

MINUTES

**MONTANA SENATE
53rd LEGISLATURE - REGULAR SESSION**

COMMITTEE ON TAXATION

Call to Order: By Chairman Mike Halligan, on April 13, 1993, at 4:27 p.m.

ROLL CALL

Members Present:

Sen. Mike Halligan, Chair (D)
Sen. Dorothy Eck, Vice Chair (D)
Sen. Bob Brown (R)
Sen. Steve Doherty (D)
Sen. Delwyn Gage (R)
Sen. Lorents Grosfield (R)
Sen. John Harp (R)
Sen. Spook Stang (D)
Sen. Tom Towe (D)
Sen. Fred Van Valkenburg (D)
Sen. Bill Yellowtail (D)

Members Excused: None.

Members Absent: None.

Staff Present: Jeff Martin, Legislative Council
Bonnie Stark, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Hearing: None.
Executive Action: HB 591, HB 671

EXECUTIVE ACTION ON HB 671

Judy Rippingale, Department of Revenue (DOR), explained Exhibit No. 1 to these minutes, which are amendments prepared by the DOR. Ms. Rippingale said HB 671 was theoretically going to be indexed at 50%, but the way it was drafted, the numerator of the equation was put at 50% and the denominator was put at 50%, so when it is divided out, it is as if nothing was done. Therefore, HB 671 is fully indexed to the National Consumer Price Index (CPI) and this amendment would change it so it would go to 50% of the National CPI.

Senator Halligan asked if fully indexing would mean the indexing in current law. Ms. Rippingale said this is correct.

Senator Eck said she thought the intent was to modify that index. Senator Halligan said the intent was to go to 50% of the existing law, which is based on the National CPI. This amendment will do that.

MOTION:

Senator Gage moved for adoption of the amendment to HB 671.

DISCUSSION:

Senator Van Valkenburg asked that the committee not act on the amendment at this time. He said one of the things he inquired of Rep. Gilbert when the bill was heard was whether there should be any indexing in the bill. During part of the discussion on the income tax portions of SB 235, it was decided that indexing wasn't appropriate when there is a single tax rate, which HB 671 has. It has a very high standard deduction and a very high personal exemption rate. Senator Van Valkenburg thinks the committee should withhold action on indexing until it figures out what to do with the bill as a whole. There are more substantive issues than just indexing.

Senator Gage withdrew his motion.

Senator Van Valkenburg said he is interested in finding out the possibility of bi-partisan support on HB 671 in this Committee. Everyone came into this session knowing taxes would have to be raised substantially somewhere. The House has put together HB 671, which is a bi-partisan bill. He said this bill may not be extremely popular, and he senses bi-partisan support is lacking in the Senate.

Senator Harp responded that Senator Van Valkenburg is not mis-reading the Senate support of this bill. He said there are elements of HB 671 that are very unpopular, particularly by allowing approximately 64,000 taxpayers to be dropped from the income tax rolls, allowing a reduction of 20% of the current taxpayers in Montana, and a basic 10% increase in taxes for some taxpayers. Senator Harp said the tax consequences on a household where both husband and wife are working, compared with taxes under the current law, is unacceptable to some Senators. Another issue is the fact of penalizing the same people who may need help, such as the risk-takers, the producers, and entrepreneurs, by increasing their taxes. Senator Harp said it is recognized that there will be some revenue raised before the end of the session, but there are difficulties with how HB 671 is put before the Senate. Senator Harp feels there was not much opportunity for input as HB 671 left the House, and he said he is willing to see what is offered in the Senate.

Senator Van Valkenburg said he looks at HB 671 primarily as one the House has crafted with bi-partisan support and he finds the bill fairly acceptable even though it may not do everything

he would like it to do, but it does a lot in reforming our income tax system to make it simpler, more progressive, and to make it one that will be more acceptable to more Montanans as a whole.

Senator Doherty said everyone knows the Legislature has to raise revenue and HB 671 is the only bill before the Legislature to accomplish this purpose. The sales tax is a year and one-half down the road if it passes the Legislature and a vote of the people.

Senator Brown said there ought to be some exchange or trade-off for eliminating 64,000 people from the income tax rolls. If considering an over-all tax reform package that would include a sales tax, and assuming that those people would pay a sales tax and make the whole tax system less regressive, eliminating those people from the income tax rolls would make sense. But when they are eliminated and they are not expected to pay any sales tax in exchange, it amounts to more people not contributing to state government while at the same time increasing taxes on people who are contributing already and whose burden will be increased significantly. He doesn't object to HB 671 if it is part of an over-all tax reform package, but it should not stand alone. He would prefer it be restructured significantly so that fewer people are eliminated completely from the income tax rolls, or alternatively, think about a surcharge and keep intact the existing tax structure.

Senator Towe asked if there is any interest in his alternative tax proposal which was discussed at the earlier meeting today (4-13-93, 7:00 a.m. meeting, copies of Exhibits attached hereto.)

Senator Brown said he thinks the philosophy of Senator Towe's proposal is similar to the philosophy in HB 671. He thinks this would significantly increase the income tax on the people who are paying a sizeable portion of the income tax now. He doesn't think Senator Towe's proposal would go as far as he would want it to go in the direction he would want it to go, and Senator Towe is not considering a sales tax as a part of his proposed tax reform. Senator Towe agreed to this.

Senator Eck said the committee is considering an income tax versus a tax reform package and if anyone is interested in the tax reform package, it is obvious that HB 671 is not that. She does not agree to a surcharge because it is a temporary solution.

Senator Halligan said it is obvious from floor discussions and from listening to constituents during campaigning, that people are expecting long-term solutions. The House has passed to the Senate HB 671, which appears to be a long-term, progressive public policy with respect to tax, which will keep the Legislature out of a special session. HB 671 does drop off taxpayers, but they can potentially be picked up again next session.

Senator Yellowtail said he hopes the bi-partisan cooperation shown earlier in the session when considering SB 235, the sales tax reform plan, will extend for a full 90 days, and will include fair consideration of the alternative tax proposal in HB 671. He hopes there is a commitment to remain true to that sense of bi-partisan cooperation that he sees fading very rapidly.

Senator Harp said he assumed the majority party in the Senate would be offering their own alternative to SB 235. This did not happen, and now he understands that HB 671 will possibly be passed and go to the Governor for signature.

Senator Yellowtail responded that this possibility is not a given. This is a bi-cameral legislature, and there was no promise in the early days of the legislature that the proposal in HB 671 would originate in the Senate; it was a bi-partisan effort in the House.

Senator Van Valkenburg said he wants to know if there is a willingness to work on HB 671 in a bi-partisan way. He said HB 671 may not be the perfect alternative, but because of extensive work on getting SB 235 from the Senate to the House, there was no time to work on another alternative tax proposal from the Senate majority party.

Senator Towe said he presented an alternative plan mainly because he does not believe in a temporary solution to the problems in the state economy. He thinks his comprehensive tax program will serve the people very well. It is truly a tax reform, it is progressive, makes the state income tax and property tax more progressive, and it raises enough money to balance the budget at the same time, and is not a temporary solution. He is willing, however, to work on HB 671 and reject his plan.

Senator Brown said the stage was set for bi-partisan support on SB 235 because both candidates for governor had favored placing a sales tax measure on the ballot. All SB 235 is, is a referendum; it is not implementing any philosophy into the law. However, HB 671 is a bill that, if passed, will go into the tax system of the state. He does not have a problem with the reforms in HB 671 if they are part of the proposal that contains a sales tax, but he has great difficulty supporting them without a sales tax.

Senator Towe said he does not support a sales tax; however, he supported it in this Committee and voted for it so that it could have bi-partisan support to try and get it on the ballot. He asked Senator Brown if he could reciprocate. Senator Brown said "no", because what Senator Towe did was to vote to put it on the ballot; what he is asking Senator Brown to do is place into law something he does not agree with.

Senator Doherty said he voted for things he detests in the sales tax, and voted for things his constituents will be very angry about, and he voted for things in the sales tax that he told people, while campaigning, that he would not do, but he wanted it to have a chance to get out of Committee and on the floor. He does not agree with Senator Brown's comments on the philosophical difference between voting to implement something and voting to allow the possibility of something to be implemented.

Senator Gage said a surtax can be put on indefinitely and should not be characterized as a temporary solution. Future legislatures will do what they need to do to address the problems of the state. He is not opposed to working on a bill that would use our current tax structure with a surtax in it. One of his concerns is what will happen to people with higher incomes who are being taxed more at both the state level and the federal level. These people are very mobile and it would be simple for them to just change their state of residence to avoid a higher state income tax. This is his objection to the concept of HB 671 as opposed to going with the current system with a permanent surcharge.

Senator Halligan said he does not expect to act on HB 671 at this time. There is also an amendment the AFL/CIO had looked at for clarification on wages and deductions.

Senator Towe asked Judy Ripplingale, DOR, to explain the indexing formula. Ms. Ripplingale and Jeff Martin, Legislative Council Staff person, worked out the formula on the board for Committee members to review.

Senator Van Valkenburg said it makes a difference how this Committee approaches HB 671, whether or not there is bi-partisan support for it. He hopes members will re-assess their positions before it comes for consideration again, and determine what they would like to change in the bill while basically sticking with the general framework, which is to reform income taxes. Senator Van Valkenburg said a surtax is not a reform of the income tax.

Senator Harp said he supports balancing the budget, looking at income and property tax, and a potential new revenue source.

EXECUTIVE ACTION ON HB 591

MOTION:

Senator Yellowtail moved HB 591 be TABLED.

DISCUSSION:

Senator Yellowtail said his objective is to leave the further promotion effort in this state as whole as possible,

recognizing that there is already \$.5 taken out of that effort. He does not think it is good policy to raid the accommodations tax for support of the General Fund.

Senator Van Valkenburg said he opposes the motion, calling it is a tremendous misuse of the taxing power of the state to have a tax which is not used for the general benefit of the citizenry of the state, but is instead used as a supplement to the advertising budget of a particular industry. He agrees that it is not necessary, at this time, to divert some of the money to local governments, and would like the \$4 million put into the General Fund where it is needed to help balance the budget. He thinks the tourism promotion should be left where it is. If the motion to table HB 591 fails, he will move to amend by striking the part of the bill that diverts money to local governments, but leave the 1% increase for the state General Fund.

Senator Brown said he opposes the motion to table HB 591. He does not think the \$4 million will make a great deal of difference in terms of the General Fund, and he thinks local governments are impacted in a significant way by the money used to advertise for tourists to come to Montana. He would like to use the 1% for local impact, not the General Fund.

Senator Doherty opposes tabling HB 591 because he thinks local governments do need the money. He thinks the State General Fund also needs the money, and he would like to see an amendment to increase to 2%, with 1% going to the local government, and 1% going to the General Fund. He opposes any diversion of the existing monies; he thinks the tourism promotion people are doing a good job.

Senator Towe reminded the Committee that if SB 235 passes, there would be an 8% tax on motel rooms, not 4%, and there was not much opposition to this during the hearings on SB 235.

Senator Eck also reminded the Committee that along with the 4% increase in income from the sales tax, these same people would also receive some personal property tax relief.

Senator Yellowtail said when this tax was first placed into law, a promise was made that the 4% would never be touched and would always go towards tourism promotion. We are now proposing to raid this and renege on the original agreement.

VOTE:

The motion to TABLE HB 591 FAILED 6-5 on Roll Call Vote (#1).

MOTION:

Senator Van Valkenburg moved to AMEND HB 591 to eliminate the diversion of the tax towards the local governments to provide that the 1% increase in the tax be deposited into the state General Fund.

DISCUSSION:

Senator Brown said he would oppose this motion because there are parts of the state where the greatest impact from the tourists, in most cases generated by the accommodations tax, need to benefit to some extent from the accommodations tax. He said he carried the original bill in the Senate and has been protective of this source of revenue for the purpose for which it was enacted in 1987. However, it then generated approximately \$4.5 million in that biennium; it is now estimated to generate \$12 million. The tourism industry has made great strides, but some of the good fortune should be shared with some of the communities who are greatly impacted. He thinks Senator Van Valkenburg's amendment is wrong; the 1% income should be used in areas impacted.

Senator Van Valkenburg said some money has already been given the cities in the passing of the new gas tax. To the extent there is insufficient money to balance the state budget, the people who live in those cities and towns will have to pay more in income tax or property tax in order to balance the budget. He thinks the primary obligation as state legislators is to balance the state's budget, and this 1% will help.

VOTE:

The motion FAILED 7-4 on Roll Call Vote (#2).

MOTION:

Senator Yellowtail moved to AMEND HB 591 per the amendments on Exhibit No. 2 to these minutes.

DISCUSSION:

Senator Yellowtail said the effect of this amendment is to retain HB 591 at 5%, but to reorder the distribution of proceeds, first to return the tourism promotion efforts to basic wholeness, and halve the contribution to the State General Fund, and adjust the distribution to local government as well.

Senator Van Valkenburg asked for clarification of the amendment. Jeff Martin explained that the amendments allocate the 1% increase to the local government and state general fund, and will do away with the diversion from the present distribution.

Senator Yellowtail said the Department of Commerce will be made whole, the local government portion will be 10.25%, and 10.25% will go to the General Fund.

Senator Towe asked what the impact of the amendment would be; if the 76.7% would hold the tourist recipients whole so they will get the full 4%, not counting the HB 642 parks diversion. Matthew Cohn, Department of Commerce, said this would basically leave 4% to the Department of Commerce and would split the 1% between the cities and counties and the general fund.

VOTE:

The motion CARRIED 6-5 on Roll Call Vote (#3).

MOTION:

Senator Van Valkenburg moved HB 591 BE CONCURRED IN AS AMENDED.

DISCUSSION:

Senator Harp offered amendments to HB 591 in Exhibit No. 3 to these minutes, and asked if Stuart Doggett, Montana Innkeepers Association, could address these amendments. Mr. Doggett said if the sales tax is enacted, and if HB 591 passes, there would then be a 9% bed tax. They want it to say that if the sales tax passes, this act would be void and the bed tax would be 8%. This amendment makes that possible.

MOTION TO AMEND/VOTE:

Senator Harp moved for adoption of the amendments to HB 591 as stated on Exhibit No. 3. The motion CARRIED on oral vote with Senators Stang and Van Valkenburg voting "NO".

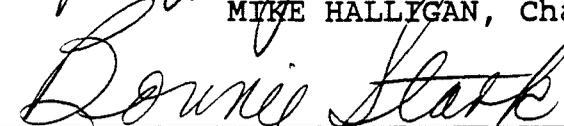
The motion by Senator Van Valkenburg was extinguished with the motion to adjourn.

ADJOURNMENT

Adjournment: The meeting adjourned at 5:40 p.m.



MIKE HALLIGAN, Chair



BONNIE STARK, Secretary

SENATE TAXATION

AMEND NO. 1

DATE 4-13-93

BILL NO. HB 671

AMENDMENTS
HB 671
THIRD READING VERSION (BLUE COPY)
PREPARED BY DEPARTMENT OF REVENUE
April 12, 1993

The purpose of these amendments are to insure that the inflation adjustment the personnel exemptions and standard deduction is equal to one-half the increase in national inflation.

1. Page 2, line 17
Following: "price index"
Strike: "for Montana"
2. Page 2, line 22
Following: "department of labor"
Strike: ", multiplied by 0.5"
3. Page 3, line 20 and 21
Following: "price index" on line 20
Strike: "for Montana"
4. Page 3, line 22
Following: "index"
Strike: "for Montana"
Following: "1993"
Insert: ", then subtracting 1, then multiplying by 0.5, then adding 1"

Amendments to House Bill No. 591
Third Reading Copy

Requested by Senator Yellowtail
For the Committee on Taxation

Prepared by Jeff Martin
April 6, 1993

SENATE TAXATION

EXHIBIT NO. 2

DATE 4-13-93

BILL NO. HB 591

1. Title, line 6.

Following: "THAT"

Insert: "A PORTION OF"

2. Title, lines 7 and 8.

Strike: "DIVERTING" on line 7

Insert: "ALLOCATING"

Strike: "PROCEEDS" on line 7 through "TAX" on line 8

Insert: "INCREASED AMOUNT"

3. Page 3, line 14.

Strike: "64%"

Insert: "76.7%"

4. Page 4, line 9.

Strike: "12.7%"

Insert: "10.25%"

5. Page 5, line 2.

Strike: "20.5%"

Insert: "10.25%"

Amendments to House Bill No. 591
Third Reading Copy

Requested by Senator Harp
For the Committee on Taxation

Prepared by Jeff Martin
April 12, 1993

SENATE TAXATION
EXHIBIT NO. 3
DATE 4-13-93
BILL NO. HP 591

1. Title, lines 11 and 12.
Following: the first "TAX" on 11
Strike: the remainder of line 11 through "COLLECTIONS" on line 12
Insert: "IS ENACTED PRIOR TO JULY 1, 1993"

2. Page 6, lines 14 through 18.
Following: "1993," on line 14
Strike: the remainder of line 14 through "collections," on line
18

STATE BOARD OF
 TAXATION
 APR. 13 1993
 HB 437

Thomas E. Towe
 April 5, 1993

ALTERNATIVE TAX PLAN

REVENUE

(In millions)
Annual Biennium

1)	<u>Income tax</u> - SB 235 modified:		
	- Graduated rate - 6% on the first \$30,000		
	7% up to \$40,000		
	8% on incomes over \$40,000.		
	- Standard Deduction - \$9,000 married couple		
	- \$4,500 single filing		
	- \$6,750 head of household.		
	- Personal Exemption - \$2,300 instead of \$3,500.		
	- Phase out of Standard Deduction and Personal Exemption at \$70,000 to \$100,000 of MAGI.		
	- Homestead rebate - refund of the property tax paid on the first \$4,000 of your personal residence.		
	Net new revenue	\$38.4	\$76.8
2)	<u>Corporate License Tax</u> - 7.75% instead of 6.75% (National average is 7.67%)		
	Net new revenue	8.0	16.0
3)	<u>Property Tax</u> -		
	- Class 3 - from 3.86% to 4.88%		
	- Class 4 - from 3.86% to 4.88%		
	- Class 8 - from 9% to 4.88%		
	- Class 11 - from 3.088 to 4.88%		
	- Homestead exemption on the first \$13,500 of each home. When combined with homestead rebate = \$17,500 of each home is tax free.		
	- All homes under \$83,725 would have a tax reduction.		
	- Commercial building exemption of \$4,000.		
	- Agricultural land exemption - 10% of assessed value.		
	Net revenue loss	-.9	-1.8
4)	<u>Rail Car Tax</u> - HB 640		
	- One time revenue of \$5.8		
	Net new revenue	3.2	6.4
5)	<u>Timber Sales from State Lands</u> - HB 667		
	Net new revenue	3.05	7.1
6)	<u>Coal Board Funds</u> - HB 350		
	Net new revenue	<u>1.65</u>	<u>3.3</u>
	TOTAL	53.4	106.8

OFFICE OF LEGISLATIVE FISCAL ANALYST

CLASS 3 RATE 4.88%
 CLASS 4 RATE 4.88%
 CLASS 3 RATE 4.88%
 CLASS 8 RATE 4.88%
 CLASS 11 RATE 4.88%
 CLASS 12 CALC 7.06%

SERVICE EVALUATION
 F40000 1.0
 DATE 9-13-93
 MFL NO. AD437

06-Apr-93 11:44 AM

	RESULT OF RATE CHGE REVENUE/YEAR	BUS RELIEF @ \$4,000	HOMESTED RELIEF \$13,500 10% ASSESSED	AG LAND EXEMPTION	TOTAL REVENUE CHANGE	HOMESTEAD CREDIT	STATE REVENUE LOSS
6 MILLS	812,976	(46,155)	(725,013)	(109,633)	(67,824)	(14,152,239)	(15,293,940)
95 MILLS	12,872,125	(730,782)	(11,479,371)	(1,735,850)	(1,073,878)		
COUNTIES	11,113,102	(607,995)	(9,666,564)	(1,224,061)	(385,517)		
SCHOOLS	19,700,201	(903,804)	(16,396,629)	(2,046,647)	353,122		
CITIES & TOWNS	7,758,261	(527,785)	(6,151,275)	0	1,079,201		
TOTAL	52,256,666	(2,816,520)	(44,418,852)	(5,116,190)	(94,896)		

CHANGE IN REVENUE RELATIVE TO CURRENT LAW
 ASSUMES MILLS DON'T CHANGE FROM FY93 LEVELS
 JIM STANDAERT
 X-5389
 NO. PARCELS < BREAK EVEN

BREAK EVEN HOME PRICE \$83,725
 185,327 INCLUDES FARMSTEADS
 90.40% OF ALL OWNER OCCUPIED HOMES