

MINUTES

**MONTANA SENATE
55th LEGISLATURE - REGULAR SESSION**

FREE CONFERENCE COMMITTEE ON SENATE BILL 57

Call to Order: By **CHAIRMAN GERRY DEVLIN**, on April 18, 1997, at 8:30 A.M., in Room 413/415.

ROLL CALL

Members Present:

Sen. Gerry Devlin (R)
Sen. Bob DePratu (R)
Sen. Mignon Waterman (D)
Rep. Robert R. Story, Jr. (R)
Rep. John "Sam" Rose (R)
Rep. Robert R. "Bob" Ream (D)

Members Excused: None

Members Absent: None

Staff Present: Jeff Martin, Legislative Services
Gilda Clancy, Secretary

HEARING ON SB 57

Questions From Committee Members and Responses:

CHAIRMAN GERRY DEVLIN opened by asking for discussion on amendment 771455CW.Hgd, **REP. ERNEST BERGSAGEL'S** amendment.

SEN. MIGNON WATERMAN said she thought there was an analysis completed by the auditor on flat tax, which the state had for awhile.

REP. ROBERT STORY said they heard a bill in the House Taxation Committee which dealt with flat tax on automobiles and the basis of that bill did come out of the auditor's office. He said that was basically a description of how the process would work and an analysis on how it would affect the revenue in various counties and a proposed fee schedule.

He stated **REP. BERGSAGEL** requested the analysis and he did not carry the original bill so when they had the hearing on the bill, they did not have the analysis. It was presented later at a subcommittee meeting but they did not spend much time on it in the subcommittee.

SEN. WATERMAN said the Revenue Oversight Subcommittee, which worked on this originally looked at a flat tax and there was a problem with keeping it revenue neutral statewide by county and on automobiles. That is the reason Revenue Oversight did not go forward on it.

SEN. DEVLIN said it appears the House was satisfied with that amendment because was adopted 97 to 3.

SEN. BOB DEPRATU said he personally does not see the need for a study. He would like to see it re-instated in the bill to have the depreciating values to put on this so there would be some predictability and he thinks that trying that for two years will give them a study without actually having a study group.

REP. BOB REAM stated this goes back to 1993 when there was a study during a special session which the Governor appointed. This has a longer history than this session. He believes there is a point we need to go to a flat tax system and when the law is changed there will be winners and losers. He thinks the group who worked on this did the best job they could to minimize the problems.

REP. STORY said **REP. BERGSAGEL'S** comments were that a lot of the background work was already done on this. **REP. STORY** said he does not know how in-depth the Revenue Oversight Committee went into the flat tax. He stated that regarding the money refund, he tried to talk them out of that but there is a lot of sentiment in members of the House that they would like to see a flat tax on vehicles. This is a point of contention.

SEN. WATERMAN said the people who drive older cars get caught in the flat tax, but she doesn't have any strong feelings about that.

REP. STORY asked if there is a technical problem by not having an appropriations on this?

SEN. WATERMAN answered she supposed as long as everyone says there won't be an appropriations and as long as the Audit Committee was willing to accept it without an appropriation and as long as there was no objection raised by the Rules Committee, everything should be okay. She would not like it if the Joint Rules Committee said they could not go forward without an appropriations and that it calls for a study.

CHAIRMAN DEVLIN asked if anyone mentioned a flat tax in Revenue Oversight and if, so was there much discussion on it?

SEN. WATERMAN answered yes, it was studied in the subcommittee and Jeff Martin, Legislative Services was present. There is a section in the reports about flat tax and they discussed it. She said the problem they ran into was trying to simplify it in not raising individual taxes and keeping it revenue neutral for

counties as well as the state. She said from that, older vehicle's tax went up and new vehicle's went down.

CHAIRMAN DEVLIN commented we are looking at a major change even without the amendments.

SEN. DEPRATU stated he would ultimately prefer to see a flat tax and thought the depreciating schedule was an even depreciation for the next two years is a real practical way to go toward the flat tax. He thinks by having the regular depreciating schedule based on the Manufacturer's Suggested Retail Price (MSRP) and then depreciate it with a fixed percentage each year, the number of years varying according to the classification of the vehicle, is a fair way to do this.

He said at any given time there is going to be winners and losers when the National Auto Dealer's Association (NADA) book is used each year. One year a particular vehicle can be favored and the next year, due to news media or something else, the vehicle can be depreciated 50 to 60%, then go back up. He used examples of this happening. Any number of things can make the value of vehicles go up or down, but yet they are very serviceable, they use our streets, our law enforcement, etc.

SEN. DEPRATU said this method gives people a predictable fee schedule of the amount their license is going to be each year. It is real difficult for some people because they are paying \$200, \$300 and \$400 to re-license their vehicles. He would like to see the flat tax reinstated and use that study for the next two years to see how well it goes, then take it from there.

CHAIRMAN DEVLIN said the committee should take a look at the amendments to see if they can find a common ground. He said he did not think amendment 701435CW.Hgd is not in the field at all. He asked the sponsor to comment on it.

REP. PEGGY ARNOTT stated they intended to make it so that when someone goes into the County Courthouse, they only have to go to one place to get their vehicle taken care of, because it is an annoyance to have to go to the assessor and then to the treasurer. She said the treasurer can do that function.

SEN. WATERMAN said she thinks the difference is that the manner in which the bill came out of Revenue Oversight, because they used the depreciated value which is set at the MSRP. The value would depreciate at a set rate each year, so no longer was there a role for the assessors at the county level and one of the goals was to keep people from having to go from the assessor to the treasurer. She said under that system, they moved everything from the Department of Revenue to the Department of Justice so the Department of Revenue would not have a role in the assessment, therefore it would move to the treasurer.

SEN. WATERMAN said she believes **REP. ARNOTT** was trying to keep that same portion but refer it to the old system. If we revert to the old system, then at the county level they will have to do assessments. When the bill came out of Revenue Oversight there was no longer a role for assessors at the county level, then the treasurers would do the assessing.

REP. ARNOTT stated she felt that would be a nice feature to the bill. She said 94% is already completed by mail-in and some that is not done is a result of key-punch errors. So it would be relatively easy to transfer that to the treasurer and she was told that was possible to do.

REP. STORY asked **Mary Bryson, Director, Department of Revenue**, regarding downsizing the assessor staff and those offices, would there still be an assessor available?

Mary Bryson answered if there is a mandated reduction in the Department of Assessment Division, one of the things they would look to is more regionalization of there assessors. Currently, they maintain presence in all 56 counties and it is likely they would not be able to maintain that. It is likely there would not be an assessor in every county.

REP. STORY asked **Dean Roberts, Department of Justice, Motor Vehicle Division**, in the event we went to the MSRP method with the even depreciation over a given number of years, wouldn't it come down to a simple programming? The value would be established at the time the new vehicle is sold, then it would be a predictable application and would eliminate the need for an assessor with a good computer program.

Mr. Roberts responded that is correct. They could do it all on a computer system and there would be no assessing involved. Even with the amendment they will still have to not only assess some vehicles, but also the equipment anything under a one-ton truck.

SEN. ROBERTS asked if we went to the MSRP system of depreciated schedule, couldn't that enhance the method of mail-in purchasing of license plates and prove the reliability of those figures being accurate if they are sent out on a postcard?

Mr. Roberts answered that is correct. In some cases the vehicle identification number is incorrect. As it goes through several individuals it can be copied down incorrectly from the vehicle. Using the MSRP system there is no question and 100% of the vehicles can be done.

REP. SAM ROSE asked **Dean Roberts** how our licensing procedure is similar or different to some of the adjoining states? Are there any states more efficient than ours and what procedures do they use?

Mr. Roberts responded yes, but most of those states collect that property tax in a different way. Most states have a sales tax. In those states people pay a set fee which is basically the same kind of things which Montana charges fees for. If they buy a new vehicle, they pay whatever the sales tax is on it, just like any other commodity. Then if they trade that vehicle in, they only pay sales tax on the difference of the two. The following year it goes back to the \$35 or \$40. It looks like, over time, it is cheaper but probably averages out in those states if they are collecting some kind of property tax.

He said Oregon charges \$35 per year every two years and they do not have property or sales tax and you pay on the difference of the trade-in versus the value and then go back down. To consider a person who buys a new car every three or four years, over a period of time it is probably about the same.

CHAIRMAN DEVLIN said his problem with the bill is that it goes into the new system on automobiles which isn't quite revenue neutral.

SEN. WATERMAN said it is revenue neutral.

CHAIRMAN DEVLIN stated it is but there is a tax shift in the whole scheme.

SEN. WATERMAN said they studied three different proposals and Revenue Oversight decided to put them together because they were amending the same sections of law.

CHAIRMAN DEVLIN asked **Mary Bryson** if they were planning to pay the assessors right out of the county?

Ms. Bryson responded that is certainly not their intent, but they have to realize production, as a result of this the decisions of this legislative body. Then they have to evaluate workload and the remaining resources as effectively as possible. This legislation, as originally proposed, removes the Department of Revenue from this process so they wouldn't have the assessor.

CHAIRMAN DEVLIN asked the possibility of making some reductions could go to a different bill?

Ms. Bryson answered she does not think the reductions are going to happen to her understanding but is not sure.

CHAIRMAN DEVLIN responded he thought this was going to happen in SB 195.

SEN. WATERMAN stated the only thing this bill does is take the Department of Revenue out of the picture.

REP. STORY said under the old system someone will have to access the equipment on trucks. He asked **Dean Roberts** how will the bill in its original form deal with that equipment?

Mr. Roberts responded it has, in its formula, that equipment. They no longer assess equipment on vehicles, neither heavy nor light trucks as the bill was written.

REP. ROSE asked **REP. ARNOTT** regarding her comment that it is annoying to have to go down to the assessor's office and stand in line, are we going to have to start training county treasurers? What is the difference between standing in the treasurer's line or the assessor's line?

REP. ARNOTT answered the difference is you only have to go to one place to get the job done. Regarding the training, she imagines they will have to do that.

REP. ROSE said when we get into the different attachments on the cars, it can get to be quite lengthy.

He said **REP. ARNOTT** seemed to indicate in her presentation on the Floor that the costs would increase on older cars. He asked her to explain that again.

REP. ARNOTT responded in order to make revenue interest, someone has to take a hit and those who take a hit in the bill are those with lower end vehicles. Also, in the bill, if you have any add-ons to your car there is no tax increase. So the car that is loaded gets the same kind of tax as the car that isn't. She said rather than taking the spike out, in order to compensate for the first year it had to be lined out.

REP. ROSE asked **REP. ARNOTT** when she refers to a hit on a 20-year old pick-up or car, what are we talking about money-wise?

REP. ARNOTT responded it is relatively nominal.

REP. ROSE asked about the hit on a '95 or '96 or '97 car.

REP. ARNOTT answered in the first year those people will pay more.

SEN. WATERMAN said regarding the issue of add-ons, whether you have a car that has a lot of add-ons or not, you do not pay for add-ons under present law. So that is really not an issue.

CHAIRMAN DEVLIN asked **Dean Roberts** if they were listed in the book at all?

Mr. Roberts answered under Montana law, they do not assess the add-ons on a vehicle. Every vehicle generally has a series of additions and deductions. The reason they do not consider the add-ons is because they would have to consider the deductions

too, and the law is very plain that they do not add or deduct from the trade-in value price they use for vehicles.

SEN. DEPRATU said under the present law, the hit really comes in that second year because there is a big spike. Under the MSRP system of depreciating, it brings predictability of what people must budget for the licenses for the next year, which is 10% of the MSRP.

Jeff Martin, Legislative Services, discussed the issue of the spike. He said when a person buys a new car, in the second year the arithmetic does not work out to eliminate that spike, unless the depreciation schedule is reduced which is contained in the bill. A person will pay 1 1/2% on the new car sales tax, which is a different tax than property tax. So in the second year there will be an increase, but in the third year you could also have an additional spike because under current law, if the value is not available it is 80% of the MSRP. So the next year you could have a higher value because the depreciation schedule under the guidebook may be higher. Under the bill as proposed, it would eliminate the spike in the third year. **Mr. Martin** stated he felt it should be made clear we are talking about two different taxes.

He stated one of the reasons the bills were combined was to make a more uniform system for everyone under the current system. He said when the Revenue Oversight Committee and the working group looked at this, they developed two separate bills. **Mr. Martin** was concerned if there were two separate bills, there would be complex coordination construction if both bills passed to ensure there was a smooth transition from the Department of Revenue. He said this would include primarily vehicles that would have been assessed by the Department of Revenue such as trucks. If there wasn't a coordination construction, he was concerned about the transition from the Department of Revenue to the Department of Justice. He believed there was a consensus to coordinate this into one bill.

REP. STORY asked **SEN. DEPRATU** regarding the manner in which this bill is laid out and looking forward to ten or twelve years, will some of the older cars end up with not as much of a decrease because of inflation. Once they hit that bottom they tend to stay.

REP. STORY said they tend to stay there, but there will be a difference in value. For instance it states a minimum value of \$500, but if you take a unit that has a \$40,000 MSRP, when you are at the end of the program that will be 10% so your tax will be based on \$4,000 and not \$500. Inflation will not have anything to do with it because this will be a predictable schedule, regardless of the value at that time.

Jeff Martin stated eventually all vehicles will be at the \$500 level. In the bill, all vehicles are depreciated over a 16-year

period. Once that depreciation schedule is finished, the bill as introduced, directs the Department of Justice depreciate the value by 10% per year until it reaches \$500.

SEN. WATERMAN said the more expensive vehicles, like a Lexus, will take longer to depreciate.

SEN. DEPRATU stated the other thing is we are talking about fewer and fewer vehicles. The normal life-span of a vehicle is in the 16 to 18 year range. After that point, probably 75% to 90% are off the road. He said he had forgotten about the 10% reduction.

REP. ROSE asked **SEN. WATERMAN**, as the sponsor, if she was satisfied with the amendments, because in '95 she had a bill in the Tax Committee.

SEN. WATERMAN responded she didn't have a bill prior to this. This was a Revenue Oversight bill and was unanimous. She carried it for Revenue Oversight.

She said she was really pleased with the bill the way it was brought in. She believes the predictability of the tax rate on vehicles and the fact they only would go to the treasurer and pay, and if people wanted to move to a multi-year payment and a mail-in system are all an advantage. One thing she hears is the lack of predictability, whether property or vehicle taxes, people want to know what it is going to cost them so they can figure it into their budget. If we go back to the old system for cars, **SEN. WATERMAN** thinks we should go completely back to the old system.

{Tape: 1; Side: B; Approx. Time Count: 9:10 a.m.}

SEN. WATERMAN stated she is not comfortable re-training the treasurers.

She said it seems to her if they could put together a working group of people who are interested in the flat tax, whether **REP. ARNOTT** and **REP. BERGSAGEL** and **SEN. DEPRATU** or others who are interested, she thinks legislatures can work on that rather than another interim study on it, but she does not feel strongly about the study issue. She does not want to hang the bill out to fight over, but needs to go forward and as long as no one is going to raise a fight over the rules, that the bill can't go to the Governor with the study, she is okay with it.

She is satisfied with the way the bill is written.

REP. STORY said they had a discussion in the House on the amendments and there was no discussion in the House on the truck part of the bill. He pointed out amendment 701435CW.Hgd was rejected on a 49-51 vote the first time, then as they further discussed the bill, the amendment was brought back and passed fairly substantially, which ended the discussion on the bill. He

said **REP. ARNOTT** made some excellent points which turned some votes in the process. He said it could jeopardize the bill to change the construction.

CHAIRMAN DEVLIN stated he thinks every one of them have received a letter from the treasurers saying they did not want the amendment.

SEN. DEPRATU thought the argument could be made for the big trucks and the cars that there is no difference. He said they are dealing with a commercial group as opposed to individuals but he believes it is good for both.

SEN. WATERMAN said two years ago, it was a car bill and the truckers wanted to be included.

CHAIRMAN DEVLIN said he remembers that the Department came in with some proposals and the truckers weren't even called in to discuss with any of the Department people, and it ended up in the Revenue Oversight Committee. They were going to start taxing heavier trucks in a manner that the trucking industry hadn't even been consulted on. Now they have been and there is a gentlemen's agreement on it.

CHAIRMAN DEVLIN asked the members of the committee if they would like to go back to their respective bodies to see what they have to say and then meet later.

SEN. DEPRATU said the load is going to be put on the county treasurer if they stay with the old system and there is a potential for getting rid of the assessors.

CHAIRMAN DEVLIN wondered if the advantage to it as a whole is to take out the spike.

SEN. WATERMAN said they tried to soften that spike, but as long as you have a sales tax and change that whole system, you cannot do that.

SEN. DEPRATU stated the other thing is, they don't have to assess it, it is just a computer program. Once a vehicle is sold, the rate is established for the life of the vehicle.

Motion/Vote: **REP. REAM** motioned to reject amendment 701435CW.Hgd, which was unanimously voted by voice vote.

Motion/Vote: **REP. ROSE** motioned to accept amendment 771455CW.Hgd, which was unanimously voted by voice vote.

{Tape: 1; Side: B; Approx. Time Count: 9:25 - 9:34; Comments: Committee Discussed Whether To Have Another Meeting; It was determined this is a Free Conference Committee and they did not meet again.}

NOTE: REP. STORY will carry SB 57.

ADJOURNMENT

Adjournment: 9:35 p.m.



SEN. GERRY DEVLIN, Chairman



GILDA CLANCY, Secretary

GD/GC