

HOUSE BILL NO. 518

1/28 Introduced
1/28 Referred to Taxation
1/29 Fiscal Note Requested
2/05 Fiscal Note Received
2/07 Hearing
2/07 Committee Report-Bill Do Pass
2/08 2nd Reading Pass
2/11 3rd Reading Pass

Transmitted to Senate

2/12 Referred to Taxation
3/20 Hearing
4/05 Tabled in Committee

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INTRODUCED BY HOUSE BILL NO. 518
Daniel Carl Richard Luther
Narcko Bucken-McCarroll Williams & Odell

A BILL FOR AN ACT ENTITLED: "AN ACT TO EXCLUDE FROM INCOME TAX THE AMOUNT RECEIVED AS WORKERS' COMPENSATION BENEFITS AND THE AMOUNT PAID FOR HEALTH INSURANCE PREMIUMS BY AN EMPLOYER FOR AN EMPLOYEE IF ATTRIBUTED AS INCOME TO THE EMPLOYEE UNDER FEDERAL LAW; AMENDING SECTION 15-30-111, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE AND AN APPLICABILITY DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:
Section 1. Section 15-30-111, MCA, is amended to read:
"15-30-111. Adjusted gross income. (1) Adjusted gross income shall be the taxpayer's federal income tax adjusted gross income as defined in section 62 of the Internal Revenue Code of 1954 or as that section may be labeled or amended and in addition shall include the following:
(a) interest received on obligations of another state or territory or county, municipality, district, or other political subdivision thereof;
(b) refunds received of federal income tax, to the extent the deduction of such tax resulted in a reduction of Montana income tax liability.
(2) Notwithstanding the provisions of the federal

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Internal Revenue Code of 1954 as labeled or amended, adjusted gross income does not include the following which are exempt from taxation under this chapter:
(a) all interest income from obligations of the United States government, the state of Montana, county, municipality, district, or other political subdivision thereof;
(b) interest income earned by a taxpayer age 65 or older in a taxable year up to and including \$800 for a taxpayer filing a separate return and \$1,600 for each joint return;
(c) all benefits received under the Federal Employees' Retirement Act not in excess of \$3,600;
(d) all benefits, not in excess of \$360, received as an annuity, pension, or endowment under any private or corporate retirement plan or system;
(e) all benefits paid under the teachers' retirement law which are specified as exempt from taxation by 19-4-706;
(f) all benefits paid under The Public Employees' Retirement System Act which are specified as exempt from taxation by 19-3-105;
(g) all benefits paid under the highway patrol retirement law which are specified as exempt from taxation by 19-6-705;
(h) all Montana income tax refunds or credits thereof;



-2- INTRODUCED BILL
HB 518

1 (i) all benefits paid under 19-11-602, 19-11-604, and
2 19-11-605 to retired and disabled firefighters, their
3 surviving spouses and orphans;

4 (j) all benefits paid by first- or second-class cities
5 for the policemen's retirement system provided for by Title
6 19, chapter 9;

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

9 (l) all tips covered by section 3402(k) of the
10 Internal Revenue Code of 1954, as amended and applicable on
11 January 1, 1983, received by persons for services rendered
12 by them to patrons of premises licensed to provide food,
13 beverage, or lodging;

14 (m) all benefits received under the workers'
15 compensation laws;

16 (n) all health insurance premiums paid by an employer
17 for an employee if attributed as income to the employee
18 under federal law.

19 (3) In the case of a shareholder of a corporation with
20 respect to which the election provided for under subchapter
21 S. of the Internal Revenue Code of 1954, as amended, is in
22 effect but with respect to which the election provided for
23 under 15-31-202, as amended, is not in effect, adjusted
24 gross income does not include any part of the corporation's
25 undistributed taxable income, net operating loss, capital

1 gains or other gains, profits, or losses required to be
2 included in the shareholder's federal income tax adjusted
3 gross income by reason of the said election under subchapter
4 S. However, the shareholder's adjusted gross income shall
5 include actual distributions from the corporation to the
6 extent they would be treated as taxable dividends if the
7 subchapter S. election were not in effect.

8 (4) A shareholder of a DISC that is exempt from the
9 corporation license tax under 15-31-102(1)(1) shall include
10 in his adjusted gross income the earnings and profits of the
11 DISC in the same manner as provided by federal law (section
12 995, Internal Revenue Code) for all periods for which the
13 DISC election is effective.

14 (5) A taxpayer who, in determining federal adjusted
15 gross income, has reduced his business deductions by an
16 amount for wages and salaries for which a federal tax credit
17 was elected under section 44B of the Internal Revenue Code
18 of 1954 or as that section may be labeled or amended is
19 allowed to deduct the amount of such wages and salaries paid
20 regardless of the credit taken. The deduction must be made
21 in the year the wages and salaries were used to compute the
22 credit. In the case of a partnership or small business
23 corporation, the deduction must be made to determine the
24 amount of income or loss of the partnership or small
25 business corporation."

1 NEW SECTION. Section 2. Extension of authority. Any
2 existing authority of the department of revenue to make
3 rules on the subject of the provisions of this act is
4 extended to the provisions of this act.

5 NEW SECTION. Section 3. Effective date --
6 applicability. This act is effective on passage and approval
7 and is applicable to taxable years beginning after December
8 31, 1984.

-End-

STATE OF MONTANA
FISCAL NOTE

REQUEST NO. FNN 269-85

Form BD-15

In compliance with a written request received January 30, 19 85, there is hereby submitted a Fiscal Note for H.B. 518 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.

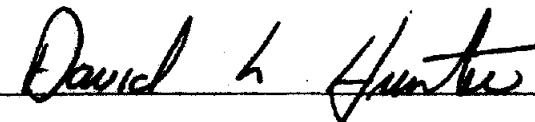
DESCRIPTION OF PROPOSED LEGISLATION:

An act to exclude from income tax the amount received as workers' compensation benefits and the amount paid for health insurance premiums by an employer for an employee if attributed as income to the employee under federal law.

EFFECTS OF PROPOSED LEGISLATION:

The proposed legislation would explicitly exclude from Montana adjusted gross income worker's compensation benefits and health insurance premiums paid by an employer for an employee if attributed as income to the employee under federal law. These items are currently excluded from Montana adjusted gross income only because they are excluded from federal adjusted gross income. Consequently, under existing federal and state law the proposed legislation has zero effect on individual income tax revenues.

However, the U. S. Treasury Department proposal for tax reform recommends including these items in adjusted gross income. If these proposals were to be implemented the effect of the proposed legislation in HB 518 would be to maintain the exemption for these items regardless of federal statutes, thereby foregoing the additional revenue that otherwise would accrue if the Treasury Department proposals were implemented.



BUDGET DIRECTOR
Office of Budget and Program Planning

Date: Feb 4, 1985

APPROVED BY COMMITTEE
ON TAXATION

1 HOUSE BILL NO. 518
2 INTRODUCED BY *Daniel Carlovich Lukan*
3 *Nariko Bucher-McLain Williams Olanoff*

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5 TAX THE AMOUNT RECEIVED AS WORKERS' COMPENSATION BENEFITS
6 AND THE AMOUNT PAID FOR HEALTH INSURANCE PREMIUMS BY AN
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20 or territory or county, municipality, district, or other
21 political subdivision thereof;

22 (b) refunds received of federal income tax, to the
23 extent the deduction of such tax resulted in a reduction of
24 Montana income tax liability.

25 (2) Notwithstanding the provisions of the federal

1 Internal Revenue Code of 1954 as labeled or amended,
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3 are exempt from taxation under this chapter:

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5 States government, the state of Montana, county,
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 3 *Nanko Bachin McBride Williams O'Brien*

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