FISCAL IMPACT REPORT

		LAST UPDATED	
SPONSOR	Small/Dixon	**ORIGINAL DATE**	2/26/25
SHORT TITLE	Oil & Gas Equalization Tax Act	**BILL NUMBER**	House Bill 548
		ANALYST	Torres

REVENUE*
(dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
Oil Equalization Tax		$395,400.0	$422,700.0	$438,800.0	$445,00	Recurring	General Fund

Parentheses ( ) indicate revenue decreases.
*Amounts reflect most recent analysis of this legislation.

Sources of Information
LFC Files

Agency Analysis Received From
New Mexico Attorney General (NMAG)

Agency Analysis was Solicited but Not Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of House Bill 548

House Bill 548 enacts the Oil and Gas Equalization Tax Act, imposing a new privilege tax on the severance and sale of oil in New Mexico. The tax is set at 0.85 percent of the taxable value of these products. The bill defines key terms and establishes tax reporting and remittance requirements similar to existing severance taxes.

The Taxation and Revenue Department (TRD) is tasked with administering the tax, including determining taxable value, ensuring compliance, and enforcing withholding requirements.

Duplicating existing severance taxes, deductions from taxable value include royalties paid to the federal or state government, Indian tribes, or individual Native American landowners, as well as transportation costs for moving products to the first market point. The bill prohibits multiple taxation of the same product and requires monthly reporting and tax remittance by operators and purchasers.

The bill has an effective date of July 1, 2025.

FISCAL IMPLICATIONS

The imposition of a 0.85 percent severance tax on oil will generate new recurring revenue for the state. The total fiscal impact will depend on production levels, market prices, and the application of allowable deductions. For the purposes of this analysis, the latest consensus revenue estimate from December 2024 was used to determine the production volumes and taxable values on which the 0.85 percent severance tax rate was applied.

Given the volatility of oil and gas prices, annual revenues from this tax may fluctuate significantly. Recent actions by the Legislature have reduced general fund volatility from oil and gas revenues after decades of instability and financial crisis management. Strategies have included capping and distributing windfall oil and gas revenues to investment accounts, which then distribute general fund revenues based on stabilized balances and investment earnings. Due to these changes, volatility is estimated to have been reduced by 55 percent over the next five years, according to a 2024 LFC Volatility Analysis published in July 2024. This bill would reverse course and add oil and gas reliance to the general fund and expand budgetary volatility.

However, because the bill does not specify a designated use for the revenue collected, the revenue would be deposited into the general fund and provide additional funding for legislative priorities.

SIGNIFICANT ISSUES

The bill addresses a long-standing discrepancy between the taxation of oil and the taxation of natural gas, creating a uniform tax structure that taxes different hydrocarbon products more consistently. The oil and gas equalization tax aligns the tax rates for oil and natural gas, which are currently set at differential rates under the severance tax called the oil and gas emergency school tax. Currently, natural gas is taxed at 4 percent, while oil is taxed at 3.15 percent, under the emergency school tax. This bill imposes an additional 0.85 percent tax on oil, bringing its effective rate to 4 percent, matching that singular tax rate for natural gas.

New Mexico Compared with Other States. Oil and gas revenues are currently collected through several tax, royalty, and revenue-sharing programs. According to a 2018 LFC study, New Mexico ranked in the middle of the pack for oil producing states in effective severance taxes. Separately, New Mexico's maximum royalty rates for oil and gas leases on trust land, last updated in the 1970s, are higher than those in most other states with trust land but less than that charged by Texas, New Mexico's competitor in the high-production Permian Basin. For a table on the different revenues collected on oil and gas production, see Appendix A.

EFFECTIVE TAX RATES BY STATE

Based on severance, production and property taxes paid in ratio to taxable valuation of production
Fiscal Year ended 6-30-16

State	Property Tax (Y/N)	Taxable Value (in billions)	Tax Collected (in millions)	Effective Tax Rate
Oklahoma	NO	$11.236	$364.9	3.2%
Idaho	YES	$0.003	$0.1	4.0%
Utah (1)	YES	$1.625	$99.0	6.1%
Texas (1)	YES	$53.491	$4,458.1	8.3%
New Mexico (2)	YES	$6.831	$619.3	9.1%
North Dakota	NO	$14.958	$1,404.8	9.4%
Montana	YES	$0.919	$91.1	9.9%
Alaska	YES	$5.456	$653.8	12.0%
Louisiana	YES	$5.062	$671.2	13.3%
Wyoming	YES	$6.173	$827.6	13.4%
Unweighted average rate				8.9%

(1) Utah and Texas assess an ad valorem property tax on the market value of mineral reserves, and this tax is assessed every year on the remaining value of the reserves.

(2) New Mexico was NOT included in this study; however, LFC staff used similar methodology to calculate the effective tax rate and included NM for reference only. New Mexico assesses an ad valorem tax on production and equipment in lieu of property tax.

Source: Covenant Consulting Group, January 2017; New Mexico calculations by LFC staff

House Bill 548 introduces a new oil and gas tax in an already complex severance tax system. New Mexico currently imposes multiple taxes on oil and gas production, including the severance tax, conservation tax, emergency school tax, and ad valorem production tax. The addition of the oil and gas equalization tax may increase compliance burdens on operators and interest owners, requiring additional tracking and reporting.

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APPENDIX A. NM OIL AND GAS REVENUES

	Type	**Name**	**Rate**	**Imposition**	**Revenue Destination**
Taxes	Production Tax	Oil & Gas Emergency School Tax	3.15% (oil) 4.0% (gas)	Severance tax on the value of oil and gas production	General Fund
		Oil & Gas Conservation Tax	0.19%	Severance tax on the value of oil and gas production	General Fund
		Oil and Gas Severance Tax	3.75%	Severance tax on the value of oil and gas production	Severance Tax Bonding Fund, Severance Tax Permanent Fund
	Property Tax	Ad Valorem Production Tax	Varies by Location	Assessed on the value of oil and gas production, in lieu of a property tax	Local Governments
		Ad Valorem Equipment Tax	Varies by Location	Assessed on the value of oil and gas production equipment, in lieu of a property tax	Local Governments
	Processing Tax	Natural Gas Processers Tax	Statutory Formula	Assessed on product value	General Fund
	Sales & Use Taxes	Gross Receipts Tax & Compensating Tax	Varies by Location	Sale of services and tangible property (e.g. drilling activity)	General Fund, Local Governments
	Income Taxes	Personal Income Tax & Corporate Income Tax	Varies by Income	Personal and corporate income	General Fund
Land Income	Federal Royalties, Rents, & Bonuses	Federal Royalties	12.5%	Assessed on production value on federal land	General Fund, Federal Government
		Federal Bonuses & Rents	Varies	Sale of federal land leases	General Fund, Federal Government
	State Royalties, Rents, & Bonuses	State Oil and Gas Royalties	Varies, usually 20%	Assessed on production value on state land	Land Grant Permanent Fund
		State Oil and Gas Bonuses and Rents	Varies	Sale of state land leases	General Fund, Other Land Beneficiaries