

DEPARTMENT OF TAXATION

2023 Fiscal Impact Statement

1. **Patron** James W. Morefield

3. **Committee** House Finance

4. **Title** Sales and use tax; Exemption for oil and gas drilling equipment

2. **Bill Number** HB 2334

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would extend the sunset date from July 1, 2023 to July 1, 2024 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.

Under current law, materials, supplies, machinery, and other specified tangible personal property used directly in the drilling, extraction or processing of natural gas or oil are exempt from taxation until July 1, 2023.

If enacted during the regular session of the 2023 General Assembly, this bill would become effective July 1, 2023.

6. **Budget amendment necessary:** No.

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

8. **Fiscal implications:**

Administrative Costs

This bill would have no impact on state or local administrative costs.

Revenue Impact

This bill would have no revenue impact as the extension of the existing sales tax exemption is assumed in the official General Fund revenue forecast.

9. **Specific agency or political subdivisions affected:**

Department of Taxation

10. **Technical amendment necessary:** No.

11. Other comments:

Background

Item § 3-5.24 of the 2022 Act of Appropriations extended the 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 until July 1, 2023. The exemption was scheduled to expire on July 1, 2022.

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; in 2011 to July 1, 2016, in 2016 to July 1, 2022, and in 2022 to July 1, 2023. This bill would extend the exemption for one year to July 1, 2024.

Proposal

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cc : Secretary of Finance

Date: 1/19/2023 VB
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