

1 House BILL NO. 58  
 2 INTRODUCED BY Wayley Halverson, Henderson  
Flaming  
 3  
 4 A BILL FOR AN ACT ENTITLED: "AN ACT TO INCREASE THE AMOUNT  
 5 OF INCOME TAX EXEMPTIONS BY AMENDING SECTION 84-4910, R.C.M.  
 6 1947; PROVIDING AN IMMEDIATE EFFECTIVE DATE."  
 7

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:  
 9 Section 1. Section 84-4910, R.C.M. 1947, is amended to  
 10 read as follows:  
 11 "84-4910. Exemptions. (a) Allowance of Personal  
 12 Exemption. In the case of an individual, the exemptions  
 13 provided by this section shall be allowed as deductions in  
 14 computing taxable income.  
 15 (b) Taxpayer and Spouse. An exemption of ~~six--hundred~~  
 16 ~~fifty--dollars--(\$650)~~ seven hundred dollars (\$700) shall be  
 17 allowed for the taxable years year beginning after December  
 18 31, ~~1973~~ 1975 for the taxpayer; and an additional exemption  
 19 of ~~six-hundred-fifty-dollars-(\$650)~~ seven hundred dollars  
 20 (\$700) shall be allowed for the taxable years year beginning  
 21 after December 31, ~~1973~~ 1975 for the spouse of the taxpayer  
 22 if a separate return is made by the taxpayer, and if the  
 23 spouse, for the calendar year in which the taxable year of  
 24 the taxpayer begins, has no gross income and is not the  
 25 dependent of another taxpayer.

1 (c) Additional Exemption for Taxpayer or Spouse Aged  
 2 Sixty-five (65) or More. (1) For taxpayer. An additional  
 3 exemption of ~~six-hundred-fifty-dollars-(\$650)~~ seven hundred  
 4 dollars (\$700) shall be allowed for the taxable years year  
 5 beginning after December 31, ~~1973~~ 1974 for the taxpayer if  
 6 he has attained the age of sixty-five (65) before the close  
 7 of his taxable year.  
 8 (2) For spouse. An additional exemption of ~~six-hundred~~  
 9 ~~fifty--dollars--(\$650)~~ seven hundred dollars (\$700) shall be  
 10 allowed for the taxable years year beginning after December  
 11 31, ~~1973~~ 1974 for the spouse of the taxpayer if a separate  
 12 return is made by the taxpayer, and if the spouse has  
 13 attained the age of sixty-five (65) before the close of such  
 14 taxable year and, for the calendar year in which the taxable  
 15 year of the taxpayer begins, has no gross income and is not  
 16 the dependent of another taxpayer.  
 17 (d) Additional Exemption for Blindness of Taxpayer or  
 18 Spouse. (1) For taxpayer. An additional exemption of ~~six~~  
 19 ~~hundred-fifty-dollars-(\$650)~~ seven hundred dollars (\$700)  
 20 shall be allowed for the taxable years year beginning after  
 21 December 31, ~~1973~~ 1974 for the taxpayer if he is blind at  
 22 the close of his taxable year.  
 23 (2) For spouse. An additional exemption of ~~six-hundred~~  
 24 ~~fifty--dollars--(\$650)~~ seven hundred dollars (\$700) shall be  
 25 allowed for the taxable years year beginning after December

31, ~~1973~~ 1974 for the spouse of the taxpayer if a separate return is made by the taxpayer and if the spouse is blind and, for the calendar year in which the taxable year of the taxpayer begins, has no gross income and is not the dependent of another taxpayer. For the purposes of this paragraph, the determination of whether the spouse is blind shall be made as of the close of the taxable year of the taxpayer; except that if the spouse dies during such taxable year such determination shall be made as of the time of such death.

(3) Blindness defined. For purposes of this subsection, an individual is blind only if his central visual acuity does not exceed 20/200 in the better eye with correcting lenses, or if his visual acuity is greater than 20/200 but is accompanied by a limitation in the fields of vision such that the widest diameter of the visual field subtends an angle no greater than 20 degrees.

(4) The exemptions provided for in subsections (b) through (d) shall be seven hundred fifty dollars (\$750) for taxable years beginning after December 31, 1975.

(e) Additional Exemption for Dependents. (1) In general. An exemption of ~~six-hundred-fifty-dollars-(\$650)~~ seven hundred dollars (\$700) shall be allowed for the taxable years year beginning after December 31, ~~1973~~ 1974 for each dependent:

(A) Whose gross income for the calendar year in which the taxable year of the taxpayer begins is less than ~~six hundred-fifty-dollars-(\$650)~~ seven hundred dollars (\$700) shall be allowed for the taxable years year beginning after December 31, ~~1973~~ 1974, or

(B) Who is a child of the taxpayer and who (i) has not attained the age of nineteen (19) years at the close of the calendar year in which the taxable year of the taxpayer begins, or (ii) is a student.

(C) The above exemption shall be seven hundred fifty dollars (\$750) for the taxable years beginning after December 31, 1975 provided, however, that the exemption granted in subsection (e) (1) (A) shall not apply where the dependent's gross income for the calendar year in which the taxpayer begins exceeds seven hundred fifty dollars (\$750).

(2) Exemption denied in case of certain married dependents. No exemption shall be allowed under this subsection for any dependent who has made a joint return with his spouse for the taxable year beginning in the calendar year in which the taxable year of the taxpayer begins.

(3) Child defined. For purposes of paragraph (1) (B), the term "child" means an individual who is a son, stepson, daughter, or stepdaughter of the taxpayer.

(4) Student and educational institution defined. For

1 purposes of paragraph (1) (B) (ii), the term "student" means  
2 an individual who during each of five (5) calendar months  
3 during the calendar year in which the taxable year of the  
4 taxpayer begins.

5 (A) Is a full-time student at an educational  
6 institution; or

7 (B) Is pursuing a full time course of institutional  
8 on-farm training under the supervision of an accredited  
9 agent of an educational institution or of a state or  
10 political subdivision of a state. For purposes of this  
11 paragraph, the term "educational institution" means only an  
12 educational institution which normally maintains a regular  
13 faculty and curriculum and normally has a regularly  
14 organized body of students in attendance at the place where  
15 its educational activities are carried on.

16 (f) General Definition. For purposes of this section,  
17 the term "dependent" means any of the following individuals  
18 over half of whose support, for the calendar year in which  
19 the taxable year of the taxpayer begins, was received from  
20 the taxpayer:

21 (1) A son or daughter of the taxpayer, or a descendant  
22 of either,

23 (2) A stepson or stepdaughter of the taxpayer,

24 (3) A brother, sister, stepbrother, or stepsister of  
25 the taxpayer,

1 (4) The father or mother of the taxpayer, or an  
2 ancestor of either,

3 (5) A stepfather or stepmother of the taxpayer,

4 (6) A son or daughter of a brother or sister of the  
5 taxpayer,

6 (7) A brother or sister of the father or mother of the  
7 taxpayer,

8 (8) A son-in-law, daughter-in-law, father-in-law,  
9 mother-in-law, brother-in-law, or sister-in-law of the  
10 taxpayer,

11 (9) An individual who, for the taxable year of the  
12 taxpayer, has as his principal place of abode the home of  
13 the taxpayer, and is a member of the taxpayer's household,  
14 or

15 (10) An individual who

16 (A) is a descendant of a brother or sister of the  
17 father or mother of the taxpayer,

18 (B) for the taxable year of the taxpayer received  
19 institutional care required by reason of a physical or  
20 mental disability, and

21 (C) before receiving such institutional care, was a  
22 member of the same household as the taxpayer.

23 (g) Rules Relating to General Definition. For purposes  
24 of this section:

25 (1) The terms "brother" and "sister" include a brother

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1 or sister by the half blood.

2 (2) In determining whether any of the relationships  
3 specified in subsection (a) or paragraph (1) of this  
4 subsection exists, a legally adopted child of an individual  
5 shall be treated as a child of such individual by blood.

6 (h) Determination of Marital Status. For purposes of  
7 this part

8 (1) The determination of whether an individual is  
9 married shall be made as of the close of his taxable year;  
10 except that if his spouse dies during his taxable year such  
11 determination shall be made as of the time of such death;  
12 and

13 (2) An individual legally separated from his spouse  
14 under a decree of divorce or of separate maintenance shall  
15 not be considered as married.

16 (i) Proration of exemption deduction in the case of a  
17 nonresident taxpayer

18 (1) The exemption deduction shall be prorated according  
19 to the ratio the taxpayer's Montana adjusted gross income  
20 bears to his federal adjusted gross income."

21 Section 2. This act is effective on passage and  
22 approval.

-End-

## FISCAL NOTE

Form BD-15

In compliance with a written request received January 11, 19 75, there is hereby submitted a Fiscal Note for House Bill 58 pursuant to Chapter 53, Laws of Montana, 1965 - Thirty-Ninth Legislative Assembly.

Background information used in developing this Fiscal Note is available from the Office of Budget and Program Planning, to members of the Legislature upon request.

## DESCRIPTION OF PROPOSED LEGISLATION:

An act to increase the personal exemption for income tax purposes from \$650 to \$700 for years beginning after December 31, 1974, and to \$750 for years beginning after December 31, 1975. The bill would be effective on passage and approval.

## ASSUMPTIONS:

1. The amended dates in Section 1(6) were intended to be 1974 rather than 1975 (See technical note).
2. The bill will be passed by April 1 and withholding tables will be adjusted accordingly to reflect the tax decrease on entire CY 75 income. Thus, underwithholding will occur from April 1 to December 31 to balance overwithholding from January 1 to March 31.
3. Estimated income tax collections are \$104.8 million in FY 76 and \$124.0 million in FY 77.
4. There will be 670,000 exemptions in CY 75, 680,000 in CY 76, and 690,000 in CY 76.
5. Effective tax rates assuming a 10% surcharge will be 5.44% in CY 75, 5.68% in CY 76, and 5.92% in CY 77.
6. The entire CY 75 loss will be realized in FY 76;  $\frac{1}{4}$  of CY 76 loss will be realized in FY 76 and  $\frac{3}{4}$  in FY 77;  $\frac{1}{4}$  of CY 77 loss will be realized in FY 77.

## FISCAL IMPACT:

|   | FY 76                 | FY 77                 |
|---|-----------------------|-----------------------|
| Income tax collections under current law  | \$ 104.8 million      | \$ 124.0 million      |
| Income tax collections under proposed law | <u>102.0 million</u>  | <u>120.1 million</u>  |
| Decrease in collections                   | <u>\$ 2.8 million</u> | <u>\$ 3.9 million</u> |

## CONCLUSION:

Enactment of House Bill 58 would result in a revenue loss to the state of approximately \$6.7 million during the biennium. Income tax collections are allocated 64% to the General Fund, 25% to the School Equalization Aid Earmarked Revenue Account, and 11% to the Long-Range Building Program.

## COMMENT:

Although the wage earner would experience a decrease in withholding during the last quarter of FY 75, this decrease would not affect state collections until after July 1 of FY 76.

TECHNICAL NOTE: The 1975 date on page 1, lines 18 and 21, must be changed to 1974 to avoid conflict with Section 1(4), page 3, lines 18-20.

*Michael Ballings*  
BUDGET DIRECTOR

Office of Budget and Program Planning

Date: January 16, 1975