MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

March 15, 1985

The fiftieth meeting of the Senate Taxation Committee was called to order by Chairman Thomas E. Towe at 8:01 am, Friday, in Room 413-415 of the State Capitol.

ROLL CALL: Senator Goodover was excused. Senators Halligan, Neuman and Severson arrived late. All other members of the committee were present.

CONSIDERATION OF HB 478: Representative Elmer Schye was recognized as chief sponsor of the bill lowers the penalty and interest for failure to pay oil and gas severance tax. He said that the current penalty was higher, but that it allows for penalty and interest which are not allowed by current law. It reduces the penalty from 25 to 10 percent, and allows for computation of the interest. He said changing the law in this way would make it consistent with other extraction taxes.

PROPONENTS

Mr. Don Hoffman of the Natural Resources Bureau, Department of Revenue spoke in behalf of the bill.

OPPONENTS

None were heard.

Questions from the committee were called for.

Hearing none, Representative Schye was recognized and closed.

MOTION: Senator Eck moved that HB 478 be concurred in. The motion carried unanimously and Senator Eck agreed to carry the bill on the Senate floor.

CONSIDERATION OF SB 390: Senator Towe said that the proposed rates in the bill came from the Department of Revenue and then from the Governor's office. He said the amendments averaged the differences in the figures and now the Department of Revenue says the rate should be higher.

Mr. Don Hoffman, Department of Revenue was recognized. He explained how the effective rate was figured by the Department. Those figures are covered by Exhibit 1.

Mr. Tucker Hill, representing the industry, said that he had figured the rate by total tax paid against total value for production year 1981 based on the available production figures.

Chairman Towe asked if they understood why they were coming up with different percentage rates using the same basic data. The Department explained that they were accounting for the windfall profits tax and for audit exceptions that had been finalized to bring up the effective rate on oil.

Mr. Hill said he used the actual mill levy and the actual tax paid and that some figures from the Department had come in after the fact.

Senator Mazurek said that he had been asked to carry the bill and had checked this matter before agreeing to sponsor the bill. He said the figures were put in the bill accordingly and he was distressed to find that now the Department believes the rates should increase. He said the idea is to set a statewide rate on new production only and to be competitive in that regard with adjoining states for the exploration dollars available.

Mr. Jerry Anderson said that using the audit data is incomplete and that as the audits are completed the figures could change again.

Mr. John LaFaver, Director of the Department of Revenue, agreed that all figures used were estimates, particularly with oil. He apologized for the last minute information from the Department and said that the move was in no way hostile to the bill. He said he had not realized that windfall profits and audit adjustments had not been included.

Chairman Towe suggested that the industry representatives and the Department work out the differences in rates and come back to the committee with a compromise recommendation.

CONSIDERATION OF SB 460: Senator Chris Christiaens was recognized as chief sponsor of the bill. He said the bill would change the current method of calculating net capital gains tax. He said it would result in revenues for the state between $23 and 26 million.

He noted that Dr. Miles Watts and Dr. James Johnson from Montana State University were present. He said they had come at his request to answer questions and provide information to the committee on the subject of the bill.

PROPONENTS

Mr. Don Judge, representing the "44,000 income taxpayers of the Montana AFL-CIO" said they support the bill. He said that capital gains has tremendous impact on the income taxpayer. He said under current law when the proceeds from a sale are held for six months and one day, 60 percent of the amount is not taxable. He said no wage earner would be able to write off that amount. He said the write off in the last year was $1.198 billion. He said that amount must be made up by other taxpayers who can afford it less. He noted that 1.9 percent of those itemized obtained 90 percent of that write off so that the benefit was going to few.

The bill as written, he said, provides for sale of a home. The issue is tax fairness and this bill should be passed.

Mr. Terry Murphy, President of the Montana Farmers Union, said that he is a proponent because of the land market problems with the current

law. He said that farm expenses should not be allowed as deductions against nonfarm incomes. He said that his membership also favors proposals that limit the advantage of capital gains treatment. He said that was protested by older members who looked at this as a retirement account. That problem, however, was solved by the sliding scale on holding periods that is currently in the bill. He said that farming the land, and not farming the tax system, should be rewarded. He said now capital gains allows people to turn over land within three years, and that creates a depressant on the market for long-term farmers and ranchers.

Ms. Margaret McDonald, representing the farm families of the Northern Plains Resouce Council, submitted her testimony in writing. It is found in Exhibit 2.

Mr. Don Reed, Environmental Information Center, also submitted written testimony (Exhibit 3).

Mr. Tom Ryan, Montana Senior Citizens Association, said that this is a tax equity issue and the bill should pass.

Ms. Terry Minnow, Montana Federation of Teachers, said that she has watched the funding of the foundation program and the pay plan postponed because of funding considerations. She said the loopholes should be closed in a fair and equitable way.

Mr. Phil Campbell of the Montana Education Association said that he supports SB 460. He said the committee was interested in investment incentive for business and this bill encouraged the long-term investment that was good for the state and for schools.

Mr. Ken Peres, an economist for the Montana Alliance, said the three concerns are: 1) should Montanans subsidize shorter-term investments by giving capital gains preferential tax treatment? 2) should Montanans blindly absorb investment risk that is counter to other public policy? 3) is the bill administerable? He said that Montana should subsidize long-term investments that would leave a solid base for education, for the infrastructure and for a healthy farm economy.

Senator Eck, Senate District 40, said that she has been encouraged to maximize the value of her own investements by quick sale. She said that is not good stewardship of property either in an urban or rural situation. She said tax policy should encourage stewardship.

OPPONENTS

Ms. Sherry Burns representing the Certified Public Accountants said the bill would further complicate the tax system. She said when the state strays from federal codes it loses the benefits of federal audit programs.

Questions from the committee were called for.

The chairman recognized Dr. Miles Watts, agricultural economist, from

Montana State University. He said that he was not an opponent or a proponent, but there to provide information to the committee. The research from which he extrapolated his testimony is found in Exhibit 4.

The committee indicated concern about the impact of this legislation on the cattle breeder, but concluded that it would not hurt cattlemen.

Senator Christiaens closed saying the bill is good for home owners, good for farmers and good for the state. He said the bookkeeping difficulties are not so great. He said the bill is very equitable and would have a long-term benefit to businesses in Montana.

CONSIDERATION OF SB 462: Senator Gage was recognized. He said that he had discussed the changes made by the committee to SB 462 with the industry and they could live with the bill in its current form. He suggested that additional clarification of the definition of well-head work and the drilling property generally might be necessary.

MOTION: Senator Halligan moved that SB 462 do pass as amended. The motion carried unanimously.

CONSIDERATION OF SB 390: Mr. Hoffman, speaking for the Department, and Mr. Jerry Anderson, speaking for the industry, informed the committee that they had discussed the different methods of figuring the effective taxation rate on oil and gas production. They had agreed on the figure of 7 percent for oil. Mr. Anderson said that is "higher than we feel the amount should be, but we will do that if other taxation things stay static." He said they had agreed to 11 percent on natural gas with the provision that either could adjust that in the House if necessary. They had agreed to work on that number before the House hearing.

Senator Mazurek thanked them for working out a compromise.

Senator Tom Keating was recognized and said the issue was not what the effective taxation rate should be, but whether Montana wanted to encourage the outside investment dollar to be competitive with other states. He said the oil industry in Eastern Montana has lost 4,000 primary jobs. He compared this rate to surrounding states and said that with other taxes figured in it is too high.

MOTION: Senator Mazurek moved that SB 390 be amended to make the effective taxation rate on oil, 7 percent; on gas, 11 percent. The motion carried unanimously.

MOTION: Senator Mazurek moved that SB 390 do pass as amended. The motion carried unanimously.

Chairman Towe adjourned the meeting at 10:02 am.

Thomas E. Towe

Chairman

Mr. Hill said he used the actual mill levy and the actual tax paid and that some figures from the Department had come in after the fact.

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ROLL CALL

SENATE TAXATION COMMITTEE

49th Legislative Session -- 1985

Date March 15, 8 am

Location -- Room 413-415

Name	Present	Absent	Excused
Senator Brown	✓		
Senator Eck	✓		
Senator Goodover			
Senator Hager	✓		
Senator Halligan	9:05		
Senator Hirsch	✓		
Senator Lybeck	✓		
Senator Mazurek	✓		
Senator McCallum	✓		
Senator Neuman	9:45		
Senator Severson	8:45		
Senator Towe	✓		

DATE March 15, 1985

COMMITTEE ON Taxation

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One: Support	Check One: Oppose
Myles J. Watts	MSU	460		
James R Johnson	MSU	460		
DON REED	MEIC	460	✓	
Margaret MacDonald	NPRC	460	✓	
[illegible] Ryan	MSCA	460	✓	
Don Judge	MT STATE AFL-CIO	SB 460	✓	
Chris [illegible]	[illegible]	SB 460		✓
Phil Campbell	MEA	SB460	✓	
Terry Minow	MFT	SB460	✓	
Terry Murphy	MT Farmers Union	SB460	✓	
[illegible]	Ravalli [illegible]	SB 460		
KEN PERES	MT ALLIANCE	SB460	✓	

(Please leave prepared statement with Secretary)

DEPARTMENT OF REVENUE

TED SCHWINDEN, GOVERNOR

MITCHELL BUILDING

STATE OF MONTANA

HELENA, MONTANA 59620

March 14, 1985

Memo

To: Senate Tax Committee

From: John D. LaFaver
Director

On March 4, the Department provided to the tax committee a memo on the rates for SB 390. This memo further refines the relevant statistics.

Natural Gas

For natural gas, the following is the effective rate of the net proceeds tax as a percentage of gross value for the last five years:

Taxable	Effective Rate
1983	11.54
1982	11.71
1981	12.43
1980	11.79
1979	12.40
Average	11.97%

Based upon the above, we recommend a 12% rate for SB 390 to achieve revenue neutrality.

Oil

Because windfall profits were allowed as a major new net proceeds deduction in 1981, it is relevant to use only the years from that point forward. For the three years for which complete information is available, the effective rates for returns as filed is as follows:

Taxable Year	Effective Rate
1983	6.57%
1982	6.35%
1981	6.57%
Average	6.50%

Exhibit 1 -- SB 390
March 15, 1985

However, two adjustments need to be made to these statistics to arrive at a proper rate for SB 390.

The first adjustment is for the effect of SB 413 of the 1983 session which adjusted (retroactive to 1981) the windfall profit tax deduction. This adjustment will increase the effective rates by the following amounts:

Taxable Year	SB 413 Change In Effective Rate
1983	.49%
1982	.65%
1981	.35%
Average	.50%

The second adjustment needed is for changes as a result of audits. Audits typically reduce deductions from net proceeds. Using all oil proceeds audits that have been settled with taxpayers, audits increase taxable values by an average of 5.69%. When translated into effective rate terms, audits increase the effective rates by .40.

Considering all these factors, the appropriate oil rate for SB 390 should be 7.4%. This is arrived at as follow:

Returns as filed	6.50
SB 413 adjustment	.50
Audit adjustment	.40
Effective Rate, Oil	7.4%

Exhibit 2 -- SB 460
March 15, 1985

TESTIMONY ON SB 460
Senate Taxation
March 15, 1985

Mr. Chairman and members of the Committee, my name is Margaret MacDonald. I am representing the 1,500 farm and ranch families of the Northern Plains Resource Council. I rise in support of SB 460.

This is not the type of policy area we have traditionally been involved in. We have come to this point today by a round-about route that may shed some light for you on the importance of passing this legislation. In the Spring of 1983, as sod-busting operations seemed to sprouting like/noxious weeds/dandelions all over Central and Eastern Montana, my Board directed that we start researching the practice of sod-busting to see if something could be done to control or prevent this abusive land treatment.

There was a general perception that I think many shared that these sod-busting operations were encouraged by federal farm programs. What we found instead, to make a long story short, was that the driving force behind sod-busting was tax breaks. The conversion of range-land to crop land was being financed by doctors, lawyers, insurance companies, and numerous entities that through limited partnerships with sod busters were exploiting one of the most attrative tax shelters in America. The single most significant fact in this tax shelter equation is capital gains, according to several studies including one I will pass out here by the Cooperative Extension Service of Montana State University.

One thing the state legislature should be deeply concerned about from a policy standpoint is the effect of this tax policy on our most

Exhibit

essential natural resources - our soil and water - and the grasslands of Montana.

In the state of Nebraska during the period 1972-1982 250,000 acres in the Sand Hills were leveled and irrigated with sprinklers by Prudential and other other investors. (Traditionally this was a grazing area with excellent grass, high water tables, and so on) Sprinkler irrigation systems went from 2,500 to 25,000 in Nebraska over the same period. The water table in some parts of the Sand Hills dropped 40 feet. The same incentives fueled that process as sod-busters here in Montana: Capital gains and other tax incentives.

The more one looks at this kind of investment in agriculture, the more destructive it appears. Tax policies not only are jeopardizing good stewardship of the land, but also are eroding profitability of many family-owned and operated farms and ranches.

If you are in agriculture now, and you are not in a 50% tax bracket, then you are at a serious competitive disadvantage: Not because of laziness, nor inability to manage a productive operation, but because someone else is having as much as 50% of his costs underwritten by the U.S. taxpayer. This, whether many realize it, is one of those things which is driving family owned and operated agriculture out of business - Not because corporations, or other investors, are more efficient, better producers, or better managers, but because they enjoy a unique and absolutely unfair subsidy by the tax system.

I strongly urge your support of this legislation.

Here is some reading material to supplement my testimony. Thank you Mr. Chairman.

Margaret MacDonald
Northern Plains Resource Council

CENTER FOR RURAL AFFAIRS
Post Office Box 405
Phone (402) 846-5428
Walthill, Nebraska 68067
Population 900

THE IMPACT OF FEDERAL TAX POLICY ON THE FAMILY FARM SYSTEM: SUMMARIZING STATEMENTS AND EXERPTS FROM KEY STUDIES

Tax shelters reduce farm profitability by stimulating additional investment in productive capacity, leading to over production and lower farm prices.

Tax breaks get bid into higher land prices, causing even greater deficits for farmers trying to pay for land by farming it.

Tax shelters change the rules of who can compete in agriculture. Ability to exploit the tax code sometimes overcomes efficiency in determining who can compete.

Tax shelters generally grant a competitive advantage to high bracket tax payers including corporate and non farm investors, and large capital intensive farming operations.

Tax shelters unique to agriculture, such as cash accounting and defining confinement building as equipment - to make them eligible for investment credit and five year depreciation, invite investment by non farmers who can receive those benefits only by investing in agriculture.

Tax shelters encourage farms to grow and invest heavily in capital, and economically punish those who don't.

By encouraging rapid expansion on borrowed money, tax shelters encourage risk taking which has gotten many family farmers overextended and in financial trouble.

By encouraging the introduction of corporate/non farm investment and growth by established farms, tax shelters reduce opportunities for beginning farmers who are squeezed out. Beginning farmers find it difficult to compete in a tax shelter industry because they generally lack high incomes against which to use tax breaks and they lack the money to make large capital investments in land, new machinery and elaborate facilities which generate tax savings. With fewer farmers starting, the number of farms declines.

The continuation of current policies and trends will place most farm income and control of food production in very few hands, leaving little opportunity for beginning commercial farmers, with increased separation of ownership, labor and management; and a large number of very small hobby farms.

Family farm meat production is particularly affected by tax policy. The cattle feeding industry has shifted out of the hands of farmer feeders into regions dominated by large commerical lots, many of which custom feed for tax motivated investors. Iowa has dropped from first to fifth in cattle feeding. The hog industry is the latest to begin the shift into very large scale and often corporate/investor owned operations. A USDA study predicts an 80% decline in the number of hog producers between 1979 and the year 2000.

Tax policies should be judged in terms of where they are moving agriculture and rural communities in the long run, in relation to the type of agriculture we'd like to pass on to future generations.

Exhibit 2 -- SB460

NAME: DON REED DATE: March 15, 1985

ADDRESS: P.O. BOX 1184, Helena, Mt 59624

PHONE: 443-2520

REPRESENTING WHOM? MONTANA ENVIRONMENTAL INFORMATION CENTER

APPEARING ON WHICH PROPOSAL: SB 460

DO YOU: SUPPORT? ✓

Exhibit 3 -- SB 460
March 15, 1985

COMMENTS:

1) Current treatment of capital gains leads to speculative land use.

2) One example is "sodbusting," breaking up marginal range land for grain production.

3) Quick turnaround, six months, on capital gains leads to subdivision of land with inadequate time for planning.

4) Capital gains deduction goes beyond the normal economics of land use.

5) SB 460 won't stop this problem, but should bring the land use economics back in line.

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY

Economic Incentives for Converting Rangeland to Cropland

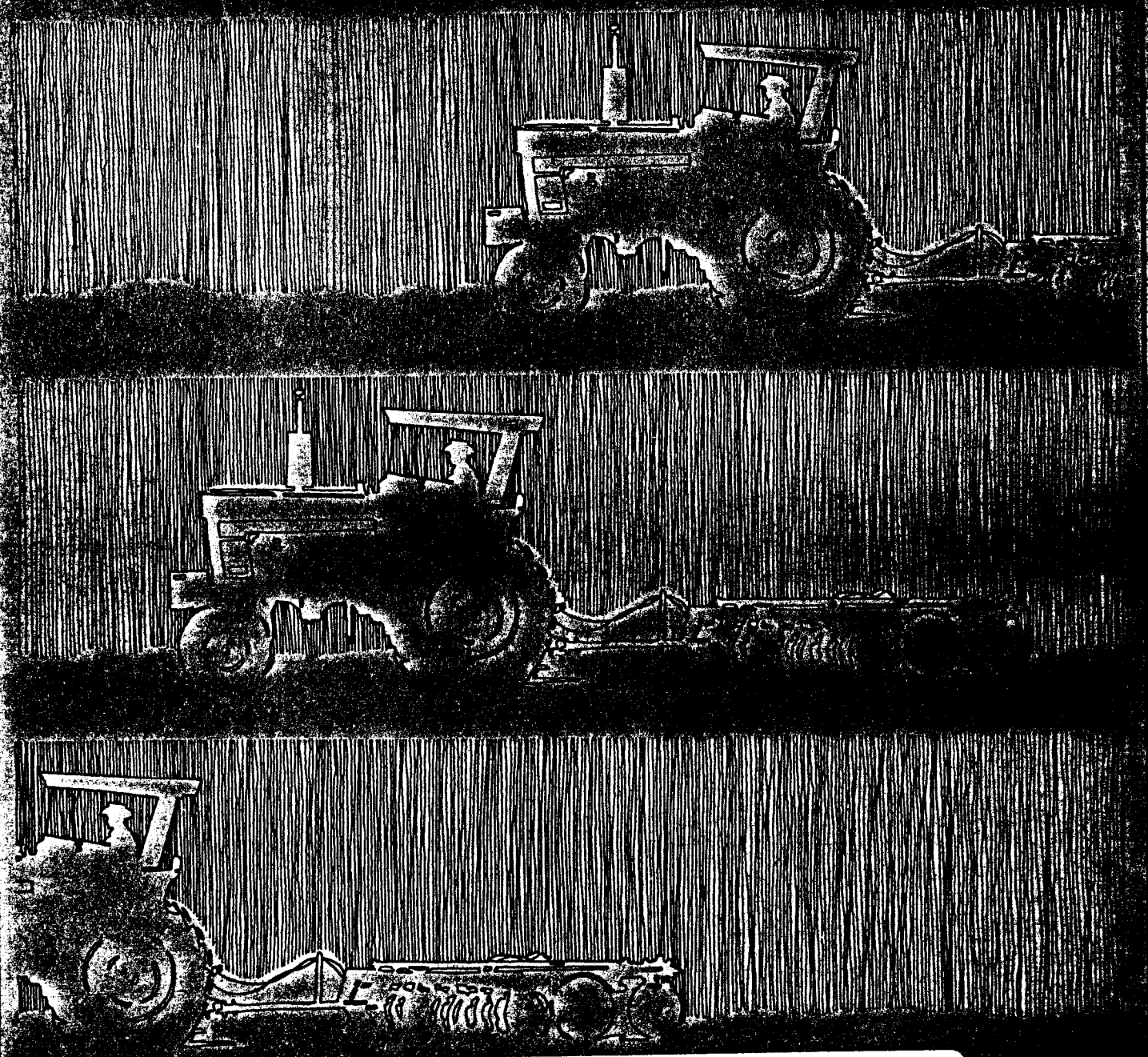

Exhibit 4 -- SB 460
March 15, 1985

ECONOMIC INCENTIVES FOR CONVERTING RANGELAND TO CROPLAND

by

Myles J. Watts, Lloyd D. Bender and James B. Johnson *

Introduction

Converting traditional grazing lands to cropland has aroused emotions in Montana and several other western states. Reasons for this conversion by farm and ranch managers and other investors vary from alternative enterprise profitability to speculation. Some farm and ranch managers may have expected a crop such as wheat to be more profitable than livestock, and converted rangeland to cropland. Some farm and ranch managers and other investors may expect benefits from current and future farm programs to increase net returns and the value of the new cropland. Additionally, investors in higher marginal income tax brackets may have benefited from selected Federal income tax provisions.

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* The authors are Assistant Professor of Farm and Ranch Management, Montana Agricultural Experiment Station, Montana State University; Economist, EDD, ERS, USDA stationed at Montana State University; and Farm Management Specialist, Montana Cooperative Extension Service, Montana State University, Bozeman, Montana; respectively.

This report evaluates how farm program and selected Federal tax provisions provide incentives for investors to convert rangeland to cropland for re-sale and to indicate the differing values of these provisions among investors. The economic impacts of an enhanced wheat price, as an indicator of the benefits of all farm program provisions, during the period the investor owns the land, and the economic impacts of capital gains, investment credit, accelerated depreciation, and depreciation recapture Federal income tax provisions are evaluated.

The Base Case

A hypothetical conversion of 2,000 acres of Eastern Montana rangeland, purchased for $100 per acre, to cropland over a five-year period is used to illustrate the effects of the farm program and tax provisions considered on the breakeven price for cropland. Breakeven prices are expressed in real terms (1983 dollars) with all tax provisions and the farm program in effect for a "base case". Then each major provision is suspended to illustrate the contributions of individual tax provisions and the farm program.

The breakeven prices indicate those prices (for different provisions in effect) that will make investors as well off as they were at the time of the initial investment. The sale of the cropland is assumed to occur after the investor has held it for five years. Sales prices could easily be considerably different

from the breakeven prices. Sales prices above breakeven prices would result in additional capital gains. Under current capital gains provisions, the investor in the 50 percent marginal tax bracket would incur an additional tax liability of 20 percent of the difference between the sale price and the breakeven price (additional capital gains income multiplied by 40 percent subject to taxation, multiplied by the 50 percent marginal tax rate).

The hypothetical conversion is scheduled as follows:

Year 1 -- Rangeland is purchased the first year and the sod is turned in late summer.

Year 2 -- Fallow and land preparation activities are conducted prior to fall planting of winter wheat on the entire 2,000 acres.

Year 3 -- Weed control activities are conducted prior to harvest of the winter wheat crop of 13 bushels per acre. A tool bar cultivation is performed after harvest.

Year 4 -- Operations are identical to the second year.

Year 5 -- Operations are identical to the third year. The yield increases to 26 bushels per acre. The land is sold as cropland after the investor has held it for a full five years.

The Economic Model

The breakeven price of cropland is the price at which the net present value of all cash flows equals zero. The breakeven price includes the value of the all cash flows, including the tax benefits, such as capital gains, that investors would tie up until the re-sale at the end of year five. The breakeven price takes

account of all operating costs, and includes interest charges and tax benefits of each year.

The breakeven prices in the following tables are presented in current (or time 1) dollars. First, net cash flow is calculated for each of the five years of the operation using the budgets and operations in Appendix Tables A-1, pages 22-23, and A-2, pages 24-25, and the value of any tax advantages for that year. Inflation is assumed to be 5 percent per year. Cash outflows in the first year include purchases of land and machinery, discing and tillage costs, and cash costs for real and personal property taxes. Cash inflows include the value of tax benefits from investment credit and the depreciation allowance. The net cash flow is negative in the first year. Fallow and planting costs result in a negative cash flow the second year. Cash flows the third year include inflows of cash from the sale of wheat and value of the tax benefits. Outflows cover such cash costs as harvesting, other field operations and real estate and personal property taxes. The fourth year is similar to the second year and also results in a negative cash flow. In the fifth year, the cash inflows include the land sale and sale of machinary, and wheat. Cash outflows include the capital gains tax, cash operating costs, and real estate and personal property tax.

The present value of each year's net cash flow is calculated by discounting at an assumed interest rate of 12 percent. Discounting incorporates the time value of money such that cash flows appearing at different points in time can be compared.

Provisions of Federal Income Tax That Apply to Rangeland Conversion

Several Federal income tax provisions apply to land conversion. Of these, capital gains and investment credit are the most important.

Capital Gains

Farmland sold after one year of ownership may qualify the seller to pay taxes on any profit (above the basis price) as capital gains. The maximum effective tax on capital gains is 20 percent, compared to an ordinary income tax rate that may be as high as 50 percent for Federal income taxes.[1] Therefore, the higher the ordinary income marginal tax rate, the greater the benefit treating income as capital gains.

The tax treatment of rangeland conversion costs contrasts with that of certain soil and water conservation improvement costs. Part of the costs of soil and water improvements (that above allowable amounts) must be added into the basis (acquisition price

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1. Income qualifying as capital gains is first reduced by 60 percent, then the remaining 40 percent is taxed as ordinary income. Thus, the effective tax on capital gains for a taxpayer in the 50 percent marginal tax bracket is 20 percent--40 percent of the capital gains income multiplied by the 50 percent ordinary income tax rate.

of land plus capital improvements) for calculating profits on land sales when the property is sold, and cannot be charged as an expense to reduce income taxes on current ordinary income.[2] In contrast, it is assumed that all of the rangeland conversion costs would qualify for deductions against current ordinary income, and would not affect the basis of the land.

Investment Credit

Farm machinery qualifies for an investment credit of 10 percent of the purchase price. The tax liability for the year the credit is taken is reduced by the amount of the investment credit. An investment credit of 10 percent on $10,000 reduces that year's taxes by $1,000.

Provisions of the Farm Program

The current Act allows for these offers to wheat producers:

1. A specified loan rate;
2. Deficiency payments expressed as the difference between target price and loan rate;
3. Diversion payments to compensate producers for a portion of their wheat bases put into conserving use;
4. Payments for storage; and

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2. The allowable annual amounts and the practices that qualify vary.

5. Payments-in-kind to compensate producers for a portion of their wheat bases put into conserving uses.

The levels of each of these forms of compensation have varied from year to year.

To be eligible, the wheat producer must have established a wheat base. A wheat base could be established under the current Act according to specific criteria. The criterion applied varies from year to year, but was one of the following:

1. The base could be the acres planted the prior year;
2. The base could be the average of the wheat planted the two prior years; or
3. The base could be the higher of the prior year planted acreage, or the average of the two prior years.

The exact level of benefits that would accrue to a wheat producer with new cropland would depend on what year a base was established and which provisions of the program were elected.

In this analysis, a $0.50 per bushel higher wheat price is used as a proxy for all benefits a wheat producer with new cropland could have realized from farm program participation.

The Combined Value of These Selected Federal Tax Provisions to Investors Converting Rangeland to Cropland

The combined effect of the selected Federal income tax provisions is more valuable to investors in high marginal tax brackets than to those in low brackets (Table 1). [3] The breakeven price declines as marginal tax rates increase. Those facing a 50 percent marginal income tax rate can break even by selling their converted rangeland for $134 per acre. On the other hand, investors facing a 10 percent marginal tax rate must receive $192 per acre to break even. It is expected that investors facing the higher marginal tax rates are those who have found and will find the purchase, plowout and re-sale of converted rangeland most profitable.

The combined value of income tax provisions to investors at each marginal tax rate is the difference between the value at the zero tax rate ($219.06 per acre) and the value for each incremental tax rate--a difference of $84.92 for the investor at the 50 percent marginal tax rate who can break even by selling converted cropland for $134.14 per acre (Table 2). [4]

The advantages for the conversion of rangeland to cropland by investors could be passed on to farmers who buy the converted

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3. Rounded marginal tax rates are used throughout this report for purposes of comparison.

4. Subsequent analysis shows that background assumptions affect the level but not the pattern of these differences greatly.

Table 1: Breakeven Prices With Different Tax Provisions and at Different Tax Rates [a]

	Marginal tax rates [b]					
Tax provisions	0	10	20	30	40	50
	--dollars per acre--					
Base Case						
All 1983 tax provisions	219.06	192.00	177.01	162.39	148.11	134.14
Excluding:						
Capital gains	219.06	199.58	191.81	184.00	176.02	167.61
Investment credit	219.06	203.52	188.40	173.66	159.27	145.00

[a] See section "Provisions of Federal Income Tax That Apply to Rangeland Conversion" for definitions.
[b] Percentages of taxable income.

Table 2: Combined Value of the Selected Federal Tax Provisions at Different Marginal Income Tax Rates

Marginal tax rates [a]					
0	10	20	30	40	50
---dollars per acre difference---					
0	27.06	42.05	56.67	70.95	84.92

[a] Percentages of taxable income.

land. The farm manager who is taxed at a relatively low marginal tax rate, rather than purchasing and converting rangeland to expand a farm operation, might have less invested in cropland by buying cropland from an investor who can take advantage of the tax benefits. Investors who specialize in converting rangeland to cropland can take advantage of tax benefits. Profits from the sale of cropland are realized only if the investor can sell the

converted cropland at a price above the breakeven price. The price that investors eventually get for converted cropland depends upon the supply of converted and other cropland and the demand for cropland.

Investors who purchased rangeland and converted it to cropland have contributed to the supply of cropland. How great the increase in cropland supply due to investors making use of farm program and income tax provisions is not known. Likewise, these investors' contribution to the increase in agricultural output, and the decrease in crop prices due to cropland expansion, is not known.

The Value of Capital Gains and Investment Credit Federal Income Tax Provisions

Capital Gains

If the sale of converted rangeland were excluded from capital gains treatment, it would have the effect of increasing the breakeven prices for investors at all nonzero marginal tax rates (Table 3). In the illustrative base case, the breakeven price after land conversion for taxpayers at the 50 percent marginal tax rate would be $167.61 if the capital gains treatment were not unavailable. Loss of capital gains treatment increases the breakeven price for the taxpayer in the 50 percent bracket by 25 percent.

Table 3: Value of Selected Federal Income Tax Provisions at Each Marginal Income Tax Rate

	Marginal tax rate [a]					
	0	10	20	30	40	50
	---dollars per acre---					
Capital gains	0	7.58	14.80	21.61	27.91	33.47
Investment credit	0	11.52	11.39	11.27	11.16	10.86

[a] Percentage of taxable income.

The value of the capital gains tax provision to investors at each marginal tax bracket is shown (Table 3). If the capital gains provision were to be altered, the breakeven prices for converted cropland would be higher--reducing the incentive for converting rangeland to cropland. The largest increases would occur at the higher marginal tax rates.

Investment Credit

The availability of investment credit to investors who convert rangeland to cropland is more important than might first be apparent. Investors who can take advantage of investment credit are those having tax liabilities from other income sources. The

investment credit reduces these tax liabilities on a dollar-for-dollar basis. The investment credit provision allows a value equal to 10 percent of the investment in machinery and equipment in the first year of use to be used to directly offset tax liabilities on other income. [5]

Eliminating investment credit would increase the breakeven prices above the base case for all investors except those who have no tax liability against which to offset the credit. The value of the investment credit is essentially the same across all non-zero marginal tax rates (Table 3).

The Value of Farm Program Provisions

The farm program might have two possible effects on investors converting rangeland to cropland. The first could be increased revenues from the farm program during the period in which the investor owns the land. Payments for farm program participation take on several forms (diversion payments, deficiency payments, guaranteed loan rates, etc.). In this analysis, it is presumed the investors acquire a wheat base and that all farm program participation benefits during the five year conversion/ownership period are reflected in an enhanced product price.

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5. The equipment must be owned for a full five years in order to prevent a partial refund of the credit because of an early sale.

The base case assumes investors would benefit from farm program participation during the five year conversion and re-sale period. Program benefits are represented by an enhanced wheat price of $4.15 per bushel. Breakeven prices of the cropland for investors who benefit from farm program provisions are lower than those for investors who do not qualify for farm program benefits. Investors who received farm program benefits during the five year period do not need to receive as much for their cropland to break even (Table 4). The favorable effects of the farm program on cropland breakeven price vary by marginal income tax bracket.

Table 4: Breakeven Prices and Changes in Breakeven Prices Under Different Wheat Prices

	Marginal tax rates [a]					
Wheat price	0	10	20	30	40	50
	---dollars per acre---					
Wheat $4.15 per bu.	219.06	192.00	177.01	162.39	148.11	134.14
Wheat $3.65 per bu.	240.82	212.02	195.24	178.76	162.53	146.52
Change	+21.76	+20.02	+18.23	+16.37	+14.42	+12.38

[a] Percentage of taxable income.

The increase in breakeven price for cropland, due to an investor's ineligibility for farm program benefits or a decline in farm program benefits for eligible participants (shown as a lower per bushel price in this analysis) is greater for investors at the lower marginal income tax rates.

The second effect of farm programs on cropland prices is a higher selling price for cropland if the land is expected to qualify for future farm programs. The expected increased net returns would be reflected in increased selling prices.

Sensitivity of Cropland Breakeven Prices to Purchase Prices for Rangeland and Rangeland Conversion Costs

Breakeven prices are sensitive to the rangeland purchase prices and rangeland conversion costs. The sensitivity of the breakeven prices for cropland was illustrated by changing purchase price and conversion cost assumptions. The following assumptions were made:

Rangeland prices were assumed to be $200 rather than $100 per acre.

Conversion costs were assumed to be $23.91 per acre rather than $13.45 per acre.

The breakeven prices calculated under these assumptions are shown (Table 5).

Table 5: Breakeven Prices With Different Rangeland Prices and Conversion Costs, at Different Tax Rates

	Marginal tax rates [a]					
Background assumptions	0	10	20	30	40	50
	dollars per acre					
Base case	219.06	192.00	177.01	162.39	148.11	134.14
Rangeland price double	357.15	325.03	304.88	284.97	265.24	245.62
Conversion costs double	233.50	204.83	188.28	172.15	156.40	140.99

[a] Percentages of taxable income.

Possible Policy Options

The capital gains feature of the current Federal income tax provisions appears to be a major incentive for converting rangeland to cropland. The capital gains incentive is much greater for taxpayers at the higher marginal tax rates than for those at lower marginal rates. To realize capital gains, assets must be sold. Therefore, the capital gains feature provides greater incentives to those at higher marginal tax rates who are not going to retain cropland for production but who are going to take capital gains as soon as other tax advantages are dissipated. In order to expense conversion costs the first year, the investor must have a tax liability on ordinary income from other sources.

The capital gains and investment credit tax features outweigh the higher wheat price effect on breakeven prices for cropland for investors at the higher marginal tax rates (Table 6).

Table 6: Summary of Percentage Increases in Breakeven Prices for Converted Cropland Due to the Deletion of Selected Tax Provisions and Lower Wheat Prices

	Marginal tax rate [a]					
	0	10	20	30	40	50
	---percent increase---					
Capital gains	0	3.95	8.36	13.31	18.84	24.95
Investment credit	0	6.00	6.43	6.94	7.53	8.10
$3.65 per bu. wheat versus $4.15 wheat	9.93	10.42	10.30	10.05	9.74	9.23

[a] Percent of taxable income.

(3) Allowing agricultural expenses to be used to offset income earned from other sources could be suspended. This could affect taxpayers with farming as the principal source of income but with outside sources of taxable income, and taxpayers whose principal source of income is elsewhere but who are purchasing rangeland for conversion to cropland and re-sale.

There are several bills currently before the U.S. Congress to limit the eligibility for farm program benefits. Senate Bill S.663, commonly referred to as the Armstrong Bill, is designed to prohibit the payment of certain agriculture incentives to persons who produce certain agricultural commodities on highly erodible land. [10]

In the Bill "highly erodible land" means land classified by the Soil Conservation Service of the U.S. Department of Agriculture as class IVe, VIe, VII or VIII under the Land Capability Classification System. Any person who produces an agricultural commodity on "highly erodible" land brought into crop production after the passage of this Bill would be ineligible for:

1. Any type of price support assistance for the commodity produced;
2. A loan for the construction or purchase of a facility for storage of such commodity;
3. Crop insurance for such commodity under the Federal Crop Insurance Act;

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10. S.663. 98th Congress, 1st Session.

4. Any disaster payments for such commodity; and

5. Any loan from the Farmers Home Administration.

Exempt from such restrictions under this Bill would be any agricultural commodity produced after enactment that was produced on newly-developed "highly erodible" cropland using a conservation system which had the approval of a soil conservation district, and which was based on the technical standards set forth in the Soil Conservation Service technical guide for the soil conservation district.

Summary

Federal tax provisions provide a major economic incentive for investors who do not plan to retain ownership of converted land to convert rangeland to cropland. Capital gains treatment of the increased value of converted cropland is the most important of the tax incentives evaluated followed by investment credit. [11] These two overshadow the value of other tax features to investors and the value of additional realized returns for wheat attributable to farm program provisions during the period the investor owns the new cropland.

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11. The costs of clearing land to make it suitable for farming is generally a capital expense. Included is conditioning "land to permit its use as farming land." (Code Sec. 182(c): Reg P 1, 182-3(a). We assume these provisions do not apply in this analysis.

4. Any disaster payments for such commodity; and

5. Any loan from the Farmers Home Administration.

Exempt from such restrictions under this Bill would be any agricultural commodity produced after enactment that was produced on newly-developed "highly erodible" cropland using a conservation system which had the approval of a soil conservation district, and which was based on the technical standards set forth in the Soil Conservation Service technical guide for the soil conservation district.

Summary

Federal tax provisions provide a major economic incentive for investors who do not plan to retain ownership of converted land to convert rangeland to cropland. Capital gains treatment of the increased value of converted cropland is the most important of the tax incentives evaluated followed by investment credit. [11] These two overshadow the value of other tax features to investors and the value of additional realized returns for wheat attributable to farm program provisions during the period the investor owns the new cropland.

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11. The costs of clearing land to make it suitable for farming is generally a capital expense. Included is conditioning "land to permit its use as farming land." (Code Sec. 182(c): Reg P 1, 182-3(a). We assume these provisions do not apply in this analysis.

The value of capital gains is greatest for investors in the higher marginal tax brackets. Capital gains benefits are captured only upon sale of land. Investment credit can be used only if matched against an existing Federal tax liability.

The farm program has two possible effects on the investor who converts rangeland to cropland. The first is increased revenue from farm program benefits during the period the investor owns the land. This analysis has shown that farm program benefits received by the investor during the investor's ownership period will reduce the breakeven price for cropland. These farm program benefits (measured as a higher wheat price) allow for greater reductions in the breakeven price for cropland by investors at the lower marginal tax rate than for investors at higher marginal tax rates. The second probable effect is a higher selling price for cropland if the land is expected to qualify for future farm program provisions. This effect was not estimated in this analysis.

APPENDIX A-Method of Illustrating the Value of Tax Provisions

A simulation of the conversion over a 5-year period of 2,000 acres of Eastern Montana rangeland to cropland is used to illustrate the benefits to investors from selected Federal tax provisions. Rangeland purchased in the first year is plowed out in the late summer.[12] The cost of the plowout in the first year is the operating costs of machinery (including labor) used in the conversion.[13]

The second year assumes fallowing and land preparation until winter wheat is seeded in the fall on all 2,000 acres. Only 13 bushels of wheat (half the historical average yield for the area) is assumed to be harvested the third year, after which the soil is cultivated once. Fallow operations in the fourth year are the same as tne second year; winter wheat is planted in the fall. The wheat is harvested the fifth year and the soil cultivated once before sale of the land and machinery.[14]

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12. Operations budgets and total cash outlays for each year are presented in Appendix Tables 1 and 2, and machinery and equipment investments, repair costs, and used equipment salvage values are presented in Appendix Table 3.

13. Several definitions of plowout costs could be used. All costs incurred over the period of years needed to bring land into full productive capacity, including perhaps conservation practices, could be used, for instance.

14. A full five years of ownership qualifies the taxpayer for investment credit, without recapture, on farm machinery and equipment.

The Base Case

A "base case" is one standard of comparison for other results for which assumptions vary from the base case. The assumptions of the base case (other than the technical budgets and costs contained in Appendix Tables 1-3 and in tax codes [15]) are as follows:

Purchase price of rangeland	$100 per acre
Inflation rate	5 percent per year
Interest rate, nominal	12 percent per year
Depreciation (ACRS) rate	Tax Recovery Act of 1981
Depreciation recapture	Tax Recovery Act of 1981
Investment credit	Tax Recovery Act of 1981
Capital gains	40 % of ordinary tax rate
Wheat price	$4.15 per bushel
Wheat yield first crop	13 bushels per acre
Wheat yield second crop	26 bushels per acre

Breakeven Price

The results are presented as breakeven prices reported for each marginal tax bracket. The breakeven prices are expressed in real terms as if the sale were made by the investor in year 1 for delivery under contract at the end of year 5 at cost. Breakeven prices for cropland expressed in real terms adjusts for the fact that some funds for production costs are tied up for short periods of time while other funds for conversion and production costs are committed for longer periods and returns are received at various times during the five year period.

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15. See U. S. Department of Treasury, "Farmers Tax Guide" Publication 225 (Rev. Oct. 1982). Wash. D. C.:Internal Revenue Service.

Table A-1 : Annual Total Variable and Cash Fixed Costs for the Years 1 through 5, on a 2,000 Acre Plowup Operation in Eastern Montana

	Total
	dol.
Year 1	
Fuel	9,678
Lube	1,452
Repair	6,701
Labor [a]	2,566
Labor Overhead (20%)	513
Real Estate Taxes	3,000
Ins. Pers. Prop. Lisc.	3,000
TOTAL YEAR 1	26,910
Year 2	
Seed, 50 lbs./Ac.@.08	8,000
Nitrogen, 16 Lbs./Ac.@.25	8,000
Phosphate, 35 lbs./Ac.@.20	14,000
Crop Insurance, @5.00/Ac.	10,000
Fuel	10,934
Lube	1,640
Repair	6,667
Labor [a]	3,151
Labor Overhead (20%)	630
Real Est. Taxes ($1.50/Ac.)	3,000
Ins. Pers. Prop. Lisc.	3,000
TOTAL YEAR 2	69,023
Year 3	
Fuel	5,520
Lube	828
Repair	5,644
Labor [a]	630
Labor Overhead (20%)	126
Spray, $3.75/Ac.cust.	7,500
Harvest, $14/Ac.cust.	28,000
Hauling, $0.01/bu./mi. over 5 mi.[b]	3,900
Binning, $0.12/bu.cust.	3,120
Real Est. Taxes ($1.50/Ac.)	3,000
Ins. Pers. Prop. Lisc.	3,000
TOTAL YEAR 3	61,269

Table A-1: Annual Total Variable and Cash Fixed Costs
Years 1 through 5,
Continued

	Year 4
Seed, 50 lbs./Ac.@.08	8,000
Nitrogen, 16 Lbs./Ac.@.25	8,000
Phosphate, 35 lbs./Ac.@.20	14,000
Crop Insurance, @5.00/Ac.	10,000
Fuel	10,934
Lube	1,640
Repair	6,667
Labor [a]	3,151
Labor Overhead (20%)	630
Real Est. Taxes ($1.50/Ac.)	3,000
Ins. Pers. Prop. Lisc.	3,000
TOTAL YEAR 4	69,023

	Year 5
Fuel	5,520
Lube	828
Repair	5,644
Labor [a]	630
Labor Overhead (20%)	126
Spray, $3.75/Ac.cust.	7,500
Harvest, $14/Ac.cust.	28,000
Harvest, $0.12 over 20	1,440
Hauling, $0.01/mi./bu. over 5 mi. [b]	7,800
Binning, $0.12/bu.cust.	6,240
Real Est. Taxes ($1.50/Ac.)	3,000
Ins. Pers. Prop. Lisc.	3,000
TOTAL YEAR 5	69,729

[a] Field hours less 200 @ $5.50/hr.
[b] Grain haul assumed to be 20 miles.

Table A-2: Field Operations, Years 1 through 5, for Conversion of Rangeland to Cropland on 2,000 Acres in Eastern Montana

Year and operation	Machine width	Field speed	Field efficiency	Acres covered	Total time
	ft.	mph	percent	per hour	hours
			__Year 1__		
Plowup Operation					
Disc in July	25.00	5.00	75.00	11.36	176
Disc in Aug	25.00	5.00	75.00	11.36	176
Cultivate in Sept.	36.00	5.00	80.00	17.45	115
Harrow (tandem)	36.00			0	
Rod weeder (tandem)	36.00			0	
Total Field Time					467
SUMMARY					
Total Tractor Fuel, gal.			(gal./hr. 9.45)		4,409
Total Pickup Fuel, gal.			(@10 mi./gal., 20,000mi.)		2,000
Total Truck Fuel, gal.			(@6mi./gal/, 8,000 mi.)		1,333
Total Fuel Cost, dol.			(dol./gal.=$1.25)		9,678
Total Lube Cost, dol.			(fuel $x15 percent)		1,452
Total Fuel and Lube, dol.					11,130
			__Year 2__		
Fallow-Plant Operation					
Cultivate	36.00	5.00	80.00	17.45	115
Harrow (tandem)	36.00				
Rod weeder (tandem)	36.00				
Cultivate	36.00	5.00	80.00	17.45	115
Harrow (tandem)	36.00				
Rod weeder (tandem)	36.00				
Cultivate	36.00	5.00	80.00	17.45	115
Harrow (tandem)	36.00				
Rod weeder (tandem)	36.00				
Cultivate	36.00	5.00	80.00	17.45	115
Harrow (tandem)	36.00				
Rod weeder (tandem)	36.00				
Drill	36.00	5.00	80.00	17.45	115
Total Field Time					573
SUMMARY					
Total Tractor Fuel, gal.			(gal./hr. 9.45)		5,414
Total Pickup Fuel, gal.			(@10 mi./gal., 20,000mi.)		2,000
Total Truck Fuel, gal.			(@6mi./gal.,8,000mi.)		1,333
Total Fuel Cost, dol.			(dol./gal.=$1.25)		10,934
Total Lube Cost, dol.			(fuel $x15 percent)		1,640
Total Fuel and Lube, dol.					12,574

Table A-2: Field Operations, Years 1 through 5, Continued.

			Year 3		
Harvest Operation					
Spray-Custom					0
Harvest-Custom					0
Cultivate-Spike	36.00	5.00	80.00	17.45	115
Total Field Time					115
SUMMARY					
Total Tractor Fuel, gal.			(gal./hr. 9.45)		1,083
Total Pickup Fuel, gal.			(@10 mi./gal., 20,000mi.)		2,000
Total Truck Fuel, gal.			(@6mi./gal.,8,000mi.)		1,333
Total Fuel Cost, dol.			(dol./gal.=$1.25)		5,520
Total Lube Cost, dol.			(fuel $x15 percent)		828
Total Fuel and Lube, dol.					6,348
			Year 4		
Fallow-Plant Operation					
Cultivate	36.00	5.00	80.00	17.45	115
Harrow (tandem)	36.00				
Rod weeder(tandem)	36.00				
Cultivate	36.00	5.00	80.00	17.45	115
Harrow (tandem)	36.00				
Rod weeder(tandem)	36.00				
Cultivate	36.00	5.00	80.00	17.45	115
Harrow (tandem)	36.00				
Rod weeder(tandem)	36.00				
Cultivate	36.00	5.00	80.00	17.45	115
Harrow (tandem)	36.00				
Rod weeder(tandem)	36.00				
Drill	36.00	5.00	80.00	17.45	115
Total Field Time					573
SUMMARY					
Total Tractor Fuel, gal.			(gal./hr. 9.45)		5,414
Total Pickup Fuel, gal.			(@10 mi./gal., 20,000mi.)		2,000
Total Truck Fuel, gal.			(@6mi./gal.,8,000mi.)		1,333
Total Fuel Cost, dol.			(dol./gal.=$1.25)		10,934
Total Lube Cost, dol.			(fuel $x15 percent)		1,640
Total Fuel and Lube, dol.					12,574
			Year 5		
Harvest Operation					
Spray-Custom					0
Harvest-Custom					0
Cultivate-Spike	36.00	5.00	80.00	17.45	115
Total Field Time					115
SUMMARY					
Total Tractor Fuel, gal.			(gal./hr. 9.45)		1,083
Total Pickup Fuel, gal.			(@10 mi./gal., 20,000mi.)		2,000
Total Truck Fuel, gal.			(@6mi./gal.,8,000 mi.)		1,333
Total Fuel Cost, dol.			(dol./gal.=$1.25)		5,520
Total Lube Cost, dol.			(fuel $x15 percent)		828
Total Fuel and Lube, dol.					6,348

Table A-3: Machinery Investment and Repair Schedule
Based on 2,000 Acre Wheat-Fallow Operation
Eastern Montana

Machine	New Cost	Repair Cost Factor	Annual Repair	Fixed Cost Factor	Annual Fixed Cost	Used Five-Yr. Value
	dol.	%list	dol.	%list	dol. [a]	dol.
Tractor, 4-WD, 175 HP, Diesel	73,900	4.50	3,326	10.40	7,686	33,120
Disc, 25Ft.	16,375	6.00	983	10.40	1,703	5,334
Cultivator, 36 Ft.	15,500	6.00	930	11.40	1,767	5,049
Harrow, 36 Ft.	2,050	0.20	4	11.40	234	668
Rod Weeder, 36 Ft.	2,375	6.00	143	11.60	276	774
Drill, 36 Ft.	25,650	3.70	949	11.60	2,975	8,355
Auger, 8 In. @1,000 bu./hr.	2,200	3.30	73	11.60	255	717
Truck, 2 1/2 Ton	19,000	3.20	608	11.60	2,204	6,189
Pickup, 1/2 Ton	12,000	5.90	708	11.60	1,392	3,909
TOTAL	169,050		7,722		18,491 [a]	64,114

SUMMARY OF REPAIR EXPENSES

Year 1	6,701
Year 2	6,667
Year 3	5,644
Year 4	6,667
Year 5	5,644

[a] This is an accounting entry not used for income tax purposes. Tax depreciation is figured differently from this calculation.
Sources: See Delwin M. Stevens and Douglas E. Agee, Using Farm Machinery Efficiently," Wyoming Agr. Exp. Sta. Bul. B 482 R, May, 1979 for efficiency rates.
Used value functions are from AGRICULTURAL ENGINEERS YEARBOOK 1979, p. 253.

STANDING COMMITTEE REPORT

March 15, 19 85

MR. PRESIDENT

We, your committee on Taxation

having had under consideration Senate Bill No. 462

first reading copy (white color)

RELATING TO DEDUCTIONS ALLOWED IN DETERMINING OIL AND GAS NET PROCEEDS.

Respectfully report as follows: That Senate Bill No. 462

be amended as follows:

1. Title, lines 6 and 7.
Following: "PURPOSES;" on line 6
Strike: "DEFINING "OWNER OPERATOR" AND "STRIPPER WELL";"

2. Title, line 9.
Following: "SECTIONS"
Strike: "15-23-601,"
Following: "15-23-603"
Strike: ","

3. Page 1, line 14 through line 1, page 3.
Following: line 13
Strike: Section 1 in its entirety
Renumber: subsequent sections

4. Page 3, line 19.
Following: line 18
Insert: "labor,"
Following: "machinery,"
Insert: ","

5. Page 3, line 21 through line 24.
Strike: subsection (c) in its entirety
Renumber: subsequent subsections

6. Page 4, line 14.
Following: "insurance"

~~DO PASS~~

~~DO NOT PASS~~

continued

Chairman.

March 15,mk 1985

Insert: "directly attributable to the operation and development of the well"

7. Page 4, line 20.
Following: ";"
Insert: "and"

8. Page 4, line 21 through line 20, page 5.
Strike: subsection (h) in its entirety
Renumber: subsequent subsection

9. Page 6, line 8.
Following: "thereof"
Insert: ", and such expenditures may not include the salaries or any portion thereof of any person or officer not actually engaged in the working of the well or superintending the management thereof"

AND AS AMENDED
DO PASS

Senator Thomas E. Towe, Chairman

STANDING COMMITTEE REPORT

March 15, 19 85

MR. PRESIDENT

We, your committee on Taxation

having had under consideration Senate Bill N No. 390

second reading copy (yellow color)

ESTABLISH UNIFORM RATE OF TAX FOR "NEW PRODUCTION" OF OIL AND NATURAL GAS.

Respectfully report as follows: That Senate Bill No. 390

be amended as follows:

1. Page 7, line 12.
Following: "~~6.3%~~"
Strike: "~~6.5%~~"
Insert: "7%"

2. Page 7, line 14.
Following: "~~9.2%~~"
Strike: "10%"
Insert: "11%"

AND AS AMENDED
DO PASS

~~DO NOT PASS~~

Senator Thomas E. Towe, Chairman.

STANDING COMMITTEE REPORT

March 15, 85
19

MR. PRESIDENT

We, your committee on Taxation

having had under consideration House Bill No. 478

third reading copy (blue color)

(Senator Eck)

PENALTY AND INTEREST FOR FAILURE TO PAY OIL AND GAS SEVERANCE TAX.

Respectfully report as follows: That House Bill No. 478

BE CONCURRED IN

XXXXXXX

XXXXXXXXX

Senator Thomas R. Towe, Chairman.