

HOUSE BILL 220

Introduced by Raney, et al.

1/16	Introduced
1/16	Referred to Taxation
1/17	First Reading
1/21	Fiscal Note Requested
1/25	Fiscal Note Printed [sic.]
1/25	Fiscal Note Received
1/25	Hearing
1/25	Tabled in Committee

1 House BILL NO. 220
 2 INTRODUCED BY Raney Yellowtail
 3 Rufe Kaden David Kimberly Hager
 4 A BILL FOR AN ACT ENTITLED: "AN ACT IMPOSING A TAX ON
 5 MERCHANTABLE LOGS TO WHICH NO VALUE-ADDED PROCESSING IS
 6 APPLIED IN MONTANA; PROVIDING THAT THE PROCEEDS OF THE TAX
 7 BE PLACED IN A NONEXPENDABLE TRUST FUND, WITH THE INTEREST
 8 AND INCOME FROM THE TRUST TO BE USED FOR GRANTS FOR RESEARCH
 9 AND DEVELOPMENT OF VALUE-ADDED PROCESSING FOR WOOD PRODUCTS
 10 AND FOR REFORESTATION OR FOR REHABILITATION OF AREAS DAMAGED
 11 BY FOREST PRACTICES; AND PROVIDING AN APPLICABILITY DATE."
 12

13 STATEMENT OF INTENT

14 A statement of intent is required for this bill because
15 it grants rulemaking authority to both the department of
16 revenue and the department of commerce.

17 It is the intent of the legislature that the rules
18 adopted by the department of revenue provide the procedure
19 and format for reporting the tax on unprocessed,
20 merchantable logs. The department of revenue shall cooperate
21 with the department of highways in obtaining data from weigh
22 stations to verify reporting requirements.

23 The rules adopted by the department of commerce must
24 provide the procedure for applying for grants and provide
25 the criteria by which grant proposals will be evaluated and

1 awarded. The department of commerce rules must be based on
2 existing grant programs.

3
4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

5 NEW SECTION. Section 1. Tax on unprocessed
6 merchantable logs -- rate. (1) There is a tax on
7 merchantable logs to which no value-added processing has
8 been applied in Montana within 4 months of harvesting. The
9 owner of the logs at the time of harvesting is liable for
10 the tax.

11 (2) Unprocessed, merchantable logs are taxed at 4% of
12 market value. The department of revenue shall determine the
13 market value of logs from:

- 14 (a) the records that the department of highways obtains
- 15 from weigh stations; and
- 16 (b) the manifests of railroad shippers.

17 (3) For purposes of this section, "value-added
18 processing" includes but is not limited to cutting into
19 firewood, treating for posts, peeling for log homes, sawing
20 for lumber, or any other procedure that adds to the value of
21 the unprocessed, merchantable log.

22 NEW SECTION. Section 2. Payment of tax -- rulemaking
23 -- estimated value -- delinquency. (1) The tax on
24 unprocessed, merchantable logs imposed by [section 1] is
25 payable to the department of revenue quarterly on April 30,



1 July 31, October 31, and January 31. The department shall
2 adopt rules that provide for the reporting requirements and
3 procedure for paying the tax imposed by [section 1].

4 (2) If the owner of unprocessed logs does not pay the
5 tax due on the logs, the department shall estimate the value
6 of the logs and impose the tax.

7 (3) Delinquent taxes must be collected in the manner
8 that delinquent property taxes are collected.

9 NEW SECTION. Section 3. Disposition of tax proceeds.

10 The department of revenue shall forward all taxes on
11 unprocessed, merchantable logs to the state treasurer, who
12 shall deposit the tax proceeds in the trust fund created in
13 [section 4].

14 NEW SECTION. Section 4. Trust -- grants for

15 value-added research and development -- reforestation --
16 rehabilitation -- rulemaking. (1) There is a nonexpendable
17 trust fund in the state treasury. The proceeds of all taxes
18 collected pursuant to [sections 1 through 3] must be
19 deposited in the fund. The department of commerce shall
20 administer the trust. The corpus of the trust is inviolate.

21 (2) (a) The interest income of the trust must be used
22 by the department for:

23 (i) grants for research and development of value-added
24 processing for wood products;

25 (ii) reforestation; or

1 (iii) rehabilitation of areas damaged by forest
2 practices.

3 (b) The research and development funded by the grants
4 must be performed in Montana.

5 (3) The department may adopt rules that prescribe the
6 procedures for applying for and awarding grants.

7 NEW SECTION. Section 5. Codification instruction. (1)

8 [Sections 1 through 3] are intended to be codified as an
9 integral part of Title 15, and the provisions of Title 15
10 apply to [sections 1 through 3].

11 (2) [Section 4] is intended to be codified as an
12 integral part of Title 90, chapter 2, and the provisions of
13 Title 90, chapter 2, apply to [section 4].

14 NEW SECTION. Section 6. Applicability. [Sections 1 and

15 2] apply to contracts entered on or after October 1, 1991.

-End-

STATE OF MONTANA - FISCAL NOTE
Form BD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for HB0220, as introduced.

DESCRIPTION OF PROPOSED LEGISLATION:


An act imposing a tax on merchantable logs to which no value-added processing is applied in Montana; providing that the proceeds of the tax be placed in a nonexpendable trust fund, with the interest and income to be used for grants for research and development of value-added processing for wood products and for reforestation or for rehabilitation of areas damaged by forest practices; and providing for an applicability date.

ASSUMPTIONS:

1. Exports of raw logs from Montana were 83 MMBF (million board feet) in 1988 (Bureau of Business of Economic Research).
2. Average market price for logs of all species and grades at the mill gate was \$190 per MBF (thousand board feet) in 1988 (BBER). Average market price at the mill gate is used as a proxy for average market value as described in the proposed legislation.
3. All logs sold to or owned by in-state processing entities receive value-added processing within the 4 month time limit specified in the proposed legislation.
4. All revenue from the tax is deposited in the trust fund. Deposits into the fund in each fiscal year will be invested in short term instruments for one month and then long term securities. The previous year collections will remain invested in long term securities.
5. Short term interest rates will be 8.10% and 8.36% in FY92 and FY93, respectively. Long term rates will average 9.35% in FY92 and 9.46% in FY93. (OBPP)
6. The Department of Revenue would require 4.00 FTE to administer the proposed tax in each fiscal year. In addition, 1.50 FTE would be required for development costs of a computer system in FY92. Operating expenses would be \$38,049 in FY92 and \$28,015 in FY93. Equipment costs would be \$40,695 in FY92 only.

FISCAL IMPACT

see next page


ROD SUNDSTED, BUDGET DIRECTOR DATE 1-24-91
Office of Budget and Program Planning

BOB RANEY, PRIMARY SPONSOR DATE

Fiscal Note for HB0220, as introduced

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FISCAL IMPACT:

Expenditures:
 (Department of Revenue)

	FY 92			FY 93		
	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>
F.T.E.	0.00	5.50	5.50	0.00	4.00	4.00
Personal Services	0	166,823	166,823	0	107,283	107,283
Operating Expenses	0	38,049	38,049	0	28,015	28,015
Equipment	0	40,695	40,695	0	0	0
Total	0	245,567	245,567	0	135,298	135,298

Funding:

General Fund (01)	0	245,567	245,567	0	135,298	135,298
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Revenues:

Average market value and volume of the export of raw logs are likely to vary dramatically from year-to-year. Hence the revenue impact could also vary substantially. For each million board feet MMBF of raw logs exported or not processed within four months the tax would raise approximately \$ 7,600 in revenue.

	FY 92			FY 93		
	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>
Log Export Tax (09)	0	315,000	315,000	0	631,000	631,000
Trust Interest Earnings (09)	0	8,262	8,262	0	61,554	61,554

TECHNICAL NOTES:

The proposed legislation may have a problem with the federal interstate commerce clause because the tax benefit is not neutral as to both in-state and out-of-state business.

It may be difficult to ascertain that a value-added process had been applied within 4 months of harvesting for any shipment of merchantable logs passing through a weigh station.

Most roads or highways leading out of the state that bear this type of traffic are not covered by weigh stations

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