# NATURAL RESOURCES

Historically, Montana has relied on its natural resources as a primary source of tax revenue. This section covers the natural resource taxes levied in Montana. Generally, natural resource taxes are categorized as either severance/license taxes or some form of *ad valorem* (property) taxes. Information provided includes tax rates, filing requirements, disposition of the tax, production tax incentives, and recent revenue collections.

**Natural Resource Tax Collections - FY 2015 through FY 2018**

| State Natural Resource Tax Revenue | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---|---|---|---|---|
| Bentonite Production Tax | $219,172 | $286,081 | $266,623 | $291,254 |
| Cement & Gypsum Tax | $152,463 | $142,452 | $136,339 | $209,451 |
| Coal Gross Proceeds* | $9,088,502 | $9,469,392 | $9,229,741 | $8,149,973 |
| Coal Severance Tax | $59,125,563 | $56,923,643 | $55,397,169 | $56,611,750 |
| Oil and Natural Gas Production | $90,830,859 | $44,725,511 | $51,356,982 | $60,417,163 |
| Oil and Natural Gas Production (Privilege & License Tax) | $1,671,506 | $812,294 | $2,405,384 | $3,414,619 |
| Metal Mines Gross Proceeds* | $2,593,448 | $2,690,657 | $1,972,646 | $1,815,147 |
| Metalliferous Mine License Tax | $10,947,952 | $5,691,074 | $8,700,599 | $8,700,599 |
| Miscellaneous Mines Net Proceeds* | $382,864 | $377,480 | $412,094 | $402,372 |
| Resource Indemnity & Ground Water Assessment Tax | $3,303,038 | $2,335,153 | $2,622,658 | $2,531,336 |
| U.S. Mineral Royalties | $26,960,428 | $16,758,963 | $17,322,265 | $20,139,199 |
| **Total State Collections** | **$205,275,795** | **$140,212,700** | **$149,822,500** | **$162,682,864** |

| Local Natural Resource Tax Revenue | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---|---|---|---|---|
| Bentonite Production Tax | $776,590 | $1,011,340 | $942,551 | $1,029,626 |
| Coal Gross Proceeds* | $10,768,980 | $11,287,485 | $10,627,162 | $9,136,947 |
| Coal Severance Tax | $1,765,851 | $3,434,905 | $3,410,866 | $3,485,649 |
| Oil and Natural Gas Production | $63,447,389 | $37,900,038 | $46,619,101 | $55,301,615 |
| Oil and Natural Gas Resource Account | $3,157,296 | $1,534,356 | $387,751 | $0 |
| Metal Mines Gross Proceeds* | $11,858,376 | $11,996,094 | $8,731,816 | $8,725,640 |
| Metalliferous Mine License Tax | $3,649,317 | $2,473,424 | $3,817,183 | $4,684,938 |
| Miscellaneous Mine Net Proceeds* | $1,187,778 | $1,246,618 | $1,261,220 | $1,261,109 |
| U.S. Mineral Royalties | $8,986,809 | $5,586,321 | $5,774,088 | $6,713,066 |
| **Total Local Government Collections** | **$105,598,385** | **$76,470,581** | **$81,571,736** | **$90,338,590** |

| Subtotals by Tax | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---|---|---|---|---|
| Bentonite Production Tax | $995,762 | $1,297,421 | $1,209,173 | $1,320,881 |
| Cement & Gypsum Tax | $152,463 | $142,452 | $136,339 | $209,451 |
| Coal Gross Proceeds* | $19,857,482 | $20,756,877 | $19,856,903 | $17,286,920 |
| Coal Severance Tax | $60,891,414 | $60,358,548 | $58,808,035 | $60,097,399 |
| Oil and Natural Gas Production (Total) | $159,107,050 | $84,972,199 | $100,769,218 | $119,133,397 |
| Metal Mines Gross Proceeds* | $14,451,824 | $14,686,751 | $10,704,462 | $10,540,788 |
| Metalliferous Mine License Tax | $14,597,270 | $8,164,499 | $12,517,782 | $13,385,537 |
| Miscellaneous Mines Net Proceeds* | $1,570,642 | $1,624,098 | $1,673,314 | $1,663,481 |
| Resource Indemnity & Ground Water Assessment Tax | $3,303,038 | $2,335,153 | $2,622,658 | $2,531,336 |
| U.S. Mineral Royalties | $35,947,238 | $22,345,284 | $23,096,354 | $26,852,265 |
| **Total Collections** | **$310,874,182** | **$216,683,281** | **$231,394,237** | **$253,021,454** |

*Numbers may not always exactly match property summary data.

## Coal, Oil, and Natural Gas State Tax Comparison

Individual states have different exemptions, deductions and tax bases for their natural resources. These differences make it very difficult to compare tax structures between states. Also, differences in other taxes, such as sales and property tax, can skew the overall tax burden in each state. The tables on the next page provide a brief description of taxes for coal and oil and gas producers in other states.

**National Conference of State Legislatures Comparison of Oil and Natural Gas Tax Rates 2012 (Updated 2018)**

| State | Type of Tax | Description of Tax Rates |
|---|---|---|
| **California** | Oil and Gas Production Assessment | Rate determined annually by Department of Conservation |
| **Colorado** | Severance Tax | Two to five percent based on gross income for oil, gas, carbon dioxide and coal bed methane |
| **Colorado** | Severance Tax | Four percent of gross proceeds on production exceeding 15,000 tons per day for oil shale |
| **Colorado** | Oil and Gas Conservation Levy | Maximum 1.7 mills per $1 of market value at wellhead, not to exceed 0.2 mills per $1 of the market value of the well |
| **Idaho** | Oil and Gas Production Tax | 2.5 percent of market value at site of production |
| **Kansas** | Severance Tax | Eight percent of gross value of oil and gas, less property tax credit of 3.67 percent |
| **Kansas** | Oil and Gas Conservation Tax | 91 mills/bbl crude oil or petroleum marketed or used each month |
| **Kansas** | Oil and Gas Conservation Tax | 12.9 mills/1,000 cubic feet of gas sold or marketed each month |
| **Montana** | Oil or Gas Conservation Tax | Maximum of 0.3 percent on the market value of each barrel of crude petroleum oil or 10,000 cubic feet of natural gas produced and sold |
| **Montana** | Oil or Natural Gas Production Tax | Varies from 0.5 percent to 14.8 percent of market value according to the well and type of production |
| **Nebraska** | Oil and Gas Severance Tax | Three percent of value of nonstripper oil and natural gas |
| **Nebraska** | Oil and Gas Conservation Tax | Two percent of value of stripper oil. Maximum of 15 mills/$1 of value at wellhead |
| **Nevada** | Net Proceeds of Minerals | Two to five percent based on the net proceeds of the production facility |
| **North Dakota** | Oil Gross Production Tax | Five percent of gross value at the well |
| **North Dakota** | Gas Gross Production Tax | $0.0601 per 1,000 cubic feet of gas produced. The rate is subject to a gas rate adjustment each fiscal year. |
| **North Dakota** | Oil Extraction Tax | Five percent of gross value at the well. Exceptions exist for certain production volumes and incentives for enhanced recovery projects. |
| **Ohio** | Resource Severance Tax | $0.10/bbl of oil |
| **Ohio** | Resource Severance Tax | $0.025/1,000 cubic feet of natural gas |
| **Oregon** | Oil and Gas Production Tax | Six percent of gross value at well |
| **South Dakota** | Energy Minerals Severance Tax | 4.5 percent of taxable value of all energy minerals |
| **South Dakota** | Conservation Tax | 2.4 mills of taxable value of all energy minerals |
| **Utah** | Oil and Gas Severance Tax | Three percent of value for the first $13 per barrel of oil and five percent if the value is $13.01 or higher |
| **Utah** | Oil and Gas Severance Tax | Three percent of value for the first $1.50/mcf and five percent if the value is $1.51 or higher |
| **Utah** | Oil and Gas Severance Tax | Four percent of taxable value of natural gas liquids |
| **Utah** | Oil and Gas Conservation Fee | 0.002 percent of market value at the wellhead |
| **Wyoming** | Severance Taxes | Six percent on crude oil, lease condensate or natural gas, 2 percent on oil shale or any other fossil fuels |
| **Wyoming** | Oil and Gas Conversion Charge | 4/10 of a mill, may not exceed 8/10 of a mill. |

MCF stands for 1,000 cubic feet; bbl stands for barrel

# Coal, Oil, and Natural Gas State Tax Comparison

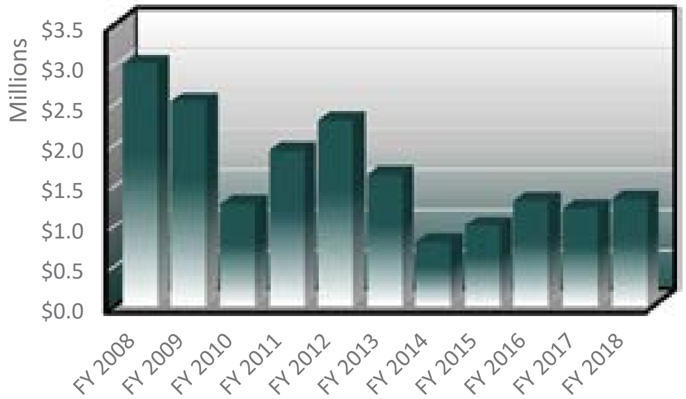
The coal comparison table comes from a synthesis of two sources. Effective tax rates were the product of a regional comparison of coal fiscal policies by Headwaters Economics in 2017. Data on production and quality of coal data was produced by the U.S. Energy Information Administration. The oil and gas table originally comes from the National Conference of State Legislatures, updated by the department in 2018.

| Montana Coal Tax Comparison | | | | | | |
|---|---|---|---|---|---|---|
| Factors | Montana | Wyoming | North Dakota | Colorado | Utah | Units |
| Effective Tax Rates | 11.10% | 9.50% | 2.20% | 1.30% | 0.90% | % Gross Revenue |
| Average BTU | 9,055 | 9,889 | 7,159 | 10,816 | 11,396 | BTU per Pound |
| Average Sulfur Content | 0.37% | 0.72% | 0.84% | 0.46% | 0.52% | % by Weight |
| Average Ash Content | 6.80% | 4.99% | 6.90% | 8.46% | 10.90% | % by Weight |
| Average Sales Price per Ton | $18.84 | $13.74 | $17.95 | $42.54 | $36.40 | USD |
| Production in 2016 | 32.34 | 297.22 | 28.12 | 12.63 | 13.97 | Million Short Tons |
| Currently Recoverable Reserves | 823 | 6,220 | 1,024 | 291 | 112 | Million Short Tons |
| Estimated Recoverable Reserves | 74,479 | 35,904 | 6,603 | 9,478 | 2,514 | Million Short Tons |

**Statute:** Title 15, Chapter 39, MCA

**Bentonite Production Tax**

| Fiscal Year | Total Revenue |
|---|---|
| FY 2008 | $3,004,137 |
| FY 2009 | $2,533,406 |
| FY 2010 | $1,261,586 |
| FY 2011 | $1,920,729 |
| FY 2012 | $2,299,419 |
| FY 2013 | $1,625,960 |
| FY 2014 | $789,982 |
| FY 2015 | $995,762 |
| FY 2016 | $1,297,421 |
| FY 2017 | $1,209,173 |
| FY 2018 | $1,320,881 |




### Tax Rate and History
Prior to Tax Year 2005, bentonite was subject to the mines net proceeds tax similar to other miscellaneous minerals. Starting in Tax Year 2005, bentonite is taxed at rates prescribed in 15-39-101, MCA. For tax years starting after December 31, 2009, the rates are adjusted annually for inflation.

**Bentonite Production Tax Rates**

| Production Level | 2017 Tax ($/Ton) | 2018 Tax ($/Ton) |
|---|---|---|
| 0-20,000 Tons | $0.00 | $0.00 |
| 20,001-100,000 Tons | $1.73 | $1.76 |
| 100,001-250,000 Tons | $1.66 | $1.70 |
| 250,001-500,000 Tons | $1.55 | $1.58 |
| 500,001-1,000,000 Tons | $1.38 | $1.41 |
| Over 1 Million Tons | $1.11 | $1.13 |
| **Royalty Revenue** | 15% | |

### Filing and Payment of Tax
Producers are required to report production and pay taxes for semiannual periods ending June 30 and December 31. The report and tax are due within 45 days of the end of each semiannual period.

### Distribution
The tax revenue is distributed according to a statutory formula that distributes the tax among state and local entities (15-39-110, MCA).

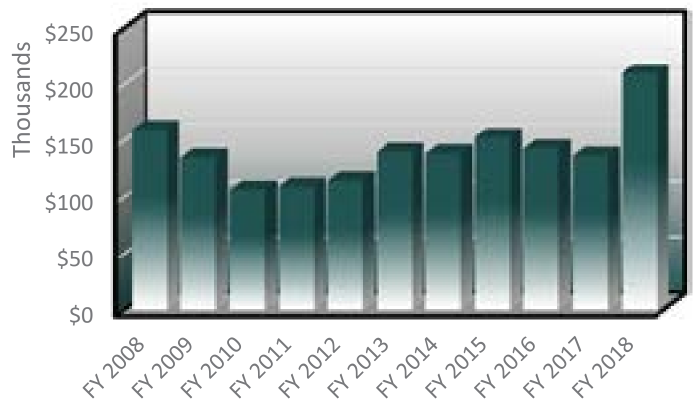
**Distribution of Bentonite Tax**

| Fund | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---|---|---|---|---|---|
| Counties with Production | $617,942 | $776,590 | $1,011,340 | $942,551 | $1,029,626 |
| General Fund | $160,616 | $205,721 | $269,215 | $250,903 | $274,083 |
| Montana University System | $11,423 | $13,451 | $16,866 | $15,719 | $17,171 |

**Statute:** Title 15, Chapter 59, MCA

**Cement and Gypsum Tax**

| Fiscal Year | Total Revenue |
|---|---|
| FY 2008 | $159,313 |
| FY 2009 | $134,695 |
| FY 2010 | $106,494 |
| FY 2011 | $109,064 |
| FY 2012 | $114,462 |
| FY 2013 | $139,451 |
| FY 2014 | $138,174 |
| FY 2015 | $152,463 |
| FY 2016 | $142,452 |
| FY 2017 | $136,339 |
| FY 2018 | $209,451 |




## Tax Rate

Producers and importers of cement and cement products are required to pay a license tax of 22 cents per ton. Producers and importers of gypsum and gypsum products are required to pay 5 cents per ton. Before July 1, 1997, individuals retailing cement and gypsum products in Montana paid a license tax of 22 cents and 5 cents, respectively, for every ton that had not been paid under any other law. The tax on retailers was repealed during the 1997 legislative session.

**Cement and Gypsum Tax Rates**

| Product | Tax Per Ton |
|---|---|
| Cement | $0.22 |
| Gypsum | $0.05 |

## Filing Requirements

Producers, manufacturers and importers shall file quarterly statements showing the number of tons of cement or gypsum produced, manufactured, or imported into the state. These statements, along with the tax due, must be submitted within 30 days following the end of each calendar quarter.

## Distribution

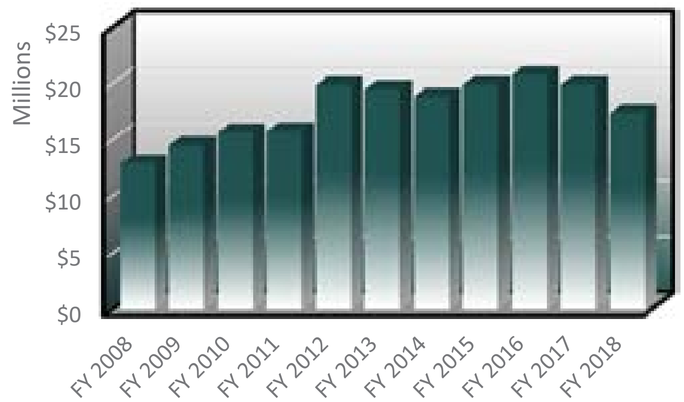
All proceeds from cement and gypsum taxes are deposited in the state General Fund.

# Coal Gross Proceeds

**Statute:** Chapter 15, Section 23, Part 7, MCA

**Coal Gross Proceeds**

| Fiscal Year | Total Revenue |
|---|---|
| FY 2008 | $12,859,110 |
| FY 2009 | $14,458,854 |
| FY 2010 | $15,612,630 |
| FY 2011 | $15,703,152 |
| FY 2012 | $19,826,095 |
| FY 2013 | $19,444,335 |
| FY 2014 | $18,812,015 |
| FY 2015 | $19,857,482 |
| FY 2016 | $20,756,877 |
| FY 2017 | $19,856,903 |
| FY 2018 | $17,286,920 |




**Tax Rate**

State and local governments do not levy or assess any mills against the reported gross proceeds of coal. Instead, a flat tax of 5 percent is levied against the value of the reported gross proceeds for most coal mines. With the passage of SB 266 in the 2011 Legislature, new or expanding underground coal mines can be granted a local abatement by the county of up to one-half of the allowed rate, or 2.5 percent of the gross proceeds. The abatement however does not apply to the state share, and can be granted for up to 10 years of production.

**Filing Requirements**

On or before March 31 of every year, each person or firm engaged in mining coal must file a statement of gross yield for every mine operated in the preceding year. The producer must pay 50 percent of the taxes due on or before November 30; the remaining 50 percent is due on or before May 31 of the following year.

**Distribution**

The revenue is proportionally distributed to the appropriate taxing jurisdictions in which production occurred based on the total number of mills levied in Fiscal Year 1990.

**Coal Gross Proceeds Tax**

| Fiscal Year<br>Tax Year | FY 2012<br>TY 2010 | FY 2013<br>TY 2011 | FY 2014<br>TY 2012 | FY 2015<br>TY 2013 | FY 2016<br>TY 2014 | FY 2017<br>TY 2015 | FY 2018<br>TY 2016 |
|---|---|---|---|---|---|---|---|
| Tons Produced | 38,789,754 | 36,416,185 | 33,970,260 | 36,634,555 | 37,910,103 | 36,175,492 | 28,189,054 |
| Gross Value | $546,490,686 | $577,000,614 | $558,738,538 | $601,998,842 | $626,044,599 | $590,921,464 | $515,265,149 |
| Gross Proceeds | $396,521,885 | $424,029,484 | $411,533,834 | $450,748,472 | $478,443,474 | $447,944,028 | $395,216,036 |
| Tax | $19,826,095 | $19,444,335 | $18,812,015 | $19,857,482 | $20,756,877 | $19,856,903 | $17,286,920 |
| Local Share | $10,739,041 | $10,369,234 | $10,043,732 | $10,768,980 | $11,287,485 | $10,627,162 | $9,136,947 |
| State Share | $9,087,054 | $9,075,101 | $8,768,283 | $9,088,502 | $9,469,392 | $9,229,741 | $8,149,973 |

## Coal Gross Proceeds History

The following figures show a select history behind the implementation and tax rate for coal gross proceeds tax.

### 1975

Each coal mine was required to report gross yield and value of production to the DOR. DOR would give that information to the counties. The counties use it to levy property tax. Underground mines were to be taxed at 33 1/3% of full and true value and strip mines were taxed at 45% of full and true value.

### 1983

Provided that whenever DOR assigns the value of the coal for severance tax, that imputed value is to be used for the purposes of property tax.

### 1989

Replaced the property tax previously implemented on the gross proceeds of coal with a 5% tax against the value of the reported gross proceeds. Also required that it be distributed in the relative proportions required by the levies for state and county purposes in the same manner as property taxes were distributed in fiscal year 1990 in the taxing jurisdiction.

### 1993

Gave the DOR the task of computing gross proceeds and transmitting it to the treasurer for levying the gross proceeds tax.

### 2009

Allowed counties to abate 50% of coal gross proceeds revenue for new and expanding underground mines which would be taken out of the local share of the revenue.

Provided that the costs of washing and cleaning of coal from an underground mine are not included in the contract sales price of coal.

### 2011

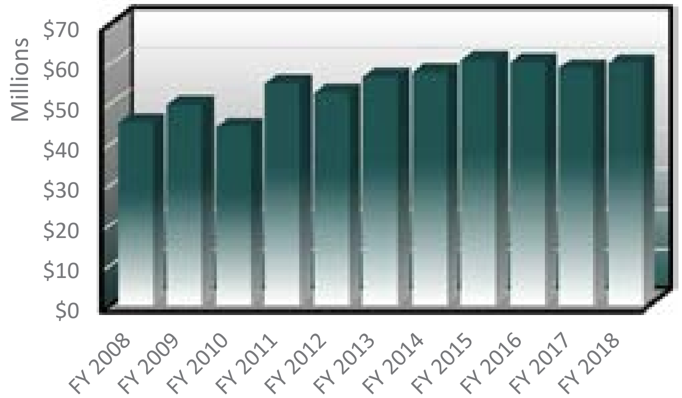
Provided a tax abatement to new underground mines of 1/2 of the regular 5% tax rate for mines beginning after December 31, 2011 for the first 10 years of production.

Allowed counties to choose to abate any percentage up to 50% of coal gross proceeds tax for new or expanding underground mines that are taxed at the regular 5% rate.

**Statute:** Title 15, Chapter 35, MCA;
Article IX, Section 5, Montana Constitution

**Coal Severance Tax**

| Fiscal Year | Total Revenue |
|---|---|
| FY 2008 | $45,331,870 |
| FY 2009 | $49,564,120 |
| FY 2010 | $44,177,434 |
| FY 2011 | $54,970,717 |
| FY 2012 | $52,742,627 |
| FY 2013 | $56,573,818 |
| FY 2014 | $57,676,184 |
| FY 2015 | $60,891,414 |
| FY 2016 | $60,358,548 |
| FY 2017 | $58,808,035 |
| FY 2018 | $60,097,399 |




**Tax Rate**
Surface mined coal is taxed at 15 percent of value if rated as having 7,000 British Thermal Units (BTU) or more per pound and is taxed at 10 percent of value if rated as having less than 7,000 BTU per pound. Coal mined underground is taxed at 4 percent if rated as having 7,000 BTU per pound and over, and is taxed at 3 percent if rated as having less than 7,000 BTU per pound.

Coal mined using auger technology is taxed at 5 percent of value if rated as having 7,000 BTU per pound and is taxed at 3.75 percent of value if rated as having under 7,000 BTU per pound.

**Coal Severance Tax Rates**

| Heating Quality (BTU/lb) | Surface Mining | Auger Mining | Underground Mine |
|---|---|---|---|
| Less Than 7,000 BTU | 10% | 3.75% | 3% |
| More Than 7,000 BTU | 15% | 5% | 4% |

For a comparison to other states' tax on coal production, please see "Coal, Oil and Natural Gas State Tax Comparison" subsection of this report.

**Filing Requirements**
Coal mine operators are required to file quarterly statements containing information sufficient to calculate the tax due. Tax payments are due at the time of filing (within 30 days following the close of each calendar quarter).

**Distribution**
There are many steps to the distribution of revenue generated from the coal severance tax. First, 50 percent of total severance tax revenue is deposited in the coal trust fund as described in Article IX, Section 5 of the Montana Constitution. This revenue must remain untouched unless appropriated by a ¾ majority of both houses of the legislature. There are currently six sub-trusts that make up the coal trust fund: Coal Tax Bond Fund, Treasure State Endowment Fund, Treasure State Endowment Regional Water Fund, Big Sky Economic Development Fund, School Facilities Fund, and the Coal Severance Tax Permanent Fund.

| Coal Trust Fund Balances | |
|---|---|
| Trust | FY 2018 Estimated Ending Balance |
| Treasure State Endowment Trust | $275,215,714 |
| Treasure State Regional Water Trust | $96,187,702 |
| Big Sky Economic Development Trust | $104,361,851 |
| Coal Permanent Trust | $550,503,490 |
| School Facilities Trust | $17,436,799 |
| **Total** | **$1,026,268,757** |

All severance tax trust revenue is first deposited in the Coal Tax Bond Fund. However, only a small portion is retained in the fund. This fund maintains a fund balance sufficient to meet interest payments of outstanding Coal Severance Tax Bonds. These bonds are used to provide loans for renewable resource projects. The fund balance in excess of the required amount is then deposited to the School Facilities Fund (75 percent) and the Big Sky Economic Development Trust Fund (25 percent). The interest revenue from the Big Sky Economic Development Trust Fund is statutorily appropriated to the Department of Commerce for grants and loans to local governments for economic development purposes.

Any remaining trust fund severance tax revenue is distributed to the Coal Severance Tax Permanent Fund and interest revenue is deposited in the general fund. The table above shows the balance of each of these trust funds as of the end of Fiscal Year 2018.

The Treasure State Endowment Fund and the Treasure State Endowment Regional Water Fund no longer receive deposits from the Coal Severance Tax. These funds continue to hold their principal and generate interest income. Interest generated from the Treasure State Endowment Trust Fund is appropriated in HB 11 and used to fund grants for local infrastructure projects. Interest generated from the Treasure State Endowment Regional Water Fund is used for regional water development. The Treasure State Endowment Regional Water Fund will terminate in 2031 and the account holdings will be transferred to the Coal Severance Tax Permanent Fund.

Even though the interest from the Coal Severance Tax Permanent Trust Fund is deposited in the General Fund, there are statutory appropriations directing how some of this interest revenue is spent. These statutory appropriations will expire at the end of Fiscal Year 2019. The following table details these appropriations:

| General Fund Coal Interest Earnings Statutory Appropriations | |
|---|---|
| | FY 2017 - FY 2018 |
| Cooperative Development Center | $65,000 |
| Growth Through Agriculture | $625,000 |
| Research and Commercialization | $1,275,000 |
| **Department of Commerce** | |
| Small Business Development Center | $125,000 |
| Small Business Innovative Research | $50,000 |
| Certified Development Corporations | $425,000 |
| MT Manufacturing Center at MSU | $200,000 |
| Export Trade Enhancement | $300,000 |

HB 648, passed by the 2017 Legislature, simplified sourcing for the state contribution to the public employees' retirement system pension trust. Previously this contribution was partially from leftover severance fund allocation after other statutory appropriations were covered, and partially from interest accrued on the Coal Severance Tax Permanent Trust Fund. HB 648 requires the state to contribute from the General Fund to the public employees' retirement system pension trust: $31.386 million in Fiscal Year 2017, $31.958 million in Fiscal Year 2018, and then 101 percent of the contribution amount of the previous year for every year thereafter. Interest from the Coal Severance Tax Permanent Trust Fund and leftover coal severance tax funds are allocated to the General Fund without the express purpose of funding the state contribution to the public employees' retirement system pension trust.

The 50 percent of revenue that is not constitutionally allocated is deposited according to 15-35-108, MCA. The following table shows how this revenue was distributed for the last 4 fiscal years in proportion to the total severance tax revenue.

**Distribution of Coal Severance Tax**

| Fund | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---|---|---|---|---|---|
| Coal Trust Fund (50%) | $28,838,092 | $30,445,707 | $30,179,274 | $29,404,017 | $30,048,699 |
| Long Range Building (12%) | $6,921,142 | $7,306,970 | $7,243,026 | $7,056,964 | $7,211,688 |
| Shared Account (5.46%)[1] | $3,149,120 | $3,324,671 | $3,295,577 | $3,210,919 | $2,921 |
| Library Services (0.85%) | $0 | $0 | $0 | $0 | $510,373 |
| Conservation Districts (3.89%) | $0 | $0 | $0 | $0 | $2,335,708 |
| Growth Through Agriculture (0.72%) | $0 | $0 | $0 | $0 | $432,316 |
| Park Acquisition Trust (1.27%) | $732,488 | $773,321 | $766,554 | $746,862 | $763,237 |
| Renewable Res. Debt Service (0.95%) | $547,924 | $578,468 | $573,406 | $558,676 | $570,925 |
| Cultural and Aesthetic Proj. (0.63%) | $363,360 | $383,616 | $380,259 | $370,491 | $378,614 |
| Coal Board (5.8%)[2] | $2,129,440 | $1,765,851 | $3,434,905 | $3,410,866 | $3,485,649 |
| Coal & Uranium Program ($250K) | $250,000 | $250,000 | $250,000 | $250,000 | $250,000 |
| General Fund (Remainder) | $14,744,619 | $16,062,810 | $14,235,548 | $13,799,239 | $14,107,269 |

[1] For 2018 onward the shared account is split into its three interests with explicitly allocated funds.

[2] Decreases to 2.9% beginning July 1, 2019.

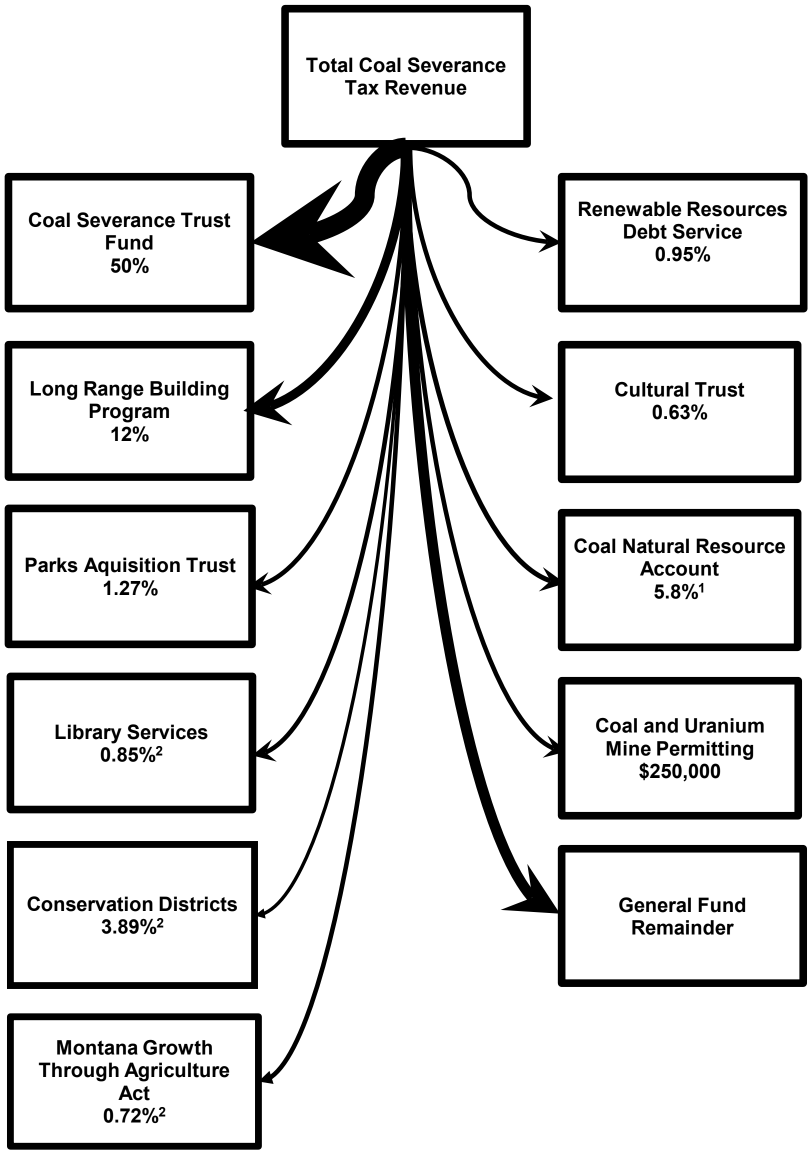
Prior to 2017, a shared account received 5.46 percent of coal severance tax revenue to provide for library services, conservation districts, and the Montana Growth Through Agriculture Act. HB 648 splits this shared account into its three interests and explicitly allocates them funds. This split changes over time according to the schedule shown below, with the sum of the three allocations remaining at 5.46 percent.

**Distribution of Coal Severance Tax - Shared Account Breakdown by Fiscal Year**

| Fund Name | FY 2018 | FY 2019 | FY 2020 | FY 2021+ |
|---|---|---|---|---|
| Library Services | 0.85% | 0.88% | 0.90% | 0.93% |
| Conservation Districts | 3.89% | 3.83% | 3.77% | 3.71% |
| Growth Through Agriculture | 0.72% | 0.75% | 0.79% | 0.82% |
| Percentage of Coal Severance Tax | 5.46% | 5.46% | 5.46% | 5.46% |

The following three charts illustrate the entire distribution of the coal severance tax revenue.

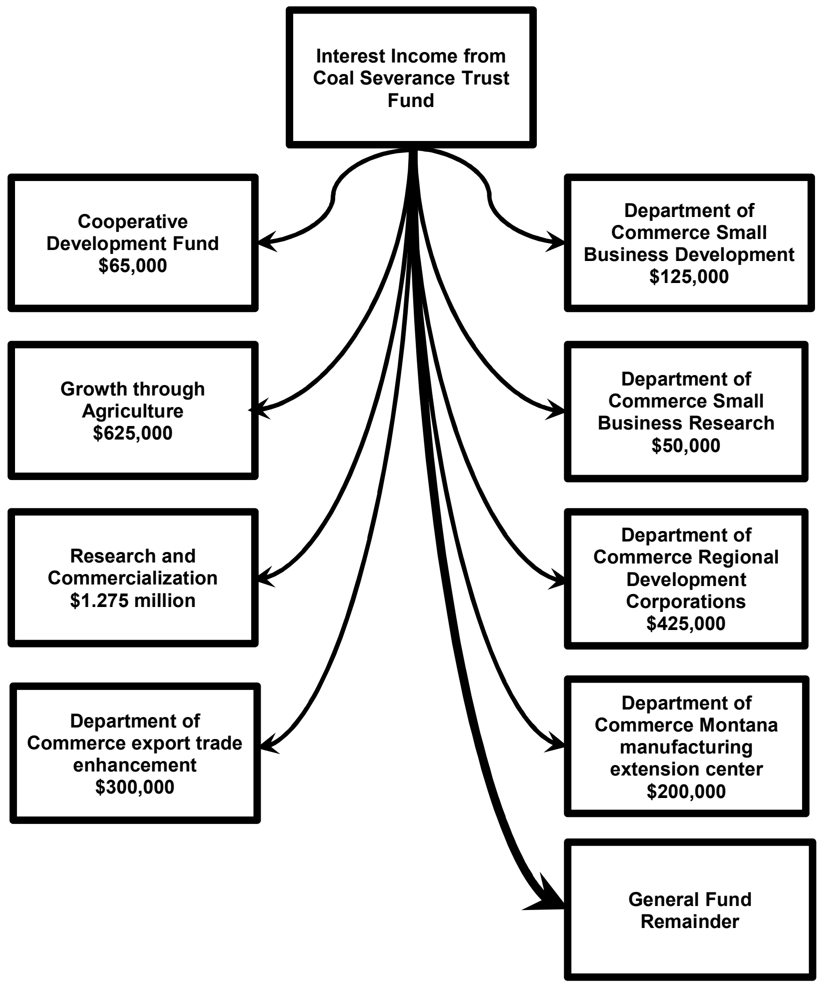
## Coal Severance Tax Revenue Distribution



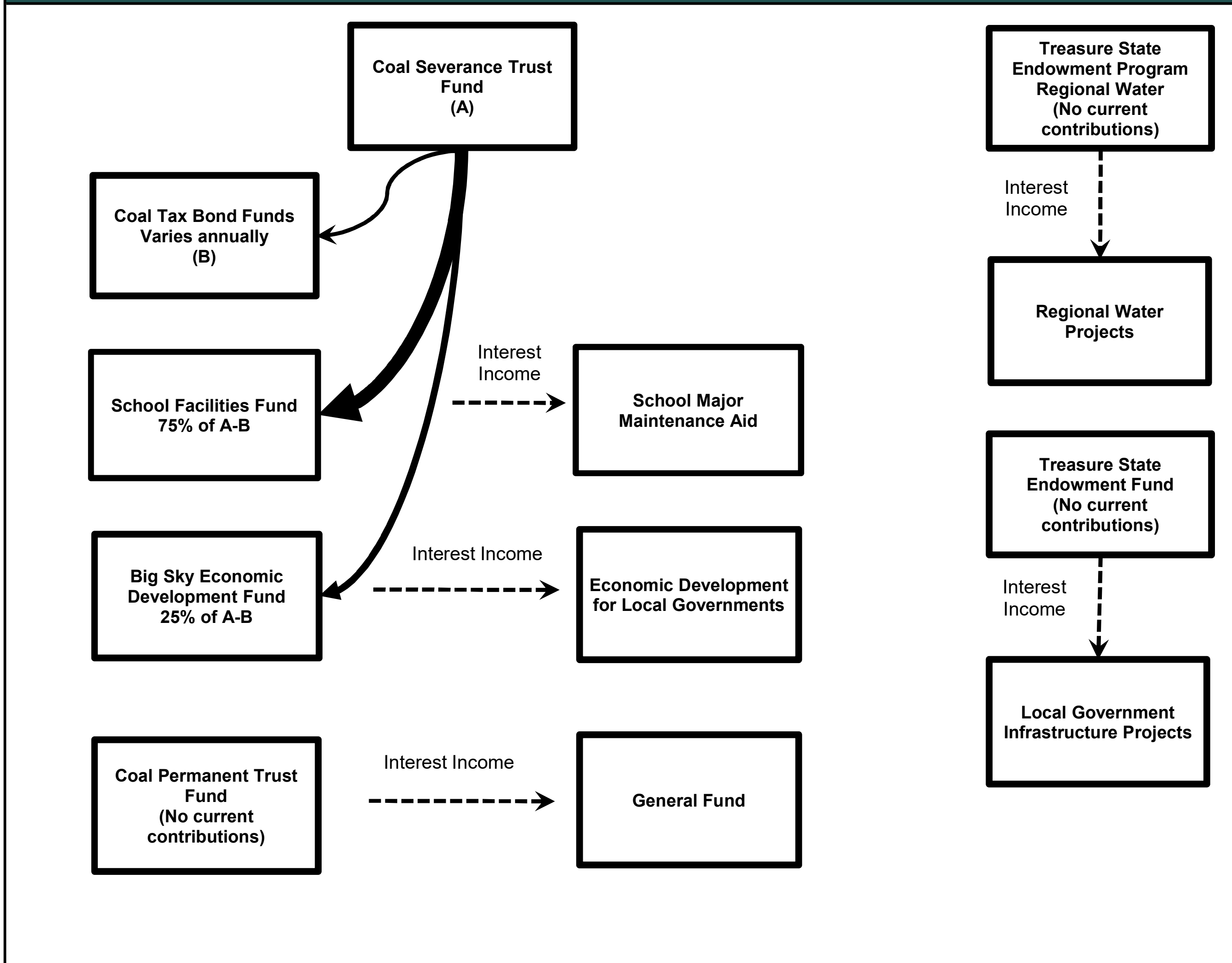

[1] Decreases to 2.9% beginning July 1, 2019.

[2] These percentages are accurate for FY 2018. See the Shared Account Table for a breakdown of later fiscal years.

# Interest Income Coal Severance Trust Fund (terminates June 30, 2019)



# Coal Severance Trust Fund Distribution



# Coal Severance Tax

The following figures show a select history of the coal severance tax rate and implementation.
**Statute:** Title 15, Chapter 23, Part 8, MCA

### 1921

- Coal Mines License Tax of 5 cents per ton imposed on coal mined in Montana

### 1939

- The first 50,000 tons of a mine's annual production were exempted from the Coal Mines License Tax

### 1967

- Limited Coal Mines License Tax to strip mines only
- Allowed the licensee a credit against the license tax of one-half of the reasonable value of reclamation work performed on strip-mined lands

### 1971

- Limited the credit for on-site reclamation work to a maximum of 1 cent per ton
- Reduced the amount of coal exempt from taxation annually to 5,000 tons
- Revised license tax rate according to BTU content per pound of coal
  - 4¢/ton for 6,000 BTU or less
  - 6¢/ton for 6,001 to 7,500 BTU
  - 8¢/ton for 7,501-9,000 BTU
  - 10¢/ton for 9,001+ BTU

### 1973

- Removed the credit for on-site reclamation work
- Increased the tax rate based on BTU of coal
  - 12¢/ton for 7,000 BTU or less
  - 22¢/ton for 7,001 to 8,000 BTU
  - 34¢/ton for 8,001 to 9,000 BTU
  - 40¢/ton for 9,001 BTU+

### 1975

- Imposed a graduated severance tax on coal, applicable to any producer who produces 5,000 or more tons/quarter
  - For surface coal, ranging from 12¢/ton or 20% of value to 40¢/ton or 30% of value
  - For underground coal, 5¢/ton or 3% of value to 12 ¢/ton or 4% of value

### 1975, cont.

- Removed coal from application of the law on net proceeds of mines and made coal subject to gross proceeds under the property tax system
- Voters of MT approved a constitutional amendment requiring a permanent trust fund for a portion of the coal severance tax proceeds (1/4 the revenue until 1980, then 1/2)

### 1977

- Revised the exemption from the coal severance tax to the first 20,000 tons of production each year

## 1983

- Increased the exemption from the coal severance tax to 50,000 tons a year, but required a person who produced more than 50,000 tons a year to pay severance tax on all production over 20,000 tons

## 1985

- The "New Coal Production Incentive Act of 1985" allowed a tax credit of 33 1/3% of the severance tax

## 1987

- Reduced the coal severance tax to a maximum of 25% in FY1990 and 20% beginning in FY1992. If production and sale exceeded 32.2 million tons statewide during 1998, the rate would be further reduced to a maximum of 25% for FY1989 and 1990, 20% for FY1991, and 15% after June 30, 1991

## 1989

- Reduced the coal severance tax rate beginning in FY 1992 to 10% of value for under 7,000 BTU/lb and 15% of value for 7,000 BTU and over
- Allowed a production tax credit on severance tax of 40% of incremental production for FY 1989 and 1990 and 25% of production for FY 1991

## 1993

- Defined extended depth auger mining and imposed a reduced severance tax rate of 7.5% of value

## 1995

- Exempted up to 2 million tons of coal produced as feedstock for coal enhancement facilities in a calendar year

## 2001

- Reduced the coal severance tax rate by 1/3 for coal produced for in-state electrical generating facilities sold at a rate set by the Public Service Commission

## 2005

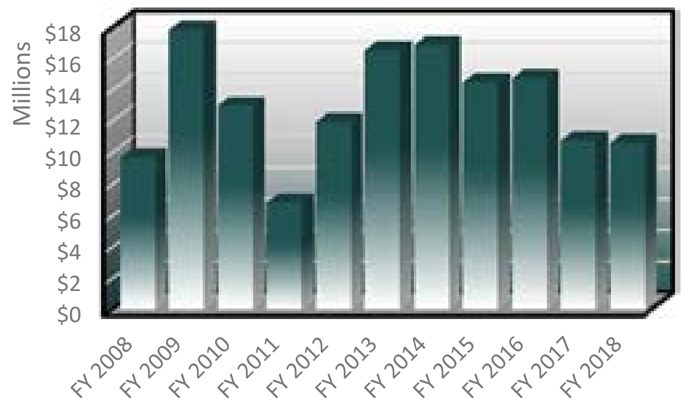
- Eliminated the coal severance tax rate incentive for in-state electrical generating facilities

## 2009

- Reduced the coal severance tax rate on coal recovered from a strip mine by auger mining to 3.75% of value for under 7,000 BTU/lb. and 5% of value for 7,000 and over BTU/lb.

**Metal Mines Gross Proceeds**

| Fiscal Year | Total Revenue |
|---|---|
| FY 2008 | $9,668,903 |
| FY 2009 | $17,824,346 |
| FY 2010 | $12,964,154 |
| FY 2011 | $6,771,689 |
| FY 2012 | $11,923,871 |
| FY 2013 | $16,494,210 |
| FY 2014 | $16,813,903 |
| FY 2015 | $14,451,824 |
| FY 2016 | $14,686,751 |
| FY 2017 | $10,704,462 |
| FY 2018 | $10,540,788 |




**Tax Rate**

The value of severed gold, silver, copper, lead, or other metals from any mine located in Montana is considered Class 2 property for property class purposes and is assessed local and state mills. The taxable value of metal mines is equal to 3 percent of merchantable value.

Merchantable value is the annual gross proceeds from the sale of metals less certain deductions. Allowed deductions include the costs of transporting mineral product from mine to processor, basic treatment and refinery charges, quantity deductions, price deductions, interest, and penalty metal, impurity, and moisture deductions as specified by contract.

For example, imagine Best Metal Company has $11 million in gross proceeds from gold and silver. They have a total of $1 million in allowable deductions, including $250,000 in treatment and refining and $750,000 in transportation costs from the mine to the processor. Their merchantable value, or gross proceeds minus allowable deductions, is $10 million. With 3 percent taxable as defined by law, they have a taxable value of $300,000. The state and their county assess 500 mills on their taxable value resulting in $150,000 tax due to the state and county.

**Filing Requirements**

Metal mines tax reports must be filed by March 31 of each year, showing the total gross proceeds of metal mined during the preceding calendar year. By July 1, the department calculates the merchantable value by subtracting allowable deductions and records the value in the property tax records. The mine producer must pay half of the property tax levied and assessed by November 30 and the other half by May 31 of the following year.

**Distribution of Metal Mines Gross Proceeds Tax**
The taxable value of metal mines gross proceeds is allocated to the local jurisdictions where the mine mouth is located. The mills of these local jurisdictions and statewide mills are levied against the taxable value.

**Metal Mines Assessed and Taxable Value of Production**

| Production Year | Fiscal Year | Assessed Value | Taxable Value for Local Mills | Taxable Value for State Mills |
|---|---|---|---|---|
| 2007 | 2009 | $1,161,919,543 | $24,540,432 | $32,019,240 |
| 2008 | 2010 | $1,033,960,651 | $23,843,907 | $28,307,630 |
| 2009 | 2011 | $843,431,234 | $19,812,142 | $23,205,010 |
| 2010 | 2012 | $1,117,009,632 | $28,972,961 | $31,295,298 |
| 2011 | 2013 | $1,037,736,476 | $29,970,925 | $31,132,094 |
| 2012 | 2014 | $1,043,487,747 | $31,304,631 | $31,304,632 |
| 2013 | 2015 | $851,842,256 | $25,555,274 | $25,555,268 |
| 2014 | 2016 | $883,888,082 | $26,516,643 | $26,516,642 |
| 2015 | 2017 | $648,475,233 | $19,454,258 | $19,454,257 |
| 2016 | 2018 | $596,330,812 | $17,889,922 | $17,889,924 |

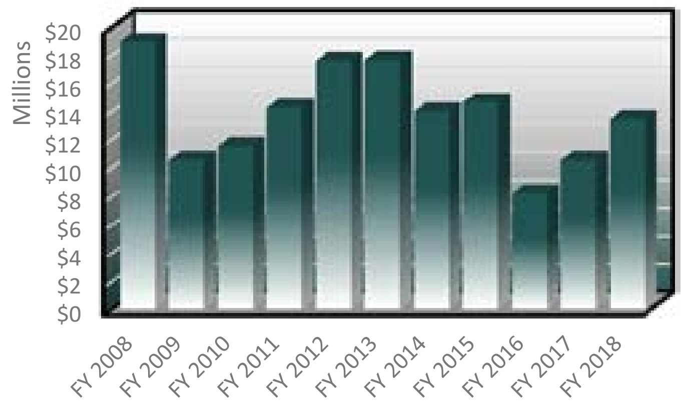
**Gross Proceeds Property Taxes Assessed**

| Fiscal Year | State Share | Local Share | Total Property Tax |
|---|---|---|---|
| FY 2008 | $1,913,103 | $7,755,799 | $9,668,903 |
| FY 2009 | $3,256,373 | $14,567,972 | $17,824,346 |
| FY 2010 | $2,875,151 | $10,089,003 | $12,964,154 |
| FY 2011 | $1,096,356 | $5,675,333 | $6,771,689 |
| FY 2012 | $2,106,806 | $9,817,065 | $11,923,871 |
| FY 2013 | $3,162,135 | $13,332,075 | $16,494,210 |
| FY 2014 | $3,178,007 | $13,635,896 | $16,813,903 |
| FY 2015 | $2,593,448 | $11,858,376 | $14,451,824 |
| FY 2016 | $2,690,657 | $11,996,094 | $14,686,751 |
| FY 2017 | $1,972,646 | $8,731,816 | $10,704,462 |
| FY 2018 | $1,815,147 | $8,725,640 | $10,540,788 |

**Statute:** Title 15, Chapter 37, Part 1, MCA

**Metalliferous Mines License Tax**

| Fiscal Year | Total Revenue |
|---|---|
| FY 2008 | $18,902,178 |
| FY 2009 | $10,513,899 |
| FY 2010 | $11,475,975 |
| FY 2011 | $14,204,440 |
| FY 2012 | $17,562,018 |
| FY 2013 | $17,630,052 |
| FY 2014 | $13,943,131 |
| FY 2015 | $14,597,270 |
| FY 2016 | $8,164,499 |
| FY 2017 | $10,515,966 |
| FY 2018 | $13,385,537 |




## Tax Rate

Mining operations in which metal or gems are extracted are subject to the metalliferous mines license tax, which is based on the gross value of the product. The first $250,000 of gross value is exempt from taxation. Concentrate shipped to a smelter, mill or reduction work is taxed at 1.81 percent of gross value. Gold, silver, or any platinum-group metal that is dore, bullion, or matte that is shipped to a refinery is taxed at 1.6 percent of gross value. Shipping and refining costs are deducted from revenue to determine gross value.

**Metalliferous Mines Tax Rates**

| Tax Base* | Tax Rate | Exemptions |
|---|---|---|
| Dore/Bullion/Matte | 1.60% | First $250,000 |
| Concentrates | 1.81% | First $250,000 |

*Excludes shipping and refining costs

## Gross Value

The value to which the tax rate is applied is the monetary payment the mining company receives from the metal trader, smelter, roaster, or refinery. This is determined by multiplying the quantity of metal received by the metal trader, smelter, roaster or refinery by the quoted price for the metal; subtracting basic treatment and refinery charges, quantity deductions, price deductions, interest, penalty metal, impurity and moisture deductions as specified by contract between the mining company and the receiving metal trader, smelter, roaster or refinery. Deductions are also allowed for the cost of transportation from the mine or mill to the smelter, roaster or refinery.

**Filing Requirements**
Beginning in 2003, reports and payment of metal mines tax are due twice a year, on or before March 31 and August 15.

**Distribution**
Metalliferous mines license tax revenue is distributed to various entities in accordance with 15-37-117, MCA.

The 2015 Legislature passed SB 20, which decreased the share of total revenue going to the state General Fund from 57 percent to 47 percent and increased the share of revenue going to the counties from 25 percent to 35 percent, as of July 1, 2016.

**Distribution of Metalliferous Mine License Tax**

| Fund | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---|---|---|---|---|---|
| General Fund (57% or 47%) | $7,947,585 | $8,320,444 | $4,221,465 | $4,838,691 | $6,291,202 |
| Hard Rock Mining (2.5%) | $348,578 | $364,932 | $204,112 | $258,346 | $334,638 |
| Hard Rock Debt Service (8.5%) | $1,185,166 | $1,240,768 | $693,982 | $878,376 | $1,137,771 |
| Natural Resources Operations (7%) | $976,019 | $1,021,809 | $571,515 | $723,369 | $936,988 |
| County Governments (25% or 35%) | $3,485,783 | $3,649,317 | $2,473,424 | $3,817,183 | $4,684,938 |

**Select History of Metalliferous Mines License Tax**

The metalliferous mines license tax was enacted in 1925 at the following rates:

- $1 + ¼ of 1% of gross value between $100,000 and $250,000
- $1 + ½ of 1% of gross value between $250,001 and $400,000
- $1 + ¾ of 1% of gross value between $400,001 and $500,000
- $1 + 1% of gross value over $500,000

1958

Increased the tax rate on gross value exceeding $500,000 to $1 + 1¼%.

1969

For production years 1969 and 1970, increased the tax rate to

- 0.15% of the first $100,000 of gross value
- 0.575% of $100,001-$250,000 of gross value
- 0.86% of $250,001-$400,000 of gross value
- 1.15% of $400,001-$500,000 of gross value
- 1.438% of $500,000+ of gross value.

1971

Adopted the tax rates from 1969 for production years beginning January 1, 1970 and thereafter.

1983

Revised tax rates as follows:

- 0% on first $250,000 of gross value
- 0.5% of gross value from $250,001-$500,000
- 1% of gross value from $500,001-$1,000,000
- 1.5% of gross value of more than $1,000,000.

1989

Revised tax rates as follows:

Concentrate shipped to a smelter, mill or reduction work is taxed at the following rates:

- 0% on first $250,000 of gross value
- 1.81% on gross value over $250,000.

Gold, silver or any platinum-group metal that is dore, bullion or matte and that is shipped to a refinery is taxed at the following rates:

- 0% on first $250,000 of gross value
- 1.6% on gross value over $250,000.

2003

Added other forms of processed concentrate that are processed in a treatment facility owned or operated by the taxpayer and are sold or shipped to a refinery for final processing to the gold, silver and platinum-group metal tax rates.

2009

No more than $250,000 in gross value in a calendar year can be exempt from metalliferous mines license tax.

2015

The distribution of tax revenues to the General Fund was reduced from 57 to 47 percent and the revenue was distributed to impacted counties beginning with Fiscal Year 2016.

**Statute:** Title 15, Chapter 37, Part 2, MCA

**Tax Rate**

Micaceous minerals are those that are generally classified as complex silicates, and include such minerals as vermiculite, perlite, kernite and maconite. There have been no micaceous mines license tax collections since Fiscal Year 1990 because there has been no production. All proceeds from the micaceous mines license tax are deposited in the state General Fund (15-37-200, MCA).

There is a tax of 5 cents per ton of concentrates mined, extracted or produced.

**Filing Requirements**

Operators of micaceous mineral mines are required to file quarterly statements showing the number of tons of micaceous minerals mined. Quarterly returns, along with the accompanying tax payment, are due within 30 days following the end of each calendar quarter.

**Distribution**

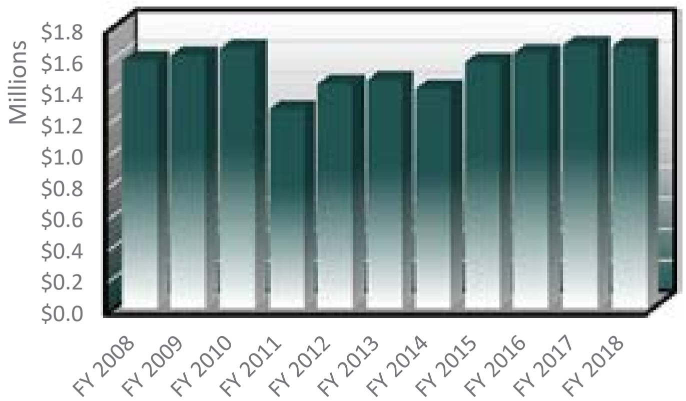
All proceeds from micaceous mines license tax are deposited in the state General Fund.

# Miscellaneous Mines Net Proceeds Tax (Class 1 Property)

**Statute:** Title 15, Chapter 23, Part 5, MCA

**Miscellaneous Mines Net Proceeds Tax**

| Fiscal Year | Total Revenue |
|---|---|
| FY 2008 | $1,582,585 |
| FY 2009 | $1,612,376 |
| FY 2010 | $1,655,792 |
| FY 2011 | $1,261,359 |
| FY 2012 | $1,428,505 |
| FY 2013 | $1,452,760 |
| FY 2014 | $1,397,619 |
| FY 2015 | $1,570,642 |
| FY 2016 | $1,624,098 |
| FY 2017 | $1,673,314 |
| FY 2018 | $1,663,481 |




### Tax Rate
Severed products of mines except bentonite, coal and metal are considered Class 1 property for property tax purposes, and are levied statewide and local mills. Class 1 property includes, but is not limited to, talc, limestone and vermiculite.

The value of the severed products is the annual net proceeds of mines and mining claims. The net proceeds of talc, vermiculite, limestone and industrial garnets and byproducts are calculated by multiplying the number of tons mined by a statutorily defined value.

- Talc value = $4.25 × (current year price deflator ÷ 1989 price deflator)
- Vermiculite value = $27 × (current year price deflator ÷ 1991 price deflator)
- Limestone value = $0.34 × (current year price deflator ÷ 1992 price deflator)
- Industrial garnets value = $20 × (current year price deflator ÷ 1995 price deflator)
- Byproducts of industrial garnets value = gross revenue × 30%

For all other Class 1 mined products, the value is the gross value less certain allowable deductions that account for the cost of the mining.

Sand and gravel are exempt from mines net proceeds taxation. Producers of industrial garnets, travertine and building stone are exempt from mines net proceeds tax on the first 1,000 tons of production.

### Filing Requirements
Miscellaneous mines tax reports are due by March 31 of each year, showing the total gross proceeds of minerals mined during the preceding calendar year, and information on costs associated with the mining operation sufficient to allow calculation of the net proceeds from the operation. By July 1 the department calculates the net value by subtracting allowable deductions and records the value in property tax records. The mine producer must pay half of the property tax levied and assessed by November 30 and the other half by May 31 of the following year.

**Distribution of Miscellaneous Mines Net Proceeds Tax**
The taxable value of miscellaneous mines net proceeds is allocated to the local jurisdictions where the mine mouth is located. The mills of these local jurisdictions and statewide mills are levied against the taxable value.

**Miscellaneous Mines Net Proceeds and Taxable Value**

| Production Year | Fiscal Year | Tons | Net Proceeds |
|---|---|---|---|
| 2007 | 2009 | 2,511,456 | $3,903,518 |
| 2008 | 2010 | 2,348,914 | $4,009,608 |
| 2009 | 2011 | 1,945,885 | $3,251,182 |
| 2010 | 2012 | 2,192,645 | $3,930,006 |
| 2011 | 2013 | 2,103,024 | $4,188,542 |
| 2012 | 2014 | 2,207,297 | $3,271,953 |
| 2013 | 2015 | 2,332,685 | $3,790,730 |
| 2014 | 2016 | 2,359,356 | $3,737,426 |
| 2015 | 2017 | 2,327,488 | $3,969,848 |
| 2016 | 2018 | 2,018,787 | $3,983,884 |

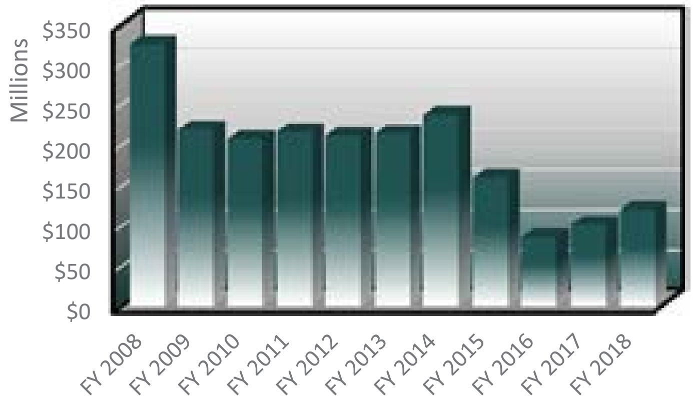
**Net Proceeds Property Taxes Assessed**

| Fiscal Year | State Share | Local Share | Total Tax |
|---|---|---|---|
| FY 2008 | $387,840 | $1,194,745 | $1,582,585 |
| FY 2009 | $405,332 | $1,207,044 | $1,612,376 |
| FY 2010 | $404,166 | $1,251,626 | $1,655,792 |
| FY 2011 | $321,519 | $939,840 | $1,261,359 |
| FY 2012 | $392,736 | $1,035,769 | $1,428,505 |
| FY 2013 | $423,043 | $1,029,717 | $1,452,760 |
| FY 2014 | $330,467 | $1,067,152 | $1,397,619 |
| FY 2015 | $382,864 | $1,187,778 | $1,570,642 |
| FY 2016 | $377,480 | $1,246,618 | $1,624,098 |
| FY 2017 | $412,094 | $1,261,220 | $1,673,314 |
| FY 2018 | $402,372 | $1,261,109 | $1,663,481 |

**Statute:** Title 15, Chapter 36; 20-9-310, MCA

**Oil and Natural Gas Production Tax**

| Fiscal Year | Total Revenue |
|---|---|
| FY 2008 | $324,311,269 |
| FY 2009 | $218,425,215 |
| FY 2010 | $206,286,268 |
| FY 2011 | $215,129,820 |
| FY 2012 | $210,644,361 |
| FY 2013 | $213,229,045 |
| FY 2014 | $236,496,773 |
| FY 2015 | $159,107,050 |
| FY 2016 | $84,972,199 |
| FY 2017 | $100,769,218 |
| FY 2018 | $119,133,397 |




**Recent Legislative History**
The 1995 Montana Legislature replaced all existing state and local extraction taxes on all oil and natural gas production with a single production tax based on the type of well and type of production, with additional incentives if prices fall below specified levels. This tax became effective January 1, 1996. The 1999 Legislature further simplified the structure of oil and gas production tax rates. Effective January 1, 2000, the Legislature consolidated tax rates, revised the definition of qualifying production, shortened incentive periods for qualifying production and replaced pre-1985 and post-1985 categories with pre-1999 and post-1999. The pre-1999 classification includes all wells drilled before January 1, 1999, while the post-1999 classification refers to wells drilled on or after January 1, 1999 (15-36-304, MCA).

Total gross value is computed as the product of the total number of barrels (bbl) or thousand cubic feet (MCF) produced each quarter and the average wellhead value per barrel or thousand cubic feet. Producers are allowed to deduct any production that is used in the operation of the well.

For a comparison of oil and gas production taxes to other states, please see the “Coal, Oil and Natural Gas State Tax Comparison” subsection of this report.

**Tax Rates**
All taxable royalty owners of oil and natural gas production are taxed at a rate of 15.10 percent of the gross value of production. Royalties received by an Indian tribe from on-reservation oil production pursuant to a lease entered under the Indian Mineral Leasing Act of 1938, and all governmental royalties, are exempt from taxation.

The regular production tax rates for the working interest of oil production are equal to 9.30 percent for wells drilled on or after January 1, 1999, and 12.80 percent for wells drilled before that time. However, there are also several additional tax rates to incentivize production. New wells receive a preferential tax rate of 0.80 percent of gross value. The holiday lasts for 12 months for vertical wells and 18 months for horizontal wells.

Additionally, incremental production from secondary and tertiary recovery projects may be taxed at preferential rates if the price of oil is below $54 per barrel. Recompleted horizontal wells are taxed at reduced rates regardless of the price of oil. Incremental production is additional production above an established production curve for a given well.

Low producing wells may be classified as stripper or super-stripper wells and qualify for preferential tax rates. Wells producing less than an average of 15 barrels per day in the prior calendar year are classified as stripper wells. If the average price for West Texas Intermediate crude oil is below $54 per barrel, these wells are taxed at preferential rates of 5.80 percent for the first 10 barrels a day and 9.30 percent for all additional production. If the price of oil is above $54 a barrel, there is no reduced rate for stripper well production. If a well produces less than an average of 3 barrels a day in the prior calendar year, then it can qualify as a super-stripper well. Production from super-stripper wells is taxed at a preferential rate of 6.30 percent, and if the price of oil is below $54 per barrel the rate is further reduced to 0.80 percent.

Natural gas producers receive the same holiday for new wells, and regular production is taxed at a rate of 9.30 percent after that if the well was drilled on or after January 1, 1999; or 15.10 percent if drilled before.

Wells averaging less than 60,000 cubic feet (60 MCF) per day in the prior year can qualify as stripper wells, and qualify for a reduced tax rate of 11.3 percent if the well was drilled before 1999. The following table and chart illustrate how the varying tax rates apply in different scenarios.

**Oil and Natural Gas Production Tax Rates**

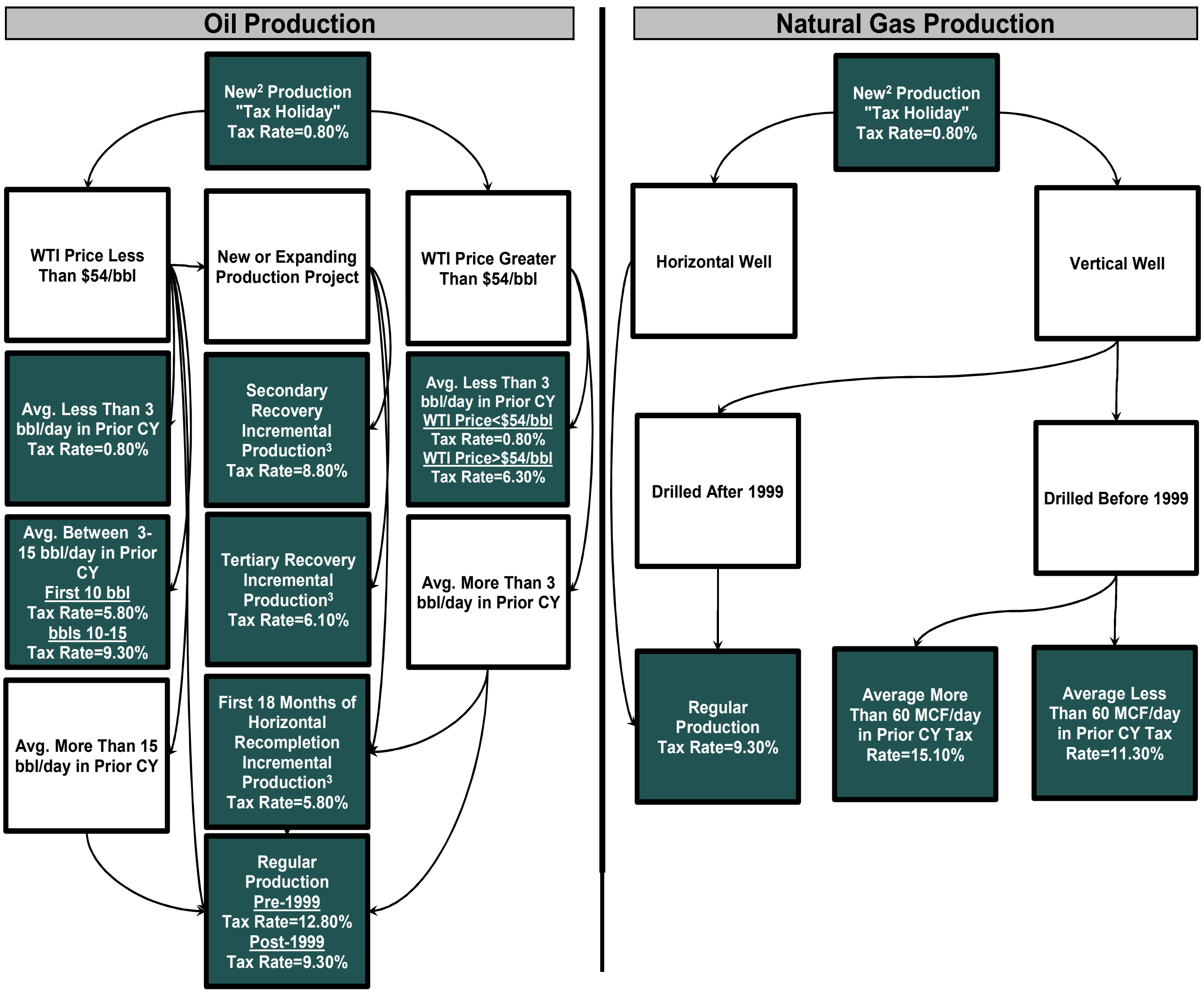
| OIL-Working Interest | |
|---|---|
| Pre-1999 Wells (Regular Production) | 12.80% |
| Post-1999 Wells (Regular Production) | 9.30% |
| Incremental Production From Secondary Recovery†‡ | 8.80% |
| Incremental Production From Tertiary Recovery†‡ | 6.10% |
| Horizontally Recompleted Wells - First 18 Months | 5.80% |
| Horizontally Completed Wells - First 18 Months | 0.80% |
| Stripper Wells - First 10 Barrels Per Day†‡ | 5.80% |
| Stripper Wells - Production in Excess of 10 Barrels Per Day†‡ | 9.30% |
| Super Stripper Wells - Oil Under $54 Per Barrel‡ | 0.80% |
| Super Stripper Wells - Oil $54 Per Barrel Or Higher‡ | 6.30% |
| Vertically Completed Wells - First 12 Months | 0.80% |

| NATURAL GAS- Working Interest | |
|---|---|
| Pre-1999 Wells (Regular Production) | 15.10% |
| Post-1999 Wells (Regular Production) | 9.30% |
| Horizontally Completed Wells | 9.30% |
| Pre-1999 Wells Producing Less Than 60 MCF per Day | 11.30% |
| The First 12 Months Of New Wells' Production | 0.80% |

† These rates apply if the price is under $54 per barrel. Otherwise, the regular production rates apply.
‡ Oil price is the price for West Texas Intermediate Crude Oil.
-Stripper wells produce 3-15 barrels per day.
-Super stripper wells produce less than 3 barrels per day.
-All rates include 0.30% to fund the operations of the Board of Oil and Gas Conservation Division

| ROYALTY INTERESTS | 15.10% |
|---|---|

## Working Interest Oil and Natural Gas Severance Tax Rates[1]




[1]Production tax rates include Board of Oil and Gas Conservation privilege and license tax and the Oil and Gas Natural Resources Account Tax.
[2]New vertical wells are less than 12 months old and new horizontal wells are less than 18 months old.
[3]Incremental production is production occurring in excess of the production decline rate.

The following table shows summary information gathered from the tax returns of producers:

**Montana Oil and Gas Production Statistics**

| Oil | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---|---|---|---|---|---|
| Total Gross Value | $2,370,856,081 | $1,781,983,618 | $861,657,306 | $889,400,612 | $1,038,507,633 |
| Volume (barrels) | 26,745,751 | 30,439,036 | 25,116,621 | 21,253,705 | 19,384,205 |
| Taxable Royalty Value | $331,447,378 | $248,754,168 | $116,715,105 | $120,097,317 | $137,571,557 |
| Tax on Royalty Owners | $49,915,976 | $37,462,378 | $17,577,295 | $18,123,343 | $20,773,306 |
| Working Interest Value | $1,978,442,134 | $1,486,647,390 | $720,795,751 | $744,190,817 | $870,192,043 |
| Tax on the Working Interest | $149,584,469 | $111,050,328 | $61,591,918 | $72,435,995 | $84,666,329 |
| **Total Tax*** | **$199,500,445** | **$148,512,706** | **$79,169,214** | **$90,559,339** | **$105,439,635** |
| **Gas** | | | | | |
| Total Gross Value | $197,750,332 | $126,521,563 | $57,601,774 | $83,116,028 | $81,188,867 |
| Volume (MCF) | 47,235,179 | 48,453,758 | 37,299,910 | 42,014,267 | 38,071,657 |
| Taxable Royalty Value | $24,673,094 | $15,270,716 | $7,160,384 | $10,819,723 | $10,938,857 |
| Tax on Royalty Owners | $3,715,768 | $2,299,770 | $1,078,354 | $1,632,901 | $1,651,769 |
| Working Interest Value | $165,561,020 | $106,083,551 | $48,123,382 | $69,611,994 | $67,764,878 |
| Tax on the Working Interest | $14,458,148 | $9,321,640 | $4,479,234 | $6,765,428 | $6,405,936 |
| **Total Tax*** | **$18,173,916** | **$11,621,410** | **$5,557,587** | **$8,398,329** | **$8,057,705** |

*Total Tax revenue does not match data in the state accounting database due to accrual reversals and amended returns.

**Filing Requirements**

Oil and natural gas producers are required to file quarterly statements containing information sufficient to calculate the tax due. Tax payments are due within 60 days following the close of each calendar quarter.

**Distribution**

Prior to HB 748 (2003 Legislative Session), the distribution of oil and gas revenue was based primarily on property tax mill levies. After HB 748, the counties, schools and the state were each assigned a percentage of the severance tax revenue generated in their county that they would receive.

The first distribution made is to the Board of Oil and Gas Conservation (BOGC) and the Oil and Gas Natural Resource Account. The combined tax rate of these two accounts cannot exceed 0.3 percent of taxable oil and gas revenue. As of partway through Fiscal Year 2017 (October 1, 2016) BOGC utilizes the maximum allowable 0.3 percent for its operations of the privilege and licensing tax, meaning there is no money allocated for the Oil and Gas Natural Resource Account.

The remaining tax revenue is then distributed among the state and county governments. The specific allocation depends on which county the production occurred in and is set in statute. For example, Custer County receives 69.53 percent of the revenue from production occurring in the county (the largest percentage of all the counties), while Rosebud County receives the least at 39.33 percent. The remainder is distributed to the state, and the state portion is distributed as follows:

- 2.16 percent to the Natural Resource Projects State Special Revenue Account
- 2.02 percent to the Natural Resource Operations State Special Revenue Account
- 2.95 percent to the Orphan Share Account
- 2.65 percent to the University System
- The remainder (90.03 percent) is distributed to the General Fund.

The county share of the revenue is distributed among elementary retirement funds, high school retirement funds, countywide transportation funds, school districts, community colleges, and county governments. The specific allocation among these entities is dependent on the county of production and the schedule in 15-36-332, MCA.

With the passage of SB 329 in the 2011 Legislative Session, any individual school district was only allowed to receive 130 percent of their maximum allowable budget. With the passage of SB 175 in the 2013 Legislative Session, for fiscal years 2014 through 2017, schools with budgets less than $1.5 million can receive up to 150 percent of their maximum allowable budgets plus an additional $45,000 per additional student, using an enrollment calculation from the previous year's attendance records. Funding in excess of that allotted amount is allocated to surrounding school districts (up to 130% of their maximum budgets). Remaining funding, if available, is to be distributed to school districts contiguous to districts in which oil and gas production originates (up to 130% of their maximum budgets). This funding is referred to as the "State School Oil & Gas Distrib" in the following table. Any remaining funds, if available, were to be distributed as follows:

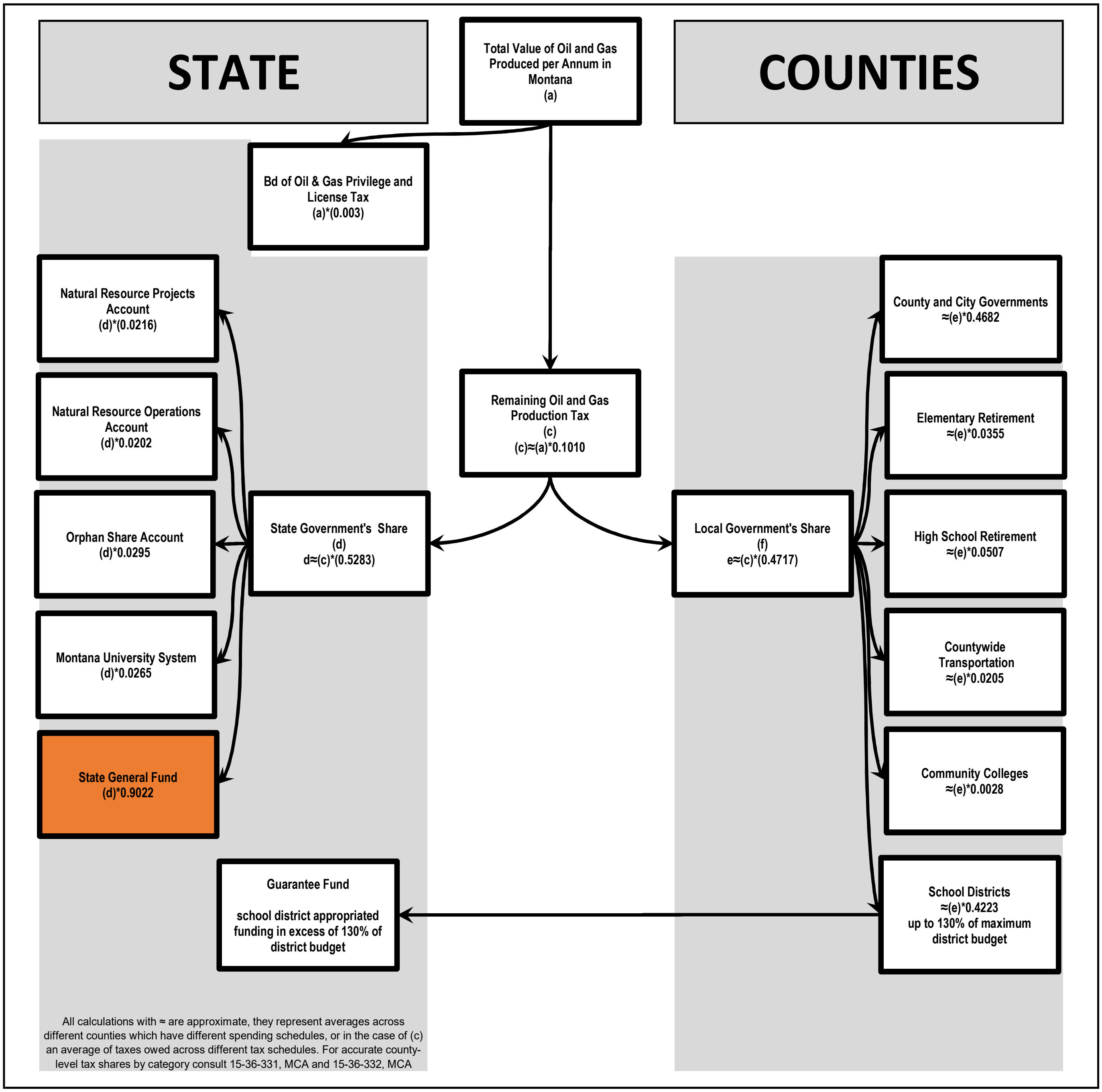
- 70 percent to the State Guarantee Account
- 5 percent to the State School Oil and Natural Gas Impact Account
- 20 percent to the County School Oil and Natural Gas Impact Account.

HB 647, passed by the 2017 Legislature, terminated the State School Oil & Gas Distribution Account at the end of Fiscal Year 2017. It also terminated the State School Oil and Natural Gas Impact Account and the County School Oil and Natural Gas Impact Account. School districts are still capped at 130 percent of maximum allowable budget, with all funds in excess of this amount transferred to the State Guarantee Account. The guarantee fund acts as a long-term revenue stream providing school equalization aid.

The following table and charts illustrate the distribution of oil and gas revenue in Fiscal Year 2017 and Fiscal Year 2018.

**Distribution of Oil and Gas Tax**

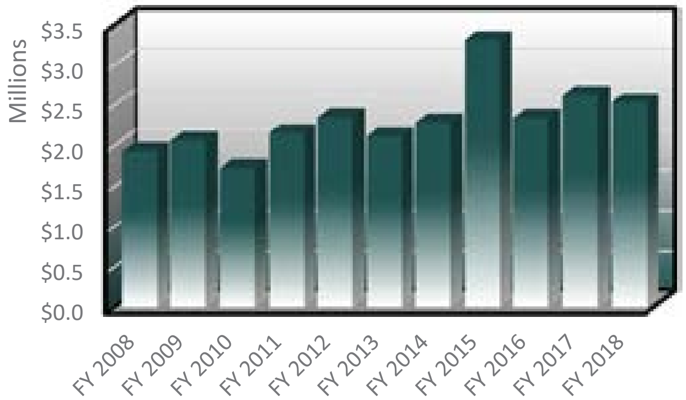
| Fund | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---|---|---|---|---|---|
| **Total Revenue** | **$236,496,773** | **$159,107,050** | **$84,972,199** | **$100,769,218** | **$119,133,397** |
| BOGC | $2,505,508 | $1,671,506 | $812,294 | $2,405,384 | $3,414,619 |
| Oil & Gas Natural Res. Acc. | $4,732,701 | $3,157,296 | $1,534,356 | $387,751 | $0 |
| **Remainder** | **$229,258,564** | **$154,278,248** | **$82,625,549** | **$97,976,082** | **$115,718,778** |
| **"County" Revenue** | **$107,770,849** | **$73,160,846** | **$39,294,942** | **$46,619,101** | **$55,301,615** |
| Counties and Schools | $95,997,576 | $63,447,389 | $37,900,038 | $45,535,458 | $53,618,550 |
| Guarantee Fund | $0 | $0 | $0 | $0 | $1,683,066 |
| County Impact Fund | $0 | $0 | $0 | $0 | $0 |
| State School Impact Fund | $0 | $0 | $0 | $0 | $0 |
| State School Oil & Gas Distrib | $11,773,273 | $9,713,457 | $1,394,905 | $1,083,642 | $0 |
| **State Revenue** | **$121,487,715** | **$81,117,402** | **$43,330,607** | **$51,356,982** | **$60,417,163** |
| Natural Resources Projects (2.16%) | $2,624,135 | $1,752,136 | $938,011 | $1,109,311 | $1,305,013 |
| Natural Resources Operations (2.02%) | $2,454,052 | $1,638,573 | $877,214 | $1,037,411 | $1,220,424 |
| Orphan Share Fund (2.95%) | $3,583,888 | $2,392,963 | $1,281,080 | $1,515,030 | $1,782,308 |
| Montana University System (2.65%) | $3,219,424 | $2,149,612 | $1,150,801 | $1,360,960 | $1,601,053 |
| General Fund (remainder) | $109,606,216 | $73,184,119 | $39,083,500 | $46,334,270 | $54,508,364 |


STATE
Total Value of Oil and Gas Produced per Annum in Montana (a)
COUNTIES
Bd of Oil & Gas Privilege and License Tax (a)*(0.003)
Natural Resource Projects Account (d)*(0.0216)
Natural Resource Operations Account (d)*0.0202
Orphan Share Account (d)*0.0295
Montana University System (d)*0.0265
State General Fund (d)*0.9022
Remaining Oil and Gas Production Tax (c) (c)≈(a)*0.1010
State Government's Share (d) d≈(c)*(0.5283)
Local Government's Share (f) e≈(c)*(0.4717)
County and City Governments ≈(e)*0.4682
Elementary Retirement ≈(e)*0.0355
High School Retirement ≈(e)*0.0507
Countywide Transportation ≈(e)*0.0205
Community Colleges ≈(e)*0.0028
School Districts ≈(e)*0.4223 up to 130% of maximum district budget
Guarantee Fund
school district appropriated funding in excess of 130% of district budget
All calculations with ≈ are approximate, they represent averages across different counties which have different spending schedules, or in the case of (c) an average of taxes owed across different tax schedules. For accurate county-level tax shares by category consult 15-36-331, MCA and 15-36-332, MCA

**Statute:** Title 15, Chapter 38, Part 1, MCA

**Resource Indemnity and Ground Water Assessment Tax**

| Fiscal Year | Total Revenue |
|---|---|
| FY 2008 | $1,925,990 |
| FY 2009 | $2,053,954 |
| FY 2010 | $1,711,844 |
| FY 2011 | $2,146,960 |
| FY 2012 | $2,343,678 |
| FY 2013 | $2,112,327 |
| FY 2014 | $2,278,971 |
| FY 2015 | $3,303,038 |
| FY 2016 | $2,335,153 |
| FY 2017 | $2,622,658 |
| FY 2018 | $2,531,336 |




## Tax Rates

The resource indemnity and ground water assessment tax (RIGWAT) was created to indemnify the citizens of Montana for the loss of long-term value resulting from the depletion of natural resource bases, and for environmental damage caused by mineral development. The tax is placed in a trust fund, which is managed by the Montana Board of Investments (15-38-101, MCA).

**RIGWAT Tax Rate**

| Mineral | Tax Rate | Exemption | Mineral | Tax Rate | Exemption |
|---|---|---|---|---|---|
| Other* | 0.5% | First $5,000 | Vermiculite | 2.0% | First $1,250 |
| Talc | 4.0% | First $625 | Limestone | 10.0% | First $250 |
| Coal | 0.4% | First $6,250 | Garnets | 1.0% | First $2,500 |

* Excludes oil, gas, and mines taxed under 15-37-104, MCA.

## Exemptions

- Metal production subject to the metal mines license tax is exempt from RIGWAT.
- The 2003 Montana Legislature changed the distribution of oil and gas tax revenue to include the Orphan Share Account, and made oil and gas production subject to the oil and gas severance tax exempt from RIGWAT.
- Royalties received by an Indian tribe, by the U.S. government (including as trustee for individual tribal members), by the state of Montana, or by a county or municipality are exempt from RIGWAT.

## Filing Requirements

All extractors and producers of minerals must file an annual statement showing the gross yield of product for each mineral mined. Metal producers are required to file on or before March 31. All other producers are required to file on or before the 60th day following the end of the calendar year.

**Distribution of RIGWAT**

RIGWAT tax collections are deposited to several special funds and accounts. The order and amount of proceeds deposited are as follows:

An amount certified by the Department of Environmental Quality is deposited to the CERCLA match debt service fund.

- $366,000 is to be deposited in the Ground Water Assessment Account.
- $150,000 is to be deposited in the Water Storage State Special Revenue Account each biennium.
- 25 percent of remaining revenue is distributed to the Hazardous Waste/CERCLA Special Revenue Account.
- 25 percent of remaining revenue is distributed to the Environmental Quality Protection Fund.
- The remaining revenue is distributed to the Natural Resources Projects Fund.

**Distribution of RIGWA Tax**

| Fund | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---|---|---|---|---|---|
| **Total Revenue** | **$2,278,971** | **$3,303,038** | **$2,335,153** | **$2,622,658** | **$2,531,336** |
| CERCLA Debt Service | $272,106 | $268,275 | $270,425 | $148,025 | $143,825 |
| Groundwater Assessment | $366,000 | $366,000 | $366,000 | $366,000 | $366,000 |
| Water Storage | $150,000 | $0 | $150,000 | $0 | $150,000 |
| Remainder | **$1,490,865** | **$2,668,763** | **$1,548,728** | **$2,108,633** | **$1,871,511** |
| Hazardous Waste/CERCLA (25%) | $372,716 | $667,191 | $387,182 | $527,158 | $467,878 |
| Environmental Quality Protection (25%) | $372,716 | $667,191 | $387,182 | $527,158 | $467,878 |
| Natural Resources Projects (50%) | $745,433 | $1,334,381 | $774,364 | $1,054,316 | $935,756 |

## Resource Indemnity and Ground Water Assessment Tax History

The following figure shows a select history of the Resource Indemnity and Ground Water Assessment Tax.

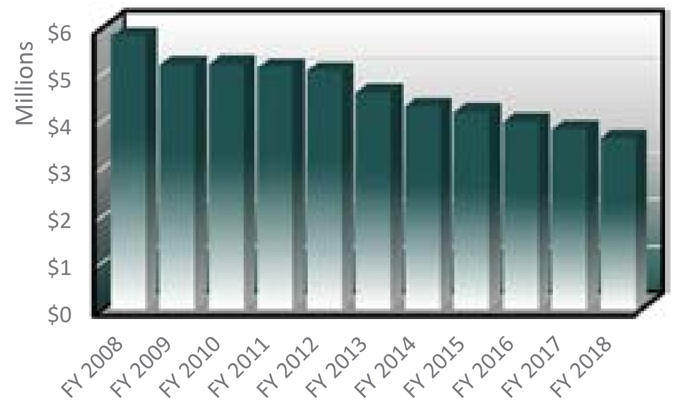
| | |
|---|---|
| 1973 | •The Resource Indemnity Trust Act was enacted with a tax on mineral production of $25 + 0.5% of the gross value in excess of $5,000. |
| 1977 | •Provided that the royalty owners share may be deducted from the gross proceeds calculation for the Resource Indemnity Trust Tax. |
| 1989 | •Provided a special tax rate for talc production of $25 + 4% of gross value. |
| 1991 | •Provided a special tax rate for coal production of $25 + 0.4% of gross value.<br>•Provided a special tax rate for vermiculite production of $25 + 2% of gross value. |
| 1993 | •Provided a special tax rate for quicklime production from limestone of $25 + 10% of gross value. |
| 1995 | •Changed the tax on talc to $25 + 4% of gross value in excess of $625.<br>•Changed the tax on coal to $25 + 0.4% of gross value in excess of $6,250.<br>•Changed the tax on vermiculite to $25 + 2% of gross value in excess of $1,250.<br>•Changed the tax on quicklime from limestone to $25 + 10% of value in excess of $250.<br>•Provided a special tax rate for garnets of $25 + 1% of gross value in excess of $2,500. |
| 2009 | •Exempted counties, cities, towns, and people who paid the opencut mining fee from RIGWAT. |

# Resource Indemnity Fund Interest

**Statute:** Title 15, Chapter 38, Part 2, MCA

**Resource Indemnity Trust Fund Interest**

| Fiscal Year | Total Revenue |
|---|---|
| FY 2008 | $5,800,855 |
| FY 2009 | $5,197,073 |
| FY 2010 | $5,212,968 |
| FY 2011 | $5,134,587 |
| FY 2012 | $5,063,566 |
| FY 2013 | $4,601,613 |
| FY 2014 | $4,296,135 |
| FY 2015 | $4,175,477 |
| FY 2016 | $3,973,132 |
| FY 2017 | $3,817,555 |
| FY 2018 | $3,617,536 |




**Distribution of Interest Income**

In Fiscal Year 2002 the Resource Indemnity Trust Fund reached $100 million. Net earnings, excluding unrealized gains and losses, and all receipts may be appropriated and expended by the legislature, so long as the balance of the trust is never less than $100 million.

Interest from the Resource Indemnity Trust is allocated in a two-stage process. First, several programs receive fixed allocations, and then the remaining funds are divided between four programs on a percentage basis. The HB 226 passed by the 2015 Legislature revised the distributions as of Fiscal Year 2016, increasing the amount going to the Oil and Gas Damage Mitigation Account and decreasing the amount going to the Natural Resource Projects Account. The amounts allocated are shown in the following table.

Normally, $175,000 is distributed to the Environmental Contingency Account in the first year of the biennium. However, if the unobligated cash balance is less than $750,000, then the account only receives the difference between the balance and $750,000. This was the case during the period shown in the distribution table. When there are insufficient funds for all appropriations, money must be allocated to maximize the funds available for on-the-ground projects that address the impacts of natural resource development and improve the total environment.

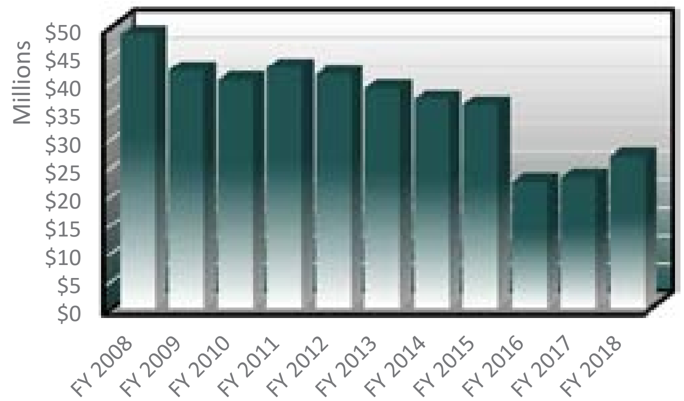
**Distribution of Resource Indemnity Trust Fund Interest**

| | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---|---|---|---|---|---|
| **Annual Distributions** | | | | | |
| Natural Resources Projects | $3,022,407 | $3,398,644 | $2,415,617 | $3,054,044 | $2,386,503 |
| Groundwater Assessment | $259,063 | $291,312 | $226,464 | $286,317 | $223,735 |
| Native Fish Species Enhancement | $431,772 | $485,521 | $377,440 | $477,194 | $372,891 |
| **Biennial Distribution** | | | | | |
| Oil & Gas Damage Mitigation | $0 | $0 | $490,672 | $0 | $131,005 |
| Water Storage | $431,772 | $0 | $377,440 | $0 | $372,891 |
| Environmental Contingency RIT | $151,120 | $0 | $85,499 | $0 | $130,512 |
| **Remainder** | | | | | |
| Natural Resources Operations (65%) | $0 | $0 | $0 | $0 | $0 |
| Hazardous Waste-CERCLA (26%) | $0 | $0 | $0 | $0 | $0 |
| Environmental Quality Protection (9%) | $0 | $0 | $0 | $0 | $0 |

**Statutes:** 30 USC, Section 191
17-3-240, MCA

**U.S. Mineral Royalties**

| Fiscal Year | Total Revenue |
|---|---|
| FY 2008 | $48,518,078 |
| FY 2009 | $42,097,818 |
| FY 2010 | $40,383,725 |
| FY 2011 | $42,564,410 |
| FY 2012 | $41,409,246 |
| FY 2013 | $38,940,371 |
| FY 2014 | $36,991,806 |
| FY 2015 | $35,947,238 |
| FY 2016 | $22,345,284 |
| FY 2017 | $23,096,354 |
| FY 2018 | $26,852,265 |




The federal government generates royalties from leasing mineral rights on federal lands in the state. They share 49% of royalty revenue with the state, which was decreased from 50 percent in October 2007.

The Montana Department of Revenue provides auditing and compliance services for the federal government for producers extracting minerals from federal lands within the state. The federal government reimburses the department for these services.

The Department of Revenue has a memorandum of understanding with the Department of Natural Resources, and works to ensure producers extracting minerals from state lands are accurately paying their royalties.

**Distribution**

The state general fund receives 75 percent of the revenue and the remaining 25 percent is allocated to counties with mining on federal land. The county share is distributed to county governments in proportion to the amount collected in each of the counties.

**Distribution of U.S. Mineral Royalties**

| Fund | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---|---|---|---|---|---|
| General Fund (75%) | $27,743,855 | $26,960,428 | $16,758,963 | $17,322,265 | $20,139,199 |
| Impacted Counties (25%) | $9,247,951 | $8,986,809 | $5,586,321 | $5,774,088 | $6,713,066 |