

# MONTANA TAXPAYER



MONTANA TAXPAYERS ASSOCIATION

HELENA, MONTANA

Volume 41

Number 6

September 2007

## **Upcoming Meetings**

October 1 – [Law and Justice](#)

October 2 – [Education and Local Govt. Committee on HB49](#)

October 4 & 5 – [Energy and Telecommunications - Colstrip](#)

October 9 & 10 – [Legislative Finance](#)

October 11 – [Rail Service Competition Council](#)

October 16 & 17 – [Water Policy - Choteau](#)

October 19 & 20 – [State Administration and Veterans' Affairs](#)

November 8 – [Energy and Telecommunications](#)

November 8 & 9 – [Law and Justice](#)

November 15 & 16 – [Water Policy](#)

November 16 – [Children, Families, Health & Human Services](#)

November 30 – [State Administration and Veterans' Affairs](#)

## **December 6 – Montax Annual Meeting**

December 6 & 7 – [Revenue and Transportation](#)

December 6 & 7 – [Legislative Finance](#)

December 12 & 13 – [Water Policy](#)

December 13 & 14 – [Education & Local Government](#)

January 7 – [State Administration and Veterans' Affairs](#)

January 10 & 11 – [Law and Justice](#)

January 14 & 15 – [Environmental Quality Council](#)

Visit our website [calendar](#) to print a monthly, weekly or daily calendar of upcoming events.

## ***A Productive Conversation on Education with Education***

Earlier this summer, the Board of the Montana Rural Education Association (MREA) approved an action plan detailing their major objectives and priorities for the upcoming year (MREA's action plan is listed at the end of this article). The Montana Taxpayers Association's executive board had similar thoughts and believed further discussion with educators during the interim would be worth more discussion to perhaps find issues of common interest to both groups.

Our association worked closely with the MREA to organize a meeting of leaders in the education and business communities for an open conversation on Montana's education system. The purpose was to explore ideas where education and business leaders could work together that would promote improvements to Montana's school system. If additional funding or other changes in the system were identified, the parties would work together to communicate these to the legislature and the public.

The biggest issues facing the schools were staffing, retention and recruitment, and getting their message to the public and the legislature. The business community felt the schools did not always step up to the plate when it came identifying new revenues rather than simply increasing current taxes.

The representatives from the education community seemed very interested in working with the business community to promote a positive business climate and overall economic development, including responsible natural resource development. The group agreed that the business community needs healthy schools and the school community needs healthy businesses to succeed.

We plan to continue the conversation on education with the MREA, the Montana School Boards Association, the Montana Association of School Superintendents and the School Administrators of Montana. A legislator once said we should control our destiny when we can. It appears this conversation could provide an opportunity for some positive outcomes for our schools.

We would like to thank our board members, Nancy Schlepp, Mike Foster and Doug Hardy for representing our association. In addition we would like to thank Rick Hays, chairman of our board of directors, who was unable to attend this first meeting, but will continue to steer our association toward workable solutions on issues facing Montana taxpayers. More importantly, we would like to thank and recognize the other participants who gave up one of the few sunny September Sunday afternoons to participate in the conversation. We have listed them on our website under [school funding](#).

## ***MREA Action Plan***

1. Collecting information from all Montana schools necessary for making decisions on the status of legal challenges to the current funding system.
2. Opening communications and building relationships with the Montana's business and civic groups in an effort to explain the challenges facing Montana schools.

# Montana Taxpayer

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Wood Products – Henry Ricklefs, Whitefish

3. Promoting major “forums” and other opportunities to increase awareness of the challenges facing Montana schools with the state’s policy makers, legislative leaders and the general public.
4. Working with specialists in public relations to develop and refine the message that our association should be delivering.
5. Direct communication to all Montana elected officials clearly articulating the school funding and other challenges facing our members.
6. Expanding support to those promoting natural resource development within the state as a means of encouraging their support of K-12 education issues and concerns.

### COMPARING TAX BURDENS ACROSS STATES: The Roles of Federal Deductibility and the Alternative Minimum Tax

Anne L. Christensen is a Professor of Accounting and Douglas J. Young is a Professor of Economics at Montana State University. Doug contributes articles for our publication often.

This summary is extracted from *State Tax Notes* 45-2, July 9, 2007, pp. 85-112 and a summary in *Tax Notes*, 116-7, August 13, 2007, pp. 595-598.

#### Introduction

The deductibility of state and local taxes on federal income tax returns has long been supported as a means to moderate inter-area tax differentials, encourage greater state and local reliance on income taxes, and transfer revenue from the federal to the state and local levels. In addition deductions for home mortgage interest

have been defended as a means to promote home ownership. However, the recent President’s Advisory Panel on Federal Tax Reform recommended eliminating deductions for state and local taxes and replacing the mortgage interest deduction with a tax credit, along with several other changes including elimination of the Alternative Minimum Tax (AMT). We contribute to this discussion by evaluating the impact of these deductions and the AMT on combined federal and state-local tax burdens. Specifically, this study provides estimates of the combined burden of state and local taxes and federal income taxes for typical families consisting of two spouses, both of whom work and two children under age 17 at income levels ranging from \$25,000 to \$1,000,000 living in the largest city in each state. Our analysis includes federal and state-local income taxes, property taxes, sales taxes and auto taxes, but not taxes levied on businesses.

The deductibility of state and local taxes and home mortgage interest reduces federal income taxes. However, tax savings vary considerably across states and income levels. First, these deductions provide no benefit for individuals who take the standard deduction rather than itemize. Second, residents of high tax states enjoy greater tax savings on their federal income taxes. Thus, the federal deductibility of state and local taxes offsets some of the cross-sectional variation in state and local tax burdens. Third, tax savings depend on the structure of state and local taxes, since taxpayers can only deduct either state and local income or sales taxes, but not both. Mortgage interest deductions lower taxes more in states with higher home prices. Finally, tax savings depend on a taxpayer’s marginal tax bracket. Under the progressive federal rate structure, deductions are more valuable to higher income taxpayers. However, the AMT does not permit deductions of state and local taxes, thus eliminating most of the associated tax savings.

#### Summary of Findings

The principal findings are:

1. As currently structured, the federal income tax significantly reduces the variability across states in state and local tax burdens (Table 1). The effect is particularly strong at the highest income levels. For example, the standard deviation of combined (state-local plus federal) tax burdens is one-third smaller than the standard deviation of state-local tax burdens alone at the \$1,000,000 income level.
2. The deductibility of mortgage interest on federal and many state income tax returns significantly reduces tax burdens in states with high home values. These states include California, Hawaii, Massachusetts, New Jersey and Oregon, among others.

3. Rankings of tax burdens based on combined federal income plus state and local taxes differ considerably from rankings based on state and local taxes alone. For example, California's state and local tax burden ranks 9th highest among the 50 states and the District of Columbia at the \$100,000 income level, but it ranks 32nd in combined burden.

4. These findings are mitigated for income ranges in which the AMT applies, because the AMT does not allow deductions of state and local taxes. In our analysis, this occurs primarily at the \$250,000 and \$500,000 income levels. Families with \$1,000,000 of income are not typically subject to the AMT, because the graduated rate structure of the regular income tax results in a higher liability than the flat rates of the AMT.

5. States that have some form of refundable earned income tax credit for low income families generally have more progressive tax structures than states without such a credit. On the other hand, there is less progressivity in states that levy relatively high property and other taxes on low income families. The state and local tax rate on high income families plays a significant, but smaller, role in determining progressivity. Overall, state income taxes contribute modestly to progressivity, while the presence or absence of sales taxes makes little difference.

6. Deductions of state and local income taxes on federal income tax returns partially offset any progressivity that may exist in state-local tax systems, because deductions are more valuable to higher income families facing higher federal marginal tax rates. (See Figure 1.)

7. The AMT increases progressivity between lower income levels and the income levels where it typically applies (\$250,000 and \$500,000), but it reduces progressivity between these income levels and the highest level (\$1,000,000).

Reform suggested eliminating both the deduction for state and local taxes and the AMT. The first of these would eliminate the principal interaction between state-local taxes and federal taxes, essentially reversing many of the conclusions from this paper. Thus, eliminating the deduction for state and local taxes would increase the cross-state variation in combined tax burdens, and preserve more of the progressivity of state-local taxes, in states where progressivity exists and at income levels where itemized deductions are common. Eliminating the AMT, if undertaken alone, would create the opposite effects in income ranges where it applies. That is, elimination of the AMT by itself would preserve the deductibility of state-local taxes, thereby decreasing cross-state variation in combined tax burdens.

Home mortgage deductions currently reduce federal income taxes and in many cases state income taxes among taxpayers who itemize their deductions. The President's Advisory Panel on Federal Tax Reform would replace this deduction with a home mortgage interest tax credit equal to 15% of the mortgage interest paid up to 125% of the median sales price for homes in each county. The marginal impact of each dollar of mortgage interest paid in our study reduced total taxes by 21 to 36 cents for taxpayers with incomes between \$100,000 and \$1,000,000. Thus, the Panel's proposal represents a significant reduction in tax benefits for these taxpayers. However, homeowners with mortgages that currently take the standard deduction, such as the taxpayers at the \$25,000 and \$50,000 income levels in our study, would receive this credit under the plan. If this reform plan is adopted, it would likely increase the tax burden on high income taxpayers and reduce the federal income tax liability on low income homeowners, thus increasing the progressivity of the federal income tax.

As an alternative to the President's Panel on Tax Reform, some commentators have suggested eliminating the regular federal income tax and expanding the AMT. This suggestion has been made because in 2009 the AMT, without any change in current tax law, will actually raise more revenue than the regular federal income tax. Although the AMT has fewer deductions and rates than the regular federal income tax, the absence of deductions for state and local taxes would significantly increase burdens from state and local taxes and increase the variability of these burdens among the states. Further, the AMT is not indexed for inflation, permits no deductions for children and imposes greater penalties on married couples than the regular federal income tax.

Currently, many states tie their income tax rules to the federal income tax, thus adopting the same changes as the federal income tax. However, if federal tax reform eliminates the deduction for state and local taxes and alters the home mortgage interest deduction, states may

**Table 1** Variation in Taxes across States

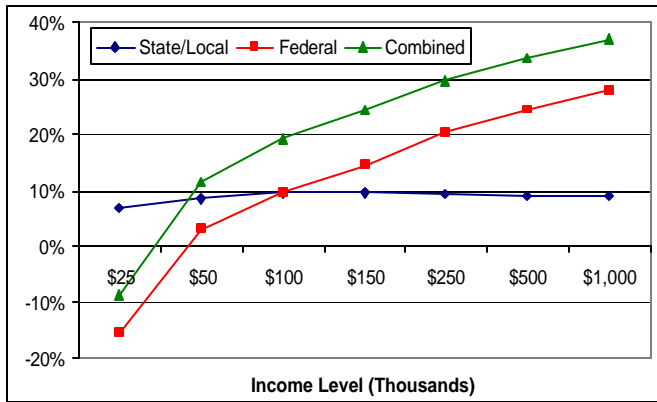
Income Level	Standard Deviations			Correlations (S&L, Federal)
	State & Local Taxes	Federal Taxes	Combined Taxes	
\$25,000	\$518	\$	\$518	-
\$50,000	\$1,084	\$83	\$1,071	-0.20
\$100,000	\$2,436	\$894	\$1,888	-0.73
\$150,000	\$3,882	\$1,318	\$2,995	-0.77
\$250,000	\$7,111	\$1,946	\$6,475	-0.45
\$500,000	\$14,715	\$3,855	\$12,275	-0.72
\$1,000,000	\$30,336	\$13,390	\$19,672	-0.90

**Implications for Tax Reform**

Our results have implications for federal income tax reform. The President's Advisory Panel on Federal Tax

respond to federal tax reform by altering their own tax structures. As many economists have argued, changes in federal rules on deductibility create incentives for states to change their tax mix and for residents to demand such changes. Thus, if these reform proposals are adopted, the federal income tax may no longer play a role in mitigating the variability in state and local tax burdens or encourage state and local governments to rely on income taxes.

**Figure 1. Median Effective Tax Rates**



***The Revenue and Transportation Interim Committee met on Wednesday, September 19***  
**Chair Elections**

At the last meeting, the committee was unable to agree on a chair. Historically, there is a set progression of committee chairs, but this year party politics entered the scene and the committee deadlocked. In an agreement reached prior to the September meeting, Senator Jim Peterson was elected chair and Senator Kim Gillan, Vice Chair. Representative Bob Lake stated although the committee was breaking with long standing tradition, the work of the committee had to go on. He went on to add that it was not in the best interest of the committee to belabor this any longer and that they will work in the spirit of cooperation.

**HJR61 - Study of the linkage between federal and state income taxes.**

Jeff Martin, the lead committee staffer provided background on [HJR61](#). The study was a result of legislation introduced by Representative Jill Cohenour in both the 2005 and 2007 Legislative Sessions that would have decoupled Montana's income tax system from certain provisions under the federal tax system. HJR61 is not concerned with whether to conform but the degree of conformity.

The information on the conformity of the states came from a paper prepared by Harley Duncan of the Federation of Tax Administrators (FTA). Currently, forty one states and the District of Columbia, impose broad-based personal income tax and forty six states impose corporation taxes that utilize net income as part of the base.

State tax bases generally follow the federal base definition of income, deductions allowed, and tax treatment of various transactions. This promotes taxpayer compliance and helps with enforcement efforts.

Individual income taxes typically start with federal AGI (adjusted gross income) or federal taxable income. From that point there are adjustments resulting from state specific deductions, exemptions and other modifications.

Corporation income taxes have substantial conformity with federal law with state modifications. Recently, some states have decoupled or not conformed with changes to the federal tax code. One example of decoupling was disallowing the accelerated depreciation resulting from federal legislation designed to stimulate the economy.

There are two types of conformity: rolling and fixed date.

Rolling conformity automatically conforms to federal law. Twenty states use rolling conformity for individual income taxes and twenty six states for corporation income taxes.

Fixed date conformity is tied to federal law as of a specific date. Legislative action is needed to change the taxable base for the state. Seventeen states use fixed date conformity for individual income taxes and 20 states for corporation income taxes.

Some of the recent federal tax law changes that have led to some states decoupling from certain provisions include:

- Bonus depreciation (Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Act of 2003)
- section 179 small business expensing
- section 199 deduction for qualified production activity income

The federal changes are intended to stimulate economic growth and investment but certain changes may negatively impact state budgets. Conversely sometimes the changes increase state revenues as state taxable income increases as federal taxable income decreases. Before bonus depreciation, all but two states conformed to federal depreciation. Currently only 12 states conform. Twenty-nine states did not conform to either the 2002 or 2003 Acts. Four states conformed to one but not the other. An FTA survey dated June 1, 2005 revealed that twenty-seven states conformed (or are likely to) and nineteen states did not (or likely not to) conform with the deduction for qualified production activity income.

The FTA report concluded that nonconforming can have negative consequences as it leads to a more complex tax system as taxpayers are required to maintain two

different sets of books – one for federal and one for state income taxes. Conforming between state and federal tax systems serves the interests of taxpayers, state tax agencies and the overall health of the intergovernmental fiscal system. It promotes simplification for the taxpayer and increases voluntary compliance with tax law. The interrelationships between federal and state systems are extensive. To a considerable degree, the federal tax base effectively defines the state tax base. In addition, states are heavily reliant on federal compliance and information report mechanisms for the administration of their income taxes. (“*Relationships Between Federal State Income Taxes*” - submitted to the President’s Advisory Panel on Federal Tax Reform, April, 2005, Harley Duncan, Federation of Tax Administrations).

Representative Jill Cohenour, sponsor of HJR61 reminded the committee that the study was brought forward so the committee could understand how we tie to the federal tax code. She believes the Legislature’s duty is to ensure they are not abdicating their constitutional requirement under Article 8, Section 2 of the Montana Constitution - **Tax power inalienable**. The power to tax shall never be surrendered, suspended, or contracted away. She believed it is necessary for the Legislature to “take back control” of Montana’s tax system.

Senators Peterson and Gillan will take suggestions on whether to have a panel discussion or have Mr. Martin prepare a white paper and allow for public input.

[General Fund Status](#)

(ed note: Much of the following information is taken from the fiscal report. Click on the link above for the full report).

**Fiscal Year 2007**

Terry Johnson, Principal Fiscal Analyst, discussed the preliminary balance of the fiscal year 2007 year budget and presented an outlook for the 2009 biennium ([Click here](#) for the power point presentation).

Montana operates on a biennium process. Fiscal Year 2007 (FY07) ended on June 30 and represents the end of the 2007 Biennium. Since the Legislature typically adjourns in April during a Regular Session, they must anticipate what they expect to collect for the current fiscal year as well as anticipate the revenues for the next two years of the biennium. The 2009 Biennium began on July 1, 2007 and ends June 30, 2009. These estimates are contained in HJ2 – the revenue estimate.

When the Legislature adjourned after the May Special Session, they anticipated an ending fund balance of \$458.9 million. Total revenues were expected to be \$36.9 million greater than disbursements. The preliminary general fund balance for FY07 was \$84.6 million (the balance is considered preliminary until the

Legislative Auditor completes the audit in the late fall). This was \$61 million more than anticipated resulting in an ending fund balance of \$543.5 million. Table 1 summarizes which major sources of revenue exceed or were below the original estimate and the reason for the difference.

<u>Revenue Source</u>	<u>Amount</u>	<u>Preliminary Explanation</u>
Individual Income Tax	\$33.3	Non-wage income growth
Corporation Income Tax	16.4	Audits, profits
Oil & Natural Gas Production Tax	10.1	Commodity price
TCA Interest	6.5	Invested balance
Lottery Profits	3.1	Larger jackpots
Coal Trust Interest Earnings	2.4	Interest Rates
All Other Revenue	(15.9)	SABHRS entry error, delayed sale
Remaining Revenue Sources	<u>5.3</u>	Numerous explanations
Total Change	<u>\$61.2</u>	

The growth in income taxes is not expected to be attributable to wage growth since the Legislature adopted a growth rate of 9.5 percent and the actual growth rate was 8.6 percent which is below the assumption (Bureau of Economic Analysis). Other explanations for the higher growth could be from larger capital gains, increases in royalty payments, higher net business income reportable as individual income taxes. Corporation taxes were \$16.4 million higher than the estimate. The primary cause was due to increased audit collections. Actual audit collections were \$26.8 million, while the estimate was \$4 million. On the other hand, corporation refunds were estimated to be \$13.8 million while actual refunds were \$26.2. The net result of these two changes account for \$10.4 million of the increase. Increased corporate profitability most likely explains the remaining \$6 million.

The “all other revenue” category was \$15.9 million below the HJ2 revenue estimate. An encoding error in the state accounting system accounted for \$8.2 million of the difference. Approximately \$3.5 million was from a sale of the Missoula Armory expected to take place in FY07 that will not occur until FY08.

**2009 Biennium Projection**

Table 2 shows the updated projections for the 2009 Biennium taking into consideration the additional revenues from FY07. The revenue estimate of \$3.6 billion for the biennium is based on the revenue estimates in HJ2. Total disbursements are based on the appropriations from the Regular and May Sessions (including the triggers from HB2 and HB9 discussed below) and estimated budgeted transfers and reversions. This table also shows the costs of the September Special Session.

(Table 2 also lists the total appropriations as a result of the September Special Session on fire fighting costs).

Beginning Fund Balance	\$ 543.5
Revenues	<u>3,645.4</u>
Available Funds	\$4,188.9
Total Disbursements	3,989.8
Adjustments	8.2
Ending Fund Balance Before Special Session	\$207.3
Special Session Feed Bill	0.132
Total Special Session	\$82.332
Special Session Feed Bill	0.132
Wildfire Study	0.200
Department of Natural Resources	39.000
Department of Military Affairs	3.000
Transfer to Fire Fund	40.000
Ending Fund Balance with Special Session Action	\$125.0

### Fiscal Policy Triggers

The legislature enacted two triggers during the Special Session that were based on the amount of revenue collected during FY07. HB2 provided for \$30 million more to the Office of Public Instruction for distribution to school for capital investment and deferred maintenance payments. The trigger was activated if revenues exceeded \$1.762 billion based on the current law revenues contained in HJ2.

HB2 states: *“if the unaudited general fund revenue received in fiscal year 2007 exceeds \$1,762,355,000, then the amount of the general fund unaudited revenue for fiscal year 2007 that exceeds \$1,762,355,000, up to \$30 million, is appropriated to the office of public instruction for distribution to schools in accordance with [LC 4] for the capital investment and deferred maintenance one-time-only payment.”*

HB9 contained a trigger for an income tax credit based on FY07 revenues exceeding \$1.802 billion. Taxpayers were to receive tax credits for every million dollars the collections exceeded this amount.

The language contained in HB9 states *“(ii) The department of administration shall certify to the budget director on August 1, 2007, the amount of unaudited general fund revenue received in fiscal year 2007 as recorded when the fiscal year 2007 statewide accounting, budgeting, and human resources system records are closed in July 2007. Fiscal year 2007 is the period from July 1, 2006, to June 30, 2007. General fund revenue is as recorded in the statewide accounting, budgeting, and human resources system using generally accepted accounting principles in accordance with 17-1-102(2). If the unaudited general fund revenue received in fiscal year 2007 exceeds \$1,802,000,000, for each \$1,000,000 greater than \$1,802,000,000, the factor in*

*subsection (1)(b)(i) must increase by 0.1 for tax year 2007 only.*

The Legislative Fiscal Division raised two issues regarding the implementation of the fiscal policy triggers:

1. The language contained in HB2 and HB9 does not allow the executive the authority to adjust the fiscal year 2007 revenue collection amounts. While HB2 language references fiscal year 2007 revenue collections in general terms, HB9 specifies that the fiscal year 2007 revenues are *“as recorded when the fiscal year 2007 statewide accounting, budgeting, and human resources system records are closed in July 2007”*. The certification letter from the Department of Administration acknowledges that the fiscal year 2007 certified revenue amount *“includes an error that was discovered after the records were closed in July 2007”*. This means the certified revenue amount was overstated by \$8.2 million; and
2. The language in HB9 states, in part, that *“general fund revenue is as recorded in the statewide accounting, budgeting, and human resources system using generally accepted accounting principles in accordance with 17-1-102(2)”*. Based on information from the Department of Administration, state accountant, general fund revenue as defined by generally accepted accounting principles does not include certain items. These items are transfers, proceeds of general fixed asset disposition, and inception of lease amounts. If these items had been excluded, then fiscal year 2007 revenues as defined by generally accepted accounting principles would have been \$1,769,007,440 or about \$69 million less than the amount certified by the executive. If this definition had been used as prescribed by law, then no funds would be available for tax credits. In the certification letter, the Department of Administration points out that the certified revenue amount is different than the amount used in the preparation of the state’s comprehensive annual financial report (CAFR). The CAFR is prepared according to generally accepted accounting principles.

*What does it all mean?*

Not one of the committee members objected to the calculation of revenues from HB2 for schools. The only questions resulted from the uncertainty of the calculation of the certification of revenues for HB9. Senator Story stated they have a legal responsibility as legislators to ensure they have complied with the law as passed. The information provided by the Legislative Fiscal Division appeared to conflict with the information and final number as certified by the administration. The documents can be found on our website under 2007 – 2008 Interim, Revenue and Transportation, [montax page](#).

Other members of the committee agreed with Senator Story's concern that if the number certified by the administration is later found illegal or in error, what would be the consequences to the state. Now that the committee was given the information, what should they do with it?

Representative Jopek reminded the committee that HB9 came about very quickly at the end of the May Special Session as well as HB2. He believed that the same definition of revenues applied to both bills despite the conclusion of the Legislative Fiscal Division.

Senator Story asked if the administration had completed a legal analysis. A representative from the Budget Office said the revenues were based on the revenue estimates contained in HJR2 (an estimate of future revenues and not based on revenues actually received). A copy of the Budget Office's analysis of HB9 – The Intent of Section 6(1)B(ii) is also available on our website.

Senator Peterson, chair of the committee said a legal opinion by their legislative staff was probably in order. After the opinion is received by the committee, the administration would have an opportunity to respond. Once again he pointed out that this was not an effort by the committee to disallow a rebate of tax dollars to taxpayers, but the committee should have a legal review of the process in case the certified number is ultimately found improper by the Legislative Auditor's Office.

#### [SJR31 Study and Summary of SB554](#)

Jeff Martin presented a report on [SJR31](#), introduced by Senator Jeff Essmann that requests a study of taxation and school funding and summary of his original bill, [SB554](#) that would have revised the funding of public schools and revenue sources used to support schools.

The study requests the committee to examine the future viability of the use of property taxes to fund education given our changing demographics and our heavy reliance on property taxes to fund education currently. The study also requests the committee to look at wide variations that exist in distribution of the industrial and business equipment classes of property among the schools districts and suggests this contributes to the difficulty of equalization. The concept of a statewide school equalization for these properties is to be explored and finally, how a statewide general sales tax might also be used to promote equalization. The link will take you to Jeff's report and describes the study and SB554 in more detail.

We will be following this issue closely both in this committee and in our continuing discussion with the education community. One of the points we continue to hear from the business community is the critical need for stability and predictability of Montana's tax system. This is particularly true for the property tax system in Montana.

#### Report of the Department of Revenue

The department presented a large packet to the committee covering activities of the DOR.

- \$400 Rebate: In the first three weeks, an estimated 73 percent of all eligible homeowners applied for the rebate. The department has already processed over \$53 million of payments to taxpayers. Error-free returns have been paid in 2-3 days. Paper returns are being paid in two weeks (which they believe will improve). The refund process is the first implementation of new on-line filing Taxpayer Access Point (TAP) system authorized by the 2007 Legislature.
- DOR Major Case Issues and Decisions June 2007 – September 2007 (this report as well as the following handouts can be found on our website under [Litigation](#))
  - STAB decision on Northwestern
  - Centrally Assessed Taxes Under Protest
  - Settlement agreement with Fulton
  - Memo from CA Daw on Kentucky v Davis and CSX v Gergia Summaries
- Compliance – on our website under 2007 – 2008 Interim Committees, Revenue and Transportation, [montax page](#)
  - Business and Income Taxes Division – Compliance and Collections Fiscal Year End 2007 Report
  - DOR – Administrative Efforts to Correct Abusive Tax Shelters.
- The department also reported on their efforts to contact property owners who may have been affected by fires this summer. If your property was damaged, contact your local appraisal office or call the Department of Revenue at (406)444-6900.
- The department is in the process of refining their definition of qualifying property for the energy conservation tax credit. They have been working with representatives from the Department of Environmental Quality for assistance in determining the appropriate expenditures. They are in the process of drafting rules and will also be adding information to their website beginning December, 2007. Taxpayers completing form ENRG-c or other energy credit forms will be directed to access this website for more detailed information regarding the credit.

The **Energy Conservation Installation Credit** is a tax credit applied against a taxpayer's income tax liability. Montana resident individuals can claim the credit for energy conservation investments made to a home or other building. The credit is equal to 25% of expenses, up to a maximum credit of \$500. Two

or more people may each qualify for the credit, as long as the building in which the investment is made is owned by all of the people claiming the credit. For example, a couple who jointly own their home may each claim a credit up to \$500 each or \$1,000 for the couple. To qualify for this credit, a taxpayer will have to show that the investment will reduce the waste or dissipation of energy or reduce the amount of energy required to accomplish a given amount of work. Examples of qualifying projects are a hot water heater, a household heating or a cooling system (either new installation or replacement) that achieves an energy conservation purpose. For further instructions on the energy conservation credit and to calculate this credit, see [Montana Form ENRG-C](#). When claiming this credit, a taxpayer will have to attach Montana Form ENRG-C to the income tax return.

- The Department also provided an in-depth discussion on the upcoming 2009 reappraisal of real property. The current reappraisal cycle is six years. When the new values were placed on the tax rolls in January of 2003, the legislature phased the values in each year. In addition they increased the homestead and comestead exemptions and reduced the tax rate for each of the six years to make the valuation increases revenue neutral. Values for 2009 will be based on 2008 costs, income and markets values that will be developed by the department. The Revenue and Transportation committee will oversee the process and suggest legislation for the 2009 Legislature as the reappraisal process proceeds.

- **Upcoming Administrative Rules**  
The Department will be drafting administrative rules to address the following topics. This list is available on their website. We have not seen any of the draft proposals at this point.

**Income and Business Taxes:**

Bad Debt Transfers  
Health Insurance Credit  
Lodging Facilities Use Tax  
Rental Vehicle Tax  
Biodiesel Credit (HB166)  
Qualified Endowment (SB150)  
Filing Requirements for Married Persons (SB281)  
Mineral Royalty Withholding (SB439)  
Property Tax Credit for 2006 Tax Year (HB9)  
Film Credit (HB40)  
Energy Conservation Expenditure Credit  
Voluntary Disclosure for All Tax Types  
Alternative Energy  
Abandoned Property

**Property:**

Agricultural Lands (SB549)  
Property Exemptions for Disabled Veterans (SB403)  
Property Tax \$400 Refund (HB9)  
Clean and Green Energy Tax (HB3 - Spec. Ses)

**December Meeting of RATIC – December 6 & 7**

On the agenda for December will be a presentation on federal conformance, an update of reappraisal and estimated effects on schools as a result of changing the process on statewide mills for education as suggested under SJR31. Subcommittees may be assigned to look more closely at reappraisal and SJR31.