

EXHIBIT/ 12
DATE 4.13.05
SB 520

DON'T RAISE INCOME AND CAPITAL GAINS TAXES

I urge opposition to SB 520 which is being debated in the State House this week. It proposes raising the top state tax rate to 7% for taxable incomes over \$16,000 and 7.8% over \$24,000. It also proposes eliminating a 1% capital gains credit scheduled for 2007.

Before 2003, Montana had the highest income tax rate and capital gains rate in region. Those rates hurt economic development because they were an easy reason to locate businesses and jobs in other states. In 2003, the Governor and the Legislature made Montana competitive by providing for the reduction of those rates to 6.9% for income tax and 4.9% for capital gains (including a 2% credit). At the same time, Democratic Governor Bill Richardson of New Mexico passed a similar plan in his state for the same reasons. SB 520 will raise Montana's top tax rate to 7.8%, which will tie us with Idaho for the infamous distinction of again having the highest tax rate in the region.

In addition, raising taxes on capital gains by raising the income tax rates and eliminating 1% of the capital gains credit will penalize Montana farmers, ranchers, small business owners and retirees. Many such folks depend on the sale of their land, business or investments to fund their retirement. Raising taxes on the sale of those items will reduce what they keep from a lifetime of effort. In addition, testimony during hearings in 2003 showed that the capital gains tax is the tax that hits many businesses the hardest including the high-paying, clean technology companies that we could otherwise attract to our state.

Finally, providing a \$135 property tax reduction will not offset the income tax and capital gains tax increases for many Montanans. In 2003, we paid for making our income tax rates competitive in part by increasing taxes on nonresidents. In contrast, SB 520 shifts taxes to other Montanans. Specifically, it raises overall taxes on Montanans with taxable incomes in excess of about \$40,000 and those with lower incomes trying to sell their farm, ranch, small business, or investments, in order to provide a small tax reduction to others.

The intent of SB 520 to reduce property taxes is laudable, but let's not do it by hurting our economy, hurting those with land, businesses and investments, and hurting other Montanans.

Kurt Alme
Former Director, Montana Department of Revenue