Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author: Florez Analyst: John Pavalasky Bill Number: AB 1250

Related Bills: See Prior Analysis Telephone: 845-4335 Amended Date: April 30, 2001

Attorney: Patrick Kusiak Sponsor:

SUBJECT: Marginal Well Crude Oil & Natural Gas Sales Credit

X DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced February 23, 2001.

____ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

X AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced February 23, 2001.

X FURTHER AMENDMENTS NECESSARY.

X DEPARTMENT POSITION CHANGED TO NEUTRAL.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 23, 2001 STILL APPLIES.

X OTHER - See comments below.

SUMMARY

This bill would allow a credit for the sale of crude oil and natural gas produced from marginal wells at a rate of $3 per barrel for crude oil or 50 cents per 1,000 cubic feet for natural gas.

SUMMARY OF AMENDMENTS

The April 16, 2001, amendments deleted an appropriation and resolved one of the department's implementation considerations expressed in the original analysis dated April 12, 2001, by making this bill a tax levy.

The April 30, 2001, amendments resolved several of the department's policy concerns expressed in the April 12, 2001, analysis by making the credit apply to sales rather than production, requiring the oil or gas to be produced from marginal wells located in California, coordinating the credit with the enhanced oil recovery credit, specifying a sunset date of December 1, 2007, and limiting the credit carryover period to 15 years.

For convenience, the remaining implementation concerns, a new technical consideration, as well as the remaining policy concern expressed in the April 12, 2001, analysis are stated below.

EFFECTIVE/OPERATIVE DATE

This bill is a tax levy. Thus, it would be effective immediately and apply to taxable years beginning on or after January 1, 2001.

Board Position:			Legislative Director	Date
____ S	____ NA	____ NP		
____ SA	____ O	____ NAR	Brian Putler	06/19/01
____ N	____ OUA	X PENDING		

POSITION

Neutral.

At its May 2, 2001, meeting, the Franchise Tax Board voted 2-0 to take a neutral position on this bill, with Annette Porini, on behalf of Member B. Timothy Gage, abstaining.

Summary of Suggested Amendments
Substantive amendments are necessary to resolve the implementation and policy considerations discussed in this analysis. Department personnel are available to help resolve these considerations as the bill moves through the legislative process.

IMPLEMENTATION CONCERNS

Additional definitions for terms used in this bill are needed. "Barrel" and "barrel equivalents" are used in the bill but are not defined, however, several terms used by the bill are defined by reference to federal law definitions. The author may wish to use the federal law definition of "barrel" in Section 29(d)(6) of the Internal Revenue Code and the definition of “barrel-of-oil equivalent” in Section 29(d)(5) of the Internal Revenue Code.

TECHNICAL CONSIDERATIONS

On page 3, line 7, the term "to that amount" is used twice and should be amended to strike out the second use of that term.

ARGUMENTS/POLICY CONCERNS

The phaseout language in the bill provides that the credit would phase out as the "reference price" for the taxable year (i.e., the "reference price" determined by the Secretary of the Treasury for the calendar year prior to the calendar year in which the taxable year begins):

- for all domestic crude oil, rises from $14 to $17 per barrel. The "reference price" for calendar year 2000 and therefore the price to be used for taxable year 2001 is $26.73 per barrel.
- for all qualified natural gas, rises from $1.56 to $1.89 per 1,000 cubic feet. The "reference price" for calendar year 2000 and therefore the price to be used for taxable year 2001 is $3.60 per 1,000 cubic feet.

Since the "reference price" has reached levels significantly higher than the maximum phase-out range for this credit, it appears that no credit would be allowed. The author may wish to revise the bill to provide a different phase-out range.

LEGISLATIVE STAFF CONTACT

John Pavalasky	Brian Putler
Franchise Tax Board	Franchise Tax Board
845-4335	845-6333