

MINUTES

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

COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN GERRY DEVLIN**, on April 9, 1997, at
8:00 a.m., in Room 413.

ROLL CALL

Members Present:

Sen. Gerry Devlin, Chairman (R)
Sen. Mike Foster, Vice Chairman (R)
Sen. Mack Cole (R)
Sen. Bob DePratu (R)
Sen. Dorothy Eck (D)
Sen. Wm. E. "Bill" Glaser (R)
Sen. Mike Sprague (R)
Sen. Fred R. Van Valkenburg (D)

Members Excused: Sen. Barry "Spook" Stang (D)

Members Absent: None

Staff Present: Jeff Martin, Legislative Services Division
Meg Angell, Committee Secretary

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

Committee Business Summary:

Hearing(s) & Date(s) Posted: HB 597; HB 599
Executive Action: None

HEARING ON HB 597

{Tape: 1; Side: A; Approx. Time Count: .7; Comments: None.}

Sponsor: REP. SAM ROSE, HD 87, CHOTEAU

Proponents:

John Bloomquist, Montana Stockgrowers Association
Lorna Frank-Karn, Montana Farm Bureau and Women Involved in Farm
Economics (WIFE)
Les Graham, Montana Cattlemen's Association
Larry Brown, Agricultural Preservation Association
Bob Gilbert, Montana Woolgrowers' Association
Dennis Burr, Montana Taxpayers' Association

Opponents: None

Opening Statement by Sponsor:

REP. SAM ROSE, HD 87, CHOTEAU

EXHIBITS 1-3

REP. ROSE states HB 597 is an act lowering the personal property tax on Class 6 property in an attempt to meet our obligation to the industry. He references the unfairness of the inventory tax.

REP. ROSE states 46% of agricultural people are in financial trouble. This bill is revenue neutral.

Proponents' Testimony:

John Bloomquist, Montana Stockgrowers' Association indicates they are working toward tax neutrality. This bill is an effort to avoid tax increases when market conditions are poor. The Stockgrowers Association is in support of this bill.

Lorna Frank-Karn, Montana Farm Bureau and Women Involved in Farm Economics (WIFE) states both organizations support the bill.

Les Graham, Montana Cattlemen's Association states that organization supports the bill. He also states Larry Brown, Agricultural Preservation Association has asked to go on record as supporting HB 597.

Bob Gilbert, Montana Woolgrowers' Association says this is part of the package to try to keep revenue neutrality in the tax situation. He supports this legislation.

Dennis Burr, Montana Taxpayers' Association indicates they advocate eliminating the tax on livestock; this is a good compromise.

Opponents' Testimony: None

Questions From Committee Members and Responses:

SEN. MIKE FOSTER asks why we continue to tax horses that are considered pets. Mr. Randolph Wilke, Department of Revenue responds there is no exemption for horses at the present time. Further, Mr. Les Graham, Montana Cattlemen's Association states horses are a costly item for the Department due to inspections. SEN. FOSTER inquires if there is a fee for the inspections. Mr. Graham says there is, but it's separate from the taxation issue.

SEN. MACK COLE queries REP. ROSE regarding the coordination language with SB 195 - what happens if one of the other related bills goes through. REP. ROSE responds he would be happy to work out the coordination with any other bills if need be.

SEN. BOB DEPRATU inquires why we continue to tax 4-H animals. Mr. Wilke again states there is no exemption at this time.

SEN. DOROTHY ECK comments on the bill's reference to exemption on rental property; could this be done for all Class 6 property. Mr. Wilke states he hasn't run any figures on that; the results would depend on how it was structured.

SEN. MIKE SPRAGUE references page 2, line 22 regarding cats and dogs not raised for profit. He asks if you raised cats on your property for "extermination" purposes would that qualify. Mr. Wilke doesn't know.

SEN. FRED VAN VALKENBURG comments this is the third time this session the Committee has been told a personal property tax is in fact an inventory tax. He inquires if the Department can rationally describe why this tax or any tax is distinguishable from an inventory tax. Mr. Wilke says in respect to livestock, the Legislature is clear as to what needs to be taxed. SEN. VAN VALKENBURG asks if sale of cattle is subject to Capital Gains Tax. Jeff Miller, Department of Revenue, indicates it is subject to the tax. SEN. VAN VALKENBURG asks if there are any overall statistics on payment of income tax by agricultural producers. Mr. Miller responds he doesn't have that information but will provide it to the Committee.

CHAIRMAN GERRY DEVLIN asks if there are statistics for those secondary people who are supported by livestock. Mr. Miller cannot provide that information.

Closing by Sponsor:

REP. SAM ROSE closes stating we are trying to protect our #1 industry; we're trying to help livestock producers stay in business. SEN. MACK COLE will carry the bill.

HEARING ON HB 599

{Tape: 1; Side: A; Approx. Time Count: 26.7; Comments: None.}

Sponsor: REP. PAUL BANKHEAD, HD 72, HERON

Proponents:

Douglas Rauthe, Northwest Montana Human Resources
John Shontz, Montana Association of Realtors
Steve Yeakel, Montana Human Resources Development Council
Directors Association

Opponents: None

Opening Statement by Sponsor:

REP. PAUL BANKHEAD, HD 72, HERON indicates this bill sets up a first-time home buyer savings account. It establishes the

ability to put away some of an individual's earned income without tax for the purpose of buying a home. The proposal allows for \$3,000 per year for up to 10 years to be placed in such an account. The accounts would be administered by the individual with income tax plus a 10% penalty required if the money is withdrawn for some other purpose. The fiscal note indicates the average person would probably invest \$79 per month, with approximately 1000 households participating in the first year of eligibility. This amounts to approximately \$47,500 income tax loss for the State of Montana. The hardest thing for most people to do is come up with the downpayment on a house; they can afford the monthly payments but not the down payment as a rule.

REP. BANKHEAD presented testimony from **Maureen Rude**. **EXHIBIT 4**

Proponents' Testimony:

Douglas Rauthe, Mayor of Kalispell believes this legislation is timely. It provides an opportunity for some Montana people and promotes saving for a home. He agrees the down payment is usually hard for first-time buyers.

John Shontz, Montana Association of Realtors states that association supports this bill. It will help people generate funds for a down payment.

Steve Yeakel, Montana Human Resource Development Council Directors Association

EXHIBIT 5

Mr. Yeakel says currently, interest rates are low and housing is plentiful. This bill will help people come up with the money they need for a down payment and closing costs.

Opponents' Testimony: **None**

Questions From Committee Members and Responses:

SEN. MIKE SPRAGUE asks if the definition of single family resident includes manufactured housing. **Mr. Rauthe** responds yes; he believes housing opportunities should include all options.

SEN. SPRAGUE inquires if the sponsor would object to adding manufactured housing to the language of the bill. **REP. BANKHEAD** indicates that would be fine.

SEN. FRED VAN VALKENBURG asks if there is anything in the bill that would prohibit a married couple from having two accounts for this purpose. **Mr. Miller, Department of Revenue** states that would be okay. The limit is \$3,000 per year, per individual, not per household. **SEN. VAN VALKENBURG** inquires if the two accounts would have to be under each person's name individually. **Mr. Miller** responds they must be separated for tracking and recording.

CHAIRMAN GERRY DEVLIN questions if both have an account how the first-time buyer will be determined. **Mr. Miller** indicates both would qualify if they decide to pool their funds to buy a home.

CHAIRMAN DEVLIN comments the Committee will look at clarifying the language in the bill relative to that issue.

SEN. WILLIAM GLASER asks if there are any restrictions on the type of account or investment the funds could be put into.

Mr. Miller says there are no restrictions on the type of investment account; he reiterates that the account must be segregated from other financial activity for tracking and recording.

SEN. MIKE SPRAGUE inquires if it would be recommended that the account be titled. **Mr. Miller** says yes; anything that helps identify the account would be helpful. He also notes that once the Department has received an income tax form indicating an individual is placing money into such an account the Department would make a determination of qualification to avoid having the money go untaxed if the individual doesn't qualify for the account.

SEN. SPRAGUE inquires as to the tax deduction status for someone who would give money as a gift to an individual who has such an account, with that money to go into the account. **Mr. Miller** indicates that is fine to do but the giver could not claim a deduction for that money. **Jeff Martin** indicates the bill speaks to that situation on page 3, line 18, subsection 5.

SEN. FRED VAN VALKENBURG inquires if there is similar legislation being considered in the U.S. Congress. **REP. BANKHEAD** states he doesn't know. He says he has checked other states and was unable to find any that have this type of program. **SEN. VAN VALKENBURG** asks **Jeff Martin** to find out; if there is any we need to coordinate with the federal legislation.

Closing by Sponsor:

REP. BANKHEAD states he would like to see us get this program established; we will work with the federal issues if necessary. He states the Federal Home Loan Bank of Seattle has money available for this type of program. They will provide matching funds, \$3.00 for every \$1.00 invested into such an account. **REP. BANKHEAD** believes every citizen in this state deserves the opportunity to own a home; this legislation will improve the chance for some Montanans who would otherwise not be able to afford to buy a home. **SEN. BOB DEPRATU** will carry the bill.

DISCUSSION OF THE SENATE TAXATION STATUS SHEET RE: OMISSION OF HB 555. **CHAIRMAN DEVLIN** asks that all proposed amendments be turned in so the Committee can take executive action on this bill.

MOTION: SEN. DOROTHY ECK MOVED THE COMMITTEE SPONSOR A RESOLUTION ASKING THE REVENUE OVERSIGHT COMMITTEE TO STUDY THE QUOTA SYSTEM AND THE INCREASE/DECREASE OF THE VALUE OF LICENSES AS THEY PERTAIN TO SB 354, AND THAT JEFF MARTIN BE REQUESTED TO DRAFT THE COMMITTEE BILL."

BRIEF DISCUSSION REGARDING THE PARAMETERS OF THE STUDY, THE SIMILARITIES OF THIS REQUEST TO OTHERS BEING BROUGHT BEFORE THE OVERSIGHT COMMITTEE AND THE NEED FOR A RESOLUTION. The parameters of the study could be limited if need be; this request will be similar to others being requested of the Oversight Committee; a Resolution is a good idea if the Committee wishes to ensure these issues get looked at.

VOTE: MOTION CARRIED 7-2 with CHAIRMAN DEVLIN and SEN. GLASER voting no.

ADJOURNMENT

Adjournment: 9:00 a.m.



SEN. GERRY DEVLIN, Chairman



MEG ANGELL, Secretary

GD/MA

Minutes taped on Sony BM 89-T at 4.8 tape speed.