LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office — Fiscal Notes

Fiscal Note On: **HB 716** HLS 22RS 727
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 1, 2022 10:28 AM
Author: MCCORMICK
Dept./Agy.: Revenue
Subject: Phases out the oil and natural gas severance tax
Analyst: Deborah Vivien

TAX EXEMPTIONS OR DECREASE GF RV See Note

Reduces the rate of the severance tax levied on oil, certain distillate, and natural gas over a specified period of time

<u>Present law</u> 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%). Present law imposes a severance tax on natural gas at a minimum base rate of 7c/mcf adjusted annually, a low pressure oil well gas rate of 3c/mcf, and wells incapable of producing an average of 250,000 cubic feet per day (incapable wells) of 1.3c/mcf.
<u>Proposed law</u> reduces the oil severance full-rate from 12.5% to 0% in 1.5% increments (2% in the last year) beginning in FY 24 so that no oil severance is charged by FY 31. The incapable rate is eliminated in the same manner (half the full rate) with the stripper rate eliminated on a quicker timeline, ending by FY 30. All other special severance tax rates tied to the full rate will be reduced accordingly. The base minimum natural gas severance is reduced by 1c/year being fully eliminated by FY 30, but continues to be adjusted annually by the current formula. The natural gas incapable rate is reduced in 0.2c increments, ending in FY 30 and the low pressure oil well gas rate is reduced in increments of 0.5c ending in FY 29. Effective on July 1, 2022.

EXPENDITURES	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**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	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	($48,500,000)	($96,500,000)	($144,800,000)	($192,800,000)	**($482,600,000)**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	($4,500,000)	($8,900,000)	($13,400,000)	($17,800,000)	**($44,600,000)**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**($53,000,000)**	**($105,400,000)**	**($158,200,000)**	**($210,600,000)**	**($527,200,000)**

EXPENDITURE EXPLANATION

The Dept. of Revenue estimates that it will incur some $51,360 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 FY 22 year-to-date share of severance tax attributable to oil (59%) and natural gas (39%), the phase-out of the oil and gas severance tax rates as provided in the bill will result in state severance tax revenue losses of some $53 M in FY 24, growing to $210.6 M by FY 27, and further growing to $370.5 M by FY 31 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 $4.5 M in FY 24, growing to $17.8 M by FY 27, and further growing to $34.2 M by FY 31. The difference between the total severance tax revenue loss and the parish severance tax allocation loss is <u>the state general fund severance tax loss; ranging from some $48.5 M in FY 24, growing to $192.8 M by FY 27, and further growing to $370.5 M by FY 31.</u>

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 within each parish). State general fund royalty gains are estimated at some $481,000 in FY 24, growing to $1.9 M by FY 27, and further growing to $3.7 M by FY 31. Parish royalty allocation gains are estimated at $53,000 in FY 24, growing to $213,000 by FY 27, and further growing to $409,000 by FY 31. This effect is incorporated into the figures above.

While a severance tax exemption can increase the rate of return of a potential investment thus increasing oil and gas production, research by the LSU Center for Energy Studies finds that total oil and gas production does not have a statistically significant response to price changes, and thus similarly severance tax rates. Although their research concludes that severance tax decreases can lead to increased drilling of new wells, reducing the severance tax rate on wells that have already been drilled, as is proposed in this bill, is unlikely to have a material impact on oil and gas product. Further, without a severance tax, any future production from new wells that may be incentivized by this bill will no longer provide direct revenue back to the state, which further restricts the dynamic impact.

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

<u>House</u>
- [ ] 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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