



Speaker Pro Tempore Matt Huffman
4th House District

House Ways and Means Committee

Sponsor Testimony

House Bill 375

December 10, 2013

Chairman Beck, Vice Chairman Boose, Ranking Member Letson, members of the House Ways and Means Committee, thank you for allowing me to present sponsor testimony on House Bill 375. House Bill 375 continues our work in the General Assembly on reforming tax policy in this state. House Bill 375 is legislation that will enhance the state's oil and gas regulatory program, which is the original intent of the severance tax, and would address the lingering environmental issue of plugging idle and orphan wells from historical production. It will also lower taxes for conventional oil and gas producers and earmark excess revenues for the income tax reduction fund.

House Bill 375 will modify Ohio's severance tax upon oil and gas produced within the state. The proposal lowers the severance rate paid upon minerals extracted from non-horizontal wells by 50%. The bill also proposes a rational severance tax rate on horizontal wells. The rate begins at 1% of the gross receipts from the well for the first five years of production. After this capital cost recovery period, the rate will be 2% for the following years of production. When the well's production drops below certain marginal levels, the rate reverts back to the 1% level.

While the severance rate is being modified, the original intent of the severance tax – to fund the oil and gas regulatory program – will remain. Severance tax revenues will go first towards funding the oil and gas regulatory agency. Up to 50% of the leftover revenue will go towards the plugging of idle and orphan oil and gas wells and the remainder to a reduction of the personal income tax. Idle and orphan wells are an authentic environmental issue in our state. Once the regulatory program's needs have been met, it is important that we address the plugging of these historic wells that have been "orphaned" for various reasons.

House Bill 375 will also create two new offsets for Ohio taxpayers. First, an exemption is created for those paying horizontal severance tax against the commercial activities tax (CAT). An offset is also created for those paying horizontal severance tax against their personal income tax. This second point is important because those with royalty interests should not face the double taxation of their royalty streams.

I believe this comprehensive tax reform proposal is a fair and balanced approach that will provide oil and gas producers with more certainty. Certainty is an important factor to companies

when weighing their tax burden and deciding whether or not to invest billions into energy exploration and development within our state. Taxpayers will also benefit from this proposal as the creation of the two new offsets will impact royalty owners while additional revenues are earmarked for a reduction of the personal income tax.

Thank you Chairman Beck and members of the Committee for allowing me to present this testimony today. I will be happy to answer any additional questions.