## SENATE BILL NO. 462

## INTRODUCED BY GAGE, KEATING

## IN THE SENATE

	IN THE	SENATE
February 23, 1985		Introduced and referred to Committee on Local Government.
February 26, 1985		Fiscal Note requested.
		On motion taken from Committee on Local Government and rereferred to Committee on Taxation. Motion adopted.
March 4, 1985		Fiscal Note returned.
March 15, 1985		Committee recommend bill do pass as amended. Report adopted.
March 16, 1985		Bill printed and placed on members' desks.
March 19, 1985		Second reading, do pass.
March 20, 1985		Considered correctly engrossed.
		Third reading, passed. Ayes, 50; Noes, 0.
		Transmitted to House.
	IN THE	HOUSE
March 21, 1985		Introduced and referred to Committee on Taxation.
March 27, 1985		Committee recommend bill be concurred in. Report adopted.
March 30, 1985		Second reading, pass consideration.
April 3, 1985		Second reading, concurred in as amended.

April 5, 1985

Third reading, concurred in.

Returned to Senate with amendments.

### IN THE SENATE

April 13, 1985

On motion, rules suspended to accept. Motion adopted.

April 15, 1985

Received from House.

April 17, 1985

Second reading, amendments concurred in.

April 18, 1985

Third reading, amendments concurred in. Ayes, 48; Noes, 0.

Sent to enrolling.

Reported correctly enrolled.

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1	penale BILL NO. 467
2	INTRODUCED BY DAM
3	As As
4	A BILL FOR AN ACT ENTITLED: "AN ACT REVISING ALLOWABLE
5	DEDUCTIONS IN DETERMINING OIL AND GAS NET PROCEEDS FO
6	PROPERTY TAX PURPOSES; DEFINING "OWNER-OPERATOR" AN
7	"STRIPPER WELL"; ESTABLISHING STARTING POINTS FOR TH
8	AMORTIZATION OF DRILLING COSTS AND CERTAIN CAPITA
9	EXPENDITURES; AMENDING SECTIONS 15-23-601, 15-23-603, AN
Ü	15-23-604, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DAT
1	AND AN APPLICABILITY DATE."
2	
3	BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:
4	Section 1. Section 15-23-601, MCA, is amended to read
5	*15-23-601. Definitions. As used in this part, th
6	following definitions apply:
7	(1) "Excise tax" means the windfall profit tax o
8	domestic crude oil imposed by Title I of the federal Crud
9	Oil Windfall Profit Tax Act of 1980, as enacted or a
0	amended.
1	(2) The terms "operator" and "producer" mean an
2	person who engages in the business of drilling for

extracting, or producing any natural gas, petroleum, or

(3) The term "owner-operator" means any person:

other crude or mineral oil.

1 .	(a) who owns the right, in whole or in part, to search
2	for and produce any natural gas, petroleum, or other crud-
3	or mineral oil, whether such right is derived from the
4	ownership of the mineral estate free of lease, from an oi
5	or gas lease, or from any other agreement conferring suc
6	right; and
7	(b) who actually performs supervisory, management, o
8	operational services necessary to the extraction o
9	production of any natural gas, petroleum, or other minera
10	or crude oil.
11	(4) The term "stripper well" means:
12	(a) any crude oil well from which has been produced
13	and sold during any consecutive 12-month period beginning or
14	or after January 1, 1973, an average of 10 barrels or less
15	of crude oil a day, as determined from the records of the
16	board of oil and gas conservation; or
17	(b) any natural gas well from which is produced and
18	sold during any consecutive 90-day period, in accordance
19	with recognized conservation practices and without damage to
20	the reservoir, an average of not more than 60,000 cubic fee
21	of nonassociated natural gas a day, as determined from the
22	records of the board of oil and gas conservation.
23	(3) The term "well" includes each single well or
24	group of wells, including dry wells, in one field of

production unit and under the control of one operator or

- producer. The term does not include stripper well."
- 2 Section 2. Section 15-23-603, MCA, is amended to read:
- "15-23-603. Net proceeds -- how computed. (1) The 3
- department of revenue shall calculate and compute from the 4
- returns the gross sales proceeds of the product yielded from 5
- such well for the year covered by the statement and shall 6
- calculate the net proceeds of the well yielded to the
- producer, which net proceeds shall be determined by 8
- subtracting from the gross sales proceeds thereof the
- 10 following:

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- 11 (a) all royalty paid in cash by the operator or
- producer and the gross value of all royalty apportioned in 12
  - kind by the operator or producer that shall be determined by
- 14 using as the value of a barrel of oil or a cubic foot of gas
- 15
  - the average selling price for the calendar year of a barrel
  - of oil or a cubic foot of gas from the well out of which the
- royalty was paid; 17
- (b) all moneys money expended for necessary labor, 18
- machinery, and supplies needed and used in the operation and 19
- 20 development;
  - (c) (i) all money expended for necessary labor; and
- 22 (ii) all money expended pursuant to a written operating
- 23 agreement for supervisory, management, or operational
- services needed and used in the operation and development; 24
- tc)(d) all moneys money expended for improvements,

- repairs, and betterments necessary in and about the working
- of the well;
- 3 (e) that portion of all money, including costs of
- insurance, expended for the acquisition and operation of any
- vehicle used in the operation and development of the well
- which bears the same ratio to all money expended for the
- acquisition and use of the vehicle during the year covered
- by the statement as the number of miles the vehicle is used
- in operation and development of the well during the year
- covered by the statement bears to the total miles the 10
- 11 vehicle is used during the year covered by the statement;
- 12 (d)(f) all moneys money expended for fire insurance
- 13 and, workers' compensation insurance, liability insurance,
- 14 and casualty insurance and for payments by operators to
- 15 welfare and retirement funds when provided for in wage
- contracts between operators and employees; 16
- 17 (g) all money expended for any performance or
- 18 indemnity bonds required by the laws of this state or the
- 19 rules of any state agency, with respect to the well for
- 20 which the net proceeds are being calculated;
- 21 (h) with respect to an owner-operator who maintains an
- office or employs clerical or office personnel and who 22
- 23 provides supervision and management for the operation and
- 24 development of one or more wells or stripper wells, which
- supervisory and management activity is supported by 25

1	adequate, contemporaneous records kept by the
2	owner-operator, and whose average daily production from all
3	wells and stripper wells in which the owner-operator owns
4	the right to search for and produce petroleum or other crude
5	or mineral oil or natural gas during the period covered by
6	the statement required by 15-23-602 does not exceed 250
7	barrels of petroleum or mineral or crude oil or 1,500,000
8	cubic feet of natural gas, at the election of the
9	owner-operator and in lieu of the deduction provided in
10	subsection (1)(c)(ii):
11	(i) 10% of the gross sales proceeds allocable to each
12	well for the year for which the net proceeds are being
13	calculated, as an allowance for clerical, office, and
14	supervisory and management costs directly attributable to
15	the operation and development of the well; and
16	(ii) 25% of the gross sales proceeds allocable to each
17	stripper well for the year for which the net proceeds are
18	being calculated, as an allowance for clerical, office, and
19	supervisory and management costs directly attributable to
20	the operation and development of the stripper well; and
21	te;(i) 70% of the amount paid or withheld in
22	satisfaction of liability for excise taxes imposed by the

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- paid by or withheld from each royalty owner. 2 (2) No moneys invested in the well and improvements during any year except the year for which such statement is 3
- 4 made may be included in such expenditures, except as
- 5 provided in 15-23-6047-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 7
  - superintending-the-management-thereof."
- Section 3. Section 15-23-604, MCA, is amended to read: 9
- "15-23-604. Deduction of drilling costs and capital 10
- 11 expenditures. The (1) Unless an operator or producer
- 12 proceeds under subsection (2), the department of revenue in
- computing the deductions allowable for cost of drilling 13
- wells completed during the period and for other capital 14
- expenditures shall allow 10% of such cost each year for a 15
- period of 10 years beginning: 16

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- 17 (a) after the 3-year exemption period allowed in
- 18 15-36-121 for qualified natural gas wells;
- 19 (b) with the year natural gas from a nonqualified
- natural gas well is first placed into a natural gas 20
- 21 distribution system; or
- (c) with the year the pumping unit is installed on a 22
- 23 crude oil well. provided, -however, -the
- 24 (2) The operator or producer may elect to amortize the
- cost over a period of 2 years if the well is less than 3,000 25

U.S. government on the production, sale, or removal of the

natural gas, petroleum, or other crude or mineral oil

yielded from such well, other than the amount of such taxes

1 feet deep."

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NEW SECTION. Section 4. Extension of authority. Any existing authority of the department of revenue or the board of oil and gas conservation to make rules on the subject of the provisions of this act is extended to the provisions of this act.

7 NEW SECTION. Section 5. Effective date --8 applicability. This act is effective on passage and approval
9 and applies to taxable years beginning after December 31,
10 1984.

-End-

#### STATE OF MONTANA

#### FISCAL NOTE

REQUEST NO. FNN 505-85

> Form BD-15

In compliance with a written request re-	ceived February 26,	19 85 , there is her	reby submitted a
Fiscal Note for Senate Bill 462	pursuant to Title 5, Chapte	er 4, Part 2 of the Mor	ntana Code Annotated (MCA).
Background information used in developing	ng this Fiscal Note is availab	le from the Office of I	Budget and Program
Planning, to members of the Legislature	upon request.		

#### DESCRIPTION OF PROPOSED LEGISLATON:

An act revising allowable deductions in determining oil and gas net proceeds for property tax purposes; defining "owner-operator" and "stripper well"; establishing starting points for the amortization of drilling costs and certain capital expenditures; and providing an immediate effective date and an applicability date.

#### ASSUMPTIONS:

- Statewide taxable value FY86 = \$2,397,311,000; FY87 = \$2,444,893,000. 1.
- University levy, 6 mills; school foundation program, 45 mills; average local levy, 80 mills; all school funding 60% of average weighted oil & gas levy, 131 mills.
- Performance or indemnity bonds, \$10,000 (DNRC); Annual premium, \$100/year (USF&G Insurance Co.); 3. 390 oil & gas companies.
- Insurance: annual premium for fire, casualty, and liability insurance, \$200/well/year (Dye, Tavary & 4. Judge Agency in Cutbank, MT); fire insurance (% of annual premium already deductible).
- Overhead: 6,718 producing oil & gas wells; 2,243 stripper wells (1984 Annual Petroleum Independent 1983 statisics 5.
- Companies which must use proposed section 15-23-603 c(ii): 5,154 wells (Montana Oil Journal); average written 6. operating agreement - \$6,000/well/year.
- Estimated barrels of oil produced in FY1986, 28,341,000; average price/barrel = \$26.10 (OBPP). This is held 7. constant and used as a proxy for CY1984 and 1985 production.
- 10% of all oil produced in Montana comes from stripper leases (1984 Petroleum Independent). 8.
- 26,347,476 barrels of oil and 38,139,096 MCF of gas are produced by companies which must use the deduction in proposed section 15-23-603 c(ii) (Montana Oil Journal).
- 10. Using natural gas severance tax collections of \$3,650,000 in FY1986 and a price of \$2.48/MCF, 55,538,649 MCF will be produced in 1985 (OBPP & FY1984 county refund worksheets).
- 11. 35% of all gas leases which are certified under the federal Natural Gas Policy Act are stripper gas leases

(Minerals Management Service certification list, Casper, Wyoming).

BUDGET DIRECTOR

Office of Budget and Program Planning

FN10:W/1-2

Request No.

FNN 505-85

Form BD-15

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## FISCAL IMPACT:

	Under Current Law	FY1986 Under Proposed Law	Difference	Under Current Law	FY1987 Under Proposed Law	Difference
EFFECT ON REVENUE University Mill Levy School Foundation Program	\$ 14,383,866	\$ 14,118,677	(\$ 265,189)	\$ 14,669,358	\$ 14,404,169	(\$ 265,189
TOTAL REVENUE	\$107,878,995 \$122,262,861	\$105,890,077 \$120,008,754	(\$1,988,918) (\$2,254,107)	\$110,020,485 \$124,689,543	\$108,031,267 \$122,435,436	(\$1,988,918 (\$2,254,107

## AFFECT ON COUNTY OR OTHER LOCAL REVENUE OR EXPENDITURES:

The proposed bill would result in a loss of taxable value of approximately \$44,198,186.

The less in revenue to local governments would be \$3,535,855 annually, (\$44,198,186 K .080). School funding is 60% of the total levy or \$3,473,977.

## RE-REFERRED AND APPROVED BY COMMITTEE ON TAXATION

1	SENATE BILL NO. 462
2	INTRODUCED BY GAGE, KEATING
3	
4	A BILL FOR AN ACT ENTITLED: "AN ACT REVISING ALLOWABLE
5	DEDUCTIONS IN DETERMINING OIL AND GAS NET PROCEEDS FOR
6	PROPERTY TAX PURPOSES; BEPINING#OWNER-OPERATOR#AND
7	"STRIPPERWEBB"7 ESTABLISHING STARTING POINTS FOR THE
8	AMORTIZATION OF DRILLING COSTS AND CERTAIN CAPITAL
9	EXPENDITURES; AMENDING SECTIONS 15-23-6017 15-23-6037 AND
10	15-23-604, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE
11	AND AN APPLICABILITY DATE."
12	
13	BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:
14	Section-1Section-15-23-6017-MCA7-is-amended-to-read:
15	415-23-601;Definitions;Asusedin-this-part;-the
16	following-definitions-apply:
17	(1)"Excise-tax"-meansthewindfallprofittaxon
18	domesticcrudeoil-imposed-by-Title-f-of-the-federal-Grude
19	Gil-Windfall-Profit-TaxActof19807asenactedoras
20	amended.
21	(2)Theterms"operator"and"producer"meanany
22	personwhoengagesinthebusinessofdrillingfor;
23	extracting;orproducinganynaturalgas;-petroleum;-or
24	other-crude-or-mineral-oil-
25	+3+The-term-"owner-operator"-means-any-person:

1	(a)who-owns-the-righty-in-whole-or-in-party-to-search
2	for-and-produce-any-natural-gas,-petroleum,-orothercrude
3	ormineraloil;whethersuchrightis-derived-from-the
4	ownership-of-the-mineral-estate-free-of-lease;-fromanoil
5	orgaslease,or-from-mny-other-agreement-conferring-such
6	right; -and
7	fb;who-actually-performs-supervisory;-management;or
8	operationalservicesnecessarytotheextractionor
9	production-of-any-natural-gas,-petroleum,-orothermineral
10	or-crude-oil-
11	(4)The-term-"stripper-well"-means:
1 2	(a)anycrudeoilwell-from-which-has-been-produced
13	and-sold-during-any-consecutive-12-month-period-beginning-on
14	or-after-January-17-1973, an-average-of-18-barrelsorless
15	ofcrudeoila-day;-as-determined-from-the-records-of-the
16	board-of-oil-and-gas-conservation;-or
1.7	(b)any-natural-gas-well-from-whichisproducedand
18	soldduringanyconsecutive90-day-period,-in-accordance
19	with-recognized-conservation-practices-and-without-damage-to
20	the-reservoir;-an-average-of-not-more-than-60,000-cubic-feet
21	of-nonessociated-natural-gas-a-day,-as-determinedfromthe
22	records-of-the-board-of-oil-and-gas-conservation:
23	(3)(5) Theterm"well"includes-each-single-well-or
24	group-ofwells;includingdrywells;inonefieldor
7.5	



SB 0462/02 SB 0462/02

1	producer: The-term-does-not-include-stripper-well:"
2	Section 1. Section 15-23-603, MCA, is amended to read:
3	"15-23-603. Net proceeds how computed. (1) The
4	department of revenue shall calculate and compute from the
5	returns the gross sales proceeds of the product yielded from
6	such well for the year covered by the statement and shall
7	calculate the net proceeds of the well yielded to the
8	producer, which net proceeds shall be determined by
9	subtracting from the gross sales proceeds thereof the
10	following:
11	(a) all royalty paid in cash by the operator or
12	producer and the gross value of all royalty apportioned in
13	kind by the operator or producer that shall be determined by
14	using as the value of a barrel of oil or a cubic foot of gas
15	the average selling price for the calendar year of a barrel
16	of oil or a cubic foot of gas from the well out of which the
17	royalty was paid;
18	(b) all moneys money expended for necessary labor,
19	LABOR, machinery, and supplies needed and used in the
20	operation and development;

tc;--ti;-all-money-expended-for-necessary-labor;-and

agreement---for---supervisory;--management;--or--operational

services-needed-and-used-in-the-operation--and--development;

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(ii)-all-money-expended-pursuant-to-a-written-operating

tc)(d)(C) all moneys money expended for improvements,

21 22 -

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2	of the well;
3	fef(D) that portion of all money, including costs o
4	insurance, expended for the acquisition and operation of an
5 ,	vehicle used in the operation and development of the wel.
6	which bears the same ratio to all money expended for the
7	acquisition and use of the vehicle during the year covered
8	by the statement as the number of miles the vehicle is use
9	in operation and development of the well during the year
10	covered by the statement bears to the total miles the
11	vehicle is used during the year covered by the statement;
12	(d)(E) all moneys money expended for fire insurance
13	and, workers' compensation insurance, liability insurance
14	and casualty insurance DIRECTLY ATTRIBUTABLE TO THE
15	OPERATION AND DEVELOPMENT OF THE WELL and for payments by
16	operators to welfare and retirement funds when provided for
17	in wage contracts between operators and employees;
18	tg)(F) all money expended for any performance of
19	indemnity bonds required by the laws of this state or the
20	rules of any state agency, with respect to the well for
21	which the net proceeds are being calculated; AND
22	th}with-respect-to-an-owner-operator-who-maintains-ar
23	officeoremploysclericalorofficepersonnel-and-who
24	provides-supervision-and-management-fortheoperationand
25	developmentofoneor-more-wells-or-stripper-wells,-which

repairs, and betterments necessary in and about the working

SB 462

1	supervisoryandmanagementactivityissupportedby
2	adequate;contemporaneousrecordskeptbythe
3	owner-operatory-and-whose-average-daily-production-fromall
4	wellsandstripperwells-in-which-the-owner-operator-owns
5	the-right-to-search-for-and-produce-petroleum-or-other-crude
6	or-mineral-oil-or-natural-gas-during-the-periodcoveredby
7	thestatementrequiredby15-23-602does-not-exceed-250
8	barrels-of-petroleum-or-mineral-or-crudeoilor1,500,000
9	cubicfeetofnaturalgas;attheelectionofthe
10	owner-operator-and-in-lieuofthedeductionprovidedin
11	subsection-{1}(c)(ii):
12	(i)10%of-the-gross-sales-proceeds-allocable-to-each
13	well-for-the-year-forwhichthenetproceedsarebeing
14	calculated,asanallowanceforclerical,office,and
15	supervisory-and-management-costsdirectlyattributableto
16	the-operation-and-development-of-the-well; and
17	(ii)-25%of-the-gross-sales-proceeds-allocable-to-each
18	stripper-well-for-the-year-for-which-thenetproceedsare
19	beingcalculated,-as-an-allowance-for-clerical,-office,-and
20	supervisory-and-management-costsdirectlyattributableto
21	the-operation-and-development-of-the-stripper-well; and
22	$\{e\}$ $\underbrace{ti}_{G}$ 70% of the amount paid or withheld in
23	satisfaction of liability for excise taxes imposed by the
24	U.S. government on the production, sale, or removal of the
25	natural gas, petroleum, or other crude or mineral oil

-5-

- yielded from such well, other than the amount of such taxes
  paid by or withheld from each royalty owner.
- (2) No moneys invested in the well and improvements 3 during any year except the year for which such statement is made may be included in such expenditures, except as provided in 15-23-6047-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 В superintending-the-management-thereof, AND SUCH EXPENDITURES 9 MAY NOT INCLUDE THE SALARIES OR ANY PORTION THEREOF OF ANY 10 11 PERSON OR OFFICER NOT ACTUALLY ENGAGED IN THE WORKING OF THE WELL OR SUPERINTENDING THE MANAGEMENT THEREOF." 12
- Section 2. Section 15-23-604, MCA, is amended to read: 13 "15-23-604. Deduction of drilling costs and capital 14 15 expenditures. The (1) Unless an operator or producer proceeds under subsection (2), the department of revenue in 16 computing the deductions allowable for cost of drilling 17 wells completed during the period and for other capital 18 expenditures shall allow 10% of such cost each year for a 19 20 period of 10 years beginning:
- 21 (a) after the 3-year exemption period allowed in 22 15-36-121 for qualified natural gas wells;
- 23 (b) with the year natural gas from a nonqualified
  24 natural gas well is first placed into a natural gas
  25 distribution system; or

1	(c) with the year the pumping unit is installed on a
2	crude oil well, provided,-however,-the
3	(2) The operator or producer may elect to amortize the
4	cost over a period of 2 years if the well is less than 3,000
5	feet deep."
6	NEW SECTION. Section 3. Extension of authority. Any
7	existing authority of the department of revenue or the board
8	of oil and gas conservation to make rules on the subject of
9	the provisions of this act is extended to the provisions of
10	this act.
11	NEW SECTION. Section 4. Effective date
12	applicability. This act is effective on passage and approval
13	and applies to taxable years beginning after December 31,
14	1984.

-End-

1	SENATE BILL NO. 462
2	INTRODUCED BY GAGE, KEATING
3	
4	A BILL FOR AN ACT ENTITLED: "AN ACT REVISING ALLOWABLE
5	DEDUCTIONS IN DETERMINING OIL AND GAS NET PROCEEDS FOR
6	PROPERTY TAX PURPOSES; BEFINING*OWNER-OPERATOR*AND
7	*STRIPPERWHEEL*7 ESTABLISHING STARTING POINTS FOR THE
8	AMORTIZATION OF DRILLING COSTS AND CERTAIN CAPITAL
9	EXPENDITURES; AMENDING SECTIONS 15-23-601, 15-23-603, AND
10	15-23-604, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE
11	AND AN APPLICABILITY DATE."
12	
13	BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:
14	Section-lSection-15-23-601,-MCA,-is-amended-to-read:
15	#15-23-601BefinitionsAsusedin-this-party-the
16	following-definitions-apply:
17	<pre>{1}*Excise-tax*-meansthewindfallprofittaxon</pre>
18	domesticcrudeoil-imposed-by-Title-I-of-the-federal-Crude
19	011-Windfall-Profit-TaxActof19867asenactedoras
20	amended:
21	(2)ThetermsMoperatorMandAproducerMmeanany
22	personwhoengagesinthebusinessofdrillingfory
23	extracting,orproducinganynaturalgas,-petroleum,-or
24	other-crude-or-mineral-oil+
25	+3)The-term-wowner-operator -means-any-person:

1	187 - who owns the right, in whose or in part, to search
2	for-and-produce-any-natural-gasy-petroleumy-orothercrude
3	ormineraloilywhethersuchrightis-derived-from-the
4	ownership-of-the-mineral-estate-free-of-lease;-fromanoil
5	orgasleaseyor-from-any-other-agreement-conferring-such
6	right;-and
7	{b}who-actually-performs-supervisory,-management,or
8	operationalservicesnecessarytotheextractionor
9	production-of-any-natural-gasy-petroleumy-orothermineral
10	or-crude-oil-
11	14)The-term-"stripper-well"-means+
12	tatanyerudeoilwell-from-which-has-been-produced
13	and-sold-during-any-consecutive-12-month-period-beginning-on
14	or-after-January-17-19737-an-average-of-10-barrelsorless
15	ofcrudeoila-dayy-as-determined-from-the-records-of-the
16	board-of-oil-and-gas-conservation;-or
17	(b)any-natural-gas-well-from-whichisproducedand
18	sold-during-any-consecutive-90-day-periody-in-accordance
19	with-recognized-conservation-practices-and-without-damage-to
20	the-reservoir;-an-average-of-not-more-than-60;000-cubic-feet
21	of-nonassociated-natural-gas-a-dayy-as-determinedfromthe
22	records-of-the-board-of-oil-and-gas-conservation.
23	(3)(5) Theterm#well#includes-each-single-well-or
24	group-ofwellsyincludingdrywellsyinonefieldor



production-unit--and--under--the-control-of-one-operator-or

1	producer. The-term-does-not-include-stripper-well-"	1	repairs, and betterments necessary in and about the working
2	Section 1. Section 15-23-603, MCA, is amended to read:	2	of the well;
3	"15-23-603. Net proceeds how computed. (1) The	3.	<pre>fef(D) that portion of all money, including costs of</pre>
4	department of revenue shall calculate and compute from the	4	insurance, expended for the acquisition and operation of any
5	returns the gross sales proceeds of the product yielded from	5	vehicle used in the operation and development of the well
6	such well for the year covered by the statement and shall	6	which bears the same ratio to all money expended for the
7	calculate the net proceeds of the well yielded to the	7	acquisition and use of the vehicle during the year covered
8	producer, which net proceeds shall be determined by	8	by the statement as the number of miles the vehicle is used
9	subtracting from the gross sales proceeds thereof the	9	in operation and development of the well during the year
10	following:	10	covered by the statement bears to the total miles the
11	(a) all royalty paid in cash by the operator or	11	vehicle is used during the year covered by the statement;
12	producer and the gross value of all royalty apportioned in	12	<pre>(d)(f)(E) all moneys money expended for fire insurance</pre>
13	kind by the operator or producer that shall be determined by	13	and, workers' compensation insurance, liability insurance,
14	using as the value of a barrel of oil or a cubic foot of gas	14	and casualty insurance DIRECTLY ATTRIBUTABLE TO THE
15	the average selling price for the calendar year of a barrel	15	OPERATION AND DEVELOPMENT OF THE WELL and for payments by
16	of oil or a cubic foot of gas from the well out of which the	16	operators to welfare and retirement funds when provided for
17	royalty was paid;	17	in wage contracts between operators and employees;
18	(b) all moneys money expended for necessary labor,	18	<pre>fg)(F) all money expended for any performance or</pre>
19	LABOR, machinery, and supplies needed and used in the	19	indemnity bonds required by the laws of this state or the
20	operation and development;	20	rules of any state agency, with respect to the well for
21	te;(i)-all-money-expended-for-necessary-labor;-and	21	which the net proceeds are being calculated; AND
22	(ii)-all-money-expended-pursuant-to-a-written-operating	22	{h}with-respect-to-an-owner-operator-who-maintains-an
23	agreementforsupervisory;management;oroperational	23	officeoremploysclericalorofficepersonnel-and-who
24	ided-end-med-in-the-onerationanddevelopment-	24	provides-supervision-and-management-fortheoperationand

tettd)(C) all moneys money expended for improvements,

-3-

25

development--of--one--or-more-wells-or-stripper-wells,-which

SB 0462/02

supervisoryandmanagementactivityissupportedby
adequateycontemporaneousrecordskeptbythe
owner-operatory-and-whose-average-datty-production-fromall
wellsandstripperwells-in-which-the-owner-operator-owns
the-right-to-search-for-and-produce-petroleum-or-other-crude
or-mineral-oil-or-natural-gas-during-the-periodcoveredby
thestatementrequiredby15-23-602does-not-exceed-250
barrels-of-petroleum-or-mineral-or-crudeoilor1,500,000
cubic feet of natural gas, at the election of the
owner-operator-and-in-lieuofthedeductionprovidedin
subsection-(1)(c)(ii):

q

tit--10%--of-the-gross-sales-proceeds-allocable-to-each
well-for-the-year-for--which--the--net--proceeds--are--being
calculated;--as--an--allowance--for--clerical;--office;--and
supervisory-and-management-costs--directly--attributable--to
the-operation-and-development-of-the-well;-and

tii)-25%--of-the-gross-sales-proceeds-allocable-to-each
stripper-well-for-the-year-for-which-the-net--proceeds--are
being--calculatedy-as-an-allowance-for-clericaly-officey-and
supervisory-and-management-costs--directly--attributable--to
the-operation-and-development-of-the-stripper-welly-and

te)(i) 70% of the amount paid or withheld in satisfaction of liability for excise taxes imposed by the U.S. government on the production, sale, or removal of the natural gas, petroleum, or other crude or mineral oil

-5-

yielded from such well, other than the amount of such taxes paid by or withheld from each royalty owner.

during any year except the year for which such statement is
made may be included in such expenditures, except as
provided in 15-23-6047-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, 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. Section 15-23-604, MCA, is amended to read:

"15-23-604. Deduction of drilling costs and capital expenditures. The (1) Unless an operator or producer proceeds under subsection (2), the department of revenue in computing the deductions allowable for cost of drilling wells completed during the period and for other capital expenditures shall allow 10% of such cost each year for a period of 10 years beginning:

21 (a) after the 3-year exemption period allowed in 22 15-36-121 for qualified <u>natural gas</u> wells;

23 <u>(b) with the year natural gas from a nonqualified</u>
24 <u>natural gas well is first placed into a natural gas</u>
25 distribution system; or

-6-

. 1	(c) with the year the pumping unit is installed on a
.2	crude_oil_well. providedy-howevery-the
3	(2) The operator or producer may elect to amortize the
:4	cost over magperiod of 2 years if the well is less than 3,000
-5	.feet :deep.**
6	NEW SECTION. Section 3. Extension of authority. An
7	existing authority of the department of revenue or the board
. 8	of oil and gas conservation to make rules on the subject of
9	the provisions of this act is extended to the provisions of
.10	this act.
.11	NEW SECTION. Section 4. Effective date
12	applicability. This act is effective on passage and approva
:13	and applies to taxable years beginning after December 31,
14	1984.

-End-

# **COMMITTEE OF THE WHOLE AMENDMENT**

H	0	U	S	E
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11:30 TIME

MR. CHAIRMAN: I MOVE TO AMEND.

SENATE BILL

No. 462

third

blue ) as follows: reading copy (

1. Page 7, line 14.
Strike: "1984"

Insert: "1985"

**ADOPT** 

**REJECT** 

Rep. Schye

1	SENATE BILL NO. 462
2	INTRODUCED BY GAGE, KEATING
3	
4	A BILL FOR AN ACT ENTITLED: "AN ACT REVISING ALLOWABLE
5	DEDUCTIONS IN DETERMINING OIL AND GAS NET PROCEEDS FOR
6	PROPERTY TAX PURPOSES; BEFINING OWNER-OPERATOR AND
7	"STRIPPERWELL"; ESTABLISHING STARTING POINTS FOR THE
8	AMORTIZATION OF DRILLING COSTS AND CERTAIN CAPITAL
9	EXPENDITURES; AMENDING SECTIONS 15-23-6017 15-23-6037 AND
LO	15-23-604, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE
11	AND AN APPLICABILITY DATE."
12	
1.3	BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:
l 4	Section-1:Section-15-23-601;-MCA;-is-amended-to-read:
15	"15-23-601;Befinitions;Asusedin-this-part;-the
16	following-definitions-apply:
17	(1)"Excise-tax"-meansthewindfallprofittaxon
8.	domesticcrudeoil-imposed-by-Title-H-of-the-federal-Grude
9	0il-Windfall-Profit-TaxActof1980,asenactedoras
0	amended,
1	<pre>+2}Theterms"operator"and"producer"meanany</pre>
2	personwhoengagesinthebusinessofdrillingfor;
3	extracting,orproducinganynaturalgas,-petroleum,-or
4	other-crude-or-mineral-oil;
!5	+3)The-term-"owner-operator"-means-any-person:

2	for-and-produce-any-natural-gasy-petroleumy-orothercrude
3	ormineraloilywhethersuchrightis-derived-from-the
4	ownership-of-the-mineral-estate-free-of-lease,-fromanoil
5	orgaslease;or-from-any-other-agreement-conferring-such
6	right;-and
7	<pre>fb}who-actually-performs-supervisory,-management,or</pre>
8	operationalservicesnecessarytotheextractionog
9	production-of-any-natural-gas,-petroleum,-orothermineral
10	or-crude-oil.
11	(4)The-term-"stripper-well"-means:
12	ta)anycrudeoilwell-from-which-has-been-produced
13	and-sold-during-any-consecutive-12-month-period-beginning-on
14	or-after-January-17-1973,-an-average-of-18-barrelsorless
15	ofcrudeoila-day;-as-determined-from-the-records-of-the
16	board-of-oil-and-gas-conservation;-or
17	<pre>fb)any-natural-gas-well-from-whichisproducedand</pre>
18	soldduringanyconsecutive90-day-period;-in-accordance
19	with-recognized-conservation-practices-and-without-damage-to
20	the-reservoir;-an-average-of-not-more-than-60;000-cubic-feet
21	of-nonassociated-natural-gas-a-day,-as-determinedfromthe
22	records-of-the-board-of-oil-and-gas-conservation.
23	(3)(5) Theterm"well"includes-each-single-well-or
24	group-ofwells;includingdrywells;inonefieldor
25	productionunitandunderthe-control-of-one-operator-or

{a}--who-owns-the-righty-in-whole-or-in-party-to-search

1	producer: The-term-does-not-include-stripper-well;"
2	Section 1. Section 15-23-603, MCA, is amended to read:
3	"15-23-603. Net proceeds how computed. (1) The
4	department of revenue shall calculate and compute from the
5	returns the gross sales proceeds of the product yielded from
6	such well for the year covered by the statement and shall
7	calculate the net proceeds of the well yielded to the
8	producer, which net proceeds shall be determined by
9	subtracting from the gross sales proceeds thereof the
10	following:
11	(a) all royalty paid in cash by the operator or
12	producer and the gross value of all royalty apportioned in
13	kind by the operator or producer that shall be determined by
14	using as the value of a barrel of oil or a cubic foot of gas
15	the average selling price for the calendar year of a barrel
16	of oil or a cubic foot of gas from the well out of which the
17	royalty was paid;
18	(b) all moneys money expended for necessary labor,
19	<u>LABOR</u> , machinery $_{7L}$ and supplies needed and used in the
20	operation and development;
21	<pre>(c)(i)-all-money-expended-for-necessary-labor;-and</pre>
22	<pre>fit)-all-money-expended-pursuant-to-a-written-operating</pre>
23	agreementforsupervisory,management,oroperational
24	services-needed-and-used-in-the-operationanddevelopment;

te)(d)(C) all moneys money expended for improvements,

-3-

25

1	repairs, and betterments necessary in and about the working
2	of the well;
3	<pre>fef(D) that portion of all money, including costs o</pre>
4	insurance, expended for the acquisition and operation of an
5	vehicle used in the operation and development of the wel
6	which bears the same ratio to all money expended for the
7	acquisition and use of the vehicle during the year covered
8	by the statement as the number of miles the vehicle is use
9	in operation and development of the well during the year
10	covered by the statement bears to the total miles the
11	vehicle is used during the year covered by the statement;
12	<pre>fd)(E) all moneys money expended for fire insurance</pre>
13	$and_L$ workers' compensation insurance $t$ liability insurance
14	and casualty insurance DIRECTLY ATTRIBUTABLE TO TH
15	OPERATION AND DEVELOPMENT OF THE WELL and for payments b
16	operators to welfare and retirement funds when provided fo
17	in wage contracts between operators and employees;
18	<pre>fgf(F) all money expended for any performance o</pre>
19	indemnity bonds required by the laws of this state or the
20	rules of any state agency, with respect to the well fo
21	which the net proceeds are being calculated; AND
22	<pre>fh}with-respect-to-an-owner-operator-who-maintains-an</pre>
23	officeoremploysclericalorofficepersonnel-and-who
24	provides-supervision-and-management-fortheoperationand
25	developmentofoneor-more-wells-or-stripper-wells,-which

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1	supervisoryandmanagementactivityissupportedby
2	adequate,contemporaneousrecordskeptbythe
3	owner-operator;-and-whose-average-daily-production-fromall
4	wellsandstripperwells-in-which-the-owner-operator-owns
5	the-right-to-search-for-and-produce-petroleum-or-other-crude
6	or-mineral-oil-or-natural-gas-during-the-periodcoveredby
7	thestatementrequiredby15-23-602does-not-exceed-250
8	barrels-of-petroleum-or-mineral-or-crudeoilor1,500,000
9	cubicfeetofnaturalgas;attheelectionofthe
10	owner-operator-and-in-lieuofthedeductionprovidedin
11	subsection-(1)(c)(ii):
12	(i)10%of-the-gross-sales-proceeds-allocable-to-each
13	well-for-the-year-forwhichthenetproceedsarebeing
14	ealculated,asanallowanceforclerical,office,and
15	supervisory-and-management-costsdirectlyattributableto
16	the-operation-and-development-of-the-well;-and
17	(ii)-25%of-the-gross-sales-proceeds-allocable-to-each
18	stripper-well-for-the-year-for-which-thenetproceedsare
19	beingcalculated;-as-an-allowance-for-clerical;-office;-and
20	supervisory-and-management-costsdirectlyattributableto
21	the-operation-and-development-of-the-stripper-well;-and
22	$\{e\}\frac{f(z)}{f(z)}$ 70% of the amount paid or withheld in
23	satisfaction of liability for excise taxes imposed by the
24	U.S. government on the production, sale, or removal of the

natural gas, petroleum, or other crude or mineral oil

-5-

25

yielded from such well, other than the amount of such taxes paid by or withheld from each royalty owner.

- during any year except the year for which such statement is made may be included in such expenditures, except as provided in 15-23-6047-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, 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."
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- 23 (b) with the year natural gas from a nonqualified
  24 natural gas well is first placed into a natural gas
  25 distribution system; or

1	(c) with the year the pumping unit is installed on
2	crude oil well. provided; however; the
3	(2) The operator or producer may elect to amortize the
4	cost over a period of 2 years if the well is less than 3,00
5	feet deep."
6	NEW SECTION. Section 3. Extension of authority. An
7	existing authority of the department of revenue or the boar
8	of oil and gas conservation to make rules on the subject of
9	the provisions of this act is extended to the provisions of
0	this act.
1	NEW SECTION. Section 4. Effective date -
2	applicability. This act is effective on passage and approva
3	and applies to taxable years beginning after December 31
4	1984 1985.

-End-