SENATE BILL NO. 437

Introduced: 02/16/83

Referred to Committee on Taxation: 02/16/83
Hearing: 3/2/83
Report: 03/03/83, Do Not Pass. Report Adopted.
Bill Killed.

Senate BILL NO. 437

INTRODUCED BY Rep. Goodover

BY REQUEST OF THE SENATE TAXATION COMMITTEE

A BILL FOR AN ACT ENTITLED: "AN ACT REDUCING BY TWO-THIRDS AND FOR A PERIOD OF 5 YEARS THE OIL AND GAS SEVERANCE TAX AND THE OIL AND GAS NET PROCEEDS TAX ON NEW PRODUCTION; AMENDING SECTION 15-36-101, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE, AN APPLICABILITY DATE, AND A TERMINATION DATE."

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

Section 1. Section 15-36-101, MCA, is amended to read:

"15-36-101. Definitions and rate of tax. (1) Every person engaging in or carrying on the business of producing petroleum, other mineral or crude oil, or natural gas within this state or engaging in or carrying on the business of owning, controlling, managing, leasing, or operating within this state any well or wells from which any merchantable or marketable petroleum, other mineral or crude oil, or natural gas is extracted or produced sufficient in quantity to justify the marketing of the same must, except as provided in 15-36-121, each year when engaged in or carrying on any such business in this state pay to the department of revenue for the exclusive use and benefit of the state of Montana a

severance tax computed at the following rates:

(a) _for old oil and gas:_

_(i)_ 5% of the total gross value of all the petroleum and other mineral or crude oil produced by such person from each lease or unit on or after April 1, 1981, and on or before March 31, 1983, and 6% of the total gross value of all the petroleum and other mineral or crude oil produced by such person from each lease or unit thereafter; but in determining the amount of such tax there shall be excluded from consideration all petroleum or other crude or mineral oil produced and used by such person during such year in connection with his operations in prospecting for, developing, and producing such petroleum or crude or mineral oil;

~~(b)~~_(ii)_ 2.65% of the total gross value of natural gas produced from each lease or unit; but in determining the amount of such tax there shall be excluded from consideration all gas produced and used by such person during such year in connection with his operations in prospecting for, developing, and producing such gas or petroleum or crude or mineral oil; and there shall also be excluded from consideration all gas recycled or reinjected into the ground~~.~~_;_

(b) for new oil and gas, 33% of the rate imposed on old oil or gas.

(2) For purposes of subsection (1):

(a) "new oil and gas" means oil or gas produced:

(i) from a lease in excess of the 1982 production from that lease;

(ii) from a lease that did not produce oil or gas in 1982; or

(iii) from a geological formation from which oil or gas was not produced in 1982;

(b) "old oil and gas" means oil and gas that is not new oil and gas.

~~(2)~~(3) Nothing in this part may be construed as requiring laborers or employees hired or employed by any person to drill any oil well or to work in or about any oil well or prospect or explore for or do any work for the purpose of developing any petroleum or other mineral or crude oil to pay such severance tax, nor may any work done or the drilling of any well or wells for the purpose of prospecting or exploring for petroleum or other mineral or crude oils or for the purpose of developing same be considered to be the engaging in or carrying on of any such business. If, in the doing of any such work, in the drilling of any oil well, or in such prospecting, exploring, or development work, any merchantable or marketable petroleum or other mineral or crude oil in excess of the quantity required by such person for carrying on such operation is

produced sufficient in quantity to justify the marketing of the same, such work, drilling, prospecting, exploring, or development work is considered to be the engaging in and carrying on of such business within this state within the meaning of this section.

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

NEW SECTION. Section 2. New oil and gas exemption. (1) Two-thirds of the following oil and natural gas production is exempt from the net proceeds tax imposed by this part:

(a) production from a lease in excess of the production from that lease in 1982;

(b) production from a lease that either had no production in 1982 or did not exist in 1982; and

(c) production from a geological formation from which oil or gas was not produced in 1982.

(2) Notwithstanding the provisions of subsection (1), all reporting requirements under the net proceeds tax remain in effect.

NEW SECTION. Section 3. Codification instruction. Section 2 is intended to be codified as an integral part of Title 15, chapter 23, part 6, and the provisions of Title 15, chapter 23, part 6, apply to section 2.

NEW SECTION. Section 4. Effective date -- applicability and termination dates. This act is effective on passage and approval and applies to taxable years beginning after December 31, 1982, and before January 1, 1988.

-End-

STATE OF MONTANA

REQUEST NO. 469-83

FISCAL NOTE

Form BD-15

In compliance with a written request received February 19, 19 83, there is hereby submitted a Fiscal Note for Senate Bill 437 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 OF PROPOSED LEGISLATION:

Senate Bill 437 reduces by two-thirds and for a period of five years the oil and gas severance tax and oil and gas net proceeds tax on new production; and provides an immediate effective date and a termination date.

ASSUMPTIONS:

1) Production from existing oil fields will decline 2.5% per year.
2) Based on data from CY1980-1982, the following amounts of "new oil" will be discovered each year and the production for the new discoveries will be:

	1st year	2nd year	3rd year
New discoveries	450,000 bbl.	972,000 bbl.	1,264,000 bbl.

3) By adding these new discoveries and the declining production from established fields, the following estimate of "new oil" was determined:

FY83	1,264,000 bbl.
FY84	2,173,000 bbl.
FY85	3,374,000 bbl.

4) Since detailed information on natural gas discoveries and existing production by lease is not available, the assumptions listed above were used to determine the amount of "new gas":

FY83	2,015,182 MCF
FY84	3,466,133 MCF
FY85	5,372,475 MCF

None of this "new gas" is eligible for the severence tax expemption provided in 15-36-121, MCA.

(Continued)

David M. Lewis

BUDGET DIRECTOR

Office of Budget and Program Planning

Date: 2-21-83

5) Prices will be:

	FY83	FY84	FY85
Oil (per bbl.)	$30.57	$30.668	$32.156
Gas (per MCF)	2.521	2.778	3.212

6) Mill levies on oil and natural gas will remain constant at 123.05 mills.
7) The bill will be effective for production occuring on or after January 1, 1983. The oil severance tax rates for FY83 production is 15% and 6% for FY84 and FY85.
8) Oil severance taxes are distributed 95% general fund and 5% producing counties. Natural gas severance taxes are distributed 90% general fund and 10% producing counties.

FISCAL IMPACT:

SEVERANCE TAXES

	FY83	FY84	FY85
Oil Severance Tax			
Under Current Law	$ 45.199 M	$ 54.567 M	$ 57.699 M
Under Proposed Law	44.880 M	51.901 M	53.359 M
Reduction	(0.319 M)	(2.666 M)	(4.340 M)
Natural Gas Severance Tax			
Under Current Law	$ 3.021 M	$ 3.391 M	$ 3.786 M
Under Proposed Law	2.999 M	3.221 M	3.481 M
Reduction	(0.022 M)	(0.170 M)	(0.305 M)

NET PROCEEDS TAX

	FY83	FY84	FY85
Oil Net Proceeds			
Under Current Law	$ 67.165 M	$ 66.439 M	$ 61.758 M
Under Proposed Law	67.165 M	63.219 M	56.308 M
Reduction	-0-	(3.22 M)	(5.450 M)

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Gas Net Proceeds			
Under Current Law	$ 7.783 M	$ 9.800 M	$ 10.442 M
Under Proposed Law	7.783 M	9.431 M	9.725 M
Reduction	-0-	(0.369 M)	(0.717 M)
General Fund			
Reduction	(0.323 M)	(2.685 M)	(4.398 M)
School Foundation Program (40 mills)			
Reduction	-0-	(1.167 M)	(2.005 M)
University System (6 mills)			
Reduction	-0-	(0.175 M)	(0.30 M)

IMPACT ON LOCAL GOVERNMENTS:

Producing counties will lose the following revenue:

Severance Taxes	(0.018 M)	(0.151 M)	(0.247 M)
Net Proceeds Tax (77.05 mills)	$ -0-	($ 2.247 M)	($ 3.861 M)

FISCAL NOTE 16: AA/3

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