MINUTES

MONTANA SENATE
53rd LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By Chairman Mike Halligan, on March 5, 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: SB 235, SB 283

DISCUSSION ON SB 235 AND SB 283

Informational Testimony:

Mick Robinson, Director of the Department of Revenue (DOR), presented Exhibit No. 1 to these minutes, which are Amendments to SB 235, dated March 1, 1993, and cover amendments 13 through 19. Mr. Robinson reviewed each of these amendments and responded to questions from the committee as follows.

Amendment 13 clarifies the medical devices which are prescribed or dispensed by a licensed health care provider which would be exempt in SB 235.

Amendment 14 clarifies that all utilities, regulated and non-regulated, are subject to the sales and use tax. This would cover all utilities.

Amendment 15 clarifies that all aspects of refuse disposal services performed by private provider or a government unit, are subject to the sales tax.

Amendment 16 exempts the private school tuition from the sales tax.

Amendment 17 clarifies a question on double taxation on the leasing of a motion picture to a theater. The intention is to place the tax on the end user of the entertainment service, and not to tax the distribution of those movies as well the end user.

Amendment 18 is to allow for the credit regarding the write-off of bad debts. If a business is reporting the sales tax based on the accrual basis and then has a bad debt write-off, the DOR would allow for the downward adjustment to that. They would previously record it, pay the tax on the account receivable, and if they do not receive the collection, they would write it off and receive the decrease for that bad debt.

Amendment 19 will increase the vendor net allowance from $50 to $150 per month, or from $150 to $450 per quarter. This amendment would not have a negative impact on the net revenue.

All of the above amendments were discussed with the committee previously, and basically are for clarification of SB 235.

Director Robinson presented and reviewed Exhibit No. 2, entitled, "SB 235 Modification". He said the concept is not new, and is the Administration's effort to blend together some of the positive aspects presented in SB 283 with SB 235. Mr. Robinson said SB 235 can stand on its own, but the mechanism is there so that it can be connected with school equalization as Senator Waterman has presented in SB 283.

Director Robinson said property tax reform is the major modification. The Administration studied the property tax presentation in SB 283, but did not feel they could accept that modification. This modification has an approach to property tax reform that will allow the Administration to address school equalization. Mr. Robinson said this proposal repeals the state-wide mill levies and substitutes sales tax revenues for those state-wide mill levies. The 95 Mills presently going into the school equalization account, as well as the 6-Mill University levy, are repealed under this new proposal. There are other non-levied revenues that are distributed to the state, in the same proportion as a percentage of the total mills at the local level, which would be eliminated or repealed and replaced with sales tax revenue.

Mr. Robinson said the Administration has also tried to adjust the property tax rates for various classifications to a 4% level. Some of these are increases, some are decreases. This is the same concept as in SB 283. As the centrally-assessed property is decreased, there are significant impacts on local revenues and on state tax revenues. The Administration has presented an increase for Electric Energy Production License Tax and the Telephone Company License Tax, which is basically substituting revenue. As property tax is decreased, there is an increase in these two license taxes, which would have a tax-neutral impact on those large businesses. The Administration tried to reduce the reimbursement mechanism between the state and local governments. Instead of having a flow of taxes from local government to the state, and then a flow back to local governments, the Administration has tried to repeal the reimbursement requirement while maintaining the revenue at the local level. There will still be a reimbursement requirement back to local government because of the Class 9 reduction.

Under the SB 235 Modification, the Homestead Exemption of $20,000 in the original bill has been eliminated. The Commercial Property Tax Exemption of $10,000 per building has also been eliminated. The Modification has reduced the Retirement Exclusion from $15,000 to $7,500, and changed the Renter's Credit from a fixed dollar amount to the income, or means test, approach. The Renter's Credit will be allowed based on the household income level. All of these adjustments increase the total tax reform and relief in the amount of $49.12 million.

Director Robinson explained the graphs included in the SB 235 Modification. He said one of the distinct advantages of looking at sales tax revenue, coupled with a tax reform, is it does allow the DOR to address the regressivity situation in our current tax structure.

Mr. Robinson said the DOR is trying to put together information which will show a county-by-county analysis of the change to local governments. However, they do not know the distribution of the non-levy revenue and how much of that is associated with local government. The Class 9 properties are not spread evenly throughout the state, and there will be a greater impact on certain counties.

Exhibit No. 3 is "SB 235 Property Tax Related Amendments Proposed by the Department of Revenue", and ties in with the Modification presentation.

<u>**Questions From Committee Members and Responses**</u>:

Senator Yellowtail said this Modification represents an entire re-working of SB 235 in a very substantial magnitude, and he believes this Committee cannot re-work this bill in the time remaining. He suggests three responsible options this committee has: (1) To dismiss this as an irresponsible, 11th hour reintroduction of a new bill to this legislature; (2) To give the public of Montana, and all parties affected by this major revision, a proper opportunity to review this bill, and have a new hearing, with proper notice and full public disclosure; (3) To permit the Administration to take SB 235 as it was originally presented to this Legislature, this Committee, and the public, to the House of Representatives and then, in proper form, present it to the public.

Senator Harp said SB 235 has been in this Committee for about a month, and can work on changes at any time. The Administration is willing to bring this Modification proposal before the entire state, have a hearing and discussions, and work on it during the time remaining before transmittal date. The Administration is trying to blend SB 235 and SB 283 together and this is why these Modifications are brought to the Committee for consideration and action.

Senator Van Valkenburg said the Committee has some options, such as (1) To dismiss the bill; (2) Have a new hearing on the bill; or, (3) Ask the Administration to bring it up in the House. However, because of the importance of this issue, he thinks it is time to move the bill, not to reopen the entire process.

Senator Towe thinks every author of every bill should have the right to propose amendments and he thinks these amendments have been proposed in good faith. Senator Towe sees the real issue as whether the amendments are so substantially different that we need to have a hearing, since public input is important to the legislative process. He would like to see the bill passed, and the issue on the ballot.

Senator Gage said there is another option to this issue; put the bill in the best condition we can get it in and then hold a hearing on that bill with amendments.

Senator Bruce Crippen, sponsor of SB 235, said when he presented this bill, he commented that they were presenting a proposal to this Committee for their use, and would be happy to work through some of the Committee's ideas and try to fashion a bi-partisan bill that would go to the House. Senator Crippen said the Administration has now come forth with amendments which they feel would strengthen the bill, and he would like to see this committee seriously consider them and act on them.

Senator Doherty said we have an obligation to present the best possible bill, because if it is passed by the general public, it will be in effect for many years.

__Informational Testimony__:

The Chairman asked Senator Mignon Waterman, sponsor of SB 283, if she wanted to make a brief presentation on her bill.

Senator Waterman said there were issues raised, during the SB 283 public hearing, on the school equalization portion of the bill. She said school equalization is an integral part of SB 283's tax reform proposal, and this mechanism will work and will equalize. Senator Waterman said that, based on 1992 funding levels, there would be an additional $16 million available for education in 1995, as opposed to 5% cuts of $38 million the Legislature is looking at. Incorporated into the SB 283 proposal is equalization of capital outlay, transportation and retirement, as well as the foundation schedules. Senator Waterman said that even with this $16 million additional money, it would not cover the cost of inflation and projected enrollment increases, and still falls approximately $25-$30 million short of what is predicted.

Tom Bilodeau, Research Director of the Montana Education Association, distributed a spread sheet, Exhibit No. 4 to these minutes, which he said analyzes the expenditure patterns in several funds for FY 1992, after reviewing records dating back at least until 1985. Mr. Bilodeau explained this spread sheet and said SB 283 closely reflects much of the discussion within the educational community about school financing in the state, and it has a means of providing guaranteed state-source revenues to meet those equalization challenges. The bottom part of the spread sheet shows how SB 283 proposes to drive state-source wealth-neutral guaranteed revenues to the schools, providing those schools with necessary money to replace lost local revenues under SB 283. Mr. Bilodeau said SB 283 needs $193 million to pay for what it intends to do, and from all estimates, it has enough money in it to pay for what it promises to do. Mr. Bilodeau said SB 283 does exist as an effective means of approaching school financing in a responsible way, it is a good proposal, and it deserves this committee's attention, and the attention of the Legislature generally.

<u>Questions From Committee Members and Responses</u>:

Senator Towe asked Tom Bilodeau for clarification on the general fund guaranteed tax base (GTB) in the amount of approximately $31 million. Mr. Bilodeau said these are the dollars currently spent for the general fund guaranteed tax base support, which is the permissive money that now goes to subsidize the low-wealth districts. SB 283 would fund all of the permissive levies.

Senator Towe asked Director Robinson if a formula is devised for returning electrical energy, and telephone tax funds back to the local counties and taxing districts. Mr. Robinson said this is correct. The DOR is trying to determine how much decrease in revenue there is going to be at the county level and this is not so much a mathematical formula, but simply a replacement of that tax revenue.

Senator Towe asked Director Robinson to clarify the Reconciliation Between Chart 1 and Chart 2 for Local Taxing Jurisdiction Impact in Exhibit 2. Mr. Robinson said this provides information regarding the HB 20 reimbursement presently operating between the state and the local governments. The state sends almost 21 mills to the counties and the counties reimburse the state just under 6 mills. The difference, just under 15 mills, is the amount the local governments operate on, and the state needs to make sure that local governments are reimbursed for that operating revenue.

Senator Towe asked why the Administration does not address school equalization in SB 235. Director Robinson said neither SB 235, nor the amendments being proposed to SB 235, directly impact equalization. The bill will allow for an equalization proposal to fit in to this tax reform. Some of the reasons why the Administration felt this is a better approach to deal with equalization is, if it is done just on a permissive levy, the benefit being provided is a benefit to those entities that have not been taxed at the average level in terms of permissive levies. The second approach is, unless there is a cap placed on local mills, equalization may not be arrived at. The third area is, you can still have the local control issue, and if you remove all of the local permissive levies, you then end up with a total state educational system. The Administration looks at it more favorably to allow the local control in terms of a certain amount of permissive levies, but there has to be some limit, in order to maintain somewhat of an equalization throughout the state.

EXECUTIVE ACTION ON SB 235

Department of Revenue Amendments to SB 235, dated February 18, 1993, Exhibit No. 5 to these minutes, were reviewed, discussed, and adopted as follows.

DISCUSSION ON AMENDMENT #1:

Amendment 1 will exempt intrastate transportation services from sales and use tax. Senator Towe asked Senator Crippen about this amendment. Senator Crippen said this is a standard provision in most sales tax legislation throughout the country.

MOTION/VOTE ON AMENDMENT #1:

Senator Towe moved for adoption of Amendment #1 to SB 235. The motion CARRIED UNANIMOUSLY on oral vote.

DISCUSSION ON AMENDMENT #2:

Amendment 2 provides that a purchaser of property or services remains liable for the sales tax if the tax was not paid or collected previously on that transaction. Dave Woodgerd, Chief Legal Counsel, Department of Revenue, explained the purpose of the amendment is to give statutory authority to the DOR to collect the tax from the purchaser.

MOTION/VOTE ON AMENDMENT #2:

Senator Towe moved for adoption of Amendment #2 to SB 235. The motion CARRIED UNANIMOUSLY on oral vote.

DISCUSSION ON AMENDMENT #3 and #4:

Amendment 3 deals with utilities; Amendment 4 deals with irrigation water. Dave Woodgerd said the purpose of Amendment 3 is to tax minerals used as a utility and to exempt those that aren't used as a utility. Minerals, in general, are exempt.

MOTION/VOTE ON AMENDMENT #3 and #4:

Senator Towe moved for adoption of Amendments #3 and #4 to SB 235. The motion CARRIED on oral vote, with Senator Gage voting "NO".

DISCUSSION ON AMENDMENT #5:

Amendment 5 will exempt sales and use tax construction services used in the construction of residential and commercial buildings. Senator Towe asked if only that portion of the construction of a building that involves the materials would be taxed. Dave Woodgerd said that is correct. Senator Doherty, Senator Van Valkenburg, and Senator Towe asked about architectural, engineering, and legal services which are subject to the sales tax elsewhere in SB 235, except when involved in building a house. Director Robinson said Amendment #5 addresses the request for exemption by the contractors and the impact the tax would have on the price of a home.

Senator Towe suggested the DOR may want to have an exemption for the contractor and the subcontractor to the extent that his labor and his employees are involved, but the Senator doesn't think the DOR would want to make a further exemption to the professional services that are otherwise taxed under this bill. He further suggested an amendment to say, "except to the extent services are otherwise taxed herein". Director Robinson said he thought that wording would help this situation.

Senator Eck said this is not the way a similar situation appeared in the Crippen/Bradley bill, which said receipt for architectural, engineering, surveying, or graphic design services may be deducted if the product resulting from the service or the services is used or applied exclusively outside Montana. This would make it clear that labor would not be taxed, but the services would be, unless the person providing the services is an employee of the contractor.

In response to questions by Senator Doherty, Director Robinson said the total $6.3 million impact referred to is the total exemption of residential construction, materials and services. His notes indicate a $5-$6 million price tag on the services amendment.

Senator Towe proposed to amend Amendment #5, "except to the extent that services are otherwise subject to the sales and use tax in Section ___ to Section ___".

Jeff Martin, Legislative Council Staff, suggested, "This exemption does not apply to engineering, architectural, or other services related to residential and commercial construction".

This Amendment was discussed further. No executive action was taken on Amendment 5.

DISCUSSION ON AMENDMENT #6:

Amendment 6 will clarify that electricity used in the reduction or refinement of ores shall be considered a component part of the product.

Senator Van Valkenburg asked if it is fair to say this amendment is specifically there to make sure the Columbia Falls Aluminum Plant doesn't have to pay the sales tax on the electrical energy used there. Director Robinson said it is not fair to say that. What the DOR is trying to do is clarify the language where the electrolytic process actually becomes bonded as a component part of that product. This is a different process than simply utilizing the energy as a utility to operate the manufacturing process and applies to more than the Columbia Falls Aluminum Plant.

Senator Doherty asked if it would apply to the Stillwater Mining Corporation refining operation in Stillwater County. Director Robinson said he is not familiar with how the electrical energy is used in that manufacturing process, and that the Department is always focusing on the final component coming out of the manufacturing process as the taxable item.

MOTION/VOTE ON AMENDMENT #6:

Senator Harp moved for adoption of Amendment #6 to SB 235. The motion CARRIED on oral vote, with Senators Van Valkenburg, Halligan, and Yellowtail voting "NO".

DISCUSSION ON AMENDMENT #7:

Amendment 7 clarifies that the sale of property to a person engaged in the business of leasing to the ultimate consumer is a nontaxable transaction.

Senator Crippen, in answer to Senator Towe's questions, said if a company in the business of leasing automobiles, buys a car for leasing out, the purchase of the car is not subject to the tax, but the lease is subject to the tax.

MOTION/VOTE ON AMENDMENT #7:

Senator Towe moved for adoption of Amendment #7 to SB 235. The motion CARRIED UNANIMOUSLY on oral vote.

DISCUSSION ON AMENDMENT #8:

Amendment 8 is to conform the collection of delinquent sales tax owed by corporations to the collection of delinquent withholding tax owed by corporations.

Dave Woodgerd, in answer to questions by Senators Towe and Stang, said the purpose of this amendment is to strike language that says officers, directors and shareholders could be required to personally guarantee the payment of taxes for their corporations, and adopting this amendment will not eliminate the discretionary ability to require a bond.

MOTION/VOTE ON AMENDMENT #8:

Senator Towe moved for adoption of Amendment #8 to SB 235. The motion CARRIED UNANIMOUSLY on oral vote.

DISCUSSION ON AMENDMENT #9:

Amendment 9 will remove the term "gross receipts" from the section concerning fraternal organizations.

MOTION/VOTE ON AMENDMENT #9:

Senator Towe moved for adoption of Amendment #9 to SB 235. The motion CARRIED UNANIMOUSLY on oral vote.

DISCUSSION ON AMENDMENT #10:

Amendment 10 is to delete the amendment which exempts unprocessed products of livestock.

Senator Doherty asked if the elk horns cut off elk on game farms would be taxed, since they are unprocessed. Jeff Martin said the exception under 1(c), Section 15-6-207, leads him to believe this amendment is necessary in order to exclude those unprocessed products, except livestock, from taxation, and he believes this amendment is necessary to clarify what is exempt.

MOTION/VOTE ON AMENDMENT #10:

Senator Towe moved for adoption of Amendment #10 to SB 235. The motion CARRIED on oral vote, with Senators Doherty and Eck voting "NO".

DISCUSSION ON AMENDMENT #11:

Amendment 11 will exempt new and used vehicles purchased for the purpose of being placed in a fleet of vehicles for rental car purposes.

Senator Towe asked how this differed from Amendment 7. Director Robinson said that in the sales tax portion of SB 235, it is clear that if you have a sale to a leasing organization, it is not subject to the sales tax, and this amendment is trying to make sure that the section of the bill that deals with the imposition of the tax on the sale of the new or used vehicle states that clearly, also.

MOTION/VOTE ON AMENDMENT #11:

Senator Towe moved for adoption of Amendment #11 to SB 235. The motion CARRIED UNANIMOUSLY on oral vote.

DISCUSSION ON AMENDMENT #12:

Amendment 12 will delete the requirement that increases in property tax classification rates are subject to two-thirds vote of the legislature and a vote of the public.

Discussion indicated this amendment is not a good idea.

No executive action was taken on Amendment #12.

Other proposed amendments, correspondence, and memoranda received by this committee on SB 235 and SB 283 are attached to these minutes. They include a proposed amendment by the Montana Funeral Directors Association dated February 2, 1993; letters from Western Sugar, dated February 12, 1993; from Glacier County Commissioners dated March 2, 1993; from Patsy Plaggemeyer, Lambros Real Estate, dated March 4, 1993; from Montana Veterinary Medical Association through Roger Tippy, dated February 25, 1993; from John M. Shontz, dated February 9, 1993; and memoranda from DOR dated February 23, and 24, 1993.

ADJOURNMENT

Adjournment: The meeting adjourned at 9:58 a.m.

MIKE HALLIGAN, Chair

BONNIE STARK, Secretary

MH/bjs

ROLL CALL

SENATE COMMITTEE TAXATION DATE 3-5-93

NAME	PRESENT	ABSENT	EXCUSED
Sen. Halligan, Chair	✓		
Sen. Eck, Vice Chair	✓		
Sen. Brown	✓		
Sen. Doherty	✓		
Sen. Gage	✓		
Sen. Grosfield	✓		
Sen. Harp	✓		
Sen. Stang	✓		
Sen. Towe	✓		
Sen. Van Valkenburg	✓		
Sen. Yellowtail	✓		

FC8

Attach to each day's minutes

SENATE TAXATION
EXHIBIT NO. 1
DATE 3-5-93
BILL NO. SB 235

AMENDMENTS
SB-235
INTRODUCED VERSION (WHITE COPY)
March 1, 1993

13. The purpose of this amendment is clarify that the sales of therapeutic devices such as hearing aids, wheel chairs, and crutches are exempt if they are prescribed or dispensed by a licensed health care provider.

Page 8, line 5.
Following: "dentures"
Insert: "hearing aids, wheel chairs, crutches,"
Following: "limbs, prescribed"
Strike: "or"
Insert: ","
Following: "ordered,"
Insert: "or dispensed"

14. The purpose of this amendment is to clarify that all utilities both regulated and non-regulated are to subject to the sales and use tax.

Page 17, line 15.
Following: "other"
strike: "regulated"

15. The purpose of this amendment is to clarify that all aspects of refuse disposal services performed either by a private provider or a unit of government are subject to sales tax.

Page 17, line 14.
Following: "services, refuse collection"
Insert: "including the disposal of refuse"

16. The purpose of this amendment is to exempt from sales and use tax tuition paid to private educational institutions recognized as exempt under §503(c)(3), IRC.

Page 24, line 7,
Insert: "New Section. **Section 28. Exemption -- private school tuition.** The tuition charged to a student for attendance at a private educational institution, recognized as an exempt organization under 26 U.S.C. § 503(c)(3), is exempt from the sales and use tax.
Renumber: subsection sections

17. The purpose of this amendment is to clarify that pursuant to § 32 a lease by a theater of a motion picture for subsequent showing is considered a lease for subsequent lease and therefore is

a nontaxable transaction.

Page 26, line 5.
Following: "(2)"
Insert: "(a)"

Line 8
Insert: subsection "(b) For purposes of this section the rental of a motion picture, motion picture trailer, by a person for display on a theater premises shall be considered a lease for subsequent lease."

18. The purpose of this amendment is to allow taxpayers a credit for worthless accounts that have actually been charged off for federal income tax purposes.

Page 38, line 12
Insert: "NEW SECTION. **Section 48. Credit for taxes paid on worthless accounts -- taxes paid if account collected.** (1) Taxes previously paid on sales represented by accounts found to be worthless and actually deducted as a bad debt for federal income tax purposes may be credited upon a subsequent payment of the tax. (2) If such accounts are thereafter collected, a tax shall be paid upon the amount so collected.
Renumber: subsequent sections

19. The purpose of this amendment is to increase the amount of the vendor allowance from $50 to $150 per month and $150 to $450 per quarter. These amounts more closely approach the actual expense incurred by the merchant in collecting the tax.

Page 38, line 16.
Following: "state or $"
Strike: "50"
Insert: "150"

Page 38, line 18.
Following: "the state or $"
Strike: "150"
Insert: "450"

SENATE TAXATION
EXHIBIT NO. 2
DATE 3-5-93
BILL NO. SB 235

SB 235 MODIFICATION

Proposed Property Tax Reform:

- Repeal 95 Mills SEA and related Non-Levy Revenue
- Repeal 6 Mills - University and relate Non-Levy Revenue
- Adjust property tax rate to 4% - Class 3, 4, 5, 7, 8, 9, and 11
- Increase the Electric Energy Production License Tax
- Increase the Telephone Company License Tax
- Repeal Personal Property reimbursement for rate reductions to 9% in 1989 Session
- Reimburse taxing jurisdiction for Class 9 tax rate reduction

Other Adjustments to Tax Reform Plan:

- Eliminate Homestead Exemption ($20,000)
- Eliminate Commercial Property Tax Exemption ($10,000)
- Reduce-Retirement Exclusion from $15,000 to $7,500
- Base Renter's Credit on income rather than fixed amount

For FY 1995, this modification package increases the total tax reform and relief by $49.12 million.

General Fund and School Equalization Account Impact of
Repealing 95 SEA Mills and 6 University Mills
Put Property Tax Rate at 4%
(millions)
Fiscal 1995

Repeal 95 Mills SEA	$158.27		
Loss of Non-Levy Revenue	30.62		
Subtotal 95 Mills		$188.89	
Repeal 6 Mills - University	$ 10.00		
Loss of Non-Levy Revenue	1.93		
Subtotal 6 Mills		11.93	
Reimburse Class 9 Tax Rate Reduction from 12 to 4%		45.77	
Revenue Loss			$246.59
Revenue Gain: Changes in SB 235			
Eliminate Property Tax Homestead Exemption ($20,000)		$ 37.02	
Eliminate Property Tax Commercial Exemption ($10,000)		5.99	
Reduce Retirement Exclusion ($7,500)		7.45	
Income Testing the Renter's Credit		7.35	
Eliminate Reimbursement of Class 8 rate at 3.86		44.00	
Increase the Electrical Energy Production License Tax		$ 55.58	
Increase the Telephone Company License Tax		19.24	
Repeal HB 20 Reimbursements		20.84	
Additional Revenue Available			197.47
REVENUE LOSS IN EXCESS OF ADDITIONAL REVENUE			($ 49.12)

* Could be impact on assumed county and vo-tech mills.

EXHIBIT 2
DATE 3-5-93
SB-235

SB235 – As Modified
March 5, 1993

TAX REFORM COMPONENT	Applicable Date	Revenue Impacts FY94	FY95	FY96	FY97
Sales Tax – Gross revenue	4/1/94	78.35	313.39	313.39	313.39
– Vendor Allowances		(1.12)	(4.48)	(4.48)	(4.48)
– Administration (Est. @ 2%)		(4.16)	(6.27)	(6.27)	(6.27)
Sales Tax – Net Revenue		73.07	302.64	302.64	302.64
Income Tax – 6% Flat Rate	1/1/94	(18.52)	(44.39)	(51.25)	(54.68)
Low-Income Sales Tax Credit	1/1/94	0.00	(18.75)	(25.00)	(25.00)
Renter's Credit ($200)	1/1/94	0.00	(6.74)	(8.98)	(8.98)
Repeal SEA 95 Mills	1/1/94	0.00	(158.27)	(158.27)	(158.27)
– Loss of Non-Levy revenue	1/1/94	0.00	(30.62)	(30.62)	(30.62)
Repeal University 6 Mills	1/1/94	0.00	(10.00)	(10.00)	(10.00)
– Loss of Non-Levy revenue	1/1/94	0.00	(1.93)	(1.93)	(1.93)
Reimburse Loc. Govt. for Class 11	1/1/94	0.00	(45.77)	(45.77)	(45.77)
Repeal HB20 reimbursements	1/1/94	0.00	20.84	20.84	20.84
Inc. Elec. Energy Prod. Lic. Tax	1/1/94	28.06	55.58	55.58	55.58
Inc. Telephone Co. Lic. Tax	1/1/94	9.41	19.24	19.24	19.24
IMPACT OF REFORM PROPOSAL		92.02	81.84	66.48	63.05

SB 235 -- Modified (March 5, 1993)

Rate Parameters	Current Rates	Proposed Rates
Class 1 : Net Proceeds	100.000%	100.000%
Class 2 : Metal Mines	3.000%	3.000%
Class 3 : Ag Land	3.860%	4.000%
Class 4 : Residential, Commercial	3.860%	4.000%
Class 5 : Pollution Control, New Industry	3.000%	4.000%
Class 6 : Livestock	4.000%	4.000%
Class 7 : Independent Telephone	8.000%	4.000%
Class 8 : Personal Property	9.000%	4.000%
Class 9 : Utilities	12.000%	4.000%
Class 10 : Timber	4.000%	4.000%
Class 11 : Farmsteads	3.088%	4.000%
Class 12 : Railroads and Airlines	7.530%	3.950%

EXHIBIT 2
DATE 3-5-93
SB-335

Impact on Electrical Energy and Telephone Licence Taxes with Alternative Rates

Removes 101 Statewide Mills and Reduces Class 9 Tax Rate from 12% to 4%

Electrical Energy Tax		Telephone License Tax	
Current law rate/KWH	$0.0002	Current law rate	1.80%
Proposed law rate/KWH	$0.002775	Proposed law rate	10.27%

Applicability Date = January 1, 1994

Tax Base	FY94	FY95
Killowat Hours	21,761,787,000	21,580,471,000
Telephone Gross Income	222,407,000	227,300,000

	FY94			FY95		
	CL	PL	DIFF	CL	PL	DIFF
Electrical Energy Tax	3,994,000	32,049,000	28,055,000	4,021,000	59,599,000	55,578,000
Telephone License Tax	4,003,000	13,417,000	9,414,000	4,091,000	23,332,000	19,241,000
TOTAL	7,997,000	45,466,000	37,469,000	8,112,000	82,931,000	74,819,000

Impact Due to Reducing Tax Rate on Class 9 Property From 12% to 4%
Combined Impact to Class 9 (Utilities) and Class 12 (Railroad and Airline) Property

County	Reduction in Class 9 & 12 TY 1992 Taxable Value	Estimated Reduction in Property Tax Revenue Due to Reducing Tax Rate					
		University (6 Mills)	St. Eq. (95 Mills)	County	Schools	Cities/ Towns	Total
Beaverhead	(1,332,156)	–	–	(115,138)	(152,958)	(29,144)	(297,240)
Big Horn	(3,033,614)	–	–	(182,927)	(116,491)	(26,949)	(326,367)
Blaine	(2,226,707)	–	–	(160,590)	(184,817)	(31,409)	(376,816)
Broadwater	(3,099,924)	–	–	(207,075)	(107,102)	(18,182)	(332,359)
Carbon	(2,743,546)	–	–	(195,670)	(302,284)	(46,780)	(544,734)
Carter	(481,298)	–	–	(45,386)	(38,552)	(1,536)	(85,474)
Cascade	(10,628,091)	–	–	(871,503)	(1,887,230)	(364,082)	(3,122,816)
Chouteau	(1,702,285)	–	–	(150,618)	(176,799)	(24,442)	(351,859)
Custer	(1,989,601)	–	–	(172,379)	(379,298)	(96,858)	(648,534)
Daniels	(321,053)	–	–	(34,343)	(46,007)	(11,398)	(91,748)
Dawson	(3,264,144)	–	–	(309,702)	(466,348)	(144,648)	(920,699)
Deer Lodge	(1,375,116)	–	–	(234,980)	(146,257)	(5,250)	(386,488)
Fallon	(2,164,369)	–	–	(97,159)	(160,163)	(23,074)	(280,396)
Fergus	(1,389,749)	–	–	(107,150)	(216,481)	(76,197)	(399,828)
Flathead	(7,095,627)	–	–	(660,177)	(1,027,163)	(272,505)	(1,959,845)
Gallatin	(7,292,620)	–	–	(454,330)	(1,014,403)	(305,655)	(1,774,388)
Garfield	(73,889)	–	–	(8,149)	(5,432)	0	(13,580)
Glacier	(4,683,096)	–	–	(348,235)	(320,698)	(12,037)	(680,970)
Golden Valley	(1,599,711)	–	–	(85,872)	(175,008)	(3,513)	(264,394)
Granite	(2,246,127)	–	–	(201,455)	(87,936)	(19,853)	(309,244)
Hill	(2,990,538)	–	–	(202,370)	(316,070)	(101,269)	(619,708)
Jefferson	(3,771,401)	–	–	(207,276)	(327,659)	(17,678)	(552,614)
Judith Basin	(1,195,097)	–	–	(102,121)	(116,653)	(5,234)	(224,008)
Lake	(2,563,865)	–	–	(189,521)	(309,330)	(12,648)	(511,499)
Lewis And Cla	(9,540,840)	–	–	(758,592)	(1,736,051)	(386,870)	(2,881,513)
Liberty	(910,140)	–	–	(79,774)	(64,602)	(2,147)	(146,522)
Lincoln	(2,086,835)	–	–	(92,551)	(242,553)	(43,719)	(378,823)
Madison	(2,240,919)	–	–	(200,450)	(175,509)	(18,936)	(394,895)
Mccone	(180,755)	–	–	(21,691)	(13,589)	(403)	(35,683)
Meagher	(2,673,709)	–	–	(210,982)	(217,159)	(8,079)	(436,220)
Mineral	(2,736,511)	–	–	(152,533)	(430,043)	(11,094)	(593,670)
Missoula	(10,968,486)	–	–	(1,006,797)	(1,935,938)	(493,800)	(3,436,535)
Musselshell	(766,245)	–	–	(62,595)	(93,566)	(14,809)	(170,970)
Park	(3,529,024)	–	–	(220,070)	(451,256)	(114,978)	(786,304)
Petroleum	(18,822)	–	–	(1,574)	(2,821)	0	(4,394)
Phillips	(3,761,481)	–	–	(158,057)	(290,386)	(31,563)	(480,007)
Pondera	(1,315,311)	–	–	(105,449)	(161,889)	(21,391)	(288,728)
Powder River	(296,069)	–	–	(43,241)	(34,981)	(5,569)	(83,791)
Powell	(3,354,293)	–	–	(219,203)	(371,153)	(17,771)	(608,126)
Prairie	(552,727)	–	–	(60,999)	(30,577)	(8,841)	(100,417)
Ravalli	(2,346,908)	–	–	(182,284)	(275,128)	(53,731)	(511,144)
Richland	(2,220,381)	–	–	(142,637)	(228,944)	(56,642)	(428,223)
Roosevelt	(8,308,415)	–	–	(525,258)	(633,434)	(37,223)	(1,195,915)
Rosebud	(101,014,283)	–	–	(1,784,922)	(1,888,967)	(26,233)	(3,700,122)
Sanders	(10,226,306)	–	–	(725,965)	(991,134)	(30,508)	(1,747,607)
Sheridan	(590,246)	–	–	(32,363)	(62,070)	(25,126)	(119,559)
Silver Bow	(7,191,613)	–	–	(898,952)	(1,738,285)	(762)	(2,637,998)
Stillwater	(3,724,780)	–	–	(270,829)	(394,529)	(21,395)	(686,753)
Sweet Grass	(1,345,343)	–	–	(110,520)	(161,468)	(7,446)	(279,434)
Teton	(1,025,171)	–	–	(91,845)	(147,133)	(19,415)	(258,392)
Toole	(2,476,587)	–	–	(231,858)	(152,632)	(23,469)	(407,959)
Treasure	(1,631,049)	–	–	(122,720)	(146,811)	0	(269,531)
Valley	(7,332,001)	–	–	(468,808)	(1,064,020)	(63,220)	(1,596,048)
Wheatland	(2,626,674)	–	–	(217,252)	(232,671)	(13,878)	(463,801)
Wibaux	(553,604)	–	–	(72,146)	(14,848)	(8,613)	(95,607)
Yellowstone	(23,859,976)	–	–	(1,543,263)	(3,202,247)	(728,115)	(5,473,626)
Statewide	(290,669,129)	–	–	(16,160,308)	(25,667,531)	(3,946,087)	(45,773,926)

Compiled by the Office of Research and Information, Montana Department of Revenue.
Based on Tax Year 1992 Taxable Values and Tax Year 1992 Mill Levies.

03-Mar-93

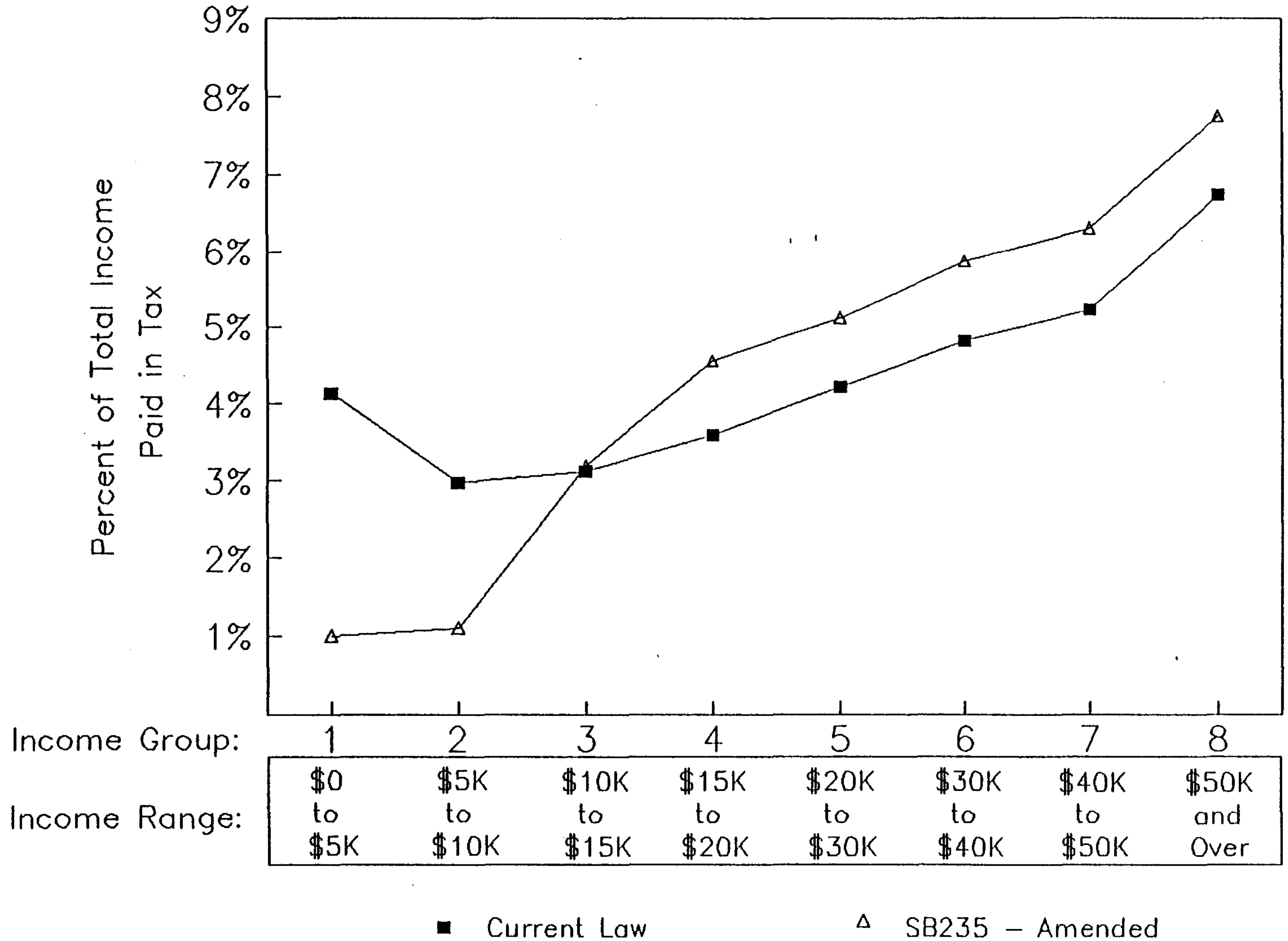
The LC373 Comprehensive Tax Reform Proposal
January 15, 1992

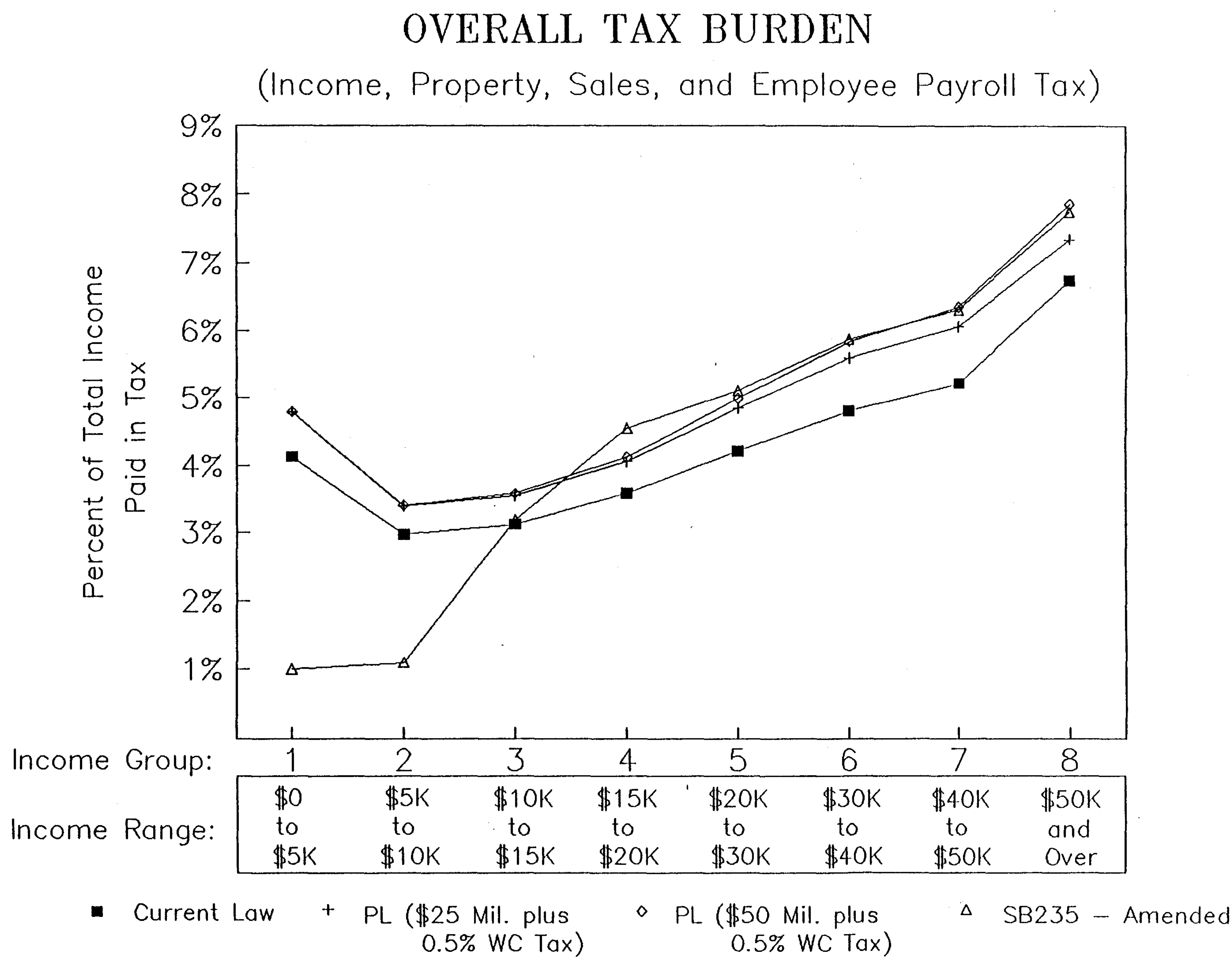
TAX REFORM COMPONENT	Applicable Date	Revenue Impacts FY94	FY95	FY96	FY97
Sales Tax – Gross revenue	4/1/94	78.35	313.39	313.39	313.39
– Vendor Allowances		(1.12)	(4.48)	(4.48)	(4.48)
– Administration (Est. @ 2%)		(4.16)	(6.27)	(6.27)	(6.27)
Sales Tax – Net Revenue		73.07	302.64	302.64	302.64
Income Tax – 6% Flat Rate	1/1/94	(21.65)	(51.84)	(59.77)	(63.91)
Low–Income Sales Tax Credit	1/1/94	0.00	(18.75)	(25.00)	(25.00)
Renter's Credit ($200)	1/1/94	0.00	(14.09)	(18.78)	(18.78)
Property Tax; Class 8 Pers. Prop.	1/1/94	(12.52)	(41.73)	(41.73)	(41.73)
Property Tax; Railroads/Airlines	1/1/94	0.00	(2.27)	(2.27)	(2.27)
Homestead Exemption ($20,000)	1/1/94	0.00	(37.02)	(49.36)	(49.36)
Commercial Exemption ($10,000)	1/1/94	0.00	(5.99)	(5.99)	(5.99)
IMPACT OF REFORM PROPOSAL		38.90	130.96	99.74	95.61

EXHIBIT 2
DATE 3-5-93
SB-235

OVERALL TAX BURDEN

(Income, Property, and Sales Tax)





OVERALL TAX BURDEN
(Income, Property, Sales, and Employee Payroll Tax)
Percent of Total Income Paid in Tax
9%
8%
7%
6%
5%
4%
3%
2%
1%
Income Group:
1 2 3 4 5 6 7 8
Income Range:
$0 to $5K
$5K to $10K
$10K to $15K
$15K to $20K
$20K to $30K
$30K to $40K
$40K to $50K
$50K and Over
Current Law
PL ($25 Mil. plus 0.5% WC Tax)
PL ($50 Mil. plus 0.5% WC Tax)
SB235 – Amended

Impact on Local Governments
General Fund and School Equalization Account Impact of Repealing 95 SEA Mills and 6 University Mills
(millions)
Fiscal 1995

HB 20 Reimbursement Loss	($14.99)
Business Equipment Tax Rate Reduced to 3.86%	(30.06)
Raise Tax Rate to 4%, Cl. 3, 4, 5, 8, and 11	13.41
Revenue Gain from Repeal of 101 Mills (Non-Levy Revenue)	32.55
CHANGE TO LOCAL GOVERNMENTS	$ 0.91
Statewide Mill Levy Decrease	(0.58)

Reconciliation Between Chart 1 and Chart 2 for Local Taxing Jurisdiction Impact of Not Reimbursing HB 20 and Class 8 Rate Reduction

	101 State Mills	Local Tax Jurisdictions	Total
HB 20	5.85	14.99	20.84
Class 8 Tax Reduction to 3.86%	13.94	30.06	44.00

EXHIBIT 2
DATE 3-5-93
SB 235

SB 235 -- Modified (March 5, 1993)

Impact to Taxable Value and Tax Revenue

Class	Estimated Impact to Taxable Value				Estimated Impact to Tax Revenue			
	Current	Proposed	Dollar Change	Percent Change	Current	Proposed	Dollar Change	Percent Change
1 Net Proceeds	8,401,789	8,401,789	0	0.0%	2,091,723	1,243,142	(848,581)	-40.6%
2 Gross Proceeds	10,846,321	10,846,321	0	0.0%	3,592,406	2,496,928	(1,095,478)	-30.5%
3 Ag Land	141,703,670	146,843,181	5,139,511	3.6%	40,632,280	27,274,828	(13,357,452)	-32.9%
4 Residential Real	462,253,466	480,031,201	17,777,735	3.8%	173,127,976	131,313,871	(41,814,105)	-24.2%
4 Commercial Real	191,166,155	198,099,642	6,933,487	3.6%	75,796,636	58,537,673	(17,258,963)	-22.8%
5 Co-ops, Poll. Control	27,272,962	36,363,949	9,090,987	33.3%	6,209,878	4,607,078	(1,602,800)	-25.8%
6 Livestock	28,148,354	28,148,354	0	0.0%	8,077,911	5,234,927	(2,842,984)	-35.2%
7 Independent Teleph.	797,813	398,907	(398,907)	-50.0%	247,946	83,683	(164,262)	-66.2%
8 Business Equipment	231,755,415	103,443,729	(128,311,686)	-55.4%	73,347,399	22,304,185	(51,043,215)	-69.6%
9 Utilities	409,123,653	136,374,551	(272,749,102)	-66.7%	104,673,251	21,117,254	(83,555,997)	-79.8%
10 Timber Land	6,569,447	6,569,447	0	0.0%	2,042,073	1,378,559	(663,514)	-32.5%
11 Farmsteads	60,258,864	78,055,523	17,796,659	29.5%	17,847,638	15,235,094	(2,612,544)	-14.6%
12 Railroads & Airlines*	54,630,690	29,020,287	(25,610,403)	-46.9%	16,307,908	5,731,850	(10,576,058)	-64.9%
Statewide Total	1,632,928,599	1,262,596,882	(370,331,717)	-22.7%	523,995,024	296,559,072	(227,435,952)	-43.4%

* Railroads & Airlines Rate from 7.53% to 4%

SB 235 -- Modified (March 5, 1993)

Impact to Taxable Value and Tax Revenue

Property Group	Estimated Impact to Taxable Value				Estimated Impact to Tax Revenue			
	Current	Proposed	Dollar Change	Percent Change	Current	Proposed	Dollar Change	Percent Change
Agricultural Land	148,273,117	153,412,628	5,139,511	3.5%	42,674,353	28,653,387	(14,020,966)	-32.9%
Residential	522,512,330	558,086,724	35,574,394	6.8%	190,975,614	146,548,965	(44,426,649)	-23.3%
Commercial	191,324,764	198,311,121	6,986,357	3.7%	75,842,157	58,577,009	(17,265,149)	-22.8%
Business Equipment	234,141,786	119,581,018	(114,560,768)	-48.9%	72,020,560	22,878,601	(49,141,959)	-68.2%
Proceeds	19,248,110	19,248,110	0	0.0%	5,684,129	3,740,070	(1,944,059)	-34.2%
Vehicles	14,759,237	6,604,139	(8,155,098)	-55.3%	4,538,901	1,365,403	(3,173,499)	-69.9%
Livestock	27,929,403	27,929,403	0	0.0%	7,988,822	5,167,953	(2,820,870)	-35.3%
Utilities	474,739,852	179,423,738	(295,316,114)	-62.2%	124,270,487	29,627,684	(94,642,802)	-76.2%
Statewide Total	1,632,928,599	1,262,596,882	(370,331,717)	-22.7%	523,995,024	296,559,072	(227,435,952)	-43.4%

-) Classes 3, 4, 5, 7, 8, 9, and 11 to 4.00 %
-) Eliminate 95 mill and 6 mill.
-) Class 12 Rate Reduced to 4%

Compiled by the Office of Research and Information, Montana Department of Revenue.
Based on Tax Year 1992 Taxable Values and Tax Year 1992 Mill Levies. 05-Mar-93

SENATE TAXATION
EXHIBIT NO. 3
DATE 3-5-93
BILL NO. SB 235

SB 235
Property Tax Related Amendments
Proposed by Department of Revenue
Prepared by Bruce McGinnis and Dave Woodgerd
Introduced Version
March 4, 1993

A. The Department is drafting amendments which will repeal the county equalization levies of 33 mills for elementary (20-9-331), and 22 mills for high school (20-9-333), the state equalization levy of 40 mills (20-9-360) and the 6 mill levy for the university system (20-25-423). Non-levy revenue currently going to the county equalization account will be split among the county taxing jurisdictions based on relative mills.

B. The purpose of this amendment is to change the tax rate for classes 3,5,7,8,9, and 11 to 4.0%

1. Page 189, line 7.
Insert:"NEW SECTION. Section 170. Coordination instruction. (1) If Senate Bill No. 168 [LC] is passed and approved and if it includes a section that amends 15-6-133 then [section 115 of this act], amending 15-6-133, is void.
(2) If Senate Bill No. 168 [LC] is passed and approved and if it includes a section the repeals 15-6-144 then [section 117 of this act], amending 15-6-144, is void.
Renumber: subsequent sections

2. Page 109, line 4
Insert:"Section 117. Section 15-6-135, MCA, is amended to read:
"15-6-135. Class five property -- description -- taxable percentage. (1) Class five property includes:
(a) all property used and owned by cooperative rural electrical and cooperative rural telephone associations organized under the laws of Montana, except property owned by cooperative organizations described in subsection (1)(b) of 15-6-137;
(b) air and water pollution control equipment as defined in this section;
(c) new industrial property as defined in this section;
(d) any personal or real property used primarily in the production of gasohol during construction and for the first 3 years of its operation;
(e) all land and improvements and all personal property owned by a research and development firm, provided that the property is actively devoted to research and development;
(f) machinery and equipment used in electrolytic reduction facilities.
(2) (a) "Air and water pollution equipment" means facilities, machinery, or equipment used to reduce or control water or

atmospheric pollution or contamination by removing, reducing, altering, disposing, or storing pollutants, contaminants, wastes, or heat. The department of health and environmental sciences shall determine if such utilization is being made.

(b) The department of health and environmental sciences' determination as to air and water pollution equipment may be appealed to the board of health and environmental sciences and may not be appealed to either a county tax appeal board or the state tax appeal board. However, the appraised value of the equipment as determined by the department of revenue may be appealed to the county tax appeal board and the state tax appeal board.

(3) "New industrial property" means any new industrial plant, including land, buildings, machinery, and fixtures, used by new industries during the first 3 years of their operation. The property may not have been assessed within the state of Montana prior to July 1, 1961.

(4) (a) "New industry" means any person, corporation, firm, partnership, association, or other group that establishes a new plant in Montana for the operation of a new industrial endeavor, as distinguished from a mere expansion, reorganization, or merger of an existing industry.

(b) New industry includes only those industries that:

(i) manufacture, mill, mine, produce, process, or fabricate materials;

(ii) do similar work, employing capital and labor, in which materials unserviceable in their natural state are extracted, processed, or made fit for use or are substantially altered or treated so as to create commercial products or materials;

(iii) engage in the mechanical or chemical transformation of materials or substances into new products in the manner defined as manufacturing in the 1987 Standard Industrial Classification Manual prepared by the United States office of management and budget;

(iv) engage in the transportation, warehousing, or distribution of commercial products or materials if 50% or more of an industry's gross sales or receipts are earned from outside the state; or

(v) earn 50% or more of their annual gross income from out-of-state sales.

(5) New industrial property does not include:

(a) property used by retail or wholesale merchants, commercial services of any type, agriculture, trades, or professions unless the business or profession meets the requirements of subsection (4)(b)(v);

(b) a plant that will create adverse impact on existing state, county, or municipal services; or

(c) property used or employed in any industrial plant that has been in operation in this state for 3 years or longer.

(6) Class five property is taxed at 4% ~~3%~~ of its market value. "

Section 118. Section 15-6-137, MCA, is amended to read:

"15-6-137. Class seven property -- description -- taxable

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percentage. (1) Class seven property includes:

(a) all property used and owned by persons, firms, corporations, or other organizations that are engaged in the business of furnishing telephone communications exclusively to rural areas or to rural areas and cities and towns of 800 persons or less;

(b) all property owned by cooperative rural electrical and cooperative rural telephone associations that serve less than 95% of the electricity consumers or telephone users within the incorporated limits of a city or town;

(c) electric transformers and meters; electric light and power substation machinery; natural gas measuring and regulating station equipment, meters, and compressor station machinery owned by noncentrally assessed public utilities; and tools used in the repair and maintenance of this property.

(2) To qualify for this classification, the average circuit miles for each station on the telephone communication system described in subsection (1)(b) must be more than 1 mile.

(3) Class seven property is taxed at 4% ~~8%~~ of its market value."

Renumber: subsequent sections

3. Page 110, line 19.
Following: "is taxed at"
Strike: "3.86%"
Insert: "4%"

4. Page 110, line 21
Insert: "**Section 118.** Section 15-6-141, MCA, is amended to read:

"**15-6-141. Class nine property -- description -- taxable percentage.** (1) Class nine property includes:

(a) centrally assessed electric power companies' allocations, including, if congress passes legislation that allows the state to tax property owned by an agency created by congress to transmit or distribute electrical energy, allocations of properties constructed, owned, or operated by a public agency created by the congress to transmit or distribute electric energy produced at privately owned generating facilities (not including rural electric cooperatives);

(b) allocations for centrally assessed natural gas companies having a major distribution system in this state; and

(c) centrally assessed companies' allocations except:

(i) electric power and natural gas companies' property;

(ii) property owned by cooperative rural electric and cooperative rural telephone associations and classified in class five;

(iii) property owned by organizations providing telephone communications to rural areas and classified in class seven;

(iv) railroad transportation property included in class twelve; and

(v) airline transportation property included in class twelve.

(2) Class nine property is taxed at 4% ~~12%~~ of market value."

Renumber: subsequent sections.

Sections 89 through 113 amending the classification of counties or their bonding and levying capacities need to be amended to reflect the changes made to the property tax base.

D. The purpose of this amendment is to increase the rate of the electrical energy producer's tax and the telephone company license tax.

1. Page 175, line 15

Insert: " **Section 150.** Section 15-51-101, MCA, is amended to read:

"15-51-101. **Rate of tax -- electrical energy producers.** In addition to the license tax now provided by law, each person or other organization now engaged in the generation, manufacture, or production of electricity and electrical energy in the state of Montana, either through waterpower or by any other means, for barter, sale, or exchange (and hereinafter referred to as the "producer") shall on or before the 30th day after each calendar quarter, quarterly periods ending March 31, June 30, September 30, and December 31, render a statement to the department of revenue showing the gross amount, except for actual and necessary plant use, required to produce the energy of electricity and electrical energy produced, manufactured, or generated during the preceding calendar quarter without any deduction and shall pay a license tax thereon in the sum of $.002775 ~~.0002~~ per kilowatt hour on all such electricity and electrical energy generated, manufactured, or produced, measured at the place of production and as shown on the statement required in the manner and within the time hereinafter provided."

2. **Section 151.** Section 15-53-101, MCA, is amended to read:

"15-53-101. **Definitions -- rate of license tax on telephone companies.** (1) As used in this section:

(a) "carrier access service" means the service a local exchange company, as defined in 53-19-302, provides to an interexchange carrier for the origination or termination of telecommunications; and

(b) "telephone business" means the access and transport, for hire, of two-way communications from point of access to point of termination, both of which are within Montana.

(2) A license tax of 10.27 % ~~1.8%~~ is imposed upon the gross revenue in excess of $250 each quarter received by a person in Montana from telephone business in Montana. As used in this section, "gross revenue" does not include:

(a) carrier access service revenue;

(b) revenue from the sale of telephone services to another telephone service provider who uses the services to provide telephone service to the ultimate retail consumer who originates or terminates the transmission;

(c) revenue from the sale, lease, repair, installation, or maintenance of equipment or from the provision of nontransmission-related services or activities; or

(d) customer access line charges assessed under federal communications commission orders or rules.

(3) A bill or statement may itemize the tax imposed by subsection (2).

(4) The tax imposed by subsection (2) is due in quarterly installments for the quarters ending, respectively, March 31, June 30, September 30, and December 31 in each year."

Renumber: subsequent sections

E. The purpose of this amendment is to delete the personal property reimbursement adopted in 1989 in § 15-1-111, MCA, and amend the section to provide a formula for reimbursing taxing jurisdictions for the rate reduction for utility property contained in class 9.

Pages 100 through 103

Strike: Subsections 5 through 9 of Section 114.

Insert: "(5) Prior to December 31, 1993, for each county the department shall determine the following information for each taxing jurisdiction that was in existence in tax year 1993:

(a) the number of mills levied in each taxing jurisdiction for tax year 1993;

(b) the total taxable valuation for tax year 1993 of all property described in 15-6-141.

(6)(a)(i) Based on the information determined in section 5, the department shall calculate the revenue loss for each taxing jurisdiction due to the change in the tax rate provided for in [section ___ (reduction of rate for utility property in class nine, 15-6-141)].

(ii) For purposes of this section revenue loss for each taxing jurisdiction is:

(A) the taxable value of all property described in 15-6-141 computed at the statutory tax rate in effect for tax year 1993 less the taxable value of such property computed at the tax rate provided for in [section ___ (reduction of rate for utility property in class nine, 15-6-141)];

(B) multiplied by the number of mills levied in the taxing jurisdiction for tax year 1993.

(b) The total revenue loss within each county is the sum of the revenue loss computed for each taxing jurisdiction in the county.

(7)(a) The amount of reimbursement due from the state to each county for tax years 1994, 1995, and 1996 is the total revenue loss calculated under subsections 5 and 6. The county treasurer shall distribute the total revenue loss to each taxing jurisdiction as calculated by the department.

(c) The total reimbursement for each county for tax year 1997 and for each tax year thereafter is determined by using the formula R = A x (B/C), where:

(A) "R" is the amount of reimbursement to be received by the county during the current tax year;

(B) "A" is the total amount of revenue collected by [Section ___ through Section ___ (sales and use tax)] for the preceding tax year.

(C) "B" is the total taxable value of all property described in 15-6-141 within the county during the tax year immediately preceding the current tax year;

(D) "C" is the total taxable value of all property described in 15-6-145 in the state during the tax year immediately preceding the current tax year.

(8) Reimbursements calculated under subsections 5 through 7 for tax year 1994 and subsequent tax years shall be remitted to the county treasurer as follows:

(a) on or before November 30, 1994, and on or before each November 30 thereafter, the department shall remit 50% of the amount of the revenue reimbursable to the county; and

(b) on or before May 31, 1995, and on or before each May 31 thereafter, the department shall remit 50% of the amount of the revenue reimbursable to the county.

(9) For tax years 1991 and after, the county treasurer of each county shall distribute the reimbursement to each taxing jurisdiction in the relative proportions determined under the calculations provided by the department for tax year 1996.

(10) For the purposes of this section, "taxing jurisdiction" means the state of Montana, local governments including counties and incorporated cities and towns, school districts, tax increment financing districts, and miscellaneous taxing jurisdictions levying mills against property being reimbursed under this section.

(11) The creation and dissolution of taxing jurisdictions after tax year 1993 is treated as follows:

(a) Taxing jurisdictions that existed in tax year 1993 that no longer exist in subsequent tax years, and are not combined with another taxing jurisdiction are no longer entitled to reimbursement. The reimbursement for the taxing jurisdiction which no longer exists must be apportioned to the remaining taxing jurisdictions in the proportions that would have existed in tax year 1993 had the jurisdiction not been in existence in that year.

(b) Taxing jurisdictions that are combined into a single taxing jurisdiction are entitled to reimbursement based on the combined proportion of those jurisdictions in tax year 1993.

(c) Taxing jurisdictions created as a result of splitting an existing jurisdictions are entitled to a share of the original reimbursement based on the relative proportion of class 8 property within each of the newly created jurisdictions in within the tax year that the new jurisdictions are created.

(d) Taxing jurisdictions that did not exist in tax year 1993 are not entitled to reimbursement unless created as defined in subsection 11(c)."

Renumber: subsequent subsections.

F. The purpose of this amendment is to delete the income tax credit for homeowners'.

1. Pages 56 through 60
   Strike: Sections 71 though 78 in their entirety.
   Renumber: subsequent sections.

G. The purpose of this amendment is to delete the $10,000 reduction in the market value of commercial improvements, in class 4 and to increase the tax rate for class 4 from 3.86% to 4.0%.

1. Page 107, line 3.
   Following: "at"
   Strike: "3.86"
   Insert: "4.0"
   Line 5.
   Following: "taxed at"
   Strike: "3.86"
   Insert: "4.0"

2. Pages 108, line 23.
   Strike: Subsection (4) in its entirety.

H. The purpose of this amendment is to reduce the current exclusion for retirement income form $15,00 to $7,500.

1. Page 157, line 16.
   Following: "the first"
   Strike: "$15,000"
   Insert: "$7,500"

2. Page 180, line 18
   Page 181, line 10
   Page 182, line 4 and line 15
   Page 183, line 7 and line 24
   Page 184, line 14
   Page 185, line 2 and line 15
   Page 186, line 2, line 12, and line 24
   Strike: "15,000"
   Insert: "7,500"

I. The purpose of this amendment is to modify the renters' credit by adding an income test.

1. Page 52, line 17.
   Insert: "(3) "Gross household income" means all income received by all individuals of a household while they are members

of the household.
Renumber: subsequent subsections

2. Page 53, line 6.
Insert: "(6) "Household income" means $0 or the amount obtained by subtracting the greater of $4,000 or 50% of total retirement benefits from gross household income, whichever is greater.
(7) "Income" means federal adjusted gross income, without regard to loss, as that quantity is defined in the Internal Revenue Code of the United States, plus all nontaxable income, including but not limited to:
(a) the gross amount of any pension or annuity (including Railroad Retirement Act benefits and veterans' disability benefits);
(b) the amount of capital gains excluded from adjusted gross income;
(c) alimony;
(d) support money;
(e) nontaxable strike benefits;
(f) cash public assistance and relief;
(g) payments and interest on federal, state, county, and municipal bonds; and
(h) all payments received under federal social security except social security income paid directly to a nursing home.
Renumber: subsequent subsections.

3. Page 54, line 24
Following: "of [sections 63 through 70] is"
Strike: "the amount of gross rent paid during the claim period or $200, whichever is less"
Insert: "computed as follows: (a) In the case of a claimant who rents the homestead for which a claim is made, the credit is the amount of rent paid during the claim period less the deduction specified in subsection (2).
(b) In the case of a claimant who owned and rented the homestead during the claim period, the credit is the amount of rent paid during the claim period less the deduction specified in subsection (2) prorated by dividing the amount of time the homestead was rented by the claimant by the number of months in the period for which a claim is made and then multiplying the quotient by the amount of credit allowed to the claimant.
(2) Gross rent paid is reduced according to the following schedule:

Household income	Amount of reduction
$ 0-999	$0
1,000-1,999	$0
2,000-2,999	the product of .006 times the household income
3,000-3,999	the product of .016 times the household income
4,000-4,999	the product of .024 times the household income
5,000-5,999	the product of .028 times the household income
6,000-6,999	the product of .032 times the household income

EXHIBIT 3
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SB-235

7,000-7,999	the product of .035 times the household income
8,000-8,999	the product of .039 times the household income
9,000-9,999	the product of .042 times the household income
10,000-10,999	the product of .045 times the household income
11,000-11,999	the product of .048 times the household income
12,000 & over	the product of .050 times the household income

4. Page 55, line 2
Strike: Subsection (2) in its entirety
Insert: "(3) In no case may the credit granted exceed $200."
Renumber: subsequent subsections

J. The purpose of the amendment is to delete the security cash reserve account.

1. Title, lines 12 and 13.
Following: "USE TAX REVENUE;"
Strike: "PROVIDING FOR A SECURITY CASH RESERVE ACCOUNT AND ITS USE;"
Line 24
Following: "16-2-301,"
Strike: "17-7-102, 17-7-140,"

2. Page 51, lines 14 through 17.
Strike: Beginning on line 14, strike "distributed as follows: (i) 25.9% to the security cash reserve account established in [section 79]; and (ii) 74.1% that must be further"

3. Pages 60 through 61.
Strike: Sections 79 and 80 in their entirety.
Renumber: subsequent sections

4. Pages 65 through 73
Strike: Sections 86 and 87 in their entirety.
Renumber: subsequent sections

EXHIBIT NO. 4
DATE 3-5-93
BILL NO. SB 283

MEA & UNDERFUNDED SCHOOLS COALITION | SB283 ANALYSIS (SEN. WATERMAN) | 04-Mar-93

FY92 SCHOOL GENERAL FUND COSTS	ELEMENTARY	HIGH SCHOOL	TOTAL(ELEM+HS)	
FOUNDATION SCHEDULE + ISOLATED PAYMENTS	227,181,640	120,598,618	347,780,258	
ALLOWABLE COSTS OF SPECIAL EDUCATION	19,914,186	8,079,819	27,994,005	
CASH REAPPROPRIATED*	21,372,105	14,446,418	35,818,523	
NON-LEVY REVENUES OTHER THAN PL874$*	17,292,375	14,271,665	31,564,040	
PL874 $	14,990,319	6,714,946	21,705,265	
GENERAL FUND GTB $	22,153,056	8,752,377	30,905,433	> DATA SOURCES:
GF MILL VOTED MONIES*	17,391,766	22,818,681	40,210,447	
GF MILL PERMISSIVE MONIES*	35,684,164	17,622,796	53,306,960	-- OPI --
FY92 ESTIMATED GENERAL FUND $	375,979,611	213,305,320	589,284,931	> FY92 SCHOOL
ACTUAL TOTAL FY92 GF EXPENDITURES	367,280,538	207,498,371	574,778,909	EXPENDITURES
				> OR (*)
FY92 NON-GENERAL FUND COSTS AFFECTED BY SB283				FY92 SCHOOL
				BUDGETS
RETIREMENT	43,147,988	22,819,138	65,967,126	
TRANSPORATION	21,094,666	13,282,435	34,377,101	
BUS DEPRECIATION	1,823,796	1,247,321	3,071,117	
ADULT EDUCATION	580,307	1,642,396	2,222,703	
TUITION	1,361,850	104,991	1,466,841	
DEBT SERVICE	13,214,259	11,703,292	24,917,551	
BUILDING RESERVE	3,084,341	2,589,794	5,674,135	
SUB-TOTAL OF ABOVE	84,307,207	53,389,367	137,696,574	

PROPOSED SB283 FOUNDATION SCHEDULE COST =

FY92 TOTAL GENERAL FUND - ACSPED - PL874 + TUITION + ADULT =		528,769,183	
MINUS CURRENT STATE SUPPORT $ FOR FOUNDATION SCHEDULES		347,780,258	
SUB-TOTAL: ADDITIONAL $ NEEDED FOR FP SCHEDULES (ABOVE FY92/ANB)		180,988,925	
= +47% ELEM & +61% HS SCHEDULE AMOUNTS			
PLUS PROPOSED SB283 SEA PAYMENTS =	SPECIAL EDUCATION (ACSPED)	27,994,005	
	RETIREMENT	65,967,126	
	TRANSPORTATION	34,377,101	TOTAL
	CAPITAL PROJECTS GTB (SB32)	1,375,000	ADDITIONAL SEA
			FUNDING NEEDED
	SUB-TOTAL	129,713,232	> $193,232,684
MINUS	CURRENT STATE SUPPORT $ FOR GENERAL FUND GTB	30,905,433	
	CURRENT STATE SUPPORT $ FOR SPECIAL EDUCATION	29,000,000	
	CURRENT STATE SUPPORT $ FOR RETIREMENT GTB	15,000,000	
	CURRENT STATE SUPPORT $ FOR TRANSPORTATION	17,000,000	
	NEW STATE SUPPORT $ FROM NON-LEVY REVENUE	25,564,040	
	SUB-TOTAL	117,469,473	
SUB-TOTAL: ADDITIONAL $ NEEDED FOR SEA (ABOVE FOUNDATION SCHEDULES)		12,243,759	

SENATE TAXATION
EXHIBIT NO. 5
DATE 3-5-93
BILL NO. SB 235

Senate Bill 235

AMENDMENTS

DEPARTMENT OF REVENUE
February 18, 1993
Prepared by Bruce McGinnis and Dave Woodgerd

1. The purpose of this amendment is to exempt intrastate transportation services from sales and use tax.

Page 8
Line 7
Insert: "(15) "Transportation services" means the transportation of persons or property by air, ground, or water from a point within this state to a another point within this state or a point without this state, along with any reasonably necessary associated services."
Renumber: Subsequent subsections

Page 24,
Line 7
Insert: "NEW SECTION. **Section 28. Exemption -- transportation services.** The sale or use of transportation services is exempt from the sales and use tax."
Renumber: Subsequent sections

Page 27.
Line 11
Strike: Section 35 in its entirety
Renumber: Subsequent sections

2. This amendment specifically provides that a purchaser of property or services remains liable for the sales tax if for any reason the sales tax was not paid or collected on a transaction subject to tax. This section already applied to the use tax. The amendment makes it applicable to the sales tax.

Page 11, line 15.
Following: "of"
Insert: "sales and"
Line 15.
Following: "in this state who"
Insert: "buys or"
Following: "property"
Insert: "or services"
Line 16
Following: "payment of the"
Insert: "sales or"
Following: "tax if"
Strike: "the"

Insert: "a"
Line 17
Following: "payable on the"
Insert: "sale's price or"
Following: "property"
Insert: "or services"
Line 19
Following: "has paid the"
Insert: "sales or"

3. The purpose of this amendment is twofold. First it removes the exemption for minerals used or integrated into jewelry. As a practical matter, these minerals should be exempt as a sale for resale. The jewelry itself will be taxable.

This section also clarifies that exempt sales of minerals are sales by the producer and does not include minerals which will be used to produce energy unless they are converted for resale. In other words, the intent is to make sales of coal and natural gas taxable when they are sold to the final consumer of the energy they produce. This is consistent with the fact that utilities are taxable.

Page 21, line 22 through 23.
Following "minerals" on line 22
Strike: " -- exception for jewelry" on line 23
Line 23
Following: "(1)"
Strike "The"
Insert: "Except as provided in subsection (2), the"
Following: "sale or use"
Insert: "by the miner, or the producer of the mineral or by a broker acting upon behalf of the miner or producer"
Line 23.
Following: "mineral"
Strike: ","
Page 22, line 1
Strike: Subsection (2) in its entirety.
Insert: "(2) Minerals used for the purpose of producing energy or conversion into energy are subject to the sales and use tax unless converted for subsequent resale as a form of energy."

4. The purpose of this amendment is to clarify that only irrigation water used for the production of agricultural products produced in quantities sufficient for commercial purposes is exempt from sales tax.

Page 23, line 13.
Following: "herbicides; or"
Insert: "irrigation"
Page 23, line 14.

EXHIBIT 5
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SB 235

Following: "for"
Strike: "commercial irrigation"
Insert: "production of agricultural products in commercial quantities"

5. The purpose of this amendment is to exempt from sales and use tax construction services used in the construction of residential and commercial buildings.

Page 24
Line 7
Insert: "NEW SECTION. **Section 28. Exemption -- Construction services.** The sale and use of construction services for the construction, fabrication, or remodeling of residential and commercial buildings are exempt from sales and use tax."
Renumber: Subsequent sections

6. The purpose of this amendment is to clarify that electricity used in the reduction or refinement of ores shall be considered a component part of the product.

Page 25, line 5.
Following: "(2)"
Insert: "(a)"

Page 25
Line 8
Insert: subsection "(b) Electrical energy or electricity used or consumed by electrolytic deposition used in the reduction or refinement of ores shall be considered a component part of the product for purposes of this section.

7. This amendment clarifies that the sale of property to a person engaged in the business of leasing to the ultimate consumer is a nontaxable transaction.

Page 25, line 8.
Following: "sale"
Insert: "or use"
Lines 10 through 11.
Following: "property," on line 10
Strike: "other than furniture and appliances, and the rental or lease of property,"
Line 12.
Following: "and mobile homes"
Insert: "purchased in this state"
Line 17.
Following: "leasing"
Strike: "or selling"
Line 18.
Following: "type"
Strike: "leased"

Insert: "sold"

8. The purpose of this amendment is conform the collection of delinquent sales tax owed by corporations to the collection of delinquent withholding tax owed by corporations.

Page 48, lines 22 through 25.
Strike: Subsection (a) in its entirety.

9. The purpose of this amendment is to remove the term "gross receipts" form the section concerning fraternal organizations. This term is not meaningful since the tax is imposed on sales and use, not gross receipts.

Page 73, line 15.
Following: "that"
Strike: "the receipts"
Insert: "sales"
Lines 16 and 17.
Following: "society, the"
Strike: "gross receipts"
Insert: "sales"
Line 21.
Following: "(b)"
Strike: "Receipts from dues"
Insert: "Dues"
Line 22.
Following: "and"
Strike: "from"

10. The purpose of this amendment is to delete the amendment to § 15-6-207 which exempts unprocessed products of livestock. These products are already exempt under subsection (1)(a) which exempts agricultural products in farm storage and owned by the producer.

Page 114, line 20
Strike: subsection (h) in its entirety.
Renumber: subsequent sections

11. The purpose of this amendment is to clarify that new and used vehicles purchased for the purpose of being placed in a fleet of vehicles used for rental car purposes are exempt from tax. This exemption is similar to nontaxable transaction for property purchased for the purpose of lease or rental contained in § 31.

Page 136, line 1.
Following: "in interstate commerce,"
Insert: "vehicles registered as part of a fleet as defined in 61-3-318(2),"
Page 139, line 10.
Following: "in interstate commerce,"

EXHIBIT 5
DATE 3-5-93
SB 235

Insert: "vehicles registered as part of a fleet as defined in 61-3-318(2),"

Page 143, line 8.

Following: "interstate commerce,"

Insert: "and vehicles registered as part of a fleet as defined in 61-3-318(2)"

12. The purpose of this amendment is to delete the requirement that increases in property tax classification rate are subject to two-thirds vote of the legislature and a vote of the public. It is not the intent of this bill to limit the tax rate for property taxes.

Page 188,
Line 13
Strike: Section 166 in its entirety
Renumber: subsequent sections

Page 189 and 190
Line (25)
Strike: Subsection (6) in its entirety

PROPOSED AMENDMENT
SENATE BILL 235

Submitted by:
The Montana Funeral Directors Association
February 2, 1993

NEW SECTION. Section_____. Exemption--Funeral Services. The sale of funeral services by burial or cremation, and the sale of real or personal property used in a funeral service, are exempt from the sales tax.

Western Sugar

The Western Sugar Company
1700 Broadway
Suite 1600
Denver, Colorado 80290
(303) 830-3939
Telecopier: (303) 830-3940

February 12, 1993

Senator Mike Halligan
State Capitol
Helena, MT 59620

Dear Senator Halligan:

I have reviewed SB235 enacting a 4% Sales Tax and changing the assessment ratio from 9% to 3.86% on manufacturing equipment.

While I realize Montana must make significant changes to its tax structure, (I applaud your efforts in this difficult challenge), I would also hope not to see a shift of taxes to the industrial sector. If we are to maintain somewhat of a balance, further reduction in the personal property tax area is necessary.

Following is the impact of SB235 on Western Sugar's Billings, Montana plant.

Increase due to 4% Sales Tax	$170,000.00
Decrease in Personal Property Tax	$130,000.00
Tax Increase	$ 40,000.00

As you can see, this is a 31% tax increase, hopefully further adjustments can be made.

Your consideration is greatly appreciated.

Sincerely,

Jack A. Fulton

Jack A. Fulton, Director
Government Relations

JAF/tlo
a:\SB235

cc: Butch Ott, Billings Chamber of Commerce

GLACIER COUNTY COMMISSIONERS

512 East Main
Cut Bank, Montana 59427
(406) 873-5063, ext. 24 & 25

Fred Pambrun
Allan R. Lowry
Dan Geer

McClure Reagan
Administrative Assistant

March 2, 1993

Senator Mike Halligan, Chairman
Senate Taxation Committee
Room 413/415
Montana State Capital
Helena, Montana 59601

In Re: <u>Sales Tax proposal/tax reform</u>

Dear Senator Halligan:

The Board of Glacier County wishes to express its concern for the need for tax reform within the State of Montana. Specifically, the Board requests that the following features be included in any sales tax/tax reform proposals:

1) The SB 283 Property Tax Restructuring proposal at 100% of market value.

2) The school funding proposal in SB 283 as amended by the education community to ensure full equalized funding of education.

3) The electrical generation tax and the telephone license tax from SB 283.

Thanking you and your committee members for your time and consideration on these matters, we remain

Sincerely,

BOARD OF GLACIER COUNTY COMMISSIONERS

By: Fred Pambrun
Fred Pambrun, Chairman

LAMBROS
REAL ESTATE

1001 S. Higgins Avenue
Missoula, MT 59801
Bus. (406) 543-6663

Patsy Plaggemeyer
Broker Associate
GRI, CRS

728-4138

Rm 305
Bonnie

DATE: MARCH 4, 1993

LEAD SHEET

TO NAME: SENATE TAXATION COMMITTEE **FROM:** PATSY PLAGGEMEYER

COMPANY: ______ **FAX NUMBER: (406) 543-4007**

FAX NUMBER: 444-4105

CONFIRMATION NUMBER: (406) 543-6663

I would like to express my opposition to Sales Tax bills SB 235 and SB 283. These bills would adversely affect the affordability of housing.

PLEASE DO NOT PASS THESE BILLS!!!

Patsy Plaggemeyer

PAGE 1 OF __ PAGES. CALL IMMEDIATELY IF INCOMPLETE.

__ PLEASE CALL TO CONFIRM ARRIVAL

__ AWAITING YOUR IMMEDIATE REPLY

__ RESPOND AT YOUR CONVENIENCE

__ NO RESPONSE IS REQUIRED.

Tippy & McCue

ATTORNEYS AT LAW

1215 Eleventh Avenue
P.O. Box 543
Helena, Montana 59624
406·442·4448 FAX 406·442-8018

Roger Tippy
Mary Kelly McCue

DATE: February 25, 1993
TO: Senate Taxation Committee
FROM: Montana Veterinary Medical Association
by: Roger Tippy, Lobbyist RT
RE: Senate Bill 235

The veterinarians of Montana would find their practices complicated by SB 235 in ways beyond the mere collection and remittance of sales tax. The exclusion of the undefined "agricultural services" appears to mean that their services to cattle and sheep would never be taxed, their services to dogs and cats would usually be taxed, and their services to horses would sometimes be taxed. Healing a cow pony on a working ranch would be an agricultural service, but what about a pony on a dude ranch? If agriculture includes raising animals for profit, what does a vet do with a customer who says he intends to sell his dog's next puppies?

The veterinarian will often be in no position to check a customer's claim to an agricultural service exemption. The tax will be difficult, if not impossible, to audit in this setting. Therefore, the M.V.M.A. requests the amendment to SB 235 or SB 283 which will add their services and medications to those of the other health care providers.

PROPOSED AMENDMENTS
Submitted by the Montana Veterinary Medical Association

SENATE BILL 235

Page 5, line 6
Following: "mind"
Insert: "or an animal"

Page 5, line 11
Following: "mind"
Insert: "or an animal"

SENATE BILL 283

Page 6, line 3
Following: "mind"
Insert: "or an animal"

Page 6, line 8
Following: "mind"
Insert: "or an animal"

DONEY, CROWLEY & SHONTZ

Ted J. Doney
Frank C. Crowley*
John M. Shontz **
Albert W. Stone, *of Counsel* ***

Attorneys at Law

Power Block Bldg., Suite 300
Sixth & N. Last Chance Gulch
P.O. Box 1185
Helena, Montana 59624
(406) 443-7018
Fax: (406) 449-8443

February 9, 1993

Mr. Mike Lavine
Office of the Governor
State of Montana
Capitol Station
Helena, Montana 59620

RE: Workman's Compensation Rehabilitation Benefits Exemption from Sales Tax

Dear Mr. Lavine,

We represent the Rehabilitation Association of Montana. Members of the association provide rehabilitation services to injured workers in Montana. Association members are reimbursed for their services by the Montana Workman's Compensation State Fund and other private and self insurance funds.

We note that payment for rehabilitation services are not exempted from the tax in Senate bills 283 and 235. Given the current concerns regarding the high costs of workman's compensation insurance in Montana, we note that subjecting workman's compensation rehabilitation services to a sales tax will simply increase the cost of rehabilitation to the state fund and other private insurers and ultimately to the insureds.

Was the lack of exemption of workman's compensation rehabilitation services from the sales tax an oversight or does the Administration support assessing the sales tax on workman's compensation rehabilitation services?

Enclosed, for your consideration, please find a copies of amendments to the bills which will exempt workman's compensation rehabilitation services from a sales tax assessment.

Sincerely,

John M. Shontz
JMS/ll
ENCL

CC: Senator Crippen
Senator Waterman
Senator Halligan
Senator Harp
Mr. Patrick Sweeney

PROPOSED AMENDMENT TO SENATE BILL 235

PAGE 24, LINE 7:

INSERT:

New Section. **Section 28. Exemption -- rehabilitation services provided to injured workers.** The sale or use of rehabilitation services provided to injured workers under chapter 71 Montana Code Ann. and its successors is exempt from the sales tax and the use tax.

RENUMBER SUBSEQUENT SECTIONS.

PROPOSED AMENDMENT TO SENATE 283

PAGE 25, LINE 25

INSERT:

New Section. **Section 28. Exemption -- rehabilitation services provided to injured workers.** The sale or use of rehabilitation services provided to injured workers under chapter 71 Montana Code Ann. and its successors is exempt from the sales tax and the use tax.

RENUMBER SUBSEQUENT SECTIONS.

February 23, 1993

MEMORANDUM

TO: Larry Finch, Manager
Office of Research and Information
Montana Department of Revenue

FROM: Phil Brooks, Senior Economist
Office of Research and Information
Montana Department of Revenue

SUBJECT: Tax Expenditure Estimates for Selected Sales Tax Exemptions in SB 235

As requested, I have prepared FY 1995 tax expenditure estimates for the following sales tax exemptions defined in SB 235:

EXEMPTION	TAX EXPENDITURE
Non-Prepared, Not Vended Food	$38,000,000
Medical and Counseling Services	38,000,000
Gambling	19,000,000
Gasoline and Special Fuels (Diesel)	17,000,000
Trade-in Allowances	8,000,000
Advertising Services	6,000,000
Prescription Drugs & Therapeutic/Prosthetic Devices	5,000,000
Newspapers, Magazines, and Books	3,000,000

No estimate for FY 1995 can be very precise. Let me know if you have questions.

State of Montana
Marc Racicot, Governor

Department of Revenue
Mick Robinson, Director

Room 455, Sam W. Mitchell Building
Helena, Montana 59620

February 24, 1993

MEMO

TO: Senator Mike Halligan, Chairman
Senate Tax Committee

FROM: Mick Robinson
Director

Mick

SUBJECT: Impact of Phasing Out Retirement Exclusion in SB235

The Senate Tax Committee (Senator Gage) requested that the Department provide the impact of phasing out alternative retirement income exclusions under SB 235. The following table provides the impacts, relative to the current law retirement exclusion, of allowing a blanket exclusion for all households, a phased-out exclusion that would operate similar to the current law phaseout, and the impact of the phaseout relative to the blanket exclusion, at alternative retirement exclusion levels:

Exclusion Level	Blanket Exclusion	Phased Out Exclusion	Impact of Phase Out Relative to Blanket
$ 5,000	$ 5,351,000	$ 550,000	$ (4,801,000)
$ 6,000	$ 6,585,000	$ 902,000	$ (5,683,000)
$ 8,000	$ 8,736,000	$1,487,000	$ (7,249,000)
$ 10,000	$10,566,000	$2,004,000	$ (8,526,000)
$ 12,000	$12,136,000	$2,471,000	$ (9,665,000)
$ 15,000	$13,988,000	$3,070,000	$(10,918,000)

For example, in SB 235, allowing a $5,000 blanket exclusion for each individual retiree, regardless of income, reduces tax liability by $5,351,000, relative to the current law exclusion. If this $5,000 exclusion were to be phased out in the same manner that the current law exclusion is phased out, then the reduction in liability relative to the current law exclusion is only $550,000. Using the phase out approach reduces the revenue loss by $4,801,000.

Please let me know if you have further questions regarding this matter.

cc: Judy Rippingale
Jeff Miller