

MINUTES

**MONTANA SENATE
53rd LEGISLATURE - REGULAR SESSION**

COMMITTEE ON TAXATION

Call to Order: By Chairman Mike Halligan, on January 14, 1993,
at 8:00 a.m.

ROLL CALL

Members Present:

Sen. Mike Halligan, Chair (D)
Sen. Dorothy Eck, Vice Chair (D)
Sen. Bob Brown (R)
Sen. Steve Doherty (D)
Sen. Delwyn Gage (R)
Sen. Lorents Grosfield (R)
Sen. John Harp (R)
Sen. Spook Stang (D)
Sen. Tom Towe (D)
Sen. Fred Van Valkenburg (D)
Sen. Bill Yellowtail (D)

Members Excused: None.

Members Absent: None.

Staff Present: Jeff Martin, Legislative Council
Bonnie Stark, Committee Secretary

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

Committee Business Summary:

Hearing: SB 122, SB 123
Executive Action: SB 65

SB 65

Senator Thomas F. Keating, representing Senate District #44,
appeared before the committee asking that Senate Bill 65 be
tabled. This bill would repeal the Unemployment Insurance
Administrative Tax.

EXECUTIVE ACTION ON SB 65

Motion:

Senator Towe moved that Senate Bill 65 be tabled.

Discussion:

None.

Vote:

The motion passed on voice vote.

HEARING ON SB 122

Opening Statement by Sponsor:

Senator Delwyn Gage, representing Senate District #5, presented Senate Bill 122. The purpose of this bill is to exempt from property taxation all machinery and equipment with a market value of less than \$100. If this bill passes, it would amend Section 15-6-201, M.C.A. The bill further provides for an immediate effective date and a retroactive applicability date to tax years beginning after December 31, 1992.

Senator Gage has been informed by the Department of Revenue that they could not pinpoint the fiscal impact of this bill although they didn't anticipate it would be significant, and the Department of Revenue has requested a later effective date and applicability date. Senator Gage presented the committee secretary with Amendments to Senate Bill 122 prepared by the Department of Revenue which would eliminate the immediate effective date and amend the retroactive applicability of the bill from the 1993 tax year to a prospective applicability date starting with the 1994 tax year.

Proponents' Testimony:

None.

Opponents' Testimony:

Chuck Stearns, Finance Officer and City Clerk of the City of Missoula, appeared to express reasons the City of Missoula is opposed to this bill. The City of Missoula cannot determine the exact fiscal impact of Senate Bill 122 because this equipment is not segregated in the County Assessor's tax base. However, because cities and counties remain subject to the restrictions of I-105, Missoula cannot support further erosion of its tax base, which SB 122 would indicate if passed.

Informational Testimony:

Mick Robinson, Director of the Montana Department of Revenue, and Ken Morrison, with the Administrative Property Assessment Division of the Department of Revenue, were available to answer questions. Mr. Robinson stated this tax is a self-assessed tax.

Questions From Committee Members and Responses:

Discussion included whether it costs more to collect the taxes on equipment worth \$100.00 or less than is gained; what percentage of property is valued at under \$100.00; are furniture and fixtures considered equipment; and the possibility of putting some limitations indicating this would only apply to smaller businesses or that they would have to report and calculate in aggregates instead of per individual item. The Department of Revenue stated they have no data available to show whether it costs more to collect the tax than is gained, nor does it have information on percentages of property valued under \$100.00. Jeff Martin, Legislative Council staff, made the distinction between machinery and equipment, and furniture and fixtures, that are listed separately in Class 8 property.

Chairman Halligan asked Mick Robinson if the Department of Revenue has information on the fiscal impact this bill would present if passed. Mr. Robinson replied that they do not have the data available on which to base any calculations, but he believes the fiscal impact will be slight and insignificant. The Department of Revenue will be providing a fiscal note.

Senator Gage stated it is his intention that any pieces of equipment, whether they are called furniture, fixtures, trucks, buses or whatever, in Class 8, which have a value of \$100.00 or less, would be exempt from taxes.

Closing by Sponsor:

In closing, Senator Gage stated that taxation is a revenue maker, it has nothing to do with fairness and equity, and he asks the committee to consider this in its deliberations.

HEARING ON SB 123**Opening Statement by Sponsor:**

Senator Delwyn Gage, representing Senate District #5, presented Senate Bill 123. The purpose of this bill is to exempt from property taxation all supplies which include all tangible material used or consumed in a business. If this bill passes, it would amend Sections 15-6-138 and 15-6-201, M.C.A. The

bill further provides for an immediate effective date and a retroactive applicability date to tax years beginning after December 31, 1992.

Senator Gage stated there is some confusion as to what is considered supplies and what is considered inventory, and this committee may wish to determine a better definition of supplies. He also suggested that this committee may want to determine that if an item is an integral part of serving a product to a customer, then it would be supplies; if it is consumed in the normal course of operating a business, it would not be supplies.

The Department of Revenue will provide a fiscal note, and has indicated to Senator Gage that this bill would have a total fiscal impact of around \$4.2 million less tax revenue if total supplies are exempted.

Senator Gage said the Department of Revenue has requested a later effective date and applicability date. He presented the committee secretary with Amendments to Senate Bill 123 prepared by the Department of Revenue which would eliminate the immediate effective date and amend the retroactive applicability of the bill from the 1993 tax year to a prospective applicability date starting with the 1994 tax year.

Proponents' Testimony:

None.

Opponents' Testimony:

Chuck Stearns, Finance Officer and City Clerk of the City of Missoula, appeared expressing reasons the City of Missoula is opposed to this bill. The impact to the City of Missoula would be about \$9,000.00 per year; with all taxing jurisdictions in Missoula County, this would be about \$36,000.00 per year. Missoula is taking a principle stand against this bill because of the declining tax base it would create.

Informational Testimony:

Mick Robinson, Director of the Montana Department of Revenue, and Ken Morrison, with the Administrative Property Assessment Division of the Department of Revenue, were available to answer questions. Mr. Robinson said this tax is a self-assessed tax.

Questions From Committee Members and Responses:

Ken Morrison read the Department of Revenue Rules which define supplies as including all tangible materials used or consumed in a business except those tangible materials which are held by a taxpayer as his stock in trade or sales in the ordinary course of business. Examples of supplies include, but are not limited to, fuel used in operations, parts held for repair in machinery, and chemicals used in process operations. Supplies do not include raw materials that are part of the final product.

Upon questioning by Senator Harp, Chuck Stearns reported the City of Missoula takes the position, along with the League of Cities and Towns, that if a sales tax is considered by referendum, the cities need full and individual replacement dollars.


Senator Van Valkenburg asked how the Department of Revenue arrived at its \$4.2 million lost revenue figure as compared to Missoula's lost-revenue figure of \$36,000.00. Chuck Stearns said Missoula limited its figures to Subcategory No. 6519, supplies and materials within Class 8 transactions, and Mick Robinson replied the Department of Revenue took figures from Class 5 (miscellaneous property, \$44,000.00), Class 8 (general personal property, \$1.9 million), Class 9 (utilities, \$1.3 million), and Class 12 (railroads and airlines, \$840,000.00).

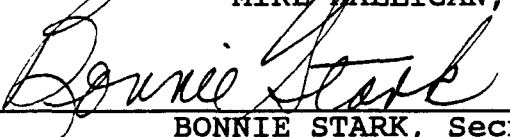
Closing by Sponsor:

Senator Gage's information from his local County Assessor is that this is a hard tax to determine, and some taxing entities may be more impacted than others.

ADJOURNMENT

Adjournment: The meeting adjourned at 8:55 a.m.


MIKE HALLIGAN, Chair


BONNIE STARK, Secretary

MH/bjs

ROLL CALL

SENATE COMMITTEE TAXATION

DATE 1-14-93

[illegible]

FC8

Attach to each day's minutes

DATE 1-14-93

SENATE COMMITTEE ON Taxation

BILLS BEING HEARD TODAY: SB 122, 123

Name	Representing	Bill No.	Check One	
			Support	Oppose
Chuck Stearns	City of Missoula	SB 122		✓
Chuck Stearns	City of Missoula	SB 123		✓
Shelly Larve	City of Helena	SB 122		✓

VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY