SUBJECT: Specifying calculation of the high-cost natural gas rate reduction

COMMITTEE: Ways and Means — committee substitute recommended

VOTE: 11 ayes — D. Bonnen, Y. Davis, Bohac, Darby, E. Johnson, Murphy, Murr, Raymond, Shine, Springer, Stephenson

0 nays

WITNESSES: For — (*Registered, but did not testify*: Bill Stevens, Texas Alliance of Energy Producers; Tricia Davis, Texas Royalty Council)

Against — None

On — (*Registered, but did not testify*: Karey Barton, Comptroller of Public Accounts)

BACKGROUND: Tax Code, ch. 201 establishes a 7.5 percent severance tax on natural gas. Sec. 201.057 establishes a reduced tax rate available for high-cost natural gas from certain wells. The magnitude of the rate reduction is based in part on the median drilling and completion (D&C) costs from all high-cost gas wells in the previous fiscal year.

Observers note that amended reports, which sometimes are filed after the close of the previous tax year, can change the previous year's median D&C costs after the median has already been established. They further note that no statute provides a direction to the comptroller as to whether the median D&C costs should be recalculated using the amended reports.

DIGEST: CSHB 2277 would provide that the previous year's median drilling and completion (D&C) costs is fixed on the date it is calculated as required under Tax Code, sec. 201.057.

The bill also would specify that a refund issued under sec. 201.057 had to be paid to the taxpayer who remitted the payment, rather than the producer.

The bill would take effect September 1, 2017, and would not affect tax liability accruing before that date.