LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office — Fiscal Notes

Fiscal Note On: **HB 25** HLS 243ES 10

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: November 12, 2024 7:08 PM

Author: RISER

Dept./Agy.: Revenue

Subject: Severance Tax Rates, Dedications, Exemptions

Analyst: Benjamin Vincent

TAX/SEVERANCE TAX OR SEE FISC NOTE RV

Provides relative to severance tax on oil and gas and for dedication of certain severance tax revenues (Item #9)

Proposed law alters the methodologies for the estimation of severance tax liability and certain exemptions for crude oil and natural gas. Proposed law generally reduces crude oil severance tax rates while effectively increasing the natural gas rates. Proposed law repeals or sunsets certain exemptions and incentives. Proposed law repeals dedications of certain mineral revenues to certain funds, and increases the maximum allocation of mineral revenues to parishes.

Effective upon adoption of the constitutional amendment proposed in HB 7 of the 3rd Extraordinary Session of 2024 ("HB 7") at a statewide election, and applicable to taxable periods beginning on or after July 1, 2025.

EXPENDITURES	2024-25	2025-26	2026-27	2027-28	2028-29	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	**$200,000**	$0	$0	$0	$0	**$200,000**
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	**$200,000**	**$0**	**$0**	**$0**	**$0**	**$200,000**

REVENUES	2024-25	2025-26	2026-27	2027-28	2028-29	5 -YEAR TOTAL
State Gen. Fd.	$0	**SEE BELOW**	**SEE BELOW**	**SEE BELOW**	**SEE BELOW**	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	**SEE BELOW**	**SEE BELOW**	**SEE BELOW**	**SEE BELOW**	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**					**$0**

EXPENDITURE EXPLANATION

LDR reports an anticipated one-time expenditure increase amounting to approximately $200,000 for system design, development, specification, and testing to accommodate tax return changes. Any such increase would come out of SGR collections, as reflected in the table above. Any such expenditure increases will serve to mechanically reduce net receipts (SGF) by a like amount. LFO assumes these expenditures would impact FY 25.

REVENUE EXPLANATION

The overall estimated fiscal impact of this proposal is based on recent-year mineral revenue collections, and is **indeterminable for any particular year. The impact on tax receipts in any given year could be positive or negative, with a range of approximately +/- $200 million**.

The anticipated impact of proposed crude oil rate changes is a revenue loss in any year, while the potential range of impact implied by proposed natural gas rate changes suggests that in any given year the overall revenue impact could be either materially positive or materially negative.

LFO tentatively concurs with the conclusion that *on average* the net impact would be qualitatively close to zero, however a zero overall impact will not typically reflect the observed reality within any given year. A brief discussion of the crude oil and natural gas components of proposed law follows below.

Crude Oil Rate Reduction:

Fully-taxable oil severance tax rates will decline from 12.5% to approximately 6%, and the applicable oil price will be determined twice annually. Other oil severance rates will be reduced by similar proportions. The impact of these rate reductions in isolation would serve to reduce oil severance revenues.

A taxable price determined only twice annually could result in the tax being applied against a higher or lower price than current law would provide, so the provision to determine the severance price, in isolation, could either result in an increase or decrease in severance collections.

Overall the effect of the crude oil severance tax rates and price methodology is anticipated to reduce revenues roughly in proportion to the rate reduction, which is approximately 52%. This effect will be phased-in, as the new rate applies only to production from wells completed after July 1, 2025. Production data by well age, combined with oil severance data from FY 23 implies a **potential revenue reduction of approximately $22 million in FY 26, increasing to approximately $178 million by FY 35** due to the crude oil severance provisions.

(continued on Page 2)

Senate	Dual Referral Rules	House
[x] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}		[x] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
[x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}		[ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Alan M. Boxberger

Alan M. Boxberger
Legislative Fiscal Officer

LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office — Fiscal Notes

Fiscal Note On: **HB 25** HLS 243ES 10

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: November 12, 2024 7:08 PM

Author: RISER

Dept./Agy.: Revenue

Subject: Severance Tax Rates, Dedications, Exemptions

Analyst: Benjamin Vincent

CONTINUED EXPLANATION from page one:

Natural Gas Effective Rate Change:

Taxing natural gas severance at 4% or 6% of the determined severance price (depending on well completion date) is designed to result in tax liabilities that would roughly offset, on average, the revenue reduction implied by the reduced oil severance tax rate. LFO believes that *on average* the natural gas rates in proposed law would eventually approximately offset the reductions in oil severance collections, resulting in an average revenue impact close to zero.

However, the revenue impact on natural gas severance is unlikely to be a revenue gain that would perfectly offset the oil severance loss precisely. The gain in natural gas severance would be either greater or less than the reduced oil severance amount, resulting in a net revenue impact that could be positive or negative in any given year.

For an illustrative exercise, LFO roughly estimated oil and gas severance impacts that would have resulted had this proposal been enacted in recent years, and compared the resulting impacts to actual collections. For this exercise, LFO assumed that approximately 50% of gas production is from wells under two years old, and that approximately 13% of oil production is from wells under two years old.

Using FY 21, FY 22, FY 23, and FY 24 as sample years, LFO estimated the impact of the proposed tax structures in a scenario where FY 26 matched the price and production characteristics of those years. For natural gas severance, the impacts swung materially depending on the year, resulting in impacts **ranging between a revenue loss of $150 million and a revenue gain of $300 million**.

Repealed Dedications & Allocations of Mineral Revenues:

The proposal additionally eliminates several dedications of mineral revenue, while removing the maximum allocation of severance tax collections to parishes. These changes generally mirror those contained in the proposed constitutional amendment in HB 7. Should both the amendment in HB 7 and this bill become effective, the allocation of tax collections between the general fund and dedicated funds will change materially.

The removal of the maximum parish allocation will transfer additional funds from SGF to the (dedicated) parish allocation, while the removal of other dedications of mineral revenue will result in more funds remaining in SGF than would otherwise occur. Several of these repealed dedications are described in more detail in the fiscal note accompanying HB 7 (and that of its statutory companion, HB 12). Repealed dedications of mineral revenue contained in this proposal include the Conservation Fund, the Oil and Gas Regulatory Dedicated Fund Account, the Transportation Trust Fund, the LASERS & TRSL Unfunded Accrued Liability, and the Revenue Stabilization Trust Fund. Should this bill be passed into law by the legislature, its provisions would be of no effect unless and until the amendment in HB 7 became effective as well, following adoption at a statewide vote in March 2025.

Other Exemptions:

The proposal specifies that the horizontal and deep well exemptions are still allowed through December 31, 2035, however the well must be in a "regulatory unit" that has included a qualifying well that was completed between July 1, 2010, and December 31, 2024. LFO does not anticipate a material impact due to this restriction.

The proposal additionally repeals the produced water injection incentive and reclaimed oil incentive. No material impact is anticipated due to these changes.

Senate	Dual Referral Rules	House
[x]	13.5.1 >= $100,000 Annual Fiscal Cost {S & H}	[x] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
[x]	13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}	[ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Alan M. Boxberger

Alan M. Boxberger
Legislative Fiscal Officer