EXHIBIT 3
DATE 3.7.05
HB 760

Wage and Economic Acceleration Act

HB 760 & HB 717

Representative Tom McGillvray, CFP

Representative Bill Warden

Wage and Economic Acceleration Act
Rep. Tom McGillvray, CFP—Rep Bill Warden
HB 760 & HB 717

1. HB 760 eliminates direct taxation by eliminating personal income and capital gains taxes in Montana.
    a. Article I section 9 of the US constitution stated that no direct taxation should be levied. Not until 137 years later with the passage of the 16th amendment in 1913 did the income tax become legal.
    b. Montana had no income tax until 1933.
    c. Administration of the income tax costs the state approximately 6.3 million dollars. State sales tax administration would cost about 4 million dollars.

2. This bill enacts a 4% sales tax on goods and services to replace the Montana personal capital gains and income tax. The $608 million the income tax produced in 2004 will be replaced by the 4% sales tax on good and services which would generate about $586 million. The 4% sales tax can not increase because the Montana constitution limits any statewide sales tax to 4%.
    a. The sales tax exempts among others items: utilities, fuel, groceries (alcoholic beverages and pop would be taxed), prescription drugs and health care. Food and drink items purchased in restaurants are not exempt.
    b. The sales tax exempts savings, investments, real estate etc.
    c. Class 8 business equipment property would not pay a sales tax as it pays the business equipment tax at 3% per year.

3. This bill seeks to be revenue neutral to a $20-30 million tax cut, depending on where the numbers come in.

4. The bill would not go into effect until a constitutional amendment is passed **(HB 717 sponsored by Rep. Bill Warden)** to create the prohibition of an income/capital gains tax co-occurring with a sales tax. HB 717 if passed would place the constitutional amendment on the Nov. 2006 ballot. HB 760 would then go into effect in Jan 08.

5. The bill seeks no additional property tax relief (the voters are doing a good job of keeping the growth of property tax in check.) History shows that a tax lowered is a tax waiting to be raised.

6. The bill retains the elderly property tax credit in the form of a property tax rebate.

Contact: Rep. Tom McGillvray at tmcgillvray@bresnan.net
Contact: Rep. Bill Warden at bwardenhd63@hotmail.com

HB 760 Section by Section
Tom McGillvray, CFP

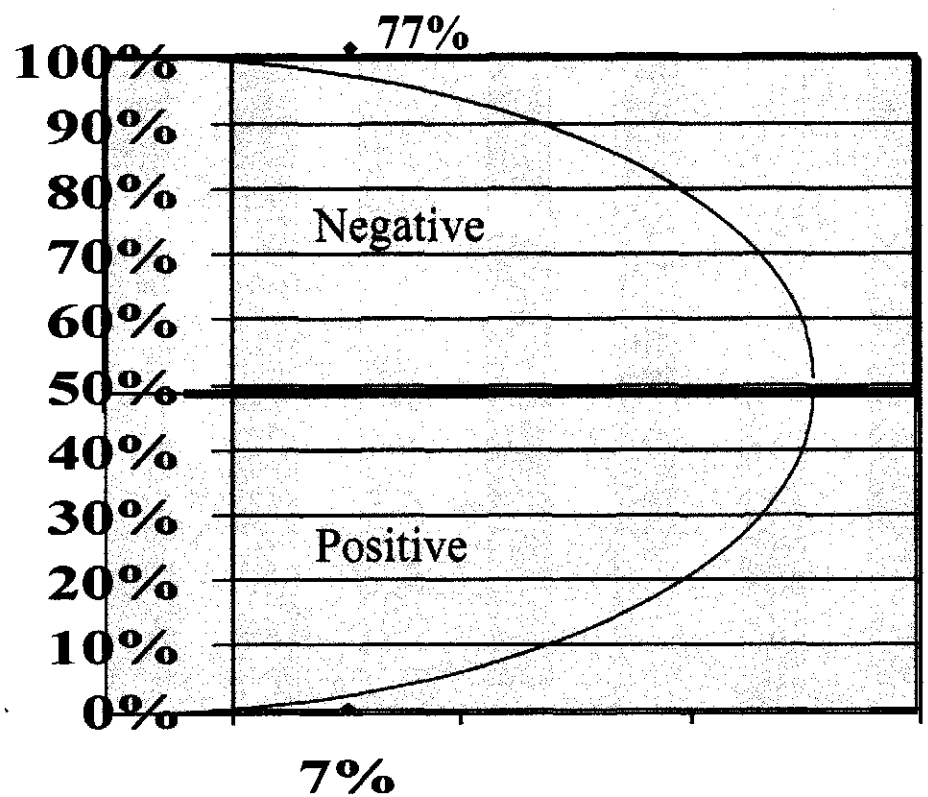
Section 1-7 (1-8) in these sections the reference to income tax in code sections is deleted as HB XXX deletes the Montana individual income and capital gains tax.
Section 8 (8-14) provides new definitions and provides definitions where reference to code was formerly cited to provide definitions
Section 9-11 (14-15) deletes income tax code references
Section 12-17 (15-22) Deletes reference to income tax code sections and income tax
Section 18 (22-28) Updates property tax references, deletes reference to income tax code sections;
Section 19 (28): personal property taxable other than livestock
Section 20-22 (28-31) **elimination of various income tax credits**
Section 23-25 (31-33) **Provisions for continuance of elderly home owner property tax relief (formerly in the form of a tax credit)**
Section 26 (33) deletes reference to income tax code relating to lottery winning
Section 27 (33-34) changes code reference for small business corporation
Section 28 (34-36) pass through entities and their relationship to income tax deleted.
Section 29 (36-37): Need for composite tax returns for partnerships or corporations eliminated
Section 30 (37-40) eliminates rules regarding pass through entity and income taxes
Section 31 (40) eliminates reference to income tax for corporate dissolution small biz Act
Section 32 (40-41) deletes reference to income tax in section
Section 33 (41-42) deletes implied reference to individual income tax
Section 34 (42-44) **deletes dependant care credit**
Section 35-43 (42-50) **deletes various individual income tax credits**
Section 44 (50-53): definitions—sole proprietorship deleted
Section 45-48 (53-55) elimination of personal income tax credits
Section 49 (55) elimination of deductions for personal income tax
Section 50 (55) eliminates capital gains and dividends from personal individual income tax for certain investments
Section 51(55) eliminates certain tax credits
Section 52 (56-57) Changes to administration of Medical Savings accounts
Section 53 (57-59) recapture of taxes of certain withdrawals of tax deductible contributions during sales tax phase in
Section 54 (59-60): elimination of certain tax deductions
Section 55 (60-67) **definitions of certain items in relation to sales tax**
Section 56- (67-69) **sales tax rates and use tax exceptions (accommodations and camp grounds and rental vehicles)**
Section 57- (69) <u>New Section</u>; **non refundable credit for sales tax paid in other states.**
Section 58- (69-70) **Collection of sales and use tax**
Section 59 (71) <u>New Section</u>: **Direct payment of sales tax—direct payment permits for any who collect more than 500/yr in sales taxes**

Section 60 (71) non taxable transaction permit use and penalty for misuse
Section 61 (71): non taxable transaction certificate permit- form for use when purchasing goods for resale.
Section 62(72) New Section: **services exempt form 4% sales tax**
Section 63 (73) New Section **government agencies exempt from 4% sales tax**
Section 64-80 (73-78) New Sections **exempt consumptive items and class 8 personal property exempt from 4% sales tax**
Section 81 (78): **seller's registration and agreement for business doing business in Montana to collect the sales tax**
Section 82 (79): **application for seller's registration**
Section 83 (80): **revocation of seller's registration and appeal**
Section 84 (80-81) **liabilities for payment of sales tax**
Section 85 (81-82) **business sales tax reporting returns**
Section 86 (83) **Credit for sales taxes collected and paid on bad debts not collected**
Section 87 (83-84) **Vendor allowance for collection of tax; not to exceed 350/mo. for persons filing on a monthly basis funded from sales tax proceeds**
Section 88 (84) **administration rules**
Section 89 (84-85) **confidentiality agreements with other states**
Section 90-97 (85-89) New Sections: **Uniform Sales and Use Tax Administration Act)., (currently used by 34 states)**
Section 98 (90-91) Definitions
Section 99-100 (91-92) strike reference to personal income tax
Section 101 (92-93) Definitions
Section 102 (93-96) delete references to personal income tax in preparation of state budget
Section 103 (96-101) Definitions: Deletes reference to definition of Internal Revenue code in 15-30-101 and gives definition.
Section 104 (101) delete code regarding taxation of retirement benefits
Section 105-107 (101-102): delete reference to taxation benefits
Section 108 (102-106) Definitions: Deletes reference to definition of internal Revenue code in 15-30-101) and gives definition
Section 109-110(106-107) delete reference to exemption from taxation of benefits
Section 111 (106) Definitions
Section 112 (107-108): delete reference to MT income tax code
Section 113 (108) delete references to MT income tax code with respect to evidence of domicile
Section 114-116 (109-110) delete reference to income tax code
Sections 117-120 (110-113) delete references to MT income tax code
Section 121-(113-114): delete reference to tax code in relation to household income etc.
Section 122 (114-116) delete references to MT income tax code in relation to bond and obligations
Section 123 (116-119): deletes reference to MT tax code to define resident
Section 124-125 (119-121) deletes reference to MT income tax code
Section 126 (121-123) eliminates individual tax credits
Section 127 (123) New Section: Repealer
Section 128 (124) New Section: Direction to Code Commissioner

Section 129 (124) New Section: Codification
Section 130 (124) New Section: **Contingent Voidness: If HB XX (LC 1916) is not passed by the MT senate and house, his act is void**
Section 131 (124) New Section **Effective Date; is effective Jan 1 2008**
Section 132 (124-125) New Section **Applicability: Applies to apply to calendar years, tax years, fiscal years, beginning after December 31, 2007, and sales of tangible personal property and services after December 31, 2007.**

HB 760 – Wage and Economic Acceleration Act – HB 717
Rep. Tom McGillvray, CFP; Rep. Bill Warden

Laffer Curve



(Incomes over $300,00)

Tax Year	Rate	Revenue
1916	7 %	81,404,194
1921	77 %	84,797,344

The Laffer Curve: In the 1920s, the Treasury discovered that a 77% Tax rate produced about the same amount of revenue as a 7% tax rate.

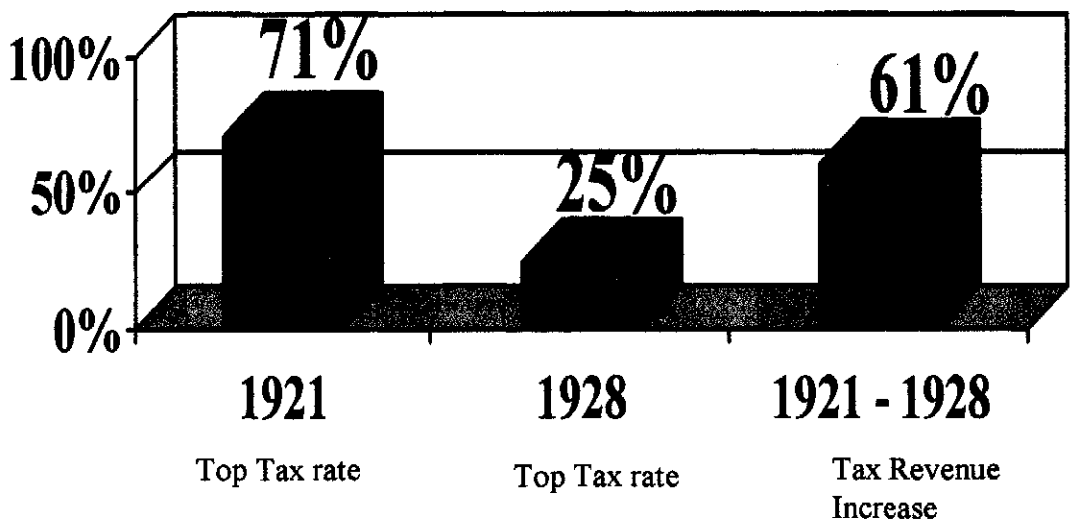
Source: For Good and Evil – The Impact of Taxes on the Course of Civilization – Charles Adams.

Fig. 1

HB 760 – Wage and Economic Acceleration Act – HB 717
Rep. Tom McGillvray, CFP; Rep. Bill Warden

Historical Income Tax Cuts and Result in Tax Revenue

Coolidge Tax Cuts 1921 -1928



Source: Heritage Foundation: The Historical Lesson of Lower Tax Rates, Daniel Mitchell, Ph.D

Fig. 2

HB 760 – Wage and Economic Acceleration Act – HB 717
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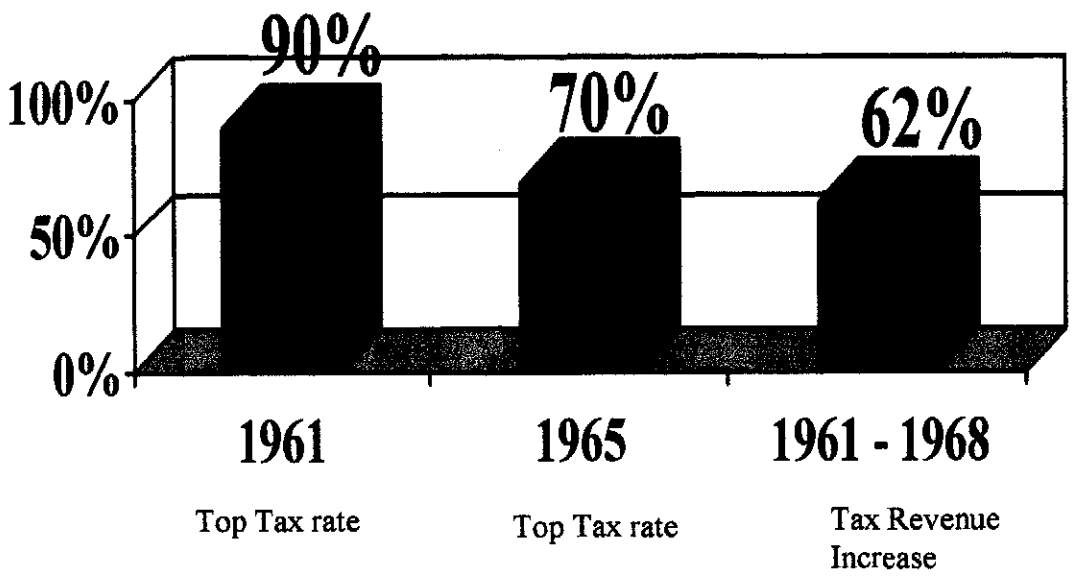
Historical Income Tax Cuts and Result in Tax Revenue

Kennedy Tax Cuts 1961 -1968



Source: Heritage Foundation: The Historical Lesson of Lower Tax Rates, Daniel Mitchell, Ph.D

Fig. 3

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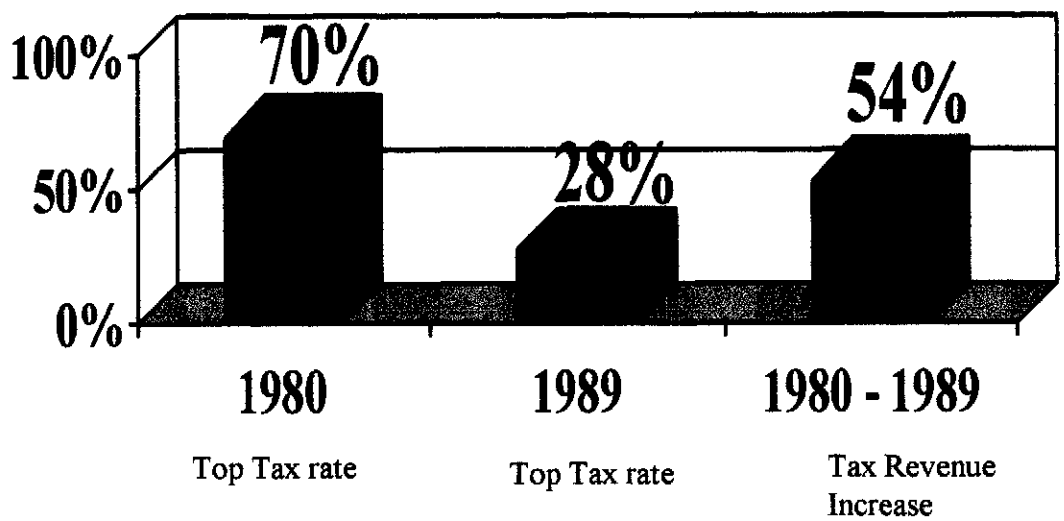
Historical Income Tax Cuts and Result in Tax Revenue

Regan Tax Cuts 1980 -1989



Source: Heritage Foundation: The Historical Lesson of Lower Tax Rates, Daniel Mitchell, Ph.D

Fig. 4

Business Tax climate: Top and Bottom Ten states

Rep. Tom McGillvray, CFP—Rep Bill Warden; HB 760 and 717

State Business Tax Climate Index for 2005 Top Ten:

1. South Dakota (no income tax and border state to Montana)
2. Florida (no individual income tax)
3. Alaska (no individual income tax)
4. Texas (no individual income tax)
5. New Hampshire (no individual income tax except on interest and dividends; no sales tax)
6. Nevada (no individual income tax)
7. Wyoming (no income tax and border state to Montana)
8. Colorado (low flat tax on income)
9. Washington (no individual income tax)
10. Oregon (progressive tax rates from 5% to 9%, selective sales tax, #6 in nation on fiscal balance index)

Note 10 worst business tax climates. All have 3 legged stool of taxation:

1. Hawaii (progressive income tax from 1.4% to 8.25%)
2. New York (progressive income tax from 4.4% to 7.7%)
3. Minnesota (progressive income tax from 5.35 to 7.85)
4. West Virginia (progressive income tax from 3.0-6.5%)
5. Rhode Island (Income tax is 25% of federal tax liability)
6. Vermont (progressive income tax from 3.6% to 9.5%)
7. Kentucky (progressive income tax from 2% to 6%)
8. Arkansas (progressive income tax from 1% to 7%)
9. Maine (progressive income tax from 2% to 8.5%)
10. Wisconsin (progressive income tax from 4.6% to 6.75%)

States with no individual or corporate income taxes have ranked consistently high in business friendly tax climates not just for 2004, but for the last 40 years. Based on a study by Dr. Richard Vedde at Ohio University in September 2001 on Taxes and Economic Growth the 10 states raising income taxes the least out grew states raising income taxes the most by 265% in real total income growth.

Government data shows that job relocation to other states is twice as common as outsourcing abroad. Dr. Vedde notes in his study, that from 1990-1999 over 2.8 million persons moved into no income tax states from the states that taxed the productive work of their citizens. "More persons fled to the no income tax havens than moved from East to West Germany during the cold war. One of the great migrations in human history occurred-and most Americans do not even know about it.

Fig. 5 Sources: Tax Foundation; State Business Tax Climate Index—October 2004; salestaxinstitute.com; taxadmin.org; Taxes and Economic Growth, Dr. Richard Vedder, Ohio State University, September 2001

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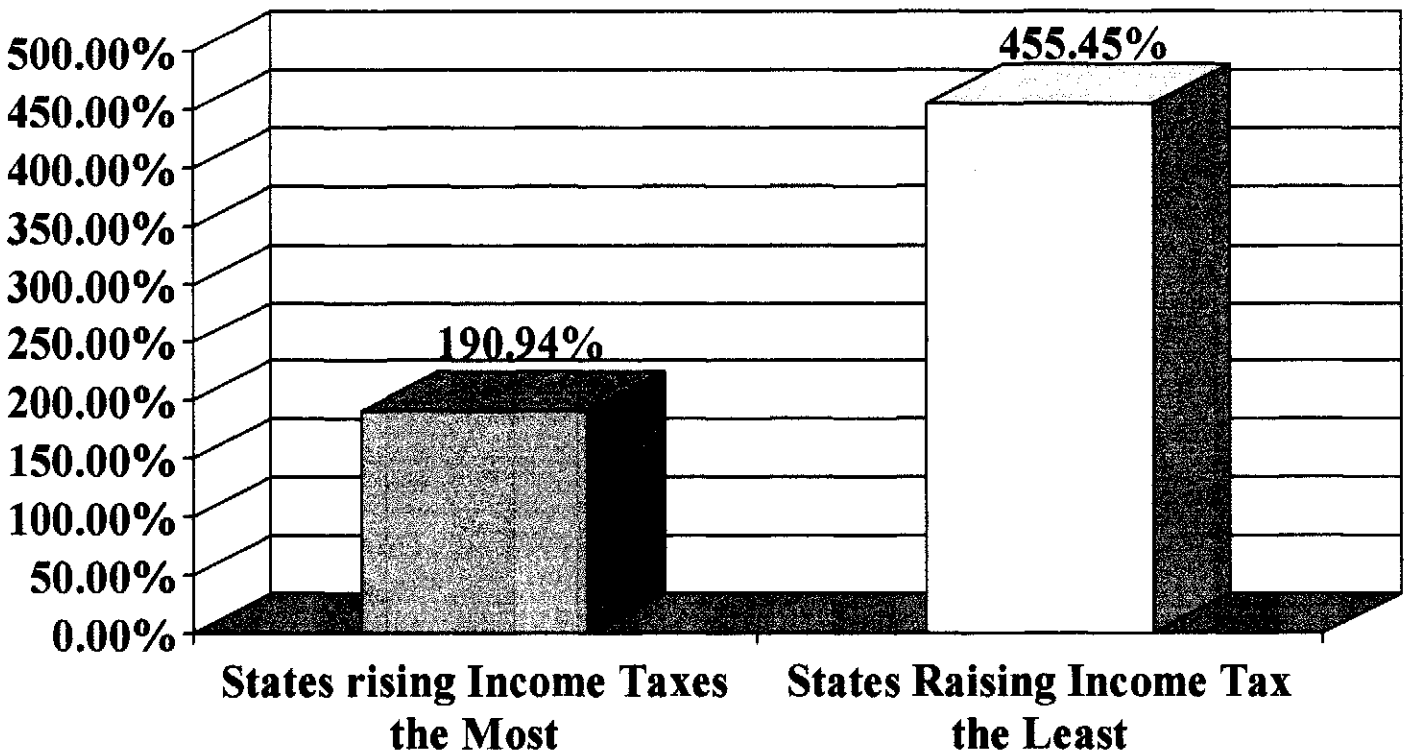
Real Total Income Growth



Economic performance:
10 states raising income taxes the most vs. states raising income taxes the least.
1957 – 1997.

Fig. 6 Source: US Department of Commerce; Dr. Richard Vedder, Taxes and Economic Growth, September 2001

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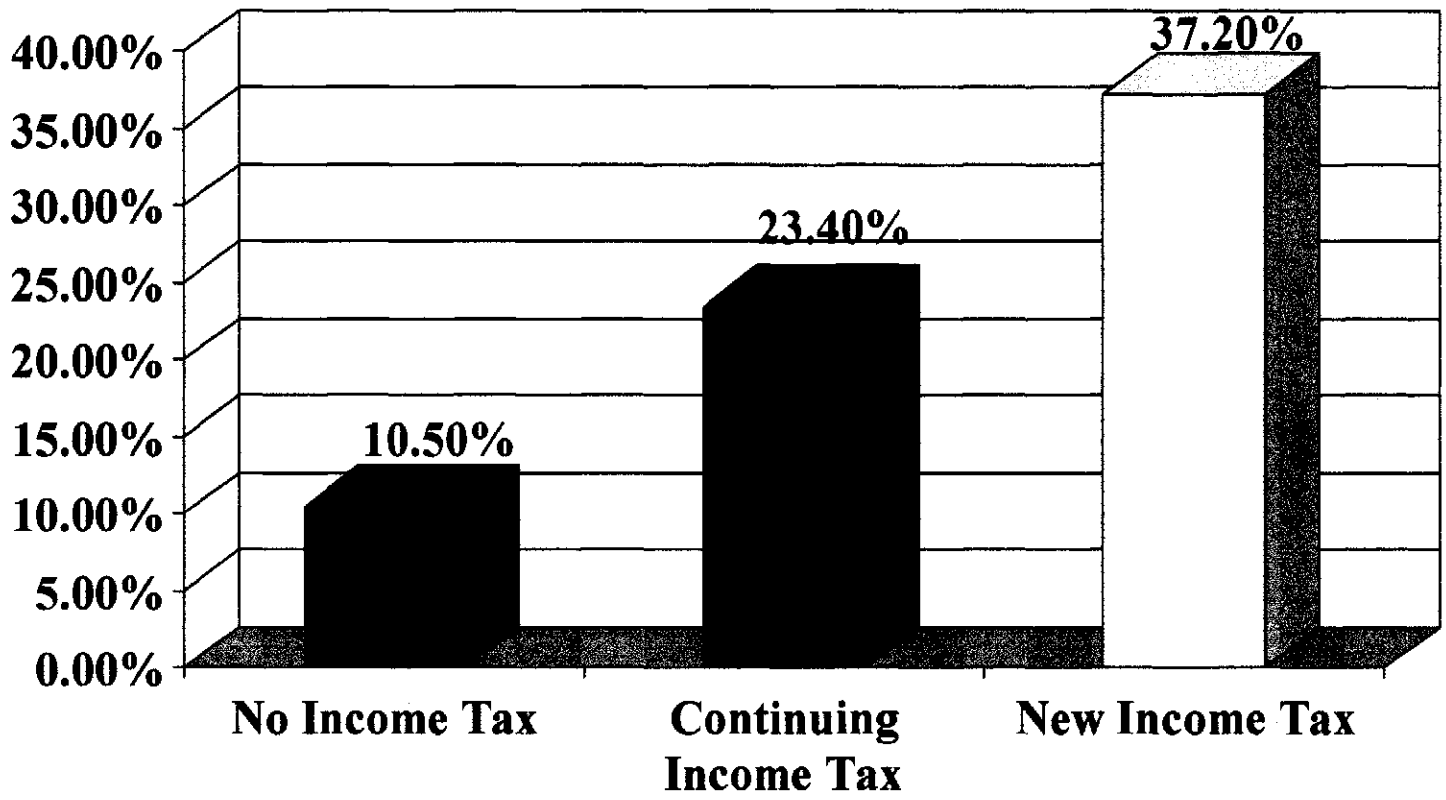
Percent Increase in Overall Tax Burden:

States with no income tax, continuing income tax and new income taxes. 1957 - 1997



Source: Us Department of Commerce: Dr. Richard Vedder, Taxes and Economic Growth, Sept. 2001

Fig. 7

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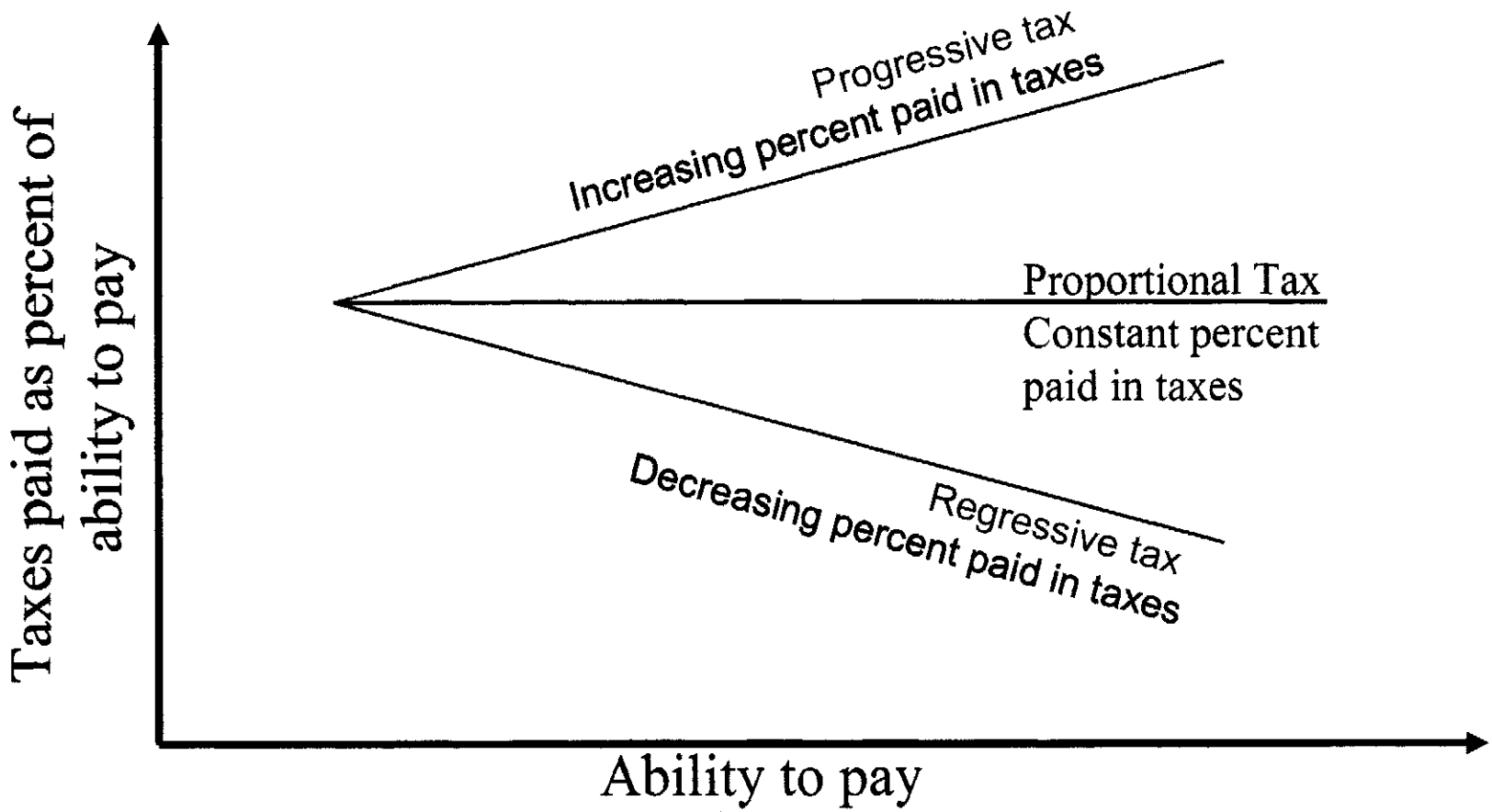
Visualizing Tax Terms



Source: Montana AgResearch, 1987: Are Retail Sales Taxes Regressive?, Frederick A. Judd IV, Bruce R. Beattie, Jeffrey T. LaFrance, and Douglas J. Young

Fig. 8

HB 760 – Wage and Economic Acceleration Act – HB 717
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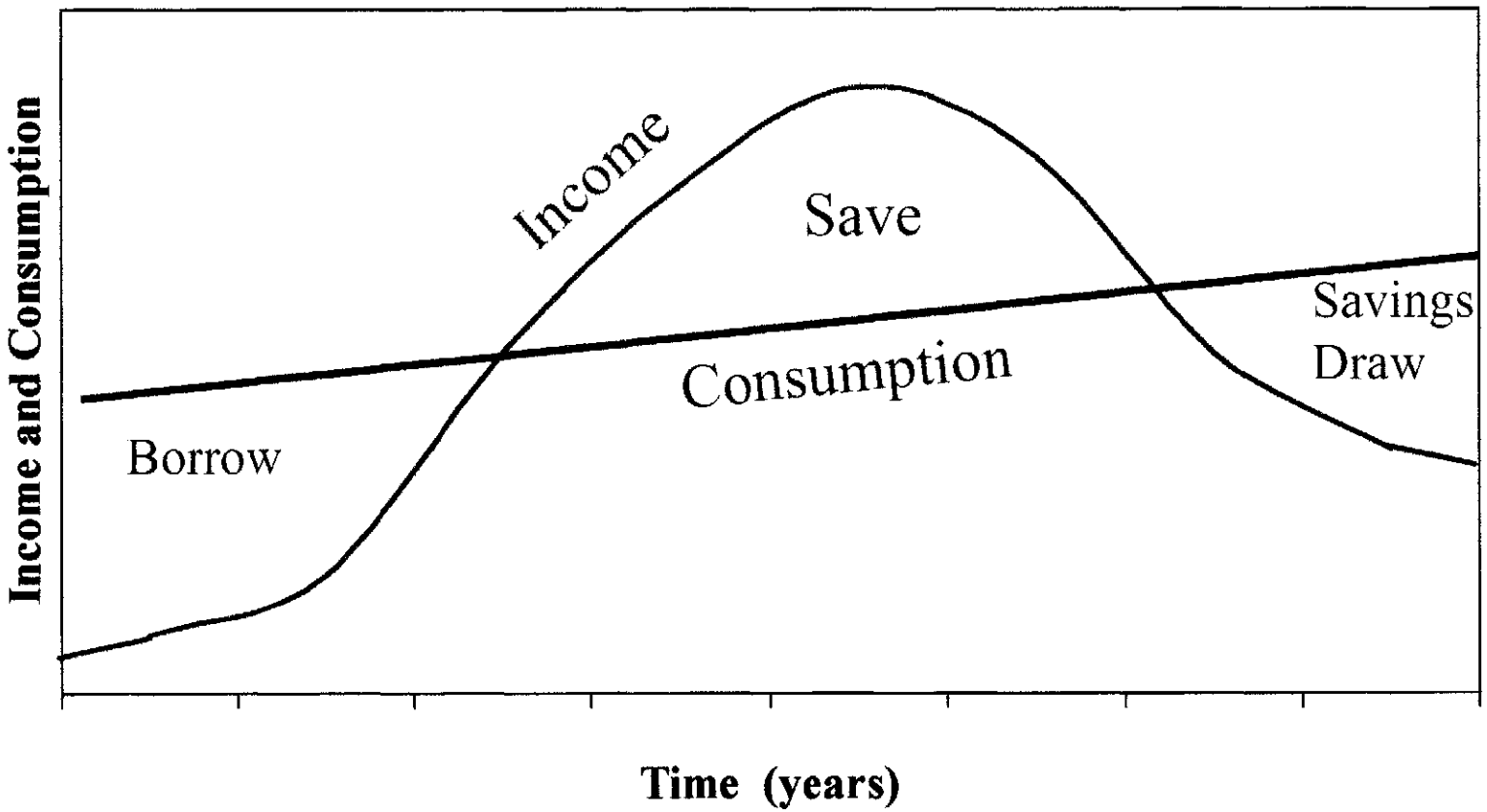
Hypothetical Consumption and Income – Typical Household over its Lifetime



Source: Montana AgResearch, 1987: Are Retail Sales Taxes Regressive?, Frederick A. Judd IV, Bruce R. Beattie, Jeffrey T. LaFrance, and Douglas J. Young

Fig. 9

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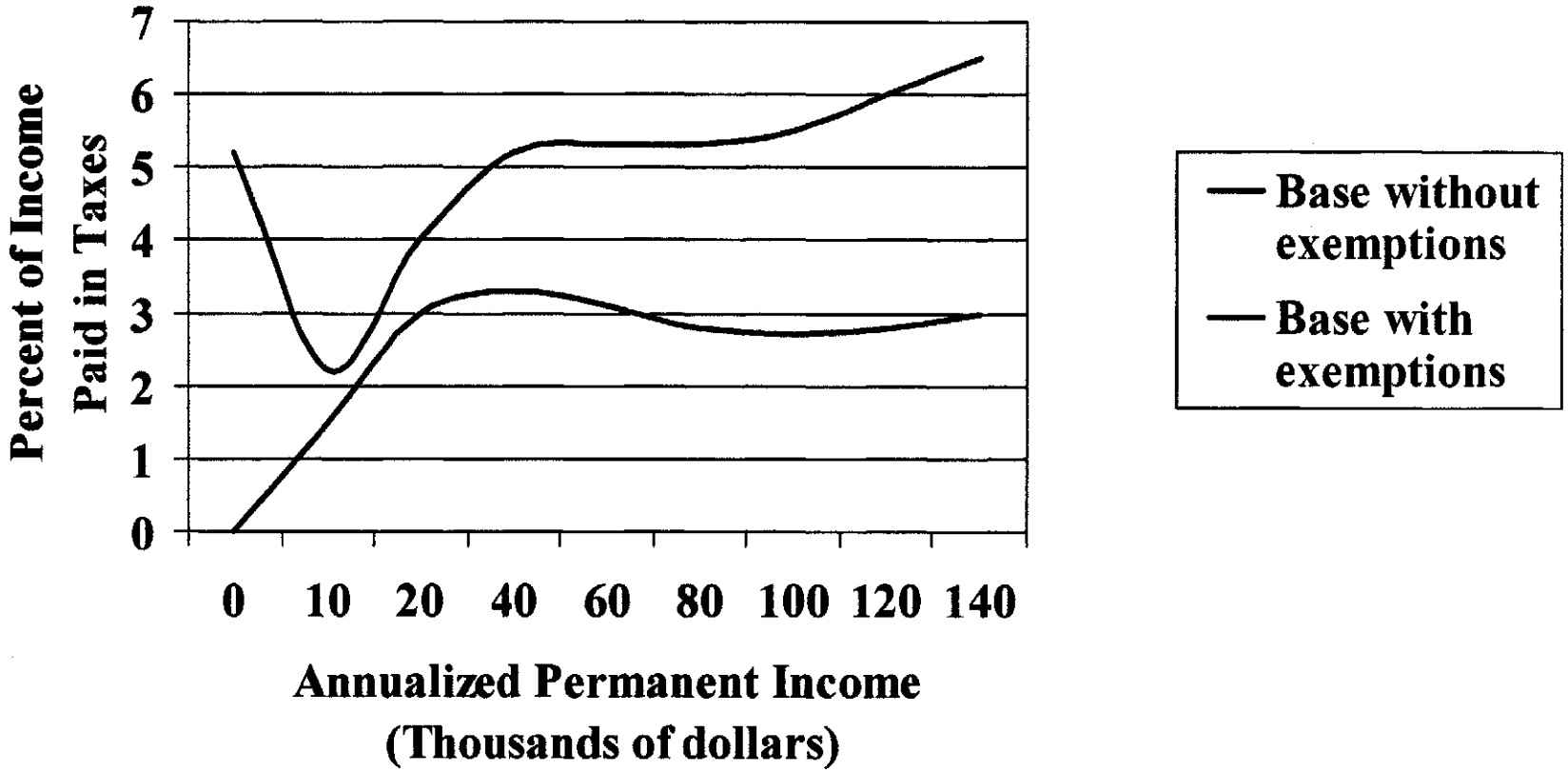
Sales Taxes Paid as a Percent of Annualized Permanent Income



Source: Montana AgResearch, 1987: Are Retail Sales Taxes Regressive?, Frederick A. Judd IV, Bruce R. Beattie, Jeffrey T. LaFrance, and Douglas J. Young

Fig. 10

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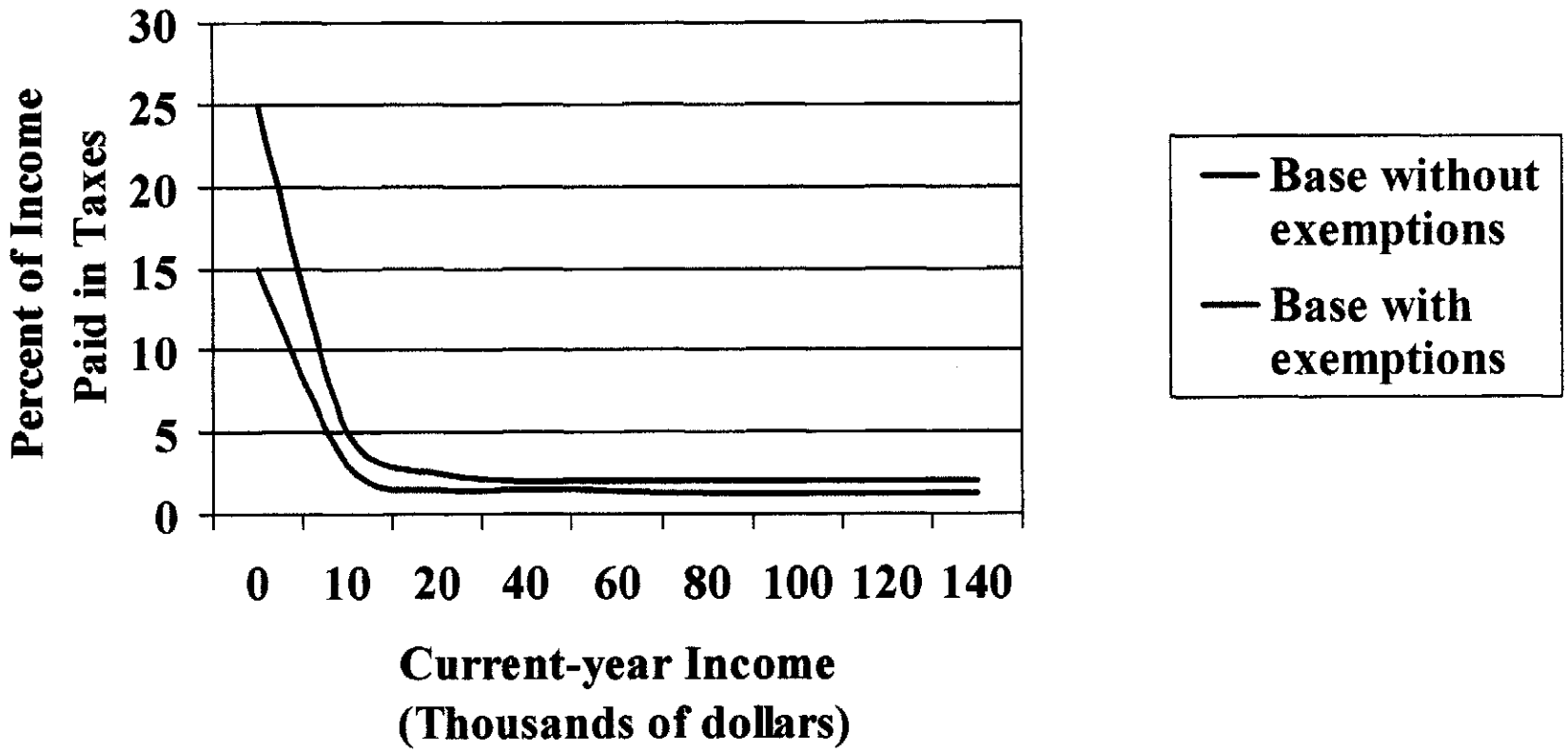
Sales Taxes Paid as a Percent of Current-Year Disposable Income



Source: Montana AgResearch, 1987: Are Retail Sales Taxes Regressive?, Frederick A. Judd IV, Bruce R. Beattie, Jeffrey T. LaFrance, and Douglas J. Young

Fig. 11

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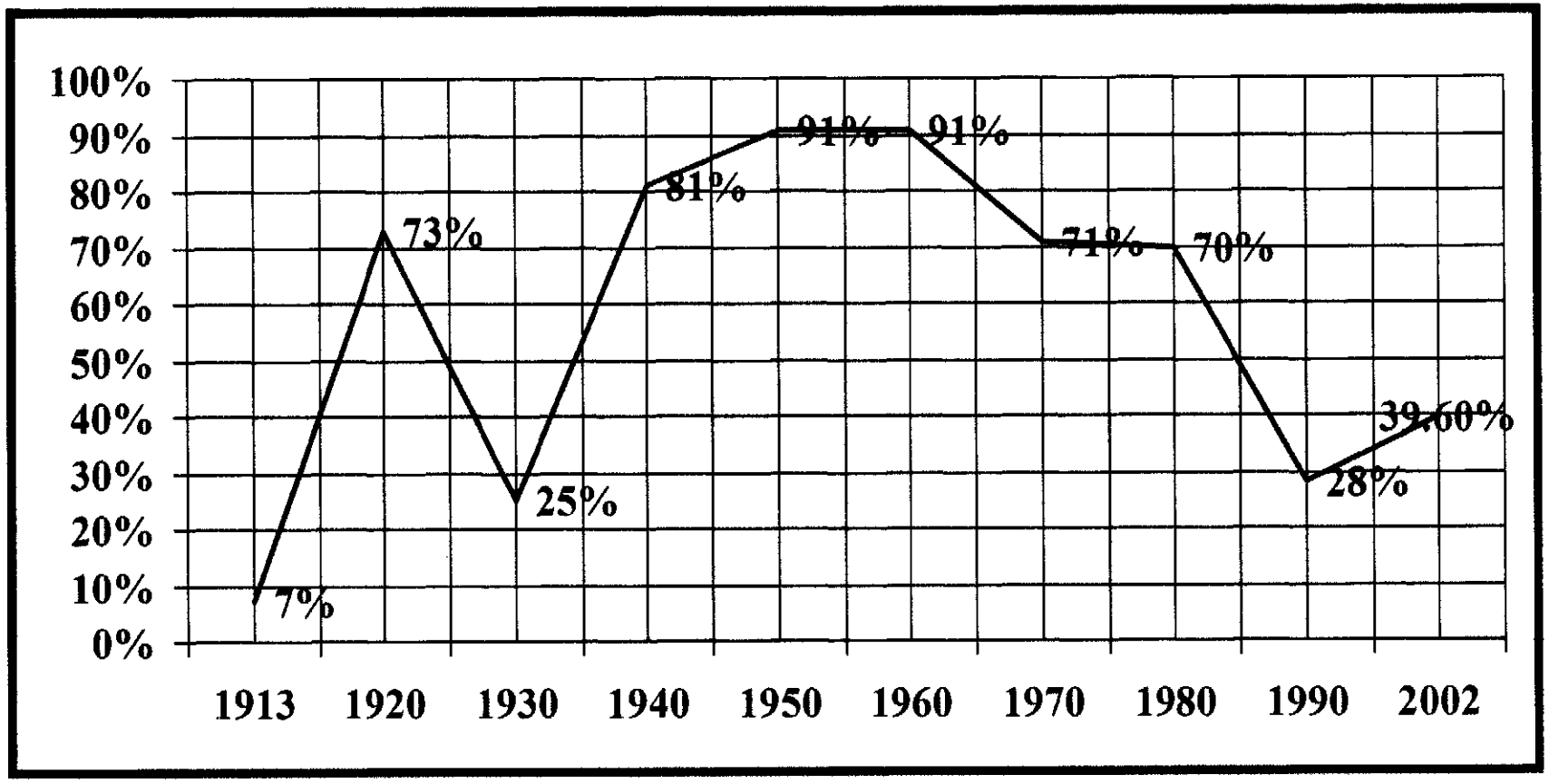
Historical Tax Rates 1913 - 2002



Source: www.winkle.com/wts/wts/histusrt.htm

Fig. 12