Senate BILL NO. 280

INTRODUCED BY Graham

A BILL FOR AN ACT ENTITLED: "AN ACT TO REVISE THE FORMULA FOR COMPUTING THE NET PROCEEDS OF COAL MINES; AMENDING SECTION 84-5403, R.C.M. 1947."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 84-5403, R.C.M. 1947, is amended to read as follows:

"84-5403. Net proceeds--how computed. The state department of revenue shall calculate and compute from said returns the gross product yielded from each such mine other than a coal mine, and its gross value in dollars and cents for the year covered by the statement, and also shall calculate and compute the net proceeds in dollars and cents of said mine yielded to such person, corporation or association so engaged in mining which said net proceeds shall be ascertained and determined by subtracting from the value in dollars and cents of the gross product thereof the following, to wit:

1. All royalty paid or apportioned in cash or in kind by the person, corporation or association so engaged in mining.

2. All moneys expended for necessary labor, machinery

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and supplies needed and used in the mining operations and developments.

3. All moneys expended for improvements, repairs and betterments necessary in and about the working of the mine, except as hereinafter provided.

4. All moneys expended for costs of repairs and replacements of the milling and reduction works used in connection with the mine.

5. Depreciation in the sum of six per cent (6%) of the assessed valuation of such milling and reduction works for the calendar year for which such return is made.

6. All moneys actually expended for transporting the ores, and mineral products or deposits from the mines to the mill or reduction works or to the place of sale, and for extracting the metals and minerals therefrom, and for marketing the product and the conversion of the same into money.

7. All moneys expended for fire insurance and workmen's compensation insurance, and for payments by mine operators to welfare and retirement funds when provided for in wage contracts between mine operators and employees.

In computing the deductions allowable for repairs, improvements and betterments to the mine, the state department of revenue shall compute and allow ten per cent (10%) of such cost each year for a period of ten (10) years.

No moneys invested in mines or improvements shall be allowed as a deduction unless all machinery, equipment and buildings represented by such moneys shall be returned to the county in which such mine is located for assessment purposes, at the level of assessment of all other property in such county.

No moneys invested in the mines and improvements during any year, except the year for which such statement is made, and except as hereinbefore provided in this section, shall be included in such expenditures; and such expenditures shall not include the salaries or any portion thereof, of any person or officer not actually engaged in the working of the mine or superintending the management thereof."

Section 2. There is a new R.C.M. section numbered 84-5403.1 that reads as follows:

84-5403.1 Net proceeds of coal--how computed. (1) The state department of revenue shall calculate and compute the gross product yielded from each coal mine, and its gross value in dollars and cents for the year covered by the statement, and shall also calculate and compute the net proceeds in dollars and cents of said mine yielded to the person, corporation, or association engaged in mining coal. The net proceeds shall be determined by subtracting from the value in dollars and cents of the gross product the following:

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(a) all royalty paid or apportioned in cash or in kind by the person, corporation, or association so engaged in mining;

(b) necessary costs of labor and supplies used in mining operations, as "mining" is defined in 26 U.S.C. 613 (c) (2), or that provision as it shall be labeled or amended, and in rules promulgated thereunder;

(c) the amounts claimed and allowed as depreciation of property under 26 U.S.C. 167, or that section as it shall be labeled or amended, upon the federal income taxes paid by the taxpayer on the year of production;

(d) taxes paid to the state of Montana under section 84-1303 and 84-7006;

(e) all moneys expended for fire insurance and workmen's compensation insurance, and for payments by mine operators to welfare and retirement funds when provided for in wage contracts between mine operators and employees.

(2) Each taxpayer shall upon request of the department furnish a copy of the return for the corresponding year which he has filed or may file with the federal government showing his net income and how obtained and the several sources from which derived. If the amount of a taxpayer's taxable income is changed or corrected by the United States Internal Revenue Service or other competent authority, the taxpayer shall report such change or correction to the

department within ninety (90) days after receiving notice thereof. If a taxpayer files an amended federal income tax return changing or correcting his federal taxable income for any taxable year, he shall also file an amended return with the state department of revenue within ninety (90) days thereafter. The department shall supply all necessary forms and shall return all such forms to the taxpayer after they have been examined by the department, upon the request of the taxpayer.

-End-

SB 280

STATE OF MONTANA

REQUEST NO. 126-75

FISCAL NOTE

Form BD-15

In compliance with a written request received January 29, 19 75, there is hereby submitted a Fiscal Note for Senate Bill 280 pursuant to Chapter 53, Laws of Montana, 1965 - Thirty-Ninth Legislative Assembly. Background information used in developing this Fiscal Note is available from the Office of Budget and Program Planning, to members of the Legislature upon request.

DESCRIPTION OF PROPOSED LEGISLATION:

An act to revise the formula for computing net proceeds of coal mines. The major revisions under Senate Bill 280 in computing net proceeds of coal mines is to allow a deduction of strip coal mines license taxes and resource indemnity trust taxes.

ASSUMPTIONS:

1. Gross value of coal produced will be $104,975,750 in FY 76 and $148,048,325 in FY 77.
2. Strip mines license tax collections will be $8,910,600 in FY 76 and $11,271,500 in FY 77.
3. Resource indemnity trust taxes from coal production will be $524,879 in FY 76 and $740,242 in FY 77.
4. Deductions for labor, supplies, materials, repairs, transportation and other expenses of mining are similar under current and proposed law.

FISCAL IMPACT:

It is not possible to provide an accurate estimate of the total dollar impact of Senate Bill 280 since many costs deductible from gross proceeds will be subject to interpretation and negotiation as they are under current law; however, the impact of the provision allowing a deduction for strip coal mines license and resource indemnity trust taxes would result in a reduction in net proceeds of approximately $9.4 million in FY 76 and $12.0 million in FY 77. (Net proceeds are taxed at 100%) A further reduction would result from the change in depreciation deduction since federal income tax rules allow accelerated depreciation. The variable nature of the other allowable deductions could result in an even greater reduction.

Taxable net proceeds (excluding royalties) under current law have historically averaged 29% of gross proceeds. Under proposed law, on the basis of the above considerations, it is estimated that the percentage of net to gross will be reduced 10% so that net proceeds under the proposed law would average approximately 19% of gross proceeds, hence a reduction in the net proceeds tax base of approximately 35%.

Enactment of Senate Bill 280 would result in a decrease in tax base statewide of <u>at least</u> $21.4 million during the biennium. Assuming a six mill university levy in FY 76 and FY 77, a possible additional eight mill public school permissive levy in FY 77, and 150 mill average levy in the counties affected the <u>minimum</u> impact on revenues (considering only the effect of deducting license and resource indemnity taxes from gross proceeds) would be:

	FY 76 (6 mill levy)	FY 77 (if 6 mill levy)	FY 77 (if 14 mill levy)
<u>Minimum</u> decrease in state property tax collections on net proceeds	$ 56,400	$ 72,000	$ 168,000

	FY 76	FY 77
<u>Minimum</u> decrease in county property tax collections on net proceeds	$ 1.4 million	$ 1.8 million

CONCLUSION:

Enactment of Senate Bill 280 would result in a state revenue loss of at least $128,000 and a local government revenue loss of at least $3.2 million during the biennium.

Michael G. Billings

BUDGET DIRECTOR

Office of Budget and Program Planning

Date: ____________