LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 256** HLS 19RS 601
Bill Text Version: **REENGROSSED**
Opp. Chamb. Action: **w/ SEN COMM AMD**
Proposed Amd.:
Sub. Bill For.:
REVISED

Date: May 13, 2019 5:36 PM
Author: MORRIS, JIM
Dept./Agy.: Revenue
Subject: Severance Tax Exemption - Incapable Well Production
Analyst: Greg Albrecht

TAX/SEVERANCE TAX RE1 -$2,500,000 GF RV See Note
Provides with respect to the rate and exemption for the severance tax on oil produced from incapable wells

Present law imposes a severance tax on the production from incapable wells (no more than 25 barrels of oil and at least 50% salt water per producing day) of 6.25% of the value of the oil when severed.

Proposed law reduces the tax rate to 3.125% in any month when the average value is less than $75 per barrel. The Dept. of Revenue shall determine the oil value quarterly based on the average New York Mercantile Exchange Price in the prior three months. This price-based reduced-rate is available for nine and one-half years, from July 1, 2020 through December 31, 2029.

Effective upon governor's signature.

EXPENDITURES	2019-20	2020-21	2021-22	2022-23	2023-24	5 -YEAR TOTAL
State Gen. Fd.	SEE BELOW	$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**

REVENUES	2019-20	2020-21	2021-22	2022-23	2023-24	5 -YEAR TOTAL
State Gen. Fd.	$0	($2,100,000)	($2,100,000)	($2,100,000)	($2,100,000)	**($8,400,000)**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	($400,000)	($400,000)	($400,000)	($400,000)	**($1,600,000)**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**($2,500,000)**	**($2,500,000)**	**($2,500,000)**	**($2,500,000)**	**($10,000,000)**

EXPENDITURE EXPLANATION

The Department of Revenue will incur staff costs associated with modifications to the tax processing system to incorporate a new tax return necessary to implement the price-based exemption in this bill. These costs estimated at approximately $140,000 of staff time. Additional staff time costs associated with handling issues with taxpayers resulting from this change may also be incurred.

REVENUE EXPLANATION

Currently, these wells are subject to the incapable rate of 6.25% of value (1/2 the tax of full-rate production). Currently, these wells are producing approximately 1 million - 2 million barrels of oil per year, and are being exempted from approximately $5 million of severance tax per year ($5.1 million in FY18).

Oil prices are currently less than $75/bbl, and are not expected to exceed that price during the fiscal note horizon. Thus, the bill is expected to reduce the tax rate imposed on these wells from their current level of tax (6.25%) to one-half that rate (3.125%), resulting in a revenue loss of some $2.5 million per year. Modestly rising oil price projections are assumed to offset declining production over time. The price determination is to be made on a quarterly basis, and in some portions of a year this production could be exempt, and in some portions taxable. Should periods occur with oil prices greater than $75 per barrel, this oil will become taxable at the current law tax rate of 6.25%, generating severance tax collections consistent with current law for those periods.

The bill's reduced rate is available beginning with FY21. Beginning in FY21, relative to the current law baseline of collections, full-year losses occur as a result of the oil price test discussed above. Approximately 84% of annual losses will affect the state general fund ($2.1 million), with 14% affecting the parish severance tax allocation ($350,000) and 2% the wetlands fund allocation ($50,000).

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}		☐ 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
☒ 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}

John D. Carpenter
Legislative Fiscal Officer