

MINUTES OF THE HOUSE TAXATION COMMITTEE MEETING
January 22, 1981

A meeting of the House Taxation Committee was called to order by Chairman Ken Nordtvedt at 8:00 a.m. on Thursday, January 22, 1981 in Room 102 of the State Capitol. All members were present except Reps. Sivertsen and Bertelsen, who were excused, and Rep. Burnett, who was absent. HOUSE BILLS 92, 237, and 250 were heard and a presentation was made by Jeffrey Monroe concerning the Windfall Profits Tax and Sen. Melcher's bill, which attempts to correct the inequities of the Windfall Profits Tax on the federal level.

The first bill to be heard was HOUSE BILL 237, sponsored by Rep. Kathleen McBride. This bill switches the individual income tax deduction for investments in energy conservation to a tax credit. She pointed out that currently, tax credits are given on the federal level. This bill helps to encourage investment in energy-conserving devices, which in turn helps the economy. Ultimately, dependence on fossil fuels and imported oil might even be decreased.

Leo Berry, from the Department of Natural Resources, rose in support of the legislation as encouraging conservation.

Ellen Feaver, Director of the Department of Revenue, then spoke. The fiscal impact of this bill would be about \$400,000, since there is already a deduction allowed. She stated that the Department had no problems with the bill.

There were no opponents to HB 237. Questions were then asked.

It was brought out that the current federal credit allowed is for 15%, up to \$300, but different things qualify for the federal credit than do on the state level. It was pointed out that the State was more liberal in this regard.

The sponsor then closed. She stated that many small businesses taking advantage of the individual income tax will also be able to take advantage of this and thus will be encouraged to make use of energy conservation measures.

HOUSE BILL 92 was then heard. The sponsor, Rep. Asay, explained that the prime purpose of the bill was to deal with the rate of assessment of railroad property. The situation has existed for two to three years where there has been a disagreement on the property tax rate for railroad property and this is directly tied with a federal law which was passed. Two years ago the Legislature failed to address the problem fully. A percentage of the tax assessed was protested, and this was resolved by agreement. Several minor amendments to HB 92 were presented to the Committee members.

Changing of the applicability date will enable the bill to be used to resolve the present situation. Taxes involved in the present suit amount to more than \$3 million, which has been paid into the Federal Court in Billings under protest. A listing of the counties and the approximate value of money each is presently being deprived the use of was cited from.

Rep. Asay said that HJR 5, which establishes a Legislative Committee to study the assessed valuation of commercial and residential property, would also be useful to resolve this matter.

Several residents of Treasure County then testified. The first PROPONENT was Jim Carlson, County Attorney for Treasure County. The Federal government decided that railroads were being taxed too heavily, and the way they were ruled by the ICC was changed; it was ruled that any tax higher than commercial and industrial property was unreasonable and unjust. There was a delay clause in the resulting statute which allowed states time to change their laws to comply with the Federal act. In Montana, the railroads brought a suit which listed a 10.5% tax figure. The problem lies in that Montana does not have a tax classification that is called "industrial and commercial," and thus the federal law does not fit very well with Montana law. To cure the problem, the entire assessment procedure and methods would have to be changed in the State. At present, the railroads have an open-and-shut case in the Courts, because Montana is in violation of the law. Not only should the percentage be lowered, but taxable valuation is overstated in comparison with commercial and industrial property valuations. HB 92 is a stopgap piece of legislation; it avoids restructuring by way of allowing the Department of Revenue to set a defensible rate.

Jackie Zent, Treasure County Assessor, then spoke in favor of HB 92. It was pointed out that one-seventh of Treasure County's revenue is from the railroad.

Ellen Feaver, Director of the Department of Revenue, then testified. Right now, by statute a 15% tax has to be set. If other commercial and industrial property is being taxed at a lower rate, as it presently is, then the state is automatically out of compliance with the federal law, and Burlington Northern is forced to bring suit. Litigation is very costly and not very productive. In 1979, a 10.5% rate was settled on out of Court. The rate can't be fixed in the statutes because it varies. Regarding the Fiscal Note to HB 92, she added that the state wouldn't really be losing the money, because it is not allowed to keep it now. In closing, she urged adoption of the amendments. See prepared statement- Exhibit "B."

Steve Wood, tax lawyer for Burlington Northern, then spoke up as a proponent of the measure, but with reservations. He talked about HB 92 and also the Federal Railroad Revitalization and Regulatory Reform Act of 1976 (4-R Act). The 4-R ACT was enacted Feb. 5, 1976. In the investigation which Congress performed, it was found that 19 states had been discriminating against railroads. It was concluded that railroad or transportation property couldn't be assessed or taxed for more than what commercial or industrial property was assessed or taxed for.

In 1977 a bill was introduced in Montana's Legislature to bring the state into compliance with the 4-R ACT, but the bill didn't pass. In 1979 another bill was introduced, but Mr. Wood said the Committee's feeling at that time was, "sue us ." The 1979 lawsuit was eventually settled and now BN is back in Court for 1980.

Current Montana assessment procedure states that all assessors, whether local or state, have to come up with "fair market value." The statutory classification scheme provides a multiplier for various kinds of property, and taxable value is derived from this. The percentage multipliers have a great deal of split among them; there are eleven different classifications, with eleven different multipliers. It would appear that the simple way to comply with the 4-R ACT would be to make a ratio for the railroads applicable to commercial and industrial property. Basically, he feels that HB 92 does this. However, in Montana, property is only assessed every few years. Therefore there is an assessment lag which is magnified by inflation. Right now, commercial and industrial property assessment figures are 55-60% of its market value. HB 92 says that a sales assessment should be made to find a sales factor. Railroad value has to be reduced down to the 55% level and the percentage multiplier is applied to it. This doesn't accomplish the equalization that the 4-R ACT requires. He added that Article 8, Section 3 of the Montana Codes also requires equalization. HB 92 in a broad sense might well be construed to give the Department of Revenue enough authority to make the adjustments but most of the Departments of Revenue Mr. Wood works with are very conservative, and he doesn't think this bill gives the Department enough authority to do their job. He stressed that not only a percentage multiplier is needed but an equalizing factor is needed. It would be hard to find a number under the Montana scheme because the number would float every year. A methodology for determining the percentage multiplier should be set forth in the statutes.

Mr. Wood said that the President of Roosevelt University in Chicago, Ralph Weil, known as the "Father of the Sales Assessment Study," has provided testimony to Congress on the 4-R ACT, and has been asked to address this Committee and give his ideas about how Montana law can be changed to do what the 4-R Act does. Mr. Wood offered his assist-

ance to the Committee and urged that action on HB 92 be withheld until the meeting with Prof. Weil, scheduled for Feb. 9, could be held.

There were no opponents to HB 92. Questions were then asked.

Ms. Feaver maintained that this bill would achieve what it was supposed to. She stressed that she felt the bill was broad enough to allow the Department of Revenue to come up with an equitable taxable value. She pointed out that the business of assessment and appraisal was an art more than a science, and new methods are devised periodically to arrive at equity and the State would be in the best position to make use of the best, most current methods if the wording in HB 92 was left alone.

Mr. Carlson (Treasure County Attorney), in response to a question from Rep. Roth, stated that he wasn't sure that the assumption that the railroads were paying too much tax was a legitimate one. He added that the impact of the 4-R ACT on small counties was tremendous.

Ms. Feaver said that the railroads are centrally assessed under Class 11 which was created especially for centrally assessed properties. If this change is to conform to Federal law, Rep. Williams wanted to know if the other property assessments in Class 11 would be jeopardized. Mr. Carlson felt that it would be best to leave the rest of the property assessments the same.

Regarding the BN lawsuit, Rep. Oberg said that the Department of Revenue was just trying to defend current State law, and they were estimating that an attorney would show that the salvage value of BN is higher than its market value, which they are currently being taxed on.

Mr. Wood said that valuation wasn't affected by HB 92, and adjustments have to be made regardless of value. This bill operates separate and apart from valuation; whether it is high or low, the formula will still apply to it.

Mr. Hoffman, from the Department of Revenue Property Tax Division, explained how market value was presently arrived at in the State. The "unit" approach is used; basically, they look at cost, income, and market. A "system market value" is arrived at. A usage factor is used to see how much tax the State is entitled to on property which operates in more than one state. The market value for 1980 for the railroads was \$254 million. He also said that one percentage multiplier could be used to both equalize and classify, but HB 92 makes reference to a classification ratio that is not current law and says the Department of Revenue has the opportunity to change that percentage multiplier. That multiplier has nothing to do with equalization; it is just something that is automatically applied to market value.

Rep. Underdal wanted to know, if HB 92 passed, how much less revenue Treasure County would take in. About \$120,000 was supposed to be taken in under the 15% ratio. With the 10% in the lawsuit, it

dropped to less than \$100,000; but with the percentage BN is asking for in Court it would be about \$24,000. The County would probably end up with about \$90,000. If an equalization formula was in the bill, it might take a while to take care of bringing the equalization back up to par.

Rep. Underdal then asked Ms. Feaver if passage of this bill would eliminate the lawsuit. She replied that the lawsuit for 1980 was unavoidable, but hopefully passage of the bill would preclude future litigation.

Rep. Asay pointed out that \$12,860 was paid to Treasure County, and \$48,000 was in escrow under protest, and this was the first half of BN's taxes due.

In response to Rep. Roth, Ms. Feaver stated that the Department of Revenue wished to provide equity for the railroads, and in compliance with the statutes, they would go as high as they could on the tax.

Rep. Underdal asked Mr. Wood if all of the Counties involved were paid taxes under protest. He replied that this was the case. If the Counties win the lawsuit, they would get all of this money, and if the railroad won it would get all the money. Any interest earned would be divided evenly and proportioned out.

Rep. Switzer then asked Mr. Wood how Montana's current tax claim compared with assessments in neighboring states. He replied that if trackage in Montana is looked at, Montana has about the same as North Dakota and Washington. Tax liability in North Dakota this year is slightly less than \$2 million before the 4-R ACT; in Montana it is about \$8 million. The difference is what they feel they are being over-taxed in Montana. He added that last year there was a suit in North Dakota, which BN won.

Rep. Williams asked Mr. Wood if, under the 4R-ACT, there was a maximum amount the assessment could be in comparison to other commercial and industrial property. He replied that the ACT just said that the assessment had to be at the same level as other commercial and industrial property. 2.884% in the current lawsuit is the ratio of market value BN is saying should be applied.

Rep. Asay then closed. He emphasized that there is no attempt to unfairly tax the railroads. He added that whatever HB 92 lacked in jurisdiction or ability, HJR 5 does provide. From the standpoint of dollars and cents, an appraised valuation of \$260 million on railroads is being talked about in Montana, and this is hard to understand in the light of fair commercial appraisal. Regarding 2.8 as a rate to apply, nowhere else is the rate that low in the state. This

is an expensive problem because litigation is expensive, and the problem needs to be solved as soon as possible. The hearing on HB 92 was then closed.

The meeting was then turned over to Rep. Asay and Chairman Nordtvedt presented HOUSE BILL 250, which he was chief sponsor of. This bill will adjust some of the base parameters in the Montana Income Tax. The base personal exemption would be changed to \$1,000. This would be subject to indexing beginning in 1981. This would liberalize the standard deduction. Presently, a deduction of 15% of income up to \$1,000; and \$2,000 for a joint return, is called for. HB 250 would change that to 20%, with a maximum of \$1,500, and \$3,000 on a joint return. Rep. Nordtvedt pointed out that the standard deduction is usually used by persons in the lowest tax brackets. A chart was distributed showing a 14-year history in Montana of purchasing power of dollars; see Exhibit "C." Inflation at one point almost cut the exemption amount in half, based on the value of a dollar in 1967. The trigger mechanism enacted in the last Legislative session was a temporary measure; even though the exemption was raised to \$1,250, it still wasn't raised up to the 1967 rate, in purchasing power. A \$1,000 personal exemption, with inflation, will help it stay the same, via indexing. The bill will be amended to make it clear that it is the \$1,000 exemption that will be indexed and not the temporary \$1,250 exemption.

There were no further PROPONENTS to HB 250. There were no OPPONENTS to HB 250. Questions followed.

Rep. Nordtvedt stated that if this bill passes, the \$1,000 figure would be at \$400 purchasing power in 1967 dollars. He reiterated that the inflation factor would be applied when calculating the basic standard deduction, and the figures in HB 250 would be the basic figures applied to the new tax indexing law.

The Fiscal Analyst said that the fiscal impact of this bill would be \$20 million in the coming biennium. The fiscal note listed \$26 million, but it was returned and is to be re-worked.

The exemption figure would have to be \$1,500 to equal the purchasing power of the \$600 amount in 1967.

Rep. Williams wanted to know if the \$20 million impact figure was derived from the two figures, or if the total result of the indexing law was used. Rep. Nordtvedt replied that this wasn't the case, but more information was still being sought to arrive at a more definite figure.

The language on P. 6, Section 2 of the bill was explained. The standard deduction is a percent of income, but it has a cap of \$1,500, or \$3,000 on a joint return. 10% inflation would provide that 10% be added on to the cap.

There were no other questions. Rep. Nordtvedt then closed. He added

that amendments were forthcoming. Also, the Attorney General's Office is being consulted with, to make sure the bill will be satisfactory to everyone. The hearing on HB 250 was then closed.

The meeting was then turned back over to Chairman Nordtvedt, and a Subcommittee was appointed to deal with HOUSE BILL 92. It was chaired by Rep. Asay, and members were Reps. Sivertsen, Switzer, Brand, and Neuman. In addition to making a recommendation on the bill, the Subcommittee was directed to schedule a hearing for when Prof. Weil would be appearing before the Subcommittee. The Subcommittee was also asked to report on the status of the present lawsuit with Burlington Northern concerning Tax Year 1980.

The meeting was adjourned at 9:30 a.m. and was to reconvene at 11:00 a.m. for a presentation on Sen. Melcher's bill on the Windfall Profits Tax and its effects on the small royalty owner.

The Committee reconvened at 11:00 a.m. Rep. Vinger introduced to the Committee Mr. Don Allen, a representative of Montana Petroleum.

Mr. Allen explained that SENATE BILL 200 deals, from the Montana standpoint, with some problems with the Windfall Profits Tax, and he suggested that this presentation would be helpful when this bill was assigned to the Committee.

Jeffrey Monroe, Denver tax consultant, then spoke. A text of his presentation and a chart summarizing the Windfall Profit Tax were distributed; see Exhibit "D." He pointed out that at present, the royalty owners are paying the same price on windfall as the major oil companies are; the tax is deducted before they are paid.

Questions were then asked by the Committee members. It was brought out that the Independents get a break because they do most of the exploration, and the break creates more capital for them to do this. They are tied to the U.S., so all operations are domestic. The Independents are getting a break as far as the tax goes, but not as far as selling price goes. Oftentimes, the Majors lease land to the Independents; therefore, in many ways it makes sense to give a break to the Independents.

In response to a question from Rep. Roth, it was explained that the Windfall Profits Tax only applies to domestic crude oil.

Rep. Sivertsen asked what effect Sen. Melcher's bill would have on the small royalty owners from Montana who are presently having large portions taken out of their checks for the Tax. Mr. Monroe stated that the bill would grant an exemption for up to 1,000 barrels per day for the Independents. Since small royalty owners are tied to the Independents, the savings on the exemption would be filtered back, and when it got to the net proceeds, it would mean an increase, which would be reflected in the small owners' royalty checks.

Rep. Vinger wanted to know if the bill would be retroactive, and was told that the effective date would be January 1, 1981.

Rep. Zabrocki was assured that ownership on the wells being switched around as an attempt at avoiding the Tax was prohibited under the Windfall Profits Tax Act. It was added that to qualify for the status of "Independent," a filing procedure existed, and the status was granted if the provisions set up in the Act were met. Also, "stripper wells" have to be authorized by the government as qualifying for stripper and/or Independent status.

Rep. Zabrocki then wanted to know if the exemption would be abused by the Majors who have Independents dig their wells. It was explained that the Majors would be granted up to 1,000 barrels a day as a "working interest" owner, and there wouldn't really be any advantage to them because they have to share in production figures.

Rep. Nordtvedt then wanted to know what implications Sen. Melcher's bill would have in the area of state legislation. It was explained that SB 200 would provide that in calculating state taxes, the Windfall Profits Tax could be deducted. Montana has a problem in that the Net Proceeds Tax doesn't qualify as a severance tax. So, not only do higher taxes have to be paid on production but the Windfall tax also has to be paid. If the Net Proceeds Tax was called a severance tax, what SB 200 calls for would already be possible. Passage of SB 200 would put the procedure in line with what other states do.

Rep. Vinger pointed out that besides the Windfall Profits Tax, the small owner is paying an advalorem tax; he is receiving a certain percentage of the profits, after the Tax, and out of that share, a Net Proceeds Tax is paid. Also, the State Severance Tax is paid quarterly, and that is also deducted. A yearly conservation tax and a resource indemnity trust tax also have to be paid. Four to five cents on every dollar is left to be distributed to the working interest and royalty owners.

Rep. Harrington asked if, when the small oil companies sent their royalties out, they were passing back to the shareholders the loss from the Windfall Tax, or if it was an across-the-board loss. It was explained that the royalty owners were taxed at the 70% rate; the operators had to hold that and submit it to the federal government. The amount of the royalty is reduced by the amount of the tax only. There is no way the operator can recoup from the royalty owner what the operator has to pay.

In response to a comment from Rep. Harrington that he still didn't understand why the shareholders had to suffer so much, it was pointed out that 3/4 of the profits made by the oil companies are from overseas operations; much of this money is then put back into domestic production. However, few Independents are involved in drilling of big wells such as overthrust.

Rep. Zabrocki was told that nearly half of Montana's oil comes from Canada, and 78% of it comes from Canada and Wyoming combined. We are exporting oil out of the state, however, because it cannot be refined here. Montana would remain an importing state even if it could keep all the oil it produced. Unless a pipeline solution is forthcoming, we have no way of getting Alaskan oil to Montana. It was added that Alaskan oil has to be sold domestically.

The meeting was then adjourned.

Rep. Ken Nordtvedt - Chairman

da

VISITORS' REGISTER

HOUSE TESTIMONY

COMMITTEE

PTLL *et al.* 23

Date 1/1/10

ONSOR *W. B. G.*

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR LONGER FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITORS' REGISTER

2

HOUSE

COMMITTEE

BILL *1937* *1938*

Date 1/22/21

·ONSOR *Viscose*

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR LONGER FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

PROPOSED AMENDMENTS TO HB 92

1. Amend title:

1. Title, line 11
Following: "MCA"
Insert: ";" PROVIDING AN APPLICABILITY DATE:
AND PROVIDING AN IMMEDIATE EFFECTIVE
DATE"

2. Amend text:

2. Page 3
Following: line 5
Insert: "Section 3. Applicability date. This
act applies to tax years beginning on or
after January 1, 1981.

Section 4. Effective date. This act is
effective upon passage and approval."

1/2/81

EXHIBIT "B"

DEPARTMENT OF REVENUE

HOUSE BILL NO. 92

HB 92 addresses the problem presented to the State of Montana because of the passage of the Federal Railroad Revitalization and Regulatory Reform Act of 1976, as amended. The federal law requires that local taxing jurisdictions may not tax railroads at a higher tax rate than that levied on commercial and industrial property in general (49 U.S.C. §11503). This bill provides a mechanism to permit the Department of Revenue to change the percentage multiplier that converts market value to taxable value in order to achieve compliance with the federal requirements. Because of the varying percentage multipliers for the various classes of property, the Department is not able at this time to provide a fixed percentage that would result in compliance. The problem is due to the fact that the federal law was written without a property tax system such as Montana's in mind.

Section Analysis

Section 1. Amends 15-6-141, MCA. The amendment on page 2, line 8, provides an internal reference to 15-23-202, MCA.

Section 2. Amends 15-23-202, MCA. This section is amended to provide a new subsection (2), in which the Department is given authority to modify the percentage multiplier for railroad property.

VISITORS' REGISTER

HOUSE COMMITTEE

BRILL

950

Date _____

SUB-ONSOR

Date

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR LONGER FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

4/15/50 2
1/1/51

Standard Deduction

EXHIBIT "C"

Single Taxpayer - \$10,000 Income

① Present Law $10,000 \times 15\% = \cancel{1500}$
\$1000

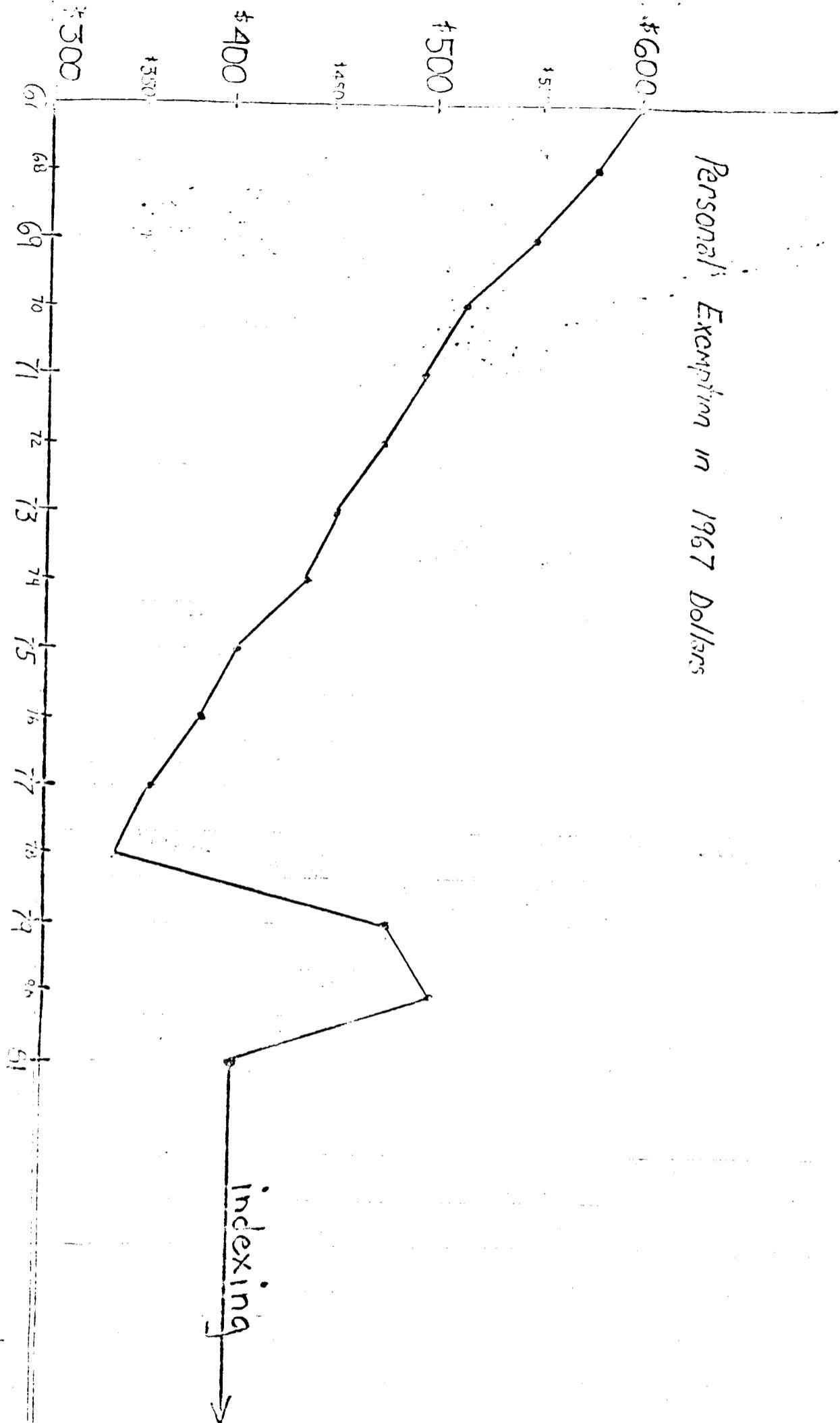
② HB 250 $10,000 \times 20\% = \cancel{2000}$
\$1,500

Joint Return Taxpayer - \$15,000 Income

① Present Law - \$15,000 $\times 15\% = \cancel{2250}$
\$2000

② HB 250 - \$15,000 $\times 20\% = \$3000$

Personal Exemption in 1967 Dollars





STATE OF MONTANA

DEPARTMENT OF REVENUE

MITCHELL BUILDING

HELENA, MONTANA 59601

Submitted to
TAXATION
COM.
1/22/81

January 16, 1981

MEMORANDUM

TO: House Taxation Committee

FROM: John M. Clark
Deputy Director

SUBJECT: Impact of House Bill 34

The Committee has requested a supplementary fiscal note comparing the impact of HB 34 under two sets of assumptions. The Department has no data upon which such a comparison could be based. It is believed that there may be as many as 500 individuals in the state who are classified as 100% disabled due to injuries connected with military service. There is no information as to how many of these own homes, what the value of the homes involved might be, or what the respective income levels might be.

If one assumes that:

- 1) 64% of the veterans have homes, and
- 2) the average value of the home involved is \$30,000, and
- 3) the average tax rate involved is 280 mills (most would be located in urban areas),

then the amount of property tax involved statewide would be:

$$.64 \times 500 \times \$30,000 \times .0855 \times .28 = \$229,824$$

It is believed that the income limits stated in HB 34 would disqualify very few of those who satisfy the disability criterion, particularly since they are stated in terms of Federal adjusted gross income. Thus, the impact of HB 34 with or without its income limits would be virtually the same.



STATE OF MONTANA

DEPARTMENT OF REVENUE MITCHELL BUILDING HELENA, MONTANA 59601

Submitted
TO TAXATION
COMM.
1/22/81

January 20, 1981

MEMORANDUM

TO: House Taxation Committee

FROM: John M. Clark, Deputy Director
Montana Department of Revenue

SUBJECT: Impact of House Bill 18

The Committee has requested information regarding the anticipated fiscal impact of implementing House Bill 18, with the proposed amendment that non-mortgage interest expenditures must first be deducted from interest income before the proposed exclusion for income tax purposes is allowed. There are no data available regarding non-mortgage interest expenditures which can be used to estimate the effect of this proposal. Fiscal Note #59-81, prepared for House Bill 18, cited some Federal income tax statistics regarding interest income received in 1977 by Montana taxpayers.

In 1977, Federal returns from Montana taxpayers reported a total of \$130,671,000 in itemized deductions for interest paid (the average interest expenditure claimed was \$2,415.81). There is no breakdown available regarding how much of this amount was attributable to home mortgage interest, but it is probable that home mortgage interest payments constitute the largest component of the sum.

cc: Office of Budget and Program Planning
Room 237
Capitol Building
Helena, MT 59601

TO: Chairman and Members of the Tax Committee

When the world price for crude oil was quadrupled in the early 1970's by the OPEC Nations, domestic prices were artificially restrained by price controls and freezing. The decontrol of domestic crude oil which began June 1, 1979, will gradually increase domestic crude oil prices to free market prices by October 1, 1981. There is a possibility that President Reagan will phase out decontrol in the next 30 to 90 days.

Decontrol of domestic crude oil was to create the capital required to increase domestic exploration and production, thereby decreasing our dependency on foreign crude. What it did instead was to create the base for the Federal Excise Tax, more commonly referred to as the Crude Oil Windfall Profit Tax Act of 1980, thereby eliminating the incentives provided by decontrol.

The Windfall Profit Tax is imposed on the difference between selling price and the specified base price. The selling price of most domestic crude is regulated by DOE.

The DOE price regulations are structured on a tiering system, thus the 3 tiers of oil. Before you is a handout listing the 3 tiers, the tax rate, the average base price and list of exemptions to the tax.

This Windfall Profit Tax combined with other Federal, state and local taxes consume up to seventy-six percent (76%) of each dollar of revenue generated. The remaining twenty-four percent (24%) is used to pay production expenses, state and local royalties, revenue to shareholders and miscellaneous indirect expenses. After these deductions, four and six tenths percent (4.6%) is left for exploration.

The bill supported by Senator Melcher does enhance domestic production, will reduce the tax burden, thus freeing capital for the small independent (which, by the way, accounts for about seventy-eight percent (78%) of the domestic exploration) and will provide relief for the royalty owner.

We would, at this time, like to go on record in support of this bill. The bill will go a step closer to correcting the inequities of the Windfall Profit Tax Act on the Federal level; however, a bill which will be introduced to the 1981 Montana Legislature would create for Montana these same incentives for continued and increased oil and gas exploration.

Thank you,

Jeffrey M. Monroe

SUMMARY OF WINDFALL PROFIT TAX

		<u>Tax Rate</u>		Average initial adjusted base price at March 1, 1980	Annual adjustments to base price	<u>NOTES:</u>
Other oil	Independent producer oil					
<u>Tier 1</u>						
Lower tier oil	70%	50%	\$13.02	\$13.02	Inflation	Combined Under DOE Crude Oil Pricing Regulations
Upper tier oil	70%	50%	\$13.02	\$13.02	Inflation	Currently \$18-20 per barrel
Market level new crude oil	70%	50%	\$13.02	\$13.02	Inflation	
Marginal well oil	70%	50%	\$13.02	\$13.02	Inflation	
<u>Tier 2</u>						
Stripper well oil	60%	30%	\$15.20	\$15.20	Inflation	10 barrels a day or less - currently \$35.00 per barrel
National Petroleum Reserve oil	60%	30%	\$15.20	\$15.20	Inflation	Probably 20% of states' production
<u>Tier 3</u>						
Newly discovered oil	30%		\$16.55	\$16.55	Inflation + 2%	Currently \$35.00 per barrel
Heavy oil	30%		\$16.55	\$16.55	Inflation + 2%	Uncontrolled - similar to Stripper
Incremental tertiary oil	30%		\$16.55	\$16.55	Inflation + 2%	
<u>Exempt</u>						
Qualified governmental interest oil						
Qualified charitable interest oil						
Certain Indian oil						
Certain Alaskan oil						
Certain front-end oil						

STANDING COMMITTEE REPORT

February 12, 1981

SPEAKER:

MR.

We, your committee on TAXATION.....

House 92 Bill No.

having had under consideration

A BILL FOR AN ACT ENTITLED: "AN ACT TO PERMIT THE DEPARTMENT OF REVENUE TO MODIFY THE PERCENTAGE MULTIPLIER USED IN CONVERTING THE MARKET VALUE OF RAILROAD PROPERTY TO TAXABLE VALUE IN ORDER TO ACHIEVE COMPLIANCE WITH THE REQUIREMENTS OF THE FEDERAL RAILROAD REVITALIZATION AND REGULATORY REFORM ACT; AMENDING SECTIONS 15-6-141 AND 15-23-202, MCA."

House 92 Bill No.

Respectfully report as follows: That.....

introduced (white), be amended as follows:

1. Title, line 11.

Following: "MCA"

Insert: "; PROVIDING AN APPLICABILITY DATE; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE"

2. Page 3.

Following: line 5

Insert: "Section 3. Effective date - applicability. This act is effective on passage and approval and applies to tax years beginning after December 31, 1980."

AND AS AMENDED

DO PASS

STATEMENT OF INTENT ON HOUSE BILL 92:

The intent of this bill is to allow the department to comply with the federal Railroad Revitalization and Regulatory Reform Act of 1976, as amended. This act places restrictions on the property taxation of railroads by state and local governments. Basically, the local taxing jurisdictions may not tax railroads at a higher tax rate than that levied on commercial and industrial property in general (49 USC §11503). This bill provides a mechanism to the department of revenue to adjust the percentage multiplier for converting market value to taxable value for railroad property. It is intended that the department may adjust the multiplier, if necessary, to achieve compliance with the federal requirements.

In making the adjustment the department may take into account both:

- (1) differing percentages, as provided by statute, between various classes of property; and
- (2) differences in the determination of market value between commercial and industrial property on one hand and railroad property on the other, if any such differences exist.

The language chosen is selected to afford the department reasonable latitude in developing a method of adjusting the multiplier.

STANDING COMMITTEE REPORT

February 5, 1971

MR. SPEAKER.....

TAXATION

We, your committee on

having had under consideration HB Bill No. 237.....

A BILL FOR AN ACT ENTITLED: "AN ACT TO PROVIDE A CREDIT AGAINST INDIVIDUAL INCOME TAX LIABILITY UNDER TITLE 15, CHAPTER 30, MCA, FOR CAPITAL EXPENDITURES FOR ENERGY-CONSERVING PURPOSES; ELIMINATING THE REDUCTION FROM INDIVIDUAL INCOME TAX LIABILITY FOR SUCH EXPENDITURES; PROVIDING AN APPLICABILITY DATE; AND AMENDING SECTIONS 15-30-121, 15-30-131, AND 15-32-103 THROUGH 15-32-106, MCA."

Respectfully report as follows: That..... HB Bill No 237,..... introduced (white), be amended as follows:

1. Page 1, line 25.
Following: "(ii)"
Strike: "10%"
Insert: "5%"
2. Page 2, line 4.
Following: "(ii)"
Strike: "10%"
Insert: "5%"

AND AS AMENDED
DO PASS

XDOORPASS

STANDING COMMITTEE REPORT

January 22, 1981

MR. SPEAKER

We, your committee on TAXATION

having had under consideration HB 250 Bill No.

A BILL FOR AN ACT ENTITLED: "AN ACT TO GENERALLY REDUCE PERSONAL INCOME TAX LIABILITY AND TO ADJUST THE AMOUNT OF EXEMPTION/DEDUCTION BECAUSE OF A STATE BUDGET EXCESS; AMENDING SECTIONS 3, 4, AND 5 OF INITIATIVE NO. 86 AND SECTION 9, CHAPTER 698, LAWS OF 1979."

Respectfully report as follows: That HB Bill No.

introduced (white), be amended as follows:

1. Title, line 7.
Following: "SECTIONS"
Insert: "1."
2. Title, line 8.
Following: "1979"
Insert: "; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE"
3. Page 1, line 10.
Following: line 10
Insert: "Section 1. Section 1 of Initiative No. 86 is amended to read:
"Section 1. Section 15-30-101, MCA, is amended to read:
"15-30-101. Definitions. For the purpose of this chapter,
unless otherwise required by the context, the following
definitions apply:
(1) "Base year structure" means the following elements
of the income tax structure:

(Page 1 of 3 pages)

REP. KEN NORSTROM

Chairman.

COMMITTEE ON TAXATION AMENDMENTS TO HOUSE BILL 250

(a) the tax brackets established in 15-30-103, but unadjusted by subsection (2), in effect on January 1, 1980 June 30 of the taxable year;

(b) the exemptions contained in 15-30-112, but unadjusted by subsections (7) and (8), in effect on January 1, 1980 June 30 of the taxable year;

(c) the maximum standard deduction provided in 15-30-122, but unadjusted by subsection (2), in effect on January 1, 1980 June 30 of the taxable year.

(2) "Consumer price index" means the consumer price index, United States city average, for all items, using the 1967 base of 100 as published by the bureau of labor statistics of the U.S. department of labor.

(3) "Department" means the department of revenue.

(4) "Dividend" means any distribution made by a corporation out of its earnings or profits to its shareholders or members, whether in cash or in other property or in stock of the corporation, other than stock dividends as herein defined. "Stock dividends" means new stock issued, for surplus or profits capitalized, to shareholders in proportion to their previous holdings.

(5) "Fiduciary" means a guardian, trustee, executor, administrator, receiver, conservator, or any person, whether individual or corporate, acting in any fiduciary capacity for any person, trust, or estate.

(6) "Foreign country" or "foreign government" means any jurisdiction other than the one embraced within the United States, its territories and possessions.

(7) "Gross income" means the taxpayer's gross income for federal income tax purposes as defined in section 61 of the Internal Revenue Code of 1954 or as that section may be labeled or amended, excluding unemployment compensation included in federal gross income under the provisions of section 85 of the Internal Revenue Code of 1954 as amended.

(8) "Inflation factor" means a number determined for each taxable year by dividing the consumer price index for June of the taxable year by the consumer price index for June, 1980.

(9) "Information agents" includes all individuals, corporations, associations, and partnerships, in whatever capacity acting, including lessees or mortgagors of real or personal property, fiduciaries, employers, and all officers and employees of the state or of any municipal corporation or political subdivision of the state, having the control, receipt, custody, disposal, or payment of interest, rent, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, or other fixed or determinable annual or periodical gains, profits, and income with respect to which any person or fiduciary is taxable under this chapter.

(10) "Knowingly" is as defined in 45-2-101.

COMMITTEE ON TAXATION AMENDMENTS TO HOUSE BILL 250

{8} (11) "Net income" means the adjusted gross income of a taxpayer less the deductions allowed by this chapter.

{9} (12) "Paid", for the purposes of the deductions and credits under this chapter, means paid or accrued or paid or incurred, and the terms "paid or incurred" and "paid or accrued" shall be construed according to the method of accounting upon the basis of which the taxable income is computed under this chapter.

{10} (13) "Purposely" is as defined in 45-2-101.

{11} (14) "Received", for the purpose of computation of taxable income under this chapter, means received or accrued and the term "received or accrued" shall be construed according to the method of accounting upon the basis of which the taxable income is computed under this chapter.

{12} (15) "Resident" applies only to natural persons and includes, for the purpose of determining liability to the tax imposed by this chapter with reference to the income of any taxable year, any person domiciled in the state of Montana and any other person who maintains a permanent place of abode within the state even though temporarily absent from the state and has not established a residence elsewhere.

{13} (16) "Taxable income" means the adjusted gross income of a taxpayer less the deductions and exemptions provided for in this chapter.

{14} (17) "Taxable year" means the taxpayer's taxable year for federal income tax purposes.

{15} (18) "Taxpayer" includes any person or fiduciary, resident or nonresident, subject to a tax imposed by this chapter and does not include corporations."

Renumber: subsequent sections

4. Page 5, line 4.

Following: "1979"

Insert: "as amended by this act"

5. Page 10, line 5.

Following: line 5

Insert: "Section 6. Effective date. This act is effective on passage and approval."

AND AS SO AMENDED
DO PASS