

MINUTES OF THE MEETING  
TAXATION COMMITTEE  
MONTANA STATE SENATE

January 13, 1983

The third meeting of the Taxation Committee was called to order at 9:06 a.m. by Chairman Pat M. Goodover in Room 415 of the Capitol Building.

ROLL CALL: All members were present.

CONSIDERATION OF SENATE BILL 72: Senator Bob Brown (District 10, Flathead County) said this bill was requested by the Revenue Oversight Committee. In essence, he said, the bill would change the resource indemnity trust tax from a yearly basis to a quarterly basis. Presently, mineral production taxes are paid on a quarterly basis, but resource indemnity trust taxes are paid on a yearly basis. The bill would eliminate some of the difficulties in cross-checking and auditing to see if taxes are being paid correctly. He suggested it would be less paperwork if payment of the mineral taxes and the resource indemnity trust taxes were paid on the same schedule.

PROPOSERS

Dan Bucks, representing the Department of Revenue, said they see the bill as facilitating compliance in paying and in jointly filing returns for the mineral production taxes and the resource indemnity trust taxes so the taxpayers can file returns and pay taxes on both at the same time. They hope to use the same form for both returns in the future to streamline procedures.

OPPOSERS

Ward Shanahan, representing Stillwater PGM Resources, charged that Stillwater's indemnity trust tax was not being used for the purposes intended. His prepared statement is attached as Exhibit A to these minutes.

George Bennett, representing ASARCO, Inc., said they own a copper and silver mine near Troy, Montana, and the smelter in East Helena. As Mr. Shanahan said, this bill would accelerate payment of taxes, and the tax is a substantial one for the mines. He then quoted from a Great Falls Tribune article (January 13, 1983 issue, p. 13A) and a copy of that article is attached as Exhibit B to these minutes. Accelerating the tax won't break anybody, but it is a burden on the raw materials industry. Montanans pay income taxes annually, property taxes are noticed annually, so why not pay resource indemnity trust tax annually?

Gary Langley, director of the Montana Mining Association, reiterated what Ward Shanahan and George Bennett said. He sees no reason for accelerating the tax, particularly in today's

economy. It would tie up mining capital when the mines are not collecting any money.

Jim Mockler, representing the Montana Coal Council, stated that the valuation points for mineral production taxes and for resource indemnity trust tax are different. The mineral production taxes are valued at the low down and the resource indemnity trust tax valuation point is at the point of severance. The proposed system will increase the effect of the taxation: if the Department of Revenue collects the taxes, they get the interest and they get to use the money; and vice versa. The coal producers prefer to pay annually.

Questions were then called for from the committee.

Senator Crippen asked Mr. Bucks if the primary intent of the bill was to put the taxes on the same footing as far as bookkeeping. He asked why production taxes couldn't be put on an annual basis (as the resource indemnity trust tax is presently paid) instead of a quarterly basis as they are now. Mr. Bucks said that is up to the Legislature. Mineral production taxes and other natural resource taxes are paid quarterly, and the amount of interest earnings by the state of Montana are significant but the Department of Revenue has no interest in the interest earnings on the taxes.

Senator Crippen asked if the Department of Revenue would be amenable to providing that the net taxes paid would be equal to the amount they would have been if paid on an annual basis, and Mr. Bucks responded that the Department of Revenue is not interested in increasing the net collections to the state. He had no figures on how much money was in the resource indemnity trust fund at the present time.

Ward Shanahan stated there was about \$20 million in the fund last year and that now, there is probably somewhere between \$20 million and \$30 million. He said only the earnings up to \$100 million could be spent.

Senator Towe asked George Bennett and Ward Shanahan if they were contending that the net effect of the bill would be to increase the tax. Mr. Shanahan stated we are dealing with different types of substances here. There are differences in the points of valuation. Mineral producers don't have to pay the production tax until there is a yield to the industry. In hard rock mining, there is no yield until the rock is processed and the concentrations sold. We would be lending money to the state four times a year.

Mr. Mockler said the increase would be the 10% prime interest rate.

Mr. Shanahan said the companies are billed at the end of the year for additional taxes and agreed with Senator Towe that it would actually be the consumers who would be out if the bill passes.

Mr. Shanahan stated the Department of Revenue wants to value minerals in the stockpile and they are not ready to sell it at that time. The sale date depends on the particular industry and on the market. He said they can't pass those costs on to the consumer. The suppliers are billed on a monthly or quarterly basis. The resource indemnity trust tax should be paid as a property tax.

Mr. Bucks pointed out that the present regulations referred to do not involve taxing stockpile ore and the resource indemnity trust tax will not be imposed on stockpile ore.

Mr. Bennett said that ASARCO mines copper and silver. Its major taxes now are the corporate license and gross receipts taxes. He said Mr. Bucks was implicating that quarterly auditing procedures were not consistent with what has been done in the past.

Mr. Bucks responded that the Department of Revenue wishes to more rapidly check taxes with returns and check on other errors. He will furnish the committee with data on the increasing errors they are finding in auditing in the near future. Senator Turnage suggested that if there was no intent in the bill to accelerate taxes, quarterly returns could be filed, but the taxes themselves could be paid annually.

The hearing on SB 72 was closed, and Chairman Goodover said executive action on this bill would be taken at a later date.

CONSIDERATION OF SENATE BILL 73: Senator Brown, the sponsor of this bill, introduced it at the request of the Revenue Oversight Committee. Members of the regular armed forces are exempted from income tax. Full time National Guardsmen and reservists are subject to income tax but not to withholding, and this is a problem with the Department of Revenue.

#### PROPONENTS

John Walsh, representing the National Guard, supported the bill. There are 2,700 members in the Montana Army National Guard and Air National Guard as defined in Title 10 or Title 32 of the United States Code. These people are Montana citizens and have a tax liability to the state of Montana, and would like taxes withheld from their paychecks biweekly or monthly, depending on how they are issued. There are Guardsmen stationed in 26 Montana communities. Others have converted to the "AGR" program and the Montana Army National Guard has no jurisdiction over them.

Gary Scott, representing the Enlisted Association, Montana National Guard, also supported the bill.

There were no opponents to the bill.

Questions from the committee were called for.

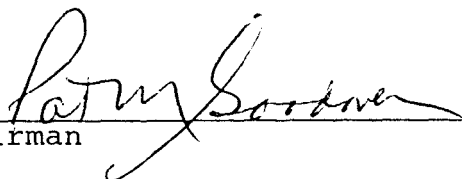
Dan Bucks from the Department of Revenue, in response to Senator Towe's request for clarification of "regular armed forces," said that regular armed forces would not be subject to withholding, and that is consistent with federal laws. National Guardsmen and reservists would be subject to withholding. Mr. Walsh also indicated that taxes cannot be withheld for 90 days or less of service, so summer training and weekend drill pay would not have taxes withheld.

Cort Harrington suggested an amendment to the title of the act: replacing PROVIDING FOR with CLARIFYING THE in line 5 on page 1 and replacing ON in line 6 on page 1 with STATUS OF.

ACTION ON SENATE BILL 73: A motion was made to amend the title as set forth above, and the motion was seconded and passed unanimously.

Senator Brown then moved that the committee recommend a DO PASS AS AMENDED on SB 73. Senator McCallum seconded the motion, and the motion passed unanimously.

There was no further business, and the meeting was adjourned at 9:50 a.m.

  
Chairman

ROLL CALL

SENATE TAXATION

COMMITTEE

48th LEGISLATIVE SESSION -- 1983

Date 1/13/83

NAME	PRESENT	ABSENT	EXCUSED
SENATOR GOODOVER, CHAIRMAN	✓		
SENATOR McCALLUM, VICE CHAIRMAN	✓		
SENATOR BROWN	✓		
SENATOR CRIPPEN	✓		
SENATOR ELLIOTT	✓		
SENATOR GAGE	✓		
SENATOR TURNAGE	✓		
SENATOR SEVERSON	✓		
SENATOR HAGER	✓		
SENATOR ECK	✓		
SENATOR HALLIGAN	✓		
SENATOR LYNCH	✓		
SENATOR NORMAN	✓		
SENATOR TOWE	✓		
SENATOR MAZUREK	✓		

DATE January 13, 1983

COMMITTEE ON TAXATION

VISITORS' REGISTER

NAME (PLEASE PRINT)	REPRESENTING	BILL #	Check One	
			Support	Oppose
GARY D. SCOTT	Enlisted Assoc. MONTANA NATIONAL GUARD	SB 73	<input checked="" type="checkbox"/>	<input type="checkbox"/>
DEBRA T. REYNOLDS	ASARC O	SB 72	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Jim Mockley	MT Coal Council	SB 73	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Mary A. Langley	MT. MINING ASSN.	SB 72	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Michael E. Zimmerman	MPC	SB 72	<input type="checkbox"/>	<input type="checkbox"/>
JOHN F. WALSH	NATIONAL GUARD	SB 73	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Pat Wilson	MONTCO / Thermal Energy	SB 72	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Dan Bucks	Mt. Dept. of Revenue	SB 72 & 73	<input checked="" type="checkbox"/>	<input type="checkbox"/>

(Please leave prepared statement with Secretary)

WITNESS STATEMENT

Name GEORGE T. BRUNER II Date Jan 13, 1973  
Address P.O. Box 1705 Support ?         
Phone: 442-8950  
Representing ASARCO, INC. Oppose ? X  
Which Bill ? SB 72 Amend ?       

Comments:

Please leave prepared statement with the committee secretary.

WITNESS STATEMENT

Name GARY LANGLEY Date 1/13/82  
Address 2301 Colson St. Drive Support ? \_\_\_\_\_  
Phone: \_\_\_\_\_  
Representing MT. MARY'S A.S.D. Oppose ?   
Which Bill ? SB 2 Amend ? \_\_\_\_\_

Comments:

Please leave prepared statement with the committee secretary.



WITNESS STATEMENT

Name Jim Mockler Date 1/13/83  
Address 7301 Colonial Dr Support ?             
Phone: 442-6222  
Representing MT. Coal Council Oppose ? ✓  
Which Bill ? SB 75 Amend ?           

Comments:

Please leave prepared statement with the committee secretary.

WITNESS STATEMENT

Name CARY SCOTT Date 13 JAN 83  
Address Box 975 R Clancy 44-2-0555 Support ?   
Phone: \_\_\_\_\_  
Representing ENLISTED ASSOC MIT National Guard Oppose ? \_\_\_\_\_  
Which Bill ? SR 73 Amend ? \_\_\_\_\_

Comments:  
WE SUPPORT THE BILL. WE ARE TAXED ON  
P/E INCOME AND FEEL IT WOULD BE EASIER TO  
HAVE WITH HOLDING THROUGH OUT THE YEAR THAN  
HAVE TO PAY IT ALL AT THE END OF THE YEAR.

Please leave prepared statement with the committee secretary.

WITNESS STATEMENT

Name JOHN F. WALSH JR. Date 13 JAN 83

Address 2024 8TH AV. Support ?

Phone: Representing NATIONAL GUARD Oppose ?

Which Bill ? SB 73 Amend ?

Comments:

Please leave prepared statement with the committee secretary.

Dept. of Revenue Accounting  
56720  
1/13/83

COMMENTS ON THE BILL TO CHANGE THE RESOURCE INDEMNITY TRUST TAX FROM AN ANNUAL TAX TO A QUARTERLY TAX.

The bill would place the resource indemnity trust tax on a consistent basis with other mineral production taxes. The coal, oil and natural gas, and micaceous minerals taxes are all quarterly taxes, and the metal mines tax is proposed to be quarterly tax.

The bill will enable mineral producers to calculate, report, and pay all severance taxes on a uniform schedule. A uniform schedule can assist internal company accounting and report processing.

The change to a quarterly tax will simplify and increase the efficiency of the administration of this tax. By placing it on a common basis with the other severance taxes, the Department of Revenue will be able to increase cross-referencing between mineral production taxes and the Resource Indemnity Trust Tax. Currently, it is difficult and cumbersome to cross-check quarterly oil severance tax returns, for example, with the annual Resource Indemnity returns. As a consequence, discrepancies in payments between these taxes go undetected. Through uniform reporting, the increased cross-referencing will improve the efficiency and effectiveness of both the office and field audits in this area. The net result should be more dollars produced for a given amount of administrative costs.

Because of plans to automate the processing of mineral production taxes, the Department does not anticipate any significant difference in the cost of processing quarterly as opposed to annual returns, and no funds are requested for this change.

The proposed change to quarterly reporting will make it possible to consider adoption of uniform or consolidated returns for all

severance taxes. Uniform returns would reduce paperwork for taxpayers and would increase the efficiency of the administration of this and other mineral production taxes.

By changing the Resource Indemnity Trust Tax to a quarterly tax, the depositing of revenues would be accelerated. Over the long-term, a modest, but positive revenue impact would occur in the form of increased investment earnings by the state.

The bill does not change the rate of the tax or the annual exemption of the first \$5,000 of minerals produced.

Quarterly reporting will simplify paperwork for the taxpayer and will improve the efficiency of the administration of both the Resource Indemnity Trust Tax and other mineral production taxes.

REFERENCE DATA:

Amount of Resource Indemnity Trust Tax Revenue, FY 1982:	\$7.1 million
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Number of Taxpayers, FY 1982:	640
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NAME Ward Shanahan BILL NO. SB 72 EXHIBIT A  
JANUARY 13, 1983  
SB 72

ADDRESS 301 First Bank Bldg Helena Montana DATE Jan 13 1983

WHOM DO YOU REPRESENT Stillwater PGM Resources

SUPPORT \_\_\_\_\_ OPPOSE XXXXX AMEND \_\_\_\_\_

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1. We oppose this bill, not only because of the lack of necessity for its enactment, but also because of its cumulative effect with other actions (and inactions) of state government.
2. We appeared in the 1981 session and opposed the dedication of the Resource Indemnity Trust Tax for legally improper uses. The Governor's budget analyst reported in September 1981 that almost none of this tax was being used to correct impacts to the environment caused by the extraction of natural resources.
3. The tax itself is for the creation of a cumulative fund of 100 million, and only the earnings can be spent. We have to ask, what's the rush? Why should the collection of this tax be accelerated to four times as fast?
4. The department of Revenue is proposing to amend its rules for the collection of this tax to quadruple the effect of the tax on the hard rock industry (See ARM 42.32.101 et seq) (See also MAR Not. 42.2.203 10/28/82).
5. The effect of this bill when viewed against this background is a substantial new penalty on the hard rock mining industry. Your vote should be against its passage.

DO NOT PASS SB 72

# Bureau head laments state economic troubles

Thursday, January 13, 1983 Great Falls Tribune 13-A

By KEITH HAUGLAND  
Tribune Staff Writer

Montana is in big economic trouble, according to Kistine Johnson, director of the Bureau of Business and Economic Research at the University of Montana.

Speaking before the Energy Committee of the Great Falls Chamber, Johnson said that at a time when the state economy is being pushed backward by the national recession, the state must rebuild its economic base to make up for more than 8,000 basic industry jobs lost during the last year.

In addition, the state's basic industries, those which import out-of-state investments and sell products out-of-state, are on the decline. The strongest, the oil and gas industry, is backsliding because of the recession, a world-wide oil glut and falling oil prices.

During the last year, about 1,300 jobs have been lost in the oil and gas industry, Johnson said, which amounts to a \$38 million loss in wages and salaries paid in the state.

At the same time, the oil and gas industry, as well as other natural resource industries, find their tax burden has escalated dramatically during the past few years, she said. Resource industries include mining, oil and gas, coal and electrical power companies.

Johnson said the resource industries "are being jumped by 2,000 percent since 1979 and now constitute 36 percent of total state tax collections."

Some of that increase, she cautioned, was from sharply higher prices paid on production. However, taxes also have been increased sharply.

Currently, Johnson said, the state is "heavily dependent on natural resource taxes — in a period of recession — faced with a probable slow recovery in the resource industry — the industry, finding the tax burden onerous — and legislators wondering where to find funds to operate state government."

And while facing those problems, the state must begin rebuilding its economic base and replacing lost jobs, she said.

Johnson said Gov. Ted Schwinder's "Build Montana" program is a step in the right direction, "but if it goes to non-basic industries, it's not going to create growth. That program is going to need a lot of careful thought by everyone."

"And I'm sorry, our building new banks and shopping centers just isn't going to do it," she said.

"Building new retail-type industries would just move segments of the same pie around — there would be no expansion."

One of the state's biggest problems in attracting out-of-state investments in a perception that Montana is "anti-business," Johnson said.

She said much of the state's reputation is based on the way environmental regulations are administered.

Out-of-state businesses claim state officials are inconsistent in the administration of environmental regulations, she said.

However, Montana's "anti-business" reputation is beginning to change, and Johnson credited Schwinder with trying to change that image.

"I believe that state government and industry are working better together now than they had for some time in the past," she said.

She also said recent Montana Polls have shown Montanans to be "very middle of the road and responsible" in regards to economic development.

Johnson said that when Montana's environmental laws were passed, "I'm not so sure that some of those legislators didn't hope that if the environmental laws would prevent development, we had a pretty young bunch in there then."

STANDING COMMITTEE REPORT

January 13, 19 83

MR. PRESIDENT

We, your committee on Taxation

having had under consideration Senate Bill No. 73

Respectfully report as follows: That Senate Bill No. 73 be amended as follows:

Title, line 5.
Strike: "PROVIDING FOR"
Insert: "CLARIFYING THE"

Title, line 6.
Strike: "ON"
Insert: "STATUS OF"

And, as so amended

DO PASS