LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office — Fiscal Notes

Fiscal Note On: **HB 26** HLS 21RS 71
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 1, 2021 12:30 PM
Author: MCCORMICK
Dept./Agy.: Revenue
Subject: Severance Tax Exemption - Stripper Well Oil Production
Analyst: Greg Albrecht

TAX/SEVERANCE-EXEMPTION OR -$3,900,000 GF RV See Note
Provides with respect to the severance tax exemption for stripper wells

Current law imposes a severance tax on the production from stripper wells (no more than 10 barrels of oil per producing day) of 3.125% of the value of the oil when severed. This tax is exempted in any month when the average value is less than $20 per barrel.

Proposed law will exempt the tax on oil produced from stripper wells in any month when the average value is less than $75 per barrel.

EXPENDITURES	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**5 -YEAR TOTAL**
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
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						

REVENUES	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**5 -YEAR TOTAL**
State Gen. Fd.	($3,075,000)	($3,354,000)	($3,354,000)	($3,354,000)	($3,354,000)	**($16,491,000)**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	($501,000)	($546,000)	($546,000)	($546,000)	($546,000)	**($2,685,000)**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**($3,576,000)**	**($3,900,000)**	**($3,900,000)**	**($3,900,000)**	**($3,900,000)**	**($19,176,000)**

EXPENDITURE EXPLANATION

The Department of Revenue will incur staff costs associated with modifications to the tax processing system to incorporate the new price threshold in this bill. These costs for programing and testing are typically estimated as a few thousand dollars of staff time. Additional staff time costs associated with handling issues with taxpayers resulting from this change will also likely be incurred if the monthly price of oil approximates the price threshold.

REVENUE EXPLANATION

The current exemption was enacted by Act 2 of 1994, resulting in intermittent months of tax exemption from FY95 through FY99. Since then, oil prices have generally exceeded $20/bbl and these wells have been subject to the stripper rate of 3.125% of value (1/4 the tax of full-rate production). Over the last four fiscal years (FY17-FY20), these wells have been producing approximately 4 million barrels of oil per year, and being exempted from approximately $20.6 million of severance tax per year (3.7 million barrels and $18.8 million in FY20) relative to the full-rate tax of 12.5% of value.

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 exempt these wells from their current level of tax payment, some $3.9 million per year (FY22 assumes an August 1 effectiveness since the bill contains no effective date). This reflects lower volumes and tax revenue than the pre-covid pandemic period, but are exhibiting typical modest variation around new normal average levels that have stepped back up after the demand destruction of the trough of the recent covid recession.

On the full-year basis of FY20 actual collections, approximately 86% of annual severance tax reductions will affect the state general fund ($3.354 million), with 11% affecting the parish severance tax allocation ($429,000) and 3% the wetlands fund allocation ($117,000). Some portion of this exempted production may occur on state lands/waterbottoms, potentially resulting in a small royalty gain offset (less than 1%) to the severance tax losses estimated above.

While a severance tax exemption is similar to a price increase for producers, research by the LSU Center for Energy Studies finds that oil and natural gas production are relatively unresponsive to price changes, and therefore severance tax rates. Specifically, oil production from new wells (one year of age or less) is estimated to increase by 6.2 percent in response to a 10 percent increase in prices in the long run. A statistically significant response of total production to prices in Louisiana is not observed in the long run. A state unilaterally changing severance tax rates may exhibit greater production response, but this research is focused on activity located very close to state borders, and still finds the response to be small. This bill targets stripper production in particular, and it seems unlikely that exemption from a low tax rate on low volume wells will elicit material additional or new well drilling and production over a fiscal note horizon. Thus, the bill is likely to result in revenue losses as estimated above.

Senate — Dual Referral Rules

- [ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}
- [x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}

House

- [ ] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
- [ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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