

2016 First Extraordinary Session

HOUSE BILL NO. 108

BY REPRESENTATIVE HUNTER

TAX/SEVERANCE-EXEMPTION: Suspends the severance tax exemption for the horizontal drilling of oil and natural gas from April 1, 2016, through December 31, 2020

1 AN ACT

2 To amend and reenact R.S. 47:633(7)(d)(introductory paragraph) and to enact R.S.
3 47:633(d)(iii), relative to severance tax exemptions; to suspend the severance tax
4 exemption for the horizontal drilling of oil and natural gas for a certain period of
5 time; to provide for an effective date; and to provide for related matters.

6 Be it enacted by the Legislature of Louisiana:

7 Section 1. R.S. 47:633(7)(d)(introductory paragraph) is hereby amended and
8 reenacted and R.S. 47:633(d)(iii) is hereby enacted to read as follows:

9 §633. Rates of tax

10 The taxes on natural resources severed from the soil or water levied by R.S.
11 47:631 shall be predicated on the quantity or value of the products or resources
12 severed and shall be paid at the following rates:

13 * * *

14 (7)

15 * * *

16 (d) There shall be an exemption from severance tax as provided in this
17 Subparagraph for production from any horizontally drilled well, or, on any
18 horizontally drilled recompletion well, from which production occurs on or after July
19 1, 2015, but before April 1, 2016. The exemption shall last for a period of twenty-

four months or until payout of the well cost is achieved, whichever comes first. For the purposes of this Section "horizontal drilling" shall mean high angle directional drilling of bore holes with fifty to three thousand plus feet of lateral penetration through productive reservoirs and "horizontal recompletion" shall mean horizontal drilling in an existing well bore. Payout of well cost shall be the cost of completing the well to the commencement of production as determined by the Department of Natural Resources.

* * *

(iii) The severance tax exemption for production from any horizontally drilled well or horizontally drilled recompletion well provided for in this Subparagraph shall be inapplicable, inoperable, and of no effect from April 1, 2016, through December 31, 2020.

* * *

Section 2. This Act shall become effective on April 1, 2016.

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)]

HB 108 Original

2016 First Extraordinary Session

Hunter

Abstract: Suspends the severance tax exemptions for the horizontal drilling of oil and natural gas occurring from horizontally drilled wells and recompletion wells from April 1, 2016, through Dec. 31, 2020.

Present law imposes a tax on natural resources severed from the soil or water based upon quantity or value of the products or resources severed. The severance tax rate for oil is 12.5% of value. The severance tax rate for natural gas is a minimum of 7¢ per 1,000 cubic feet but is subject to an annual rate adjustment based on the prior year's price of natural gas.

Present law, for purposes of the suspension of the severance tax on oil and natural gas, defines "horizontal drilling" as high angle directional drilling of bore holes with 50 to 3,000 plus feet of lateral penetration through productive reservoirs and "horizontal recompletion" shall mean horizontal drilling in an existing well bore.

Present law, for purposes of the severance tax exemption on oil production occurring from horizontally drilled wells and recompletion wells commenced on or after July 1, 2015, provides for a severance tax exemption based on the price of oil as determined by the secretary of the Dept. of Natural Resources on July 1st of each year for the ensuing 12 months based on the average New York Mercantile Exchange prices per barrel from the previous 12 months. The amount of the exemption for a horizontal well that produces oil shall be as follows:

- (1) No severance tax if the price of oil is at or below \$70 per barrel.
- (2) The exemption shall be 80% if the price is above \$70 and at or below \$80 per barrel.
- (3) The exemption shall be 60% if the price is above \$80 and at or below \$90 dollars per barrel.
- (4) The exemption shall be 40% if the price is above \$90 and at or below \$100 per barrel.
- (5) The exemption shall be 20% if the price is above \$100 and at or below \$110 per barrel.
- (6) There shall be no exemption if the price of oil exceeds \$110 per barrel.

Present law, for purposes of the severance tax exemption on natural gas production occurring from horizontally drilled wells and recompletion wells commenced on or after July 1, 2015, provides for a severance tax exemption based on the price of natural gas as determined by the secretary of the Dept. of Natural Resources on July 1st of each year for the ensuing 12 months based on the average New York Mercantile Exchange prices per million BTU per month from the previous 12 months. The amount of the exemption for a horizontal well that produces gas shall be as follows:

- (1) No severance tax if the price of natural gas is at or below \$4.50 per million BTU.
- (2) The exemption shall be 80% if the price is above \$4.50 per million BTU and at or below \$5.50 per million BTU.
- (3) The exemption shall be 60% if the price is above \$5.50 per million BTU and at or below \$6 per million BTU.
- (4) The exemption shall be 40% if the price is above \$6 per million BTU and at or below \$6.50 per million BTU.
- (5) The exemption shall be 20% if the price is above \$6.50 per million BTU and at or below \$7 per million BTU.
- (6) There shall be no exemption if the price of natural gas exceeds \$7 per million BTU.

Proposed law suspends the present law severance tax exemptions on oil and natural gas production occurring from horizontally drilled wells and recompletion wells from April 1, 2016, through Dec. 31, 2020.

Effective April 1, 2016.

(Amends R.S. 47:633(7)(d)(intro. para.); Adds R.S. 47:633(d)(iii))