

Coal Severance Tax (15-35-103, MCA)

1. Model Characteristics

- The coal severance tax model uses estimates of coal production, coal prices, and effective coal tax rates to come up with an estimate of coal severance tax revenue.
- Production is estimated for each mine and then aggregated to determine total Montana coal production for a fiscal year.
 - Monthly mine-level coal production data are combined with mine-level coal production estimates from producer surveys to estimate annual production.
- An average mine price is predicted that takes into account the costs of preparation of coal for shipment and taxes owed on the coal.
- The gross value of coal production in Montana is determined by multiplying production by price. Taxable value is determined by subtracting estimated deductions and exemptions from the gross value.
- A weighted average tax rate is estimated and applied to the taxable value of coal production to determine total annual coal severance tax revenue.

2. Model Data

- Coal production, price, and revenue data is obtained from sources including: the Department of Revenue's GENTAX system, the Department of Labor and Industry, coal producer surveys received from the Legislative Fiscal Division, and IHS Economics.

3. Key Variables (those listed are for FY 2015 – FY 2017)

- Coal production (million tons): 39.6, 39.7, 39.8.
- Coal prices (\$/ton): \$17.04, \$17.30, \$17.05.
- Exemptions.
- Coal severance tax rates: 12.8%.

4. Other Important Points

- Montana has vast amounts of coal reserves.
- The Otter Creek coal mine and Tongue River Railroad are still in the permitting process.
- In early 2014, Signal Peak Energy was approved for expansion of its Bull Mountain mine in Musselshell County, adding an estimated nine years to the life of the mine.
- One of the primary uses for coal is in the production of electricity at coal-fired power plants. Montana coal is shipped to many states in the U.S. and also exported overseas. Demand for Montana coal is expected to remain consistent over the forecast period.