

**LEGISLATIVE FISCAL OFFICE
Fiscal Note**



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

| | | |
|---|---------|-------------------------------|
| Date: May 5, 2019 | 3:35 PM | Author: MORRIS, JIM |
| Dept./Agy.: Revenue | | Analyst: Greg Albrecht |
| Subject: Severance Tax Exemption - Incapable Well Production | | |

TAX/SEVERANCE TAX RE -\$5,000,000 GF RV See Note Page 1 of 1
 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 will suspend the tax 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 exemption is available for ten years, from January 1, 2020 through December 31, 2029.

Effective upon governor's signature.

| EXPENDITURES | <u>2019-20</u> | <u>2020-21</u> | <u>2021-22</u> | <u>2022-23</u> | <u>2023-24</u> | <u>5 -YEAR TOTAL</u> |
|---------------------|----------------|----------------|----------------|----------------|----------------|----------------------|
| 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 | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | \$0 |
| Annual Total | | \$0 | \$0 | \$0 | \$0 | \$0 |

| REVENUES | <u>2019-20</u> | <u>2020-21</u> | <u>2021-22</u> | <u>2022-23</u> | <u>2023-24</u> | <u>5 -YEAR TOTAL</u> |
|---------------------|----------------------|----------------------|----------------------|----------------------|----------------------|-----------------------|
| State Gen. Fd. | (\$2,100,000) | (\$4,200,000) | (\$4,200,000) | (\$4,200,000) | (\$4,200,000) | (\$18,900,000) |
| Agy. Self-Gen. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Ded./Other | (\$400,000) | (\$800,000) | (\$800,000) | (\$800,000) | (\$800,000) | (\$3,600,000) |
| Federal Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Local Funds | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | \$0 |
| Annual Total | (\$2,500,000) | (\$5,000,000) | (\$5,000,000) | (\$5,000,000) | (\$5,000,000) | (\$22,500,000) |

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 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. The price/exemption 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.

Half-year effects are assumed for FY20 since the bill's exemption is available beginning with the second half of FY20. On a full-year basis, 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
 13.5.1 >= \$100,000 Annual Fiscal Cost {S & H}
 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}

John D. Carpenter
Legislative Fiscal Officer