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FISCAL IMPACT REPORT

SPONSOR: Tsosie DATE TYPED: 02/13/01 HB

SHORT TITLE: Tribal Capital Improvement Tax Credits SB 518

ANALYST: Williams

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY01	**FY02**			
	$ (2,048.0)	$ (1,529.0)	Recurring	General Fund
	$ (1,848.0)	$ (1,385.0)	Recurring	Severance Tax Bonding Fund
	$ (4.0)	$ (4.0)	Recurring	Reclamation Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates/Conflicts with/Companion to/Relates to HB 605 (Duplicate), HB 293, HB 219

SOURCES OF INFORMATION

LFC Files
Taxation and Revenue Department analysis
Energy, Minerals and Natural Resources Department
Department of Finance and Administration analysis not submitted

SUMMARY

Synopsis of Bill

The bill authorizes a credit for taxes paid on crude oil and natural gas production from wells located on tribal land. The tribal capital improvements production tax credit would be the lesser of:

- the amount of the tribal capital improvements tax imposed by the tribal government on crude oil and natural gas production from well on tribal land or
- two percent of the taxable value of production from these wells as determined by state law

The tribal capital improvements tax is a tax imposed by the tribal government with jurisdiction over the well. Revenue generated by this tax is exclusively dedicated to fund capital improvement projects on the tribe's land.

The taxpayer must demonstrate to the Taxation and Revenue Department entitlement to the credit as well as proof of payment of tribal tax.

The credit is in addition to the intergovernmental tax credit enacted in 1995. The tribal infrastructure tax would be considered an increase in tribal taxes under the provisions authorizing that credit, but only to the extent that the new tax is greater than two percent of the taxable value of production under state law.

FISCAL IMPLICATIONS

The Severance Tax Bond Series 2000 official statement indicates natural gas and crude oil production on tribal lands were approximately 3.6 and 1.1 percent, respectively, in 1997. Tribal production appears to have been relatively stable in recent years. This analysis uses the latest consensus assumptions of crude oil and natural gas prices and production. The magnitude of the credit on each tax is calculated by using each tax's effective tax rate compared to the total. The analysis also relies on the two percent mechanism.

The bill would reduce general fund revenues by $2,048.0 in FY02 and $1,529.0 in FY03. Severance tax bonding fund receipts would be reduced by $1,848.0 in FY 02 and $1,385.0 in FY 03. The impact declines from one year to the next due to the assumptions of declines in natural gas and crude oil prices. Actual impacts could be slightly less because this production would receive a price somewhat less than the statewide average rate used in the revenue estimates. The lower price is due to both location and quality differentials.

Finally, theoretically, property taxes would be reduced by $597.0 in FY02 and $448.0 in FY03; however, if rates adjusted, this amount of tax burden would be shifted to other taxpayers. There would be no impact on the state portion of property taxes due to this mechanism. Some minor impacts might hit Rio Arriba, and to a lesser extent San Juan, counties.

Because the tax rate for the reclamation fund adjusts according to the balances in the fund, the impact of a revenue loss of $4.0 is an approximation.

Minor fiscal impacts would also result due to increases in credit currently allowed as intergovernmental tax credits. The latest Severance Tax Bond official statement indicates TRD has received only a small number of applications for this credit; and projected receipts for the severance tax bonding fund do not reflect any fiscal impact from this credit because of the uncertainty of the effectiveness of the tax credit.

TECHNICAL ISSUES

It is not clear to what the "tribal infrastructure tax" referenced on line 4, page 3 refers.

AW/ar