DIGEST

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HB 107 Original 2016 First Extraordinary Session Hunter

Abstract: Changes the severance tax exemption for production of oil and natural gas from horizontally drilled wells and horizontally drilled recompletion wells by reducing the maximum percentage of exemption and dollar thresholds for the extent of 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.

Present law provides for the suspension of a percentage of the levy of severance tax on production from a horizontally drilled well or horizontally drilled recompletion well for a period of 24 months or until payout of the well cost is achieved, whichever comes first, commonly known as the "horizontal well exemption".

Present law, for purposes of the exemption, defines "horizontal drilling" as high angle directional drilling of bore holes with 50 to 3,000 plus feet of lateral penetration through productive reservoirs, and "horizontal recompletion" shall mean horizontal drilling in an existing well bore.

Present law for the severance tax exemption on oil production from horizontally drilled wells and recompletion wells commencing on or after July 1, 2015, establishes tiered values for the exemption based upon Crude Oil Spot Prices in nominal dollars, and West Texas Intermediate Spot prices per barrel as adopted by the Energy Information Administration (EIA) and published in the Annual Energy Outlook (AEO) report. The amount of the exemption is as follows:

(1) No severance tax if the price of oil is at or below $70 per barrel.

(2) The tax rate is reduced by 80% if the price is above $70 and at or below $80 per barrel.

(3) The tax rate is reduced by 60% if the price is above $80 and at or below $90 dollars per barrel.

(4) The tax rate is reduced by 40% if the price is above $90 and at or below $100 per barrel.

(5) The tax rate is reduced by 20% if the price is above $100 and at or below $110 per barrel.

(6) There is no exemption if the price of oil exceeds $110 per barrel.

Proposed law changes present law by reducing the percentages of exemption and the dollar value thresholds as follows:

(1) If oil is at or below $70 per barrel, the exemption is changed from 100% to 80%.

(2) If oil is above $70 per barrel and at or below $80 per barrel, the exemption is changed from 80% to 60%.

(3) If oil is above $80 per barrel and at or below $90 per barrel, the exemption is changed from 60% to 40%.

(4) If oil is above $90 per barrel and at or below $100 per barrel, the exemption is changed from 40% to 20%.

(5) The price level at which there is no exemption is reduced from $110 per barrel to $100 per barrel.

Present law for the severance tax exemption on natural gas production from horizontally drilled wells and recompletion wells commencing on or after July 1, 2015, establishes tiered values for the exemption based upon the Natural Gas Spot Price at Henry Hub, nominal dollars per million BTU, adopted by the EIA and published in the AEO report. The amount of the exemption shall be as follows:

(1) No severance tax if the price of natural gas is at or below $4.50 per million BTU.

(2) The tax rate is reduced by 80% if the price is above $4.50 per million BTU and at or below $5.50 per million BTU.

(3) The tax rate is reduced by 60% if the price is above $5.50 per million BTU and at or below $6.00 per million BTU.

(4) The tax rate is reduced by 40% if the price is above $6 per million BTU and at or below $6.50 per million BTU.

(5) The tax rate is reduced by 20% if the price is above $6.50 per million BTU and at or below $7 per million BTU.

(6) There is no exemption if the price of natural gas exceeds $7 per million BTU.

Proposed law changes present law by reducing the percentages of exemption and the dollar value thresholds as follows:

(1) If the price of natural gas is at or below $4.50 per million BTU, the exemption is reduced from 100% to 80%.

(2) If the price is above \$4.50 per million BTU and at or below \$5.50 per million BTU, the exemption is reduced from 80% to 60%.

(3) If the price is above \$5.50 per million BTU and at or below \$6 per million BTU, the exemption is reduced from 60% to 40%.

(4) If the price is above \$6 per million BTU and at or below \$6.50 per million BTU, the exemption is reduced from 40% to 20%.

(5) The price at which there is no exemption is reduced from \$7 per million BTU to \$6.50 per million BTU.

Present law and proposed law are repealed Dec. 31, 2020, thereby eliminating the exemption from severance tax on oil and natural gas.

Applicable to production occurring on and after July 1, 2015.

Sections 1, 3, and 4 of this Act are effective April 1, 2016.

Section 2 of this Act is effective December 31, 2020.

(Amends R.S. 47:633(7)(d); Repeals R.S. 47:633(7)(d))