HOUSE TAXATION COMMITTEE MEETING MINUTES
April 9, 1981

A meeting of the House Taxation Committee was held on Thursday, April 9, 1981 at 8:00 a.m. in Room 102 of the State Capitol. All members were present. SENATE BILLS 200, 355, and 460 were heard and testimony was also accepted regarding SENATE BILL 356 as it pertained to SB 355. EXECUTIVE ACTION was taken on SENATE BILL 460.

The first bill to be heard was SENATE BILL 460, sponsored by Sen. Carroll Graham. He felt this bill would still be needed, even if the bill to repeal the rollback tax passed. At present there is no way of releasing liens and this bill attempts to take care of this.

There were no OPPONENTS to SB 460; there were no questions. Sen. Graham closed, and the hearing on SB 460 was closed.

Rep. Switzer moved that SENATE BILL 460 BE CONCURRED IN; motion carried unanimously.

SENATE BILL 200, sponsored by Sen. Gary Lee, was then heard. In trying to keep the net proceeds tax in line with its intent, being the taxation of the net, this bill allows those people engaged in oil to deduct as a business expense the windfall profits tax. Opposition to the bill has been from the Counties because they feel this is an erosion of their taxing asset; see Exhibit "A." Even with this bill, the Counties will realize more than a 140% increase in revenue.

Don Allen, Executive Director, Montana Petroleum Association, then rose in support of the bill. When the federal windfall profits tax was passed, there was no intention that the situation in Montana would occur and there was no foresight that this would be that large of a bite off the top of a barrel of oil. It is important to note that the windfall tax doesn't apply to the entire barrel; it applies to the base price. The Counties are already getting the part up to the base price. For the royalty owners as well as producers, paying taxes is a cost of doing business and in order to be competitive, this needs to be considered thus.

He submitted that it was hard for him to see each party trying to out-promise the other with tax relief. He felt that using the oil industry to balance the budget was a short-term solution for a long-term revenue loss. The Counties saying they were going to lose money he submitted wasn't true. The fact that they are not going to get as much of the windfall as they would like to have is what will happen. It is time that the Legislature recognized the fact that the oil and gas potential for Montana was the best hope for the answers to its financial needs. If this bill isn't passed and the Legislature goes along with a severance tax increase to fund the vehicle license plan, this will cause many people not to invest in the State. It is hypocritical to talk about a Dept. of Commerce to solve the State's problems while at the same time the Legislature is talking about taxing industry out of the State. It is time for the Legislature to rise above the Summit and say, "my vote is as important as everyone else's," and the concept of a tax on a tax is not fair and it is economically disasterous as far as the future of the industry in the State. When the Legislature is talking about funds, it needs to look at the big picture and bite the bullet because severance tax revenue will be going from #8 to #3 even under present law, and this tells the Legislature that there is a great potential in it. He submitted that producers needed an incentive to invest in the State. The real answer to the energy supply situation is supply.

Jerry Branch, a consulting geologist and gas producer from Shelby, then rose in support of the bill. He stressed that he was not connected with any major oil company. He presently paid five State and County taxes on his pump. These taxes amount to 45% on any royalty he owns; on his working interest it is 32%. Of the sum total of taxes paid in his home County of Toole, 40% are paid by the oil and gas industry. In Glacier County, 54% of the taxes are paid by oil and gas, just the net proceeds tax. In these Counties 25 - 50 oil men are paying, while there are 40,000 - 50,000 other people. He questioned why oil and gas was being taxed this heavily.

He submitted that any additional tax would plug many of the wells in his part of the State. Also, the new tax will discourage new drillings. It will increase gas and diesel prices at the pump for everyone.

He thought that if it wasn't for gas and oil taxes, they would still be paying 90¢ a gallon for gas. Claims that the Counties would lose money if this bill was passed were not legitimate, he maintained. If this bill is passed, many Counties would still experience a great increase in their income. He submitted that oil and gas paid more than its fair share of taxes.

Jeff Monroe, Logan and Associates, a tax consulting firm representing 14 independents, then rose in support of the bill. This bill for him is saying that revenue can be put back into the Belt Creek Field to keep production stable for at least another ten years in the form of enhanced oil recovery.

Carl Iverson, an independent operator from Shelby, then spoke up in support of the bill; the concept of double taxation in itself is enough to cause one to support this bill.

Norman Nelson, Northwest Montana Land and Mineral Owners Association, then rose in support of the measure, on behalf of that Association as its Chairman and also as a royalty owner.

Dave McMillen, from Richland County, a royalty owner and a farmer, pointed out that the money they didn't get was taking money away from the grassroots.

Don Steinbeisser, also from Richland County, also was in support of the bill.

Another proponent rose in support of the bill, stating that a tax on a tax just wasn't fair and eventually the agricultural segment would have to pick up the burden, because oil revenue wouldn't last that much longer.

A Havre gas producer stated that he needed to attract investment dollars, like all other independents. Montana needed to be competitive with its sister States or the investment dollars would go to the other States.

Sen. Tom Keating rose in support of the bill. He had been in the oil and gas industry for more than 20 years in Montana. He submitted that the oil companies didn't make as many profits as the people thought. The rate of return in the industry is no greater than the industry as a whole.

In order to make a fair return on the dollar invested, investors look at all the economics of every project undertaken. If the taxes in Montana put a project into a poor economic class, it is going to reduce exploration in Montana.

He encouraged the Committee to think seriously about a fair tax formula for the State in order to keep the economic climate competitive with the rest of the world. He submitted that no Counties would lose money from what they had been getting in the past. In fact, with the same tax rate and this bill, every County will have an increase in tax income every year.

Dave Schaenen, a Billings royalty owner and a small working interest owner, then rose in support of the bill. There are four or five States where this change has been done administratively. It was passed by the North Dakota Legislature in their most recent session.

Montana has few capital investment dollars; this money has to be attracted from out-of-State. If tax policies are too high-level, the money will go elsewhere. Passage of this bill would probably be one of the better ways to show the business community that Montana is truly interested in improving its business image. He cautioned the Committee about how high they wanted to go on the increase in SB 365 and said that the independents would be the ones who would be particularly hard hit. Most independents are in Montana and they would be the ones being hurt.

Clyde Gunthe, a Sheridan County farmer and royalty owner, rose in support of the bill.

Sen. Larry Sveit rose in support of the measure. He wished to speak on SB's 355 and 356, also. These bills are tied togehter because the license fee bills are a popular concept with many people, but will mean a loss of revenue to the local governments and this revenue needed picking up. Many people want to tax the oil industry.

The Governor told him that he would veto SB 200, but he wanted SB 356 to pass. They want to go from 2.6% to 5% on the severance tax. He submitted that this was quite a jump. He said that the Counties couldn't lose the money they never had. The question is whether they want two times as much or four times as much. The Counties have lots of tax land which they took back in the 1930's; when they released it again they took half the royalties. He submitted that a lot of money was going directly in the County General Funds. He said that there was lots of impact but the amount of money coming into the Counties was sufficient. He stated that he supported SB 200. He added that if there was to be a tax raised on SB 356, it shouldn't be over 1%, which would raise $20 million. Picking out one entity to spread revenue sharing around the State isn't fair.

Sen. Chet Blaylock then rose in OPPOSITION to SB 200. He didn't believe North Dakota had considered abandoning this; he submitted that the State was Colorado. He submitted that Wyoming and North Dakota both had gross proceeds taxes. Also, Wyoming had raised their severance tax to 4% on the stripper wells, and 6% on the new wells and SB 356 spoke of going from 2.6% to 5%. He said that maybe SB 356 should be phased in, but this would be addressed at the hearing on that bill.

He felt that 1/3 of the relief from SB 200 would go to one company and another big part went to the next 10 smaller ones. He didn't feel this was the kind of break the Legislature wanted to give. If this bill was passed, he said that $80 million would be the amount of relief to the oil companies, over what they would have deducted from their taxes. When the Legislature is struggling to give a little relief to all the people, he was not sure they wanted to give $80 million to this industry.

Regarding the argument about the poor business climate in the State, he submitted that there was a lot of oil exploration in Montana. One of the reasons there hadn't been much exploration in the State before 1973 was because the "7 Big Sisters" went overseas in the 50's and the 60's, and drilled there cheaper than the U.S. could compete for. Oil companies have been a well-treated industry in the State for a long time. He said one example of this was the depletion allowance.

Joe Lamson, Executive Secretary of the Montana Democratic Party, then rose in opposition to the bill. There has been some talk in many areas for reworking SB's 356 and 200 to take care of some of the oil companies' concerns. He submitted that this bill was a political move, however. He submitted that the big oil companies weren't testifying, but they would be the ones getting the biggest benefit from the bill. The Counties have been called greedy because they want this money. One of the rationales behind oil is that it is nonrenewable and it rings hollow when the oil companies call the Counties greedy.

Regarding tax relief plans, he wanted to know where the $80 million in tax relief to oil companies was in relation to these plans. He said this didn't go with any line of thinking of the voters when they elected the Legislators.

Mike Stephen, Association of Counties, then rose in opposition to the measure. (1) He didn't see the situation as being an additional tax. He gave examples of how the same thing happened in the income taxes also. He didn't know of any taxes that were fair, but it was the system that the Country operated under.

Regarding the projected percentage increases in revenue the Counties were supposed to experience, if the figure was 150%, he pointed out that the oil companies would be enjoying that same percentage. Also, the areas that enjoyed some of the benefits from oil and gas have suffered from initial impacts in the past. Once the money comes in and taxable valuation goes up, he questioned why they shouldn't share in those benefits, after having to suffer the impacts. If the industry is doing fine, why shouldn't the local governments enjoy this, he asked. He submitted that exploration and development were prospering. He wasn't advocating that they tax stringently to reduce production, but growth did need to be controlled. All development brings an increase in income and if they go elsewhere, they will be back.

Jim Halverson, Roosevelt County Commissioner, stressed that the State not shortchange itself without a fight. Maybe the State should join with the oil companies in filing a lawsuit or pursuing federal legislation to allow the net proceeds as a federal deduction on the windfall profits tax.

He didn't think the oil companies were yet sure of the impact of the windfall profits tax. He submitted that time was needed to see what effects it would have. In 1983, if the legislation was warranted, then it could be enacted.

The fiscal impact of the bill wouldn't represent much money to the oil companies, but it did mean a lot of money to the State, he submitted. Allowing the deduction on the State level puts more money in the oil companies' profits and they will be paying more federal taxes. This money can be better used right in the State and Counties. He didn't think the Legislature wanted to be noted as giving the biggest tax break to the oil companies.

Regarding double taxation, the State and the Counties were levying the net proceeds tax long before the federal government had the windfall profits tax, and he submitted, why should the State take the loss, therefore.

Tom Harrison, on behalf of the Montana Association of Oil, Gas, and Coal Producing Counties, rose in opposition to the bill. The principal losses in SB 200 are the University system, the School Districts, and local government. It isn't fair, therefore, to say that this is a tax that can be just taken off. A substitution for this revenue will be the property tax. The $40 million goes to the oil companies, who are at the highest federal income tax bracket of anyone in the corporate structure. He submitted that the federal government would get this money if the State didn't.

Questions were then asked. Rep. Burnett asked Mr. Harrison if he didn't feel that a windfall profit situation should have a position as a business cost. Mr. Harrison said that philosophically, he didn't agree with double taxation. Rep. Burnett submitted that the federal government allowed a certain amount of deductions while the State didn't and vice versa, and therefore, he thought this shouldn't be used as an argument in relation to the statement that State and federal taxes shouldn't be mingled. Mr. Harrison said if there was a confiscatory tax at the federal level, one couldn't be oblivious to this at the State level.

Rep. Asay asked Mr. Allen if the windfall profits tax was a tax on excess profits. He replied that profit had nothing to do with it; it was simply an excise tax. There is a stiff penalty if they guess wrong. Rep. Asay submitted that if production stayed the same, the passage of the bill would cause a reduction in the Counties' revenues. Mr. Allen disagreed. The worst case situation they found wouldn't lose any money and the least that any County would gain would be 30%. The County with new production would continue to soar way out of sight.

Rep. Nordtvedt asked Sen. Blaylock about his statement that an increase hadn't been made since 1979. Sen. Blaylock clarified that this was regarding percentage and not dollars. Rep. Nordtvedt asked him if he felt that taxes based on percentages needed periodic increasing. He questioned whether the State didn't automatically get more revenue as the prices went up when the tax was a percentage tax. Sen. Blaylock agreed.

Rep. Underdal asked Mr. Halverson if the Counties had to pay a windfall profits tax on their share of royalties, and he replied that local governments were exempt from the tax.

Rep. Nordtvedt asked Mr. Jim Felt if he had any calculations on what impact SB 200 would have on County revenues. He replied that he had hoped to verify some of his figures. His calculations were based on the assumption that the mill levy average was 134 mills, and he was also operating on the assumption that 25% of the gross on the barrel was absorbed into the windfall profits tax, so that part of the gross revenue was affected by this bill. With these assumptions he arrived at a Statewide impact of about $20 million over the biennium less tax.

Rep. Roth asked Mr. Allen about the statement that 1/3 of the tax relief would go to one company. Mr. Allen said the reference was to the fact that Shell Oil produced about 1/3 of the oil in the State, but it would be hard to say for sure that they would enjoy 1/3 of the profits. Weldon Summers, Shell Oil Co., spoke. The 1/3 figure includes production units that they operate which included other participants. Shell's net ownings were considerably less. The total gross was 1/3.

Rep. Roth asked Mr. Stephen if it wasn't true that the Counties had enjoyed a windfall tax themselves from the increases in the assessed valuation and the tax on gas and oil and some other sources. Mr. Stephen said he didn't call it a windfall and submitted that the areas had ben impacted for a long time. They are just enjoying the tax system and were due the money.

Rep. Sivertsen asked Mr. Stephen if there was any relevance to the fact that the oil producing Counties had some of the lowest mill levies in the State. He wanted to know what the relationship of this was to the statements about the impacts the Counties would have. He submitted that the Counties were enjoying benefits much more because of the production than other Counties, which didn't have production. Mr. Stephen said he saw nothing wrong with this. Any County with natural resource wealth should enjoy it.

Rep. Sivertsen said he wanted to know if the Counties were as depressed as was being stated. Mr. Stephen said he didn't say that they were depressed. All he was saying was that the only tool they had available was the tax system. Certainly they will use this money and if it is property tax relief they want to use it for, they will. They will also take care of things that are at their budget caps.

Rep. Dozier submitted that the oil companies had been ripping the public off for so long, he didn't see how they could say the Counties were ripping them off. Mr. Allen said the oil companies hadn't been ripping the public off. Regarding hanging on to oil until prices went up, he pointed out that the prices were based on when the oil was produced. He submitted that the oil companies were at the mercy of the OPEC countries, and until they could get more self-sufficient, oil would have to keep getting imported, at a higher price.

Rep. Oberg said he thought the Dept. of Revenue needed to be brought in to defend its Fiscal Note.

Rep. Underdal asked Mr. Branch about the statement about a 45% tax on royalties. Mr. Branch replied that a person had to have full interest to have 7/8 of production. He added that the person who took the lease would have this amount. Rep. Underdal wanted to know if 45% of that production was paid in taxes, and Mr. Branch confirmed this. He added that this was strictly on the windfall profits and other State taxes. Income taxes were on top of this. The 45% was just net proceeds. He submitted a data sheet on an actual well on which he had broken down all the taxes.

Rep. Switzer asked Mr. Branch how extensive he expected the plugging and/or abandoning of wells to be. Mr. Branch said it would depend on the prices of oil and gas in the future. Rep. Dozier pointed out that the oil bought off the older wells amounted to a cheap price. Mr. Branch agreed and said that actual operating costs were their only expense at this point. He admitted that their costs had been recovered and all that was being looked at was keeping the well going.

Rep. Harp asked Mr. Felt where the net proceeds tax went, and he replied that about half went to school districts. Rep. Harp wanted to know what the level would be without the bill and with the bill, on a State level. Mr. Felt said that the general growth of taxable value of property was expected to be about 13% per year for the next few years, and 8.5% after that. On this particular type of property, the growth would be much greater; therefore, those school districts would also have much more rapid growth than the rest of the State. Rep. Harp said that with or without the bill, oil and gas production would cause an increase in State revenue for the Equalization Program. He agreed and said the increase would be significant.

Rep. Dozier submitted that the increased revenue that had been coming to the Counties was from: (a) increased production, and (b) increased prices. Mr. Felt said that mostly it was from increased prices.

Sen. Lee then closed. He submitted that no County would lose money. He said that Mr. Harrison's saying that school funds would be adversely affected was false, and it was ridiculous to play on people's emotions in the education system. If the oil severance tax is increased to 5%, the kickback to the Counties will be doubled. Colorado is the only other State with the same problem as Montana. This bill has passed in Colorado and he was sure it would become law. He pointed out that the gross proceeds tax was a deductible tax on the windfall and the net proceeds wasn't. To say that the State was going to have a windfall profits tax on its level too was out of the ordinary.

He submitted he didn't know where Sen. Blaylock came up with his figures. He didn't see where he got the $80 million amount. The oil companies have been the whipping boys for quite a few years. One of the reasons they left the country was because of all the controls put on oil. The country has had artificially low gas prices, which directly reflect out-of-the country oil production.

He mentioned an amendment placed on the bill in the Senate. The only justification was so that the amendment could be taken off by the House, so the Senate could see the bill again. He requested that the amendment be removed. The hearing on SENATE BILL 200 was then closed.

SENATE BILL 355, sponsored by Sen. Chet Blaylock, was then heard. He went through the bill. This bill is closely tied to SB 356, scheduled to be heard on April 13. This bill removes all light cars and trucks from local taxing jurisdictions. What he asked the Committee to consider was the simplicity of the flat fee system. Possibly the upper end of the schedule could be raised to $80. He submitted that this would satisfy some of the opposition's complaints, and the Governor was amenable to the change.

Gerry Raunig, Montana Automobile Dealers Association, then rose in support of the bill. They have supported all of the fee bills; they also supported the ad valorem bills because they also meant a reduction of taxes. He submitted that if any of the bills of ad valorem nature were retained, it wouldn't be any more than 2 - 3 years before the State would be right back to where it was presently, with taxation of motor vehicles.

Joe Lamson, Montana Democratic Party Executive Secretary, rose in support of the bill. This is a key part of their tax relief program and they fully support it.

Sen. Larry Tveit rose in OPPOSITION to the bill. Because of the loss of valuation to the Counties, he was opposed to the bill. He supported an ad valorem tax and a wholesale value tax. SB 355 would mean a heavier load to the County workers than at present.

Gerald Henderson from Sidney submitted that the County officials were against this bill.

Tom Steinbeisser, also from Sidney, rose in opposition to the bill. He felt the figures were too low.

Control of the meeting was turned over to Vice Chairman Sivertsen, and Rep. Nordtvedt rose in opposition to the bill. This is the most regressive and pro-affluent class tax cut bill of the session; it is a waste of tax relief. There are more important things one could encourage the affluent to do with their money. Also, there is an additional few million dollars of tax relief by keeping the ad valorem system, because the taxpayer could still keep his tax for federal tax deduction purposes. He had a poll on vehicle taxes during his campaign. Although 65% said they wanted a reduction, 85% said they wanted the tax to be proportional to the value of the vehicle.

Questions were then asked. Rep. Nordtvedt asked Mr. Lamson how his party could favor a tax bill that was so preferential to those with the most expensive vehicles. He replied that he would be happy to raise the fee on the high end and lower it on the low end.

Rep. Burnett asked Sen. Blaylock if he would be amenable to making a percentage cut on HB 500 to make up for the loss from this bill and he replied that he wouldn't be. He said that every amendment that was tried on SB 500 on the Floor of the Senate went down in defeat, so nothing had been added. Estimates that the Senate wanted an across-the-board cut he submitted were an insult to the Committeees that had worked on the budgets. Rep. Burnett said the percentage increases on the various agencies in State government had been greater than in the past. He submitted that in HB 500 there was money to be had. Sen. Blaylock said that that was the privilege of the House to do this.

In response to Rep. Underdal, Sen. Blaylock submitted that if the Legislature wanted to relieve the property tax, he would be in favor of it, but this bill is the only one that would give this relief for a large percentage of the State's population.

Rep. Vinger submitted that through this bill, many people would no longer be paying any money towards schools and the burden would be dropped on other people. Sen. Blaylock said that these people would still be paying taxes, because indirectly the people without cars and renting would be still paying property taxes to the landlords.

It was explained that the reimbursement would be handled at the end of the first year by calculating the difference between what was received under property taxes and what would have been received under the fee system, and the total number of vehicles in the County would be calculated. The loss would be divided among the vehicles, to get the reimbursement figures. In the succeeding year, the State would pay the Counties $30 per vehicle and the money would be divided up among the funds. The reimbursement figure included the loss of the 40 mills and the 6 mills.

Rep. Williams asked Mr. Raunig how many other States used a fee system, and he replied that he believed that as of one year ago, 36 or 37 States had some sort of a fee system. He added that the fees in Oregon were $10 per year. In response to Rep. Sivertsen, he stated that the other States' taxing systems weren't the same as Montana's. Rep. Sivertsen wanted to know what his position was on fee bills vs. tax bills. He replied that it was April 9, and the 90th day was on the 22nd, and he wanted to know if the Committee had time.

Terry Cohea, Management and Budget Analyst, said that the formula was specific to each County. The point of the bill was to reimburse local governments for every dollar that they would lose.

Rep. Devlin submitted that a County that had been conservative would be penalized. Ms. Cohea said she couldn't understand how it would be a penalty, because they would get what they would have gotten from the tax.

Rep. Nordtvedt said the ultimate transaction was between the State and the owners of the vehicles. He questioned why the General Fund should reward Montanans in high mill areas with more tax relief per vehicle than Montanans in low mill jurisdictions. Car for car, they will get a substantially bigger tax break. He requested Sen. Blaylock's response.

Sen. Blaylock said if the State was going to a flat fee system, the Counties needed to be reimbursed on that basis. Even if a uniform ad valorem system was adopted, the same thing would be being done in that case. The entire State of Montana has been the recipient of that kind of thing for a long time. Montana wouldn't have many things if it weren't for the fact that New York City paid $15 billion in income taxes and got back about $7.5 billion in services and the other States got some of their money.

Rep. Dozier said that the present status quo of funding that was in place had to be considered. Whether or not it was valid was not the question.

Ms. Cohea, in response to Rep. Asay, said the calculation would be a one-time calculation. As more cars come in, $30 will be given for each one. County Treasurers wouldn't have to assess cars after 1981.

Sen. Blaylock then closed, and the hearing on SENATE BILL 355 was closed.

The meeting was adjourned at 10:15 a.m.

Rep. Ken Nordtvedt - Chairman

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VISITORS' REGISTER

HOUSE Taxation COMMITTEE

BILL SB 200 Date 4/4/81

SPONSOR Lee

NAME	RESIDENCE	REPRESENTING	SUPPORT	OPPO
Norman A. Nelson	Westby, mt	Northeast Montana Land & Mineral Council	X	
[illegible]	Sidney Mont	Northeast Land & Mineral Association	✓	
David R. McMillen	Sidney MT.	Self	X	
Don Steinbeisser	Sidney Mt	self	X	
Clyde Gunther	Dagmar Mont	self	X	
David Schaeuer	Billings Montana	self	X	
Mike Stephen	Helena	Mt Assn of Co		X
Don Allen	Helena	Mt. Pet. Assn.	✓	
Larry Tveit	Fairview Mt	self	X	
Jim Tveit	Billings	"	X	
Jerry Halverson	Wolf Point	Roosevelt Co		X
JOE LAMSON	HELENA	MT. DEMOCRATIC PARTY		X
Janelle Fallan	Helena	Mt. Chamber	X	
[illegible]	Fr Helena Co	Shell oil Co.	X	
[illegible] M. [illegible]	Denver, Colo	Cary Energy Corp	X	

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Taxation Comm.

4/9

INFORMATION ON S.B. 200

PREPARED FOR THE MT HOUSE OF REPRESENTATIVES

The attached figures were prepared by the Department of Revenue to show POTENTIAL loss of taxable values to counties. The explanations and notes point out that counties will NOT lose revenue through passage of S.B. 200.

As you can see by the Governor's Management and Budget Analyst's statement, no county would lose value below 1980 figures and she calculates in fact that 11 counties would experience more than a 200% INCREASE in net proceeds value. Examples are: Blaine Co. - 481% INCREASE; Carbon Co. 241% INCREASE: Dawson Co. 0 344% INCREASE; Fallon Co. - 234% INCREASE: and Wibaux Co. - 530% INCREASE.

The example used of Shell Oil's tax statement shows that Toole County will receive a 74% INCREASE on the value of a barrel of oil with S.B. 200 in effect. This point is further illustrated on the chart which follows (continuing to use the Department's figures). The second chart uses AVERAGE figures and show an average increase of 62% in net proceeds taxable value per barrel between 1979-80; 215% between 1980-81 with S.B. 200.

WITHOUT S.B. 200, continued (and potentially higher) taxes will discourage exploration and development and will eventually DECREASE the taxable value to counties.

Prepared by:
Montana Petroleum Assoc.
Montana Oil & Gas Assoc.

VISITORS' REGISTER

HOUSE Taxation COMMITTEE

BILL SB 355 Date 4/9/81

SPONSOR Blaylock

NAME	RESIDENCE	REPRESENTING	SUP-PORT	OP-POSE
C. J. Swanson	SHELBY	SELF		
Jerry L. Branch	Shelby	Branch Oil & Gas		
John Augustine	Denver	Conoco		
[illegible]	Sidney	Northeast Land & Mineral Owners Association		X
David R. McMiller	Sidney	Self		X
Don Steinbeisser	Sidney MT	self		X
[illegible]	Bozeman Mont	self		X
Jerry Rainey	Helena	Mt Auto Dealers Assoc	X	
Sen. Larry Tveit	Fairview	self		X
Henry G. Lechner		[illegible]		
Jim				
JOE LAMSON	HELENA	MT. DEMOCRATIC PARTY	X	

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Form CS-33
1-81

WITNESS STATEMENT

NAME Jerry L. Branch BILL No. SB 356 + 200

ADDRESS 327 8th Ave S. Shelby, Mont. DATE April

WHOM DO YOU REPRESENT Branch Al Cas

SUPPORT SB 200 OPPOSE SB 356 AMEND

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

WITNESS STATEMENT

NAME C. J. [illegible] BILL No. 200

ADDRESS Shelby Mont. DATE 3/9/91

WHOM DO YOU REPRESENT Self

SUPPORT X OPPOSE AMEND

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

without this it is double-taxation

DISTRIBUTED AT THE REQUEST OF

Sen. Gary Lee

March 21, 1981

To: David M. Lewis
Director

From: Teresa Olcott Cohea
Management and Budget Analyst

Re: Fiscal Impact of Senate Bill 200

My research suggests that Senate Bill 200 will not reduce the taxable value of any county below tax year 1980 levels. In fact, 11 of the 24 oil producing counties will still experience more than a 200% increase in their oil net proceeds valuation under the bill. However, in a few counties, Senate Bill 200 will substantially reduce the growth in taxable value due to rising oil prices:

County	Percent Growth in Value*
Petroleum	14%
Glacier	22
Pondera	27
Garfield	30
Teton	58
Musselshell	67
Richland	70
Sheridan	87
Big Horn	93

The reasons these counties will experience less growth in value are:

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*From 1980 taxable value, assuming $35 per barrel at 1979 production with deduction for federal windfall profit tax.

	SB 200	
	FY 82 OIL	FY 83 OIL
G HORN	(150,675)	(162,619)
AINE	(279,825)	(302,006)
RBON	(742,490)	(801,345)
RTER	(45,818)	(49,449)
WSON	(325,581)	(351,389)
LLON	(4,717,358)	(5,091,294)
RFIELD	(41,205)	(44,471)
ACIER	(2,850,095)	(3,076,017)
LL		
BERTY	(431,115)	(465,289)
CONE	(191,696)	(206,891)
SSELSHELL	(1,376,063)	(1,485,141)
TROLEUM	(142,988)	(154,322)
ILLIPS	(400)	(431)
NDERA	(562,725)	(607,331)
WDER RIVER	(4,605,735)	(4,970,824)
RAIRIE	(71,648)	(77,327)
CHLAND	(5,563,598)	(6,004,614)
OSEVELT	(1,186,028)	(1,280,042)
SEBUD	(1,853,303)	(2,000,211)
ERIDAN	(2,978,138)	(3,214,209)
ILLWATER	(4,551)	(4,912)
ETON	(230,625)	(248,906)
OLE	(1,416,038)	(1,528,284)
BAUX	(938,748)	(1,013,214)
LLOWSTONE	(27,860)	(30,068)

NOTE....

■ THESE FIGURES WERE DESIGNED TO SHOW A LOSS BASED ON PROJECTED REVENUE WHICH IS NOT CURRENTLY INCLUDED IN COUNTY BUDGETS.

■ THEY DO NOT SHOW THE ACTUAL INCREASE IN REVENUE TO COUNTIES DUE TO THE DECONTROLLED PRICE OF OIL SUBJECT TO THE NET PROCEEDS TAX. EVERY PRODUCING COUNTY WILL RECEIVE AN INCREASE IN NET PROCEEDS VALUE PER BARREL FROM 1980 PRODUCTION OVER 1979.

■ EVEN ALLOWING THE WINDFALL PROFITS TAX DEDUCTIONS PROVIDED IN S. B. 200, ON THE AVERAGE, MONTANA COUNTIES WILL RECEIVE A MINIMUM INCREASE OF 30% IN NET PROCEEDS TAXABLE VALUE PER BARREL AND SOME COUNTIES MAY EXCEED 74%.

1) IGNORES DISTRIBUTION TO COUNTIES OF THE OIL AND GAS IMPACT FUND
2) ASSUMES PRODUCTION INCREASES EXPERIENCED FROM TAX YEARS 1979 TO 1980 WILL REMAIN CONSTANT THROUGHOUT THE BIENNIUM.

Computations: Figures taken from Shell Oil windfall profit tax statement from April 1980 through December 1980. Toole county production figures represent .0625 interest in oil produced. State Department of Revenue figures for 1979.

			Per Barrel	
Production	$18,910.16 (total value)	524.54 barrels	$36.0509	
Removal cost	1979 - $4.34 @ 125% for 1980		- 5.4250	
		Gross margin	$30.6259	
Severence tax	$243.71		- .46	
		Balance	$30.1659	
Windfall profits tax	$7296.28		-13.9099	
		Balance	$16.2560	(before net proceeds deduction)

Net proceeds on $30.1659 @ 167 mills	$ 5.038	
Net proceeds on $16.2560 @ 167 mills	- 2.715	
Loss of net proceeds to county	$ 2.323	
Loss equal to 46.11%		
Return to oil company	$16.2560	
Net proceeds	- 5.0380	
Oil company total net	$11.218	(under present law)
Return to oil company	$16.2560	
Net proceeds, windfall deducted	- 2.715	→ **net proceeds tax 2.7150**
Oil company total net	$13.541	(under SB 200) **1980**

Toole County, DOR figures for 1979:

Average price	$14.14	
Removal cost	- 4.34	
Gross	$ 9.80	
Less severence	- .46	
	$ 9.3400	
Less net proceeds @ 167 mills	- 1.5598	→ **net proceeds tax in 1979 1.5598**
Net return	$ 7.7802	**1.1552**

INCREASE OF.....
or 74% increase in county taxes/barrel with SB 200

Oil company increase in profit over 1979:

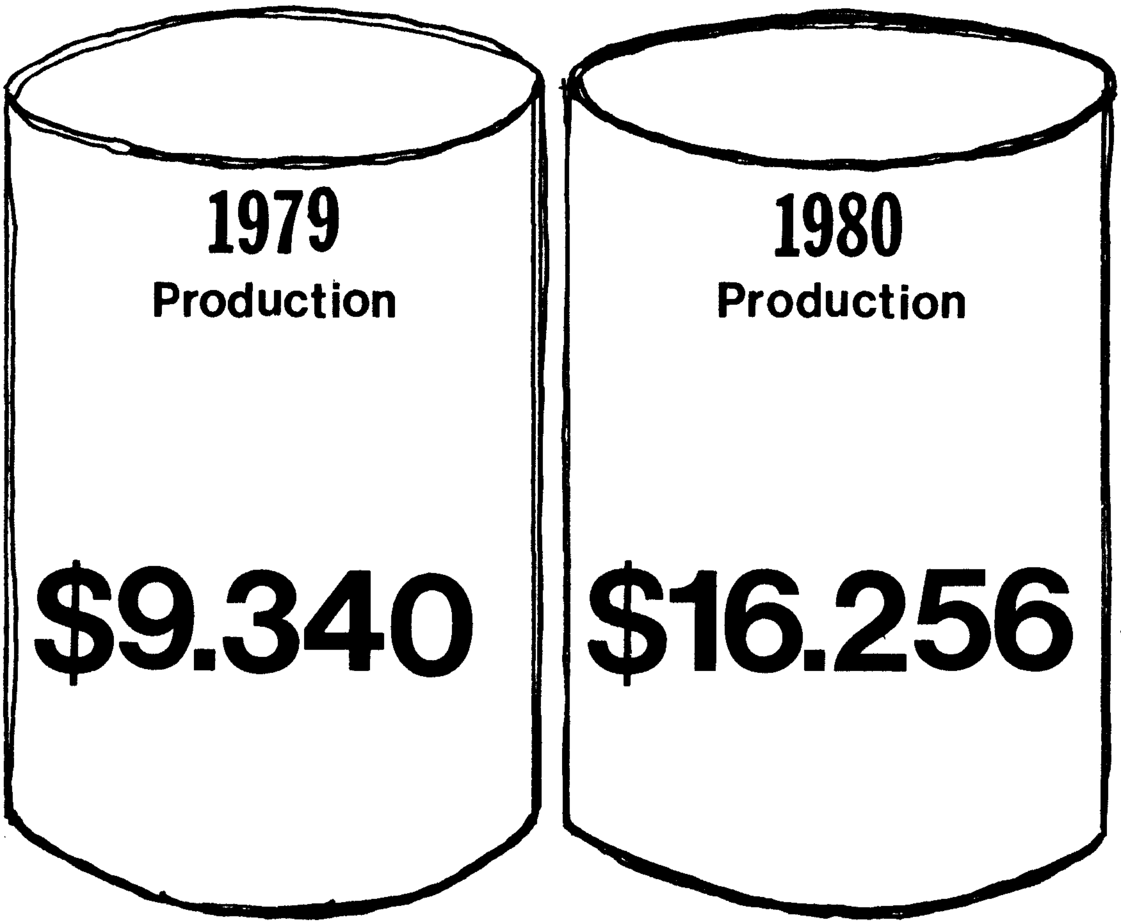
(1)	No windfall allowed	$11.218	
	1979 costs	- 7.7802	
	Increase per barrel	$ 3.4378	
(2)	Windfall allowed	$13.541	
	1979 costs	- 7.7802	
	Increase per barrel	$ 5.7608	= 74.04% (SB 200)

Since deregulation we msut assume $35 per barrel and upward. The highest price paid back in 3rd quarter of 1980 was $44.534 per barrel.

Oil companies in other affected counties would receive an increase in profits rom a low of about 20% to over 100%.

Computations: Figures taken from Shell Oil windfall profit tax statement from April 1980 through December 1980. Toole county production figures represent .0625 interest in oil produced. State Department of Revenue figures for 1979.

With SB 200



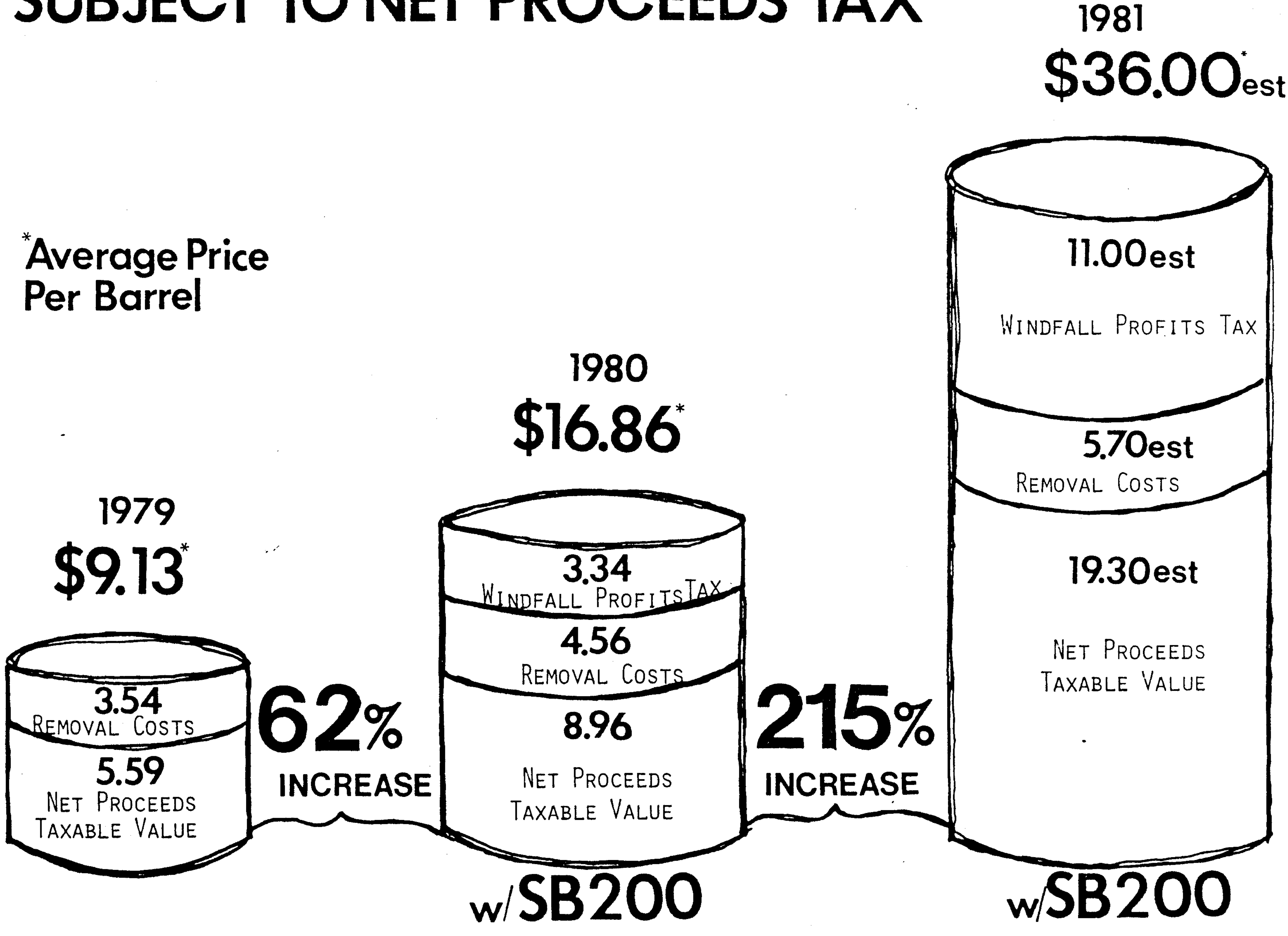
VALUE PER BARREL SUBJECT TO NET PROCEEDS TAX

74% INCREASE

IN COUNTY TAXABLE VALUE/REVENUE

AVERAGE VALUE PER BARREL SUBJECT TO NET PROCEEDS TAX

*Average Price Per Barrel



FACT SHEET - SENATE BILL 355

Revenue Loss to Local Governments

In 1982, each local government (county, city, school district, and other districts) will be reimbursed for exactly the same amount they lose through the imposition of the fee. (See Attachment A)

In succeeding years, local governments will experience growth in the amount collected from motor vehicles in two ways:

1. Beginning in 1983, the fee will be indexed for inflationary increases.

2. The state will reimburse districts for additional vehicles registered after 1981.

Local Government Bonding Limits and Other Financial Activities

Senate Bill 355 raises bonding limits proportionate to the largest possible loss in tax due to the removal of cars and light trucks from the tax base.

For example, in 1980, the taxable value of cars and light trucks constituted an average 6.5% of counties' tax bases. However, in several counties, the percentage was higher:

Gallatin	13.7%
Lewis and Clark	15.6%
Lincoln	14.0%
Ravalli	20.0%

Therefore, Senate Bill 355 amendments necessary to offset loss of taxable value in counties are based on the largest possible loss -- 20%.

Example:

Taxable Value	Bond Limit	Bonding Power
\$10,000,000 (with cars and light trucks)	9.00% (Current Law)	\$900,000
\$ 8,000,000 (without cars and light trucks)	11.25% (SB 355)	\$900,000

Cash Flow Problems

Senate Bill 355 insures that local governments have sufficient funds for daily operations in two ways:

1. Counties will collect motor vehicle fees under the same staggered registration system now used for motor vehicle property tax. So, most fees will be received from January to October of each year.

2. The state reimbursement will be made March 1 of each year, before the county would have received the bulk of the property tax on vehicles.

County Officials' Salaries

Senate Bill 355 does not affect county officials' salaries.

Current law (Section 7-4-2503) bases salary on population and the January 1, 1979 taxable value of the county. Senate Bill 355 will remove cars and light trucks from the tax rolls in January, 1982, so salary calculations will not be affected. Senate Bill 50, now on third reading in the House, will base county officials' salaries on population only in the future.

Income Tax Deduction for Fee

The fee will be a deduction for state income tax purposes and a credit to the contractors' gross receipt tax.

While the IRS does not allow fees based on weight as a federal income tax deduction, the value of the deduction is much less than the difference between the property tax and the fee on most vehicles. (Examples on Attachment B)

WITNESS STATEMENT

NAME WM VAUGHEY JR BILL No. SB200

ADDRESS Box 46 HAVRE, MT. 59501 DATE 4-9-81

WHOM DO YOU REPRESENT MYSELF, AN INDEP. NAT. GAS PRODUCER

SUPPORT ✓ OPPOSE AMEND

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

INDEPENDENT EXPLORATIONISTS DRILL 80% + OF THE WILDCAT TESTS IN MONTANA

AT LEAST 90¢ OF EVERY DOLLAR SPENT IN EXPLORATION COMES FROM OUT-OF-STATE SOURCES, ATTRACTED THEREFROM BY THE INDEPENDENT.

FAILURE OF SB200 TO PASS WILL MAKE IT CONSIDERABLY MORE DIFFICULT TO ATTRACT THE EXPLORATION DOLLAR TO MONTANA.

WmVaughey Jr

FORM CS-34
1-81

ATTACHMENT A

SENATE BILL 355 - MOTOR VEHICLE BILL

EXAMPLE OF REIMBURSEMENT TO LOCAL GOVERNMENTS

Example

Assume that in calendar year 1981, a county collected $600,000 in property tax from the 10,000 cars and light trucks registered in the county. Under the fee system in Senate Bill 355, they would have collected $300,000.

In early 1982, the county will send these figures to the Department of Revenue. The department will divide the difference between the property tax that was collected and the fee that would have been collected ($600,000 minus $300,000 equals $300,000) by the number of vehicles in the county (10,000). This calculation will produce the state reimbursement per vehicle $30.

On January 1, 1982, the county will begin collecting the fee on vehicles. In March, 1982, and every March thereafter, the state will send $30 for each vehicle registered in the county during the previous year. Both the fee and the reimbursement will be distributed exactly as the property tax on vehicles is now distributed.

In future years, the county will receive the following funds, assuming that the fee increases 10% a year for inflation and 200 new vehicles are registered in the county each year.

Year	Number of Vehicles	Fee Collected	Reimbursement @ $30/vehicle	Total
1982	10,000	$300,000	$300,000	$600,000
1983	10,200	$336,600	$306,000	$642,600
1984	10,400	$377,520	$312,000	$689,520
1985	10,600	$423,258	$318,000	$741,258

ATTACHMENT B

SB355 (Blaylock) - MOTOR VEHICLE FEE BILL

TAX SAVINGS

Many taxpayers will pay substantially less to license their motor vehicles under this bill than under the present property tax. This is true even though the fee is not a deduction from federal income tax, while property taxes are.* A few examples illustrate this point.

#1 A 1980 COMPACT VALUED AT $6,500 IN A DISTRICT LEVYING 200 MILLS.

<u>Property tax due on vehicle - $169</u>

$6,500 x 13% (tax rate) x 200 mills

		Tax Due Minus Value Of Deduction
Tax Savings		
@ 10% marginal tax rate	16.90	$152.10
@ 20% marginal tax rate	33.80	135.20
@ 30% marginal tax rate	50.70	118.30
@ 40% marginal tax rate	67.60	101.40
<u>Fee due on vehicle</u>		$45

#2 A 1980 LUXURY CAR VALUED AT $10,000 IN A DISTRICT LEVYING 200 MILLS

<u>Property tax on vehicle = $260</u>

Tax savings		
@ 10% marginal rate	26.00	$234
@ 20% marginal rate	52.00	208
@ 30% marginal rate	78.00	182
@ 40% marginal rate	104.00	156
<u>Fee due on vehicle</u>		$65

*Under the bill, the fee is a deduction to state income taxes. Federal regulations do not, however, allow fees based on vehicle weight to be deducted in computing federal income tax due.

EXAMPLES OF TAX SAVINGS UNDER SB 355

Car Model	Year	Current Value (Blue Book)	Location and 1980 Mill Levy	Tax Due	Fee Due	Savin Unde SB35
Honda -						
Civic	1980	$5,000	Missoula (324 mills)	$211	$45	$16
Accord	1980	6,350	Billings (283 mills)	234	45	18
Prelude	1980	7,100	Red Lodge (264 mills)	244	45	19
Chevrolet Monte Carlo	1980	6,475	Great Falls (306 mills)	258	65	19
	1979	5,400	Great Falls (306 mills)	215	65	15
	1978	4,500	Great Falls (306 mills)	179	65	11
	1977	3,450	Great Falls (306 mills)	137	65	7
	1976	2,750	Great Falls (306 mills)	109	25	8
	1975	2,225	Great Falls (306 mills)	89	25	6
Volkswagen -						
Rabbit	1977	3,550	Big Timber (260 mills)	120	45	7
Dasher	1977	4,050	Big Timber (260 mills)	137	45	9
Scirocco	1977	4,575	Big Timber (260 mills)	155	45	11
Ford Granada	1980	5,450	Rural Gallatin Co. (175 mills)	124	65	5
	1979	4,675	Rural Gallatin Co. (175 mills)	106	65	4
	1978	3,850	Rural Gallatin Co. (175 mills)	88	65	2
	1977	3,200	Rural Gallatin Co. (175 mills)	73	65	
	1976	2,825	Rural Gallatin Co. (175 mills)	64	25	3
	1975	2,250	Rural Gallatin Co. (175 mills)	51	25	2
Ford Pinto	1980	4,125	Plains (287 mills)	154	45	10
	1979	3,375	Plains (287 mills)	126	45	8
	1978	2,825	Plains (287 mills)	105	45	6
	1977	2,425	Plains (287 mills)	90	45	4
	1976	1,900	Plains (287 mills)	71	20	5
	1975	1,625	Plains (287 mills)	61	20	4

*Had the bill been effective in 1981

INCOME DISTRIBUTION
DECEMBER 1980
WESTERN NATURAL GAS COMPANY
Post Office Box 830
SHELBY, MONTANA

9033
1-9-81

BLAIR #1-3
Sec. 3-34N-4E
Liberty County, Montana

	BARRLES	PRICE	PROCEEDS	MONTANA PROD.TAX	MONTANA CONS.TAX	MONTANA N.P.TAX	FEDERAL WINDFALL	NET CHECK
GROSS OIL SALES	232.97	34.76	8,098.04	214.60	4.05	971.76	1,459.74	5,447.89
LANDOWNERS ROYALTY								
CLIFFORD L. BLAIR		4.6875	379.60	10.06	.19	45.55	115.97	207.83
RIMROCK COLONY INC.		4.6875	379.60	10.06	.19	45.55	115.97	207.83
NORWESTERN UNION TRUST COMPANY		3.1250	253.06	6.71	.13	30.37	77.32	138.53
OVERRIDING ROYALTY								
DUARD ROSSMILLER		2.750	222.70	5.90	.11	26.72	68.04	121.93
JERRY BRANCH		1.750	141.72	3.76	.07	17.01	43.30	77.58
CEDOR B ARONOW		1.000	80.98	2.15	.04	9.72	24.74	44.33
TOTAL ROYALTY		18.000	1,457.66	38.64	.73	174.92	445.34	798.03

9036
1-9-81

		PRICE	PROCEEDS	MONTANA PROD.TAX	MONTANA CONS.TAX	MONTANA N.P.TAX	FEDERAL WINDFALL	NET CHECK
WORKING INTEREST OWNERS								
MARQUIS PETROLEUM CORP.		20.5000	1,660.10	43.99	.83	199.21	253.60	1,162.47
DUARD ROSSMILLER		17.9375	1,452.59	38.49	.73	174.31	221.90	1,017.16
JERRY L. BRANCH		9.7375	788.55	20.90	.39	94.63	120.45	552.18
WESTERN NATURAL GAS CO.		8.2000	664.04	17.60	.33	79.68	101.44	464.99
CEDOR B. ARONOW		8.2000	664.04	17.60	.33	79.68	101.44	464.99
C. J. IVERSON		5.1250	415.02	11.00	.21	49.80	63.40	290.61
WILBUR WATKINS		5.1250	415.02	11.00	.21	49.80	63.40	290.61
STANLEY WATKINS		5.1250	415.02	11.00	.21	49.80	63.40	290.61
G. B. COOLIDGE		2.0500	166.01	4.40	.08	19.92	25.36	116.25
SUB-TOTAL		82.0000	6,640.39	175.98	3.32	796.83	1,014.39	4,649.87

VISITORS' REGISTER

HOUSE Taxation COMMITTEE

BILL SB 356 Date 4/9/81

SPONSOR Blaylock

NAME	RESIDENCE	REPRESENTING	SUPPORT	OPPOSE
David Schaenen	Billings, MT	self		X
Larry Tveit	Fairview, MT	self		X
C. Iverson	Shelby	SELF		X

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

STANDING COMMITTEE REPORT

April 14, 19 81

MR. SPEAKER

We, your committee on TAXATION

having had under consideration SENATE Bill No. 200

A BILL FOR AN ACT ENTITLED: "AN ACT ALLOWING FOR THE DEDUCTION OF FEDERAL EXCISE TAXES WHEN COMPUTING OIL AND GAS NET PROCEEDS TAX; DEFINING THE TERM EXCISE TAX; AMENDING SECTIONS 15-23-601, 15-23-602, 15-23-603, AND 15-23-605, MCA; AND PROVIDING FOR AN EFFECTIVE AND APPLICABILITY DATE."

Respectfully report as follows: That SENATE Bill No. 200, third reading (blue), be amended as follows:

1. Page 3, line 10.
Following: "(8)"
Insert: "75% of"

2. Page 4, line 12.
Following: "(e)"
Insert: "75% of"

3. Page 5, line 7.
Following: "less"
Insert: "75% of"

AND AS AMENDED
BE NOT CONCURRED IN

~~DO PASS~~

STATE PUB. CO.
Helena, Mont.

Rep. Ken Nordtvedt, Chairman.

STANDING COMMITTEE REPORT

April 9, 19 81

MR. SPEAKER

We, your committee on TAXATION

having had under consideration SENATE Bill No. 460

A BILL FOR AN ACT ENTITLED: "AN ACT TO REQUIRE THE COUNTY ASSESSOR TO RELEASE THE ROLLBACK TAX LIEN WHEN THE ROLLBACK TAX HAS BEEN PAID; AMENDING SECTION 15-7-209, MCA."

Respectfully report as follows: That SENATE Bill No. 460

BE CONCURRED IN

DO PASS

STATE PUB. CO.
Helena, Mont.

Rep. Ken Nordtvedt, Chairman.