

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 52nd LEGISLATURE - REGULAR SESSION

COMMITTEE ON PROPERTY TAX

Call to Order: By **CHAIRMAN COHEN**, on April 2, 1991, at 7:00 AM

ROLL CALL

Members Present:

Rep. Ben Cohen, Vice-Chairman (D)
Rep. Ed Dolezal (D)
Rep. Orval Ellison (R)
Rep. Russell Fagg (R)
Rep. Ed McCaffree (D)
Rep. Mark O'Keefe (D)
Rep. Ted Schye (D)
Rep. Fred Thomas (R)
Rep. Dave Wanzenried (D)

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 SB 111

REP. COHEN said the bill as written would allow Missoula's Stone Container (a de-inking and cardboard processing facility) a very large tax credit. The bill should be limited to collection, sorting, baling and transporting of recyclable waste to reprocessing centers, and should not include the reprocessing center itself. If the exemption is given to reprocessing centers, there should be a capping provision stating that no company may claim an exemption over a certain amount. The bill is intended to encourage every community to set up recycling programs.

REP. THOMAS said the retroactive date is problematic.

REP. COHEN said there are other problems as well. The bill does not allow for distinctions between the baler on the materials pick-up truck and the truck itself; the bill needs more specific language concerning the type of equipment claimable.

REP. FAGG said the bill is too broad. The date should be changed from 1986 to January 1, 1991, so there will be a five-year window from 1991 - 1996. Equipment purchased during this time will

qualify for the tax credit. DOR should recommend any necessary changes to the next legislature.

REP. COHEN appointed REPS. FAGG and MCCAFFREE to a sub-subcommittee to further discuss the bill and report back to the committee by Thursday, April 4.

DISCUSSION ON SB 115

REP. COHEN said the bill is very broad. In the past, sales tax bills have been limited and detailed. The Senate passed SB 115 by a very narrow margin.

Alec Hansen, Montana League of Cities and Towns, explained SEN. BLAYLOCK's amendment. There was some concern that the property tax authority could be applied selectively. The amendment assures that only general, uniform property taxes will be voted on, not taxes restricted to certain industries or services.

Motion/Vote: REP. THOMAS moved the subcommittee DO RECOMMEND the amendment to the full committee. Motion carried unanimously.

Mr. Hansen said the bill allows jurisdictions to provide exclusions and deductions from the general sales tax. Groceries and pharmaceuticals are the standard exclusions to most state sales taxes. Jurisdictions cannot specify what they will tax, but they can specify what they will not tax. For example, a jurisdiction could not only tax bank transactions or rental cars.

REP. COHEN said services would be included in the sales tax as well, unless they were specifically excluded. This means that lawyers' fees and advertising services would be included. However, because of the exclusionary provision, what may happen is that all goods and services will be excluded and what the jurisdictions will be left with is a bed tax, a restaurant tax, and an amusement tax.

Mr. Hansen said that the city of Bozeman told automobile dealers, who were in opposition to the bill, that it would not collect a tax above the first \$1000 purchase price of any single item or service. The intent of this bill is to allow the cities and counties to write a tax that will work in their area.

REP. COHEN asked whether the cities and counties can give citizens money back for sales tax paid under this bill. Mr. Hansen replied they could; the bill gives jurisdictions the flexibility to spend the money collected in any way they see fit. A sales tax will need to be sold aggressively; the purpose of the language is to give jurisdictions all the room they need to get one passed.

REP. COHEN asked if cities could impose a local option income tax on people who only work in the city as well as people who live there. Mr. Hansen replied the tax can be applied only to city

residents. The Department of Revenue (DOR) argued that it would be extremely difficult to track income.

REP. FAGG said that policy is not a fair one. All the professors at MSU, for example, live outside of the city. They make their living in the city, but will not have to pay the local option income tax. **REP. O'KEEFE** said it could also prove very detrimental to downtown areas; a sales tax enforced only in the cities would make many people relocate to the suburbs.

Mr. Hansen said the counties were worried that cities could tax the counties' constituents. To avoid this, the bill provides that the income tax be based on residents or population. **REP. COHEN** said it's hard to imagine that people in a city, who provide all sorts of services to those who live in the suburbs and work in the city, would vote for an income tax to provide even more services for suburban people who are not taxed. **Mr. Hansen** replied that cities and counties are not really interested in local option income taxes. Many rural counties and smaller towns may wish to suspend or terminate I-105 if approved by the voters. Some of the larger cities and commercial centers are interested in the sales tax option. The legislature should give the jurisdictions as broad a range of options as possible; the local option income tax gives the bill a certain amount of balance.

Mr. Heiman clarified the language on page 6, line 7. If there is a statewide bed tax and a local option bed tax, the taxes can both be administered by the state. **Mr. Hansen** said the only local option authority available, besides the resort tax and the gasoline tax currently in statute, is the authority this bill provides. The extension of authority only applies to the property, income and sales taxes mentioned in the bill.

Mr. Hansen explained the distribution of monies collected as proposed by the amendments offered by the Montana Association of Counties (MACO). The original bill would have had the sales tax distributed to the point of origin, which means if a countywide local option tax were imposed in Yellowstone County, with 90% of the money collected in Billings and 10% collected outside of Billings, it would have been distributed according to that ratio. The amendments create two tiers. Half of the money is distributed back to the point of origin, and half is distributed on the basis of population. In this case, of the first half of the funds collected, 90% would go to Billings. Of the second half, 80% would go to Billings, since 80% of the population is there.

Mr. Hansen explained Section 7 of the bill, which allows DOR to hire the people necessary to administer the tax. This section would be particularly pertinent to an income tax. DOR would be paid from a deduction of the taxes collected as specified in Section 2. **REP. COHEN** said it may be possible that nobody will choose to initiate a local option tax because it would be too

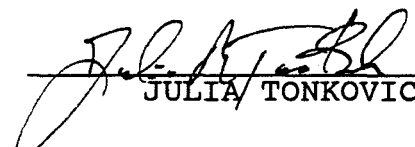
expensive for the department to administer.

REP. COHEN clarified that the department would not be involved with the administration of any local option property or sales tax; only a local option income tax. The taxing jurisdiction would be responsible for the administration of local option property or sales taxes.

ADJOURNMENT

Adjournment: 7:50 AM


BEN COHEN, Chair


JULIA TONKOVICH, Secretary

BC/jmt

HOUSE OF REPRESENTATIVES

PROPERTY TAX SUBCOMMITTEE

ROLL CALL

DATE

4/2/91

| 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 | | | |