BILL SUMMARY
2nd Session of the 54th Legislature

Bill No.:	**HB 2562**
Version:	**CCR A**
Request Number:	**11054**
Author:	**Mr. Speaker**
Date:	**5/21/2014**
Impact:	**Tax Commission Comments Below**

Research Analysis

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HB2562 establishes a reduced 2 percent gross production tax rate on production from a new well spudded on or after July 1, 2015 for 36 months of production. Thereafter, the standard 7 percent rate takes effect. The apportionment of gross production taxes collected at the 2% rate will be distributed as follows:

-50% will be credited to the General Revenue Fund;
-25% will be credited to the County Highway Fund. Each county will receive a proportionate share of the funds based on the proportion of the total value of production from each county in the corresponding month of the preceding year; and
-25% will be credit to each county, to be distributed to the school districts on an average daily attendance per capita distribution basis.

The measure also extends the exemption period for several drilling incentives. Please refer to the table below for a list of the incentives that are affected.

Corresponding section in HB2562 CCS	Type of Project/well/drilling method.	Incentive Description	Incentive	Sunset date
Section 1, Subsection B	Standard rate for all production.	Production from a new well spudded on or after 7/1/2015 is taxed at a reduced rate of 2% for 36 months of production. Thereafter, the standard rate 7% takes precedence.	Reduced rate at 2% for 36 months, then 7%.	NA. Rate is effective July 1, 2015.
Section 1, Subsection D (1)	Secondary recovery projects	Production from such projects is exempt from tax for a period not to exceed 5 years from the initial project beginning date or for a period ending the termination of the secondary recovery process, whichever occurs first.	Tax exemption for up to 5 years.	July 1, 2020
Section 1, Subsection D (2)	Tertiary recovery projects	Production from such projects is exempt from tax from the project beginning date until project payback is achieved, but not to exceed a period of 10 years. Project payback provides for the recovery of capital expense and operating expenses.	Tax exemption for up to 10 years.	July1, 2020
Section 1, Subsection E	Horizontally drilled well	Wells spudded or production commencing on or after July 1, 2011 and before July 1, 2015, from a horizontally drilled well is taxed at a reduced rate of 1% for 48 months of production.	Reduced rate at 1% for 48 months.	July 1, 2015
Section 1, Subsection F	Inactive well	Production from an inactive well is exempt from tax for a period of 28 months from the date upon which production is reestablished. Inactive well mean any wells that has not produced oil, gas or oil and gas for at least 1 year and production is reestablished between July 1, 1997 and July 1, 2020.	Tax exemption for 28 months.	July 1, 2020
Section 1, Subsection G	Production enhancement project	Any incremental production from such projects are exempt from tax for a period of 28 months from the date of first sale after completion of the production enhancement project. Production enhancement project means any workover, recompletion, reentry of plugged and abandoned wellbores or addition of a well or field compression.	Tax exemption for 28 months.	July 1, 2020
Section 1, Subsection H (2) (a)	Deep wells between 12,500 to 14,999 feet in depth	Production from these wells is exempt from tax from the date of first sales for a period of 28 months.	Tax exemption for 28 months.	July 1, 2015
Section 1, Subsection H (2) (f)	Deep wells between 15,000 to 17,499 feet in depth	Production from these wells between July 1, 2011 and July 1, 2015 are taxed a reduced rate of 4 until the expiration of 48 months from the date of first sales.	Reduced rate at 4% for 48 months.	July 1, 2015
Section 1, Subsection H (2) (f)	Deep wells drilled to a depth 17,500 feet or greater	Production from these wells between July 1, 2011 and July 1, 2015 are taxed a reduced rate of 4 until the expiration of 60 months	Reduced rate at 4% for 60 months.	July 1, 2015

		from the date of first sales.		
Section 1, Subsection I	New discovery wells	Production from wells that meets the criteria of new discovery is exempt from tax from the date of first sales for a period of 28 months.	Tax exemption for 28 months.	July 1, 2015
Section 1, Subsection J	Wells located within the boundaries of a 3-D seismic shoot.	Production from wells drilled based on 3-D seismic technology is exempt from tax for 28 months if the 3-D seismic shoot is shot on or after July 1, 2000.	Tax exemption for 28 months	July 1, 2015
Section 2, Subsection B	Economically at-risk oil or gas lease	Any oil or gas lease operated at a net loss or at a net profit is less than the total gross production tax remitted for such lease during the previous calendar year qualifies for an exemption based upon the taxes paid in the previous calendar year. If the tax rate was 7% last year, then the exemption is 6/7 of the taxes levied, if the rate was 4% last year, then the exemption is 3/4 of the taxes levied, and if the rate was 1% or 2%, then no exemption is available.	Refund of taxes paid based upon the rate paid in the previous calendar year.	July 1, 2020.

*The exemptions provided for in subsections F,G, H (2)(b), H (2) (c), I and J are only applicable if the price of oil is below $30.00 per barrel or below $5.00 per mcf for natural gas.

*For wells that qualify for exemptions provided in subsections F, G, I, J, E and H (2)(a), there is a 1% percent tax on production during the exemption period.

*Production from a new well spudded on or after July 1, 2015 receiving an exemption pursuant to subsections F and G is not eligible to receive a refund of gross production taxes paid if the production is taxed at the reduced 2% rate.

Prepared By: Quyen Do

Fiscal Analysis

From the Tax Commission:

The Tax Commission has reviewed a draft of HB 2562. The bill:

- Reduces the tax rate for all new production from wells, spudded on or after 7/1/15, to 2% for the first 36 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.

Prepared By: Mark Tygret

<u>Other Considerations</u>

None.