

**MINUTES**

**MONTANA SENATE  
54th LEGISLATURE - REGULAR SESSION**

**COMMITTEE ON TAXATION**

**Call to Order:** By **CHAIRMAN GERRY DEVLIN**, on March 27, 1995, at 8:00 a.m.

**ROLL CALL**

**Members Present:**

Sen. Gerry Devlin, Chairman (R)  
Sen. Mike Foster, Vice Chairman (R)  
Sen. Mack Cole (R)  
Sen. Delwyn Gage (R)  
Sen. Lorents Grosfield (R)  
Sen. John G. Harp (R)  
Sen. Dorothy Eck (D)  
Sen. Barry "Spook" Stang (D)  
Sen. Fred R. Van Valkenburg (D)

**Members Excused:** None

**Members Absent:** None

**Staff Present:** Jeff Martin, Legislative Council  
Renée Podell, Committee Secretary

**Please Note:** These are summary minutes. Testimony and discussion are paraphrased and condensed.

**Committee Business Summary:**

Hearing: HB 90, HB 209, HB 293  
Executive Action: None

**HEARING ON HB 209**

**Opening Statement by Sponsor:**

**REP. JOHN COBB, HD 50, Augusta**, affirmed this bill provides a minimum standard deduction. He stated standard deductions are used primarily by low and moderate income taxpayers when the deductible expenses aren't too large. He explained Montana standard deduction is set by percentage of income and the biggest problems occur when the state lacks a minimum standard of deduction amount. **REP. COBB** said this bill establishes a minimum standard deduction which will take about 10,000 households off the tax rolls that are mostly below the poverty line and pay very small amounts of taxes.

Proponents' Testimony:

None

Opponents' Testimony:

None

Informational Testimony:

None

Questions From Committee Members and Responses:

None

Closing by Sponsor:

REP. COBB closed with no further comment.

HEARING ON HB 90

Opening Statement by Sponsor:

REP. GARY FELAND, HD 88, Shelby, remarked HB 90 is legislation exempting the first three barrels of oil a day from the state severance tax. He explained this bill reenacts the exemption which was lost due to the Desert Storm conflict when the price of oil went over \$25.00 a barrel.

Proponents' Testimony:

Patrick M. Montalben, President of MSR, and Vice President of the Northern Montana Oil and Gas Association, submitted written testimony. EXHIBIT 1.

Stuart Howell, Cavalier Petroleum Inc., stated costs are a major portion of the stripper industry and the reinstatement of this exemption would allow about a \$3,000.00 a month savings for his company.

Curt Dahlgaard, Somont Oil Company, went on record in support of HB 90.

Patty O'Reilly, working for three small oil companies from out of state, commented she figured out the economics of this bill and the savings for one month on this bill would give them enough money to rework one well a month and put it back on stream. She urged passage.

Opponents' Testimony:

None

Informational Testimony:

None

Questions From Committee Members and Responses:

SEN. MIKE FOSTER asked Mr. Montalben what happened to production after the Gulf War. Mr. Montalben stated production has declined in the State of Montana because of the price of oil and because it has to get to a certain level before the companies can drill more wells. He acknowledged their thrust with this bill is more jobs.

SEN. MACK COLE asked Ms. O'Reilly about bringing wells back into production questioning if this would have a major effect. Ms. O'Reilly responded there are 190 wells in the field that have been closed off. She stated the goal would be to put one or two wells into production.

SEN. LORENTS GROSFIELD asked Mr. Hoffman what percentage of wells are under three barrels a day. Mr. Hoffman said about 14% of their production is represented by stripper production. SEN. GROSFIELD asked Mr. Hoffman if the fiscal note reflects any of the increased production and taxes. Mr. Hoffman stated the fiscal note is based upon current information and the number of strippers on record at this point of time.

SEN. DELWYN GAGE asked Ms. O'Reilly to explain the difference between wells on the Blackfeet Reservation and wells off the reservation in regard to taxation. Ms. O'Reilly said 13% more taxes are paid on the wells located on a reservation on top of what they pay to the tribe.

Closing by Sponsor:

SEN. FELAND urged passage of this bill.

HEARING ON HB 293Opening Statement by Sponsor:

REP. ROBERT "BOB" REAM, HD 69, Missoula County, remarked HB 293 is at the request of the Department of Revenue through the Revenue Oversight Committee. He stated it is positive in terms of revenues. REP. REAM explained 43 states currently have this mechanism and in 28 states it is mandatory. He stated this bill is strictly optional for those employers who take in \$1200.00 per year. He said for those who have withholding of less than \$1200.00 per year they can opt into it. He attested the bill sets some threshold limits and it provides a mechanism to transfer money electronically.

Proponents' Testimony:

Char Maharg, Department of Revenue, presented written testimony. EXHIBIT 2. Ms. Maharg submitted amendments from the DOR. EXHIBIT 3.

Mary L. Craig, CPA, remarked this is a win, win piece of legislation for small businesses, and the DOR.

Tom Harrison, CPA, said this is user friendly and urged support for HB 293.

David Owen, Montana Chamber of Commerce, encouraged support for this bill.

Reilly Johnson, National Federation Independent Business, commented he appreciates elimination of some of the paperwork and the matching up with federal forms.

Jeff Miller, Administrator, Income Tax Division DOR, stated this is a good idea. He explained Page 2 of the fiscal note.

{Tape: 1; Side: B; Comments: Turn Tape.}

Opponents' Testimony:

None

Informational Testimony:

None

Questions From Committee Members and Responses:

SEN. FOSTER questioned Mr. Owen in regard to this bill being a win, win situation for the DOR but asked what the advantage is for the business community. Mr. Owen said anytime electronic transfers are done it makes things easier and more efficient.

CHAIRMAN DEVLIN asked Mr. Miller where the personnel savings is in this bill. Mr. Miller responded in the long run the DOR anticipates a net reduction in personal services.


SEN. BARRY "SPOOK" STANG asked Ms. Maharg if the payment schedule is going to be the new law. Ms. Maharg commented, "Yes".

Closing by Sponsor:

REP. REAM emphasized that the amendment he presented was passed in the House, however, it wasn't reflected in the bill. He urged passage of the amendment raising the threshold at the bottom from \$500.00 per year to \$1200.00 per year which is \$100.00 a month. He commented employers of the State of Montana are in favor of this system.

ADJOURNMENT

Adjournment: 9:32 a.m.

  
GERRY DEVLIN, Chairman

  
RENEE J. PODELL, Secretary

GD/rp

**MONTANA SENATE  
1995 LEGISLATURE  
TAXATION COMMITTEE**

## ROLL CALL

DATE \_\_\_\_\_

March 27, 1995

[illegible]

Presenting  
a

9:05 arr

SEN:1995

wp.rollcall.man

CS-09



SENATE TAXATION  
DATE March 27, 1995  
EXHIBIT NO. 1 #1390  
**MOUNTAIN STATES RESOURCES, INC.**

A Subsidiary of MSR Exploration Ltd.

OIL & GAS EXPLORATION & PRODUCTION  
OPERATING IN THE ROCKY MOUNTAINS

CBM BUILDING - BOX 250 - CUT BANK, MONTANA 59427-0250  
TELEPHONE (406) 873-2235 FAX 406-873-4731

**MEMORANDUM**

DATE: March 27, 1995  
TO: Senate Taxation Committee  
Chairman - Gerry Devlin  
FROM: Patrick M. Montalban  
SUBJECT: House Bill No. 90

The following information is to inform the House Taxation Committee of the economic hardship brought to the small Oil and Gas Industry during the past years due to the drastic drop in crude oil prices, resulting in the loss of JOBS.

During the last quarter of 1993 and first quarter of 1994, crude oil prices dropped to between \$9.00 and \$9.50 a barrel. At the same time the price of the commodity dropped, the operating costs continued to rise. Enclosed please find 2 copies of letters from service companies on the hi-line, showing rig cost increases from \$105.00 to \$122.00 per hour.

Not only have rig costs increased but so have chemical costs to treat the wells, electrical costs to pump the wells and all materials needed to operate the wells. Along with this, pumper costs have also risen.

The most aggravating effect this drop in crude oil prices had on the industry was the loss of JOBS. MSR had to lay off 4 full time field employees. These individuals were not only contributing tax payers but have families of 3 to 5 children to support. As of recent date, due to a slight increase in crude oil prices, we have been able to rehire one full time employee.

Keep in mind that not only are the employees of the producing companies affected by having to discontinue production of these stripper wells, but also the gaugers approving the oil for sale, trucking services who haul the oil to market, rig crew hands servicing the wells, the chemical salesmen, service hands repairing the bottom hole pumps and the REA employees and contract electrical workers, providing electricity to keep the wells pumping.

We are enclosing  
1994 for one of  
operate stripper  
percent is needed

The original of this document is stored at  
the Historical Society at 225 North Roberts  
Street, Helena, MT 59620-1201. The phone  
number is 444-2694.

month of October  
it has become to  
nt 12.7% to 5 to 7

DATE March 27, 1995

House Bill 293

EXHIBIT NO. 2BILL NO. HB 293MODERNIZATION OF STATE INCOME TAX WITHHOLDING AND OLD FUND  
LIABILITY TAX LAWS

## SUMMARY

Provides the Option of Electronic Filing and Payment of State Income Tax Withheld and OFLT

\*Option provided - an employer may elect to file and/or remit electronically by returning an election form provided by DOR

\*The election is valid for 12 months; an employer may cancel at any time by notifying the department in writing.

## Timing of Filing and Payment - Alignment with Federal

\*Filing and payment schedule is dependent upon the tax liability in the previous "lookback" period

\*"Lookback" period is an employer's 12-month filing history for a period ending June 30

Threshold	Current Law		Proposed Legislation	
	Payment Due	Filing Due	Payment Due	Filing Due
\$300,000 or more	Federal Schedule	Quarterly Annual W-2's	Federal Schedule	Quarterly Annual W-2's
\$12,000 or more	Quarterly	Quarterly Annual W-2's	Federal schedule	Quarterly Annual W-2's
\$1,200 \$12,000	Quarterly	Quarterly Annual W-2's	Monthly (15th)	Annually w/ W-2's
Less than \$1,200	Quarterly	Quarterly Annual W-2's	Annually	Annually w/ W-2's

\*A scanable payment coupon will accompany remittances

\*A delinquent annual filer may be placed on a monthly remittance schedule

\*Effective 1-1-96



## Individual Income Tax Refund

\*A new Section 8 was added by amendment on the House Floor changing the timeframe for refund of confirmed individual income tax overpayments from within 6 months to 45 days before interest must be paid

## Other States' Requirements

Electronic Funds Transfer - 43 states have electronic funds transfer programs in place; 28 are mandatory at some level

Accelerated Filing and Payment - Of the 50 states,  
8 have no income tax  
1 does not require withholding  
39 require payment more frequently than quarterly  
31 are aligned in some manner with federal

## Threshold Information

Thresholds	# Employers	Annual Withholding	%/ \$
> \$12,000	2,904 (9%)	\$ 213,345,048	82.1%
\$1200- \$12,000	10,355 (31%)	\$ 41,083,909	15.8%
< \$1200	20,241 (60%)	\$ 5,453,931	2.1%

## Benefits

- \*Eliminates/reduces paper and paperwork
- \*Simplifies filing requirements for 30,000 employers
- \*Follows federal tax deposit requirement
- \*Decreases processing costs
- \*Frees up available resources for compliance vs processing
- \*Increases accuracy - electronic returns are edited immediately
- \*Accelerates cash receipts

## Drawbacks

- \*Change - tempered by the fact that employers have experience with federal tax deposit requirements
- \*Lost float
- \*Employers may not have the necessary equipment

Amendments to House Bill No. 293  
Thrid Reading Copy

For the Committee on Taxation

Prepared by Lee Heiman  
March 24, 1995

Corrects Error in House Taxation Amendment:

1. Page 5, line 16.

Strike: "\$499"

Insert: "\$1,199"

2. Page 5, line 28.

Strike: "\$500"

Insert: "\$1,200"

DATE March 27 1995

SENATE COMMITTEE ON TAXATION

BILLS BEING HEARD TODAY: HB 90 Rep. Ireland  
HB 209 Rep. Cobb & HB 293 Rep. Ream

< ■ > PLEASE PRINT < ■ >

Check One

Name	Representing	Bill No.	Support	Oppose
STUART Howell	CAVALIER Petroleum Inc.	HB 90	✓	
Chew Maharg	DOR	HB 293	✓	
Curt Dahlgaard	Somont Oil Co	HB 90	✓	
Mary L. CRAIG	M.L.C.	HB 293		
DOUGLASS	Self	HB 90	✓	
Patrick M. Montalban	MSR NMCCA	HB 90		

### VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY