

HB 156 INTRODUCED BY SALES
CONSTITUTIONAL AMENDMENT PROHIBITING STATEWIDE
PROPERTY TAX AND REQUIRING GENERAL SALES TAX

1/12 INTRODUCED
1/13 REFERRED TO TAXATION
1/13 FISCAL NOTE REQUESTED
1/21 FISCAL NOTE RECEIVED
2/05 HEARING
3/06 TABLED IN COMMITTEE

1 H.B. BILL NO. 156
 2 INTRODUCED BY SALES
 3

4 A BILL FOR AN ACT ENTITLED: "AN ACT AMENDING ARTICLE VIII
 5 OF THE CONSTITUTION OF THE STATE OF MONTANA BY REPEALING
 6 SECTIONS 3 AND 4, WHICH PROVIDE FOR STATEWIDE PROPERTY TAX
 7 APPRAISAL, ASSESSMENT, AND EQUALIZATION, AND BY REPLACING
 8 THOSE PROVISIONS WITH A PROHIBITION AGAINST STATE-IMPOSED
 9 TAXES ON REAL OR PERSONAL PROPERTY, BY ALLOWING A LOCAL
 10 GOVERNMENT OPTION TO TAX REAL AND PERSONAL PROPERTY, AND BY
 11 REQUIRING THE STATE TO IMPOSE A GENERAL SALES TAX OF UP TO 5
 12 PERCENT TO RECOVER REVENUE LOSSES FROM THE PROHIBITION
 13 AGAINST STATE-IMPOSED PROPERTY TAXES; PROVIDING THAT THE ACT
 14 BE SUBMITTED TO THE ELECTORS OF THE STATE OF MONTANA; AND
 15 PROVIDING A CONTINGENT EFFECTIVE DATE."
 16

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

18 Section 1. Repealer. Article VIII, sections 3 and 4,
 19 of The Constitution of the State of Montana, are repealed.

20 Section 2. Article VIII of The Constitution of the
 21 State of Montana is amended by adding a new section 15 to
 22 read:

23 Section 15. State prohibited from levying property tax
 24 -- local option. The legislature is prohibited from imposing
 25 a tax on the value of real or personal property. A local

1 government unit may, at its option, impose a tax on real and
 2 personal property to defray the expenses of the local
 3 government unit.

4 Section 3. Article VIII of The Constitution of the
 5 State of Montana is amended by adding a new section 16 to
 6 read:

7 Section 16. Sales tax. The state shall levy a general
 8 sales tax of up to 5% to recover revenue losses because of
 9 the provisions of section 15.

10 Section 4. Effective date. If approved by the
 11 electorate, the amendments and repealers set forth in
 12 sections 1 through 3 are effective July 1, 1989.

13 Section 5. Submission to electorate. The amendments
 14 and repealers set forth in sections 1 through 3 shall be
 15 submitted to the electors of the state of Montana at the
 16 general election to be held November 8, 1988, by printing on
 17 the ballot the full title of this act and the following:

18 FOR prohibiting state-imposed property taxes,
 19 allowing local governments to impose property taxes,
 20 and requiring a state sales tax to recover revenue
 21 losses.

22 AGAINST prohibiting state-imposed property taxes,
 23 allowing local governments to impose property taxes,
 24 and requiring a state sales tax to recover revenue
 25 losses.

-End-
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INTRODUCED BILL
 HB-156

STATE OF MONTANA - FISCAL NOTE

Form BD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for HB156, as introduced.

DESCRIPTION OF PROPOSED LEGISLATION:

An Act amending Article VIII of the Constitution of the State of Montana by repealing sections 3 and 4, which provide for statewide property tax appraisal, assessment, and equalization, and by replacing those provisions with a prohibition against state-imposed taxes on real and personal property, by allowing a local government option to tax real and personal property, and by requiring the state to impose a general sales tax of up to 5 percent to recover the revenue losses from the prohibition against state-imposed property taxes; providing that the Act be submitted to the electors of the State of Montana; and providing a contingent effective date.

ASSUMPTIONS:

1. If approved by the people, the act proposed in this bill would become effective July 1, 1989 (in accordance with 13-27-105 MCA).
2. The revenue needs of local taxing jurisdictions will be at least as great as under current law, hence all local government units will continue to levy taxes on real and personal property. Since the proposal provides no alternative funding for local governments, it is assumed that these taxing jurisdictions do not reduce their property tax levies.
4. General fund expenditures for property assessment at the state level will be \$10,422,376 in FY90 (FY89 Executive Budget). No significant savings will result from the return of net and gross proceeds taxes to the counties, since these taxes are administered as part of the natural resource tax program. These resources would be shifted to other resource tax audits.
5. Local governments are assumed not to significantly increase staffing expenditures for property tax administration, resulting in a significant reduction of the property tax base in the long run and a shift of the tax burden to properties properly assessed. In particular, it is assumed that it will not be practical for local governments to assess property that is now centrally assessed: railroads, utilities, airlines and mineral proceeds. Property values would decline for these classes, and the tax burden would shift to property commonly assessed at the local level.
6. Legal responsibilities for defending property assessments of locally assessed properties will rest with the county where the property is located since local officials set the assessments. This litigation is assumed to be handled by county attorneys and may require staffing changes that are not included in the local cost estimates.
7. A statewide sales tax will be enacted to replace revenues lost from the repeal of the school foundation program levy, the university levy and the livestock levy. The tax rate necessary to replace the revenue from these levies would be set after the sales tax exemptions are determined.

David L. Hunter DATE 1/21/89
DAVID L. HUNTER, BUDGET DIRECTOR
Office of Budget and Program Planning

Walter Sales DATE 1/22/89
WALTER SALES, PRIMARY SPONSOR
Fiscal Note for HB156, as introduced.

HB-156

8. The general fund expenditures required for the administration of a statewide sales tax are as follows:

<u>Expenditure Item</u>	<u>Year Prior to Implementation</u>	<u>FY90</u>
Personal Services	\$ 193,564	\$ 2,374,088
Operating Expenses:		
Contract Services	176,120	433,500
Supplies	9,583	47,340
Communication	40,842	79,184
Rent	2,920	44,416
Travel	0	66,948
<u>Repair and Maintenance</u>	<u>4,608</u>	<u>19,532</u>
Subtotal	234,073	690,920
<u>Equipment</u>	<u>235,892</u>	<u>629,800</u>
Total	\$ 663,529	\$ 3,694,808

9. Counties will be required to increase property tax levies to pay for the cost of administering county level property tax as follows:

<u>Expenditure Item</u>	<u>FY90</u>
Current Property Tax Costs	\$ 10,422,376
Less: Administrative Overhead	(204,549)
<u>Area Managers (w/ benefits)</u>	<u>(328,606)</u>
Subtotal	\$ 9,889,221
Additional Costs:	
Automobiles 110 @ \$7,000 each	\$ 770,000
Appraisal Manuals 28 @ \$1300 each	\$ 36,400
Total Additional Local Cost	\$ 10,695,621

Cost Summary per Assumptions:

	<u>Current Law</u>	FY90 and Beyond <u>Proposed Law</u>	<u>Difference</u>
<u>State Costs:</u>			
Property Tax Program:			
Administrative Overhead	\$ 204,549	\$ 0	(\$ 204,549)
Area Managers	328,606	0	(328,606)
Inter-County Property	349,800	0	(349,800)
Other Division Costs	<u>9,539,421</u>	<u>0</u>	<u>(9,539,421)</u>
Subtotal - Existing	\$ 10,422,376	\$ 0	(\$ 10,422,376)
Sales Tax Program*:			
Personal Services	\$ 0	\$ 2,374,088	\$ 2,374,088
Operating Expenses	0	690,920	690,920
Equipment	0	<u>629,800</u>	<u>629,800</u>
Subtotal -- Sales Tax	\$ 0	\$ 3,694,808	\$ 3,694,808
 Total State Costs	 \$ 10,422,376	 \$ 3,694,808	 (\$ 6,727,568)
<u>Local Costs:</u>			
Existing Program:			
Current Total Costs	\$ 0	\$ 10,422,376	\$ 10,422,376
Area Managers	\$ 0	(\$ 328,606)	(\$ 328,606)
Operating Costs	\$ 0	\$ 806,400	\$ 806,400
Administrative Overhead	<u>\$ 0</u>	<u>(\$ 204,549)</u>	<u>(\$ 204,549)</u>
Total Local Cost	\$ 0	\$ 10,695,621	\$ 10,695,621
 Total Cost of Proposal	 \$ 10,422,376	 \$ 14,390,429	 \$ 3,968,053

* The sales tax proposal would cost \$663,529 in the year prior to implementation, in addition to the costs listed.

LONG RANGE EFFECTS OF PROPOSED LEGISLATION:

Fiscal Impact:

Revenue Impact:

The proposal calls for the replacement of revenue from the university, school foundation, and livestock levies with sales tax revenue. Therefore, any effect on the revenue to these funds would involve a legislative decision to either increase or reduce spending in these areas.

Expenditure Impact:

	<u>FY90 and Beyond</u>		
	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>
Property/Sales Tax Program	\$ 10,422,376	\$ 3,694,808	(\$ 6,727,568)

Fund Information:

The expenditure impact table provides estimates of the potential savings to the state general fund.

LONG-RANGE EFFECT ON LOCAL REVENUE AND EXPENDITURES:

The proposal would shift the cost of the property tax to local governments. Under the assumptions stated above, the cost to local governments of property assessment and appraisal would increase by \$10,695,621 in FY90 and \$9,925,621 in the following years (\$10,695,621 less \$770,000 in equipment costs). These additional costs would require a like increase in property taxes levied, assuming there is no offsetting decrease in other areas of local expenditures.

The reductions in the local tax base expected due to the proposal would result in a shift in the local property tax burden to properties that are properly assessed.