

**MINUTES**

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

**COMMITTEE ON TAXATION**

**Call to Order:** By Chairman Mike Halligan, on April 20, 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: HB 671

**EXECUTIVE ACTION ON HB 671**

**DISCUSSION:**

Exhibit No. 1 to these minutes is a memorandum from Mick Robinson, Director of the Department of Revenue (DOR), which shows the revenue impact of HB 671 as it relates to the Consumer Price Index (CPI). The DOR has presented an amendment that would correct the indexing language of HB 671 to reflect the intent of the House to index at half the CPI, and restore the revenue impact to \$66.11 million.

Senator Van Valkenburg reported that Governor Racicot yesterday said he finds HB 671 unacceptable in its present form. Before this Committee takes action on this bill, Senator Van Valkenburg called attention to some facts he thinks are important to consider. (1) People were led to believe that HB 671 would be an integral part of the proposed state budget. (2) The Governor has not appeared before this Committee to let anyone know he felt HB 671 was unacceptable. At the time the bill was heard in this Committee, the DOR reported HB 671 had a technical problem, but that it was not of great consequence this biennium because it only affects indexation in the second year of the biennium and it won't be any big problem to deal with and no one on this Committee said the problem couldn't be worked out. (3) The DOR Director submitted a memorandum dated April 15 (Exhibit No. 1) saying the problem is bigger than previously presented; it is an \$8.6 million problem. The timing is such that it is impossible to amend HB 671 and get it back to the House without a suspension of the rules in the House. The House is presently engaged in a debate over the sales tax. The Senator feels a major piece of the budget can't be sent back to the House with amendments under those circumstances. It was thought to be responsible action to hold HB 671 in this Committee until the end of the session, and if it were possible to reach an agreement with the Governor and House members as to amendments that might be made to the bill, that would take care of the technical problems, and this Committee was willing to do that. Senator Van Valkenburg expressed that opinion to the Governor, he told Director Robinson he would work with him on issues such as getting the 65,000 people who would be dropped off the tax rolls back onto the tax rolls, and that he was open to compromise on HB 671. HB 671 needs to be moved through the process in this Committee, the Senate floor, and the House, and on to the Governor with the understanding that the Governor would offer an amendatory veto to this bill. Something needs to be done to balance the state budget and bring the State together.

MOTION:

Senator Van Valkenburg moved that HB 671 BE CONCURRED IN.

DISCUSSION:

Senator Harp said the Governor has communicated to the Senate that his interests have been a total tax reform package that passed out of the Senate, SB 235. At that time, Senator Harp assumed there were two tracks: one track is taking care of the on-going needs of this Session in trying to balance the budget; the second track is going down a long-term tax proposal with a vision toward the future of Montana's needs. What occurred to change the Governor's mind was when a major component of the Governor's major tax reform went off the tracks in the House. The Governor would have supported HB 671 knowing that in June he would have had an option to rescind this proposal on a referendum that the public would support by passing SB 235, the

sales tax bill. After defeat of SB 235 in the House, the Governor has to look at exactly what is on the table. He doesn't like how double income families are being treated, he doesn't like the idea of 64,000 taxpayers coming off the rolls, he doesn't like the idea of the entrepreneurs, the small business owners, the people who are trying to expand the state's economic base, being penalized in HB 671. There is an element of HB 671 in SB 235, but it had property tax relief, personal property tax relief, and an array of other things included in SB 235. Senator Harp thinks the reason the Governor has changed his thinking, particularly on HB 671, is because he always assumed there would be two trains running continuously all through the process, and since one train was lost in the House defeat of SB 235, now the only thing he has to work with is HB 671.

Senator Towe added to Senator Van Valkenburg's statements, that the Governor not only did not indicate his opposition to HB 671 as it was going through the legislative process, but it is Senator Towe's understanding that the Governor came into the House with a number of amendments which were adopted to make HB 671 more acceptable to him at that time. Those amendments are in the bill at the present time. Senator Towe thinks there are a lot of options, and a lot of possibilities, to amend this bill so it is acceptable to both the Senate and the House. He does not believe a surtax is an answer; he thinks this is the worst of all possibilities.

Senator Gage said he thinks the major mistake was not trying some amendments with HB 671 several days ago. He said the Legislature needs to do what the Legislature should do, regardless of who is Governor.

Senator Halligan said bi-partisanship on SB 235 turned into fruition with actual votes on both sides of the aisle. HB 671 came to this Committee in a bi-partisan way, and our leadership role now is to work with the Governor in the amendments, hoping to have the House involved in those discussions, so the non-sales tax, long-term reform, can go into place in a bi-partisan fashion.

Senator Doherty said it is important to break the stalemate that exists in the House, and that may exist between the House leadership and the Governor. He hopes that the Senate will be able to act as a mediator between those parties and somehow break the stalemate.

#### VOTE:

The motion to concur in HB 671 CARRIED 7-4 on Roll Call Vote (#1). (870842SC.Sma) Senator Halligan will carry the bill on the Senate floor.

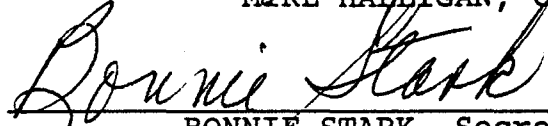
Exhibit No. 2 to these minutes is a letter from Margaret A. Likens in opposition to HB 671.

ADJOURNMENT

**Adjournment:** The meeting adjourned at 8:45 a.m.



MIKE HALLIGAN, Chair



BONNIE STARK, Secretary

MH/bjs

# ROLL CALL

SENATE COMMITTEE

TAXATION

DATE 4-20-93

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 STANDING COMMITTEE REPORT

Page 1 of 1  
April 20, 1993

MR. PRESIDENT:

We, your committee on Taxation having had under consideration House Bill No. 671 (third reading copy -- blue), respectfully report that House Bill No. 671 be concurred in.

Signed:   
Senator Mike Halligan, Chair

ROLL CALL VOTE # /

SENATE COMMITTEE

## TAXATION

BILL NO.

AD 67

DATE \_\_\_\_\_

4-20-93

TIME

8:00

A.M.

P.M.

NAME

YES

NO

[illegible]

Bonnie Stark

SECRETARY

Mike Halligan

CHAIR

MOTION:

*Dr. J. M. L. ...*

10-11-68

# State of Montana

Marc Racicot, Governor



## Department of Revenue

Mick Robinson, Director

P.O. Box 202701

Helena, Montana 59620-2701

April 15, 1993

### MEMO

TO: Senator Mike Halligan, Chairman  
Senate Tax Committee

FROM: Mick Robinson, Director *Mick*

SUBJECT: Revenue Impacts of HB 671

In your deliberations of HB 671, there are several revenue-related issues that you should consider:

First, as passed out of the House of Representatives, the Department estimated total additional revenue generated by this bill to be \$66.11 million, over the 1995 biennium. However, after the Senate Tax Committee began deliberations on HB 671 it was brought to our attention that the indexing provisions of the bill were improperly drafted. Whereas the computer simulations used to estimate the revenue impact of the bill indexed the exemption and standard deduction levels for one-half the increase in the consumer price index (CPI), the language in the bill effectively continues indexing at the full increase in the CPI. Consequently, the revenue impact of \$66.11 million is overstated by approximately \$8.64 million. As the bill stands now, a more correct estimate of the biennial revenue impact is \$57.47 million. The Department has provided an amendment that would correct the indexing language of the bill to reflect the intent of the House to index at half the CPI, and restore the revenue impact to the \$66.11 million level.

Second, to address another specific concern, the Department also has drafted an amendment that would allow the two-earner deduction in the bill to be based on "earned income", rather than on wages and salaries only. This amendment is estimated to reduce revenue over the biennium by about \$1.25 million.

In summary, if neither amendment is adopted then the 1995 biennium revenue impact of HB 671 is \$57.47 million. If only the indexing amendment is adopted the revenue impact is \$66.1 million. And if both amendments are adopted the revenue impact is \$64.86 million.

cc: Dave Lewis, Budget Director

Director - (406) 444-2460

Legal Affairs

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**Margaret A. Likens**  
**P.O. Box 5925**  
**Helena, MT 59604**

RECEIVED  
NO. 2  
4-20-93  
HB 671

April 14, 1993

TO: Senator Mike Halligan

RE: Senate Bill 671

I want to let you know that I object to Senate Bill 671. This bill is being touted as "tax reform" but all it really does is shift the tax burden to the upper income people in the state. I know that this has appeal because it is a more progressive tax structure, but I think it takes the concept of "progressive" to the extreme and therefore turns it into a bad idea.

I can't help but think that this bill also plays upon the class warfare attitude which does not help bring our society together to deal with problems in a way that every citizens is responsible and participates. Afterall, the way citizens participate in government is by voting and paying taxes. We should not relieve substantial numbers of citizens of their rights, priviledges and responsibilities.

I think this bill would also exacerbate the poor business climate in the state and thus further divide the wealth and opportunity for our citizens. Those who have money provide direct and indirect contributions to business in the state. We should not punish them or give them negative incentives to leave the state. Don't believe that this doesn't happen. Those individuals with high incomes can change legal residences because they have resources and options.

I have been following the session closely and I realize that you have difficult decisions to make. I appreciate that the legislature is attempting to erase Montana's deficit through equal portions of budget reductions and tax increases. But our state's deficit is not a function of one fiscal year -- it is a structural deficit that has been building for the last ten years. It is only fair to the citizens of Montana that the legislature not act in a political or rash way to hurt the long term prospects of the state. In this difficult situation, I think the budget cuts are necessary and also releasing earmarked funds to the general fund, plus a sales tax, with a sunset provision of two to four years, are a better alternative.

Regards,



Margaret A. Likens