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Latest Numbers Confirm That High-Cost Exemption Continues to Cost the State \$1 Billion Each Year in Lost Revenue

The latest numbers from the Comptroller confirm that the high-cost-gas exemption reduced state revenue from the natural gas production tax by \$1.04 billion in fiscal year 2011, after reducing revenue by \$1.31 billion in fiscal 2010.

The exemption was introduced in 1989, when state revenues were suffering from the collapse of oil and gas prices in the late 1980s. The legislature designed the exemption to incentivize technological innovation in the development of new sources of natural gas by cutting the tax rate paid on production from unusually costly wells. The exemption worked, leading directly to the development of techniques for producing gas from shale deposits, such as the Barnett Shale in the Dallas-Ft. Worth area, using horizontal drilling and hydraulic fracturing (“fracking”).

Having worked to spur new ways to produce gas, it is no longer justified. We now have the technology to produce the gas.

The stated tax rate on natural tax production is 7.5 percent of market value; however, according to a report from the Legislative Budget Board last year, this special tax treatment had reduced many producers’ tax liability to zero and eroded the effective tax rate for all high-cost-gas production to 1.5 percent. In 2011, almost three-quarters of all natural gas production in Texas qualified as high-cost, up from less than half in 2007.

For the 2010-11 biennium, the high-cost-gas exemption cut state revenue from the natural gas production tax by more than half!

The \$2.35 billion lost to the exemption in 2010-11 is roughly equal to the amount needed to invest in public education just to keep up with enrollment growth.

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