MINUTES

MONTANA HOUSE OF REPRESENTATIVES
53rd LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN BOB GILBERT**, on April 12, 1993, at 12:30 p.m.

ROLL CALL

Members Present:
Rep. Bob Gilbert, Chairman (R)
Rep. Mike Foster, Vice Chairman (R)
Rep. Shiell Anderson (R)
Rep. John Bohlinger (R)
Rep. Ed Dolezal (D)
Rep. Jerry Driscoll (D)
Rep. Gary Feland (R)
Rep. Marian Hanson (R)
Rep. Hal Harper (D)
Rep. Chase Hibbard (R)
Rep. Vern Keller (R)
Rep. Ed McCaffree (D)
Rep. Bea McCarthy (D)
Rep. Tom Nelson (R)
Rep. Scott Orr (R)
Rep. Bob Raney (D)
Rep. Bob Ream (D)
Rep. Rolph Tunby (R)

Members Excused: None

Members Absent: Rep. Harrington
Rep. Elliott

Staff Present: Lee Heiman, Legislative Council
Jill Rohyans, Committee Secretary

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

Committee Business Summary:
Hearing: HJR 30
Executive Action: SB 374 Be Concurred In As Amended

HEARING ON HOUSE JOINT RESOLUTION 30

Opening Statement by Sponsor:

REP. BOB REAM, HD 54, Missoula, said the resolution requests the Revenue Oversight Committee (ROC) to conduct an interim study of tax expenditures. He submitted an overview of the tax expenditure concept to the Committee. **EXHIBIT 1**

Proponents' Testimony: None

Opponents' Testimony: None

Questions From Committee Members and Responses:

REP. FELAND said he felt it would be difficult to quantify the effectiveness or results of tax exemptions or tax breaks.

REP. REAM said there are various methods such as public input on major issues and comparisons to data from other states and research done on tax expenditures.

REP. FELAND said it would be difficult to compare our taxation system to any other state because the Montana system is "so out of whack."

REP. REAM said it would be important to pull out individual components and do one on one comparisons. Revenue estimating, which is the charge of ROC, is a process that relies on information from many sources. A review of tax expenditures and impacts would be helpful to ROC deliberations. Tax expenditure estimates should be viewed more as a measure of the amount of relief provided, rather than as a measure of the revenue that is generated.

Closing by Sponsor: **REP. REAM** closed.

EXECUTIVE ACTION ON SENATE BILL 374

Motion: **REP. DOLEZAL MOVED SB 374 BE TAKEN OFF THE TABLE.**

Discussion: **REP. DOLEZAL** said there were many misconceptions about tax incentives expressed in the previous executive action on the bill. Use of Montana products is another sticking point. He said he would propose amending the bill with a pro rata subsidy or exemption based on the amount of Montana products used.

<u>Vote</u>: Motion to take SB 374 off the table carried with **CHAIRMAN GILBERT** and **REP. FELAND** voting no.

<u>Motion</u>: **REP. DOLEZAL** moved SB 374 be amended as per the attached standing committee report and as so amended be concurred in.

<u>Discussion</u>: **REP. DOLEZAL** explained the amendments institute a pro rata incentive for use of Montana products with the maximum being thirty cents per gallon when 100% Montana products are used in the production of alcohol used for gasohol.

REP. RANEY expressed concern that a producer could use only 33% Montana products and still get the total $3 million exemption.

REP. DOLEZAL said that is certainly possible, if they produced massive amounts of gasohol. These amendments put emphasis on use of Montana products and establish incentives for their use.

REP. TUNBY asked if federal matching funds would be lost if $1.5 million is lost out of the highway fund to help fund the incentives.

Bill Salisbury, Administrator, Administration Department, Department of Transportation, said federal matching funds would not be affected.

REP. FELAND said another bill proposes to exempt 5% on oil which amounts to seventy-five cents a barrel. He said this would equal $12 a barrel and he refused to support it.

REP. BOHLINGER expressed support for the bill as it could have a stabilizing effect on Montana grain prices. It would be an economic benefit to the Great Falls area and therefore to the whole state.

REP. RANEY said the state has thrown $1.5 million away on incentives for other gasohol producers in the state already. He said this is just another "rat hole." He said the bill is not the problem, rather it is the whole ethanol question. If the public wants, it can pay for it.

REP. HARPER asked if the bill would decrease federal highway money if the gas tax bill passes.

Mr. Salisbury said it would.

REP. HARPER said it is important to invest money in Montana and in projects that improve the economy of Montana. The proposed plant in Great Falls has a large payoff potential for wheat growers and the state.

REP. HANSON said there have been three other instances of ethanol production incentives that have not worked. She wondered how many more would have to be tried before the lesson is learned.

CHAIRMAN GILBERT said at one time there were four ethanol plants in the state. The Dillon plant used state funds that were not paid back. The Manhattan project used some state funds, paid those funds back, and ultimately closed. The Terry plant used state funds and borrowed from banks. Their tanks blew away and the plant closed. They still owe the state and the banks. The Ringling plant utilized a $649,000 state subsidy and two-thirds of their production is sent out of state. The market in Montana is very limited. He said it would be a better use of state money to give grain producers a one cent a bushel exemption instead of incentives for ethanol producers. He said the Great Falls plant may never be built. They already qualify for $1.5 million under existing law; they do not need another $1.5 million.

REP. DOLEZAL pointed out the incentive is not used unless the plant goes on line. The provisions in this bill expire in 1997. The plant is not scheduled to be open until 1995. The entire statute expires in 2001. The plant could be using up to 12 million bushels of Montana grain when it is in full production. That is good for the graingrowers' economy as well as the state's. He said if the financing for the plant were to fall through, this bill would never be used.

Vote: **SB 374 BE CONCURRED IN AS AMENDED.** Motion carried on a roll call vote 11-7.

ADJOURNMENT

Adjournment: The meeting was adjourned at 1:30 p.m.

Mike Foster (Vice-Chair)
BOB GILBERT, CHAIRMAN

Jill Rohyans
JILL ROHYANS, Secretary

BG/jdr

HOUSE OF REPRESENTATIVES

TAXATION **COMMITTEE**

ROLL CALL **DATE** 4/12/93

NAME	**PRESENT**	**ABSENT**	**EXCUSED**
REP. GILBERT, CHAIRMAN	✓		
REP. FOSTER	✓		
REP. HARRINGTON		✓	
REP. ANDERSON	✓		
REP. BOHLINGER	✓		
REP. DOLEZAL	✓		
REP. DRISCOLL	✓		
REP. ELLIOTT		✓	
REP. FELAND	✓		
REP. HANSON	✓		
REP. HARPER	✓		
REP. HIBBARD	✓		
REP. KELLER	✓		
REP. McCAFFREE	✓		
REP. McCARTHY	✓		
REP. NELSON	✓		
REP. ORR	✓		
REP. RANEY	✓		
REP. REAM	✓		
REP. TUNBY	✓		

HOUSE OF REPRESENTATIVES

TAXATION **COMMITTEE**

ROLL CALL VOTE

DATE 4/12/93 **BILL NO.** SB 374 **NUMBER** ______

MOTION: by Rep. Dolezal that SB 374 Be Concurred In As Amended

NAME	AYE	NO
REP. FOSTER	✓	
REP. HARRINGTON		
REP. ANDERSON	✓	
REP. BOHLINGER	✓	
REP. DOLEZAL	✓	
REP. DRISCOLL	✓	
REP. ELLIOTT		
REP. FELAND		✓
REP. HANSON		✓
REP. HARPER	✓	
REP. HIBBARD	✓	
REP. KELLER	✓	
REP. McCAFFREE	✓	
REP. McCARTHY	✓	
REP. NELSON		✓
REP. ORR		✓
REP. RANEY		✓
REP. REAM	✓	
REP. TUNBY		✓
REP. GILBERT		✓

HOUSE STANDING COMMITTEE REPORT

April 12, 1993

Mr. Speaker: We, the committee on Taxation report that Senate Bill 374 (third reading copy -- blue) be concurred in as amended.

Signed: ______________________
Bob Gilbert, Chair

And, that such amendments read: Carried by: Rep. Dolezal

1. Title, line 10.
Following: ";"
Insert: "PROVIDING FOR A PROPORTIONAL REDUCTION IN THE TAX INCENTIVE FOR ALCOHOL PRODUCED FROM OUT-OF-STATE AGRICULTURAL OR WOOD PRODUCTS;"

2. Page 2, line 12.
Following: "gallon"
Insert: "for each gallon that is 100% produced from Montana products, with the amount of the tax incentive per gallon reduced proportionately, based upon the amount of agricultural or wood products used in the production of the alcohol that are not produced in Montana"

Committee Vote:
Yes ___, No ___.

EXHIBIT 1
DATE 4/1?/93
~~HB~~ HJR. 30

INTRODUCTION

Once every two years the Montana Legislature convenes in regular session to fulfill its responsibilities in the functioning of state government. Basic responsibilities include the review of past budgets associated with alternative government spending programs, a determination of the appropriateness of continuing these programs, the budgeting of program expenditure levels for coming years, and the appropriation of funds needed to finance continued and additional programs.

In recent years, attention has begun to focus on the fact that in ~~this~~ the budget review process most state legislatures (Montana's included) systematically overlook a major component of government finance. This component consists of the reductions in state revenue attributable to deductions, exclusions, credits, and other preferential treatment in the tax code. In effect, the specific deductions, exclusions, credits, and other preferential items currently in tax codes, represent indirect government spending programs, in the sense that these same preferences result in foregone revenue that otherwise would have been available for direct expenditure programs. Hence, these items are commonly referred to as "tax expenditures".

This introductory section examines the tax expenditure concept, discusses methods used in measuring tax expenditures, provides some caveats in the use of tax expenditure estimates, examines the history of tax expenditure reporting, and presents a verbal outline of this report.

THE TAX EXPENDITURE CONCEPT

Tax expenditures are defined as provisions of the tax code that provide for special exclusions, exemptions, deductions, credits, deferrals, or preferential tax rates that result in foregone revenue.

The purpose of tax expenditures is to provide *financial assistance* to certain groups of taxpayers, or to provide an *economic incentive* that encourages specific taxpayer behavior. One example of a tax expenditure designed to provide financial assistance is the additional personal exemption allowed the blind and/or elderly. On the other hand, the deduction allowed homeowners for mortgage interest may be viewed as an inducement to encourage home ownership. In both cases, the same objectives could be met through direct government spending programs that subsidize certain individuals on the basis of specific characteristics or behavior.

Tax expenditures arise as a consequence of deviations from the "normal" tax structure. There is no general consensus regarding *the* normal income tax structure. However, there are a few tax provisions that are generally agreed upon to be components of the normal tax structure, and consequently are not considered tax thereby reducing the revenue gain estimated in the absence of any behavioral response.

Given these considerations, users should view tax expenditure estimates more as a measure of the amount of relief currently being provided, rather than as a measure of the revenue that could be generated from repealing the associated tax provision.

TAX EXPENDITURE REPORTING

Tax expenditure reporting and tax expenditure budgets are a relatively recent phenomenon. The earliest record of reporting government subsidies administered through the tax code is in the Federal Republic of Germany, in 1959.

In the U.S., the pioneering work of Stanley Surrey lead to the first federal tax expenditure budget, prepared by the Department of Treasury, in 1967. In 1971, California became the first state to adopt legislation requiring tax expenditure reports. California was followed by Wisconsin in 1973, and by Maryland and North Carolina in 1975. Today, at least half the states regularly publish comprehensive or partial tax expenditure reports.

In almost all cases, tax expenditure reports and budgets are prepared in response to a statutory requirement. Usually, the statutes spell out the type of information the report is to contain, and the time period to be covered.

HB387, passed during the 1987 regular session, provides that the Department of Revenue's *Biennial Report* may include specified information relating to tax expenditures. The bill did not contemplate a specific time period for these expenditures. However, the bill did specify that the report may include tax expenditures attributable to:

1) personal income and corporation license tax exemptions,
2) property tax exemptions for which application to the Department or its agent is necessary,
3) deferrals of income,
4) credits allowed against Montana personal income tax or Montana corporation license tax,
5) deductions of income, and
6) any other identifiable preferential treatment of income or property.

In addition, the Department was directed to provide:

1) distributions of tax expenditures across age and income brackets, whenever available,