

MONTANA TAXPAYER



MONTANA TAXPAYERS ASSOCIATION

HELENA, MONTANA

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Upcoming Meetings

Friday, January 11 – [Fire Suppression](#)

Monday & Tuesday, January 14 & 15- [EQC](#)

Tuesday, January 15 – [MAR Notice No. 17-267](#), DEQ

Tuesday & Wednesday, January 15 & 16 – [Water Policy](#),
Hamilton Fairgrounds

Wednesday & Thursday, January 16 & 17 – [State Tribal Relations](#)

Wednesday, January 23 – [Legislative Audit](#)

Thursday, January 24 – [Energy & Telecommunications](#)

Thursday & Friday, January 24 & 25 – [Children, Families, Health
& Human Services](#)

Monday, January 28- [Legislative Council subcommittees](#)

Tuesday, January 29 – [Legislative Council](#)

Wednesday, February 6 – [Economic Affairs](#)

Thursday, February 7 – [Economic Affairs](#), Great Falls

Thursday & Friday, February 7 & 8 – [Revenue & Transportation](#)

Friday, February 15 – [Fire Suppression](#)

Tuesday & Wednesday, February 19 & 20- [Water Policy](#)

Friday, February 22 – [State Administration and Veterans' Affairs](#)

Thursday & Friday, February 28 & 29 – [Law & Justice](#)

A Message from Rick Hays, Chair of the Board of Directors – A Reflection on 2007

2007 was a busy, productive year for your association.

The Legislative Session provided us the opportunity to once again work hand in hand with our members and other members of the business community. Through these collaborative efforts, we were able to build upon a business coalition we started in the 2005 Session. The cohesiveness of the coalition allows us to put some of the larger issues on the back burner at times which was well received across the political perspective. We are continuing our work on this important coalition.

Mary continued to build on our nonpartisan reputation. The taxpayers association works at staying out of the political fray and works hard with all legislators. We need to understand their perspective and we are able to share ours with them. We want all legislators to know we are available and open to their ideas. We provide them factual information on the implications and long-term impacts of changing tax policies.

Since the session, Mary has been busy working on several key tax issues and coordinating with other associations to provide opportunities for continued

discussions on these issues. She has worked on specific tax issues to find areas we can support to help taxpayers comply with Montana's tax system and look at proactive legislation for the next session.

We have held a series of discussions on school funding with the education community. We believe positive communication among the business community and schools can provide the mechanism to ensure both more healthy schools and a better business climate for Montana.

I believe we deliver a good value for your dues to this association. All of these projects take tremendous effort on the part of our two-person staff and resources. We couldn't accomplish these without you, our members.

I thank you for your support and ask you to encourage other business associates to join us in our endeavors in 2008!

Rick Hays,, Chairman

2007 Montana Tax Information

The Department of Revenue has added new information to their home page www.mt.gov/revenue that should be helpful to taxpayers as you prepare for this tax season. One of the new features is a [calendar](#) that lists important filing dates. They also have a frequently asked questions page for the new tax year <http://www.mt.gov/revenue/FAQS.ASP>

Montana homeowners may claim an income tax credit of \$140 for property taxes paid in 2007 on residential property. You must have resided in the principal residence for at least seven months during 2007 (if you moved during the year, you are still eligible for the refundable tax credit as long as the total amount of time your owned and occupied a Montana residence was at least seven months. Qualified individuals who are 62 or older may also be eligible to claim the Elderly Homeowner/Renter Credit on Form 2EC in addition to this credit.

Montana Taxpayer

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Department of Revenue Rule Hearings

MAR Notice No. 42-2-792, adoption, amendment, transfer, and repeal of rules relating to general department rules as found in Chapter 2, Title 42, Administrative Rules of Montana. Close of comment is January 18, 2008. The Montana Taxpayers Association appeared at the hearing but did not provide testimony. We did ask the department personnel the purpose of the rules since there has been no change in disclosures in recent legislation. The department indicated this rule was simply a clarification of their participation in the Multistate Tax Commission's National Nexus Program and that taxpayers already have the ability for disclosure under current law. Taxpayers operating in multiple states might benefit using one point of contact through the MTC program and individual taxpayers would likely use the DOR.

MAR Notice No. 42-2-790, amendment of rules relating to alternative energy tax credits as found in Chapter 4, Title 42, Administrative Rules of Montana. Close of comment was December 21, 2007. We provided testimony on many of the proposed changes to the alternative energy tax credits. Most of our testimony centered on the new audit requirements and restriction imposed on taxpayers claiming the credit. Of particular concern was the potential for the taxpayer to prove at least 5 percent actual energy savings for installation of energy savings items. The department has indicated they have received numerous comments and it could take some time to prepare responses to the rule before adoption.

MAR Notice No. 42-2-782, adoption of rules relating to property tax incentives for new investment, development research, and technology related to renewable energy as found in Chapters 4 and 20, Title 42, Administrative Rules of Montana. Close of comment was December 21, 2007. We provided both written and oral testimony. Our comments can be found on our website under agencies and then [Department of Revenue](#).

The Department of Environmental Quality is also preparing rules for this topic. Their rules will cover the procedural aspects of qualifying property and application processes. **MAR No. 17-267** pertaining to definitions, certification of energy production, transportation, and research facilities for tax abatement and classification. Hearing date January 15, at 1:30pm in Room 111, Metcalf Building, 1520 East 6th Avenue.

Upcoming Negotiated Rule Making

The Department will be using the negotiated rule process for two upcoming rules. The first pertains to the valuation of sanitary landfills and the second deals with wireless valuations. The department is working with interested parties and plans to hold meetings in the next couple of months. These will be posted and open to the public.

86th Meeting of the Montana Taxpayers Association

(Power Point presentations can be found on our website www.montax.org. Click on Annual Meetings on the left. If you do not have access to the website and would like a copy of the presentations, please contact our office at (406)442-2130).

The 86th Annual Meeting of the Montana Taxpayers Association was held on December 6 in Helena. The annual meeting has become the forum in Montana to learn about current issues that are important to all Montana taxpayers as we as providing a valuable networking opportunity.

Perspectives on the Economy, Revenues and Taxation

The day began with lunch and a panel discussion on the fundamentals of Montana's economy, revenues, budgets and taxation. Dr. Paul Polzin, Bureau of Business and Economic at the University of Montana noted that the rate of growth in Montana non-farm income for the past five years has exceeded 4 percent. He stated that the basic industries in Montana have remained strong and are responsible for this continued growth. His estimates are slightly higher than forecasted from last year as construction has remained stronger than originally thought; commodity prices have remained strong; and the agricultural segment of our economy is performing well as shown by higher farm prices, especially wheat. Although the wood products industry has experienced cutbacks, the strength of the other basic industries has kept the growth rate over the four percent.

Other basic industries contributing to this boom were nonresident travel, mining, and a slight recovery in small

manufacturing in Bozeman and Kalispell. Federal spending grew somewhat slower in the past few years, but remains an important component. Montana's basic industries continue to outperform the US economy since the turn of the century.

Data for the last 70 years shows that the current boom has lasted longer than the booms in the late 40's and early 50's and the natural resource boom in the 70's. However, as Montana's economy left the natural resource era, growth rates have been lower and we have had slightly higher instability. The rebirth of the demand for natural resources in Montana is sustaining this new growth with the high commodity prices.

What are the risks to Montana's current strong growth? Changes in commodity prices could dampen the growth. The current high prices are due to demand factors. They take a longer time to resolve than supply factors. Slower growth in developing countries could also have an effect. Political instability like China could have a big effect on demand. Also, it is still unclear whether there will be further slowdowns in construction.

Terry Johnson, Principal Fiscal Analyst with the Legislative Fiscal Division gave a report on the status of the state general fund and the outlook for the 2009 Biennium. Total general fund revenues represent about 40% of state revenue the rest comes from federal revenue and other revenue funds. General fund revenue for 2002 through 2003 coincides with the downturn in the economy (the reader is reminded that Terry's information is reported on a fiscal year and Dr. Polizin's is on an annual basis).

Total general fund revenue increased by \$600 million from 2004 through 2007 as a result of increases in corporation and income taxes (52.4 percent of the budget) and natural resources (8.6 percent). Higher income taxes came from increases in capital gains, rents/royalties and wages. Higher oil and gas prices and production show up in the mineral tax category but also in the rents and royalties and to some degree income taxes.

Oil and gas production taxes experienced the same type of trends, but in 2007 collections slowed. Terry's data showed that most of the growth in the oil production came from the Elm Coulee field in the Eastern part of the state. This field is primarily a horizontal drilling operation that began in 2002. The production in this field represents most of the growth in total production over the past few years.

Terry's final charts summarized the actions of the legislature and potential fiscal issues for the 2009 Biennium. The Legislature began with a surplus of \$543.5 million; they estimated revenues over the biennium of \$3.6 billion, appropriated \$4.1 billion and had adjustments of \$8.2 million, leaving an ending fund

balance of \$125 million. When the appropriation level is greater than what you expect to receive in revenues, you could have trouble funding new programs in the future. The fiscal division admits some of the appropriations were one time and will be refining the estimate over the next few months.

The ending fund balance does not take into account current issues that the LFD will be watching. Some could have a positive effect on the ending fund balance such as the lawsuit on lease payments for use of streambeds and some could have a negative effect, such as another long fire season and litigation currently in front of the Supreme Court on the State Fund.

Dr. Doug Young, Professor of Economics from Montana State University concluded the panel. He covered a broader perspective on the tax system in Montana. He referenced some of the principles of a good tax system: promotes economic opportunity, fairly distributes the burden, has low administrative and compliance costs and provides adequate and stable revenues.

In comparison to other states, Montana relies more heavily on property taxes. Montana's composition of taxes compared to the US average is:

	MT	US Avg
Property Taxes	37%	31%
Sales Taxes	17%	35%
Income Taxes	30%	26%
Other	17%	8%

He also looked more closely at property taxes as compared to other states in the region. A study produced by the Minnesota Taxpayers Association, reveals that Montana's effective property tax rate on residential property is about 1%. The effective rate is computed by dividing total taxes by the market value of your home. The market value is what a willing buyer and seller would agree upon, not the market or appraised value for property tax purposes. Montana's is somewhat higher than Idaho and Wyoming but lower than North and South Dakota. A similar comparison for commercial and industrial property shows that Montana's effective rates are the highest among the surrounding states but below the national average.

He also looked at data on the effective rate of property taxes for five counties in Montana. Residential houses whose values are increasing rapidly have lower effective rates than those areas where the values are accelerating more slowly. This is due to the fact the reappraisal value is far less than the true market value. But, total taxes as a percent of income are higher in those counties with the fastest growth in market value as the current appraised value of the house is high compared to the incomes in the area.

His final analysis looked at the property tax base in the state. Residential and commercial real property (Class

4) now represents 61 percent of the total tax base in the state compared to 47 percent in 1996. The increase in Class 4 property correspondingly reduces the percent of other classes of property during that same time period. This shift in the property tax is a result of two factors, economic and legal changes. Economic changes were a result of the tremendous growth in Class 4 property particular in western Montana and the larger cities. Legal changes included the reduction in rates for business equipment and utility property. During this time, livestock went from 4% to 0%. The legislature also kept the total value of Class 4 property revenue neutral after reappraisals by phasing in the value of the property, adding a homestead exemption and reducing the rate.

He then examined what the property tax base would look like if there had been no changes (i.e. if the rates stayed the same and reappraisals were fully implemented). This would have resulted in an increase in the percentage of Class 4 property in the state to 64 percent of the total. Changes in the law actually benefited residential and commercial real property as compared to other classes of property.

The next panel provided unique perspectives on school funding. Six panelists representing a variety of positions had an open discussion on public schools and education in Montana. Our association will continue to be involved in discussions with school representatives that we believe could open new opportunities to promote healthy schools and businesses in Montana. We will be reporting the results of our discussion that took place on January 10th in our next newsletter.

Revenue and Transportation Interim Committee
(From the January Interim newsletter)

The Revenue and Transportation Committee is meeting Feb. 7 and 8. The SJR 31 subcommittee on school funding and property taxes and the HB 488

subcommittee on property reappraisal will meet separately on Feb. 7 in Helena. The agendas for the subcommittees have not been set, but the SJR 31 subcommittee will, among other things, review reports prepared for the Quality Schools Interim Committee last interim.

The HB 488 subcommittee will review a report on the history of property reappraisal cycles in Montana and will begin discussing mitigation strategies that may be considered to offset increases in property values of agricultural land, residential and commercial land and improvements, and forest land resulting from reappraisal. The subcommittee may also discuss areas that the subcommittee may visit to gain public input on property reappraisal and mitigation strategies. One subcommittee will meet in Room 137 of the Capitol and the other in Room 172.

Full committee meets Feb. 8...The full committee will meet at 8 a.m., Feb. 8 in Room 137 of the Capitol. As part of the HJR 61 study of state conformity with federal income taxes, committee staff will present a report on the Montana's degree of conformity with federal law. In addition, committee staff will present an update on recodifying certain provisions of individual income taxes and corporation license taxes under Title 15, chapters 30 and 31. The committee will also begin reviewing factors that may be considered in revising the HB 9 property tax income tax credit relief multiple. The committee will also consider the ramifications of Judge Thomas Honzel's decision regarding the HB 9 trigger for the 2007 tax year.

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Pam and I would like to thank all of our members for your support over the past year. We appreciate your continued input and assistance to the association. We would also like to thank our board of directors, especially our Chair, Rick Hays for your efforts and contributions to the association.