MINUTES

MONTANA SENATE
56th LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN GERRY DEVLIN**, on February 10, 1999 at 8:00 A.M., in Room 413/415 Capitol.

ROLL CALL

Members Present:
Sen. Gerry Devlin, Chairman (R)
Sen. Bob DePratu, Vice Chairman (R)
Sen. John C. Bohlinger (R)
Sen. Dorothy Eck (D)
Sen. E. P. "Pete" Ekegren (R)
Sen. Jon Ellingson (D)
Sen. Alvin Ellis Jr.(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

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

Committee Business Summary:
Hearing(s) & Date(s) Posted: SB 92, 2/6/1999
Executive Action: SB 111

HEARING ON SB 92

Sponsor: **SENATOR STEVE DOHERTY, SD 24, GREAT FALLS**

Proponents: **Verner Bertelsen, Montana Senior Citizens Association**

Opponents: **None**

Opening Statement by Sponsor:

SEN. STEVE DOHERTY, SD 24, Great Falls, brought **SB 92** at the request of the Interim Property Tax Committee. He said this bill is designed to take care of Montana's elderly homeowners who may have trouble paying their property taxes. It also expands the low-income tax rebate. He said the Interim Property Tax Committee became aware that this program is not being advertised very well and therefore is not being used by the number of people who could use these rebates and tax credits.

SEN. DOHERTY said that this bill eliminates a certain amount of pension income in making the determination of who is eligible, and it also increases the elderly homeowner credit from $1,000 to $1,500. The reasoning is because that amount more accurately reflects today's needs for senior citizens, and he produced a letter from John and Marguerite Boland regarding this situation and this bill, **EXHIBIT(tas33a01).**

SEN. DOHERTY said he did not initially sign the Fiscal Note because he wanted to check the figures. He has done that, and these are accurate, and so he would sign the Fiscal Note at this point. He said these figures could be adjusted, but he reminded the committee that one of the basic policy issues is that these people do not want to be taxed out of their homes. For anybody on a fixed income, that is a serious concern. This bill would help resolve that situation.

Proponents' Testimony:

Verner Bertelsen, Montana Senior Citizens Association, said there was not a whole lot to add to **SEN. DOHERTY'S** testimony, except that his organization feels that this is a very good piece of legislation and will certainly be helpful to a lot of their members. He urged support.

Opponents' Testimony: None

Questions from Committee Members and Responses:

SEN. ELLIS asked **SEN. DOHERTY** if he knew what the per capita income in Montana is, and he answered that he thought it was between $18,000 and $20,000 a year. **SEN. ELLIS** said he thought it was closer to $18,000, and pointed out that on Section 1, line 28, the limit is listed as $22,500, well over the average yearly per capita income.

SEN. BOHLINGER said that **SEN. DOHERTY** had mentioned that the Interim Tax Committee had discovered that the people of Montana really are not aware of the programs that are available which will provide some tax relief. He said he didn't see anything in the bill that would resolve that problem. **SEN. DOHERTY** said the committee had requested **Judy Paynter of the Department of Revenue** to do something about that issue, and someone said they had recently seen a public service announcement from the Governor addressing these programs.

CHAIRMAN DEVLIN asked **Mr. Bertelsen** if the Senior Citizens had done anything to make their membership aware of this program, and **Mr. Bertelsen** said they really had not, but it would be a good idea.

CHAIRMAN DEVLIN asked **SEN. DOHERTY** if the railroad retirement benefits were included in this bill when he brought it two years ago, and **SEN. DOHERTY** said he didn't have the same bill two years ago, that it was someone else, but pointed out the language on page 3, where it talks about excluding the amount of any pension, annuity, Railroad Retirement Act, and all payments received under Social Security.

CHAIRMAN DEVLIN asked how much that would amount to if the railroad retirees were added to this, and **SEN. DOHERTY** said he did not know how much it would add specifically, but the Department of Revenue believes that the average credit in 1997 was $456 and under this bill it would be $801, and the reasons for the increase is that the bill allows claimants to deduct pension income and increases the maximum credit from $1,000 to $1,500.

SEN. EKEGREN asked if a person's property tax was $1,000 and you have a gross income of $20,000, which makes the deduction $1,500, is it conceivable that this program could pay 100% of a homeowner's taxes, and **Larry Finch of the Department of Revenue** said it was entirely possible.

SEN. ECK then asked **Mr. Finch** if there were some kind of a deadline in March for this program, and he answered that a person has to make application for this program by March 15th for the low-income assistance portion of this bill.

SEN. ECK asked about a publication the Department used to put out that explained this program to homeowners, and **Mr. Finch** said he believed that the Department had done that in the past, but he had not seen a copy of one in recent years.

SEN. DEPRATU referred to the 100% exemption, and asked about page 2, line 19, where it appears that taxpayers have to pay 20% of their tax bill. **Mr. Finch** said he believed that **SEN. EKEGREN'S**

question was referring to the elderly homeowner who could receive credit, which can be 100%. This portion of the bill applies to the other program, the low-income assistance program.

SEN. STANG then asked if this was the bill that lowered the taxable value and must be applied for yearly, and **Mr. Finch** said that in this bill there are two separate programs. One side is the low-income abatement program which, depending on one's income level, reduces the taxable valuation of the property, and the other is the credit program, which is a circuit breaker for the elderly.

SEN. GLASER said that this was assuming a 16% utilization, and **Mr. Finch** said that was correct, in the low-income abatement program. That is the utilization rate being experienced today. **SEN. GLASER** asked if he knew what it would cost if it was 100% utilization, and **Mr. Finch** said that increasing the thresholds for the low-income assistance program is going to increase that by $1.3 million. If for some reason there was 100% utilization, that cost would increase by five times. **SEN. GLASER** said that he had figured that if this was fully utilized, it would make an additional reduction in revenue of somewhere in the neighborhood of $12 million. Added to the income portion, which is $47 million, it results in almost a $60 million hit. **Mr. Finch** agreed that to the extent that we see increases in the participation rates in these programs, the costs will go up. He said experience has been that the utilization rate is about 16%.

SEN. STANG asked if that was 16% of the total taxpayers or 16% of those that are eligible, and **Mr. Finch** said it is 16% of those who are eligible.

SEN. ELLINGSON said that **SEN. GLASER'S** assumptions are based on the assumption that the average credit or tax abatement would be the same for the next 84% of the people who utilize it as it would be for the 16%, and he wondered if probably the people who are eligible for the most benefit are the ones who are claiming it in the first place, and for the other 84% it is not such a great benefit. **Mr. Finch** agreed to the extent that there would be a lot more participation in this, and to the extent that the participation comes at income levels that are going to be having less of an impact; however, he said he has no basis on which to say that would happen. **SEN. ELLINGSON** said that the point is simply that those mathematical calculations of **SEN. GLASER** are based on the assumption that you'd have the same average tax saving of $250 for each of the next 84% that you've got for the first 16%, and **Mr. Finch** said he would have to defer that question to **SEN. GLASER.**

SEN. ECK said she thought it would be useful to have a number of examples written up of various incomes and what these figures might be, and **Mr. Finch** said the Department could do that.

SEN. STANG asked that some of that information be based on if the figure on page 1, line 28, were at $15,000 instead of $22,500, and **Mr. Finch** said the $15,000 limitation pertains to the low-income abatement program and has nothing to do with the $1,500 credit in the other program. **SEN. STANG** then asked whether that figure currently includes pensions and annuities and railroad income, and **Mr. Finch** said that if he understood where **SEN. STANG** was going, whether we do something to exclude income from the calculation of the low-income program, and he said that presently that is not being done at all in this program. He said the Department does not have a database that could be used to do those kinds of calculations. Conceptually, he said **SEN. STANG** was correct. To the extent that you exclude income from the determination of your income level for this program, you would be providing people with a greater benefit.

SEN. ELLINGSON asked about item No. 8 on page 2 of the Fiscal Note, the estimate for the amount of the homeowner/renter credit, and how that was arrived at. **Mr. Finch** said the numbers in No. 8 estimate that the proposal will result in an increase in the total for the homeowner/renter credit of $7.7 million in FY2000 and $7.9 million in FY2001. Those numbers were arrived at by creating from the Department's individual income tax database a sub-database of all 2EC credit forms that were filed in 1997 and then applying the new parameters of this program to those returns to come up with precisely what the estimate of the impact would be, and then inflating those numbers by a growth factor.

CHAIRMAN DEVLIN asked **SEN. DOHERTY** about the information he had mentioned that convinced him that the Fiscal Note was probably correct, and **SEN. DOHERTY** said he had a January 25th memo from Mary Bryson that outlines the rationale for the $7 million, **EXHIBIT(tas33a02)**.

SEN. ELLINGSON said his understanding was that they took the existing applications for the credit for the past year and applied the new law, and **Mr. Finch** said that there might be a few more applications, but that is probably limited because there is a cap on this program of household income of $35,000, income in excess of $35,000 is not eligible for this program.

SEN. ELLIS said the committee had heard testimony that the estimate was that 16% of the people that are eligible for these programs are using it, and **Mr. Finch** said that the 16% figure applies to the low-income abatement program. He said he recollects that the figure for the other program was higher. **CHAIRMAN DEVLIN** asked if the Department could provide a number for the committee on that, and **Mr. Finch** said they could provide that.

SEN. ELLIS asked what the cost of these two programs would be if they were more fully utilized without this bill, and **Mr. Finch** said the Department would provide that.

SEN. EKEGREN said he assumes that if pensions, annuities, railroad retirement and Social Security are exempt, that a person could make $40,000 or $50,000, subtract all these things, and get property relief, and **Mr. Finch** said that was exactly the purpose of that exclusion.

Closing by Sponsor:

SEN. DOHERTY said he had some technical amendments that would be forthcoming. He said that we do need to look at excluding certain amounts of income to make seniors eligible for this kind of relief. They do not have to apply if they don't want to, but it should be available to them.

SEN. DOHERTY said that what this bill shows more than anything is the failure of government to let its citizens know what relief is available to them.

EXECUTIVE ACTION ON SB 111

Motion: **SEN. DEPRATU moved SB011102.ALH DO PASS, EXHIBIT(tas33a03).**

Discussion:

SEN. DEPRATU referred the committee to amendments dated February 9, 1999, and told them to disregard any earlier amendments. He said this set of amendments exempts the first $1 million of taxable intangible property, and also deletes from the bill (a) money at interest, (d) copyrights, patents and trade secrets, (e) customer or patient lists, (g) goodwill, and (k) water rights and mineral rights.

SEN. STANG asked what the fiscal impact is of the bill with these amendments, and **SEN. DEPRATU** said it would be roughly $890,000. **SEN. STANG** asked if that was to state or local governments, and **SEN. DEPRATU** said it was a combination of both. **Judy Paynter, Department of Revenue,** said that this is the Department's best estimates, and approximately 25% of that is reflected in the General Fund.

SEN. STANG asked why the figure of $1 million was selected, and why $500,000 might not work. That would allow the capture of more of that centrally assessed property, and **SEN. DEPRATU** said not knowing how the Department would value those items, this was more of a comfort level in order to exclude small business owners.

CHAIRMAN DEVLIN asked why (b), brand names, trademarks and trade names, was still in there, and **Mr. Heiman** said those had not been discussed as being part of those that should be excluded and so were not listed. **SEN. DEPRATU** said he would not have a problem deleting that if it was possible to do so.

<u>Vote</u>: Motion carried 7-2, with Eck and Ellingson voting no.

<u>Motion/Vote</u>: SEN. DEPRATU moved to EXCLUDE LINE 17, (B) BRAND NAMES, TRADEMARKS, AND TRADE NAMES. Motion carried 8-1 with Stang voting no.

<u>Motion/Vote</u>: SEN. DEPRATU moved SB 111 DO PASS AS AMENDED. Motion carried 6-3, with Stang, Ellingson and Eck voting no.

ADJOURNMENT

Adjournment: 8:50 A.M.

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SEN. GERRY DEVLIN, Chairman

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SANDY BARNES, Secretary

GD/SB

EXHIBIT(tas33aad)