SENATE BILL 4

Introduced by Doherty

7/08	Introduced
7/08	Rereferred to Taxation
7/08	First Reading
7/08	Fiscal Note Requested
7/09	Fiscal Note Received
7/09	Fiscal Note Printed
7/09	Hearing
7/17	Committee Report--Bill Passed as Amended
7/18	2nd Reading Do Pass Motion Failed
7/18	2nd Reading Indefinitely Postponed

Senate BILL NO. 4

INTRODUCED BY Doherty

A BILL FOR AN ACT ENTITLED: "AN ACT REVISING THE COMPUTATION OF INDIVIDUAL NET INCOME FOR TAX PURPOSES BY LIMITING THE DEDUCTIBILITY OF RESIDENCE INTEREST TO INTEREST PAID ONLY ON A TAXPAYER'S PRIMARY RESIDENCE; AMENDING SECTION 15-30-123, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE AND A RETROACTIVE APPLICABILITY DATE."

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

Section 1. Section 15-30-123, MCA, is amended to read:

"**15-30-123. Nondeductible items in computing net income.** (1) In computing net income, no deductions shall in any case be allowed in respect of:

~~(1)~~(a) personal, living, or family expenses;

~~(2)~~(b) any amount paid out for new buildings or for permanent improvements or betterments made to increase the value of any property or estate;

~~(3)~~(c) any amount expended in restoring property or in making good the exhaustion thereof for which an allowance is or has been made; ~~or~~

~~(4)~~(d) premiums paid on any life insurance policy covering the life of any officer or employee or of any person financially interested in any trade or business

carried on by the taxpayer when the taxpayer is directly or indirectly a beneficiary under such policy; or

(e) residence interest paid on a dwelling unit other than the taxpayer's primary residence. A married couple filing either joint or separate returns for the tax year must be treated as one taxpayer for purposes of this subsection.

(2) As used in subsection (1)(e):

(a) "dwelling unit" means a house, apartment, condominium, cabin, mobile home, motor home, vacation home, boat, or similar property and all structures appurtenant to a dwelling unit;

(b) "residence" has the meaning ascribed to that term in 1-1-215; and

(c) "residence interest" means any interest paid or accrued during the tax year on acquisition indebtedness or home equity indebtedness that is allowed to a taxpayer as a deduction for interest under 26 U.S.C. 163(h)(4)(A)(i)(II)."

NEW SECTION. **Section 2. Effective date -- retroactive applicability.** [This act] is effective on passage and approval and applies retroactively, within the meaning of 1-2-109, to tax years beginning on or after January 1, 1992.

-End-

SB 4
INTRODUCED BILL

STATE OF MONTANA - FISCAL NOTE

Form BD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for SB0004 , as introduced.

DESCRIPTION OF PROPOSED LEGISLATION:

An act revising the computation of individual net income for tax purposes by limiting the deductibility of residence interest to interest paid only on a taxpayer's primary residence; and providing an immediate effective date and a retroactive applicability date.

ASSUMPTIONS:

1. Individual income tax collections in fiscal year 1993 are $336,752,000 (OBPP).
2. The tax expenditure associated with deductibility of secondary residences is the product of the estimated federal tax expenditure, times the ratio of MT population to U.S. population, times the ratio of MT median home price to U.S. home price, times the ratio of MT average tax rate to the U.S. average tax rate, times an ad hoc concentration factor (see attachment for details of calculations).
3. The federal tax expenditures associated with deductibility for second home mortage interest are: FFY93-$0.5 bil.; FFY94-$0.9 bil.; FFY95-$0.9 bil.; FFY96-$1.0 bil.; FFY97-$1.0 bil. (Staff of Joint Tax Committee).
4. The ratio of MT population to U.S. population is 0.003213 (U.S. Census, 1990).
5. The ratio of MT median home price to U.S. home price is 0.5628 (National Association of Realtors).
6. The ratio of MT average tax rate to the U.S. average tax rate is 0.262 (MDOR).
7. The ad hoc adjustment factor to control for relative concentration of two-mortgage homeowners is 0.85 (MDOR).

FISCAL IMPACT:

Revenues:

	FY1993		
	Current Law	Proposed Law	Change
Individual Income Tax	$336,752,000	$336,953,000	$ 210,000

LONG-RANGE EFFECTS OF PROPOSED LEGISLATION:

The revenue impact in subsequent fiscal years is as follows: FY94-$362,000; FY95-$362,000; FY96-$403,000; FY97-$403,000.

1/9/92

STEVE YEAKEL, BUDGET DIRECTOR DATE

Office of Budget and Program Planning

STEVE DOHERTY, PRIMARY SPONSOR DATE

Fiscal Note for SB0004, as introduced

SB 4

Estimating the Impact of SB4
July, 1992 Special Legislative Session

SB4 provides that the deduction for home mortgage interest for individual income tax purposes be limited to interest paid only on a taxpayer's primary residence. Interest paid on "second homes" would no longer be deductible.

The staff of the U.S. Joint Tax Committee annually estimates the impact of this proposal at the federal level. The current federal estimates of this particular tax expenditure item are:

FFY1993 - $ 0.5 billion
FFY1994 - $ 0.9 billion
FFY1995 - $ 0.9 billion
FFY1996 - $ 1.0 billion
FFY1997 - $ 1.0 billion

The method used to allocate this expenditure to Montana is as follows:

Montana Tax Expenditure = Federal Tax Expenditure
times: ratio of MT pop. to U.S. pop.
times: ratio of MT median house price to U.S. price
times: ratio of MT average tax rate to U.S. rate
times: *ad hoc* concentration adjustment factor

1. The ratio of MT population to U.S. population is 0.003213 (799,000/248,710,000), 1990 Census of Population.

2. The ratio of MT median home price to U.S. home price is 0.5628 (using Spokane proxy of $52,400 to U.S. median of $93,100 in 1989, National Realtors Association).

3. The ratio of MT ave. tax rate to U.S. ave tax rate is 0.262 (average tax rates calcualted as the ratio of tax liability to federal adjusted gross income).

4. The ad hoc concentration factor is 0.85. This factor was derived through conversations with staff of the federal Joint Tax Committee who indicated that the concentration of homeowners owning two or more homes was away from Montana and towards the East Coast, primarily in areas such as Florida and Masssachusetts. This adjustment simply reflects the fact that a smaller proportion of homeowners in Montana own two homes relative to the national average.

The above assumptions result in the following estimates of the Montana tax expenditure associated with deduction of interest on second mortgages:

1993: $0.5 billion (.00312)(.5628)(.262)(.85) = $201,352
1994: $0.9 billion (.00312)(.5628)(.262)(.85) = $362,433
1995: $0.9 billion (.00312)(.5628)(.262)(.85) = $362,433
1996: $1.0 billion (.00312)(.5628)(.262)(.85) = $402,703
1997: $1.0 billion (.00312)(.5628)(.262)(.85) = $402,703

APPROVED BY COMMITTEE
ON TAXATION

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-End-

SECOND READING