INTEROFFICE MEMORANDUM

TO: JOANIE RAFF
FROM: TONY MASTIN
SUBJECT: SB 648
DATE: MAY 12, 2014
CC: RANDY DOWELL

The Tax Commission has reviewed a draft of SB 648 CCS (Request No. 3698 dated May 12, 2014). The bill:

- Reduces the tax rate for all new production from wells, spudded on or after 7/1/15, to 2% for the first 48 months. Thereafter, the tax rate increases to 7%;
- Extends the following production incentives to 7/1/20:
  - Enhanced recovery incentive,
  - Inactive well incentive,
  - Production enhancement incentive, and
  - Economically-at-Risk incentive;
- Extends the following drilling incentives to 7/1/15:
  - Deep wells incentive (drilled to less than 15,00 feet),
  - New discovery incentive, and
  - 3-D seismic incentive;
- Modifies current refund process for production after 7/1/15 and provides that the incentives are not available for production taxed at the 2% tax rate;
- Provides that no claims regarding economically-at-risk leases shall be permitted after December 31, 2015 for production periods occurring between calendar years 2005 through 2013;
- Provides that no claims for rebates for production occurring before 2003 are permitted after the effective date of the bill;
- Provides apportionment of revenue from oil and gas under the new 2% tax rate; and
- Deletes obsolete language.

The fiscal impact of replacing the existing gross production taxing system in future years is difficult due to the constant price fluctuations upon which the tax is based and other variables. Therefore, the Tax Commission estimates the following fiscal impacts:

FY15: No recommended decertification in collections.
FY16: Revenue neutral.

If you need anything else, please let me know.