2020 Regular Session

HOUSE BILL NO. 506

BY REPRESENTATIVE DEVILLIER

TAX/SEVERANCE TAX: Reduces the severance tax rate for oil over a certain period of time, clarifies the severance tax rate for oil produced from certain incapable wells, and authorizes the reduction of the severance tax rate on natural gas

AN ACT

To amend and reenact R.S. 47:633(7)(a), (b), and (c)(i)(aa), relative to severance tax; to reduce the severance tax rate on oil over a certain period of time; to clarify the severance tax rate on oil produced from certain wells; to provide for certain limitations; to provide for an effective date; and to provide for related matters.

Be it enacted by the Legislature of Louisiana:

Section 1. R.S. 47:633(7)(a), (b), and (c)(i)(aa) are hereby amended and reenacted to read as follows:

§633. Rates of tax

The taxes on natural resources severed from the soil or water levied by R.S. 47:631 shall be predicated on the quantity or value of the products or resources severed and shall be paid at the following rates:

* * *

(7)(a)(i) On oil ~~twelve and one-half percentum of its value at the time and place of severance~~, at the following rate:

(aa) For taxable periods beginning on or after January 1, 2020, and before July 1, 2021, twelve and one-half percent of its value at the time and place of severance.

CODING: Words in ~~struck through~~ type are deletions from existing law; words underscored are additions.

(bb) For taxable periods beginning on or after July 1, 2021, and before July 1, 2022, twelve percent of its value at the time and place of severance.

(cc) For taxable periods beginning on or after July 1, 2022, and before July 1, 2023, eleven and one-half percent of its value at the time and place of severance.

(dd) For taxable periods beginning on or after July 1, 2023, and before July 1, 2024, eleven percent of its value at the time and place of severance.

(ee) For taxable periods beginning on or after July 1, 2024, and before July 1, 2025, ten and one-half percent of its value at the time and place of severance.

(ff) For taxable periods beginning on or after July 1, 2025, and before July 1, 2026, ten percent of its value at the time and place of severance.

(gg) For taxable periods beginning on or after July 1, 2026, and before July 1, 2027, nine and one-half percent of its value at the time and place of severance.

(hh) For taxable periods beginning on or after July 1, 2027, and before July 1, 2028, nine percent of its value at the time and place of severance.

(ii) For taxable periods beginning on or after July 1, 2028, and thereafter, eight and one-half percent of its value at the time and place of severance.

(ii) ~~Such~~ The value shall be the higher of (1) the gross receipts received from the first purchaser, less charges for trucking, barging and pipeline fees, or (2) the posted field price. In the absence of an arms length transaction or a posted field price, the value shall be the severer's gross income from the property as determined by R.S. 47:158(C).

(b) On oil produced from a well classified by the commissioner of conservation as an oil well, and determined by the collector of revenue that such well is incapable of producing an average of more than twenty-five barrels of oil per producing day during the entire taxable month, and which also produces at least fifty percent salt water per day, the tax rate applicable to the oil severed from such well shall be ~~one-half of the rate set forth in Subparagraph (a) of this Paragraph~~ six and one-quarter percent of its value at the time and place of severance and such well shall be defined, for severance tax purposes, as an incapable well, provided that such well has been certified by the Department of Revenue as incapable of such production on or before the twenty-fifth day of the second month following the month of production. Oil severed from a multiple well lease or property is not subject to the reduced rate of tax provided for herein, unless all such wells are certified as incapable.

(c)(i)(aa) On oil produced from a well classified by the commissioner of conservation as an oil well, and certified by the Department of Revenue that such well is incapable of producing an average of more than ten barrels of oil per producing day during the entire taxable month, the tax rate applicable to the oil severed from such well shall be ~~one-quarter of the rate set forth in Subparagraph (a) of this Paragraph~~ <u>three and one hundred twenty-five thousandths percent of its value at the time and place of severance</u> and such well shall be defined, for severance tax purposes, as a stripper well, provided that such well has been certified by the Department of Revenue as a stripper well on or before the twenty-fifth day of the second month following the month of production. Once a well has been certified and determined to be incapable of producing an average of more than ten barrels of oil per producing day during an entire month, such stripper well shall remain certified as a stripper well until the well produces an average of more than ten barrels of oil per day during an entire calendar month.

* * *

Section 2. This Act shall become effective upon signature by the governor or, if not signed by the governor, upon expiration of the time for bills to become law without signature by the governor, as provided by Article III, Section 18 of the Constitution of Louisiana. If vetoed by the governor and subsequently approved by the legislature, this Act shall become effective on the day following such approval.

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 Reengrossed 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 and clarifies the severance tax rate for oil produced from certain incapable wells.

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%.

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.

<u>Present law</u> 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.

<u>Proposed law</u> retains <u>present law</u>.

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

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

<u>Summary of Amendments Adopted by House</u>

The Committee Amendments Proposed by <u>House Committee on Ways and Means</u> to the <u>original</u> 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 <u>to</u> 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.

The Committee Amendments Proposed by <u>House Committee on Appropriations</u> to the <u>engrossed</u> bill:

1. Remove the provision reducing the severance tax rate for oil <u>to</u> 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.

2. Remove the provision providing 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.