MINUTES

MONTANA HOUSE OF REPRESENTATIVES
52nd LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By DAN HARRINGTON, CHAIR, on February 13, 1991, at 9:02 AM

ROLL CALL

Members Present:

Dan Harrington, Chairman (D)
Bob Ream, Vice-Chairman (D)
Ben Cohen, Vice-Chair (D)
Ed Dolezal (D)
Jim Elliott (D)
Orval Ellison (R)
Russell Fagg (R)
Mike Foster (R)
Bob Gilbert (R)
Marian Hanson (R)
David Hoffman (R)
Jim Madison (D)
Ed McCaffree (D)
Bea McCarthy (D)
Tom Nelson (R)
Mark O'Keefe (D)
Bob Raney (D)
Ted Schye (D)
Barry "Spook" Stang (D)
Fred Thomas (R)
Dave Wanzenried (D)

Staff Present: Lee Heiman, Legislative Council
Lois O'Connor, Committee Secretary

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

Hearings on HB 550 and HB 532

Presentation and Opening Statement by Sponsor:

REP GRADY, House District 47, Canyon Creek, stated HB 550 puts a 6% tax on short-term car rental for larger rental companies. It excludes smaller dealer rental companies, as short-term rentals comprise a small percentage of their business. Although the funds that would be generated by these two bills are intended for different accounts, they deal with essentially the same proposal. The funds generated by the proposal of HB 550 would go to a general parks account. It does not specify whether the funds are for operation, management, or capital costs. We are asking for flexibility in use of funds.

The Department of Revenue has drafted amendments to the bill. **EXHIBIT 1** Our fiscal note set the anticipated generated funds at $600,000 per year, while the DOR anticipates $1.2 million will result from this tax. Both parties are checking their fiscal amounts.

This is a single-industry tax, but this is nothing new to the state. We already have the bed tax, for example. We have contacted many major car rental companies in the state; the majority expressed no opposition. If this tax were implemented, we could offer incentives such as acknowledgements of rental companies as funding sources in park literature, and discount park admissions for short-term car renters. This could benefit the car rental industry. As our parks grow and we make them more accessible to the public, out-of-state business to car rentals will increase.

REP. SOUTHWORTH, House District 86, Billings, stated HB 532 is very similar to that introduced by **REP. GRADY.** HB 532, however, will put the money generated into the General Fund.

Proponents Testimony:

Janet Ellis, Montana Audubon Legislative Fund, stated the state parks are in dire need of funding. This is one of several bills that seeks to improve the parks system. There are approximately 15 firms with 67 outlets for short-term car rental in Montana. Eighty to one hundred percent of their gross annual earnings comes from non-resident rentals. With this bill, non-residents can help improve something that all Montanans will benefit from.

Marcella Sherfy, Montana Historical Society, provided written testimony. **EXHIBIT 2**

Opponents Testimony:

Dale Duff, Hertz Rent-a-Car, stated contrary to prior testimony, the car rental industry is opposed to both of these bills. We're not opposed to fair taxation, nor are we opposed to parks. We pay our fair share of fuel, income, property, and license plate taxes, but we feel these bills are a selective sales tax. Concerning the industry benefits spoken of earlier, there are no statistics available that state how many of our customers use parks. In the last legislative session, tourism was recognized as a growing Montana industry, and car rental businesses were seen as contributors to that industry. That legislature tried to attract more people to Montana who would in turn rent more cars. To reverse direction and tax the car rental industry seems inconsistent.

Rob Doyle, Avis Rentals, stated these bills are a selective sales tax. Tourists also use restaurants. Why aren't the restaurants taxed, or why isn't a general sales tax implemented?

Harold McGruger, Payless Car Rental, stated they are highly opposed to this selective tax. People who rent cars do not generally do so to visit state parks.

Bill Petrite, U-Save Rental, stated although we are a small rental business, we too feel this is a discriminatory tax. If we need to pay for state parks, there are other contributors in the state who should also pay.

Jerry Woodell, Hertz Rent-a-Car, stated he doesn't know of one owner of a Montana car rental company who would support this bill. Even if 80-90% of our business comes from out of state, only 40% of that business is tourist-related. We're all in favor of promoting tourism in Montana, and if this tax were to benefit our industry in the way the bed tax does the motel industry, we'd be more apt to favor it.

Larry Ecke, Montana Car Rental Association. stated four of the seven major franchises in the state have voiced their opposition to this bill. He is presenting the three others who also oppose HB 532 and HB 550. We don't disagree with the statistics presented by the proponents; however, we do disagree with their method of inquiry. Statements of employees cannot be taken as statements of company policy. There are also vague statements in the bill; specifically, the exclusion of those dealerships whose rental business is an "incidental part" of the business. The scope of "incidental" is not defined. The exclusion of smaller rental businesses sets up discrimination within the car rental industry, which we also oppose.

Keith Turkwood, Montana Auto Dealers Association, stated many of our car rentals not tourists, but Montana consumers who have taken their car in for repair and need a short-term rental. They already pay taxes on the vehicles they own and should not be taxed again.

Questions and Discussion from Committee:

REP. NELSON asked **REP. SOUTHWORTH** if HB 532 included leased cars as well as rental cars. **REP. SOUTHWORTH** said it included short term leases. **REP. NELSON** asked for his definition of short-term lease. **REP. SOUTHWORTH** submitted amendments to HB 532 and deferred the question to **Judy Rippingale, DOR,. EXHIBIT 3**
REP. NELSON said his concern is that if he chooses to acquire a new automobile on a lease rather than a purchase basis, would those long-term leases be included. **REP. SOUTHWORTH** said that was not his intention. **Ms. Rippingale** said the amendments do not change the policy of the bill. In order to address the issue of not taxing long-term leases, further amendments are needed.

REP. COHEN asked **REP. GRADY** if HB 550 raises the $1.2 million the fiscal note claims it will, can we do away with the regressive fee placed on citizens for use of state parks? **REP. GRADY** said if we get a sufficient amount of funding, we will do away with the fee. **REP. THOMAS** asked what is the connection between parks and car dealerships. **REP. GRADY** stated there are 1200 new visitors to the state parks system, coming from several foreign countries and provinces as well as other states. These people do not all come in their own vehicles. There is definitely a connection between park tourism and rental car business. This will increase as the park system improves. **REP. THOMAS** asked if the dealer exemption create an unfair situation between dealers. **REP. GRADY** stated most dealers are not in the rental car business. Rentals are usually a small part of car dealers' business.

Closing Statement by Sponsors:

REP. GRADY stated selective taxes are not a new concept in Montana. No one complains about paying a bed tax, which has benefitted the travel industry. HB 550 attempts to build up a parks system which needs funding. This is only a portion of the funding the system needs. We did try to talk to every rental business in this state. Ninety percent were in favor of this bill. This is a good source of funding which ties in well with the parks system, and it won't hurt Montana consumers that much. We need to start rebuilding our parks system.

REP. SOUTHWORTH stated HB 532 would do a great deal to benefit the General Fund.

Hearings on HB 457 and HB 458

Presentation and Opening Statement by Sponsor:

REP. ELLIOTT, House District 51, Trout Creek, stated the excess profits tax is not a new concept. During WWI, all national businesses were taxed 60% on all profits above 32% to help finance the war effort. HB 457 and HB 458 are similar in intent. They are both simple bills and easy to administer. They use definitions and formulas already existing in the Montana Code, and do not place an extra burden on company accountants. Those companies not operating exclusively in Montana may use the three-factor formula to allocate profits.

These bills, one for coal production and one for oil and gas production, levy a 50% tax on profits in excess of 20% investment return after applicable state and local taxes, and a $100,000 deductible for oil and gas companies. From a company which had a 40% profit, the excess profit tax would take 10% of the profit leaving a 30% return on the investment. Profits are defined as net income in excess of 20% after state and local taxes are subtracted.

The people of Montana must share in excess profits because the people have been picking up the tab for the tax breaks that enable those profits to exist. Nationally, many oil and gas companies have been realizing substantial profit gains, especially since the onset of war in the Persian Gulf. Exxon's quarterly profit went up 21%; Chevron's quarterly profit in 1990 was 2 1/2 times the fourth quarter profit of 1989; Shell and Amoco both realized a 69% profit increase. The primary argument against this bill will be "unworkability". He intends to refute that argument.

Proponents Testimony:

Samantha Sanchez, Montana Alliance for Progressive Policy, stated this is not a general increase in the corporate tax. This is a tax that is only paid if the oil, gas and coal industries have a profit in excess of 20% after all production expenses and taxes. If the industry is not that profitable, no tax will be paid.

Opponents Testimony:

William W. Ballard, Balcron Oil provided written testimony. **EXHIBIT 4**

Kneelon Teague, Teague Geological, Inc., provided written testimony. **EXHIBIT 5**

SEN. TVEIT stated his role as a Senator is to do what he thinks is right for Montana. This bill does not do that. He served on the Northeast Montana Land and Mineral Association for eleven years, and have observed oil companies in Montana and North Dakota. This year is the smallest ever for Montana oil production; it is also North Dakota's most productive year. This is largely because of our higher severance taxes, as well as our property tax structure. As legislators, we must ask ourselves whether we want to maintain a competitive environment in Montana for businesses, including oil, coal and gas. This bill will send a message to industries that Montana is not a good place to do business. Inconsistent tax policies will damage our business environment. This bill sets a bad precedent for Montana.

Jim Kerr, Nance Petroleum Corp. provided written testimony. **EXHIBIT 6**

Jerry Branch, Branch Oil and Gas provided written testimony. **EXHIBIT 7**

Mike Steven, Montana Oil, Gas and Coal Counties, stated excesses in many of the oil and gas producing counties are short-lived. These industries need to get back on their feet, and this bill will not help them do that.

Dean Swanson, T-S Oil, stated these bills are devastating to an already dying industry.

Dennis Burr, Montana Taxpayers Association, said there is no such thing as an excess profit. The rate of return in riskier investments must be higher in order to draw capital. If there is a tax situation in Montana that prevents profits from rising, the capital will flow to another region. The main beneficiaries of oil and gas taxes in Montana are local governments and schools. If we continue to implement practices that inhibit oil and gas production and exploration, these beneficiaries will lose funds.

George Gillespie, geologist, spoke in opposition to the bills.

Jim Lockwood, Montana Oil and Gas stated these bills tell industries Montana does not want high-risk, capital-intensive companies.

Steve Palmbush, MSR Exploration, Ltd., provided written testimony. **EXHIBIT 8**

Gloria Plodichuk, Richmond County Commissioner, stated the losers in this situation are local governments, the severance tax, and the Foundation Program. This bill tells Eastern Montana counties that the state isn't concerned about their survival.

Brent Ward, Sheridan County Commissioner, asked those county commissioners in opposition to HB 457 to stand. Nine commissioners stood.

Sheldon Frisbee, MSR Exploration, stated there is a ripple effect to the cessation of oil and gas production in Montana. Schools and local governments will lose substantial royalty revenue with every decrease in oil and gas production. Last year, UnoCal drilled 5 wells in Glacier County; this year, the company is drilling 135 wells on the Blackfeet Reservation. This is due to high taxes elsewhere. The northern region of Montana is rapidly losing oil and gas business; this bill will accelerate that loss. **EXHIBIT 9**

Forrest Boles, Montana Chamber of Commerce, stated taxing excess profits is contrary to the tenets of a free enterprise system. It is a tax which penalizes success.

REPS. GILBERT, M. HANSON, NELSON, FOSTER, and HOFFMAN opposed HB 457 and HB 458.

Questions and Discussion from the Committee:

REP. THOMAS said these bills are very narrow. Why not apply an excess profit tax across the board including the beef industry? This bill assesses an excess profit, but doesn't allow a deduction if these companies don't realize a profit.
REP. ELLIOTT said if the companies have a net operating loss in

the first place, these bills don't affect them. They only apply in the case of profits in excess of 20% of investment.

Closing Statement by Sponsor:

REP. ELLIOTT said **Mr. Ballard's** graph assumes an excess property tax will raise production costs. Taxes have no effect on production or operation costs. The bill's opponents say that tax policies inhibit drilling and exploration, but this isn't unique to Montana. Oil and gas companies place states in competition with one another for their business. When they ask states for tax breaks, they get them. There is a large discrepancy as to what affects oil production in Montana. Taxation is third on the list of disincentives, preceded by the state's geology and the general volatility of the oil and gas market. These bills address profits, not costs.

We are told that tax breaks lead to profits, but never receive concrete figures. As legislators, we're in business increase the business of tax dollars. We have an obligation to taxpayers as oil and gas companies do to stockholders. Nationally, gas and oil companies' profits have risen, and these bills will tell us what percentage of that increase is attributable to Montana. Taxing profits is better than raising taxes across the board. Montanans must share in the profits that tax cuts have generated. If profits remain low, there will be no tax on excess profits.

Hearing on HB 558

Presentation and Opening Statement by Sponsor:

REP. REAM, House District 54, Missoula, stated last session the Legislature passed a bill turning revenue estimates over to the Revenue Oversight Committee. At present, there is duplication of efforts. The executive and legislative branches need a common understanding of revenue. During the regular session, the taxation committee must carry that estimate forward. Revenue estimates of the legislature are intended to be used by all agencies. **Curt Nichols, Office of Budget and Program Planning,** provided an amendment to require the revenue estimates noted in HB 558 be available by December 1. **EXHIBIT 10**

Proponents Testimony: None

Opponents Testimony: None

Questions/Discussion from Committee: None

ADJOURNMENT

Adjournment: 10:55 AM

Dan Harrington

DAN HARRINGTON, Chair

Lois O'Connor

Lois O'Connor, Secretary

DH/lo

HOUSE OF REPRESENTATIVES

TAXATION COMMITTEE

ROLL CALL

DATE 2/13/91

NAME	PRESENT	ABSENT	EXCUSED
REP. DAN HARRINGTON	X		
REP. BEN COHEN, VICE-CHAIRMAN	X		
REP. BOB REAM, VICE-CHAIRMAN	X		
REP. ED DOLEZAL	X		
REP. JIM ELLIOTT	X		
REP. ORVAL ELLISON	X		
REP. RUSSELL FAGG	X		
REP. MIKE FOSTER	X		
REP. BOB GILBERT	X		
REP. MARIAN HANSON	X		
REP. DAVID HOFFMAN	X		
REP. JIM MADISON	X		
REP. ED MCCAFFREE	X		
REP. BEA MCCARTHY	X		
REP. TOM NELSON	X		
REP. MARK O'KEEFE	X		
REP. BOB RANEY	X		
REP. TED SCHYE	X		
REP. BARRY "SPOOK" STANG	X		
REP. FRED THOMAS	X		
REP. DAVE WANZENRIED	X		

EXHIBIT 1
DATE 2-13-91
HB 550

BRIEF EXPLANATION OF AMENDMENTS TO HB NO. 550

1) The amendments tighten the exemption for car dealers which was vague. If the car dealer gets more than 5% of his gross business from renting cars he would be subject to the tax.

2) The amendments supply the standard DOR clauses for
   a) when the tax is due and
   b) audits, statute of limitations, refunds, warrants for distraint, interest and penalties, and closing agreements.

3) A provision has been added which will allow the Department to automatically spend the 5% of the tax set aside for administering the tax.

4) The penalty provisions have been increased from 2% to 10%. A 2% penalty does not generally prompt compliance.

6) The effective date was changed to passage and approval to allow the Department time to prepare forms and educate taxpayers.

STORED UNDER H:\HB550.AMD

Ex. 1
2-13-91

AMENDMENTS TO HOUSE BILL NO. 550

1. Page 2, line 20.
Following: "whose"
Strike: "primary"

2. Page 2, line 21.
Following: line 20
Strike: "is"
Insert: "includes"

3. Page 2, line 24.
Following: "as"
Strike: "an incidental part"
Insert: "less than 5%"

4. Page 2, line 24.
Following: "the"
Strike: "dealership business"
Insert: "dealership's gross sales"

5. Page 3, line 8.
Following: "due"
Strike: "within 30 days"
Insert: "on or before the last day of the month"

6. Page 3, line 13.
Following: "returns"
Insert: "--statute of limitations--"

7. Page 4, line 1.
Strike: subsections (4) and (5) in their entirety.
Insert: "(4) If the department determines that the amount of taxes due are greater than the amount disclosed by the return, it shall mail to the taxpayer a notice of the additional taxes proposed to be assessed. Within 30 days after the mailing of the notice, the taxpayer may file with the department a written protest against the proposed additional taxes, setting forth the grounds upon which the protest is based, and may request in its protest an oral hearing or an opportunity to present additional evidence relating to its tax liability. If no protest is filed, the amount of the additional taxes proposed to be assessed becomes final upon the expiration of the 30-day period. If such protest is filed, the department shall reconsider the proposed assessment and, if the taxpayer has so requested, shall grant the taxpayer an oral hearing. After consideration of the protest and the evidence presented in the event of an oral hearing, the department's action upon the protest is final when it mails notice of its action to the taxpayer.

(5) When a deficiency is determined and the taxes become final, the department shall mail notice and demand to the

Ex. 1
2-13-91
HB 550

taxpayer for payment, and the taxes shall be due and payable at the expiration of 10 days from the date of such notice and demand. Interest on any deficiency assessment shall bear interest from the date specified in [section 3] for payment of the tax. A certificate by the department of the mailing of the notices specified in this subsection shall be prima facie evidence of the computation and levy of the deficiency in the taxes and of the giving of the notices.

(6) Except as otherwise provided in this section, no deficiency shall be assessed or collected with respect to the taxable period for which a return or report is filed unless the notice of additional tax proposed to be assessed is mailed within 5 years from the date the return was filed. For the purposes of this section, a return or report filed before the last day prescribed for filing shall be considered as filed on such last day. Where, before the expiration of the period prescribed for assessment of the taxpayer, the taxpayer consents in writing to an assessment after the time, the tax may be assessed at any time prior to the expiration of the period agreed upon.

(7) No refund or credit shall be allowed or paid with respect to the year for which a return or report is filed after 5 years from the last day prescribed for filing the return or after 1 year from the date of the overpayment, whichever period expires the later, unless before the expiration of such period the taxpayer files a claim or the department has determined the existence of the overpayment and has approved the refund or credit. If the taxpayer has agreed in writing under the provisions of subsection (1) of this section to extend the time within which the department may propose an additional assessment, the period within which a claim for refund or credit may be filed or a credit or refund allowed in the event no claim is filed shall automatically be so extended.

(8) If a report or report is required to be filed and the taxpayer fails to file the return, the tax may be assessed or an action to collect the tax may be brought at any time. If a return is required to be filed and the taxpayer files a fraudulent return, the 5-year period provided for in subsection (1) does not begin until discovery of the fraud by the department."

8. Page 4, line 17.
Following: "of"
Strike: "2%"
Insert: "10%"

9. Page 4, line 22.
Following: "of"
Strike: "2%"
Insert: "10%"

Ex. 1
2-13-91
HB 550

10. Page 5.
Following: line 21.
Insert: "**NEW SECTION. Section 7. Special revenue account.** (1) There is created a special revenue account to be called the rental car tax administration account.

(2) All administrative fees collected under [section 7(1)] shall be deposited by the department into the rental car tax administration account.

(3) The money in the rental car tax administration account may be expended by the department to administer the tax.

(4) The appropriation made in subsection (3) is a statutory appropriation as provided in 17-7-502.

Section 8. Section 17-7-502, MCA, is amended to read:
'**17-7-502. Statutory appropriations - definition - requisites for validity.** (1) A statutory appropriation is an appropriation made by permanent law that authorities spending by a state agency without the need for a biennial legislative appropriation or budget amendment.

(2) Except as provided in subsection (4), to be effective, a statutory appropriation must comply with both of the following provisions:

(a) The law containing the statutory authority must be listed in subsection (3).

(b) The law or portion of the law making a statutory appropriation must specifically state that a statutory appropriation is made as provided in this section.

(3) The following laws are the only laws containing appropriations: 2-9-202; 2-17-105, 2-18-812; 10-3-203; 10-3-312; 10-3-314; 10-4-301; 13-37-304; 15-1-111; 15-25-123; 15-31-702; 15-36-112; 15-37-117; 15-70-101; 16-1-404; 16-1-410; 16-1-411; 17-3-212; 17-5-404; 17-5-424; 17-5-804; 19-8-504; 19-9-702; 19-9-1007; 19-10-205; 19-10-506; 19-11-512; 19-11-513; 19-11-606; 19-12-301; 19-13-604; 20-6-406; 20-8-111; 20-9-361; 23-5-306; 23-5-409; 23-5-610; 23-5-612; 23-5-1016; 23-5-1027; 27-12-206; 37-51-501; 39-71-2504; 53-6-150; 53-24-206; 61-2-406; 61-5-121; 67-3-205; 75-1-1101; 75-5-1108; 75-11-313; 76-12-123; 80-2-103; 82-11-136; 82-11-161; 90-3-301; 90-4-215; 90-4-613; 90-6-331; 90-9-306; ~~and~~ section 13, House Bill No. 861, Laws of 1985; and [section 8].

(4) There is a statutory appropriation to pay the principal, interest, premiums, and costs of issuing, paying, and securing all bonds, notes, or other obligations, as due, that have been authorized and issued pursuant to the laws of Montana. Agencies that have entered into agreements authorized by the laws of Montana to pay the state treasurer, for deposit in accordance with 17-2-101 through 17-2-107, as determined by the state treasurer, an amount sufficient to pay the principal and interest as due on the bonds or notes have statutory appropriation authority for such payments.'"
Renumber: subsequent sections.

EXHIBIT 1
DATE 2-13-91
HB 550

11. Page 5, line 21.
Following: "system."
Insert: **NEW SECTION.** Section 9. Coordination instruction.
If [LC 981] is passed and approved and if it includes a section adopting a uniform tax appeal procedure then the language contained in [section 4, subsections 4 through 8] is void and the provisions of [LC 981] shall govern the appeal procedures.
Renumber: subsequent sections.

12. Page 6, line 2.
Following: "effective"
Strike: "January 1, 1992"
Insert: "on passage and approval"

EXHIBIT 2
DATE 2/13/91
HB 550

State Historic Preservation Office

Montana Historical Society

Mailing Address: 225 North Roberts • Helena, MT 59620-9990
Office Address: 102 Broadway • Helena, MT • (406) 444-7715

February 12, 1991

TESTIMONY IN SUPPORT OF HOUSE BILL 550, HOUSE TAXATION COMMITTEE

Mr. Chairman and Members of the House Taxation Committee, I am Marcella Sherfy. I work for the Montana Historical Society in the capacity of State Historic Preservation Officer.

The Society encourages your enthusiastic endorsement of this particular bill--one piece in a package of measures designed to provide more adequate (albeit not luxurious) funding for the Montana State Parks System.

As we outlined in hearings before you yesterday for HB386 and HB526, historic sites in the state parks system possess extraordinary potential and are in flat out jeopardy. We are losing buildings to unchecked deterioration; archaeological sites sustain vandalism.

As you wrestle with this logical addition to a defensible funding package for our state parks, I would urge you to consider the advice of a tourism consultant that the Historic Sites Study Commission used in its transmittal of their report to the Governor:

> Countries, states, and cities are engaged in cutthroat competition for the tourism dollar. The competition is rugged because the stakes are high. Tourism is the second largest retailing industry in the United States today . . . . Those states that protect and develop their historic sites will be the leaders in American tourism in the 21st century. Why? Studies from around the country are beginning to show that historic sites and buildings are among the one or two most important attractions to tourist and travelers . . . The savviest states are beginning to understand that more than mere marketing is necessary. They are asking themselves "What is the product we are marketing and how can we make it so unique and inviting that it will attract visitors on its own?" . . . . Publicly-owned resources must be maintained to the highest level . . . . It is better to have a few well-maintained and exceptionally well-capitalized resources than a broad array of rundown facilities that give the state or city a bad image and turn off the traveler.

Thank you!

DATE 2-13-91
HB 532

BRIEF EXPLANATION OF AMENDMENTS TO HB NO. 532

1) The most significant amendment is the one to section 3 which shifts the incident of the tax from the user to the vehicle rental agent. This increases the tax base by making transactions with exempt entities such as the federal government taxable. The federal government accounts for 20% of the state gross product. The vehicle rental agent may pass the tax on to the purchaser.

2) The amendments tighten the definition of rental agent which is vague.

3) The amendments supply the standard DOR clauses for
   a) when the tax is due and
   b) audits, statute of limitations, refunds, warrants for distraint, interest and penalties, and closing agreements.

4) The penalty provisions have been increased from 2% to 10% because a 2% penalty generally does not prompt compliance.

5) The applicability date is delayed until January 1, 1992 to allow the Department time to prepare forms and educate taxpayers.

Ex. 3
2-13-91

AMENDMENTS TO HOUSE BILL NO. 532

1. Page 2, line 17.
Following: "person"
Strike: "who, by lease, rental, or other arrangement, provides a vehicle"
Insert: "whose business ~~is~~ includes the rental of motor vehicles for temporary contractual use"

2. Page 2, line 24.
Following: "the"
Strike: "user of a vehicle provided by a"

3. Page 3, line 3.
Following: "agent"
Strike: "shall collect"
Insert: "may pass on, at its option,"

4. Page 3, line 4.
Following: "[section 3]"
Insert: "to the renter as part of the fee"

5. Page 3, line 8.
Following: "due"
Strike: "within 30 days"
Insert: "on or before the last day of the month"

6. Page 3, line 13.
Following: "records"
Insert: "--statute of limitations--"

7. Page 4, line 3.
Strike: subsections (4) and (5) in their entirety.
Insert: "(4) If the department determines that the amount of taxes due are greater than the amount disclosed by the return, it shall mail to the taxpayer a notice of the additional taxes proposed to be assessed. Within 30 days after the mailing of the notice, the taxpayer may file with the department a written protest against the proposed additional taxes, setting forth the grounds upon which the protest is based, and may request in its protest an oral hearing or an opportunity to present additional evidence relating to its tax liability. If no protest is filed, the amount of the additional taxes proposed to be assessed becomes final upon the expiration of the 30-day period. If such protest is filed, the department shall reconsider the proposed assessment and, if the taxpayer has so requested, shall grant the taxpayer an oral hearing. After consideration of the protest and the evidence presented in the event of an oral hearing, the department's action upon the protest is final when it mails notice of its action to the taxpayer.

Ex. 3
2-13-91
HB 53[illegible]

(5) When a deficiency is determined and the taxes become final, the department shall mail notice and demand to the taxpayer for payment, and the taxes shall be due and payable at the expiration of 10 days from the date of such notice and demand. Interest on any deficiency assessment shall bear interest from the date specified in [section 4] for payment of the tax. A certificate by the department of the mailing of the notices specified in this subsection shall be prima facie evidence of the computation and levy of the deficiency in the taxes and of the giving of the notices.

(6) Except as otherwise provided in this section, no deficiency shall be assessed or collected with respect to the taxable period for which a return or report is filed unless the notice of additional tax proposed to be assessed is mailed within 5 years from the date the return was filed. For the purposes of this section, a return or report filed before the last day prescribed for filing shall be considered as filed on such last day. Where, before the expiration of the period prescribed for assessment of the taxpayer, the taxpayer consents in writing to an assessment after the time, the tax may be assessed at any time prior to the expiration of the period agreed upon.

(7) No refund or credit shall be allowed or paid with respect to the year for which a return or report is filed after 5 years from the last day prescribed for filing the return or after 1 year from the date of the overpayment, whichever period expires the later, unless before the expiration of such period the taxpayer files a claim or the department has determined the existence of the overpayment and has approved the refund or credit. If the taxpayer has agreed in writing under the provisions of subsection (1) of this section to extend the time within which the department may propose an additional assessment, the period within which a claim for refund or credit may be filed or a credit or refund allowed in the event no claim is filed shall automatically be so extended.

(8) If a report or report is required to be filed and the taxpayer fails to file the return, the tax may be assessed or an action to collect the tax may be brought at any time. If a return is required to be filed and the taxpayer files a fraudulent return, the 5-year period provided for in subsection (4) does not begin until discovery of the fraud by the department."

Renumber: subsequent subsections

8. Page 5, line 5.
After: "of"
Strike: "2%"
Insert: "10%"

9. Page 5, line 10.
After: "of"

EXHIBIT 3
DATE 2-13-91
HB 532

Strike: "2%"
Insert: "10%"

10. Page 5, line 21.
Following: "system."
Insert: **NEW SECTION.** Section 8. Coordination instruction.
If [LC 981] is passed and approved and if it includes a section adopting a uniform tax appeal procedure then the language contained in [section 4, subsections 4 through 8] is void and the provisions of [LC 981] shall govern the appeal procedures.
Renumber: subsequent sections.

11. Page 6, line 2.
Following: "after"
Strike: "July 1, 1991"
Insert: "January 1, 1992"

STORED UNDER H:\HB532.AMD

EXHIBIT 4
DATE 2/13/91
HB 457 + 458

House Bill 457

Testimony by W. W. Ballard

House Taxation Committee

2-13-91

I have asked Steve Durrett, a registered professional engineer in the State of Montana, to evaluate the effect of House Bill 457 on the oil and gas industry in the State. This analysis assumes an investment of $1,000,000 resulting in proven reserves of 300,000 barrels. Operating expenses of $4,000 per month and production taxes of 12.7% were used in the evaluation. Other expenses affecting net profit are royalty to the mineral owner, amortization of the investment (DD&A) and income tax.

The accompanying bar graphs show net profit at the following oil prices: $15, $20, $25 and $30. One shows the profit given the present situation, and the other shows it if HB 457 is passed. Note that at $20 per barrel (the most likely Montana price for the next 2 or 3 years) net profit for the producer is slightly over $4 per barrel presently, but under HB 457 the profit would be slightly under 50 cents per barrel. Is it fair that a company who generates an idea and takes 100% of the risk to drill and develop the reserves receives only about 2.5% of the reward?

This bill also includes natural gas along with oil. This is especially disturbing in that prices for natural gas paid to Montana producers are at a 10 year low.

Montana's oil and gas industry for the most part (especially the exploration part) is made up of independents. Independent operators depend on two sources to fund their operations: (1) cash flow from production and (2) their ability to sell ideas to sources of capital, most of whom reside outside the State. This bill virtually eliminates any hope of an on-going exploration program (at least by independents) in Montana. It takes away capital for re-investment and the negative image that this will create throughout the industry will make it impossible to convince outside investors to come back.

Please vote "No" on this bill and help us improve our image as a step toward reviving exploration activities in Montana.

HOUSE OF REPRESENTATIVES
VISITOR'S REGISTER

TAXATION COMMITTEE BILL NO. HB 558

DATE 2-13-91 SPONSOR(S) ______

PLEASE PRINT **PLEASE PRINT** **PLEASE PRINT**

NAME AND ADDRESS	REPRESENTING	SUPPORT	OPPOSE

PLEASE LEAVE PREPARED TESTIMONY WITH SECRETARY. WITNESS STATEMENT FORMS ARE AVAILABLE IF YOU CARE TO SUBMIT WRITTEN TESTIMONY.

HOUSE OF REPRESENTATIVES
VISITOR'S REGISTER

TAXATION COMMITTEE BILL NO. HB 458

DATE 2-13-91 SPONSOR(S)

PLEASE PRINT PLEASE PRINT PLEASE PRINT

NAME AND ADDRESS	REPRESENTING	SUPPORT	OPPOSE
C S Holje - Plentywood	Sheridan Co		X
Milton T. Markuson	Carter Co		X
Arthur Kleinjan Chinook	Blaine Co		X
LaVern Schledewitz	Roosevelt		X
Dale Fossen	Daniels Commissioner		X
Bernt Ward	Sheridan Co		X
Jim Mockler	Mt. Coal Council		✓
[illegible] M Olson	Musselshell Co Comm.		X
Kay Foster	Billings Chamber		X
John Delano	Bur Res		X
[illegible] Buck Boles	Mt Chamber		X
[illegible] Robbins	Muss. Valley [illegible] Corp		X
Dennis Burr	Mt Taxpayers Assoc		X
Mike Stephen	Oil Gas & Coal Co.		X

PLEASE LEAVE PREPARED TESTIMONY WITH SECRETARY. WITNESS STATEMENT FORMS ARE AVAILABLE IF YOU CARE TO SUBMIT WRITTEN TESTIMONY.

TAXATION
2-13-91

Bill No. 457

		support	oppose
George Galuska	Great Northern Drilling Co.		X
Sue M. Olson	Musselshell Co.		X
Kay Foster	Billings Chamber		X
John Delano	Bur Res		X
J H Bales	Mt. Chamber		X
Herschel Robbins	Muss. Valley Dev. Corp		X
Dennis Burr	Mt Taxpayers Assoc		X
Mike Stephen	Mt Oil Gas Coal Co		X
Jerry L. Branch	Shelby, Montana		X
Larry Tveit	Fairview		X
Ken Engellant			
Gloria Paladichuk			
Chas Peter Sherwood			

HOUSE OF REPRESENTATIVES
VISITOR'S REGISTER

TAXATION COMMITTEE BILL NO. HB 457

DATE 2-13-91 SPONSOR(S)

PLEASE PRINT PLEASE PRINT PLEASE PRINT

NAME AND ADDRESS	REPRESENTING	SUPPORT	OPPOSE
Selden S. Frisbee	GHGS, MSR, LTD MSR, Inc Cut Bank		X
Arthur Kleinjan	Blaine Co Comm		X
Chet Holje - Plentywood	Sheridan Co		X
Lavern Schledewitz	Roosevelt Co.		X
Milton Markuson	Carter Co		X
Bernt Ward	Sheridan		X
Kneelon E. Teague Shelby	Teague Geological Shelby MT		X
JAMES H. KERR - BILLINGS	NANCE PETROLEUM CORP.		X
DALE FOSSEN	DC Commissioner		X
STEPHEN PALMBUSH	MSR EXPLORATION, LTD		X
W. W. BALLARD	BALCRON OIL		X
DEAN SWANSON	T Bar S Oil		X
Doug [illegible]	N.M. Oil + GAS		X
Janelle Fallan - Helena	MT Petroleum		X

PLEASE LEAVE PREPARED TESTIMONY WITH SECRETARY. WITNESS STATEMENT FORMS ARE AVAILABLE IF YOU CARE TO SUBMIT WRITTEN TESTIMONY.

HOUSE OF REPRESENTATIVES
VISITOR'S REGISTER

TAXATION COMMITTEE BILL NO. HB 532

DATE 2-13-91 SPONSOR(S)

PLEASE PRINT PLEASE PRINT PLEASE PRINT

NAME AND ADDRESS	REPRESENTING	SUPPORT	OPPOSE
James H. Kerr 421 Rimrock, Billings 59102	[illegible]		
Dale [illegible] Duff	Hertz Whitefish		X
Rob Doyle	Avis, Missoula		X
HAROLD MAGRUDER	PAYLESS - MISSOULA		X
STEVE TURKIEWICZ	MT AUTO DEALERS ASSN		X
Jim [illegible]	[illegible]		X
LARRY AKEY	MT CAR RENTAL ASSOC		X
[illegible]	$-SAVE		X

PLEASE LEAVE PREPARED TESTIMONY WITH SECRETARY. WITNESS STATEMENT FORMS ARE AVAILABLE IF YOU CARE TO SUBMIT WRITTEN TESTIMONY.

HOUSE OF REPRESENTATIVES
VISITOR'S REGISTER

TAXATION COMMITTEE BILL NO. HB 550

DATE 2-13-91 SPONSOR(S)

PLEASE PRINT PLEASE PRINT PLEASE PRINT

NAME AND ADDRESS	REPRESENTING	SUPPORT	OPPOSE
Marcella Sherfy	Montana Hist. Society	✓	
Lawrence Sommer	Mt. Historical Society	✓	
Janet Ellis	MT Audubon	✓	
[illegible]	DOR		
JERRY WOODAHL	Hertz		X
HAROLD MAGRUDER	PAYLESS		X
Rob Doyle	Avis		✓
Dale [illegible]	Hertz		X
[illegible]	U-SAVE		X
LARRY AKEY	MT CAR RENTAL ASSOC		X

PLEASE LEAVE PREPARED TESTIMONY WITH SECRETARY. WITNESS STATEMENT FORMS ARE AVAILABLE IF YOU CARE TO SUBMIT WRITTEN TESTIMONY.

EXHIBIT 10
DATE 2-13-91
HB 558

Amendments to House Bill No. 558
First Reading Copy

For the Committee on Taxation

Prepared by Curtis Nichols /OBPP
February 12, 1991

1. Page 4, Line 12.
Following: "<u>prepared</u>"
Insert: "by December 1"

2. Page 4, Line 13.
Following: "<u>each</u>"
Insert: "regular"
Following: "<u>legislature</u>"
Insert: "and 10 days prior to each special session of the legislature"

Expert says Montana missing out on oil boom

EXHIBIT 9
DATE 2/13/91
HB 457 - 458

By MARK DANIELS
Tribune Correspondent

SHELBY — There is a minor oil boom going on in the region, but Montana is missing out on it, according to the president of the Montana Petroleum Association.

Pete Madison, who is also the president of the oil division of Entech, a subsidiary of the Montana Power Co., spoke Monday to members of the Shelby Chamber of Commerce.

Madison said his company has spent nearly $30 million in the past four years looking for oil, but only about $1.5 million of that has been in Montana.

Lack of tax stability is the main the reason Montana has missed such opportunity, Madison said, adding that every two years the legislature seems to change its tax structure for oil. He also said Montana suffers because it has one of the highest oil production taxes in the country, behind four other states.

"We've got a mini-recovery going on in the drilling business — I call it a mini-boom," Madison said. "We're up to 1,100 rigs running in the U.S., compared to 700 a few years ago.

"If you look at the states around us, North Dakota's got 30 rigs running; Wyoming is up sometimes as high as 50; Colorado and Kansas, the rig count is way up," he said. "In Montana, the rig count is seven."

Madison added that incentives such as tax holidays can play a big role in luring an oil company that is looking to drill. He said Canada at times will rebate part of the drilling costs and the province, which owns most of the royalties, will offer royalty-free holidays that last from two to five years.

Madison said there have been incidents in the past five years when Montana projects have been ready to drill, only to be abandoned when another area offers an incentive.

Oil producers have far more prospects available than money to drill them, Madison said.

Ex. 8
2/13/91
HB 457-458

Instead of continuing the process of taxing existing business out of the State, we would urge the committee to concern itself with proposals that would balance the overall TAX structure. What may be required is a leap of faith, a bill to grant tax concessions to Companies that are willing to put up the investment capital necessary to process or add value to our basic products and PROVIDE JOBS!

We urge you to reject HB 457, as a negative measure which will raise doubtful revenues, and only continue to contribute to the "anti-business" reputation that Montana now enjoys.

Sincerely,

Stephen Palmbush

Stephen Palmbush
Manager: Governmental Relations

MSR EXPLORATION, LTD.
(INCORPORATED UNDER THE LAWS OF ALBERTA)
OIL & GAS EXPLORATION & PRODUCTION
OPERATING IN THE ROCKY MOUNTAINS
CBM BUILDING · BOX 250 · CUT BANK, MONTANA 59427-0250
TELEPHONE (406) 873-2235
CUT BANK FAX 1-406-873-4731 BILLINGS FAX 1-406-259-1151

EXHIBIT 8
DATE 2/13/91
HB 457 458

February 13, 1991

House of Representatives
Taxation Committee
State Legislature
State Capitol
Helena, Montana 59601

Re: House Bill 457

Dear Chairman and Members of the House Taxation Committee:

My name is Stephen Palmbush, and I am here this morning representing MSR Exploration, Ltd., and subsidiary companies concerning House Bill #457. I am a native Montanan, and have earned my living from the Oil and Gas industry exclusivley since 1982. MSR is an independent Oil and Gas Exploration & Production Company, shares of which are publicly traded on the American Stock Exchange. The company operates in several states including North Dakota and Texas, as well as in Alberta, Canada. MSR provides paychecks to some 20 employees in the Cut Bank Area. We also have staff in a Billings office. We have ranked in the top 10 taxpayers in Glacier County for a number of years.

The officers and employees of the Company have a responsibility to maximize the return of invested capital for the benefit of the shareholders of the company. In addition, we must raise money from investors and others for specific drilling or development projects. Investment capital knows no home - it just expects a return.

MSR, along with most other independent Oil & Gas companies, has not had a problem with EXCESS profits, or with Profits period since 1986.

We, in the Oil and Gas industry, the Farmers and Ranchers, Local & State Government, the Tourism industry are in this together, and can no longer afford the US against THEM mentality that has characterized the last several sessions of the Legislature. We understand that your job here is not easy, and that you are doing the best you can for Montana.

What Montana really needs is more people. More people require more jobs. More jobs require Investment Capital. Investment Capital requires a return, and some stability in things like Tax policy.

7
2-13-91
457-458

BRANCH OIL & GAS
NET INCOME ANALYSIS
12/89 to 11/90

* Oil stripper status was lost 9/1/90

Rate increased from 3% to 5%
Exempt Barrels (# of wells x 5 x 90 days per Quarter) status was lost.

Gross income would of increased based on increased price per barrel of approximately $13 per barrel (avg. price per barrel since Sept. 1, 1990 = $30.29; avg. price from 12/89 to 8/31/90 = $17.48)

	TOTAL	Royalty Interest	Working Interest
Total Barrels 12/89 to 8/90	1258.71 x13		
	16,363	2700	13,663
Additional Taxes Paid	1,102	182	920

2-13-91
457-458

BRANCH OIL & GAS
NET INCOME ANALYSIS
12/89 to 11/90

	GOVT. ROY. INTEREST (Exempt)	ROYALTY INTEREST (Non-Exempt)	WORKING INTEREST
South South Prairie Dell - Stripper Gas (7 wells)			
Gross = $79,096	$588	$13,707	$64,801
Less Taxes			
Local Govt. Severance	N/A	2,091	6,480
Gas Severance Tax	3	52	233
Gas Priviledge & License Tax	N/A	27	130
Resource Indemnity Trust Tax	N/A	69	324
Less Operating Expenses (Legal, Acctg, Supervision, Ins.)			19,122
NET INCOME	$583	$11,468	$38,512
Net Income/ Gross Income		83.67%	59.43%
Taxes & Expenses/Gross Income		16.33%	40.57%
Taxes / Gross Income		16.33%	11.06%

	GOVT. ROY. INTEREST (Exempt)	ROYALTY INTEREST (Non-Exempt)	WORKING INTEREST
Everybody - Stripper Oil (3 wells)			
Gross = $37,582	--	$ 6,201	$31,381
Less Taxes			
Local Govt. Severance	N/A	775	1,569
*Gas Severance	--	128	649
Gas Priviledge & License	N/A	12	63
Resource Indemnity Trust	N/A	31	157
Less Operating Expenses (Supervision, Pumping, Electic, Misc.)			13,319
NET INCOME		5,255	15,624
Net Income / Gross Income		84.74%	49.79%
Taxes & Expenses / Gross Income		15.26%	50.21%
Taxes / Gross Income		15.26%	7.77%

SOUTH SOUTH PRAIRIE DELL FIELD

A stripper natural gas field example (see attached accounting.)

This field consists of 7 stripper gas wells. The wells cost approximately $37,000 a piece, so the original investment in this field is $259,000.

An independent feels good if his wells can pay back the original drilling and completion costs in 3 or 4 years, many times that is not the case.

This particular field is paid out and as most of our wells are now stripper.

From the attached accounting, you can see 4 taxes are being paid on production.

In addition there is a property tax which we are not showing. You will also note that the net income (NI) is only 59.43% of the money returned to the people who drilled the well - the rest is taxes and operating costs.

EVERYBODY - PONDERA COUNTY

A stripper example of an oil field.

This field consists of 3 producing oil wells. We also drilled one dry hole in this field. Initial investment was approximately $190,000.

You will note that in this case, that the net income (NI) is only 49.79% of the money the lease made was returned to the people who drilled the well, the other half of the money is spent on taxes and operational costs.

SUMMARY

In Toole County, oil and gas pays approximately 40% of all county taxes, and most -- 95% of that tax comes from comparable marginal wells as I've shown here. These wells are fragile - simply because they don't make much money.

Thank you for joining our seminar, we hope it has been informative.

Jerry L. Branch
Branch Oil & Gas
For: The Montana Oil & Gas Assoc.

Exhibit # 7
2-13-91 HB 457-458

SUMMARY OF ACCOUNTING SCHEDULES FOR A STRIPPER NATURAL GAS FIELD AND STRIPPER OIL FIELD

Dear Legislator:

INTRODUCTION

The general public's image of oil and gas is implanted by the media, by TV shows like Dallas, the rich Arabs and the overpowering images of the major oil companies.

Most of Montana's oil and gas is from "stripper wells." Like the name implies stripper wells are small wells drilled by small independent "wildcatters."

These stripper wells are essential to Montana but due to their limited income - are very subject to changes in their economics, like variation of price, fluctuation of taxes and operational costs. Once a stripper well reaches its lower economic limit, it has to be plugged and abandoned - which is permanent - it can't be "opened up" again.

Taxation is critical to the stripper well. An increase in one of the 5 state taxes on stripper wells - always results in the plugging of some stripper wells. How many depends upon the amount of the tax increase. Thus, it is critical that our legislators have a working knowledge of oil and gas taxation.

95% of our wells are stripper.

Exhibit # 7
2-13-91 HB 457-458

Croft PETROLEUM CO.

OIL AND GAS PRODUCERS

JERRY CROFT, PRESIDENT

PETROLEUM CENTER BUILDING
214 NO. CENTRAL AVE.
P.O. BOX 397
CUT BANK, MONTANA 59427
TELEPHONE (406) 873-5547

Campbell #8-11 and #9-11

Starting in 1984 to present, Croft Petroleum Co. and six Montana partners began acquiring leases in Teton County with potential for oil and/or gas production. To date we have spent over $24,000.00 on bonuses and rentals.

Croft Petroleum Co. et al, in what you might call its most successful exploration program in the past six years, drilled two wells which are called the Campbell #8-11 & #9-11 in Teton County on the above mentioned leases.

To date, cumulatively, we have spent over $175,000 in development costs, and over $122,000 in operating costs and equipment. Including bonuses and rentals, that is a total of over $322,000 spent against almost $105,000 in oil sales, representing 5,316.8 barrels sold.

These wells are only 3,000' deep, and with approximately $217,000 in unrecovered costs, it is unlikely we will ever recover the money that will have been spent.

With success like this, it makes you squeamish to think about the money spent on all of the less successful wells that we have drilled over the past six years.

Incentives on the part of the State of Montana are definitely necessary to encourage exploration in Montana in this day and age when the rewards are few and far between.

EXHIBIT 7
DATE 2-13-91
HB 457 + 45

NORTHERN MONTNA OIL AND GAS LEGISLATIVE INFORMATION SEMINAR

ECONOMIC IMPACT IN TOOLE AND GLACIER COUNTIES

TYPE OF BUSINESS	NO. OUT OF BUSINESS	NO. CUT BACK OR MOVED	EST. JOBS LOST
Retail Stores	7		56
Oil and Gas Companies	11	13	87
Service and Support Companies	17	13	181
Professional	32	9	79

This is a partial listing of businesses that have moved, gone out of business or cut back during the past decade.

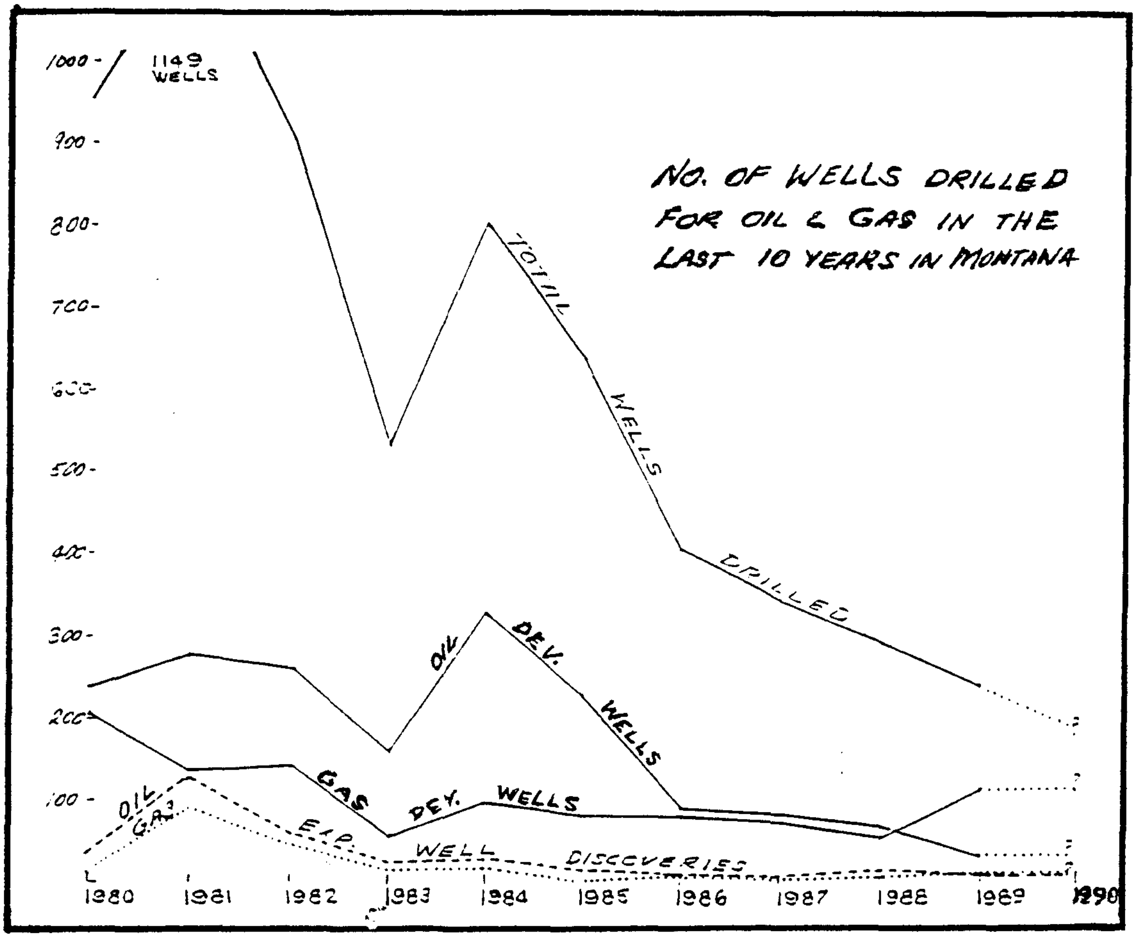
TOOLE AND GLACIER COUNTY CENSUS

	1980	1990
Toole County	5504	5046
Glacier County	10628	12065*

*This increase was due to Federal Government Activities.

Exhibit # 7
2-13-91 HB 457-458

NORTHERN MONTANA OIL AND GAS LEGISLATIVE INFORMATION SEMINAR

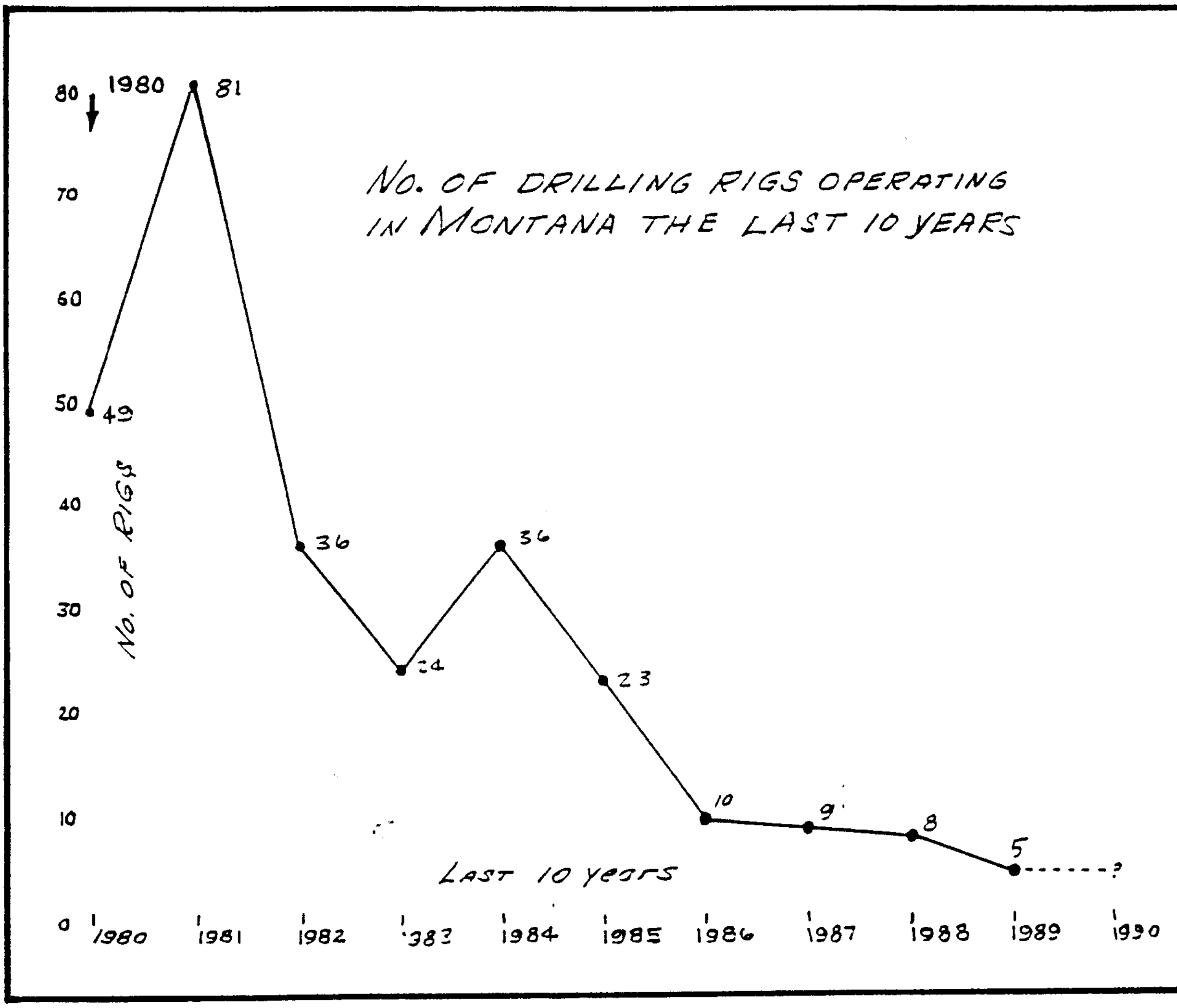


SUMMARY OF NUMBER OF WELLS DRILLED IN MONTANA

Year	Service Wells	Gas Dev. Wells	Oil Dev. Wells	Dev. Dry Holes	Gas Exp. Wells	Oil Exp. Wells	Exp. Dry Holes	T.A. Exp. Wells	Total Wells
1980	-0-	203	241	206	12	30	260	-0-	952
1981	-0-	133	276	188	85	126	341	-0-	1149
1982	19	145	263	120	46	64	248	-0-	905
1983	10	55	160	88	16	25	156	23	533
1984	20	99	327	87	21	33	189	25	801
1985	18	84	227	90	2	16	192	11	640
1986	4	81	90	69	10	11	130	10	405
1987	21	75	86	39	9	7	100	11	348
1988	12	54	72	46	19	10	100	9	322
1989	8	115	32	29	12	8	38	0	242

Information from Montana Oil and Gas Conservation Division.

NORTHERN MONTANA OIL AND GAS LEGISLATIVE INFORMATION SEMINAR



YEAR	NO. OF RIGS OPERATING	YEAR	NO. OF RIGS OPERATING
1980	49	1985	23
1981	81	1986	10
1982	36	1987	9
1983	24	1988	8
1984	36	1989	5

One drilling rig employees 13 people for the operations of the rig. The annual payroll LOST per rig is $309,244.00. Each well drilled requires the services of an additional 30 people. Such as geologists, attorneys, landpersons, water haulers, cementers, logging personnel, excavators, surveyors, fuel haulers, mud companies, pipe companies, engineers and many others.

EXAMPLE: Comanche Drilling Company, Cut Bank, Montana, annual payroll for 1981 was $1,662,347.97 and for year 1990 the annual payroll was $356,579.40. These figures DO NOT include any partners, directors or owners salary for either of the above years.

Information from Montana Oil and Gas Journal and Elaine Mitchell.

Exhibit # 7
2-13-91 HB 457-458

NORTHERN MONTANA OIL AND GAS LEGISLATIVE INFORMATION SEMINAR

TAX RATES ON OIL PRODUCTION FOR SEVERAL STATES

	STATE	LOCAL	MISC.	TOTAL
Montana (old/non-stripper	13.40%	-0-	.700%	14.10%
Montana (old stripper)	10.00	-0-	.700	10.70%
Montana (New Net Proc.)	5.00	7.00	.700	12.70%
North Dakota	9.00	-0-	-0-	9.00%
Wyoming	6.00	6.50	.040	12.54%
Utah	4.00	N/A	.200	N/A
Texas	4.60	1.25	.750	6.60%

TAX RATES ON GAS PRODUCTION FOR SEVERAL STATES

Montana (old/non-stripper)	17.90	-0-	.700%	18.60%
Montana (old stripper)	11.59	-0-	.700	12.29%
Montana (New Net Proc.)	2.65	12.00	.700	15.35%
Montana (Royalties)	17.90	-0-	.700	18.60%
North Dakota	5.00	-0-	-0-	5.00%
Wyoming	6.00	4.95	.040	10.99%
Oklahoma	7.00	-0-	.085	7.09%
Utah	4.00	N/A	.200	N/A
Texas	7.60	1.25	-0-	8.75%

*The severance tax for gas allows for a stripper exemption of 30mcf per day tax free.

Montana is one of the few states that have a personal property tax on oilfield equipment.

Information from Montana Dept. of Revenue and various other States Department of Revenue.

NORTHERN MONTANA OIL AND GAS LEGISLATIVE INFORMATION SEMINAR

TOTAL VALUATION VERSUS NET PROCEEDS TAX

GLACIER COUNTY

Tax Year	Total Taxable Value	Net Proceeds Taxable Value	% N.P. of Taxable Value
1980	$41,904,427.00	$24,477,307.00	48.39%
1981	47,745,481.00	29,513,924.00	61.85%
1982	44,961,371.00	26,965,574.00	59.97%
1983	42,749,028.00	25,421,094.00	59.47%
1984	45,737,324.00	27,445,273.00	59.94%
1985	48,824,984.00	29,274,409.00	59.96%
1986	47,120,567.00	27,455,613.00	58.27%
1987	31,347,152.00	11,609,096.00	37.03%
1988	33,228,125.00	15,048,034.00	45.29%
1989	29,721,874.00	10,072,328.00	33.89%

TOOLE COUNTY

1980	$34,611,417.00	$16,708,195.00	48.00%
1981	40,308,476.00	22,188,791.00	55.00%
1982	45,248,213.00	27,190,622.00	60.00%
1983	42,972,193.00	25,581,227.00	60.00%
1984	48,027,546.00	29,808,532.00	62.00%
1985	48,532,621.00	29,035,011.00	60.00%
1986	43,483,887.00	23,897,102.00	55.00%
1987	31,447,268.00	12,356,039.00	39.00%
1988	30,322,451.00	12,332,194.00	44.00%
1989	27,246,106.00	9,025,003.00	33.00%

COMMENT:

"With the increasing medical costs over the past ten years declining mill value has put our county operated hospital in financial straits. The loss has also affected our Sheriff's Department and Road Department, as we have to maintain all services with less dollars to pay for it."

John Alstad
Toole County Commissioner

EXHIBIT 7
DATE 2-13-91
HB 457-458

NORTHERN MONTANA OIL AND GAS LEGISLATIVE INFORMATION SEMINAR

SUMMARY OF TAXES PAID TO STATE OF MONTANA BY PETROLEUM INDUSTRY

	SEVERANCE TAX		RESOURCE INDEMNITY TRUST TAX		PRIVILEGE & LICENSE TAX	
	OIL	NATURAL GAS	OIL	NATURAL GAS	OIL	NATURAL GAS
1980	$10,544,555	$1,264,025	Actual figures not available		Figures not available	
1981	19,578,173	2,116,291	Actual figures not available		Figures not available	
1982	51,073,425	2,659,811	Actual figures not available		286,989	32,731
1983	45,228,535	2.649,726	$4,783,438	$537,871	302,394	35,675
1984	49,029,017	2,797,996	4,279,714	589,348	497,290	79,013
1985	48,787,984	2,945,778	4,204,763	627,504	662,175	90,736
1986	34,728,749	2,890,666	3,913,955	583,961	542.492	88,407
1987	16,143,592	2,492,465	1,859,932	538,251	539,715	145,605
1988	16,484,059	1,491,523	2,033,646	484,357	778,719	148,492
1989	13,234,516	1,724,735	1,627,445	539,442	617,133	163,836
1990	14,510,149	1,057,277	1,795,586	453,052	708,886	165,162

SEVERANCE TAX - is 5% of the gross value of oil and 2.65% of natural gas. This revenue goes to the state general fund. (State Tax)

RESOURCE INDEMNITY TRUST TAX - is .5% of gross value of all minerals produced. These taxes are placed in a trust fund to "indemnify the state against damage to the environment from the extraction of non-renewable natural resources." (State Tax)

PRIVILEGE AND LICENSE TAX - The Board of Oil and Gas Conservation levies this tax to pay for its own administrative costs. The tax is .2% of all gross revenue. (State Tax)

LOCAL PROPERTY TAXES - The local mill levies are applied to all field equipment and plants. These taxes are applied to hospitals, education, university system, etc.

All royalties from production that is paid to individuals and businesses are taxed as Montana income. The State receives significant amounts of rentals and royalties from leasing and wells on state lands.

Information from Montana Department of Revenue and Glacier County Assessor.

EX. 7
2-13-91
HB 457-458

FLAT TAX - the common name used when referring to the Local Government Severance Tax (LGST). The LGST replaced the Oil and Gas Net Proceeds on "old production." The LGST is paid to the state and the money is distributed back to the counties.

WELL HEAD PRICE - the price paid for gas at the well head versus the price paid away from the well head after the gas has been gathered, compressed or processed. This price is adjusted to the British Thermal Unit content of the gas.

DELIVERED PRICE - the price paid for processed natural gas that is ready for use by the consumer.

SECONDARY RECOVERY - production of oil utilizing artifically created reservoir energies such as waterflood, gas injection, or enriched gas drive. Gas lift operations or mechanical lifting devices may be employed.

TERTIARY RECOVERY - Chemicals or other energy are injected into an oil producing formation to move the oil to a production well. The statute includes such things as steam drive injection, polymer augmented water flooding, and carbon dioxide water flooding.

WORKING INTEREST - the name given to the party or parties who have leased the rights to explore for and produce oil or gas. These owners bear the exploration, development and operating costs of an oil or gas property.

NON-WORKING INTEREST - These are typically Royalty owners. They are any interest owner who does not share in the development costs of an oil or gas property. Non-working interest owners only expense is taxes.

INDEPENDENT OPERATOR - an operator of an oil and gas lease or unit who only produces the oil or gas and is not engaged in the transportation, refining or marketing of oil or gas.

Information from Montana Dept. of Revenue

EX. 1
2-13-91
HB 457-458

NORTHERN MONTANA OIL AND GAS LEGISLATIVE INFORMATION SEMINAR

Following are definitions of terms used in the oil and gas industry.

ASSOCIATED GAS - an accumulation of gas in the highest part of the reservoir, overlaying an accumulation of crude oil, but not in solution with the oil. Gas that is produced simultaneously with oil, and in most cases the oil cannot be produced without the gas.

POSTED FIELD PRICE - Price paid for oil by purchasers to producers specified in publicly available price bulletins or other price notices. The price will be net of all adjustments for quality (api gravity, sulpher content, etc.) and location for oil in marketable condition.

STRIPPER WELL - OIL - a well that produces an average of 10 barrels of oil or less per day. This definition was adopted from the Windfall Profits Tax Act.

STRIPPER WELL - GAS - a well that produces an average of 60,000 cubic feet of gas or less per day. Definition adopted from the Natural Gas Policy Act.

SWEET CRUDE - crude oil containing only small quantities of hydrogen sulphide gas and carbon dioxide.

SOUR CRUDE - crude oil containing significant quantities of hydrogen sulfide. This type of crude oil requires additional processing to remove the impurities.

SOUR GAS - natural gas contaminated with chemical impurities, mostly hydrogen sulphide or sulfer compounds, which cause a foul smell. These impurities must be removed before the gas can be used for commercial or domestic purposes.

OLD PRODUCTION - wells that were drilled and began producing oil and/or gas prior to July 1, 1985.

NEW PRODUCTION - wells that were drilled and began producing oil and/or gas after July 1, 1985.

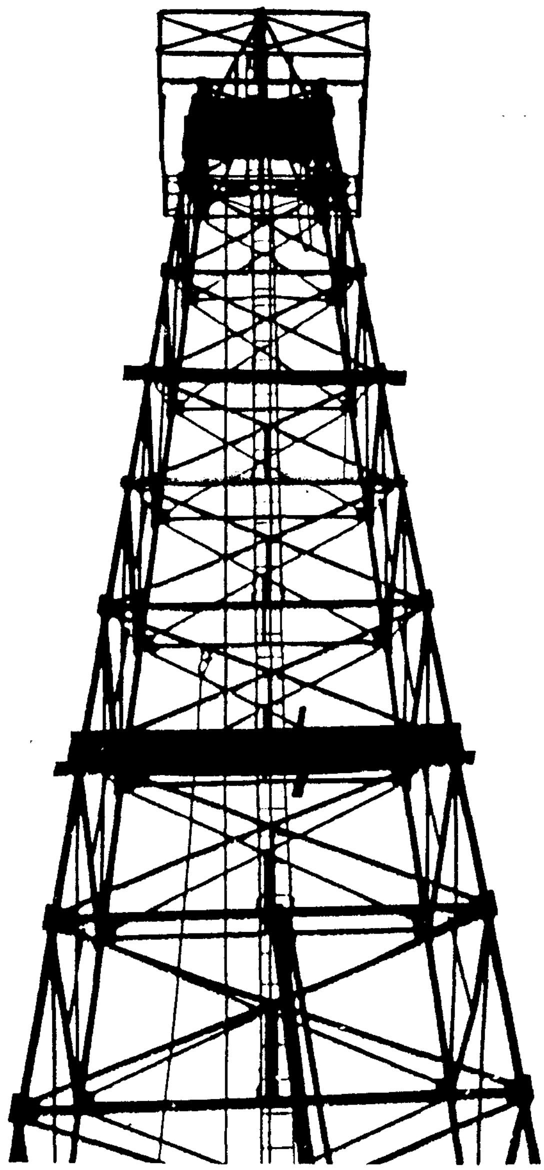
NEW OIL and GAS NET PROCEEDS TAX - a tax paid quarterly to the county for "new production." The rate is 7% for oil and 12% for gas.

OIL and GAS NET PROCEEDS TAX - a tax that applied to "old production" prior to being replaced by the Local Government Severance Tax. This tax was paid directly to the county and the amount of the tax was based on the mill levy for the school district in which the production occurred.

Northern Montana Oil & Gas Association

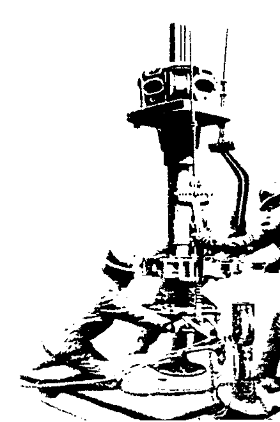
P.O. Box 621
Shelby, Montana 59474
Phone 434-2047 or 434-5401

EXHIBIT 7
DATE 2/13/91
HB 457 + 458



NORTHERN MONTANA OIL AND GAS LEGISLATIVE INFORMATION SEMINAR

"THE MONTANA STRIPPER - NOTHING LEFT TO TAKE OFF"



February 6, 1991
6:00 pm
Colonial Inn
Helena, MT

EXHIBIT
DATE 2/13/91
HB 457 + 458

REFERENCE: HOUSE BILL NO. 457
EXCESS PROFITS TAX ON OIL AND GAS PRODUCERS

HEARING : FEBRUARY 13, 1991, 9:00 AM

TESTIMONY: JAMES H. KERR
NANCE PETROLEUM CORPORATION
550 N. 31ST ST., SUITE 500
BILLINGS, MT 59101

IT IS DIFFICULT TO UNDERSTAND HOW A BILL OF THIS NATURE CAN BE INTRODUCED AT A TIME WHEN WE ARE TRYING TO ENCOURAGE DOMESTIC DRILLING AND REDUCE THE EVER INCREASING FLOW OF IMPORTED OIL.

THE STATE'S ENERGY POLICY ON ONE HAND IS TRYING TO GET MORE PRODUCTION IN THE STATE OF MONTANA, AND INCREASED PRODUCTION IN ITSELF WILL CREATE MORE TAX DOLLARS TO THE STATE AND TO THE COUNTIES. THIS IS A DIFFICULT TASK IN THE STATE OF MONTANA WHEN YOU CONSIDER THAT WE ARE ALREADY ONE OF THE HIGHEST TAXED STATES IN THE NATION.

THERE IS NOT ONE PERSON IN THIS ROOM THAT WOULD WANT TO GO THROUGH THE AGONIES THAT OUR INDUSTRY HAS GONE THROUGH OVER THE PAST FIVE YEARS, AND BELIEVE ME, WE ARE NOT "OUT OF THE WOODS" YET. I AM ONE OF MANY THAT LOST AN EXCELLENT JOB BECAUSE OF A COMPANY CLOSING ITS DOORS IN OUR STATE, AND THAT IS NOT FUN.

THE MAJORITY OF THE DRILLING IN THE STATE OF MONTANA HAS BEEN DONE BY THE SMALL INDEPENDENT. IN MANY CASES, HE IS THE GUY THAT HAS ELECTED TO WORK HERE AND TO LIVE HERE --- AND HE IS THE ONE YOU ARE GOING TO HURT THE MOST BY THIS BILL.

IT HAS BEEN SAID BEFORE, BUT LET US CREATE AN ATMOSPHERE WHERE THE STATE AND INDUSTRY WORK WITH EACH OTHER RATHER THAN AGAINST EACH OTHER. IT HAS NEVER HAD MORE MEANING.

THANK YOU.

Ex. 5

2-13-91

Altho the economic downturn in the Oil Industry was nationwide, the beginning of the Industry recovery has not been. All Rocky Mountain Oil Producing States with the exception of Montana, have recorded a substantial increase in number of Rigs running. According to weekly published reports in the Montana Oil Journal, there were 21 Rigs running in North Dakota, 29 Rigs running in Wyoming, and only 7 Rigs running in Montana at the end of last week. The lack of drilling in Montana is not because Montana is less attractive for Oil & Gas Prospecting, but is because of Montana's high tax structure and lack of competitive drilling incentives. When the price of oil reached $ 25.00 per barrel, Montana's incentives automatically terminated. Unfortunately, when the price dropped below $ 25.00 per barrel, they were not reinstated. In our neighboring states of North Dakota and Wyoming, Oil & Gas Industy Incentives are considerably more generous, and have never been repealed. Montana must compete for Industry dollars on a national basis, and currently Montana is totally noncompetitive due to discriminatory taxation of the Oil & Gas Industry.

A quick look at statistics published by the Montana Board of Oil & Gas Conservation covering the period of 1984 to 1989 clearly indicates the direction that Montana's Oil & Gas Industry is heading. In 1984, 801 wells were drilled in the state. Of this number, 350 were completed as Oil Wells, 120 were completed as Gas Wells, 20 were completed as Service Wells, and 311 were Dry or Abandoned. Included in these numbers are 243 Wildcat Wells which resulted in 33 new oil discoveries and 21 new gas fields. In 1984, Montana produced 30,079,819 barrels of Oil, and 52,981,382,000 cubic feet of Natural Gas. 1989, the most recent data available, shows a striking contrast to 1984. In 1989, only a total of 242 wells were drilled in the state. Of this number, 40 were completed as Oil Wells, 127 were completed as Gas Wells, 8 were completed as Service Wells, and 67 were completed as Dry Holes. Included in these numbers are 58 Wildcat Wells which resulted in 8 new oil discoveries and 12 new gas fields. In 1989, Montana produced 20,969,292 barrels of Oil, and 52,582,448,000 cubic feet of Natural Gas.

Over the five year period from 1984 to 1989, Montana's Oil Production has declined by 9.1 million barrels of Oil. Gas Production over this period has remained fairly constant. Drilling has declined 70%.

Data published by the Montana Board of Oil & Gas Conservation states that there are 274 active Oil Producers in the State. Eight of these companies produce 51% of the Oil. The remaining 49% is split among the other 266 Oil Producers. There are 208 active Gas Producers in the State. Five of these companies produce 53% of the Gas. The remaining 47% is split among the other 203 Gas Producers. There are very few "Fat Cats" in the Montana Oil & Gas Industry, and a lot of small independent operators who are barely scraping along.

If the purpose of House Bill 457, an excess profits tax on Montana Oil & Gas Producers, is to get at integrated multinational Major Oil Companies because of their reported profits, it is a total failure. The true results of a Bill such as this will totally dry up any chance of financing for the small local independents who are the backbone of the Montana Oil & Gas Industry, and put many more Montanans out of work and into bankruptcy. I strongly urge you to kill this Bill.

Kneelon E. Teague

Kneelon E. Teague

EXHIBIT 5
DATE 2/14/91
HB 457 - 458

TEAGUE GEOLOGICAL, INC.
PROFESSIONAL PETROLEUM GEOLOGISTS

February 13, 1991

147 MAIN ST.—P. O. DRAWER K
SHELBY, MONTANA 59474
PHONE (406) 434-5178

Statement of Kneelon E. Teague given to the Committee Hearing on House Bill 457

My name is Kneelon E. Teague. I am president and principal owner of TEAGUE GEOLOGICAL, INC., an independent geological consulting firm located at 147 Main Street, Shelby, Montana. I have been a Montana Geologist and a Montana Resident for 35 years. I have seen my business decline from a staff of seven Geologists and a Petroleum Engineer in 1983, to what it is today, myself and a part time Secretary. This is all due to the steady and rapid deterioration of the Oil and Gas Industry in the State of Montana. I very strongly oppose House Bill 457.

To drill an Oil or Gas Well requires a large number of support people other than the Company that actually drills the Well. My company is among these support people. Other than the prime drilling contractor (which is usually a Montana company) the services of the following people are required:

1. Landman - required to aggregate and purchase Oil & Gas Leases
2. Surveyor - required to stake and survey drillsite, copies of Survey Plat must accompany the Application for a Drilling Permit.
3. Attorney - required to read Titles on Oil & Gas Leases and issue a Drilling Title Opinion.
4. Dirt Contractor - required to build location for Rig, and build access roads if needed.
5. Truckers - required to move Drilling Rig and Heavy Equipment on and off location
6. Fuel Contractor - provides and delivers fuel to the Rig and associated equipment on location.
7. Water Hauler - provides and delivers water for the drilling operation trucks are on location 24 hours per day
8. Mud Contractor - provides and delivers drilling mud and additives for the drilling of the hole.
9. Pipe Contractor - furnishes Surface Casing and Production Casing
10. Cementing Company - cements casing in hole with high pressure, high volume pumps.
11. Geologist - examines the cuttings from the well, evaluates the formations, and determines testing proceedures.
12. Engineer - supervises and oversees the entire physical drilling operation.

In addition to the people already named, a drilling rig employs 13 men. This is 13 well paying jobs.

It is no secret in the Oil Producing Counties that there has been a severe economic depression in the Oil Industry for the last few years. A prime example is Toole County, where I make my home. In 1984, 62% of the total taxable valuation of the county was attributable to Oil & Gas Production. By 1989, this figure dropped to 33% of taxable valuation. The population of the County has dropped significantly since the last census. The city of Shelby alone experienced a loss of over 400 people. Most of these people were skilled oilfield workers and technicians. The bulk of these people left the state seeking jobs in Wyoming or North Dakota. At present, there are very few oilfield personnel remaining in this area.

EXHIBIT 4
DATE 2-13-91
HB 457-458

February 11, 1991

Mr. William W. Ballard
President
Rocky Mountain Oil & Gas Association
c/o Balcron Oil
P.O. Box 21017
Billings, MT 59102

Dear Bill:

In accordance with your request, I have analyzed the effect that Proposed House Bill #457 would have on the economics of a typical drilling program. In a word, the results are disastrous, eliminating virtually all incentive to drill within the State of Montana at any oil price. The attached graphs dramatically illustrate the impact of this bill at various oil prices.

I have performed this analysis using accepted industry evaluation techniques and I believe the parameters and results present a fair, objective, and accurate representation of the impact of this bill. The parameters I used are as follows:

Drilling Expenditure	$1,000,000
Reserves Encountered	300,000 bbls
Operating Expenses	$4,000/month
Severance Taxes (State and Local)	12.7%

I am a Registered Professional Engineer in the State of Montana and am eminently qualified to perform this analysis. Further, my compensation has in no way been contingent on the outcome of my analysis.

Sincerely,

Steven D Durrett

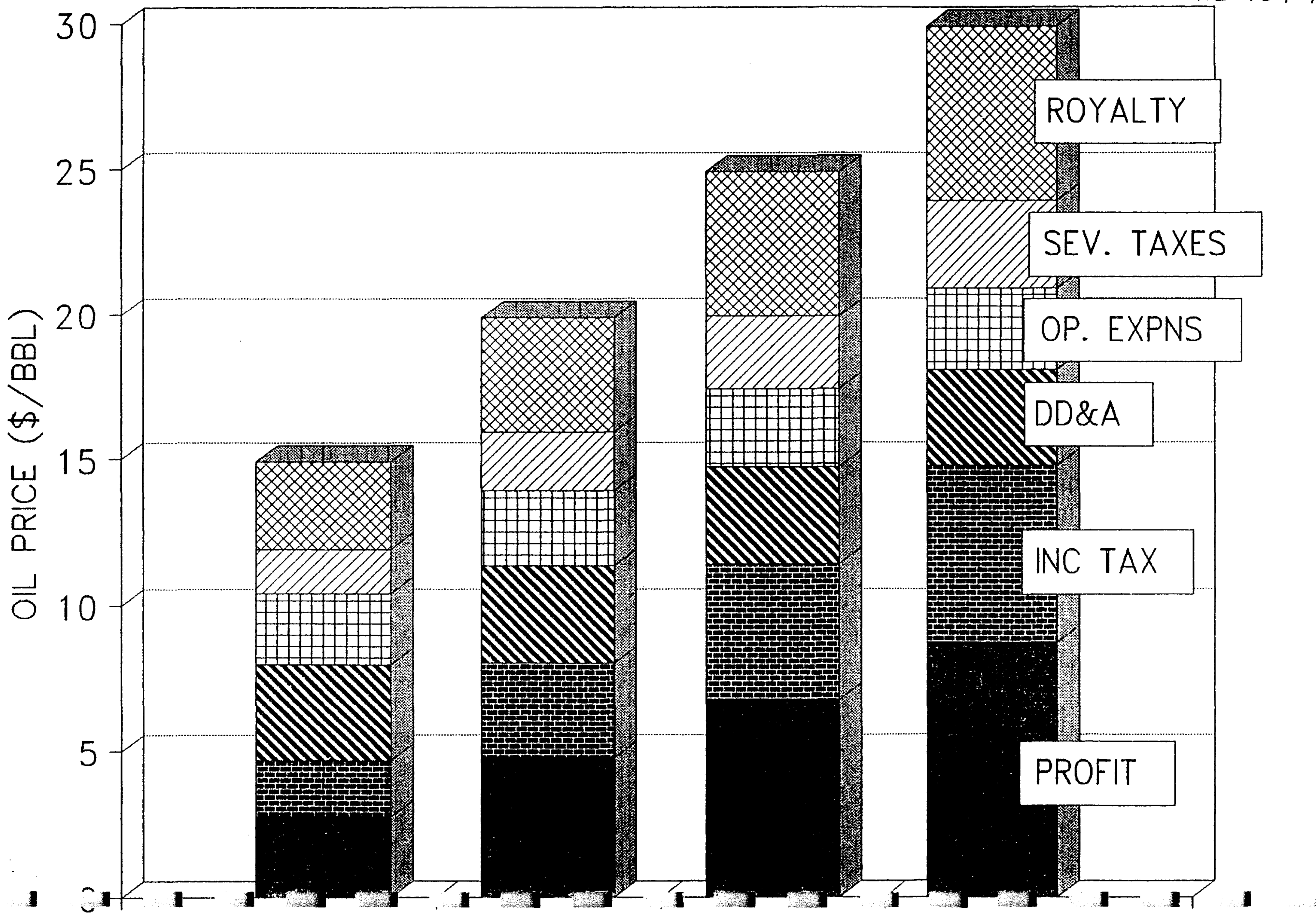
Steven D. Durrett, P.E.
Montana Registration #9437 PE

SDD/rs

Attachments

Ex. 4
2-13-91
HB 457-45

WHERE THE MONEY GOES NOW



Ex 4
2-13-91
HB 457-458