LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 506** HLS 20RS 332
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:

Proposed Amd.:
Sub. Bill For.:

Date: April 20, 2020 1:40 PM
Author: DEVILLIER
Dept./Agy.: Revenue
Subject: Reduce Oil Severance Tax Rate
Analyst: Greg Albrecht

TAX/SEVERANCE TAX OR DECREASE GF RV See Note

Reduces the severance tax rate for oil over a certain period of time and clarifies the severance tax rate for oil produced from certain incapable wells

Present law imposes a severance tax rate on most oil produced in the state at 12.5% of value. Wells producing less than 25 barrels per day and at least 50% salt water per day pay one-half the tax rate (incapable wells, 6.25%). Wells producing less than 10 barrels per day pay one-quarter the tax rate (stripper wells, 3.125%).

Proposed law reduces the full-rate from 12.5% to 8.5% in one-half percent increments by July 1, 2028. The tax rate will be 12% for FY22, 11.5% for FY23, 11% for FY24, 10.5% FY25, 10% for FY26, 9.5% for FY27, 9% for FY28, and 8.5% for FY29 and thereafter. The current tax rates on incapable and stripper well production are retained at 6.25% and 3.125%, respectively.

Effective upon governor's signature.

EXPENDITURES	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**5 -YEAR TOTAL**
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
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						

REVENUES	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	($13,600,000)	($28,100,000)	($42,100,000)	($56,200,000)	**($140,000,000)**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	($1,100,000)	($2,300,000)	($3,400,000)	($4,600,000)	**($11,400,000)**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**($14,700,000)**	**($30,400,000)**	**($45,500,000)**	**($60,800,000)**	**($151,400,000)**

EXPENDITURE EXPLANATION

The Dept. of Revenue estimates that it will incur some $103,000 of staff time cost to modify the tax administration system to incorporate the annual tax rate changes in the bill. Some additional costs will occur each year that the bill changes the severance tax rate. Such costs are typically absorbed by the Dept. initially, but become a component of budget funding as legislative changes accumulate.

REVENUE EXPLANATION

Based on the current official REC forecasts of mineral revenue, and the FY19 share of severance tax attributable to oil (61%), the phase-down of the full-rate 12.5% tax rate, as provided in the bill, results in state severance tax revenue losses of some $15 million in FY22, growing to $61 million by FY25, and further growing to $122 million by FY29 when the tax rate phase-down is complete. This revenue loss would be shared with local parish governments through the constitutional parish severance tax allocation. Parish severance tax allocation losses are estimated at $1 million in FY22, growing to $5 million by FY25, and further growing to $9 million by FY29. The balance of the total severance tax revenue loss and the parish severance tax allocation loss is the state general fund severance tax loss; ranging from some $14 million in FY22, and growing to $57 million by FY25, and further growing to $113 million by FY29.

Since production on state lands and waterbottoms pays severance tax as well, and state royalty receipts are adjusted for their share of the severance tax, the bill's severance tax reduction results in a relatively small gain in state royalty receipts, shared with parish governments through the constitutional parish royalty allocation (10% of royalties attributable to production with each parish). State general fund royalty gains are estimated at some $98,000 in FY22, growing to $406,000 by FY25, and further growing to $812,000 by FY29. Parish royalty allocation gains are estimated at some $11,000 in FY22, growing to $45,000 by FY25, and further growing to $90,000 by FY29.

Over the fiscal note horizon, the net effect to the state general fund and the dedicated parish allocations is shown in the table above. By FY29, net state general fund losses are $112.3 million, and net dedicated parish allocation losses are $9.1 million.

However, specific estimates of state general fund loss and dedicated parish allocation losses provided in the table above are not reliable at this time because the bill's effect follows a period of unprecedented volatility of uncertain duration in the world oil market as a result of global demand weakness from the Covid-19 virus pandemic, and a global supply glut resulting from a market share competition between Saudi Arabia and Russia. Total state mineral revenue receipts and constitutional parish allocations will be substantially impacted by these events for the foreseeable future, and revenue forecasts have not yet been revised to incorporate this outlook. However, the bill can only result in a significant loss of state severance tax receipts and parish allocation amounts from what would otherwise be the case.

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}

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