

**LEGISLATIVE FISCAL OFFICE**  
**Fiscal Note**



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

<b>Date:</b> June 15, 2015 3:39 PM	<b>Author:</b> THIBAUT
<b>Dept./Agy.:</b> Revenue	<b>Analyst:</b> Greg Albrecht
<b>Subject:</b> Limits Severance Tax Exemptions	

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

Present 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 average New York Mercantile Exchange Price per month on June 30th for the prior 12 months. An oil price at or below \$70/bbl and gas price at or below \$4.50/mmbtu results in 100% severance tax exemption; from \$70-\$80 & \$4.50-\$5.50 an 80% tax exemption would apply; from \$80-\$90 & \$5.50-\$6.00 60% would apply; from \$90-\$100 & \$6.00-\$6.50 40% would apply; from \$100-\$110 & \$6.50-\$7.00 20% would apply; and, over \$110/bbl & \$7.00/mmbtu there would be no severance tax exemption.

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

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

  

<b>REVENUES</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>5 -YEAR TOTAL</b>
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Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b>\$0</b>
<b>Annual Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**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 applies the new tiered severance tax exemptions to production occurring on or after July 1, 2015. This presumably applies the bill's limitations on tax exemptions to existing ongoing production and any newly commencing production after July 1, 2015 from horizontally drilled wells.

However, 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 annual revision, the official budgeted oil and gas price projections 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 until the latter half of the fiscal note horizon, at the earliest.

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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 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**