DEPARTMENT OF TAXATION
2016 Fiscal Impact Statement

1. Patron Thomas K. Norment, Jr.

2. Bill Number SB 563

House of Origin:
X **Introduced**
_____ **Substitute**
_____ **Engrossed**

3. Committee Senate Finance

4. Title Retail Sales and Use Tax; Extends the Exemption for Certain Drilling Equipment

Second House:
_____ **In Committee**
_____ **Substitute**
_____ **Enrolled**

5. Summary/Purpose:

This bill would extend the sunset date from July 1, 2016 to July 1, 2021 for the Retail Sales and Use Tax exemption for materials, supplies, machinery, and other specified tangible personal property used directly in the drilling, extraction or processing of natural gas or oil and the reclamation of the well area.

The effective date of this bill is not specified.

6. Budget amendment necessary: No.

7. No Fiscal Impact. (See Line 8.)

8. Fiscal implications:

Administrative Costs Impact

The Department considers implementation of this bill as "routine" and does not require additional funding.

Revenue Impact

This bill would have no impact on state or local sales and use tax revenue, as the continuation of the exemption is assumed in the revenue forecast.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Virginia law currently provides an exemption from the Retail Sales and Use Tax for raw materials, fuel, power, energy, supplies, machinery or tools or repair parts or replacement parts that are used directly in the drilling, extraction, or processing of natural gas or oil and the reclamation of the well area. The term “natural gas” is defined to mean gas, natural gas, and coalbed methane gas. “Drilling, extraction, and processing” includes production, inspection, testing, dewatering, dehydration, or distillation of raw natural gas into a usable condition, and the gathering and transportation of raw natural gas to a facility where the gas is converted into a usable condition. The exemption for machinery, tools, and equipment, or repair parts and replacement parts is available only if the preponderance of their use is directly in the drilling, extraction, refining, or processing of natural gas or oil for sale or resale, or in well area reclamation activities required by state or federal law.

When this exemption was enacted in 1994, the exemption was scheduled to expire on June 30, 1996. The expiration date was extended in 1996 to June 30, 2001; in 2001 to July 1, 2006; in 2006 to July 1, 2011; and in 2011 to July 1, 2016.

The effective date of this bill is not specified.

cc : Secretary of Finance

Date: 1/22/2016 KP
DLAS File Name: SB563