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FISCAL IMPACT REPORT

SPONSOR SCORC DATE TYPED 3-09-2007 HB _____

SHORT TITLE Tax Rate for Severing Copper SB 728/SCORC

ANALYST Taylor

REVENUE

| Estimated Revenue | | Subsequent Years Impact | Recurring or Non-Rec | Fund Affected |
|-------------------|------|----------------------------|-------------------------|------------------|
| FY05 | FY06 | | | |
| | NFI | Uncertain | Recurring | General Fund |

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files
Taxation and Revenue Department

SUMMARY

The Senate Corporations and Transportation Committee (SCORC) substitute for SB 728 amends the resource excise tax and the processors tax by creating a two-tier tax rate for copper:

1. when the monthly average price for copper on the commodity exchange of the New York mercantile exchange is below \$1.00 per pound, the tax rate would be one-fourth of one percent; and
2. when the monthly average price for copper is above \$1.00, the tax rate would be three-quarters of one-percent.

Under current law, the resource excise tax rate for copper will be three-fourths of one percent as of July 1, 2005. The current rate is 0.25 percent.

The carries an effective date of July 1, 2005

FISCAL IMPLICATIONS

There is no immediate fiscal impact associated with this bill. The price of copper is well above \$1.00 per pound. The futures market as of today (2-28-2005) has copper trading at above \$1.25 through February 2007.

Commodity prices are very volatile, however. If copper prices were to fall below \$1.00, resource excise tax revenue would decrease.

ADMINISTRATIVE IMPLICATIONS

TRD submitted the following discussion of the bill's administrative implications:

The proposal would impose significant administrative and compliance challenges. The proposal would make the resources excise tax rate on copper conditional on the on the price quoted on the New York mercantile exchange. This price fluctuates daily. The bill does not specifically identify if the price is first of the month, the last day of the month or an average of the month (including or excluding days for which the NYMEX is closed) for which NYMEX identifies a price. The bill also does not specify requirements for how the Taxation and Revenue Department is to post on a website or to communicate to taxpayers what the price of copper is and the applicable tax rate under this proposal.

As an alternative that would be easier to administer, the Secretary could determine the excise rate, and the tax rate would be locked in for some period, rather than fluctuating. One option would be to require the Secretary to use an average of the NYMEX spot price over some period of time, for example, for the previous six months. If the average price so determined is under \$1/lb the tax rate for the following six months would be $\frac{1}{4}$ of 1 percent, if the price is over \$1/lb the tax rate would be $\frac{3}{4}$ of 1 percent. The rate would be determined be made available through the department's web site by July 10 and January 10 of each year.

BT/lg