



**LEGISLATIVE FISCAL OFFICE
Fiscal Note**

Fiscal Note On: **HB 634** HLS 23RS 1347
 Bill Text Version: **REENGROSSED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

| | |
|---|--------------------------------|
| Date: May 12, 2023 8:37 AM | Author: MCFARLAND |
| Dept./Agy.: Revenue/Natural Resources | Analyst: Deborah Vivien |
| Subject: Determines date production begins on deep wells | |

TAX/SEVERANCE TAX RE DECREASE GF RV See Note Page 1 of 1
 Provides relative to a severance tax exemption for deep-well oil and gas production

Current law provides a 100% exemption from oil and gas severance tax for deep wells (true vertical depth greater than 15,000 feet) for 24 months commencing on the date production begins (also considered initial completion date by current practice) and lasting for the lesser of 24 months or the payout of the well cost.

Proposed law designates deep water well production as commercial production for purposes of the exemption. Proposed law allows the date production begins to be a date subsequent to the well completion date and shall be the first day the well produces into permanent production equipment and the facilities have been constructed to process and deliver the product to a sales point. Certain tests or other related production shall not be deemed to begin the exemption period, even if the date is classified as active production by the Department of Natural Resources (DNR). Effective upon signature.

| EXPENDITURES | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 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 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 5 -YEAR TOTAL |
|---------------------|----------------|----------------|----------------|----------------|----------------|----------------------|
| State Gen. Fd. | DECREASE | DECREASE | DECREASE | DECREASE | DECREASE | |
| 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 | DECREASE | DECREASE | DECREASE | DECREASE | DECREASE | |
| Annual Total | | | | | | |

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION

The bill may reduce state general fund as the date the exemption begins could become a later date than the well completion date that is currently used. If the exemption begins at a later date, the 100% exemption could extend beyond the 24 months that is currently considered. The impact will depend on the lag between the well completion date and the date production begins, as defined in the bill. If there is a small lag between the dates, the impact to severance tax collections should be small. If there is a long lag between the dates, the impact to severance tax collections should be larger. Deep wells contribute a minimal amount of oil and gas severance. It is not clear how much more severance will be exempted should the 24 month exemption be situated over a different time period, as this bill would allow.

According to LDR and the Tax Exemption Budget, this exemption has been valued at \$2.6 M in FY 20, \$537,000 in FY 21 and \$1.6 M in FY 22, and since 2016 less than 10 taxpayers have applied for the exemption for less than 15 wells. Depending on how far the date production begins is subsequent to the initial well completion date to begin the 24 months of exemption, some indeterminate portion of these amounts may reduce state general fund as the exemption could extend over a longer timeframe.

To the extent severance tax collections are reduced, parish severance allocations in which the impacted deep wells are located will also decrease. If impacted deep wells are located on state lands, increases in royalty payments may offset some state severance loss.

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}

Alan M. Boxberger
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Interim Legislative Fiscal Officer