MINUTES

MONTANA SENATE
56th LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

SUBCOMMITTEE ON SALES TAX

Call to Order: By **CHAIRMAN BOB DEPRATU**, on March 19, 1999 at 10:25 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

Others Present: Sen. Alvin Ellis Jr.
Gordon Morris, Montana Association of Counties
Judy Paynter, Department of Revenue
Jeff Miller, Department of Revenue
Jerry Leonard, Department of Revenue
Curt Nichols, Governor's Budget Office

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:
Bills Discussed: Sales Tax Packages

DISCUSSION ON SALES TAX PACKAGES

SEN. DEPRATU opened the meeting by asking the Department to present their information. The committee members will study what they have provided over the weekend and meet again on Tuesday, March 23, 1999.

Ms. Paynter distributed a handout entitled "Sales Tax Generated by Standard Industrial Code for Sales Tax Suggested by Senate Sub-Committee (Primarily Following **SB 143**), March 19, 1999," **EXHIBIT(tas62b01)**.

SEN. DEPRATU said he felt it was important to know as firmly as possible the numbers if services were removed and what that would do to revenues and impacts. **Ms. Paynter** said she would provide that.

Ms. Paynter said Exhibit 1 was prepared by Jerry Leonard and he would explain the handout. **Mr. Leonard** said that the front page is a summary of total sales tax collections as suggested by the subcommittee. The sales tax as calculated in this exhibit generally follows the one outlined in **SB 143**, except there is an inclusion for the additional items that can be purchased with food stamps, i.e. candy and soda pop.

Mr. Leonard said page 2 of Exhibit 1 shows services as classified by SIC code. In the right-hand column are the approximate costs in thousands of dollars for excluding any one of these particular items from the tax. As an example, he pointed to "Hotels and Motels" in the first column, SIC code 701, column two. The fourth column shows taxable sales for Fiscal Year 2002 of approximately $383 million, and the last column reflects tax revenues for Fiscal Year 2002 of approximately $15 million.

SEN. STANG asked what the third column reflected, "SB 143, Taxable Sales, CY1992." **Mr. Leonard** said that all these numbers are generated off of the economic census data which was last carried out in 1992. The most recent economic census was carried out in 1997, but those figures will not be available until sometime later this year. He said the inflation factor and the growth factor are added to these numbers in order to bring them up to Fiscal Year 2002.

Mr. Leonard said that the approximate cost of excluding all of these services as classified under standard industrial code is reflected on the third page of the handout under "Approximate Tax Collected, Services" in the middle of the page, approximately $91 million. He said the handout then shows other things which could be considered services as well, including construction and FIRE items, and those numbers are shown on the handout.

Mr. Leonard pointed out to the committee that the construction category has an estimate of government purchases of construction which are exempted, and those are reflected as minus figures and are backed out of the total, leaving $43 million.

Mr. Leonard said a large difference between the Devlin proposal and the Sprague proposal is shown on the last page in transportation, communication and utilities. He said the Devlin proposal broadly exempts basically the entire category, and the approximate cost of exempting this section is $74 million.

Mr. Leonard said the first page indicates the sales and use tax account, which is for the most part the general sales and use tax collections plus a portion of the new car sales tax, approximately 62.5%, plus 50% of the used car sales tax. However, in addition, 50% of the used car sales tax goes to the motor vehicle suspense fund, which is shown in the "other" accounts, so the total collections are the $469 million plus the $720,790 of the 2% of new car sales tax retained by counties, the $13 million of the new car sales tax distributed to the highway account, plus the $15 million, which totals $498 million in total sales tax collections on every item, after vendor allowance and delinquencies.

SEN. DEPRATU asked what delinquencies were estimated to be, and **Mr. Leonard** said they used a 5% figure, which is strictly an estimation.

Ms. Paynter distributed a "Senate Tax Comprehensive Tax Reform Proposal, Preliminary Analysis," **EXHIBIT(tas62b02).** She said there is a small error on Coal Gross Proceeds and Oil/Gas NLR. She said those allocations do not go to the 9 mills, and that will have to be corrected.

Ms. Paynter said that this spreadsheet will give a very good approximation of what is going to happen. She said on the bottom line on the first page, "Net Impact," the General Fund is coming out ahead about $2.5 million, the University System 6 mill account, around $.5 million in terms of money going in versus what is coming out. She said the 9 mills for welfare, once the nonlevy revenue is taken out, will be about even. The highway account is zeroed out. Local government shows as being zero and so do schools, but what has been done is that when they get nonlevy revenue coming in, then their mill levies float, so the net change in property tax, when all of these other things come in to make changes, is floated to keep their budget consistent.

Ms. Paynter said in regard to schools, that the BASE budget is funded by the state, the over-BASE gets about $20 million of nonlevy revenue which moves up into over-BASE and does not get reallocated to other places. It is money that needs to stay in schools, and it is also the cash reappropriated, which would push it into over-BASE. She said the over-BASE gets more nonlevy revenue allocated into it because it is done on the basis of mill levies that we no longer have in the state mills or the BASE mills. Therefore, everybody who has mills left gets a bigger portion of the nonlevy. She said the same thing is reflected on the non-general fund budgets for schools.

SEN. DEPRATU asked if the motor vehicle tax was being taken down to 1%, and **Ms. Paynter** said that was correct. She said when this law goes into effect, **SB 260** is the base of current law here because **SB 260** will be law when this sales tax comes in. She said that the inheritance tax had also been eliminated, and that overall this is pretty revenue neutral.

Ms. Paynter then moved to the second page of the spreadsheet which shows what has been done to property taxes. She said the spreadsheet has two sections, current law and the subcommittee sales tax proposal. Referring to the total line, under current law there would be $781.5 million in estimated property taxes, with residential property bearing 36% of the property tax load at $310.7 million. Under this proposal, approximately $353 million in total taxes will need to be raised, which makes the residential percentage 55% of the total, but the taxes that are paid by residentials goes down to $198 million, down 36% in dollar amount.

Ms. Paynter said the Department tried to show, although it is all one class under the sales tax subcommittee's proposal, how that property flows through so the committee could get a comparison of what is happening residential to residential and commercial to commercial. This spreadsheet reflects a 55% decrease in property tax, and the percent change in taxes shows who is getting what kind of change in their tax, and comparing estimated taxes under current law and estimated taxes under the proposal shows what happens in terms of dollars.

Mr. Morris asked how the residential property had been adjusted to allow for the homeowner exemptions. **Ms. Paynter** said that the Department applied the homeowner exemption at 65% of the first $50,000. The amount of money that would generate is the amount of money they used for the homeowner exemption, so it related back to the original proposal. She said that these percentages could be switched by the level of homesteads you want to give because the bigger homestead will raise the $352 million. She said the bigger the homestead, the more the residential will go down and the higher the others will come back up.

SEN. STANG asked if the percent of total referred to the percent of taxable values or percent of the estimated taxes, and **Ms. Paynter** said that was taxable value. She said the mill levies differ on the property, so even though you get to taxable value and you have those percents, that does not mean the taxes will come out that way because, for example, residential homes have a higher mill levy than ag land statewide because of where they are located.

SEN. STANG said it would be helpful if the Department could provide the percentage of the taxes that are currently paid by residential and the percentage of taxes paid by residential under both proposals. Also, he asked if they could provide a percentage figure of the sales tax that will be paid by businesses and the percentage that will be paid by individuals. **Ms. Paynter** said that if the Department has done the math correctly, estimated taxes under current law would be 39.8%, and under the proposed law it would be 56.3%. They were not able to give a percentage paid by tourists. **SEN. STANG** said he would just like to know what percent of the sales tax will be paid by individuals, tourists and businesses. **SEN. DEPRATU** asked if the Department could provide some of this information by Saturday morning, and **Ms. Paynter** said they would try.

SEN. ELLIS said it seems that this information all assumes that **SB 200** fails. **Ms. Paynter** said that business personal property is at the rate it is today in current law, not at **SB 200** rates. **SEN. ELLIS** said that it would be helpful to know what happens if **SB 200** passes because that is additional monies that could be put in for an exemption before it even affects the other classes for homestead relief. **SEN. STANG** said that was his point, that if **SB 200** passes without the sales tax and by the year 2002 it is completely exempt, it appears that the only issue is, if we have a sales tax, should it all go to property tax relief and timberland, railroads and airlines.

SEN. ELLIS asked if this zeroed out class eight and class six, which is much narrower than **SB 516.** **Ms. Paynter** said this eliminates all personal property in all the classes.

Ms. Paynter clarified the homestead exemption by saying that the Department had used the 65% of the $50,000, and the committee had not made a decision on the homestead, so this may not reflect what the committee wants to do.

SEN. GLASER asked if the committee could get, in regard to class four, the number of homes and the value of the homes of these various categories by Saturday morning. **Ms. Paynter** said that when the committee looks at this page, it is not what she believes the committee has been working towards in terms of residential property tax relief. She said she thinks it is a waste of time to develop those tables for the 65% of the $50,000 because that is not the policy that the committee wants or that they will come out with. She proposed that the committee decide what percent of tax relief they want to provide to the residential group, and if that percent is provided, then there are a couple of other choices that would need to be made. For example, if on average they give 55% tax relief to homeowners, and then decide whether the homestead would have a cap or not and at how much, then the Department can work out the homestead exemption that funds to those two variables. That would accomplish the goal of the committee, and then once those are accomplished, she could run the homes against it.

SEN. STANG said that he thought the committee had decided on 40% of the first $200,000 for a homestead exemption. **SEN. ELLIS** said he would like to see it done conceptually rather than providing a number. **Ms. Paynter** said the committee would have to tell her what percent of relief they want to provide and whether or not there will be a homestead cap. After some discussion, it was decided that it would be set at 50% of $200,000.

SEN. DEPRATU said another thing that needs to be considered is how strongly the coalition feels about taxing services, and the committee needs to consider what the impact would be of not taxing services as they suggest and where tax relief could be reduced by that $90 million amount.

SEN. ELLIS said that something would have to be done about timberland. **SEN. DEPRATU** said that timberland has bounced up and that is not the intent of the committee. **SEN. GLASER** asked **Mr. Heiman** why the coal people are upset about the Devlin proposal, and **Mr. Heiman** said he did not know, but that he would look at it. **SEN. DEPRATU** said that timberland needs to be at least where it was, and **Ms. Paynter** said that she could do a timberland exemption like the homestead exemption.

Ms. Paynter said that she had a question about the contractors gross receipts issue. She said if it is to be revenue neutral for in-state contractors, staff has suggested a rate of .7%. **SEN. DEPRATU** said that would be what they want to do, then.

SEN. DEPRATU said the subcommittee will meet again at 10:00 on Tuesday, March 23, 1999, and they would look forward to getting some information from the Department on Saturday. He expressed his appreciation for the hard work of the Department.

ADJOURNMENT

Adjournment: 11:15 A.M.

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SEN. BOB DEPRATU, Chairman

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SANDY BARNES, Secretary

GD/SB

EXHIBIT(tas62bad)