Regular Session, 2013

HOUSE BILL NO. 474

BY REPRESENTATIVE STUART BISHOP

ENERGY/DRILLING: Provides relative to the exemption from severance tax for inactive wells

1	AN ACT
2	To amend and reenact R.S. 47:633(7)(c)(iv) and to repeal R.S. 47:633(9)(e)(vii), relative to
3	severance tax on oil and gas; to provide relative to a reduced tax rate on oil and gas
4	produced from a well classified as inactive; to provide for effectiveness; and to
5	provide for related matters.
6	Be it enacted by the Legislature of Louisiana:
7	Section 1. R.S. 47:633(7)(c)(iv) is hereby amended and reenacted to read as follows:
8	§633. Rates of tax
9	The taxes on natural resources severed from the soil or water levied by R.S.
10	47:631 shall be predicated on the quantity or value of the products or resources
11	severed and shall be paid at the following rates:
12	* * *
13	(7)
14	* * *
15	(c)
16	* * *
17	(iv) Production from oil and gas wells which have been returned to service
18	after being inactive for two or more years or having thirty days or less of production
19	during the past two years shall be exempt from severance tax for a period of five
20	years as provided in this Item.

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1	(aa) The provisions of this Subitem apply to a well for which an application
2	was submitted before July 1, 2010, for the five year exemption period which ended
3	on June 30, 2010, hereinafter referred to in this Subitem as "initial exemption
4	period". Beginning July 1, 2013, and for the period of time remaining in the initial
5	exemption period, oil production shall be subject to a severance tax equal to three
6	and one eighth percent of its value and gas production shall be subject to a severance
7	tax equal to twenty-five percent of the rate established in Paragraph (9) of this
8	Section. Upon expiration of an initial exemption period, an additional five year
9	exemption period shall be allowed during which time oil production shall be subject
10	to a severance tax of six and one quarter percent of its value and gas production shall
11	be subject to a severance tax equal to fifty percent of the rate established in
12	Paragraph (9) of this Section. The exemption shall be extended by the length of any
13	inactivity of a well that has commenced production when such inactivity is caused
14	by a force majeure.
15	(bb) Beginning July 1, 2015, application may be made for certification of an
16	inactive well for a ten year period in which oil production shall be subject to a
17	severance tax of six and one quarter percent of its value and gas production shall be
18	subject to a severance tax equal to fifty percent of the rate established in Paragraph
19	(9) of this Section. for a period of five years when returned to service after being
20	inactive for two or more years or having thirty days or less of production during the
21	past two years. The exemption shall be extended by the length of any inactivity of
22	a well that has commenced production when such inactivity is caused by a force
23	majeure.
24	(aa)(cc) To qualify for inactive well status for purposes of eligibility for a
25	reduced severance tax rate as provided for in this Item, an application for a two-year
26	inactive well certification shall be made to the Department of Natural Resources,
27	before commencement of production , during the period beginning July 31, 1994 and
28	ending June 30, 2000, for the period beginning July 1, 2002 and ending June 30,
29	2006, and for the period beginning July 1, 2006 and ending June 30, 2010. Upon

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1	certification that a well is inactive, all production is exempt from severance tax for
2	a period of five years from the date production begins or ninety days from the date
3	of the application, whichever occurs first.
4	(bb)(dd) If the severance tax is paid at the full rate provided by this Section
5	before the Department of Natural Resources approves an application for two-year
6	inactive well status, the operator is entitled to a credit against taxes imposed by this
7	Section in an amount equal to the tax paid. To receive a credit, the operator must
8	apply to the secretary of the Department of Revenue for the credit not later than the
9	first anniversary after the date the Department of Natural Resources certifies that the
10	well is a two-year inactive well .
11	* * *
12	Section 2. R.S. 47:633(9)(e)(vii) is hereby repealed in its entirety.
13	Section 3. (A) This Act shall become effective on July 1, 2013; if vetoed by the
14	governor and subsequently approved by the legislature, this Act shall become effective on
15	July 1, 2013, or on the day following such approval by the legislature, whichever is later.
16	(B) This Act shall take effect and become operative only if the proposed
17	amendments of the Constitution of Louisiana contained in the Joint Resolutions which
18	originated as House Bill Nos. 434, 435, and 436 of this 2013 Regular Session of the
19	Legislature are concurred in by both houses of the legislature and House Bill Nos. 1, 437,
20	456, 474, 571, 620, and 696 of this 2013 Regular Session of the Legislature are enacted into
21	law.

DIGEST

The digest printed below was prepared by House Legislative Services. It constitutes no part of the legislative instrument. The keyword, one-liner, abstract, and digest do not constitute part of the law or proof or indicia of legislative intent. [R.S. 1:13(B) and 24:177(E)]

Stuart Bishop

HB No. 474

Abstract: Provides for reduced severance tax rates for oil and gas production from inactive wells.

Present law levies a severance tax of 12.5% on oil produced in the state.

<u>Present law</u> levies a severance tax on natural gas produced in the state. The tax rate is set each year by multiplying the natural gas severance tax base rate of 7 cents per MCF by the

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"gas base rate adjustment" which is determined by the secretary of the Dept. of Natural Resources.

<u>Present law</u> provides for a 5-year exemption period during which oil and gas produced from wells classified as inactive by the commissioner of conservation are exempt from severance tax (hereinafter "initial exemption period").

<u>Proposed law</u> provides for a period of reduced severance tax rates for those inactive wells which applied for inactive well status before July 1, 2010 and which are operating within an initial exemption period. Beginning July 1, 2013 and for the period of time remaining in a well's initial exemption period, the severance tax on oil shall be 3.125% of production value and the tax on gas shall be 25% of the rate established by <u>present law</u>.

<u>Proposed law</u> provides that upon the expiration of an inactive well's initial exemption period, there shall be an additional 5-year period during which time the severance tax on oil produced from such wells shall be 3.125% of production value and the tax on gas shall be 25% of the rate established by <u>present law</u>.

<u>Proposed law</u> provides that after July 1, 2015, application may be made for certification of an inactive well for a 10-year period in which oil production shall be subject to a severance tax of 6.25% of its value and gas production shall be subject to a severance tax equal to 50% of the rate established in <u>present law</u>.

<u>Present law</u> requires that inactive wells be certified by the Dept. of Natural Resources, and that application for certification be made before commencement of production.

Proposed law retains present law.

Effective if the proposed amendments of the Const. of La. contained in the Joint Resolutions which originated as HB Nos. 434, 435, and 436 of the 2013 R.S. are concurred in by both houses of the legislature and HB Nos 1, 437, 456, 571, 620, 653, and 696 of the 2013 R.S. are enacted into law.

Effective July 1, 2013.

(Amends R.S. 47:633(7)(c)(iv); Repeals R.S. 47:633(9)(e)(vii))

Summary of Amendments Adopted by House

House Floor Amendments to the original bill.

- 1. Deletes provisions for a 10 year severance tax exemption for oil production from an inactive well.
- 2. Adds provisions for periods of reduced severance tax rates for those inactive wells producing either oil or gas for which an application for inactive well certification was submitted to the Dept. of Natural Resources before July 1, 2010.
- 3. Adds provisions for a 10-year period of reduced severance tax rates for inactive wells producing oil or gas beginning July 1, 2015.
- 4. Adds effectiveness provisions, including contingencies regarding other legislation.