

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 26** HLS 21RS 71

Bill Text Version: **ENGROSSED**

Opp. Chamb. Action: **w/ SEN COMM AMD**

Proposed Amd.:

Sub. Bill For.:

Date: May 24, 2021	8:08 AM	Author: MCCORMICK
Dept./Agy.: Revenue		Analyst: Greg Albrecht
Subject: Severance Tax Exemption - Stripper Well Oil Production		

TAX/SEVERANCE-EXEMPTION EG1 NO IMPACT GF RV See Note
Provides with respect to the severance tax exemption for stripper wells

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Current law imposes a severance tax on the production from stripper wells (no more than 10 barrels of oil per producing day) of 3.125% of the value of the oil when severed. This tax is exempted in any month when the average value is less than \$20 per barrel.

Proposed law will exempt the tax on oil produced from stripper wells in any month when the average value is less than \$35 per barrel.

EXPENDITURES	2021-22	2022-23	2023-24	2024-25	2025-26	5 -YEAR TOTAL
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
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>	<u>\$0</u>
Annual Total						
REVENUES	2021-22	2022-23	2023-24	2024-25	2025-26	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>	<u>\$0</u>
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

EXPENDITURE EXPLANATION

The Department of Revenue will incur staff costs associated with modifications to the tax processing system to incorporate the new price threshold in this bill. These costs for programing and testing are typically estimated as a few thousand dollars of staff time. Additional staff time costs associated with handling issues with taxpayers resulting from this change will also likely be incurred if the monthly price of oil approximates the price threshold.

REVENUE EXPLANATION

The current exemption was enacted by Act 2 of 1994, resulting in intermittent months of tax exemption from FY95 through FY99. Since then, oil prices have generally exceeded \$20/bbl and these wells have been subject to the stripper rate of 3.125% of value (1/4 the tax of full-rate production). Over the last four fiscal years (FY17-FY20), these wells have been producing approximately 4 million barrels of oil per year, and being exempted from approximately \$20.6 million of severance tax per year (3.7 million barrels and \$18.8 million in FY20) relative to the full-rate tax of 12.5% of value.

Oil prices are currently more than the \$35/bbl threshold proposed by the bill (currently in the \$60/bbl to \$65/bbl range), and are currently expected to exceed that price threshold throughout the fiscal note horizon. Thus, the bill is not expected to exempt these wells from their current level of tax payment, some \$3.9 million per year.

Senate Dual Referral Rules
 13.5.1 >= \$100,000 Annual Fiscal Cost {S & H}
 13.5.2 >= \$500,000 Annual Tax or Fee Change {S & H}

House
 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}


Christopher A. Keaton
Legislative Fiscal Officer