

Legislative Analysis



QUALIFYING EXPENSES RELATED TO OIL AND GAS PRODUCTION

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House Bill 6485 as introduced
Sponsor: Rep. Triston Cole
Committee: Commerce and Trade
Complete to 11-26-18

Analysis available at
<http://www.legislature.mi.gov>

SUMMARY:

House Bill 6485 would amend the Income Tax Act to exclude certain costs and allowances related to oil and gas production from exemption from certain categories of taxable income and from the corporate income tax. The bill would expand the deduction related to oil and gas production that was eliminated in Public Act 38 of 2011.¹

The bill states that is intended to clarify the original intent of the legislature for expenses related to oil and gas, and is accordingly retroactive and effective for all tax years beginning after December 31, 2011.

Allowable deductions for the following three categories would be clarified under the bill:

- Taxable income for a person other than a corporation, estate, or trust.
- Taxable income for a resident estate or trust.
- Corporate income tax on every taxpayer with business activities in Michigan or ownership interest or beneficial interest in permitted flow-through entities with business activities in Michigan.

For each of those categories, the bill would provide that, for the purposes of determining which expenses are not allowed as deductions, “expenses of producing oil and gas” would not include any of the following:

- Costs incurred to purchase, lease, or otherwise acquire an oil and gas property, whether proved or unproved.
- Costs incurred for exploration of an oil and gas property, whether producing or nonproducing.
- Costs incurred for processing, transportation, or marketing of the oil and gas that has been produced from an oil and gas property.
- Costs incurred for plugging and abandonment of an oil and gas property.
- Allowances for depletion that do not reduce the adjusted basis of the oil and gas property.

MCL 206.30, 206.36, and 206.523

¹ House Fiscal Agency analysis of PA 38 of 2011 (HB 4361) <http://www.legislature.mi.gov/documents/2011-2012/billanalysis/House/pdf/2011-HLA-4361-6.pdf>

FISCAL IMPACT:

The bill would reduce income tax revenue by an indeterminate amount. The fiscal impact will be updated as information becomes available.

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.