The Montana Fair Share Network

Working together for a better Montana

SENATE TAXATION
EXHIBIT NO. 5
DATE 2-15-05
BILL NO. SB 272

Fair Share Network Supports SB 272, a Graduated Gross Receipts Tax on Retail Sales Above $20 Million, with Thresholds of Compensation and Percentage of Full Time Employees as Part of a Balanced Revenue Package

Large retail 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.

Many large multi-state corporations are able to reduce their corporate tax and large discount, high volume retail establishments do not pay significant amounts of business equipment tax, which is one of the main ways business pays its fair share for public services. These corporations do not invest their profits in Montana and often do not maintain significant deposits in local banks. A graduated gross receipts tax, with moderate rates and exemptions for the first $20 million in sales, would allow multi-state "big box" stores to pay their fair share and would provide significant revenue to restore human service programs that were cut in the last legislative sessions.

If the business decision is made by management to pass the gross receipts tax on in prices to customers, rather than lowering CEO salaries or profit margins, local businesses will be more competitive in the local market.

By exempting those retailers who pay $22,000 or more a year for entry level jobs or have fewer than 25% employees working less than 40 hours a week, SB 272 acknowledges employers that invest in their employees. and do not rely on public assistance programs to make up for their low-wage jobs.

Fair Share Revenue Evaluation Criteria Analysis of Establishing a Graduated Gross Receipts Tax on Retail Sales Above $20 Million

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-a graduated gross receipts tax on large volume retail sales is fiscally responsible. It generates a new and significant revenue stream to restore human service cuts. The rates of 1% on sales above $20 million, 1.5% above $30 million and 2% above $40 million are moderate levels. Most Montana owned businesses are exempt from this tax, and those with over $20 million in sales have the resources to pay. This tax does not negatively impact other revenue sources and the businesses involved are currently expanding in Montana. There is no reason to project that revenue in these businesses will decline over the next 5 –10 years.**

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, currently large multi- state, high volume retail stores are not paying significant business equipment taxes nor investing their profits in Montana. This graduated gross receipts tax lets them pay their 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. **Yes, SB 332 excludes the first $20 million in retail sales and assesses graduated rates, 1% on $20 million to $30 million, 1.5% on $30 to $40 million and 2% on sales above $40 million. This type of tax break helps small local ventures be competitive. By exempting retailers that pay $22,000 per year for entry-level jobs and have fewer than 25% of their employees working less than 40 hrs per week, SB 272 supports employers that do not rely on public assistance programs to offset their low wages.**

   Those with fewer resources would be impacted if the tax is passed on in prices to customers. Other decisions can be made by management to stay competitive including cuts in CEO salaries and profit margins. If sub market pricing is abandoned by these establishments, smaller local businesses, which do invest in the Montana economy and often offer better wages and benefits, can become competitive again. On the balance, this type of tax can go into a Fair Share package that targets the revenue raised to health and human service programs that benefit those with fewer resources.

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, a graduated gross receipts tax on retail sales above $20 million is a new tax on large businesses that do not pay significant business equipment tax and 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, a graduated gross receipts tax on retail sales above $20 million, which taps an expanding sector of the economy that is not now paying significant business equipment tax, promotes a more balanced approach, providing exemptions and graduated rates encourages smaller local businesses.**

-Judy Smith, WORD/ Fair Share Network, 543-3550, 2/07/05