



# HJ 35 Tax Study

## 66th Montana Legislature

### SENATE MEMBERS

DICK BARRETT - Vice Chair  
DUANE ANKNEY  
MARK BLASDEL  
JILL COHENOUR  
BRIAN HOVEN  
SUSAN WEBBER

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JOHN FULLER  
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ERIC BRYSON  
TIM BURTON  
DWAINE IVERSON  
BOB STORY  
DOUG YOUNG

### COMMITTEE STAFF

MEGAN MOORE, Lead Staff  
JARET COLES, Attorney  
LAURA SHERLEY, Secretary

## MINUTES LOG

September 24, 2019  
Room 317, Capitol Building  
Helena, Montana

Please note: This document is a Minutes Log and provides a notation 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 record 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 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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### **SUBCOMMITTEE MEMBERS PRESENT**

REP. ALAN REDFIELD, Chair  
SEN. DICK BARRETT, Vice Chair

SEN. DUANE ANKNEY  
SEN. MARK BLASDEL  
SEN. JILL COHENOUR  
SEN. BRIAN HOVEN

REP. BECKY BEARD  
REP. JOHN FULLER  
REP. JIM HAMILTON  
REP. MARILYN MARLER

ROSE BENDER, Montana Budget & Policy Center  
ERIC BRYSON, Montana Association of Counties  
TIM BURTON, Montana League of Cities & Towns  
DWAINE IVERSON, CPA  
BOB STORY, Montana TaxPayers Association  
DOUG YOUNG, Montana State University

**SUBCOMMITTEE MEMBERS EXCUSED**

SEN. SUSAN WEBBER  
REP. ZACH BROWN

**STAFF PRESENT**

MEGAN MOORE, Research Analyst  
JARET COLES, Staff Attorney  
LAURA SHERLEY, Secretary

**VISITORS' LIST** ([Attachment 1](#))

**AGENDA** ([Attachment 2](#))

**COMMITTEE ACTIONS**

With the appointment of public members to the HJ 35, the committee reviewed meeting dates and changed the next two meeting dates to November 18-19, 2019, and January 13, 2020.

**HJ 35 COMMITTEE CALL TO ORDER AND ROLL CALL**

09:33:26 Rep. Redfield called the meeting to order at 9:33 a.m. The secretary took roll ([Attachment 3](#)). Sen. Webber was excused and left her proxy with Sen. Barrett ([Attachment 4](#)). Rep. Brown was excused and left his proxy with Rep. Hamilton ([Attachment 5](#)).

**Introduction of Members**

09:34:41 Mr. Bryson  
09:35:03 Mr. Story  
09:35:28 Mr. Iverson  
09:35:40 Ms. Bender  
09:35:56 Mr. Burton  
09:36:16 Mr. Young

**OVERVIEW OF AGENDA**

**Preliminary approach to HJ 35 study and preview of next meeting**

09:36:40 Ms. Moore ([Exhibit 1](#)) ([Exhibit 2](#))

**Committee questions**

09:38:23 Mr. Bryson asked for clarification on meeting procedure.

**OVERVIEW OF MONTANA TAX SYSTEM**

09:39:13 Mr. Young ([Exhibit 3](#))

09:41:30 Sen. Ankney joined the meeting at 9:41 a.m.

Committee questions

09:56:19 Sen. Barrett asked if the growth and property values include appreciation of both existing property and new construction.

09:57:00 Mr. Young continued his presentation (see Exhibit 3).

Committee questions

09:59:04 Mr. Story commented on the Tax Foundation index state ranking.

09:59:55 Mr. Young continued his presentation (see Exhibit 3).

Committee questions

10:07:08 Sen. Barrett asked Mr. Young to discuss the increase in property values as affected by tax reform.

10:09:44 Mr. Story commented on the history of mitigation and taxable value.

10:11:28 Sen. Barrett commented on property tax burden.

10:11:55 Rep. Hamilton asked what percentage of state businesses are of the large industrial size compared to other states.

10:13:50 Mr. Iverson asked if agricultural land was included in the industrial land reports.

10:14:27 Mr. Story commented on Mr. Young's work ([Exhibit 4](#)).

**PRINCIPLE: BALANCED REVENUE SYSTEMS**

**Overview of principle**

10:15:05 Ms. Moore

**State and local revenue sources**

10:17:32 Aaron McNay, Economist, Department of Revenue (DOR) ([Exhibit 5](#))

Committee questions

10:20:49 Mr. Story asked if Mr. McNay considered school districts part of local governments.

10:21:14 Mr. McNay continued his presentation (see Exhibit 5).

Committee questions

10:22:02 Mr. Bryson asked if there is a way to identify taxes returned to local governments.

10:23:38 Sen. Hoven asked if the non-tax local revenue data includes all revenue generated at the local level.

10:24:52 Mr. Bryson asked if gas tax redistribution is reflected in the data.

10:25:24 Mr. Burton asked if the census data for non-tax revenue split out utilities.

10:26:13 Mr. Story commented on school district revenue.

10:27:17 Mr. McNay continued his presentation (see Exhibit 5).

Committee questions

10:28:56 Rep. Hamilton asked for clarification on Mr. McNay's data.

- 10:29:28 Mr. Bryson commented on the information in Mr. McNay's charts.  
10:30:12 Mr. Burton asked if the local tax revenue data includes special districts and where they are allocated.  
10:31:24 Mr. Iverson commented on the detailed state revenue and local revenue data.  
10:32:17 Mr. McNay continued his presentation (see Exhibit 5).

#### Committee questions

- 10:33:06 Rep. Marler asked if the local tax revenue data includes counties and cities and asked whether data for counties and cities can be separated.  
10:33:57 Sen. Hoven asked for clarification on the state tax revenue data.  
10:34:22 Sen. Barrett asked if there is data on nonconforming tax revenue available for the committee to review.  
10:36:08 Ms. Moore reminded the committee of the local sources revenue report (2016) that was in their meeting folders ([Exhibit 6](#)).  
10:36:44 Rep. Fuller asked Ms. Moore to define a balanced revenue system.  
10:37:17 Mr. Iverson asked for the Department of Revenue's biennial report to be shared with the committee.  
10:38:08 Sen. Barrett commented on balanced revenue systems.  
10:38:46 Ms. McNay continued his presentation.

#### Committee questions and discussion

- 10:39:25 Rep. Fuller asked Sen. Barrett for clarification on his comments regarding balanced revenue systems.  
10:40:44 Mr. Story commented on Mr. McNay's presentation and provided further information to the committee on revenue shifting ([Exhibit 7](#)).

#### Public comment

None

**BREAK** (Reconvened at 10:56 a.m.)

#### **PRINCIPLE: RELIABILITY**

##### **Overview of principle**

10:57:13 Ms. Moore

#### **Revenue collection data and legislative changes**

10:57:54 Ms. Moore ([Exhibit 8](#))

#### **Committee questions and discussion**

11:20:10 Sen. Barrett commented on the reliability and volatility of revenue.

#### **Public comment**

None

#### **Committee questions and discussion**

11:22:51 Mr. Bryson asked for a 17-year period percentage growth chart.  
11:23:27 Sen. Barrett asked if a growth analysis was completed last interim and if it is available on the committee's web page.

- 11:24:06 Mr. Story commented on long term trends.
- 11:24:56 Rep. Hamilton asked for further information on diesel and gas tax, electrical energy tax, lodging versus car rental, and public contractors tax.
- 11:30:20 Sen. Hoven asked for information on the public contractors gross proceeds tax.
- 11:33:18 Committee discussion on long term revenue trends.

## **ADMINISTRATIVE MATTERS**

### **Meeting dates**

- 11:35:32 Ms. Moore ([Exhibit 9](#))

### **Committee questions and discussion**

- 11:37:13 Committee discussion on meeting dates.
- 11:38:31 Rep. Marler asked for clarification on the proposed meeting dates.
- 11:39:56 Sen. Cohenour asked if other committee meeting dates were considered.
- 11:41:07 Committee discussion on meeting dates.

**LUNCH** (Reconvened at 12:51 p.m.)

## **PRINCIPLE: EQUITY**

### **Overview of principle**

- 12:52:11 Ms. Moore ([Exhibit 10](#))

### **Committee questions and discussion**

- 13:02:17 Committee discussion on the history of tax equity and tax shifts.
- 13:14:32 Mr. Bryson asked for information on tribal revenue sharing agreements.
- 13:15:39 Mr. Young continued the committee discussion ([Exhibit 11](#)).

## **Equity and the Montana Tax System**

- 13:20:58 Mr. McNay (see Exhibit 11)

### **Committee questions**

- 13:26:12 Rep. Hamilton asked for clarification on percentile rates over time.
- 13:28:55 Mr. Story asked for clarification on the progressivity data.
- 13:31:47 Sen. Barrett commented on the progressivity data.
- 13:35:28 Mr. Iverson asked if out-of-state tax credits were considered.
- 13:36:29 Rep. Marler asked for clarification on the progressivity data.
- 13:39:44 Sen. Hoven asked if taxpayers with passthrough income were included.
- 13:40:03 Ms. Bender asked for the data to exclude the out-of-state tax credit.
- 13:40:40 Committee discussion on tax credit exclusions.
- 13:44:51 Rep. Hamilton asked for clarification on where the state sits below average for a progressive tax system.
- 13:45:59 Committee discussion on income tax rates.

### **Public comment**

None

## **PRINCIPLE: ECONOMIC NEUTRALITY**

### **Overview of principle**

- 13:49:45 Ms. Moore ([Exhibit 12](#))

### **Economic neutrality and Montana's tax system**

13:51:15 Ms. Moore (see Exhibit 12)

### **Committee questions and discussion**

13:57:07 Sen. Barrett commented on property tax classification.

13:58:55 Mr. Story asked Ms. Moore for further information on sales and use taxes and how they affect tax progressivity and regressivity.

13:59:30 Rep. Fuller asked Ms. Moore for clarification on her response to Mr. Story.

### **Public comment**

None

### **Committee questions and discussion**

14:00:45 Committee discussion on tax equity and progressive tax systems.

## **PRINCIPLE: ADMINISTRATION AND COMPLIANCE**

### **Overview of principle**

14:05:35 Ms. Moore

### **Panel discussion on administration and compliance**

14:07:00 Gene Walborn, Director, DOR ([Exhibit 13](#))

### **Committee questions for Director Walborn**

14:38:58 Rep. Beard asked for clarification on Montana personal income tax revenue and tax gap estimates for FY 2003-2017 and what the cost is for compliance efforts.

14:42:42 Ms. Bender asked what laws or regulations the department would suggest to improve compliance.

14:44:59 Sen. Hoven asked Director Walborn to comment on the protocols used to calculate the tax gap.

14:47:25 Bridger Mahlum, Chamber of Commerce, continued the presentation.

### **Committee questions for Mr. Mahlum**

15:02:21 Sen. Cohenour asked Mr. Mahlum to comment on the extended time allowed to protest taxes.

15:03:45 Marca Gibson, Montana Society of CPAs, continued the presentation.

### **Committee questions**

15:13:54 Sen. Hoven asked how tax software providers handle separate filing forms.

15:17:36 Mr. Iverson asked Ms. Gibson to comment on married filing separately or the same form and the notice taxpayers receive.

15:20:25 Mr. Story asked Director Walborn how much time the department spends working with tax software providers to update their tax systems.

15:23:02 Mr. Story asked Director Walborn how many taxpayers file using tax software.

### **Public comment**

15:24:06 Rep. Dunwell, HD 84

**BREAK** (Reconvened at 3:43 p.m.)

**PRINCIPLE: RESPONSIVENESS TO COMPETITION**

**Overview of principle**

15:43:37 Ms. Moore (see Exhibit 8)

**State comparison information**

15:45:00 Ms. Moore ([Exhibit 14](#)) ([Exhibit 15](#)) ([Exhibit 16](#)) ([Exhibit 17](#))

**Committee questions**

15:53:13 Rep. Hamilton asked if the information included true amount of premium tax collected from captive insurers.

15:54:25 Ms. Moore continued the presentation ([Exhibit 18](#)).

**Committee questions**

15:55:54 Rep. Fuller asked what the per capita income is for the state.

15:56:46 Committee discussion on the comparison of taxes with state per capita income.

16:00:33 Mr. McNay continued the presentation ([Exhibit 19](#))

**Public comment**

None

**PUBLIC COMMENT ON ANY OTHER TOPIC WITHIN THE HJ 35 COMMITTEE'S JURISDICTION**

None

**ADMINISTRATIVE MATTERS**

**Method for rating tax system**

16:03:07 Ms. Moore

**Committee discussion**

16:05:28 Committee discussion on method for rating tax systems.

**Requests for additional information for next meeting**

16:28:42 Ms. Moore

**Committee questions and discussion**

16:28:57 Sen. Hoven asked that the committee receive HJ 35 information to review before the meetings.

16:29:23 Mr. Story asked for a timeline for the process, the setting of mill levies, and the appeal process.

**RECESS**

16:30:45 Rep. Redfield recessed the meeting at 4:31 p.m.

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