

MINUTES

MONTANA SENATE
53rd LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By Senator Mike Halligan, on February 8, 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: None.
Executive Action: None.
Discussion: SB 235

DISCUSSION ON SB 235

Mick Robinson, Director of the Department of Revenue, presented Exhibit 1 (Revenue Estimate) and Exhibit 2 (Sales Tax Projection Model Methodology) to these minutes which are general information, and which address requests on how amendments might impact the sales tax in total revenue projections. Exhibit 3 is a Summary of Proposed Amendments.

Senator Eck questioned Mr. Robinson about Gambling as listed under Amusement and Recreational Services on Exhibit 1. Mr. Robinson said the listing "Gambling, Recreational Clubs, Ski

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"Areas, & Other Rec. Services" is a category in terms of the code, and the revenue listed there is for ski areas, etc. Gambling is exempt under SB 235 because of double taxation.

Senator Towe questioned Mr. Robinson about the zero revenue estimate on Exhibit 1 from Agriculture, Mining, and Manufacturing. Mr. Robinson said this is in terms of sales which are exempt. Purchases in agricultural areas, such as implements, would have a sales tax applied.

Senator Towe asked Mr. Robinson if the figures used in Exhibit 1 are based on the Department's sector by sector analysis of SB 235, or a referral to a sales tax in some other states. Mr. Robinson said Exhibit 1 flows into the revenue estimate used for SB 235. Some of the background data is gained from other states' experience, but the Department tried to be as specific as possible to SB 235 estimates.

Senator Towe questioned Mr. Robinson about the figures in the Impact of Tax Reform Proposal (copy attached to these minutes). Mr. Robinson said these estimates are based on U.S. Census information in terms of spending patterns for various income groups and adapted to the spending patterns within Montana, coupled with what is taxable and what is not taxable under SB 235.

Senator Eck asked Mr. Robinson if the Department would provide information for the categories that are exempt, i.e., what the receipts would be if the categories were not exempt.

Senator Grosfield asked Mr. Robinson about the use tax. Mr. Robinson said the use tax is a similar percentage tax to be levied on products purchased in another state and brought into Montana and used here.

Senator Van Valkenburg questioned Mr. Robinson about the discrepancy in the estimated tax on Montana Power Company utility services; MPC estimated \$16.7 million and the Department estimates \$15.5 million. Mr. Robinson said the Department's total estimate for electric, gas and sanitary services is \$17 million and includes more utilities than just Montana Power Company.

Senator Yellowtail asked Mr. Robinson if the Department had extrapolated what percentage of revenue is expected from the tourism industry in Montana. Mr. Robinson said the Department does not have a realistic estimate of what the total tourist dollar is in Montana. A recent study done in Florida estimates 6.7% of their sales tax is exported through the out-of-state tourist dollar. Through businesses buying within the state, Florida estimates almost 25% of the sales tax is exported out. Mr. Robinson estimates below 10% of the sales tax dollar would be exported by tourists to Montana.

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Senator Halligan said Montana's accommodation tax was approximately 50-50 between in-state tourists and out-of-state tourists.

Senator Eck asked Mr. Robinson if the Department could get information on a study done a few years ago by one of the universities on tourist dollars spent in Montana.

Senator Doherty asked Mr. Robinson if SB 235 would repeal I-105. Mr. Robinson responded there is nothing specific in this bill to repeal I-105 and, because of the comprehensive tax reform covered under SB 235, he thought the administration would look favorably upon including a repeal of I-105 as an amendment to SB 235.

Senator Doherty asked who would pay for the election on SB 235, and Mr. Robinson said if there is going to be a June 8th election on SB 235, he would estimate it would be paid from dollars available in this fiscal year from the General Fund. Mr. Robinson said that appropriation has not been included in the executive budget and would need to be appropriated within this legislative session.

Senator Gage asked the Revenue Department how vending machines would be handled and who pays the programming cost. Mr. Robinson and Dave Woodgerd, Chief Legal Counsel for the Department, said wording is included in SB 235 allowing the vending machine operator to treat the vending machine more as a gross receipts tax than a sales tax.

Senator Gage asked how goods and services brought into the state would be tracked for purposes of the use tax. Mr. Robinson said there is probably no cost-effective way to track the smaller items, so it would have to be voluntary. The larger items, i.e., vehicles and machinery, etc., would be caught through a necessary registration system.

Mr. Robinson, responding to Senator Gage's questions regarding prepared foods, said foods purchased for home consumption, i.e., frozen dinners, etc., would not be subject to the tax; however, take-out pizza is considered a prepared food and would be subject to the tax.

Senator Gage questioned Mr. Robinson about the impact on county and municipal governments if I-105 is repealed. Mr. Robinson said one of the fears with the sales tax is that if the tax relief is provided in terms of property tax and income tax, and the sales tax is capped, what is to stop counties and the state from increasing the other taxes if I-105 is repealed. Mr. Robinson said Gordon Morris, Executive Director of the Montana Association of Counties (MACO), believes there is a present statute, outside of I-105, that provides limits on increasing county taxes on a yearly basis.

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Senator Gage asked if there is any estimate about how many people will file tax returns just to get the rent or homestead credit. Mr. Robinson said many of these same taxpayers would be filing a claim for an income tax refund anyway. Jeff Miller, Income Tax Division, Department of Revenue, said the Department estimates 47,000 will claim the low-income rebate, 96,000 will claim the renter credit, and 205,000 eligible households will claim the homestead credit. Mr. Miller said there is over-lap in these populations, that 100,000 will fall off the income tax rolls, and one or more will come back in for claims or credits.

Senator Gage asked about estimates on corporation returns. Mr. Robinson said the Department does not have any reliable information to project what the business sales tax will be, how much of that will be passed on to the consumer and how much will be absorbed by the corporation. There is a substantial percentage of the sales tax dollars that will be first paid by the businesses on their supplies, services, accounting, legal costs, etc.

Senator Harp questioned when the public vote will be taken on SB 235, and asked if the administration would be opposed to a November election rather than a June election. Mr. Robinson said there needs to be enough time to present the information to the public, and doesn't think there would be any opposition from the administration for a vote during the November election.

Senator Van Valkenburg questioned Mr. Robinson about employees needed to implement the sales tax. Mr. Robinson responded that approximately 131 full-time employees would be needed, and the Department is considering the ability to contract out some of the services. There would be some start-up employees, but most of the 131 employees would be on-going. The estimate includes all costs, including equipment, travel in terms of educating the vendors, paper costs, and rent estimates.

Senator Van Valkenburg asked Mr. Robinson if there were any anticipated reductions in expenses in the income tax or property tax divisions if SB 235 passes. Mr. Robinson did not foresee much of a decrease, if any, in either of those areas. There would probably be more paper work with low income credits and renter credits than is handled now with the income tax system. There would be no major change affecting the property tax division.

Senator Van Valkenburg asked if there is an estimate of how much additional Federal Income Tax Montanans would pay as a result of the implementation of SB 235. Mr. Robinson will make this information available. Jeff Miller said an analysis of 1991 data shows there are households who will get an increased Federal Income Tax Deduction because their state income tax goes up; these amount to \$2.5 million. There are others whose state income and property taxes will go down and their Federal taxes go up; these total \$6.6 million. These figures net together for a

total increase in Federal Income Taxes of \$4.1 million for Montana households. Copies of the spread sheet by income groups will be provided to the committee.

Senator Doherty asked about the estimated revenue of \$313 million and what happens if these estimates are unreasonably high or low. Mr. Robinson said the Department is trying to give a realistic, reasonable estimate and, if anything, they believe it is on the lower side and their revenue estimates are not overly optimistic. In the event of an overly optimistic estimate, there would be a dismantling necessary correct it. If there is an excess amount of revenue, it will flow into the general fund balance for the next biennium.

Senator Gage asked Mr. Robinson if the administration has looked at legislative bills which would tie into a sales tax for the 1995 biennium. Mr. Robinson said the administration has basically been focusing on the SB 235 tax reform package. If there appears to be a change in terms of the application date, there would have to be some discussion on what revenue mechanism would be necessary until the tax reform plan would become a reality. There has not been a specific discussion of other revenue sources.

Senator Towe asked if there is a mechanism for bringing money into the local counties and school districts as a result of the reduction in property taxes in SB 235. Mr. Robinson said there is a mechanism, but it needs some work. The basic approach is that the first allocation would be back to the local level to keep the counties whole. The Department has looked at the situation that a certain percentage should be allocated to local governments so if the sales tax revenue would increase over a period of time, the local government would receive that same percentage increase and be compensated for the economic activity seen within the state. If the economy drops, the local governments would be sharing in that drop, also. Another mechanism looked at is to have the amount stated at a particular point in time and if there has been growth, increase in mills at the local level. The Department would present amendments to clarify this particular issue.

Senator Towe questioned the Department on the exemptions in Section 120 of SB 235, regarding the unprocessed products of livestock, etc. Dave Woodgerd said this would probably include eggs and dairy products. The Department will find out and report back to us. Mr. Robinson said there is no intent to vary from the present tax rolls regarding this.

Senator Towe questioned the Department about Sections 166 and 167 in SB 235, regarding taxable percentage rate increases and whether this applied to property tax rates as well as sales tax rates. Mr. Robinson said this applies only to the sales tax rate. On further questioning, Mr. Robinson said there will be a constitutional provision as part of the tax reform package which

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will not allow an increase in the sales tax without a vote of the people.

Senator Towe asked Mr. Robinson about the competitiveness between states, and the exemption for the individual who wishes to move to Montana and bring his furniture and household items with him. However, a new business which moves to Montana and brings its office furniture and equipment is not excluded from the sales tax. Mr. Robinson said there is no specific exemption for that business in SB 235. It is not the intent of the bill to tax a business wanting to locate in Montana for the equipment they would bring into the state, so this may be something to look at as an exemption in SB 235.

Senator Gage asked Mr. Robinson how the Department would police the 6-month residency requirement to qualify for the homestead exemption. Mr. Robinson said the only mechanism the Department has would be a question on the Montana Income Tax Return form, and the question would become a part of the normal audit procedure.

Senator Eck asked for the definition of "amusement services". Mr. Robinson said the Department focused on the video vending machines, such as video arcade machines.

Senator Eck, referring to the gross receipts method of taxing the vending machines, such as cigarette or pop machines, asked Mr. Robinson why the definition of "gross receipts" was taken out of SB 235. Mr. Robinson said the Department wanted to remove the anti-competitive situation for Montana businesses in that some businesses would decide to absorb a gross receipts tax when other businesses would have to pass it on to their customers as a means of staying in business. With this in mind, Montana's tax would be a sales tax, not a gross receipts tax. Senator Eck then asked about putting the gross receipts definition back in SB 235, or have a new definition of gross receipts and have this tax apply only to vending machines and gaming machines. Mr. Robinson said SB 235 has language that allows for taxation of vending machines without having the 4% sales tax directly computed within the price. This allows the operators of the vending machines to treat it as a gross receipts tax and not a sales tax. The Department will take a look at expanding the language, but Mr. Robinson does hesitate to put gross receipts in SB 235 unless it is narrowly defined in terms of one or two areas of business.

Senator Eck asked how the Department defined between "exempt" and "non-taxable". Mr. Robinson said an exemption means that a product is exempt no matter who acquires or purchases that item, i.e., medical services. Non-taxable areas are based on the use to which that product is put. In a transaction where television sets are transferred from a wholesaler to a retailer, the transaction is not subject to the sales tax. However, when the retailer sells that television set, a sales tax is levied. A sales tax taxes the end use of that product.

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Senator Eck asked for definitions on printed material as listed in Section 23. Mr. Robinson will furnish charts the Department has on how other states interpret this grouping. There are some major court cases in progress now that try to deal with the interstate sales taxation. This tax became difficult to administer and the dollars included there were probably not substantial, so the Department felt exempting printed material would be the best approach.

Senator Van Valkenburg asked Mr. Robinson if the low income refundable credit is taxable for Federal Income Tax purposes. Mr. Robinson said his interpretation is that it probably would be subject to tax; however, those individuals at that level probably would not meet the taxable income threshold, and, although it would be considered part of their gross income, these groups would probably not be paying a Federal tax.

Senator Van Valkenburg said the representative of the Montana Retail Association testified that the vendor allowance in SB 235 is totally unacceptable, and said they needed three times the amount of vendor allowance than is included in the bill. The senator asked Mr. Robinson if some adjustment should be made for an increase in the vendor allowance in order to get the support of the retailers. Mr. Robinson said the vendor allowance is a reasonable accommodation; there is some cost borne by the retailers but he doesn't think it is any different than the other costs the retailers have to absorb in terms of providing information regarding withholding information for employees, etc. Mr. Robinson the Department is open to discussion on a need to look at the dollar amount of the vendor allowance.

Answering questions by Senator Van Valkenburg, Mr. Robinson said the sales tax revenue will change with the economy. The percentage growth in the sales tax revenue would provide for, and probably exceed, the growth in the income tax rebate or income tax relief presented within SB 235. In the event of a down turn in the economy, Mr. Robinson said the fact that the tax proposed by SB 235 is broad-based would provide the state with a more stable tax system. There may be fluctuations in one of those tax sources, but the over-all system would be stable.

Senator Van Valkenburg asked how the Department came up with an estimated \$120 million a year net increase as shown on a chart entitled, "Overall Tax Burden, Current Law vs. Proposed" (included in Exhibit 18 to the hearing on 2/2/93). Mr. Robinson said the Department is presently trying to put some of that information together, and said this chart is based on the effective percentage of tax that is paid on the various income groups. Within the State of Montana, a significant portion of taxpayers would be paying an increase in tax. A larger number of people would receive a substantial decrease in their tax. The decrease will not amount to a great deal of dollars, but the small effective tax increase at the higher levels does amount to a significant increase in taxation.

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Senator Grosfield questioned the low income credit. Mr. Robinson said it is a household income test, i.e., in a household with less than \$13,000 income, there would be a \$90 deduction for each person in the household.

In response to questions by Senator Grosfield, Mr. Robinson said the property tax cost of going from 9% to 3.86% is \$44 million, and the cost of going from 3.86% to 0% is estimated to be \$25 million. He believes there be some decrease in administrative costs, estimated around \$1 million.

Senator Grosfield asked if the \$100 million deficit reduction listed in the pie chart (page 64, Exhibit 18 to the 2/2/93 hearing) would be new money. Mr. Robinson said the Governor's proposal is based on looking at expenditure reductions first, and the sales tax reform bill would then provide enough new revenue to cover the rest of the remaining fiscal imbalance within the biennium. What is wanted in the tax reform is not to provide a lot of new revenue, but to have a reform package that covers the present fiscal situation.

Senator Bruce Crippen, sponsor of SB 235, responded to some questions from Committee members, saying the charts relate to Montana taxpayers only. An approximation of up to 15% of the sales tax will come from non-Montanans. Senator Crippen said the projections are for a 5% estimate to come from a use tax, which would not be reflected on the charts. Senator Crippen said SB 235 is a start on an over-all tax reform, and he is ready and willing to work to try to fashion a proposal to take to the floor of the Senate.

Senator Doherty asked Mr. Robinson about the end-use tax. Mr. Robinson explained what was excluded in agriculture, mining and manufacturing were those elements that basically make up the components, such as seed and fertilizer in agriculture. However, the purchase of a pickup, or other equipment used in agriculture, would be taxed. The Senator asked if he bought hay to feed his calves, would it be taxed. Mr. Robinson said it would not be taxed. However, if he bought cyanide to use in a gold mining process, would that be taxed. The Senator asked about the tax on the end use of services, such as the final tax return in an accounting firm, if the paper, computers, etc., used in preparing the tax return, would be taxed. Mr. Robinson said the articles of equipment would be taxed.

In answer to questions by Senator Towe, Mr. Robinson said the approach taken in the broad-based tax proposal in Montana differs from other states in that other states seem to be moving toward the expansion of a number of services they offer subject to a sales tax. In Montana, we want to put a tax reform package into place, covering a wide range of services and goods, which has a sales tax as a vehicle for the tax reform, in order to provide some reform and relief in the other areas of taxation. We are trying to put together a broad-based sales tax necessary

for the future of the state in terms of providing the adequate revenue to meet the services.

Mr. Robinson responded to questions by Senator Towe on inclusions in SB 235, as follows: Funeral services, taxed; Fees for recreational lessons, i.e. swimming lessons, etc., taxed; Tuition fee by a state university, not taxed because of a governmental entity; Private school tuition, subject to tax, however, there may be an unfair treatment question in that situation. The Department is not sure if it will propose an amendment on this unfair treatment question.

Senator Towe asked about the equipment and purchases made by hospitals, clinics, doctors offices, etc., on medical equipment. Mr. Robinson said these equipment items would be subject to tax.

Senator Towe questioned the exclusion for goods sold by charitable organizations as listed in Section 19 of SB 235. Mr. Robinson said that continual, on-going sales by charitable organizations are taxed; however, the one-time sales, such as Girl Scout Cookies, are not taxed.

Senator Stang asked Mr. Robinson about taxation of Tribes, and if the Department thinks it is necessary to put an amendment in SB 235 which requires the state to enter into negotiations with the Tribes. Mr. Robinson said there is a bill flowing through the Legislature which provides for those negotiations, however, it may be reasonable to go ahead and put language into SB 235 to be sure that it is clear that the state will negotiate with Tribes on the application and collection of sales tax on the Reservations.

Senator Stang asked if the Department has done any survey about the vendors' costs to program their machines, what type of reports the vendors will have to file, and how long it will take them to fill out and file these reports. Mr. Robinson said no specific survey has been done, however, many businesses have electronic cash registers and the process would be fairly simple. The reporting information would be derived from the electronic cash registers and could easily be included on a report and sent to the Department of Revenue. The Department is trying to keep the report administratively simple and not provide for voluminous information. Mr. Robinson said no study has been done on the bonds necessary, or on the book work necessary to acquire the bonds.

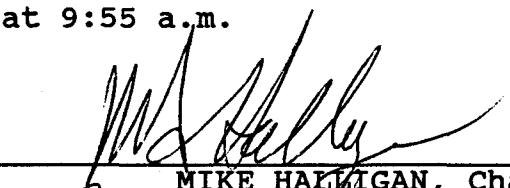
Senator Stang asked if the Department knows what the percent reduction or increase in taxes is on an individual, as compared to the tax reform impact on a business showing a 50% reduction in taxes. Mr. Robinson said the Department could try to make that computation.

No executive action was taken on SB 235.

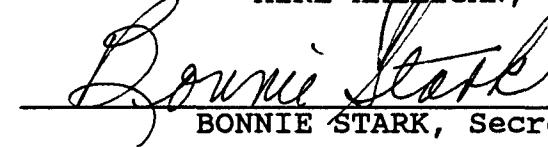
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ADJOURNMENT

Adjournment: The meeting adjourned at 9:55 a.m.



MIKE HALLIGAN, Chair



BONNIE STARK, Secretary

MH/bjs

ROLL CALL

SENATE COMMITTEE ON TAXATION

DATE 2-8-93

REVENUE ESTIMATE FOR THE LC 373 SALES TAX (1-13-93 DRAFT) PROPOSAL
Tax Base Includes Lodging, Utilities; Excludes Food, Health Services, Trade-ins, Other

FY 1995

SENATE TAXATION

EXHIBIT NO. 1

DATE 2-8-93

BILL NO. SB 235

ECONOMIC SECTOR

REVENUE
ESTIMATE
(Thousands \$)

Agriculture	0
Mining	0
Construction (special trade contractors only)	17,645
Manufacturing	0
Transportation & Utility Services	28,894
Wholesale Trade	16,897
Retail Trade	147,462
Finance, Insurance, & Real Estate Services	6,063
Recreational, Business/Professional, Repair, & Other Services	81,505
SUB-TOTAL	298,466
Plus Use Tax (5%)	14,923
TOTAL	313,389

TAX ESTIMATE FOR THE LC 373 SALES TAX PROPOSAL
 (Tax Base Includes Lodging, Utilities; Excludes Food, Other)

January 13, 1993 Draft Proposal

ECONOMIC SECTOR	SIC Code*	ESTIMATED FY 1995 4% Sales Tax (thousands \$)
CONSTRUCTION	15-17	17,645
BUILDING CONSTRUCTION: GENERAL CONTRACTORS	15	0
Residential Building General Contractors	152	0
Operative Builders	153	0
Nonresidential Building General Contractors	154	0
HIGHWAY, UTILITY, & OTHER HEAVY CONSTRUCTION	16	0
Highway (ex elevated) & Street Construction	161	0
Utility, Bridge, & Other Heavy Construction	162	0
SPECIAL TRADE CONSTRUCTION CONTRACTORS	17	17,645
Plumbing, Heating, & Air Conditioning Construction	171	3,120
Painting & Paper Hanging	172	361
Electrical Contractors	173	2,188
Masonry, Drywall, Insulation, Tiling	174	865
Carpentry & Floor Laying	175	2,704
Roofing, Siding, & Sheet Metal Contractors	176	2,265
Concrete Construction—private driveways/walks, foundations	177	473
Water Well Drilling	178	511
Excavation, Glass, Building Equip. Installation, Fencing, Other	179	5,157

*Standard Industrial Classification Code

Office of Research & Information, Department of Revenue

20-Jan-93

TAX ESTIMATE FOR THE LC 373 SALES TAX PROPOSAL
 (Tax Base Includes Lodging, Utilities; Excludes Food, Other)

January 13, 1993 Draft Proposal

ECONOMIC SECTOR	SIC Code*	ESTIMATED	
		FY 1995	4% Sales Tax (thousands \$)
TRANSPORTATION & UTILITY SERVICES		40-49	28,894
RAILROAD TRANSPORTATION (Intra-State)	40	753	
HIGHWAY PASSENGER TRANSPORTATION	41	249	
Local & Suburban Passenger Transportation	411	43	
Taxicabs	412	59	
Intercity & Rural Bus Transportation (Intra-State)	413	65	
Bus Charter Services	414	76	
School Buses	415	0	
Motor Vehicle Terminal Facility Services	417	6	
MOTOR FREIGHT TRANSPORTATION & WAREHOUSING	42	3,269	
Trucking & Courier Services, Except Air (Intra-State)	421	3,132	
Public Warehousing & Storage	422	138	
UNITED STATES POSTAL SERVICE	43	0	
WATER TRANSPORTATION	44	-74	
Sightseeing Boats & Other Water Passenger Services	448	12	
Marinas	449	61	
AIR TRANSPORTATION	45	242	
Scheduled Air Transportation (Intra-State)	451	34	
Charter & Other Nonscheduled Air Transportation	452	128	
Airport Services	458	80	
PIPELINE TRANSPORTATION, EX. NATURAL GAS	46	139	
TRANSPORTATION SERVICES	47	926	
Arrangement of Passenger Transportation (Commissions)	472	714	
Arrangement of Freight Transportation (Commissions)	473	187	
Railroad Car Rental, Repair, & Other Transportation Services	474, 478	25	
COMMUNICATIONS	48	6,116	
Telephone Communications	481	5,892	
Telegraph & Other Message Communications	482	0	
Radio & Television Broadcasting	483	19	
Cable & Other Pay Television Services	484	189	
Radar, Satellite, & Other Comm. Services	489	16	
ELECTRIC, GAS, & SANITARY SERVICES		49	17,126
Electric and Gas Utility Services	491, 492, 493	15,581	
Water/Sewer Systems, Refuse, Other	494, 495	1,522	
Steam & Air-Conditioning Supply	496	24	
Irrigation Systems	497	0	

* Standard Industrial Classification Code

TAX ESTIMATE FOR THE LC 373 SALES TAX PROPOSAL
 (Tax Base Includes Lodging, Utilities; Excludes Food, Other)

January 13, 1993 Draft Proposal

ECONOMIC SECTOR	SIC Code*	ESTIMATED FY 1995 4% Sales Tax (thousands \$)
WHOLESALE TRADE	50, 51	16,897
WHOLESALE TRADE—DURABLE GOODS	50	12,815
Motor Vehicles, Parts, & Supplies	501	1,072
Furniture & Home Furnishings	502	365
Lumber & Other Construction Materials	503	2,780
Professional/Commercial Equipment & Supplies	504	2,795
Metals & Minerals, Except Petroleum	505	4
Electrical Goods	506	359
Hardware, Plumbing/Heating Equipment & Supplies	507	263
Farm, Construction, Industrial, Other Machinery	508	4,730
Other Durable Goods	509	445
NONDURABLE GOODS	51	4,082
Paper & Paper Products	511	723
Drugs & Sundries (excludes prescription drugs)	512	278
Apparel, Piece Goods, & Notions	513	15
Groceries & Related Products (excludes food)	514	1,015
Grain, Livestock, & Other Farm Products	515	1,007
Chemicals & Allied Products	516	29
Petroleum & Petroleum Products (ex. motor fuels)	517	577
Beer, Wine, & Distilled Alcoholic Beverages	518	29
Other Nondurable Goods	519	410

* Standard Industrial Classification Code

Office of Research & Information, Department of Revenue

20-Jan-93

TAX ESTIMATE FOR THE LC 373 SALES TAX PROPOSAL
 (Tax Base Includes Lodging, Utilities; Excludes Food, Other)

EXHIBIT

DATE 2-8-93
SB-235

January 13, 1993 Draft Proposal

ECONOMIC SECTOR

**ESTIMATED
FY 1995
4% Sales Tax
(thousands \$)**

RETAIL TRADE	SIC Code*	52-59	147,462
BUILDING MATERIALS, GARDEN SUPPLIES, MOBILE HOMES		52	9,916
Lumber & Other Building Materials		521	5,145
Paint, Glass & Wallpaper Stores		523	777
Hardware Stores		525	3,502
Retail Nurseries/Lawn & Garden Supplies		526	329
Mobile Home Dealers		527	162
GENERAL MERCHANDISE STORES		53	28,800
Department Stores (except leased departments) >25 employees		531	25,811
Variety Stores		533	1,437
Other General Merchandise Stores		539	1,552
FOOD STORES		54	17,266
Grocery Stores (excludes food)		541	17,013
Meat and Fish Markets		542	0
Fruit & Vegetable Markets		543	0
Candy, Nut, & Confectionery Stores		544	149
Dairy Products Stores		545	0
Retail Bakeries		546	0
Health & Other Food Stores (excludes food)		549	104
MOTOR VEHICLE DEALERS, PARTS, GAS STATIONS		55	29,603
New & Used Motor Vehicle Dealers (new vehicles at 2.5%)		551	16,621
Exclusively Used Motor Vehicle Dealers		552	1,381
Auto & Home Supply Stores		553	6,015
Gasoline Service Stations (excludes motor fuels)		554	2,962
Boat Dealers		555	726
Recreational Vehicle Dealers		556	1,342
Motorcycle Dealers		557	327
Aircraft, Snowmobile, & Utility Trailer Dealers		559	230

* Standard Industrial Classification Code

TAX ESTIMATE FOR THE LC 373 SALES TAX PROPOSAL
 (Tax Base Includes Lodging, Utilities; Excludes Food, Other)

January 13, 1993 Draft Proposal

ECONOMIC SECTOR	SIC Code*	ESTIMATED FY 1995 4% Sales Tax (thousands \$)
APPAREL AND ACCESSORY STORES	56	7,372
Mens' & Boys' Clothing Stores	561	478
Womens' Clothing Stores	562	2,198
Womens' Accessory & Specialty Stores	563	54
Childrens' & Infant Wear Stores	564	158
Family Clothing Stores	565	2,549
Shoe Stores	566	1,584
Other Apparel & Accessory Stores	569	351
FURNITURE AND HOMEFURNISHINGS STORES	57	8,059
Home Furniture & Furnishings Stores	571	4,533
Household Appliance Stores	572	1,216
Radio/Television, Electronics, & Music Stores	573	2,310
EATING AND DRINKING PLACES	58	24,595
Eating Places	5812	21,329
Drinking Places	5813	3,266
OTHER RETAIL TRADE	59	21,853
Drug & Proprietary Stores (excludes prescription drugs)	591	3,569
Liquor Stores	592	0
Used Merchandise Stores	593	1,333
Sporting Goods, Gifts, Jewelry, Toys, Books, Sewing, Other	594	8,857
Catalog, Vending Machines, Direct Selling	596	2,300
Fuel Dealers (excludes motor and household fuels)	598	1,347
Florists, Pet Shops, & Other Retail Trade	599	4,446

* Standard Industrial Classification Code

Office of Research & Information, Department of Revenue

20-Jan-93

TAX ESTIMATE FOR THE LC 373 SALES TAX PROPOSAL
 (Tax Base Includes Lodging, Utilities; Excludes Food, Other)

January 13, 1993 Draft Proposal

ECONOMIC SECTOR	SIC Code*	ESTIMATED FY 1995 4% Sales Tax (thousands \$)
FINANCE, INSURANCE, & REAL ESTATE SERVICES	60-65, 67	6,063
BANKS & OTHER CREDIT INSTITUTIONS (Excludes Interest)	60-61	2,237
SECURITY & COMMODITY SERVICES	62	0
INSURANCE CARRIERS	63	0
INSURANCE AGENTS, AND BROKERS (Commissions)	64	636
REAL ESTATE SERVICES (Commissions)	65	1,947
HOLDING, TRUST, & OTHER INVESTMENT OFFICES	67	1,242

*Standard Industrial Classification Code

Office of Research and Information, Department of Revenue

20-Jan-93

TAX ESTIMATE FOR THE LC 373 SALES TAX PROPOSAL
 (Tax Base includes Lodging, Utilities; Excludes Food, Other)

January 13, 1993 Draft Proposal

ECONOMIC SECTOR	SIC Code*	ESTIMATED FY 1995 4% Sales Tax (thousands \$)
RECREATIONAL, BUSINESS/PROF., & OTHER SERVICES	70-89	81,505
LODGING PLACES	70	11,626
Hotels & Motels	701	10,668
Rooming & Boarding Houses	702	65
Recreational Vehicle Parks, Dude Ranches, & Rec. Camps	703	823
Membership Organization's Lodging Places	704	70
PERSONAL SERVICES	72	5,509
Laundry, Cleaning & Garment Services	721	1,490
Portrait Photographic Studios	722	341
Beauty Shops	723	1,374
Barber Shops	724	204
Shoe Repair Shops	725	40
Funeral Services including Cremation	726	1,615
Tax Return Prep., & Other Personal Services	729	444
BUSINESS SERVICES	73	13,453
Advertising Services	731	5
Consumer Credit Reporting/Collection	732	993
Mailing, Duplicating, Typing, Art/Photo	733	1,289
Services to Dwellings & Other Buildings	734	1,328
Miscellaneous Equipment Rental & Leasing	735	1,397
Personnel Supply Services	736	2,042
Computer Related Services	737	2,256
Photofinishing Labs, & Other Business Serv	738	4,142
MOTOR VEH. REPAIR, RENTAL, & OTHER SERVICES	75	10,093
Motor Vehicle Rental/Leasing, w/o Drivers	751	1,267
Automobile Parking	752	89
Motor Vehicle Repair Services	753	7,486
Motor Vehicles Services, Except Repair	754	1,251
ELECTRICAL AND OTHER REPAIR SERVICES	76	3,063
Electrical Repair Shops	762	623
Watch, Clock, & Jewelry Repair	763	5
Reupholstery & Furniture Repair	764	261
Welding, Armature Rewinding & Other Repair	769	2,175
MOTION PICTURES	78	1,805
Motion Picture Production, Distribution, Services	781, 782	264
Motion Picture Theaters	783	747
Video Tape Rental	784	795

* Standard Industrial Classification Code

DATE 2-8-93
FILE # SB-235TAX ESTIMATE FOR THE LC 373 SALES TAX PROPOSAL
(Tax Base Includes Lodging, Utilities; Excludes Food, Other)

January 13, 1993 Draft Proposal

ECONOMIC SECTOR

	SIC Code*	ESTIMATED FY 1995 4% Sales Tax (thousands \$)
AMUSEMENT AND RECREATIONAL SERVICES	79	8,608
Dance Studios, Schools, & Halls	791	55
Theatrical Producers, Bands/Orchestras, Other	792	817
Bowling Centers	793	591
Commercial Sports, Including Track Parimutuel Bets	794	32
Gambling, Recreational Clubs, Ski Areas, & Other Rec Services	799	7,112
HEALTH SERVICES	80	0
LEGAL SERVICES	81	9,992
PRIVATE EDUCATIONAL SERVICES	82	2,710
Elementary & Secondary Schools	821	1,151
Colleges, Universities, & Professional Sch.	822	1,115
Libraries	823	31
Vocational Schools	824	196
Other Schools & Educational Services	829	216
SOCIAL SERVICES	83	1,260
Individual & Family Social Services	832	169
Job Training & Vocational Rehabilitation Serv	833	345
Child Day Care Services	835	0
Residential Soc. & Personal Care—nonhealth	836	618
Community/Social Action Groups & Other	839	128
MUSEUMS, ART GALLERIES, ZOOS, & BOT. GARDENS	84	87
Museums & Art Galleries	841	83
Botanical and zoological Gardens	842	4
MEMBERSHIP ORGANIZATIONS	86	2,786
Business Associations	861	448
Professional Membership Organizations	862	135
Labor Unions & Similar Labor Organizations	863	377
Civic, Social, & Fraternal Associations	864	1,208
Political Organizations	865	0
Religious Organizations	866	0
Humane Societies, Art Councils, & Other	869	618
ENGINEERING, ACCOUNTING, RESEARCH, MGT SERV	87	9,430
Engineering, Architectural, & Surveying Ser	871	3,245
Accounting, Auditing, & Bookkeeping Services	872	2,849
Research, Development, & Testing Services	873	590
Management & Public Relations Services	874	2,745
ARTISTS, WRITERS, SCIENTIFIC CONSULT., OTHER	89	935
Forestry Services	085	147

* Standard Industrial Classification Code

SALES TAX PROJECTION MODEL METHODOLOGY

The sales tax receipts projection model was built by the Office of Research and Information (Montana Department of Revenue) over the period Fall 1991-Fall 1992. There is no history of general sales tax collections in Montana. Partly because of this, the methodological approach used was as follows:

1. First, compile and systematize the most reliable historical sales information by detailed economic sector and product;
2. Second, analyze those historical sales as compared with disposable personal income (spendable income received by persons);
3. Third, project future sales based on that analysis;
4. Fourth, determine the taxable portion of future sales;
5. Fifth and last, compute sales tax revenue based on taxable sales by detailed industry and product and the statutory rate of taxation.

The general methodology was borrowed from Estimated Revenue Potential From a General Sales and Use Tax, 1991 and 1992 (December 1988), Montana Legislative Council, Jeff Martin (author); along with A General Sales and Use Tax Revisited: Estimated Revenue for 1992 and 1993 (October 1990), Montana Legislative Council, Jeff Martin (author). The approach used in the Department of Revenue model involved much more industry and product detail, as well as using some alternate data series.

Sources of Data

There were two sources of data for economic sector historical sales, used in the sales tax projection model. These sources were the U.S. Bureau of the Census, and the Department of Revenue. The source for disposable (spendable) personal income was the U.S. Bureau of Economic Analysis.

The U.S. Bureau of the Census surveys business establishments for most sectors of the U.S. and state/county/city economies every 5 years. The Census Bureau refers to these surveys as their economic censuses, as contrasted to their household census, the last one being conducted in 1990. The last economic census for which data are currently available is 1987. Business firms are currently being surveyed for data on 1992.

One of the questions asked by the Census Bureau relates to sales. Thus, the methodology for the sales tax projection model used Bureau of the Census sales data for the construction industry; wholesale and retail trade; along with data for a number of service industries. These included recreational services, part of transportation (trucking, water, transportation arrangements), personal services such as hair cutting, business services (data processing etc.), repair, and professional services. Very detailed economic sector and products within sectors information for 1977, 1982, 1987 was used.

Sales information for utility (including communication) services, railroad transportation, highway passenger transportation, and pipelines, was compiled from Department of Revenue data, collected in connection with the Public Service Commission Tax and the Consumer Council Tax. Information was available for calendar years 1989-1991.

Updating Historical Sales Data

Before the historical sales information was analyzed in relation to disposable personal income, 1987 information for service industries (excluding utilities and part of transportation) was updated to 1991. The method used the ratio of 1991 payroll to 1987 payroll by very detailed service industries to adjust the 1987 sales information reported by the U.S. Census Bureau. The production of services by its very nature is quite labor intensive, and thus payroll cost is the major portion of the total cost of production and sales price. The payroll data used was collected in connection with the unemployment insurance program, administered by the Montana Department of Labor and Industry. These data are published annually in a very detailed form by the Bureau of Labor Statistics, U.S. Department of Labor in Employment and Wages, Annual Averages.

Comparison of Sales to Disposable Personal Income

The percent change in Montana sales over the 1977-1987 (1989-1991 for utilities and part of transportation) period was compared with the percent change in Montana disposable (spendable) personal income for the same time period. This resulted in positive and negative coefficients that measured whether or not sales increased or declined over this time period, and if sales advanced faster or slower than the growth in disposable personal income. These coefficients measure the responsiveness of sales of a particular industry to changes in disposable income.

Generally, the computed coefficients were positive indicating that sales receipts grew over this time period. Some industry receipts or the sale of products within an industry grew faster than disposable personal income, for example live theatre sales; and some grew slower, such as sales of food.

Projection of Future Sales

Sales for future years (FY 1994 and 1995) were projected using the percent change in disposable personal income from the base year, either 1987 or 1991, to FY 1994/1995 adjusted by the coefficients that measured the responsiveness of sales of a particular industry or product to changes in income. Projections were made for about 900 industries and products. The percent change in disposable personal income was computed from projected levels for FY 1994 and 1995, as adopted by the Legislative Revenue Oversight Committee (January 5, 1993), and from historical estimates of disposable personal income published by the U.S. Bureau of Economic Analysis.

Taxable Sales

Not all sales of a given industry are taxable. In a particular sales tax proposal, certain classes of products (goods or services) are exempt from taxation such as food and medical services. Sales to certain economic sectors are exempt, for example sales to government. Sales for resale are exempt. Thus any sales tax projection model must be designed to fit a particular piece of legislation in terms of what sales are taxable. In the Department of Revenue's projection model a taxable fraction (of sales) was estimated for each of the 900 items, using particular sales tax proposals and sales to different sectors data available from the U.S. Bureau of the Census.

Sector sales distribution information for wholesale and retail trade was only available at the national level. This was true for many service industries, also. Montana specific sales distribution information was available for other service industries such as engineering services. In addition, some Montana specific data were available for construction. Taxable fractions for most of transportation, and for utility services were borrowed from Jeff Martin's paper A General Sales and Use Tax Revisited: Estimated Revenue for 1992 and 1993.

Gross sales and taxable sales for finance, insurance, and real estate services were extracted from the above mentioned publication, updated to FY 1994 and 1995 by the projected change in disposable personal income. Sales data for these types of services are not available from the U.S. Census Bureau and are more difficult to compile.

Projected Sales Tax Revenue

Once taxable sales for each of the approximately 900 sectors/products were estimated by multiplying gross sales by the respective taxable fractions, it was a relatively simple procedure to estimate sales tax revenue. This was simply done by multiplying each taxable sales estimate by the proposed sales tax rate (4%), and adding up the results.

Accuracy of the Sales Tax Projections

Projecting revenues from a new tax is generally more challenging than for an established tax. In this case, there is no general sales tax collections history for Montana against which to evaluate the above described projection methodology. For any projection, the further out in time one projects from the base year (in this case 1987 and 1991), the greater the possibility for error, other factors being the same.

On the other hand, the above described methodology was applied at a very detailed industry and products within industries level. The projection of total sales tax revenues from a specific legislative proposal, was computed from adding up the 900 very specific projections. This method usually yields errors at the specific industry level that cancel each other, at least to some extent.

February 2, 1993

SUMMARY OF PROPOSED AMENDMENTS

SENATE TAXATION

EXHIBIT NO. 3

DATE 2-8-93

BILL NO. S B 235

Montana Retail Association:

Cap vendor monthly allowance at \$150 instead of \$50 (Section 48)

Building Industry Association

Nontaxability for sale of tangible personal property to person engaged in the construction of single family or multifamily residences (New Section)

Nontaxability of sale of service to person engaged in construction of single family or multifamily residences (New Section)

Montana Solid Waste Contractors

Include disposal services performed by public entity in the sales tax (Section 9)

Montana Power Company

Exempt sale of property and leased back to seller and the receipts from the lease rental payments (Section 17)

Exempt sale of lease of property or services between affiliated entities (common control) (New Section)

Exempt sale or use of energy for energy production for resale and in-plant use (Section 21)

Include mining in definition of manufacturing (Section 1 relating to Sections 27 and 30)

Exempt uncollectible accounts (New Section)

Montana Petroleum Association

Deduct sales between affiliated entities (Section 13)

Exempt occasional sales of business operating assets (Section 19)

Exempt joint interest transfers if sales tax has been previously paid (Section 19)

Exempt chemicals, reagents, etc., used in exploration, production... (Section 26)

Include oil and gas exploration and production in exemption of sale for mining and manufacturing (Section 27)

Exempt property used exclusively for exploration and production of oil or natural gas (Section 27?)

Exempt pollution control devices or systems (New section)

Montana Funeral Directors Association

Exempt sales of property and services for funeral services from sales tax (New

Section)

Other Amendments

Include sale of newspapers, books, and magazines in sales tax

Increase vendor allowance to \$100 per month

Increase personal property tax rate to 5%

Exempt certain level of consumption of utilities

Include gambling or amusement services in sales tax (Section 15)

**IMPACT OF TAX REFORM PROPOSAL LC373 ON AVERAGE TAX BURDEN
STATEWIDE AVERAGE, ALL HOUSEHOLDS**

	Less Than \$5,000	\$5,000 to \$9,999	\$10,000 to \$14,999	\$15,000 to \$19,999	\$20,000 to \$29,999	\$30,000 to \$39,999	\$40,000 to \$49,999	\$50,000 and Over
All Consumers	\$5,000	\$9,999	\$14,999	\$19,999	\$29,999	\$39,999	\$49,999	=====
Average Income Before Taxes	31,308	2,420	7,502	12,331	17,357	24,555	34,474	44,550
Total Expenditures	28,323	11,552	12,416	16,630	19,859	25,025	32,367	37,251
Average Number in Household	2.5	1.7	1.9	2.1	2.4	2.6	2.8	3.1
Total Number of Households	306,919	22,480	38,514	37,551	34,306	60,206	45,073	28,560
- Number of Homeowner Households	231,399	10,566	21,568	23,282	25,043	49,369	39,664	25,704
- Number of Renter Households	75,517	11,914	16,946	14,269	9,263	10,837	5,409	2,856
- Proportion of Homeowner Households	0.75	0.47	0.56	0.62	0.73	0.82	0.88	0.90
- Proportion of Renter Households	0.25	0.53	0.44	0.38	0.27	0.18	0.12	0.10
A. SALES TAX								
- Average Sales Tax, CL	0	0	0	0	0	0	0	0
- Average Sales Tax, PL	516	213	226	300	354	458	591	665
- Sales Tax Credit, PL	(47)	(153)	(171)	(113)	0	0	0	0
- Net Sales Tax, PL	469	60	55	187	354	458	591	665
- Change in Tax	469	60	55	187	354	458	591	665
B. INCOME TAX								
- Average Tax, CL	1,148	11	90	222	393	727	1,262	1,786
- Average Tax, PL	974	0	6	98	225	495	1,021	1,595
- Change in Tax	(173)	(11)	(84)	(124)	(168)	(232)	(241)	(191)
- % Change in Tax	-15%	-100%	-93%	-56%	-43%	-32%	-19%	-11%

Data for Sales Tax Presentation Graphics:

INDIVIDUAL INCOME TAX		Income Group:							
Percent Reduction in Tax Burden		Graph1	-100.0%	-93.3%	-55.9%	-42.7%	-31.9%	-19.1%	-10.7%
PROPERTY TAX									
Reduction due to homestead exemption	Graph2	-90	-139	-173	-206	-231	-248	-254	-254
Reduction due to renter's credit	Graph2	-106	-88	-76	-54	-36	-24	-20	-20
Total Reduction	Graph2	-196	-227	-249	-260	-267	-272	-274	-274
Property Tax Relief									
- as a % of income:	Graph11	-8.1%	-3.0%	-2.0%	-1.5%	-1.1%	-0.8%	-0.6%	-0.3%
- as a % of CL tax:	Graph12	-217.7%	-163.3%	-139.9%	-101.1%	-75.9%	-57.5%	-42.8%	-22.9%
SALES TAX									
Sales Tax Burden	Graph3	8.8%	3.0%	2.4%	2.0%	1.9%	1.7%	1.5%	1.3%
Low-Income Sales Tax Credit	Graph4	153	171	113	0	0	0	0	0
Sales Tax Burden - After Sales Tax Cr.	Graph5	2.5%	0.7%	1.5%	2.0%	1.9%	1.7%	1.5%	1.3%
OVERALL BURDEN									
Current Law	Graph6	4.18%	3.05%	3.24%	3.75%	4.40%	5.04%	5.45%	7.01%
CL, Plus Sales Tax	Graph7	12.98%	6.06%	5.68%	5.78%	6.26%	6.75%	6.94%	8.29%
CL, Plus Sales Tax, Plus Inc. Tax	Graph8	12.52%	4.94%	4.67%	4.82%	5.32%	6.05%	6.51%	8.01%
CL,+ST,+IT,+Low-Income Credit	Graph9	6.20%	2.66%	3.75%	4.82%	5.32%	6.05%	6.51%	8.01%
CL,+ST,+IT,+LICR+Prop Credits	Graph10	-1.90%	-0.36%	1.73%	3.32%	4.23%	5.26%	5.89%	7.66%

Sales Tax Burden		Graph1	-0.36%	1.73%	3.32%	4.23%	5.26%	5.89%	7.66%
Low-Income Sales Tax Credit									
Sales Tax Burden - After Sales Tax Cr.									

Sales Tax Burden		Graph1	-0.36%	1.73%	3.32%	4.23%	5.26%	5.89%	7.66%
Overall Burden									
Current Law	Graph6	4.18%	3.05%	3.24%	3.75%	4.40%	5.04%	5.45%	7.01%
CL, Plus Sales Tax	Graph7	12.98%	6.06%	5.68%	5.78%	6.26%	6.75%	6.94%	8.29%
CL, Plus Sales Tax, Plus Inc. Tax	Graph8	12.52%	4.94%	4.67%	4.82%	5.32%	6.05%	6.51%	8.01%
CL,+ST,+IT,+Low-Income Credit	Graph9	6.20%	2.66%	3.75%	4.82%	5.32%	6.05%	6.51%	8.01%
CL,+ST,+IT,+LICR+Prop Credits	Graph10	-1.90%	-0.36%	1.73%	3.32%	4.23%	5.26%	5.89%	7.66%

1.90% -0.36% 1.73% 3.32% 4.23% 5.26% 5.89% 7.66%

2-8-93
SB 235