



The Policy Institute

HOW MONTANA AND NEIGHBORING STATES TAX ELECTRICAL TRANSMISSION



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March 15, 2010

The Policy Institute blends authoritative research and hands-on political engagement to create public policy based on economic justice, fair taxation, corporate accountability and environmental responsibility.

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I. EXECUTIVE SUMMARY

Montana is widely recognized to have enormous potential – particularly from the state's wind and coal resources – to produce electrical energy for regional and national consumption. The development of new electrical production in the state faces constraints, however, including an existing transmission infrastructure of limited capacity. As a result, proposals for several new interregional electrical transmission lines are currently under consideration. Because the implications of large transmission projects are numerous, sizable, and enduring, it is imperative that Montanans and other interested citizens understand the proposed projects and their likely impacts. It is also instructive to examine the ways in which Montana and its neighboring states impose taxes, including property, corporate income, sales, and other taxes, on electrical transmission. In addition to Montana, the following states were selected for this study because of their close proximity to Montana: Idaho, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming.

This study also looks at the ways in which Montana and its neighbors offer special tax provisions related to the transmission of renewable energy. All information represents the most current statute in each state, except where noted.

II. PROPERTY TAX ON ELECTRICAL TRANSMISSION

Property tax is the primary way that electrical transmission is taxed by all of the states in the study area.

In Montana, a rate of 3.0% is applied to lines that transmit wind-generated electricity (Class 14), and a rate of 12.0% is applied to lines that transmit electricity generated from non-renewable sources (Class 9). (There is also a property tax abatement available to owners of transmission lines constructed after June 1, 2007 and carrying electricity generated by a renewable source. This abatement provides a reduction in property taxes of 50% for a period of up to 19 years. Thus, this abatement would decrease the property tax rate for the renewable-generated electricity on a new transmission line from 3% to 1.5%.) DC lines (Class 16) are subject to a property tax rate of 2.25%.

As in Montana, the revenue from property taxes in the other states in the study area is allocated proportionately to the relevant taxing jurisdictions.

Table A: Property Tax

Tax Rate		Revenue Destination
Idaho	<p>Electrical transmission lines are centrally assessed. Taxes are then levied on transmission lines as operating property at the county level at an overall average rate of 1.01% of market value (based on what proportion of the line is located within each taxing jurisdiction).</p> <p>Average Urban Tax Rate: 1.179% Average Rural Tax Rate: 0.781%</p>	Allocated proportionately to relevant taxing jurisdictions.
Montana	<p>Market values for all transmission lines in Montana are centrally assessed by the Department of Revenue, and the market value of a line within a particular property tax jurisdiction, e.g., a county, is determined by the portion of the entire line that is located within that jurisdiction.</p> <p>3.0% tax rate is applied to lines that transmit wind-generated electricity (Class 14), and a 12.0% tax rate is applied to lines that transmit electricity generated from non-renewable sources (Class 9). HVDC lines (Class 16) are subject to a property tax rate of 2.25%.</p>	Allocated proportionately to relevant taxing jurisdictions.
Nevada	<p>Electrical transmission lines are centrally assessed. Taxes are then levied on lines at the county level at an average rate of 3.1727% of assessed value (based on how much of the line is located within each taxing jurisdiction). Assessed value in Nevada equals 35% of the taxable value, which is new replacement cost, less depreciation.</p>	Allocated proportionately to relevant taxing jurisdictions.

North Dakota	Investor-owned utilities are subject to property taxes on operating property except new transmission lines that qualify for in-lieu taxation (See Table E). Average Statewide Mill Rate: 390.02 mills Average County Mill Rates: 141.75 - 447.18 mills ¹	Allocated proportionately to relevant taxing jurisdictions.
Oregon	Electrical transmission lines are centrally assessed by the Oregon Department of Revenue. Taxes are levied on transmission lines at the county level at an estimated rate of \$15/\$1000 of net assessed value (based on how much of the line is located within each taxing jurisdiction).	Allocated to taxing jurisdictions in proportion to the investment in the taxing jurisdiction.
South Dakota	Companies, including investor-owned utilities, which own electrical transmission lines are assessed under the unit value method. Taxes are levied on transmission lines as commercial property at the county level at a rate of 2-2.5% of assessed value (based on the calculated value of the property in each taxing district). More Information	Allocated proportionately to relevant taxing jurisdictions.
Utah	Electrical transmission lines are taxed as operating property in the State of Utah. They are taxed under a unitary approach to value that captures the transmission line value as part of both a cost approach and income approach to value. The tax notice and collection is at the county level at an estimated average rate of 1.5% of fair market value.	The state property tax value is apportioned to the relevant taxing jurisdictions. The counties then bill and collect the apportioned taxable value.
Washington	Electrical transmission lines are centrally assessed. Taxes on transmission lines are billed and collected at the county level at an average rate of \$9.41/\$1000 of true and fair value (based on how much of the line is located within each taxing jurisdiction).	Allocated proportionately to relevant taxing jurisdictions.
Wyoming	Electrical transmission lines are centrally assessed by the state as real property at 11.5% of market value. The assessed value is allocated by the state to the various counties based on the installed cost of the property within each county and taxing jurisdiction. Taxes are levied by the counties on the assessed value of the transmission lines at the counties' tax rates. The statewide average rate is approximately 6.5%.	Allocated proportionately to relevant taxing jurisdictions.

III. CORPORATE INCOME TAX ON ELECTRICAL TRANSMISSION

Montana's corporate income tax rate is similar to other states in the study area that levy such a tax on entities that own electrical transmission lines. Montana's rate is 6.75%, Utah's is 5%, North Dakota's is 6.4%, Oregon's is 6.6-7.9%, and Idaho's is 7.6%. South Dakota, Nevada, Wyoming and Washington do not levy a corporate income tax.

Table B: Corporate Income Tax

Tax Rate		Revenue Destination
Idaho	7.6% of Idaho taxable income.	State general fund.
Montana	6.75% of Montana taxable income.	State general fund.
Nevada	None	N/A

¹ 2008 rates. Current information not available.

North Dakota	Top corporate income tax rate is 6.4% and is applicable to all corporations whose taxable income is above \$50,000. Corporations voluntarily electing to use the “Waters Edge” filing method pay an additional 3.5% surtax. A corporation doing business outside of North Dakota would apportion to North Dakota a share of its total income. The share apportioned is based on the corporation’s percentages of three items assigned to the state – tangible property, payroll, and sales. The average of these (called the apportionment factor) is the percentage of income that is assigned to the state.	State general fund.
Oregon	\$250K or less (Oregon taxable income): 6.6%, or minimum tax \$250,001 or more (Oregon taxable income): \$16,500 plus 7.9% of the amount over \$250K, or minimum tax	State general fund.
South Dakota	None	N/A
Utah	Unless considered exempt by statute (see Table F), a utility operating in Utah is subject to a 5% corporate income tax.	State education fund.
Washington	None	N/A
Wyoming	None	N/A

IV. SALES TAX ON ELECTRICAL TRANSMISSION

Seven of the nine states in the study area impose a state sales tax. Montana and Oregon do not levy a sales tax.

State sales tax rates that apply to electrical transmission lines and materials range from 4% in South Dakota to 6.5% in Washington. Addition county sales tax rates may also apply.

Idaho, North Dakota and Washington to not impose a sales tax on the sale of electricity. Sales tax on electricity is paid by the consumer in South Dakota and Utah at the rates of 4% and 6-7% respectively.

Most sales tax revenue is deposited into the states’ general funds with small percentages going to other funds in Idaho, North Dakota and Wyoming.

Table C: Sales Tax

Tax Rate	Revenue Destination	
Idaho	State sales tax rate is 6%. Applies to materials brought into the state by an electrical utility, but does not apply to the sale of electricity.	Most revenue is deposited in the state general fund. 11.5% of the revenue is distributed to counties, cities and other local taxing districts, and several smaller specific distributions.
Montana	None	N/A
Nevada	2.6%state sales tax rate. With the addition of county sales tax rates, the rates in Nevada vary from 6.85% to 8.1%. No exemption for the sale of electricity. More Information	State general fund.
North Dakota	5% sales tax plus any applicable local tax on the purchase price or fair market value of any transmission towers and materials brought into North Dakota. Sale of electricity is not subject to sales tax.	State general fund (80%) and the State Aid and Distribution Fund (20%).

Oregon	None	N/A
South Dakota	Purchaser of electrical transmission equipment, material, consumables, or service pays a 4% state sales/use tax and applicable municipal sales/use tax on the cost of the items or services. Sales tax on the sale of electricity is paid by the consumer of the electricity.	State general fund.
Utah	A consumer of electricity pays rate of 6-7% depending on the rates applied at the county and city level, unless the entity is exempt from sales tax. Equipment used for electrical transmission qualifies for a use-based exemption and is not subject to sales tax. More Information	State general fund.
Washington	Generally, the states sales tax of 6.5% applies to electrical transmission lines, towers, and other equipment brought into the state (see exemption in last column at right). Sale of electricity is not subject to sales tax.	State general fund.
Wyoming	Materials and supplies for electrical transmission and electricity are subject to a 4% state sales tax, plus up to an additional 3% levied at the county level or up to an additional 4% levied in one resort community.	State general fund and other relevant taxing jurisdictions.

V. OTHER TAXES ON ELECTRICAL TRANSMISSION

Nevada, Oregon and Wyoming do not have other taxes on electrical transmission in addition to those described above. Idaho levies a Kilowatt Hour Tax, Montana a Wholesale Energy Tax, South Dakota a Gross Receipts Tax, Utah a Municipal Energy Tax and Washington a Public Utility Tax. North Dakota imposes special taxes in lieu of property tax that are described in Table E below.

Table D: Other Taxes

Tax Rate	Revenue Destination
Idaho Kilowatt Hour Tax: Similar to Montana’s Wholesale Energy Tax, Idaho levies this tax upon all producers of electricity who generate electricity from hydroelectric sources, at a rate of \$0.0005 per kilowatt hour. Exception: The tax does not apply to power generated by facilities owned and operated by a municipal corporation. More Information	State refund account.
Montana Wholesale Energy Tax (WET): Levied on electricity generators (if the power is leaving the state) or electricity distributors (if the power is being delivered in state) at a rate of \$0.00015 per kilowatt hour on all electricity transmitted by a transmission service provider in the state.	State general fund.
Nevada	N/A
North Dakota	See Table E
Oregon	N/A
South Dakota Gross Receipts Tax: Rural electric cooperatives and other companies that provide electricity only in rural areas (unincorporated areas or towns with population less than 1500) are assessed a 2% gross receipts tax in lieu of property tax.	School districts.
Utah Municipal Energy Tax: Imposed by the city to which energy is delivered at a rate of up to 6%.	The town or city that imposes it.

Washington	Public Utility Tax: Income from selling electricity is subject to this tax at a rate of 0.03873 times gross income. More Information	Most goes to the state general fund, with a small amount (about 3%) going to the public works assistance account.
Wyoming	None	N/A

Table E: Other Taxes | North Dakota

Tax Rate	Revenue Destination										
In-Lieu Tax for Rural Electric Cooperatives: The 2009 Legislature repealed the code that provided for taxation of rural electric cooperatives. They enacted new code that applies to rural electric cooperatives beginning in 2010. Other power companies may elect to opt into the new provisions but are not required to do so.	Revenue from the new transmission line tax on rural electric cooperatives (and other companies that elect to opt in) will be distributed to counties and other taxing districts in the county.										
Transmission lines are subject to annual taxes per mile or fraction of a mile based on their nominal operating voltages on January first of each year, as follows (effective for taxable years beginning after December 31, 2009):											
<table border="0"> <tr> <td>> 50 kV</td> <td>\$50/mile/year</td> </tr> <tr> <td>50-99 kV</td> <td>\$100/mile/year</td> </tr> <tr> <td>100-199 kV</td> <td>\$200/mile/year</td> </tr> <tr> <td>200-299 kV</td> <td>\$400/mile/year</td> </tr> <tr> <td>300 kV or more</td> <td>\$600/mile/year</td> </tr> </table>		> 50 kV	\$50/mile/year	50-99 kV	\$100/mile/year	100-199 kV	\$200/mile/year	200-299 kV	\$400/mile/year	300 kV or more	\$600/mile/year
> 50 kV		\$50/mile/year									
50-99 kV	\$100/mile/year										
100-199 kV	\$200/mile/year										
200-299 kV	\$400/mile/year										
300 kV or more	\$600/mile/year										
A transmission line initially placed in service after January 1, 2009 is exempt from transmission line taxes under this section for the first taxable year after the line is placed in service, and transmission line taxes under this section must be reduced by:											
<table border="0"> <tr> <td>Second Year</td> <td>75% Reduction</td> </tr> <tr> <td>Third Year</td> <td>50% Reduction</td> </tr> <tr> <td>Fourth Year</td> <td>25% Reduction</td> </tr> <tr> <td>Thereafter</td> <td>Standard Property Tax Rates</td> </tr> </table>	Second Year	75% Reduction	Third Year	50% Reduction	Fourth Year	25% Reduction	Thereafter	Standard Property Tax Rates	Revenue from transmission lines owned by other than electric cooperatives goes to all political subdivisions in which the lines are located.		
Second Year	75% Reduction										
Third Year	50% Reduction										
Fourth Year	25% Reduction										
Thereafter	Standard Property Tax Rates										
In-Lieu Tax for Investor-Owned Utilities: All operating property, including transmission lines, historically has been assessed as part of the unit value of the company. However, the 2003 Legislature provided that new transmission lines of 230 kV or larger, initially placed in service or substantially expanded on or after October 1, 2002, are exempt from paying property tax for the first year and taxed in subsequent according to the following schedule:											
<table border="0"> <tr> <td>Second Year</td> <td>75% reduction</td> </tr> <tr> <td>Third Year</td> <td>50% reduction</td> </tr> <tr> <td>Fourth Year</td> <td>25% reduction</td> </tr> <tr> <td>Thereafter</td> <td>\$300/mile/year (in lieu of property taxes)</td> </tr> </table>	Second Year	75% reduction	Third Year	50% reduction	Fourth Year	25% reduction	Thereafter	\$300/mile/year (in lieu of property taxes)			
Second Year	75% reduction										
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Fourth Year	25% reduction										
Thereafter	\$300/mile/year (in lieu of property taxes)										

VI. SPECIAL TAX PROVISIONS RELATED TO RENEWABLE ENERGY

Most of the states in the study area have special tax provisions related to the transmission of renewable energy. Idaho, Oregon and South Dakota do not.

In Montana, a 3.0% property tax rate is applied to lines that transmit wind-generated electricity (Class 14), compared to the 12.0% property tax rate applied to lines that transmit electricity generated from non-renewable sources (Class 9). In Nevada, partial abatements of property taxes and local sales and use taxes are available to certain facilities for the generation and transmission of electricity generated from renewable sources. In North Dakota, all or a portion of transmission lines built and used in conjunction with a wind tower may be exempt from the state sales tax. In Utah, the sale of machinery used to produce renewable energy may qualify for a sales tax exemption. In Washington, transmission equipment, including power poles and power lines that are used in conjunction with the generation of electricity from renewable sources, may qualify for an exemption from the state sales tax. And in Wyoming, all materials and supplies

used for a wind farm bought and shipped to Wyoming, including transmission lines that connect the farm to the main grid, are exempt from sales tax through January 2012.

Table F: Special Tax Provisions

Idaho	None
Montana	<p>3.0% property tax rate applied to lines that transmit wind-generated electricity (Class 14), compared to 12.0% property tax rate applied to lines that transmit electricity generated from non-renewable sources (Class 9). There is also a property tax abatement available to owners of transmission lines constructed after June 1, 2007 and carrying electricity generated by a renewable source. This abatement provides a reduction in property taxes of 50% for a period of up to 19 years. Thus, this abatement would decrease the property tax rate for the renewable-generated electricity on a new transmission line from 3% to 1.5%.</p> <p>More Information</p>
Nevada	<p>Partial abatements of property taxes and local sales and use taxes are available to certain facilities for the generation and transmission of electricity generated from renewable sources.</p> <p>More Information</p>
North Dakota	All or a portion of transmission lines built and used in conjunction with a wind tower may qualify for an exemption from the state sales tax.
Oregon	None
South Dakota	None
Utah	<p>The sale of machinery used to produce renewable energy may qualify for a sales tax exemption.</p> <p>More Information</p>
Washington	<p>Transmission equipment, including poles and lines that are used in conjunction with the generation of electricity from renewable sources, may qualify for an exemption from the state sales.</p> <p>More Information</p>
Wyoming	All materials and supplies used for a wind farm bought and shipped to the state, including transmission lines that connect the farm to the main grid, are exempt from sales tax through January 2012.

VII. SOURCES OF INFORMATION

Idaho: Gregory Cade, Bureau Chief, Property Appraisal Bureau, Idaho State Tax Commission; Jim Hustad, Tax Policy Specialist, Idaho State Tax Commission; Alan Pack, Tax Policy Specialist, Idaho State Tax Commission

Montana: Ed Caplis, Director of Tax Policy and Research, Montana Department of Revenue; Marla Larson, Economist, Montana Department of Revenue

Nevada: Jan Kelley, Utility Valuation Analyst, Nevada Division of Assessment Standards; Institute on Taxation and Economic Policy Fair Tax Nevada Policy Brief; NevadaEnergy.com; Nevada Department of Taxation Website

Oregon: Michael Olson, Appraiser-Analyst, Oregon Department of Revenue

South Dakota: Todd Bailey, Property and Special Tax, South Dakota Department of Revenue and Regulation; Tim Binder, Staff Analyst, South Dakota Public Utilities Commission; Betty Morford, Senior Revenue Agent, South Dakota Department of Revenue and Regulation

Utah: Robert Patterson, Valuation Analyst, Utah State Tax Commission; Diana Wright, Miscellaneous Tax Division, Utah State Tax Commission; James Shaw, Sales Tax Department, Utah State Tax Commission

Washington: Ha Hayes, Property and Acquisition Specialist, State of Washington Department of Revenue; Kurt Sand, Tax Information Specialist, State of Washington Department of Revenue

Wyoming: Jim Felton, Principal Appraiser, Property Tax Division, Wyoming Department of Revenue; Terri Lucero, Excise Tax Division, Wyoming Department of Revenue

North Dakota: Marcy Dickerson, State Supervisor of Assessments, North Dakota Office of State Tax Commissioner; Blane Braunberger, Compliance Supervisor, Sales and Special Taxes, North Dakota Office of State Tax Commissioner; Matt Peyerl, Audit Supervisor, Corporate Taxes, North Dakota Tax Department

Note: In preparing this report, The Policy Institute has made every effort to provide complete and accurate information on this extremely complex subject. Please contact The Policy Institute if you know the information contained in this report to be incomplete or inaccurate.