MINUTES

MONTANA SENATE
53rd LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By Senator Mike Halligan, on February 10, 1993, at 8:00 a.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: SB 283
Executive Action: None.

HEARING ON SB 283

Opening Statement by Sponsor:

Senator Mignon Waterman, representing Senate District 22, presented SB 283, which includes a general revision of Montana's taxation laws and calls for a 4% sales and use tax. Senator Waterman said she believes that the ideas embodied in SB 283 should be a part of a comprehensive tax reform plan for Montana, and after 18 months of work, this plan was brought to her by the Montana Association of Counties' (MACO) tax committee. Exhibit 1, drafted by MACO, includes the major points of SB 283, and Exhibit 2, a copy of an article in the Montana Business

Quarterly, shows some of Montana's property tax rates. Copies of these exhibits are attached to these minutes.

Senator Waterman said Montana has one of the most complex property tax systems in the country and SB 283 offers a Property Tax reform simplification. The MACO property tax reform is based on a single market value tax rate which replaces all of the current property classifications. Senate Bill 283 also offers tax breaks on owner-occupied homes and would exempt from taxation 65% of the first $50,000 of market value of a residence.

Senate Bill 283 resolves the school equalization problem. Senator Waterman believes it is critical to equalize school funding as part of tax reform and leave in place the funding generated by the current 40-mill state-wide equalization levy and the 55-mill school foundation levy, although the number of mills will change because of the change in the value of the mill. The current permissive levies would be eliminated and those dollars would be replaced by $185 million of revenue generated by a 4% general sales tax. Foundation program schedules are adjusted to reflect increased spending at the state level; retirement would no longer be funded at the county level, but through the school equalization account in an amount to fully fund retirement costs. Local school districts would be permitted to vote a local school levy that would take them to 121% of their foundation payment.

Senate Bill 283 provides additional revenue. Senator Waterman believes the state must provide additional school funding, and this bill gets the funding for schools at the right place -- the school equalization account. Senator Waterman recognizes this part of SB 283 needs work by members of the education community and many have offered to help.

Senator Waterman feels Montanans will only accept tax reform if it is tied to education reform and funding, and only if they believe that system is efficient and accountable. Senate Bill 283 allocates $30 million to higher education.

The Income Tax portion of SB 283 is a flat 30% of Federal tax. The bill also provides sales tax relief for low-income Montanans. SB 283 increases electrical energy generation taxes and telephone license taxes to offset property tax reductions those companies receive in other parts of the bill.

Because SB 283 satisfies the tax reform requirements set forth in I-105, I-105 is repealed with this bill. The entire comprehensive tax reform package is subject to a vote of the people, and the date is set for June 8, 1993.

The sales tax portion of SB 283 is similar to the tax in SB 235 presented by Senator Crippen last week. The major differences between the two bills is property tax reform, school funding changes, and income tax revision.

Senator Waterman will consider changes in the exemptions that may be suggested by those who will testify at this hearing, although she cautions the Committee that she believes it is important to have a broad-based tax with as few exemptions as possible. She believes a tax system should be fair, diverse, and understandable, and SB 283 goes a long way toward that goal. She believes this bill is not perfect, but it is an excellent starting point which deserves consideration along with SB 235.

Proponents' Testimony:

Senator Crippen, Senate District 45, sponsor of SB 235, the Governor's proposed tax reform bill, spoke as a proponent of SB 283. Senator Crippen said he does have some differences of opinion with this bill but tax reform is the main goal, and he is willing, able, and anxious to work with this Committee, Senator Waterman, MACO, and others to try to work out and negotiate some type of a plan that can be brought before the Legislature.

Gordon Morris, Director of the Montana Association of Counties (MACO), presented Exhibit No. 3 to these minutes, which is a written copy of his oral testimony.

Rick Hill, representing Governor Racicot's office, said the Governor made a commitment to the people of Montana that there would be a comprehensive tax reform. It is the administration's plan to work with others who share a desire to reform Montana's taxes. The administration's view of tax reform is a reduction of property taxes and a reduction in income taxes that would make Montana's tax policy competitive. The goal is to create an economic environment that would encourage investments, create jobs, and improve wages. The administration's purpose in appearing at this hearing is to communicate their on-going commitment toward this Committee, and others, on the matter of tax reforms, and the administration stands ready to participate in any discussions that could bring together components of the Waterman proposal (SB 283) and the Racicot proposal (SB 235).

Mona Nutting, a Carbon County Commissioner, spoke in favor of SB 283 as the current President of the Montana Association of Counties (MACO). Ms. Nutting said the MACO legal, taxation and finance committee labored over alternatives to a sales tax proposal. Other replacement revenues considered were limiting the State Income Tax Deduction for Federal taxes paid; imposing an Income Tax Surcharge; imposing a Surcharge on Corporation Taxes; reinstatement of Net and Gross Proceeds Taxes; the elimination of Income Tax Indexing; eliminating Income Tax exemptions for retirement incomes; reinstatement of Business Inventory Tax; and return to pre-1989 Personal Property Tax rates. The ultimate decision was that the replacement revenues plan was not a viable alternative because if each replacement plan were imposed at the maximum amount, the total generated would be $170.2 million, or approximately 1/2 the revenues which would be generated by a 4% sales tax. Ms. Nutting feels that one of the most appealing features of SB 283 is that it would repeal I-105. She urges support of this bill.

Eric Feaver, Montana Education Association (MEA), spoke in support of SB 283 and commended all who are committed to a comprehensive tax reform in the State of Montana. For some time, MEA has supported tax reform or any alternative that is appropriate, and feels either SB 283 or SB 235 will reach that goal. Mr. Feaver cautioned tying schools exclusively to a sales tax and said if tax diversity is good for government, then it is good for schools as well.

Gary Weems testified as a representative of the Montana Electric Cooperative Association and the Montana Telephone Association. The Montana Electric and Telephone co-ops have taken no position on either SB 283 or the previously-presented SB 235, but they are on record in favor of taxes where taxes are needed. Their unified message is a plea for sensitivity toward the people who pay the taxes including those they represent, Montana's food and fiber producers. These producers are served by co-ops that are non-profit utilities; there are no stockholders to absorb the shock of any cost increases. They are served by co-ops that are dependent on very few consumers in proportion to the investment, and they have no means of generating more kilowatts. The Montana co-ops already help pay investor-owned utility taxes in that they purchase electricity from investor-owned utilities who have taxes built into their price tag. The co-ops believe the tax costs must be spread equitably.

Gene Quenemoen, Chairman of the American Association of Retired Persons (AARP) State Legislative Committee, presented his oral and written testimony, Exhibit No. 4 to these minutes, and expressed AARP's support of SB 283.

R. P. "Bob" Gannon, President of Montana Power Company (MPC), spoke regarding the taxation side, and not the revenue side, of SB 283. It is MPC's belief that a broad-based sales tax as well as a broad-based property tax is the fair approach in this legislation. MPC has concern about one item in particular in SB 283, which is a nine times increase in the electrical energy producer's tax. Mr. Gannon presented Exhibit No. 5 to these minutes.

Tom Cotten is Superintendent of the Deer Lodge Elementary School and Chairman of the committee for the schools which brought suit against the State of Montana for the equalized funding. They support SB 283 and think this particular bill offers the best medium for resolving the problem of school equalization in Montana at this point in time. Their intent has always been to work through legislation rather than litigation, and hope that opportunity is afforded them in SB 283.

Kathy McGowan, representing the Montana Council of Mental Health Centers, spoke in favor of SB 283, saying historically, mental health centers have been on the spending side of issues, and felt the revenue side was not their business. However, now they feel it is their business, as it is the business of all other Montanans. Ms. McGowan believes that all Montanans need to know there is a need for services in this state for fragile Montana populations, and that those essential services translate into dollars.

Ray Young, CPA, spoke in favor of SB 283 as a representative of a Great Falls study group which has been meeting for over four years to study tax reform in the state. Mr. Young presented Exhibit No. 6 to these minutes which includes a list of nine points of view from their committee relating to tax issues.

Jim Scott, representing the Montana Tax Reform Coalition, spoke in favor of SB 283 because they believe it meets their criteria and because it is balanced between relief and meeting needs. Mr. Scott urged the Committee to take the best elements of both SB 283 and SB 235 and send that package to the people of the state.

Pat Melby, representing the Underfunded Schools Coalition, spoke in favor of any legislation that has as its goals equalization of school funding and maintaining quality educational programs. They believe SB 283 addresses the central problem regarding school equalization, which is the over-reliance on a property tax levy. They agree with Senator Waterman that there is some work that needs to be done on the school equalization portion of the bill and they are willing to assist in this area.

Paulette Kohman spoke as Executive Director of the Montana Council on Maternal and Child Health (MCMCH). The MCMCH has not endorsed either of the tax reform bills, but they stand ready to lend their support to any proposal which recognizes the legitimate duty of government to provide for the next generation.

Bob Anderson, Montana School Board Associations (MSBA), spoke in support of the concept of SB 283. Mr. Anderson said that in the past 20 years or so, school funding has been on a roller coaster ride, which has a lot to do with the stability of the funding sources. The MSBA believes some work still needs to be done on the funding components in SB 283.

Wally Melcher, President of Helena Industries, said Helena Industries provides vocational training for persons with severe disabilities, many of whom are now gainfully employed. Mr. Melcher said the services provided by Helena Industries are largely supported by funding received from taxes. To maintain the commitment and obligation Montana has made to its disabled persons, new revenues have to be raised to address current and future needs. Mr. Melcher supports SB 283 and believes it will generate new funding potential for human services.

Charles Brooks, representing the Montana Retail Association, spoke in support of SB 283, saying it goes a long way in accomplishing an over-all fairness in Montana's tax system. Mr. Brooks asked for serious consideration to the $50 vendor allowance, saying this amount is unacceptable and should be raised to more adequately reflect the cost and burden that collection of a sales tax will be placing upon the retailers. Mr. Brooks said a recent study by Price-Waterhouse shows a cost of 2 1/2% to 3 1/2% of tax collected to exercise a retailer's reporting responsibility to the state.

David Owen, employed by, and representing, the Montana Chamber of Commerce, spoke in support of SB 283, and offered assistance and information in working toward a balance of SB 235 and SB 283.

Stuart Doggett, Executive Director of the Montana Manufactured Housing & Recreational Vehicle Association, spoke in favor of a state-wide, broad-based tax reform measure which includes a sales tax, as presented in SB 283. Mr. Doggett presented Exhibit No. 7 to these minutes which are amendments they wish to have considered.

Riley Johnson, representing the National Federation of Independent Businesses, and the Montana Broadcasters Association, said both organizations do support the concept of SB 283. They see a unique opportunity with both SB 283 and SB 235, and feel if a final bill is presented to a vote of the people on the concept of education, it will be passed.

Clifford Murphy, a retired person from Billings, spoke in favor of SB 283 or some other alternative to this insofar as it provides increased funding for human services and, in particular, for children and families. Mr. Murphy said in many cases, disturbed children are not provided services because no funding is available.

Judith Carlson who has worked in human services in Montana for 37 years, spoke in favor of SB 283. Ms. Carlson encouraged keeping the low-income rebate and the provision that the tax not be changed without a vote of the people. Ms. Carlson asked the Committee to consider more dollars towards the human services field, since a number of programs are being cut which bring in Federal funds. She said for every state dollar cut, we lose $3 in Federal funds. If we put more money into human services, we will get more dollars to spend from outside Montana.

Jim Walker, representing U. S. West, spoke in favor of SB 283, and supports the efforts to provide tax reform to the State. Mr. Walker said they are willing to work with the bill sponsor and the Committee to see that a tax reform is brought about in a most equitable way.

Jay Cummins represented the Montana Farm Bureau Federation, saying the Farm Bureau supports a sales tax as a replacement for property tax as the primary source of funding for education. Considering the present situation and circumstances, the Farm Bureau feels that a sales tax is the only alternative to increased income and property taxes to fund government. Mr. Cummins said that, although tax revenues over-all will go down by 7.6%, they encourage the Committee to closely examine the impact on agriculture.

Loren Frazier, representing the School Administrators of Montana, spoke in favor of a tax reform as presented in SB 283. However, he asked for some caution with the educational part, and would like to work with the committee and bill sponsor on these problem areas.

John Shontz, Public Policy Coordinator for the Mental Health Association of Montana, spoke in support of SB 283. He asked that this bill, along with SB 235, be put into subcommittee and the best of both bills come out.

Jim Aronson, President of the Montana Hospital Association, urged support of SB 283. Mr. Aronson said the MHA sees a tax reform as the only way of recovery from the black hole in human services and Medicaid.

The Montana Association of Theater Owners, and the Montana Video Software Dealers Association, presented written testimony, Exhibit No. 12 to these minutes.

Opponents' Testimony:

Jan Thompson, representative of the Office of Public Instruction (OPI), said OPI is neither a proponent nor opponent of the sales tax portion of SB 283. They do have concerns regarding the equalization portion of the bill, and their greatest concern is that 225 school districts would be required to reduce their budgets by over $60 million in the first year of the bill. They are aware SB 283 may become the vehicle for achieving equalization and they want the Committee to recognize that failure to address OPI concerns would have a significant impact on the quality of education. The OPI is wanting to work with the Committee, the Education Committee and Senator Waterman to develop a proposal that will not only address inequities in the school finance system, but will serve the best interests of the school districts.

Richard T. "Tom" Harwood appeared to oppose SB 283. Mr. Harwood is not opposed to a sales tax but he believes it must replace some other tax, and SB 283 has far too many exemptions. Mr. Harwood suggests individual income tax be repealed and the sales tax be placed on all transactions that can be considered consumptions, thinking that if goods and services are available to the public, then everyone in the public should pay a portion of that tax bill.

Ed Sheehy, a retired Federal employee, spoke in opposition to SB 283 saying this bill will mean more taxes for him to pay. Mr. Sheehy also said he is opposed to basing state income tax liabilities solely on a percentage of the Federal tax liability.

Donna Small, Chairman of the Montana Democratic Party, presented Exhibits 8 and 9 to these minutes. Ms. Small said the Montana Democratic Party strongly opposes a general sales tax while recognizing that a significant number of Democrats do support a sales tax as part of a comprehensive tax reform. Ms. Small said the Democratic Party believes in a tax system based upon the concepts of fairness, simplicity, stability and progressivity, that tax reform should not be used as a guise for unfair tax shifting, and that the tax package should be structured to meet the revenue needs of the state without shifting the burden on the middle-class. The Democratic Party calls for a non-sales tax alternative, and strongly supports placing the sales tax package on the ballot.

David Steen, President of the Montana Building Industries Association, said his organization supports a comprehensive tax reform for Montana, however a sales tax on new construction would make housing unattainable for many families. Mr. Steen submitted Proposed Amendments, Exhibits 10 and 11 to these minutes, which seek to exempt construction of single-family and multi-family housing from the sales tax. Mr. Steen said there are thousands of families on waiting lists because of a shortage of affordable housing in Montana, and, like food and medicine, housing should be recognized as a necessity of life.

Steve Mandeville, Legislative Chairman of the Montana Association of Realtors (MAR), spoke in opposition to SB 283 because it imposes a general sales tax on services and would inhibit, not encourage, the economic development of the state. The MAR, however, does support an equitable balanced tax structure for the State of Montana and a general reduction in spending to balance the state's budget.

Daniel Shea, representing the Montana Low Income Coalition, spoke in opposition SB 283 insofar as an imposition of a general sales tax. Mr. Shea said the human services element will suffer greatly under a sales tax.

Don Judge, representing the Montana State AFL/CIO, spoke in opposition to SB 283 because of the imposition of a general sales tax. Mr. Judge said the AFL/CIO has concerns about basing the state income tax on a percentage of the Federal tax because it subjects the State of Montana to the whims of the Federal government. Mr. Judge said breaks have been given to business and industry over the last 12 years in the state of Montana in the hopes of creating new jobs, and this legislation says we are willing to forego trying to recapture any of those dollars that were given away. Mr. Judge discussed the comparisons in increases in taxes with the lifting of I-105, and said in any future increase in property taxes, a greater percentage of the property tax burden falls on the homeowner, not on business and industry. Mr. Judge urged this committee to put together a tax reform proposal to submit to the voters that will give them alternatives between the sales tax and an overall tax reform.

Informational Testimony:

None.

Questions From Committee Members and Responses:

Gordon Morris, MACO, in response to Senator Towe's questions on the taxation of railroad and airlines under SB 283, said he was not able to come up with a mechanism to implement an alternative tax on railroads and would welcome input from this Committee.

Senator Waterman, in response to Senator Towe's questions on school funding, said she knows there needs to be some adjustments in the schedules in SB 283 which would reduce the impact, and is willing to work with the Office of Public Instruction to work out a solution.

Senator Doherty questioned Senator Waterman about the overall tax shift and what the total effect will be. Senator Waterman will ask the Department of Revenue provide this information.

Senator Van Valkenburg questioned Ms. Thompson, OPI, on the problem with respect to the school districts which would have their budgets reduced by $60 million. Ms. Thompson said under SB 283, the schedules are adjusted 29.3% in FY 95 and school districts are capped at 121% of that amount, which equates to about 156% of current schedules. Any district that exceeds 156% of the current foundation program would be required to reduce their budget to that amount, which equates to $60 million for the districts that will see budget reduction. The remainder of the districts can increase their budget up to the 121%, so it nets out at $40 million. Ms. Thompson said the OPI is working on a proposal to achieve equalization, which will contain revised foundation schedules that will incorporate retirement into the schedules, and will have a guaranteed tax base.

Senator Van Valkenburg asked Senator Waterman if there is any net benefit to be assured to the higher education community in the state of Montana by virtue of the passage of SB 283. Senator Waterman said it is her intent to increase revenue for the university system; however, if the approximately $23 million in cuts made this week stand, the universities would have a net gain of about $7 million during this biennium. Senator Waterman said funding allocations to the higher education system are appropriated in SB 283, and the bill does provide for additional revenue, but believes it is the Legislature's prerogative to determine priorities in funding.

Senator Yellowtail asked Senator Waterman if she would have any objections if this Committee severed Sections 130-160, the school equalization part of SB 283, and referred it to the Education Committee. Senator Waterman said she thinks it would be advisable to have a group of educators work on that section and it would be worth consideration.

Closing by Sponsor:

Senator Waterman closed by addressing some of the questions and comments by committee members and members of the audience, and said she believes Montanans will approve a comprehensive tax proposal if it includes education reform. She asked this Committee to take SB 283, and Senator Crippen's bill, SB 235, and work to craft a comprehensive tax reform bill to be presented to the public for a vote on June 8, 1993.

ADJOURNMENT

Adjournment: The meeting adjourned at 10:22 a.m.

MIKE HALLIGAN, Chair

Bonnie Stark
BONNIE STARK, Secretary

MH/bjs

ROLL CALL

SENATE COMMITTEE TAXATION DATE 2-10-93

NAME	PRESENT	ABSENT	EXCUSED
Sen. Halligan, Chair	✓		
Sen. Eck, Vice Chair	✓		
Sen. Brown	✓		
Sen. Doherty	✓		
Sen. Gage	✓		
Sen. Grosfield	✓		
Sen. Harp	✓		
Sen. Stang	✓		
Sen. Towe	✓		
Sen. Van Valkenburg	✓		
Sen. Yellowtail	✓		

FC8

Attach to each day's minutes

SENATE TAXATION
EXHIBIT NO. 1
DATE 2-10-93
BILL NO. SB 283

MONTANA TAX REFORM ACT OF 1993
SPONSORED BY
SENATOR MIGNON WATERMAN
ON BEHALF OF
THE MONTANA ASSOCIATION OF COUNTIES

The tax reform package proposed by MACo is a comprehensive tax reform proposal. It contains major changes to the property tax system in Montana and will reduce property taxes 30% to 50% depending on the market value of a property and its location. The result is significant property tax reductions among most classes including taxes on business machinery and equipment and a restructuring of the property tax base. To offset the reduction in property tax collections, the proposal includes a 4% sales tax.

MAJOR POINTS OF THE PROPOSAL

- ALL PROPERTY TAXED AT 100% OF MARKET VALUE

  The tax rate for all property would be 100% of market value. Special exceptions to this would be agricultural land and net proceeds of mines. Agricultural land would be taxed at 100% of productive capacity of the land.

- HOMESTEAD RELIEF FOR HOMEOWNERS

  A homestead relief program would exempt from taxation 65% of the first $50,000 of the market value of owner occupied, single family residences and mobile homes.

- ELIMINATE LOCAL PERMISSIVE SCHOOL LEVIES

  The proposal retains the 40 mill statewide equalization levy and the 55 mill school foundation levy and increase the foundation schedules by an eliminated $185 million to equalize school funding. A limited voted levey authority would be included.

- PROVIDE SALES TAX REBATES FOR LOW INCOME INDIVIDUALS
- STATE INCOME TAX TIED TO A REVENUE NEUTRAL 30% OF FEDERAL TAXES
- NEW REVENUE FOR HIGHER EDUCATION
- NEW REVENUE FOR UNDERFUNDED STATE PROGRAMS
- PROPERTY TAX REFORM WILL RESULT IN THE REPEAL OF I-105.
- INCREASE THE ELECTRICAL ENERGY TAX AND THE TELEPHONE LICENSE TAX.

Revised 2/8/93

WATERMAN TAX REFORM PLAN

ALLOCATION OF SALES TAX REVENUE

REVENUES		**MILLIONS**
Total Revenue from 4% Sales Tax		**$335**
Cost of Administration of tax		**$ 5**
Vendor Allowances		**$ 5**
Total revenue from EET & T.L. Tax		**$ 46**
REVENUE LESS ADMINISTRATIVE COSTS:		$381
TAX RELIEF REFORM		
Sales Tax Rebates for Low-Income Individuals		$ 25
- Elimination of local school taxes	$185	
Total Property tax relief:	$185	$185
Income Tax Reform		
State tax 30% of federal tax		
Total for tax relief & reform:		**$210**
EXPENDITURES		
New Revenues for Underfunded State Programs		$171
Higher Education	$ 30	
Noneducation general fund revenue		
- Human services, libraries, etc.	$ 38	
Equalization of K-12 funding	$ 16	
Revenues for state programs	$ 84	
Total new expenditures:		$ 84
Undedicated Balance		$ 87

Revised 2/8/93

EXHIBIT 1
DATE 2-10-93
SB-283

MONTANA TAX REFORM ACT OF 1993
SPONSORED BY
SENATOR MIGNON WATERMAN
ON BEHALF OF
THE MONTANA ASSOCIATION OF COUNTIES

This proposal is based on a Tax Reform package developed by the Montana Tax Reform Coalition and further studied and refined by the Montana Association of Counties. This measure is proposed as part of a comprehensive tax reform package. It is critical that property tax reform, income tax reform and the enactment of a progressive sales tax be considered in their entirety rather than a piecemeal fashion. **This tax reform package will reduce property taxes 30% to 50% (depending on the market value of a property and its location) beginning in tax year 1994 and deals with five critical problems facing Montana:**

PROBLEM I. Excessive property taxes on business machinery and equipment is discouraging investment in business development in Montana. Property taxes on business machinery and equipment is four to five times higher than other states. Montana business are not four to five times more profitable! The high property tax on business machinery and equipment is driving business from the state and discouraging investment in new or expanding businesses. **The package will reduce property taxes on business machinery and equipment.**

PROBLEM II. There is a decline in the quality of higher education in Montana caused by a lack of stable funding for vo-tech centers, community colleges and the university system. **The package will provide an earmarked source of funding for higher education of approximately $30 million a year.**

PROBLEM III. Inequitable funding of public education with local property taxes has been declared unconstitutional by the Supreme Court. **The package will provide $185 million toward full equalization of educational finance.**

PROBLEM IV. Property taxes are frozen at 1986 levels for local governments because the legislature has failed to provide an alternative revenue source to implement Initiative 105 adopted by the voters in 1986. **The package will repeal I-105 in conjunction with significant property tax reform.**

PROBLEM V. An unbalanced revenue system exists that has not produced enough revenue to finance current expenditures since 1982. State government has been financed by one time transfers to funds and depleting education and other trust funds. **The package will provide for the reform of the income tax system and a permanent new revenue source that will reflect economic growth.**

THE CURRENT <u>PERSONAL INCOME TAX</u> WOULD HAVE TO BE <u>DOUBLED</u> TO RAISE ENOUGH REVENUE TO SOLVE THESE SAME FIVE PROBLEMS.

<u>Schedule for implementation:</u> Collection of the sales tax would begin April 1, 1994 and revenue from the sales tax would be available to school districts and the state during the second year of the biennium (Fiscal Year 95). The property tax classification reform would first occur in tax year 1994 with replacement revenues distributed to schools at the same time as the deadline for payment of property taxes.

<u>The Proposed Sales Tax Base:</u> (a) All sales of goods and services (except goods and services specifically exempt), and goods to be resold in the regular course of business. This is the retail tax base. (b) All goods purchased elsewhere and brought into the state for use (except goods specifically exempt, goods to be resold in the regular course of business, and other specific personal items). This is the use tax base. Individual businesses have the discretion to treat the tax as a sales tax on each item or service sold or to treat the tax as a gross receipt tax where the amount of the tax is included in the list price of an article or service.

<u>The Tax Rate.</u> Four (4) percent of sale value. **The rate cannot be increased without a vote of the people.**

<u>Limited Exemptions.</u> The proposal keeps the tax base very broad in order to keep the rate low, have a high and stable revenue yield, and to keep administrative expenses low. The broader the base, the greater the portion of the sales tax paid by businesses and high income individual who use services. **Because the base of the sales tax is broad, approximately 45% of the tax will be paid by businesses, 8% by non resident tourists and 47% by Montana households.** This compares favorably with the corporate and personal income tax system where business pays only 16% of the total income taxes collected. Under the sales tax households with over $40,000 in income (17% of all households) will pay 35% of the tax paid by households.

Sales tax laws are always subject to changes in the goods and services exempted. For example, the Minnesota law exempts many commonly purchased consumer goods. Its revenue yield is low and quite variable from year to year, and it is expensive for businesses and the state to administer for that reason. This proposal avoids these problems by limiting exemptions to five general areas: exemptions to protect low income individuals such as food and medical services; exemptions where activity is already heavily taxed; and exemptions for manufacturing, mining and agricultural production components and services; exemptions required by federal law such as interstate transportation and newspapers and advertising. The only items specifically exempted in the proposal are:

Food--only that qualifying for food stamp purchases
Medical Services--including doctors and health services

Prescription items and services--including therapy and prostheses
Interstate transportation services
Motor fuels (already heavily taxed)
Advertising services
Services used in manufacturing, mining or agricultural production
Wages, dividends and interest, and insurance premiums
Newspapers and magazine subscriptions
The first 2 1/2 percent of the sales tax on new motor vehicles (The excise tax is already 1 1/2% and therefore the total tax will equal 4%).
Agricultural products
Livestock feeding supplies
Oil, gas and mineral interests
Vehicles or equipment on which the tax has already been paid once or goods purchased prior to this law.
Occasional Sales - such as yard sales or disposal auctions.
Personal effects of people moving into the state
Sales to Federal (and Tribal) agents--following Federal Statutes.

BUSINESS, HOUSEHOLD AND NON RESIDENT TAX COMPARISON

	PERCENT SALES TAX REVENUE	SALES TAX REVENUE	PROPERTY TAX RELIEF	SALES TAX REBATES	TOTAL TAX RELIEF	NEW REVENUE	PERCENT NEW REVENUE
NESS	45%	$150.7	$92.5	$0	$92.5	$58.2	46.5%
SE- DS	47%	$157.5	$92.5	$25	$117.5	$40	32%
DENT VEL	8%	$26.8	$0	$0	0	$26.8	21.5%
L	100%	$335	$185	$25	$210	$125	100%

<u>Additional exempt "transactions":</u> The sales tax is designed to tax only final goods. Purchases of manufacturing, mining and agricultural supplies, for example, are exempt transactions. (These components of these goods are taxed only when the finished good is sold). To qualify for "deductible transactions", business must apply to the State and meet standards for receiving a "deduction certificate." The certificate must be presented when buying goods as "deductible transactions."

<u>Reducing the burden on low income households:</u> Each person in a low income household with no more than $13,000 in annual income would be eligible to receive a rebate of up to $90 each year. Therefore, a family of four with an income of $12,000 would receive $360 in rebates for an estimated total sales tax payment of $331. The rebate is designed to cover the cost of sales tax on all taxable items for a low income family such as utilities and clothes. The rebate will be taken as an income tax credit upon filing State income tax forms. **The $90 rebate cannot be reduced without a vote of the people.**

Taxpayers at $15,000 family income will pay approximately 1% of total income in sales taxes--at $60,000 family income, taxpayers will pay approximately 2% of total income in sales taxes. Families over $40,000 income representing 17% of the households will pay 35% of the net increase in taxes after property tax relief.

<u>The Sales Tax Revenue and Distribution:</u> Assuming the above exemptions and a tax rate of four percent, the $335 million in revenue would be distributed as follows with correcting amendments (half year rebates, school mill levy reduction).

ALLOCATION OF SALES TAX REVENUE

REVENUES		**MILLIONS**
Total Revenue from 4% Sales Tax		$335
Cost of Administration of tax		$ 5
Vendor Allowances		$ 5
Total revenue from EET & T.L. Tax		$ 46
REVENUE LESS ADMINISTRATIVE COSTS:		$381
TAX RELIEF REFORM		
Sales Tax Rebates for Low-Income Individuals		$ 25
- Elimination of local school taxes	<u>$185</u>	
2		
Total Property tax relief:	$185	$185
Income Tax Reform		
State tax 30% of federal tax		
Total for tax relief & reform:		$210
EXPENDITURES		
New Revenues for Underfunded State Programs		$171
Higher Education	$ 30	
Noneducation general fund revenue		
- Human services, libraries, etc.	$ 38	
Equalization of K-12 funding	<u>$ 16</u>	
Revenues for state programs	$ 84	
Total new expenditures:		$ 84
Undedicated Balance		$ 87

EXHIBIT 1
DATE 2-10-93
SB-283

Property Tax Relief: Of the $300 million raised by the sales taxes after deduction of the low income rebates, $185 million or 57% is allocated to property tax relief:

$185 for public education to reduce local school property taxes

1. All local school levies would be eliminated. Financial impact $185,000,000
2. All other levies adjusted for new values would be retained.
3. Resulting estimated tax bill $377,599,805
4. Property tax reform would be eliminated from the coalition proposal or adjusted to reflect the proposal herein.

Income Tax Reform: This proposal, based upon HB 996 from the '91 session, would repeal the current Montana income tax system and replace it with a **revenue-neutral** flat 30 percent of federal taxes, **lowering the top marginal rate from 11.55% to 9.3%** (maximum effective rate is 4.79%) and simplifying taxes for everyone.

It will leave existing Montana tax credits intact but would **repeal all deductions** that are unique to Montana and not part of the federal deduction system. As a result of increasing the tax base, 81% of Montanans, especially those at or below median income, would have a **lower effective tax rate** or the same as present law. (See Analysis, page 16)

PROPERTY TAX RELIEF

Property taxation in Montana has been a continuing source of frustration for taxpayers and local government officials alike. This frustration is born out of criticism that the system is regressive and discourages property improvements. It additionally is viewed as being a barrier to economic development due to the tax on personal property when compared to neighboring states.

Perhaps the most telling evidence of problems in the system is the taxpayer revolt, both in terms of the unsuccessful CI-27 effort and the successful I-105 property tax freeze passed in 1986. The problems in the system stem from the facts that:

1. local governments, including schools, have too great a dependence upon property tax revenue
2. the tax burden is viewed as excessive and disproportionate, among taxpayers, and
3. taxpayer confusion abounds related to the adopted assessment process on property and the resulting taxable value.

The system further suffers from legislator inability to address the problems other than in a fashion that can be characterized as tinkering with the classes of properties and the various classification ratios. The legislature typically considers numerous proposals to revise the classification ratios, primarily by lowering them.

The problems are real as well as perceived. Solutions can overcome the real problems, but time and tax equity and fairness only will overcome the perceptual problems of Montana being a high property tax state. Solutions to address the real problems begin with recognition of the real disparities that currently exist in the rates which skew the "effective tax rates" in a range from 14% to 2.45%. In addition, the assessment process contributes to confusion and further skews the system.

Both issues could be addressed, based upon a goal of establishing uniformity in terms of assessments and actual tax values, by adopting a system wherein for all practical purposes all property would be taxed at market value. To state this another way, taxable value would equal market value.

Current state law provides that "all property must be assessed at 100% of its market value except as otherwise provided." (MCA 15-8-111) The exceptions are motor trucks, agricultural tools, implements, and machinery. These items are currently assessed at wholesale value as shown in national appraisal guides. Under this proposal these exceptions would be eliminated and those items would be taxed at market value, also as shown in national guides. In addition net proceeds taxes and agricultural land taxes represent exceptions to the market value assumption.

As a consequence, it is proposed to tax all property, with exceptions for net proceeds and agricultural land, at 100% of market value with market value being defined as the value at which property would change hands between a willing buyer and a willing seller. In the case of net proceeds of all mines and mining claims except coal and metal mines, they are assessed at 100% of annual net proceeds after deducting allowable expenses. Agricultural lands are assessed at 100% of the productive capacity of the lands when valued for agricultural purposes. Both net proceeds and agricultural lands would require additional consideration and special treatment so as to maintain before and after parity.

A market value approach is used in various other states and is not without precedence. If such a system were implemented in Montana, with provisions for low income properties, circuit breakers for residential property, and so on, in possible conjunction with a sales tax and income tax reform, significant reform could be achieved. Reform in the context of property taxes would be identified by the leveling of the property tax burden. In other words, it would result in some properties being taxed higher than is currently the case and vice versa.

TABLE 1

The impacts of this concept can be dramatically illustrated using the 40 mill school equalization levy. In tax year 1991 the levy generated an estimated $62,934,440 (40 times 1,573,361). To raise an equivalent amount of revenue on a "market value" basis it would be necessary to levy 2.49 mills.

TAX YEAR 1991
ADJUSTED MARKET VALUE - 25,275,592,772
TAXABLE VALUE - 1,573,361

e.g.: $\frac{62,934,440}{25,275,593} = 2.49$

	PROPOSED VALUE OF 1 MILL	TAX CURRENT @ 40 MILLS	TAX @ 2.49
RESIDENTIAL			
CURRENT	*$3.86*	*$ 154*	
PROPOSED	***$ 62.50***		***$156***
COMMERCIAL			
CURRENT	*$3.86*	*$ 154*	
PROPOSED	***$100.00***		***$249***
AG EQUIP			
CURRENT	*$9.00*	*$ 360*	
PROPOSED	***$100.00***		***$249***
PIPELINES			
CURRENT	*$12.00*	*$ 480*	
PROPOSED	***$100.00***		***$249***
RR			
CURRENT	*$7.49*	*$ 299*	
PROPOSED	***$100.00***		***$249***
AG LAND			
CURRENT	*$30.00*	*$1,200*	
PROPOSED	***$500.00***		***$1,245***
LIVESTOCK			
CURRENT	*$ 4.00*	*$ 160*	
PROPOSED	***$100.00***		***$249***
MOBILE HOME			
CURRENT	*$ .77*	*$ 30*	
PROPOSED	***$ 7.00***		***$ 17***
FURNITURE/FIXTURES			
CURRENT	*$4.50*	*$ 180*	
PROPOSED	***$ 50.00***		***$125***
NET PROCEEDS			
CURRENT	*$ 100.00*	*$4,000*	
	$1,600.00		***$3,984***

Property Tax Impacts

Such an approach has obvious tax consequences. In briefly running through the impacts by current classification, it must be recognized that some adjustments would be necessary.

1. Net proceeds taxes, taxes on mining other than coal and minerals, would decrease significantly in comparison to all other property, real or personal. To minimize an otherwise inordinate decrease, it would be proposed to use an inflator factor in assessing net proceeds taxes. To assume revenue neutrality, net proceeds value would be increased by a factor of sixteen.

e.g.	Net Proceeds	$100,000
	Mill Value	$100
	Inflated Value	$1,600
	Tax at 2.49 mills	$3,984
	(Tax at current 40 mills)	$4,000

2. Residential property taxes including mobile home taxes would increase. To mitigate the resulting tax increase on residential property and mobile homes, a "circuit breaker" provision would be included exempting 65% of the first $50,000 of market value. This is an assumed revenue neutral point based upon current 1991 taxes. (Estimated decrease in statewide market value = $3,395,507,234.00) The effects of this provision are dramatically illustrated:

	HOME #1	HOME #2	MOBILE HOME
MARKET VALUE	$100,000	$50,000	$20,000
EXEMPTION	$32,500	$32,500	$13,000
TAXED AT	$67,500	$17,500	$7,000
TAXES @ 2.49 MILLS	$168.00	$43.57	$17.43
CURRENT TAXES @ 40 MILLS	$154.00	$78.00	$31.80

"Low Income taxes at Residential Market Value would be calculated as above and multiplied by the percentage figure based on income as in current law 15-6-134"

3. Commercial real property taxes without circuit breaker provisions would increase. This would be offset by a significant decrease in personal property taxes (furniture and

fixtures) paid by businesses. The net effect of this combination is a decrease in the combined tax obligation.

4. Agricultural equipment taxes would decrease while agricultural land would remain constant. To minimize an otherwise inordinate decrease, it would be proposed to take the "productive value" and increase it by a factor of 5 to establish adjusted "market value".

e.g.	Agricultural Productive Value	$100,000
	Mill Value (Currently)	$30
	Adjusted market value	$500,000
	Adjusted mill value	$500
	Tax at 2.49 mills	$1,245
	(Tax at current 40 mills)	$1,200

It should be noted that it is believed that the Agricultural Land Advisory Committee's recommendation for Ag Land values to be based on capitalized rent per acre will slip into the 100% model and remain revenue neutral. This "market value" would then be taxed at 100%. This bill is coordinated with the passage of either SB 168 or SB 170.

The net impact on agriculture is projected as a reduction in the overall combination of taxes on ag land, equipment, buildings and residences.

5. Taxes on pipelines, railroads, livestock and other miscellaneous properties would be adjusted downward.

To put the outlined adjustments into perspective, we see the actual tax consequences after the applications of the special considerations outlined in Table 1.

Finally, such a system if implemented would drastically change mill levy requirements. Under law, those levies fixed by statute would have to be adjusted, i.e. the 40 mill school equalization levy, the university levy, and so on. Local governments would need fewer mills for all purposes, however this would not have to result in adjustments. County classification based on taxable values would need to be revised, as would bond limits for all jurisdictions.

FURTHER RECOMMENDATIONS:

The property tax proposal as outlined herein can stand by itself as a major restructuring of Montana property taxes. It must be recognized that the consequences would be a leveling of the tax burden. This translates into increases for properties with a low classification ratio; i.e. Residential property at 3.86%, while leading to a reduction for properties in the high end of the classification system; i.e. Personal property at 9%.

The solution is to reduce property taxes and replace the lost revenue from another source. The most likely scenario would be to eliminate the current "unequalized levies" for schools, currently estimated at $185 million. The consequences of such action can be variously debated. However, one conclusion is inescapable, school funding would be equalized at a much higher degree than is currently the case. It is estimated that current equalized funding for schools constitutes approximately 65% of full funding. It is envisioned that this would increase to 90 plus percent.

The resulting school finance structure would consist of the 40 mill School Equalization property tax levy, the 55 mill School Foundation levy, a narrow levy authority for local districts tied to a vote of the people, and finally $185M of replacement revenues.

Increased Expenditures: Of the $335 million raised by the sales taxes and income tax reform, property tax relief, and after deduction of the low income rebates--$84 million or 31% is available for increased state or local expenditures. The revenue could also be used to reduce other state or local taxes. $87 million would be undedicated.

State Expenditure Increase

$30 Higher Education including university system, vo-tech and community colleges

$38 Non-education general fund revenue - Human Services, libraries, etc.

$16 Remainder in General Fund for further K-12 Equalization.

$84 Total increased state expenditures

$87 Undedicated revenue balance

Public Education: Public education receives $185 million through a direct allocation. The $185 million allocated for education would provide substantial property tax relief and provide a non property tax revenue source for equalizing school funding under the Loble decision. The mandatory county mill levy for teacher retirement will be repealed, and the retirement program will be assumed by the State Education Foundation Program. The remaining funds would be distributed according to the foundation program established by the legislature.

Higher Education: The proposal allocates $30 million for higher education including the university system, community colleges and vo-tech centers. The revenue would be appropriated by the legislature to the individual institutions. The $30 million will be approximately a 8% increase over present funding for these institutions.

State General Fund: Recognizing the anticipated short fall in the state general fund, the proposal allocates the remainder or approximately $97 million to the state general fund. The administrative cost of $10 million will further reduce the amount to the general fund. The remainder in the general fund after these changes will be $87 million.

EXHIBIT 1
DATE 2-10-93
SB-283

<u>Vote of the People:</u> **A recent poll indicated the 59% of Montanans would support "a general sales tax" if "linked to property tax relief". This proposal calls for submitting the tax reform package to the voters of Montana in June of 1993.**

Legislators have been threatened that any sales tax measure will face a "suspension" initiative challenge. With signatures from 15 percent of the voters in the state collected within six months of adjournment of the legislature, any legislation can be suspended, pending a vote by the electorate in the next general election (November 1994). A suspension would mean that all planning, initiation, hiring of personnel or other activities associated with the legislation ceases. This would bring the proposal to a halt, pending the required vote.

A vote of the electorate <u>would</u> be required each time a further raise in the sales tax rate is proposed or a reduction in the low income rebate was proposed.

Partial Listing of the Taxable Status of Goods and Services

The following is a partial listing of the taxable status of goods and services included in a broad-bases sales tax.

TAXABLE	TAX EXEMPT
<u>RETAIL TRADE</u>	
Building materials	Groceries (qualifying for food stamps)
Mobile homes	Prescription drugs and eye glasses
Packaged alcoholic beverages	Therapeutic and prosthetic devices
Tobacco	Motor fuels
Non-prescription drugs and health and beauty aids	Newspapers and magazine subscriptions
Cars and Trucks	
Recreation vehicles	
Clothing and shoes	
Furniture and appliances	
Restaurant meals and drinks	
Home heating fuels	
Tobacco products	
Implements, machinery equipment	
Note: No deduction allowed for trade in value	
<u>SERVICES</u>	
Personal services	Advertising
Laundry	Health services
Beauty and barber shops	Manufacturing, mining & agricultural

Funeral services
Business services
Automotive repair & services
Miscellaneous repair
Amusement & recreation services
Legal services
Engineering, architecture and surveying services
Accounting, auditing and bookkeeping

production sevices
Services provided outside of state

TRANSPORTATION, COMMUNICATION, PUBLIC UTILITIES

Transportation services (intrastate)
Telephone services
Electric, gas utilities
Water & sewer services

Transportation services (interstate)

TAXABLE **TAX EXEMPT**

CONTRACT CONSTRUCTION

Material and labor on
Commercial & Industrial construction
Material on residential construction
up to three units

Labor on residential construction

FINANCE, INSURANCE, REAL ESTATE (FIRE)

Bank service charges
Real estate commissions

Dividends & interest
Stockbroker commissions
Insurance premiums

OTHER EXEMPTIONS AND DEDUCTIONS

Wages
Agricultural products (livestock, poultry, & crops)
Livestock feed
Isolated or occasional sale
Oil, gas, or mineral interests]
Sales by government agencies (if sale is otherwise taxable item, then item is taxed)
Personal effects brought into state

MACo ANALYSIS--PROPERTY TAX REFORM--TAX YEAR 1991

TOTAL STATE

Property Type	Class	Tax Rate	TOTAL STATE MARKET VALUE	CURRENT MILL LEVY	1991 TAXES	MILL LEVY W/O SCHOOLS	TAXES W/O SCHOOLS	PERCENT CHANGE
NET AND GROSS PROCEEDS								
Net Proceeds	1	100.000%	8,318,381	295.65	$2,459,329	11.78	$1,567,362	-36.27%
Gross Proceeds of Metal Mines	2	3.000%	407,687,833	295.65	$3,615,987	11.78	$4,801,072	32.77%
Gross Proceeds of Coal Strip Mines	2	45.000%	0	295.65	$0	11.78	$0	ERR
Gross Proceeds of Underground Coal	2	33.300%	0	295.65	$0	11.78	$0	ERR
SUB TOTAL			416,006,214					
AGRICULTURAL LAND								
Tillable Non-Irrigated	3	30.000%	280,945,768	295.65	$24,918,485	11.78	$16,542,569	-33.61%
Tillable Irrigated	3	30.000%	46,437,128	295.65	$4,118,741	11.78	$2,734,298	-33.61%
Wild Hay	3	30.000%	18,291,144	295.65	$1,622,333	11.78	$1,077,014	-33.61%
Grazing Land	3	30.000%	126,148,947	295.65	$11,188,781	11.78	$7,427,867	-33.61%
Timber Land	13	4.000%	166,734,400	295.65	$1,971,801	11.78	$1,963,522	-0.42%
SUB TOTAL			638,557,386					
COMMERCIAL LAND & IMPROVEMENTS								
Impr. on Surban Tracts Commercial	4	3.860%	584,487,713	377.44	$8,515,509	11.78	$6,883,128	-19.17%
Impr. on City/Town Lots Commercial	4	3.860%	2,470,980,031	377.44	$36,000,163	11.78	$29,099,110	-19.17%
Impr. on Rt of Way - Commercial	4	3.860%	23,078,015	377.44	$336,228	11.78	$271,775	-19.17%
Impr. on Hydraulic Power Works	4	3.860%	0	295.65	$0	11.78	$0	ERR
Impr. on Qualified Golf Courses	4	1.930%	21,659,539	295.65	$123,590	11.78	$255,070	106.38%
Impr. on Industrial Sites	4	3.860%	613,214,414	377.44	$8,934,034	11.78	$7,221,424	-19.17%
New Industrial Improvements	4	1.930%	34,684,508	377.44	$252,662	11.78	$408,457	61.66%
Remodeled Commercial Improvements	4	1.925%	5,703,273	377.44	$41,438	11.78	$67,164	62.08%
Suburban Tracts Commercial	4	3.860%	205,544,769	377.44	$2,994,620	11.78	$2,420,566	-19.17%
City/town Lots Commercial	4	3.860%	861,133,158	377.44	$12,546,007	11.78	$10,141,000	-19.17%
Industrial Sites	4	3.860%	72,792,926	295.65	$830,719	11.78	$857,235	3.19%
Qualified Golf Courses	4	1.930%	8,716,951	295.65	$49,739	11.78	$102,654	106.38%
SUB TOTAL			4,901,995,296					
RESIDENTIAL LAND AND IMPROVEMENTS								
Impr. on Disparately Owned Ag Land	4	3.860%	14,777,158	295.65	$168,638	11.78	$113,114	-32.93%
Impr. on Rt of Way - Agricultural	4	3.860%	5,933	295.65	$68	11.78	$45	-32.93%
Impr. on Surban Tracts Residential	4	3.860%	3,096,576,051	377.44	$45,114,586	11.78	$23,703,123	-47.46%
Impr. on City/Town Lots Residential	4	3.860%	4,947,486,787	377.44	$72,080,845	11.78	$37,871,147	-47.46%
Impr. on Tracts and Lots - Low Income	4	2.264%	168,560,951	377.44	$1,440,394	11.78	$694,761	-51.77%
Impr. on Rt of Way - Residential	4	3.860%	1,049,947	377.44	$15,297	11.78	$8,037	-47.46%
Remodeled Residential Improvements	4	1.561%	1,986	377.44	$12	11.78	$15	29.92%
City/town Lots Residential	4	3.860%	1,497,446,574	377.44	$21,816,575	11.78	$11,462,389	-47.46%
Suburban Tracts Residential	4	3.860%	1,539,806,343	377.44	$22,433,722	11.78	$11,786,637	-47.46%
Suburban Tracts - Low Income	4	2.280%	57,509,274	377.44	$494,904	11.78	$237,037	-52.10%
Mobile Homes	12	3.860%	387,720,476	377.44	$5,648,771	11.78	$1,598,075	-71.71%
Mobile Homes - Low Income	12	2.225%	13,848,151	377.44	$116,297	11.78	$57,078	-50.92%
Impr. on Ag and Timber Land	14	3.088%	1,756,736,199	295.65	$16,038,425	11.78	$13,447,154	-16.16%
Homestead 1 Acre - Low Income	14	1.894%	1,913,951	295.65	$10,717	11.78	$7,889	-26.39%
Homestead 1 Acre	14	3.088%	136,941,743	295.65	$1,250,233	11.78	$1,048,237	-16.16%
Impr. on Disparately Owned Ag Land	14	3.088%	3,405,666	295.65	$31,093	11.78	$26,069	-16.16%
Mobil Homes on Ag and Timber Land	14	3.088%	8,049,190	295.65	$73,486	11.78	$33,177	-54.85%
Impr. on Ag Land - Low Income	14	1.963%	6,942,412	295.65	$40,291	11.78	$28,615	-28.98%
SUB TOTAL			13,638,778,792					
CO-OP LAND AND IMPROVEMENTS								
Impr. on New Industry Land	5	3.000%	3,498,400	377.44	$39,613	11.78	$41,198	4.00%
R & D Improvements	5	3.000%	677,000	377.44	$7,666	11.78	$7,973	4.00%
New Industry Land	5	3.000%	490,267	377.44	$5,551	11.78	$5,774	4.00%
Locally Assessed Co-op Land	5	3.000%	230,600	377.44	$2,611	11.78	$2,716	4.00%
Locally Assessed Co-op Pers. Prop.	5	3.000%	13,748,367	377.44	$155,676	11.78	$161,905	4.00%
Air and H2O Pollution Control	5	3.000%	447,858,600	295.65	$3,972,282	11.78	$5,274,137	32.77%
New and Expanding R & D Improvements	5	1.500%	1,111,400	377.44	$6,292	11.78	$13,088	108.00%
New & Expanding Ind- Air & H2O P C	5	1.500%	2,078,267	295.65	$9,217	11.78	$24,474	165.55%
All Gasohol Related Property	5	3.000%	17,400	295.65	$154	11.78	$205	32.77%
R & D Personal Property	5	3.000%	1,480,767	377.44	$16,767	11.78	$17,438	4.00%
New & Expanding R & D Pers Prop	5	1.500%	1,341,267	377.44	$7,594	11.78	$15,795	108.00%
Aluminum Electrolytic Equipment	5	3.000%	36,468,900	377.44	$412,945	11.78	$429,470	4.00%
New Industry - Personal Property	5	3.000%	70,265,533	377.44	$795,631	11.78	$827,471	4.00%
Locally Assessed Co-op Improvements	5	3.000%	227,733	377.44	$2,579	11.78	$2,682	4.00%
R & D Land	5	3.000%	29,200	377.44	$331	11.78	$344	4.00%
Locally Assessed Trucks & Trailers	5	3.000%	1,425,246	377.44	$16,138	11.78	$16,784	4.00%
Real Co-op companies Personal	5	3.000%	91,075,134	295.65	$807,791	11.78	$1,072,532	32.77%
Real Co-op companies Real	5	3.000%	241,344,759	295.65	$2,140,607	11.78	$2,842,159	32.77%
SUB TOTAL			913,368,839					

MACo ANALYSIS--PROPERTY TAX REFORM--TAX YEAR 1991

TOTAL STATE

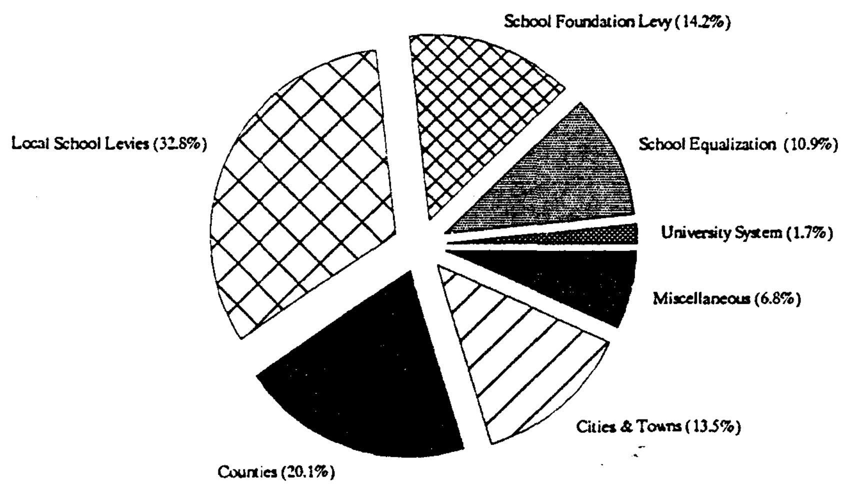
Property Type	Class	Tax Rate	TOTAL STATE MARKET VALUE	CURRENT MILL LEVY	1991 TAXES	MILL LEVY W/O SCHOOLS	TAXES W/O SCHOOLS	PERCENT CHANGE
LIVESTOCK								
Horses	6	4.000%	45,587,002	295.65	$539,112	11.78	$536,848	-0.42%
Cattle	6	4.000%	615,144,017	295.65	$7,274,693	11.78	$7,244,147	-0.42%
Sheep	6	4.000%	14,524,691	295.65	$171,769	11.78	$171,048	-0.42%
Swine	6	4.000%	2,442,309	295.65	$28,883	11.78	$28,761	-0.42%
Other Livestock	6	4.000%	4,724,727	295.65	$55,875	11.78	$55,640	-0.42%
SUB TOTAL			682,422,746					
PERSONAL PROPERTY GENERAL								
Rental Equip.(Less Than $5,000)	6	4.000%	9,094,253	377.44	$137,301	11.78	$107,097	-22.00%
Canola Seed Processing Equipment	6	4.000%	0	295.65	$0	11.78	$0	ERR
Failure to Report Penalty	6	4.000%	51,108,418	377.44	$771,614	11.78	$601,870	-22.00%
Malting Barley Processing Equip.	6	4.000%	0	295.65	$0	11.78	$0	ERR
Rural Telephone Property	7	8.000%	767,788	377.44	$23,183	11.78	$9,042	-61.00%
New & Expanding Ind- Mach & Eq	8	4.500%	85,371,889	377.44	$1,450,024	11.78	$1,005,369	-30.67%
Class 20 Out of Production PP	8	9.000%	0	295.65	$0	11.78	$0	ERR
Oil & Gas Flow Lines	8	9.000%	35,596,373	295.65	$947,166	11.78	$419,195	-55.74%
Oil & Gas Field Equipment	8	9.000%	90,514,294	295.65	$2,408,450	11.78	$1,065,927	-55.74%
Theatre and Sound Equipment	8	9.000%	1,661,835	377.44	$56,452	11.78	$19,570	-65.33%
Ag Implements	8	9.000%	595,845,270	295.65	$15,854,549	11.78	$8,771,098	-44.68%
Buses	8	9.000%	1,630,282	377.44	$55,380	11.78	$23,998	-56.67%
Trucks over 1 Ton (9%)	8	9.000%	80,852,950	377.44	$2,746,542	11.78	$1,190,190	-56.67%
Rental Equipment	8	9.000%	14,256,986	377.44	$484,304	11.78	$167,895	-65.33%
Furniture and Fixtures	8	9.000%	353,623,367	377.44	$12,012,444	11.78	$4,164,390	-65.33%
CB's and Mobile Phones	8	9.000%	1,406,254	377.44	$47,770	11.78	$16,561	-65.33%
Mining Machinery	8	9.000%	43,093,178	295.65	$1,146,645	11.78	$634,350	-44.68%
Ski Lifts	8	9.000%	6,316,000	295.65	$168,059	11.78	$74,379	-55.74%
Repair Tools	8	9.000%	1,114,362	377.44	$37,854	11.78	$13,123	-65.33%
Coal and Ore Haulers	8	9.000%	29,256,744	295.65	$778,478	11.78	$430,672	-44.68%
Manufacturing Machinery	8	9.000%	752,006,817	377.44	$25,545,371	11.78	$11,069,863	-56.67%
Radio and TV Broadcasting Equip.	8	9.000%	8,932,518	377.44	$303,434	11.78	$105,192	-65.33%
Machin. other than Farm, Min., Manuf.	8	9.000%	291,686,587	377.44	$9,908,477	11.78	$4,293,752	-56.67%
Supplies and Materials	8	9.000%	74,145,136	377.44	$2,518,681	11.78	$873,159	-65.33%
All Other Property	8	9.000%	1,549,567	377.44	$52,638	11.78	$18,248	-65.33%
Cable TV Systems	8	9.000%	12,761,999	377.44	$433,520	11.78	$150,290	-65.33%
Trailers (9%)	8	9.000%	48,650,810	377.44	$1,652,649	11.78	$572,929	-65.33%
SUB TOTAL			2,591,243,678					
UTILITIES REAL AND PERSONAL								
Indep. Tele. Companies Real	7	8.000%	5,517,313	377.44	$166,596	11.78	$64,974	-61.00%
Indep. Tele. Companies Personal	7	8.000%	4,788,763	377.44	$144,598	11.78	$56,394	-61.00%
Electric Companies Personal	11	12.000%	49,431,658	377.44	$2,238,898	11.78	$582,124	-74.00%
Pipelines Personal	11	12.000%	45,081,016	377.44	$2,041,845	11.78	$530,890	-74.00%
Gas & Electric Companies Personal	11	12.000%	316,181,269	377.44	$14,320,735	11.78	$3,723,459	-74.00%
Telecomm. Companies Real	11	12.000%	316,999,761	377.44	$14,357,807	11.78	$3,733,098	-74.00%
Telecomm. Companies Personal	11	12.000%	250,368,772	377.44	$11,339,903	11.78	$2,948,429	-74.00%
Electric Companies Real	11	12.000%	1,118,252,367	295.65	$39,673,357	11.78	$13,168,924	-66.81%
Pipelines Real	11	12.000%	301,963,985	295.65	$10,713,078	11.78	$3,556,032	-66.81%
Gas & Electric Companies Real	11	12.000%	896,126,091	377.44	$40,588,060	11.78	$10,553,089	-74.00%
Airlines Real	15	7.540%	59,772,772	295.65	$1,332,455	11.78	$703,905	-47.17%
Railroads Real	15	7.540%	621,904,884	295.65	$13,863,510	11.78	$7,323,766	-47.17%
Airlines Personal	15	7.540%	3,664,854	377.44	$104,298	11.78	$43,159	-58.62%
Railroads Personal	15	7.540%	25,444,377	377.44	$724,121	11.78	$299,642	-58.62%
SUB TOTAL			4,015,497,880					
OTHER PROPERTY								
Eligible Mining Claims	18	30.000%	40,017	295.65	$3,549	11.78	$471	-86.72%
Nonproductive Land Under 20 Acres	19	2.000%	5,483,650	295.65	$32,425	11.78	$64,577	99.16%
Impr./Class 20 Out of Production	20	3.860%	0	295.65	$0	11.78	$0	ERR
Class 20 Out of Production Land	20	3.860%	3,627	295.65	$41	11.78	$43	3.19%
SUB TOTAL			5,527,294					
TOTAL ALL PROPERTY			27,803,398,125		$554,950,561		$297,907,608	-46.32%

U COUNTY		64.35
R COUNTY		80.19
GEN ED		203.90
CITY		97.63
STATE SPECIAL		6.00
MISC.		5.56
RURAL	2	295.65
URBAN	1	377.44
R/W SCHOOLS		21.94
R/W/O SCHOOLS		11.78

TABLE 2
FY '91 Property Tax Analysis

State Property Tax Funds FY '91		
University System	$ 9,421,701	
Livestock	2,127,717*	
School Equal (40 mills)	58,996,222	
SUB-TOTAL	**$ 70,545,640**	
Adjusted		**$ 68,417,923**
Counties	$109,081,766	$109,081,766
Schools:		
Foundation (55 mills)	76,909,377	
Other levies	177,858,000	
SUB-TOTAL	**$254,767,465**	**$ 254,767,465**
Cities and Towns	73,255,472	$ 73,255,472
Miscellaneous	36,616,249	36,616,249
TOTAL TAXES ALL PURPOSE	**$544,266,592**	
ADJUSTED TOTAL		**$ 542,138,875**

* Per Capita Tax on Livestock (not included in the adjustments)



FILE: saltax.ppr
AS OF: December 30, 1992

SB 283

PERCENTAGE OF FEDERAL TAX LIABILITY

TOTAL INCOME BRACKET	TAX INCREASE GREATER THAN $10 NO. OF HOUSEHOLDS	AVERAGE TAX INCREASE	TAX DECREASE GREATER THAN $10 NO. OF HOUSEHOLD	AVERAGE TAX DECREASE
$ 0 - $ 1,999	156	16.40	0	0
$ 2,000 - $ 3,999	156	74.61	14,976	26.28
$ 4,000 - $ 5,999	0	0	14,040	58.63
$ 6,000 - $ 7,999	468	62.85	14,352	53.27
$ 8,000 - $ 9,999	2,340	104.69	11,388	44.93
$ 10,000 - $ 11,999	3,302	137.62	7,598	84.82
$ 12,000 - $ 13,999	2,232	116.91	9,588	84.47
$ 14,000 - $ 15,999	4,030	131.93	10,230	140.30
$ 16,000 - $ 17,999	4,178	189.41	7,220	113.79
$ 18,000 - $ 19,999	4,068	186.67	7,182	139.40
$ 20,000 - $ 24,999	7,154	242.68	16,340	169.60
$ 25,000 - $ 29,999	5,780	354.68	13,686	222.13
$ 30,000 - $ 34,000	5,124	308.46	12,396	300.14
$ 35,000 - $ 39,999	5,552	480.53	10,140	348.61
$ 40,000 - $ 44,999	3,528	672.96	8,680	398.47
$ 45,000 - $ 49,999	3,077	845.13	6,810	436.33
$ 50,000 - $ 54,999	2,468	701.97	4,620	509.74
$ 55,000 - $ 59,999	2,691	593.89	2,610	458.37
$ 60,000 - $ 64,999	2,096	828.57	1,550	512.00
$ 65,000 - $ 69,999	1,657	990.76	845	580.91
$ 70,000 - $ 74,999	1,212	861.09	560	593.03
$ 75,000 - $ 79,999	805	1,036.90	419	607.24
$ 80,000 - $ 89,999	1,178	1,071.80	573	723.95
$ 90,000 - $ 99,999	877	1,481.21	394	739.63
$100,000 - $109,999	548	1,401.73	215	866.15
$110,000 - $119,999	415	1,988.57	179	960.17
$120,000 +	2,514	5,945.56	537	1,803.10
TOTALS	67,606	647.36	177,128	190.43

EXHIBIT 1
DATE 2-10-93
SB-283

SUMMARY OF SENATE BILL 283

Sections 1 through Section 61 establish a 4% general sales and use tax; identify the responsibilities for the collection of the tax; lists the allowable exemptions, and nontaxable items and transactions.

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Section 121. Section 15-51-101, MCA, is amended to read: "15-51-101. Rate of tax -- electrical energy producers . . . 127
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Section 199. Section 15-32-402, MCA, is amended to read: "15-32-402. Commercial investment credit -- wind-generated electricity . . . 283
Section 200. Section 15-33-106, MCA, is amended to read: "15-33-106. Capital gains -- dividends exempted . . . 284
Section 201. Section 53-6-111, MCA, is amended to read: "53-6-111. Department charged with general administration of medical assistance -- adoption of rules to punish fraud . . 284
Section 202. Section 67-11-303, MCA, is amended to read: "67-11-303. Bonds and obligations . . 286

Section 203. Section 19-3-105, MCA, is amended to read: "19-3-105. Exemption from ~~taxes and~~ legal process . . . 290
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Section 208. Section 19-8-805, MCA, is amended to read: "19-8-805. Exemption from ~~taxes and~~ legal process . . . 293
Section 209. Section 19-10-504, MCA, is amended to read: "19-10-504. Protection of benefits from legal process ~~and taxation~~ . . . 294
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Section 215. Sales tax rates and income tax credits -- restrictions . . . 299
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Section 217 is the repealer provisions. Specifically this bill proposes to repeal 15-10-4, the tax limitation law established under I-105.

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Section 219. Coordination instruction . . . 302
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Section 224 provides for a June 8, 1993 election on the sales tax.

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EXHIBIT I

MACo PROPERTY TAX PROPOSAL

SHARE OF STATEWIDE PROPERTY TAX BASE

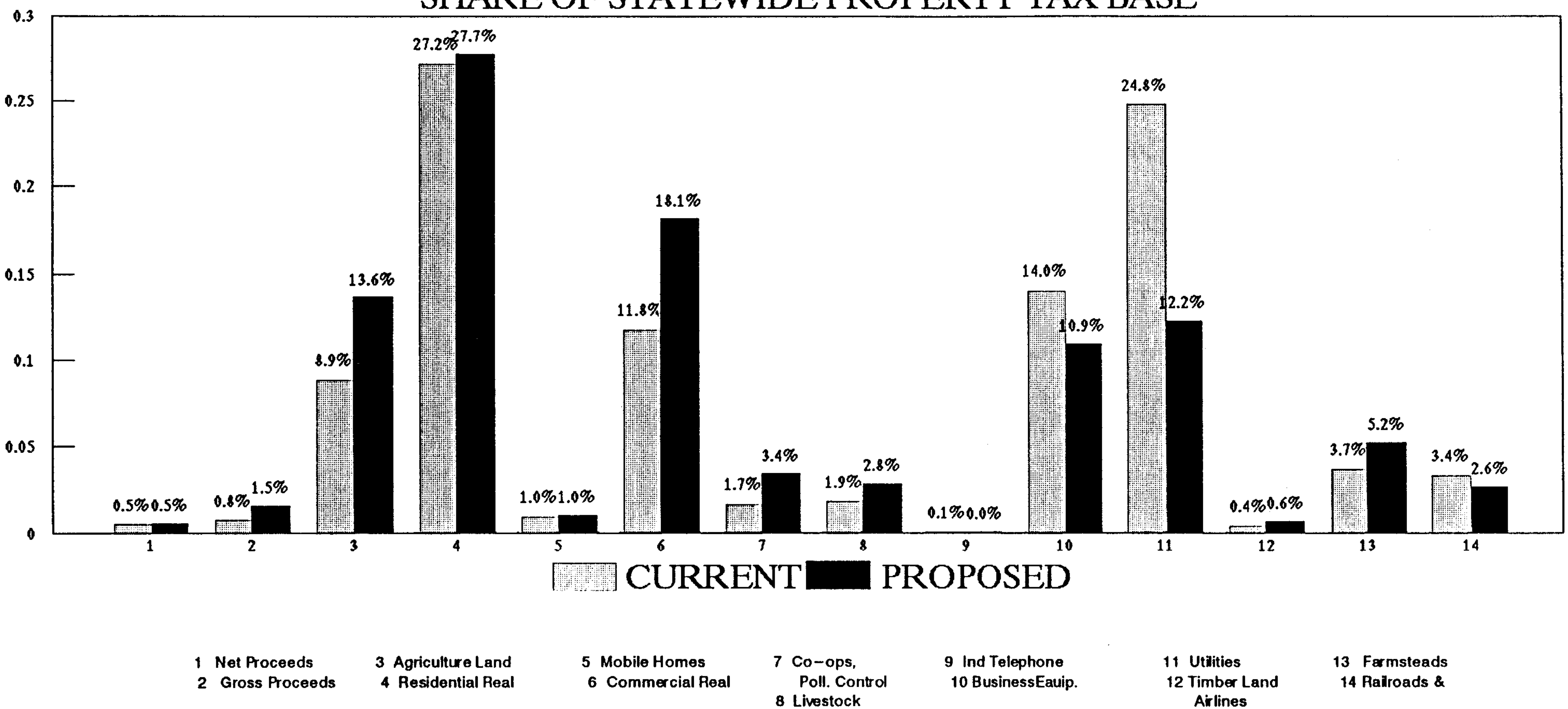
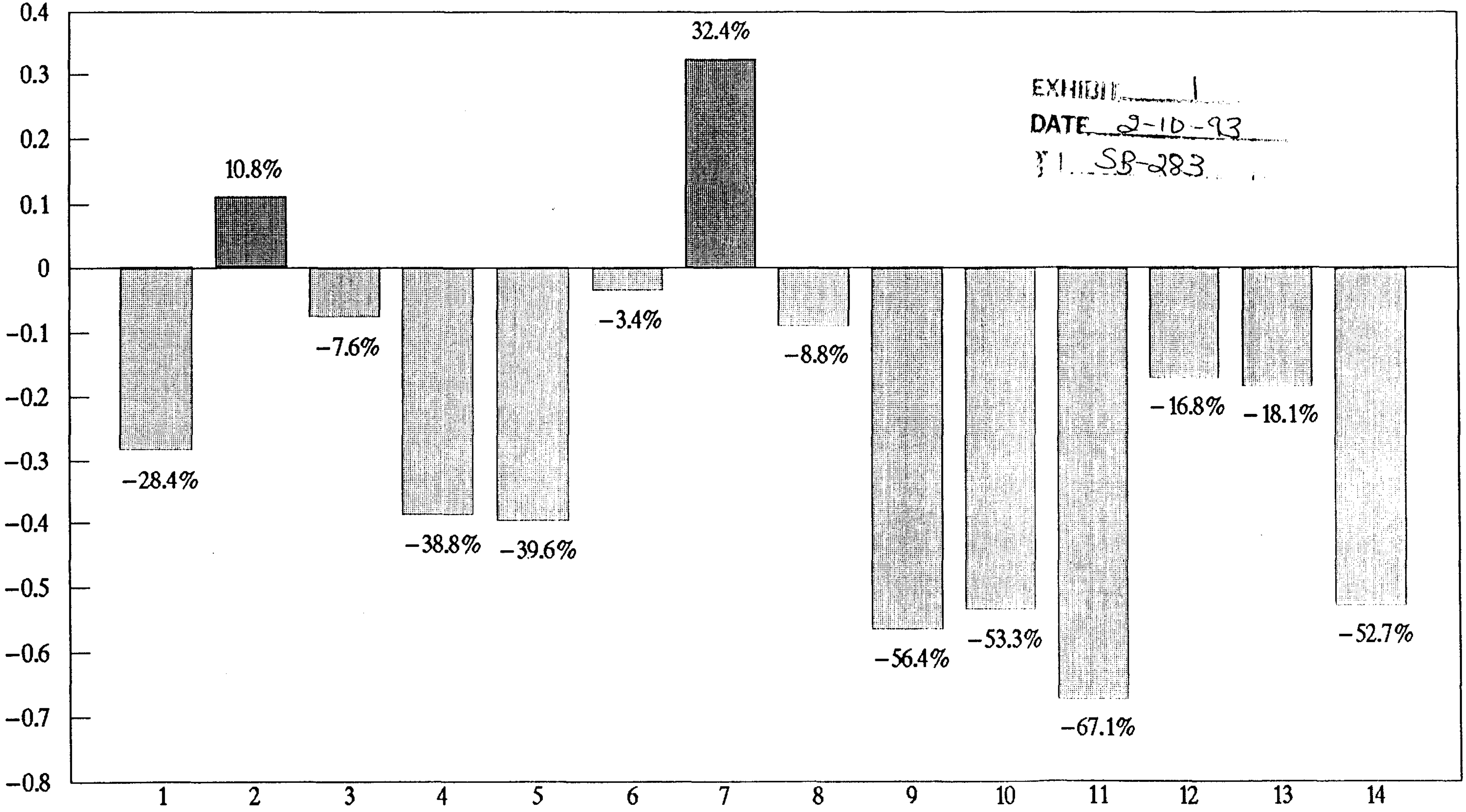


EXHIBIT II

MACo PROPERTY TAX PROPOSAL

IMPACT TO TAX REVENUE PAID BY PROPERTY CLASS



1 Net Proceeds
2 Gross Proceeds
3 Agriculture Land
4 Residential Real
5 Mobile Homes
6 Commercial Real
7 Co–ops, Poll. Control
8 Livestock
9 Ind. Telephones
10 Business Equip.
11 Utilities
12 Timber Lands
13 Farmsteads
14 Railroads & Airlines

MACo PROPERTY TAX PROPOSAL

IMPACT TO TAX REVENUE PAID BY PROPERTY CLASS

Tax Year '92 Classes	ESTIMATED CURRENT REVENUE	ESTIMATED PROPOSED REVENUE	CHANGE IN PROPERTY TAX	PERCENT CHANGE IN PROPERTY TAX
1. Net Proceeds	2,189,354	1,567,362	(621,992)	−28.4%
2. Gross Proceeds	3,952,586	4,381,288	428,702	10.8%
3. Ag Lands	39,990,912	36,960,043	(3,030,869)	−7.6%
4. Residential Real	161,293,552	98,790,067	(62,503,485)	−38.8%
4. Mobile Homes	5,137,426	3,104,011	(2,033,415)	−39.6%
4. Commercial Real	73,520,664	70,986,082	(2,534,582)	−3.4%
5. Co−ops, Pol Cntl	6,189,763	8,197,564	2,007,801	32.4%
6. Livestock	8,516,398	7,770,190	(746,208)	−8.8%
7. Ind. Telephones	268,146	116,932	(151,214)	−56.4%
8. Business Equip	69,776,374	32,569,257	(37,207,117)	−53.3%
9. Utilities	99,936,314	32,912,512	(67,023,802)	−67.1%
10. Timber Land	2,137,880	1,778,080	(359,800)	−16.8%
11. Farmsteads	17,276,165	14,144,377	(3,131,788)	−18.1%
12. Railroads & Airlines	15,960,941	7,555,769	(8,405,172)	−52.7%
STATEWIDE TOTALS	506,146,475	320,833,534	(185,312,941)	−36.6%

SHARE OF STATEWIDE PROPERTY TAX BASE

Tax Year 1992 Classes	CURRENT		PROPOSED		CHANGE IN TAX BASE SHARE
	TAXABLE VALUE	PERCENT OF STATEWIDE TOTAL	TAXABLE VALUE	PERCENT OF STATEWIDE TOTALS	
1. Net Proceeds	$8,318,381	0.5%	$133,094,096	0.5%	−5.5%
2. Gross Proceeds	$12,230,635	0.8%	$407,687,833	1.5%	96.8%
3. Ag Lands	$141,558,901	8.9%	$3,666,104,620	13.6%	52.9%
4. Residential Real	$433,587,219	27.2%	$7,484,951,356	27.7%	1.9%
4. Mobile Homes	$15,274,132	1.0%	$262,677,583	1.0%	1.5%
4. Commercial Real	$187,850,983	11.8%	$4,881,794,018	18.1%	53.4%
5. Co−ops, Poll. Control	$27,333,101	1.7%	$911,103,372	3.4%	96.8%
6. Livestock	$29,705,017	1.9%	$755,402,522	2.8%	50.1%
7. Independent Telephone	$885,909	0.1%	$11,073,863	0.0%	−26.2%
8. Business Equipment	$223,882,855	14.0%	$2,936,180,232	10.9%	−22.6%
9. Utilities	$395,328,590	24.8%	$3,294,404,919	12.2%	−50.8%
10. Timber Land	$6,669,376	0.4%	$166,734,400	0.6%	47.6%
11 Farmsteads	$59,003,031	3.7%	$1,396,851,314	5.2%	39.8%
12. Railroads & Airlines	$53,593,331	3.4%	$710,786,886	2.6%	−21.7%
STATEWIDE TOTALS	$1,595,221,461	100%	$27,018,847,014	100%	

MONTANA TAX REFORM ACT OF 1993

ELECTRICAL UTILITIES PRODUCERS SAVINGS: MACo PROPERTY TAX PROPOSAL

DOR ANALYSIS OF UTILITY PROPOERTY TAX REDUCTIONS: $43,000,000

Electricity and Electrical Energy License Tax
Current Tax is $.0002 per kilowatt hour of generation

In FY '91

7 Electricial Generators* produced 21,849,722,787 Kilowatt hours and paid taxes including penalty and interest of $4,240,000

TAX RATE	REVENUE
$.00045	$10M
$.00091	$20M
$.00137	$30M
$.00183*	$40M
$.00228	$50M
$.00274	$60M

* Champion International	Montana Power
Montana-Dakota Utilities	Pacificorp
Portland General Electric	Puget Sound Power & Light
Washinton Water Power	

TELECOMMUNICATION COMPANY SAVINGS: MACo Property Tax Proposal

DOR ANALYSIS OF TELEDOMMUNICATION TAX REDUCTIONS: $17,036,769

In FY '91

The Telephone License tax, levied on gross income earned by Telephone Businesses, assessed at the rate of 1.725% of the adjusted gross income, generated $3,903,000 to the State General Fund.

TAX RATE	REVENUE
1.725	$ 2,903,000
2.6	$ 6,000,000
3.5	$ 8,000,000
4.4	$10,000,000
5.3	$12,000,000
*6.1	$14,000,000

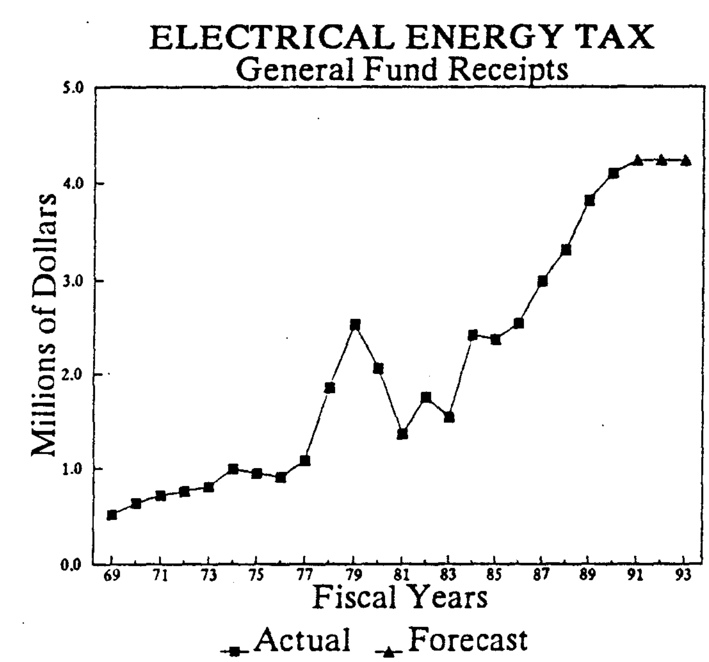
Electrical Energy Tax

The electrical energy tax is imposed on each person or organization engaged in generating, manufacturing, or producing electrical energy in Montana. The tax of $.0002 per kilowatt-hour is levied against all electrical energy produced within the state. A deduction is allowed for "actual and necessary" energy used by the plant for the production of the energy. All receipts are deposited in the general fund.

Total electricity production in Montana is projected to increase from fiscal 1990 levels through 1993. Beginning in 1991, the rate of growth is expected to slow. These assumptions are based on production estimates supplied by the major producers.

Although Colstrip unit 3 had mechanical problems during calendar year 1990, these problems have been resolved and the plant is expected to operate at or near capacity during the 1993 biennium.

Electrical energy taxes may be reduced by an interest differential credit claimed by the producers. This credit is determined by the difference between the actual interest received on energy conservation loans and the average interest rate for home improvement loans. These credits are expected to reduce revenues by approximately $295,000 per year.



FY	Total Collections Millions	General Fund Collections Millions	Percent Change
69	$0.512751	$0.512751	
70	0.639343	0.639343	24.69%
71	0.717378	0.717378	12.21%
72	0.756795	0.756795	5.49%
73	0.805716	0.805716	6.46%
74	0.992950	0.992950	23.24%
75	0.946504	0.946504	-4.68%
76	0.907698	0.907698	-4.10%
77	1.082858	1.082858	19.30%
78	1.850994	1.850994	70.94%
79	2.523707	2.523707	36.34%
80	2.060960	2.060960	-18.34%
81	1.367959	1.367959	-33.63%
82	1.753173	1.753173	28.16%
83	1.546157	1.546157	-11.81%
84	2.413172	2.413172	56.08%
85	2.361855	2.361855	-2.13%
86	2.530403	2.530403	7.14%
87	2.991861	2.991861	18.24%
88	3.311082	3.311082	10.67%
89	3.815964	3.815964	15.25%
90	4.100543	4.100543	7.46%
91	4.240000	4.240000	3.40%
92	4.239000	4.239000	-0.02%
93	4.241000	4.241000	0.05%

MONTANA ASSOCIATION OF COUNTIES TAX PROPOSAL
PROPOSED MONTANA PUBLIC SCHOOL
GENERAL FUND STRUCTURE

EXHIBIT 1
DATE 2-10-93
SB-283

MAXIMUM DISTRICT BUDGET 121% OF F.P. SCHEDULE	DISTRICT VOTED LEVY	$127,600,000
		$\boxed{\$608,000,000}$
TOTAL FOUNDATION PROGRAM AMOUNT 100% OF F.P. SCHEDULE	SALES TAX REVENUE	$185,000,000
	NON LEVY REVENUE INTEREST, TUITION P. L. 874 CASH REAPPROPRIATED	$ 30,800,000
	STATE EQUALIZATION 40 MILL LEVY ($62M) LOTTERY REVENUE ($4.2M) INCOME TAX (120M) CORPORATION TAX ($18M) COAL SEVERANCE TAX ($6M) U.S. MINERAL ROYALTIES ($22M) 15% COAL TRUST INTEREST($7M) SCHOOL TRUST INCOME ($36M) SPECIAL EDUCATION ($29M) • 33 MILLS ELEM. • 22 MILLS H.S. 〉 $88M	$392,200,000

SALES TAX PROPOSAL COMPARISONS

WATERMAN				RACICOT/CRIPPEN
		4% Sales Tax Requires a vote of the people		
		Property Tax Reform		
• Homestead Exemption 65% of the first $50,000 of value	$80M		$49.4M	• Homestead Exemption $20,000 residential exemption
			$6M	• $10,000 Commercial Real Property Exemption
• All property at 100% of Market Value Estimated effective tax rate @1.18% Eliminate local permissive school levies.	$185M		$44M	• Personal property tax rate reduced to 3.86%
	$25M	Low-Income Sales Tax Rebates	$25M	
		Renters Credit	$18.8M	$200 tax credit for renters
		Income Tax Reform		
State tax at 30% of federal tax obligation			$54M	6% flat tax rate with increases in the schedule for standard deductions
Increase the tax on the generation of electricity to $.00183 per kilowatt hour	$36M			
Increase the telephone license tax to 6.1% of gross revenues in excess of $250 per quarter	$10M			
Increase the Foundation Funding and school district schedules, and eliminate local school district permissive levies.	$185M			
Repeals the property tax limitation law, 15-10 - Part 4, MCA.				

SENATE TAXATION
EXHIBIT NO. 2
DATE 2-10-93
BILL NO. SB 283

SENATE BILL 283

SENATOR MIGNON WATERMAN

In an article in Montana Business Quarterly, Douglas J. Young writes:

What is Montana's effective rate for single family properties? (Effective rates are property taxes as a percentage of market value.) Montana's rates were somewhat above average in both 1971 and 1987, but not among the very highest (Table 5). Note that effective rates in Montana and other states have actually declined since the early 1970's.

Whether they're effectively high or not, Montana's property taxes are among the country's most complex (Table 6). In 1991, the state tax code contained eleven difference classes of real property and thirteen of personal property, which are taxed at several different rates. The median state has just two classifications, real and personal.[1]

Table 5

Effective Property Tax Rates on Single Family Homes

	1971 Rate	1971 Rank	1987 Rate	1987 Rank
Montana	2.19	17	1.3	16
Idaho	1.72	28	0.8	34
North Dakota	2.08	21	1.3	15
South Dakota	2.71	7	2.1	3
Wyoming	1.38	40	0.5	46
U.S. Average	1.98	--		--

Source: ACIR, Significant Features to Fiscal Federalism, 1990.

Table 6

Property Tax Classifications, 1991

	Number of Classes Real	Personal
Montana	11	13
Idaho	1	1
North Dakota	4	E*
South Dakota	2	E*
Wyoming	1	1
U.S. Median	1	1

Source: ACIR, Significant Features of Fiscal Federalism, Vol. I, 1992.

*Exempt

[1]Douglas J. Young, "Montana Taxation and Expenditures: Trends and Comparisons," Montana Business Quarterly, 30, No. 3, (Autumn 1992), p.18.

SENATE TAXATION
EXHIBIT NO. 3
DATE 2-10-93
BILL NO. SB 283

SENATE BILL 283
TESTIMONY BY GORDON MORRIS
EXECUTIVE DIRECTOR
MONTANA ASSOCIATION OF COUNTIES
2/10/93

Chairman Halligan, Members of the Committee, for the record my name is Gordon Morris and I am the Executive Director of the Montana Association of Counties. On behalf of the Association and with thanks to Senator Mignon Waterman I am pleased to appear before you in wholehearted support for the consideration and passage of Senate Bill 283. I will attempt to keep my remarks brief and to the point and with that in mind Mr. Chairman I would like to quickly go through the bill and highlight what I believe are the pertinent sections.

Sections 1 through 61 are identical to the Sales Tax Proposal as set forth in the legislation introduced by Senator Crippen for Governor Mark Racicot in Senate Bill 235. These sections simply establish a general 4% sales and use tax, identify the responsibilities for the collection of the tax and list the allowable exemptions as well as non-taxable items and transactions.

Section 62 of the bill outlines the allocation of sales and use tax revenue. Specifically, it dedicates 70.5% of the revenue to state equalization aid and 10.5% to the Montana University System including the Vocational Technical Centers and community college districts. The remainder is allocated to the State General Fund.

Section 70 through 95 are sections found in Title VII that need to be amended relative to the change in taxation specific to such issues as county classification, the authority to incur debt and so on. I would suggest that these are simply administrative sections and I would be glad to answer any questions in regard to their effects.

The heart of the bill in my opinion is found in Sections 96 through 120 which specifically address the current property tax system and establish the market value standard for taxation purposes at 100%. This approach, simply put, eliminates what could be characterized as "a most preferred taxpayer dilemma" relative to the current classification ratios that we have in Montana and would instead put all property on an equal footing in terms of the equal determination of its tax liability. All tax liability would be based upon the appraised market value of the

EXHIBIT 3
DATE 2-10-93
SB-283

property. In addition, these sections establish the residential homestead exemption at 65% of the first $50,000 of home market value, and provide for the taxation of net proceeds and ag land and all other property.

I would like to point out that ag land as demonstrated in Exhibits 1 and 2 would increase in its proportional share of the resulting tax base to 13.6%, compared to the current tax base at 8.9%. At the same time it should be noted that the overall tax liability for ag land would actually decrease by an estimated 7.6%.

Further, I must point out that Class 5 Rural Cooperative Real and Personal property would experience a tax increase of 32.4%, or approximately $2 million dollars, on a current tax bill of $6.2 million. This translates into a 1% increase based upon data provided from impacted co-ops on utility rates. Added to this would be the sales tax of 4%, for a total increase of 5% on co-op utility bills. Depending upon customer usage per year, this represents a $50 increase per $1,000 of current utility expenses.

This increase must individually be weighted against a property tax reduction, estimated at $366 per thousand of current taxes. I would suggest that this should be within acceptable levels for users of cooperative services.

I have tried to find a simple way to illustrate the dynamic of this approach and I believe the most worthwhile illustration would be to take the current tax on ag equipment and compare it to the resulting tax. If you assume that you currently have a $100,000 market value piece of equipment, that translates into a taxable value of $9,000 and means that the equipment owner pays $9 for every mill levied against the equipment. If you assess the 40 mill school equalization levy under the current law then, that equipment generates $360 per year in personal property taxes. Under Senate Bill 283, that ag equipment would be taxed at its market value of $100,000, would pay $100 per mill and based upon the new school equalization aid account levy at 2.235 mills would pay $223.50 in personal property. That is a dramatic illustration in terms of the leveling that would occur within the current tax structure from top to bottom. The effective tax rate that results from the application of the 100% market principle is a rate of 1.18% of market value to taxes. Let me conclude by saying that it is the case that this approach would eliminate any question as to the existence of a preference for certain taxpayers over other taxpayers or more importantly at the expense of other taxpayers. It would in fact establish a level playing field for all taxpayers, simplify the system as Senator Waterman pointed out, and in my opinion go a long way toward eliminating tax protests in Montana.

Sections 121 and 122 of the bill amend the tax on the generation of electricity to .00183 cents per kilowatt hour and the telephone license tax to 6.1% of the gross revenues in excess of $250 per quarter paid by centrally assessed telephone utilities and electrical generators. This tax increase is intended to offset the rather dramatic decrease in property taxes paid by current centrally assessed properties who are assessed for tax purposes at the rate of 12% of market value.

Sections 130 through 160 establish the equalization of school funding through the foundation schedules. The schedules have been increased to what we hope will be a level sufficient to fund adequately the needs of all elementary and secondary school districts. If this does not appear to be the case, I think the revenue allocation readily support an adjustment in the schedules and any other recommendations that might come from the education community representatives.

Retirement funding would be apportioned by the Superintendent of Public Instruction with the revenue coming from the state equalization aid account in full support of each district's retirement fund expenditures.

District transportation costs would be calculated by districts based upon the schedule as provided in Section 157 of the bill. Based upon those calculations, transportation costs would be reimbursed by the state, in this case the Office of Public Instruction. OPI would fund the reimbursement out of sales and use tax revenue as distributed under Section 62 of the bill to the state equalization aid account.

It is my belief and hope, as it is Senator Waterman's, that these sections could be reviewed thoroughly in subcommittee and refined to a point of satisfaction for all those people representing the interests of various school districts. I would add the comment that it is intented

EXHIBIT 3
DATE 2-10-93
SB-283

that this proposal would in fact fully equalize all school funding throughout Montana.

Sections 178 through 213 amend the state income tax laws and establish the new state income tax rate as a percentage of the federal obligation at 30% on income taxable. The resulting maximum effective rate is estimated at 4.79% of adjusted gross income. This does represent as Senator Waterman pointed out, a major simplification of taxes for everyone in Montana.

Section 217 outlines the various statutes that would be repealed under Senate Bill 283. There are two in particular that deserve attention. Title 15, Chapter 1, Part 111, is repealed. This is the section of law established following the 1989 special session to provide the personal property tax reimbursement to reflect the tax rate on Class 8 property was dropped to a flat 9%. The repeal of this section will save the State General Fund an estimated $20 million annually.

In addition, Senate Bill 283 repeals Title 15, Chapter 10, Part IV in its entirety. This section is the provision of law established by Initiative 105. It is the belief of the sponsor and local government officials that the property tax and overall tax reform as provided for in Senate Bill 283 meets the conditions required for the repeal of the property tax freeze.

Section 219 of the bill I believe is unique insofar as it provides coordination instructions relative to the passage of either Senate Bill 168, the bill reflecting the ag land valuation commission's recommendations for the taxation of ag land in Montana or a like bill, Senate Bill 170. Whichever is passed and approved, would end up establishing the ag land valuation schedules effective January 1, 1994 and take the place of the sections provided for in this bill which establishes market value as the product of 5 times the value of its productive capacity. Let me point out that in the case of either the ag land advisory commission's recommendations, or the treatment of ag land as written in the bill, they are both determined to be revenue neutral. It is the case that ag land as a percent of the total property tax base does increase from an estimated current share at 8.9% to 13.6%. However, this does not translate into a property tax increase. Under either the scenario currently in the bill or the scenario even at 100% under Senate Bill

168, which has in fact been moving through the Senate, would result in an estimated drop in ag land taxes under the market value approach in the bill of an estimated 7.6%. Couple that with the reduction in ag land equipment which is projected to run at 53% and the agricultural sector of Montana's economy will receive a significant reduction in their property tax burden compared to the current system.

Finally, Mr. Chairman and Members of the Committee, Section 224 of the bill provides for a June 8, 1993, election on the sales tax.

I have covered the points quickly and while the bill itself is an omnibus effort at comprehensive tax reform, I would submit that the overall result can be characterized best as a simplification of what is currently a complicated property tax system as well as a complicated income tax system and in closing would indicate that I would be pleased to try and answer any questions and thank you for your favorable consideration on Senate Bill 283.

SEN. ... TAXATION
EXHIBIT NO. 4
DATE 2-10-93
BILL NO. SB 283

AARP

Bringing lifetimes of experience and leadership to serve all generations.

MONTANA STATE LEGISLATIVE COMMITTEE

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Tax Reform SB 283
Senate Hearing Feb. 10, 1993

MR CHAIRMAN; MEMBERS OF THE COMMITTEE

MY NAME IS GENE QUENEMOEN. I AM CHAIRMAN OF THE AMERICAN ASSOCIATION OF RETIRED PERSONS STATE LEGISLATIVE COMMITTEE. FOR THE RECORD, AARP HAS OVER 110,000 MEMBERS IN MONTANA - - ONE IN EVERY EIGHT PERSONS IN THE STATE. MEMBERS ARE AGE 50 AND OVER.

AARP EVALUATES TAX MEASURES ON THE BASIS OF PROGRESSIVITY, EQUITY, AND BALANCE OF SERVICES AND REVENUES.

THE OUTCOMES OF TAX REFORM MEASURES SHOULD PRODUCE JOBS, INCREASE PERSONAL INCOME, SUPPORT EDUCATION, AND PROVIDE BASIC SERVICES.

REFORMS SHOULD PROVIDE FOR TAX MEASURES THAT FUNCTION WELL AS A GROUP, ARE STABLE REVENUE PRODUCERS, PROVIDE DIVERSIFICATION, ARE EQUITABLE, ARE SIMPLE TO UNDERSTAND AND ADMINISTER, ACCOMODATE THE NEEDS OF LOCAL GOVERNMENTS, AND ARE IN STEP WITH NEIGHBORING STATES.

AARP STRONGLY SUPPORTS SB 283 BECAUSE IT IS CONSISTENT WITH OUR OUR RECOMMENDED TAX REFORM CRITERIA AND DESIRED OUTCOMES.

THE FOLLOWING FEATURES OF SB 283 ARE OF SPECIAL MERIT:

FIRST, THE BILL ADDRESSES SCHOOL FINANCE REFORM AND DEDICATES TAX REVENUE TO THE EQUALIZATION FUND. THIS IS A MAJOR STEP TOWARD IMPROVING OUR SCHOOL FINANCE SYSTEM, ONE OF AARP'S PRIORITY LEGESLATIVE ISSUES.

SECOND, THE PROPOSED PROPERTY TAX REFORM SHOULD LEAD TO GREATER SIMPLICITY AND FAIRNESS. FURTHERMORE, IT SUBSTANTIALLY RELEASES THE PROPERTY TAX BASE TO COUNTY AND LOCAL GOVERNMENTS.

ON BALANCE, SB 283 APPEARS TO ADDRESS THE GOAL OF TAX PROGRESSIVITY, EQUITY, AND BALANCE OF SERVICES AND REVENUES. AARP STRONGLY URGES THE COMMITTEE TO VOTE "DO PASS" ON THIS BILL.

THANK YOU.

SENATE TAXATION
EXHIBIT NO. 5
DATE 2-10-93
BILL NO. SB 283
-Mt Power Co.

COLSTRIP UNIT 4 LEASE PAYMENTS

Discussion

The Montana Power Company (MPC) owned a 30 percent share of Colstrip Unit 4, a 700,000 kW coal-fired electric generating plant which was placed in commercial operation in April, 1986. On December 30, 1985, prior to the commercial date, MPC sold and leased back its 30 percent share of Colstrip Unit 4 through a leveraged lease transaction to refinance, its investment in Colstrip Unit 4. The term of the lease is 25 years and MPC has the right to renew the lease or purchase the facilities at the end of the basic term. The property's operation and use is vested in MPC during the term of the lease. MPC is assessed property taxes on this leased share of Colstrip Unit 4 as a part of its overall centrally assessed property.

It is not clear whether the provisions of the bill would apply a sales or use tax on the annual lease rental payments. MPC believes that the lease payments should not be subject to the sales or use tax for two reasons: (1) Colstrip Unit 4 would have been subject to the use tax when it was placed in service in 1986 if the tax had been effective at that time; and (2) the sale and leaseback was principally a refinancing of Colstrip Unit 4 which corresponds to the exemption for proceeds from the sale of stocks, bonds, or securities under Section 17 of the proposed bill.

MPC proposes to amend Sec. 17 of the bill to make it clear that lease payments under the leveraged lease transaction described above are not subject to the sales or use tax and that similar transactions in the future are not subject to double taxation through operation of the sales and use tax.

<u>COLSTRIP UNIT 4 LEASE PAYMENTS</u>

<u>Recommended Amendment</u>

<u>NEW SECTION.</u> Section 17. Exemption-- dividends and interest. The following are exempt from the sales tax:

(1) interest on money loaned or deposited;

(2) dividends or interest from stocks, bonds or securities; and

(3) proceeds from the sale of stock, bonds, or securities; and

(4) commissions or fees, as provided in (section 1 (6) (d) derived from the business of buying, selling, or promoting any stock, bond, or security; AND

(5) PROCEEDS FROM THE SALE OF PROPERTY WHICH IS IMMEDIATELY LEASED BACK TO THE SELLER, AND THE RECEIPTS FROM THE ASSOCIATED LEASE.

EXHIBIT 5
DATE 2-10-93
L SB-283
Mt Power Co.

AFFILIATED ENTITY

Discussion

In the utility business, it is relatively common to structure business functions and services in affiliated entities.

It is submitted that there is a strong rationale for exempting these services from the sales tax, particularly if the ultimate sale of the utility service is to be taxed. The support services obtained from affiliates are simply a substitute for internally-performed functions that would involve no taxable event.

AFFILIATED ENTITY

Section 1. Add a definition of "affiliated entity". "'Affiliated entity' means a corporation that directly or indirectly through one or more intermediaries controls, is controlled by or is under common control with the subject corporation; or means a group of partners or corporations engaged in a legally-cognizable enterprise for a single purpose, whether or not the partners or corporations are under common control. 'Control' means ownership of stock in a corporation which represents at least eighty percent of the total voting power of that corporation and has a stated or par value equal to at least eighty percent of the total stated or par value of the stock of the corporation."

Following Section 17, add a new section:

New Section. "Exemption--sale or lease of property or services between affiliated entities. The sale or lease of property or services between affiliated entities is exempt from the sales tax and use tax."

EXEMPTION FOR MINERALS

Discussion

Section 21 of the Bill, as written, allows an exemption from the sales and use tax for all minerals produced in Montana. This exemption can be interpreted to exempt utility natural gas sales.

It is our understanding that with respect to petroleum, natural gas, uranium, oil and coal the intent is that receipts from the sale of these minerals are to be exempt only when the sale is for resale or for the purpose of energy production.

Another concern with the Bill as written is that it could result in some energy products available for sale to retail users having an unfair advantage because their sale would be tax exempt. For example, the sale of natural gas by a utility to a cement plant would be taxable, but the sale of coal to a cement plant would be exempt from tax. We are proposing to eliminate this unfairness. To accomplish this intent, we propose to amend Sec. 22 of the Bill.

EXHIBIT 5
DATE 2-10-93
SB 283
MT Power Co

EXEMPTION FOR MINERALS

NEW SECTION. Section 21 Exemption - minerals - exception. (1) The receipts from the SALE FOR RESALE or use of a mineral as defined in 15-38-103 are exempt from the sales tax, and use tax.

(2) ~~Minerals-refined,-reduced,-polished,-cut,-faceted,-or otherwise-processed-for-the-purpose-of-being-used-as-or-integrated into-jewelry,-art,-or-sculpture-or-as-a-decorative-embellishment-or adornment,-either-in-their-own-right-or-in-combination-with-other property,-are-not-included-in-the-exemption-provided-in-this-section.~~

(2) THE RECEIPTS FROM THE SALE OR USE OF COMBUSTIBLE MATERIAL, COAL, PETROLEUM, NATURAL GAS, OIL OR URANIUM FOR ENERGY PRODUCTION FOR RESALE AND IN-PLANT ENERGY USE ARE EXEMPT FROM THE SALES AND USE TAX.

MINING EXEMPTION

Discussion

The purpose of this amendment is to clarify, through the definitions in Section 1, the references to miner and mining in subsequent sections of the bill, such as Sections 27 and 30.

EXHIBIT 5
DATE 2-10-93
SB-288
Mt Power Co

MINING EXEMPTION

SECTION 1. Definitions.

(5) "Manufacturing" means combining or processing components or materials, including the MINING OR processing for ores in a mill, smelter, refinery, or reduction facility, to increase their value for sale in the ordinary course of business. The term does not include construction.

UNCOLLECTIBLES

Discussion

This appears to be an area that has not been addressed in the bill. However, it seems clear that the seller should be permitted to adjust its tax payments for billings it never collects.

5
2-10-93
SB-283
MT Power Co

UNCOLLECTIBLES

Insert following Section 27

"New Section. Exemption -- Uncollectibles or bad debts. Receipts from sales or leases accounted for on the accrual basis that become worthless or uncollectible may be deducted from gross receipts."

Testimony plus Extra Materials

6:30 AM FRIDAY MORNING TAX STUDY GROUP
GREAT FALLS, MT - FEBRUARY 5, 1993

SENATE TAXATION
EXHIBIT NO. 6
DATE 2-10-93
BILL NO. SB 283

TESTIMONY PREPARED FOR

6:30 AM FRIDAY MORNING TAX STUDY GROUP

RAYMOND C. YOUNG, CPA CHAIRMAN

FEBRUARY 10, 1993

To the Honorable Chairman of the Senate Taxation Committee, Committee members and staff, and citizens of the State of Montana:

The 6:30 A.M. Friday Morning Tax Study Group has asked me to present testimony before this committee commenting on Senate Bill 283, the MACCO tax proposal, and address other tax reform measures that you may consider this session. On behalf of our study group and myself, I want to thank you for the opportunity to present this statement. I am appearing here, without compensation, as a citizen of Montana and as a representative of our tax study group .

We are reminded of a quote from Justice Oliver Wendall Holmes, "Taxes are what we pay for a civilized society."

A COMPLEX SOLUTION FOR A COMPLEX PROBLEM

For almost four years, a group of diverse, non-partisan Great Falls citizens has been meeting weekly, calling themselves the **6:30 AM Friday Morning Tax Study Group**. During these meetings, we have studied and debated revenue policies affecting state and local governments.

We believe we have identified issues that must be addressed by the legislature and the public if new tax policies are to be structured for state and local governments. We are not interested in assessing blame for our current state and local governments' revenue crisis - but rather seek to provide rational solutions to end that crisis.

Because revenue policies and tax reform proposals have significant impacts, we polled our active members on these issues this past Spring. We found we were not in full agreement on all issues; however, significant majorities hold the following views:

6:30 AM FRIDAY MORNING TAX STUDY GROUP
GREAT FALLS, MT - FEBRUARY 5, 1993

1) **Economic development** is an important statewide issue and is often discussed in the context of Montana's tax structure. We support changing the state's revenue structure so it will encourage (or in the alternative, not discourage) economic development in this state. We advocate state tax rates similar to other states in the Northwest and Upper Plains area.

2) Whatever the mix of state and local taxes collected for state and local government, we advocate that our tax system, taken as a whole, should be **progressive** to the degree in which taxes, as a proportion of income, should increase with the taxpayer's ability to pay.

3) Montana's income tax is among the most complex when compared to other states. We **support using the Federal income tax as a base** upon which state tax rates can be applied as proposed in this bill. This greatly simplifies tax determination, should increase compliance, and preserve some degree of progressivity in state taxes.

4) Montana has traditionally used property taxes for funding local city, county and school district functions, while the state has retained revenues from income taxes, special sales taxes and most mineral taxes. We believe **local governments are too dependent on property taxes** and recommend they share in state tax revenues. State sharing is continued in this bill for schools. But we would encourage the sharing of all state revenue sources with local governments.

5) **Property taxes are among the most regressive** forms of taxation since they are based on market values and not on a taxpayer's ability to pay. We **support use of homestead exemptions and/or tax credits** which would also be available to individual residential renters. We also **support a simpler, more understandable method of taxing property through use of full market value** with tax rates stated in cents per dollar of market value. This bill addresses this issue.

6) **Business personal property tax rates** are more than double those of real property. We **believe personal property tax rates should be similar to real property rates. Assessments should be based on depreciation schedules prepared for income tax returns**, a change that would substantially improve compliance and increase business personal property tax revenues.

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7) The inclusion of **severance and net proceeds taxes** in the property tax base distorts property tax comparisons, making per capita property taxes appear higher than they are. We believe these taxes should be considered as a tax system, separate and apart from other property taxes. **We further believe that this revenue base belongs to all citizens of the state and therefore should be shared equitably with all governmental units.**

8) If, as a result of comprehensive tax reform, revenues are lost that must be replaced to support necessary state and local governmental functions, and/or additional revenues are required, **we would consider and support a statewide and/or local option sales tax**. We would also consider and support additional local option taxes. We strongly believe that the property tax should <u>not</u> be the source of tax reform replacement revenues.

9) We believe the **regressive nature of a sales tax must be balanced with adjustments** to property and income taxes and by either exempting essential items such as food, medicine and utilities from any sales tax, or taxing all items and providing for a compensating tax credit. **It is imperative that substantial tax reform must be coupled with the implementation of any new revenue source - such as a sales tax.**

6:30 AM FRIDAY MORNING TAX STUDY GROUP
GREAT FALLS, MT - FEBRUARY 5, 1993

What is the fairest tax of all? Annual polls taken by a national government study commission have consistently reported that **local property taxes**, nationwide, are the least fair form of taxation. Yet, in Montana, we support and defend this system at every opportunity.

Our Study Group acknowledges that the elusive state of "tax system fairness" is not unlike beauty which is in the eye of the beholder. Questions which come to mind when trying to determine how to finance government services are:

Who should pay?
How much should they pay?
Can the payer relate service to the tax paid?
Does the system tax consistently or uniformly?
Is compliance encouraged through simplicity?
Can the tax burden be appropriately applied?

Each tax source has an impact on certain groups of individuals and institutions. All forms can be constructed to be fair or unfair and are often considered so between different groups. All taxes can be avoided to some degree by planning actions such as changing residency, changing point of purchase or possession, or avoiding ownership. Taxes applied to a business must be passed on in some form by that business to the purchaser of their goods or services. In all cases, the average taxpayer/consumer bears the final burden of the tax.

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In conclusion, no one tax source is fair to all taxpayers. Therefore, meaningful reform must include considerations of all revenue sources. Only through balancing various tax attributes of Montana's revenue resources can the elusive "Fair Tax System" emerge.

This is a brief summary obtained after our group polled itself on Montana's state and local tax systems. You are urged to contact our group by writing to Box 1688, Great Falls, MT 59403. We meet weekly as an open forum at Perkin's Restaurant in Great Falls at 6:30 a.m. each Friday. We welcome your comments and suggestions.

Raymond C. Young, CPA
Chairman, 6:30 AM Friday Morning Tax Study Group
May 27, 1992 and updated for testimony February 5, 1993
Phone questions can be directed to 1-453-3943

CHRONOLOGICAL BIOGRAPHY

6:30 AM FRIDAY MORNING TAX STUDY GROUP
Great Falls, MT

Formed in 1989 to communicate with our state legislators as a community coalition representing Great Falls local governmental units and the Great Falls Chamber of Commerce. Originally chaired by Joan Bennett.

The issue of tax reform was raised during the 1989 special session. Several CPAs were asked to provide technical support to the group. This effort was frustrated by a lack of reliable data on which to create worksheets or reports useful to the group and other citizens.

In May 1989, Joan resigned and I was appointed to lead the group. We decided to expand and broaden membership and to begin a comprehensive, broadbased study of the entire revenue system used to finance state and local government in Montana. Over time more than 50 people have participated with our group study. Regular active participation is around 12 to 18. Members include leaders and/or elected officials of each local government unit and citizens of most political and economic backgrounds.

Methodology - open forum
We broke up our revenue study into sub-groups--each assigned to a revenue source. Each sub-group prepared a two-page report summarizing and comparing their assigned revenue source.

We then developed a series of questions based on our study. Results of answers to our questionnaire were summarized and became a base from which the group could advocate to legislators and the public.

The study group completed its second questionnaire in May of 1992. This position paper is based on these responses as adjusted for discussions through February 5, 1993.

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AN UPDATED MISSION STATEMENT
Friday 6:30 a.m. Tax Study Group
February 21, 1992

The Friday 6:30 a.m. Tax Study Group was formed as an outgrowth of citizen concerns about legislation affecting local governments, businesses and individuals. The study group operates as an open forum and has encouraged contributions from a wide range of political and economic points of view.

The mission statement adopted by this study group is as follows:

1. To objectively analyze all of the components of the current tax systems of the State of Montana and its political subdivisions.

2. To gather information on purposed tax legislation and analyze its immediate and long-term impact on taxpayers, on economic development and on job creation.

3. To develop a consensus concerning any proposed change in the structure of the Montana tax system.

4. To disseminate this information and any conclusions reached by the study group to the public.

PROVIDED BY 6:30 AM FRIDAY TAX STUDY GROUP - GREAT FALLS, MT
FEBRUARY 5, 1993

MODIFIED FROM AN OUTLINE PREPARED FOR THE NATIONAL LEAGUE OF WOMEN VOTERS STUDY OF FEDERAL TAXATION - 1988/89

CRITERIA FOR A GOOD TAX

A. Fairness and Equity
  1. Benefit principle--In theory, those who benefit from government pay tax in proportion to benefit received; in practice, difficult to operationalize.
     a. Equity problems in assessing taxes against low-income citizens.
  2. Ability to pay principle
     a. Horizontal equity -- is there equal tax treatment of persons in equal circumstances? That is, does the tax fall equally on taxpayers of like economic status?
     b. Vertical equity -- does the tax appropriately distinguish between taxpayers of different economic status? That is, taxpayers with different abilities to pay have different tax rates.
        1. Progressivity--does tax as a proportion of income rise as income rises:
           a) General political consensus exists that there should be progressivity in tax system. The question is how much.
        2) Regressivity--does tax as a proportion of income decrease as income increases?
        3) Proportional taxes mean the tax as a proportion of income stays the same as income increases.
     c. Equity is thought to sometimes conflict with the other criteria of efficiency and simplicity.
  3. Shifting and incidence of taxes
     a. Where does the tax burden really fall? For example, is burden shifted from producer to consumer?
     b. Complex issue for corporate tax
        1) Shifting places corporate tax burden on corporate and noncorporate (employees, consumers) sectors alike.

B. Efficiency
  1. Concept is emphasized by economists
  2. An efficient tax is neutral as to economic choices or allocation of resources (that is, it does not distort decisions about work, investment and saving)

C. <u>Simplicity</u>
   1. Understandable to taxpayer
   2, Encourages compliance
   3. Accomplishes its objectives without creating undue administrative problems
      a. Cost of collection
      b. Cost of compliance

D. <u>Provides Adequate Revenue</u>
   1. Flexible enough to finance future programs

BASIC TAX ISSUES

A. <u>Choice of the Tax Base: Income or Consumption or Wealth</u>
   1. Income
      a. Measure of a person's capacity to command economic resources
      b. A good indicator of ability to pay
      c. tax base can be taxed directly and progressively
      d. In theory, can bias the choice between present and future consumption; favors present (tax deductions)
   2. Consumption
      a. A good indicator of ability to pay
      b. Tax base can be taxed directly; progressive rates can be applied
      c. Is neutral as to choice between present and future consumption
   3. Wealth (property)
      a. An indicator of store of value but not necessarily of ability to pay.
      b. Requires complex systems to determine location and market value upon which a uniform rate of tax, determined by each taxing jurisdiction, is applied.
      c. Is neutral as to choice between present and future consumption but may discourage future improvements due to increase in value taxed.
      d. Primarily used to finance local government and to lesser degree, state government.
      e. Holding of real estate, tangible personal property, or natural resource producing property is believed to be related to some governmental services, such as fire and police, garbage, streets and roads, to a lesser degree, schools.
      f. Holding of intangibles--stocks, etc., not significantly related to services.

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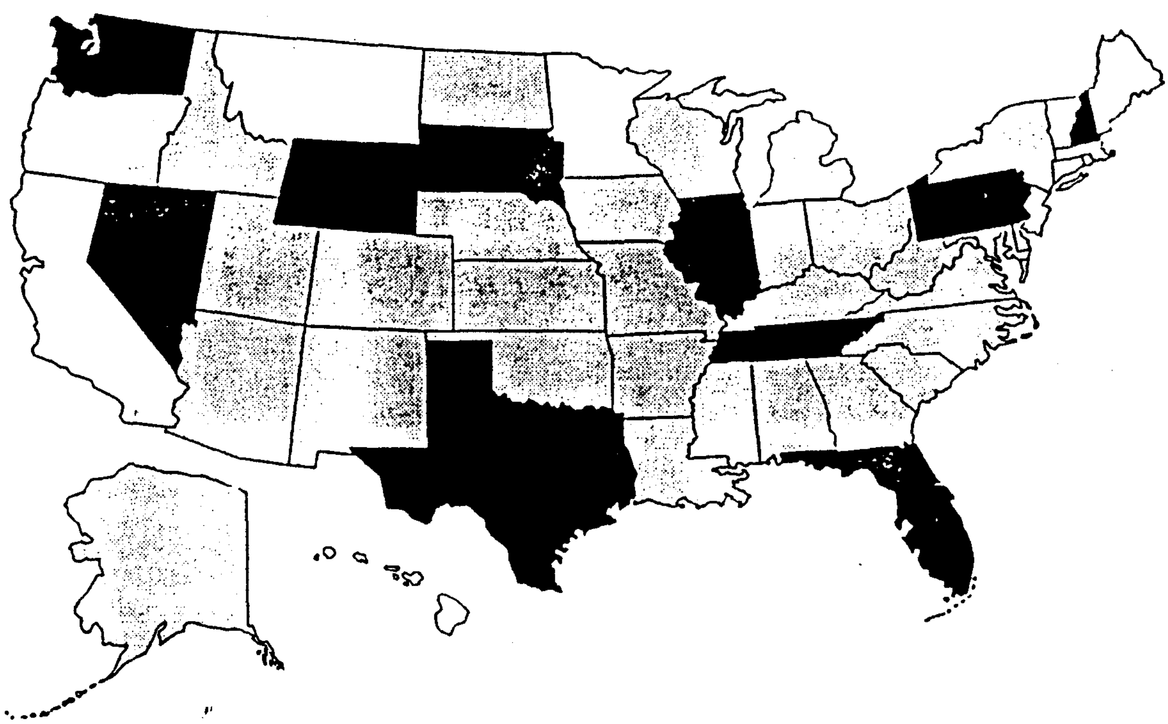
A Far Cry From Fair



CTJ's Guide to State Tax Reform

Robert S. McIntyre
Douglas P. Kelly
Michael P. Ettlinger
Elizabeth A. Fray

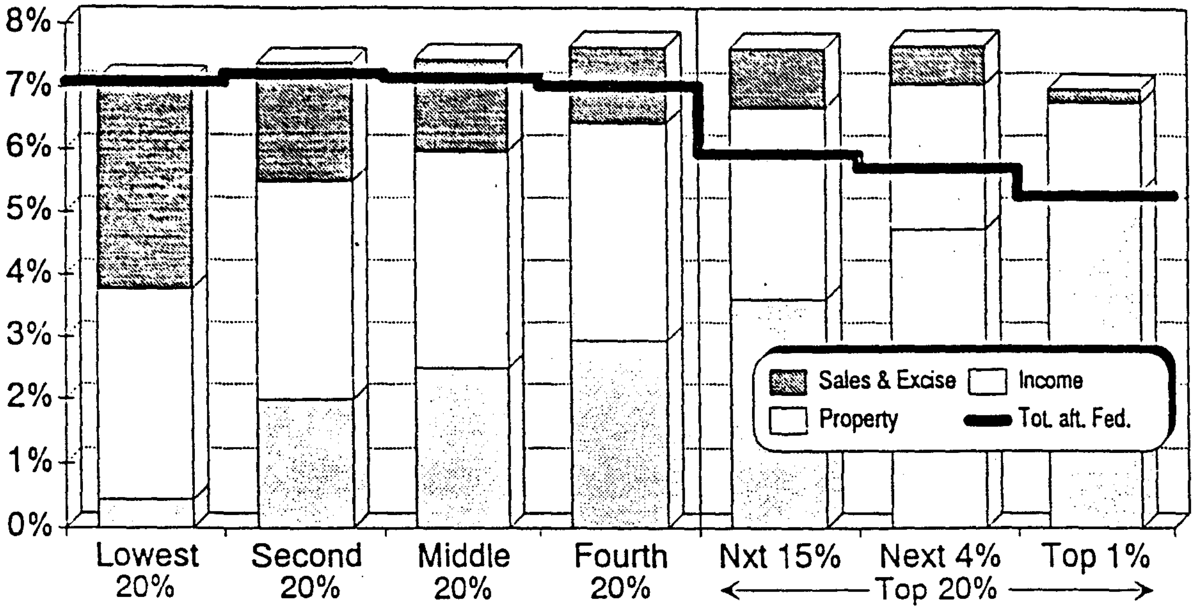
Citizens for Tax Justice

April 1991

A Joint Project with the Institute on Taxation and Economic Policy

Montana Taxes in 1991

As Shares of Income for Families of Four

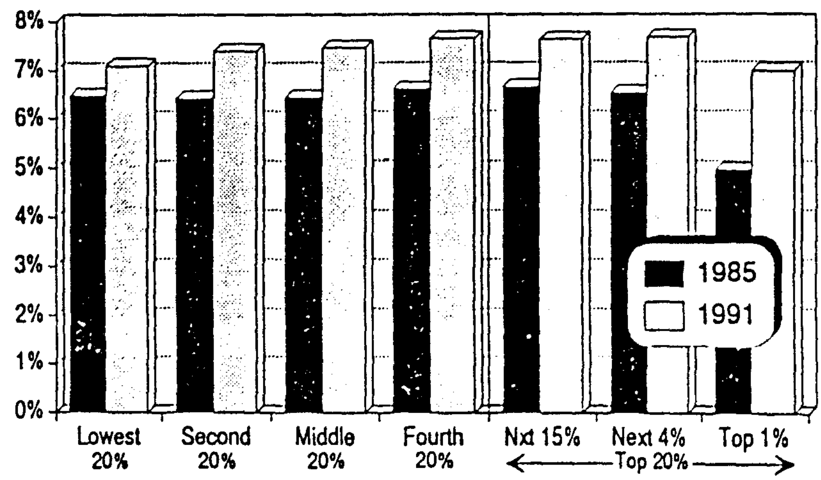


Family Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20% Next 15%	Top 20% Next 4%	Top 20% Top 1%
Average Income	$8,900	$21,300	$31,700	$43,300	$66,600	$139,600	$708,200
Personal Income Tax	0.4%	1.9%	2.4%	2.9%	3.5%	4.6%	5.0%
Corporate Income Tax	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.4%
Property Taxes	3.3%	3.5%	3.5%	3.5%	3.1%	2.3%	1.4%
Sales Taxes	0.4%	0.3%	0.2%	0.2%	0.2%	0.1%	0.1%
Excise Taxes	2.9%	1.6%	1.3%	1.0%	0.8%	0.5%	0.1%
TOTAL TAXES	7.1%	7.4%	7.4%	7.6%	7.6%	7.7%	7.0%
Federal Deduction Offset	0.0%	-0.2%	-0.3%	-0.6%	-1.7%	-2.0%	-1.7%
TOTAL AFTER OFFSET	7.1%	7.2%	7.2%	7.0%	5.9%	5.7%	5.3%

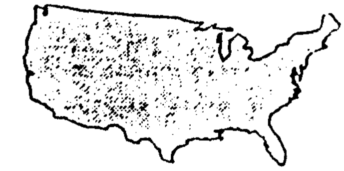
Montana Taxes in 1985 and 1991

As Shares of Income For Families of Four (before federal offsets)

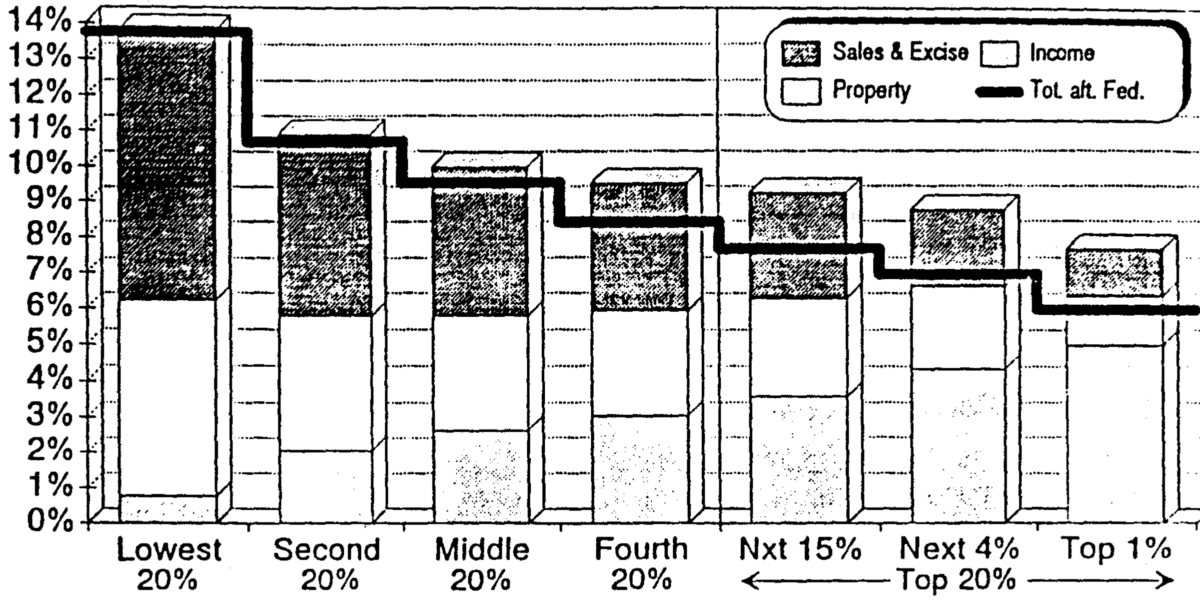
	1985	1991
Lowest 20%	6.5%	7.1%
Second 20%	6.4%	7.4%
Middle 20%	6.4%	7.4%
Fourth 20%	6.6%	7.6%
Next 15%	6.7%	7.6%
Next 4%	6.5%	7.7%
TOP 1%	5.0%	7.0%



Total State & Local Taxes in 1991



As Shares of Income for Families of Four

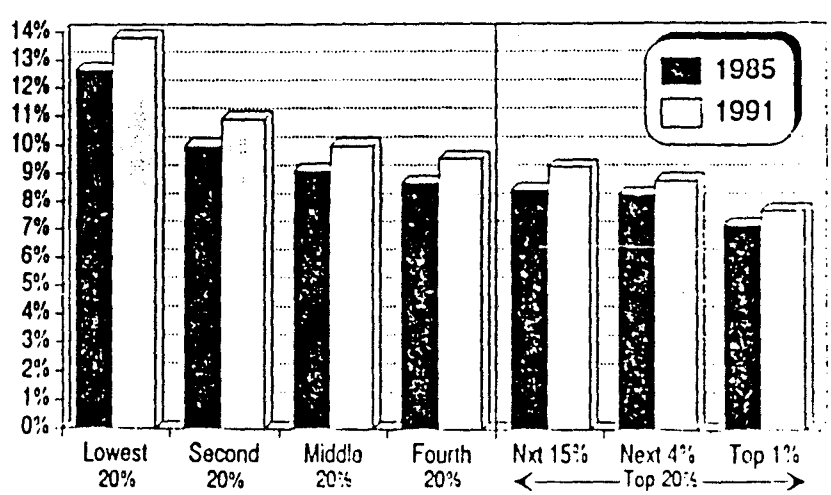


Family Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	Top 1%
Average Income	$12,700	$26,800	$39,100	$54,000	$82,200	$184,400	$875,200
Personal Income Tax	0.7%	2.0%	2.6%	3.0%	3.5%	4.1%	4.6%
Corporate Income Tax	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	0.4%
Property Taxes	5.4%	3.7%	3.2%	2.9%	2.7%	2.3%	1.3%
Sales Taxes	5.7%	4.0%	3.3%	2.9%	2.4%	1.8%	1.2%
Excise Taxes	1.9%	1.1%	0.8%	0.7%	0.5%	0.3%	0.1%
TOTAL TAXES	13.8%	10.9%	10.0%	9.5%	9.2%	8.7%	7.6%
Federal Deduction Offset	–0.0%	–0.2%	–0.4%	–1.1%	–1.6%	–1.8%	–1.6%
TOTAL AFTER OFFSET	13.8%	10.7%	9.5%	8.4%	7.7%	6.9%	6.0%

Total State & Local Taxes in 1985 and 1991

As Shares of Income For Families of Four (before federal offsets)

	1985	1991
Lowest 20%	12.6%	13.8%
Second 20%	10.0%	10.9%
Middle 20%	9.1%	10.0%
Fourth 20%	8.6%	9.5%
Next 15%	8.4%	9.2%
Next 4%	8.2%	8.7%
TOP 1%	7.1%	7.6%



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BLUEPRINT FOR TAX SIMPLIFICATION

III. GUIDING PRINCIPLES FOR SIMPLIFICATION

In pursuing a simpler tax law, the following guiding principles should be considered:

- The legislative process should consider the objectives of equity, efficiency, and revenue and balance them with the objective of simplification. Simplification should not take precedence over other objectives, but it should be given a prominent position.

- Once tax policy objectives have been identified, alternative approaches to implementing policy should be considered to achieve the simplest possible design and administration. This process of considering alternatives should occur at all stages of the legislative and regulatory process.

- The long-term benefit of any change made to simplify the tax law should more than offset any complexity that results by a change. Change in and of itself increases complexity because taxpayers must learn and comply with new rules.

- The law and regulations should be drafted within a rational, consistent framework. For example, this can be accomplished through uniform treatment of different types of taxpayers, building on existing concepts, clear and consistent definitions, and horizontal drafting.[3] Further, legislation should be drafted beginning with the general rule and narrowing down to the specific rules.

- There should be a balance between simple general rules and more complex detailed rules. For example, the hobby loss rules provide sufficient objective standards to ease compliance, but too many objective standards in the interest tracing rules result in significant complexity.

- The benefit of a provision should be balanced against the cost of complying with the provision. For example, the benefit of eliminating a perceived abuse must outweigh the compliance costs incurred by affected taxpayers. Further, in measuring the level of complexity, the characteristics of the group of taxpayers targeted must be taken into account (e.g., the earned income credit is extremely difficult for affected low-income taxpayers to compute). Finally, provisions targeted at one group of taxpayers often create unintended consequences for others (e.g., provisions aimed at highly complex taxpayer situations often must be taken into account by the average taxpayer).

- Tax rules should build on existing business practices and common industry record keeping. Throughout the Code, computational complexity exists where different calculations of the same item are required for different purposes (e.g., depreciation calculations).

Ray Young CPA
Gt Falls, MT

Blueprint for Tax Simplification

Tax Division

APRIL 1992

AICPA

American Institute of Certified Public Accountants

1455 Pennsylvania Avenue, N.W., Washington, D.C. 20004–1081

BIG SKY ECONOMICS

July 1990

THE EFFECTS OF A SALES TAX ON DIFFERING FAMILY SIZES IN MONTANA

by Ann Laing Adair, Agricultural Finance Specialist, Department of Agricultural Economics and Economics, Montana State University

Imposition of a sales tax has become an on-going issue in Montana. Proponents argue that a sales tax would substantially increase revenues accruing to the state and that these revenues could replace, at least in part, the more traditional sources of tax revenues and spread the burden to a larger number of residents. Opponents argue that a sales tax will unfairly burden lower income individuals and allow wealthy property owners to avoid paying their fair share of taxes. Estimates indicate that as much as $300 million a year could be added to state coffers as a result of sales tax collections. Regardless of which side of the issue people support, what they are most interested in is how the imposition of a sales tax will affect themselves and their neighbors. This article examines the impact of a sales tax on different types of Montana families, with the intension of shedding light on this issue without advocating one position or the other.

This study uses data collected during 1987 and 1988 by the Montana State University Extension Service through its "Dollarwatch" program. Individuals were asked to provide information on monthly expenditures for a variety of categories, including food, utilities, rent or mortgage payment, car operations, recreation, gifts and contributions, furniture and equipment, household operations, clothing, personal care and educational expenses. The information reported was broken out by family size and average levels of expenditures were then determined for the various categories. These average expenditure levels were then used to examine the potential impact of a sales tax on different size families in Montana.

Since no sales tax proposal has been adopted thus far, it was necessary to choose one of the many proposed bills and use its provisions to examine the potential effects. For the purpose of this analysis, the provisions of Senate Bill 469 (SB469) sponsored by Crippen, Bradley, Eck and Ramirez were used. SB 469 proposed the imposition of a 4% sales tax on all gross receipts except for those specifically exempted by the bill. Exempt items included most food items except for restaurant and fast food items, takeout food and retail food that was or could be consumed on the premises. Wages, medical services and prescribed medical items, fuel and dividends and interest would also be exempt; as would wholesale receipts from agricultural products and inputs into agricultural production such as feed and fertilizer. Sales tax would not be collected on used personal property that was resold as long as sales tax had previously been paid on these items. There are other exemptions that are set forth in the bill that are too complex to list in this article, but the aforementioned items most directly affect families and individuals.

Average reported expenditures were used to calculate the level of sales tax that would be associated with different types of expenditures. Table 1 summarizes the average monthly sales taxes that would be borne by various size families in Montana.

Because of a lack of detail on specific expenditure categories, some assumptions have been made. The data collected did not allow for a separation of retail food purchases into food consumed away from home or processed food that would be taxable. An assumption was made that 70% of total food purchases were of the non-taxable variety. This percentage was applied to all family sizes, since there was no reasonable basis for assuming differently. So sales tax collections would apply to only 30% of dollars spent for food.

The information collected on car operation included funds spent for fuel, tires, oil, maintenance and repair, parts and labor, license fees and insurance. On a monthly basis, it was assumed that 85% of these expenditures were non-taxable with the bulk being fuel expenditures. There is no reason to assume that this percentage would change if the number of vehicles in the household changed since the only significant cost saving associated with more vehicles might be insurance premiums.

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Table 1. Sales Tax Payments Based on Average Monthly Expenditures

Expenditure Categories	Family Size 2	3	4	5	6
	(dollars)				
Food	2.92	3.27	3.75	4.17	4.58
Utilities	5.27	4.85	5.10	4.82	5.29
Household Operations	1.74	1.62	1.89	1.60	1.44
Furniture and Equipment	1.58	1.62	.81	1.21	.71
Car Operations	.93	1.01	1.02	1.13	1.10
Personal Care	1.29	1.51	1.61	1.20	.81
Gifts and Contributions	3.26	1.81	2.33	3.25	3.37
Recreation	4.46	3.35	3.73	2.90	1.91
Education	1.30	.91	.68	1.66	2.02
Clothing	2.19	2.64	2.19	2.00	2.97
TOTAL MONTHLY	**24.96**	**22.60**	**23.13**	**23.92**	**24.20**
TOTAL ANNUALLY	**299.52**	**271.20**	**277.56**	**287.04**	**290.04**

Another category that required some adjustment was that of gifts and contributions. This category includes expenditures for all gifts, church donations and charitable contributions. Monetary donations to churches or charities would not be subject to the sales tax as no product or service was received in exchange for the funds, although purchased items would be taxed. It was assumed that, on average, 80% of gift and contribution expenditures were taxable.

Educational expenses were another area which required some assumptions to be made. In this case, the education category includes school supplies, books, newspapers, magazines and tuition. It was not possible to separate tuition expenses from the other taxable items. Therefore it was assumed that 50% of educational expenses would be treated as tax-exempt. All other categories of expenditures were fully subject to the sales tax.

An examination of Table 1 indicates that although the amount of sales tax paid in each category varies widely as family size changes, the total monthly tax burden varies by a maximum of $2.36 across all family sizes. Assuming the average monthly expenditures are fairly constant throughout the year, annual total sales taxes paid have been calculated at the bottom of Table 1 by multiplying the monthly taxes by 12. These annual totals show less than a $30 difference in the average sales taxes paid by different sized families.

The level of sales tax paid by any individual family will be directly related to their particular expenditure pattern. However, the data seems to indicate that, on average, the sales tax burden would be distributed fairly equally regardless of family size. Assumptions made about the proportion of each category that was taxable should not bias these numbers, since the same percentages were applied to all family sizes. It is possible that the percentages should not be the same for all family sizes. For example, a 2 person family may consume a larger percentage of food away from home than a 6 person family and therefore would pay sales tax on a greater percentage of food expenditures. However, without information to substantiate differing expenditure patterns by family size, it would be inappropriate to adjust the percentages.

Based on the available data on average monthly expenditures by Montanans, the imposition of a sales tax with the types of exemptions stipulated in SB 469 would not unduly burden larger size families. Although the levels of taxes paid by category differ, on average, the tax burden would be fairly equally distributed and the revenues collected could be utilized to offset reductions from more traditional revenue sources.

Property Taxes and Agriculture

Douglas J. Young
Professor

Do Montana farmers and ranchers pay higher property taxes than farmers and ranchers in other states? What has happened to agricultural property taxes during the 1980s when land values fell so dramatically? Is agricultural property taxed more heavily than other kinds of property, e.g. residential or commercial and industrial? The accompanying table provides answers to the first two of these questions. Each entry in the table is calculated by dividing total property taxes paid by farmers and ranchers (exclusive of taxes on residences) by the market value of farm real estate and then multiplying by one hundred. Thus, the table entries display the effective property tax rates - property taxes as a percentage of market value.[1] The last column of the table shows Montana's rank among the 50 states (1 being the highest tax rate and 50 the lowest).

Property Tax Rates in Agriculture, 1982-88

(Property Taxes/Market Value of Real Estate * 100)

	MT	ID	ND	SD	WY	US Ave	MT Rank
1982	.52	.28	.43	.62	.42	.54	19
1984	.59	.32	.54	.87	.40	.67	18
1986	.79	.52	.77	1.31	.49	.74	18

First compare the entries in the MT column with those for the other states and the average over all states. Tax rates in Montana are fairly close to the national average. Rates are lower in Idaho and Wyoming (and were lower in the beginning of the 1980's in North Dakota), while South Dakota's tax rates have been 20 to 60 percent higher than Montana's. The ranking in the last column indicates that Montana's rates. are somewhat above the median for all states.

Looking down the columns, it is apparent that effective property tax rates increased substantially between 1982 and 1986 both in our region and nationally. Montana's increase of about 50 percent is close to the national norm but lower than the (percentage) increase of any of our neighbors except Wyoming. Between 1986 and 1988 tax rates fell slightly, but remain far above their levels in the early 1980's.

Most of the increase in tax rates appears to have resulted from the decline in agricultural land values together with state assessment methods that are unresponsive (at least in the short run) to changes in market values. Most states (including Montana) use some method other than market valuation for assessing agricultural real estate. A typical approach (which will apply in Montana beginning in 1991) is to capitalize an estimate of an enterprise's profitability, in order to determine "current use" value. In the past farmers have benefitted from this approach, because alternative (possibly higher valued) uses of land were ignored, and because the capitalization procedures often understated even true value in current use. However, these assessment procedures are unresponsive to changes in actual values until profitability estimates are updated. In short, most of the increase in effective tax rates occurred not because property taxes went up, but rather because the market value of agricultural property went down. The slight decline in tax rates between 1986 and 1988 corresponds to the slight recovery in land prices during that period.

Even at the higher levels of the late 1980's, effective tax rates in agriculture remain below those on other assets. For example, the average effective tax rate on single family houses in Montana in 1986 was 1.32 percent.[2] A separate (and not entirely comparable) source estimates that national averages of effective property tax rates in 1985 for various kinds of property were: residential, 1.59%; commercial/ industrial, 1.26%; public utilities, 1.43%; farm, .64%[3].

Thus property taxes on agriculture in Montana are roughly in line with national averages and have shown the same increases as land values fell in the 1980's. But despite the increases, agriculture still enjoys a substantial preference in comparison with other sectors of the economy.

[1] The data are from USDA, Economic Indicators of the Farm Sector, State Financial Summary, Tables 4 and 29 (1986 ed.), Tables 4 and 30 (1988 ed).

[2] Advisory Commission of Intergovernmental Relations (ACIR), Significant Features of Fiscal Federalism, 1989 Edition.

[3] ACIR, Measuring State Fiscal Capacity, Tables 3-26 and 3-27, 1987 Edition.

The Department of Agricultural Economics and Economics at Montana State University publishes "Big Sky Economics." We hope you find the articles interesting and thought-provoking. "Big Sky Economics" is intended to be of interest to a broad cross section of Montanans, discussing economic concerns of the state and individual citizens. The articles are authored by the faculty of the MSU Department of Agricultural Economics and Economics.

At times articles may deal with controversial topics. The views expressed are not to be interpreted as the official position of Montana State University or the Department of Agricultural Economics and Economics. The university is a forum for a wide diversity of views and perspectives. Such a forum is intended to facilitate open discussion, leading to a better understanding of important economic issues.

Charles H. Rust

Charles H. Rust
Extension Economist and Editor

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SENATE TAXATION
EXHIBIT NO. 17
DATE 2-10-93
BILL NO. SB 283

February 10, 1993

Senator Mike Halligan, Chair
Senate Taxation Committee
Capitol Station
Helena, MT 59620

Dear Senator Halligan,

On behalf of the Montana Manufactured Housing and RV Association I would like to express our general support for statewide tax reform in SB 283.

While our board of directors is in support of tax reform there are provisions in SB 283, like SB 235, that we request be amended. They are:

1. The association ask that the provision in SB 283 to impose a sales tax on the **sales of all used mobile homes be deleted from the bill.** Our position is that a sales tax on a mobile, or manufactured home, should only be collected once and placed on new units, not used.

2. Secondly, we have concerns with the provisions in SB 283, like SB 235, that places the full 4% sales tax on the purchase of a new manufactured home. We request, and support the concept of, exempting labor cost from the purchase price of a manufactured home and only taxing the actual material cost. For example, it is estimated by most manufacturers that 54% of the purchase price of a manufactured home is related to the cost of materials, and 46% of the cost of a manufactured home is related to labor.

Our goal is to make sure that any sales tax bill treat new manufactured homes the same as new site-built homes by only taxing the costs relating to materials and exempting labor cost.

We welcome any questions you or the committee may have regarding our industry and SB 283 or SB 235.

Sincerely,

Stuart

Stuart Doggett, Executive Director

MONTANA DEMOCRATIC PARTY

SENATE TAXATION
EXHIBIT NO. 8
DATE 2-10-93
BILL NO. SB 283

February 5, 1993

Senator Bruce Crippen
Montana State Senate
Capitol Station
Helena, Montana 59620

Dear Senator Crippen:

At last Tuesday's hearing on your proposal for a Montana sales tax, you criticized the Montana Democratic Party's testimony for failing to offer any alternative to a sales tax. In fact, you were quite expressive in your closing remarks, to the point of suggesting that the Democratic Party was unwilling to participate in solving our state's obvious fiscal crisis. Nothing could be further from the truth.

I'm writing to you today, to assure you that the Montana Democratic Party is more than willing to engage itself in resolving this fiscal crisis. What we are not willing to do, however, is to abrogate our responsibilities to the people who make up our party -- Montana's mainstreet businesses, family farmers and ranchers, working men and women, senior citizens, low income individuals and others.

With that in mind, please allow me to respond to your request for potential solutions to address the continuing fiscal crisis we find in the state of Montana:

Today, state government faces a deficit -- projected at over $200 million, according to Governor Marc Racicot. Local governments and public schools are crying for more revenue, and politicians in the state are looking for someone to blame for the problem. And many, including the Governor, have also embraced a sales tax as the answer to our problems.

But, the real cause of Montana's revenue problems is the loss of tax revenues through tax cuts, breaks, loopholes and exclusions given to the rich, to corporations and to business. During the past ten years, hundreds of millions of tax dollars have been given back to corporations and business. And while these corporations and businesses have used their power and influence to gain tax breaks, the average taxpayer and homeowner are carrying more tax burden to fund state, local and educational services that benefit both business and individuals.

In Fiscal Year 1982, individual taxpayers paid just over 34 percent of the total taxes paid into the state general fund. In Fiscal Year 1991, individuals paid over 40 percent of the total.

The same is true of property taxes which fund local governments and public schools. The individual homeowner is picking up a bigger and growing share of the tab. In Fiscal Year 1982, residential property accounted for 22.5 percent of the total property tax base. In Fiscal Year 1991, residential property was approximately 30.1 percent of the total.

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Over the past ten years there has been a calculated effort to shift the tax burden from corporations and business to individual Montanans.

The first major shift occurred in 1975 when the Legislature reduced the Business Inventory Tax base by $27.23 million. In 1981, the Legislature repealed the Business Inventory Tax, estimated to cost $7.5 million per year. That action cost an estimated $19.8 million during the current biennium. The main beneficiaries of this tax break were corporations and businesses.

In 1983, corporations and businesses were again treated to a tax break. This time they were allowed accelerated depreciation for their business assets. That cost approximately $12.3 million during the past biennium.

The 1985 session of the Montana Legislature was particularly generous to business. They enacted a new coal incentive tax credit, which cost more than $8 million. A tax abatement for new industrial property will cost $5.5 million. An oil production net proceeds tax exemption will cost approximately $5 million over the biennium; and new gas production net proceeds tax exemption will cost almost $2 million.

The coal industry was again the big beneficiary in 1987 when the coal severance tax was lowered, costing almost $14 million per year. All together, coal tax reductions will cost about $41 million per year!

The 1989 legislative session gave away even more with Governor Stephens leading the charge for lower tax rates on business property from 16 to 9 percent (also known as personal property). That cost approximately $16.5 million in FY 1990 and $19.5 million in 1991.

Governor Racicot's call to lower this tax rate even further to 3.86 percent would reduce revenues by approximately $42 million per year.

Under pressure from Governor Stephens, the 1989 Legislature also gave an exemption from equalization of property taxes to the oil, natural gas and coal industries at an estimated cost of about $26 million per year.

How have all of these million dollar tax cuts for corporations and business affected the average taxpayer? We all know that the cost of government has not gone down, so individual taxpayers have had to make up the difference -- pick up the slack -- to pay for all of the tax breaks given to corporations and business.

Why were all of these tax breaks given to corporations and business? The answer may vary according to whom you ask, but most tax break advocates say that the cuts were designed to make business more competitive and to create more and better jobs. Over the past ten years, Montana has given hundreds of millions of dollars in tax breaks to corporations and business in order to create a "better business climate".

Have we succeeded in our quest to make our businesses more competitive and to create new and better jobs? From 1979 to 1992, in mining -- which received a number of these tax breaks -- Montana has lost almost 1,700 jobs, and the average wage has decreased more than 9 percent after inflation. More than 200 jobs were lost in coal mining and the average wage declined by over 14 percent, after inflation. In the oil and natural gas industries, Montana lost 1,500 jobs and average wages decreased almost 15 percent. For lumber manufacturing, Montana lost more than 2,650 jobs and the average wage dropped over 24 percent, after inflation. The same is true for coal and oil processing where we lost 271 jobs and wages have also decreased after inflation.

Not only have the big corporations and businesses lobbied and received preferential tax treatment over the past ten years, but they have also eliminated Montana jobs and lowered Montana salaries. Are the tax breaks working? The answer is a resounding **NO!**

Federal tax deduction capped at:

		Annual revenue
$20,000	($40,000 for joint)	$21.7 million
$10,000	($20,000 for joint)	$30.4 million
$ 6,000	($12,000 for joint)	$38.6 million
$ 5,000	($10,000 for joint)	$42.0 million
$ 4,000	($8,000 for joint)	$46.5 million
$ 2,000	($4,000 for joint)	$59.9 million
-0-		$80.5 million

Property Tax of 5 mills on Stocks and Bonds. Property taxes on stocks and bonds were eliminated in 1973. Stocks and bonds are property to those who own them and could be taxed as property. This reform could generate as much as $55 million per year.

Reinstitute the Inventory Tax on Inventory Holdings above $1 million. This would give a tax break to small businesses with inventories of less than $1 million, but would put the inventory tax back on the large corporations and businesses with inventories larger than that, like K-Mart, Walmart, Shopko, etc. This could raise an estimated $12 million annually.

Raising the Coal Severance Tax to 20 percent. This would take away a major tax break for coal companies and would restore $13.6 million annually to the tax base.

Increase the Metal Mines Tax to 5 percent. As a percentage of gross (taxable) value, the amount of severance and property taxes paid by the metals industry (2.3% in 1986) is very small compared to coal, oil and natural gas. By increasing the metal mines license tax to 5 percent, the state could raise at least an additional $10 million annually.

Raising the Corporate Tax rate from 6.75 percent to 8 percent. Montana's corporate tax rate of 6.75 percent is below the national average of 7.5 percent. Raising the corporate tax rate to 8 percent could raise approximately $8.5 million per year.

There are other ways to raise the revenues Montana needs to operate necessary public services, including eliminating more unfair income tax loopholes, increasing the gross proceeds tax, general reform of the property tax system, increasing bank share taxes, instituting a timber severance tax, creating a realty transfer tax and establishing a graduated corporate tax structure. Those who say that we can't pay for state government services without a state sales tax are wrong.

And lest you suggest that the Montana Democratic Party is, as Farmers Union representative George Paul suggested, "looking back to the future", you're right. But only partially. You see, Democrats are tired of giving away the farm just to be asked again and again to pay for it anyway.

We would welcome some discussion around property tax reform, like that suggested by MACO, only without the sales tax hook. We would welcome debate over making Montana's income taxes a flat percentage of the federal tax. We think that a realty transfer tax, applied to out of state purchasers of Montana property, would be warmly received by those Montanans who can no longer afford to compete with rich, out of state buyers.

There are some in our party who are looking seriously at a value added tax as a means of raising revenue. And we have found interest in revisiting Frank Morrison's proposal to tax credit card transactions to capture tourist dollars, with a credit for Montana residents on their income taxes.

EXHIBIT 0
DATE 2-10-93
SB-283

Obviously, not all of these alternatives would be needed to address our state's fiscal crisis. In fact, other progressive alternatives may also be substituted for any of these. The point is, **there are alternatives** to regressive taxation, and the Montana Democratic Party stands ready to work to provide these alternatives to Montana's citizens.

Taxes in Montana have become a battleground over who pays. For the past 12 years, the winner in those battles has been corporate and business Montana. The loser has been the average Montanan. The average Montanan now carries a heavier load of the tax burden than ever before; he/she has fewer good jobs from which to earn a living; and those jobs are paying less than ever before.

It's time that Montana's tax structure be reformed to be fair to all -- not just corporate and business Montana. Every Montanan and every Montana corporation and business should pay their fair share of taxes for the benefits of living and operating here -- for a quality educational system, a top-rated workforce, good highways, roads and streets, clean water and air, and to protect the public health, safety and welfare. The increasing tax burden on individuals and their families is unfair and will only be made more unfair if a sales tax is enacted.

Who will pay the taxes? We don't know. But the Montana Democratic Party believes that it's time to reform the tax structure to the average Montanan's benefit. In that vein, we stand ready to participate with all members of the Montana Legislature and the Governor for the benefit of the citizens of our state, and we believe we can do it without a sales tax.

We are asking you, Senator Crippen, and the other members of your party to join with us to put into place a progressive alternative tax reform package, so that Montanans will have a real choice when Governor Racicot's sales tax plan is placed on the ballot.

Sincerely yours,

Donna Small

Donna Small
Chair

cc: Governor Marc Racicot
All Members of the Montana Legislature
Selected press outlets

MONTANA DEMOCRATIC PARTY

SENATE TAXATION
EXHIBIT NO. 9
DATE 2-10-93
BILL NO. SB 283

Mr. Chairmen and Members of the Committee,

For the record, I am Donna Small, Chair of the Montana Democratic Party. I am here today to express the feelings of our party regarding Senate Bill 283 and the general sales tax which is part of Senate Bill 283.

Let me begin by reading to you the Montana Democratic Party's official position on the sales tax/tax reform issue. The Democratic party platform, adopted in August of 1992 reads as follows: "The Montana Democratic Party strongly opposes a general sales tax. We also recognize that a significant number of Democrats support a sales tax as part of comprehensive tax reform. Montana Democrats are united in the belief that tax reform is urgently needed and that the citizens of Montana should be presented with a choice of two viable comprehensive tax reform packages: one with a sales tax and one without".

A number of Democrats in this body and in this legislature believe that a sales tax is an essential element to tax reform. To Senator Waterman and the other Democrats who feel that way, I wish to recognize their good intentions and tell them that the Democratic Party welcomes a diversity of views on many subjects including the subject of the Sales Tax. Notwithstanding that, however, the bottom line of the Montana Democratic Party is that we

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strongly oppose a general sales tax. We will oppose a sales tax package when it is placed on the ballot. We believe it is incumbent upon those who support this bill and those who support Governor Racicot's sales tax package to reconcile their differences and put their best proposal forward for Montanans to consider and vote upon.

Since Montana Democrats are united in recognizing the need for comprehensive tax reform, I wish to urge you as a committee to consider a number of principles as you proceed to develop these tax reform packages. The Montana Democratic Party believes in a tax system based upon the concepts of fairness, simplicity, stability and progressivity.

We also believe that tax reform should not be used as a disguise for unfair tax shifting. We cannot support tax packages which place undue burden on the middle-class which has suffered so much economically over the last twelve years. The tax packages you construct as the sales tax and the non-sales tax alternative should be structured to adequately meet the revenue needs of the state, without shifting the burden on the middle class.

The legislature must determine an adequate spending level and we in the Democratic Party call upon you to use this bill, or Governor Racicot's bill, and a non-sales tax package to meet those revenue needs. The non-sales tax elements of this bill contain significant property tax and income tax reform and should be considered by this committee in terms of attempting to construct a non-sales alternative. Other possible alternatives for the non-sales tax package were discussed by me in a letter to Senator

Crippen dated February 5, 1993. I am providing each of you with a copy of that letter, along with a copy of this testimony.

Because the Democratic Party also strongly supports the placement of the sales tax package on the ballot, we urge you to make sure that the people do have this choice.

We respect and thank you for the work you are doing here as you struggle to address the financial needs of the state. We stand ready to assist in any way we can. Thank you for this opportunity to present our position on this difficult issue.

SENATE TAXATION
EXHIBIT NO. 10
DATE 2-10-93
BILL NO. SB 283

Proposed Amendments
SB 283

Page 4, Line 22

The term does not include construction, except for the construction of single family or multi family structures.

Page 16, Line 8

Add: (5) the nontaxable transaction certificate may be issued to the builder or homeowner at the time of application for an electrical permit for the purposes of construction of a new single family or multi family residence.

Page 16, Line 21

Add: (3) A nontaxable transaction certificate issued to a builder or an owner for the purposes of construction of a new single family or multi family must:

(a)have an expiration date of one year from the date of issuance, and shall contain a property description.

(b) The person to whom the nontaxable transaction certificate shall be issued may provide the certificate to any supplier of materials or services for the purposes of construction of that single family or multi family residence only.

~~(3)~~ (4) The department shall adopt rules to provide.....

Page 25, Line 7

Add: (3) the buyer incorporates the property as an ingredient or component part of a single family or multifamily residence.

Page 25, Line 8

Add: NEW SECTION: Section 31. Nontaxability -- sale of tangible personal property to person engaged in construction business. (1) Sales of tangible personal property or the sale of a construction service is nontaxable if the sale is made to a buyer engaged in the construction of a single family or multifamily residence who delivers a nontaxable transaction certificate to the seller.

(2) The buyer delivering the nontaxable transaction certificate shall incorporate the tangible personal property or construction service as an ingredient or component part of a construction project that is under construction for the purpose of a single or multi family residence.

Re-number succeeding sections.

Revenue Loss Calculations

Montana Building Industry Association

Exemption of Single & Multi Family New Construction

	Net Sales (Thousands $)	Revenue Projection (Thousands $)
SB 283 Sales Tax Projections for Special Trades Contractors Only (Source: DOR projections based on model of 1982--1987 U.S. Census business data)	$395,771	$ 17,645
New single family construction ($100,427). New Multi family construction ($ 9,022). Ratio of single & multi family new consruction ($109,449) to total of all construction, incl. commercial, residential, remodel, maintenance & repair ($512,334) (Source: 1982--1987 U.S. Census business data)	.21	Ratio of Single & Multi Family to All Construction
New Housing portion of Net Sales of Special Trade Contractors ($512,334 * .21)	$ 107,590 @ 4%	($ 4,300)
DOR Retail Trade Projections (Total)	$ 14,156,352	$ 147,462
1987 Single Family Construction = $100,427 Project: 1992 Increase of 42% =$142,606 (Source: Actual permit increase from 1987-1992)		
Taxable Value of Materials in Single Family Home - 1992 $142,606 * .34 (Source: U.S. Census Business Data - 1987)	$ 48,486 @ 4%	($ 1,939)
1987 Multi Family Construction = $ 9,022 Project: 1992 Increase of 28% = $11,518		
Taxable Value of Materials in Multi Family - 1992 $ 11,518 * .25 (Source: U.S. Census Business Data - 1987)	$ 2,879 @ 4%	($ 115)
Revenue Loss from Housing Exemption		($ 6,357)

SENATE TAXATION
EXHIBIT NO. 11
DATE 2-10-93
BILL NO. SB 283

How the Sales Tax Will Impact the Building Industry

*** Both SB 235 (the Governor's proposal) and SB 283 (the local government proposal) tax the sale of goods and services and the use of goods and services at 4%. This will:**

- Add 4% to the price of all building materials. Building materials purchased by lumberyards or specialty supply businesses will be non-taxed, because they are purchased exclusively for re-sale. These businesses would be licensed as tax vendors and receive $50 per month for their tax collection duties. Building materials purchased by a builder, or any special trades contractor will be taxed at 4% whether or not those goods are purchased retail or wholesale.

- The services of all subcontractors on a job will be taxed at 4%. This would include: plumbing, electrical, heating & mechanical, roofing, excavation, water well drillers, architects, drywall, carpet laying, finish carpentry, painting, equipment and machinery rental, etc.

- Special trades contractors are required to add 4% to sales of services and materials to general contractors (or homeowners). Example: A plumber purchases $100 of fittings and pays $104 at the plumbing supply store; he then supplies $100 of labor; he bills the general contractor for $204 of services and materials, plus 4% or $8.16 in tax, for a total liability of $212.16. (This is called tax pyramiding)

- The mortgage services for home financing will be taxed at 4%. This includes: appraisals, title searches, credit reports, escrow services, real estate commissions, loan service fees.

- The purchase costs of construction equipment will be taxed at 4%. This includes: excavation machinery, trucks, scaffolding, trenchers, forklifts, tractors, saws, planers, molding lathes, etc.

*** SB 235 (the Governor's proposal) offers the following incentives to businesses and homeowners:**

- An average property tax relief of $241 per home. The full amount of property tax will be paid with the mortgage payment, or directly to the county treasurer; and a credit to individual income tax filings will be allowed for homeowners paying property tax.

- The market value of improvements to commercial property is reduced by $10,000. In other words, the first $10,000 of business property improvement is tax exempt in the determination of market value for purposes of property tax assessment.

* **SB 283 (the local government proposal) proposes the same sales tax application as does SB 235 (the Governor's proposal). The differences in distribution are:**

  * In SB 235, 25.9% goes to a security cash reserve; 74.1% is allocated in the same manner as income tax revenue (62.8% general fund, 8.7% to debt service for long-range building program bonds, 28.5% to state equalization aid to public schools.)

  * In SB 283, 70.5% goes to state equalization aid for public schools; 10.5% goes to state special fund for Montana university system; 19% to general fund.

  * Both SB 235 and SB 283 offer a low income sales tax credit for household incomes less than $13,000. SB 235 offers a renter's property tax credit

  * SB 283 requires assessment of property at market value, and reduces property value to debt requirements for local government. It also exempts the first $80,000 of market value for property tax assessment for any person earning less than $12,000 per year.

  * SB 283 also gives property tax relief in the following manner: 65% of the first $50,000 of value of a single family owner occupied residence occupied for at least 10 months as a primary residence is exempt from property tax.

  * SB 283 treats a sales tax on vehicles (4%) differently than SB 235. SB 283 requires a different distribution than other sales tax collections. 37.5% goes to the state highway account and 62.5% to the sales tax and use tax account

  * SB 253 establishes a uniform income tax rate of 6%. (Currently there is an income dependent spread from 2% to 11%). SB 283 requires state income tax be 30% of the federal income tax. SB 283 also requires that a non resident pay Montana income tax at a rate based upon the ration of income earned in Montana to total income. SB 283 also allows a tax credit for the first $3,600 of retirement income. SB 235 allows the first $15,000 of retirement income to be tax exempt.

  * SB 283 also repeals the sections of Montana law implemented as a result of property tax classifications and rates established by **I-105**.

What can you do? Write to your Representative and Senator Today! Address: c/o Capitol Station, Helena, Montana 59620

SENATE TAXATION
EXHIBIT NO. 12
DATE 2-10-93
BILL NO. SB 283

February 11, 1993

Senator Mike Halligan
Chairman Senate Taxation Committee
Montana State Senate
Capital Station
Helena, Montana 59620

Dear Senator Halligan:

Members of the Montana Association of Theatre Owners believe Senate Bill #283 would impose a double tax upon their industry.

We are respectfully requesting your committee consider the following exemptions to Senate Bill #283.

1. FILM LICENSING AGREEMENTS

   We believe the wordage under Section 32, pages 26 & 27 needs to include specifically film licensing agreements.

   I've enclosed sections of the Maryland and California's sales tax codes which specifically exempts film licensing agreements.

2. ADMISSIONS

   Please see attached copy of Mr. Tim Warner's letter to Senator Waterman, page 2, item #1.

   Sixty-eight percent of a sales tax would be paid by people in either lower or fixed income categories, and by the youngest and oldest citizens of Montana.

If you have any questions, please call me at 449-4737.

Sincerely,

Dan Erving

Dan Erving
Lobbyist MATO
311 9th Avenue #2
Helena, Montana 59601

cc: Dione Smith, President MATO

Encl. 3

ANNOTATED CODE OF MARYLAND, 1988
TAX-GENERAL.
TITLE 11. SALES AND USE TAX.
Subtitle 2. Exemptions.

*11-221 Taxation by other law.

(a) Taxed under other law. -- The sales and use tax does not apply to:
(1) a sale of an admission by a person whose gross receipts from the sale are subject to the admissions and amusement tax;
(2) a sale of a communication service, other than a taxable service, rendered by a person whose charge for a communication service is or would be subject to the federal excise tax as described in s 4251 of the Internal Revenue Code in effect on July 1, 1979;
(3) a sale of a motor fuel that is subject to the motor fuel tax or the motor carrier tax;
(4) except for a rental, a sale of a motor vehicle, other than a house or office trailer, that is subject to the motor vehicle excise tax under s 13-809 or s 13-811 of the Transportation Article;
(5) a rental of a motion picture, motion picture trailer, or advertising poster for display on theater premises by a person whose gross receipts from the activity related to the rental is subject to the admissions and amusement tax; or
(6) except for a rental, a sale of a vessel that is subject to the excise tax under s 8-716 of the Natural Resources Article.
(b) Use by person paying sales and use tax. -- If a person who buys tangible personal property or a taxable service in a retail sale pays the sales and use tax when the retail sale is made, the person is not required to pay the tax again when the person uses that tangible personal property or taxable service in the State.
(c) Sales tax paid in other jurisdiction. -- (1) To the extent that a buyer pays another state a tax on a sale or gross receipts from a sale of tangible personal property or a taxable service that the buyer acquires before the property or service enters this State, the sales and use tax does not apply to use of the property or service in this State.
(2) If the tax paid to another state is less than the sales and use tax, the buyer shall pay the difference between the sales and use tax and the amount paid to the other state in accordance with the formula under s 11-303(b).

(An. Code 1957, art. 81, ss 326, 375; 1988, ch. 2, s 1; ch. 337, s 1; 1991, chs. 525, 639, 653, 654; ch. 671, s 1; 1992, 1st Spec. Sess., ch. 1, s 2.)

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(4) Mobile transportation equipment for use in transportation of persons or property as defined in Section 6023.

(5) Tangible personal property leased in substantially the same form as acquired by the lessor or leased in substantially the same form as acquired by a transferor, as to which the lessor or transferor has paid sales tax reimbursement or has paid use tax measured by the purchase price of the property. For purposes of this paragraph, "transferor" shall mean the following:

(A) A person from whom the lessor acquired the property in a transaction described in subdivision (b) of Section 6006.5.

(B) A decedent from whom the lessor acquired the property by will or the laws of succession.

(6) A mobilehome, as defined in Sections 18008 and 18211 of the Health and Safety Code, other than a mobilehome originally sold new prior to July 1, 1980, and not subject to local property taxation.

(7) Paragraphs (1) and (5) and Section 6094.1 shall not apply to rentals or leases of video cassettes, video tapes, and video discs for private use under which the lessee or renter does not obtain or acquire the right to license, broadcast, exhibit, or reproduce the video cassette, video tape, or video disc.

(Amended by Stats.1987, c. 915, § 4, eff. Sept. 21, 1987.)

Historical and Statutory Notes

1987 Legislation

The 1987 amendment provided for animated motion pictures in subd. (e)(1).

Code of Regulations References

Manufacturers, producers and processors, see 18 Cal. Code of Regs. § 1524 et seq.

6010.6. "Sale" and "purchase" exemptions; definitions; exceptions

(a) Except as provided in subdivision (c), "sale" and "purchase," for the purposes of this part, do not include any of the following:

(1) The performance of any qualified production services in connection with the production of all or any part of any qualified motion picture. Persons performing those qualified production services are consumers of paintings, models, and art work used by them filming special effects, titles, or credits, and of film, tape, or other embodiment upon which sound, visual images, or computer-generated graphics are created or recorded, notwithstanding that title to the property may be transferred pursuant to the qualified production services contract.

(2) Any transfer of all or any part of any qualified motion picture, or any interest therein or any rights relating thereto, under either of the following circumstances:

(A) The transfer is made prior to the date that the qualified motion picture is exhibited or broadcast to its general audience.

(B) The transfer is made to any person or persons holding, either directly or indirectly, or by affiliation, any exploitation rights obtained prior to the date that the qualified motion picture is exhibited or broadcast to its general audience.

(b) For purposes of this section:

(1) "Motion picture" means any audiovisual work (at any stage of the production thereof) consisting of a series of related images, either on film, tape, or other embodiment, whether photographic, or otherwise, and for these purposes, includes all physical materials comprising part of, or synchronized with, the motion picture, including the original, duplicate, and other negatives, intermediary film products, tapes, prints and original, duplicate, and other sound or visual recordings created to accompany the pictorial material depicted in the motion picture.

(2) "Produce or production of any qualified motion picture" means to originate, create, invent, design, devise, develop, photograph, edit, record, imprint, adapt, alter, make, process, fabricate, assemble, construct, or manufacture all or any part of that qualified motion picture by any means, method, or devise of any kind or character, whether before or after commencement of principal photography.

Additions or changes indicated by underline; deletions by asterisks * * *

(c) The furnishing and distributing of tangible personal property for a consideration by social clubs and fraternal organizations to their members or others.

(d) The furnishing, preparing, or serving for a consideration of food, meals, or drinks.

(e) A transaction whereby the possession of property is transferred but the seller retains the title as security for the payment of the price.

(f) A transfer for a consideration of the title or possession of tangible personal property which has been produced, fabricated, or printed to the special order of the customer, or of any publication.

(g) Any lease of tangible personal property in any manner or by any means whatsoever, for a consideration, except a lease of:

(1) Motion pictures or animated motion pictures, including television, films, and tapes.

(2) Linen supplies and similar articles when an essential part of the lease agreement is the furnishing of the recurring service of laundering or cleaning the articles.

(3) Household furnishings with a lease of the living quarters in which they are to be used.

(4) Mobile transportation equipment for use in transportation of persons or property as defined in Section 6023.

(5) Tangible personal property leased in substantially the same form as acquired by the lessor or leased in substantially the same form as acquired by a transferor, as to which the lessor or transferor has paid sales tax reimbursement or has paid use tax measured by the purchase price of the property. For purposes of this paragraph, "transferor" shall mean the following:

(A) A person from whom the lessor acquired the property in a transaction described in subdivision (b) of Section 6006.5.

(B) A decedent from whom the lessor acquired the property by will or the laws of succession.

(6) A mobilehome, as defined in Sections 18008 and 18211 of the Health and Safety Code, other than a mobilehome originally sold new prior to July 1, 1980, and not subject to local property taxation.

(7) Paragraphs (1) and (5) and Section 6094.1 shall not apply to rentals or leases of video cassettes, video tapes, and video discs for private use under which the lessee or renter does not obtain or acquire the right to license, broadcast, exhibit, or reproduce the video cassette, video tape, or video disc.

(Amended by Stats.1987, c. 915, § 8, eff. Sept. 21, 1987.)

Historical and Statutory Notes

1987 Legislation

The 1987 amendment provided for animated motion pictures in subd. (g)(1).

Sections 1 and 9 of Stats.1987, c. 915, provide:

"Section 1. This act shall be known and may be cited as the Condit-Mello-McClintock Tax Rebate Act of 1987."

"Sec. 9. This act shall become operative only if Senate Bill 47 of the 1987–88 Regular Session [Stats.1987, c. 908] is chaptered."

Notes of Decisions

Incidental transfers 8
Repairing or reconditioning property 7

1. Transfer of title or possessions

Parent corporation's transfers of its operating divisions to preexisting wholly owned subsidiaries did not constitute "sales," even though divisions' liabilities were transferred to subsidiaries, where parent remained jointly liable for liabilities of its transferred divisions and, therefore, transfers were not subject to sales tax. Macrodyne Industries, Inc. v. State Bd. of Equalization (App. 2 Dist.1987) 237 Cal.Rptr. 537, 192 C.A.3d 579, review denied.

6. Lease or rentals

Lease payments made to taxpayers by record clubs in accordance with contracts under which clubs produced records and tapes with duplicate masters or acetate masters which taxpayers leased to them did not involve lease of "tangible personal property leased in substantially the same form as acquired by the lessor" within meaning of sales tax exemption; leased property was not actual master tapes originally acquired by taxpayers. A & M Records, Inc. v. State Bd. of Equalization (App. 2 Dist.1988) 250 Cal.Rptr. 915, 204 Cal.App.3d 358, rehearing denied and modified on other grounds.

7. Repairing or reconditioning property

Water purification company's replacement of customers' depleted tanks with regenerated tanks constituted taxable "sale"; company delivered tanks which were "reconditioned," and which were different but "exactly the same" as tanks which they replaced. Continental Water Conditioning Co. of the Bay Area, Inc. v. State Bd. of Equalization (App. 1 Dist.1989) 255 Cal.Rptr. 98, 207 Cal.App.3d 783.

number of working days necessary for the assessor to determine the value of the manufactured home and for the auditor to extend tax liability.

(e) The issuance, alteration, forgery, or use of any tax clearance certificate or conditional certificate in a manner contrary to the requirements of the Controller constitutes a misdemeanor.

(Amended by Stats.1987, c. 1339, § 5; Stats.1988, c. 830, § 28; Stats.1991, c. 796 (A.B.2227), § 17; Stats.1992, c. 523 (S.B.1683), § 36.5.)

Historical and Statutory Notes

1987 Legislation

The 1987 amendment rewrote the section.

1988 Legislation

The 1988 legislation inserted new subd. (d), and redesignated prior subd. (d) as subd. (e).

Confirmation, validation and legality of acts and proceedings of revenue districts and taxing agencies, see Historical Note under § 75.70.

Application of 1988 legislation, see Historical Note under § 75.75.

1992 Legislation

The 1992 amendment rewrote subd. (a).

CHAPTER 6. ADMINISTRATIVE AND MISCELLANEOUS PROVISIONS

§ 5841. Countywide report of new registrations and titles

The Department of Housing and Community Development shall furnish to the county assessor of the county in which a * * * manufactured home is sited, on or before the last day of each calendar month, a listing of all new registrations and titles to * * * manufactured homes sited, or to be sited, in that county.

(Amended by Stats.1991, c. 796 (A.B.2227), § 18.)

§ 5842. Exchange of information between officials; confidentiality; public inspection

The board, the Department of Motor Vehicles, the Department of Housing and Community Development and any county assessor shall exchange or otherwise provide to one another any information relevant to the regulations, titling and taxation of * * * manufactured homes. Such information shall be held confidential by the party receiving the information, except to the extent the information is open to public inspection pursuant to Sections 408, 408.1, and 833 of the Revenue and Taxation Code, and Section 1808 of the Vehicle Code.

(Amended by Stats.1991, c. 796 (A.B.2227), § 19.)

DIVISION 2. OTHER TAXES

PART 1. SALES AND USE TAXES

Chapter		Section
3.3.	Vehicle Smog Impact Fee	6261

CHAPTER 1. GENERAL PROVISIONS AND DEFINITIONS

Section
6010.6. "Sale" and "purchase" exemptions; definitions; exceptions.
6010.65. Sale and purchase.
6012.6. Factory-built school buildings; gross receipts; place of sale or purchase.

§ 6006. Sale

"Sale" means and includes:

(a) Any transfer of title or possession, exchange, or barter, conditional or otherwise, in any manner or by any means whatsoever, of tangible personal property for a consideration. "Transfer of possession * * *" includes only transactions found by the board to be in lieu of a transfer of title, exchange, or barter.

(b) The producing, fabricating, processing, printing, or imprinting of tangible personal property for a consideration for consumers who furnish either directly or indirectly the materials used in the producing, fabricating, processing, printing, or imprinting.

Additions or changes indicated by underline; deletions by asterisks * * *

Code of Regulations References

Manufacturers, producers and processors, see 18 Cal. Code of Regs. § 1524 et seq.

Notes of Decisions

2. Sales for resale

Sellers of overhead materials were relieved from liability for sales tax by resale certificates given by the buyer of the overhead materials. Aerospace Corp. v. State Bd. of Equalization (App. 2 Dist.1990) 267 Cal. Rptr. 685, 218 Cal.App.3d 1300, review denied.

§ 6007.5. Retail sale; sale of contractor for use in federal construction contract; measure of taxes

Historical and Statutory Notes

1988 Legislation

Section 6007.5, as added by Stats.1965, c. 70, § 1, was repealed by Stats.1988, c. 160, § 169, leaving § 6007.5, as added by Stats.1955, c. 705, § 2, in full force and effect.

§ 6008. Storage

Code of Regulations References

Application of tax, see 18 Cal. Code of Regs. § 1803.

Manufacturers, producers and processors, see 18 Cal. Code of Regs. § 1524 et seq.

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§ 6009. Use

Code of Regulations References

Manufacturers, producers and processors, see 18 Cal. Code of Regs. § 1524 et seq.

§ 6009.1. Property for export; exclusion from "storage" or "use"

Code of Regulations References

Application of tax, see 18 Cal. Code of Regs. § 1803.

§ 6010. Purchase

"Purchase" means and includes:

(a) Any transfer of title or possession, exchange, or barter, conditional or otherwise, in any manner or by any means whatsoever, of tangible personal property for a consideration. "Transfer of possession * * *" includes only transactions found by the board to be in lieu of a transfer of title, exchange, or barter.

(b) When performed outside this state or when the customer gives a resale certificate pursuant to Article 3 (commencing with Section 6091) of Chapter 2 * * *, the producing, fabricating, processing, printing, or imprinting of tangible personal property for a consideration for consumers who furnish either directly or indirectly the materials used in the producing, fabricating, processing, printing, or imprinting.

(c) A transaction whereby the possession of property is transferred but the seller retains the title as security for the payment of the price.

(d) A transfer for a consideration of tangible personal property which has been produced, fabricated, or printed to the special order of the customer, or of any publication.

(e) Any lease of tangible personal property in any manner or by any means whatsoever, for consideration, except a lease of:

(1) Motion pictures or animated motion pictures, including television, films, and tapes.

(2) Linen supplies and similar articles when an essential part of the lease agreement is the furnishing of the recurring service of laundering or cleaning the articles.

(3) Household furnishings with a lease of the living quarters in which they are to be used.

Additions or changes indicated by underline; deletions by asterisks * * *

National Association of Theatre Owners

NATO OF CALIFORNIA

"A Tradition of Service to Theatrical Exhibition"

116 NORTH ROBERTSON BOULEVARD • SUITE F • LOS ANGELES, CALIFORNIA 90048 • 310/652 1093 • FAX 310/657 4758

February 11, 1993

Senator Mignon Waterman
Montana State Senate
Capital Station
Helena, Montana 59620

Dear Senator Waterman:

It has been called to my attention by Dan Irving of the Montana Association of Theatre Owners that you have introduced a sales tax initiative (SB 283). I know from living in Montana for over forty years that the sales tax issue is very controversial. However, the reality of the budget is going to force the state legislature to look at many options.

I do not envy your position in the state government, but I know you and the other members will ultimately come to a conclusion that will best serve the needs of the people of Montana.

I am writing to you on behalf of the theatre owners and operators of Montana, as well as on behalf of our industry and the movie patrons throughout the state, since they are ultimately the ones who will pay any sales tax that is placed on the admission ticket or licensing agreement. Since I have been intimately involved with the theatre industry in Montana for many years, the purpose of my letter is to make you aware of our industry's unique perspective on the sales tax issue. I would like to briefly outline why we feel that any adopted sales tax should exempt both admission tickets and film licensing agreements.

1. A Sales Tax on theatre admissions is an extremely regressive tax considering the make-up and age of those who attend movies. According to industry figures, 76% of families with children & annual income of less than $25,000 attend the movies. The $25,000 figure would be substantially less in Montana because of the average income, but the percentage of attendance would be similar. Also, 11% of the admission tickets are sold to people under the age of 15, 20% to those under 20, 25% under 30, and 12 % over 50. This translates into the fact that 68% of the tax would be paid by people in either lower or fixed income categories, and by the youngest and oldest members of our society.

2. Every time there is a price increase at the box office, there is a corresponding drop in attendance due to competition from video, sports and other entertainment events. This not only impacts theatres but corresponding industries such as restaurants, lounges, etc... This drop in attendance would lead to less employment in an industry which customarily employs a substantial number of teenagers.

3. Over 99% of the movie admissions in Montana are purchased by in-state residents, not tourists. We would be forced to increase the cost of one of the few outside the home entertainment activities that families, teenagers and the elderly can afford.

4. Unlike video stores who buy and own the tapes they rent, the film itself is never owned by the theatre operator. Operators enter into licencing agreements with the studio for each and every showing of the film. It never becomes tangible property of the theatre exhibitor. Therefore, any tax on the licensing agreements would be passed directly on to the consumer.

5. The theatre business has been a marginal business since the advent of television, and any increase cost would prove very detrimental, especially for small town operators throughout the state of Montana.

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6. Even California, which has had a sales tax for many years, has exempted all entertainment events including movies, as well as film licensing agreements because film is an intangible property to the theatre owner.

I sincerely appreciate the opportunity to give input into what I know has to be a very difficult situation. I will make myself available to answer questions or to provide additional information at your request. However, for the sake of the movie going public in the state of Montana, I do hope that if a sales tax is adopted it does exempt both box office admissions and film licensing agreements.

Thanking you in advance for your time & consideration.

Regards,

T. Warner

Tim Warner
President, NATO of California

CC: Dan Irving
Dion Smith
Bud Rifkin

DATE 2-10-93

SENATE COMMITTEE ON Taxation

BILLS BEING HEARD TODAY: SB 283

Name	Representing	Bill No.	Check One: Support	Check One: Oppose
Gordon Morris	MACo.	SB 283	✓	
Gary Wiens	MECA/MTA Co-ops	SB 283	support Tax Reform	
Mona Nutting	MACo	SB 283	✓	
[illegible]	Dear [illegible] Elem	SB 283	✓	
Howard W Gipe	Flathead Co. Comm	SB 283	✓	
Gene Quenemoen	AARP	SB 283	✓	
[illegible]		SB 283	✓	
David Owen	MT Chamber	SB 283	✓	
Eric Feaver	MEA	SB 283	✓	
Kathy McGowan	MCMHC	283	✓	
Ray Young	Self & 630 Friday AM Tax Study Group	SB 283	✓	
Pat Melby	Underfunded Schools	SB 283	✓	
Ed Sheehy	Retired Federal Employee			✓
Charles R. Brooks	MT Retail Assoc	SB 283	✓	
Dick Hill	Gov Office	SB 283	✓	
Jake Cummins	MT Farm Bureau	SB 283	✓	

VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY

F10

DATE ______________________

SENATE COMMITTEE ON ______________________

BILLS BEING HEARD TODAY: ______________________

____

Name	Representing	Bill No.	Check One Support	Oppose
Nancy Griffin	Builders Assoc	283	✓ for Amendment	
DAVID R. STEEH	MT. BUILD. ASSOC.	283	w/ AMENDMENT	
JUDITH H CARLSON		283	✓	
DAVID HEMION	HELENA CHAMBER	283	✓	
Helen Taffs	MT Soc. of CPAs	283	neutral	
Riley Johnson	NFIB	283	✓	
William McLehm	HI, Inc.	283	✓	
Jerome Anderson	Shell Western E&P Inc	283	✓	
Cliff Humphrey	Billings, MT - self	283	✓	
Jim Scott	MTRC	283	✓	
Tom Harwood	Former MTEA Indl	283		✓
Paulette Kohman	Mt Council Mat & Child Hlth	283		
Stuart Doggett	MT Innkeepers MT Manufactured Housing & RV	283	To Reform " " Amend	
DAN WALKER	US WEST	283	w/amends	
Loran Frazier	SAm	283	✓	
Dan Shea	MLIC	283		✓

VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY

F10

DATE ______________________

SENATE COMMITTEE ON ______________________

BILLS BEING HEARD TODAY: SB 283

Name	Representing	Bill No.	Check One Support	Oppose
John Shontz	MHAM	283	X	
Don Judge	MT STATE AFL-CIO	SB 283		X
Steve Mandeville	MT Assoc Realtors	283		X
Donna Arnell	MT Conservative Party	283		X
Joe Brand	Self	283		X
R.P. Gannon	MT. Power	283	X	
Bob Hanson	MSTSH	283	✓	
Dave McCamel	SELF	283		X
Mike Mathew	Yellowstone Co	283	✓	

VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY

F10