

MINUTES

**MONTANA SENATE
56th LEGISLATURE - REGULAR SESSION**

COMMITTEE ON TAXATION

SUBCOMMITTEE ON SALES TAX

Call to Order: By **CHAIRMAN BOB DEPRATU**, on March 2, 1999 at 10:20 A.M., in Room 413/415 Capitol.

ROLL CALL

Members Present:

Sen. Bob DePratu, Chairman (R)
Sen. Bill Glaser (R)
Sen. Barry "Spook" Stang (D)

Members Excused: None

Members Absent: None

Staff Present: Sandy Barnes, Committee Secretary
Lee Heiman, Legislative Branch

Others Present: Sen. John Bohlinger
Sen. Alvin Ellis Jr.
Sen. J. D. Lynch
Terry Johnson, Legislative Fiscal Division
Gordon Morris, Montana Association of Counties
Judy Paynter, Department of Revenue
Jeff Miller, Department of Revenue
Jerry Leonard, Department of Revenue

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

Committee Business Summary:

Bills Discussed: SB 135, SB 143, SB 157

DISCUSSION ON SB 143

Mr. Morris distributed three handouts, Carbon County Analysis - Sprague Proposal, **EXHIBIT (tas47b01)**, Flathead County Analysis - Sprague Proposal, **EXHIBIT (tas47b02)**, and Yellowstone County

Analysis - Sprague Proposal, **EXHIBIT (tas47b03)**, for the committee's perusal.

Mr. Heiman provided copies of the amendments he had drafted for **SB 143, EXHIBIT (tas47b04)**. He explained that amendment No. 1 clarifies that sales made by auction are not occasional sales. Amendments 2, 3 and 4 insert pesticides into that list. Amendments 5 and 6 clarifies that an item being manufactured is allowed multiple value added steps without being taxed, as long as it is ultimately intended to be sold at retail. Amendments 7 and 8 to provide that people coming to a local event are notified by the sponsor, but the sponsor is not responsible for taxing. Amendment 9 changes the date of payment from the 15th day of the month to the last day of the month. Amendment 10 allows for consolidated returns for multiple locations. A business can still have separate returns, but this allows for consolidated returns. Amendments 11 through 14 are the amendments that make a successor business owner not liable for all the taxes due by his predecessor. The amendment say that when a person acquires a new business, the taxes that are due in that reporting period have to be apportioned and paid, but the previous owner's unpaid taxes are not the responsibility of the new owner.

Mr. Miller, Department of Revenue, reported that the Department is working on amendments to deal with the administrative issues that had been discussed. He provided information on the cost of a soda pop and candy exemption, **EXHIBIT (tas47b05)**. He said the first paragraph shows the projections of sales of these items, and the reduction which results if those are exempted. The second paragraph confirms these figures are correct by comparing them to national figures.

Mr. Miller then provided **EXHIBIT (tas47b06)**, and walked through the explanations of how neighboring states handle transient vendors/flea markets/bazaars; whether bonding is required; and how taxes on leased vehicles are handled.

Mr. Miller also provided the executive summary of a study done by the Washington State Department of Revenue regarding retailers' cost of collecting and remitting sales tax, **EXHIBIT (tas47b07)**, and referred the committee to the table on page 4, pointing out that the cost varies by the size of the business, but for purposes of estimating total fiscal impact, the third paragraph recommends that the total cost is 1.42% when weighted by dollar amount, and that this estimate is best used for any kind of fiscal analysis.

SEN. LYNCH asked if the Department could estimate the total amount necessary for collecting and administrative costs, and **Mr.**

Miller said he believes it is in the range of \$7 million for the biennium, \$2 million in the start-up stage and \$5 million on an ongoing basis.

SEN. ELLIS asked if the Department had information on the impacts of **SB 143** and **SB 157**. **Ms. Paynter** provided a sheet entitled "Combined Impact of **SB 143** and **SB 157** - All Funds, Preliminary Analysis for Senate Sales Tax Subcommittee," **EXHIBIT (tas47b08)**.

DISCUSSION ON SB 157

SEN. DEPRATU explained that **SB 157** is the bill which provides for significant property tax relief to homeowners, renters, commercial property owners, and other property taxpayers.

Mr. Morris told the committee that from a local government perspective, **SB 157** is, apart from the sales tax itself, the most significant change proposed in the entire package. The assumption is that all property would be taxed uniformly, consistently and, without exception, similarly. Everything is being taxed at 100% of market value, getting rid of all the classes that we have presently and all of the ratios.

Mr. Morris directed the committee to Section 174, page 145, of **SB 157**, which says that any change can only come as a result of a vote of the people relative to property taxes. He also pointed out that Section 41 limits any subsequent tax increase to 2% in any one year.

Title, no changes.

Section 1, Classification of counties:

SEN. GLASER said he noticed that the bill changes the ratios of classifications and he wondered why. **SEN. ELLIS** said that the reason is because the valuation is being changed from 3.814% to 100%, so you divide by 3.81% to get the new valuation. **SEN. GLASER** pointed out, however, that change is not consistent throughout the process. **Mr. Morris** said this is a section that deals specifically with county classification and it relates specifically to the current taxable value, so under this bill you eliminate all of the current ratios, everything goes to 100%. He said currently one mill statewide is worth approximately \$2.1 million. Under this approach, one mill would be worth approximately \$26.5 million. He said he had done an analysis considering the current class, based upon the numbers being struck, did not move any county but just simply reassigned the dollar values consistent with where they are at right now and

what we are assuming is going to happen. **SEN. STANG** said he wondered why that percentage was not applied equally throughout. **SEN. GLASER** said that the fact that the various classes of property and the amounts of the various classes of property are not evenly distributed across the state, and when they did the analysis, this is what they came up with in order to keep those same counties in the same class. **Mr. Morris** provided a copy of his analysis, "County Classification Taxable Value," **EXHIBIT (tas47b09)**.

SEN. ELLIS asked **Mr. Morris** why Fallon County figures looked almost inaccurate. **Mr. Morris** said that one thing you are not looking at here is to add back the value associated with oil production and other changes that are being eliminated from the law. If you look at all of the sections on page 3 that are being eliminated, in particular the portion of value attributable to net and gross proceeds under 15-35-324, they've lost that, and currently, by classification, they are added back in. He said that this is restarting, as it were, and Fallon and Big Horn County would be affected.

SEN. STANG replied that there are more than two counties that are going to be in a different class than they are presently, and **Mr. Heiman** said he could get the committee a list of every section that refers to this section so that they could see what the ramifications are. **SEN. DEPRATU** asked him to do that.

Section 2, Authorization to incur indebtedness -- limitation:

Mr. Morris said that the next 15 to 20 sections all deal with a ratchet tied to the taxable value assumptions, and all of these sections were mechanically calculated based upon the value being at \$27 million versus being at \$2 million. He said the percentages have been ratcheted accordingly. **SEN. GLASER** asked **Terry Johnson** if LFA had looked at these percentages, and he said they had not. **SEN. DEPRATU** asked if **Mr. Johnson** would do that.

Sections 3 through 29:

SEN. DEPRATU asked staff to review Sections 1 through 30 with regard to assuring that local governments will not be affected adversely. **Mr. Johnson** said he would go through and verify the calculations.

Mr. Morris provided an updated Adjusted Market Value, which has the most recent figures they had when doing their calculations. He said this list breaks out where they are currently and where they would be under the bill, **EXHIBIT (tas47b10)**. **SEN. DEPRATU**

asked what a reasonable percentage of affecting local governments in these various capacities that had been discussed would be. He said he didn't feel a zero affect was reasonable, but wondered what an acceptable affect is. **SEN. GLASER** said that perhaps **Mr. Johnson's** analysis would help clarify that question also.

SEN. ELLIS asked if any counties had any indebtedness that these changes could jeopardize, and **Mr. Morris** said that current debt obligations would have to be grandfathered and future debt could only be incurred tied to the percentages that are being offered. He said he felt that there is no county which will not get as much money as they were getting before.

The committee agreed to review these sections when they have additional information.

Section 30, Definitions:

Mr. Morris referred the committee to page 17, lines 22 through 27, where the purpose is to clearly identify what would currently be assumed to be personal property that is affixed to real as real property. That would mean pipeline property, in the ground and under the ground, would in fact be treated as real property under this approach. **SEN. STANG** asked, then, if the intent was to make sure that these items were not eliminated from personal property tax, which they could be, with the bill before us if the definition were not changed.

Section 31, 32 and 33, no changes.

Section 34, Exempt categories:

SEN. ELLIS asked why, on page 23, lines 1 through 7, those items are being exempted from exemptions, and **Mr. Morris** explained that they are exempted elsewhere. **SEN. STANG** asked whether the name of personal property to business equipment was changed about four years ago, and **Mr. Heiman** said that in 15-6-122, it does specifically call it business personal property, but it is not reflected that way in the class itself.

Ms. Paynter read an observation that Department staff had made regarding page 24, lines 5 and 6, "Since title plants are typically personal property, this section of statute should probably be deleted because it would have been deleted elsewhere." **Mr. Morris** agreed that that would be the intent, in which case we would need an amendment for this. **Mr. Heiman** said he would check and report back to the committee.

Section 35, Agricultural exemptions:

SEN. ELLIS asked if livestock is totally exempted, how the Department of Livestock would be funded, and **Mr. Morris** explained that the head tax is left in later in the bill.

Ms. Paynter said that Department of Revenue staff had commented on this section, "The language in this section makes it clear that all ages of livestock and swine and all sugar beet equipment is exempt from taxation. Since the classes of property that have historically contained this property have been repealed, is there a need to have this statute? Possibly it should be repealed as well." **Mr. Heiman** said he would check on that also.

Section 36, 37 and 38, Homestead exemption:

SEN. ELLIS asked why owner-occupied property should receive an exemption and not renter-occupied property, and **Mr. Morris** said that there will be a drop in property taxes, and it was felt that would in effect be passed on to renters in the amount of rents charged. He said there is no renter credit in this bill.

SEN. STANG said that the Interim Property Tax Committee decided that owner-occupied properties should get a tax break. The committee agreed to do some checking and come back to these sections.

SEN. STANG asked how this compares to **SB 108**, and **Ms. Paynter** said that in that bill there is no residency requirement for the homestead exemption. **SEN. STANG** said that probably all three of these sections will be subject to change.

Mr. Morris provided an amendment on Section 37, page 26, line 8, **EXHIBIT (tas47b11)**.

Section 39, Notice of classification and appraisal to owners -- appeals:

SEN. STANG suggested that if changes are made to Sections 36, 37 and 38, then probably there would be a subsequent change to Section 39, but that, at this point in time, agrees with the rest of it. **SEN. GLASER** agreed and said that he had them all marked for review.

SEN. STANG asked whether the language concerning the Tax Appeal Board would have some coordinating language to change the dates, and **Mr. Heiman** said that it would either be coordinated or the

change would be automatic. If both bills pass, the dates will automatically be combined and coordinated.

Section 40, Classification and appraisal -- general and uniform methods:

SEN. DEPRATU asked about the classification and appraisal of timber land that might cause a spike, and **Mr. Morris** said that the spike he was referring to came out of **SB 135**, and that language will need to be struck.

ADJOURNMENT

Adjournment: 12:00 P.M.

SEN. BOB DEPRATU, Chairman

SANDY BARNES, Secretary

GD/SB

EXHIBIT (tas47bad)