

1 *Senate* BILL NO. *158*
 2 INTRODUCED BY *Thomas*

3
 4 A BILL FOR AN ACT ENTITLED: "AN ACT TO REVISE THE
 5 EXEMPTIONS ALLOWED IN CALCULATING ADJUSTED GROSS INCOME,
 6 PROVIDING THAT \$3,600 OF ALL RETIREMENT BENEFITS SHALL BE
 7 EXEMPT, AMENDING SECTION 84-4905, R.C.M. 1947."

8
 9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

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

12 "84-4905. Adjusted gross income. (1) Adjusted gross
 13 income shall be the taxpayer's federal income tax adjusted
 14 gross income as defined in section 62 of the Internal
 15 Revenue Code of 1954 or as that section may be labeled or
 16 amended, and in addition shall include the following:

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

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

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

25 (a) ~~Interest~~ interest income from obligations of the

1 United States government, the state of Montana, county,
 2 municipality, district, or other political subdivision
 3 thereof;

4 ~~(b) All benefits received under the Federal Employees~~
 5 ~~Retirement Act not in excess of three thousand six hundred~~
 6 ~~dollars (\$3,600), benefits to the value of \$3,600, or such~~
 7 ~~greater amount as may be specifically provided by laws~~
 8 ~~received from any bona fide employee retirement and~~
 9 ~~disability plan; and~~

10 ~~(c) All benefits paid under the Montana Teachers~~
 11 ~~Retirement Act which are specified as exempt from taxation~~
 12 ~~by section 75-6215;~~

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

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

19 ~~(f)(c) Montana income tax refunds or credits thereof.~~

20 ~~(g) All benefits paid under sections 11-1925, 11-1926,~~
 21 ~~and 11-1927 to retired and disabled firemen, their surviving~~
 22 ~~spouses and orphans;~~

23 ~~(h) All benefits paid by first or second class cities~~
 24 ~~for the policemen's retirement system provided for by the~~
 25 ~~Metropolitan Police Law~~

1 (3) In the case of a shareholder of a corporation with
2 respect to which the election provided for under subchapter
3 S. of the Internal Revenue Code of 1954, as amended, is in
4 effect, but with respect to which the election provided for
5 under section 84-1501.2, as amended, is not in effect,
6 adjusted gross income does not include any part of the
7 corporation's undistributed taxable income, net operating
8 loss, capital gains or other gains, profits or losses
9 required to be included in the shareholder's federal income
10 tax adjusted gross income by reason of the said election
11 under subchapter S. However, the shareholder's adjusted
12 gross income shall include actual distribution from the
13 corporation to the extent they would be treated as taxable
14 dividends if the subchapter S. election were not in effect."

-End-

STATE OF MONTANA

REQUEST NO. 130-77

FISCAL NOTE

Form BD-15

In compliance with a written request received January 21, 19 77, there is hereby submitted a Fiscal Note for Senate Bill 158 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

This bill revises the exemptions allowed in calculating adjusted gross income, providing that \$3,600 of all retirement benefits shall be exempt.

ASSUMPTIONS

1. It is virtually impossible to give a precise estimate of the fiscal impact of this bill. However, the expected minimum and maximum effects may be identified.
2. The Department of Revenue income tax revenue projections of \$123.732 in FY 78 and \$140.093 in FY 79 were assumed correct.
3. The minimum effect assumes 10,000 taxpayers would receive the full \$3,600 exemption at the marginal tax rate of 2.5%.
4. The maximum effect assumes 15,000 taxpayers would receive the full \$3,600 exemption at the marginal tax rate of 3%.
5. Administrative costs would remain unchanged.

FISCAL IMPACT

	<u>FY 78</u>	<u>FY 79</u>
Income tax collections under current law.	\$123.732M	\$140.093M
Income tax collections - reductions due to exemption of retirement benefits under proposed law.	<u>\$122.112M-\$122.832M</u>	<u>\$138.473M-\$139.193M</u>
DECREASE IN INCOME TAX COLLECTIONS	<u>\$.900M - \$1.620M</u>	<u>\$.900M - \$1.620M</u>

LONG-RANGE EFFECTS

The state will lose between \$.900M and \$1.620M each fiscal year this act is in effect.

TECHNICAL NOTE

The bill does not indicate the years for which the change is to be effective. If it is intended that it operate during calendar 1977 a section stating "This act is effective for all tax years beginning after December 31, 1976." should be added.

In addition, in order to accommodate taxpayers who have short tax years, it is suggested that the bill be made effective upon passage and approval.

PREPARED BY DEPARTMENT OF REVENUE

Richard A. Zang
BUDGET DIRECTOR

Office of Budget and Program Planning

Date: 1-26-77