

OIL & NATURAL GAS PRODUCTION TAXES

TAX RATES, DISTRIBUTIONS, COLLECTIONS

A Report Prepared for the
Energy and Telecommunications Interim Committee

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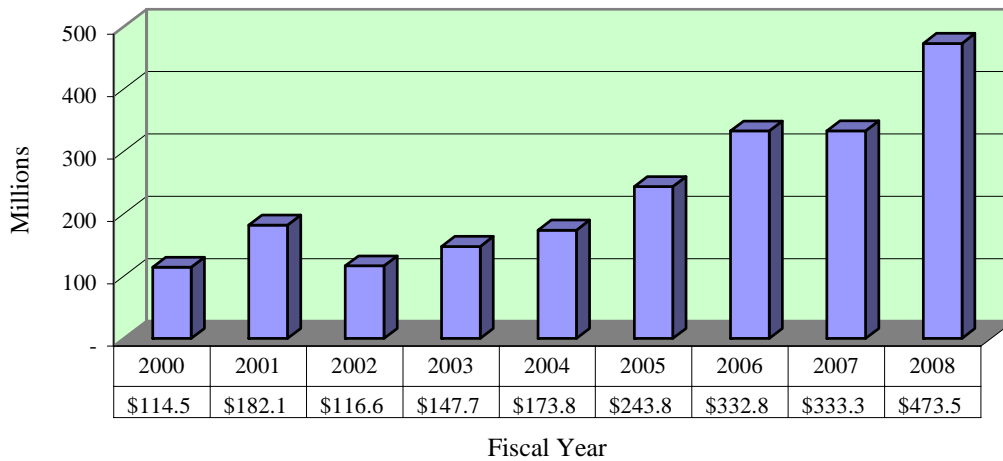
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Montana Natural Resource Tax Revenues (In millions)
Oil&Gas Production, Coal Severance, Metal Mines, Federal & State Royalty & Lease Payments

Fiscal Year	Oil & Gas Production	Coal Severance	Metal Mines	US Roy/Lease	State Roy/Lease	Total Revenue	Dollar Change	Percent Change
2000	\$43.773	\$35.470	\$4.661	\$19.243	\$11.351	\$114.498		
2001	92.396	32.337	5.924	31.008	20.388	182.053	67.555	59.00%
2002	50.304	31.614	5.740	19.772	9.123	116.553	(65.500)	-35.98%
2003	73.389	29.424	7.056	25.990	11.846	147.705	31.152	26.73%
2004	92.676	31.545	5.572	28.736	15.249	173.778	26.073	17.65%
2005	137.754	37.635	9.076	36.392	22.957	243.814	70.036	40.30%
2006	203.681	35.822	12.435	39.071	41.811	332.820	89.006	36.51%
2007	209.946	40.759	15.774	37.628	29.174	333.281	0.461	0.14%
2008	<u>324.311</u>	<u>45.332</u>	<u>18.902</u>	<u>48.518</u>	<u>36.396</u>	<u>473.459</u>	140.178	42.06%
Totals	\$1,228.230	\$319.938	\$85.140	\$286.358	\$198.295	\$2,117.961		

Natural Resource Tax Collections



Revenue Description: The oil and natural gas production tax is imposed on the production of petroleum and natural gas in the state. Gross taxable value of oil and natural gas production is based on the type of well and type of production.

Statutory Reference:

Tax Rate (MCA) – 15-36-304. Privilege and license tax – 82-11-131, Administrative Rules 36.72.1242

Tax Distribution (MCA) – 15-36-331(4), 15-36-332(2&3) (to taxing units)

Date Due – within 60 days after the end of the calendar quarter (15-36-311(1))

Applicable Tax Rate(s): The oil and natural gas production tax has numerous tax rates depending on several factors. These factors include whether the oil or gas is produced from a stripper well, a stripper incentive well, from a well initially drilled before 1999 or after, from a well newly drilled within the last year or 18 months, and whether the interest being taxed is the working interest or the royalty interest. The Board of Oil and Gas Conservation imposes an additional privilege and license (P & L) tax on all oil and natural gas tax rates. Starting October 2006 as set by the Board, the P&L tax rate is 0.09 percent. Based on this rate, HB 758 enacted by the 2005 legislature allows an additional tax rate of 0.17 percent to generate revenue for local impacts for local governments. The two taxes may not exceed 0.3 percent. The following table shows tax rate percentages for each type of pre-1999 oil and post-1999 oil, excluding the P & L tax and the new Local Impact tax. The quarterly tax rates on stripper production and on incremental production are lower than that for regular production unless the price of West Texas Intermediate averages above \$30 for the quarter. Similarly, the quarterly tax rate for stripper well exemption production (1-3 barrels a day) is lower than that for regular production unless the price of West Texas Intermediate averages above \$38 for the quarter.



Oil Tax Rates 15-36-304(5), MCA	
<u>Working Interest</u>	
Primary recovery production	
First 12 months of qualifying production	0.5%
After 12 months:	
pre-1999 wells	12.5%
post-1999 wells	9.0%
Stripper oil production (>3 and < 15 barrels/day if oil < \$30)	
1 through 10 barrels a day production	5.5%
>10 through 14 barrels a day production	9.0%
Stripper oil production (>3 and < 15 barrels/day if oil ≥ \$30)	
	*
Stripper wells (3 barrels or less/day)	
Stripper well exemption production (if oil < \$38)	0.5%
Stripper well bonus production (if oil ≥ \$38)	6.0%
Horizontally completed well production	
First 18 months of qualifying production	0.5%
After 18 months	
pre-1999 wells	12.5%
post-1999 wells	9.0%
Incremental production (if oil < \$30/barrel)	
New or expanded secondary recovery production	8.5%
New or expanded tertiary production	5.8%
Incremental production (if oil ≥ \$30/barrel)	
Pre-1999 wells	12.5%
Post-1999 wells	9.0%
Horizontally recompleted well	
First 18 months	5.5%
After 18 months	
pre-1999 wells	12.5%
post-1999 wells	9.0%
<u>Nonworking Interest</u>	
	14.8%

* No stripper tax rate. Taxed at primary recovery rates. See 15-36-303(22a)

Natural Gas Tax Rates 15-36-304(2), MCA	
<u>Working Interest</u>	
Qualified production	
First 12 months	0.5%
After 12 months	
	pre-1999 14.8%
	post-1999 9.0%
Stripper natural gas pre-1999 wells	
	11.0%
Horizontally completed well production	
First 18 months of qualifying production	0.5%
After 18 months	9.0%
<u>Nonworking Interest</u>	
	14.8%

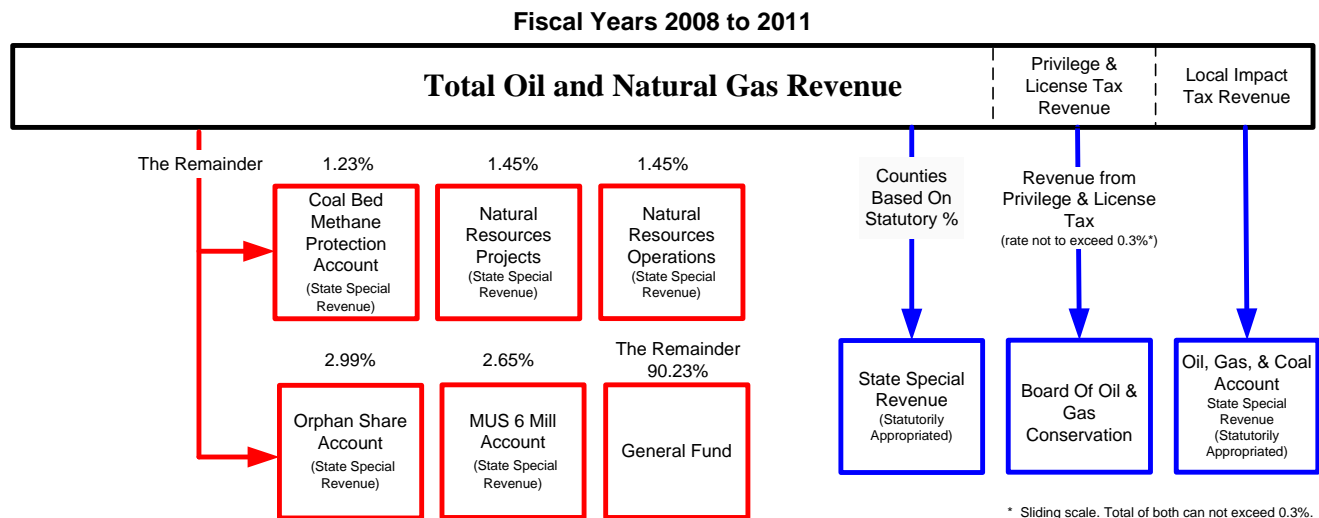
Distribution: Once the oil and natural gas production taxes have been collected, the revenue is first distributed based on the amounts collected from the P & L and Local Impact taxes. The amounts from the P & L tax are distributed to the Board of Oil and Gas Conservation. The amounts from the Local Impact tax are distributed to the oil, gas, and coal natural resource state special revenue account. The amounts received by Board and the oil, gas, and coal natural resource account vary based on a sliding tax scale based on the P & L tax set by the Board. Counties producing oil receive the next share of total revenue with each county having its own distribution percentage of total revenue, including the revenue generated by the P & L and Local Impact taxes. The remainder of the revenue is distributed to other state accounts in the following manner:

Fiscal 2008 though Fiscal 2011

- Coal bed methane account – 1.23%
- Natural resources projects account – 1.45%
- Natural resources operations account – 1.45%
- Orphan share account – 2.99%
- University system 6 mill levy account – 2.65%
- General fund – the remainder (90.23%)

The distributions of county shares and the amount of oil and natural gas production tax revenue deposited in the oil, gas, and coal natural resource account are statutorily appropriated and are based on the statutorily set percentages for each county.

Distribution Chart:





Oil & Gas Production Tax Revenue Distribution FY 2008 Total - \$324.311 M

