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*Senate* BILL NO. *72*  
*Preedy, Hardin, Bonner*

INTRODUCED BY \_\_\_\_\_

A BILL FOR AN ACT ENTITLED: "AN ACT TO ENCOURAGE SAVING BY EXEMPTING FROM INCOME TAXATION THE FIRST ONE THOUSAND DOLLARS IN INTEREST INCOME FROM THRIFT INSTITUTIONS; AMENDING SECTION 84-4905, R.C.M. 1947."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 84-4905, R.C.M. 1947, is amended to read as follows:

"84-4905. Adjusted gross income. (1) Adjusted gross income shall be the taxpayer's federal income tax adjusted gross income as defined in section 62 of the Internal Revenue Code of 1954 or as that section may be labeled or amended, and in addition shall include the following:

(a) Interest received on obligations of another state or territory, or county, municipality, district, or other political subdivision thereof:

(b) Refunds received of federal income tax, to the extent the deduction of such tax resulted in a reduction of Montana income tax liability.

(2) Adjusted gross income does not include the following which are exempt from taxation under this act:

(a) Interest income from obligations of the United

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States government, the state of Montana, county, municipality, district, or other political subdivision thereof:

(b) All benefits received under the Federal Employees Retirement Act not in excess of three thousand six hundred dollars (\$3,600).

(c) All benefits paid under the Montana Teachers Retirement Act which are specified as exempt from taxation by section 75-2713.

(d) All benefits paid under the Montana Public Employees Act which are specified as exempt from taxation by section 68-1303.

(e) All benefits paid under the Montana Highway Patrol Retirement Act which are specified as exempt from taxation by section 31-221.

(f) Montana income tax refunds or credits thereof.

(g) Interest income not in excess of one thousand dollars (\$1,000) from earnings or deposits in thrift institutions in Montana, including interest on time deposits in banks and savings institutions and dividends on shares in credit unions and building and loan associations.

(3) In the case of a shareholder of a corporation with respect to which the election provided for under subchapter S. of the Internal Revenue Code of 1954, as amended, is in effect, but with respect to which the election provided for

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1 under section 31-1501.2, as amended, is not in effect,  
2 adjusted gross income does not include any part of the  
3 corporation's undistributed taxable income, net operating  
4 loss, capital gains or other gains, profits or losses  
5 required to be included in the shareholder's federal income  
6 tax adjusted gross income by reason of the said election  
7 under subchapter S. However, the shareholder's adjusted  
8 gross income shall include actual distribution from the  
9 corporation to the extent they would be treated as taxable  
10 dividends if the subchapter S. election were not in effect."

-End-

## STATE OF MONTANA

REQUEST NO. 40-75

## FISCAL NOTE

Form BD-15

In compliance with a written request received January 17, 19 75, there is hereby submitted a Fiscal Note for Senate Bill 72 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 exempt from income taxation the first \$1000 in interest income from deposits in thrift institutions.

## ASSUMPTIONS:

1. Income tax collections under current law will be \$104.8 million in FY 76 and \$124.0 million in FY 77.
2. Taxable income will be \$1.819 million in CY 75, \$2.052 million in CY 76, and \$2.328 million in CY 77. Effective tax rates will be 5.44% in CY 75, 5.68% in CY 76, and 5.92% in CY 77.
3. The act is assumed effective for tax years beginning after December 31, 1974.
4. There will be approximately 315,000 returns filed in CY 75 and 318,000 returns in CY 76 and CY 77.
5. Interest rates and savings levels will remain fairly constant.
6. Federal income tax data indicates that 94.4% of taxpayers earn no interest or less than \$1000 interest; the average interest income for this level is \$325. Of the 5.6% earning more than \$1000 interest, the average interest income is \$1800. These percentages are assumed to hold for Montana taxpayers.
7. All of CY 75 loss will be realized in FY 76; all of CY 76 loss will be realized in FY 77. There will be no revision of withholding tables.

## 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>98.3</u>	<u>117.1</u>
Decrease in collections	<u>\$ 6.5 million</u>	<u>\$ 6.9 million</u>

## CONCLUSION:

Enactment of Senate Bill 72 would result in a revenue loss to the State of \$12.8 million during the biennium. Income tax collections are allocated 64% to the General Fund, 25% to the School Equalization Aid Earmarked Revenue Fund, and 11% to the Long-Range Building Program.

## TECHNICAL NOTE:

Senate Bill 72 is not clear on whether the \$1000 exemption will apply to each spouse of a married couple or to the combined interest income of both.

*Michael D. Bellings*  
BUDGET DIRECTOR

Office of Budget and Program Planning

Date: January 22, 1975