Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986

Senate Bill 567
Sponsor: Senator Joanne G. Emmons
Committee: Finance

Date Completed: 8-14-95

SUMMARY OF SENATE BILL 567 as introduced 5-30-95:

The bill would amend Public Act 48 of 1929, which provides for the levy of a severance tax on oil and gas extraction, to reduce the severance tax on gas and oil wells, stripper wells, marginal wells, and horizontal wells, drilled after 1994; reduce the current severance tax on stripper, marginal, and horizontal well production on wells drilled before 1995; and place definitions of "marginal well production", "stripper well production", and "horizontal well production" within the Act.

Currently, under the Act, the severance tax must be paid by each producer (a person who owns, or is entitled to share in the monetary proceeds of, gas or oil at the time of its severance), or a company or purchaser on behalf of a producer, at the monthly rate of 5% of the gross cash market value of all gas produced or 6.6% of the gross cash market value of all oil produced, although stripper well and marginal well oil production is taxed at a 4% rate. The tax rates apply to both vertical and horizontal wells.

The bill would lower the tax rate on wells drilled after 1994, to 4% for gas production and 5.6% for oil production. Both oil and gas produced from stripper, marginal, and horizontal wells drilled after 1994 would be taxed at 1%. Oil and gas wells drilled before 1995 would be taxed at current rates; however, both oil and gas produced from stripper, marginal, and horizontal wells drilled before 1995 would be taxed at 2%. The following table illustrates the severance tax rates proposed in the bill.

Table 1

		Proposed	
	Current	Drilled Before 1995	Drilled After 1994
Gas	5%	5%	4%
Oil	6.6%	6.6%	5.6%
Stripper Gas	5%	2%	1%
Stripper Oil	4%	2%	1%
Marginal Gas	5%	2%	1%
Marginal Oil	4%	2%	1%
Horizontal Gas	5%	2%	1%
Horizontal Oil	6.6%	2%	1%

Currently, stripper well and marginal well production is defined by reference to Federal provisions that are no longer applicable. Horizontal well production is not defined in the Act. Department of Treasury Revenue Administrative Bulletin 1992-8 defines "stripper well crude oil" as oil produced and sold from a property whose maximum average daily production of crude oil per well during any consecutive 12-month period does not exceed 10 barrels. The bulletin defines "marginal property crude oil" as oil severed from a property whose average daily production per well during any preceding consecutive 12-month period beginning after December 31, 1972, did not exceed the number of barrels shown in the following table for the average completion depth:

Average Completion Depth in Feet	Barrels Per Day
2,000 or more but less than 4,000	20 or less
4,000 or more but less than 6,000	25 or less
6,000 or more but less than 8,000	30 or less
8,000 or more	35 or less

The bill would place several definitions in the Act. "Stripper well production" would mean oil or gas produced from a property or well whose maximum average daily rate of production per well during any consecutive 12-month period did not exceed 25 barrels in the case of an oil well or 145 million british thermal units in the case of a natural gas well; or production classified as stripper well crude oil as of December 31, 1994, by the Department of Treasury.

"Marginal well production" would mean oil produced from a property or well whose maximum average daily rate of production (excluding condensate recovered in nonassociated production) per well during any consecutive 12-month period did not exceed 30 barrels per day, if the average completion depth of the wells on the property was between 6,000 feet and 8,000 feet, or did not exceed 35 barrels per day if the average completion depth of the wells on the property was 8,000 feet or greater; or production classified as marginal property crude oil as of December 31, 1994, by the Department. The bill would define "horizontal well production" as oil or gas produced from a well in which a portion of the wellbore was drilled entirely within the hydrocarbon productive pool at an angle between 75 degrees and 120 degrees from the vertical and extended through the hydrocarbon productive pool for a continuous distance of not less than 200 feet.

MCL 205.303 & 205.312 Legislative Analyst: G. Towne

FISCAL IMPACT (Preliminary)

It is estimated that this bill would reduce severance tax revenue by $8 million in FY 1995-96. This estimate is based on the tax that would be collected from oil and gas produced from existing wells only. Over time, as new wells were drilled, the loss in revenue would become greater due to the proposed rate schedule, which would tax new wells at a lower rate than the rate on existing wells. The severance tax revenue goes entirely into General Fund/General Purpose (GF/GP) revenue, so the loss in revenue due to this bill would lower GF/GP revenue.

Fiscal Analyst: J. Wortley

S9596\S567SA