
DIGEST

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HB 716 Original

2022 Regular Session

McCormick

Abstract: Reduces the rate of the severance tax levied on its value at the time and place of severance on oil, certain distillate, and natural gas over a specified period of time.

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

Severance Tax on Oil

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 is 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 as follows:

- (1) For taxable periods beginning on or after July 1, 2023, and before July 1, 2024, to 11%.
- (2) For taxable periods beginning on or after July 1, 2024, and before July 1, 2025, to 9.5%.
- (3) For taxable periods beginning on or after July 1, 2025, and before July 1, 2026, to 8%.
- (4) For taxable periods beginning on or after July 1, 2026, and before July 1, 2027, to 6.5%.
- (5) For taxable periods beginning on or after July 1, 2027, and before July 1, 2028, to 5%.
- (6) For taxable periods beginning on or after July 1, 2028, and before July 1, 2029, to 3.5%.
- (7) For taxable periods beginning on or after July 1, 2029, and before July 1, 2030, to 2%.
- (8) No severance tax shall be levied beginning on or after July 1, 2030.

Present law provides oil produced from a well classified by the commissioner of conservation (commissioner) 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 is taxed at a rate equal to one half of the present rate for oil established in present law (R.S. 47:633(a)), which equates to 6.25%. Further defines such a well for severance tax purposes as an incapable well if 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 changes present law by specifying that the rate is 6.25% of the oil's value at the time and place of severance and reduces the tax rate over an eight-year period as follows:

- (1) For taxable periods beginning on or after July 1, 2023, and before July 1, 2024, to 5.5%.
- (2) For taxable periods beginning on or after July 1, 2024, and before July 1, 2025, to 4.75%.
- (3) For taxable periods beginning on or after July 1, 2025, and before July 1, 2026, to 4%.
- (4) For taxable periods beginning on or after July 1, 2026, and before July 1, 2027, to 3.25%.
- (5) For taxable periods beginning on or after July 1, 2027, and before July 1, 2028, to 2.5%.
- (6) For taxable periods beginning on or after July 1, 2028, and before July 1, 2029, to 1.75%.
- (7) For taxable periods beginning on or after July 1, 2029, and before July 1, 2030, to 1%.
- (8) No severance tax shall be levied beginning on or after July 1, 2030.

Present law provides oil produced from a well classified by the commissioner 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 is taxed at a rate equal to one quarter of the present rate for oil established in present law (R.S. 47:633(a)), which equates to 3.125%. Further defines such a well for severance tax purposes as a stripper well if 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 changes present law by specifying that the rate is 3.125% of the oil's value at the time and place of severance and reduces the tax rate over a seven-year period as follows:

- (1) For taxable periods beginning on or after July 1, 2023, and before July 1, 2024, to 2.625%.
- (2) For taxable periods beginning on or after July 1, 2024, and before July 1, 2025, to 2.125%.
- (3) For taxable periods beginning on or after July 1, 2025, and before July 1, 2026, to 1.625%.
- (4) For taxable periods beginning on or after July 1, 2026, and before July 1, 2027, to 1.125%.
- (5) For taxable periods beginning on or after July 1, 2027, and before July 1, 2028, to .625%.
- (6) For taxable periods beginning on or after July 1, 2028, and before July 1, 2029, to .125%.

- (7) No severance tax shall be levied beginning on or after July 1, 2029.

Present law provides that oil produced from a well in a stripper field classified by the commissioner as a mining and horizontal drilling project which utilizes gravity drainage to a collection point in a downhole operations room, the tax rate applicable to the oil severed from such well shall be one-quarter of the present rate for oil established in present law (R.S. 47:633(a)), which equates to 3.125%. Further requires the well to have been classified by the commissioner as a mining and horizontal drilling project before the lower rate may be claimed on a tax return.

Proposed law changes present law by specifying that the rate is 3.125% of the oil's value at the time and place of severance and reduces the tax rate over an seven-year period as follows:

- (1) For taxable periods beginning on or after July 1, 2023, and before July 1, 2024, to 2.625%.
- (2) For taxable periods beginning on or after July 1, 2024, and before July 1, 2025, to 2.125%.
- (3) For taxable periods beginning on or after July 1, 2025, and before July 1, 2026, to 1.625%.
- (4) For taxable periods beginning on or after July 1, 2026, and before July 1, 2027, to 1.125%.
- (5) For taxable periods beginning on or after July 1, 2027, and before July 1, 2028, to .625%.
- (6) For taxable periods beginning on or after July 1, 2028, and before July 1, 2029, to .125%.
- (7) No severance tax shall be levied beginning on or after July 1, 2029.

Severance Tax on Distillate

Present law provides for the levy of a severance tax at the rate of 12.5% on distillate, condensate, or similar natural resources severed from the soil or water either with oil or gas.

Proposed law reduces the rate of the tax levied on distillate over an eight-year period as follows:

- (1) For taxable periods beginning on or after July 1, 2023, and before July 1, 2024, to 11%.
- (2) For taxable periods beginning on or after July 1, 2024, and before July 1, 2025, to 9.5%.
- (3) For taxable periods beginning on or after July 1, 2025, and before July 1, 2026, to 8%.
- (4) For taxable periods beginning on or after July 1, 2026, and before July 1, 2027, to 6.5%.
- (5) For taxable periods beginning on or after July 1, 2027, and before July 1, 2028, to 5%.
- (6) For taxable periods beginning on or after July 1, 2028, and before July 1, 2029, to 3.5%.

- (7) For taxable periods beginning on or after July 1, 2029, and before July 1, 2030, to 2%.
- (8) No severance tax shall be levied beginning on or after July 1, 2030.

Present law requires natural gasoline, casinghead gasoline and other natural gas liquids, including ethane, methane, butane or propane, all of which occur naturally or which are recovered through processing gas after separation of oil, distillate, condensate, or similar natural resources to be taxed at the rates in present law for natural gas.

Proposed law retains present law.

Severance Tax on Natural Gas

Present law provides for the levy of a 7¢ per 1000 cubic feet tax on natural gas and, based on equivalent gas volumes, natural gasoline, casinghead gasoline, and other natural gas liquids, including ethane, methane, butane, or propane measured at a base pressure of 15.025 pounds per square inch absolute and at the temperature base of 60 degrees Fahrenheit. However, when the conditions of pressure and temperature differ from the above bases, present law provides a method for conversion of the volume from these conditions.

Present law requires DOR to calculate an annual rate adjustment on July first of each year for the ensuing 12 calendar months. The calculation for the annual rate adjustment uses the severance tax rate in present law multiplied by a gas base rate adjustment formula. Present law prohibits the severance rate on natural gas to be less than 7¢ per 1000 cubic feet.

Proposed law retains present law but changes references from the minimum 7¢ per 1000 cubic feet tax rate on natural gas to the severance tax rate specified for that year.

Proposed law reduces the tax rate on natural gas over a seven-year period as follows:

- (1) For taxable periods beginning on or after July 1, 2023, and before July 1, 2024, to 6¢ per 1000 cubic feet.
- (2) For taxable periods beginning on or after July 1, 2024, and before July 1, 2025, to 5¢ per 1000 cubic feet.
- (3) For taxable periods beginning on or after July 1, 2025, and before July 1, 2026, to 4¢ per 1000 cubic feet.
- (4) For taxable periods beginning on or after July 1, 2026, and before July 1, 2027, to 3¢ per 1000 cubic feet.
- (5) For taxable periods beginning on or after July 1, 2027, and before July 1, 2028, to 2¢ per 1000 cubic feet.

- (6) For taxable periods beginning on or after July 1, 2028, and before July 1, 2029, to 1¢ per 1000 cubic feet.
- (7) No severance tax shall be levied on or after July 1, 2029.

Present law provides for a reduced severance tax rate of 3¢ per 1000 cubic feet for gas produced from an oil well designated by the commissioner to have a wellhead pressure of 50 pounds per square inch gauge or less under operating conditions, or, in the case of gas rising in a vaporous state through the annular space between the casing and tubing of an oil well and released through lines connected with the casinghead gas which has been determined by the commissioner to have a casinghead pressure of 50 pounds per square inch gauge or less under operating conditions. Further requires the oil well to have a casinghead pressure of 50 pounds or less per square inch for the entire taxable month in order to qualify for the reduced rate.

Proposed law retains present law relative to qualifications for the reduced rate; however, proposed law reduces the severance tax rate over a six-year period as follows:

- (1) For taxable periods beginning on or after July 1, 2023, and before July 1, 2024, to 2.5¢ per 1000 cubic feet.
- (2) For taxable periods beginning on or after July 1, 2024, and before July 1, 2025, to 2¢ per 1000 cubic feet.
- (3) For taxable periods beginning on or after July 1, 2025, and before July 1, 2026, to 1.5¢ per 1000 cubic feet.
- (4) For taxable periods beginning on or after July 1, 2026, and before July 1, 2027, to 1¢ per 1000 cubic feet.
- (5) For taxable periods beginning on or after July 1, 2027, and before July 1, 2028, to .5¢ per 1000 cubic feet.
- (6) No severance tax shall be levied for taxable periods beginning on or after July 1, 2029.

Present law provides for a reduced severance tax rate of 1.3¢ per 1000 cubic feet for gas produced from a gas well designated by the commissioner to be incapable of producing an average of 250,000 cubic feet of gas per day. Further requires the gas well to be incapable of producing 250,000 cubic feet of gas per day during the entire taxable month in order to be eligible for the reduced severance tax rate.

Proposed law retains present law relative to qualifications for the reduced rate; however, proposed law reduces the severance tax rate over a seven-year period as follows:

- (1) For taxable periods beginning on or after July 1, 2023, and before July 1, 2024, to 1.1¢ per 1000 cubic feet.

- (2) For taxable periods beginning on or after July 1, 2024, and before July 1, 2025, to .9¢ per 1000 cubic feet.
- (3) For taxable periods beginning on or after July 1, 2025, and before July 1, 2026, to .7¢ per 1000 cubic feet.
- (4) For taxable periods beginning on or after July 1, 2026, and before July 1, 2027, to .5¢ per 1000 cubic feet.
- (5) For taxable periods beginning on or after July 1, 2027, and before July 1, 2028, to .3¢ per 1000 cubic feet.
- (6) For taxable periods beginning on or after July 1, 2028, and before July 1, 2029, to .1¢ per 1000 cubic feet.
- (7) No severance tax shall be levied beginning on or after July 1, 2029.

Effective July 1, 2022.

(Amends R.S. 47:633(7)(a), (b), and (c)(i)(aa) and (ii)(aa), (8), and (9)(a), (b), (c), and (d)(i))