LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office Fiscal Notes

Fiscal Note On: **HB 188** HLS 19RS 256
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 16, 2019 8:43 AM
Author: MORRIS, JIM
Dept./Agy.: Revenue
Subject: Severance Tax Exemption - Stripper Well Production
Analyst: Greg Albrecht

TAX/SEVERANCE TAX OR -$7,000,000 RV See Note

Provides with respect to the exemption from severance tax on oil produced from stripper wells

Current law imposes a severance tax on the production from stripper wells (no more than 10 barrels of oil per producing day) of 3.125% of the value of the oil when severed. This tax suspended in any month when the average value is less than $20 per barrel.

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.	($5,880,000)	($5,880,000)	($5,880,000)	($5,880,000)	($5,880,000)	**($29,400,000)**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	($1,120,000)	($1,120,000)	($1,120,000)	($1,120,000)	($1,120,000)	**($5,600,000)**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**($7,000,000)**	**($7,000,000)**	**($7,000,000)**	**($7,000,000)**	**($7,000,000)**	**($35,000,000)**

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

The current exemption was enacted by Act 2 of 1994, resulting in intermittent months of tax exemption from FY95 through FY99. Since then, oil prices have generally exceeded $20/bbl and these wells have been subject to the stripper rate of 3.125% of value (1/4 the tax of full-rate production). Currently, these wells are producing approximately 4 million - 4.5 million barrels of oil per year, and being exempted from approximately $19 million - $22 million of severance tax per year ($21.4 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 $6 million to $7.5 million per year ($7.3 million in FY18). Modestly rising oil price projections are assumed to offset modestly declining production to result in approximately $7 million per year of foregone severance tax receipts. Approximately 84% of that annual loss will affect the state general fund ($5.880 million), with 14% affecting the parish severance tax allocation ($980,000) and 2% the wetlands fund allocation ($140,000).

Senate	Dual Referral Rules	House
☐	13.5.1 >= $100,000 Annual Fiscal Cost {S & H}	☐ 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
☒	13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}	☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

John D. Carpenter
Legislative Fiscal Officer