

Senate BILL NO. 352
INTRODUCED BY Jerguson

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4 A BILL FOR AN ACT ENTITLED: "AN ACT TO ALLOW 5-YEAR INCOME
5 AVERAGING FOR STATE INCOME TAX PURPOSES; PROVIDING AN
6 EFFECTIVE DATE."
7
8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:
9 Section 1. There is a new section in Title 84, chapter
10 49, R.C.M. 1947, that reads as follows:
11 Income averaging. (1) If an eligible individual, as
12 defined in section 1303 of the Internal Revenue Code of
13 1954, as amended, has averageable income, as defined in
14 section 1302 of the Internal Revenue Code of 1954, as
15 amended, for the computation year, and that income exceeds
16 \$3,000, then the tax imposed by 84-4902 and 84-4902.1 for
17 the computation year which is attributable to averageable
18 income shall be five times the increase in tax under 84-4902
19 and 84-4902.1 which would result from adding 20% of such
20 income to 120% of average base period income, as defined in
21 section 1302 of the Internal Revenue Code of 1954, as
22 amended.
23 (2) Each reference to federal law in this section
24 encompasses amendments, renumberings, and changes in
25 regulations made after the passage of this act.

1 Section 2. Effective date. This act applies to all
2 taxable years beginning after December 31, 1977.

-End-

INTRODUCED BILL

SB 352

STATE OF MONTANA

REQUEST NO. 313-77

FISCAL NOTE

Form BD-15

In compliance with a written request received February 2, 19 77, there is hereby submitted a Fiscal Note for Senate Bill 352 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.

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Federal research indicates that if a taxpayer's income grows at a rate of 8% to 10% annually then the taxpayer is probably eligible to "average" and, indeed, can "average" each year as long as his income continues to grow at that rate. It is this fact that has led federal researchers to conclude that there may be three times as many individuals eligible to average incomes as there are who currently avail themselves of this provision.

PREPARED BY DEPARTMENT OF REVENUE

Richard L. Zang
BUDGET DIRECTOR

Office of Budget and Program Planning

Date: 2-3-77

STATE OF MONTANA

REQUEST NO. 313-77

FISCAL NOTE

Form BD-15

In compliance with a written request received February 3, 19 77, there is hereby submitted a Fiscal Note for Senate Bill 352 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

This bill is an act to allow 5-year income averaging for state income tax purposes; providing an effective date.

There is nothing in the data which the Department of Revenue collects that can be used as an indicator of what might happen to individual income tax collections if this bill were enacted. Since the provisions do not apply for calendar 1977 there would be no effect in Fiscal 1978.

Some information concerning the Federal government's experience with income averaging may be helpful. (The following information and statistics were obtained from the Office of Tax and Research, U. S. Department of the Treasury, Washington, D.C.)

<u>Year</u>	<u>% of Federal Individual Income Tax Returns Utilizing Averaging</u>	<u>Average Tax Saving Per Return</u>
1973	2.69%	\$652
1974	3.20%	\$622

In order to place these numbers in perspective it is useful to know that the IRS dealt with between 75 and 80 million returns. If the same proportion of Montana taxpayers utilized averaging there would be about 10,000 Montana returns using this provision in FY 79. It is, of course, impossible to estimate the size of the tax saving each eligible individual might make under the provisions of this bill. However, if it were only 20% of the saving available on Federal returns, it would still be of the order of \$125 per return on the average which would imply a total loss in state collections of \$1,250,000 (= 10,000 x \$125).

It is probably not the case that Montana would have 10,000 "averaged" returns the first year. Federal research on the period from 1967 to 1971 shows that "averaging" was rather slow to be accepted and that it is only in recent years that appreciable numbers have taken advantage of the provision. Part of early inertia is ascribed to the fact that it generally takes time to educate taxpayers to the various devices available to them. The other cause for the slow build up in the number of "averaged" returns is that, until the early seventies, inflation was not such a dominant factor as it has been in recent times.

(Continued on page 2)

BUDGET DIRECTOR

Office of Budget and Program Planning

Date: _____

Approved by Committee
on Taxation

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-End-

SECOND READING

SB352

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A BILL FOR AN ACT ENTITLED: "AN ACT TO ALLOW 5-YEAR INCOME AVERAGING FOR STATE INCOME TAX PURPOSES; PROVIDING AN EFFECTIVE DATE."

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

Section 1. There is a new section in Title 84, chapter 49, R.C.M. 1947, that reads as follows:

Income averaging. (1) If an eligible individual, as defined in section 1303 of the Internal Revenue Code of 1954, as amended, has averageable income, as defined in section 1302 of the Internal Revenue Code of 1954, as amended, for the computation year, and that income exceeds \$3,000, then the tax imposed by 84-4902 and 84-4902.1 for the computation year which is attributable to averageable income shall be five times the increase in tax under 84-4902 and 84-4902.1 which would result from adding 20% of such income to 120% of average base period income, as defined in section 1302 of the Internal Revenue Code of 1954, as amended.

(2) Each reference to federal law in this section encompasses amendments, renumberings, and changes in regulations made after the passage of this act.

Section 2. Effective date. This act applies to all taxable years beginning after December 31, 1977.

-End-