

MINUTES OF THE MEETING  
TAXATION COMMITTEE  
MONTANA STATE SENATE

February 16, 1987

The twenty-fourth meeting of the Senate Taxation Committee was called to order at 8:00 A.M. on February 16, 1987 by Chairman George McCallum in Room 325 of the Capitol Building.

ROLL CALL: All committee members were present.

CONSIDERATION OF SB 307: Senator McCallum said it was a tie vote, 4-4, in the Rules Committee concerning his request for a determination as to whether the many subjects that are contained in this bill fall under the title of the bill. He still has some concerns but will give the bill a fair hearing.

Senator Crippen would like to go on record as objecting to the manner and form which this bill has been presented to this committee. In his opinion this bill is clearly in violation of our rules. The bill has a fine generic title, but it is 150 pages long and covers many, many sections of law and is clearly in violation of our policy. The administrator seems to have adopted a policy of take it or leave it. This is a poor attitude to take in light of the problems facing this state.

Senator Neuman responded by stating the subject of tax reform is not a very simple one. If you are going to do tax reform and make it fair and equitable, you need to do that in one package. If you take the package and divide it up, it is easy for special groups to take pieces of that. This is a reform package to stimulate economic development that is equal and fair to everyone.

Senator Neuman, Senate District 21, presented this bill to the committee. His written testimony is attached as Exhibit 1.

PROponents: John LaFaver, Director, Department of Revenue, gave testimony in support of this bill. He said in an attempt to help the committee look at the bill and understand how the various pieces relate to one another, we have prepared a notebook which has been presented to the committee. The information from the notebook is attached as Exhibit 2. He reviewed the information that is available in the notebook to the committee.

The fiscal note shows a net reduction in revenue of nearly \$9 million. The main reason the fiscal note shows a reduction in revenue in that year is because we utilized the Revenue Estimating Advisory Council's estimates of the volume of production and the price. In his assumption they have not taken into account the impact on production and sales with a lower severance tax. He believes that by lowering the severance tax there will not be a significant impact. Certainly the objective is to retain and increase the production of coal and he has reason to believe that we will not realize that loss of revenue. The package itself, absent that debate on coal revenue, is as close to revenue neutral as they can calculate. He thanked the Chairman for allowing the bill to be heard over a four day period, scheduling different components of the bill on separate days. The hearing schedule is attached as Exhibit 3. With regard to Senator Crippen's comments, certainly all of the legislators have been around the legislature long enough to know that any bill is not in a take it or leave it position. We have made this proposal and worked hard on the preparation but certainly present it to you with the understanding that you will look at it and analyze it. We will assist and work with you in any way possible.

Senator Brown asked Mr. LaFaver if he disagreed with the fiscal note in the net loss of revenue in FY 89 of \$9 million.

John LaFaver said he was simply explaining, from a policy standpoint, where the note came from and the assumptions of what production will be. He thinks there is adequate reason to think that as we lower the rate of taxation that the production will expand.

Senator Brown asked Mr. LaFaver what he thinks the bottom line on the fiscal note should be instead of \$9 million in the red.

John LaFaver said he would hope it would be revenue neutral.

Senator Brown said he is concerned by this. We are all faced with this budget deficit. This bill is the Governor's tax reform package, it arrives late in the session and you are saying you hope the \$9 million isn't correct, and you hope there will be enough revenue generated from coal so at least it will be a wash. What kind of leadership demonstration is that to solve the state's big fiscal problems.

John LaFaver said the issue of leadership is taking a partisan tone. From the leadership standpoint this is the

only comprehensive tax reform bill that has been presented to the 1987 Legislature. From a fiscal standpoint, the numbers in the fiscal note are consistent with the numbers the Governor presented in the executive budget. From that standpoint, he does not think any case can be made that somehow tax reform makes the job of the legislature, in balancing out the financial equation, more complex. Certainly from the standpoint of increasing demand for tax reform, he would hope that by adopting this the financial equation is more readily solved.

Senator Crippen said you say that you haven't seen any comprehensive package dealing with tax reform. He would advise not to look for one particular big package. There are a number of bills that deal with tax reform. He expressed appreciation for the package of information furnished to the committee. This bill has been defined to meet the criteria of the Montana taxpayer for tax reform. He asked Mr. LaFaver if the fiscal note was correct on page 3, where it states there would be approximately \$10 million in property tax relief.

John LaFaver said yes, it is. What we are proposing is property tax relief in this package and it amounts to \$10 million and it is directed at low income property tax relief.

Senator Crippen said you are not directing this at all the taxpayers in the state but to a select few.

John LaFaver said to substantially reduce the amount of property tax, the Governor feels the enactment of a sales tax would be necessary. That is what he has proposed to put to the voters, a 3% sales tax that would substantially reduce the amount of property taxes paid.

FURTHER CONSIDERATION OF SB 307: Senator Neuman, Senate District 21, gave testimony in relation to the elimination of nuisance taxes and fees. His presentation encompassed the section dealing with nuisance taxes in Exhibit 2.

PROPOSERS: Eric Feaver, Montana Education Association, stood in support of this section of the bill dealing with nuisance taxes.

Stuart Doggett, Montana Chamber of Commerce, stood in support of this section of the bill dealing with nuisance taxes.

OPPOSERS: None.

QUESTIONS FROM THE COMMITTEE: Senator Lybeck asked Senator Neuman what is a tramway tax.

Senator Neuman said that is a ski lift tax. The ski dealers are the only ones involved in that.

Senator Crippen asked Senator Neuman to explain how he defined the taxes that fit into this category of nuisance taxes.

Senator Neuman said we categorized these nuisance taxes as taxes that actually cost about as much to collect as they bring in. These taxes cause a substantial amount of complaints and difficulty for the taxpayer.

FURTHER PROPONENTS: Gary Langley, Executive Director, Montana Mining Association, gave testimony in support of this area of the bill. The nuisance taxes that would be eliminated that he is concerned with are the Micaceous Mine License Tax and the Retail Coal Dealer License Tax. He supports this proposal because the mining industry feel these taxes are a nuisance and the amount of money they pay for principal taxes more than makes up for the elimination of these nuisance taxes.

FURTHER QUESTIONS FROM THE COMMITTEE: Senator McCallum said with regard to the camper decal fee, this doesn't bring in much money but doesn't part of that go to the local government.

John LaFaver said he thinks this is the part that comes to the state. There is a part of that amount that stays at the local level and we are not repealing that. We are repealing the fee that is utilized at the state level.

Senator McCallum said all of that money will go to the county instead of being divided with the state.

FURTHER CONSIDERATION OF SB 307: Senator Neuman, Senate District 21, gave testimony in relation to the revision of penalty provisions of this bill. His presentation encompassed the section dealing with progressive enforcement programs in Exhibit 2.

PROPONENTS: John LaFaver, Director, Department of Revenue, gave testimony in support of this bill. People are attempting to comply with Montana law but get hung up in the technicalities. We are proposing to change the filing date of W-2 forms from February 15 to February 28, which is the deadline to file at the federal level. Most people assume that is the deadline at the state level. It is not fair to have a penalty provision so that someone who

is a day or two late gets tagged with the full 10% penalty. A minimum penalty of \$10, where now there are times that we will send out penalty notices and will end up receiving \$2.50. That does not make sense. Under what we are proposing, if anyone had a penalty of less than \$10, they would owe nothing at all.

Eric Feaver, Montana Education Association, stood as a proponent of this section of the bill.

OPPONENTS: None.

QUESTIONS FROM THE COMMITTEE: Senator Hirsch said in Mr. LaFaver's statement he indicated we would be replacing the lost revenue by changing the alternative minimum tax. He does not think that was addressed.

John LaFaver said he was referring to the nuisance tax provisions and not the penalty. The alternative minimum tax would generate \$2 million per year on the individual income tax and about \$1.6 million on the corporation income tax. Part of that revenue would be used for terminating the nuisance fees. In relation to the progressive enforcement program, he does not feel that when you look at that over the period of the biennium that there will be much change in the amount of revenue that is collected.

Senator Mazurek asked if the penalties for missing the tax return and payment deadlines are consistent with other states.

John LaFaver said he could not say what other states use.

Senator McCallum said in relation to section 59, which provides a 10% penalty if a taxpayer understates his taxes by one-fourth or more, are you proposing they will be estimating state income tax.

John LaFaver said this has nothing to do with estimating tax, it has to do with final tax paid. If an individual is audited and it is determined they understated their tax by 25%, in that instance they would pay an additional 10% penalty.

Senator McCallum asked if Section 60 would be a violation of civil rights.

John LaFaver said it is not a matter of civil rights. Now, on state taxes, names of delinquent taxpayers can be published and are. The tax information remains confidential, but confidentiality is waived to the extend their delinquency could be published.

Senator Crippen said suppose that taxpayer has a lawsuit pending, do you still publish at that point in time.

John LaFaver said a tax matter under litigation would not be what we had in mind.

Senator Crippen said the bill does not say that and maybe an amendment might be in order. With regard to Senator McCallum's question concerning the understatement by 25% and the 10% penalty, when you do an audit you will be auditing the federal tax return.

John LaFaver said the usual situation would be the feds would audit, they would determine the under payment and would notify us. That would be the usual. There certainly will be times when we will do our own audit and make our own determination and charge a penalty. Then we have an obligation to notify the feds of our work. It is possible that the audit staff could come to the wrong conclusions. He has not found that to be the case normally but it could happen.

Senator Crippen said under the current law the penalty assessment is 10%.

Dan Bucks said one of the most frequent instances where the penalty is 15% is on withholding tax where there is both failure to pay and failure to file. That is a 10% penalty for failure to pay and a 5% penalty for failure to file the return.

Senator Crippen said this then would go to a 30% maximum, where there now is a 15% maximum.

Dan Bucks said that is correct. The maximum would be where they were knowingly in violation of the law.

Senator Crippen said the interest is 12%.

Dan Bucks said this maintains the current policy on interest rates, 1% per month for all taxes other than income taxes and that is 3/4 of 1% per month. It basically follows current law.

FURTHER CONSIDERATION OF SB 307: Senator Neuman, Senate District 21, presented the section dealing with the State Tax Appeal Board. He said this allows the State Tax Appeal Board to expedite its work by hiring hearings examiners as provided on page 144. This will speed up the appeal process.

Senate Taxation  
February 16, 1987  
Page Seven

PROPOSERS: Bob Raundal, Chairman, State Tax Appeals Board, gave testimony in support of this section of the bill. He said this is essentially the same thing as the bill that was introduced by Senator Crippen. He would suggest that the bill be amended on page 144, line 14, by deleting "transcript" and inserting "tape recording".

Eric Feaver, Montana Education Association, rose in support of this section of the bill.

OPPOSERS: None.

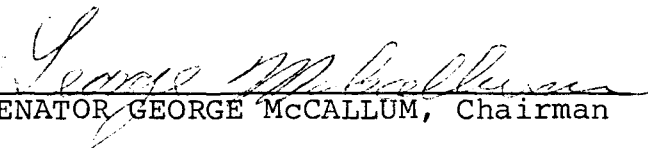
QUESTIONS FROM THE COMMITTEE: Senator Crippen said some of the provisions in his bill, SB 122, are not included in this section of this bill. He asked Mr. Raundal if he would want those amended into this bill.

Bob Raundal said that would be fine.

FURTHER PROPOSER TO THE NUISANCE TAX SECTION: George Allen, Montana Retail Association, gave testimony in support of this section of the bill. He is in support of repealing the store license tax. In visiting with people who administer this tax, they say this tax costs as much to administer as they receive in revenue.

Senator Neuman closed.

ADJOURNMENT: The meeting adjourned at 9:35 A.M.

  
SENATOR GEORGE McCALLUM, Chairman

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ROLL CALL

TAXATION

COMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date 2-16-87

NAME	PRESENT	ABSENT	EXCUSED
SENATOR CRIPPEN	✓		
SENATOR NEUMAN	✓		
SENATOR SEVERSON	✓		
SENATOR LYBECK	✓		
SENATOR HAGER	✓		
SENATOR MAZUREK	✓		
SENATOR ECK	✓		
SENATOR BROWN	✓		
SENATOR HIRSCH	✓		
SENATOR BISHOP	✓		
SENATOR HALLIGAN, VICE CHAIRMAN	✓		
SENATOR McCALLUM, CHAIRMAN	✓		

Each day attach to minutes.





(This sheet to be used by those testifying on a bill.)

NAME: George Allen DATE: 2-16-86

ADDRESS: P.O. Box 440

PHONE: 447-3388

REPRESENTING WHOM? Mr. Retail Cmn.

APPEARING ON WHICH PROPOSAL: S.B. 307

DO YOU: SUPPORT?  AMEND?  OPPOSE?

COMMENT:

We support eliminating the nuisance  
tax (store license tax)

a \$ 10.00 license is not worth the  
effort

a \$ 1.00 penalty is definitely not  
worth the effort

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

SENATE TAXATION

EXHIBIT NO. 1

DATE 2-16-87

BILL NO. SB 307

TESTIMONY FOR SB 307

Members of the committee, I am Ted Neuman, Senator representing District 21. I offer for your consideration SB 307--a bill to stimulate and encourage the growth of Montana through tax reform, more precisely, the Tax Reform Act of 1987. Why do we need to reform our tax system? Isn't the current system good enough? Unfortunately, the answer is no. Dr. David Birch, the respected economist from MIT often repeats the theme that selective, preferential tax treatments have little effect on stimulating economic development. He believes that a broad based fair and equitable tax policy does have favorable effects. He also points out that high, marginal tax rates for both corporations and individuals are a negative signal that Montana can ill afford to send in an era where competition for investment dollars among the states and nations is at its fiercest level. A state must be willing to adapt its tax policies to use whatever motivation possible to induce its residents to stay and new residents to move in to live and invest. A state that is reluctant to preserve and protect its current economic base will be left to languish in history books while the more progressive states and nations race into the 21st century. This bill is a significant change in direction. Montana will now limit selective preferences and will instead broaden the tax base and show equal preference. The Tax Reform Act of 1987 makes it clear that from now on taxpayers with similar incomes will pay taxes of similar amounts. The proposals in this package concern that concept of economic development through fairness that

moved the federal Congress to adopt a more progressive tax policy that makes the UNITED States more competitive as a nation. SB 307 brings the same concept to the state level to allow Montana to become more competitive as a state. First, SB 307 lowers the top individual tax from 11% to 8% for individuals and lowers the corporation license tax rate from 6 and 3/4% to 6%. Because SB 307 now applies these lower rates to the federal taxable income as found on the federal tax form, the tax will be much easier to compute. The tax form is reduced from 160 lines to only 8 or 10 lines for most individual taxpayers. The new rates will still be fully indexed for inflation. Montana check-offs for agriculture in MONTANA schools and others will remain, and a simple minimum tax will be used to ensure fairness. Special tax preferences are eliminated so corporation overall tax rates fall to 6%. The unitary tax which is often held up as a barrier to economic development is revised to be more in line with that of states like California that lead the nation in attracting new investment. The new waters edge election proposed in this bill will allow those companies with multi-state and multi-national holdings to elect between world-wide combination or waters edge, whichever is more favorable to them. The stigma of the unitary tax is removed, but the fairness of the unitary system is preserved. In addition, the tax preference for tertiary oil production is changed to make it more workable, again simplifying calculation and collection of taxes. Montana's 30% coal tax is reduced; the window of opportunity reduction to 20% is preserved and made permanent through a phased in program

so that by 1991, all MONTANA coal will be taxed at 20%.

The argument for a 30% coal tax that can be sustained in an expanding high profit market needs to be adjusted when market conditions change, and this proposal acknowledges the change in those market conditions. As I mentioned earlier, individual income tax rates are lowered from 11% to 8%, and the number of tax brackets is reduced from 11 to 3. This bill will eliminate the unequal treatment of retirement income. I am sure that the committee heard the chorus on Saturday over the unequal treatment of retirement income. SB 307 will tax all retirement income that has not been previously taxed, but at a lower rate. The personal exemptions jump from \$1060 in 1986 to \$2000 in 1989. The standard deduction also becomes much larger at \$5000 per household. A new minimum tax will be in effect for individuals and corporations. A property tax adjustment is made for low income home owners to reflect the effects of reappraisal. A \$4000 indexed-for-inflation exemption is allowed and application for state credit is an automatic application for local tax relief. The elderly homeowner/renter credit is increased to all low income taxpayers, regardless of age. With the interaction of both federal and state tax reform, Montanan individuals at nearly every level of taxation will pay less total tax than they do now. Many nuisance taxes are eliminated, and a uniform penalty for nonpayment and failure to file are enacted. The bill also improves the tax appeal process by appointing hearing examiners that will speed up the tax appeal process.

Mr. Chairman, this package that you have before you is the result of the demand for tax reform that has been expressed by the people of MONTANA and the nation. Reform has been

called for by the Economic Development Task Force, Tax Reform Conference, Conference on Economic Transition, and many other conferences and business groups across this state and nation over the last two years. Their themes have been essentially the same. They want the tax base broadened and the tax rate lowered. They do not mind paying taxes as long as they are fair and equitable. They want economic development; they want a system that they can understand. This bill is the only complete package that provides a stable base of tax. Fairness and equity provides a strong base on which a good state government can stand.

**SENATE TAXATION**EXHIBIT NO. 1DATE 2-16-87BILL NO. S.B. 307

Tax Fairness....  
The Key to Growth  
The Montana Economic  
and  
Tax Reform Act of 1987



SENATE TAXATION

EXHIBIT NO. 2

DATE 2-16-87

BILL NO. SB-307

In compliance with a written request, there is hereby submitted a Fiscal Note for SB307, as introduced.

**DESCRIPTION OF PROPOSED LEGISLATION:**

An Act to stimulate and encourage the growth in the Montana economy by means of the Montana Economic and Tax Reform Act of 1987; and providing applicability dates and an immediate effective date.

**ASSUMPTIONS:**

1. The Revenue Estimating Advisory Council's estimates provide the basis for comparison, unless otherwise noted.
2. The taxable value of the state will be \$1,997,193,000 in FY88 and \$2,024,661,000 in FY89.
3. \$1,200,000 in local tax relief was granted to low income homeowners in tax year 1986. The proposal will increase the amount of relief by 38 percent in FY89 (DOR simulations).
4. Average mill levies that apply to low income taxpayers are 6 mills for the university levy, 45 mills for the foundation program and 289 mills for local governments.
5. Individual income tax collections will be \$208,088,000 in FY88 and \$229,991,000 in FY89.
6. The proposed individual income tax rate table was designed to raise an additional \$5,700,000 over current law estimates (DOR).
7. The proposed extension of the elderly homeowner/renter credit to all low income taxpayers will reduce individual income tax collections by \$5,500,000 in FY88. The proposed liberalization of the local tax relief for the low income will reduce the amount of additional credits to \$4,600,000 in FY89 (DOR simulations).
8. Corporate license tax collections will be \$53,063,000 in FY88 and \$58,995,000 in FY89. After adjusting for audits and minimum tax payments, \$46,300,000 of the FY88 collections and \$52,300,000 of the FY89 collections would potentially be affected by the proposed tax rate. Only 60 percent of the FY88 receipts will be at the proposed tax rate due to the applicability date of the proposal.
9. Financial institutions will pay 11.57 percent of the corporate license tax.
10. The elimination of the deduction for Section 243-245 dividends will increase corporate license tax revenues by \$5,000,000 when taxed for a full year at current law rates (average of last two years). The dividend credit will reduce the revenue gain by \$750,000 at current tax rates (DOR).
11. Based on a detailed review of all FY86 corporate tax returns of multistate/multinational corporations, it is estimated that the water's edge unitary proposal will reduce collections by \$260,000.
12. The proposed net operating loss carryover limits will increase revenues by \$2,500,000 if the limit applied to all returns filed in FY88 and by \$2,250,000 in FY89.

*David L. Hunter* DATE 2/14/87

DAVID L. HUNTER, BUDGET DIRECTOR  
Office of Budget and Program Planning

SENATE TAXATION

EXHIBIT NO. 2

DATE 2-16-87

BILL NO. S.B. 307

*Ted Neuman* DATE 15 FEB 87

TED NEUMAN, PRIMARY SPONSOR

Fiscal Note for

SB307, as introduced.



13. The proposed corporate alternative minimum tax will raise an estimated \$1,000,000 each year. The individual alternative minimum tax will raise an estimated \$2,000,000 each year (based on federal statistics). \$1,500,000 in additional capital company credits will be claimed each year. Based on historical information, 43 percent of these credits will be claimed by individuals and the remainder will be claimed by financial institutions.

14. Oil severance tax collections will be \$19,212,000 in FY88 and \$20,821,000 in FY89. Ten percent of the state's oil production is from stripper wells (Independent Petroleum Association of America). The value of oil produced under tertiary production will be \$5,180,000 in FY88 and \$5,768,000 in FY89 (350,000 bbls.-- DNRC --valued at REAC prices). The reduced tax rates will apply to 3 quarters of FY88 receipts. It is assumed that the proposal will have no effect on the amount of severance taxes refunded to counties.

15. The proposed repeal of nuisance taxes will reduce revenues as follows (FY86 collections assumed constant).

<u>Tax</u>	<u>Collections</u>	<u>Distribution</u>
Camper Decal Fee	\$ 8,811	General Fund
Store License Tax	285,896	General Fund
R E Co-op and Tele Co-op License Tax	13,030	General Fund
Tramway Tax	18,318	Dept. of Commerce
Cement and Gypsum License Tax	117,213	General Fund
Micaceous Mines License Tax	8,941	General Fund
Retail Coal Dealer License Tax	16	General Fund
National Housing Tax	190	Local Govt's
Sleeping Car Tax	0	General Fund
Express Company Tax	<u>0</u>	General Fund
<b>Total</b>	<b>\$ 452,415</b>	

17. Coal severance tax collections will be \$78,996,000 in FY88 and \$81,856,000 in FY89. The proposal will have no effect on FY88 revenues. FY89 revenues will be reduced by \$10,416,000 through the reduction in the tax rate.

18. Public Employees' Retirement Division expenditures would be increased \$10,500 in FY88 and \$5,000 in FY89 due to the proposal.

Revenue Summary -- Changes from Current Law

	FY88		FY89	
	Additional Revenue	Reduction in Revenue	Additional Revenue	Reduction in Revenue
		Net Change		Net Change
<b>Individual Income Tax:</b>				
Income Tax Reform	\$5,700,000		\$5,700,000	
Alternative Minimum Tax	\$2,000,000		\$2,000,000	
Property Tax Relief		\$5,500,000		\$4,600,000
Capital Company Credit		\$645,000		\$645,000
Subtotal -- Individual	\$7,700,000	\$1,555,000	\$7,700,000	\$5,245,000
<b>Corporate License Tax:</b>				
Section 243 Dividends	\$2,550,000		\$4,250,000	
Net Operating Losses	\$1,500,000		\$2,250,000	
Alternative Minimum Tax	\$600,000		\$1,000,000	
Water's Edge Unitary		\$156,000		\$260,000
Rate Relief		\$3,537,000		\$6,005,000
Capital Company Credit		\$855,000		\$855,000
Subtotal -- Corporate	\$4,650,000	\$102,000	\$7,500,000	\$7,120,000
<b>Oil Severance Tax:</b>				
Stripper Relief		\$568,000		\$823,000
Tertiary Relief		\$39,000		\$58,000
Subtotal -- Oil		(\$607,000)		(\$881,000)
<b>Coal Severance Tax*</b>		\$0		\$10,416,000
<b>Nuisance Taxes</b>		(\$452,000)		(\$452,000)
<b>Local Property Relief</b>		\$0		(\$68,400)
<b>Total of Proposal</b>	\$12,350,000	\$598,000	\$15,200,000	\$24,182,400

\*The Revenue Estimating Advisory Council assumptions are used as the basis of comparison. These assumptions do not reflect any increase in production due to the rate reduction.

**FISCAL IMPACT:**

**Revenue Impact:**

	FY88			FY89		
	Current Law	Proposed Law	Difference	Current Law	Proposed Law	Difference
Individual Income Tax	\$208,088,000	\$209,643,000	\$ 1,555,000	\$229,991,000	\$232,446,000	\$ 2,455,000
Corporate License Tax	53,063,000	53,165,000	102,000	58,995,000	59,375,000	380,000
Oil Severance Tax	19,212,000	18,605,000	( 607,000)	20,821,000	19,940,000	( 881,000)
Coal Severance Tax	78,663,000	78,663,000	0	81,856,000	71,440,000	(10,416,000)
"Nuisance" Taxes	452,000	0	( 452,000)	452,000	0	( 452,000)
University Levy	11,983,158	11,983,158	0	12,147,966	12,139,916	( 8,050)
School Equalization	89,873,685	89,873,685	0	91,109,745	91,049,395	( 60,350)
<b>Total</b>	<b>\$461,334,843</b>	<b>\$461,932,843</b>	<b>\$ 598,000</b>	<b>\$495,372,711</b>	<b>\$486,390,311</b>	<b>\$( 8,982,400)</b>

**Expenditure Impact:**

**Fund Information:**

	FY88			FY89		
	Current Law	Proposed Law	Difference	Current Law	Proposed Law	Difference
State General Fund	\$189,811,184	\$190,414,943	\$603,759	\$208,868,313	\$208,326,136	(\$ 542,177)
School Equalization	156,922,629	157,485,879	563,250	165,101,523	165,496,765	395,242
University Levy	11,983,158	11,983,158	0	12,147,966	12,139,916	(8,050)
Debt Service Fund	28,186,290	28,434,120	247,830	31,187,750	31,562,366	374,616
Local Governments	5,181,190	4,585,000	(596,190)	5,730,190	5,159,400	(570,790)
Block Grant Program	6,403,936	6,201,605	(202,331)	6,940,264	6,646,600	(293,664)
Coal Tax Trust Fund	39,331,500	39,331,500	0	40,928,000	35,720,000	(5,208,000)
Alternative Energy	1,345,137	1,345,137	0	1,399,738	1,221,624	(178,114)
Local Impact	5,231,090	5,231,090	0	5,443,424	4,750,760	(692,664)
Education Trust	5,978,388	5,978,388	0	6,221,056	5,429,440	(791,616)
County Land Planning	298,920	298,920	0	311,052	271,472	(39,580)
Renewable Resource	377,582	377,582	0	392,909	342,912	(49,997)
Parks Acquis.	0	0	0	0	0	0
State Library Commis	298,919	298,919	0	311,053	271,472	(39,581)
Water Development	377,582	377,582	0	392,909	342,912	(49,997)
Conservation Districts	149,460	149,460	0	155,526	135,736	(19,790)
Highway Fund	9,439,560	9,439,560	0	9,822,720	8,572,800	(1,249,920)
Dept. of Admin.	18,318	18,318	0	18,318	0	(18,318)
<b>TOTAL</b>	<b>\$461,334,842</b>	<b>\$461,932,842</b>	<b>\$598,000</b>	<b>\$495,372,712</b>	<b>\$486,390,311</b>	<b>\$(8,982,401)</b>

HOUSE OF REPRESENTATIVES, DEPT. OF REVENUE, 1987

EFFECT ON LOCAL REVENUE:

The proposed expansion of local tax relief for low income homeowners will reduce local government revenues by an estimated \$388,000 in FY89.

SENATE TAXATION

EXHIBIT NO. 2

DATE 2-16-87

BILL NO. S.B. 307

GOAL: ECONOMIC GROWTH

Results

Increase Incentives for Entrepreneurship and Risk-Taking

Encourage Foreign Investment In Montana

Support the Lead Role of Small Businesses in Creating Jobs

Provisions of SB 307

The top marginal rates for individuals are reduced from 11% to 8%, and the corporate rate is reduced from 6.75% to 6% through measures broadening the tax base.

Rate Changes:

Section 14, Pages 28 - 30  
Section 38, Pages 79 - 81

Base Broadening:

Sections 9 - 34, Pages 17 - 71  
Sections 35 - 39, Pages 71 - 82

Negative perceptions associated with unitary are addressed in a revenue neutral manner through the California approach to repeal. Small businesses -- the primary source of new jobs -- are protected from a shift of the tax burden in their direction. The concerns of foreign governments are addressed through the "Halligan Amendment" excluding foreign parents from unitary, a practice based on a U.S. Supreme Court precedent.

Sections 40 - 49, Pages 82 - 99

SENATE TAXATION

EXHIBIT NO. 2

DATE 2-16-87

BILL NO. SB 307

**GOAL: ECONOMIC GROWTH**

**Provisions of SB 307**

**Results**

Increase Venture Capital  
in Montana

The Capital Company Tax Credit is doubled and is extended for two years to increase the capital base of Montana venture capital enterprises.

Section 77, Page 136

Increase the Competitiveness  
of Montana Coal in a Soft  
Coal Market

The "window of opportunity" is kept open as the basic coal tax rate is reduced first to 25% on July 1, 1988, and then to 20% on July 1, 1990. All coal is taxed at 20% as of that date -- a time when Montana's coal contracts will be renegotiated.

Sections 54 - 56, Pages 108 - 113

Maintain production from  
Montana oil fields and prevent  
the loss of developed oil  
reserves

The tax rate on stripper wells, representing nearly 10% of Montana production and half of the state's oil wells, is reduced to 3% when prices are below \$20. A workable incentive for tertiary oil production is provided through a 4% rate when prices are below \$40.

Section 53, Pages 102 - 108

**GOAL: ECONOMIC GROWTH**

**Results**

Maintain Stable State and  
Local Services Necessary for  
a Thriving Economy

**Provisions of SB 307**

Corporate loss carryovers are limited, in part,  
to prevent the disruption of state and local  
services. The revenue gained is returned to  
businesses through the corporate rate reduction.

Section 36, Pages 73 - 79

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**GOAL: A FAIR TAX SYSTEM**

**Results**

Treat Taxpayers with Similar Incomes and Family Size as Nearly Equal as Possible  
Tax Incomes According to Ability to Pay

**Provisions of SB 307**

Tax loopholes are limited, and personal exemptions and standard deductions are increased by basing the state tax on the new, reformed federal tax base. Special state deductions or credits are eliminated. Married households and retirees are treated as equally as possible.

See section and page references under "Goal: A Simple Tax System" for federal taxable income as the base of the state tax.

A state alternative minimum tax, based on the federal minimum tax, would further limit corporate and individual use of tax preferences to escape taxation.

Sections 15 - 16, Pages 30 - 34  
Section 38, Pages 79 - 81

Reduce the Excess Burden of Property Taxes on Households with Modest Incomes

The state property tax credit, now limited to the elderly, is extended to all households. Local property relief is expanded to more citizens and updated for reappraisal. Both programs are indexed for inflation.

Sections 1 - 8, Pages 3 - 16



GOAL: A FAIR TAX SYSTEM

Results

Tax Corporate Income as  
Nearly Equal as Possible

Improve Tax Compliance to  
Insure that Taxpayers Pay  
Their Fair Share, but Not  
Someone Else's

Provisions of SB 307

The special dividend exclusion that favors some larger corporations is eliminated. Dividend income of corporations is taxed in a manner equal to all other income -- once, but only once. A dividend credit is used to prevent the double taxation of income flowing from one Montana corporate taxpayer to another.

Section 37, Page 79  
Section 39, Pages 81 - 82

The unitary method is changed in a manner that prevents an unfair shift of the tax burden to smaller, Montana-based corporations.

Sections 40 - 49, Pages 82 - 99

Tax enforcement is tailored to the degree of delinquency and noncompliance through a progressive enforcement program. Penalties are reduced for missing deadlines a few days, but increase as delinquencies extend over months or more and as tax evasion becomes serious.

Sections 57 - 76, Pages 113 - 136

**GOAL: A SIMPLER TAX SYSTEM**

**Results**

**Provisions of SB 307**

A One-Page Income Tax Return

Federal taxable income becomes the base of the individual income and fiduciary taxes.

Sections 9 - 13, Pages 17 - 28  
Sections 17 - 34, Pages 31 - 71  
Sections 86 - 91, Pages 145 - 146  
Section 113, Page 148

Eliminate Unnecessary Costs for Businesses

9 nuisance taxes and 3 fees costing business and the state more than they are worth are abolished.

Section 50, Page 99  
Sections 79 - 84, Pages 140 - 142  
Section 101, Page 146  
Sections 106 - 110, Page 147  
Secs. 114, 116, 117, Page 148

The date 25,000 employers file their state W-2 forms is changed to match the federal date.

Section 78, Pages 139 - 140

Faster Tax Appeal Decisions

STAB is authorized to use hearings officers.

Section 85, Pages 142 - 145

OUTLINE OF "METRA" FIRST READING

PERSONAL INCOME TAX

- P3-7 Section 1. Low income property tax relief. Raises value subject to lower rate to \$80,000 from \$35,000, consonant with reappraisal.
- P7-8 Section 2. Low income property tax relief. Clean up 3.86% rate.
- p8-10 Section 3. Low income property tax relief. Changes application deadline from March 1 to April 15 and consolidates tax relief forms.
- p10-13 Section 4. Residential property tax credit.  
- changes definition of total income and indexes it.  
- provides \$4,000 income exemption.  
- applies to "billed" not "paid" taxes.
- p13-14 Section 5. Residential property tax credit.  
- \$45,000 income ceiling.  
- students ineligible
- p14-15 Section 6. Residential property tax credit. Limits Department extension to SOL.
- p15-16 Section 7. Residential property tax credit. Applies to "billed" not "paid" taxes.
- p16 Section 8. Residential property tax credit. Deletes requirements for receipt.
- p17 Section 9. Defines internal revenue code.
- p17-19 Section 10. Bonds - tax exemption. Ties to provisions of internal revenue code.
- p19-20 Section 11. Bonds - tax exemption. Ties county bonds to internal revenue code.
- p20-24 Section 12. DOR definitions. Defines internal revenue code.

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- p24-28 Section 13. Income tax definitions.
  - removes exemptions and standard deduction from indexation.
  - defines internal revenue code as generic legal base.
  - sets new base year for indexation.
  - defines net taxable income and ties it to federal definition.
  - defines nonresident and part year resident.
  
- p28-30 Section 14. Income tax rates.
  - repeals 2,3,4,5,7,8,9,10,11% rates, enacts 4,6,8% rates.
  - sets rates for married filing separate at half income breakpoints.
  
- p30-31 Section 15. Amends nonresident alternative tax based on gross sales. Includes provision for alternative minimum tax.
  
- p31-34 Section 16. New Section -- Alternative minimum tax for individual taxpayers.
  
- p31-34 Section 17. Define taxable income.
  - Montana net taxable income is federal taxable income plus:
    - all interest of another state,
    - federal tax refunds in 1987.
  - less:
    - interest of U.S. obligations,
    - railroad retirement,
    - income of Indian on reservation.
  
- p39-43 Section 18. Net taxable income of nonresidents.
  
- p43-44 Section 19. New Section - Net taxable income of part year residents.
  
- p44-45 Section 20. Change of residency status.
  
- p45-47 Section 21. Tax on beneficiaries of trust. Clarifies Montana net income of estates.
  
- p47-52 Section 22. Computations of income of estates or trusts. Ties Montana taxable income to federal taxable.
  
- p52 Section 23. Joint and several liability.

p52-56 Section 24. Filing status.

- must file for state if you do for federal.
- if \$5,000 from obligations of another state.
- same filing status as federal.

p56-58 Section 25. Extensions for filing.

- ties extension to federal.
- 2-month automatic plus 4 months for cause.

p58 Section 26. Technical changes on terminology - "adjusted gross" to "net taxable."

p59-60 Section 27. Investment credit recapture. Tied to federal.

p60-63 Section 28. Technical change corresponds to tying exemption to federal law.

p63-65 Section 29. Technical change to delete obsolete definition of adjusted gross income.

p65 Section 30. Retirement of state employees taxable (PERS).

p65 Section 31. Retirement of state employees taxable (teachers).

p66 Section 32. Retirement of state employees taxable (highway patrol).

p66-67 Section 33. Technical change to make terms consistent net -- taxable income.

p67-71 Section 34. Ties interest exemption on bonds to federal law.

#### CORPORATION TAX

p71-73 Section 35. Corporation tax definitions.

- clarifies internal revenue code generic definition.
- adds election fee to net income.

p73-79 Section 36. Corporation tax deductions.

- explicitly tied to internal revenue code.
- eliminates loss carryback.
- limits loss carry forward from 7 to 3 years.
- eliminates deduction for energy related investment.

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- p79 Section 37. New Section. Deductions not allowed.
  - election fee for waters edge.
  - Sections 243-245 dividends.
- p79-81 Section 38. Tax rate - alternative minimum tax.
  - lowers tax rate from 6 3/4% to 6%.
  - imposes alternative minimum tax tied to federal.
- p81-82 Section 39. New Section. Dividend credit. Montana credit income stream taxed once.
- UNITARY
- p82 Section 40. Unitary - "Halligan Amendment." Foreign parent excluded from unitary.
- p82-84 Section 41. New Section. Waters edge election. Corporation may opt out of unitary.
- p84-86 Section 42. New Section. Qualifications for waters edge election.
- p86-87 Section 43. New Section. Laws of other states.
- p87-90 Section 44. New Section. Rejection of waters edge election. Spells out restrictions on election.
- p90-91 Section 45. New Section. Contract for waters edge.
- p91-94 Section 46. New Section. Penalties for failure to supply information.
- p94-95 Section 47. New Section. Admissibility of evidence.
- p95-96 Section 48. New Section. Domestic disclosure spreadsheet.
- p96-99 Section 49. New Section. Fee for waters edge.
- p99 Section 50. Repeals fees for copying corporation tax returns.
- p99-101 Section 51. Definitions of energy conservation. Repeals definitions to conform to federal definitions.
- p101-102 Section 52. Repeals rule hearings for alternative energy tax credit.

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EXHIBIT NO. 2

DATE 2-1-87

BILL NO. 6837

OIL TAXES

- p102-108 Section 53. Oil taxes.
- 4% tertiary tax; price below \$40.
  - 3% stripper tax; price below \$20.
- p108-110 Section 54. Coal tax.
- lowered from 30% to 25% 7/1/88 to 6/30/90.
  - lowered from 25% to 20% 7/1/90 on.
- p110-111 Section 55. Window of opportunity rate.
- lowers credit rate from 33 1/3% to 20% 7/1/88 to 6/30/90. (Gives 5% window added to 5% credit in Section 54.)
  - Repeals window 7/1/90 when all coal is 20%.
- p111-113 Section 56. Technical changes to conform to 54 & 55.

UNIFORM PROGRESSIVE PENALTY PROVISIONS

- p113-114 Section 57. New Section. General penalty provision.
- 5% or \$10, whichever is greater.
  - 5% per month.
  - maximum 30%.
- p114 Section 58. New Section. Payments applied to, in order: interest, penalty, tax.
- p114-115 Section 59. New Section. If taxpayer understates by 25%, an additional 10% penalty.
- p115 Section 60. New Section. Publish list of delinquent taxpayers and those not filing.
- p115-116 Section 61. New Section. Department may compute tax in absence of statement.
- p116-117 Section 62. May waive penalty for "reasonable cause."

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p117-120 Section 63. Income tax penalty.

- 5% per month to 30% for failure to file, or
- 5% per month to 30% for failure to pay.
- \$10 minimum, 9% interest.

p120-121 Section 64. Penalty for deficiency. 5% per month to 30%; \$10 minimum.

p121-122 Section 65. Corporation tax penalty.

- 5% per month to 30%; \$10 minimum.
- 12% interest.
- failure to file minimum tax \$10

p122-124 Section 66. Oil and gas - strikes penalty (refer to general provision).

p124-126 Section 67. Metal mines - strikes penalty (refer to general provision).

p126-127 Section 68. Public contractors - strikes penalty (refer to general provision).

p127-128 Section 69. Electric enetry producers - strikes penalties (refer to general provision).

p128 Section 70. Freight line company license tax - strikes penalties (refer to general provision).

p128-129 Section 71. Fuel taxes - strikes penalties (refer to general provisions).

p129-130 Section 72. Technical change to comport with 71.

p130-132 Section 73. Beer tax penalty - 5% per month to 30%; minimum of \$10.

p132-133 Section 74. Cigarette taxes penalty - 5% per month to 30%; minimum of \$10.

p134-135 Section 75. Consumer counsel fee - penalty 5% per month to 30%; minimum of \$10.

p135-136 Section 76. PSC tax - penalty 5% per month to 30%; minimum of \$10.



**CAPITAL COMPANIES**

- p136 Section 77. Capital companies tax credit.
- raises tax credits from a single company from \$375,000 to \$1,500,000.
  - total credits in biennium \$3 million.
  - tax credit raised from 25% to 50%.
  - maximum credit per taxpayer from \$25,000 to \$50,000.

**MISCELLANEOUS**

- p139-140 Section 78. Comports withholding statement filing date to federal law.
- p140 Section 79. Repeals \$1 corporation tax clearance fee.
- p140 Section 80. Repeals \$3 license fee to sell gasoline.
- p141-142 Section 81, 82, 83, 84. Repeals state camper decal fee.

**STAB**

- p142-145 Section 85. Hearings officers for STAB.

**REPEALER SECTIONS**

- Section 86. Exemptions personal income tax.
- Section 87. Deductions personal income tax.
- Section 88. Deduction for donating computer equipment.
- Section 89. Deduction for donating to child abuse prevention programs.
- Section 90. Comports to 89.
- Section 91. Pass through of investment credit of subs to personal income tax.
- Section 92. Obsolete provision.
- Section 93. Wage credit -- new or expanding industry.

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BILL NO. 5 R 207

Section 94. Fees to copy corp tax returns.

Sections 95,96. (Leg. Audit Recommendation) Requirement to list corporations.

Section 97. Energy conserving investments.

Section 98. - Tax credit for energy conservation.  
- Tax credit for alternative energy.  
- Deduction for organic fertilizer.  
- Credit for wind energy.

Section 99. Coal tax penalty -- (refer to general provision).

Section 100. Oil and gas penalty -- (refer to general provisions).

Section 101. Micaceous mines license tax.

Section 102. RITT penalty -- (refer to general provisions).

Section 103. Electrical Energy Producers - penalty (refer to general provisions).

Section 104. Telephone Company - penalty (refer to general provisions).

Section 105. Telephone Company - failure to file (refer to general provisions).

Section 106. Express Company Tax.

Section 107. Sleeping Car Company Tax.

Section 108. Store License Tax.

Section 109. Coal Retailers License Tax.

Section 110. Cement and Gypsum Producers Tax.

Section 111. Fuels Tax - failure to file or pay (see general provisions).

Section 112. Federal deduction - legislative intent.

- Section 113. Police retirement tax exempt.
- Section 114. Tramway fees.
- Section 115. Repeal co-op fee.
- Section 116. Camper decal fee.
- Section 117. Penalty - late payment oil and gas.

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DATE 2-16-87

BILL NO. S.B. 307

CATEGORIZING AMENDMENTS TO SENATE BILL NO. 307

<u>Subject</u>	<u>Item Nos.</u>
1. Repeal Tax Exemption for Judicial Retirement Benefits	4, 7
2. Repeal Tax Exemption for Sheriff's Retirement	5, 8, 9
3. Repeal Tax Exemption for Game Wardens	5, 8, 9
4. Repeal Tax Exemption for Firefighters	2, 16
5. Provision for Only One Penalty for Income Tax	10
6. Amendment to Clarify Penalty for Corporation Tax	12
7. Amendment to Provide that Interest is Not Assessed against Penalties for Corporation Tax and Beer Tax	11, 13
8. Repeal All the Provisions of the Cement Dealers Tax	1, 15
9. Amendment to Continue Tax Exemption for Rural and Phone Electric Coops	3, 5, 14, 17
10. Mobile Home Property Tax Relief	6

11b/90

SENATE TAXATION

EXHIBIT NO. 2

DATE 2-16-87

BILL NO. S.B. 307

AMENDMENTS TO SENATE BILL NO. 307

INTRODUCED COPY

1. Title: line 11.  
Following: "15-59-203"  
Strike: ", "  
Insert: "through"

2. Title, line 13.  
Following: "19-9-1005,"  
Insert: "19-13-1003"

3. Title: line 13.  
Following: "23-2-715"  
Strike: "35-18-503"

4. Title, line 19.  
Following: "19-4-706,"  
Insert: "19-5-704,"

5. Title, line 19.  
Following: "19-6-705,"  
Insert: "19-7-705, 19-8-805, 35-18-503"

6. Page 8, line 3.  
Following: "first"  
Strike: "\$35,000"  
Insert: "\$80,000"

7. Page 66.  
Following: line 7  
Insert: "Section 32. Section 19-5-704, MCA, is amended to read:

**19-5-704. Exemption from ~~taxes and~~ legal process.** Any money received or to be paid as a member's annuity, state annuity, or return of deductions or the right of any of these shall be exempt ~~from any state or municipal tax~~ and from levy, sale, garnishment, attachment, or any other process whatsoever and shall be unassignable except as specifically provided in 19-5-705. \ \ \

8. Page 66, line 8  
Following: "Section"  
Strike: "32"  
Insert: "33"

9. Page 66.  
Following: line 20  
Insert: "Section 34. Section 19-7-705, MCA, is amended to read:

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19-7-705. Exemption from ~~taxes and~~ legal process. Any money received or to be paid as a member's annuity, state annuity, or return of deductions or the right of any of these is:

~~(1) exempt from any state, county, or municipal tax except for a refund paid under 19-7-304(1) of a member's contributions picked up by an employer after June 30, 1985, as provided in 19-7-403;~~

~~(1)(2)~~ exempt from levy, sale, garnishment, attachment, or any other process; and

~~(2)(3)~~ unassignable except as specifically provided in 19-7-706.

Section 35. Section 19-8-805, MCA, is amended to read:

19-8-805. Exemption from ~~taxes and~~ legal process. Any money received or to be paid as a member's annuity, state annuity, or return of deductions or the right of any of these is:

~~(1) exempt from any state, county, or municipal tax except for a refund paid under 19-8-503 of the member's contributions picked up by an employer after June 30, 1985, as provided in 19-8-502;~~

~~(1)(2)~~ exempt from levy, sale, garnishment, attachment, or any other process; and

~~(2)(3)~~ unassignable except as specifically provided in 19-8-806.

Renumber: Subsequent sections.

10. Page 118, line 18.

Following: "unpaid."

Insert: "The department may not assess a penalty for failure to pay a tax if it has already assessed against the same taxpayer for the same period a penalty for failure to file a return."

11. Page 121, line 22.

Following: "tax"

Strike: "and penalty"

12. Page 122, line 1.

Following: "required"

Strike: "to pay the minimum license tax for the privilege of doing business in this state shall be required to pay a minimum penalty of \$10 for its failure to file the return required by this chapter, or pay the minimum \$10 fee on the date specified in this chapter.:"

Insert: "by this chapter to pay the minimum license tax for the privilege of doing business in this state, and which fails to do so on the date required or fails to file the return required by this chapter shall be assessed a penalty of not less than \$10."

13. Page 131, line 17.

Following: "tax"

Strike: "and the penalties added thereto"

14. Page 141.

Following: Line 16

Insert: "Section 82. Section 35-18-503, MCA, is amended to

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read:

**35-18-503.** (Effective January 1, 1987) Annual fee to department of revenue — exemption from other taxes. Cooperatives and foreign corporations transacting business in this state pursuant to the provisions of this chapter ~~shall pay annually on or before July 1, to the department of revenue a fee of \$10 for each 100 persons or fractions thereof to whom electricity or telephone service is supplied within the state but,~~ except as provided in 10-4-201, shall be exempt from all other excise and income taxes of whatsoever kind or nature.

Renumber: subsequent sections.

15. Page 147, line 22.

Strike: ", "

Insert: "through"

16. Page 148, line 5.

Following: "MCA,"

Strike: "is"

Insert: "and 19-13-1003 are"

17. Page 148, lines 8 and 9.

Strike: Section 115 in its entirety.

Renumber: subsequent sections.

18. Page 148, line 64.

Following: "Repealer."

Strike: "Section"

Insert: "Sections"

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SENATE TAXATION

EXHIBIT NO. 2

DATE 2-16-87

BILL NO. S.B. 307

**ELIMINATING NUISANCE TAXES AND FEES**

**NEED FOR  
THE CHANGE**

Montana collects less than \$500,000 from seven taxes and keeps two other obsolete taxes on the law books. Raising little revenue in small amounts is not cost effective for either business and government.

Fees set in law for corporate tax clearance certificates and copies of corporation returns are lower than, in most instances, their cost of collection. The same is true of the fee charged to those who will sell gasoline not subject to the gasoline tax. In addition, a new application for this gasoline sellers' permit is unnecessarily required every three years.

State law requires Montana's 25,000 employers to file W-2 forms with the state on February 15. The federal deadline is February 28. The difference is confusing. Many employers, focusing on the federal deadline, miss the state deadline and have state penalties levied against them. The result is unnecessary costs and frustration for the taxpayer and a waste of state time and resources.

**PROPOSAL**

Nine nuisance or obsolete taxes and three inefficient fees will be repealed.

The gasoline sellers' permit will become a permanent permit that a business need apply for only once instead of every three years.

The state W-2 filing deadline will be changed to match the federal deadline.

These changes will eliminate unnecessary business costs and streamline tax administration.

The revenue loss from the repeal of nuisance taxes will be financed by the alternative minimum taxes.

**SENATE TAXATION**

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DATE 2-16-87

BILL NO. S.B. 307



REPEAL OF NUISANCE TAXES, FEES, AND REQUIREMENTS

<u>ITEM</u>	<u>COLLECTIONS FY86</u>	<u>SECTIONS SB307</u>
Camper Decal Fee	\$ 8,811	81-84
Store License Tax	285,896	108
R E Co-op and Tele Co-op License Tax	13,030	115 (see amendments)
Tramway Tax	18,318	114
Cement and Gypsum License Tax	117,213	110 (see amendments)
Micaceous Mine License Tax	8,941	101
Retail Coal Dealer License Tax	16	109
Sleeping Car Tax	0	107
Express Company Tax	0	106
Corporate Tax Clearance Certificate and Return Copy Fees	N/A	79,94
Gasoline "Sellers" Fee	N/A	80
Matching the Federal Date for Filing W-2 Forms*	N/A	78

TOTAL \$452,415

\*Filing date is changed from February 15 to February 28.

SENATE TAXATION

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DATE 2-16-87

BILL NO. S.R. 307

PROGRESSIVE ENFORCEMENT PROGRAM

NEED FOR  
THE CHANGE

Current enforcement measures often do not fit the tax compliance problems. Taxpayers who miss a deadline by a day or two are hit with 10% or 15% penalties -- the same penalties paid by someone who is several months late. Enforcement measures are lacking for serious cases where tax payments are extremely late, or a taxpayer has been overzealous in avoiding his or her fair share of taxes.

PROPOSAL

Enforcement measures will be tailored to fit the degree of delinquency and noncompliance.

Initial penalties for missing tax return and payment deadlines will be reduced to 5%. A 5% penalty will be added for each month the problem continues until the penalty reaches 30%.

Those who are delinquent in filing returns or paying taxes longer than 12 months may have their names published.

Those who understate taxes by one-fourth or more will be subject to a 10% penalty.

The result will be reduced penalties for minor violations, but stiff measures for those who persist in not paying a fair share of the cost of public services. Better tax compliance will improve the fairness of the tax system.

SENATE TAXATION

EXHIBIT NO. 2

DATE 2-16-87

BILL NO. S.B. 307

## CORPORATION TAX REFORM

NEED FOR  
THE CHANGE

Montana's corporation tax rate is higher than it needs to be because of a) a special deduction for some dividends, and b) loss carryovers that conflict with the service responsibilities of state and local governments.

At the federal level part or all of certain dividends (Section 243, 244, and 245 dividends) are excluded to limit or avoid taxing the dividends twice. The deductions are unnecessary at the state level because most of this dividend income escapes taxation entirely and is not in danger of double taxation.

In fiscal year 1986, \$6.3 million in state revenue was lost by failing to tax these dividends. Nearly \$5.5 million -- or about 87% -- of this tax break went to 12 multistate or multinational companies. The vast majority of corporations receive no benefit from this tax break.

Corporate losses can now be carried back 3 years and forward 7 years. Such liberal loss carryovers can be allowed at the federal level where there is no requirement to balance budgets each year. At the state and local level, where budgets must be balanced, loss carryovers can disrupt the normal provision of public services. The problem is especially severe for local governments paying 80% of the tax refunds caused by loss carrybacks of banks.

PROPOSAL

All dividends will be taxed once, but only once. The "Section 243, 244, and 245" loophole will be closed, and a dividend credit will be allowed to prevent double taxation in the limited number of cases where dividends are flowing from one Montana corporate taxpayer to another.

Corporations will be able to carry losses forward three years.

The revenue gained from these two items will not be spent by government, but will be used to lower the corporate tax rate from 6.75% to 6%.

An alternative minimum tax will further improve the equity of the corporation tax and will help finance oil production and venture capital incentives and the elimination of nuisance taxes.

The result will be a more equitable corporation tax base, less disruption of state and local budgets, and a more favorable climate for corporate investment through the reduction in tax rates.

SENATE TAXATION

EXHIBIT NO. 2

DATE 2-16-87

BILL NO. S.B. 30

## UNITARY

### NEED FOR THE CHANGE

Negative perceptions associated with worldwide unitary need to be reduced while retaining the fundamental tax fairness achieved through unitary.

In 1982, the U.S. Supreme Court declared the worldwide unitary method "fair and proper." After losing in court, some multinationals campaigned for removing worldwide unitary from state laws. The campaign included creating a negative image of states using this method, with the threat that large corporations would not invest in those states. Worldwide unitary, though, insures equal taxation of corporations large and small, and protects small businesses from unfair competition and taxation. Further, some alternatives to worldwide create perverse incentives for corporations, once here, either to shift jobs or hide income overseas.

Changes in unitary need to be made carefully to deal with the problems of perception, without sacrificing the positive results achieved through worldwide unitary.

### PROPOSAL

Montana can remove itself, as California has, from the list of worldwide unitary states, but prevent shifting several million dollars in taxes to small businesses by:

- 1) Allowing corporations to choose a "water's edge" method of accounting by paying an election fee and agreeing to guidelines that prevent tax evasion.
- 2) Providing an incentive for corporations to invest in Montana through a "buy down" of the election fee, and
- 3) Adopting the "Halligan Amendment" excluding foreign parents from unitary.

The election fee prevents a revenue loss and a shift of taxation to other taxpayers. Through the "buy down" feature large corporations can reduce their taxes if they invest capital or create jobs in Montana.

The water's edge option in SB307 is defined to minimize the shifting of jobs and investments or the hiding of income outside Montana and the U.S.

The Halligan Amendment ratifies the distinction made by the U.S. Supreme Court in Container, the landmark unitary tax case: The method is fair and proper for U.S. corporations, but foreign parents may be beyond a state's jurisdiction because of the foreign commerce clause.

SENATE TAXATION

EXHIBIT NO. 7

DATE 2-16-87

BY S.B. 307

## VENTURE CAPITAL

### NEED FOR THE CHANGE

Montana's capital company's credit has been successful in creating a core group of small venture capital companies dedicated to financing new enterprises in Montana. The pool of venture capital remains too small in relation to the demand for this key type of financing.

### PROPOSAL

The pool of Montana venture capital will be expanded through these changes in the capital company credit:

- 1) The credit will increase from 25% to 50% of a taxpayer's investment, and the maximum amount of credit will also double from \$25,000 to \$50,000.
- 2) An additional \$3 million in tax credits will be authorized for the 89 biennium, and unused credits from the last biennium will be made available for use.
- 3) The amount of tax credits authorized for a single company will be increased fourfold to \$1,500,000.

The cost of this expanded credit is financed by the proposed alternative minimum taxes.

With this expanded credit, Montana capital companies will remain responsible for focusing their investments on new Montana enterprises.

SENATE TAXATION

EXHIBIT NO. 2

DATE 2-16-87

BILL NO. S.B. 307

## TAXATION OF OIL AND COAL RESOURCES

### NEED FOR THE CHANGES

Low energy prices make it necessary to reevaluate portions of Montana's oil and coal taxes.

Some stripper wells -- those with average production of 10 barrels a day or less -- may be abandoned when prices are low, resulting in a permanent loss of oil resources.

Montana's coal tax rate cannot be sustained at 30% in a soft coal market. Adjustment of the rate is needed prior to the time that major, long-term coal contracts are renegotiated in the early 1990's.

The tertiary tax incentive enacted in the 1985 needs revision to be a workable incentive for enhanced oil production. The 1985 law cannot work because there is no reliable method for calculating the incremental production that would receive a tax reduction under that law.

### PROPOSALS

New coal sold under the "window of opportunity" program will continue to be taxed at 20%. The tax rate on all other coal will be phased down to 25% on July 1, 1988, and to 20% on July 1, 1990. This phased reduction of rates will place Montana coal in a better competitive position at the time contracts are renegotiated. At the same time, the reduction in rates will occur at a level and to a degree that is balanced with the revenue needs of Montana government.

The oil severance tax on stripper wells will be reduced to 3% when oil prices are below \$20 a barrel. Relating the tax reduction to oil prices tailors the tax break to circumstances when stripper production needs assistance.

The tax on all oil production from tertiary projects will be reduced to 4% when prices are below \$40. The incentive will become workable, and the state's tax will recognize the added costs of investing in tertiary production.

SENATE TAXATION

EXHIBIT NO. 2

DATE 2-16-87

BILL NO. 58

## INCOME TAX REFORM

NEED FOR  
THE CHANGE

There are three major problems with Montana's income tax:

- 1) The top tax rate of 11% is too high. It deters entrepreneurs, while overstating the true top rate.
- 2) The tax is unfair. Some people with high incomes pay high taxes; others pay low taxes. Unjustified tax differences also exist at lower income levels. Federal tax reform will help, but will not completely eliminate the inequities.
- 3) The tax is too complicated, with too many pages of forms.

PROPOSAL

Federal taxable income would become the base of the state income tax, and the current ten tax brackets that go up to 11% would be replaced by a simpler three bracket structure of 4, 6, and 8%.

Federal reform removed many tax features that caused taxpayers with similar incomes to be taxed differently. Repeal of the capital gains exclusion and limits on tax sheltering bring welcome improvements in tax equity.

Using federal taxable income for state purposes will shorten the tax form to one page while removing features that create tax inequities among similarly situated taxpayers: the deduction for federal taxes, the special break for married separate households, variable retirement income exclusions, and numerous special credits or deductions.

For most taxpayers the loss of special tax breaks will be made up by the near doubling of personal exemptions, an increased standard deduction, a deduction for the prior year's state income tax (automatically a part of federal taxable income), and lower tax rates.

The net result will be that about 60% of Montanans are estimated to receive a tax deduction, taxpayers will be treated more equitably, and incentives for entrepreneurship will increase through the lower top rate.

SENATE TAXATION

EXHIBIT NO. 2

DATE 2-16-87

BILL NO. S.B. 30

# FORM 2

## 1987 — Montana Individual Income Tax Return — 1987

OR FISCAL year beginning \_\_\_\_\_, 1987 and ending \_\_\_\_\_, 19 \_\_\_\_\_

PLACE LABEL HERE      Correct label if necessary.      File on or before April 15, 1988 (Fiscal year see instructions).

LAST NAME	First Name & Initial	Your Social Security No. — —	Chief Occupation Enter code no.	Yours
Spouse's Last Name If Different	Spouse's First Name & Initial	Spouse's Social Security No. — —		Spouse's
MAILING ADDRESS		City	State	Zip Code

**Filing Status (Check one)**

- 1.  Single
- 2.  Married Filing Joint Return
- 3.  Married Filing Separate Return
- 4.  Unmarried Head of Household

**Residency Status (Check one)**

- 1.  Resident Full Year
- 2.  Nonresident Full Year
- 3.  Resident Part year

Give date of change \_\_\_\_\_

**Exemptions from Federal return**

1. Federal Taxable Income .....	_____
2. Interest from Obligations of other States .....	_____
3. Add lines 1 and 2	_____
Deductions From Income .....	_____
4. Interest from U.S. obligations .....	_____
5. Benefits from Railroad Retirement Act .....	_____
6. Indian Income Earned on a Reservation .....	_____
7. Deduction from allocating income (sch. 2A) .....	_____
8. Total Adjustments Add Lines 4 thru 7 .....	( _____ )
9. Montana Taxable Income Subtract line 8 from line 3 .....	_____

10. Tax on line 9 from tax tables .....	_____
11. Credits and Recapture (Sch. 2B) .....	_____
12. Subtract line 11 from line 10 .....	_____
13. Minimum Tax and Lump Sum Dist. ....	_____
14. Public Campaign Fund .....	_____
15. <input type="text"/> Nongame Wildlife Program	_____
16. <input type="text"/> Child Abuse Prevention	_____
17. <input type="text"/> Agriculture in MT schools	_____
Enter Total of 15, 16, 17	_____
18. Total additions add lines 13 thru 17 .....	_____
19. Total Tax add lines 12 and 18 .....	_____
20. Montana tax withheld (Attach withholding statements) .....	_____
21. Payments on 1987 estimated tax and amounts credited from previous year. ...	_____
22. Homeowner or Renter Credit from Form 2EC .....	_____
23. Total of lines 20 thru 22 .....	_____
24. If line 23 is larger than line 19 this is your refund .....	_____
25. If line 23 is smaller than line 19 this is the amount you owe. ....	_____
Late Filing Penalty	26. _____
Late Payment Penalty	27. _____
Interest	28. _____
Total of Lines 25, 26, 27, 28	29. _____

Signature and Date \_\_\_\_\_

Telephone No. \_\_\_\_\_

Spouses Signature \_\_\_\_\_

SENATE TAXATION

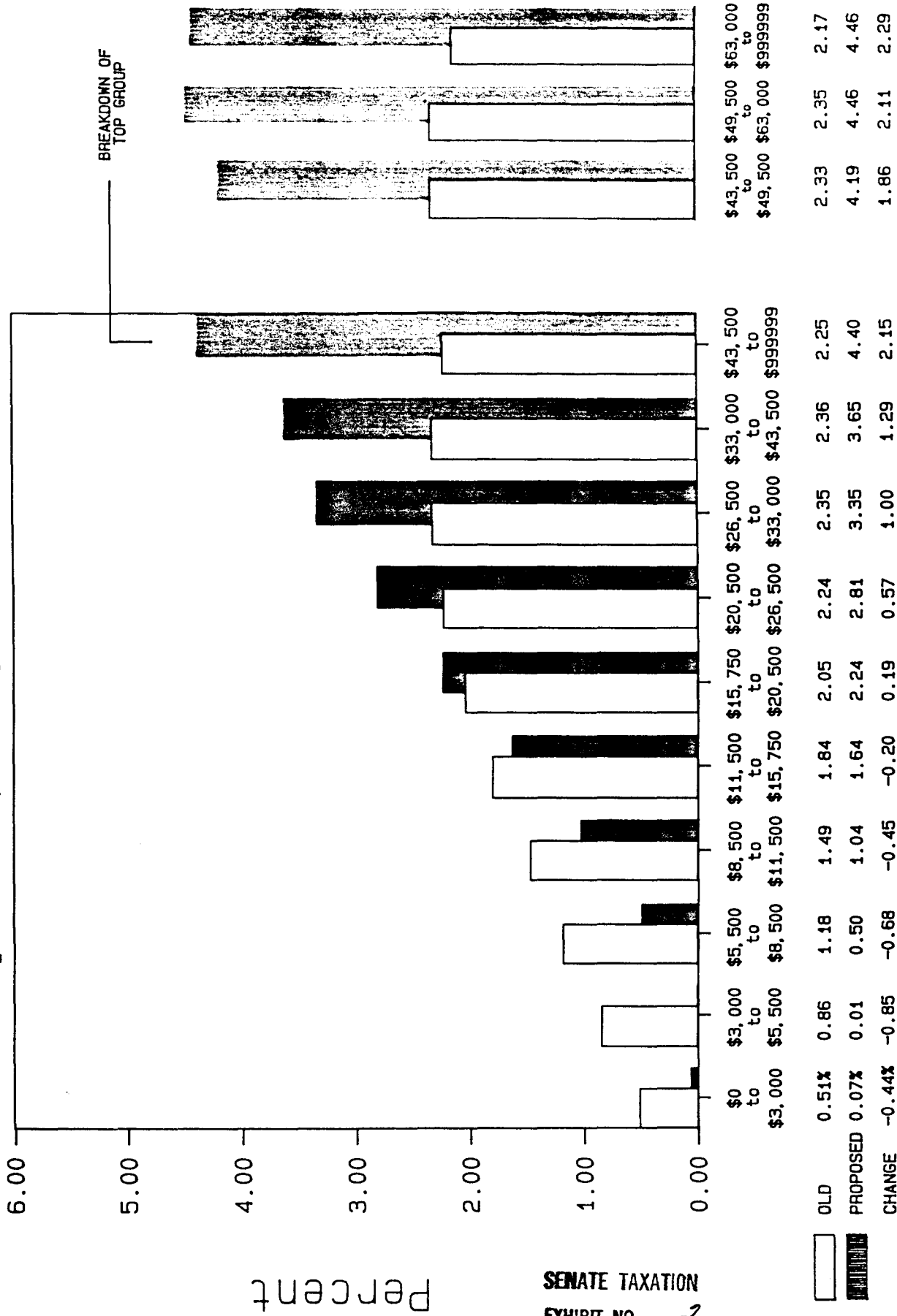
EXHIBIT NO. 2

DATE 2-16-87



# EFFECTIVE TAX RATES

Old Law to Proposed Law (After Adjusting for Federal Offset)



SENATE TAXATION

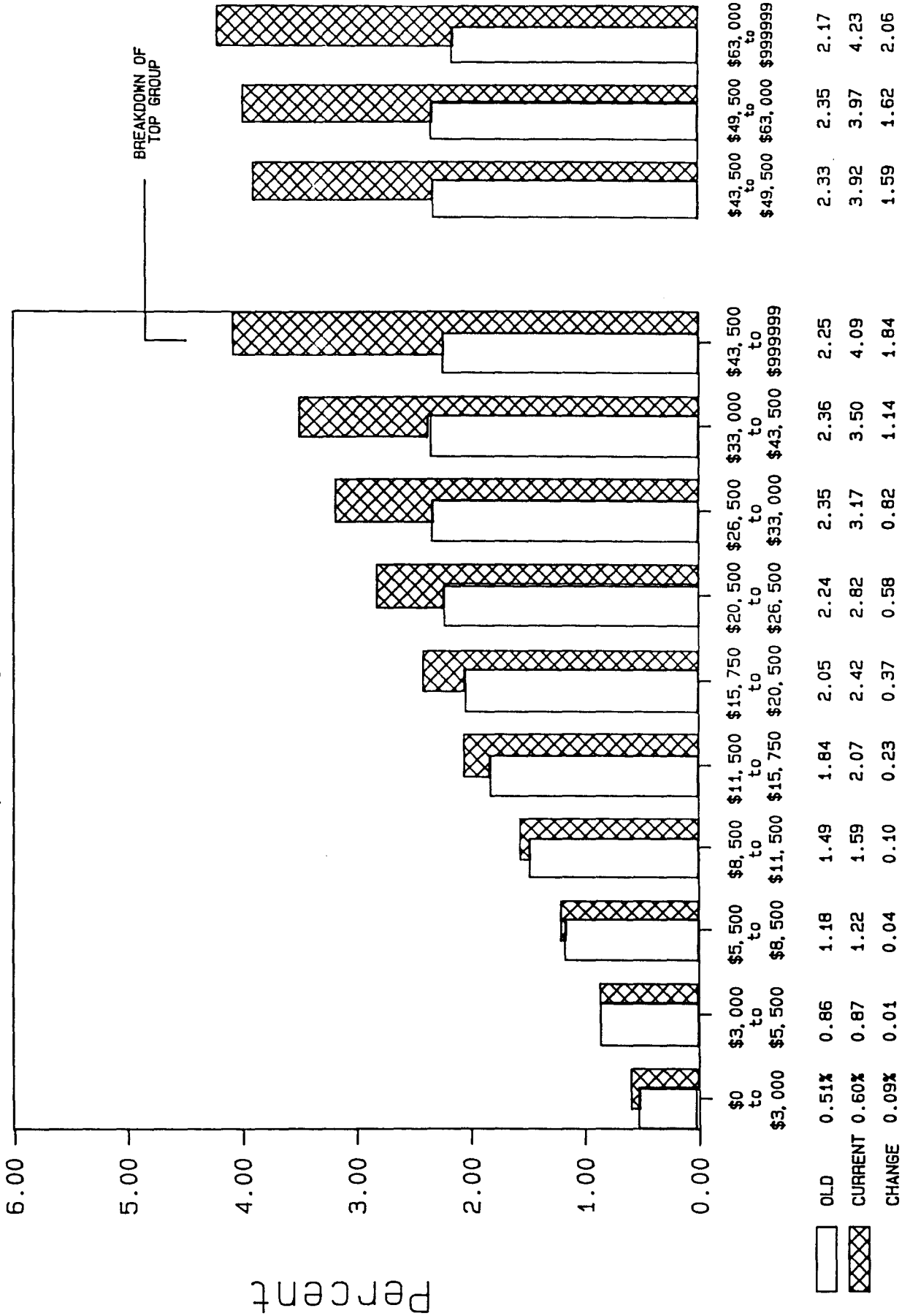
EXHIBIT NO. 2

DATE 2-16-87

BILL NO. S.R. 307

# EFFECTIVE TAX RATES

Old Law to Current Law (After Adjusting for Federal Offset)



Legend:  
 [White Box] OLD  
 [Cross-hatched Box] CURRENT

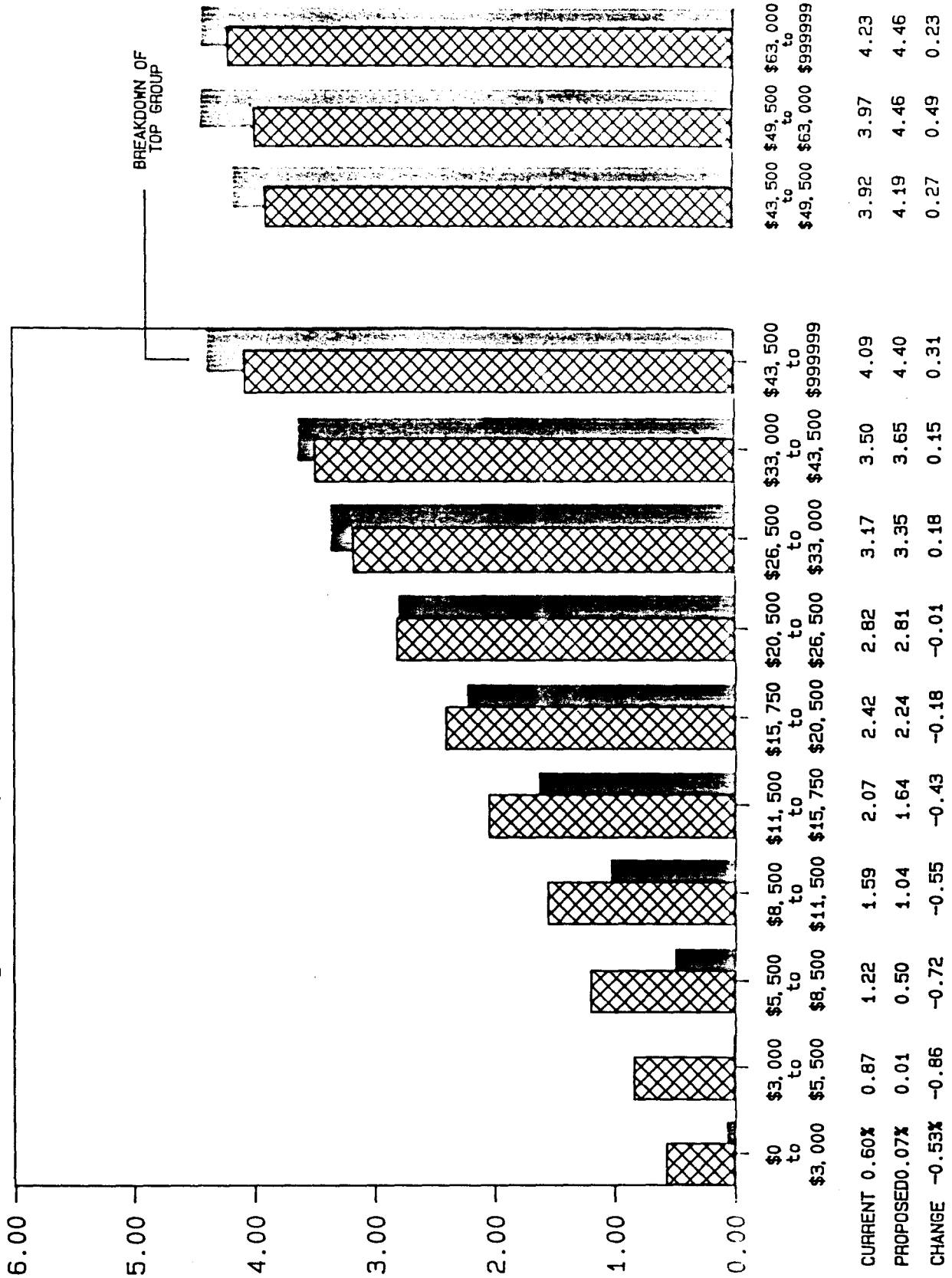
CHANGE

BREAKDOWN OF TOP GROUP

Percent

# EFFECTIVE TAX RATES

Current Law to Proposed Law (After Adjusting for Federal Offset)



Percent

SENATE TAXATION

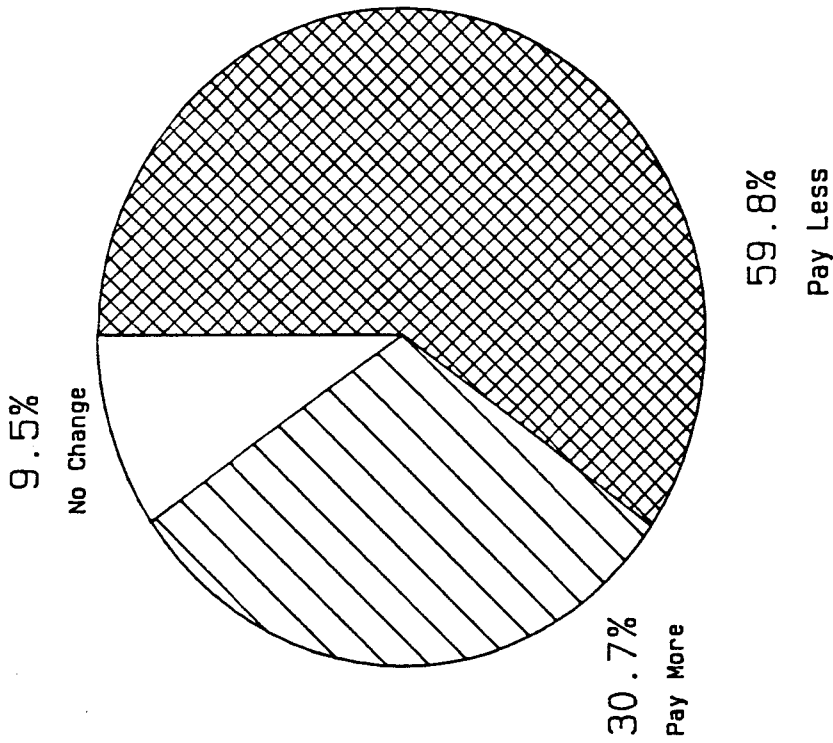
EXHIBIT NO. 2

DATE 2-16-87

BILL NO. S R 2-1

# % WHO CHANGE --- STATE INCOME TAX

## Current Law to Proposed Law

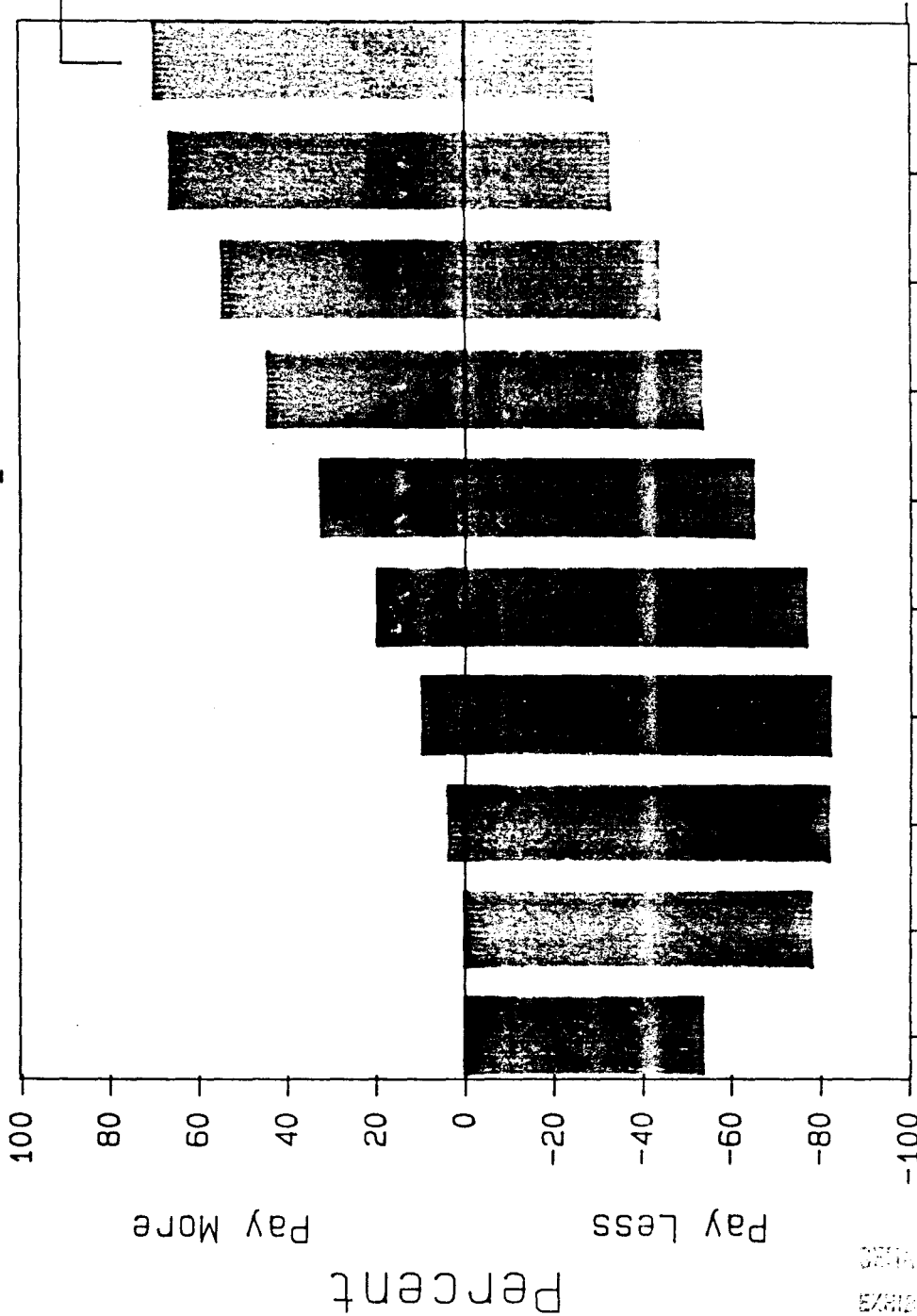


Based on 1984 returns, nearly 60% of Montanans would experience a state tax decrease under SB 307. Almost 10% would see no change in state taxes, and about 30% would experience an increase.

The breakdown of those who pay more or less by income group is illustrated on the graph below. In most income groups, a majority would pay less, and at least one-fourth in every group would experience a decrease for that year.

# % WHO CHANGE -- STATE INCOME TAX

Current Law to Proposed Law



BREAKDOWN OF TOP GROUP

Income Bracket	Pay More (%)	No Change (%)	Pay Less (%)
\$43,500 to \$63,000	73.02%	0.39%	26.59%
\$63,000 to \$999,999	74.39%	0.27%	25.34%
\$63,000 to \$999,999	63.61%	0.41%	35.98%

LEGISLATIVE COUNCIL

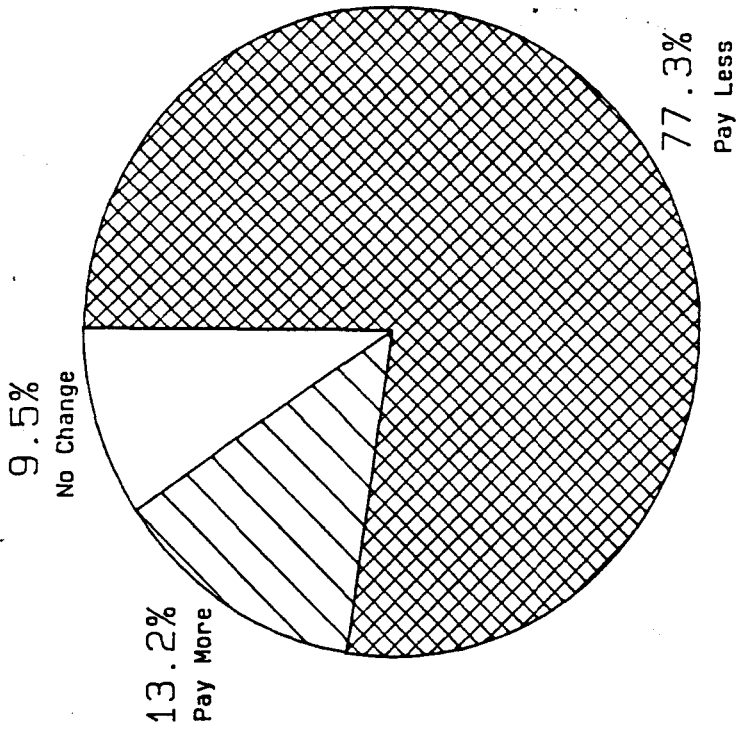
EXHIBIT NO. 2

DATE 2-16-87

FILE NO. S.B. 307

# % WHO CHANGE -- TOTAL INCOME TAXES

## Old Law to Proposed Law

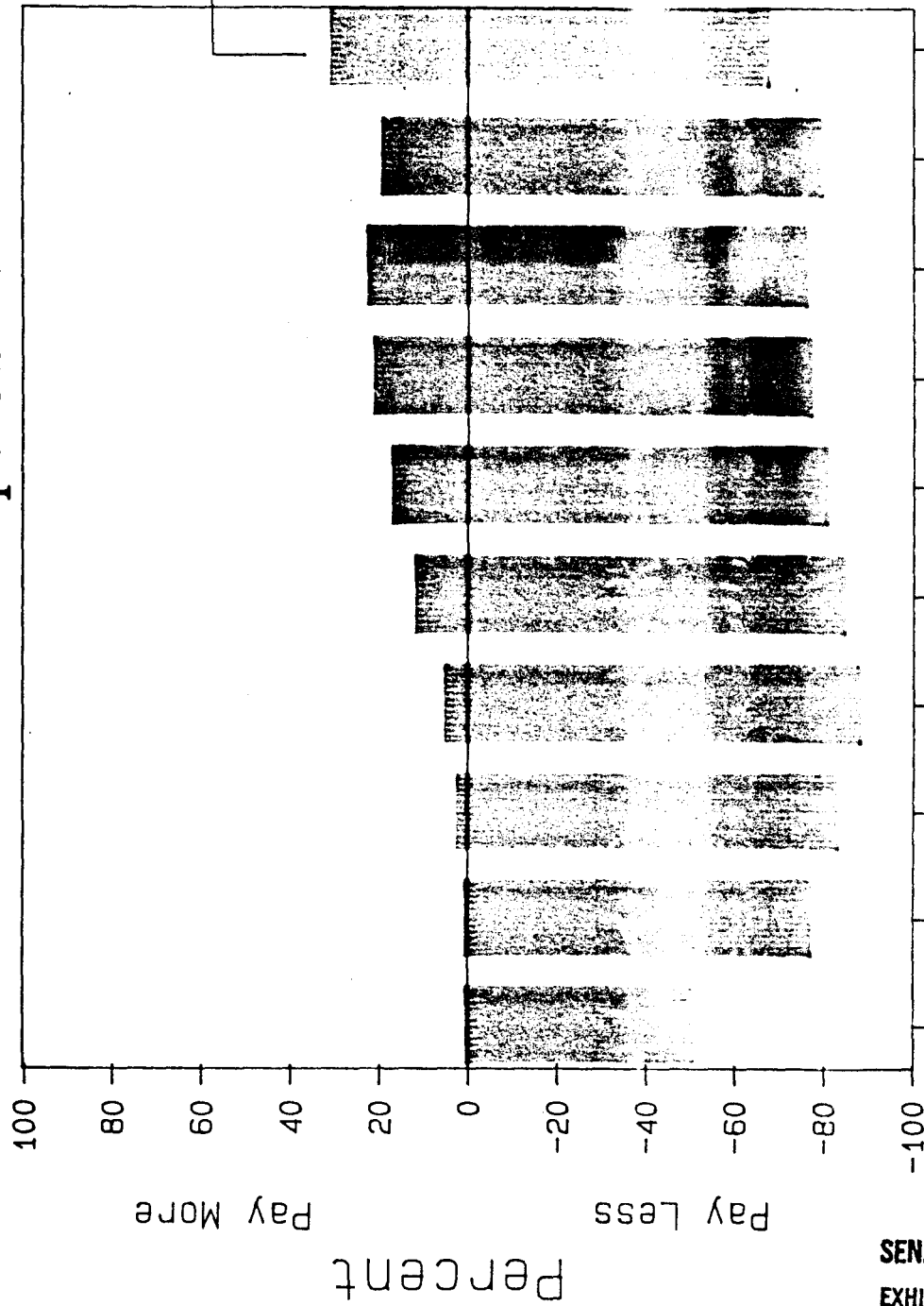


Based on 1984 returns, over 77% of Montana taxpayers would experience a total state and federal income tax reduction due to the combination of federal reform and SB 307. Only 13% would experience an increase, and nearly 10% would see no change in their total tax bill.

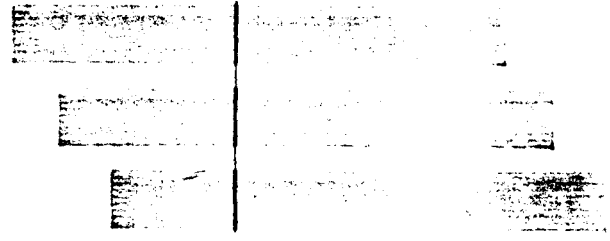
The breakdown of those who pay more or less by income group is illustrated on the graph below. In every income group, a majority would experience a decrease for that year.

# % WHO CHANGE -- TOTAL INCOME TAXES

## Old Law to Proposed Law



BREAKDOWN OF TOP GROUP



**SENATE TAXATION**

EXHIBIT NO. 2

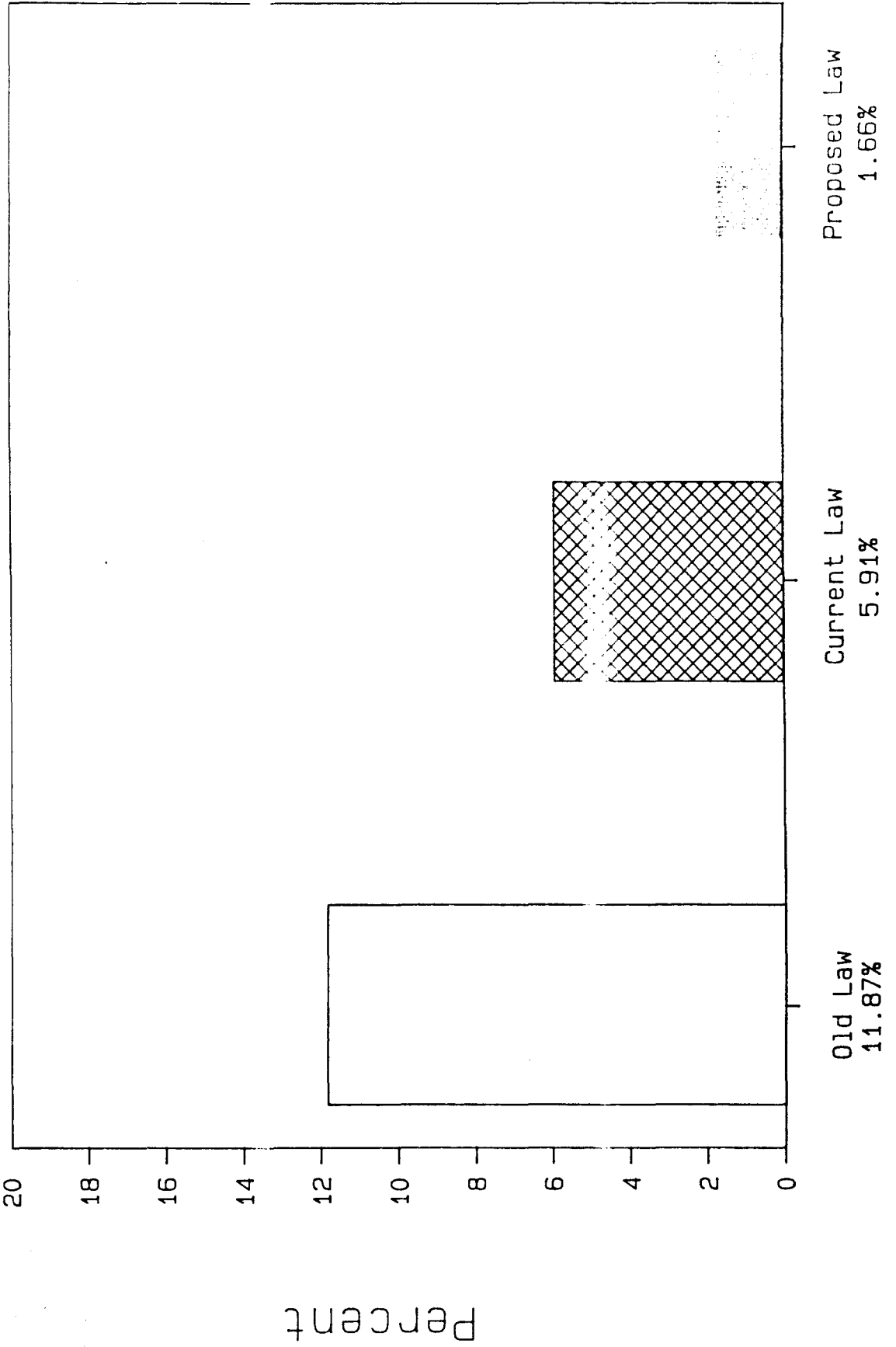
DATE 2-16-87

BILL NO. ...

Income Bracket	Pay More	No Change	Pay Less
\$0	0.42%	47.85%	51.73%
\$3,000	0.66	21.50	77.84
\$5,500	2.54	13.33	84.13
\$8,500	5.24	5.70	89.06
\$11,500	11.85	2.72	85.43
\$15,750	17.03	1.39	81.58
\$20,500	21.19	0.94	77.87
\$26,500	22.62	0.56	76.82
\$33,000	19.40	0.26	80.34
\$43,500	31.17	0.30	68.53

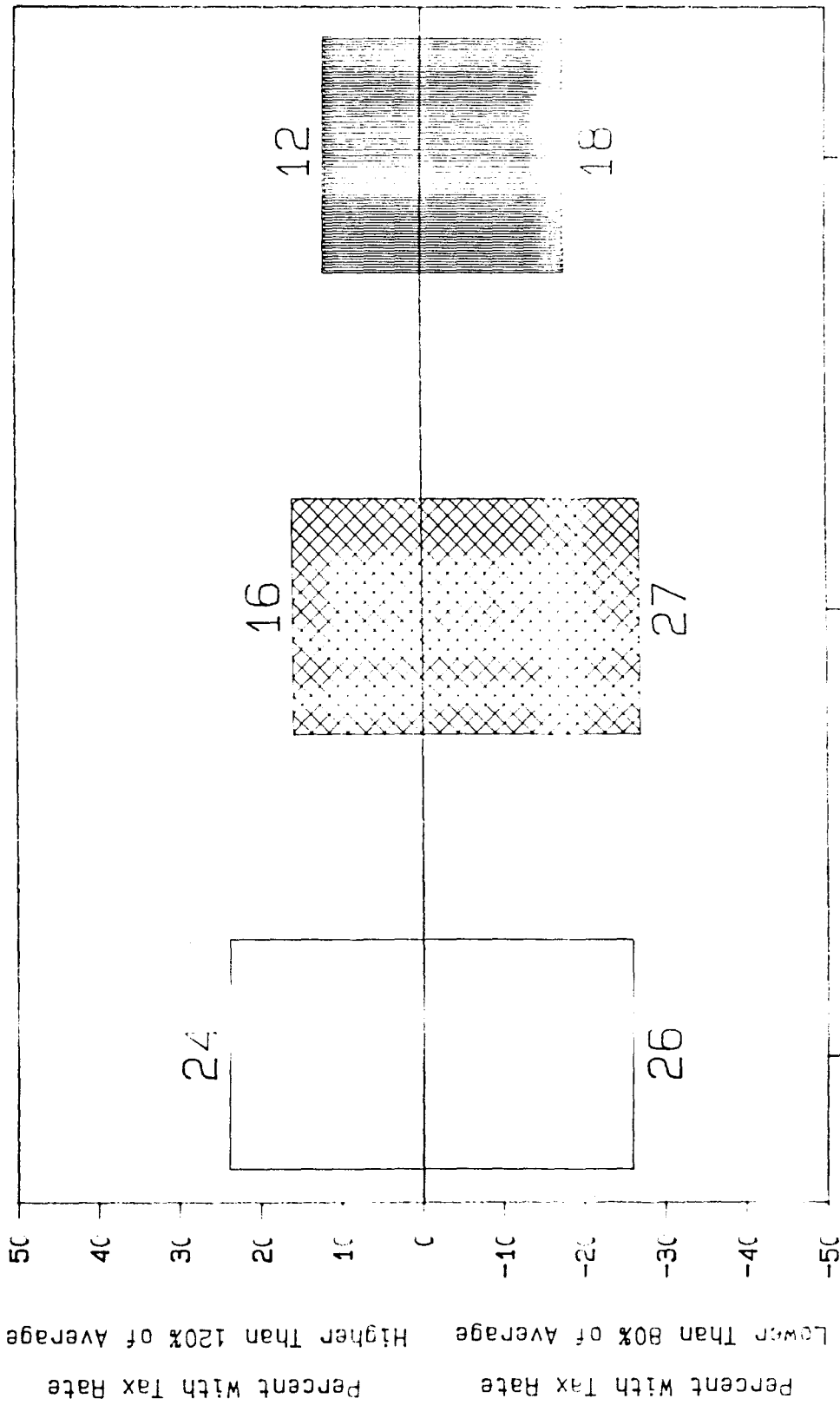
20.88	31.60	41.03
0.35	0.20	0.36
78.77	68.20	58.61

**% OF HOUSEHOLDS WITH INCOME ABOVE \$43,500 (TOP 10%)  
WITH A TAX RATE BELOW MIDDLE INCOME HOUSEHOLDS**





HOUSEHOLDS WITH INCOME ABOVE \$43,500 (TOP 10%)



SENATE TAXATION

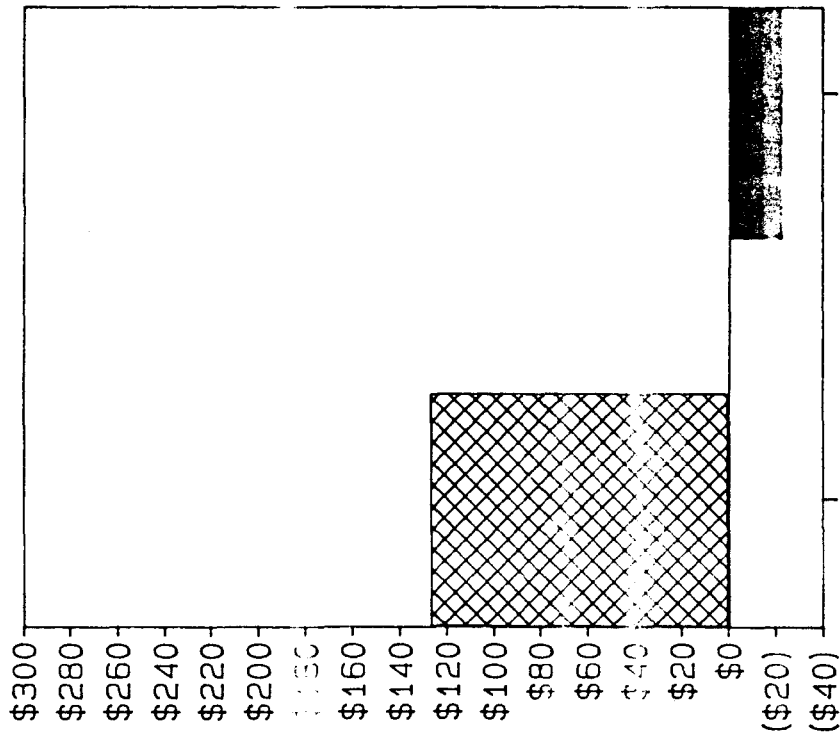
EXHIBIT NO. 2

DATE 2-16-87

BILL NO. S.B. 307

# EXTRA TAX BURDEN ON MARRIED JOINT TAXPAYERS COMPARED TO MARRIED SEPARATE

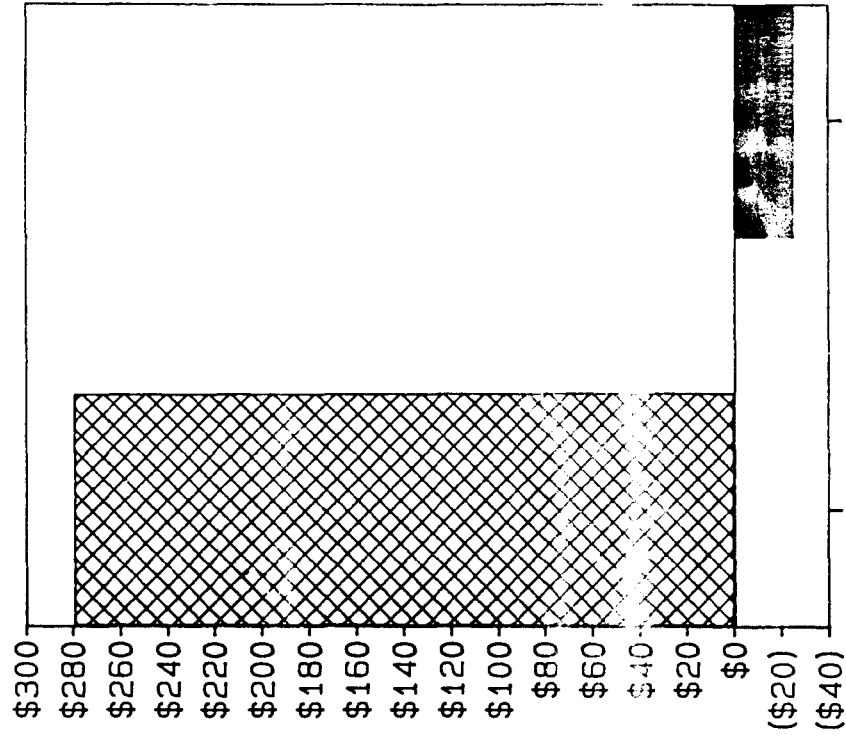
\$25,000 TO \$30,000



Current Law

Proposed Law

\$50,000 TO \$55,000

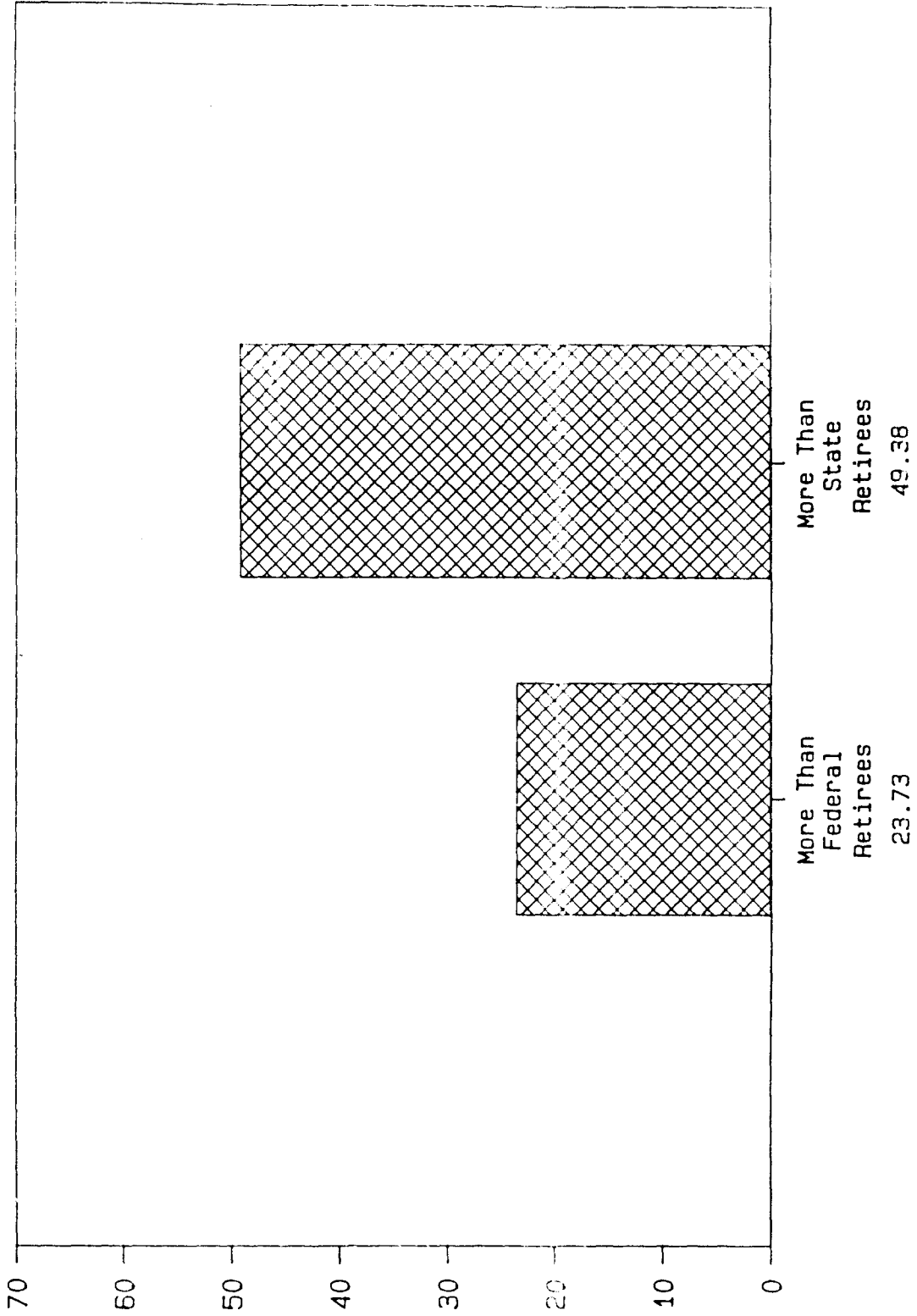


Current Law

Proposed Law

Remaining differences due to slight variations in income,  
deductions and exemptions within the bracket

# EXTRA TAX BURDEN ON PRIVATE RETIREES



Percent Greater Burden

SENATE TAXATION

EXHIBIT NO. 2

DATE 2-16-87

REF. NO. S.B. 307

## PROPERTY TAX RELIEF

### NEED FOR THE CHANGE

Despite improved property relief programs in recent years, property taxes are higher in relation to income for persons with incomes below \$20,000 than for those above that level -- about 50% to 75% higher on the average.

Existing property tax relief programs will gradually erode over time because they are not indexed for inflation, and the local relief program has not been updated to reflect the increase in market values from reappraisal.

The local property relief program is also less well known than the state elderly homeowner and renter credit, and administration of the programs involves duplication in cases where applications are being filed at both the county and state levels.

### PROPOSAL

The state elderly credit program will be made available to persons of all ages. This change will target property tax relief on those who need it most and will eliminate the regressive features of the property tax on homes.

Income levels will be indexed for inflation so that the real value of property tax relief is maintained over time. The portion of the value of a home that can receive local relief will increase from \$35,000 to \$80,000 to reflect reappraisal.

Administration will be streamlined by making an application for the state property tax relief an application for local relief in cases where persons wish to apply for both.

SENATE TAXATION

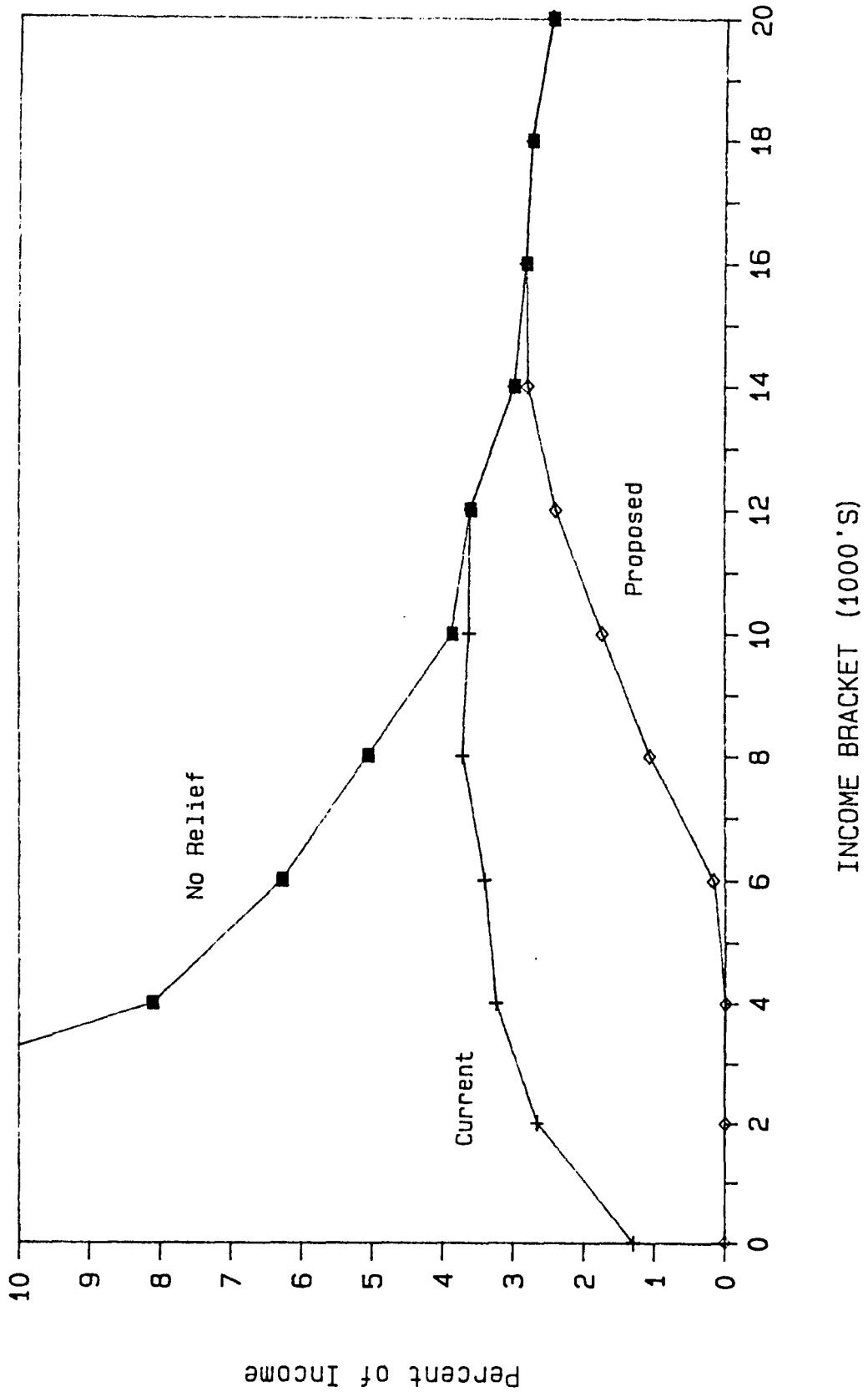
EXHIBIT NO. 2

DATE 2-16-87

BILL NO. S R 207

# PROPERTY TAX AS A PERCENT OF INCOME

With and Without Tax Relief



HEARING SCHEDULE FOR SENATE BILL NO. 307

Monday, February 16, 1987

Overview by sponsor

Repeal of nuisance taxes (sections 50, 79-84, 94, 101, 106-110, 114, 116, and 117)

Revision of penalty provisions (sections 57-76, 99, 100, 102-105, and 111)

State Tax Appeals Board procedures (section 85)

Miscellaneous (sections 78, 95, 96, 112, and 115)

Tuesday, February 17, 1987

Corporation license and income tax revision (sections 35-39, 51, 52, 92, 93, 97, and 98)

Unitary taxation (sections 40-49)

Wednesday, February 18, 1987

Oil and gas severance tax revisions (section 53)

Coal severance tax revisions (sections 54-56)

Capital company incentive (section 77)

Thursday, February 19, 1987

Property tax relief (sections 1-8)

Individual income tax reform (sections 9-34, 86-91, and 113)

SENATE TAXATION

EXHIBIT NO. 3

DATE 2-16-87

BILL NO. SB-307