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HJ 35 TAX STUDY

67th Montana Legislature

| SENATE MEMBERS | HOUSE MEMBERS | COMMITTEE STAFF | PUBLIC MEMBERS |
|----------------|----------------|------------------|----------------|
| Duane Ankney | Becky Beard | Jaret Coles - | Rose Bender |
| Dick Barrett | Zach Brown | Attorney | Eric Bryson |
| Mark Blasdel | John Fuller | Megan Moore - | Tim Burton |
| Jill Cohenour | Jim Hamilton | Research Analyst | Dwaine Iverson |
| Brian Hoven | Marilyn Marler | Laura Sherley - | Bob Story |
| Susan Webber | Alan Redfield | Secretary | Doug Young |

MINUTES LOG

May 13, 2020
8:35 AM

Via Zoom Video Conference

Please note: This document is a Minutes Log and provides annotation of the time elapsed between the beginning of the meeting and the time at which the item was presented or discussed, a motion was made, or a vote was taken. The narrative presented here is provided only as a guide to the audio or video recording of the meeting. The official discussion, motion, or vote is available on the audio or video archive of this meeting. The Legislature does not prepare a transcript of the meeting activities. The time designation may be used to locate the referenced discussion on the audio or video recording of this meeting.

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ROLL CALL

Members Present:

Rep. Alan Redfield, Chair (R)
Sen. Dick Barrett, Vice Chair (D)
Sen. Duane Ankney (R)
Rep. Becky Beard (R)
Rose Bender, Public Member
Sen. Mark Blasdel (R)
Rep. Zach Brown (D)
Eric Bryson, Public Member
Tim Burton, Public Member
Sen. Jill Cohenour (D)
Rep. John Fuller (R)
Rep. Jim Hamilton (D)

Sen. Brian Hoven (R)
Dwayne Iverson, Public Member
Rep. Marilyn Marler (D)
Bob Story, Public Member
Sen. Susan Webber (D)
Doug Young, Public Member

Staff Present:

Jaret Coles, Attorney
Megan Moore, Research Analyst
Karen Gilbert, Secretary

Agenda ([Attachment 1](#))

Committee Action

- The committee requested bill drafts on the following topics for review at the next meeting:
 - amend 15-10-420 to change the inflation factor used to determine the maximum mill levy from one-half of the rate of inflation over the previous 3 years to the full rate of inflation over the same period;
 - provide for a property tax circuit breaker program (with options for committee to select different levels of relief);
 - direct individual income tax collections that exceed prior year collections plus inflation to a local infrastructure account; and
 - revise the calculation of the capital gains tax credit.

Call to order and roll call

08:36:31 Rep. Redfield called the meeting to order at 8:36 a.m. The secretary took roll. Rep. Brown had to leave the meeting early and left his proxy with Sen. Barrett. ([Attachment 2](#))

PROPERTY TAX FOLLOWUP FROM JANUARY MEETING

Overview of local government taxing authority and special districts

08:38:03 Megan Moore, Legislative Services Division, gave her presentation.
([Exhibit 1](#))

08:43:03 Tony Henneman, Legislative Services Division, gave her update.
([Exhibit 2](#))

08:49:13 Mr. Bryson commented on the report and asked for clarification.

Update on local government data collection project

08:51:04 Darryl James, Montana Infrastructure Coalition, gave his presentation.

09:00:33 Rep. Hamilton asked a question about data.

09:01:13 Mr. James responded.

09:02:51 Rep. Hamilton asked about local revenues.

09:03:38 Mr. Story commented on Mr. James' report.

09:07:23 Mr. James commented on annual financial reports filed by cities and counties.

09:08:47 Sen. Barrett discussed revenue and property taxes in Missoula County.

09:11:21 Mr. James responded.

09:12:16 Mr. Burton commented that the research was valuable.

09:16:46 Mr. Bryson said local governments need to provide reports in a usable format.

09:17:53 Mr. Story said a useful discussion would be who should be aggregating the data.

09:19:34 Sen. Cohenour made a motion to work with the Local Government interim committee and decide who should take the lead.

09:20:53 Rep. Hamilton added that the Legislative Finance Committee HB 715 study also involves local government issues and should be included as well.

09:21:34 Mr. Young said he supported the effort and said available data is hard to interpret.

09:24:36 Ms. Moore said it made sense for Local Government to take the lead.

09:25:13 Ms. Henneman responded.

09:25:59 Sen. Barrett asked Ms. Moore about the motion.

09:26:25 Ms. Moore said a subcommittee can make a recommendation to the full committee. She suggested the motion might be unnecessary due to work in progress.

09:27:36 Sen. Barrett asked about the work plan.

09:27:55 Ms. Moore responded.

09:28:49 Sen. Barrett said if Local Government is already working on this issue, it may be better for them to handle it.

09:30:25 Sen. Hoven said he agreed with Sen. Barrett. He asked Mr. James about the long-term objective regarding data.

09:31:44 Mr. James responded.

09:34:18 Sen. Hoven asked if the state could treat counties and cities individually.

09:34:37 Mr. James responded.

09:35:59 Mr. Iverson said they were trying to compare data that was not comparable.

09:36:38 Mr. James responded.

09:37:19 Mr. Story discussed the mixture of property in the tax base.

09:39:24 Sen. Cohenour rescinded her motion and asked for an update on what other committees are doing.

Valuation of large residential properties and commercial properties

09:39:51 Kory Hofland, Department of Revenue, presented his report.
09:50:02 Sen. Barrett asked about Mr. Hofland's spreadsheet.
09:51:42 Mr. Hofland responded.
09:53:36 Rep. Brown asked a question about Montana code.
09:54:55 Mr. Coles responded and referred to a legal memo.
09:56:34 Bonnie Hamilton, Department of Revenue, presented her report.
10:06:35 Sen. Hoven commented that what happened during the last several years was that commodity prices were high and then plummeted.
10:08:40 Rep. Hamilton asked Ms. Hamilton a question about capitalization rate.
10:08:56 Ms. Hamilton responded.
10:09:25 Mr. Story discussed capitalization rate.

Public comment

10:12:55 Bridger Mahlum, Montana Chamber of Commerce

Individual Income Tax

10:16:59 Ms. Moore gave her presentation. ([Exhibit 3](#))

Types of capital gains and revenue collections

10:25:59 Aaron McNay, Department of Revenue, gave his presentation. ([Exhibit 4](#))
10:31:54 Rep. Hamilton asked questions about Mr. McMAY's report.
10:32:28 Mr. McNay responded.
10:36:21 Sen. Barrett asked about capital gains in the report.
10:36:45 Mr. McNay responded.
10:37:19 Sen. Barrett asked for additional clarification.
10:37:35 Mr. Iverson responded.
10:38:12 Mr. Story discussed capital gains.
10:39:31 Ms. Bender asked a question about capital gains.
10:39:54 Mr. McNay responded.
10:40:09 Rep. Hamilton responded to Ms. Bender's question.

Individual income tax reliance, volatility, and demographic implications

10:40:51 Sam Schaefer, Legislative Fiscal Division, presented his report. ([Exhibit 5](#))

10:53:50 Mr. Young asked about sales tax.

10:54:12 Mr. Schaefer responded.

10:54:46 Sen. Barrett commented on income tax.

10:56:02 Mr. Schaefer responded.

10:56:25 Ms. Bender commented on volatility.

10:57:16 Mr. Schaefer responded.

10:57:44 Mr. Story discussed sales tax.

10:59:10 Mr. Schaefer responded.

10:59:37 Mr. Young commented on demographics and taxable income.

11:00:34 Ms. Bender asked about income taxes.

11:00:56 Mr. Schaefer responded.

11:01:14 Ms. Bender redirected the question to Mr. McNay.

11:01:23 Mr. McNay responded.

11:02:03 Mr. Iverson commented on taxable income.

11:02:47 Mr. Story said expenses paid with Paycheck Protection Program money will not be deductible and asked Mr. Schaefer about corporate income tax.

11:03:49 Mr. Schaefer responded.

11:06:24 Mr. Bryson asked about federal guidance on the paycheck protection plan.

11:07:34 Mr. Coles responded.

11:09:24 Mr. Bryson asked for clarification.

11:10:07 Mr. Coles responded.

CORPORATE INCOME TAX

Understanding the corporate income tax

11:11:35 Ms. Moore gave her presentation. ([Exhibit 6](#))

11:17:14 Mr. Story commented on apportionment.

11:18:00 Ms. Moore responded.

11:18:14 Mr. Story asked about other states and sales factors.

11:18:41 Ms. Moore responded.

Effects of state and federal law changes on corporate income tax revenue

11:19:59 Finn McMichael, Department of Revenue, gave his presentation.

[\(Exhibit 7\)](#)

11:29:58 Ms. Bender asked about corporate income tax.
11:31:01 Mr. McMichael responded.
11:32:06 Mr. Story asked about the presentation.
11:33:31 Mr. McMichael responded.
11:35:16 Sen. Barrett asked for clarification of an industry.
11:35:44 Mr. McMichael responded.
11:38:12 Ms. Moore clarified the code.
11:38:51 Rep. Hamilton clarified the business category.
11:39:44 Mr. Iverson noted that on a tax return you can only use one code.

Public comment* on any other topic within the HJ 35 committee's jurisdiction

11:40:29 Mr. Iverson commented on income tax.

Committee Work Session

11:41:33 Ms. Moore asked the committee if there were additional topics to research.
11:42:51 Ms. Bender said she'd like to look further into corporate minimum tax and additional information on CARES Act.
11:43:53 Rep. Hamilton said they should look at capital gains tax credit.
11:45:19 Mr. Bryson proposed something similar on income taxes as the state has done on property taxes.
11:47:32 Mr. Iverson said Ohio and Oregon have adopted a gross tax on sales, and asked if something like that could work in Montana.
11:48:15 Mr. Young said sales tax option should be updated.
11:48:58 Rep. Redfield said they should look at taxing tips.
11:49:21 Mr. Burton said they should consider 15-10-420 and allow the authority to be similar to school districts.
11:50:40 Mr. Story said he would like to have a local option sales tax analysis.
11:53:11 Ms. Bender suggested getting a presentation regarding a sales tax model.
11:53:57 Sen. Barrett said if they are going to allow local governments to raise property taxes, they need to develop a form of tax relief.
11:56:03 Mr. Burton said the schools represent 60 percent and cities and counties represent 30 percent of property taxes.
11:56:58 Ms. Moore summarized the information requests.
11:59:05 Mr. Bryson said he'd be happy to help draft a bill.
11:59:22 Mr. Burton said he would help with the other bill draft.

11:59:38 Rep. Marler said she liked the idea of having that as a committee bill.

11:59:57 Ms. Moore clarified Sen. Barrett's request.

12:00:18 Sen. Barrett said presenting costs with parameters in the circuit-breaker formula, also how much tax relief would go to cities and counties with the use of a circuit-breaker.

12:02:40 Mr. Story commented on the circuit-breaker concept.

12:03:31 Sen. Barrett responded.

12:04:28 Mr. Story discussed minimum corporation tax.

12:04:56 Ms. Moore responded.

12:05:43 Sen. Cohenour asked about minimum corporation tax.

12:07:08 Ms. Moore asked if there were any requests related to natural resources.

12:07:29 Sen. Hoven said he liked Ms. Bender's suggestion.

12:08:20 Ms. Bender suggested they have another presentation by Mark Haggarty regarding natural resource taxes.

12:09:58 Ms. Moore confirmed meeting dates in July and September.

12:10:25 Sen. Cohenour suggested they try to have another meeting in August to discuss committee bills.

12:11:10 Sen. Barrett reminded the committee it is the Revenue Committee that makes decisions on committee bills.

ADJOURNMENT

12:12:17 Rep. Redfield adjourned the meeting.