

Severance Tax Replacement Project

Presented to
Legislative Finance Committee
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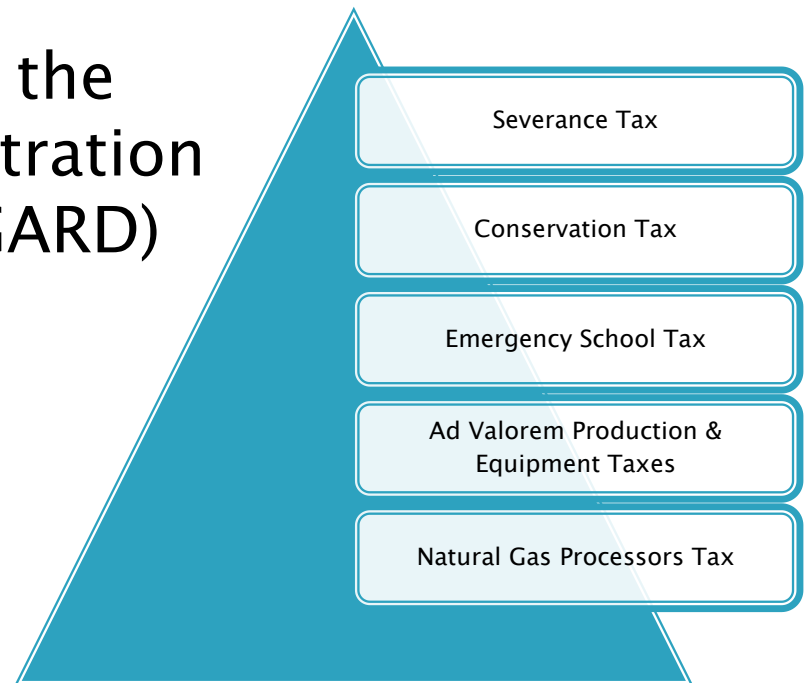
Presentation Overview

- ▶ Severance Tax Replacement Project
 - What, why and how
 - On-going
 - Upcoming

Severance Tax Replacement Project

Severance Tax Replacement Project integrated the collective Oil & Gas Severance Taxes into the existing GenTax\Taxpayer Access Point (TAP) system

replacing tax collection thru the Oil and Natural Gas Administration and Revenue Database (ONGARD) system



Project Goals & Necessity

- ▶ Improve accuracy and efficiency of severance tax collection and distribution
- ▶ Replace ONGARD carefully with no disruption in service
- ▶ 25+ year ONGARD system, out-of-date software becoming harder to support, inflexibility of system
- ▶ GenTax system uses current technology, industry standard and business processes, consistent now across 29 tax programs

Project timeline

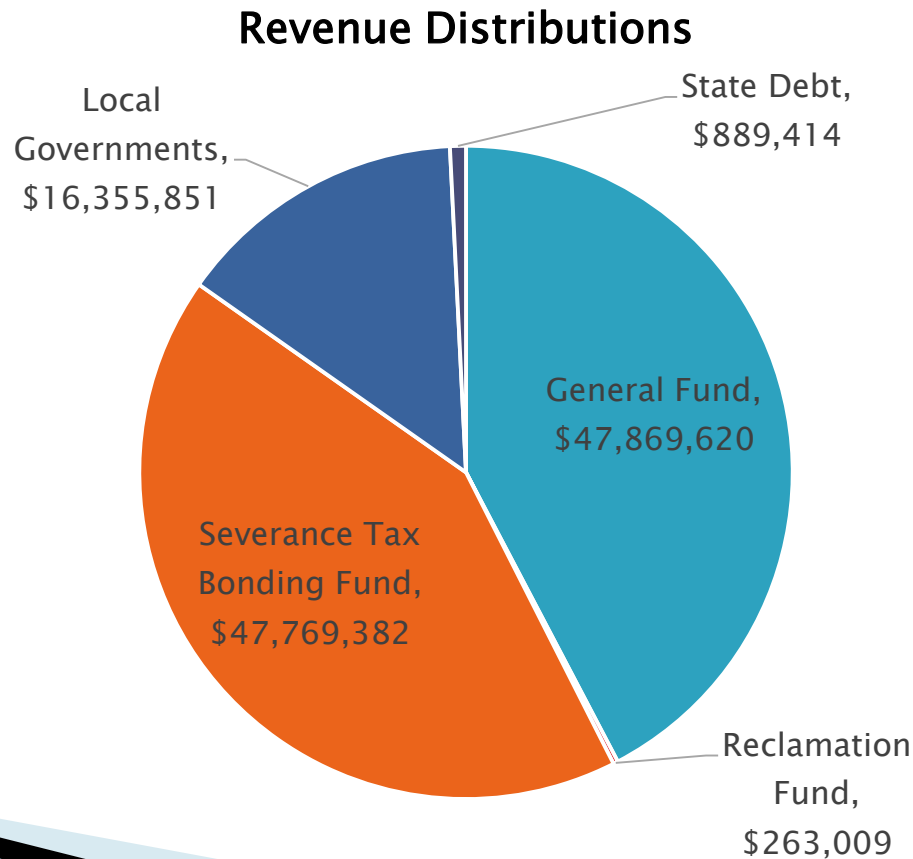
- ▶ 2013 – 2016 planning and budget phase
- ▶ System implementation commenced July 2016
- ▶ Industry Focus Groups started January 2017
- ▶ Technical specifications April 2017
- ▶ Industry Testing began July 2017
- ▶ Industry outreach & training included WebEx trainings, regional presentations, instructional videos and taxpayer mailings – most extensive outreach for GenTax rollout

Project timeline

- ▶ Department of Information Technology (DoIT) Project Certification approval January 2018
- ▶ Feb 2018 last month to file in ONGARD
- ▶ Successful Roll out March 19, 2018 –
 - Taxpayers filed January production, March returns
 - Distributions occurred on time in April 2018

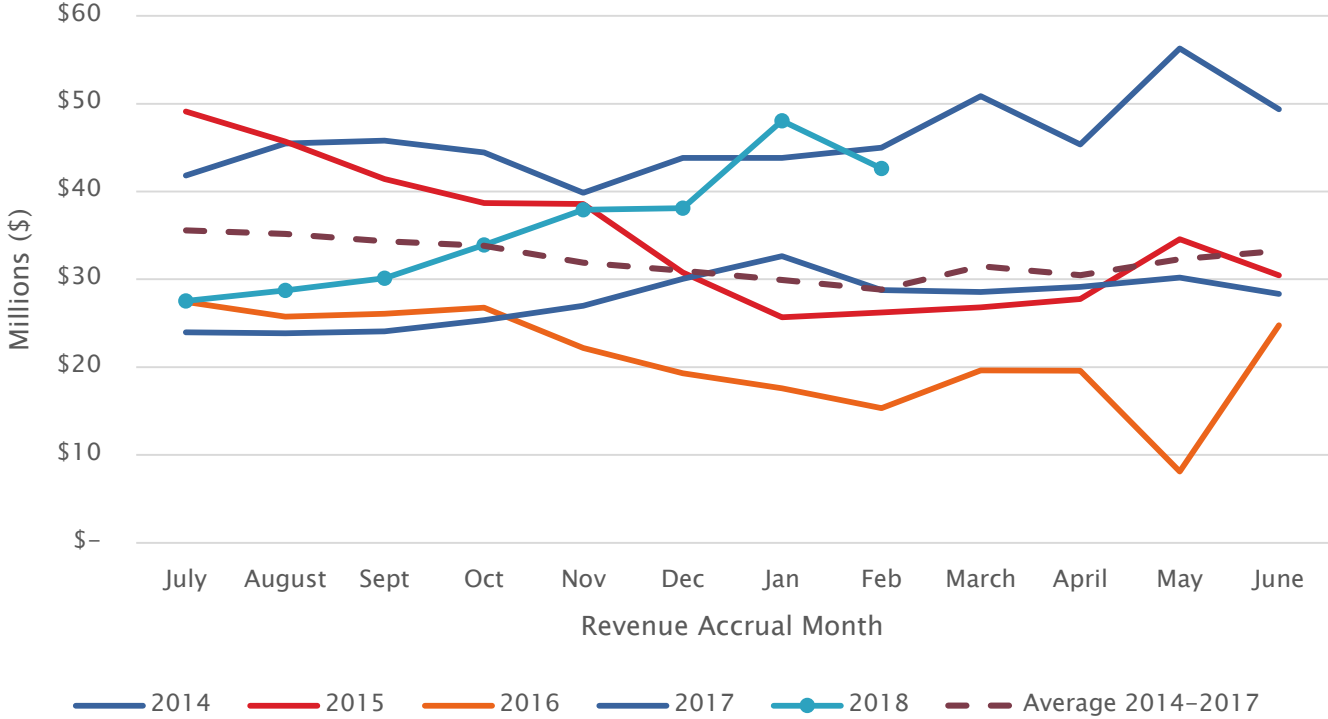
Initial Distributions

- ▶ Over \$113 million in revenue distributed to beneficiaries in April distribution



General Fund Distribution History

Monthly Distributions to GF (\$ millions)
 from O&G Severance Taxes
 Year-over-Year comparison



Tax Program Data

- ▶ Registered taxpayers
 - 600 active
 - 300 intermediate
- ▶ Average number of returns in FY17: 503
- ▶ Average lines per return in FY17: 215
- ▶ Average monthly distribution in FY17:
\$67.2 million

Administrative Efficiencies

- ▶ System processing consistent across 29 tax programs
- ▶ Additional controls to enforce business rules
 - e.g. screening electronic returns before they are accepted by the Department
- ▶ Leverage TRD resources for program monitoring & assisting taxpayers
- ▶ Maintain data-sharing with Energy, Minerals and Natural Resources Department (EMNRD)

Streamlined Compliance

- ▶ Taxpayers can now manage and view all account activity through Taxpayer Access Point (TAP)
- ▶ Familiarity with TAP –use with other tax programs
- ▶ Efficiency – no lags with posting return to the account; taxpayers can file amendments following day
- ▶ New report detailing to taxpayers how payments are allocated – by period, interest, etc.

Benefits to Revenue Beneficiaries

- ▶ Enforcing business rules means – less revenue will be suspended for data correction and completion
- ▶ Enforcing business rules means – revenue being distributed to correct beneficiaries

Data Reports – Public Access

- ▶ Comparable to ONGARD reports
- ▶ Data refreshed daily over night
- ▶ Clear, defined data, interpretable to first-time users

Data Reports – Economists

- ▶ **County Vol/Val by Filing Period Report**
 - Production volumes and values by product, location and Filing Period
- ▶ **Revenue Distribution Report**
 - Distribution detail by tax, beneficiary, filing period and revenue period
- ▶ **Tax Type by Filing Period**
 - Tax due by product and filing period
- ▶ **Tax Credit by Filing Period**
 - Intergovernmental and Jicarilla Credits by product and filing period

Data Reports – Taxpayers

- ▶ **Reported Tax Detail by Production Unit Number (PUN)**
 - Reported tax volumes and values by product, net tax due for selected PUNs
- ▶ **Production Unit Number Inquiries**
 - Can look up detail PUN information: associated suffixes; legal descriptions, etc.

Sample Report Output

▶ County Vol/Val by Filing Period

COUNTY VOL/VAL BY FILING PERIOD

Filter Export

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Product Code	Product	Land Type	County Code	County Name	Basin	Volume	Gross Value	Price	Processing Deduction	Transportation Deduction	Net Price	Royalty Deduction	Total Deductions	Deductions Percent	Filing Period
01	Oil (BBLs)	Federal	05	Chaves	Permian	149	8,155.03	54.73	0.00	0.00	54.73	0.00	0.00	0.00	03/31/2018
01	Oil (BBLs)	Federal	15	Eddy	Permian	389,705	23,490,119.30	60.28	0.00	2,283.83	60.27	2,919,840.01	2,922,123.84	12.43	03/31/2018
01	Oil (BBLs)	Federal	15	Eddy	Permian	193	11,304.93	58.57	0.00	355.67	58.73	0.00	355.67	3.14	03/31/2018
01	Oil (BBLs)	Federal	25	Lea	Permian	46,109	2,753,532.92	59.72	0.00	0.00	59.72	340,744.67	340,744.67	12.37	03/31/2018
01	Oil (BBLs)	Federal	25	Lea	Permian	13,247	802,431.13	60.57	0.00	0.00	60.57	76,808.56	76,808.56	9.57	03/31/2018
01	Oil (BBLs)	Federal	25	Lea	Permian	381	23,105.10	60.64	0.00	0.00	60.64	0.00	0.00	0.00	03/31/2018
01	Oil (BBLs)	Federal	25	Lea	Permian	1,369	78,190.61	57.12	0.00	0.00	57.12	9,773.82	9,773.82	12.49	03/31/2018
01	Oil (BBLs)	Federal	25	Lea	Permian	84	5,134.22	61.12	0.00	0.00	61.12	1,034.22	1,034.22	20.14	03/31/2018
01	Oil (BBLs)	Federal	43	Sandoval	San Juan	527	26,623.14	50.52	0.00	589.29	49.40	3,254.24	3,843.53	14.43	03/31/2018
01	Oil (BBLs)	Federal	45	San Juan	San Juan	338	17,212.60	50.92	0.00	0.00	50.92	2,151.58	2,151.58	12.50	03/31/2018

On-going

- ▶ GenTax is the system of record for CY2014 to present
- ▶ Taxpayers have three (3) years to file amendments
- ▶ Data purification of returns from ONGARD to record in the new system of record
- ▶ Impact – taxpayers carefully look at balances in TAP

Upcoming

- ▶ Data exchange with new system at State Land Office
- ▶ FY19 – Tax Stabilization Reserve (HB2 2017 Special Session)
 - Based on preceding 5–fiscal year annual average of Emergency School Tax Revenue
 - Annual revenue above 5–year average is distributed to the reserve

Contact Information

- ▶ Info at TRD's Website

www.tax.newmexico.gov

- ▶ E-mail Oil & Gas Severance Bureau:

Oilgas.outreach@state.nm.us

The screenshot shows the website interface for the Oil, Natural Gas and Mineral Extraction Taxes. On the left is a navigation menu with categories like 'Businesses', 'Online Services', 'Forms & Publications', 'Request A Managed Audit', 'Taxpayer Advocate', 'Non-Taxable Transaction Certificates (NTTC)', 'NM Business Taxes', 'Gross Receipts', 'Wage Withholding Tax', 'Compensating Tax', 'Corporate Income & Franchise Tax', 'Workers' Compensation', 'Other NM Taxes', 'Oil, Natural Gas and Mineral Extraction Taxes', 'Tax Tables', and 'In-State / Veteran Preference Certification'. The 'Oil, Natural Gas and Mineral Extraction Taxes' menu item is highlighted in teal. The main content area has the title 'Oil, Natural Gas and Mineral Extraction Taxes' and a paragraph describing the Oil and Gas Bureau's role. Below this are 'Links' for 'General Information on Oil and Gas Tax Programs', 'Managed Audits', 'Forms and Publications', 'Severance Tax Project', and 'Online Services'. A note mentions a kit for filing taxes with an email contact. At the bottom, there are several expandable menu items: 'Oil & Gas Severance Tax Welcome Pack - March 19, 2018', 'Bulk Filing - XML Upload', 'Oil and Gas Tax Rates', 'Reports - Historical Tax Research', and 'Reports - Monthly Oil and Gas Production & Equipment Distribution Reports'.