

**Department of Legislative Services**  
Maryland General Assembly  
2007 Session

**FISCAL AND POLICY NOTE**

House Bill 268  
Ways and Means

(Delegate Frush)

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**Sales and Use Tax - Exemptions - Construction of Wells**

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This bill exempts the sale of equipment, machinery, or other tangible personal property that is used to dig or construct a well from the State sales and use tax.

The bill takes effect July 1, 2007.

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**Fiscal Summary**

**State Effect:** General fund revenues could decrease by a significant amount beginning in FY 2008. The amount of the decrease depends on the amount and cost of equipment purchased annually. *Under one set of assumptions*, revenues could decrease by \$375,000 to \$1 million annually. No effect on expenditures.

**Local Effect:** None.

**Small Business Effect:** Potential meaningful.

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**Analysis**

**Current Law:** The sale of equipment, machinery, or other tangible personal property that is used to dig or construct a well is not exempt from the 5% State sales and use tax.

**Background:** Well drillers in Maryland became regulated 40 years ago when the State Board of Well Drillers was created by Chapter 584 of 1968. Prior to passage of that legislation, only well construction had been regulated as a means of protecting the State's

water resources. Regulation of the practitioners of well drilling was instituted to further protect not only the State's water supplies but also the public health.

Well drillers in the State of Maryland are licensed and regulated by the board. The board determines the circumstances under which an individual may engage in the practice of well drilling which includes making, altering, repairing, or disconnecting well system equipment for profit. Properly licensed well drillers who have obtained the necessary permits may construct wells for any of the following purposes:

- to explore for groundwater;
- to obtain or monitor groundwater;
- to inject water into any underground formation from which groundwater may be produced; and
- to transfer heat from the ground or groundwater, if the hole extends more than 20 feet below the surface of the ground and is not a well for obtaining geothermal resources under § 5-601 of the Environment Article.

The State Board of Well Drillers currently licenses well drillers in three classes: master, journeyman, and apprentice. Within these classes of license are three categories: general, geotechnical, and water supply. There are also three types of restricted licenses (water conditioner installer, water pump installer, and well rig operator). These restricted license categories also have an apprentice class.

There are 254 licensed master drillers in Maryland, and another 227 well drilling licensees who can operate a well drilling rig. **Exhibit 1** shows the number of well drilling permits issued for calendar 2002 through 2006.

**State Fiscal Effect:** General fund revenues could decrease by a significant amount beginning in fiscal 2008. Industry representatives and the Maryland Department of the Environment were unable to provide Legislative Services with estimated well construction and equipment costs; as a result, the amount of the revenue decrease resulting from the sales and use tax exemption cannot be reliably estimated at this time. The decrease depends on the types of equipment purchased, the amount of equipment purchased, and the cost of the equipment. The associated revenue decrease is expected to be significant due to the number of well construction permits issued each year and the broad nature of the exemption; the exemption could include items such as pumps, wrenches, welding equipment, hoses, mixers, cranes, backhoes, as well as other equipment.

**Exhibit 1**  
**Well Construction Permits**  
**Calendar 2002 through 2006**

<b>County</b>	<b>CY 2002</b>	<b>CY 2003</b>	<b>CY 2004</b>	<b>CY 2005</b>	<b>CY 2006<sup>1</sup></b>
Allegany	85	81	78	56	72
Anne Arundel	1,250	1,040	1,063	919	863
Baltimore City	200	131	169	139	285
Baltimore	1,085	628	806	886	710
Calvert	745	646	526	434	330
Caroline	280	250	255	309	218
Carroll	974	721	487	481	391
Cecil	840	726	674	632	486
Charles	1,150	150	579	511	395
Dorchester	340	250	348	255	266
Frederick	620	550	479	550	503
Garrett	350	338	319	306	321
Harford	850	644	586	656	528
Howard	350	260	263	369	239
Kent	195	194	227	204	210
Montgomery	735	362	298	345	308
Prince George's	480	445	517	370	355
Queen Anne's	665	345	347	344	373
St. Mary's	875	752	797	657	553
Somerset	135	147	166	171	184
Talbot	340	263	284	262	331
Washington	550	432	483	298	280
Wicomico	850	725	676	633	588
Worcester	425	425	434	330	342
<b>Total</b>	<b>14,369</b>	<b>10,505</b>	<b>10,861</b>	<b>10,117</b>	<b>8,780</b>

Source: Maryland Department of the Environment, State Board of Well Drillers

<sup>1</sup>Numbers reflect data collected to date and are subject to change.

Due to the different types of soil in Maryland, the average cost of drilling a well varies from region to region. The equipment used to drill a well varies accordingly. It is estimated that the average cost of a drilling rig in the eastern part of the State totals

\$250,000, which includes the truck the rig is mounted on. In the western part of the State, rigs can cost in excess of \$500,000. These rigs can last from 5 to 20 years, so they would not be considered annual purchases.

If it is assumed that there are 400 drilling rigs in the State and each rig lasts 15 years, 25 rigs would be replaced on an annual basis. If the average cost of the rig is \$300,000, the general fund revenue decrease would be \$375,000 annually. Since equipment used for maintaining the rigs and replacement parts would likely be eligible for the exemption, the potential revenue decrease could total \$1 million annually.

**Small Business Effect:** Small businesses involved in well drilling would realize reduced production costs as a result of not having to pay the sales tax on production-related purchases.

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### **Additional Information**

**Prior Introductions:** HB 1230 of 2006, an identical bill, was assigned to the House Ways and Means Committee, which took no action on the bill.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, Maryland Department of the Environment, Department of Legislative Services

**Fiscal Note History:** First Reader - February 22, 2007  
ncs/hlb

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