RÉSUMÉ DIGEST

HB 26 **2021 Regular Session** **McCormick**

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

Present law 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.

Present law exempts crude oil produced from certified stripper wells from severance tax in any month in which the average value defined in present law (R.S. 47:633(7)(a)) is less than $20 per barrel. Proposed law would have increased the value from $20 to $35.

(Proposed to amend R.S. 47:633(7)(c)(i)(bb))

VETO MESSAGE:

"Please be advised that I have vetoed House Bill 26 of the 2021 Regular Session.

Senate Concurrent Resolution 4 of the 2018 Second Extraordinary Session of the Louisiana Legislature directed the Louisiana State University Center for Energy Studies and Public Administration Institute to conduct a comprehensive review of Louisiana's severance taxes and to make specific recommendations to the Legislature. The recommendations were included in a report to the Legislature titled "Mineral Revenues in Louisiana" presented in March 2020. The primary recommendations in the report to the Legislature focus on implementing an equivalent volumetric tax rate for oil and natural gas and removing exemptions associated with horizontal drilling, tertiary wells, and deep wells for new activity. While the Legislature has taken steps to address tax reform through the streamlining of the sales tax and remodeling the income and franchise taxes during this session, the broad severance tax recommendations were put on hold.

House Bill 26 seeks to adjust the value at which crude oil produced from certified stripper wells is exempt from severance tax. Under current law, crude oil produced from certified stripper wells is exempt from severance tax in any month when the value of the oil is less than $20 per barrel. As originally filed, House Bill 26 would have increased the value from $20 per barrel to $75 per barrel. The Enrolled House Bill 26 has a value of $35 per barrel. The report addresses production from stripper wells and acknowledges that "a number of states have severance tax relief for stripper and incapable wells due to the relatively stable costs of producing the oil and gas but with a volatile revenue stream." Our neighboring state of Texas allows for marginal well relief with an exemption level of $22 per barrel. This rate is more in line with existing law in Louisiana. The appropriate value of any exemption for oil produced from stripper wells or whether such an exemption is allowed should be included in the broader discussion on the comprehensive reform of the overall severance tax. The volumetric rate proposals and appropriate exemptions from the tax are important severance tax matters that impact every Louisiana oil and gas business and should not be addressed in a piecemeal fashion.

For these reasons, House Bill 26 is vetoed and returned to the House of Representatives."