

SUBJECT: Ad valorem tax situs of portable drilling rigs

COMMITTEE: Ways and Means — committee substitute recommended

VOTE: 7 ayes — Keffer, Ritter, Otto, Y. Davis, Flores, Peña, Pitts

0 nays

2 absent — Bonnen, Paxton

WITNESSES: *(On original version:)*

For — Michael Hand, Wire Cad; Paul Mosvold, Scandrill Inc.; Robert Carter; Trey Cobb; Peggy Wardlaw (*Registered, but did not testify*: Donna Warndof, Texas Independent Producers and Royalty Owners Association)

Against — David Holt, Jimmy G. Myska, and Ron Patterson, Patterson UTI Drilling

On — Jim Robinson, Texas Association of Appraisal Districts; Gerald “Buddy” Winn

BACKGROUND: Under Tax Code, sec. 21.02(a), tangible personal property is taxable by a taxing unit if:

- it is located in the unit on January 1 for more than a temporary period;
- it normally is located in the unit, if it is outside of the unit temporarily on January 1;
- it normally returns to the unit between uses elsewhere and is not located in any one place for more than a temporary period; or
- the owner resides or maintains the owner’s principal place of business in the unit.

Under sec. 21.02(e), a portable drilling rig designed for land-based oil or gas drilling or exploration is taxable by the taxing unit in which the rig is located if, on January 1, the rig had been located in the taxing unit’s appraisal district for the preceding 365 days. If the rig had not been located in that appraisal district for the preceding 365 days, the rig is taxable by the taxing unit in which the owner’s principal place of business is located on January 1.

**DIGEST:**

Under CSHB 913, a portable drilling rig would be taxable by the taxing unit in which the owner's principal place of business was located on January 1 if the rig was not located in the appraisal district where it was located on January 1 for the preceding 365 days, unless the owner chose to render the rig to the appraisal district in which the rig was located on January 1. In that case, the rig would be taxable by each taxing unit in which the rig was located on January 1. If the owner of a rig made such an election for one rig, then all of the owner's portable drilling rigs would be taxable by the taxing units in which each rig was located on January 1.

The bill would take effect January 1, 2008, and would apply to a tax year beginning on or after that date.

**SUPPORTERS  
SAY:**

CSHB 913 would improve the process for appraising portable drilling rigs by allowing the owner of portable rigs to choose whether to have them appraised in the appraisal districts in which they were located on January 1 or in the appraisal district of the owner's principal place of business. Currently, because these rigs rarely are located in one county for 365 consecutive days, many of these rigs must be rendered not in the county in which they are located on January 1, but rather in the appraisal district that includes the owner's principal place of business. For this reason, many counties in which these rigs operate are missing out on ad valorem tax revenue from these multi-million dollar properties.

CSHB 913 would allow the owner of portable drilling rigs to make the election to render their rigs in either the appraisal districts in which the rigs were located or in the appraisal district that included the owner's principal place of business. This provision would not allow the owner of portable drilling rigs to pick and choose, rendering some rigs to the appraisal district in which they were located and others to the appraisal district including the principal place of business. The requirement of an election on the part of a rig owner that would apply to all the owner's rigs would simplify the appraisal of drilling rigs by appraisal districts across the state.

The committee substitute addresses concerns that the bill as filed might have led to confusion for drilling rig owners and appraisal districts. The committee substitute proposes a clear, uniform standard that would allow appraisal of rigs in either the appraisal district in which the rig was located or in the appraisal district of the rig owner's principal place of business.

This compromise would provide clarity for appraisal districts, local taxing units, and the owners of portable drilling rigs.

OPPONENTS  
SAY:

No apparent opposition.

NOTES:

In the bill as introduced, a portable drilling rig would have been considered to be located on January 1 for more than a temporary period in a taxing unit in which the drilling rig was located during the preceding tax year. If the rig was located in more than one taxing unit in the preceding tax year, the rig would have been considered to be located for more than a temporary period in a taxing unit in which the rig was located for the longest period, or 30 days, whichever was longer.