HB 841 INTRODUCED BY HARPER, ET AL.
PROVIDING RESIDENTIAL PROPERTY TAX REPLACEMENT WITH INCOME TAX

2/20	INTRODUCED
2/20	REFERRED TO TAXATION
2/20	FISCAL NOTE REQUESTED
3/02	FISCAL NOTE RECEIVED
3/19	HEARING
3/19	TABLED IN COMMITTEE

House BILL NO. 841

INTRODUCED BY Harper Van Valkenburg

A BILL FOR AN ACT ENTITLED: "AN ACT PROVIDING FOR A REPLACEMENT TAX FOR THE PROPERTY TAX NOW LEVIED ON HABITABLE PROPERTY AND PROVIDING A METHOD FOR ADMINISTERING THE TAX; AMENDING SECTIONS 15-6-134, 15-16-611, AND 15-30-121, MCA; REPEALING SECTION 15-6-142, MCA; AND PROVIDING AN APPLICABILITY DATE."

WHEREAS, the electors of Montana approved Initiative No. 105, limiting certain property taxes to 1986 levels unless the Legislature reduces property taxes prior to July 1, 1987, and establishes alternative revenue sources; and

WHEREAS, it is the intent of the Legislature to enact provisions compatible with the will of the electors in limiting certain property taxes, recognizing that the greatest concern of the electors focused on taxation of habitable property and the relative burden on the elderly, the sick, and the poor; and

WHEREAS, Initiative No. 105 does not address several important issues pertaining to implementation of a property tax freeze; and

WHEREAS, it is the intent of the Legislature to enact provisions compatible with the spirit and intent of

Initiative No. 105 in a manner that will facilitate needed property tax relief while maintaining the fiscal integrity of necessary local government services.

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

Section 1. Section 1, Initiative No. 105, approved November 4, 1986, is amended to read:

"Section 1: Declaration of policy. (1) The State of Montana's reliance on the taxation of property to support education and local government has placed an unreasonable burden on the owners and occupants of habitable property in classes ~~three,~~ four~~,--six,--nine,--twelve,~~ and fourteen ~~property~~, as those classes are defined in Title 15, ch. 6, part 1.

(2) The legislature's failure to give local governments and local school districts the flexibility to develop alternative sources of revenue will only lead to increases in the tax burden on the already overburdened property taxpayer.

(3) The legislature is the appropriate forum to make the difficult and complex decisions to develop:

(a) a tax system that is fair to property taxpayers; and

(b) a method of providing adequate funding for local government and education.

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(4) The legislature has failed in its responsibility to taxpayers, education, and local government, to relieve the tax burden on habitable property in classes ~~three,~~ four~~,~~ ~~six, nine, twelve,~~ and fourteen.

(5) The people of the State of Montana declare it is the policy of the State of Montana that no further property tax increases be imposed on habitable property in classes ~~three,~~ four~~, six, nine, twelve,~~ and fourteen."

Section 2. Section 2, Initiative No. 105, approved November 4, 1986, is amended to read:

"Section 2: Property tax limited to 1986 levels. (1) Except as provided in subsections (2) and (3), the amount of taxes levied on habitable property described in ~~15-6-133,~~ 15-6-134~~, 15-6-136, 15-6-139, 15-6-142,~~ and 15-6-144 may not, for any taxing jurisdiction, exceed the amount levied for taxable year 1986.

(2) the limitation contained in subsection (1) does not apply to levies for rural improvement districts, Title 7, ch. 12, part 21; special improvement districts, Title 7, ch. 12, part 41; or bonded indebtedness.

(3) New construction or improvements to or deletions from property described in subsection (1) is subject to taxation at 1986 levels.

(4) As used in this section, the "amount of taxes levied" and the "amount levied" mean the actual dollar

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amount of taxes imposed on an individual piece of property, notwithstanding an increase or decrease in value due to inflation, reappraisal, adjustments in the percentage multiplier used to convert appraised value to taxable value, changes in the number of mills levied, or increase or decrease in the value of a mill."

Section 3. Section 3, Initiative No. 105, approved November 4, 1986, is amended to read:

"Section 3: Contingent effective date. (1) Except as provided in subsection (2), this act is effective July 1, 1987, and applies to taxable year 1987.

(2) This act will not become effective if, prior to July 1, 1987, an act is passed and approved that:

(a) states that it is being enacted in response to this initiative;

(b) reduces property tax on a statewide basis on habitable property described in ~~15-6-133,~~ 15-6-134~~, 15-6-136, 15-6-139, 15-6-142,~~ and 15-6-144; and

(c) establishes alternative revenue sources to replace revenue lost to local governments, school districts, the university system, and other property taxing jurisdictions as a result of the reduced property taxes."

NEW SECTION. Section 4. Purpose. (1) It is the purpose of the legislature to base the taxation of housing for the support of local government on people's ability to pay. Since all people use housing, all who are able to do so will pay taxes to support local government.

(2) The legislature hereby provides a new method of assessing and collecting most taxes now levied on housing. The replacement tax is based on the total adjusted gross income of all residents within each taxing jurisdiction. Like property taxes, the replacement tax will vary from place to place and year to year. However, unlike property taxes, the replacement tax will never force old, poor, and sick people to sell their homes because of high tax bills; nor will those who improve their homes be penalized by higher taxes.

NEW SECTION. Section 5. Definitions. For purposes of [sections 4 through 20], the following definitions apply:

(1) "Adjusted gross income" means income as defined in 15-30-111.

(2) "Department" means the department of revenue.

(3) "Employee" means employee as defined in 15-30-201.

(4) "Employer" means employer as defined in 15-30-201.

(5) "Governmental unit" means school districts, incorporated cities and towns, counties, and the state.

(6) (a) "Habitable property" means:

(i) all buildings, including single-family dwellings, condominiums, apartments, rest homes, cabins, and mobile homes, intended for permanent human habitation; and

(ii) buildings such as garages or storage sheds normally associated with residences.

(b) "Habitable property" does not include:

(i) mobile homes, motor homes, trailers, campers, or other personal property held as stock-in-trade by a distributor or dealer or used for recreational purposes;

(ii) land; or

(iii) hotels, motels, or other property occupied principally by nonresidents, tourists, or other transients.

(7) "Resident" means resident as defined in 15-30-101.

(8) (a) "Special taxing district" means any district established pursuant to state law that is:

(i) established by a unit of local government to provide a specific service or capital improvement; or

(ii) established by an order of a district court or a department of state government with the authority to establish a budget and levy mills to provide a specific service or capital improvement.

(b) School districts are not special taxing districts.

(9) "Wages" means wages as defined in 15-30-201.

NEW SECTION. Section 6. Duties of department. The department shall:

(1) establish a central computer system to keep records necessary to administer the replacement tax;

(2) keep records showing the adjusted gross income of

each taxpayer for each governmental unit in which the taxpayer is a resident;

(3) establish and maintain a list of all habitable property in the state;

(4) continue to assess and keep records of the value of all habitable property;

(5) determine questions of residency and other issues arising from the administration of the replacement tax;

(6) revise state income tax forms or prepare additional forms as necessary to secure information necessary to administer the replacement tax;

(7) audit replacement tax returns as necessary;

(8) keep taxpayers' replacement tax records confidential, under the procedures established in 15-30-303;

(9) provide forms and instructions to local officials as necessary;

(10) perform other duties as specifically provided in [sections 4 through 20]; and

(11) adopt any rules necessary for administering the replacement tax.

NEW SECTION. Section 7. Replacement tax imposed -- variable rates. (1) In addition to the tax imposed in 15-30-103, a replacement tax is imposed on the adjusted gross income of all resident taxpayers of the state.

(2) The rate of tax may vary from year to year and in

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each governmental unit. The tax rate in any governmental unit in a taxable year is 10% of the total mill levy imposed in that governmental unit that year. The total mill levy is the sum of all the levies imposed on property within a governmental unit.

(3) The tax rate for each governmental unit must be applied to the adjusted gross income of each taxpayer residing in the governmental unit.

NEW SECTION. Section 8. Habitable property exempt from taxation -- exceptions. (1) Habitable property is exempt from property taxation; however, special assessments or mills imposed by special taxing districts may be levied against habitable property and the property tax due on it collected.

(2) Habitable property must continue to be assessed and its taxable value included in the governmental unit's tax base when county officials' salaries or bonded indebtedness limits are calculated and the class of a city, town, or county is determined.

(3) If a single building is used or designed for use partially as habitable property and partially for other uses, the department shall determine the assessed value of each portion separately and exempt the habitable property from taxation as provided in subsections (1) and (2).

NEW SECTION. Section 9. Applicability to general obligation bonds. (1) All general obligation bonds will continue to be an obligation of all property pledged to their redemption.

(2) The replacement tax must be considered an alternate method of assessing and collecting taxes on habitable property.

NEW SECTION. Section 10. Withholding. (1) Beginning January 1, 1988, each employer shall deduct and withhold 1.8% of the wages paid to each of his employees residing in Montana, in addition to and separate from any other withholdings.

(2) The employer shall indicate each employee's residence on his withholding records. The employee's residence as of his first employment of the year must be used throughout the year, even if the employee's residence is later changed.

(3) The employer shall remit these withholdings and returns as required by the department according to the procedure contained in 15-30-204.

NEW SECTION. Section 11. Taxpayers not subject to withholding -- semiannual payment -- penalty. (1) On or before August 15 of each year, beginning in 1988, each resident taxpayer who is not subject to withholding under [section 10] shall pay 2% of his adjusted gross income for the first 6 months of that calendar year to the department.

(2) These payments must be deducted from the taxpayer's total replacement tax liability as shown on his replacement tax statement for that calendar year.

(3) Any taxpayer not subject to withholding who fails to make the semiannual payment required in this section is subject to a penalty of 10% of the semiannual payment due.

(4) A person who becomes or ceases to be a resident of the state shall pay replacement taxes on the income he earned while a resident. He must make semiannual and final returns and payments.

NEW SECTION. Section 12. Filing of return and calculation of replacement tax due. (1) After receiving a taxpayer's annual income tax return, the department shall calculate the taxpayer's total replacement tax liability for the previous year by applying the replacement tax rate for the governmental units shown on his withholding forms to his adjusted gross income, as reported on his income tax return.

(2) As soon as possible after making this calculation, the department shall mail a statement to the taxpayer showing:

(a) his total replacement tax liability for the previous year;

(b) any withholdings or advance partial payments credited to him;

(c) how these figures were determined; and

(d) any balance due the state.

(3) If the amount withheld exceeds the taxpayer's total replacement tax liability by more than $1, the department shall refund the excess to the taxpayer.

(4) If the taxpayer's total liability exceeds his withholdings or advance partial payment by more than $1, the taxpayer shall pay the tax due by the fifth day of the month after the statement was received.

(5) Refunds may be made or statements of additional tax liability may be mailed when subsequent audits or amended returns alter a taxpayer's replacement tax liability.

NEW SECTION. Section 13. Penalty and interest. (1) All replacement taxes not paid when due are delinquent, and interest of 2/3 of 1% per month must be collected on the unpaid balance. In addition, a penalty of 5% of the delinquent tax, except as provided in [section 11(3)], must be collected.

(2) All interest and penalties collected by the department must be placed in the replacement tax account and used by the department as partial payment of the cost of administration.

NEW SECTION. Section 14. Collection of delinquent taxes. The department may use the procedure provided in 15-30-311 for the collection of delinquent replacement

taxes.

NEW SECTION. Section 15. Application for revision -- appeal. (1) An application for revision of replacement tax liability may be filed with the department by a taxpayer within 5 years after the original due date of the return.

(2) If the taxpayer is not satisfied with the action taken by the department on his application for revision or on questions of residency the department has resolved, he may appeal to the state tax appeal board, which shall have authority to grant the claim or a portion of the claim.

(3) A decision of the state tax appeal board may be appealed to a court of competent jurisdiction.

NEW SECTION. Section 16. Department to estimate total adjusted gross income in each governmental unit. (1) On the second Monday of July 1988, and every following year, the department shall furnish to the county treasurer in each county an official estimate of the total adjusted gross income of the residents living in each governmental unit.

(2) In formulating these estimates, the department shall consider the adjusted gross income of the previous year. It may consider additional information it considers necessary.

NEW SECTION. Section 17. Department to review estimates and revise tax rates. (1) After receiving annual income tax returns, the department shall compare the estimates of total adjusted gross income sent to the county treasurer with the total adjusted gross income actually reported on the returns.

(2) If the estimate differs from the actual returns from any governmental unit in such an amount as to substantially overestimate or underestimate revenues, the department shall make an adjustment in the tax rate for that unit to more nearly produce the budgeted revenues.

NEW SECTION. Section 18. Determining mill levies. (1) To determine mill levies, the county treasurer shall divide the revenue to be raised by the property tax and replacement tax in each governmental unit that year by the sum of the taxable value of all property in that unit, excluding habitable property, plus 10% of the estimated total adjusted gross income of all taxpayers residing in that unit. The resulting figure is the mill levy for that governmental unit.

(2) To determine a statewide levy, the department shall divide the revenue to be raised by property tax and the replacement tax that year by the sum of the taxable value of all property in the state, excluding habitable property, plus 10% of the estimated total adjusted gross income of all taxpayers residing in the state. The resulting figure is the mill levy for that state fund.

(3) This method of calculating mill levies supersedes

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existing methods of calculating mill levies, except for special taxing districts.

NEW SECTION. Section 19. Landlord to notify tenant of property taxes no longer collected. In January 1988, each owner of residential rental property shall send to each of his tenants the following notice: "We are no longer required to pay county, school, state, city, or town taxes on the rental building unit you occupy. Because of this, according to our calculations, you are entitled to a rent reduction of $___. Your rent will therefore be $___.

NEW SECTION. Section 20. Disbursement of funds to counties -- counties to share in administration costs. (1) Replacement taxes collected by the department must be deposited in the replacement tax account within the state special revenue fund, which account is hereby created.

(2) In May and November of each year, the department shall send to each county treasurer the replacement tax collected in the same year from taxpayers in that county. The department shall also send each county treasurer official notice showing the amount of tax to be credited to each governmental unit.

(3) The department shall bill each county for its proportionate share of the actual cost of administering the replacement tax.

Section 21. Section 15-6-134, MCA, is amended to read:

"15-6-134. Class four property -- description -- taxable percentage. (1) Class four property includes:

(a) all land except that specifically included in another class;

(b) all improvements except those specifically included in another class;

~~(c) the first $35,000 or less of the market value of any improvement on real property and appurtenant land not exceeding 5 acres owned or under contract for deed and actually occupied for at least 10 months a year as the primary residential dwelling of any person whose total income from all sources including otherwise tax exempt income of all types is not more than $10,000 for a single person or $12,000 for a married couple;~~

~~(d)~~(c) all golf courses, including land and improvements actually and necessarily used for that purpose, that consist of at least 9 holes and not less than 3,000 lineal yards.

(2) Class four property is taxed as follows:

(a) Except as provided in 15-24-1402 or 15-24-1501, property described in subsections (1)(a) and (1)(b) is taxed at ~~the taxable percentage rate "P"~~ 3.86% of its market value.

~~(b) Property described in subsection (1)(c) is taxed at the taxable percentage rate "P" of its market value multiplied by a percentage figure based on income and determined from the following table:~~

~~Income Single Person~~	~~Income Married Couple~~	~~Percentage Multiplier~~
~~$0 - $1,000~~	~~$0 - $1,200~~	~~0%~~
~~1,001 - 2,000~~	~~1,201 - 2,400~~	~~10%~~
~~2,001 - 3,000~~	~~2,401 - 3,600~~	~~20%~~
~~3,001 - 4,000~~	~~3,601 - 4,800~~	~~30%~~
~~4,001 - 5,000~~	~~4,801 - 6,000~~	~~40%~~
~~5,001 - 6,000~~	~~6,001 - 7,200~~	~~50%~~
~~6,001 - 7,000~~	~~7,201 - 8,400~~	~~60%~~
~~7,001 - 8,000~~	~~8,401 - 9,600~~	~~70%~~
~~8,001 - 9,000~~	~~9,601 - 10,800~~	~~80%~~
~~9,001 - 10,000~~	~~10,801 - 12,000~~	~~90%~~

~~(c)~~(b) Property described in subsection ~~(1)(d)~~ (1)(c) is taxed at one-half the taxable percentage ~~rate "P"~~ established in subsection (2)(a).

~~(3) Until January 1, 1986, the taxable percentage rate "P" for class four property is 8.55%.~~

~~(4) Prior to July 1, 1986, the department of revenue shall determine the taxable percentage rate "P" applicable to class four property for the revaluation cycle beginning January 1, 1986, as follows:~~

~~(a) The director of the department of revenue shall certify to the governor before July 1, 1986, the percentage~~

~~by-which-the-appraised-value-of-all-property--in--the--state classified--under--class--four--as--of--January-1,-1986,-has increased-due-to-the-revaluation-conducted--under--15-7-111. This--figure-is-the-certified-statewide-percentage-increase.~~

~~(b)--The-taxable-value-of-property--in--class--four--is determined---as---a--function--of--the--certified--statewide percentage-increase--in--accordance--with--the--table--shown below.~~

~~(c)--This---table--limits--the--statewide--increase--in taxable-valuation--resulting--from--reappraisal--to--0%.--In calculating--the-percentage-increase,-the-department-may-not consider-changes-resulting-from-new-construction,-additions, or-deletions-during-calendar-year-1985.~~

~~(d)--The--taxable--percentage--must--be--calculated--by interpolation--to--coincide--with--the--nearest-whole-number certified-statewide-percentage-increase-from--the--following table.~~

~~Certified-Statewide Percentage-Increase~~	~~Class-Four-Taxable Percentage-"P"~~
~~0~~	~~8.55~~
~~10~~	~~7.77~~
~~20~~	~~7.12~~
~~30~~	~~6.57~~
~~40~~	~~6.10~~
~~50~~	~~5.70~~
~~60~~	~~5.34~~
~~70~~	~~5.02~~
~~80~~	~~4.75~~
~~90~~	~~4.50~~
~~100~~	~~4.27~~
~~110~~	~~4.07~~
~~120~~	~~3.88~~
~~130~~	~~3.71~~
~~140~~	~~3.56~~
~~150~~	~~3.42~~
~~160~~	~~3.28~~
~~170~~	~~3.16~~
~~180~~	~~3.05~~
~~190~~	~~2.94~~
~~200~~	~~2.85~~
~~210~~	~~2.75~~
~~220~~	~~2.67~~
~~230~~	~~2.59~~
~~240~~	~~2.51~~
~~250~~	~~2.44~~
~~260~~	~~2.37~~
~~270~~	~~2.31~~
~~280~~	~~2.25~~
~~290~~	~~2.19~~
~~300~~	~~2.13~~

~~(5)--After--July--1,-1986,-no-adjustment-may-be-made-by the-department-to-the-taxable-percentage-rate--"P"--until--a revaluation-has-been-made-as-provided-in-15-7-111.~~

~~(6)~~(3) Within the meaning of comparable property as defined in 15-1-101, property assessed as commercial property is comparable only to other property assessed as commercial property, and property assessed as other than commercial property is comparable only to other property assessed as other than commercial property."

Section 22. Section 15-16-611, MCA, is amended to read:

"15-16-611. Reduction of property tax for property destroyed by natural disaster. (1) The department of revenue shall, upon showing by a taxpayer that some or all of the improvements on his real property or a trailer or mobile home ~~as-described-in-15-6-142~~ have been destroyed to such an extent that such improvements have been rendered unsuitable for their previous use by natural disaster, adjust the taxable value on the property, accounting for the destruction.

(2) The county treasurer shall adjust the tax due and payable for the current year on the property under 15-16-102 as provided in subsection (3) of this section.

(3) To determine the amount of tax due for destroyed property, the county treasurer shall:

(a) multiply the amount of tax levied and assessed on the original taxable value of the property for the year by the ratio that the number of days in the year that the property existed before destruction bears to 365; and

(b) multiply the amount of tax levied and assessed on the adjusted taxable value of the property for the remainder of the year by the ratio that the number of days remaining in the year after the destruction of the property bears to 365.

(4) This section does not apply to delinquent taxes owed on the destroyed property for a year prior to the year in which the property was destroyed.

(5) For the purposes of this section, "natural disaster" includes but is not limited to fire, flood, earthquake, or wind."

Section 23. Section 15-30-121, MCA, is amended to read:

"15-30-121. Deductions allowed in computing net income. In computing net income, there are allowed as deductions:

(1) the items referred to in sections 161 and 211 of the Internal Revenue Code of ~~1954~~ 1986, or as sections 161 and 211 shall be labeled or amended, subject to the following exceptions which are not deductible:

(a) items provided for in 15-30-123;

(b) state income tax paid;

<u>(2) replacement tax imposed by [section 7] paid;</u>

~~(2)~~<u>(3)</u> federal income tax paid within the taxable year;

~~(3)~~<u>(4)</u> expenses of household and dependent care services as outlined in subsections ~~(3)(a)~~<u>(4)(a)</u> through ~~(3)(c)~~<u>(4)(c)</u> and subject to the limitations and rules as set out in subsections ~~(3)(d)~~<u>(4)(d)</u> through ~~(3)(f)~~<u>(4)(f)</u> as follows:

(a) expenses for household and dependent care services necessary for gainful employment incurred for:

(i) a dependent under 15 years of age for whom an exemption can be claimed;

(ii) a dependent as allowable under 15-30-112(5), except that the limitations for age and gross income do not apply, who is unable to care for himself because of physical or mental illness; and

(iii) a spouse who is unable to care for himself because of physical or mental illness;

(b) employment-related expenses incurred for the following services, but only if such expenses are incurred to enable the taxpayer to be gainfully employed:

(i) household services which are attributable to the care of the qualifying individual; and

(ii) care of an individual who qualifies under

subsection ~~(3)(a)~~<u>(4)(a)</u>;

(c) expenses incurred in maintaining a household if over half of the cost of maintaining the household is furnished by an individual or, if the individual is married during the applicable period, is furnished by the individual and his spouse;

(d) the amounts deductible in ~~subsection~~ <u>subsections</u> ~~(3)(a)~~<u>(4)(a)</u> through ~~(3)(c)~~<u>(4)(c)</u> are subject to the following limitations:

(i) a deduction is allowed under subsection ~~(3)(a)~~<u>(4)(a)</u> for employment-related expenses incurred during the year only to the extent such expenses do not exceed $4,800;

(ii) expenses for services in the household are deductible under subsection ~~(3)(a)~~<u>(4)(a)</u> for employment-related expenses only if they are incurred for services in the taxpayer's household, except that employment-related expenses incurred for services outside the taxpayer's household are deductible,. but only if incurred for the care of a qualifying individual described in subsection ~~(3)(a)(i)~~<u>(4)(a)(i)</u> and only to the extent such expenses incurred during the year do not exceed:

(A) $2,400 in the case of one qualifying individual;

(B) $3,600 in the case of two qualifying individuals; and

(C) $4,800 in the case of three or more qualifying individuals;

(e) if the combined adjusted gross income of the taxpayers exceeds $18,000 for the taxable year during which the expenses are incurred, the amount of the employment-related expenses incurred must be reduced by one-half of the excess of the combined adjusted gross income over $18,000;

(f) for purposes of this subsection ~~(3)~~(4):

(i) married couples shall file a joint return or file separately on the same form;

(ii) if the taxpayer is married during any period of the taxable year, employment-related expenses incurred are deductible only if:

(A) both spouses are gainfully employed on a substantially full-time basis; or

(B) the spouse is a qualifying individual described in subsection ~~(3)(a)(iii)~~(4)(a)(iii);

(iii) an individual legally separated from his spouse under a decree of divorce or of separate maintenance may not be considered as married;

(iv) the deduction for employment-related expenses must be divided equally between the spouses when filing separately on the same form;

(v) payment made to a child of the taxpayer who is

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under 19 years of age at the close of the taxable year and payments made to an individual with respect to whom a deduction is allowable under 15-30-112(5) are not deductible as employment-related expenses;

~~(4)~~(5) in the case of an individual, political contributions determined in accordance with the provisions of section 218(a) and (b) of the Internal Revenue Code that were in effect for the taxable year ended December 31, 1978;

~~(5)~~(6) that portion of expenses for organic fertilizer allowed as a deduction under 15-32-303 which was not otherwise deducted in computing taxable income;

~~(6)~~(7) light vehicle license fees, as provided by 61-3-532, paid during the taxable year;

~~(7)~~(8) fees in lieu of taxes on motorcycles and quadricycles, as provided by 61-3-541, paid during the taxable year; and

~~(8)~~(9) contributions to the child abuse and neglect prevention program provided for in 41-3-701, subject to the conditions set forth in 15-30-156. (Subsection (8) (now (9)) terminates January 1, 1990--sec. 13, Ch. 610, L. 1985.)"

NEW SECTION. Section 24. Repealer. Section 15-6-142, MCA, is repealed.

NEW SECTION. Section 25. Severability. If a part of this act is invalid, all valid parts that are severable from the invalid part remain in effect. If a part of this act is invalid in one or more of its applications, the part remains in effect in all valid applications that are severable from the invalid applications.

<u>NEW SECTION.</u> Section 26. Applicability. This act applies to taxable years beginning after December 31, 1987.

-End-

STATE OF MONTANA - FISCAL NOTE
Form BD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for HB841 , as introduced.

DESCRIPTION OF PROPOSED LEGISLATION:
An act providing for a replacement tax for the property tax now levied on habitable property and providing a method for administering the tax; and providing an applicability date.

ASSUMPTIONS:
1. The proposed replacement tax will be distributed during the same year that the income tax return is filed.

FISCAL IMPACT:
The proposed law would have no significant impact on state or local property tax revenues. It would, however, result in a significant increase in county expenditures. Under the proposed law, the Department of Revenue must bill each county for its proportionate share of the actual cost of administering the replacement tax. The cost of administering the replacement tax would be as follows:

	1st Year	2nd Year	3rd Year
Expenditure Impact:			
Data Processing	$1,632,900	$1,163,028	$1,163,028
Withholding and Audit	218,596	917,027	771,077
Estimated Tax and Collections	82,460	266,000	266,000
TOTAL	$1,933,956	$2,346,055	$2,200,105

TECHNICAL OR MECHANICAL DEFECTS IN PROPOSED LEGISLATION OR CONFLICTS WITH EXISTING LEGISLATION:
Under the proposed law, residential property would be exempt from property taxation after December 31, 1987 but replacement revenue would not be provided until May FY89.

It may not be possible to implement the proposed law by the applicability and effective dates.

David L. Hunter DATE 2/26/87
DAVID L. HUNTER, BUDGET DIRECTOR
Office of Budget and Program Planning

Hal Harper DATE 3/3/87
HAL HARPER, PRIMARY SPONSOR

Fiscal Note for HB841, as introduced.

HB 841