F I S C A L   I M P A C T   R E P O R T

SPONSOR: Heaton   DATE TYPED: 03/12/01   HB 946/aHGUAC

SHORT TITLE: Intergovernmental Tax Credit   SB

ANALYST: Williams

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY01	**FY02**			
		Substantial Loss; Unknown at this time		

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files
Taxation and Revenue Department (TRD)
Energy, Minerals and Natural Resources Department (EMNRD)

SUMMARY

Synopsis of HGUAC Amendments

The amendments clarify references to the county resource excise tax which could be levied on products and natural resources sold and severed. A new state tax credit is authorized in the amount of the lesser of:

- 75% of the tax imposed by the county on products and natural resources sold and severed from land other than tribal land within the county or
- 25% of the aggregate amount of oi land gas severance tax and severance tax due to the state for products and natural resources severed and sold from land other than tribal land within the county

Synopsis of Original Bill

The bill authorizes a county to impose a property tax of up to 3 percent on value of products sold and severed from land other than tribal land. The definition of tribal land includes that land within exterior boundaries as of March 1, 2001. Revenue from this tax would be used to implement economic development plans and projects under the Local Economic Development Act.

The bill provides a tax credit against the new county tax. In Section 3(a), the bill indicates an intergovernmental tax credit is authorized for severance taxes to be deducted against the county resource excise tax; however, in section D, the language reflects the credit can be applied to severance and surtax liability. The amount of the credit would be 75 percent of the lesser of:

- the aggregate amount of tax due under county resource excise tax on non-tribal lands
- the aggregate amount of severance tax and surtax due the state for products produced on non-tribal lands

The Secretary of the Taxation and Revenue Department is authorized to enter into cooperative agreements with counties for administration, collection, remittance and audit of tax revenues imposed by the county. The effective date of the bill is July 1, 2001.

Significant Issues

Effectively, this bill seeks to divert the state severance taxes to counties for economic development purposes. This could benefit counties located in regions of the state where significant extractive resources economic activity is present. Because these resources are not evenly distributed throughout the state, some counties would gain little or no benefit from the new tax.

Double taxation issues are partially addressed by excluding tribal lands and through the use of the intergovernmental tax credit.

FISCAL IMPLICATIONS

It is unclear if the state taxes used in the calculation would be the ad valorem production and equipment taxes, the resources excise taxes and/or, the severance taxes.

However, the following table summarizes total state receipts which may be affected by this proposal:

Projected Total Tax Revenues Directly Related to Natural Resource Production

	General Fund Mineral Production Taxes *	**Severance Tax Bonding Fund (incl. small amount of interest income)**
FY 01:	$360.4 million	$331.6 million
FY 02:	$322.7 million	$287.6 million
FY 03:	$249.5 million	$241.5 million
FY 04:	$235.4 million	$227.5 million
FY 05:	$225.1 million	$218.0 million

* Includes school, conservation, resource excise and natural gas processors taxes to general fund.

ADMINISTRATIVE IMPLICATIONS

TRD believes there would be some additional administrative costs to implement these provisions, but cannot determine that amount at the present time.

TECHNICAL ISSUES

A number of technical issues are not addressed by the bill, including the nature of the local tax, allowable deductions, and administrative authority of TRD.

OTHER SUBSTANTIVE ISSUES

If the reduction in state revenues impacted the severance tax bonding fund, then a substantial reduction in these revenues may take place. The current program is designed around various coverage ratios to protect bondholders. The impact on the bonding program could be significant.

AW/ar