Northern Plains Resource Council’s campaign to end the tax holiday that has cost Montana taxpayers hundreds of millions of dollars

**Boom: Infrastructure at crisis level**

With more than 10,000 active oil and gas wells in Montana, and more being drilled each day, Montana communities such as Bainville, Sidney, and Culbertson are struggling to deal with the impacts of truck traffic, man camps, and an influx of new demands on infrastructure.

These demands are most urgent at the beginning stages of oil and gas development, because this is when new infrastructure and staffing must be paid for. But these communities cannot keep up for two reasons:

- First, the oil and gas tax holiday robs the state of much-needed revenue. The current tax rate on an oil or gas well “working interest” is 9.26% (Montana Department of Revenue). But, with the tax holiday in effect, that same well is taxed at a rate of 0.76% for the first 12 to 18 months depending on the type of well.
- Second, the tax proceeds don’t reach affected communities, or reach them only after critical delays. Taxes are divided up between counties and the state, with very little going to cities. For example, the city of Bainville, which is 28 miles from Williston, ND, only received $2,800 in the second quarter of 2012. The town is expected to double in population when a man camp is built in 2013. Also, Headwaters Economics estimates that the tax holiday results in a two-year time lag in tax revenues.

We need a solution that will help Montanans while ensuring oil and gas drillers pay their fair share.
What the tax holiday costs Montana

According to the Montana Department of Revenue, the oil-and-gas tax holiday cost the State of Montana more than a quarter of a billion dollars between 2003 and 2007. That was before the current drilling boom, and this cost to Montanans will only increase in the coming years. Since the typical Bakken oil well produces 57% of its total production within the first 18 months, that means most of the production from each well is never taxed in Montana.

Mineral owners pay full taxes and are forced to develop

Mineral owners who get royalties from oil and gas development get the short end of the stick when it comes to oil and gas taxes. While oil and gas companies with “working interests” are getting an 18-month holiday, “non-working interests” such as royalty owners have to pay a 15.06% tax rate according to the Montana Department of Revenue.

Royalty owners can also be forced into developing their minerals, whether they want to or not, through “forced pooling.”

Oil and gas companies can request that the Board of Oil and Gas allow for forced pooling. The mineral owners have to be notified but, if they don’t agree to the lease and the BOGC approves the pooling request, their minerals will be developed without their consent.

On top of this, there is a penalty taken out of the earned royalties if the mineral owner is forcibly pooled. Overall, forced pooling is similar to eminent domain for oil and gas minerals and is a bad deal for the mineral owner.

World oil prices make tax holiday obsolete

World oil prices dropped in 1998 because of an economic crisis in Asia and an increase in oil production by OPEC nations. (WTRG Economics) Crude oil prices that year stayed below $16 per barrel, even dropping below $11 at one point (USEIA).

The 1999 Montana Legislature tried to encourage oil production by creating a “tax holiday” in which oil and gas drillers would pay virtually no taxes for the first 12-18 months that an oil or gas well operated (Policy Institute).

By early April 1999, crude oil prices were above $16 to stay, and by the end of 1999, prices had topped $25. Today's prices range from around $85 to $105 per barrel (USEIA).

Clearly, there is no longer a need to manipulate tax policy in order to encourage oil and gas drilling in Montana or anywhere else.

References:


Montana Department of Revenue, Oil and Gas Production Tax
What does North Dakota do differently?

The State of North Dakota has a “price trigger” whereby that state’s oil and gas tax holiday takes effect when the price of oil or gas rises above a specified level. This trigger has obviously not deterred development and indeed it has provided revenue for North Dakotans in a time when they need it most.

The current price trigger is around $50 per barrel, but this number changes based on current oil prices. The last time the trigger was not in effect was 2004.

Also, the average prices of the oil must be below the trigger for five consecutive months for the tax exemption to apply (Montana Department of Revenue).

North Dakota also has a mineral trust fund called the “Legacy Fund.” As of 2011, 30% of all revenue collected from oil and gas production and extraction taxes are put into this fund. This money will be invested and accrue interest until 2017, when then interest is transferred to the general fund and the principal is open for spending by a 2/3 vote of the Legislature.


Photo courtesy of Eric VanderBeek
A man camp near Watford City, North Dakota, where hundreds of men live who work in the Bakken. There are scores of temporary housing sites for workers who can't find a place to live in Montana and North Dakota.
Montana has lowest tax rate

Of the surrounding states, Montana has the lowest effective tax rate. An effective tax rate is the actual rate that companies pay after all the incentives and other discounts are taken into account.

What we need to do

Northern Plains Resource Council supports:

- Repealing the Montana oil and gas tax holiday so industry is required to pay its fair share;
- Redistributing oil and gas tax revenues to increase funds available to municipal governments in areas affected by oil and gas production;
- Creating a fund (similar to Montana’s Coal Tax Trust Fund or North Dakota’s Legacy Fund) that could be used to pay for infrastructure costs in affected municipalities and counties as oil and gas development creates these costs;
- No net loss to the general fund;
- Transitioning to clean energy such as solar and wind.

Contact your legislator

Online
To contact legislators, go to www.northernplains.org and click the “Legislature” tab on the home page. Then click “Find a Legislator” on the right-hand side.

By Phone
House 406-444-4825 Senate 406-444-4875. Identify bills by their number, title, and sponsor.

Keep informed! Take action! Join ☞

Northern Plains Resource Council is a grassroots conservation and family agriculture group that organizes Montana citizens to protect our water quality, family farms and ranches, and our unique quality of life.

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