

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 712** HLS 14RS 1468
 Bill Text Version: **ENGROSSED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: April 9, 2014 6:20 PM	Author: GREENE
Dept./Agy.: Revenue	Analyst: Greg Albrecht
Subject: Interest on Severance Tax Refunds	

TAX/SEVERANCE TAX EG +\$4,000,000 GF RV See Note Page 1 of 1
 Prohibits the state from paying interest on refunds for the overpayment of certain severance taxes

Current law suspends the severance tax the production of oil & gas from horizontally drilled wells and wells drilled to a true vertical depth of 15,000 feet or more. The suspension is for 100% of the tax for the earlier of 24-months or until well cost payout. Effectively, the suspension is for 24-months of production. In practice, producers tend to pay the severance tax on production until at least final certifications by DNR and possibly longer, and realize the suspension benefit via refund claims on future returns. Those refunds are paid with judicial interest applied (currently 4% through 2014, and since 2011). Proposed law prohibits interest on refunds for overpayment of severance taxes by operators who qualify for the horizontal drilling and deep well severance tax suspension programs, so long as the Revenue Dept. pays the refunds within 180 days of a taxpayer properly filing a claim. Effective only if HB 713 is enacted. HB 713 provides that severance tax shall not be required to be paid during the suspension periods of these two programs.

EXPENDITURES	2014-15	2015-16	2016-17	2017-18	2018-19	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	INCREASE	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total		\$0	\$0	\$0	\$0	\$0

REVENUES	2014-15	2015-16	2016-17	2017-18	2018-19	5 -YEAR TOTAL
State Gen. Fd.	\$4,000,000	\$4,000,000	\$4,000,000	\$4,000,000	\$4,000,000	\$20,000,000
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$4,000,000	\$4,000,000	\$4,000,000	\$4,000,000	\$4,000,000	\$20,000,000

EXPENDITURE EXPLANATION

The Department of Revenue reports some costs associated with implementing this bill. Severance tax returns include production and refund claims from various types of wells. Limiting refund interest for these two specific types of wells will require changes to the forms and processing system to distinguish information specific to these wells. Costs are in the form of information technology staff time to develop, program, and test system modifications. The Dept. estimates these costs at about \$45,000, but they will vary depending on the scope of work actually necessary.

REVENUE EXPLANATION

With the ramp up of major severance tax suspension programs over the past several years, including the horizontal drilling and deep well programs addressed in this bill, severance tax refunds have increased dramatically. Refunds jumped up sharply starting in the fall of 2009, peaked in the fall of 2011, and have stabilized at an average of \$7.8 million per month since April of 2012. The Revenue Dept. estimates 81% of this monthly average is estimated to be associated with the horizontal drilling and deep well programs, or \$6.3 million per month; an annual amount of \$75.6 million. The Dept. looked at the last five full fiscal years (2009 - 2013) to arrive at an annual average amount interest paid within this refund total of \$4.5 million per year. That average includes the peak refund years of 2011 and 2012, and likely somewhat overstates the interest amount affected by this bill. The interest paid in 2013, \$3.974 million is probably a more appropriate estimates since it better coincides with the period of relative stability in monthly refunds mentioned above.

Thus, assuming that HB 713 is enacted and becomes effective, and that this bill ceases interest payments on all refund claims associated with these two programs (the Revenue Dept. processes all claims within 180 days), even refunds of overpayments made prior to the effectiveness of this bill, then the state stands to gain some \$4 million per year in revenue (in terms of interest payments on refunds that will no longer be made). However, the effect of HB 713 is fairly large transition costs of revenue loss, as explained in the fiscal note on HB 713. The revenue gains from this bill, HB 712, do not offset the revenue losses resulting from HB 713 for a number of years.

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| Senate | <u>Dual Referral Rules</u> | House | <input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S} |
| <input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H} | | | <input type="checkbox"/> 6.8(F)(2) >= \$500,000 State Rev. Reduc. {H & S} |
| <input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H} | | | <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S} |

John D. Carpenter
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