

SUBJECT: Providing tax credit information to certain gas well royalty interest owners

COMMITTEE: Energy Resources — favorable, without amendment

VOTE: 7 ayes — R. Lewis, Hawley, Crabb, Merritt, West, Williams, Woolley

0 nays

2 absent — Driver, Wilson

SENATE VOTE: On final passage, Local and Uncontested Calendar, April 26 — 30-0

WITNESSES: No public hearing

BACKGROUND: Natural Resource Code, sec. 91.502 describes what information must be provided to a royalty interest owner by a person making a payment to that owner from the sale of oil or gas production. The list includes the total number of barrels of oil or the amount of gas sold, the price of that oil per barrel and the price of gas per MCF (an amount of one thousand cubic feet), the state severance tax or other production taxes paid, the windfall profit tax paid on the owner's interest, the owner's share of the total value of sales before any tax deductions, and the owner's share of the sales value less deductions.

Subchapter J of the Natural Resources Code provides that a "payee" is a person legally entitled to payment from the proceeds derived from an oil and gas well in the state. A "payor" is the party who undertakes to distribute oil and gas proceeds to the payee, either as the purchaser of the production of the well generating the proceeds or as the operator of the well from which the production was obtained.

DIGEST: SB 792 would amend Subchapter J of the Natural Resources Code to require that a payor of the proceeds from the sale of gas (usually a well operator) produced from a tight formation as defined by Internal Revenue Code of 1986 Sec. 19 (c) (2) (B), would furnish the payee (usually the royalty interest owner) certain information by March 15th of each year.

That information would include the data necessary to compute the federal income tax credit provided for gas for which payment was made the proceeding year. The information also would include information already required to be reported to royalty interest owners under Natural Resources Code, sec. 91.502 and the volume of gas measured in thousands of cubic feet and heating value or in millions of British Thermal Units (BTUs) for each thousand cubic feet.

The bill would take effect September 1, 1999.

**SUPPORTERS
SAY:**

SB 792 would make it easier for royalty interest owners and others to calculate their federal income tax credits on sale of gas that comes from a tight formation. A tax break is offered because geological characteristics make it especially difficult to produce gas from these wells.

Operators and other payors already are required to provide similar information to royalty interest owners. Many already do provide the information necessary for those owners to compute the federal income tax credit. SB 792 would clarify that payors are required to do so.

It would not be difficult for well operators to provide this information, while it would be almost impossible for many royalty interest owners, who are far removed from the actual production of gas, to compute BTUs and heating values.

**OPPONENTS
SAY:**

No apparent opposition.