

Senate BILL NO. *431*
INTRODUCED BY *Jorgeson STEPHENS Graham*

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A BILL FOR AN ACT ENTITLED: "AN ACT TO PROVIDE FOR ALLOCATION OF INCOME EARNED FROM A BUSINESS JOINTLY OWNED BY SPOUSES."

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

Section 1. Allocation of income between spouses from jointly owned business. Income produced from a business, other than a partnership or corporation, jointly owned by spouses shall be allocated for state income tax purposes as follows:

(1) A spouse who contributes fewer hours of work to the business shall be allocated one-third of the gross income earned from the business multiplied by the proportion the spouse's legal interest in the business bears to the business as a whole. In addition, the spouse shall also be allocated reasonable compensation for services actually rendered to the business.

(2) The spouse who contributes the larger share of work to the business shall be allocated the remainder of the income produced by the business.

-End-

INTRODUCED BILL

SB 431

STATE OF MONTANA

REQUEST NO. 493-77

FISCAL NOTE

Form BD-15

In compliance with a written request received February 14, 19 77, there is hereby submitted a Fiscal Note for Senate Bill 431 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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LONG-RANGE EFFECT

In the long-run, fiscal year collections of the individual income tax will be reduced by at least 4 1/2% from what they would be without any further income splitting.

TECHNICAL NOTES

1. There is no effective date on the bill, so that Assumption (1) is not justifiable (See 43-507 R.C.M.).
2. The bill actually legitimizes the current administrative practice for allowable allocations of certain types of income covered by the bill, but it is anticipated that more taxpayers will probably take advantage of the provision as soon as the formula contained in the bill is more widely known.
3. In view of Technical note (3), Assumption (5) is probably untenable.

PREPARED BY DEPARTMENT OF REVENUE

Richard L. Dreyfus
BUDGET DIRECTOR
Office of Budget and Program Planning

Date: 2-17-77

FISCAL NOTE

Form BD-15

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DESCRIPTION

This bill provides for allocation of income earned from a business jointly owned by spouses.

ASSUMPTIONS

1. Assume that proposed law is enacted so as to be made applicable to the individual income tax liability for all taxable years commencing on or after January 1, 1977.
2. Assume that no more than 80% of all married taxpayers having farm or business (proprietorship) income will be able to split their income on a 60-40 basis with their spouses.
3. Assume that the percentage reduction in 1975 calendar year tax liability (0 to 4.46%) for all returns combined which would have applied under assumption (2) will apply equally to the total calendar year tax liability for 1977, 1978 and 1979.
4. Assume that the Department of Revenue forecast of individual income tax for the biennium (\$123.732M in FY 78, and \$140.093M in FY 79, and the associated CY tax liability values) is correct.
5. Assume that no increase in administrative costs will result from enactment of the proposed law.

FISCAL IMPACT

	Fiscal Year 1978		
	Current Law	Proposed Law	Increase or (Decrease)
Individual income tax collections	<u>\$123.732M</u>	<u>\$118.357M-\$123.732M</u>	<u>(\$5.375M) to 0</u>
	Fiscal Year 1979		
	Current Law	Proposed Law	Increase or (Decrease)
Individual income tax collections	<u>\$140.093M</u>	<u>\$133.845M-\$140.093M</u>	<u>(\$6.248M) to 0</u>

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BUDGET DIRECTOR

Office of Budget and Program Planning

Date: _____

Taxation

On motion reconsider
adverse committee report.

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Senate BILL NO. 431
INTRODUCED BY Jerguson STEPHENS Gahana

A BILL FOR AN ACT ENTITLED: "AN ACT TO PROVIDE FOR
ALLOCATION OF INCOME EARNED FROM A BUSINESS JOINTLY OWNED BY
SPOUSES."

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

Section 1. Allocation of income between spouses from
jointly owned business. Income produced from a business,
other than a partnership or corporation, jointly owned by
spouses shall be allocated for state income tax purposes as
follows:

(1) A spouse who contributes fewer hours of work to
the business shall be allocated one-third of the gross
income earned from the business multiplied by the proportion
the spouse's legal interest in the business bears to the
business as a whole. In addition, the spouse shall also be
allocated reasonable compensation for services actually
rendered to the business.

(2) The spouse who contributes the larger share of
work to the business shall be allocated the remainder of the
income produced by the business.

-End-

SB431

1 SENATE BILL NO. 431
2 INTRODUCED BY JERGESON, STEPHENS, GRAHAM
3
4 A BILL FOR AN ACT ENTITLED: "AN ACT TO PROVIDE FOR
5 ALLOCATION OF INCOME EARNED FROM A BUSINESS JOINTLY OWNED BY
6 SPOUSES; AND PROVIDING AN EFFECTIVE DATE."
7
8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:
9 Section 1. Allocation of income between spouses from
10 jointly owned business. Income produced from a business,
11 other than a partnership or corporation, jointly owned by
12 spouses shall be allocated for state income tax purposes as
13 follows:
14 (1) A spouse who contributes fewer hours of work to
15 the business shall be allocated one-third of the gross
16 income earned from the business multiplied by the proportion
17 the spouse's legal interest in the business bears to the
18 business as a whole. In addition, the spouse shall also be
19 allocated reasonable compensation for services actually
20 rendered to the business.
21 (2) The spouse who contributes the larger share of
22 work to the business shall be allocated the remainder of the
23 income produced by the business.
24 SECTION 2. APPLICATION. THIS ACT IS APPLICABLE TO THE
25 INDIVIDUAL INCOME TAX LIABILITY FOR ALL TAXABLE YEARS

1 COMMENCING ON OR AFTER JANUARY 1, 1977.

-End-