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FISCAL IMPACT REPORT

SPONSOR B. Lujan DATE TYPED 02/28/05 HB 1086

SHORT TITLE Raise Oil Severance Privilege Tax SB _____

ANALYST Padilla-Jackson

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY06	FY07			
\$18,000.0	\$17,000.0	Indeterminate, but positive	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

Relates to House Bill 434, House Bill 644, and Senate Bill 764.

SOURCES OF INFORMATION

LFC Files

Responses Received From

Energy, Minerals & Natural Resources Department (EMNRD)

SUMMARY

Synopsis of Bill

House Bill 1086 proposes to increase the tax rate on the severance of crude oil to the same rate currently imposed on the severance of natural gas. Specifically, the bill would increase the Emergency School Tax rate on crude oil from 3.15 percent of taxable value to 4 percent.

The effective date of the provisions of this bill is July 1, 2005.

Significant Issues

The tax decrease would equalize the rate paid by both natural gas and crude oil producers, placing them on equal footing. That said, current tax rate differentials between natural gas and crude oil producers could likely represent differences in profitability.

FISCAL IMPLICATIONS

The total fiscal impact of this bill is \$18 million for FY06 to the general fund. The fiscal impact

is calculated by comparing the product of the crude oil taxable value estimate by the proposed new rate of 4.00 percent versus the product of the crude oil taxable value estimate by the existing rate of 3.15 percent. The assumed taxable value is based on the most up to date consensus oil and gas revenue estimates for FY06 and FY07. The fiscal impact could change based on changes in crude oil prices, which have tended to be fairly volatile in recent years.

ADMINISTRATIVE IMPLICATIONS

Minimal administrative impact is estimated to TRD.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

House Bill 1086 relates to House Bill 644 and Senate Bill 764, which both decrease natural gas severance tax rate to 3.15 percent. House Bill 434 subjects helium to various state severance taxes.

TECHNICAL ISSUES

EMNRD pointed out that the bill does not include a corresponding increase in the tax rate imposed on oil and other liquid hydrocarbons removed from natural gas from a stripper well property. Those rates would have to be addressed also in order to completely equalize the oil and gas tax rates. House Bill 644, which proposes to equalize the tax rates by reducing the tax rate on natural gas, included the corresponding decreases in the tax rate imposed on natural gas removed from stripper well properties.

OPJ/lg