

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE
HOUSE OF REPRESENTATIVES

March 5, 1985

The thirty-fourth meeting of the Taxation Committee was called to order in room 312-1 of the state capitol at 8:05 a.m. by Chairman Gerry Devlin.

ROLL CALL: All members were present with the exception of Representative Harp, Representative Iverson, Representative Patterson and Representative Ream. Also present were Dave Bohyer, Researcher for the Legislative Council, and Alice Omang, secretary.

CONSIDERATION OF HOUSE BILL 906: Representative Kadas stated that this bill will replace the 6 3/4% corporation license tax with a graduated tax rate based on net income. He indicated that this bill is a good bill for small business in lowering their taxes and will raise it for a few.

PROPONENTS: There were none.

OPPONENTS: Mike Zimmerman, representing the Montana Power Company, stated that this bill will have a tremendous impact on the corporation license tax. He distributed Exhibit 1 to members of the committee; and advised the committee that because this has such a large increase in their taxes and would raise their rates, they oppose the increase.

John Alke, representing the Montana-Dakota Utility Company, pointed out to the committee that they have estimated that this would require a rate increase in the neighborhood of \$3/4 to \$1 million to simply pay the costs to the company and they urged a do-not-pass recommendation.

Gene Phillips, representing the Pacific Power and Light Company, testified that the small business man is going to be paying this tax in the form of higher utility rates.

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Janelle Fallon, representing the Montana Chamber of Commerce, informed the committee that they are, in a large part, a small businessmen's association and some would benefit in the short run, but small business needs big business to survive and she quoted from a report, which affirmed the fact that Montana has the highest corporation license tax in the neighboring states and she contended that this discourages business from operating in Montana.

Tom Ebzery, representing the Nerco Mining Company, said that this bill would triple their taxes and they feel that on a cash basis, they will see their taxes rise \$400,000.00 annually and Decker will pay about five times that amount and will go from 6% to 16%.

Dennis Burr, representing the Montana Taxpayers' Association, indicated that this was more of a distribution of tax collections and this is not a proper redistribution of the tax burden at this time.

Jim Hughes, representing Mountain Bell, testified that as far as being a tax collector for the state, they raise about \$120 per year for every access line that the telephone company has in the state and that is 50 to 75% higher than in any other state they operate in.

Darwin VanDeGraff, representing the Montana Petroleum Association, indicated that they represent about 90% of the oil producers in this state - both small and large companies - and they are uniformly opposed to this legislation. He encouraged defeat of this legislation.

James Mockler, Executive Director of the Montana Coal Council, informed the committee that the largest employers are going to be hit by this and that all is not rosy in the mines.

There were no further opponents.

QUESTIONS ON HOUSE BILL 906: Representative Raney asked how they came up with the increments they used.

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Representative Kadas replied that they looked at the breakdown of income categories and tried to get as close to a wash as they could.

Representative Raney asked what he thought of the position of the utilities.

Representative Kadas responded that they are making a guaranteed return on their investment as it is and he can see that argument but it does not hold a lot of water. He advised the committee that if they want to exempt regulated utilities from this, he would not mind at all.

Representative Sands asked if he wanted the 16% rate to apply on the whole \$5 million or did he want it graduated.

Representative Kadas answered that he intended it to apply on the whole \$5 million.

Representative Switzer asked how they would refer to the exemption of the larger ones - a graduated, graduated tax.

Representative Asay questioned if they have figured how much of an impact this would have on the ultimate consumer.

Representative Kadas answered that he has not figured it out exactly, but the comment that the small business is going to take the brunt of the tax is baloney as most will get a lower tax rate because of this.

There were no further questions.

Representative Kadas commented that big is not all bad, but he thinks small is better.

The hearing on this bill was closed.

CONSIDERATION OF HOUSE BILL 917: Representative Harbin, District 53, called this "The Build Montana Insurance Bill" and advised that this would induce insurance companies to establish branch offices in the state of Montana.

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PROPOSERS: Mike Donaghy, manager of U.S.F.&G. informed the committee that many companies are electing to leave Montana and go to other states and they sell their products through individual agencies and they do not have to have an office in Montana to do business in Montana.

Andrea Bennett, Auditor and Insurance Commissioner for the state of Montana, stated that this is the type of legislation that they can be proud of as it is telling the rest of the nation that they are taking care of industry and she noted that there have been several branch offices leave the state in the last few years.

Dick Gilbert from the Auditor's Office, stated that they made the assumption that there would be four companies eligible for this tax and this bill would not take effect until March of 1987 and they estimated that there would be \$700,000.00 less in the general fund in fiscal year, 1987.

Ed Jasmin, President of Norwest Bank, advised the committee that their role is to spur the economic development of the state both from the standpoint of incentives and with the elimination of disincentives. He contended that this was an ideal way to build Montana.

There were no further proposers.

OPPOSERS: There were none.

QUESTIONS ON HOUSE BILL 917: Representative Asay asked what are other states doing.

Representative Harbin responded that there are different types of incentives available, i.e. payroll tax credits, corporate tax incentives and a number of ways - and this has been done in a number of states and has worked out quite well.

Representative Williams asked how do foreign insurers compare with domestic insurers.

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Representative Harbin explained that domestic insurers are companies that are 100% domicile in the state of Montana (and, at this time, he thought there was one left) and foreign insurers are companies that are domiciled within the boundaries of the United States and alien insurance companies are companies that are domiciled outside the United States.

Representative Devlin asked what the reason is that these companies are leaving the state.

Mr. Donaghy replied that it is certainly not the labor and their experience with the labor in Montana has been excellent and, in fact, when their companies want to hire trainees to be located in other states, they quite often ask them to hire them in Montana. He explained that the biggest incentive is to reduce expenses as the more you reduce expenses, the more you enhance profit.

Chairman Devlin asked if the trend has been to close the smaller offices and consolidate them into larger offices.

Mr. Donaghy responded that that has been part of it and it is easier to close a small office and move it into a larger one, but if the incentive is in the state where there is a smaller office, it might be best to close the larger office.

Representative Sands questioned if they have five insurers in one common ownership, do they each have to have a \$750,000.00 payroll or would this be an aggregate.

Mr. Donaghy answered that if they were all together collectively in the same building, then they would be qualified as a collective unit and there would be a \$750,000.00 ceiling, but to have this \$750,000.00 is going to take between forty and fifty employees, but the issue at hand is to get those fifty jobs back in the state.

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Representative Asay asked if there was some magical number that would include most of these branch office employees.

Representative Harbin responded that it takes anywhere from 25 to 75 people to adequately operate a branch office; and they are generating a substantial amount of money.

Chairman Devlin asked how they will know if this is working in two years.

Ms. Bennett indicated that if they prefer that it be written into the bill that they report back to the legislature, they will be happy to do that.

Chairman Devlin inquired as to how they would know and Ms. Bennett advised that they could use the four companies that are in the state and use that as an example and project what would happen in 1988.

Representative Asay asked if this was on such a tenuous basis, would any company make such a decision when this might be retractable.

Representative Harbin replied that he believed that it would work because in the original form, this act would apply to taxable years beginning after December 31, 1985 if the insurers first established a branch office in this state after October of 1985 and to any other insurers, it would apply after December 31, 1987 so that would begin after October 31 of this year and would be in place if a new branch office came into the state and would not apply if a former branch office already exists.

Mr. Donaghy explained that this law is very similar to a law that was passed in Florida two years ago and that law was very successful - large insurance companies literally poured into the state. He informed the committee that their budgeted payroll in 1985 was \$1.2 million and this proposed bill would save them \$200,000.00 in premium tax and this would not be going to Salt Lake, Spokane, or the Denver area. He indicated that there

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was a large company in Oregon handling five northwest states, including Montana and Oregon is not centrally located.

There were no further questions.

Representative Harbin stated that this is something that is going to be worthwhile to the people of the state of Montana and he offered some amendments to this bill. See Exhibit 2.

The hearing on this bill was closed.

EXECUTIVE SESSION:

DISPOSITION OF HOUSE BILL 636: Representative Abrams moved adoption of the amendments that would make the original bill conform to the grey bill. The motion carried unanimously.

Representative Abrams moved that this bill DO PASS AS AMENDED; and said that they are proposing to go ahead with CO² injection and they will regain about 17% of the oil, as he understands the bill.

Representative Cohen moved to amend the bill by changing the percentage from 2.5% to 4%. Representative Abrams indicated that he would oppose the amendment and it is his understanding from talking to the oil people and the people involved in writing this bill, that it is very marginal as to whether they are or are not going on this project.

Representative Keenan commented that she would support the amendment as she was under the impression that there are presently tertiary projects going on in Montana.

Chairman Devlin noted that they should keep in mind that this is increasing production that they never are going to have without this process.

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Representative Asay said that he thought there was a moral obligation to recover as much of the oil that is down there as possible for other people, other states and the whole world.

Representative Raney stated that he was in favor of the amendment as 70% of the oil is staying in the ground right now and they are presently in an oil glut so there is no real pressure to go after that oil.

Representative Gilbert explained that when these wells go down, they have to plug the wells, because they cannot afford to pay the property tax and that well is abandoned; then if someone wants to go back in there (and it is very doubtful that they will) you are looking at least \$1 million per hole so they are talking about \$400 million to see if the system will work.

Representative Hanson advised that their county was losing 1800 barrels a day this year and at \$26.00 per barrel, that is \$46,800 a day and that is over \$12 million a year of taxable valuation for our county. She indicated that their county gives over \$2 million a year to the state and they get nothing back so if you take those 1800 barrels a day and give a 2½% break to them, it will be a lot less than \$2 million they are sending away right now.

Representative Raney commented that that would be if she is accepting the fact that they have to have this break and he did not believe that.

Representative Sands indicated that that is the crucial question - whether they are going to go ahead with this recovery without the tax break and he asked what the tax rate in tertiary recovery compared to other states is.

Representative Switzer pointed out that what they are hearing here is exactly what gives Montana the business image it has - absolutely negative.

Representative Cohen explained that what this amendment does is if there are price changes per barrel of oil, it does not all go to the oil company - it gets taken

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up by all those people who provide services and with a 20% reduction, this will leave them with 25 cents instead of 67 cents for those various suppliers and companies.

A vote was taken on the amendment and it failed with Representative Cohen, Representative Koehnke, Representative Raney and Representative Schye voting yes.

Representative Sands said that he had some questions in his mind that he would like to get the answers to and he would like to take a day or two to get some answers.

Representative Switzer informed the committee that Kansas has a 4% exemption, Mississippi has a 50% exemption, and Wyoming has a 1/3 exemption, but they do not have any personal property tax.

Representative Williams moved to postpone disposition of this bill. The motion failed with a 7 to 7 vote. See Roll Call Vote.

Representative Cohen withdrew his objections to letting Mr. Oppendahl answer any questions.

Representative Sands asked if he could tell them what the effective tax rates are on tertiary recovery in the neighboring states.

Jim Oppendahl, representing the Governor's Office of Budget and Planning, responded that as far as he knows at this point, North Dakota's severance tax rate on oil does not provide an incentive on tertiary recovery; neither does Wyoming although they had a bill in this session that would have permitted a drop from 6% to 4% on some tertiary recovery. He indicated that he had not seen it and he did not know if it passed.

Representative Sands asked without the incentive, what is the effective tax rate on those two states.

Mr. Oppendahl answered that it is comparable to Montana if you look at the property tax and the severance tax.

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He continued that the information he has for Wyoming is that the rate is between 13.7 and 15.7 of gross value on one acre; and in Montana, it is around 12.6 to 13 depending on the local property tax; and in North Dakota, it is about 12.8% of gross. He advised that all of the states differ in terms of what the base is and it depends on the local property tax base; but on the average, they are all about the same.

Representative Sands asked if these figures include gross proceeds tax as well as other taxes.

Mr. Oppendahl replied, "Yes."

Representative Gilbert asked if, to his knowledge, does North Dakota have any tertiary recovery.

"Not to my knowledge," he answered, but they would have under the Shell project, which is a little tiny piece in North Dakota and he assumes that this is similar to Montana - it is a new process and they have a potential like Montana - nationally, it is 6% of current production.

Representative Gilbert asked if he would guess that that is why they do not have anything on the books now is because they do not have any tertiary recovery.

Mr. Oppendahl responded that he thought that was true - most of the states (3) that have specific incentives have been passed in the last two or three years although there is a major CO² project in Texas where there is no incentive.

Representative Gilbert asked if Wyoming has any large tertiary recovery systems.

"To my knowledge, nothing is going on," Mr. Oppendahl replied.

Representative Gilbert inquired if this would explain why they do not have legislation to that effect.

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Mr. Oppendahl advised that this may explain it; they may not have been approached. He indicated that Kansas is a state that recently has passed an incentive.

Representative Williams noted that the fiscal note said that it was assumed that the tertiary recovery projects would proceed without the reduced severance tax and he asked if it was necessary to have a 2½% incentive in order to continue this based on the knowledge they have at the present time.

Mr. Oppendahl responded that this was a good question and it depends on the economics, the particular kind of reservoir, the potential in that reservoir and the prices of all the kinds of incentives that are available at the federal level as to whether or not it is economical or feasible. He informed the committee that there are a couple small tertiary projects in Montana that are going on now (the larger one is the Belle Creek in Powder River County) and there were federal incentives that were available under tertiary recovery that removed oil from a 70% windfall profits tax when they begun the project to a 30% rate, which is substantial.

Chairman Devlin asked what they were using in the Belle Creek project.

Mr. Oppendahl advised that they were using augmented water flood, which is basically a soap they inject in the ground and this allows the oil to wash out with the water flood. He explained that in the Belle Creek field, the expenses that were written off against the county net proceeds in 1982 amounted to about \$13 million, so it is an expensive process.

Representative Ellison asked at what rate of production does the federal reduction apply.

Mr. Oppendahl responded that the system that the feds have for the incentive under tertiary recovery is fairly complicated and basically, when they begin a project on tertiary, you have to have what they call a not insignificant increase in oil recovery and they have rules

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that define that; they are not talking about the number of barrels per day and they follow the same language that allows these kinds of projects. Once they are in that, they move all their secondary oil and their tertiary oil to one tax rate.

Representative Schye inquired if they use this tertiary recovery in the Shelby or Cut Bank area.

Mr. Oppendahl answered that he did not know of any that was up there and in Cut Bank, they were using an enhanced recovery system but it is not qualified for tertiary.

Representative Williams noted on page 4 of the bill that it said, "the term, "incremental petroleum and other mineral or crude oil" means the amount of oil, as determined by the board of oil and gas conservation, to be in excess of what would have been produced by primary and secondary methods."

Mr. Oppendahl explained that the federal system allows from the nature of the way the calculations are made that all the oil would be tertiary, but this bill simply says that they must tell what the secondary oil is going to be at the end of the project, and any increment above that line is the oil that qualifies for the lower tax rate.

Representative Sands questioned if he knew where the break-even point on oil prices are.

Mr. Oppendahl answered that Shell provided some information earlier this summer, but most of it is confidential. He advised that the numbers they used for calculating relief under this bill and for the project to go are \$27.94 for oil and at that price, they were talking about the project being marginally economical.

Representative Keenan moved to amend the bill to require any firm that utilizes this credit to submit, upon request, all relevant financial information to the Department of Revenue. She indicated that they do not have the facts whether this incentive will work or not and

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primarily, the tertiary recovery keeps going up because the price of oil goes up or the tertiary recovery goes up because of cheaper technology and they do not have those facts of whether it was the incentive or whether it was because that other factors entered in.

Representative Williams indicated that he would like to support this legislation because he feels that it is important to get as much oil as possible, but he agrees with Representative Keenan.

Representative Sands indicated he would have to oppose the amendment as it is too broadly written and if it were more narrowly written, he could support it.

Representative Gilbert wondered if this could be worded to only address the tertiary recovery portion of their financial records.

Representative Keenan responded that she does not have as much problem with that as she is curious about which deductions can be written off.

Representative Keenan asked Mr. Oppendahl how much of that information would be available from Shell Oil, for instance.

Mr. Oppendahl replied that he thought there would be some information available on net proceeds that the auditors would have access to and he did not know how much would be available to the legislature as a policy making policy. He continued that it would be difficult as this would separate secondary recovery from tertiary and the federal system does not do that and they would be mixing a couple different systems and their financial information does not separate it.

Representative Keenan asked the same question of Dan Bucks, the Deputy Director of the Department of Revenue, who responded that the net proceeds return gives them the gross value by lease (and the lease can cover more than one well) and then gives the deductions from the gross value. He continued that the net proceeds return will not segregate the costs between primary and secondary recovery versus tertiary recovery. He advised that

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they conduct audits of a certain portion of the taxpayers under the net proceeds tax and the work papers are confidential information and the only matter that is of public record is the amount of changes to the original return that is filed.

Representative Williams asked if they pass this bill, then they will have to have a separate set of books, would they not.

Mr. Bucks answered that in terms of the severance tax, he did not believe that the 2½% reduction would give them any information on the return as to the cost of producing that tertiary oil.

Chairman Devlin asked if they would know how much would qualify for the 2½%.

Mr. Bucks responded that they would, but they would not know the cost of producing that.

Mr. Oppendahl explained that if they were able to get the information that Representative Keenan was talking about, they would still have only one-half of the equation and what they really want is how much they are going to make per barrel given all their expenses on secondary, assuming they don't do tertiary. Then they have to know what they are going to make per barrel on tertiary so they really need two different elements to make that policy decision. He continued that they may be able to get the tertiary records from them, but they still have to make the judgment of what would they have made on secondary.

Chairman Devlin stated that the language on the bottom of page 4 and the top of page 5 should give them the amount that falls under the 2½% severance.

Representative Keenan indicated that she wanted her amendment to address two things - the secondary production and the tertiary.

Mr. Bohyer asked if she wanted this available to the department and upon request, to the legislature, to which she responded, "Yes".

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A vote was taken on the proposed amendment by Representative Keenan and it failed with 6 voting aye and 8 voting no. See Roll Call Vote.

A vote was taken on the DO PASS AS AMENDED motion and it carried with a vote of 10 ayes and 4 noes. See Roll Call Vote.

DISPOSITION OF HOUSE BILL 787: Representative Switzer moved the adoption of the amendments (Exhibit 3) and Mr. Bohyer explained them to the committee. The motion carried unanimously.

Representative Hanson moved that the bill DO PASS AS AMENDED. Representative Cohen made a substitute motion that this bill DO NOT PASS, AS AMENDED.

Representative Williams said that he agreed with the do-not-pass motion and a small amount is not going to make that much difference and the total fiscal impact is great enough that he did not think they could afford it at this time.

Representative Abrams stated that 5% of nothing is nothing and a reduced amount is something and a lot of these wells are very marginal, and if they show \$1.00 a day profit that might keep them going.

A vote was taken on the DO-NOT-PASS-AS-AMENDED motion, and it failed with a vote of 6 ayes and 8 noes. See Roll Call Vote. Without objection, the vote was reversed on a DO-PASS-AS-AMENDED motion.

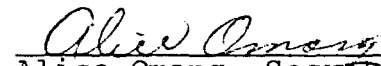
Representative Schye moved to amend the bill down from 10 to 7 barrels. There was some discussion on the amendment and a vote was taken and it failed with 6 voting aye and 8 voting no. See Roll Call Vote.

DISPOSITION OF HOUSE BILL 689: Representative Williams moved that this bill DO NOT PASS. Representative Gilbert moved that they TABLE the bill. The motion carried unanimously.

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ADJOURNMENT: There being no further business, the meeting adjourned at 11:02 a.m.


GERRY DEVLIN, Chairman


Alice Omang, Secretary

DAILY ROLL CALL

HOUSE TAXATION

COMMITTEE

49th LEGISLATIVE SESSION -- 1985

Date March 5, 1985

NAME	PRESENT	ABSENT	EXCUSED
DEVLIN, GERRY, Chrm.	X		
WILLIAMS, MEL, V. Chrm.	X		
ABRAMS, HUGH	X		
ASAY, TOM	X		
COHEN, BEN	X		
ELLISON, ORVAL	X		
GILBERT, BOB	X		
HANSON, MARIAN	X		
HARRINGTON, DAN	X		
HARP, JOHN		X	
IVERSON, DENNIS		X	
KEENAN, NANCY	X		
KOEHNKE, FRANCIS	X		
PATTERSON, JOHN		X	
RANEY, BOB	X		
REAM, BOB		X	
SANDS, JACK	X		
SCHYE, TED	X		
SWITZER, DEAN	X		
ZABROCKI, CARL	X		

STANDING COMMITTEE REPORT

Page 1 of 2.

March 5, 1985

MR. SPEAKER:

We, your committee on TAXATION

having had under consideration HOUSE Bill No. 636

first reading copy (white)
color

REDUCED TAX RATE ON PETROLEUM PRODUCED BY TERTIARY RECOVERY

METHODS;

Respectfully report as follows: That HOUSE Bill No. 636

be amended as follows:

1. Title, line 6.

Following: "PERCENT;"

Strike: "ALLOWING"

Insert: "REQUIRING"

2. Title, line 7.

Following: "OF THE"

Strike: "DEDUCTION FOR THE"

Following: "COSTS OF"

Strike: "CARBON DIOXIDE"

Insert: "NECESSARY CHEMICAL SUPPLIES"

3. Page 3, line 16.

Following: "gas"

Insert: "used in an approved tertiary recovery project"

~~XXXXXX~~
DO PASS

4. Page 5, line 3.

Following: "methods."

Insert: "The determination arrived at by the board must be made only after notice and hearing and shall specify through the life of a tertiary project, calendar year by calendar year, the combined amount of primary and secondary production that must be used to establish the incremental production from each lease or unit in a tertiary recovery project."

5. Page 6, line 10.

Following: "for"

Strike: "carbon dioxide"

Insert: "necessary chemical supplies"

6. Page 8, lines 12 and 13.

Following: "shall"

Strike: the remainder of line 12 and line 13 in its entirety

Insert: "require that the necessary chemical supplies, which include but are not limited to carbon dioxide supplies, be amortized over a 10-year period"

AND AS AMENDED
DO PASS

ROLL CALL VOTE

HOUSE COMMITTEE TAXATION

DATE 3-5-85 4B BILL NO. 636 TIME _____

NAME	AYE	NAY
DEVLIN, GERRY, Chrm.		✓
WILLIAMS, MEL, V.Chrm.	✓	
ABRAMS, HUGH		✓
ASAY, TOM		✓
COHEN, BEN	✓	
ELLISON, ORVAL		✓
GILBERT, BOB		✓
HANSON, MARIAN		✓
HARRINGTON, DAN	—	—
HARP, JOHN	—	—
IVERSON, DENNIS	—	—
KEENAN, NANCY	✓	
KOEHNKE, FRANCIS	—	—
PATTERSON, JOHN	—	—
RANEY, BOB	✓	
REAM, BOB	—	—
SANDS, JACK		✓
SCHYE, TED	✓	
SWITZER, DEAN		✓
ZABROCKI, CARL	✓	
	6	8

Secretary Alice Omang

Chairman Gerry Devlin

Motion: Keenan's amendment

ROLL CALL VOTE

HOUSE COMMITTEE TAXATION

DATE 3-5-85 HB BILL NO. 636 TIME _____

NAME	AYE	NAY
DEVLIN, GERRY, Chrm.		✓
WILLIAMS, MEL, V.Chrm.	✓	
ABRAMS, HUGH		✓
ASAY, TOM		✓
COHEN, BEN	✓	
ELLISON, ORVAL		✓
GILBERT, BOB		✓
HANSON, MARIAN		✓
HARRINGTON, DAN	—	—
HARP, JOHN	—	—
IVERSON, DENNIS	—	—
KEENAN, NANCY	✓	
KOEHNKE, FRANCIS	—	—
PATTERSON, JOHN	—	—
RANEY, BOB	✓	
REAM, BOB	—	—
SANDS, JACK	✓	
SCHYE, TED	✓	
SWITZER, DEAN		✓
ZABROCKI, CARL	✓	
	7	7

Secretary Alice Omang

Chairman Gerry Devlin

Motion: Postpone action

ROLL CALL VOTE

HOUSE COMMITTEE TAXATION

DATE 3-5-85 HB BILL NO. 636 TIME _____

NAME	AYE	NAY
DEVLIN, GERRY, Chrm.	✓	
WILLIAMS, MEL, V.Chrm.	✓	
ABRAMS, HUGH	✓	
ASAY, TOM	✓	
COHEN, BEN		✓
ELLISON, ORVAL	✓	
GILBERT, BOB	✓	
HANSON, MARIAN	✓	
HARRINGTON, DAN	—	—
HARP, JOHN	—	—
IVERSON, DENNIS	—	—
KEENAN, NANCY		✓
KOEHNKE, FRANCIS	—	—
PATTERSON, JOHN	—	—
RANEY, BOB		✓
REAM, BOB	—	—
SANDS, JACK	✓	
SCHYE, TED		✓
SWITZER, DEAN	✓	
ZABROCKI, CARL	✓	
	10	4

Secretary Alice Omang

Chairman Gerry Devlin

Motion: Do Pass As Amended

STANDING COMMITTEE REPORT

.....March 5,.....1985.....

MR. SPEAKER:

We, your committee on.....TAXATION.....

having had under consideration.....HOUSE..... Bill No. 787.....

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color

AN ACT REDUCING FROM 5 PERCENT TO 4 PERCENT THE SEVERANCE TAX ON
OIL PRODUCED FROM A WELL PRODUCING 10 BARRELS OR LESS PER DAY;

Respectfully report as follows: That.....HOUSE..... Bill No. 787.....

Be amended as follows:

1. Page 2, line 12
Following: "produced"
Insert: "an average of"
2. Page 2, line 13.
Following: "per day"
Insert: "of production"
3. Page 2, line 14
Following: "to"
Insert: "and including"

XDD/PASX

4. Page 6, line 1
Following: "produced"
Insert: "an average of"

5. Page 6, line 2.
Following: "per day"
Insert: "of production"

6. Page 6, line 3
Following: "to"
Insert: "and including"

7. Page 6, line 4
Following: "statement."
Insert: "In computing the average daily production for a well,
the total barrels produced during the period prescribed
in this section shall be divided by the number of days
the well was in production during that same period."

AND AS AMENDED,
DO PASS.

ROLL CALL VOTE

HOUSE COMMITTEE TAXATION

DATE 3-5-85 BILL NO. HB 787 TIME _____

NAME	AYE	NAY
DEVLIN, GERRY, Chrm.		✓
WILLIAMS, MEL, V.Chrm.	✓	
ABRAMS, HUGH		✓
ASAY, TOM		✓
COHEN, BEN	✓	
ELLISON, ORVAL		✓
GILBERT, BOB		✓
HANSON, MARIAN		✓
HARRINGTON, DAN	—	—
HARP, JOHN	—	—
IVERSON, DENNIS	—	—
KEENAN, NANCY	✓	
KOEHNKE, FRANCIS	—	—
PATTERSON, JOHN	—	—
RANEY, BOB	✓	
REAM, BOB	—	—
SANDS, JACK		✓
SCHYE, TED	✓	
SWITZER, DEAN		✓
ZABROCKI, CARL	✓	
	6	8

Secretary Alice Omang

Chairman Gerry Devlin

Motion: Do Not Pass

ROLL CALL VOTE

HOUSE COMMITTEE TAXATION

DATE 3-5-85 HB BILL NO. 787 TIME _____

NAME	AYE	NAY
DEVLIN, GERRY, Chrm.		✓
WILLIAMS, MEL, V.Chrm.	✓	
ABRAMS, HUGH		✓
ASAY, TOM		✓
COHEN, BEN	✓	
ELLISON, ORVAL		✓
GILBERT, BOB		✓
HANSON, MARIAN		✓
HARRINGTON, DAN	—	—
HARP, JOHN	—	—
IVERSON, DENNIS	—	—
KEENAN, NANCY	✓	
KOEHNKE, FRANCIS	—	—
PATTERSON, JOHN	—	—
RANEY, BOB	✓	
REAM, BOB	—	—
SANDS, JACK		✓
SCHYE, TED	✓	
SWITZER, DEAN		✓
ZABROCKI, CARL	✓	
	6	8

Secretary Alice Omang

Chairman Gerry Devlin

Motion: Adopt Schye Amendment

Exhibit 1
HB 906
3/4/85 3/5/85
Zimmerman

House Bill 906 - Corporate License Tax

House Bill 906 would more than double corporate license taxes paid by The Montana Power Company. Because increased taxes result in increased rates, we are opposed to House Bill 906. The affect of the proposed graduated tax rates on corporate license taxes paid in 1981, 1982 and 1983 illustrate the dramatic increase that is being proposed.

<u>Year</u>	<u>\$Increase</u>	<u>%Increase</u>	or	<u>Times</u>
1981	\$2,130,056	127.49		2.2
1982	782,199	113.83		2.1
1983	2,923,813	129.95		2.3

Figures for 1984 are unavailable at this time.

For: The Montana Power Company
By: Michael E. Zimmerman

LC 1742/01

Sec 4
EFFECTIVE DATE.

Exhibit 2
HB 917
3/5/85
Harbin

THIS ACT APPLIES TO TAXABLE

- 1 years beginning after December 31, 1985, for insurers which
- 2 first establish a regional branch office in this state after
- 3 October 1, 1985. For all other insurers, this act applies to
- 4 taxable years beginning after December 31, 1987.

-End-

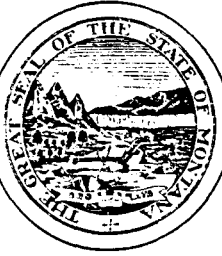
Exhibit 3
HB 787
3/5/85
D. Bohyer

AMENDMENTS TO INTRODUCED HOUSE BILL #787

1. Page 2, line 12
Following: "produced"
Insert: "an average of"
2. Page 2, line 14
Following: "to"
Insert: "and including"
3. Page 6, line 1
Following: "produced"
Insert: "an average of"
4. Page 6, line 3
Following: "to"
Insert: "and including"
5. Page 6, line 4
Following: "statement."
Insert: "In computing the average daily production for a well,
the total barrels produced during the period prescribed
in this section shall be divided by the number of days
the well was in production during that same period."

DEPARTMENT OF REVENUE

1514



TED SCHWINDEN, GOVERNOR

MITCHELL BUILDING

STATE OF MONTANA

HELENA, MONTANA 59620

February 26, 1985

To: Representative Hayne

From: Lynn Chenoweth, Assistant Administrator *LC*
Natural Resource and Corporation Tax Division

Re: HB 787

Attached are the proposed amendments to HB 787 that were discussed during the House Taxation Committee hearing. After the hearing, you had requested that I provide you with the specific amendments and that you would forward them on to the House Taxation Committee Chairman.

I should mention that even with the amendments, the Department has some concerns about the bill. Those concerns primarily relate to the fiscal impact attached to the bill.

If you have any questions regarding these amendments, feel free to give me a call at 2441.

LRC/t1

TESTIMONY OF NERCO MINING COMPANY ON HB 906

Mr. Chairman and Members of the Committee. My name is Tom Ebzery, and I am an attorney from Billings representing NERCO Mining Company. NERCO operates the Spring Creek Mine and is a 50% partner in DECKER.

HB 906 is an unabashed tax increase which, enacted in its present form, will not only triple the corporation license taxes already paid by NERCO and others, but will put Montana in the dubious position of having the highest corporate income tax in the United States.

I think the fiscal note prepared for this bill is typical of those seen this session. A quick glance indicates that only \$1,474,000 will be obtained if this bill is passed; however, this is misleading. I believe the fiscal note was erroneously prepared on a graduated increase basis and, as such, grossly underestimates the fiscal impact.

NERCO alone, on the most conservative of estimates, will see its taxes almost tripled with an additional \$390,000 annually for its Spring Creek Mine. That's just one corporation--DECKER would be five times that amount. We've looked at several other states in the region, and I'd like to share with you some of their rates.

Wyoming	0%
South Dakota	6%
Colorado	5%
Oregon	7.5%
Idaho	7.7%
North Dakota	7%
Washington	0%

Montana would go from a maximum 6 3/4% to 16%, an increase of 237%, which on its face could be argued would affect only the larger corporations. However, the Committee should closely examine the fact that the tax graduates in such a manner that even small corporations will see a doubling or tripling, which appears to be an effort to solve Montana's revenue short-fall in "one-by-one" bill.

Montana has been trying to enhance its business image. Enact House Bill 906 in its present form and the signals will be loud and clear. We urge "DO NOT PASS."

VISITORS' REGISTER

COMMITTEE

BILL NO.

HB 917

DATE

3-5-85

SPONSOR

HARBIN

NAME (please print)	RESIDENCE	SUPPORT	OPPOSE
Mike Donaghy	Helena	X	
Andy Bennett	Helena	X	
Ed Jasm...	✓	✓	
Ed Williams	Helena		✓

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FORM

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITORS' REGISTER

COMMITTEE

BILL NO. H.B 906DATE 3/5/85

SPONSOR _____

NAME (please print)	RESIDENCE	SUPPORT	OPPOSE
Jim Mockler	Helena		✓
Janelle Faylan	Helena		✓
Jim Hughes	Madison		✓
Dennis Burr	MONTANA		✓
Ken Williams	Butte WECO		✓
Joe Ebzery	NEVCO Mining Co		✓
D. Young	Helena		✓
GENE PHILLIPS	KALISPELL		✓
Pat Wilson/Montco	Billings		✓
Don Allen	Helena - W.A. Wood Products		✓

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.