

House Bill 371

In The House

January 20, 1981	Introduced and referred to Committee on Taxation.
January 22, 1981	Fiscal note requested.
January 29, 1981	Fiscal note returned.
February 3, 1981	Committee recommend bill do pass as amended.
February 4, 1981	Bill printed and placed on members' desks.
February 6, 1981	Second reading pass consideration.
February 7, 1981	Second reading pass consideration.
February 9, 1981	Fiscal note revised.
February 10, 1981	Fiscal note revised.
February 11, 1981	Second reading pass consideration until 34th legislative day.
	Rereferred to Committee on Taxation.
April 23, 1981	Died in Committee.

HOUSE BILL NO. 371

INTRODUCED BY Hubertal Courroy

A BILL FOR AN ACT ENTITLED: "AN ACT ALLOWING INDIRECT EXPENSES INCURRED WITH RESPECT TO PRODUCING WELLS TO BE DEDUCTED WHEN COMPUTING THE OIL AND GAS NET PROCEEDS TAX; AMENDING SECTION 15-23-603, MCA; AND PROVIDING AN APPLICABILITY DATE AND AN EFFECTIVE DATE."

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

Section 1. Section 15-23-603, MCA, is amended to read:

"15-23-603. Net proceeds -- how computed. (1) The department of revenue shall calculate and compute from the returns the gross product yielded from such well and its gross value for the year covered by the statement and shall calculate the net proceeds of the well yielded to the producer, which net proceeds shall be determined by subtracting from the value of the gross products thereof the following:

(a) all royalty paid or apportioned in cash or in kind by the operator or producer;

(b) all moneys expended for necessary labor, machinery, and supplies needed and used in the operation and development of the well, including that portion of any geological, geophysical, engineering, managerial, clerical

and supervisory services, travel, office rents, and similar or related expenses paid or incurred by the operator or producer, including but not limited to the operator's or producer's charge for such services and expenses, if any, under the applicable operating agreement that is directly related to or reasonably allocable to the operation or development of the well;

(c) all moneys expended for improvements, repairs, and betterments necessary in and about the working of the well;

(d) all moneys expended for fire insurance and workers' compensation insurance and for payments by operators to welfare and retirement funds when provided for in wage contracts between operators and employees.

(2) No moneys invested in the well and improvements during any year except the year for which such statement is made may be included in such expenditures, except as provided in 15-23-604, 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."

Section 2. Rule of construction. This act may not be construed to mean that, prior to its enactment, the net proceeds of an oil or gas well were to be computed without taking into account geological, geophysical, engineering, managerial, clerical and supervisory services, travel,

1 office rent, and similar or related expenses paid or
2 incurred by the operator or producer, including but not
3 limited to the operator's or producer's charge for such
4 services and expenses, if any, under the applicable
5 operating agreement that was directly related to or
6 reasonably allocable to the operation or development of the
7 well.

8 Section 3. Applicability. This act applies to taxable
9 years beginning after December 31, 1979.

10 Section 4. Effective date. This act is effective
11 January 1, 1981.

-End-

STATE OF MONTANA

REQUEST NO. ~~188-81~~

FISCAL NOTE

Form BD-15

In compliance with a written request received January 24, 19 81, there is hereby submitted a Fiscal Note for HOUSE BILL 371 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

An act allowing indirect expenses incurred with respect to producing wells to be deducted when computing the oil and gas net proceeds tax.

ASSUMPTIONS

1. The gross value of oil produced will be \$757 million and \$885 million in FY 82 and FY 83, respectively.
2. Currently, allowable deductions average 44.57% of gross value of oil.
3. The gross value of gas produced in the state will be \$88.6 million and \$110.1 million in FY 82 and FY 83, respectively.
4. Currently, allowable deductions average 26% of the gross value of natural gas.
5. Mill levies are 150 mills for the counties and 6 mills for the University Levy.
6. The proposal will increase allowable deductions on average 12%.

FISCAL IMPACT

University Levy	FY 82	FY 83
Net Proceeds of Oil		
Under current law	\$2,517,600	\$2,943,600
Under proposed law	<u>2,274,700</u>	<u>2,659,600</u>
Estimated Decrease	(\$ 242,900)	(\$ 284,000)
Net Proceeds of Gas		
Under current law	\$ 393,400	\$ 488,840
Under proposed law	<u>376,800</u>	<u>468,420</u>
Estimated Decrease	(\$ 16,600)	(\$ 20,420)
Total Revenue		
Under current law	\$2,911,000	\$3,432,440
Under proposed law	<u>2,651,500</u>	<u>3,128,020</u>
Estimated Decrease	(\$ 259,500)	(\$ 304,420)

EFFECT ON LOCAL GOVERNMENT

County Revenue	FY 82	FY 83
Under current law	\$72,774,614	\$85,811,114
Under proposed law	<u>66,286,938</u>	<u>78,201,085</u>
Estimated Decrease	(\$ 6,487,676)	(\$ 7,610,029)

PREPARED BY THE DEPARTMENT OF REVENUE



BUDGET DIRECTOR

Office of Budget and Program Planning

Date: 1-29-81

STATE OF MONTANA

REQUEST NO. 188-81

FISCAL NOTE

REVISED

Form BD-15

In compliance with a written request received February 10, 19 81, there is hereby submitted a Fiscal Note for HOUSE BILL 371 (REVISED) pursuant to Title 5, Chapter 4, Part 2 of the Montana Code Annotated (MCA).

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

An act clarifying allowable expenses incurred with respect to producing wells to be deducted when computing the oil and gas net proceeds tax; and providing an applicability date and an effective date.

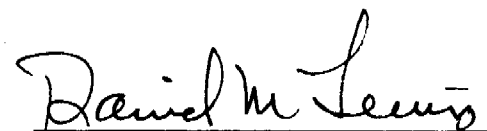
ASSUMPTION

Managerial, related and reasonably allocable expenses are assumed to be deleted from the proposal.

FISCAL IMPACT

The proposal would have no fiscal impact. However, if the forementioned categories of costs are not deleted, the proposal could have a significant impact on revenue, which would be difficult to estimate due to the importance of administrative rules in defining the legitimate deductions.

PREPARED BY THE DEPARTMENT OF REVENUE



BUDGET DIRECTOR

Office of Budget and Program Planning

Date: 2-10-81

Approved by Committee
on Taxation

HOUSE BILL NO. 371

INTRODUCED BY UNDERDAL, CONROY

A BILL FOR AN ACT ENTITLED: "AN ACT AMENDING--INDIRECT
CLARIFYING ALLOWABLE EXPENSES INCURRED WITH RESPECT TO
PRODUCING WELLS TO BE DEDUCTED WHEN COMPUTING THE OIL AND
GAS NET PROCEEDS TAX; AMENDING SECTION 15-23-603, MCA; AND
PROVIDING AN APPLICABILITY DATE AND AN EFFECTIVE DATE."

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

Section 1. Section 15-23-603, MCA, is amended to read:

"15-23-603. Net proceeds -- how computed. (1) The
department of revenue shall calculate and compute from the
returns the gross product yielded from such well and its
gross value for the year covered by the statement and shall
calculate the net proceeds of the well yielded to the
producer, which net proceeds shall be determined by
subtracting from the value of the gross products thereof the
following:

(a) all royalty paid or apportioned in cash or in kind
by the operator or producer;

(b) all moneys expended for necessary labor,
machinery, and supplies needed and used in the operation and
development of the well, including that portion of any
geological-geophysical engineering, managerial, clerical

and supervisory services, travel, office rent, and similar
or related expenses paid or incurred by the operator or
producer--including--but--not--limited--to--the--operator's--or
producer's--charge--for--such--services--and--expenses,--if--any,
under--the--applicable--operating--agreement--that--is--THAT--ARE
directly related to or reasonably allocable to the operation
or development of the well;

(c) all moneys expended for improvements, repairs, and
betterments necessary in and about the working of the well;

(d) all moneys expended for fire insurance and
workers' compensation insurance and for payments by
operators to welfare and retirement funds when provided for
in wage contracts between operators and employees.

(2) No moneys invested in the well and improvements
during any year except the year for which such statement is
made may be included in such expenditures, except as
provided in 15-23-604, 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."

Section 2. Rule of construction. This act may not be
construed to mean that, prior to its enactment, the net
proceeds of an oil or gas well were to be computed without
taking into account geological-geophysical engineering,
managerial, clerical and supervisory services, travel,

1 office rent, and similar--or related expenses paid or
2 incurred by the operator or producer--including--but--not
3 limited--to--the--operator's--or--producer's--charge--for--such
4 services--and--expenses--if--any--under--the--applicable
5 operating--agreement--that--was THAT WERE directly related to
6 or reasonably allocable to the operation or development of
7 the well.

8 Section 3. Applicability. This act applies to taxable
9 years beginning after December 31, 1979.

10 Section 4. Effective date. This act is effective
11 January 1, 1981.

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