Legislative Analysis

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SEVERANCE TAX ON MARGINAL/STRIPPER WELLS

House Bill 4487
Sponsor: Rep. Fred Miller
Committee: Tax Policy

Complete to 4-28-09

A SUMMARY OF HOUSE BILL 4487 AS INTRODUCED 3-3-09

The bill would increase the severance tax on marginal and stripper wells. The Severance Tax Act (MCL 205.303) imposes a tax of four percent on the gross cash market value of oil severed from marginal or stripper property - those producing no more than 10 barrels (for stripper property) or 20-35 barrels (for marginal wells) of crude oil per day for 12 consecutive months. However, for other, more productive oil and gas wells, the severance tax is imposed on the gross cash market value at a rate of 6.6 percent for oil and 5 percent for gas. House Bill 4487 would impose the current rate of four percent on marginal or stripper properties only through September 30, 2007. After that date the regular rates would apply.

The Severance Tax Act dates back to Public Act 48 of 1929, and it imposes a tax in lieu of all other state and local taxes. The act initially imposed a tax of two percent on the gross cash market value of oil and gas severed, and made no distinction between regular and marginal property. The current structure was established with the enactment of 1979 PA 198. Apparently, the rates were increased in part to finance the home heating income tax credit first established in 1978.

The Department of Treasury's Revenue Administrative Bulletin 1992-8 notes that the lower rate for marginal property is not applicable until the property meets the qualifying criteria for a period of 12 consecutive months, which is generally an average of no more than 10 barrels per day for stripper property or, depending on the well depth, no more than 20 to 35 barrels per day for marginal property. During the 12-month qualifying period, the oil and gas production is to be reported at the higher tax rate; however, at the end of the qualifying period an amended return may be filed by the taxpayer. A refund for any overpayment is then issued by the department. The RAB is available on the department's website at, [http://www.michigan.gov/treasury/0,1607,7-121-44402_44415_44416-7274--,00.html].

FISCAL IMPACT:

As written, the bill would increase oil and gas severance tax revenue annually by approximately $7.5 million.

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