

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 52nd LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By DAN HARRINGTON, CHAIR, on February 5, 1991, at 9:00 a.m.

ROLL CALL

Members Present:

Dan Harrington, Chairman (D)
Bob Ream, Vice-Chairman (D)
Ben Cohen, Vice-Chair (D)
Ed Dolezal (D)
Jim Elliott (D)
Orval Ellison (R)
Russell Fagg (R)
Mike Foster (R)
Bob Gilbert (R)
Marian Hanson (R)
David Hoffman (R)
Jim Madison (D)
Ed McCaffree (D)
Tom Nelson (R)
Mark O'Keefe (D)
Bob Raney (D)
Ted Schye (D)
Barry "Spook" Stang (D)
Fred Thomas (R)
Dave Wanzenried (D)

Members Excused: Bea McCarthy (D)

Staff Present: Lee Heiman, Legislative Council
Lois O'Connor, Committee Secretary

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

HEARING ON HB 402

An act requiring that all real property and improvements subject to taxation be reappraised every 3 years rather than 5 years.

Presentation and Opening Statement by Sponsor:

REP. WYATT, House District 37, Great Falls, stated HB 402 shrinks the appraisal cycle down to three years and offers 1/3 of the taxes to be assessed in a year.

Proponents' Testimony:

John Lawton, City Manager, Great Falls, provided written testimony. EXHIBIT 1

Jim Tillotson, City Attorney, Billings, stated the original legislation setting up the annual sales assessment ratio studies was passed in 1987 as HB 436. Pursuant to that legislation the DOR implemented the sales studies. The first year they saw an adjustment based on the studies was for tax year 1988.

As a result, values decreased 5% in Billings for that tax year. In October, 1988, Billings and the Montana League of Cities and Towns filed a lawsuit against the DOR challenging the action taken in implementing the sales studies. The significant legal problems they found at that time were: (1) the DOR took the position that property values could be decreased as a result of the studies but they couldn't be increased because of I-105. We felt this was clear violation of the constitutional requirement of equalization. (2) They felt there was a problem in that the legislation denied the right of taxpayers to appeal the assessments.

In 1989, amendatory legislation was passed which was HB 703. The primary affect was to allow values to go up as well as down based on the sales studies. In response to the amendatory legislation, the suit was dismissed. Which bring us to the 1990 adjustments to assess values based on the sales study and the Great Falls litigation (Barron vs State).

This suit involved one residential area in Great Falls where values were adjusted upward 30% based on an average obtain from the sales studies. The Supreme Court said that the sales study as conducted by the DOR was unconstitutional because the sales study showed the some properties were under appraised compared to actual market value and some were over appraised. Therefore, a flat 30% adjustment did not result in value equalization in that area. The court also found the violation of the constitutional right to appeal the assessments. The court also explained that there was no constitutional problem with changing values of property during the reappraisal cycle rather than waiting to the end of the cycle. Even if values do change during the cycle, those values must be based on individual analysis of the properties involved. A blanket adjustment based on an average in the sales studies cannot be done so long as some properties were over appraised and some under appraised.

The only long term solution to the problem, which will stand up in court, is to discard the sales studies and go to a method where assessed values are based on individual appraisals. HB 402 does this. It also implements a shortened reappraisal cycle to address the problem of large changes of values due to the current seven year cycle.

Dennis Burr, Montana Taxpayers Association, stated HB 402 is not the answer to the problems created in HB 703. It will have to be dealt with separately and quickly by the Legislature. HB 402 is a method of getting away from the percentage adjustments which are being made under HB 703 and returning it to individual appraisals on property. It is preferable to have individual appraisals. The problem we have in the state is property tax rates. One advantage of adopting the system addressed in HB 402, you are obligated not to tinker with it every two years, otherwise it wouldn't be equitable over a period of time. He suggested that the committee try to devise a method of appraising a third of the property each year so that the maximum number of the people can participate. It might be done by having all land reappraised in the first year.

Joan Bennett, City Commissioner, Great Falls provided written testimony. EXHIBIT 2

Harry Mitchell, Cascade County Commissioner, said there is no such thing as absolute tax equity. HB 402 tries to minimize the inequities. This is not a Great Falls problem; it is a state problem. Great Falls has been asking for year to be properly assessed. HB 402 is a step in the right direction, but it will also cost money. If we are to straighten out this mess, we must be willing to spend some money. People do not complain about high taxes, they complain about inequities. To correct the inequities, legislation such as HB 402 must be passed.

Jim Nugent, City of Missoula, supported HB 402 but expressed Missoula's concerns. They are concerned with the fairness of the increases being phased in over three years. The government could be caught in a bind. He referred to Page 9, Lines 8 through 20. They also are concerned with whether have the ability to implement the three year program. If it can be done, that would be great. He offered amendments.

Opponents' Testimony: None

Questions From Committee Members:

REP. RANEY asked **REP. WYATT** what the cost would be. **REP. WYATT** said the DOR has done a cost analysis for her and for the biennium of 1993, the cost would be \$1,944,828. **REP. RANEY** asked if the money will come from the DOR or is it picked up at the local level. Is the \$2 million a reduction in local taxes or an increase in taxes to the state? **REP. WYATT** said it would be an increase out of the General Fund for personal services, operating expenses, equipment, and employee benefits with \$600,000 going to reassess.

REP. COHEN asked **Judy Rippengale, DOR**, to comment on HB 402 and the impact it would have on the Department. **Ms. Rippengale** said this would be a considerable change. The DOR would have nine

sets of figures going all the time. Reappraising 1/3 every year and any changes in that 1/3 would be phased in over three years. For every third, adjustments must be made each year. It creates considerable problems for the computer system because there is no base year.

The DOR has no problem with going to the three year cycle. They are proposing a three year cycle. The difference is that they think it is more economical and better use of the staff to establish one base year and readjust everyone at the same time. REP. COHEN asked if the DOR is continuing to use sales assessment ratios. Ms. Rippengale said HB 402 doesn't address what to do with the tax years 91, 92, or 93. The bill the DOR is introducing does these three years and it proposes the continuation of the sales assessment ratio to get us to the next reappraisal cycle. After the next reappraisal cycle, they propose no sales assessment ratio just a cycle of every three years. REP. COHEN asked if it is similar to HB 402. Ms. Rippengale said it sounds similar in the three year appraisal cycle; it is just the administrative procedures of doing it that differ greatly.

REP. SCHYE said the cost for HB 402 is \$1.9 million and Ms. Rippengale what the cost of the DOR legislation would be. Ms. Rippengale said for the 93 biennium have not asked for any additional money. Into the future, there are costs which in their opinion will be nominal. They do not expect any major increase.

Closing by Sponsor:

REP. WYATT said the problem the DOR is talking about, in terms of having a base year, is the main component of the problem in the first place. If we continue to have a base year, you continue to exacerbate the problem with not assessing people on a real basis. They also have in their proposed budget the computer programs. The difference between HB 402 and the DOR's is the fairness component. By not using the base unit, you can equitably reassess and reevaluate the property on the basis of what it is. We have an obligation to the public trust. They must be safe in the fact that property taxes are applied fairly and in a timely fashion.

HEARING ON HB 447

An act revising certain provisions relating to the taxation of the income of individuals and corporations.

Presentation and Opening Statement by Sponsor:

REP. COBB, House District 42, Augusta, said HB 447 allows the application of an inflation factor to capital gains for losses for the purposes of taxation. There is no fiscal note so it won't cost anything. Anytime you have money tied up for an extended period of time, a person can be taxed up to 33% on the

capital gains. Sweden has the highest tax in any country has a capital gains tax of 18%. An example of what is happening in Montana and across the nation is, if a person has a building that is bought at \$20,000 and kept for 10 to 15 years and sold for \$50,000 most of the gain was inflation. When it is sold, taxes must be paid. What HB 447 says is if the gains are caused by inflation, a person shouldn't be taxed on it. He doesn't mind finding ways to increase taxes, but he is trying to find ways to encourage savings. This is not done in the state.

Proponents' Testimony: None

Opponents' Testimony: None

Questions From Committee Members:

REP. ELLISON said investments involve risks and asked REP. COBB if he felt that inflation was an acceptable risk for an investment and if so why should it get preferential treatment. REP. COBB said when you buy a home, it isn't necessarily an investment but you can sell the home, if you're not a certain age, and be taxed on that home for what is an inflationary increase. We shouldn't tax people for increases due to inflation.

REP. ELLIOTT asked the same question. REP. COBB said inflation is a risk for an investment and that is why people do not save. If we try to save, people lose money in the state so we go ahead and spend it.

REP. NELSON said if this is a discussion of nominal dollars to a persons real dollars. He gave an example: assume that we have 6% inflation for a period of time. This means that in 12 years a dollar is worth 50 cents. If you took a \$10,000 piece of real estate, it would be worth \$20,000. In real value, it will only be worth \$10,000 twelve years from now. You are saying that it is not fair to tax that because it not a real gain. It is just changing the numbers of dollars. REP. COBB said yes.

Closing by Sponsor:

REP. COBB said he brought the broad range to the committee. He is trying to encourage people to save and is trying to help the average income person. He urged the committee's support.

HEARING ON HB 398

An act revising the definition of household income for the purposes of computing the residential property tax credit for the elderly.

Presentation and Opening Statement by Sponsor:

REP. CONNELLY, House District 8, Kalispell, stated HB 398 is a revision of the household income tax credit low income persons.

It will raise the maximum allowable credit from \$400 to \$450. Page 2 explains what household income is. In this case, \$4,500 or 50% of the total retirement benefits from gross household income whichever is greater. The formula that this is all based on is located on Page 4

Proponents' Testimony: None

Opponents' Testimony: None

Questions From Committee Members:

REP. RANEY said this was a subject that needs to be discussed on the lines of his bill on senior citizens property tax relief. Not many people understand the residential property tax credit for the elderly. He asked Jeff Miller, DOR, to explain it. Mr. Miller said the program works very well and is one of the most popular. In the past year, they have seen a great utilization of growth. Last year, 15,000 people qualified for the owner credit and \$3.4 million was granted. The requirements are that a person be 62 years old, have lived in Montana for 9 months, and have lived on the property for which they are claiming the credit for 6 months. They can claim the credit based on the amount of general property taxes paid or 15% of their rent. This is to reach the elderly who has limited income and is paying higher rent. DOR looks at total household income; this includes everything whether it is taxable or not. This is reduced by the greater of 50% of their pension income or \$4,000 to arrive at an adjusted household income which is then taken times a multiplier that is in the formula on Page 4 of the bill to reduce their household income. It is limited to \$400 per household.

REP. RANEY commented on the bill that he introduced on the senior citizen property tax relief. As they went through the bill, they looked at how much it would cost to set the program up. It was a bundle. Why invest all this money in a new program when we can take HB 398 and make it more available and more usable. More FTEs are going to be needed to make this work. He is intending to table his bill.

REP. ELLIOTT asked how many more people would meet eligibility by subtracting another \$500 from the income. Jeff Miller said the fiscal note that is attached has made the assumption that the number of filers claiming the credit is about constant.

REP. RANEY said the property tax and income tax divisions of DOR are running all the numbers to show the eligibility of the program. We will have the numbers for the committee when they are finished. CHAIR HARRINGTON referred HB 398 to the Property Tax Subcommittee.

Closing by Sponsor:

REP. CONNELLY said HB 398 will be good for all senior citizens and asked the committee to look favorably on the bill.

EXECUTIVE ACTION ON HB 321

Motion: REP. REAM MOVED HB 321 DO PASS.

Motion: REP. REAM moved to amend HB 321. EXHIBIT 3

Discussion:

REP. REAM said the Income/Severance Tax Subcommittee did look at the bill and the amendments proposed by the DOR. The committee did accept both. The amendments are clarifying and to make them consistent with existing law. They would also phased them in over the indicated time periods.

Vote: Motion to amend HB 321 carried unanimously.

Motion: REP. HARRINGTON MADE A SUBSTITUTE MOTION THAT HB 321 DO PASS AS AMENDED.

Discussion:


CHAIR HARRINGTON said that they have had problems as far as the foundation program. The foundation program should have had another \$40 million in it, but because of HB 28, the money is no longer in there. He asked REP. REAM if this would have anything to do with it. REP. REAM said if the law stays as is, this bill will have no affect because 100% of the revenue goes into their General Fund. There are bills introduced in both the House and Senate that would reallocate or reapportion a part of the General Fund back to the foundation program. In that case, it would have no impact on the allocation of revenue dollars; but it would on the penalty and interest.

REP. RANEY said there won't be any accounting procedures to spread out all the revenue. It will go to the General Fund. REP. HARRINGTON said he wanted the committee to understand that HB 28 will put back the money into the foundation program. REP. RANEY said if they did go back to earmarking the income taxes for education, this bill says that the penalty and interest money earned would go into the General Fund. Whatever appropriations that we make to the foundation program is exactly what they will get. They will not get a windfall. REP. GILBERT said by doing this we would cut down on a tremendous amount of bookkeeping for the DOR. They have to portion out all the penalty and interest money. REP. REAM said there was a typo error of the amendments on Subsection 6, Line 3, insert "be".

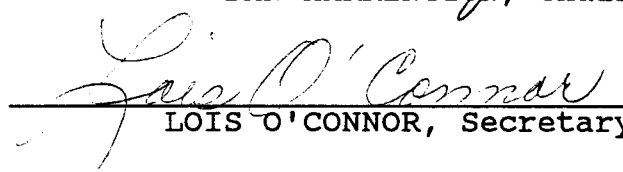
Vote: Motion that HB 321 Do Pass As Amended carried unanimously.

ADJOURNMENT

Adjournment: 12:00 p.m.



DAN HARRINGTON, Chair



LOIS O'CONNOR, Secretary

DH/lo

HOUSE OF REPRESENTATIVES

TAXATION COMMITTEE

ROLL CALL

DATE

2/5/91

NAME	PRESENT	ABSENT	EXCUSED
REP. DAN HARRINGTON	✓		
REP. BEN COHEN, VICE-CHAIRMAN	✓		
REP. BOB REAM, VICE-CHAIRMAN	✓	X	
REP. ED DOLEZAL	✓		
REP. JIM ELLIOTT	✓		
REP. ORVAL ELLISON	✓		
REP. RUSSELL FAGG	✓		
REP. MIKE FOSTER	✓	X	
REP. BOB GILBERT	✓	X	
REP. MARIAN HANSON	✓		
REP. DAVID HOFFMAN	✓		
REP. JIM MADISON	✓		
REP. ED MCCAFFREE	✓		
REP. BEA MCCARTHY			✓ <i>John H.R.</i>
REP. TOM NELSON	✓	X	
REP. MARK O'KEEFE	✓		
REP. BOB RANEY	✓		
REP. TED SCHYE	✓		
REP. BARRY "SPOOK" STANG	✓		
REP. FRED THOMAS	✓	X	
REP. DAVE WANZENRIED	✓	X	

11:50
2-5-91
vml

HOUSE STANDING COMMITTEE REPORT

February 5, 1991

Page 1 of 3

Mr. Speaker: We, the committee on Taxation report that House Bill 321 (first reading copy -- white) do pass as amended.

Signed: _____
Dan Harrington, Chairman

And, that such amendments read:

1. Title, line 6.

Following: "FUND;"

Insert: "CLARIFYING THE ALLOCATION OF REFUNDS;"

2. Title, lines 7 and 8.

Strike: "15-30-142" on line 7 through "15-31-543" on line 8

Insert: "15-1-501 AND 15-31-702"

3. Pages 1 through 15.

Strike: everything following the enacting clause

Insert: "Section 1. Section 15-1-501, MCA, is amended to read:

"15-1-501. Disposition of money from certain designated license and other taxes. (1) The state treasurer shall deposit to the credit of the state general fund all money received by him from the collection of:

(a) fees from driver's licenses, motorcycle endorsements, and duplicate driver's licenses as provided in 61-5-121;

(b) electrical energy producer's license taxes under chapter 51;

(c) severance taxes allocated to the general fund under chapter 36;

(d) liquor license taxes under Title 16;

(e) telephone company license taxes under chapter 53; and

(f) inheritance and estate taxes under Title 72, chapter 16.

(2) All money received from the collection of income taxes under chapter 30 of this title must be deposited as follows:

(a) 57% of the taxes in fiscal year 1990 and 50% of the taxes in fiscal year 1991, to the credit of the state general fund;

(b) 9.8% of the taxes in fiscal year 1990 and 8.7% of the taxes in fiscal year 1991, to the credit of the debt

service account for long-range building program bonds as described in 17-5-408; and

(c) 33.2% of the taxes in fiscal year 1990 and 41.3% of the taxes in fiscal year 1991, to the credit of the state special revenue fund for state equalization aid to the public schools of Montana as described in 20-9-343; and

(d) all interest and penalties to the credit of the state general fund.

(3) All money received from the collection of corporation license and income taxes under chapter 31 of this title, except as provided in 15-31-702, must be deposited as follows:

(a) 64% of the taxes in fiscal year 1990 and 61% of the taxes in fiscal year 1991, to the credit of the state general fund;

(b) 11% of the taxes in fiscal year 1990 and 10.5% of the taxes in fiscal year 1991, to the credit of the debt service account for long-range building program bonds as described in 17-5-408; and

(c) 25% of the taxes in fiscal year 1990 and 28.5% of the taxes in fiscal year 1991, to the credit of the state special revenue fund for state equalization aid to the public schools of Montana as described in 20-9-343; and

(d) all interest and penalties to the credit of the state general fund.

(4) The state treasurer shall also deposit to the credit of the state general fund all money received by him from the collection of license taxes, fees, and all net revenues and receipts from all other sources under the operation of the Montana Alcoholic Beverage Code.

(5) After the distribution provided for in 15-36-112, the remainder of the oil severance tax collections must be deposited in the general fund.

(6) All refunds of taxes must be attributed to the funds in which the taxes are deposited. All refunds of interest and penalties must be attributed to the funds in which the interest and penalties are deposited."

Section 2. Section 15-31-702, MCA, is amended to read:

"15-31-702. Distribution of corporation license taxes collected from banks or savings and loan associations. (1) All corporation license taxes, interest, and penalties collected from banks and savings and loan associations shall be distributed in the following manner:

(a) 20% must be remitted to the state treasurer to be allocated as provided in 15-1-501(2); and

(b) 80% is statutorily appropriated, as provided in 17-7-502, for allocation to the various taxing jurisdictions within the county in which the bank or savings and loan association is located.

(2) The corporation license taxes, interest, and penalties distributed under subsection (1)(b) shall be allocated to each taxing jurisdiction in the proportion that its mill levy for that fiscal year bears to the total mill levy of the taxing authorities of the district in which the bank or savings and loan association is located.

(3) "Taxing jurisdictions" means, for the purposes of this section, all taxing authorities within a county permitted under state law to levy mills against the taxable value of property in the taxing district in which the bank or savings and loan association is located.

(4) If a return filed by a bank or savings and loan association involves branches or offices in more than one taxing jurisdiction, the department of revenue shall provide a method by rule for equitable distribution among those taxing jurisdictions."

NEW SECTION. Section 3. Effective date -- applicability. (1) [This act] is effective July 1, 1991.

(2) [Sections 1 and 2] apply to all tax interest and penalties collected after June 30, 1992, regardless of when the tax, interest, or penalty was originally due."

**STATEMENT OF JOHN LAWTON, CITY MANAGER, CITY OF GREAT FALLS
BEFORE THE HOUSE TAXATION COMMITTEE
FEBRUARY 5, 1991**

EXHIBIT 1
DATE 2-5-91
HB 402

Mr. Chairman and Members of the Committee:

HB402 moves from the present five to seven year reappraisal cycle to a three-year cycle. Properties in each County would be divided into three more or less equal groupings. In the first year of the new process, the first group would be reappraised. Where values increase, that increase would be phased in over a three-year period. Where the values decrease, the decrease would be implemented immediately.

In year two, the second group of properties would be reappraised with increases also being phased-in in three equal parts. In year three, the process would be repeated for the third group. This is illustrated in the table below.

TRIENNIAL REAPPRAISAL WITH THREE YEAR PHASED-IN INCREASES

YEAR	1	2	3	4	5	6
Property Group A	Reappraised 1/3 phase-in	1/3	1/3			
Property Group B		Reappraised 1/3 phase-in	1/3	1/3		
Property Group C			Reappraised 1/3 phase-in	1/3	1/3	
Property Group A				Reappraised 1/3 phase-in	1/3	1/3
Etc.						

In year four then, the process would start over. As can be seen in the table, once the process gets going, it takes five years until all properties have been reappraised and all increases have been phased in.

This proposal is designed to do away with some of the problems inherent in the existing system. I will briefly review some of these problems.

1. The existing five-year cycle seems to end up being a seven-year cycle, creating an unreasonable period of time between reappraisals.

2. The length of time between reappraisal cycles results in sharp changes which creates a strong political reaction.
3. The political problems in the length of the reappraisal cycle more or less force the legislature to become involved and cancel any impact of the reappraisals through mathematical manipulation.
4. If properties are misappraised, it takes seven years to correct the problem. Great Falls is the prime example of what can happen here.
5. The overlay of the sales assessment ratio study method of keeping appraisals up to date has been spectacularly unsuccessful so far. Unfortunately because of the problems it has experienced, the methodology is now tainted in the mind of the public and will continue to be challenged even though the Revenue Department is coming up with ways to fix it which you will soon be considering. We are concerned that the "fixes" may be problematical constitutionally and we are certain that they will continue to be challenged.

I do not want to stand up here today and suggest that we in Great Falls or cities as a whole should be the tail that wags the dog in that the method outlined in HB402 is the only solution to our problems. It is simply an alternative that does away with many of the problems inherent in the existing system and in HB703 and its possible successors. My own opinion is that you should carefully consider the successor to HB703 along with this proposed legislation and modify one or the other into something that will pass constitutional requirements and will be perceived by the public as being fair and by local governments as being predictable and equitable.

The advantages of the proposal contained in HB402 are as follows:

1. It will provide a smooth and predictable change in values whether they are going up or down. If changes are smooth and evened out, the chances for extreme political reactions are reduced or eliminated.
2. It is relatively easy to understand and administer and value changes are based on actual reappraisals rather than statistical methods.
3. The method contained in HB402 is easily adaptable to some other schedule or cycle. For example, it can be easily changed to incorporate a four-year cycle or a five-year cycle.
4. This method should pass constitutional challenges. Courts have already ruled favorably on the problem of inequality whenever a new method is put into effect. In

addition, the predictability and smoothness of the system should help to minimize constitutional challenges.

A number of criticisms have been raised about this proposed methodology. First, there is the problem of inequality during the first few start up years of the triennial process. As noted above, there is really no way around this and the courts have already ruled favorably on its constitutionality. In addition, let's assume for a minute that values are rising at a rate of 1% per year. If this is the case and I am reappraised in the first year, then my value goes up by 1% and is phased in over the next three years at the rate of 1/3 of 1% per year. If you are in year two, then you get a one year break because you are reappraised one year later than I. However, by the time the appraisers get to you, your values would have gone up by 2% and your increase would be phased in at the rate of 2/3's of 1% per year for three years. And so on. Thus, some of the inequity is removed by the arithmetic of the process. This won't always be the case because properties will change in value at different rates. But the point is that the phase-in period is not as inequitable as it may seem at first glance.

Another criticism is cost. I won't challenge the Revenue Department's cost estimate because they are in a much better position to know that than I. However, I would suggest to you that having a fair, predictable and accepted method of reappraising property in the long run would be less costly than the system we have now which is the subject of constant challenges and political battles. Also, the costs could be reduced if the cycle were lengthened to four or five years. Incidentally, I'm not sure it is valid to derive projected costs in Montana by extrapolating costs from Maryland, which uses this process. The Department of Revenue should be able to project costs on the basis of its own experience as to how long it takes to reappraise properties. Also, one could assume that appraisals would be more efficient and less costly if they were done on a regular schedule.

Third, it has also been stated that this is similar to a system that was in effect in Montana in the 1970s. I don't know anything about that system because I wasn't here then. But, I don't believe that it contained the feature of phasing in increases over time to smooth out the impacts. Whatever defects that system had could be corrected in the present legislation.

Again, I suggest to you that this legislation should not be considered as a movement to oppose what the Revenue Department is offering in terms of fixing HB703. Maybe that will work. I hope so. In any case, this legislation should be considered as an alternative and as a backdrop for the very difficult job that you will have to complete during this session. The present system is discredited in the eyes of many and you will need to draw on all the ideas you can to come up with a system that is perceived as being fair, understandable and equitable.

As a footnote, I should add that this proposal will not solve the "Great Falls problem". This is a situation, as I am sure you are aware, where certain properties have been seriously

misappraised since the last cycle. There seem to be three possible ways to deal with this problem.

1. The worst of the reappraised properties can be reappraised now which I understand is the Revenue Department's approach, but which I also guarantee will stimulate additional challenges and political turmoil.
2. We could wait until the end of the present cycle when all properties will be revalued. The problem with this is that it will continue a serious inequality among taxpayers in the State for another two years.
3. You could move the methodology contained in HB402 up by one year and start it January 1, 1992, for the 1992 tax year. To do this, the Revenue Department would have to draw the first group of properties from their existing data base of reappraised properties. What problems this would cause I don't know. In any case, we are in a box with respect to misappraised properties and we need to find a way out of it. This legislation offers one possible way if modified slightly.

Thank you for allowing me to discuss this alternative to the present system. It will serve as an alternative and a contrast as you look at the reappraisal system. I wish I could be optimistic that HB703 can be fixed in a way that will be politically and constitutionally acceptable. Unfortunately, I am doubtful.

HB 402

EXHIBIT 2

DATE 2-5-91

HB 402

I am Joan Bennett, City Commissioner from Great Falls. But before I was ever a commissioner, in fact since April of 1989, I was a member of a tax study group which has met weekly, with few vacations, at 6:30 AM Friday Morning. The group was broad-based with low-income, elderly, labor, business, agricultural, and local government representatives. Most of us are not technical people, certainly not tax experts, but we've always had a wonderful core group of CPAs.

In the past almost two years, we've read a lot about taxes, we've listened to many informed speakers, and we've argued the pros and cons.

From early days, it's been evident to us that something has to be done about property taxes. Whatever has been done in the last twenty years has made the problem worse: we now have a five year appraisal cycle that takes seven years; we've attempted to remedy that problem with sales and assessment ratios that citizens have little confidence in. We believe that the reason is that there was not enough support, not enough staff provided to do what was mandated.

As a result, people protest their taxes, local governmental entities cannot accurately predict their income, and prospective businesses choose not to come into a state with a chaotic property tax system. Businesses rely on a stable and equitable tax system.

In the position statement drafted by our tax study group is our belief that we need current and consistent property evaluations. It would seem that HB402 is a reasonable approach--that with shorter appraisal cycles, changes in evaluation are less drastic, and that whatever change occurs would be moderated by a gradual implementation.

Amendments to House Bill No. 321
First Reading Copy

For the Committee on Taxation

Prepared by Lee Heiman
February 5, 1991

1. Title, line 6.

Following: "FUND;"

Insert: "CLARIFYING THE ALLOCATION OF REFUNDS;"

2. Title, lines 7 and 8.

Strike: "15-30-142" on line 7 through "15-31-543" on line 8

Insert: "15-1-501 AND 15-31-702"

3. Pages 2 through 15.

Strike: everything following the enacting clause

Insert: "Section 1. Section 15-1-501, MCA, is amended to read:

"15-1-501. Disposition of money from certain designated license and other taxes. (1) The state treasurer shall deposit to the credit of the state general fund all money received by him from the collection of:

(a) fees from driver's licenses, motorcycle endorsements, and duplicate driver's licenses as provided in 61-5-121;

(b) electrical energy producer's license taxes under chapter 51;

(c) severance taxes allocated to the general fund under chapter 36;

(d) liquor license taxes under Title 16;

(e) telephone company license taxes under chapter 53; and

(f) inheritance and estate taxes under Title 72, chapter 16.

(2) All money received from the collection of income taxes under chapter 30 of this title must be deposited as follows:

(a) 57% of the taxes in fiscal year 1990 and 50% of the taxes in fiscal year 1991, to the credit of the state general fund;

(b) 9.8% of the taxes in fiscal year 1990 and 8.7% of the taxes in fiscal year 1991, to the credit of the debt service account for long-range building program bonds as described in 17-5-408; and

(c) 33.2% of the taxes in fiscal year 1990 and 41.3% of the taxes in fiscal year 1991, to the credit of the state special revenue fund for state equalization aid to the public schools of Montana as described in 20-9-343; and

(d) all interest and penalties to the credit of the state general fund.

(3) All money received from the collection of corporation license and income taxes under chapter 31 of this title, except as provided in 15-31-702, must be deposited as follows:

(a) 64% of the taxes in fiscal year 1990 and 61% of the taxes in fiscal year 1991, to the credit of the state general fund;

(b) 11% of the taxes in fiscal year 1990 and 10.5% of the taxes in fiscal year 1991, to the credit of the debt service account for long-range building program bonds as described in 17-5-408; and

(c) 25% of the taxes in fiscal year 1990 and 28.5% of the taxes in fiscal year 1991, to the credit of the state special revenue fund for state equalization aid to the public schools of Montana as described in 20-9-343-; and

(d) all interest and penalties to the credit of the state general fund.

(4) The state treasurer shall also deposit to the credit of the state general fund all money received by him from the collection of license taxes, fees, and all net revenues and receipts from all other sources under the operation of the Montana Alcoholic Beverage Code.

(5) After the distribution provided for in 15-36-112, the remainder of the oil severance tax collections must be deposited in the general fund.

(6) All refunds of taxes must be attributed to the funds in which the taxes are deposited. All refunds of interest and penalties must be attributed to the funds in which the interest and penalties are deposited."

Section 2. Section 15-31-702, MCA, is amended to read:
"15-31-702. Distribution of corporation license taxes collected from banks or savings and loan associations. (1) All corporation license taxes, interest, and penalties collected from banks and savings and loan associations shall be distributed in the following manner:

(a) 20% must be remitted to the state treasurer to be allocated as provided in 15-1-501(2); and

(b) 80% is statutorily appropriated, as provided in 17-7-502, for allocation to the various taxing jurisdictions within the county in which the bank or savings and loan association is located.

(2) The corporation license taxes, interest, and penalties distributed under subsection (1)(b) shall be allocated to each taxing jurisdiction in the proportion that its mill levy for that fiscal year bears to the total mill levy of the taxing authorities of the district in which the bank or savings and loan association is located.

(3) "Taxing jurisdictions" means, for the purposes of this section, all taxing authorities within a county permitted under state law to levy mills against the taxable value of property in the taxing district in which the bank or savings and loan association is located.

(4) If a return filed by a bank or savings and loan association involves branches or offices in more than one taxing jurisdiction, the department of revenue shall provide a method by rule for equitable distribution among those taxing jurisdictions."

NEW SECTION. Section 3. Effective date -- applicability. (1) [This act] is effective July 1, 1991.

(2) [Sections 1 and 2] apply to all tax interest and penalties collected after June 30, 1992, regardless of when the tax, interest, or penalty was originally due."

HOUSE OF REPRESENTATIVES
VISITOR'S REGISTER

Taxation

COMMITTEE

BILL NO. HB 402

DATE 2/5/91

SPONSOR(S) Rep. Wyatt

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<i>Jim Tillotson</i>	<i>City of Billings</i>	✓	
<i>John Lawton</i>	<i>City of Great Falls</i>	✓	
<i>Harry Mitchell</i>	<i>Cascade County</i>	✓	
<i>Gordon Morris</i>	<i>MAGs</i>		
<i>Dennis Olson</i>	<i>DOR</i>		
<i>Jim Nugent</i>	<i>City of Missoula</i>	✓ <i>with page 7 attached</i>	

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Taxation

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