



**LEGISLATIVE FISCAL OFFICE
Fiscal Note**

Fiscal Note On: **SB 406** SLS 22RS 574
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: April 14, 2022	10:08 AM	Author: HENRY, CAMERON
Dept./Agy.: Revenue		Analyst: Deborah Vivien
Subject: Temporarily reduces oil severance tax rates on new wells		

TAX/TAXATION OR -\$5,130,000 GF RV See Note Page 1 of 1
 Reduces the rate of oil severance tax on new wells for three years. (gov sig)

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 of oil severance from 12.5% to 8.0% for all new wells permitted after July 1, 2021, and commencing production between July 1, 2023, and June 30, 2025. All other special oil severance tax rates that are tied to the full rate will be reduced accordingly.

Effective upon governor's signature.

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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total						
REVENUES	2022-23	2023-24	2024-25	2025-26	2026-27	5 -YEAR TOTAL
State Gen. Fd.	(\$5,130,000)	(\$6,509,000)	(\$7,165,000)	(\$3,557,000)	(\$1,779,000)	(\$24,140,000)
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	(\$470,000)	(\$597,000)	(\$657,000)	(\$326,000)	(\$163,000)	(\$2,213,000)
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total	(\$5,600,000)	(\$7,106,000)	(\$7,822,000)	(\$3,883,000)	(\$1,942,000)	(\$26,353,000)

EXPENDITURE EXPLANATION

The Dept. of Revenue estimates that it will incur some \$25,000 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 department initially, but become a component of budget funding as legislative changes accumulate.

REVENUE EXPLANATION

Based on the DNR estimate that about 70 new wells will be drilled in each of FY 23 through FY 25 in response to higher anticipated oil prices, if production averages 1.5 M barrels per year with a decline rate of 50% annually, the bill results in state severance tax revenue losses of some \$5.6 M in FY 23, \$7.1 M in FY 24, and \$7.8 M in FY 25, slowing to \$3.9 M in FY 26 and \$1.9 M in FY 27 as new wells are no longer eligible and those receiving the lower rate show declining production. 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 \$470,000 in FY 23, \$597,000 in FY 24, \$657,000 in FY 25, declining to \$326,000 in FY 26 and \$163,000 in FY 27. The difference between the total severance tax revenue loss and the parish severance tax allocation loss is the state general fund severance tax loss of \$5.1M in FY 23, \$6.5M in FY 24, \$7.2M in FY 25, declining to \$3.6M in FY 26 and \$1.8M in FY 27.

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).

Senate Dual Referral Rules
 13.5.1 >= \$100,000 Annual Fiscal Cost {S & H}
 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}

Alan M. Boxberger
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Interim Legislative Fiscal Officer