
DIGEST

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HB 364 Engrossed

2017 Regular Session

Ivey

Abstract: Decreases the severance tax rate for oil, distillate, condensate, or similar natural resources severed from the soil or water and extends the duration of the exemption for production from a horizontally drilled well from 2 to 5 years, and specifies a value for the exemption.

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. The severance tax rate for distillate, condensate, or similar natural resources severed from the soil or water either with oil or gas is 12.5% of value.

Proposed law changes present law by reducing the tax rate on oil from 12.5% to 8% of value, and reducing the tax rate on distillate, condensate, or similar natural resources severed from the soil or water either with oil or gas from 12.5% to 8% of value.

Present law establishes an exemption from severance tax for oil production from a horizontally drilled well or horizontally drilled recompletion well that commences production on or after July 1, 2015. The duration of the exemption is 24 months or until payout, whichever occurs first. The amount of the exemption is based upon 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 horizontally drilled well or recompletion well that produces oil shall be as follows:

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

Present law establishes an exemption from severance tax for natural gas production from a horizontally drilled well or horizontally drilled recompletion well that commences production on or after July 1, 2015. The amount of the exemption is based upon 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 horizontally drilled well or recompletion well that produces natural gas shall be as follows:

- (1) 100% if the price of natural gas is at or below \$4.50 per million BTU.
- (2) 80% if the price is above \$4.50 per million BTU and at or below \$5.50 per million BTU.
- (3) 60% if the price is above \$5.50 per million BTU and at or below \$6 per million BTU.
- (4) 40% if the price is above \$6 per million BTU and at or below \$6.50 per million BTU.
- (5) 20% if the price is above \$6.50 per million BTU and at or below \$7 per million BTU.
- (6) No exemption if the price of natural gas exceeds \$7 per million BTU.

Proposed law changes present law by extending the duration of the exemption from 24 months or until payout to 60 months or until payout. The amount of the exemption is changed from variable based on the price of the commodity to 50% of the tax rate.

Proposed law specifies that the exemption for horizontal drilling does not apply to a well certified by the Dept. of Natural Resources as an incapable or stripper well.

Effective if and when the proposed amendment of Article VII of the Constitution of La. contained in the Act which originated as House Bill No. 356 of this 2017 R.S. of the Legislature is adopted at a statewide election and becomes effective and if and when House Bill Nos. 357, 358, 359, 360, 361, 362, and 363 of this 2017 R.S. are enacted and become effective.

(Amends R.S. 47:633(7)(a) and (d)(intro. para.) and (8); Repeals R.S. 47:633(7)(d)(i) and (ii))

Summary of Amendments Adopted by House

The Committee Amendments Proposed by House Committee on Ways and Means to the original bill:

1. Provides that the exemption for horizontal drilling does not apply to a well certified by the Dept. of Natural Resources as an incapable or stripper well.
2. Adds contingent effectiveness for proposed law if HB356, 357, 358, 359, 360, 361, 362, and 363 of this 2017 R.S. become effective.