

HOUSE BILL NO. 65

INTRODUCED BY FABREGA

BY REQUEST OF THE REVENUE OVERSIGHT COMMITTEE

IN THE HOUSE

January 3, 1983	Introduced and referred to Committee on Taxation
January 6, 1983	Committee recommend bill do pass. Report adopted.
January 7, 1983	Bill printed and placed on members' desks.
January 10, 1983	Second reading, do pass.
January 11, 1983	Considered correctly engrossed.
January 12, 1983	Third reading, passed. Transmitted to Senate.

IN THE SENATE

January 13, 1983	Introduced and referred to Committee on Taxation.
January 26, 1983	Committee recommend bill be concurred in. Report adopted.
January 28, 1983	Second reading, concurred in.
January 31, 1983	Third reading, concurred in. Ayes, 49; Noes, 0.

IN THE HOUSE

January 31, 1983	Returned to House.
February 1, 1983	Sent to enrolling. Reported correctly enrolled.

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5    A BILL FOR AN ACT ENTITLED: "AN ACT PERMITTING WAGES  
6    COVERED BY THE FEDERAL TARGETED JOBS CREDIT OR WORK  
7    INCENTIVE PROGRAM CREDIT AS DEDUCTIONS FOR MONTANA INCOME  
8    TAX; AMENDING SECTION 15-30-111, MCA; AND PROVIDING AN  
9    IMMEDIATE EFFECTIVE DATE AND AN APPLICABILITY DATE."  
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11   BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:  
12        Section 1. Section 15-30-111, MCA, is amended to read:  
13        "15-30-111. Adjusted gross income. (1) Adjusted gross  
14    income shall be the taxpayer's federal income tax adjusted  
15    gross income as defined in section 62 of the Internal  
16    Revenue Code of 1954 or as that section may be labeled or  
17    amended and in addition shall include the following:  
18        (a) interest received on obligations of another state  
19    or territory or county, municipality, district, or other  
20    political subdivision thereof;  
21        (b) refunds received of federal income tax, to the  
22    extent the deduction of such tax resulted in a reduction of  
23    Montana income tax liability.  
24        (2) Notwithstanding the provisions of the federal  
25    Internal Revenue Code of 1954 as labeled or amended,

1    adjusted gross income does not include the following which  
2    are exempt from taxation under this chapter:  
3        (a) all interest income from obligations of the United  
4    States government, the state of Montana, county,  
5    municipality, district, or other political subdivision  
6    thereof;  
7        (b) interest income earned by a taxpayer age 65 or  
8    older in a taxable year up to and including \$800 for a  
9    taxpayer filing a separate return and \$1,600 for each joint  
10    return;  
11        (c) all benefits received under the Federal Employees'  
12    Retirement Act not in excess of \$3,600;  
13        (d) all benefits, not in excess of \$360, received as  
14    an annuity, pension, or endowment under any private or  
15    corporate retirement plan or system;  
16        (e) all benefits paid under the teachers' retirement  
17    law which are specified as exempt from taxation by 19-4-706;  
18        (f) all benefits paid under The Public Employees'  
19    Retirement System Act which are specified as exempt from  
20    taxation by 19-3-105;  
21        (g) all benefits paid under the highway patrol  
22    retirement law which are specified as exempt from taxation  
23    by 19-6-705;  
24        (h) all Montana income tax refunds or credits thereof;  
25        (i) all benefits paid under 19-11-602, 19-11-604, and

1 19-11-605 to retired and disabled firefighters, their  
2 surviving spouses and orphans;

3 (j) all benefits paid by first- or second-class cities  
4 for the policemen's retirement system provided for by Title  
5 19, chapter 9;

6 (k) gain required to be recognized by a liquidating  
7 corporation under 15-31-113(1)(a)(ii).

8 (3) In the case of a shareholder of a corporation with  
9 respect to which the election provided for under subchapter  
10 S. of the Internal Revenue Code of 1954, as amended, is in  
11 effect but with respect to which the election provided for  
12 under 15-31-202, as amended, is not in effect, adjusted  
13 gross income does not include any part of the corporation's  
14 undistributed taxable income, net operating loss, capital  
15 gains or other gains, profits, or losses required to be  
16 included in the shareholder's federal income tax adjusted  
17 gross income by reason of the said election under subchapter  
18 S. However, the shareholder's adjusted gross income shall  
19 include actual distributions from the corporation to the  
20 extent they would be treated as taxable dividends if the  
21 subchapter S. election were not in effect.

22 (4) A shareholder of a DISC that is exempt from the  
23 corporation license tax under 15-31-102(1)(1) shall include  
24 in his adjusted gross income the earnings and profits of the  
25 DISC in the same manner as provided by federal law (section

1 995, Internal Revenue Code) for all periods for which the  
2 DISC election is effective.

3 (5) A taxpayer who, in determining federal adjusted  
4 gross income, has reduced his business deductions by an  
5 amount for wages and salaries for which a federal tax credit  
6 was elected under section 440 of the Internal Revenue Code  
7 of 1954 or as that section may be labeled or amended is  
8 allowed to deduct the amount of such wages and salaries paid  
9 regardless of the credit taken. The deduction must be made  
10 in the year the wages and salaries were used to compute the  
11 credit. In the case of a partnership or small business  
12 corporation, the deduction must be made to determine the  
13 amount of income or loss of the partnership or small  
14 business corporation."

15 NEW SECTION. Section 2. Effective date --  
16 applicability. This act is effective on passage and approval  
17 and applies to taxable years beginning after December 31,  
18 1982.

-End-

## STATE OF MONTANA

REQUEST NO. 047-83

## FISCAL NOTE

Form BD-15

In compliance with a written request received January 6, , 19 83 , there is hereby submitted a Fiscal Note for House Bill 65 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 OF PROPOSED LEGISLATION:

House Bill 65 permits wages covered by the Federal Targeted Jobs Credit or Work Incentive Program Credit as deductions for Montana income tax and provides an immediate effective date and an applicability date.

ASSUMPTIONS:

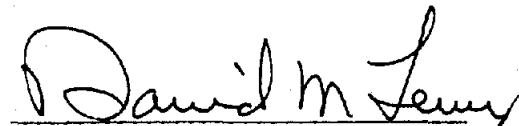
- 1) The 11,070 Montana taxpayers who took advantage of the federal jobs credit in 1979 claimed \$1,608,000 of credit. This was assumed to be 40 percent of qualifying wages.
- 2) Wages are assumed to have increased 10 percent annually.
- 3) The tax rate is 5 percent.
- 4) Returns not needing the additional deduction are not taken into account.

FISCAL IMPACT:

Since the federal government already allows this credit, some Montana taxpayers took the credit on their Montana returns. However, the federal jobs credit is not an allowable credit for Montana tax purposes. Exact numbers of those who did take the credit cannot be determined. Therefore, the figures below assume that no taxpayers previously used the credit.

	<u>1983</u>	<u>1984</u>	<u>1985</u>
Additional Deduction	6.121M	6.733M	7.405M
Individual Income Tax Collections			
Under Current Law	155.240M	167.908M	181.814M
Under Proposed Law	154.873M	167.504M	181.370M
Estimated Decrease	<u>(.367M)</u>	<u>(.404M)</u>	<u>(.444M)</u>

FISCAL NOTE2:C/1



BUDGET DIRECTOR

Office of Budget and Program Planning

Date: 1-10-83

Approved by Committee  
on Taxation

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19    or territory or county, municipality, district, or other  
20    political subdivision thereof;  
21        (b) refunds received of federal income tax, to the  
22    extent the deduction of such tax resulted in a reduction of  
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24        (2) Notwithstanding the provisions of the federal  
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7        (b) interest income earned by a taxpayer age 65 or  
8    older in a taxable year up to and including \$800 for a  
9    taxpayer filing a separate return and \$1,600 for each joint  
10    return;  
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14    an annuity, pension, or endowment under any private or  
15    corporate retirement plan or system;  
16        (e) all benefits paid under the teachers' retirement  
17    law which are specified as exempt from taxation by 19-4-706;  
18        (f) all benefits paid under The Public Employees'  
19    Retirement System Act which are specified as exempt from  
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1 19-11-605 to retired and disabled firefighters, their  
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24 in his adjusted gross income the earnings and profits of the  
25 DISC in the same manner as provided by federal law (section

1 995, Internal Revenue Code) for all periods for which the  
2 DISC election is effective.

3 (5) A taxpayer who, in determining federal adjusted  
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6 was elected under section 448 of the Internal Revenue Code  
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THIRD READING

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