

SENATE BILL 392

IN THE SENATE

February 6, 1979	Introduced and referred to Committee on Taxation.
February 8, 1979	Fiscal note requested.
February 14, 1979	Fiscal note returned.
March 17, 1979	Committee recommend bill, do not pass.
March 19, 1979	Printed and placed on members' desks.
March 20, 1979	Second reading, indefinitely postponed.

1 ~~SENATE~~ BILL NO. ~~393~~ *392*
 2 INTRODUCED BY *Norman Ferguson* *Playlock*
 3 BY REQUEST OF THE DEPARTMENT OF REVENUE

4
 5 A BILL FOR AN ACT ENTITLED: "AN ACT TO REVISE AND CLARIFY
 6 THE LAW RELATING TO TAXATION OF BUSINESS INVENTORIES;
 7 AMENDING SECTIONS 15-6-117, 15-6-202, 15-24-401, AND
 8 15-24-403, MCA; AND REPEALING SECTION 15-24-402, MCA."

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

11 Section 1. Section 15-6-117, MCA, is amended to read:

12 "15-6-117. Class sixteen property -- description --
 13 taxable percentage. (1) Class sixteen property includes:

- 14 (a) ~~business inventories--as defined in this section;~~
- 15 and
- 16 (b) mobile machines, valued as other heavy
- 17 construction equipment is valued, used in new industries as
- 18 defined in class eighteen.

19 (2) Mobile machines used in new industry are subject
 20 to the conditions imposed in class eighteen for other
 21 property used in new industries.

22 ~~{3}--"Business inventories"--includes goods intended for~~
 23 ~~sale or lease in the ordinary course of business--and--raw~~
 24 ~~materials--and--work-in-progress with respect to such goods~~
 25 ~~Business inventories--shall--not--include--goods--leased--or~~

1 ~~rented--or--mobile--homes held by a dealer or distributor as~~
 2 ~~part of his stock in trade.~~

3 ~~{4}--The market value of business inventories--for~~
 4 ~~property--tax purposes, is the cost to the person subject to~~
 5 ~~the inventory tax.~~

6 ~~{5}{1}~~ Class sixteen property is taxed at 4.2% of
 7 market value."

8 Section 2. Section 15-6-202, MCA, is amended to read:

9 "15-6-202. Freeport merchandise exemption. (1)
 10 Freeport merchandise is exempt from taxation.

11 (2) Freeport merchandise means those stocks of
 12 merchandise manufactured or produced outside this state
 13 which are in transit through this state and consigned to a
 14 warehouse or other storage facility, public or private,
 15 within this state for storage in transit prior to shipment
 16 to a final destination outside the state and which have
 17 acquired a taxable situs within the state.

18 (3) Stocks of merchandise do not lose their status as
 19 freeport merchandise because while in the storage facility
 20 they are assembled, bound, joined, processed, disassembled,
 21 divided, cut, broken in bulk, relabeled, or repackaged.

22 (4) Any person or other group seeking to qualify its
 23 property for inclusion in this class shall make application
 24 to the department of revenue in such manner or form as may
 25 be required by the department."

1 Section 3. Section 15-24-401, MCA, is amended to read:
 2 "15-24-401. Assessment of business inventories. For
 3 ~~property-tax-purposes, business~~ Business inventories shall
 4 be assessed at the cost or present ~~market~~ value, whichever
 5 ~~is lower, to the person subject to the inventory tax of the~~
 6 physical inventory on hand on January 1 of the assessment
 7 year."

8 Section 4. Section 15-24-403, MCA, is amended to read:
 9 "15-24-403. Business inventory reporting — copy of
 10 federal schedule. For the purposes of 15-8-301, a person
 11 required to report his business inventory as of January 1 to
 12 the department of revenue may satisfy this requirement by
 13 submitting a copy of the schedule he filed with the internal
 14 revenue service as of that day if the person reports his
 15 federal income taxes on a calendar-year basis or a copy of
 16 the schedule he filed with the internal revenue service as
 17 of a date within the preceding year if the person reports
 18 his federal income taxes on other than a calendar-year
 19 basis. In the latter instance, the business inventory
 20 indicated on the federal schedule shall be presumed to be
 21 the business inventory in the possession on January 1 of the
 22 person reporting it. This section does not apply if the
 23 inventory for federal income tax purposes is determined
 24 using a last-in-first-out inventory method or any other
 25 method that does not reflect actual costs or present value

1 of inventory on hand."

2 NEW SECTION. Section 5. Definitions. As used in this
 3 part, the following definitions apply:

4 (1) "Business inventories" includes goods intended for
 5 sale or lease in the ordinary course of business, raw
 6 materials, and work in progress with respect to such goods.
 7 The term does not include goods leased or rented or mobile
 8 homes held by a dealer or distributor as part of his
 9 stock-in-trade.

10 (2) "Cost" means the actual monetary amount paid for
 11 an item of inventory. For inventories in process the cost
 12 will be determined by adding to the purchase price
 13 additional expenses associated with processing the item of
 14 inventory as of January 1. When determining cost, accounting
 15 methods such as last-in-first-out that do not reflect the
 16 cost of inventory on hand are not allowed.

17 (3) "Market value" means cost or present value,
 18 whichever is lower.

19 Section 6. Repealer. Section 15-24-402, MCA, is
 20 repealed.

21 Section 7. Codification. Section 5 is intended to be
 22 codified as an integral part of Title 15, chapter 24, part
 23 4, and the provisions contained in Title 15, chapter 24,
 24 part 4, apply to section 5.

-End-

Approved by Committee
on Taxation

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-End-

STATE OF MONTANA

REQUEST NO. 295-79

FISCAL NOTE

Form BD-15

In compliance with a written request received February 9, 19 79, there is hereby submitted a Fiscal Note for Senate Bill 392 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.

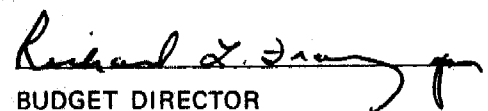
DESCRIPTION

This proposed bill revises and clarifies the law relating to taxation of business inventories.

FISCAL IMPACT

The change in this bill is currently being litigated. If the Department of Revenue prevails, it will merely clarify an ambiguity in law and there will be no fiscal impact. If the Department of Revenue loses the lawsuit then the bill would cause an increase in revenues to local government of approximately \$600,000 each year.

(Prepared by the Department of Revenue)


BUDGET DIRECTOR

Office of Budget and Program Planning

Date: 2/12/79