

EXHIBIT 2

DATE 3.22.05

HB 569

HOUSE BILL NO. 569
INTRODUCED BY W. MCNUTT

A BILL FOR AN ACT ENTITLED: "AN ACT CLARIFYING THAT OIL AND GAS PRODUCTION PROPERTY, ~~SUCH AS INCLUDING FLOW LINES AND~~ GATHERING LINES, ~~IF OWNED BY A PRODUCER,~~ IS TAXED AS CLASS EIGHT PROPERTY; AMENDING SECTIONS 15-6-138, 15-6-218, AND 15-23-101, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE AND A RETROACTIVE APPLICABILITY DATE."

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

Section 1. Section 15-6-138, MCA, is amended to read:

"15-6-138. (Temporary) Class eight property -- description -- taxable percentage. (1)

Class eight property includes:

- (a) all agricultural implements and equipment that are not exempt under 15-6-201(1)(bb);
- (b) all mining machinery, fixtures, equipment, tools that are not exempt under 15-6-201(1)(r), and supplies except those included in ~~class five~~ 15-6-135;
- (c) all oil and gas production machinery, fixtures, equipment, including FLOW LINES AND gathering lines IF OWNED BY A PRODUCER, pumping units, oil field storage tanks, water storage tanks, water disposal injection pumps, gas compressor and dehydrator units, communication towers, gas metering shacks, treaters, gas separators, water flood units, gas boosters, and similar equipment that is skidable, portable, or movable, tools that are not exempt under 15-6-201(1)(r), and supplies except those included in ~~class five~~ 15-6-135;
- (d) all manufacturing machinery, fixtures, equipment, tools, except a certain value of hand-held tools and personal property related to space vehicles, ethanol manufacturing, and industrial dairies and milk processors as provided in 15-6-201, and supplies except those included in ~~class five~~ 15-6-135;
- (e) all goods and equipment that are intended for rent or lease, except goods and equipment that are specifically included and taxed in another class;
- (f) special mobile equipment as defined in 61-1-104;
- (g) furniture, fixtures, and equipment, except that specifically included in another class, used in commercial establishments as defined in this section;
- (h) x-ray and medical and dental equipment;
- (i) citizens' band radios and mobile telephones;
- (j) radio and television broadcasting and transmitting equipment;
- (k) cable television systems;
- (l) coal and ore haulers;
- (m) theater projectors and sound equipment; and
- (n) all other property that is not included in any other class in this part, except that property that is subject to a fee in lieu of a property tax.

(2) As used in this section, the following definitions apply:

- (a) "coal and ore haulers" "Coal and ore haulers" means nonhighway vehicles that exceed 18,000 pounds per an axle and that are primarily designed and used to transport coal, ore, or other earthen material in a mining or quarrying environment.
- (b) "FLOW LINES" AND "Gathering lines" means pipelines used to transport all or part of

oil or gas production from the oil or gas field WELL to an injection point on a transmission pipeline.

(3) "Commercial establishment" includes any hotel; motel; office; petroleum marketing station; or service, wholesale, retail, or food-handling business.

(4) Class eight property is taxed at 3% of its market value.

(5) (a) If, in any year beginning with tax year 2004, the percentage growth in inflation-adjusted Montana wage and salary income is at least 2.85% from the year prior to the base year, then the tax rate for class eight property will be reduced by 1% each year until the tax rate reaches zero.

(b) For each tax year, the base year is the year 3 years before the applicable tax year and the target year is the year 2 years before the applicable tax year.

(c) The department shall calculate the percentage growth in subsection (5)(a) by October 30 of each target year by using the formula $(W/CPI) - 1$, where:

(i) W is the Montana wage and salary income for the calendar base year divided by the Montana wage and salary income for the calendar year prior to the base year; and

(ii) CPI is the consumer price index for the calendar base year used in subsection (5)(c)(i) divided by the consumer price index for the year prior to the most current calendar year prior to the base year used in subsection (5)(c)(i).

(d) For purposes of determining the percentage growth in subsection (5)(a), the department shall use the bureau of economic analysis of the United States department of commerce Montana wage and salary disbursements, fall SA07 (state annual) for the target year wage and salary data series.

(e) Inflation must be measured by the consumer price index, U.S. city average, all urban consumers (CPI-U), using the 1982-84 base of 100, as published by the bureau of labor statistics of the United States department of labor.

(6) The class eight property of a person or business entity that owns an aggregate of \$5,000 or less in market value of class eight property is exempt from taxation. (Repealed on occurrence of contingency--secs. 27(2), 31(4), Ch. 285, L. 1999.)"

Section 2. Section 15-6-218, MCA, is amended to read:

"15-6-218. Intangible personal property exemption. (1) Except as provided in subsection (3), intangible personal property is exempt from taxation.

(2) For the purposes of this section, "intangible personal property" means personal property that is not tangible personal property and that:

(a) has no intrinsic value but is the representative or evidence of value, including but not limited to certificates of stock, bonds, promissory notes, licenses, copyrights, patents, trademarks, contracts, software, and franchises; or

(b) lacks physical existence, including but not limited to goodwill.

(3) The exemption for intangible personal property that is centrally assessed, other than property under ~~15-23-101(4) and (5)~~ 15-23-101(1)(d) and (1)(e), must be phased in over 3 years beginning in tax year 2000. Ten percent of the intangible personal property is exempt for tax year 2000, and two-thirds of the intangible personal property is exempt for tax year 2001. Centrally assessed intangible personal property is fully exempt from taxation in tax year 2002 and thereafter.

(4) The department shall adopt administrative rules prior to valuation determinations for tax year 2000 that specify the valuation methodology for centrally assessed intangible

personal property. To the extent that the unit value includes intangible personal property, that value must be removed from the unit value according to the provisions in subsection (3).

(5) The department shall report intangible personal property annually to the revenue and transportation interim committee of the Montana legislature and to the Montana legislature meeting in the year 2001."

Section 3. Section 15-23-101, MCA, is amended to read:

"15-23-101. Properties centrally assessed. (1) The Except as provided in subsection (2), the department shall centrally assess each year:

(1) (a) the railroad transportation property of railroads and railroad car companies operating in more than one county in the state or more than one state;

(2) (b) property owned by a corporation or other person operating a single and continuous property operated in more than one county or more than one state, including but not limited to telegraph, telephone, microwave, and electric power or transmission lines; natural gas or oil pipelines; canals, ditches, flumes, or like properties and including, if congress passes legislation that allows the state to tax property owned by an agency created by congress to transmit or distribute electrical energy, property constructed, owned, or operated by a public agency created by congress to transmit or distribute electrical energy produced at privately owned generating facilities, not including rural electric cooperatives;

(3) (c) all property of scheduled airlines;

(4) (d) the net proceeds of mines;

(5) (e) the gross proceeds of coal mines; and

(6) (f) property described in subsections (1) and (2) that is subject to the provisions of Title 15, chapter 24, part 12.

(2) Oil and gas gathering lines, as defined in 15-6-138, are not centrally assessed under this section. OIL AND GAS PRODUCTION FACILITIES, INCLUDING THE PRODUCER'S FLOW LINES, GATHERING LINES, COMPRESSORS, AND METERS, SHALL NOT BE CENTRALLY ASSESSED, EVEN IF THEY ARE LOCATED IN MORE THAN ONE COUNTY OR STATE. FOR PURPOSES OF THIS SUBSECTION, THE PRODUCER IS THE LEGAL ENTITY OR ENTITIES THAT ARE LIABLE FOR THE OIL AND GAS PRODUCTION TAXES SPECIFIED IN CHAPTER 36 OF TITLE 15.

NEW SECTION. Section 4. Effective date. [This act] is effective on passage and approval.

NEW SECTION. Section 5. Retroactive applicability. [This act] applies retroactively, within the meaning of 1-2-109, to property tax years beginning after December 31, 2004.

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