LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office — Fiscal Notes

Fiscal Note On: **HB 30** HLS 21RS 144
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 30, 2021 1:49 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 fixes the severance tax rate for oil produced from certain wells at the current rate

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, 2029. The tax rate will be 12% for FY23, 11.5% for FY24, 11% for FY25, 10.5% FY26, 10% for FY27, 9.5% for FY28, 9% for FY29, and 8.5% for FY30 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	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**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	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	($6,751,000)	($14,433,000)	($22,220,000)	($29,627,000)	**($73,031,000)**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	($528,000)	($1,128,000)	($1,737,000)	($2,316,000)	**($5,709,000)**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**($7,279,000)**	**($15,561,000)**	**($23,957,000)**	**($31,943,000)**	**($78,740,000)**

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 FY20 share of severance tax attributable to oil (53%), 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 $7.3 million in FY23, growing to $31.9 million by FY26, and further growing to $63.9 million by FY30 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 $528,000 in FY23, growing to $2.316 million by FY26, and further growing to $4.6 million by FY30. The difference between the total severance tax revenue loss and the parish severance tax allocation loss is the state general fund severance tax loss; ranging from some $6.8 million in FY23, and growing to $29.6 million by FY26, and further growing to $59.3 million by FY30.

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 $74,000 in FY23, growing to $323,000 by FY26, and further growing to $645,000 by FY30. Parish royalty allocation gains are estimated at $7,000 in FY23, growing to $32,000 by FY26, and further growing to $65,000 by FY30.

While a severance tax exemption is similar to a price increase for producers, research by the LSU Center for Energy Studies finds that oil and gas production are relatively unresponsive to price changes, and therefore severance tax rates. Specifically, oil production from new wells (one year of age or less) is estimated to increase by 6.2 percent in the long-run in response to a 10 percent increase in prices. A statistically significant response of total production to prices in Louisiana is not observed in the long run. A state unilaterally changing severance tax rates may exhibit greater production response, but this research is focused on activity located very close to state borders, and still finds the response to be small. Thus, the bill is likely to result in revenue losses as estimated above.

Senate — Dual Referral Rules
- [ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}
- [x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}

House
- [ ] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
- [ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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