

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

January 20, 1983

The eighth meeting of the Taxation Committee was called to order at 9:05 a.m. by Chairman Pat M. Goodover in Room 415 of the Capitol Building.

ROLL CALL: All members were present.

CONSIDERATION OF SENATE BILL 131: Senator Harold Dover (District 24, Fergus County), principal sponsor of the bill, said the bill came about because of problems encountered regarding second hand cars sold between individuals in his area (Lewistown). The police, sheriff, mayor, and clerk and recorder in Lewistown all feel it is a problem, and it is happening all over the state. Many times, bills of sale are used to avoid licensing a car. There are some people involved in drug dealing in his area who are not registering their vehicles but who are "floating" bills of sale among themselves. In Colstrip, people from out of state do not want to have to pay a Montana vehicle license fee. Someone sells a car to a friend and puts a bill of sale in the back window. When the 20-day period expires, he sells the car to another friend.

Individuals would have to do the same with second hand vehicles that dealers do now with new vehicles. If a buyer doesn't want to change the title immediately, he can get a permit under this bill. This allows the buyer time to get the title paperwork taken care of. A similar bill last session was killed but Senator Dover has talked with the sponsor of that bill, and he indicated he wouldn't oppose this one. SB 131 authorizes law enforcement officers to issue the permits. The fee is \$2 (\$1 for the clerk and recorder and \$1 for the state). The present law requires only a bill of sale, and bill of sale is not defined.

PROPOSERS

Chuck O'Reilly, sheriff of Lewis and Clark County, and representing the Montana Peace Officers Association, agreed with Senator Dover. He said one family in Helena hasn't licensed their vehicles for the past 3 years doing this. Sheriff O'Reilly stands in strong support of this bill.

Larry Majerus, from the Motor Vehicle Division, also agreed with Senator Dover's comments. He added that because of the abuse of the present system, there are gaps in the registration process. Montana is a title state and unless the title is changed through the treasurer and through Deer Lodge, the title is still in a seller's name on the motor vehicle registration records. Breaks in titles occur when

private individuals do not complete the transfer paperwork within the 20 days prescribed. His department then has to conduct an investigation of the title before title can be issued in someone else's name. His department does not care who sells the vehicles as long as they are registered.

Jerry Raunig, representing the Montana Automobiles Association, said we are dealing with bigger numbers than most people think. Less than 50% of used cars are sold by dealers, so over 50% are private sales by individuals not registering the vehicles and not paying taxes.

Charles Graveley, representing the County Treasurers and Assessors said the problem is people executing bills of sale and getting by with it for an extended period of time. They can stop it with an individual by calling the sheriff's attention to it. He liked the idea of only one proof of purchase. He added that there is a separate provision in the law allowing for a temporary 60-day sticker (with a \$2 fee) which is available when problems are incurred in getting the title transferred. So, really there are 80 days (20 days plus 60 days), and that is plenty of time to accomplish the transfer.

Representative Helen O'Connell (District 34, Great Falls) thought Montana needs something like this, especially in the Great Falls area and asked that the committee recommend a do pass on SB 131.

OPPONENTS

There were no opponents to SB 131.

Questions were called for from the committee.

Senator Crippen asked if a statement of intent was needed since it delegates rulemaking or licensing authority and whether this was tied into the penalties for other traffic violations.

Larry Majerus said there is a \$25 fine if a vehicle is operated without a sticker.

Senator Norman said that Montanans put stickers in their back windows for 20 days and asked what is done in other states.

Mr. Majerus stated that about half of the states have license plates which stay with the owner; the other half, the plates stay with the vehicle. In Montana, the plates stay with the owner. In states where the plates stay with the owner, there are permit systems similar to dealers systems; Montana could institute a permit system and obtain the permits from the motor vehicle agency.

When asked how that would improve the system, Mr. Majerus said people would have to go between counties to avoid having to buy a permit.

Sheriff O'Reilly said they would check with the county treasurer to see what current address the owner had. If the permit is on a prescribed form, they will know the vehicle is licensed; if it is different, they would have to go get the proof of purchase back, he said.

Senator Turnage asked what the proof of purchase referred to was. If someone can orally demand a proof of purchase, they still can sell the vehicle 12 times.

Senator Eck wondered if \$1 was enough to cover the counties' administrative costs (\$1 out of the \$2 fee proposed).

Mr. Graveley agreed the fee could be higher. First there are 20 days, then 60 days. There is a delay then in getting the vehicles titled. The fee could be retroactive to the date of transfer. Regarding Senator Turnage's problem, notarized proofs of purchase with vehicle identification numbers and other identification should be required. It won't solve all of the problems, but it will tighten up the procedures a bit.

Senator Lynch inquired whether the permits would be attached to proof of liability insurance. That might tighten it up, too, he thought.

Mr. Majerus stated that transfer of title meant transferred in Deer Lodge.

Senator Gage asked if the responsibility could be put on the seller of the vehicle rather than on the new owner.

Chairman Goodover then suggested that perhaps a subcommittee was needed to work this bill over. Senator Dover said he would like a good bill to come out of the committee. He said it is a requirement of the state that the motor vehicle division collect for it. When an individual gets a permit, the VIN number and other identification is listed on it, and that is sent to Deer Lodge.

Senator Elliott asked which is the most prevalent problem: (1) title transfer, (2) having the taxes paid, or (3) stolen autos or floating registrations. Mr. Majerus said that during the 20 days in which to obtain the plates, there is no requirement that taxes be paid. It used to be 10 days to get a lien released and now it is 20 days. These vehicles are not registered at all, he said.

Mr. Majerus pointed out that the problem is that vehicles are being operated without registration. Senator Eck asked if a car was not required to have insurance during the 20-day period when a vehicle is sold to another. Mr. Majerus responded that most car insurance policies have automatic provisions in them for alternate vehicle to be covered for 60 days or so. His opinion was that the vehicle should be insured during that period.

The hearing was closed on the bill. Cort Harrington and Senator Towe will work together on proposing some amendments to this bill.

DISCUSSION RE PROPOSED COMMITTEE BILL RE SEVERANCE TAX AND NET PROCEEDS TAX ON OIL AND GAS: Senator Gage submitted a written proposal for a committee bill regarding severance tax and net proceeds tax on oil and gas. Senator Crippen said that when we look at the budget projections, we are looking at oil as a constant. New oil is treated differently. Senator Gage stated that the present structure and the economy have made the tax consequences severe, and providing a base would add incentive to providing the constant. Senator Crippen stated that more oil will need to come in to maintain the constant. Senator Gage agreed that would be true if budget projections were going to increase. He said the average payback on an oil well is 3-5 years. The oil producers need a lower tax structure to recover their costs and get a return on their investment.

Senator Towe gave the following example: Assume oil is \$30 a barrel. At 6% the tax is \$1.80. If we give an incentive for oil companies to drill more oil, that \$1.80 will be no tax at all. If the oil price goes up \$2.00 a barrel, that is a greater incentive. If the price does go up, you will see an increased amount of oil in the state at a lesser rate.

Senator Gage stated that the legislature has no control over the price of oil or gas, but they do have over tax breaks. Senator Crippen said that whether it is a large company or a small one, they have so much money to spend. They will spend their money where they see the best return.

Senator Gage stated that we are in competition with North Dakota, Wyoming and other states who are drilling.

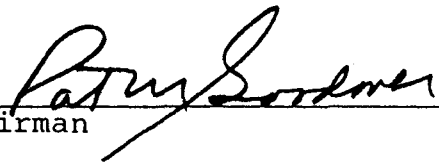
Chairman Goodover remarked that in the last session, the legislature gave authority to drill old wells deeper, and he asked what happened to that matter.

Senator Towe suggested that if the price of oil goes up, the percentage should be increased; if the price goes down, the percentage should be decreased. Senator Gage said the costs would have to be taken into consideration, too.

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Chairman Goodover stated that discussion on this proposed committee bill would continue at a later date.

The meeting was adjourned at 10 a.m.


Chairman

ROLL CALL

SENATE TAXATION

COMMITTEE

48th LEGISLATIVE SESSION -- 1983

Date 1/20 /83

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

DATE January 20, 1983

COMMITTEE ON TAXATION

VISITORS' REGISTER

NAME (PLEASE PRINT)	REPRESENTING	BILL #	Check One	
			Support	Oppose
Larry MATHERUS	Mot. Vehicle Div	SB 131	✓	
Ann McKeown	League of Women Voters			
Conrad Kennedy	Senator Twist	SB 131		
Don Bucks	Revenue Dept.			
Gerald Framing	Mt. Auto Dealer Assoc	SB 131	✓	
Larry Tabison	Mont Auto Assoc	"	"	
Chuck O'Reilly	Mont Sheriff's Peace Officers	SB 131	✓	
Paul Braveling	C. Treasurers	SB 131	✓	
Helen O'Connell	Representative	SB 131	✓	
Don Sully	Mont Sheriff's Peace Officers	SB 131	✓	
MS Davis	League of Women Voters			
Jean Charles				

(Please leave prepared statement with Secretary)

I am working on an idea to have a bill requested by the taxation committee regarding severance tax and net proceeds tax on oil and gas.

The basic idea of this bill is to set the quantity of oil and gas reported for severance tax and net proceeds tax in 1982 as a base. This quantity will be classed as old oil and gas. For a period of _____ years after 1982 the old oil and gas will continue to be taxed as it has been. Any oil and gas produced in excess of the base year quantity will be declared to be new oil and gas. This proposal will tax _____% of the new oil or gas.

It is my proposal that the royalty owners share of the new oil or gas will be treated the same as the operators interest.

All oil and gas produced on a lease that had no production on it in 1982 will be classed as new oil since the base for 1982 is ~~good~~ ^{ZERO}. This may be enough cost reduction for an operator to decide to put some old producing properties back into production. We think it will stimulate drilling on new leases because the new wells will all be producing new oil taxed at a much more favorable rate. It should stimulate more drilling because any oil or gas produced above the base year quantity will be taxed at a more favorable rate.

This will not have any affects on the county and state except as to producing leases where there is a normal production decline and that affect will be there regardless of this

proposal. On the other hand this proposal will guarantee the base amount to the county and the state when there is an increase in production from workover of existing wells or drilling of more wells on property which produced in 1982 assuming new production exceeds decline in old wells. In addition to the base amount, the county and state will also get tax revenues from the new oil. The county will get added revenue from any additional personal property that goes on new wells and the state will get added income tax from wages paid.

We also are proposing that, just as production from a lease that has never had production through 1982 will be classed as new oil, production from a different zone ^{that} ~~that~~ was being produced from to establish the base oil would be new oil.

In order to try to guarantee compliance with the proposal we are ~~suggesting that upon judicial determination of willful intent to avoid taxes under the provisions of this proposal, the offender will have all of his production taxed under old oil status.~~

*non compliance
penalty.*

This will also help to determine, at least in a limited way, whether drilling stopped because of taxes being too high for we have lowered them on at least new oil which most new wells will be producing.

We are getting information on the average payout in years on oil and gas wells and it would be our proposal to set the initial period of years based on this estimate. This would allow the operator to be taxed less while he is recovering his

costs, give him added time in a second period of tax relief to get a return on his investment and to accumulate some risk funds to continue his exploration program.

Sam E. Gipe