



OHIO LEGISLATIVE SERVICE COMMISSION

Bill Analysis

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Sub. H.B. 430

132nd General Assembly
(As Reported by S. Ways and Means)

Reps. Schaffer, Faber, Antani, Brenner, Ginter, Green, Greenspan, Hagan, Hambley, Hill, Johnson, Landis, Lang, Merrin, Pelanda, Perales, Reineke, Roegner, Rogers, Romanchuk, Ryan, Schuring, Slaby, R. Smith, Sprague, Thompson, Wiggam, Young

Sens. Hackett, Beagle, Eklund

BILL SUMMARY

- Modifies the statutory language that governs the sales and use tax exemption for property used in producing oil and natural gas.
 - Specifies that property that is approved by the Department of Natural Resources as part of a water pollution control facility qualifies for existing property and sales and use tax exemptions.
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CONTENT AND OPERATION

Sales and use tax exemption for oil and gas production property

The bill modifies the statutory language that governs the existing sales and use tax exemption for property used directly in producing oil and natural gas.

Existing law exempts the sale or use of tangible personal property used directly in the production of crude oil or natural gas. The bill elaborates on this exemption by adding some definition to what constitutes the "production" of oil and gas and by listing several examples of goods and services that either are or are not included in the scope of the exemption. The bill's effect on the exemption's scope is not clearly apparent from the statutory language, because the scope of the current exemption is determined

largely by an administrative rule¹ and prior decisions by courts and the Board of Tax Appeals. However, the bill states that it is intended to clarify existing law.

Exempt items and services

Under the bill, "production" is defined to include operations and tangible personal property directly used to expose and evaluate an underground reservoir that may contain oil or gas, to prepare the wellbore for production, and to lift and control all substances yielded by the reservoir to the surface of the earth. Consequently, purchases of any items used directly in such operations are exempt from the sales and use tax.²

In addition, the bill lists multiple examples of goods and services that are exempt from tax:

- (1) Services provided to construct permanent access roads, the well site, and temporary impoundments;
- (2) Equipment and rigging used for the specific purpose of creating with integrity a wellbore pathway to underground reservoirs;
- (3) Casing, tubulars, and float and centralizing equipment;
- (4) Trailers to which production equipment is attached;
- (5) Drilling and workover services used to work within a subsurface wellbore; well completion services, including cementing of casing; wireline evaluation, mud logging, and perforation services; reservoir stimulation, hydraulic fracturing, and acidizing services; and any items used directly in providing any of those services;
- (6) Pressure pumping equipment;
- (7) Artificial lift systems equipment;
- (8) Wellhead equipment and well site equipment used to separate, stabilize, and control hydrocarbon phases and produced water;
- (9) Items directly used to control production equipment.

¹ Ohio Administrative Code sec. 5703-9-22.

² Under continuing law, any person that provides production services for another party is treated as being engaged in production for the purposes of the exemption, thereby also qualifying that person's purchases of such property for the exemption.



Taxable items

The bill also lists several examples of items that are not within the scope of the exemption, and are therefore taxable (if not exempted under another provision of law):

(1) Items used primarily in the exploration and production of any mineral resource other than oil or gas;

(2) Items used primarily in storing, holding, or delivering solutions or chemicals used in well stimulation;

(3) Items used primarily in preparing, installing, or reclaiming foundations for drilling or pumping equipment or well stimulation material tanks;

(4) Items used primarily in transporting, delivering, or removing equipment to or from the well site or storing such equipment before its use at the well site;

(5) Items used primarily in gathering operations occurring off the well site, including gathering pipelines transporting hydrocarbon gas or liquids away from a crude oil or natural gas production facility;

(6) Well site fencing, lighting, or security systems;

(7) Communication devices or services;

(8) Office supplies;

(9) Trailers used as offices or lodging;

(10) Motor vehicles of any kind;

(11) Items used primarily for the storage of drilling byproducts and fuel not used for production;

(12) Items used primarily as safety devices;

(13) Data collection or monitoring devices;

(14) Access ladders, stairs, or platforms attached to storage tanks.

In addition, if any item is incorporated into real property, it is disqualified from the exemption, as it is under current law.



Tax exemptions for water pollution control property

The bill also specifies that property used to control water pollution may qualify for existing property tax and sales and use tax exemptions when the Department of Natural Resources (ODNR) is the agency that approves the property as qualifying pollution control property.

Under continuing law, an application to exempt such a facility must be filed with the Tax Commissioner. Before approving the application, current law states that the Commissioner must seek the opinion of the Director of Environmental Protection. Current law also defines a "water pollution control facility" as property whose installation has been approved by either the Ohio Environmental Protection Agency or "any other governmental agency having authority to approve [such] installation."

The bill specifies ODNR as an agency that approves the installation of water pollution control facilities, and requires the Commissioner to seek the opinion of the Director of ODNR when considering the exemption application of such a facility that falls within the department's jurisdiction.

In addition, continuing law requires that an applicant for exemption pay an application fee equal to 0.5% of the total project cost, up to \$2,000. The fee is credited to the agency that provides the opinion on the application. The bill specifies that, when ODNR provides an opinion on a facility, the fee shall be credited to ODNR for use in administering the exemption program.³

Application to pending cases

The bill states that the bill's changes are intended to be "remedial" and to apply both prospectively and to any cases or audits pending on or after May 18, 2018.

HISTORY

ACTION	DATE
Introduced	11-29-17
Reported, H. Gov't Accountability & Oversight	01-25-18
Passed House (85-12)	01-31-18
Reported, S. Ways & Means	05-23-18

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³ R.C. 5709.20, 5709.211, 5709.212, and 5709.22.

