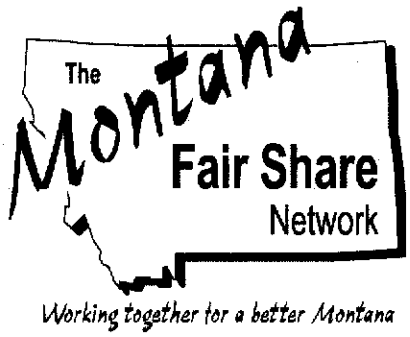
SENATE TAXATION
EXHIBIT NO. 8
DATE 1-26-05
BILL NO. SB 48



Fair Share Network Supports SB 48 That Maintains A Moderate Business Equipment Tax

Businesses are part of Montana communities and need to pay their fair share for the services they receive, including an educated workforce, infrastructure, law enforcement and other services and the environmental and cultural resources that make employees interested in living here. Since many large multi-state corporations are able to reduce their corporate tax, one of the main ways business pays its fair share is through the tax on business equipment. Business equipment is an important source of value in Montana communities and business equipment taxes are a form of property tax that supports local government services and other community programs.

SB 48 maintains a moderate 3% rate for business equipment. Eliminating this tax at a time when revenue increases are needed for health and human services and education does not make sense. Earlier rate reductions in this tax have not yielded the predicted economic stimulus. Phasing it out now continues the shifting of the tax burden on to individuals. The percentage of property tax receipts paid by individual residential and commercial property owners has gone from 28% in 1983 to almost 60% in 2003. (1)

Fair Share Revenue Evaluation Criteria Analysis of Maintaining a Business Equipment Tax

1. Is the revenue proposal fiscally responsible? Does it achieve a short-term benefit at the expense of a negative long-term impact? Does it adversely affect the state's fiscal position in 5-10 years? **Yes-maintaining a business equipment tax is fiscally responsible. It maintains a significant revenue stream in a time when revenue is needed to fund education and health and human services. The rate has been reduced in recent legislative sessions and that reduction has not produced the economic stimulus predicted by supporters.**

2. Does the revenue proposal help ensure that all of us are paying our fair share in order to create a healthy economy, state and community? Does it address the fair share goal that all community members, including businesses and individual citizens, are paying for programs and services that build community health, welfare and livability? **Yes, maintaining a business equipment tax keeps businesses, especially large multi-state corporations paying a fair share for Montana public services.**

3. Does the revenue proposal lessen inequalities? Does it avoid exacerbating income inequalities and burdening those with less resources or influence? For example, raising co-pays and user fees for low-income programs burdens the working poor instead of spreading the cost of providing essential services more broadly. Exempting small businesses, or assessing taxes on business receipts or equipment above a certain baseline, ensures that small local ventures can maintain their competitiveness. **Fair Share Network recommends incorporating exclusions for small businesses, e.g. up to $50,000, and progressive rates, e.g. 3% on the first $10 million and 6% on valuation above $10 million. This type of tax break helps smaller local ventures be competitive.**

4. Does the revenue proposal simply shift the tax burden from one group to another? Does it give breaks to one group and increase costs to another group? For example, shifting the costs of education from the state general fund to local property taxes shifted the burden to local residential and commercial property owners. **No, maintaining the business equipment tax is an important way to not shift the tax burden for public services from businesses to individual community members.**

5. Does the revenue proposal help ensure a balanced revenue approach so the state doesn't over rely on growth in one part of the economy but draws revenue from the range of economic activity within the state? For example, cutting other taxes while relying on capital gains taxes during the market climb in the 90's caused a steep decline in state revenues when the stock market plunged. **Yes, maintaining a business equipment tax continues a more balanced revenue approach. Without this business equipment tax, the property tax burden to pay for local services is shifted even further onto individual property owners.**

(1) Doug Young, MSU, at Montana Taxpayers Association meeting, 12/04

-Judy Smith, WORD/ Fair Share Network, 543-3550, 1/25/05