

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1844

Bill Subtitle: TO AMEND THE DISTRIBUTION OF REVENUES DERIVED FROM THE SEVERANCE TAX.

Basic Change :

Sponsor: Representative Beck

HB1844 amends the distribution of severance tax on natural gas. Under current law, the natural gas severance tax is divided ninety-five percent (95%) to special revenue for distribution in accordance with the Arkansas Highway Revenue Distribution Law and the remaining five percent (5%) being divided between general revenue and the Road and Bridge Repair, Maintenance, and Grants Fund to be used exclusively for grants to counties for damages resulting from trucks and other heavy machinery used in the extraction of natural gas. The first six hundred and seventy-five thousand dollars (\$675,000) of the five percent (5%) portion is deposited as State General Revenue with the remainder of the five percent (5%) portion being deposited into the Road and Bridge Repair, Maintenance, and Grants Fund.

The bill would change the distribution of the natural gas severance tax to provide that the first six hundred seventy-five thousand dollars (\$675,000) of tax collections per year is to be deposited to State General Revenue with the remaining balance to be divided with a five percent (5%) portion distributed to the Road and Bridge Repair, Maintenance Grants Fund and the ninety-five (95%) portion designated special revenue to be distributed as set forth in the Arkansas Highway Revenue Distribution Law. The effect of the distribution change is that the \$675,000 deposit to State General Revenue does not impact the amount distributed to the Road and Bridge Repair, Maintenance, and Grants Fund. The Act would be effective 90 days after final adjournment of the 91st General Assembly.

Revenue Impact :

No impact on state general revenues.

Taxpayer Impact :

None.

Resources Required :

None.

Time Required :

Adequate time is allowed for implementation.

Procedural Changes :

Computer programs will have to be modified to reflect the changes to natural gas severance tax distribution.

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Other Comments :

Page 1 --- Lines 23 through 25 --- As drafted in the proposed amendment to § 19-6-301(238), the amount of natural gas revenues classified as Special Revenues is equal to 95% percent of the revenues collected on natural gas plus the 5% portion of the severance tax as codified in the revised § 26-58-124(c)(2) for deposit to the Road and Bridge Repair, Maintenance, and Grants Fund. The 95%-5% portion will not be determined until after the \$675,000 deposit to State General Revenues is deducted from the total revenues collected. The 5% portion of the severance tax for deposit to the Road and Bridge Repair, Maintenance, and Grants Fund will not provide for a complete distribution of the severance tax revenues on natural gas. The bill should be amended to correct the tax distribution language to make it clear in § 19-6-301 that the first \$675,000 in revenues collected should be deposited as general revenue.

The bill does not have an effective date. The first \$675,000 of natural gas severance tax revenues each fiscal year are to be deposited to State General Revenues. The State's fiscal year begins on July 1. It is recommended that the bill be amended to include an emergency clause with an effective date of July 1, 2017 in order to provide for the \$675,000 deposit to be from the first tax collections occurring during FY2018. Fiscal years subsequent to FY2018 would not be problematic.

Legal Analysis :

This bill amends § 19-6-301(238) concerning the distribution of revenue from severance tax derived from the production of natural gas. It adjusts the statute so that, after the first six hundred seventy-five thousand dollars (\$675,000) collected for general revenue, five percent (5%) shall be deposited as special revenue into the Road and Bridge Repair, Maintenance, and Grants Fund. The remaining ninety-five percent (95%) shall be classified as special revenue to be distributed as set forth under § 27-70-201 et seq.