



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 170** HLS 17RS 904

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: April 20, 2017	11:55 AM	Author: CARTER, R.
Dept./Agy.: Revenue		
Subject: Horizontal Drilling Exemption		Analyst: Greg Albrecht

TAX/SEVERANCE-EXEMPTION

OR +\$96,000,000 GF RV See Note

Repeals the exemption from severance tax for oil and gas production from a horizontally drilled well

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Present law provides a 100% severance tax exemption for a period of 24-months from the date of first production or until payout of approved well costs, whichever comes first, for oil & gas produced from horizontally drilled wells.

Proposed law repeals this exemption.

EXPENDITURES	2017-18	2018-19	2019-20	2020-21	2021-22	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0


REVENUES	2017-18	2018-19	2019-20	2020-21	2021-22	5 -YEAR TOTAL
State Gen. Fd.	INCREASE	\$96,000,000	\$96,000,000	\$96,000,000	\$96,000,000	\$384,000,000
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total		\$96,000,000	\$96,000,000	\$96,000,000	\$96,000,000	\$384,000,000

EXPENDITURE EXPLANATION

There will be minor costs associated with design changes, programing, and testing to eliminate the exemption from the tax processing system. Staff time equivalent costs of \$25,000 are anticipated. Additional resources may be necessary depending on the cumulative effect of new legislative changes.

REVENUE EXPLANATION

The exemption in Louisiana has been primarily associated with natural gas production, and the revenue cost of the exemption program has declined significantly as natural gas prices have fallen and the 24-month exemption period has expired on many wells. Total exemption costs in FY16 were \$96.3 million (88% natural gas, 12% oil). Assuming current price stability, this level of cost is assumed for future periods. In practice, operators typically pay the severance tax and then file amended returns in later months for a refund of the tax. Assuming this bill would cease all refunds in FY18 and beyond, some \$90 million - \$100 million per year in additional net severance tax collections might be expected. However, as drafted, the bill is effective August 1, 2017, and it is likely that a large volume of refund claims will be filed prior to that effective date. Thus, Costs are likely to spike in late FY17 and early FY18, before falling to zero. Net revenue gains in FY19 and beyond are reasonable to expect, but the effect on FY18 is uncertain.

<u>Senate</u>	<u>Dual Referral Rules</u>	<u>House</u>	
<input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}		<input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}	John D. Carpenter
<input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}		<input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}	Legislative Fiscal Officer