LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 256** HLS 19RS 601
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 16, 2019 8:44 AM
Author: MORRIS, JIM
Dept./Agy.: Revenue
Subject: Severance Tax Exemption - Incapable Well Production
Analyst: Greg Albrecht

TAX/SEVERANCE TAX OR -$5,000,000 RV See Note
Provides with respect to the rate and exemption for the severance tax on oil produced from incapable wells

Current 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 will suspend the tax in any month when the average value is less than $75 per barrel. This exemption is available for ten years, from July 1, 2019 through June 30, 2029.

Effective upon governor's signature.

EXPENDITURES	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**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	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**5 -YEAR TOTAL**
State Gen. Fd.	($4,200,000)	($4,200,000)	($4,200,000)	($4,200,000)	($4,200,000)	**($21,000,000)**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	($800,000)	($800,000)	($800,000)	($800,000)	($800,000)	**($4,000,000)**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**($5,000,000)**	**($5,000,000)**	**($5,000,000)**	**($5,000,000)**	**($5,000,000)**	**($25,000,000)**

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.

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 exempt these wells from their current level of tax payment, some $5 million per year. Modestly rising oil price projections are assumed to offset declining production to result in approximately $5 million per year of foregone severance tax receipts. Approximately 84% of that annual loss will affect the state general fund ($4.2 million), with 14% affecting the parish severance tax allocation ($700,000) and 2% the wetlands fund allocation ($100,000).

Senate | Dual Referral Rules | House

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

John D. Carpenter
Legislative Fiscal Officer