

MINUTES

**MONTANA HOUSE OF REPRESENTATIVES
57th LEGISLATURE - REGULAR SESSION
COMMITTEE ON TAXATION**

Call to Order: By **CHAIRMAN BOB STORY**, on March 8, 2001 at 8:00
A.M., in Room 472 Capitol.

ROLL CALL

Members Present:

Rep. Bob Story, Chairman (R)
Rep. Ron Erickson, Vice Chairman (D)
Rep. Roger Somerville, Vice Chairman (R)
Rep. Joan Andersen (R)
Rep. Keith Bales (R)
Rep. Joe Balyeat (R)
Rep. Gary Branae (D)
Rep. Eileen Carney (D)
Rep. Larry Cyr (D)
Rep. Rick Dale (R)
Rep. Ronald Devlin (R)
Rep. John Esp (R)
Rep. Gary Forrester (D)
Rep. Daniel Fuchs (R)
Rep. Verdell Jackson (R)
Rep. Jesse Laslovich (D)
Rep. Trudi Schmidt (D)
Rep. Butch Waddill (R)
Rep. Karl Waitschies (R)
Rep. David Wanzenried (D)

Members Excused: None.

Members Absent: None.

Staff Present: Jeff Martin, Legislative Branch
Rhonda Van Meter, Committee Secretary

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

Committee Business Summary:

Hearing(s) & Date(s) Posted: HB 600, HB 617,, 3/5/2001
Executive Action: HB 534, HB 580. HB 581, HB 16

HEARING ON HB 600

Sponsor: REP. SYLVIA BOOKOUT-REINICKE, HD 71, ALBERTON

Proponents: Webb Brown, MT. Chamber of Commerce
Riley Johnson, National Federation of Independent
Business

Opponents: None

Opening Statement by Sponsor:

REP. SYLVIA BOOKOUT-REINICKE, HD 71, ALBERTON, introduced HB 600 a bill to exempt temporary general as from taxation and explained the fiscal note for facilities. She said this intends for job retention to assist small companies to obtain jobs. She talked about repealers for the bill and the technical notes it contains.

Proponents' Testimony:

Webb Brown, MT. Chamber of Commerce, supported this bill and explained a small business, who is trying to add to the system and be able to be beneficial.

Riley Johnson, National Federation of Independent Business, felt this bill would be a positive step towards action for small business owners.

Opponents' Testimony: None

Questions from Committee Members and Responses:

REP. RON ERICKSON asked about requesting an amendment for the technical notes. REP. BOOKOUT-REINICKE said amendments would be put together for this bill.

REP. JOHN ESP asked about a clear definition of a facility. REP. BOOKOUT-REINICKE answered the language in the bill would clarify a facility.

Closing by Sponsor:

REP. SYLVIA BOOKOUT-REINICKE, HD 71, ALBERTON, summarized on the bill and thought it was important. She said it assists small businesses and job retention. She encouraged support for this bill.

HEARING ON HB 617

Sponsor: REP. JOE BALYEAT, HD 32, BOZEMAN

Proponents: Webb Brown, MT. Chamber of Commerce
Mary Whittinghill, MT. Taxpayers Association
Charles Brookes, Chamber of Commerce, Billings
Ken Nordtvedt, Self-Employed, Bozeman
Carl Schweitzer, Chamber of Commerce, Bozeman
Riley Johnson, National Federation of Independent
Business

Opponents: Betty Whiting, MT. Association of Churches
Eric Feaver, MEA-MFT

Opening Statement by Sponsor:

REP. JOE BALYEAT, HD 32, BOZEMAN, presented an executive summary **EXHIBIT (tah53a01)**. He handed out a comparison of return data **EXHIBIT (tah53a02)**, and an income bracket **EXHIBIT (tah53a03)**. He presented possible amendment changes to the bill **EXHIBIT (tah53a04)**. He handed in a testimony **EXHIBIT (tah53a05)**.

{Tape 1; Side B}

Proponents' Testimony:

Webb Brown, MT. Chamber of Commerce, added this bill would assist the increasing tax rates and he urged support of the bill.

Mary Whittinghill, MT. Taxpayers Association, supported concepts of the bill. She explained tax reductions for the state and how this bill would simplify tax rates.

Charles Brookes, Chamber of Commerce, Billings, talked about major tax reform for the state. He felt the state needs to move forward with tax reform and he urged support for this legislation.

Ken Nordtvedt, Self-Employed, Bozeman, talked about factors for living in Montana and the tax rates that effect his business. He explained total taxes and reduction in rates.

Carl Schweitzer, Chamber of Commerce, Bozeman, felt this bill would be an appropriate change for the tax situation currently in Montana.

Riley Johnson, National Federation of Independent Business, supported this bill and talked about the membership of independent businesses. He said reducing rates for businesses would be very helpful.

Opponents' Testimony:

Betty Whiting, MT. Association of Churches, presented information regarding tax reform **EXHIBIT (tah53a06)**. She was concerned about the tax rates and explained the effects with minimum wage employees. She addressed fairness and accountability regarding tax reform.

Eric Feaver, MEA-MFT, mentioned fairness and accountability. He said the tax structure that is fair would be the income tax of the state. He opposed this legislation and didn't feel it would be affordable for the state.

{Tape 2; Side A}

Questions from Committee Members and Responses:

REP. JESSE LASLOVICH asked what cuts should be made and if this legislation was presented at the right time. **Webb Brown** said there are opportunities for other revenues. He felt this legislation was presented at the right time for businesses in the state.

REP. LASLOVICH asked the same question. **May Whittinghill** said this may be the time to look at reductions and steps to take with income taxes.

REP. LASLOVICH asked about the amendment and the tax cut involved. **REP. BALLYEAT** said the amendment only effects the withholding tables, which would effect the flow of cash during this biennium.

REP. LASLOVICH asked about the economy of the state and how the reduction compares to other states. **REP. BALLYEAT** explained the effects the tax rates have with the state. He said this state would not be able to compare with other states.

REP. LASLOVICH referred to the handout and asked about increases with taxes. **REP. BALLYEAT** explained the graphs from the handout.

REP. LASLOVICH asked about people not making money within the tax structure. **REP. BALLYEAT** referred to the chart and talked about retirees.

REP. LASLOVICH asked about page two of the bill. **REP. BALYEAT** explained the rules of the rates and why it needed to be within the bill.

REP. TRUDI SCHMIDT asked about the portions of the bill not supported. **Mary Whittinghill** explained areas of the bill she supported. She said they oppose the marginal rates and reduction methods.

REP. SCHMIDT asked if that was the largest reason. **Mary Whittinghill** answered yes.

REP. SCHMIDT asked about the provisions of filing. **Mary Whittinghill** said they would like the provisions for marriage filed separately.

REP. SCHMIDT asked about the cut off. **REP. BALYEAT** said there were breaks with credits and endowments. He said it eliminates people from double paying.

REP. SCHMIDT asked about the concern with power rates. **REP. BALYEAT** believed in alternative energy. He said the substance of the bill was to offer general tax reduction to those who were not receiving breaks currently.

REP. SCHMIDT asked about position status among people. **REP. BALYEAT** said this was used with a small number of people and becomes a significant dollar amount credit.

REP. SCHMIDT asked how this bill would effect local governments and school districts. **REP. BALYEAT** explained income taxes with the state and the general fund. He said there were no hidden consequences with tax rates.

REP. VERDELL JACKSON asked about the population paying taxes and accountability. **Betty Whiting** thought the system of accountability with explaining what the tax loss would mean would effect the low income population.

REP. JACKSON asked about diminishing returns. **Betty Whiting** talked about the ability for the majority of people who can take tax breaks. She mentioned low income families and felt they do not have a privilege to take tax breaks.

{Tape 2; Side B}

REP. JACKSON asked about sale of assets from other states and other income. **REP. BALYEAT** said the sale of assets wouldn't

affect the state income tax unless they were a resident from another state. He felt this legislation would offer a solution to these type of problems.

REP. ERICKSON asked about risks taken regarding previous taxes. **Carl Schweitzer** answered he was present then and felt risks still need to be taken.

REP. ERICKSON referred to the fiscal note and thought there would be another loss. He asked how big a risk should be taken. **Carl Schweitzer** supported the changes within the taxes and felt some risks need to be pursued for local businesses.

REP. ERICKSON asked about the effective rate of tax in Montana. **REP. BALYEAT** said the previous formulas were incorrect. He directed the committee's attention to the chart handed out and to page four of the bill to explain the rate of taxes.

REP. ERICKSON wanted the marginal rates from the Department of Revenue. He referred to the fiscal note and asked the \$78 million. **REP. BALYEAT** said the amendment only deals with the withholding and doesn't deal with the substantive tax reduction. He explained the estimate to be withheld.

REP. ERICKSON asked about the income tax changes versus the change in business equipment tax. **REP. BALYEAT** said tax income tax rates are more effective with creating economic roles than cuts in other taxes. He felt cuts from other taxes do create jobs and becomes beneficial.

REP. ERICKSON asked about people moving back to Montana. **REP. BALYEAT** explained the income tax increase and how people move from this state to be able to afford to live.

REP. ERICKSON asked if people would move here because of the tax burden. **REP. BALYEAT** explained the analysis and the generation of taxes per year. He was convinced this legislation would change the behavior.

REP. KEITH BALES asked about the percentages from the chart. **REP. BALYEAT** explained the head of household chart and mentioned income levels.

REP. BALES wondered about the tax structure. **REP. BALYEAT** said they could not do away with the correlation of Montana rules and federal rules.

REP. BALES asked about the trigger for revenue to be neutral.

REP. BALYEAT said the trigger mechanism used was a three year average to avoid problems. He mentioned the additional incentive to entice people into the simplified system.

REP. KARL WAITSCHIES asked about the choices of taxes offered and if they were against the cuts. **Betty Whiting** believed tax reform should be fair for low income people in the state.

REP. WAITSCHIES asked if they want to keep the old system. **Betty Whiting** answered yes.

CHAIRMAN BOB STORY asked about tax reform for equitable sharing of benefits. **Betty Whiting** wondered how low income families could share the benefits. She didn't think there were opportunities for low income people due to the tax reform.

REP. ROGER SOMERVILLE handed out a typical family income **EXHIBIT (tah53a07)**. He explained the benefits these families receive. **Betty Whiting** responded by explaining the households involved that were below the federal poverty level.

{Tape 3; Side A}

REP. BUTCH WADDILL asked about a compromise with the percent.

REP. BALYEAT said the 7.7% was a minor reduction in the marginal rate. He explained possible tax increases and reduction rates of tax policy for low income families.

REP. WAITSCHIES asked for explanation of the marginal rate and effective rate. **Larry Finch, Department of Revenue**, gave an explanation of both rates and the clarifications.

REP. WAITSCHIES asked about tax rates. **REP. BALYEAT** explained the additional increase on taxes and how this bill would reduce the percentage paid.

REP. WAITSCHIES asked if this bill would not allow the rate to increase anymore. **REP. BALYEAT** thought the proposal to be a compromise to provide incentive for people and the system.

REP. GARY FORRESTER asked about information of tax cuts from appropriations. **Eric Feaver** had not heard anything towards the tax cut from appropriations.

REP. FORRESTER asked the same question. **Mary Whittinghill** said it was her understanding there was reduction in spending.

REP. FORRESTER asked why it would be better policy to take the money back from people and allow the government to distribute.

REP. BALYEAT explained how the bill eliminates federal deductibility and the reductions of tax rates in brackets.

REP. FORRESTER asked about types of bills and the out years for figures. **Larry Finch** explained simplification and complex bills. He gave examples of figures for future years and the percentages.

REP. FORRESTER asked about the other \$8 million across the board. **Larry Finch** said it would be \$8.7 million.

REP. DAVID WANZENREID asked about the administration taking a public position on this bill. **Carl Schweitzer** didn't think the administration was taking a public position with this bill.

REP. WANZENREID asked about the support of the concepts in the bill. **Carl Schweitzer** didn't want to speak for the Governor.

REP. SCHMIDT asked about tax breaks within the system. **Carl Schweitzer** said there would be better opportunities in the long run within the system.

REP. SCHMIDT asked about the concerns with the public schools and the university system. **Carl Schweitzer** said he was concerned about these areas of education within the system.

REP. SCHMIDT wondered if they would be in better financial shape two years ago with this bill, but it doesn't go into effect.

REP. BALYEAT said there is a perception problem with this bill.

{Tape 3; Side B}

Closing by Sponsor:

REP. JOE BALYEAT, HD 32, BOZEMAN, closed on his bill and emphasized on the growth this legislation would offer the state from the tax cuts. He felt this bill would have a positive impact on the state. He referred to the charts and table he handed out and went over some areas of tax reduction. He stated this legislation would assist with economic growth for Montana.

EXECUTIVE ACTION ON HB 534

Motion: **REP. CARNEY** moved HB 534 DO PASS.

Discussion:

REP. EILEEN CARNEY talked about offering tax breaks for low income families.

REP. ERICKSON asked about tax areas for this bill. **CHAIRMAN STORY** explained the bill and what the intent was. He mentioned the medical savings account offered and how it assists with payments.

REP. CARNEY wondered if they would have to guess as to what is being spent. **CHAIRMAN STORY** said it depends upon the account and accumulation.

REP. SCHMIDT said some places do not let the money that is unused by used at the end of the year whereas other places allow for accumulation.

REP. JOAN ANDERSON noted there was a suggestion regarding the earmarking. **CHAIRMAN STORY** said the reason would be for the money to be taken out of tobacco money for neutrality.

REP. ERICKSON wondered if there would be a conceptual amendment added. **REP. HOLLY RASER, HD 70, MISSOULA,** said she wouldn't have no objection to utilize tobacco funds for this bill.

CHAIRMAN STORY asked if it would come from the interest out of tobacco settlement or funding from money coming into. **REP. RASER** said money from the interest. She thought this would be a source of revenue requiring no additional votes to touch the principal.

REP. ERICKSON wondered if money came from the general fund. He thought money coming in was already appropriated and the effective date should be made later.

CHAIRMAN STORY asked if the intention was to pay the credit from revenue of the tobacco trust. **REP. ERICKSON** answered yes, that is correct.

CHAIRMAN STORY asked about the date of the bill. **REP. ERICKSON** said it would be made for 2002 with credit established from 2003.

REP. ESP asked if there would be a contingency clause if the bill didn't go into effect. **Jeff Martin, Legislative Staff,** explained interest levels of credit. **REP. ERICKSON** wanted to have this effective from tobacco interests.

REP. ESP wondered about the trust money and tying it with the spending program of revenue. **REP. ERICKSON** thought it would be able to work do to healthcare issues.

REP. RASER asked about the trust fund money. **CHAIRMAN STORY** explained using the interest off of the tobacco trust and money going into the general fund.

REP. RASER felt they could appropriate amounts to use and there still would be general fund money to pay for the balance.

Motion/Vote: **REP. ERICKSON** moved HB 534 BE AMENDED. Motion carried 17-3 with **REP. BALLYEAT**, **REP. SOMERVILLE** and **CHAIRMAN STORY** voting no.

Motion: **REP. ERICKSON** moved HB 534 DO PASS AS AMENDED.

Discussion:

REP. WAITSCHIES read the amendment as working with the medical savings account.

Substitute Motion: **REP. ESP** made a substitute motion to REDUCE 50% TO 25%.

Discussion:

REP. BALES asked if that would still allow the concept of double percentages. **REP. ESP** said it should deal with the savings account.

{Tape 4; Side A}

CHAIRMAN STORY wondered if going to a 25% reduction of credit if it would affect the fiscal impact of the program. **REP. ERICKSON** thought it would add to the cost. He was concerned about the cost being high.

CHAIRMAN STORY asked if credit would have to reduce to 10 or 5% to become no value. **REP. BALLYEAT** said it would depend upon the substitute credit as a business or itemized deduction.

Vote: Substitute Motion carried 15-5 with **REP. FUCHS**, **REP. LASLOVICH**, **REP. WADDELL**, **REP. WAZENREID**, **CHAIRMAN STORY** voting no.

Motion: **REP. ERICKSON** moved HB 534 DO PASS AS AMENDED.

Discussion:

REP. BALYEAT appreciated the efforts of this bill, but didn't think the reduction would help. He said it would affect the fiscal note. He thought the credit increase would be great.

REP. WAITSCHIES wondered about the social security adjusted within this. **REP. BALYEAT** said it would be a small portion. He explained the taxable adjusted gross income and where it would apply.

REP. WAITSCHIES said there would be a tax credit for those who don't make enough money.

CHAIRMAN STORY didn't want to support any tax credit bills. He felt there should be tax reductions across the board.

REP. WAITSCHIES wondered about funding from another bill. He said they need to identify the costs involved.

REP. ERICKSON talked about constituents who cannot afford the costs of prescription medication. He felt the proposal was modest and helpful.

REP. SCHMIDT asked if there was a way to do something so there would not be a fiscal impact. **CHAIRMAN STORY** said there was already a deduction and it would change the whole.

REP. SOMERVILLE was concerned about the target this would affect. He mentioned elderly people and single parents trying to make a living and cannot afford this.

Vote: Motion tied 10-10 with **REP. SOMERVILLE, REP. ANDERSON, REP. BALES, REP. BALYEAT, REP. DALE, REP. DEVLIN, REP. ESP, REP. FUCHS, REP. WAITSCHIES** and **CHAIRMAN STORY**.

EXECUTIVE ACTION ON 580

Motion: **REP. ERICKSON** moved HB 580 DO PASS.

Discussion:

REP. ERICKSON explained the bill. He emphasized the changes included and what it would not change for some areas for gambling licenses.

REP. SOMERVILLE felt confused about the restrictions dealing with this bill. **REP. ERICKSON** didn't know what restrictions this would unfold.

REP. SOMERVILLE said locations could be restricted and he didn't know this bill would separate licenses. **REP. ERICKSON** explained liquor license with gambling license.

REP. SOMERVILLE asked if the people with liquor licenses would have to go back and retain a gambling license. **REP. ERICKSON** said they can decide on location and if a new license is issued.

REP. FORRESTER asked about the new license. **Gene Huntington, Department of Justice**, talked about changes in the ownership dealing with license changes.

REP. FORRESTER wondered about the gambling license included. **Gene Huntington** said an application would determine if it is suitable for change.

REP. FORRESTER asked about change in ownership. **Gene Huntington** explained the ordinance and how it would provide licensing.

REP. BALES believed the state would control the pay out of these machines. **REP. ERICKSON** answered yes.

REP. BALES wondered about the state receiving revenue and the local communities being able to charge money for each machine. **REP. ERICKSON** explained the gambling regulations and reasons for licensing.

{Tape 4; Side B}

REP. BALES asked about Section one and the fees involved. **REP. ERICKSON** said hearings would set up the rules, but there were no fees involved.

REP. SCHMIDT asked about the permit application. **Gene Huntington** mentioned the gambling licenses and applications to authorize.

REP. BALYEAT talked about the application process and the fees involved.

REP. ESP asked about Section four and clarification. **REP. ERICKSON** explained a grandfather clause with licenses already issued.

Motion/Vote: **REP. WAITSCHIES** moved to amend "not to oppose other taxes or change fees" within Section One carried unanimously.

Motion: **REP. ERICKSON** moved HB 580 DO PASS AS AMENDED.

Discussion:

REP. BALES asked a question dealing with change of ownership.
REP. ERICKSON talked about the local changes and how it would be effective.

Vote: Motion failed 9-11 with REP. ERICKSON, REP. BRANAE, REP. CARNEY, REP. ESP, REP. JACKSON, REP. LASLOVICH, REP. SCHMIDT, REP. WADDILL and REP. WAITSCHIES voting aye.

Motion/Vote: REP. ERICKSON moved HB 580 BE TABLED reversing vote from above 11-9.

EXECUTIVE ACTION ON 581

Motion: REP. WADDILL moved HB 581 BE AMENDED. Amendments were handed out EXHIBIT (tah53a08).

Discussion:

REP. WADDILL explained the amendments and the fiscal note.

CHAIRMAN STORY didn't think many numbers were needed to have a protest.

Vote: Motion carried 19-1 with REP. JACKSON voting no.

Motion/Vote: REP. WADDILL moved HB 581 DO PASS AS AMENDED. Motion failed 9-11 with REP. ERICKSON, REP. BRANAE, REP. CARNEY, REP. ESP, REP. JACKSON, REP. LASLOVICH, REP. SCHMIDT, REP. WADDILL, and REP. WAITSCHIES voting aye.

{Tape 5; Side A}

Motion/Vote: REP. ERICKSON moved HB 581 BE TABLED. Motion carried reversing the vote.

EXECUTIVE ACTION ON HB 16

Motion: REP. SOMERVILLE moved HB 16 BE AMENDED. Reasons to vote for the bill were handed out EXHIBIT (tah53a09). Amendments were presented EXHIBIT (tah53a10).

Discussion:

REP. SOMERVILLE talked about the amendments and reasons to vote for this legislation.

CHAIRMAN STORY said the committee would segregate amendments and first vote on the funding then the changes to referendums.

Vote: Motion to **CHANGES IN APPROPRIATIONS BE AMENDED** carried with **REP. FUCHS, REP. BALLYEAT** and **REP. FORRESTER** voting no.

Vote: Motion to **CHANGE TO THE REFERENDUM BE AMENDED** carried 11-9 with **REP. ERICKSON, REP. BRANAE, REP. CYR, REP. ESP. REP. FUCHS, REP. LASLOVICH, REP. SCHMIDT, REP. WADDILL** and **REP. WANZENRIED** voting no.

Motion: **REP. SOMERVILLE** moved **HB 16 DO PASS AS AMENDED**.

Discussion:

REP. SOMERVILLE talked about history around the state needing to be fixed and how these purchases assist the state. He handed out information on lodging tax **EXHIBIT (tah53a11)** and explained money coming into the state to pay back the coal trust fund.

REP. ANDERSON asked about the amounts available through the entities. **REP. SOMERVILLE** said the grants requested would come through appropriations. He explained the funding program.

CHAIRMAN STORY referred to Section seven and page two of the bill. He wondered about the payments and long range building being involved with this. **REP. ANDERSON** pointed out another Section that offered explanation of approval for payments.

REP. SOMERVILLE said the related tourist project would be authorized by the legislature.

REP. BALLYEAT didn't believe by changing this into a referendum would do anything for protection to the Governor. He mentioned principles that would be relevant for this legislation.

REP. SCHMIDT talked about the separation of powers. **REP. BALLYEAT** recognizes the powers involved and wanted to clarify the protection of the administration.

CHAIRMAN STORY didn't understand who had final authority. He referred to the lodging tax and mentioned the bed tax taking the growth of promotion.

{Tape 5; Side B}

REP. SOMERVILLE closed on his motion and referred to the lodging tax handout. He thought this bill would assist with the state parks, museums and other historic facilities.

Vote: Motion carried 16-4 with REP. BALYEAT, CHAIRMAN STORY, REP. DEVLIN and REP. FUCHS voting no.

ADJOURNMENT

Adjournment: 12:48 P.M.

REP. BOB STORY, Chairman

CECILE M. TROPILA, Transcriptionist

BS/RV

EXHIBIT (tah53aad)