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

		ORIGINAL DATE	1/26/06		
SPONSOR	HENRC	**LAST UPDATED**	2/6/06	**HB**	CS/375/aHTRC
SHORT TITLE	Oil & Gas Property Taxation			**SB**	
				ANALYST	Francis

REVENUE (dollars in thousands)

Estimated Revenue			**Recurring or Non-Rec**	**Fund Affected**
FY06	**FY07**	**FY08**		
	NFI * see narrative			

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to HB 276, SB332

SOURCES OF INFORMATION
LFC Files
Taxation and Revenue Department (TRD)
Energy Minerals and Natural Resources Department (EMNRD)
New Mexico Oil and Gas Association (NMOGA)

Responses Received From
Taxation and Revenue Department (TRD)
Energy Minerals and Natural Resources Department (EMNRD)

SUMMARY

Synopsis of HTRC Amendment

The House Taxation and Revenue Committee amended the title of House Bill 375 as substituted by the House Energy and Natural Resources Committee. The title now reads: "Relating to Taxation; Providing Methods for Establishing Depreciation and Obsolescence." This change does not affect the fiscal impact.

Synopsis of Bill

The House Energy and Natural Resources Committee substituted House Bill 375. The substitute modifies the valuation methodology for property used in the distribution and transmission of oil, natural gas, carbon dioxide, and liquid hydrocarbons. The valuation can include deductions for "functional" and "economic" obsolescence.

- Economic obsolescence is defined as the loss of value caused by unfavorable economic influences or factors not including physical depreciations.
- Functional obsolescence is loss due to functional inadequacies or deficiencies caused by factors within the property not including physical depreciation.

The taxpayer choosing to include economic and/or functional obsolescence must submit a claim documenting the obsolescence. Such documentation may include industry comparisons, volume reductions, and other objective evidence of obsolescence. The Taxation and Revenue Department (TRD) will determine if the evidence is sufficient and notify the taxpayer if a claim is rejected with the reasons in sufficient time to address the deficiencies. Taxpayers regulated by the Federal Energy Regulatory Commission (FERC) could supplement their claims when their FERC annual report becomes available but no later than April 15th unless with permission from TRD.

This act takes effect July 1, 2006 and is applicable to property tax years 2006 forward.

FISCAL IMPLICATIONS

TRD reports that there would be no significant fiscal impacts on the state or local property tax recipients.

SIGNIFICANT ISSUES

The New Mexico Oil and Gas Association have indicated that this legislation clarifies the intent of the current statute. According to NMOGA, the intent embodied in the phrase "any other justifiable factor" includes economic and functional obsolescence. NMOGA feels that this obsolescence was generally accepted from 1973 till 2003 when the Property Tax Division of the Taxation and Revenue Department began rejecting claims of obsolescence without adequate explanation to the taxpayers.

ADMINISTRATIVE IMPACT

TRD reports that there will be no significant added administrative burdens with this bill.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

HB 375 Substitute relates to SB 332 (original bills were duplicated; the substitute is substantially different than the original). HB 375 relates to HB276 as far as proposing to use functional and economic obsolescence as a factor for valuation. HB 276 refers to electrical generation facilities.

NF/nt