

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



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

<b>Date:</b> May 6, 2015 3:41 PM	<b>Author:</b> THIBAUT
<b>Dept./Agy.:</b> Revenue	<b>Analyst:</b> Greg Albrecht
<b>Subject:</b> Raises Severance Tax Rates	

TAX/SEVERANCE-EXEMPTION EG 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 and on or before June 30, 2017.

<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>
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
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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 refers to the new tiered taxation as applying to production that commences on or after certain dates, and also as applying to production occurring on or after July 1, 2015 and on or before June 30, 2017. 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**