

House Bill 614

In The House

February 2, 1981	Introduced and referred to Committee on Taxation.
February 4, 1981	Fiscal note requested.
February 11, 1981	Fiscal note returned.
March 6, 1981	Committee recommend bill do not pass.

1 United States, its territories and possessions.

2 ~~(5)(17)~~ "Gross income" means the taxpayer's gross
3 income for federal income tax purposes as defined in section
4 61 of the Internal Revenue Code of 1954 or as that section
5 may be labeled or amended, excluding unemployment
6 compensation included in federal gross income under the
7 provisions of section 85 of the Internal Revenue Code of
8 1954 as amended.

9 ~~(8) "Inflation ADJUSTMENT factor" means a THE number~~
10 ~~determined--for--each--taxable--year--by--dividing--the--consumer~~
11 ~~price--index--for--June--of--the--taxable--year--by--the--consumer~~
12 ~~price--index--for--June--1980 COMPUTED UNDER THE PROVISIONS OF~~
13 ~~[SECTION 7].~~

14 ~~(6)(19)~~ "Information agents" includes all individuals,
15 corporations, associations, and partnerships, in whatever
16 capacity acting, including lessees or mortgagors of real or
17 personal property, fiduciaries, employers, and all officers
18 and employees of the state or of any municipal corporation
19 or political subdivision of the state, having the control,
20 receipt, custody, disposal, or payment of interest, rent,
21 salaries, wages, premiums, annuities, compensations,
22 remunerations, emoluments, or other fixed or determinable
23 annual or periodical gains, profits, and income with respect
24 to which any person or fiduciary is taxable under this
25 chapter.

1 ~~(7)(10)~~ "Knowingly" is as defined in 45-2-101.

2 ~~(8)(11)~~ "Net income" means the adjusted gross income of
3 a taxpayer less the deductions allowed by this chapter.

4 ~~(9)(12)~~ "Paid", for the purposes of the deductions and
5 credits under this chapter, means paid or accrued or paid or
6 incurred, and the terms "paid or incurred" and "paid or
7 accrued" shall be construed according to the method of
8 accounting upon the basis of which the taxable income is
9 computed under this chapter.

10 ~~(10)(13)~~ "Purposely" is as defined in 45-2-101.

11 ~~(11)(14)~~ "Received", for the purpose of computation of
12 taxable income under this chapter, means received or accrued
13 and the term "received or accrued" shall be construed
14 according to the method of accounting upon the basis of
15 which the taxable income is computed under this chapter.

16 ~~(12)(15)~~ "Resident" applies only to natural persons and
17 includes, for the purpose of determining liability to the
18 tax imposed by this chapter with reference to the income of
19 any taxable year, any person domiciled in the state of
20 Montana and any other person who maintains a permanent place
21 of abode within the state even though temporarily absent
22 from the state and has not established a residence
23 elsewhere.

24 ~~(13)(16)~~ "Taxable income" means the adjusted gross
25 income of a taxpayer less the deductions and exemptions

1 provided for in this chapter.

2 ~~(14)~~(17) "Taxable year" means the taxpayer's taxable
3 year for federal income tax purposes.

4 ~~(15)~~(18) "Taxpayer" includes any person or fiduciary,
5 resident or nonresident, subject to a tax imposed by this
6 chapter and does not include corporations."

7 Section 2. Section 2 of Initiative 86 is amended to
8 read:

9 "Section 2. Section 15-30-103, MCA, is amended to
10 read:

11 "15-30-103. Rate of tax. ~~(1)~~ There shall be levied,
12 collected, and paid for each taxable year commencing on or
13 after December 31, 1968, upon the taxable income of every
14 taxpayer subject to this tax, after making allowance for
15 exemptions and deductions as hereinafter provided, a tax ~~on~~
16 the following brackets of taxable income as adjusted under
17 subsection (2) at the following rates:

18 ~~(1)~~(a) on the first \$1,000 of taxable income or any
19 part thereof, 2%;

20 ~~(2)~~(b) on the next \$1,000 of taxable income or any
21 part thereof, 3%;

22 ~~(3)~~(c) on the next \$2,000 of taxable income or any
23 part thereof, 4%;

24 ~~(4)~~(d) on the next \$2,000 of taxable income or any
25 part thereof, 5%;

1 ~~(5)~~(e) on the next \$2,000 of taxable income or any
2 part thereof, 6%;

3 ~~(6)~~(f) on the next \$2,000 of taxable income or any
4 part thereof, 7%;

5 ~~(7)~~(g) on the next \$4,000 of taxable income or any
6 part thereof, 8%;

7 ~~(8)~~(h) on the next \$6,000 of taxable income or any
8 part thereof, 9%;

9 ~~(9)~~(i) on the next \$15,000 of taxable income or any
10 part thereof, 10%;

11 ~~(10)~~(j) on any taxable income in excess of \$35,000 or
12 any part thereof, 11%.

13 ~~(2) By November 1 of each year, the department shall~~
14 ~~multiply the bracket amount contained in subsection (1) by~~
15 ~~the inflation COMBINED ADJUSTMENT factor for that taxable~~
16 ~~year and round the cumulative brackets to the nearest \$100.~~
17 ~~The resulting adjusted brackets are effective for that~~
18 ~~taxable year and shall be used as the basis for imposition~~
19 ~~of the tax in subsection (1) of this section."~~

20 Section 3. Section 3 of Initiative 86 is amended to
21 read:

22 "Section 3. Section 15-30-112, MCA, is amended to
23 read:

24 "15-30-112. Exemptions. (1) Except as provided in
25 subsection subsections (7) and (8), in the case of an

1 individual, the exemptions provided by subsections (2)
2 through (6) shall be allowed as deductions in computing
3 taxable income.

4 (2) (a) An exemption of \$800 shall be allowed for
5 taxable years beginning after December 31, 1978, for the
6 taxpayer.

7 (b) An additional exemption of \$800 shall be allowed
8 for taxable years beginning after December 31, 1978, for the
9 spouse of the taxpayer if a separate return is made by the
10 taxpayer and if the spouse, for the calendar year in which
11 the taxable year of the taxpayer begins, has no gross income
12 and is not the dependent of another taxpayer.

13 (3) (a) An additional exemption of \$800 shall be
14 allowed for taxable years beginning after December 31, 1978,
15 for the taxpayer if he has attained the age of 65 before the
16 close of his taxable year.

17 (b) An additional exemption of \$800 shall be allowed
18 for taxable years beginning after December 31, 1978, for the
19 spouse of the taxpayer if a separate return is made by the
20 taxpayer and if the spouse has attained the age of 65 before
21 the close of such taxable year and, for the calendar year in
22 which the taxable year of the taxpayer begins, has no gross
23 income and is not the dependent of another taxpayer.

24 (4) (a) An additional exemption of \$800 shall be
25 allowed for taxable years beginning after December 31, 1978,

1 for the taxpayer if he is blind at the close of his taxable
2 year.

3 (b) An additional exemption of \$800 shall be allowed
4 for taxable years beginning after December 31, 1978, for the
5 spouse of the taxpayer if a separate return is made by the
6 taxpayer and if the spouse is blind and, for the calendar
7 year in which the taxable year of the taxpayer begins, has
8 no gross income and is not the dependent of another
9 taxpayer. For the purposes of this subsection (4)(b), the
10 determination of whether the spouse is blind shall be made
11 as of the close of the taxable year of the taxpayer, except
12 that if the spouse dies during such taxable year, such
13 determination shall be made as of the time of such death.

14 (c) For purposes of this subsection (4), an individual
15 is blind only if his central visual acuity does not exceed
16 20/200 in the better eye with correcting lenses or if his
17 visual acuity is greater than 20/200 but is accompanied by a
18 limitation in the fields of vision such that the widest
19 diameter of the visual field subtends an angle no greater
20 than 20 degrees.

21 (5) (a) An exemption of \$800 shall be allowed for
22 taxable years beginning after December 31, 1978, for each
23 dependent:

24 (i) whose gross income for the calendar year in which
25 the taxable year of the taxpayer begins is less than \$800;

1 or

2 (ii) who is a child of the taxpayer and who:

3 (A) has not attained the age of 19 years at the close

4 of the calendar year in which the taxable year of the

5 taxpayer begins; or

6 (B) is a student.

7 (b) No exemption shall be allowed under this

8 subsection for any dependent who has made a joint return

9 with his spouse for the taxable year beginning in the

10 calendar year in which the taxable year of the taxpayer

11 begins.

12 (c) For purposes of subsection (5)(a)(ii), the term

13 "child" means an individual who is a son, stepson, daughter,

14 or stepdaughter of the taxpayer.

15 (d) For purposes of subsection (5)(a)(ii)(B), the term

16 "student" means an individual who, during each of 5 calendar

17 months during the calendar year in which the taxable year of

18 the taxpayer begins:

19 (i) is a full-time student at an educational

20 institution; or

21 (ii) is pursuing a full-time course of institutional

22 on-farm training under the supervision of an accredited

23 agent of an educational institution or of a state or

24 political subdivision of a state. For purposes of this

25 subsection (5)(d)(ii), the term "educational institution"

1 means only an educational institution which normally

2 maintains a regular faculty and curriculum and normally has

3 a regularly organized body of students in attendance at the

4 place where its educational activities are carried on.

5 (6) In the case of a nonresident taxpayer, the

6 exemption deduction shall be prorated according to the ratio

7 the taxpayer's Montana adjusted gross income bears to his

8 federal adjusted gross income.

9 (7) For taxable years beginning after December 31,

10 1978, and before January 1, 1981, the amount allowed as a

11 deduction in subsections (2) through (6) shall be adjusted

12 as provided under section 9, Chapter 698, Laws of 1979.

13 ~~(9) For taxable years beginning after December 31,~~

14 ~~1980, the department, by November 1 of each year, shall~~

15 ~~multiply all the exemptions provided in this section by the~~

16 ~~inflation COMBINED ADJUSTMENT factor for that taxable year~~

17 ~~and round the product to the nearest \$10. The resulting~~

18 ~~adjusted exemptions are effective for that taxable year and~~

19 ~~shall be used in calculating the tax imposed in 15-30-103."~~

20 Section 4. Section 4 of Initiative 86 is amended to

21 read:

22 "Section 4. Section 15-30-122, MCA, is amended to

23 read:

24 "15-30-122. Standard deduction. (1) In the case of a

25 resident individual, a standard deduction equal to 15% of

1 adjusted gross income shall be allowed if elected by the
 2 taxpayer on his return. The standard deduction shall be in
 3 lieu of all deductions allowed under 15-30-121. The maximum
 4 standard deduction shall be \$1,000, as adjusted under the
 5 provisions of subsection (2), except in the case of a single
 6 joint return of husband and wife the maximum standard
 7 deduction shall be \$2,000, as adjusted under the provisions
 8 of subsection (2). The standard deduction shall not be
 9 allowed to either the husband or the wife if the tax of one
 10 of the spouses is determined without regard to the standard
 11 deduction. For purposes of this section, the determination
 12 of whether an individual is married shall be made as of the
 13 last day of the taxable year; provided, however, if one of
 14 the spouses dies during the taxable year, the determination
 15 shall be made as of the date of death.

16 (2) By November 1 of each year, the department shall
 17 multiply the maximum standard deduction for single returns
 18 and joint returns by the inflation COMBINED ADJUSTMENT
 19 factor for that taxable year and round the product to the
 20 nearest \$10. The resulting adjusted deductions are effective
 21 for that taxable year and shall be used in calculating the
 22 tax imposed in 15-30-103."

23 Section 5. Section 5 of Initiative 86 is amended to
 24 read:

25 "Section 5. Section 15-30-142, MCA, is amended to

1 read:

2 "15-30-142. Returns and payment of tax -- penalty and
 3 interest -- refunds -- credits. (1) ~~Every single individual~~
 4 ~~and every married individual not filing a joint return with~~
 5 ~~his or her spouse and having a gross income for the taxable~~
 6 ~~year of more than \$946, as adjusted under the provisions of~~
 7 ~~subsection (1) and married individuals not filing separate~~
 8 ~~returns and having a combined gross income for the taxable~~
 9 ~~year of more than \$1,880, as adjusted under the provisions~~
 10 ~~of subsection (1) shall be liable for a return to be filed~~
 11 ~~on such forms and according to such rules as the department~~
 12 ~~may prescribe. The gross income amounts referred to in the~~
 13 ~~preceding sentence shall be increased by \$800, as adjusted~~
 14 ~~under the provisions of 15-30-112(1) and (1) for each~~
 15 ~~additional personal exemption allowance the taxpayer is~~
 16 ~~entitled to claim for himself and his spouse under~~
 17 ~~15-30-112(3) and (4). RESIDENT TAXPAYERS HAVING AN ADJUSTED~~
 18 ~~GROSS INCOME IN EXCESS OF THE SUM OF PERMISSIBLE PERSONAL~~
 19 ~~EXEMPTIONS AND DEDUCTIONS UNDER 15-30-112, 15-30-122, AND~~
 20 ~~15-30-132 ARE REQUIRED TO FILE A TAX RETURN UPON FORMS AND~~
 21 ~~IN THE MANNER PRESCRIBED BY THE DEPARTMENT. A nonresident~~
 22 ~~shall be required to file a return if his gross income for~~
 23 ~~the taxable year derived from sources within Montana exceeds~~
 24 ~~the amount of the exemption deduction he is entitled to~~
 25 ~~claim for himself and his spouse under the provisions of~~

1 15-30-112(2), (3), and (4), as prorated according to
2 15-30-112(6).

3 (2) In accordance with instructions set forth by the
4 department, every taxpayer who is married and living with
5 husband or wife and is required to file a return may, at his
6 or her option, file a joint return with husband or wife even
7 though one of the spouses has neither gross income nor
8 deductions. If a joint return is made, the tax shall be
9 computed on the aggregate taxable income and the liability
10 with respect to the tax shall be joint and several. If a
11 joint return has been filed for a taxable year, the spouses
12 may not file separate returns after the time for filing the
13 return of either has expired unless the department so
14 consents.

15 (3) If any such taxpayer is unable to make his own
16 return, the return shall be made by a duly authorized agent
17 or by a guardian or other person charged with the care of
18 the person or property of such taxpayer.

19 (4) All taxpayers, including but not limited to those
20 subject to the provisions of 15-30-202 and 15-30-241, shall
21 compute the amount of income tax payable and shall, at the
22 time of filing the return required by this chapter, pay to
23 the department any balance of income tax remaining unpaid
24 after crediting the amount withheld as provided by 15-30-202
25 and/or any payment made by reason of an estimated tax return

1 provided for in 15-30-241; provided, however, the tax so
2 computed is greater by \$1 than the amount withheld and/or
3 paid by estimated return as provided in this chapter. If the
4 amount of tax withheld and/or payment of estimated tax
5 exceeds by more than \$1 the amount of income tax as
6 computed, the taxpayer shall be entitled to a refund of the
7 excess.

8 (5) As soon as practicable after the return is filed,
9 the department shall examine and verify the tax.

10 (6) If the amount of tax as verified is greater than
11 the amount theretofore paid, the excess shall be paid by the
12 taxpayer to the department within 30 days after notice of
13 the amount of the tax as computed, with interest added at
14 the rate of 9% per annum or fraction thereof on the
15 additional tax. In such case there shall be no penalty
16 because of such understatement, provided the deficiency is
17 paid within 30 days after the first notice of the amount is
18 mailed to the taxpayer.

19 ~~(7) By November 1 of each year, the department shall~~
20 ~~multiply DETERMINE the minimum amount AMOUNTS of ADJUSTED~~
21 ~~gross income necessitating the filing of a return by--the~~
22 ~~inflation--factor for the taxable year. These adjusted~~
23 ~~amounts are effective for that taxable year, and persons~~
24 ~~having gross incomes less than these adjusted amounts are~~
25 ~~not required to file a return."~~

1 Section 6. Section 6 of Initiative 86 is amended to
2 read:

3 ~~"NEW SECTION. Section 6. Adjusted-base-year-structure~~
4 ~~to-appear-on-tax-forms---Individual-income-tax-forms~~
5 ~~distributed-by-the-department-for-each-taxable-year--must~~
6 ~~contain-instructions--and-tables-based-on-the-adjusted-base~~
7 ~~year-structure--for--that--taxable--years. DETERMINATION OF~~
8 ~~BUDGET SURPLUS ADJUSTMENT FACTOR. (1) THE BUDGET SURPLUS~~
9 ~~ADJUSTMENT FACTOR FOR A TAXABLE YEAR BEGINNING IN YEAR Y~~
10 ~~MEANS THE SMALLER OF THE FOLLOWING:~~

11 ~~1.25; OR~~

12 ~~1 + .01 (N)~~

13 ~~WHERE "N" REPRESENTS THE MULTIPLIER OF \$1.2 MILLION THAT~~
14 ~~PRODUCES A NUMBER EQUAL TO THE DIFFERENCE OF THE GENERAL~~
15 ~~FUND BUDGET SURPLUS ON JUNE 30 OF YEAR Y FROM THE TARGET~~
16 ~~GENERAL FUND BUDGET SURPLUS ON JUNE 30 OF YEAR Y AS~~
17 ~~ESTABLISHED IN SUBSECTION (2).~~

18 ~~(2) THE TARGET SURPLUS FOR 1981 IS \$ _____; THE~~
19 ~~TARGET SURPLUS FOR 1982 IS \$ _____.~~

20 ~~(3) IF THE ACTUAL BUDGET SURPLUS EXCEEDS THE TARGET~~
21 ~~SURPLUS, "N" IS POSITIVE. IF THE ACTUAL BUDGET SURPLUS IS~~
22 ~~LESS THAN THE TARGET SURPLUS, "N" IS NEGATIVE.~~

23 ~~NEW SECTION. Section 7. Determination of inflation~~
24 ~~adjustment factor. (1) As used in this section "PCE" means~~
25 ~~the implicit price deflator for personal consumption~~

1 expenditures published quarterly in the Survey of Current
2 Business by the bureau of economic analysis of the United
3 States department of commerce.

4 (2) For a taxable year beginning in calendar year Y,
5 the inflation adjustment factor is the ratio of the PCE for
6 the second quarter of year Y to the PCE for the second
7 quarter of 1980, using the most recent published values of
8 the PCE at the time of computation. The inflation adjustment
9 factor for a taxable year beginning in calendar year Y is to
10 be computed as of November 1 of year Y.

11 ~~NEW SECTION. Section 8. Determination of combined~~
12 ~~adjustment factor. The combined adjustment factor means the~~
13 ~~greater of the following:~~

14 (1) 1; or

15 (2) the inflation adjustment factor times the budget
16 surplus adjustment factor.

17 Section 9. Applicability. This act applies to taxable
18 years beginning after December 31, 1980.

-End-

STATE OF MONTANA

REQUEST NO. 303-81

FISCAL NOTE

Form BD-15

In compliance with a written request received February 4, 1981, there is hereby submitted a Fiscal Note for HOUSE BILL 614 pursuant to Title 5, Chapter 4, Part 2 of the Montana Code Annotated (MCA).

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

An act to amend Initiative 86, concerning income tax indexing, to provide for indexing based on inflation using the implicit price deflator for personal consumption expenditures in place of the consumer price index, and general fund surplus.

ASSUMPTIONS

1. The current law estimate of individual income tax collections is based on a base personal exemption allowance of \$800 and the following values of the Consumer Price Index:

<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
247.6	272.4	298.2	325.1

2. Target General Fund Budget Surplus on June 30 of 1981 is \$46.2 million, and of 1982 is \$50.0 million.
3. Actual General Fund Budget Surplus on June 30 of 1981 is \$46.2 million, and of 1982 is \$64.1 million.
4. Implicit Price Deflators for Personal Consumption Expenditures in Gross National Product for second quarters of the indicated year are:

<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
178.6	194.6	211.2	228.1

5. If no target surplus is set, the surplus adjustment factor is assumed to be 1 for the purpose of computation.

Under these assumptions the following inflation adjustment factors were computed:

<u>Tax Year</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Inflation Adjustment Factor	1.0896	1.1825	1.27716

(continued)

Daniel M Lewis

BUDGET DIRECTOR

Office of Budget and Program Planning

Date: 2-11-81

STATE OF MONTANA

REQUEST NO. 303-81

FISCAL NOTE

Form BD-15

In compliance with a written request received February 4, 19 81, there is hereby submitted a Fiscal Note for HOUSE BILL 614 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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ASSUMPTIONS (continued)

The surplus adjustment factor will be:

<u>Tax Year</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Surplus Adjustment Factor	1	1.1175	1*

*Assumed for the sake of computation.

<u>Tax Year</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Combined Adjustment Factor	1.0896	1.3215	1.27716

Under Initiative 86, the inflation factors would be:

<u>Tax Year</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Inflation Factor	1.10016	1.20436	1.3130

The impact is calculated by comparing income tax collections under the system indexed by the inflation factor (Initiative 86) present law and the combined adjustment factor (this proposal).

6. Withholding policy does not attempt to compensate for General Fund Budget Surplus Adjustment.

FISCAL IMPACT

	<u>FY 82</u>	<u>FY 83</u>
Individual Income Tax Collections		
Under current law	\$161.556 M	\$167.993 M
Under proposed law	<u>162.652 M</u>	<u>156.828 M</u>
Estimated Increase/Decrease	\$ 1.096 M	(\$ 11.165 M)

FUND INFORMATION

General Fund		
Under current law	\$103.396 M	\$107.516 M
Under proposed law	<u>104.097 M</u>	<u>100.370 M</u>
Estimated Increase/Decrease	\$.701 M	(\$ 7.146 M)

BUDGET DIRECTOR

Office of Budget and Program Planning

Date: _____

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STATE OF MONTANA

REQUEST NO. 303-81

FISCAL NOTE

Form BD-15

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FISCAL IMPACT (continued)

	<u>FY 82</u>	<u>FY 83</u>
Earmarked Revenue Fund		
Under Current Law	\$ 40.389 M	\$ 41.998 M
Under Proposed Law	40.663 M	39.207 M
Estimated Decrease/Increase	\$.274 M	(\$ 2.791 M)
Sinking Fund *		
Under Current Law	\$ 17.771 M	\$ 18.479 M
Under Proposed Law	17.892 M	17.251 M
Estimated Decrease/Increase	\$.121	(\$ 1.228 M)

* A portion of this account may be transferred to the General Fund as Long-Range Bond Excess.

EFFECT ON LOCAL GOVERNMENT

Revenues to the indicated Earmarked Revenue Fund are used to fund the School Foundation Program. Therefore, any decrease in revenues to that accounts may necessitate additional support from other sources.

TECHNICAL NOTE

"cumulative" on line 10 for page 6 should be spelled "cumulative".

PREPARED BY THE DEPARTMENT OF REVENUE

BUDGET DIRECTOR
Office of Budget and Program Planning
Date: _____