

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 549** HLS 15RS 780
 Bill Text Version: **REENGROSSED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: May 8, 2015 4:00 PM	Author: THIBAUT
Dept./Agy.: Revenue	Analyst: Greg Albrecht
Subject: Raises Severance Tax Rates	

TAX/SEVERANCE-EXEMPTION RE NO IMPACT GF RV See Note Page 1 of 1
 Modifies exemptions, suspensions, and special rates from July 1, 2015 to June 30, 2017

Current law provides a 100% exemption from severance tax for oil and gas produced from horizontally drilled wells, for the earlier of 24-months or until well costs are paid out.

Proposed law limits the amount of severance tax exemption provided based on the price of oil and natural gas as reported by the U.S. Department of Energy, Energy Information Administration. At six-month intervals, oil price below \$70/bbl and gas prices below \$4.50/mmbtu result in no severance tax; from \$70-\$80 & \$4.50-\$5.50 20% of the normal tax rate would apply; from \$80-\$90 & \$5.50-\$6.00 40% would apply; from \$90-\$100 & \$6.00-\$6.50 60% would apply; from \$100-\$110 & \$6.50-\$7.00 80% would apply; and, over \$110/bbl & \$7.00/mmbtu 100% of the normal tax rate would apply.

Applicable for production occurring on or after July 1, 2015.

EXPENDITURES	2015-16	2016-17	2017-18	2018-19	2019-20	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	2015-16	2016-17	2017-18	2018-19	2019-20	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

EXPENDITURE EXPLANATION

The Department of Revenue (LDR) will incur costs for computer system modification and testing, tax form redesign, and tax payer inquiries. These costs are typically small for individual tax law changes (likely to be several thousands of dollars) and are typically absorbed within existing resources until cumulative changes necessitate additional resources be provided.

REVENUE EXPLANATION

The bill refers to the new tiered taxation as applying to production that commences on or after July 1, 2015, and also as applying to production occurring on or after July 1, 2015. The bill applies to either new production that first starts from July 1, 2015, or it applies to existing production already flowing on July 1, 2015.

Regardless, the price thresholds in the bill make it unlikely that any tax rate will be imposed on horizontal production in the foreseeable future. While subject to periodic revision, the official budgeted oil and gas prices do not approach the bill's minimum price thresholds (\$70/bbl and \$4.50/mmbtu) for imposing any tax until FY19 and FY20. Thus, the bill does not likely change the 24-month fully exempt status of these wells.

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| Senate | <u>Dual Referral Rules</u> | House | <input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S} |
| <input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H} | | | <input type="checkbox"/> 6.8(F)(2) >= \$500,000 Rev. Red. to State {H & S} |
| <input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H} | | | <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S} |

John D. Carpenter
Legislative Fiscal Officer