POLICY BRIEF
HOUSE BILL 375

A Proposed Severance Tax on Oil and Gas Drilling

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Updated: August 11, 2014 - Passed House on May 14, 2014

Sponsors

Reps: Huffman, Batchelder, Hall, Grossman, Conditt, Sears, Hayes, Boose, Beck, Stebelton, Hill, Wachtmann, Amstutz, Landis, Scherer, Baker, Buchy, Retherford, Rosenberger

Summary

This version of the bill sets a rate of 2.5% on horizontal (fracking) wells. This rate is higher than 1%, 2%, and 2.25% previously discussed, but it's lower than the Governor's recommended 2.75% and much lower than other states. Ohio currently collects a flat rate based on the volume of the resource (not the profits) at a rate of $0.20 per barrel for oil and $0.03 per 1,000 cubit feet (MCF) of natural gas. This version of the bill keeps traditional wells on this tax structure but repeals the cost recovery fee - cutting their rates in half to $0.10 per barrel and $0.015 per Mcf.

Budget & Revenue Implications

The bill will distribute the money as follows:

- 15% of gross receipts will be used for local governments divided into 3 accounts - In FY'16 LSC estimates this to be $1.5 million for the Legacy Fund, $8.5 million for an infrastructure fund, and $13.3 million for a local government fund.
- The bill also allocates $21 million for ODNR regulatory and environmental work - including $3 million for plugging orphan wells, and $3 million for geological mapping. $15 million with be used by the Oil & Gas Well Fund.
- Finally, $54.2 million will be placed into the Income Tax Reduction Fund.
- The bill fails to offset the CAT and income tax credits and will cost our General Revenue Fund (GRF) nearly $10 million in FY 2016.

Political and Policy Climate

The House Ways & Means Committee received push back from local officials and residents who want to see revenue invested in their local communities and not more tax cuts. The inclusion of the local government money is a result of this pushback. Governor Kasich introduced a 2.75% severance tax rate in his Mid-Biennium Review (MBR) that would have funded income tax rate reductions as opposed to the ITRF tax cut proposed here. The bill will likely be approved by the House later in May. Many in the industry are supportive of a rate below 3% because other states have higher rates (West Virginia has a 5% rate and Texas has a 7.5% rate).

Fine Print

The amended bill imposes the tax on gross receipts, which is better than net profits. Complex Language has been clarified regarding at what point the tax will be levied, and it exempts the first $10 million of gross receipts from taxation. The Legacy Fund will collect revenue until 2025 when it can begin to use the interest to invest in the region. The current rate is so low that it will not likely generate enough interest to have the meaningful impact that it could have. The Local Government Fund & Public Library Fund will be held harmless under this bill, despite the reduction to the GRF.

Additional Resources

Legislative Language	http://bit.ly/1jiMIe2
LSC-Summary	http://bit.ly/1cbPs9n
LSC-Fiscal Note	http://bit.ly/Rx6QN8