LC 0467/01

1 <u>HB</u> BILL ND. <u>III</u> 2 INTRODUCED BY <u>Hackings</u> <u>Burges</u> 3 BY REQUEST OF THE DEPARTMENT OF REVENUE 4 5 A BILL FOR AN ACT ENTITLED: "AN ACT TO CHANGE THE METHOD OF 6 COMPUTING THE DIL PRODUCERS' SEVERANCE TAX; AMENDING SECTION 7 84-2202, R.C.M. 1947." 8 9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

10 Section 1. Section 84-2202, R.C.M. 1947, is amended to 11 read as follows:

"84-2202. Oil or gas producers' severance tax ---12 amount -- exceptions. (1) Every person engaging in or 13 14 carrying on the business of producing, within this state, petroleum, or other mineral or crude oil, or natural gas or 15 engaging in or carrying on the business of owning, 16 controlling, managing, leasing, or operating within this 17 state any well or wells from which any merchantable or 18 marketable petroleum or other mineral or crude oil or 19 natural cas is extracted or produced, sufficient in quantity 20 21 to justify the marketing of the same, must, each year when 22 engaged in or carrying on any such business in this state: 23 bay to the state department of revenue, for the exclusive 24 use and benefit of the state of Montana, a severance taxy 25 computed at the following rates:

1 (a) Two-and-one-tenth-per-cent--+2.1% of the first Z \$5,000 .of the total gross value of-that-portion of all the 3 petroleum and other mineral or crude oil produced by such 4 person from each lease or each lease within a unitized 5 property whit in the calendar quarter; not-in-excess--of--an amount-obtained-by-multiplying-the-number-of-producing-wells 6 7 on-such-lease-or-unit-by-four-hundred-fifty-(458)-barrels* R (b) Two--and-sixty-five-hundredths-per-cent-f2.6523 of 9 the total gross value of that portion of all the production 10 of such person from each lease or each lease within a unitized property unit in each calendar quarter in excess of 11 12 the_first_\$5,000_of_the_total_dross_yalue; four--hundred 13 fifty--f450}--barrels--multiplied-by-the-number-of-producing 14 wells-on-such-lease-or-unit; but in determining the amount 15 of such tax there shall be excluded from consideration all petroleumy or other crude or mineral oil produced and used 16 17 by such person during such year in connection with his 18 operations in prospecting for, developing, and producing 19 such petroleumy or crude or mineral oil; provided, however, 20 that nothing in this act shall be construed as requiring 21 laborers or employees, hired or employed by any person, to 22 drill any oil welly or to work in or about any oil well, or 23 prospect or explore fory or do any work for the purpose of 24 developing any petroleum or other mineral or crude oil to 25 pay such severance tax, nor shall may any work be doney or

-2-

INTRODUCED BILL

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HRIII

LC 0467/01

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1 the drilling of any well or wells, for the purpose of prospecting or exploring for petroleum or other mineral or 2 crude oils, or for the purpose of developing same, be deemed 3 to be engaging in or carrying on of any such business; 4 provided, further, that in the doing of any such work, or in 5 6 the drilling of any oil well, or in such prospecting, 7 exploring, or development work, any merchantable or 8 marketable petroleum or other mineral or crude oil in excess 9 of the quantity required by such person for carrying on such 10 operation shall be produced sufficient in quantity to 11 justify the marketing of the same, then such work, drilling, 12 prospecting, exploring, or development work shall be deemed 13 to be the engaging in and carrying on of such business 14 within this state within the meaning of this sections:

15 (c) Two-and-sixty-five-hundredths-percent--(2.65%) of 16 the total gross value of natural gas produced from each 17 lease or unit, but in determining the amount of such tax 18 there shall be excluded from consideration all gas produced 19 and used by such person during such year in connection with his operations in prospecting for, developing, and producing 20 21 such gas, or petroleumy or crude or mineral oilt, and there 22 shall also be excluded from consideration all gas recycled 23 or reinjected into the ground.

24 (d)[2] Every person required to pay such tax hereunder
25 shall pay the same in full for his own account and for the

1 account of each of the other owner or owners of the gross proceeds in value or in kind of all the marketable petroleum 2 3 or other mineral or crude oil or natural gas extracted and 4 produced, including owner or owners of working interast, 5 royalty interest. overriding royalty interest. carried 6 working interest, net proceeds interest, production 7 payments, and all other interest or interests owned or 8 carved out of the total gross proceeds in value or in kind 9 of such extracted marketable petroleum or other mineral or crude oil or natural gas, except that any of the aforesaid 10 11 interests that are owned by the federal, state, county, or 12 municipal governments shall be exempt from taxation under this chapter. Unless otherwise provided in a contract or 13 lease, the pro rata share of any royalty owner or owners 14 15 will be deducted from any settlements under said lease or 16 leases or division of proceeds orders or other contracts." -End-

LC 0467/01

- 3-

-4-

STATE OF MONTANA

REQUEST NO. 49-77

FISCAL NOTE

Form BD-15

| In | compliance | with a | a written | request receive | d January | , 1 | 9 | there is | hereby | submitted a | Fiscal Note |
|--|------------|-------------|-----------|-----------------|-----------------|----------------|------------|------------|----------|---------------|-------------|
| for | House | <u>Bill</u> | 111 | | uant to Chapter | 53, Laws of Mo | ntana, 196 | 5 - Thirty | -Ninth L | egislative As | sembly. |
| 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

This bill is an act to change the method of computing the oil producer's severance tax.

ASSUMPTIONS

- 1. Administrative costs will remain unchanged by this bill.
- 2. Based on data from Miscellaneous Tax Division, the proposed legislation will have no effect on state revenues. The computations were based on a sample of oil severance tax returns. When generalized to all taxpayers of the oil severance tax, the error should be less than 3%.

FISCAL IMPACT

No Effect

(Prepared by Department of Revenue)

X. Zam

BUDGET DIRECTOR

45th Lecislature

Approved by Committee on Natural Resources

| 1 | HOUSE BILL NO. 111 |
|----|--|
| 2 | INTRODUCED BY DASSINGER. SEVERSON |
| 3 | BY REQUEST OF THE DEPARTMENT OF REVENUE |
| 4 | |
| 5 | A BILL FOR AN ACT ENTITLED: "AN ACT TO CHANGE THE METHOD OF |
| 5 | COMPUTING THE OIL PRODUCERS* SEVERANCE TAX; AMENDING SECTION |
| 7 | 84-2232+ R.C.M. 1947." |
| 8 | |
| 9 | BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HONTANA: |
| 10 | Section 1. Section 84-2202, R.C.M. 1947, is amended to |
| 11 | read as follows: |
| 12 | "84-2202. Dil or qas producers' severance tax |
| 13 | amount exceptions. <u>(1)</u> Every person engaging in or |
| 14 | carrying on the business of producing, within this state, |
| 15 | petroleum, or other mineral or crude oil, or natural gas or |
| 16 | engaging in or carrying on the business of owning, |
| 17 | controlling, managing, leasing, or operating within this |
| 13 | state any well or wells from which any merchantable or |
| 19 | marketable petroleum or other mineral or crude oil or |

natural gas is extracted or produced, sufficient in quantity
to justify the marketing of the same, must, each year when
engaged in or carrying on any such business in this state,
pay to the state department of revenue, For the exclusive
use and benefit of the state of Montana, a severance taxy
computed at the following rates:

SECOND READING

1 (a) Two-and-one-tenth-per-cent--f2.1% of the first 2 \$5,000 \$6,000 of the total gross value of that portion of 3 all the petroleum and other mineral or crude oil produced by 4 such person from each lease or each lease within a unitized 5 property whit in the calendar guarter: not-in-excess-of-an 6 amount-obtained-by-multiplying-the-number-of-producing-wells 7 on-such-lesse-or-unit-by-four-hundred-fifty-(458)-borrels= 8 (b) Two-ond-sixty-five-hundredths-per-cent-12.65%) of 9 the total gross value of that portion of all the production 10 of such person from each lease or each lease within a 11 unitized property unit in each calendar gwarter in excess of 12 🙄 the first \$5,000 S6.000 of the total gross value; four 13 hundred fifty -{+50}-barrels -- multiplied -- by -- the -- number--of 14 producing--wells--on--such-lease-or-unit; but in determining the amount of such tax there shall be excluded from 15 consideration all petroleumy or other crude or mineral oil 16 17 produced and used by such person during such year in 18 connection with his operations in prospecting for. developing, and producing such petroleumy or crude or 19 20 mineral oil; provided, however, that nothing in this act 21 shall be construed as requiring laborers or employees, hired 22 or employed by any person, to drill any oil welly or to work 23 in or about any oil well+ or prospect or explore fory or do 24 any work for the purpose of developing any petroleum or other mineral or crude oil to pay such severance tax, nor 25

-2-

HB 0111/02

HB 111

shall may any work be doney or the drilling of any well or 1 2 wells, for the purpose of prospecting or exploring for 3 petroleum or other mineral or crude oils, or for the purpose of developing samey be deemed to be engaging in or carrying 4 5 on of any such business; provided, further, that in the doing of any such work, or in the drilling of any oil well, 6 7 or in such prospecting, exploring, or development work, any 8 merchantable or marketable petroleum or other mineral or 9 crude oil in excess of the quantity required by such person 10 for carrying on such operation shall be produced sufficient 11 in quantity to justify the marketing of the same, then such 12 work, drilling, prospecting, exploring, or development work 13 shall be deemed to be the engaging in and carrying on of such business within this state within the meaning of this 14 15 sections

16 (c) Two-and-sixty-five-hundredths-percent--t2.65% of 17 the total gross value of natural gas produced from each lease or unit, but in determining the amount of such tax 18 19 there shall be excluded from consideration all gas produced 20 and used by such person during such year in connection with 21 his operations in prospecting for, developing, and producing 22 such gas, or petroleum, or crude or mineral oilts and there shall also be excluded from consideration all gas recycled 23 24 or reinjected into the ground.

121 FOR PURPOSES OF COMPUTING THE TAX IN SUBSECTIONS

-3-

(1)(A) AND (1)(B) ABDVE, LEASE COUNT INCLUDES ALL LEASES CONTRIBUTING TO THE UNITIZED AREA WITHIN A UNIT DR ALL

3 TRACTS WITHIN & UNIT PARTICIPATING IN PRODUCTION.

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fd)f2+(3) Every person required to pay such tax 4 bereunder shall pay the same in full for his own account and 5 for the account of each of the other owner or owners of the 6 7 gross proceeds in value or in kind of all the marketable petroleum or other mineral or crude oil or natural gas 8 9 extracted and producedy including owner or owners of working 10 interest, royalty interest, overriding royalty interest, carried working interest, net proceeds interest, production 11 12 payments, and all other interest or interests owned or 13 carved out of the total gross proceeds in value or in kind 14 of such extracted marketable petroleum or other mineral or 15 crude oil or natural gas, except that any of the aforesaid 16 interests that are owned by the federal, state, county, or 17 municipal governments shall be exempt from taxation under 18 this chapter. Unless otherwise provided in a contract or lease, the pro rata share of any royalty owner or owners 19 20 will be deducted from any settlements under said lease or 21 leases or division of proceeds orders or other contracts." -End-

-4-

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| 2 | INTRODUCED BY DASSINGER, SEVERSON |
|-----|--|
| 3 | BY REQUEST OF THE DEPARTMENT OF REVENUE |
| 4 | |
| 5 | A BILL FOR AN ACT ENTITLED: "AN ACT TO CHANGE THE METHOD OF |
| 6 | COMPUTING THE OIL PRODUCERS' SEVERANCE TAX; AMENDING SECTION |
| 7 | 84-2202, R.C.M. 1947." |
| 8 | |
| 9 | BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA: |
| 10 | Section 1. Section 84-2202, R.C.M. 1947, is amended to |
| 11 | read as follows: |
| 12 | "84-2202• Dil or gas producers' severance tax |
| 13 | amount exceptions. [1] Every person engaging in or |
| 14 | carrying on the business of producing, within this state, |
| 15 | petroleum, or other mineral or crude oil, or natural gas or |
| 16 | engaging in or carrying on the business of owning, |
| 17 | controlling, managing, leasing, or operating within this |
| 18 | state any well or wells from which any merchantable or |
| 19 | marketable petroleum or other mineral or crude oil or |
| 20 | natural gas is extracted or produced, sufficient in quantity |
| 21 | to justify the marketing of the same, must, each year when |
| 22 | engaged in or carrying on any such business in this state. |
| 23 | pay to the state department of revenue, for the exclusive |
| 24 | use and benefit of the state of Montana, a severance tax. |
| 2 S | computed at the following rates: |

HOUSE BILL NO. 111

1 (a) Two-end-one-tenth-per-cent--f2.1%; of the first 2 \$5,098 \$6,000 of the total gross value of that portion of 3 all the petroleum and other mineral or crude oil produced by such person from each lease or each lease within a unitized 4 property "unit in the calendar guarter: not-in-excess-of-an 5 anount-obtained-by-multiplying-the-number-of-producing-wells 6 7 on-such-lesse-or-unit-by-four-hundred-fifty-(450)-barrels. 8 (b) Two-ond-sixty-five-hundredths-per-cont-12.652) of 9 the total gross value of that portion of all the production of such person from each lease or each lease within a ¥Ω unifized property unit in each calendar quarter in excess of 11 12 11 the first 15-000 \$6-000 of the total ardst values four (hundred fifey (450) borrets i multip fied by the number of 13 producing-wells on such lease or whith but in determining 14 the appunt of such tax there shall be excluded from 15 16 consideration all petroleum or other crude or mineral oil 17 produced and used by such person during such year in 18 connection with his operations in prospecting for, 19 developing, and producing such petroleumy or crude or 20 mineral oil; provided, however, that nothing in this act shall be construed as requiring laborers or employees, hired 21 22 🙄 or employed by any person, to drill any oil welly or to work 23 in or about any oil welly or prospect or explore fory or do any work for the purpose of developing any petroleum or 24 25 other mineral or crude oil to pay such severance tax, nor

-2-

THIRD READING

shall may any work be doney or the drilling of any well or 1 : wells, for the purpose of prospecting or exploring for 2 3 petroleum or other mineral or crude oils, or for the purpose 4 of developing samey be deemed to be engaging in or carrying 5 on of any such business; provided, further, that in the doing of any such work, or in the drilling of any: oil well, 6 7 or in such prospecting, exploring, or development work, any 8 merchantable or marketable petroleum or other mineral or 9 crude oil in excess of the quantity required by such person 10 for carrying on such operation shall be produced sufficient 11 in quantity to justify the marketing of the same, then such 12 work, drilling, prospecting, exploring, or development work 13 shall be deemed to be the engaging in and carrying on of 14 such Dusiness within this state within the meaning of this 15 sectionet

16 (c) Two-and-sixty-five-hundredths-percent-- (2.65%) of 17 the total gross value of natural gas produced from each 18 Tease or unity but in determining the amount of such tax there shall be excluded from consideration all gas produced 19 20 and used by such person during such year in connection with 21 his operations in prospecting for, developing, and producing 2Z such gas, or petroleumy or crude or mineral oilty and there 23 shall also be excluded from consideration all gas recycled 24 or reinjected into the ground.

25 (2) EUR PURPOSES OF COMPUTING THE TAX IN SUBSECTIONS

-3-

HB 111

| t | 1)(A) AND (1)(B) ABOVE: LEASE COUNT INCLUDES ALL LEASES | |
|---|---|--|
| | | |

- 2 CONTRIBUTING TO THE UNITIZED ABEA WITHEN A UNIT OR ALL
- 3 TRACTS WITHIN A UNIT PARTICIPATING IN PRODUCTION.

(d)(2)(3) Every person required to pay such 4 tax hereunder shall pay the same in full for his own account and 5 for the account of each of the other owner or owners of the 6 7 gross proceeds in value or in kind of all the marketable 8 petroleum or other mineral or crude oil or natural gas extracted and produced, including owner or owners of working 9 interest, royalty interest, overriding royalty interest, 10 carried working interest, net proceeds interest, production 11 12 payments, and all other interest or interests owned or 4 13 carved out of the total gross proceeds in value or in kind of such extracted marketable petroleum or other mineral or 14 crude oil or natural gas, except that any of the aforesaid 15 16 interests that are owned by the federal, state, county, or 17 municipal governments shall be exempt from taxation under 18 this chapter. Unless otherwise provided in a contract or lease, the pro rata share of any royalty owner or owners 19 will be deducted from any settlements under said lease or 20 leases or division of proceeds orders or other contracts.* 21 .

-End-

-4-

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| 1 | HOUSE BILL NO. 111 |
|---|--|
| 2 | INTRUDUCED BY DASSINGER+ SEVERSON |
| 3 | BY REQUEST OF THE DEPARTMENT OF REVENUE |
| 4 | |
| 5 | A BILL FOR AN ACT ENTITLED: "AN ACT TO CHANGE THE METHOD OF |
| 6 | COMPUTING THE OIL PRODUCERS' SEVERANCE TAX; AMENDING SECTION |
| 7 | 84-2292, K.C.M. 1947." |
| 8 | |

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:
 10 Section 1. Section 84-2202, R.C.M. 1947, is amended to
 11 read as follows:

#84-2202 Dil or gas producers! severance tax ---12 amount -- exceptions. [1] Every person engaging in or 13 carrying on the business of producing, within this state, 14 petroleum, or other mineral or crude oil, or natural gas or 15 engaging in or carrying on the business of owning. 16 controlling, managing, leasing, or operating within this 17 state any well or wells from which any merchantable or 18 marketable petroleum or other mineral or crude oil or 19 natura) das is extracted or produced, sufficient in quantity 20 to justify the marketing of the same, must, each year when 21 engaged in or carrying on any such business in this state, 22 pay to the state department of revenue. for the exclusive 23 use and benefit of the state of Montanay a severance taxy 24 25 computed at the following rates:

2 15:000 16:000 of the total gross value of that portion of з. all the petroleum and other mineral or crude oil produced by 4 such person from each lease or each lease within a unitized 5 property unit in the calendar quarter: not-in-excess-of-an 5 amount-obtained-by-multiplying-the-number-of-producing-wells 7 on-such-lease-or-unit-by-four-hundred-fifty-(450)-barrels. 8 (b) #wo-and-sixty-five-nundredths-per-cent-f2.65% of 9 the total gross value of that portion of all the production 10 of such person from each lease or <u>each lease within a</u> unitized property wait in each calendar quarter in excess of 11 12 the first \$5v000 \$6:000 of the total cross value: four 13 hundred-fifty-(459)-barrels--multiplied--by--the--number--of 14 producing--wells--on--such-lease-or-unity but in determining the amount of such tax there shall be excluded from 15 16 consideration all petroleumy or other crude or mineral oil 17 produced and used by such person during such year in 18 connection with his operations in prospecting for, 19 developing, and producing such petroleumy or crude or mineral oil; provided, however, that nothing in this act 20 snall be construed as requiring laborers or employees, hired 21 22 or employed by any person, to drill any oil welly or to work 23 in or about any oil well, or prospect or explore for, or do 24 any work for the purpose of developing any petroleum or

(a) Two-and-one-tenth-per-cent--f2.1%; of the first

REFERENCE BILL

-2-

other mineral or crude oil to pay such severance tax, nor

HE 0111/03

shall may any work be doney or the drilling of any well or 1 2 wells, for the purpose of prospecting or exploring for petroleum or other mineral or crude oils, or for the purpose 3 of developing same, be deemed to be encaging in or carrying 4 on of any such business; provided, further, that in the 5 doing of any such work, or in the drilling of any oil well, 6 or in such prospecting, exploring, or development work, any 7 8 merchantable or marketable petroleum or other mineral or 9 crude oil in excess of the quantity required by such person 10 for carrying on such operation shall be produced sufficient 11 in quantity to justify the marketing of the same, then such 12 work, drilling, prospecting, exploring, or development work 13 shall be deemed to be the engaging in and carrying on of 14 such business within this state within the meaning of this 15 section#1

16 (c) Two-and-sixty-five-hundredths-percent--f2.65%+ of 17 the total gross value of natural gas produced from each 18 lease or unit, but in determining the amount of such tax there shall be excluded from consideration all das produced 19 20 and used by such person during such year in connection with 21 his operations in prospecting for, developing, and producing 22 such gas, or petroleumy or crude or mineral oilts and there 23 shall also be excluded from consideration all gas recycled or reinjected into the ground. 24

-3-

25 <u>121_FOR_PURPOSES_OF_COMPUTING_THE_TAX_IN_SUBSECTIONS</u>

HB 111

1 (1)(A) AND (1)(B) ABOVE, LEASE COUNT INCLUDES ALL LEASES 2 CONTRIBUTING TO THE UNITIZED ABEA WITHIN A UNIT OR ALL

3 IRACIS WITHIN A UNIT PARTICIPATING IN PRODUCTION.

fd+f2+(3) Every person required to bay such tax 4 hereunder shall pay the same in full for his own account and 5 for the account of each of the other owner or owners of the ħ gross proceeds in value or in kind of all the marketable 7 petroleum or other mineral or crude oil or natural gas а extracted and produced, including owner or owners of working 9 interest, royalty interest, overriding royalty interest, 10 carried working interest, net proceeds interest, production 11 parments, and all other interest or interests owned or 12 carved out of the total gross proceeds in value or in kind 13 of such extracted marketable petroleum or other mineral or 14 crude oil or natural mas, except that any of the aforesaid 15 interests that are owned by the federal, state, county, or 16 municipal governments shall be exempt from taxation under 17 this chapter. Unless otherwise provided in a contract or 18 lease, the pro rata share of any royalty owner or owners 19 will be deducted from any settlements under said lease or 20 leases or division of proceeds orders or other contracts." 21

-End-

-4-