2021 Regular Session

HOUSE BILL NO. 661

BY REPRESENTATIVES COUSSAN AND BRYANT

TAX/SEVERANCE-EXEMPTION: Exempts oil production of certain newly drilled wells from severance tax

AN ACT

To enact R.S. 47:633(7)(e), relative to certain severance tax exemptions; to provide for a tax exemption on oil produced from certain newly drilled wells; to provide for the amount of the exemption; to provide for applicability; to provide for definitions; to provide for effectiveness; to provide for certain requirements and limitations; and to provide for related matters.

Be it enacted by the Legislature of Louisiana:

Section 1. R.S. 47:633(7)(e) is hereby enacted 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)

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<u>(e)(i) There shall be an exemption from the severance tax levied in this Part on oil production from newly drilled wells, excluding horizontally drilled wells, when production commences on or after January 1, 2022, and on or before December 31, 2024.</u>

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

(ii)(aa) The exemption for a newly drilled well shall last for a period of twelve months or until payout of the well cost is achieved, whichever occurs first.

(bb) For purposes of this Subparagraph, the exemption period shall begin the first day of the month after the operator notifies the Department of Revenue that production has commenced. Notification shall be in a form approved by the secretary of the Department of Revenue.

(iii) There shall be no more than one exemption authorized pursuant to this Subparagraph for any wellhead.

(iv) No later than March 1, 2024, the Department of Revenue shall report the number and cost of exemptions claimed pursuant to this Subparagraph to the House Committee on Ways and Means and the Senate Committee on Revenue and Fiscal Affairs.

(v) An operator that has been found to be in violation of Statewide Order 29-B, Subpart 1 of Part XIX of Title 43 of the Louisiana Administrative Code, shall not be eligible for the exemption authorized pursuant to this Subparagraph if the office of conservation is authorized to withhold a permit application from the operator pursuant to R.S. 30:94.

(vi)(aa) Payout of the well cost occurs when gross revenue from the well, less royalties and operating costs directly attributable to the well, equals the well cost.

(bb) For the purposes of this Subparagraph, well costs shall equal the cost of completing the well to the commencement of production or the cost of well enhancements, as determined by the Department of Natural Resources.

(cc) For the purposes of this Subparagraph, operating costs shall be limited to those costs directly attributable to the operation of the exempt well, including but not limited to direct materials, supplies, fuel, direct labor, contract labor or services, repairs, maintenance, property taxes, insurance, depreciation, and any other costs that can be directly attributed to the operation of the well. Where applicable, the calculation of such costs shall begin from the date that the Department of Natural

<u>Resources permitted operation is complete and production is established. Operating costs shall not include any costs that were included in the well cost approved by the office of conservation.</u>

<u>(vii) Interest on a refund of severance tax to an operator whose well qualifies for the exemption provided in this Subparagraph shall be paid in accordance with R.S. 47:1624(A)(2).</u>

* * *

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 661 Original 2021 Regular Session Coussan

Abstract: Exempts from severance tax oil produced from certain newly drilled wells.

<u>Present law</u> imposes a tax on natural resources severed from the soil or water based upon quantity or value of the products or resources severed.

<u>Present law</u> establishes a severance tax on oil at a rate of 12.5% of its value at the time and place of severance. The value is the higher of: (1) gross receipts received from the first purchaser, less charges for trucking, barging and pipeline fees, or (2) the posted field price.

<u>Proposed law</u> creates an exemption for oil produced from any newly drilled well, excluding horizontally drilled wells, when production occurs on or after Jan. 1, 2022, and on or before Dec. 31, 2024.

<u>Proposed law</u> provides that the exemption for a newly drilled well lasts for a period of 12 months or until payout is achieved, whichever occurs first.

<u>Proposed law</u> provides the exemption period begins the first day of the month after the operator notifies the Dept. of Revenue that new or post enhancement production has commenced. <u>Proposed law</u> also provides that there may be no more than one exemption per wellhead.

<u>Proposed law</u> requires, no later than March 1, 2024, the Dept. of Revenue to report the number and cost of exemptions claimed to the House Committee on Ways and Means and the Senate Committee on Revenue and Fiscal Affairs.

Proposed law prohibits an operator in violation of Statewide Order 29-B from being eligible for the exemption if the office of conservation is authorized to withhold a permit application from the operator pursuant to present law.

Proposed law defines "well costs" as the cost of completing the well to the commencement of production or the cost of well enhancements, as determined by the Dept. of Natural Resources.

Proposed law defines "operating costs" as costs directly attributable to the operation of the exempt well, including but not limited to direct materials, supplies, fuel, direct labor, contract labor or services, repairs, maintenance, property taxes, insurance, depreciation, and any other costs that could be directly attributed to the well.

Proposed law provides that the calculation of operating costs begins from the date that the Dept. of Natural Resources permitted operation or the date the enhancement was completed and production was established. Operating costs exclude costs included in the well cost.

Proposed law requires the interest on a refund of severance tax to an operator whose well qualified for this exemption be paid in accordance with present law (R.S. 47:1624(A)(2)).

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

(Adds R.S. 47:633(7)(e))