

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 52nd LEGISLATURE - REGULAR SESSION

COMMITTEE ON PROPERTY TAX

Call to Order: By **CHAIRMAN COHEN**, on April 1, 1991, at 10:00 AM

ROLL CALL

Members Present:

Rep. Ben Cohen, Vice-Chairman (D)
Rep. Ed Dolezal (D)
Rep. Russell Fagg (R)
Rep. Ed McCaffree (D)
Rep. Mark O'Keefe (D)
Rep. Dave Wanzenried (D)

Members Absent:

Rep. Orval Ellison (R)
Rep. Dave Hoffman (R)
Rep. Ted Schye (D)
Rep. Fred Thomas (R)

Staff Present: Lee Heiman, Legislative Council
Julia Tonkovich, Committee Secretary

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

DISCUSSION ON HB 1000-1004

REP. DOLEZAL presented a summary sheet explaining the effect the proposed amendments will have on his bill. **SENATOR BROWN** also has a property tax reclassification bill. The amendments take the "best" of the two bills and combine them into something that will be amenable to all parties. **Exhibit 1**

REP. DOLEZAL said a major component of the bill is the introduction of a new class of property, "income-producing property." The tax rate on this property is 5%. This will compensate for the exemptions given to Class 8 property.

REP. COHEN said the bill is essentially the Department of Revenue (DOR) proposal with one additional class. Some properties have higher rates, some business equipment has lower rates, and there are minor shifts in tax rates on other properties. The major change the bill will produce is a separation of income and non-income producing properties, and the new class.

REP. DOLEZAL said the bill will allow enough flexibility for the

repeal of I-105. It will repeal the block grant provision passed in the 1989 Special Session; the \$18 million from those grants will go back into the General Fund.

REP. WANZENRIED asked what the main difference is between **REP. DOLEZAL's** and **SEN. BROWN's** bills. **REP. DOLEZAL** said the additional class is the major difference.

REP. FAGG said constituents will not be pleased with the bill, since it raises both residential and commercial property taxes. **REP. COHEN** said constituents will get much of their property taxes back via an income tax credit. **REP. FAGG** said the income tax credit could be amended out of the bill, especially if the legislature finds itself strapped for funds. **REP. O'KEEFE** said the bill will not pass if the income tax credit is not included.

REP. COHEN said the largest change in taxable value (\$31 million) is in the furniture and fixtures provision. 80% of Montana businesses will no longer pay personal property taxes. Although the real property taxes increase, many small businesses will come out ahead because of the furniture and fixtures exemption.

REP. WANZENRIED asked what the fiscal impact of reducing furniture and fixtures would be. **REP. COHEN** said both counties and cities, for the most part, will see an increase in taxable value.

REP. COHEN said the bill will return \$23.7 million to the General Fund. The income tax credit will return \$23.2 million from to taxpayers from the General Fund. This leaves approximately \$500,000 in the General Fund. Added to the \$400,000 administrative savings the elimination of furniture and fixtures will bring, this gives the General Fund approximately \$900,000.

REP. FAGG asked whether people would inclined to put the \$23 million into the Foundation Program, rather than use it to fund income tax credits. **REP. O'KEEFE** said this money will not be used to fund anything else besides the income tax credit. If the legislature needs more money, it will go to another source.

REP. COHEN said the drafters of the bill felt they needed to give homeowners direct relief if they were going to repeal I-105, which is why the income tax credit will be offered to homeowners.

REP. WANZENRIED said offering the income tax credit after the property tax increase might be problematic. Taxpayers will see the increase first. **Gregg Groepper, Office of Public Instruction (OPI)**, said this problem could be dealt with by including a notice of the tax increase and an application for the income tax credit in the first half of the 2-part property tax billing process. Taxpayers could pay the first half of their property taxes, send in the income tax credit form, and receive a check from the state with which they could pay the second half of their property taxes.

REPS. O'KEEFE and **COHEN** discussed the efficacy of this method.

REP. FAGG said the income tax credit is problematic. There is nothing preventing future legislatures from rescinding the credit altogether. If this happens, property owners would still be paying higher property taxes, and have no relief mechanism whatsoever.

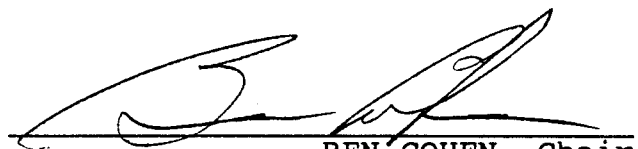
Mr. Groepper clarified the process by which the local government block grant money could be paid back in the form of income tax credits. In November of 1992, mill levies will presumably increase, as I-105 will have been repealed. In January of 1993, homeowners would apply for an income tax credit against their increased property tax liability which would be billed in November of 1992 and May of 1993. A mobile home owner who does not own the land surrounding the home would be able to get the credit in March or April, applied against the mill levies set the previous summer. This would hold the taxpayer harmless.


REP. DOLEZAL noted that under this bill, there will be no change in the way mobile homes are assessed.

Motion/Vote: **REP. DOLEZAL** moved the subcommittee **DO RECOMMEND** HB 1004 as amended to the full committee. Motion carried 5 to 1, with **REP. FAGG** voting no.

ADJOURNMENT

Adjournment: 11:30 AM


BEN COHEN, Chair


JULIA TONKOVICH, Secretary

BC/jmt

HOUSE OF REPRESENTATIVES
PROPERTY TAX SUBCOMMITTEE

ROLL CALL

DATE

4/1/91

NAME	PRESENT	ABSENT	EXCUSED
REP. BEN COHEN, VICE-CHAIR	X		
REP. ED DOLEZAL	X		
REP. ORVAL ELLISON		X	
REP. RUSSELL FAGG	X		
REP. DAVID HOFFMAN		X	
REP. ED MCCAFFREE	X		
REP. MARK O'KEEFE	X		
REP. TED SCHYE		X	
REP. FRED THOMAS		X	
REP. DAVE WANZENRIED	X		
REP. DAN HARRINGTON, CHAIRMAN			

EXHIBIT 1
EXHIBIT 4/1/91
DATE _____
HB 1004

Amendments to House Bill 1004
April 1, 1991

Class 1 -- Net Proceeds
Same as existing law

Class 2 -- Gross Proceeds
Metal mines taxed at 3 percent, same as existing law.

Class 3 -- Agricultural Land
Agricultural land and non-patented mining claims taxed at 30 percent of productive capacity.

Class 4 -- Residential Real Property
All residential property including multi-family dwellings. Golf courses in class four at one-half the 4% rate. Farmsteads and the one-acre underneath the farmstead will go back to class 14 at 3.2% (which is 80 percent of the class 4 rate). Mobile homes are in class 4 at 4%.
Low-income reduction applies to gross income.

Class 5 -- New Industry and Rural Electric Coops
Air and water pollution control equipment moves into class 8 at 8%. All other class 5 property remains unchanged and is taxed at 3%.

Class 6 -- Livestock and Other Property
Livestock at 4%. Canola processing plant remains unchanged. Malting barley facility is deleted from class 6. ~~Small rental property in the existing class 6 will be exempt.~~

Class 7 -- Locally assessed utilities
Same as existing law.

Class 8 -- Business Equipment
Removes definition of "personal property" and replaces with a definition of "business equipment." Includes existing class 8 property at 8%. Exempts furniture and fixtures, ~~the first \$10,000 of rental property~~, supplies and materials, and tools. Air and water pollution control equipment are taxed at 8%.

Class 11 -- Centrally Assessed
Same as existing law.

Class 12 -- Mobile Homes
Deletes this section.

Class 13 -- Timber Land
Coordinate with House Bill 340 (Ream).

Class 14 -- Farmsteads
Taxes farmsteads at 80 percent of class four or 3.2%.

Ex. 1
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Class 15 -- Railroads

Combines railroads and airlines into one class and taxed at the weighted average of other commercial property.

Class 17 -- Airlines

Deletes this section.

Class 18 -- Non-patented Mining Claims

Deleted this section. Non-patented mining claims are moved into class 3 (agricultural land).

Class 19 -- Nonproductive property of less than 20 acres

Deletes this section. The existing class 19 property falls into class 4 because it is non-income producing.

Class 20 -- Property out of production

Deletes this section. Existing class 20 property falls into class 4 because it is non-income producing.

Class 21 -- Income Producing Property

Land and improvements that is income-producing. Taxes this property at 5%.

Other Changes

Delete the definition of "rigidly affixed."

Repeals I-105 and the HB 20 personal property tax reimbursements of \$18 million/year.

Insert language from House Bill 1000 (Cohen) to provide an income tax credit of 50 percent of the first \$400 paid in residential property taxes.