MINUTES

MONTANA HOUSE OF REPRESENTATIVES
54th LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN CHASE HIBBARD**, on February 2, 1995, at 8:00 A.M.

ROLL CALL

Members Present:
Rep. Chase Hibbard, Chairman (R)
Rep. Marian W. Hanson, Vice Chairman (Majority) (R)
Rep. Robert R. "Bob" Ream, Vice Chairman (Minority) (D)
Rep. Peggy Arnott (R)
Rep. John C. Bohlinger (R)
Rep. Jim Elliott (D)
Rep. Daniel C. Fuchs (R)
Rep. Hal Harper (D)
Rep. Rick Jore (R)
Rep. Judy Murdock (R)
Rep. Thomas E. Nelson (R)
Rep. Scott J. Orr (R)
Rep. Bob Raney (D)
Rep. John "Sam" Rose (R)
Rep. William M. "Bill" Ryan (D)
Rep. Roger Somerville (R)
Rep. Robert R. Story, Jr. (R)
Rep. Emily Swanson (D)
Rep. Jack Wells (R)
Rep. Kenneth Wennemar (D)

Members Excused: None.

Members Absent: None

Staff Present: Lee Heiman, Legislative Council
Donna Grace, Committee Secretary

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

Committee Business Summary:
Hearing: HB 360
HB 346
Executive Action: HB 360 - Do Pass
HB 237 - Discussion only
HB 293 - Do Pass as Amended
HB 353 - Tabled

{Tape: 1; Side: A.}

HEARING ON HB 360

Opening Statement by Sponsor:

REP. JOE QUILICI, House District 36, Butte, opened the hearing by stating that HB 360 would provide an exception to the "original cost" rule when a public utility purchases property from another public utility. The current law provides that a utility is allowed to recover its expenses plus a reasonable return on capital. However, the current statute prohibits the PSC from allowing more than the original cost in the rate base. This means that when a utility purchases property from another utility, any amount over the original cost, minus depreciation, is excluded from the rate base. This bill would allow, but not require, the PSC to include the entire investment in the rate base if it finds the sale is in the public's interest.

Proponents' Testimony:

Nancy McCaffree, Chairperson, Public Service Commission, testified in favor of the bill. Her comments are contained in EXHIBIT 1.

Marjorie Thomas, Montana Power Company, rose in support of the bill. The original cost rule was put into place to prevent utilities from passing property back and forth and escalating the price. There are now entities other than utilities that are competing for property. When a piece of property comes up for sale it is not automatically transferred to another utility. It may be put up for bid and Montana Power Company has had two instances in the past year where the bid was lost because they could not bid above the original cost. If they could have obtained the property, it would have resulted in reduced rates for consumers.

John Alke, Montana-Dakota Utilities, spoke in favor of the bill. He said he had been litigating rate cases in Montana for many years and provided an example where Montana-Dakota Utilities was penalized for making a wise decision because the PSC was precluded by Montana law from including the full price in the rate base. **Mr. Alke** said the PSC should have the discretion to use the full purchase price in setting rates and he encouraged the Committee to support the bill.

Tom Hopgood, Citizens Telecommunications Company of Montana, said his company owns a small service area in the northwest part of the state and when they recently purchased property from GPE Northwest, they found themselves in the same situation as Montana-Dakota Utilities. They would like to have the option of using the acquisition price when they file a rate case.

Opponents' Testimony:

None.

Questions From Committee Members and Responses:

REP. BOHLINGER asked if the exemption in the bill would still protect the public's interests and possibly lower rates. **Ms. McCaffree** replied that it would as long as it remained discretionary.

REP. ROSE asked if this change had been approved by the Consumer Council. **REP. QUILICI** said it had been.

REP. MURDOCK asked if an inflated rate could be passed on to the consumer in the event a major utility purchased a piece of property at an inflated rate. **Dan Elliott, PSC,** replied that the way the bill is written, that would not be in the public's best interest, and the Commission would not include any excess above the original cost. **REP. MURDOCK** asked if it wasn't more likely that the rates to the consumer would go up rather than down. **Mr. Elliott** said it would depend on the circumstances in the case but if the Commission does its job properly in implementing this legislation, the rates would probably be lower than they would be without this bill.

REP. STORY asked if the legislation would increase work for the Commission. **Mr. Elliott** said that any time there is a potential for increased acquisition by utilities, particularly when they are above the original cost, it will increase the Commission's workload.

Closing by Sponsor:

In closing, **REP. QUILICI** emphasized that the provisions in this bill are entirely permissive and it does not mandate that the commission has to accept the acquisition cost. It does set a flexible standard and it must be proved that it is within the public's interest. If a utility needs more capacity and can show that a useful utility could be acquired, and they cannot use the acquired cost in setting rates, they could build a new facility which would, in most cases, cost much more than it would have been had they been able to acquire the existing utility. **REP. QUILICI** asked for the Committee's favorable action because this bill is in the public's interest.

HEARING ON HB 346

Opening Statement by Sponsor:

REP. JIM ELLIOTT, House District 72, Trout Creek, said that HB 346 would offer substantial property tax relief for Montana homeowners. There are rising assessments in the western part of the state and in the southern valleys, and there are declining values in the east which also raise taxes and statewide increases in mill levies have compounded the problem. **REP. ELLIOTT** furnished information on property tax and natural resource tax breaks given during the 1981 - 1993 period. EXHIBIT 2. The provisions contained in HB 346 are outlined in EXHIBIT 3. The last time a residential tax break was given was to low income and elderly people in 1979. During the same time period there have been substantial increases, including the 50 mill statewide tax. The results of these actions are outlined in a paper prepared by economist Stan Nicholson. EXHIBIT 4.

{Tape: 1; Side: B.}

REP. ELLIOTT explained that the bill provides for an income tax rebate against property taxes paid on 25% of the first $80,000 value of a home. Residences that are worth more than $80,000 would only be allowed 20% of the 25% as a credit. He said he thought people living in houses valued at over $80,000 could afford to pay their property taxes. The bill would offer a tax cut to 91% of the homeowners in Montana. The bill applies only to the primary residence of the taxpayer and the home must be lived in at least seven months of the year. It applies to the residence only and does not include the land underlying the residence. The bill provides that the homeowner would forward a copy of his tax bill to the Department of Revenue, along with any other documents the Department might call for, with the annual income tax return. **REP. ELLIOTT** said he had used the rebate method to keep local governments whole and the state will pay the bill. The cost would be $29 million in 1998. He explained that the bill does not enact the tax decrease. It puts it to a vote of the people. **REP. ELLIOTT** said he was skeptical that any other form of tax relief would be granted in the current session; therefore, he encouraged the Committee to give positive support to this bill. There are technical amendments to be added to the bill during executive action.

Proponents' Testimony:

REP. ROGER SOMERVILLE, House District 78, Kalispell, said he was convinced that Montana homeowners should receive some tax relief. The system is currently driving elderly people out of their homes. It is also preventing folks from buying homes because of escalating property values and high taxes and interest rates. He said this bill would provide some assistance to people who live and work in Montana.

Edmund Caplis, Executive Director, Montana Senior Citizens Association, said that older Montanans are impacted heavily with rising costs of property taxes while their incomes remain fixed. The Association supports the bill fully.

REP. JOHN BOHLINGER, House District 14, Billings, spoke in favor of the bill. He said that during his campaign efforts, he became acquainted with people in his district living in "affordable" homes which were purchased for $5,000 and now are appraised at $80,000. This bill would provide tax relief for 90% of the people in this district. The residence provision is important and he would support the referendum approach giving the people of Montana the option of receiving the tax relief, realizing that there is a cost. He encouraged the Committee to support the bill.

REP. BOB RANEY, House District 26, Livingston, said he had carried this bill, which recognizes that shelter is one of the things that are most important, in the 1987 session. He said there are minimum deductions for everything but property tax. Rep. Elliott has taken all the ideas that have been presented during the past decade and rolled them into one very good piece of legislation and he asked for the Committee's favorable support. If the Legislature holds the growth in government, there would be sufficient revenue to fund this legislation so he did not think it was necessary to take it to a vote of the people.

REP. BILL RYAN, House District 44, Great Falls, said he was glad to see so much support for this bill because during his campaign he had heard a lot about property tax. This bill says that the Legislature got the message and is willing to doing something for property taxpayers.

HAL HARPER, House District 52, Helena, said he had also found that property taxes were what his constituents wanted to discuss during the campaign. He said he was in favor of keeping the vote in the bill because the main thing to be accomplished in this session of the Legislature is prove to the people that government responds and is willing to do something about tax burdens but the message is hard to make because people do not trust government. Therefore, he thought the people should vote on it and realize that they had a hand in getting property tax relief.

<u>Opponents' Testimony</u>:

None.

{Tape: 2; Side: A.}

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

REP. NELSON asked if the homeowner would also be eligible for the low income credit. **REP. ELLIOTT** said they would be eligible. He said the DOR had suggested that 25% of the tax could be exempted when the elderly figure their rebate. DOR has suggested amendments which will be discussed during executive action.

REP. REAM said that someone will have to pay for this tax relief and he asked the sponsor what suggestions he might have. **REP. ELLIOTT** said one way would be to limit deductions for federal income tax and he also thought that growth in government could be limited. Tax income has gone up significantly and some of that could be used to pay for this legislation. He favored a mix of tax increases and budget cuts.

REP. REAM said it was good to discuss budget cuts but what actually results is unfunded mandates on property taxpayers. **REP. ELLIOTT** said he would not support paying for this tax cut by passing it on to property taxpayers. He said it would be fair to limit deductions on upper income Montanans; however, if that were in the bill it would not pass out of the Committee. **REP. REAM** said that cutting government won't happen and, after education and human services are taken out, there aren't many dollars left to deal with.

REP. HANSON asked the sponsor how tax cuts would be funded when "times get tough" in future legislative sessions. **REP. ELLIOTT** said that would be for future legislatures to decide and they would have two options -- cut the rebate or raise taxes somewhere else, based on the feelings of the people of the State of Montana at that time.

REP. STORY asked when was the last time a tax break was given. **Ms. Paynter** said she was not sure but it had been quite some time. As a follow up question, **REP. STORY** asked if an analysis had been done that would indicate what percent of the rebate would be paid to people who paid no taxes. **REP. ELLIOTT** said there had not, but the rebate would go to people who were paying property taxes.

REP. SWANSON asked if there was any implication with I-105 because she understood that when there was adequate property tax reform, I-105 would be repealed. **REP. ELLIOTT** said adequate tax reform has never been defined. When the Legislature decides there has been adequate tax reform, it will be repealed. He said the bill provides a tax credit, not adequate tax reform.

REP. REAM said the sponsor had indicated the bill required some technical amendments and he asked for an explanation. **Ms. Paynter** said the DOR had a number of questions on how they would get the information from the taxpayer in a way that would not influence the workload of the DOR staff. They also had questions relative to who would get the rebate if the home was sold during the year. None of the questions relate to policy.

CHAIRMAN HIBBARD asked if the sponsor intended to identify an appropriate funding source in the bill.

{Tape: 2; Side: B.}

REP. ELLIOTT replied that if the federal tax deduction were capped at $10,000 for a single person or $20,000 for a couple, there would be enough tax revenue to fund this bill. Otherwise, the money would have to come from the general fund.

Closing by Sponsor:

In closing, **REP. ELLIOTT** advised the Committee that Gordon Morris, representing the Montana Association of Counties, had been unable to attend the hearing and had asked him to report that MACO is in support of this bill. He thanked the Committee for a pleasant hearing.

EXECUTIVE ACTION ON HB 360

CHAIRMAN HIBBARD advised that because he is a member of the Board of Directors of the Montana Power Company, he would abstain from voting on HB 360. He turned the chair over to Vice Chairperson Hanson.

Motion:

REP. ROSE MOVED THAT HB 360 DO PASS.

Discussion:

REP. SOMERVILLE asked for further clarification of the bill. **REP. HIBBARD** explained that when a utility builds a facility to produce power, they are allowed to put the cost of the building into the rate base. The problem is when a utility buys a property and has to pay more than its depreciated cost, it is not allowed to recover the cost in the rate base even though it may have been in the public's interest to purchase the utility at a market value above its depreciated cost. The alternative is to build a structure at a much greater cost and the consumers end up paying more. The reason for the statute apparently was that during the depression it was abused and faulty transactions were made for the purpose of raising rates. The provision in the bill will be allowed only if it is determined by the PSC to be in the public's interest.

Vote:

On a voice vote, the motion passed 16 - 1.

EXECUTIVE ACTION ON HB 237

Motion:

REP. ELLIOTT MOVED THAT HB 237 DO PASS.

Discussion:

REP. ELLIOTT supported his motion by stating that the investment credit is one of the few tax breaks that can be given to businesses with guaranteed results because the business has to buy new equipment before they can get the credit. The bill would stimulate replacement of old equipment and purchase of new equipment.

REP. STORY said he favored the bill because investment credits do have positive effects.

REP. BOHLINGER spoke in favor of the bill and referenced the comment heard in testimony that "equipment and machinery are not wealth but a means of producing wealth."

CHAIRMAN HIBBARD said he understood that there was an amendment to the bill. EXHIBIT 5.

Mr. Heiman said the fiscal note referred to a small business deduction credit in the income tax code that wasn't covered. The amendment references the bill to the income tax code to make it technically correct.

Motion/Vote:

REP. HANSON MOVED THAT THE AMENDMENT DO PASS. On a voice vote, the motion passed 20 - 0.

Motion/Vote:

REP. RANEY MOVED THE CONTINGENT VOIDNESS AMENDMENT. On a voice vote the motion passed 20 - 0.

Motion:

REP. ELLIOTT MOVED THAT HB 237 AS AMENDED DO PASS.

Discussion:

REP. HARPER said he did not have a problem with the bill, but, if the end result was to create jobs, a credit should be given for creating jobs.

REP. REAM asked if anyone had any idea of how many jobs could be produced. **Ms. Paynter** said she did not have that information. **REP. REAM** said he had some concerns about the long-range impact and asked for an explanation of "technically obsolete property." **Jim Staendert, Office of Budget and Program Planning,** replied that the language was from the Idaho statute and refers to the fact that if something is technically obsolete, no credit is given.

REP. SWANSON said the bill presents an interesting tax policy question. She said she liked the sound of the bill but it is hard to understand what kind of stimulus it would actually create. She commented that when an investment tax credit is given, it may encourage technology that reduces job opportunity. If a personal property tax reduction is given, it may not stimulate quality jobs or a quantity of jobs. The number of jobs that are increasing in the state are tourist related and low income. She said these were the things she would consider in relation to the bill.

REP. REAM said he felt the same as Rep. Swanson. He recalled that the proponents all preferred reducing personal property taxes over an investment credit. He questioned whether the investment credit would create enough jobs to cover the financial impact.

{Tape: 3; Side: A.}

REP. ELLIOTT said he thought any tax break would pay for itself. He asked what the positive aspect of cutting the tax would be. **Mr. Staendert** said it is difficult to measure because a lot of equipment will be purchased whether there is a tax cut or not. The question is whether additional equipment will be purchased. He referred to several studies which say there is a positive effect from a tax credit -- but there are just as many that say there is no effect. The additional purchases won't show up until several years from now. **REP. ELLIOTT** said the reason Idaho has the exclusion on obsolete equipment is because the equipment will have to be replaced.

REP. RANEY said a tax consultant had told him that any bills that are designed to stimulate the economy should stimulate well-paid jobs because there are plenty of things happening in Montana that stimulate minimum wage jobs, such as tourism. He suggested that the bill should be tied to wages and the credit given only if a business pays, for instance, double the minimum wage. He also thought the bill should have a sunset so the Legislature would be required to look at it again in four or six years.

REP. STORY agreed that the bill should have a sunset because it would be easy to remove if the legislation works as anticipated.

REP. WELLS said this bill and the personal property bill are two different things. The personal property legislation gives back a very broad distribution of the tax revenue. The investment tax credit would target a much narrower section and the only people who would benefit would be those looking at investing in new equipment. **REP. WELLS** said he approved of the sunset provision and the obsolescent equipment exclusion.

REP. RYAN spoke in favor of the bill because he was convinced it would stimulate the economy.

REP. ELLIOTT said he agreed that an investment credit would stimulate higher paying jobs. He then proposed two conceptual amendments to add the Idaho language to exclude technically obsolete equipment and place a sunset in four years on the bill.

Motion:

REP. ELLIOTT MOVED AN AMENDMENT TO HB 237 WHICH WOULD EXCLUDE TECHNICALLY OBSOLETE EQUIPMENT.

Discussion:

REP. STORY asked how "technically obsolete" would be defined. **REP. ELLIOTT** said the Idaho language could be used or they could allow the DOR to establish it by rule. **REP. STORY** said the Committee should look at the definition and if it were to be established by rule, it might not be necessary to amend the bill.

Jeff Miller, DOR, referred to Section 2 of the bill which indicates that the DOR has rulemaking authority. He said, however, they would probably rely heavily on the Idaho statute.

REP. SOMERVILLE cautioned that Idaho has a more robust economy than Montana and if Idaho saves $2.2 million because of the technically obsolete exclusion, it would probably be much less in Montana.

CHAIRMAN HIBBARD said that a new fiscal note would be required if the bill is passed with the proposed amendments. **Ms. Paynter** said it was her understanding that it wasn't possible to get a revised fiscal note until the bill had actually changed form. However, she said she would provide the information to the Committee.

REP. MURDOCK spoke in opposition to the amendment because the benefit would not be solely from the investment credit because the person selling the equipment would also benefit.

REP. RANEY said he would like to see a definition of "technically obsolete" before an amendment is put on the bill. **Mr. Heiman** said the bill was written without the technical obsolescence feature because Idaho is presently considering a bill which is a compromise of reducing the amount to be claimed each year to 45% from 50% in return for eliminating the technical obsolescence provision. The reason for eliminating the provision was that the Idaho Department of Revenue had a difficult time defining the term.

CHAIRMAN HIBBARD said that if there was sufficient question about the bill, he would delay action.

REP. ELLIOTT WITHDREW HIS MOTION PENDING FURTHER INFORMATION FROM THE DEPARTMENT OF REVENUE.

CHAIRMAN HIBBARD announced that, unless there was an objection, action on HB 237 would be delayed pending the receipt of more information on technical obsolescence.

REP. ROSE said he would also like information relative to other states' experience with the sunset provision. He said he did not think four years was a sufficient period of time to evaluate whether the legislation would work or not. **Ms. Paynter** said that she would contact the State of Idaho relative to its experience with technical obsolescent and any information they might have on the impact to the economy.

REP. RANEY said he was not in favor of the bill unless it was tied somehow to wages because the importance of the bill was to generate higher paying jobs. He asked if the Department could obtain any information on the investment credit/wage relationship.

REP. REAM said he would like to know how much revenue the corporate license tax generates in Idaho.

{Tape: 3; Side: B.}

Lynn Chenoweth, DOR, explained how the bill would fit in with federal statutes. The amendment which was adopted would eliminate the possibility of a double credit.

REP. REAM also requested information on the cost to the DOR for administration of the investment tax credit provision.

Further action on HB 237 will be continued at a later meeting.

EXECUTIVE ACTION ON HB 353

Motion:

REP. RYAN MOVED THAT HB 353 DO PASS.

Discussion:

Mr. Heiman advised that a technical amendment had been prepared in response to Bob Gilbert's statement at the hearing that the title of the bill did not relate to the bill. The amendment removes the irrelevant language from the title. EXHIBIT 6.

Motion/Vote:

REP. HARPER MOVED THE AMENDMENT TO HB 353. On a voice vote, the motion passed unanimously.

Motion:

REP. RYAN MOVED THAT HB 353 AS AMENDED DO PASS.

__Discussion__:

REP. SOMERVILLE said he would not support the bill as written because the airlines should be taxed the same as private pilots.

REP. REAM said that would require another bill because it was outside the scope of HB 353. The airlines would not have had the opportunity to address the issue before the Committee.

REP. HANSON said the airlines had come before the Committee in previous sessions and testified that if they did not get the tax advantage, they would refuel outside of Montana.

REP. WELLS said he understood that in the years the Montana Refining Company did not get the contract to deliver the fuel to Malmstrom, the successful bidders had sub-contracted the business back to the Refinery. Without objection, **Mr. Hobbs, Montana Refining Company,** said he was unaware that this had ever happened. **Mr. Hobbs** said the bid is FOB the supply point so Montana Refinery sold the fuel to the Wyoming Refinery who contracted with the truckers who were the owners of the product in the truck when the fuel left the Refinery. Therefore, as such, they were the importer of record into Montana and they could not be taxed. **Mr. Ferguson, Department of Aeronautics,** said he did not disagree with Mr. Hobbs' statement; however, there was more to the picture and, according to Edith Dunahay of the Fuel Defense Supply Center who puts out the contracts, they take a second bid on the trucking and, before they let the contract, they combine the two bids and let it to the cheapest delivered price to Malmstrom, Gore Hill, or the National Guard facility in Helena. Even though the Wyoming refinery was the lowest bidder, they wouldn't necessarily get the bid when trucking costs are considered.

__Substitute Motion__:

REP. BOHLINGER MOVED THAT HB 353 DO NOT PASS.

__Discussion__:

REP. BOHLINGER explained that this bill would represent a $147,000 cost to the Montana Aeronautics Division and the small towns in Montana would no longer have the technical support now available at the airports that provide a safety factor.

REP. FUCHS said he could not support the bill for the reasons given by Rep. Bohlinger. He asked if the sponsor could provide an alternate source of funding for the Aeronautics Division.

REP. RYAN said he would agree that this would place a burden on the Aeronautics Division; however, Malmstrom does not use the services provided by the Division and should not be responsible for supporting it.

REP. SWANSON said she could not support the bill.

REP. ELLIOTT spoke against the bill because the revenue from the one-cent tax provides necessary services for the airports in small towns in Montana.

CHAIRMAN HIBBARD called for a show of hands of those Committee members who felt there had been sufficient debate. There were enough votes to conclude the discussion.

Vote:

On a roll call vote, the do not pass motion carried, 13 - 7.

Motion/Vote:

REP. ELLIOTT MOVED TO TABLE HB 353. The motion passed unanimously.

EXECUTIVE ACTION ON HB 293

CHAIRMAN HIBBARD said the DOR had prepared two amendments to HB 293 which would remove the language in the bill which required electronic filing and remittance for certain employers. With the amendments the electronic filing and remittance would be optional. EXHIBIT 7.

Motion/Vote:

REP. HARPER MOVED THAT THE DOR AMENDMENTS TO HB 293 DO PASS. The motion passed unanimously.

Discussion:

Mr. Heiman advised that another amendment had been proposed which raised the threshold from $500 to $1,200 in order to include additional small employers. EXHIBIT 8. **REP. REAM** said he had requested these amendments and presented a handout illustrating the impact of raising the threshold. EXHIBIT 9. **REP. REAM** clarified that the bill was introduced at the request of the DOR as it moves toward electronic filing which will decrease the cost of government and provide a more even flow of revenue. He said he also understood it would create a positive revenue impact.

Jeff Miller, DOR, said the additional earnings to the state because of the acceleration of payments would be approximately $3.6 million and slightly less than that if the threshold is raised.

Motion/Vote:

REP. HARPER MOVED THAT THE AMENDMENT TO RAISE THE THRESHOLD FROM $500 TO $1,200 BE ADOPTED. The motion passed unanimously.

<u>Vote</u>:

REP. REAM MOVED THAT HB 293 DO PASS AS AMENDED.

<u>Discussion</u>:

REP. REAM said that if the bill is passed, he would recommend holding the bill in Committee with a contingent voidness clause.

REP. ARNOTT said she understood that this bill would decrease the workload of the DOR, yet she noted that the executive budget requests an additional FTE and $100,000 of administrative costs to initiate the process. EXHIBIT 10.

{Tape: 4; Side: A.}

Ms. Paynter explained that the bill presents good tax policy for both the Department and the taxpayers. The Department will need the new equipment to handle the present workload whether the bill is passed or not and that is why it was included in the executive budget.

REP. REAM said he did not believe it was necessary to place the contingent voidness clause on the bill but should be sent to the floor with the bills containing the clause.

<u>Vote</u>:

On a voice vote, the motion passed 19 - 1.

ADJOURNMENT

Adjournment: 11:20 a.m.

Chase Hibbard

CHASE HIBBARD, Chairman

Donna Grace

DONNA GRACE, Secretary

CH/dg

HOUSE OF REPRESENTATIVES

Taxation

ROLL CALL DATE Feb. 2, 1995

NAME	PRESENT	ABSENT	EXCUSED
Rep. Chase Hibbard, Chairman	✓		
Rep. Marian Hanson, Vice Chairman, Majority	✓		
Rep. Bob Ream, Vice Chairman, Minority	✓		
Rep. Peggy Arnott	✓		att
Rep. John Bohlinger	✓		
Rep. Jim Elliott	✓		
Rep. Daniel Fuchs	✓		
Rep. Hal Harper	✓		
Rep. Rick Jore	✓		
Rep. Judy Rice Murdock	✓		
Rep. Tom Nelson	✓		
Rep. Scott Orr	✓		
Rep. Bob Raney	✓		
Rep. Sam Rose	✓		
Rep. Bill Ryan	✓		
Rep. Roger Somerville	✓		
Rep. Robert Story	✓		
Rep. Emily Swanson	✓		
Rep. Jack Wells	✓		
Rep. Ken Wennemar	✓		

HOUSE STANDING COMMITTEE REPORT

February 2, 1995

Mr. Speaker: We, the committee on **Taxation** report that **House Bill 360** (first reading copy -- white) **do pass**.

Signed: ______________________
Chase Hibbard, Chair

Committee Vote:
Yes ~~15~~ 16, No 1.

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HOUSE STANDING COMMITTEE REPORT

March 15, 1995

Mr. Speaker: We, the committee on **Taxation** report that **House Bill 293** (first reading copy -- white) **do pass as amended**.

Signed: ______________________
Chase Hibbard, Chair

And, that such amendments read:

1. Title, line 6.
Strike: "REQUIRING THE USE OF"
Insert: "PROVIDING THE OPTION OF USING"

2. Title, line 9.
Strike: "15-1-802,"

3. Page 1, line 15.
Strike: "Taxes to be paid and returns to be filed by electronic"
Insert: "Electronic"

4. Page 1, line 16.
Following: "reporting"
Insert: "-- employer option"

5. Page 1, lines 16 through 22.
Strike: "Unless" on line 16 through "(2)" on line 22
Renumber: subsequent subsections

6. Page 1, line 23.
Strike: "be exempt from the electronic payment and filing requirements"
Insert: "remit and file state income tax withholding and old fund liability tax electronically"

7. Page 1, line 25.

Committee Vote:
Yes 19, No 1.

601456SC.Hbk

Following: "months."
Insert: "An employer may cancel the election provided in this section by providing written notice of the cancellation to the department."

8. Page 1, line 26.
Strike: "required"
Insert: "who elects"

9. Page 1, line 29 through page 2, line 2.
Strike: subsection (4) in its entirety

10. Page 2, lines 16 through 22.
Strike: section 4 in its entirety
Renumber: subsequent sections

-END-

HOUSE OF REPRESENTATIVES

ROLL CALL VOTE

DATE 2/2/95 **BILL NO.** HB 353 **NUMBER** ____

MOTION: Do Not Pass

NAME	YES	NO
Vice Chairman Marian Hanson	✓	
Vice Hairman Bob Ream	✓	
Rep. Peggy Arnott		✓
Rep. John Bohlinger	✓	
Rep. Jim Elliott	✓	
Rep. Daniel Fuchs	✓	
Rep. Hal Harper	✓	
Rep. Rick Jore		✓
Rep. Judy Rice Murdock	✓	
Rep. Tom Nelson		✓
Rep. Scott Orr	✓	
Rep. Bob Raney	✓	
Rep. Sam Rose		✓
Rep. Bill Ryan		✓
Rep. Roger Somerville	✓	
Rep. Robert Story		✓
Rep. Emily Swanson	✓	
Rep. Jack Wells		✓
Rep. Ken Wennemar	✓	
Chairman Chase Hibbard	✓	
	13	7

HOUSE OF REPRESENTATIVES

ABSENTEE VOTE

Date 2 FEBRUARY 95

Mr. Chairman/Mr. Speaker:

no if no amendments

AYE ON THE BILL W/ AMENDMENTS

I, the undersigned member, hereby vote absentee on:

Bill No. HB 293 - AYE ON AMENDMENT TO RAISE $500 TO $1200

\- AYE ON AMENDMENT TO MAKE OPTIONAL

HB 353 - NAY ON BILL OR ANY AMENDMENTS

Representative [signature] voting ______
(aye or no)

HOUSE OF REPRESENTATIVES

ABSENTEE VOTE

Date ______________________

Mr. Chairman/Mr. Speaker:

I, the undersigned member, hereby vote absentee on:

House Bill No. 293 against

House Bill 353 against

Representative Judy Murdock voting ____________
(aye or no)

EXHIBIT 1
DATE 2/2/95
HB 360

Testimony: House Bill 360
2 February 1995
House Taxation

Given by: Nancy McCaffree, Chair

Mr. Chairman and members of the Committee:

One of the principle statutes that governs how the PSC sets rates is the "original cost" law. A utility company's rate base generally reflects the original cost of plant and equipment devoted to public service, less depreciation - or book value. The determination of book value is a fairly straightforward matter when a utility purchases or constructs new plant and equipment, but becomes more complicated when it purchases used assets from another company.

The general rule is that the original cost of property purchased by a utility is the depreciated cost of the property to the first owner devoting it to public service. Thus, if a utility purchases assets from another utility at a price which exceeds the book value, then the purchaser's rate base is limited to the book value.

This is necessary to prevent utilities from artificially inflating rate bases by acquiring property at unrealistically high prices. Also, once property is devoted to public service, ratepayers should not have to pay twice for the same asset because the property is sold to another utility. Such sales between utilities during the period before 1930, and the "watered common stock" that was used to pay for them is thought to be a significant factor contributing to the Great Depression.

Under some circumstances the public interest may be served by allowing into ratebase a purchase price above book value, i.e. original cost depreciated. For example, picture a small utility not regulated by the PSC, such as a cooperative, with a small service territory surrounded by a larger utility, regulated by the PSC. It may be the larger utility could more than offset a purchase price higher than book value for the property with operating efficiencies, i.e. consolidation of payroll functions, office building functions, etc. Under the present law, the PSC probably cannot include more than the original cost purchase price (book value) in the purchaser's rate base.

The Public Service Commission supports the bill as written. The bill is permissive and specifies that the Commission must find that purchase prices above original cost depreciated (book value) are in the public interest before they may be added to rate base. If this bill, as written, is enacted into law, the PSC will review very carefully the factual circumstances of each request before including values above original cost as part of the purchasing utilities rate base.

We urge the Committee not to change the permissive language of House Bill 360.

EXHIBIT 2
DATE 2-2-95
HB

PROPERTY AND NATURAL RESOURCE TAX BREAKS 1981-1993

NATURAL RESOURCES (1981-1993)

OIL	$15.2M	FY '93
GAS	$7.7M	FY '93
COAL	$48.8M	FY '93
	$71.6M	

NON-RESIDENTIAL PROPERTY TAX

1983	Exempt Business Inventories	7.5M	FY '82
1991	Personal Property Tax to 9%	18.4M	FY '95
1891	Exempt Certain Agricultural Products	2.2M	FY '91

RESIDENTIAL PROPERTY TAX

1979	Low Income Property Tax Reduction	1.5M	FY '95
1979	Elderly/Homeowner Renter Credit	5.1M	FY '95

EXHIBIT 3
DATE 2/12/95
HB 346

HB 346

• HB 346 would provide resident home-owners with an income tax credit/rebate on property tax paid on their home.

• The amount of credit/rebate allowed is the tax paid on 25% of the market value of a home with a value of up to $80,000.

• On a home above $80,000, the amount is limited to the tax on $20,000 of market value.

Example:

HOME VALUE	EXEMPT HOME VALUE
$20,000 x 25%	$5,000
$40,000 x 25%	$10,000
$60,000 x 25%	$15,000
$80,000 x 25%	$20,000
$100,000 flat amount	$20,000

Distribution of Improvement Assessed Value

Improvements Only

Assessed Value Bracket	Number: Bracket Totals Number	Number: Bracket Totals Percent	Number: Cumulative Totals Number	Number: Cumulative Totals Percent	Assessed Value: Bracket Totals Value	Assessed Value: Bracket Totals Percent	Assessed Value: Cumulative Totals Value	Assessed Value: Cumulative Totals Percent
$ 0 to $ 10,000	55,250	18.3%	55,250	18.3%	313,912,865	2.6%	313,912,865	2.6%
$ 10,000 to $ 20,000	39,815	13.2%	95,065	31.6%	587,503,440	4.8%	901,416,305	7.4%
$ 20,000 to $ 30,000	37,085	12.3%	132,150	43.9%	927,839,725	7.6%	1,829,256,030	15.1%
$ 30,000 to $ 40,000	38,595	12.8%	170,745	56.7%	1,350,365,650	11.1%	3,179,621,680	26.2%
$ 40,000 to $ 50,000	37,625	12.5%	208,370	69.2%	1,690,767,370	13.9%	4,870,389,050	40.1%
$ 50,000 to $ 60,000	30,815	10.2%	239,185	79.4%	1,686,589,875	13.9%	6,556,978,925	54.0%
$ 60,000 to $ 70,000	21,155	7.0%	260,340	86.5%	1,367,578,335	11.3%	7,924,557,260	65.3%
$ 70,000 to $ 80,000	13,335	4.4%	273,675	90.9%	994,219,225	8.2%	8,918,776,485	73.5%
$ 80,000 to $ 90,000	8,100	2.7%	281,775	93.6%	685,764,900	5.7%	9,604,541,385	79.2%
$ 90,000 to $ 100,000	5,285	1.8%	287,060	95.3%	500,810,875	4.1%	10,105,352,260	83.3%
$ 100,000 to $ 110,000	3,645	1.2%	290,705	96.5%	381,343,790	3.1%	10,486,696,050	86.4%
$ 110,000 to $ 120,000	2,375	0.8%	293,080	97.3%	272,458,515	2.2%	10,759,154,565	88.7%
$ 120,000 to $ 130,000	1,780	0.6%	294,860	97.9%	222,350,540	1.8%	10,981,505,105	90.5%
$ 130,000 to $ 140,000	1,515	0.5%	296,375	98.4%	204,107,965	1.7%	11,185,613,070	92.2%
$ 140,000 to $ 150,000	1,105	0.4%	297,480	98.8%	160,565,765	1.3%	11,346,178,835	93.5%
$ 150,000 to $ 200,000	2,285	0.8%	299,765	99.6%	387,036,035	3.2%	11,733,214,870	96.7%
$ 200,000 to $ 250,000	735	0.2%	300,500	99.8%	162,594,045	1.3%	11,895,808,915	98.0%
$ 250,000 to $ 300,000	250	0.1%	300,750	99.9%	67,965,860	0.6%	11,963,774,775	98.6%
$ 300,000 to $ 350,000	140	0.0%	300,890	99.9%	45,973,865	0.4%	12,009,748,640	99.0%
$ 350,000 to $ 400,000	60	0.0%	300,950	99.9%	22,592,995	0.2%	12,032,341,635	99.2%
$ 400,000 to $ 450,000	65	0.0%	301,015	100.0%	27,561,870	0.2%	12,059,903,505	99.4%
$ 450,000 to $ 500,000	20	0.0%	301,035	100.0%	9,614,450	0.1%	12,069,517,955	99.5%
More than $500,000	70	0.0%	301,105	100.0%	64,733,905	0.5%	12,134,251,860	100.0%
TOTAL	301,105	100.0%			12,134,251,860	100.0%		

Based on a sampling of the tax year 1994 residential CAMA database.

g: HB346.WK4 ori,mdor

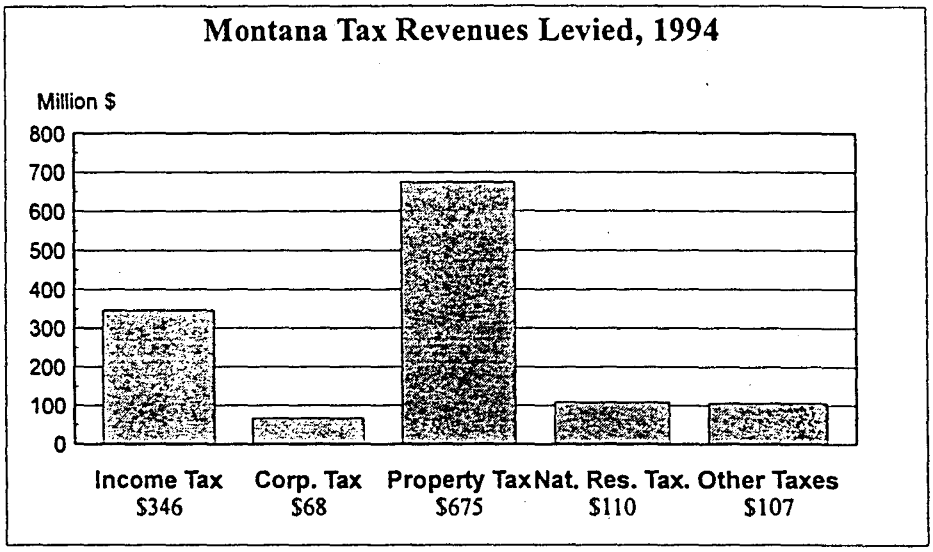
by Stanley A. Nicholson

EXHIBIT 4
DATE 2/2/95
HB 346

Property Taxes in Montana

The property tax is Montana's single most important tax and is also the most confusing one. It is the major revenue source for our public schools and local governments. Knowing how the property tax is evolving in Montana and in our communities is fundamental to understanding our public finances.

Property tax is far and away Montana's single most important source of tax revenue. It is almost double the individual income tax and provides over half the funding for schools and local governments.



The tax base by property type has changed dramatically since 1987. Most natural resources (shown in the "Other" slice of the pie charts) have been recategorized and are no longer considered property taxes. In addition, some rates have been reduced for other types of property, and residential and commercial property is now a much larger portion of the base.

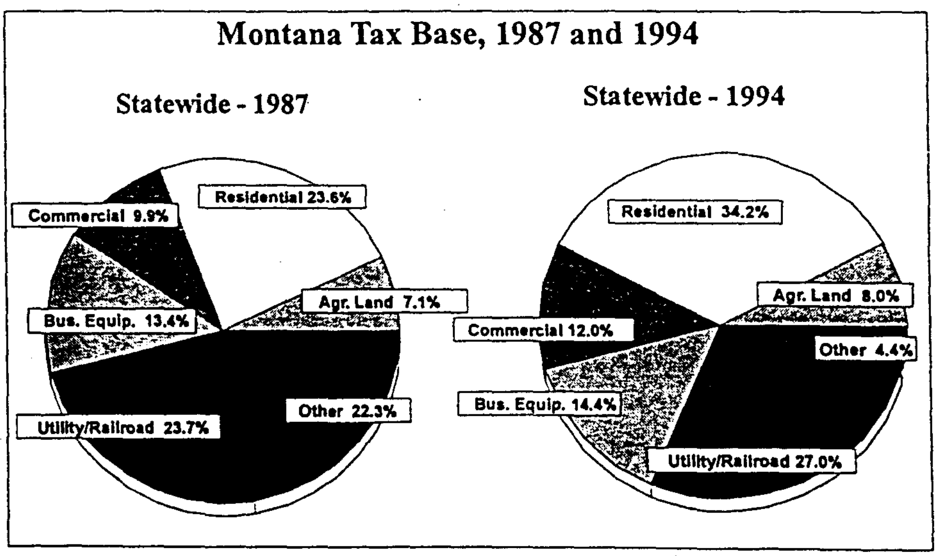


EXHIBIT 5
DATE 2/2/95
HB 237

Amendments to House Bill No. 237
First Reading Copy

For the Committee on Taxation

Prepared by Lee Heiman
February 2, 1995

Technical Amendments

1. Title, line 9.
Strike: "SECTION"
Insert: "SECTIONS 15-30-162 AND"
Following: "MCA;"
Insert: "REPEALING SECTION 15-30-161, MCA;"

2. Page 3, line 16.
Insert: "**Section 2.** Section 15-30-162, MCA, is amended to read:

"**15-30-162. Investment credit.** (1) There is allowed as a credit against the tax imposed by 15-30-103 a percentage of ~~the credit allowed with respect to~~ qualified investments in certain depreciable property ~~under section 38 of the Internal Revenue Code of 1954, as amended, or as section 38 may be renumbered or amended. However, rehabilitation costs as set forth under section 46(a)(2)(F) of the Internal Revenue Code of 1954, or as section 46(a)(2)(F) may be renumbered or amended, are not to be included in the computation of the investment credit. The credit is allowed for the purchase and installation of certain qualified property defined by section 38 of the Internal Revenue Code of 1954, as amended, if the property meets all of the following qualifications:~~

~~(a) it was placed in service in Montana; and~~

~~(b) it was used for the production of Montana adjusted gross income.~~

~~(2) The amount of the credit allowed for the taxable year is 5% of the amount of credit determined under section 46(a)(2) of the Internal Revenue Code of 1954, as amended, or as section 46(a)(2) may be renumbered or amended.~~

~~(3) Notwithstanding the provisions of subsection (2), the investment credit allowed for the taxable year may not exceed the taxpayer's tax liability for the taxable year or $500, whichever is less.~~

~~(4) If property for which an investment credit is claimed is used both inside and outside this state, only a portion of the credit is allowed. The credit must be apportioned according to a fraction the numerator of which is the number of days during the taxable year the property was located in Montana and the denominator of which is the number of days during the taxable year the taxpayer owned the property. The investment credit may be applied only to the tax liability of the taxpayer who purchases and places in service the property for which an investment credit is claimed. The credit may not be allocated between spouses unless the property is used by a partnership or small business corporation of which they are partners or shareholders.~~

Should not have been struck.

EXHIBIT 6
DATE 2/2/95
HB 353

Amendments to House Bill No. 353
First Reading Copy

For the Committee on Taxation

Prepared by Lee Heiman
February 2, 1995

1. Title, lines 4 and 5.
Strike: "FOR" on line 4 through "PROGRAM" on line 5

HB035301.ALH

EXHIBIT 7
DATE 2/2/95
HB 293

Amendments to House Bill 293
Introduced Copy

Prepared by Department of Revenue
1/26/95 5:41pm

REASON FOR AMENDMENT: This amendment removes that language in the bill which required electronic filing and remittance for certain employers. The amendments makes electronic fling and remittance optional; an employer may elect to file and remit electronically, but is not required to do so under the bill.

1. Title, line 6.
Following: "BY"
Strike: "REQUIRING THE USE OF"
Insert: "PROVIDING THE OPTION OF USING"

2. Page 1, line 15.
Following: "Section 1."
Strike: "Taxes to be paid and returns to be filed by"

3. Page 1, lines 16 through 21.
Following: "electronic reporting"
Strike: subsection (1) in its entirety
Insert: "-- **employer option.**"
Renumber subsequent subsections

4. Page 1, line 23.
Following: "elect to"
Strike: "be exempt from the electronic payment and filing requirements"
Insert: "remit and file state income tax withholding and old fund liability tax electronically"

5. Page 1, line 25.
Following: "months."
Insert: "An employer may cancel the election provided in this section by submitting written notice of such cancellation to the department."

6. Page 1, line 26.
Following: "employer"
Strike: "required"
Insert: "who elects"

7. Page 1, line 29 through page 2, line 2 .
Strike: subsection 4 in its entirety.

8. Page 2, lines 16 through 22.
Strike: Section 4 in its entirety
Renumber subsequent sections

EXHIBIT 8
DATE 2/2/95
HB 293

AMENDMENTS
HOUSE BILL 293
INTRODUCED VERSION
January 30, 1995

1. The purpose of this amendment is to increase the threshold amount for annual filing from $500 to $1200. This amendment will allow more employers owing small amounts of withholding to be under the annual filing requirement.

Page 1, line 21
Following: "and thereafter was"
Strike: "$500"
Insert: "$1200"

Page 5, line 23
Following: "~~in lieu thereof such~~"
Strike: "$500"
Insert: "$1200"

EXHIBIT 9
DATE 2/2/95
HB 293

Threshold Information

< $500 Annual Filer Threshold

Thresholds	# Employers	Annual Withholding	%/$
> $12,000	2,904 (9%)	$ 213,345,048	82%
$500-$12,000	15,317 (46%)	$ 44,649,261	17%
< $500	15,279 (45%)	$ 1,888,579	1%

< $1,200 Annual Filer Threshold

Thresholds	# Employers	Annual Withholding	%/$
> $12,000	2,904 (9%)	$ 213,345,048	82.1%
$1200-$12,000	10,355 (31%)	$ 41,083,909	15.8%
< $1200	20,241 (60%)	$ 5,453,931	2.1%

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Executive Budget New Proposals

New Proposal	Fiscal 1996 FTE	Fiscal 1996 General Fund	Fiscal 1996 Total Funds	Fiscal 1997 FTE	Fiscal 1997 General Fund	Fiscal 1997 Total Funds
1 Old Fund Liability Tax	5.50	$0	$136,786	5.50	$0	$125,395
2 Electronic Data/Funds (EDI/EFT)	1.00	28,403	51,642	1.00	28,447	51,721
3 EDI/EFT Programming	1.00	47,750	56,176	1.00	33,196	39,054
4 Personal Services Reductions	0.00	(152,527)	(173,700)	0.00	(153,260)	(174,575)
Totals	7.50	($76,374)	$70,904	7.50	($91,617)	$41,595

Agency personnel state that existing staff are inadequate to administer the OFLT due to: 1) a larger than anticipated error rate in both employer and employee filings; 2) greater than projected support staff needs; and 3) an increase in the time it takes to process mail and cashier monies since implementation of OFLT duties.

2) Electronic Data Interchange/Electronic Funds Transfer (EDI/EFT) - This new proposal would add 1.0 FTE (grade 10 claims examiner) and $51,642 in fiscal 1996 and $51,721 in fiscal 1997 to support the department's EDI/EFT activities, which were begun in a fiscal 1995 pilot project. The proposal would continue and expand the pilot project, which implemented computer system changes that made it possible for taxpayers to electronically transmit their tax returns to the state (through EDI) and transfer funds for payment of taxes owed (through EFT). The proposal is funded 55 percent with general fund and 45 percent with state special revenue OFLT funds. The funding mix equals the proportion of personal and business tax filings projected to be transmitted via EDI/EFT in the 1997 biennium.

Costs associated with the 1995 pilot project are not identifiable because existing staff was used to do the initial programming and identify volunteer taxpayer participants. The executive states that continuation of the pilot in the 1997 biennium would allow the "bugs" to be worked out of the system at the same time that legislators are hearing legislation requiring that taxpayers begin using EDI/EFT to file their returns.

If the legislature approves this new proposal, and passes legislation requiring taxpayers to utilize the EDI/EFT system, the eventual result will be to eliminate some of the mailroom and cashiering workload that the agency experiences.

3) EDI/EFT Programming - The executive recommends adding 1.0 FTE (grade 15 computer programmer) and $56,176 in fiscal 1996 and $39,054 in fiscal 1997 to allow continued development of the EDI/EFT automated system and provide technical assistance to users. Most of the non-personal services costs are associated with one-time only equipment purchases necessary to expand the EDI/EFT filing capacity to all Montana taxpayers. According to agency staff, current programming staff are unable to assume the additional workload associated with EDI/EFT programming and technical assistance. This new proposal is funded 85 percent with general fund and 15 percent with state special revenue OFLT funds. The funding mix is equal to the proportion of personal and business tax filings projected to be transmitted via EDI/EFT when the system is fully operational and accessible by all taxpayers.

LFA Issue - The two EDI/EFT new proposals, while adding resources for accomplishment of the same goal, are funded differently: one at 85 percent general fund, the other at 55 percent general fund. While both utilize the ratio of personal to business tax filers using the system to determine general fund and OFLT funding percentages, the time span used to project the ratio is different: a) the EDI/EFT proposal is funded according to projected 1997 biennium usage; while b) the EDI/EFT Programming proposal is funded according to projected long-term usage.

HOUSE OF REPRESENTATIVES

VISITOR'S REGISTER

Taxation COMMITTEE BILL NO. 346

DATE 2/2/95 SPONSOR(S) Rep. Elliott

PLEASE PRINT PLEASE PRINT PLEASE PRINT

NAME AND ADDRESS	REPRESENTING	BILL	OPPOSE	SUPPORT
Ed Caplis	MSCA	346		✓
Gordon Morris		346		✓
Chris Imhoff	MT League of women voters	346		✓
Robert White	Bozeman Chamber	346		

PLEASE LEAVE PREPARED TESTIMONY WITH SECRETARY. WITNESS STATEMENT FORMS ARE AVAILABLE IF YOU CARE TO SUBMIT WRITTEN TESTIMONY.

HOUSE OF REPRESENTATIVES

VISITOR'S REGISTER

Location COMMITTEE BILL NO. HB 360

DATE 2/2/95 SPONSOR(S) Rep. Quilici

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NAME AND ADDRESS	REPRESENTING	BILL	OPPOSE	SUPPORT
NANCY McCAFFREE	PSC			✓
MARGIE THOMAS	MPC			✓
John Alke	MDU			✓
DAN Walker	USWEST			✓

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HOUSE OF REPRESENTATIVES

VISITOR'S REGISTER

Taxation COMMITTEE BILL NO. HB 363

DATE 2/2/95 SPONSOR(S) Rep. Swanson

PLEASE PRINT PLEASE PRINT PLEASE PRINT

NAME AND ADDRESS	REPRESENTING	BILL	OPPOSE	SUPPORT
Gordon Morris	MACo.	363		✓

Cancelled

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