

---

## DIGEST

The digest printed below was prepared by House Legislative Services. It constitutes no part of the legislative instrument. The keyword, one-liner, abstract, and digest do not constitute part of the law or proof or indicia of legislative intent. [R.S. 1:13(B) and 24:177(E)]

---

HB 506 Engrossed

2020 Regular Session

DeVillier

**Abstract:** Reduces the severance tax rate on oil over an eight-year period from 12.5% to 8.5% of its value at the time and place of severance, clarifies the severance tax rate for oil produced from certain incapable wells, and authorizes further reductions to the severance tax rate for oil and natural gas if certain conditions are met.

Present law provides for the levy of an excise tax on natural resources severed from the soil or water, the rate for which shall be predicated on the quantity or value of the products or resources severed.

Present law provides that the tax rate on oil is 12.5% of its value at the time and place of severance. The value of the oil shall be the higher of the gross receipts received from the first purchaser, less charges for trucking, barging and pipeline fees, or the posted field price.

Proposed law reduces the tax rate on oil over an eight-year period from 12.5% as follows:

- (1) For taxable periods beginning on or after July 1, 2021, and before July 1, 2022, to 12%.
- (2) For taxable periods beginning on or after July 1, 2022, and before July 1, 2023, to 11.5%.
- (3) For taxable periods beginning on or after July 1, 2023, and before July 1, 2024, to 11%.
- (4) For taxable periods beginning on or after July 1, 2024, and before July 1, 2025, to 10.5%.
- (5) For taxable periods beginning on or after July 1, 2025, and before July 1, 2026, to 10%.
- (6) For taxable periods beginning on or after July 1, 2026, and before July 1, 2027, to 9.5%.
- (7) For taxable periods beginning on or after July 1, 2027, and before July 1, 2028, to 9%.
- (8) For taxable periods beginning on or after July 1, 2028, to 8.5%.

Proposed law authorizes the reduction of the severance tax rate for oil from 12.5% to 2% during the period of July 1, 2020, through June 30, 2021, if the price of oil falls below \$30 per barrel at any time during that period. The 2% severance tax rate shall be applicable only when the price of oil falls below \$30 per barrel.

Present law provides for a reduced severance tax rate of 6.25% for oil produced from a well

classified by the commissioner of conservation as an oil well, and determined by the Dept. of Revenue (DOR) that the well is incapable of producing an average of more than 25 barrels of oil per producing day during the entire taxable month, and which also produces at least 50% salt water per day. Further requires such a well to be defined, for severance tax purposes, as an incapable well, provided that the well has been certified by DOR as incapable of production on or before the 25th day of the second month following the month of production.

Proposed law retains present law.

Present law provides for a reduced severance tax rate of 3.125% for oil produced from a well classified by the commissioner of conservation as an oil well, and certified by DOR that the well is incapable of producing an average of more than 10 barrels of oil per producing day during the entire taxable month. Further requires such a well to be defined, for severance tax purposes, as a stripper well, provided that the well has been certified by DOR as a stripper well on or before the 25th day of the second month following the month of production.

Proposed law retains present law.

Present law provides that the rate of the severance tax levied on natural gas shall be seven cents per thousand cubic feet; however, this rate shall be annually adjusted on July 1<sup>st</sup> for the ensuing 12 calendar months in accordance with the gas base rate adjustment which is determined by the secretary of the Dept. of Natural Resources. Present law prohibits the severance tax rate to be less than seven cents per thousand cubic feet.

Proposed law authorizes a narrow exception to the prohibition of the severance tax rate on natural gas to be less than seven cents per thousand cubic feet during the period of July 1, 2020, through June 30, 2021. During this period, if the price of natural gas falls below \$1.90 per thousand cubic feet, the rate of the tax for natural gas shall be reduced by 80%. This reduced rate shall be applicable only when the price of natural gas falls below \$1.90 per thousand cubic feet.

Effective upon signature of governor or lapse of time for gubernatorial action.

(Amends R.S. 47:633(7)(a), (b), and (c)(i)(aa) and (9)(a)(ii) and (d)(i))

#### Summary of Amendments Adopted by House

The Committee Amendments Proposed by House Committee on Ways and Means to the original bill:

1. Specify that the date ranges for the graduated reduction in the severance tax rate for oil refer to taxable periods.
2. Authorize the reduction in the severance tax rate for oil to 2% of its value at the time and place of severance if the price of oil falls below \$30 per barrel at any time from July 1, 2020, through June 30, 2021. This 2% severance tax rate shall be applicable only during

the time that the price of oil falls below \$30 per barrel.

3. Authorize an 80% reduction in the severance tax rate for natural gas if the price of natural gas falls below \$1.90 per thousand cubic feet at any time from July 1, 2020, through June 30, 2021. This 80% severance tax rate reduction shall be applicable only during the time that the price of natural gas falls below \$1.90 per thousand cubic feet.