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# FISCAL IMPACT REPORT

SPONSOR HTRC DATE TYPED 02/12/98 HB 185/HTRCS

SHORT TITLE Natural Gas Processors Tax SB

ANALYST Taylor

## REVENUE

| Estimated Revenue FY98 | Estimated Revenue FY99 | Subsequent Years Impact | Recurring or Non-Rec | Fund Affected |
|---|---|---|---|---|
| $ NFI | $ 400.0 | $Insignificant | Recurring | General Fund |

*** See fiscal implications discussion.**

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates/Conflicts with/Companion to/Relates to

## SOURCES OF INFORMATION

New Mexico Oil and Gas Association
Taxation and Revenue Department (TRD)
Department of Finance and Administration (DFA)

## SUMMARY

### Synopsis of Bill

The HTRC substitute for HB-185 would make two major changes to the way that the natural gas processors tax is calculated. First, it would change the definition of the taxpayer from the owner of product to the operator of the processing plant. Second, it changes the definition of the tax base. The current taxable base is the sales value less allowable deductions. The proposal would change the base from a sales value basis to a quantity basis. In particular, the tax would be assessed against the number of million British thermal units or mmbtu's delivered to the processor at the inlet of the plant less allowable deductions.

Converting the tax from an ad valorem tax to a quantity tax requires developing a new tax rate. The proposed tax rate would vary from year to year, varying with the price of gas sold in the prior year. It would be calculated as the product of a base rate of 0.65 cents per mmbtu and the ratio of the prior average calendar price to $1.33 The average prior year price would be provided by TRD.

## FISCAL IMPLICATIONS

TRD reports that the full year revenue impacts are insignificant. They note that in times of rising prices, the new rate calculation will result in slightly lower revenues, but in times of falling prices it will result in slightly higher revenues. The impact for FY99 is slightly positive because of expected price decreases.

## ADMINISTRATIVE IMPLICATIONS

TRD reports that making the administrative changes to the computer system (ONGARD) would cost between $63 and $136. They also claim, however, that there will be considerable administrative and legal savings. The administrative savings result from having to deal with far fewer tax payers.

WST/gm:njw