

Legislative Fiscal Division

Revenue Estimate Profile

Coal Severance Tax

Revenue Description: For large producers, the coal severance tax is imposed on all coal production in excess of 20,000 tons per company per calendar year. However, producers of 50,000 tons or less in any calendar year are exempt from the tax.

Statutory Reference:

Tax Rate (MCA) – 15-35-103

Tax Distribution (MCA) – Montana Constitution, Article IX, Section 5; 15-35-108; 17-5-703

Date Due – the report to the Department of Revenue and tax is due 30 days following the close of the quarter (15-35-104)

Applicable Tax Rate(s):

- 10.0% - on the value of surfaced mined coal with a heating quality < 7,000 BTU
- 15.0% - on the value surfaced mined coal with a heating quality ≥ 7,000 BTU
- 3.0% - on the value underground mined coal with a heating quality < 7,000 BTU
- 4.0% - on the value underground mined coal with a heating quality ≥ 7,000 BTU
- 3.75% - on the value of auger mined coal with a heating quality < 7,000 BTU
- 5.0 % - on the value of auger mined coal with a heating quality ≥ 7,000 BTU

Distribution:

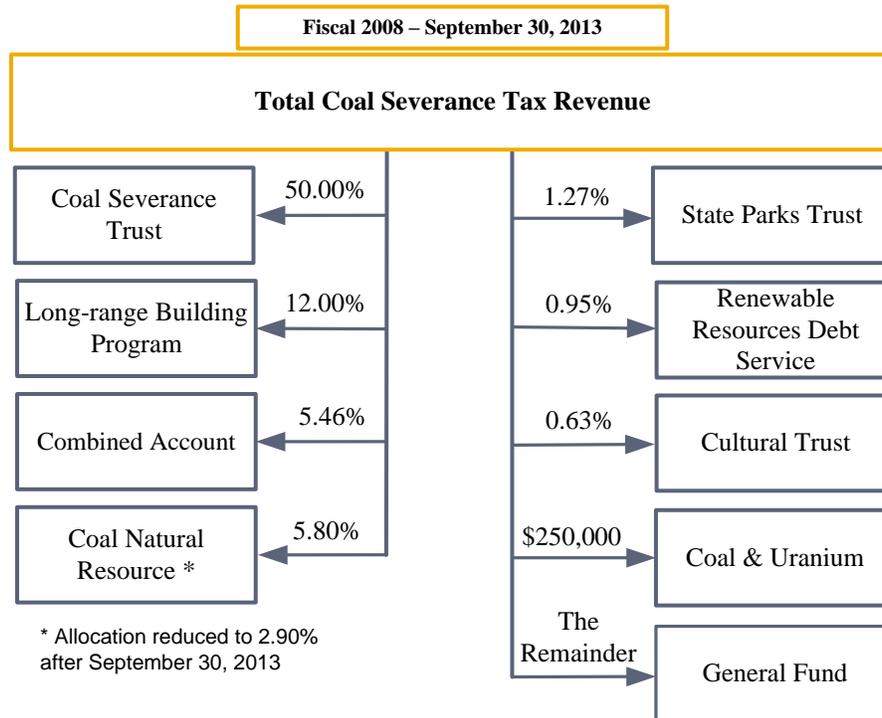
Coal Severance Tax Distribution						
Account Name	FY 1998-1999	FY 2000-2002	FY 2003	FY 2004-2005	FY 2006-2007	FY 2008-2013*
Permanent Trust	25.0%	0.0%	0.0%	12.5%	0.0%	0.0%
Treasure State Endowment	25.0%	37.5%	37.5%	25.0%	25.0%	25.0%
TSEP Regional Water	0.0%	12.5%	12.5%	12.5%	12.5%	12.5%
Big Sky Economic Development	0.0%	0.0%	0.0%	0.0%	12.5%	12.5%
LRBP-Cash Account	12.0%	12.0%	10.0%	12.0%	12.0%	12.0%
Coal Natural Resource *	0.0%	0.0%	0.0%	0.0%	2.9%	5.8%*
Shared Account * *	8.4%	8.4%	6.0%	7.8%	5.5%	5.5%
Park Acquisition Trust	1.3%	1.3%	0.0%	1.3%	1.3%	1.3%
Water Development	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Cultural Trust	0.0%	0.6%	0.0%	0.6%	0.6%	0.6%
Coal & Uranium	0.0%	0.0%	0.0%	0.0%	0.0%	\$250,000
LRBP-Debt Service	1.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Cultural & Aesthetic Projects	0.9%	0.0%	0.0%	0.0%	0.0%	0.0%
General Fund	25.3%	26.8%	33.0%	27.4%	26.8%	Remainder
* Allocation reduced to 2.90% after September 30, 2013						
** Used for Growth Through Agriculture, State Library, Conservation Districts, Coal Board (before FY 2006), and County						
Land Planning (before FY 2004)						

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Distribution Chart:



Collection Frequency: The coal severance tax is due 30 days after the end of the quarter.

% of Total General Fund Revenue:

FY 2004 – 0.63%	FY 2007 – 0.59%	FY 2010 – 0.63%
FY 2005 – 0.67%	FY 2008 – 0.61%	FY 2011 – 0.72%
FY 2006 – 0.56%	FY 2009 – 0.72%	FY 2012 – 0.66%

Revenue Estimate Methodology:

The coal severance tax is applied to the value of coal produced. The coal severance tax estimate is developed by estimating the annual contract sales price and production for each producing coal company and any company anticipated to be producing within the 3-year period in question. From these estimates, taxable value can be determined to which the tax rate is applied. Since all production and price information is reported on a calendar year basis, the resulting calendar year estimates are converted into fiscal year estimates.

Data

Major coal companies are surveyed for anticipated production levels and general indications of coal prices. In addition, a review is performed of historical trends and current literature on coal prices. Data from quarterly reports produced by DOR provide a history of production and prices for individual coal companies. These companies are:

Analysis

The taxable value of coal is determined in a three-step process:

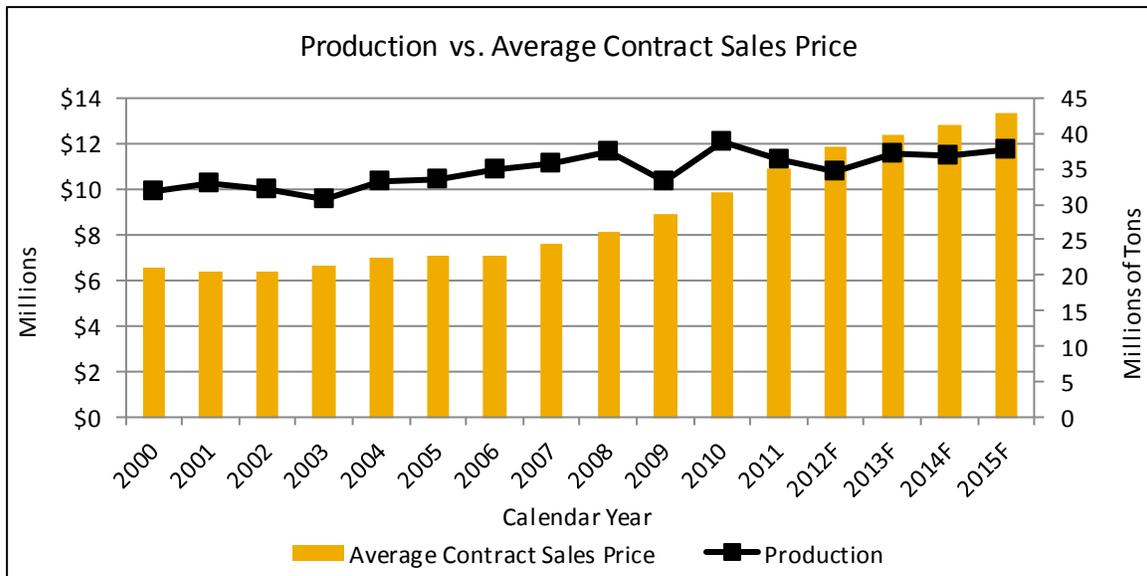
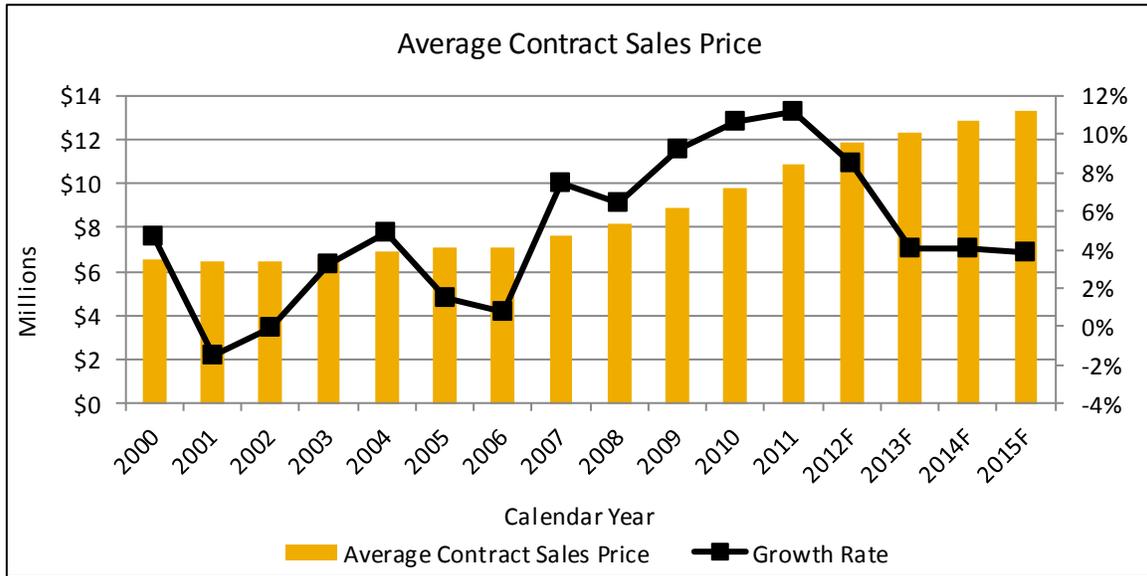
1. The future coal production for each company, as reported on the survey, is reduced by the exempt amount of 20,000 tons to get taxable tons.
2. To determine the future price for each company's coal, the company's average contract sales price for the last year increased by 1.7%, the average price increase in FY 2010. The average contract sales price for all companies is shown in the figure below.
3. The estimated production and price for each company are multiplied together and the product for all companies summed to obtain the total taxable value.

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The taxable value is multiplied by the applicable tax rate (3, 3.75, 4, 5, 10 or 15%) to determine total coal severance tax revenue. At this point the total represents estimates for calendar years. To convert the estimates to a fiscal year basis, half the previous calendar year's estimate is added to the half of the current calendar year's estimate.



Adjustments and Distribution

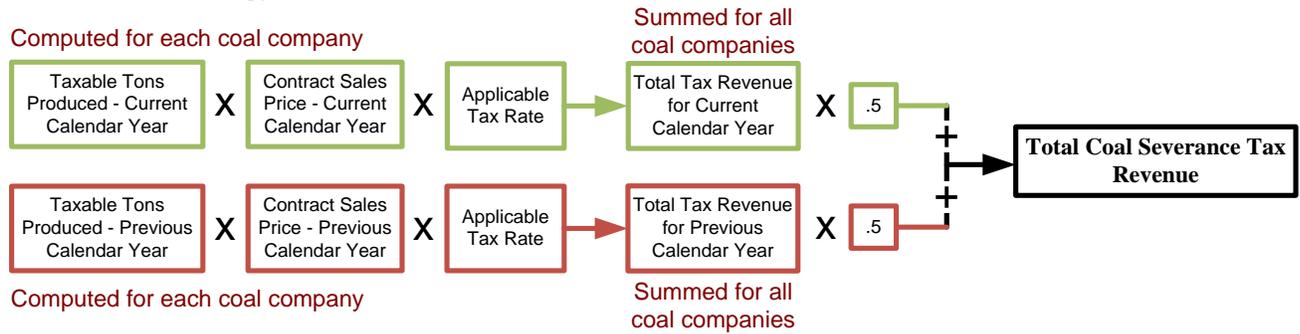
Once total tax revenue for each fiscal year is determined, the applicable distribution percentages are applied.

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Forecast Methodology:



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Revenue Estimate Assumptions:

	t	Total Tax	GF Tax	GF Allocation	Tons (FY)	CSP (FY)	Fiscal Effective	Coal/ Uranium
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Percent</u>	<u>Millions</u>	<u>Dollars</u>	<u>Rate</u>	<u>Millions</u>
Actual	2002	31.614	8.469	0.0%	33.149	6.380	14.9%	
Actual	2003	29.424	9.722	33.0%	30.246	6.487	15.0%	
Actual	2004	31.545	8.643	27.4%	31.834	7.218	13.7%	
Actual	2005	37.635	10.312	27.4%	34.191	6.993	15.7%	
Actual	2006	35.822	9.597	26.8%	34.107	7.005	15.0%	
Actual	2007	40.759	10.919	26.8%	34.611	7.552	15.6%	0.000
Actual	2008	45.332	11.894	26.2%	37.404	8.133	14.5%	0.250
Actual	2009	49.564	13.028	26.3%	35.263	8.851	14.7%	0.250
Actual	2010	44.177	10.322	23.4%	35.921	9.861	14.0%	0.250
Actual	2011	54.971	12.883	23.4%	37.505	10.906	13.3%	0.250
Actual	2012	52.743	12.350	23.4%	35.407	11.850	12.9%	0.250
Forecast	2013	54.845	12.851	23.9%	35.774	12.345	12.4%	0.250
Forecast	2014	57.899	14.842	26.1%	37.001	12.830	12.2%	0.250
Forecast	2015	60.297	15.903	26.8%	37.309	13.330	12.1%	0.250

	t	Tons (CY)	CSP (CY)	Tax	Tax	Calendar	Calendar Effective
	<u>Cal</u>	<u>Millions</u>	<u>Dollars</u>	<u>Rate</u>	<u>Rate</u>	<u>Tax</u>	<u>Rate</u>
Actual	2002	31.981	6.583	15.0%	10.0%	31.442	14.9%
Actual	2003	30.802	6.681	15.0%	10.0%	30.701	14.9%
Actual	2004	33.365	7.234	15.0%	10.0%	36.030	14.9%
Actual	2005	33.632	6.889	15.0%	10.0%	34.553	14.9%
Actual	2006	34.904	7.339	15.0%	10.0%	37.919	14.8%
Actual	2007	35.638	7.949	15.0%	10.0%	42.153	14.9%
Actual	2008	37.373	8.326	15.0%	10.0%	46.255	14.9%
Actual	2009	33.153	9.443	15.0%	10.0%	45.768	14.6%
Actual	2010	38.690	10.219	15.0%	10.0%	53.376	13.5%
Actual	2011	36.321	11.639	15.0%	10.0%	55.478	13.1%
Actual	2012	34.493	12.072	15.0%	10.0%	52.624	12.6%
Forecast	2013	37.056	12.599	15.0%	10.0%	57.067	12.2%
Forecast	2014	36.946	13.062	15.0%	10.0%	58.732	12.2%
Forecast	2015	37.671	13.592	15.0%	10.0%	61.862	12.1%

$$\text{Total Tax} = \text{Tons(FY)} \times \text{CSP(FY)} \times \text{Fiscal Effective}$$

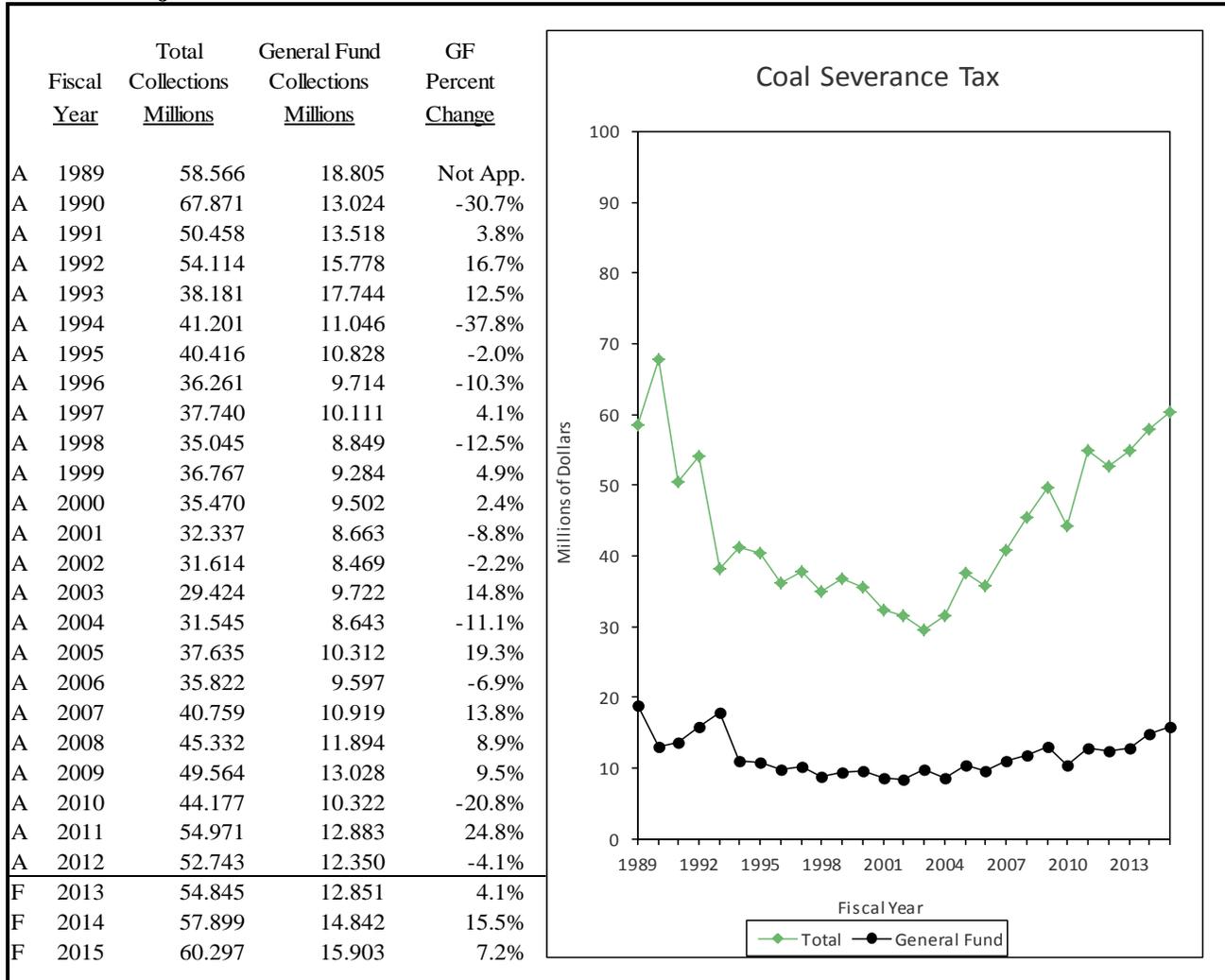
$$\text{GF Tax} = (\text{Tons(FY)} \times \text{CSP(FY)} \times \text{Fiscal Effective} - \text{Coal/Uranium}) \times \text{GF Allocation}$$

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Revenue Projection:



Data Source(s): SABHRS, Department of Revenue Coal Tax Returns

Contacts: Coal companies' financial personnel