LFD
MONTANA LEGISLATIVE FISCAL DIVISION

Oil & Natural Gas Production Tax

October 2020

The Oil and Natural Gas Production tax is imposed on the production of oil and natural gas within Montana. There are a variety of different tax rates that depend on factors such as the age and type of the well, as well as the current price of oil.

Two types of wells, vertical and horizontal, are used to extract oil and natural gas. Horizontal wells can access more underground reserves with less drilling and allow for hydraulic fracturing (fracking) making them more efficient, less costly and therefore more prevalent than vertical wells.

Wells drilled before 1999 are taxed at different rates than post-1999 wells for both oil and natural gas. Additionally, new horizontally-drilled wells are given a tax holiday of 12 months or 18 months. The tax holiday allows the producer to pay a low tax rate of only 0.5% during the early life of the well, which is the most productive time in the life of oil and natural gas wells. The tax rates for oil and natural gas are displayed in the tables below (excluding the Privilege & License and Local Impact taxes, which amount to less than 0.3%) and can also be found at 15-36-304, MCA.

Oil Tax Rates			
Working Interest			
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 <$54)		0.5%
	Stripper well bonus production (if oil >=$54)		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%
Nonworking Interest			14.8%
Board of Oil & Gas			0.3%

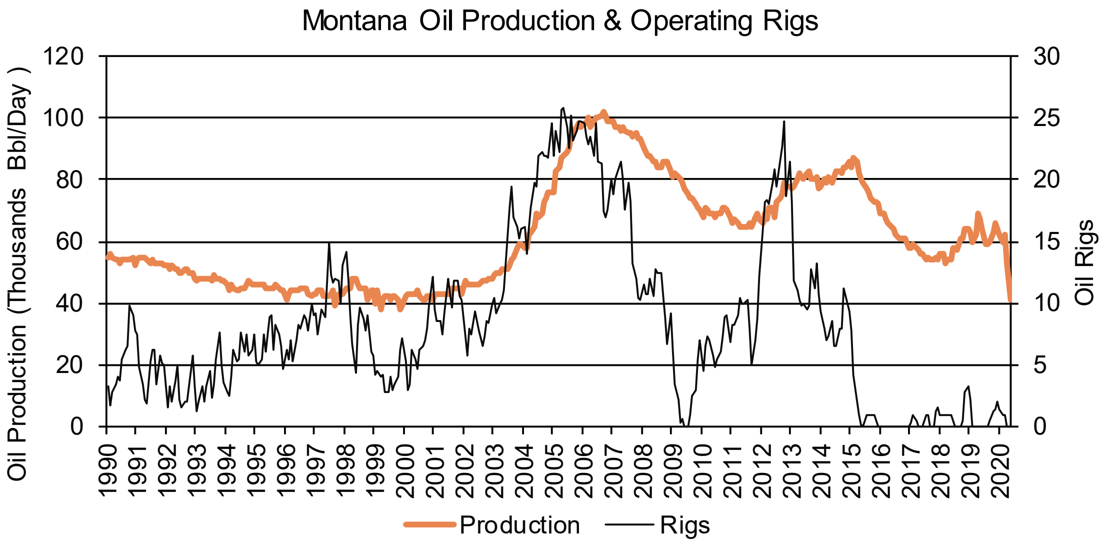
* No stripper tax rate. Taxed at primary recovery rates. 15-36.303(22a)

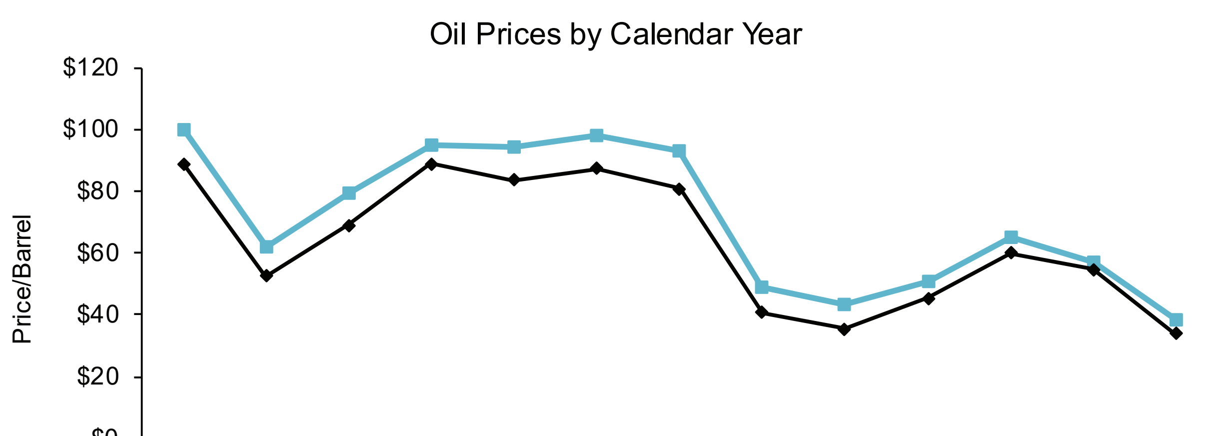
Natural Gas Tax Rates			
Working Interest			
Qualified production			
	First 12 months		0.5%
	After 12 months		
		pre-1999 wells	14.8%
		post-1999 wells	9.0%
Stripper natural gas pre-1999 wells			11.0%
Horizontally completed well production			
	First 18 months of qualifying production		0.5%
	After 18 months		9.0%
Nonworking Interest			14.8%
Board of Oil & Gas			0.3%

The working interest is paid by the individual or company that produces and sells the oil or natural gas.

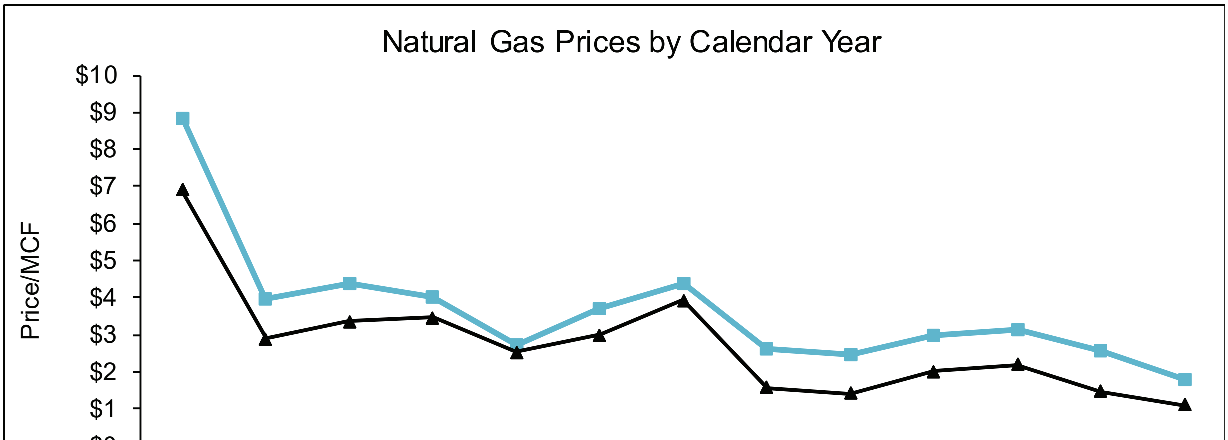
The non-working interest is paid by the owner of the oil or gas reserves who receives a royalty payment from the producer for the rights to extract those reserves.

Tax revenue is driven by both production and price, however prices impact revenues more than production. Prices are modeled off West Texas Intermediate (WTI) oil prices and Henry Hubb (HH) natural gas prices. Montana oil and gas prices tend to be lower than WTI and HH prices due to high transportation costs. Production and price history are displayed in the graphs below.





	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
WTI	99.557	61.692	79.436	95.079	94.202	97.938	93.258	48.689	43.206	50.956	64.893	56.978	38.498
MT	88.843	52.619	69.05	88.763	83.445	87.219	80.669	40.597	35.467	45.345	60.085	54.693	33.878



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
HH	8.8525	3.9502	4.3874	3.9989	2.751	3.7265	4.3705	2.6127	2.4932	2.9652	3.1661	2.5667	1.7987
MT	6.9031	2.8966	3.3741	3.4586	2.5242	3.0056	3.9346	1.577	1.4202	2.0227	2.2074	1.4836	1.1262

Distributions

(MCA, 15-36-331, MCA, 15-36-332)

Oil and natural gas tax revenues are distributed to a variety of sources throughout the state, with a substantial portion of the revenue going back to counties where oil and/or natural gas production occurred.

First, the local impact tax revenue is distributed to the Oil, Gas and Coal state special revenue fund. The privilege & license tax is distributed to the Board of Oil and Gas Conservation based on a sliding tax scale that is set by the board. After those distributions, statutorily appropriated percentages of total revenue are then distributed to local counties, governments, and schools within whose boundaries the oil and/or natural gas production occurred.

A portion of revenue from wells within tribal boundaries may be returned to tribes based on agreements between the Department of Revenue and the tribes, however, there have been no distributions to tribes in recent years. The remainder of the revenue is distributed to the general fund and several state special revenue funds, which are outlined in the chart below.