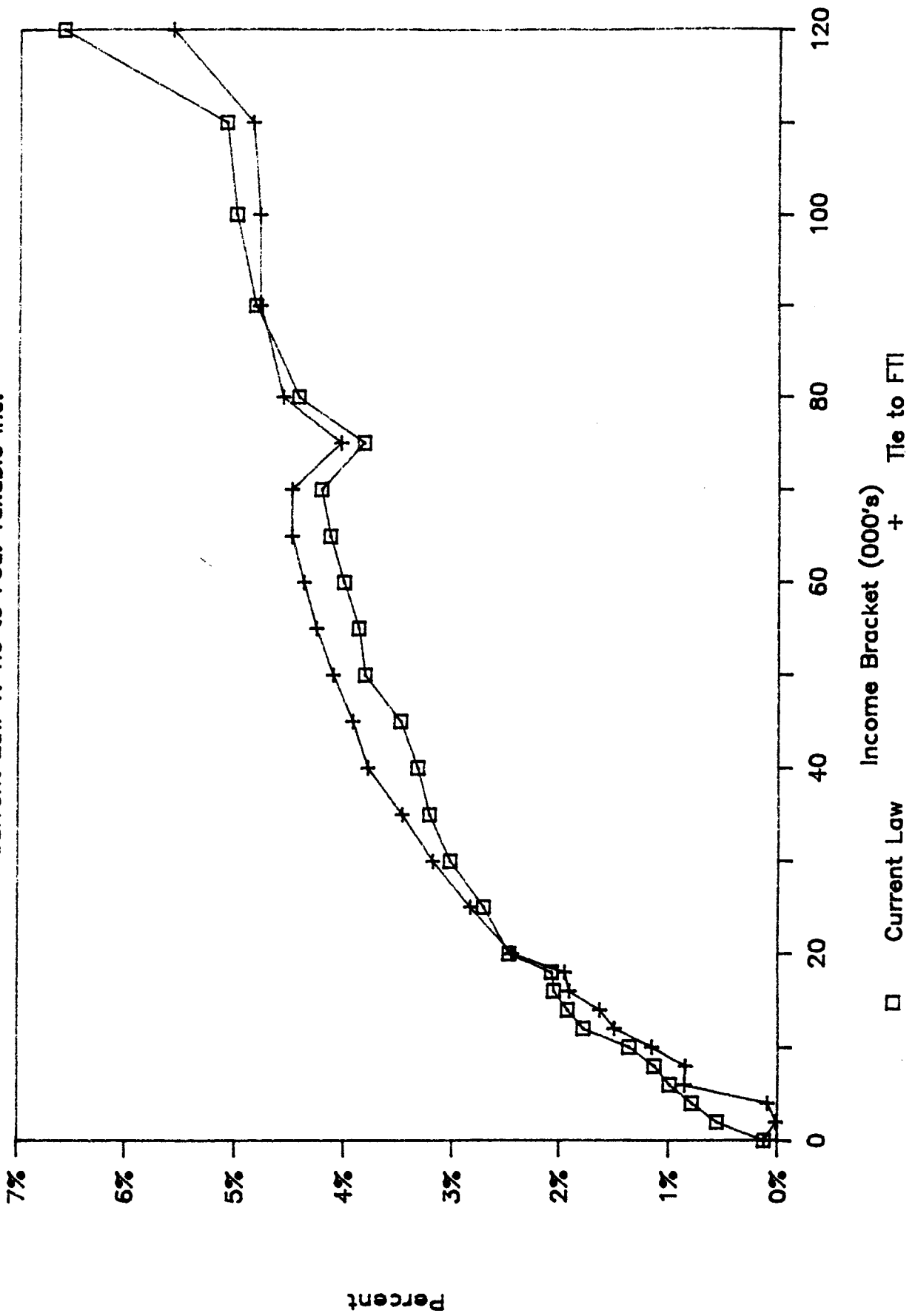


Tax Impacts of Tying To Federal Tax Liability
Revenue-Neutral Flat Rate of 28.78 Percent
Full-Year Residents - Tax Year 1989

Total Income Bracket	No. Of Hshlds.	Current Law Tax	Proposed Law Tax	Change In Tax
< Zero	3,432	0	3,664	3,664
\$ 0 - \$ 1,999	21,684	22,308	5,786	(16,522)
\$ 2,000 - \$ 3,999	21,840	353,652	332,648	(21,004)
\$ 4,000 - \$ 5,999	19,968	812,760	178,604	(634,156)
\$ 6,000 - \$ 7,999	21,528	1,563,588	926,056	(637,532)
\$ 8,000 - \$ 9,999	16,848	1,882,764	1,587,656	(295,108)
\$ 10,000 - \$ 11,999	16,926	2,252,284	2,050,278	(202,006)
\$ 12,000 - \$ 13,999	14,318	3,067,332	2,636,256	(431,076)
\$ 14,000 - \$ 15,999	15,796	4,028,432	3,687,289	(341,143)
\$ 16,000 - \$ 17,999	12,086	3,632,132	3,662,900	30,768
\$ 18,000 - \$ 19,999	12,086	4,542,372	4,433,492	(108,880)
\$ 20,000 - \$ 24,999	24,330	12,864,316	12,199,398	(664,918)
\$ 25,000 - \$ 29,999	20,278	14,875,898	14,406,148	(469,750)
\$ 30,000 - \$ 34,999	18,136	17,641,080	16,171,392	(1,469,688)
\$ 35,000 - \$ 39,999	16,152	18,353,506	17,750,788	(602,718)
\$ 40,000 - \$ 44,999	12,408	17,285,960	16,429,905	(856,055)
\$ 45,000 - \$ 49,999	10,070	15,965,914	15,793,045	(172,869)
\$ 50,000 - \$ 54,999	7,178	13,644,537	13,237,070	(407,467)
\$ 55,000 - \$ 59,999	5,436	11,783,890	12,002,165	218,275
\$ 60,000 - \$ 64,999	3,676	8,908,564	9,462,235	553,671
\$ 65,000 - \$ 69,999	2,538	6,571,808	7,276,291	704,483
\$ 70,000 - \$ 74,999	1,790	5,398,656	5,814,705	416,049
\$ 75,000 - \$ 79,999	1,236	4,134,159	4,417,269	283,110
\$ 80,000 - \$ 89,999	1,755	6,575,023	6,950,283	375,260
\$ 90,000 - \$ 99,999	1,279	5,574,202	6,010,201	435,999
\$100,000 - \$109,999	921	3,854,307	4,122,699	268,392
\$110,000 - \$119,999	598	3,410,917	3,722,345	311,428
\$120,000 +	3,059	58,858,764	62,588,556	3,729,792
TOTALS	307,352	247,859,125	247,859,125	(0)

AVERAGE STATE INCOME TAX RATES

Current Law v. Tie to Fed. Taxable Inc.



TYING STATE INCOME TAX TO FEDERAL INCOME TAX

ADVANTAGES

- **Eases filing process for the majority of taxpayers. In both Rhode Island and Vermont, 80% of returns are filed using the short form.**
- **Efficient and easy to administer for resident taxpayers.**
- **Reduced administrative expense for data entry, record keeping, forms, and system costs, because information can be utilized directly from federal tapes.**
- **Works in concert with federal reform measures, eliminating the necessity to modify state system in response to federal changes.**
- **Removes the problem of finding a solution to "Davis", since all retirement income would be subject to federal treatment.**
- **Removes the discretion of the state in administering tax and in controlling revenue flows. System may be highly constrained in ability to generate additional revenues.**
- **May prove more difficult to provide tax expenditures for particular interests, other than those provided by federal law.**

TYING STATE INCOME TAX TO FEDERAL INCOME TAX

DISADVANTAGES

- **Perception of having one of the highest top marginal income tax rates.**
- **Difficult to modify system to allow for taxpayer exceptions. Very complicated for the filer who does not file a short form (nonresidents).**
- **Erosion of control in providing a specified degree of progressivity or regressivity in the system, as standard deduction, exemption levels, and rate tables may all be set by federal government.**
- **More difficult to project revenues in advance due to rapid changes in federal law, which in turn makes it difficult to budget in advance without allowing for rate changes.**
- **Taxpayers may be resistant to frequent rate changes by the state, which may be required to maintain revenue flows. Legislators may be hesitant to change rates if legislative approval is required for a change.**
- **There has not yet been wide-spread acceptance of this system. Only 3 states (Rhode Island, Vermont, and North Dakota) currently use this system.**

TYING STATE INCOME TAX TO FEDERAL TAXABLE INCOME

MAJOR ADVANTAGE

- **Provides for much smaller statutory tax rate(s) - enhances perception as low tax state.**

**Tax Impacts of Tying To Federal Adjusted Taxable Income
Progressive Rate Schedule with Rates Varying from 4 to 7 Percent
Full-Year Residents - Tax Year 1988**

Total Income Bracket	No. Of Hshlds.	Current Law Tax	Proposed Law Tax	Change In Tax
< Zero	4,964	0	0	0
\$ 0 - \$ 1,999	19,856	29,638	28,061	(1,577)
\$ 2,000 - \$ 3,999	25,550	417,268	10,325	(406,943)
\$ 4,000 - \$ 5,999	20,148	787,378	95,093	(692,285)
\$ 6,000 - \$ 7,999	18,980	1,318,526	1,138,039	(180,487)
\$ 8,000 - \$ 9,999	15,038	1,530,226	1,145,616	(384,610)
\$ 10,000 - \$ 11,999	15,916	2,385,378	2,024,754	(360,624)
\$ 12,000 - \$ 13,999	14,036	3,234,988	2,723,486	(511,502)
\$ 14,000 - \$ 15,999	12,828	3,708,316	3,136,527	(571,789)
\$ 16,000 - \$ 17,999	12,326	4,302,088	4,006,448	(295,640)
\$ 18,000 - \$ 19,999	11,964	4,698,512	4,424,943	(273,569)
\$ 20,000 - \$ 24,999	26,078	14,431,464	14,271,996	(159,468)
\$ 25,000 - \$ 29,999	21,422	15,907,936	16,655,789	747,853
\$ 30,000 - \$ 34,999	18,002	17,601,872	18,541,120	939,248
\$ 35,000 - \$ 39,999	15,062	18,135,048	19,545,545	1,410,497
\$ 40,000 - \$ 44,999	12,632	17,810,176	20,288,477	2,478,301
\$ 45,000 - \$ 49,999	9,416	15,544,232	17,541,123	1,996,891
\$ 50,000 - \$ 54,999	6,400	12,784,206	13,765,505	981,299
\$ 55,000 - \$ 59,999	4,808	10,655,024	11,726,267	1,071,243
\$ 60,000 - \$ 64,999	3,310	8,279,496	9,042,905	763,409
\$ 65,000 - \$ 69,999	2,039	5,673,446	6,166,591	493,145
\$ 70,000 - \$ 74,999	1,514	4,614,730	4,914,832	300,102
\$ 75,000 - \$ 79,999	1,327	3,940,737	4,158,906	218,169
\$ 80,000 - \$ 89,999	1,583	5,929,363	6,125,132	195,769
\$ 90,000 - \$ 99,999	1,010	4,615,417	4,577,394	(38,023)
\$100,000 - \$109,999	688	3,601,961	3,446,974	(154,987)
\$110,000 - \$119,999	498	2,909,155	2,773,048	(136,107)
\$120,000 +	2,714	53,189,724	45,048,480	(8,141,244)
TOTALS	300,109	238,036,305	237,323,376	(712,929)

**MONTANA INCOME TAX ANALYSIS
ADMINISTRATIVE SAVINGS ASSOCIATED
TO TYING TO MODIFIED FEDERAL TAXABLE INCOME
OR FEDERAL TAX LIABILITY**

SUMMARY OF SAVINGS

	PRESENT	PROPOSED	SAVINGS
Error Sheet Printing	\$ 3,492	\$ 3,368	\$ 124
FTE Error Sheets	102,330	94,835	7,495
Data Entry (1.28 FTE reduced)	* Not Available		21,160
Printing	76,436	38,504	37,932
Postage	37,388	34,600	2,788
Annual System Operating Cost	280,864	243,460	37,404
TOTALS	\$ 500,510	\$ 414,767	\$ 106,903

* Individual Income Tax data entry can not be separated from total Income Tax

** The above savings will be on going, however there will be a one-time additional programming cost of \$125,000.

MONTANA INCOME TAX ANALYSIS
IMPACTS OF TYING MONTANA TAX
TO MODIFIED
FEDERAL TAXABLE INCOME
OR FEDERAL TAX LIABILITY

TASKS REDUCED:

- Reduced Processing Associated to 24,000 Fewer Return Documents
- Reduced Processing Associated to 73,000 Fewer Married Separate Records
- Reduced Processing Associated to Reduced Error Sheets
- Reduced Data Entry
- Reduced Mailing and Printing
- Simplified Forms Requiring Less Time To File Returns
- Simplified Record Keeping for Montana Taxpayers

TASKS ADDED:

- One Time Programming To Modify Income Tax Computer Processing System
and To Capture Federal Information

Exb 2

EXHIBIT 2
DATE 1-9-91
HB Joint Session

PERCENT OF TAX PAID BY TOP 50 CORPORATE TAXPAYERS

29.72
FY 89 - 41.85% FY 90 - 49.65%

**TOP 50 CORPORATE TAXPAYERS BY INDUSTRIAL CLASSIFICATION,
FY 1990**

Oil and Gas	9	<i>30.31-1/2</i>
Financials	6	
Transportation & Utilities	7	
Mining	6	
Retail Sales	20	
Manufacturing	<u>2</u>	
	50	

26-55-1

Corporation License Tax Revenue
By Industrial Classification
FY 1990

<u>Major Industrial Sector</u>	<u>Revenue</u>
Agriculture	\$2,543,282
Mining	1,369,127
Construction	1,652,947
Manufacturing	13,566,123
Trans., Comm., Public Util.	6,445,060
Wholesale/Retail Trade	8,081,297
Finance, Ins., Real Estate	8,017,570
Services	1,925,856
Not Coded	3,086,390
Total	<u>\$46,687,652</u>

32,20-72



Corporate Income Tax Collections
Fiscal Years 1981 – 1990

<u>FY</u>	<u>Tax</u>	<u>Audit</u>	<u>Total</u>
1981	\$47,924,363	\$4,976,600	\$52,900,963
1982	39,316,888	5,313,584	44,630,472
1983	25,935,782	10,271,995	36,207,777
1984	30,779,742	4,616,498	35,396,240
1985	46,055,797	16,615,089	62,670,886
1986	48,273,629	10,311,155	58,584,784
1987	25,045,063	9,522,752	34,567,815
1988	36,996,786	9,203,317	46,200,103
1989	48,294,768	7,844,981	56,139,749
1990	71,970,684	8,369,433	80,340,117

33.20

**MAXIMUM STATE CORPORATION TAX RATES
MONTANA VS. OTHER STATES**

Median Rate

7.00%

Iowa	12.00%
Connecticut	11.50%
North Dakota	10.50%
Arizona	10.50%
Minnesota	9.50%
Massachusetts	9.50%
West Virginia	9.45%
Alaska	9.40%
California	9.30%
Rhode Island	9.00%
New York	9.00%
New Jersey	9.00%
Maine	8.93%
Ohio	8.90%
Delaware	8.70%
Pennsylvania	8.50%
Vermont	8.25%
Kentucky	8.25%
New Hampshire	8.00%
Louisiana	8.00%
Idaho	8.00%
Wisconsin	7.90%

New Mexico	7.60%
Nebraska	7.09%
North Carolina	7.00%
Maryland	7.00%
<u>Montana</u>	<u>6.75%</u>
Oregon	6.60%
Missouri	6.50%
Hawaii	6.40%
Virginia	6.00%
Tennessee	6.00%
Georgia	6.00%
Arkansas	6.00%
Florida	5.50%
Colorado	5.50%
Utah	5.00%
South Carolina	5.00%
Oklahoma	5.00%
Mississippi	5.00%
Alabama	5.00%
Kansas	4.60%
Illinois	4.00%
Indiana	3.40%

36.39-2
total 2 2/4

**Additional Revenue if the Montana
Corporate Tax Rate were:**

At the median rate of 7% : \$1,860,000

**Increased by one
percentage point to 7.75% : \$7,440,000**

(Additional Annual Revenue Based on 11-year Revenue History)

3.25-3

INTEREST DIFFERENTIAL CREDIT

MCA 15-32-107

Description

Electric and natural gas public utilities may install or pay for the installation of energy conservation materials, or non-fossil forms of energy generation systems, in dwellings. Occupants of such dwellings then reimburse the utility, to include interest, through periodic installments added to their regular utility bills. Utilities are limited to charging 7% interest on these installations.

Also, financial institutions are allowed to make loans for energy-related installations at a rate not less than 2% below the discount rate on 90-day commercial paper.

Utilities and financial institutions are allowed to calculate the difference between interest earned on these loans and installations, and what would have been earned at the prevailing average interest rate for home improvement loans, and apply the difference as a tax credit on corporation license tax returns.

Purpose

Provide an incentive for the installation of low-cost conservation materials, promote conservation of fossil fuels.

Fiscal Impact

FY 1992	\$	200,000
FY 1993	\$	184,000

3.563

MONTANA CAPITAL COMPANY CREDIT

MCA 90-8-202(5)

Description

Corporations are allowed an income tax credit for investing in certified Montana capital companies. The credit is limited to 50% of the investment up to \$150,000 per taxpayer per capital company.

Purpose

Provide an incentive to encourage the formation of venture and equity capital in Montana.

Fiscal Impact

FY 1992	\$	165,000
FY 1993	\$	141,000

76-00-3 Ramsey

CONTRACTOR'S GROSS RECEIPTS

MCA 15-50-207

Description

Public contractor's are required to pay an additional license fee equal to 1% of the gross receipts from public contracts during the income year for which the license is issued. This additional fee is allowed as a credit against the contractor's corporation license tax liability.

Purpose

These provisions of tax law facilitate the taxation of primary and secondary contractor's while protecting the primary contractor from being taxed twice on the same earnings.

Fiscal Impact

FY 1992	\$	500,000
FY 1993	\$	479,000

6.25-3

INVESTMENT TAX CREDIT

MCA 15-31-123

Description

Montana allows an investment credit for small businesses equal to 5% of the federal investment credit up to a maximum of \$500 in any given taxable year. The Tax Reform Act of 1986 repealed the federal investment credit. Consequently, the tax expenditures associated with this credit in future years will reflect only the carryforward amounts allowed under current law.

Purpose

Investment credit provisions are intended to stimulate investment and economic development.

Fiscal Impact

FY 1992	\$	220,000
FY 1993	\$	200,000

NEW/EXPANDED INDUSTRY CREDIT

MCA 15-31-124

Description

New and expanding industries are allowed a tax credit equal to 1% of the total new wages paid in Montana for the first three years of operation or expansion.

Expanding operations must increase total full-time jobs by 30% or more. "New" industry means a corporation engaging in manufacturing for the first time in Montana, and making a product not currently manufactured in Montana.

Purpose

Provide an incentive for economic development and job creation.

Fiscal Impact

FY 1992	\$	Minimal
FY 1993	\$	Minimal

EMPLOYER PROVIDED DEPENDENT CARE ASSISTANCE CREDIT

MCA 15-31-131

Description

Employers who provide dependent care assistance to their employees are allowed a credit against the corporation license tax otherwise due. The credit is 15% of the actual amount paid or incurred in providing dependent care assistance during the tax year, with a \$1,250 maximum per employee.

Purpose

To encourage employers to provide dependent care assistance for their employees.

Fiscal Impact

FY 1992	\$ Minimal
FY 1993	\$ Minimal

8.39-3

TAXATION - JOINT SESSION COMMITTEE

COMMITTEE

DATE 1/9/91

NAME (please print)

SUPPORT

OPPOSE

Benny Bure
Larry Hagnes, ND
Lake Park
Judith H. Carlson
Tammy Bure
Jennifer Bure

Clancy, mt
Helena Butte
Helena
Helena
Dun Lodge
Great Falls

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITORS' REGISTER

2 of 2

TAXATION - Joint Session COMMITTEE

BILL NO. _____

DATE 1/9/91

SPONSOR _____

NAME (please print)	RESIDENCE	SUPPORT	OPPOSE
Stephen R. Geronzi	Helena		
Robert A. Turner	Helena		
Claudia Clifford	Helena		
STEROME ANDERSON	"		
Phil Buck Bole	MONT CHAMBER HELENA		
Jim Standant	LFA		
Samantha Sanchez	HAPP		
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Jim Downen	Grans		
Gordon Morris	MHC.		
Mike Walsh	OBPP		
Pooa Abelin	NMOGA		
Mary & Craig	ET		
Stuart Daggelt	MT m...ing		

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.