

HOUSE BILL NO. 10

INTRODUCED BY MOORE, BURNETT, WYRICK, KROPP, SMITH, MARKS, TURNER, BARRETT, RAMIREZ, WOOD, SEIFERT, CURTISS, FAGG, O'KEEFE, TOWER, MEYER, PORTER, AAGESON, NATHE, LUND, McLANE, ERNST, COX, ELLERD, ELLIS, LORY, PEDA, SEVERSON, VINGER, KEYSER, KVAALEN, FABREGA, A BILL FOR AN ACT ENTITLED: "AN ACT TO AMEND SECTION ELLISON 84-4910, R.C.M. 1947, TO PROVIDE FOR A PERSONAL EXEMPTION OF \$750 IN COMPUTING TAXABLE INCOME."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA: Section 1. Section 84-4910, R.C.M. 1947, is amended to read as follows:

"84-4910. Exemptions. (a) Allowance of Personal Exemption (1) In the case of an individual, the exemptions provided by this section shall be allowed as deductions in computing taxable income.

(b)(2) Taxpayer and Spouses An exemption of six hundred and fifty dollars (\$650) \$750 shall be allowed for taxable years beginning after December 31, 1973 1976, for the taxpayer; and an additional exemption of six hundred and fifty dollars (\$650) \$750 shall be allowed for taxable years beginning after December 31, 1973 1976, for the spouse of the taxpayer if a separate return is made by the taxpayer, and if the spouse, 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.

(c)(3) Additional Exemption for Taxpayer or Spouse Aged Sixty-five (65) or More (1)(a) For taxpayers An

additional exemption of six hundred and fifty dollars (\$650) \$750 shall be allowed for taxable years beginning after December 31, 1973 1976, for the taxpayer if he has attained the age of sixty-five (65) before the close of his taxable year.

(2)(b) For spouse An additional exemption of six hundred and fifty dollars (\$650) \$750 shall be allowed for taxable years beginning after December 31, 1973 1976, for the spouse of the taxpayer if a separate return is made by the taxpayer and if the spouse has attained the age of sixty-five (65) years before the close of such taxable year 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.

(d)(4) Additional Exemption for Blindness of Taxpayer or Spouse (1)(a) For taxpayers An additional exemption of six hundred and fifty dollars (\$650) \$750 shall be allowed for taxable years beginning after December 31, 1973 1976, for the taxpayer if he is blind at the close of his taxable year.

(2)(b) For spouse An additional exemption of six hundred and fifty dollars (\$650) \$750 shall be allowed for taxable years beginning after December 31, 1973 1976, for the spouse of the taxpayer if a separate return is made by the taxpayer and if the spouse is blind and, for the

1 calendar year in which the taxable year of the taxpayer
 2 begins, has no gross income and is not the dependent of
 3 another taxpayer. For the purposes of this paragraph, the
 4 determination of whether the spouse is blind shall be made
 5 as of the close of the taxable year of the taxpayer, except
 6 that if the spouse dies during such taxable year such the
 7 determination shall be made as of the time of such death.

8 ~~(3)(c) Blindness--defined.~~ For purposes of this
 9 subsection, an individual is blind only if his central
 10 visual acuity does not exceed 20/200 in the better eye with
 11 correcting lenses, or if his visual acuity is greater than
 12 20/200 but is accompanied by a limitation in the fields of
 13 vision such that the widest diameter of the visual field
 14 subtends an angle no greater than 20 degrees.

15 ~~(e)(5) Additional-Exemption-for-Dependents.~~ ~~(i)(a) in~~
 16 ~~general.~~ An exemption of ~~six-hundred-fifty-dollars-(650)~~
 17 ~~750~~ shall be allowed for taxable years beginning after
 18 December 31, ~~1973~~ 1976, for each dependent:

19 ~~(i)(i) whose~~ ~~whose~~ gross income for the calendar year
 20 in which the taxable year of the taxpayer begins is less
 21 than ~~six-hundred-fifty-dollars-(650)~~ ~~750~~ shall be allowed
 22 ~~for-taxable-years-beginning-after-December-31-1973;~~ or

23 ~~(i)(ii) who~~ ~~who~~ is a child of the taxpayer and ~~who~~
 24 ~~(i)(A)~~ has not attained the age of nineteen (19) years
 25 at the close of the calendar year in which the taxable year

1 of the taxpayer begins; or

2 ~~(i)(B)~~ is a student.

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

9 ~~(3)(c) Child--defined.~~ For purposes of ~~paragraph-(i)~~
 10 ~~(b)~~ ~~subsection (5)(a)(iii),~~ the term "child" means an
 11 individual who is a son, stepson, daughter, or stepdaughter
 12 of the taxpayer.

13 ~~(4)(d) Student-and-educational-institution--defined.~~
 14 For purposes of ~~paragraph-(i)-(b)-(i))~~ ~~subsection~~
 15 ~~(5)(a)(ii)(B),~~ the term "student" means an individual who
 16 during each of five (5) calendar months during the calendar
 17 year in which the taxable year of the taxpayer begins:

18 ~~(i)(i) is~~ ~~is~~ a full-time student at an educational
 19 institution; or

20 ~~(i)(ii) is~~ ~~is~~ pursuing a ~~full-time~~ ~~full-time~~ course of
 21 institutional on-farm training under the supervision of an
 22 accredited agent of an educational institution or of a state
 23 or political subdivision of a state. For purposes of this
 24 paragraph, the term "educational institution" means only an
 25 educational institution which normally maintains a regular

1 faculty and curriculum and normally has a regularly
2 organized body of students in attendance at the place where
3 its educational activities are carried on.

4 ~~(f)(6) General-Definition.~~ For purposes of this section,
5 the term "dependent" means any of the following individuals
6 over half of whose support, for the calendar year in which
7 the taxable year of the taxpayer begins, was received from
8 the taxpayer:

9 ~~(1)(a)~~ A son or daughter of the taxpayer or a
10 descendant of either;

11 ~~(2)(b)~~ A stepson or stepdaughter of the taxpayer;

12 ~~(3)(c)~~ A brother, sister, stepbrother, or stepsister
13 of the taxpayer;

14 ~~(4)(d)~~ The ~~the~~ father or mother of the taxpayer or an
15 ancestor of either;

16 ~~(5)(e)~~ A stepfather or stepmother of the taxpayer;

17 ~~(6)(f)~~ A son or daughter of a brother or sister of
18 the taxpayer;

19 ~~(7)(g)~~ A brother or sister of the father or mother
20 of the taxpayer;

21 ~~(8)(h)~~ A son-in-law, daughter-in-law, father-in-law,
22 mother-in-law, brother-in-law, or sister-in-law of the
23 taxpayer;

24 ~~(9)(i)~~ An an individual who, for the taxable year of
25 the taxpayer, has as his principal place of abode the home

1 of the taxpayer, and is a member of the taxpayer's
2 household;

3 ~~(10)(j)~~ An an individual who is

4 ~~(A)(i)~~ is a descendant of a brother or sister of the
5 father or mother of the taxpayer;

6 ~~(B)(ii)~~ for the taxable year of the taxpayer received
7 institutional care required by reason of a physical or
8 mental disability; and

9 ~~(C)(iii)~~ before receiving such institutional care, was
10 a member of the same household as the taxpayer.

11 ~~(g)(7) Rules---Relating---to---General---Definition.~~ For
12 purposes of this section:

13 ~~(1)(a)~~ The ~~the~~ terms "brother" and "sister" include a
14 brother or sister by the half blood;

15 ~~(2)(b)~~ In in determining whether any of the
16 relationships specified in subsection (a) or paragraph (1)
17 of this subsection exists, a legally adopted child of an
18 individual shall be treated as a child of such individual by
19 blood.

20 ~~(h)(8) Determination-of-Marital-Status.~~ For purposes
21 of this part:

22 ~~(1)(a)~~ The ~~the~~ determination of whether an individual
23 is married shall be made as of the close of his taxable
24 year; except that if his spouse dies during his taxable
25 year such determination shall be made as of the time of such

1 death; and

2 ~~(2)(b)~~ An an individual legally separated from his
3 spouse under a decree of divorce or of separate maintenance
4 shall not be considered as married.

5 ~~(i)(9) Proration-of-exemption-deduction-in-the-case-of~~
6 ~~a-nonresident-taxpayer~~

7 ~~(i)~~ The exemption deduction shall be prorated
8 according to the ratio the taxpayer's Montana adjusted gross
9 income bears to his federal adjusted gross income."

-End-

FISCAL NOTE

Form BD-15

In compliance with a written request received January 5, 1977, there is hereby submitted a Fiscal Note for House Bill 10 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

House Bill 10 calls for an increase of \$100 (\$650 to \$750) in the personal exemption allowance for taxable income. This exemption would apply to the taxpayer, spouse, dependents, taxpayers over 65, taxpayer's spouse over 65, blind taxpayers, and blind spouses of taxpayers.

ASSUMPTIONS

1. The Department of Revenue income tax revenue projections of \$123.732M in FY 78 and \$140.093M in FY 79 were assumed to be correct.
2. The portion of tax, within each of the \$1000 brackets of Montana taxable income (up to \$50,000), will remain constant throughout the biennium.
3. The change in taxes resulting from this legislation equals \$100 x average number of exemptions x the marginal tax rate for each bracket x the number of taxpayers in each bracket.
4. There will be additional refunds in FY 78 because taxes will be withheld assuming a \$650 exemption in the last half of FY 77. This will result in an additional 2% loss of revenue in FY 78.
5. The margin for error was set at 1% for this calculation.
6. The tax tables will remain unchanged throughout the biennium.
7. Administrative costs will remain unchanged over the biennium.

LONG-RANGE EFFECTS

There will be a decline in income tax collections of around 3.5% in future years due to this proposed legislation.

TECHNICAL NOTE

No mention of which tax years are affected. Should have:

"Section 2. This act is effective for taxable years beginning on or after January 1, 1977." (If this is to be effective for calendar year 197

FISCAL IMPACT

	<u>FY 78</u>	<u>FY 79</u>
Income tax collection under current law	\$123.732M	\$140.093M
Income tax collection by increasing the amount of the exemption under proposed law	<u>\$120.780M - \$118.388M</u>	<u>\$136.843 - \$134.133M</u>
Decrease in revenue	<u>(\$2.95M) - (\$5.344M)</u>	<u>(\$3.250M) - (\$5.960M)</u>

CONCLUSION

The decline in income tax collections resulting from this bill will be about 3.5% from the levels that would occur in absence of this bill.

PREPARED BY: Department of Revenue

Richard L. Drury for
 BUDGET DIRECTOR
 Office of Budget and Program Planning
 Date: 1-11-77