MINUTES

MONTANA HOUSE OF REPRESENTATIVES
52nd LEGISLATURE - REGULAR SESSION

COMMITTEE ON PROPERTY TAX

Call to Order: By **CHAIRMAN COHEN**, on March 27, 1991, at 7:00 AM

ROLL CALL

Members Present:
- Rep. Ben Cohen, Vice-Chairman (D)
- Rep. Ed Dolezal (D)
- Rep. Russell Fagg (R)
- Rep. Ed McCaffree (D)
- Rep. Mark O'Keefe (D)
- Rep. Dave Wanzenried (D)

Members Excused:
- Rep. Orval Ellison (R)
- Rep. Dave Hoffman (R)
- Rep. Ted Schye (D)
- Rep. Fred Thomas (R)

Staff Present: Lee Heiman, Legislative Council
Julia Tonkovich, Committee Secretary

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

DISCUSSION ON HB 1004

REP. DOLEZAL explained the bill, which consolidates current property tax classes. Class 12 property (mobile homes) becomes Class 4 (residential); Class 14 property (farm homes plus one acre of land) also becomes Class 4.

Gregg Groepper, Office of Public Instruction (OPI), said the current rate for farm homes is 20% less than the residential rate. This policy was adopted because the Department of Revenue (DOR) felt it could not get an accurate value of the homes, since they were usually sold with the farm acreage. It is no longer necessary to have a lower tax rate because the DOR now knows the value of the homes. This does not mean all farm home owners will be paying 20% more in taxes, because the assessed value of their homes will now be accurate. The 20% raise in the tax rate can be compensated for in the valuation of the home. If the committee does not feel DOR is capable of assessing these homes accurately, it should leave the policy as it currently stands. Tax reform bills should bring all issues out on the table; however, not all of the current policies must change.

REP. COHEN asked if a rural home's worth is reflected in its market value. **Ken Morrison, DOR,** said it is the department's intention to reflect the worth in the market valuation, but it is sometimes difficult to do this, since the homes are usually sold with the farm acreage, and the value of the home is controlled by the value of the farm or ranch.

Mr. Groepper said there are two parts to the valuation question: the farm building, and the acre of land the building rests on. DOR used to assess the septic tanks, wells, etc. as improvements, which came across as an arbitrary method of valuation to many people. The department has compromised by valuing the first acre of land under the farm home at market value, which also takes into account the improvements. This is accompanied by a 20% reduction in the tax rate. OPI believes that if the 20% rate is legitimate, DOR could take the depreciation into account when they set the value of the property, and the property tax rates on the farmsteads could be the same as on residential property.

REP. DOLEZAL said the bill also attempts to recognize the difference between residential and income-producing property, and moves Class 20 (non-productive commercial property) to a new Class 21 (income-producing commercial property). The bill also defines "rigidly affixed" property. Under current law, this equipment is classed under personal property and taxed at 9%. HB 1004 moves the equipment into real property (taxed at 5.3%). This will create tax relief for many small businesses.

REP. COHEN asked how "rigidly affixed" property is defined. **REP. DOLEZAL** said the term means property which is bolted, cemented, or otherwise permanently attached to the land or improvements that are an integral part of the mining or industrial property. What DOR currently defines as "fixtures" is listed, item by item, in Amendment 4. The difference between rigidly affixed property and furniture and fixtures is important because the bill provides an exemption to businesses for furniture and fixtures. Separation of the two types of property is necessary to keep big businesses from exempting large equipment as "furniture and fixtures."

Madalyn Quinlan, OPI, said the bill will increase statewide valuation by approximately $8 million. Exempting furniture and fixtures and lowering the personal property rate was compensated for by increasing the real commercial property and improvements rates. Neither the state nor the counties lose money. The bill will raise approximately $800,000 in tax revenue for the state.

Mr. Groepper noted that the purpose of the bill is not to raise taxes, but to streamline the property tax system. Currently, people (especially businesspeople) are penalized for being honest on their tax returns. These revisions will make Montana's tax structure competitive with that of other states, without transferring tax "relief" to other taxpayers.

REP. COHEN asked whether HB 1004 will reduce the operational costs of DOR. **Mr. Morrison** said that the furniture and fixtures tax currently costs approximately $532,000 annually to administer. The bill will probably increase DOR administrative costs during the first year of implementation; the costs will decrease in subsequent years. The bill will save approximately $400,000 in two to three years. Furniture and fixtures assessments are the responsibility of county assessors and their deputies. The bill does not do away with these positions, so the state will continue to pay the assessors.

REP. MCCAFFREE asked whether the bill shifts the tax burden from furniture and fixture owners to property owners. **Mr. Groepper** said there is a shift within the business community. Most businesses must have both real and personal property in order to operate. Some businesses are more heavily invested in personal property than others. The bill does shift the tax burden from personal to real property, but the burden remains in the business community. There is no shift from the income-producing property class to the residential class.

REP. ELLISON said the separation of residential and commercial property is dangerous. Increasing the taxes on commercial property will be much easier if the class is separated from residential property, because fewer people will complain about an increase. **REP. COHEN** noted that it is usually businesspeople who testify in Taxation Committee against increases in taxes.

REP. COHEN explained his property tax reclassification proposal, LC 495, which defines productive and non-productive property, and deletes the existing definition of personal property. Class 1 property is minerals, and includes 1A and 1B, net and gross proceeds. Class 2 is productive property. 2A is productive property based on productive capacity, including agricultural and timberland. A temporary timber class is provided for to correspond with HB 340. Class 2B is productive property based on its market value. 2B1 is commercial and industrial real property; 2B2 is all improvements to commercial, industrial and agricultural property, but does not include multi-family residences. Class 2B3 is business equipment, including air and water pollution equipment. Furniture and fixtures, supplies, materials and repair tools are removed from the property tax rolls. Class 2B3A is new and expanding industrial machinery and equipment; Class 2B3B is rural telephone and electric. 2B3C is rental property, with the first $5,000 exempted. Special industrial and co-op property will be classed as productive property based on market value; most of these rates remain the same as the current rates. The bill also includes livestock, centrally assessed property, and railroads and airlines. The current method of assessing the value of railroads and airlines takes the value of "similar" property; this bill asserts that similar property is Class 2 property. Nonproductive property includes both real residential property/improvements and recreational property/improvements. The bill includes a repeal of I-105 and an adjustment for street maintenance and hydrant districts, and will also repeal the statutory appropriation of block grants to local governments.

REP. COHEN said LC 495 will bring the university system approximately $347,000, the Foundation Program $5.4 million. If none of the mill levies are changed, the bill will result in a net increase to school districts, cities and towns, and counties. The increase of real residential property from 3.86% to 4% will bring in most of this revenue. To compensate for this increase, there is a companion bill which offers an income tax credit (one per household) for property taxes paid by Montana homeowners. This bill will pay back approximately $23 million to the state taxpayers, which will come from the money currently being used for block grants plus the money generated by LC 495. If the two bills are passed together, their composite impact will be revenue-neutral.

ADJOURNMENT

Adjournment: 7:55 AM

BEN COHEN, Chair

JULIA TONKOVICH, Secretary

BC/jmt

HOUSE OF REPRESENTATIVES

PROPERTY TAX SUBCOMMITTEE

ROLL CALL **DATE** 3/27/91

NAME	**PRESENT**	**ABSENT**	**EXCUSED**
REP. BEN COHEN, VICE-CHAIR	X		
REP. ED DOLEZAL	X		
REP. ORVAL ELLISON			X
REP. RUSSELL FAGG	X		
REP. DAVID HOFFMAN			X
REP. ED MCCAFFREE	X		
REP. MARK O'KEEFE	X		
REP. TED SCHYE			X
REP. FRED THOMAS			X
REP. DAVE WANZENRIED	X		
REP. DAN HARRINGTON, CHAIRMAN			