



**LEGISLATIVE FISCAL OFFICE**

**Fiscal Note**

Fiscal Note On: **HB 196** HLS 05RS 519  
 Bill Text Version: **ORIGINAL**  
 Opp. Chamb. Action:  
 Sub. Bill For.:  
 Proposed Amd.:

<b>Date:</b> April 30, 2005 6:10 PM	<b>Author:</b> DOVE
<b>Dept./Agy.:</b> Revenue / Natural Resources	<b>Analyst:</b> Greg Albrecht
<b>Subject:</b> Tax Credit For Drilling below 10,000 Feet	

TAX/INCOME TAX OR DECREASE GF RV See Note Page 1 of 1  
 Authorizes credit for oil and gas drilling deeper than 10,000 feet in inland waters

Provides a tax credit against income and franchise taxes for 25% of the costs incurred drilling and completing oil and gas wells to a depth below 10,000 feet. Credits can not exceed the annual tax liability of recipient firms but can be carried forward for 10 years.

Effective for all taxable years beginning after December 31, 2005.

<b>EXPENDITURES</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	\$0	\$98,400	\$86,600	\$89,900	\$93,400	<b>\$368,300</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b><u>\$0</u></b>
<b>Annual Total</b>	<b>\$0</b>	<b>\$98,400</b>	<b>\$86,600</b>	<b>\$89,900</b>	<b>\$93,400</b>	<b>\$368,300</b>

<b>REVENUES</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	\$0	(\$1,156,000,000)	(\$1,156,000,000)	(\$1,156,000,000)	(\$1,156,000,000)	<b>(\$4,624,000,000)</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b><u>\$0</u></b>
<b>Annual Total</b>	<b>\$0</b>	<b>?</b>	<b>?</b>	<b>?</b>	<b>?</b>	<b>(\$4,624,000,000)</b>

**EXPENDITURE EXPLANATION**

Given the large amount credit potentially granted through this bill, the Department of Revenue indicates the need for at least two additional positions (revenue account auditors) to ensure proper compliance with these provisions. These positions would cost \$83,400 in the first full year plus \$15,000 of one-time costs for system modifications to monitor/track the credits.

**REVENUE EXPLANATION**

Using data reviewed by the Department of Natural Resources for the last three years (2002 - 2004) as indicative of the drilling activity this bill would subsidize, the revenue losses resulting from this bill are estimated below.

The last three years have averaged 630 wells per year drilled to targeted depths below 10,000 feet. The average costs of these wells has been \$7.3 million. Aggregate costs of this drilling activity was \$4.625 billion per year. This bill would provide tax credits equivalent to 25% of those costs, or \$1.156 billion per year. This represents an estimate of the maximum annual revenue exposure of the State.

Individual firms may not have sufficient tax liability in any particular year to realize all the credit available to them. Thus, the State's annual realized cost would likely be lower than the potential exposure estimated here. However, the bill allows unused credit amounts to be carried forward for 10 years. This makes it likely that much of the potential exposure will eventually be realized against State tax revenue, and that revenue losses in out-years could be substantially greater than they would be in the early years of this credit as carried forward credit amounts are accumulated and taken.

The credit is effective with the 2006 tax year, making the first fiscal year likely to be affected 2006 - 2007.

Senate

Dual Referral Rules

House

13.5.1 >= \$500,000 Annual Fiscal Cost

6.8(F) >= \$500,000 Annual Fiscal Cost

13.5.2 >= \$500,000 Annual Tax or Fee Change

6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease

*H. Gordon Monk*  
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**Acting Legislative Fiscal Officer**