LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office Fiscal Notes

Fiscal Note On: **HB 474** HLS 13RS 1050

Bill Text Version: **REENGROSSED**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

REVISED

Date: May 13, 2013 6:19 PM

Author: BISHOP, STUART

Dept./Agy.: Natural Resources / Revenue

Subject: Inactive Well Severance Tax Exemption Program

Analyst: Greg Albrecht

ENERGY/DRILLING RE +$22,700,000 GF RV See Note

Provides relative to the exemption from severance tax for inactive wells

Current law provides a five-year 100% exemption from severance tax to oil & gas production from wells re-entered after two years of inactivity. Applications were last accepted for the program June 30, 2010, and severance tax exemption can occur essentially through the end of FY15 ("from the date production begins or 90-days from the date of the application, whichever occurs first"). Proposed law subjects oil production still in its initial five-year exemption period to a tax rate of 3.125% of value until the end of that initial five-year period; comparable gas production is subjected to a tax rate that is 25% of rates established for different types of gas wells. After the initial period expires a second five year period begins with tax rates of 6.25% for oil and 50% of established rates for gas. For new inactive well applications made on or after July 1, 2015, a ten year period is allowed with tax rates of 6.25% for oil and 50% of established rates for gas. If tax is paid at full rate before DNR approves an application for inactive well status, all the tax paid is credited back to the taxpayer. The tax exemption for gas used in the manufacture of carbon black is repealed. Effective 7/1/13 upon passage of ten other pieces of legislation.

EXPENDITURES	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**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	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**5 -YEAR TOTAL**
State Gen. Fd.	$22,700,000	$21,700,000	$12,600,000	($37,700,000)	($37,100,000)	**($17,800,000)**
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	**$22,700,000**	**$21,700,000**	**$12,600,000**	**($37,700,000)**	**($37,100,000)**	**($17,800,000)**

EXPENDITURE EXPLANATION

The Department of Revenue will incur some marginal costs to modify the tax processing system of handle the modifications to this program.

REVENUE EXPLANATION

The bill imposes tax on the production of wells that are currently benefiting from full exemption. Thus, severance tax receipts are greater for FY14, FY15, and FY16 as this production goes from a 0% tax rate to a 3.125% tax. DNR estimated the current law tax exemption total based on the current 9% share of total state oil production coming from inactive wells, and their projections of total oil production and price over the next five years (a 2.6% total production decline and a $10/bbl price decline over the next five years). Current law revenue expected to be foregone in FY14 and FY15 is $81.4 million and $77.5 million, respectively, with an expected gain in FY16 of $15.1 million as exemption periods completely expire. Consequently, under proposed law this production would bring one-quarter the foregone amount or, $20.4 million and $19.4 million in FY14 and FY15, respectively, and an additional $11 million in FY16. In the subsequent years of FY17 - FY21, state revenue would be lost. In those years, current law would subject this production to a 12.5% tax rate, while proposed law would impose a 6.25% tax rate for a second five-year period. Revenue losses in FY17 and FY18 are estimated by DNR at $36.1 million and $35.5 million, respectively. Comparable losses would occur in the FY19 - FY21 years, as well. After that, this production would be subject to the full rate of 12.5%.

DNR did not include gas production in their estimates, although the bill establishes a tax rate 25% of normal in the remaining portion of the initial period and 50% of normal in a second five year period. Gas has been small in the program; about $5 million to $6 million per year of tax exemption. A simple proportional estimate adds $1.4 million of revenue to FY14 and FY15, and $700,000 to FY16. In FY17 - FY21, one-half the full tax under current law would be lost ($2.5 million per year). The bill also repeals the exemption for gas used in the manufacture of carbon black. The Revenue Department Tax Exemption Report estimates this foregone revenue at about $900,000 per year. This would be gained by the bill.

The bill also provides a ten year 50% tax break for new inactive oil and gas wells applied for starting July 1, 2015. Under current law these wells would be subject to their applicable full rate of taxation. Especially for oil, the bulk of this program, it seems unlikely that a 50% tax rate cut will elicit additional production that would not otherwise occur (even when compared to a 12.5% rate now). Only about 43% of wells still qualified in the program have been re-entered or are producing, even though oil prices have been very high historically over much of the latest five-year exemption period and a 100% tax exemption could have been received. Thus, this works to reduce tax receipts beginning sometime in FY16, but no estimates of that effect are readily available.

Senate	Dual Referral Rules	House
[x] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		[ ] 6.8(F) >= $500,000 Annual Fiscal Cost {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}

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