LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office — Fiscal Notes

Fiscal Note On: **HB 259** HLS 24RS 494
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: March 18, 2024 4:19 PM
Author: BEAULLIEU
Dept./Agy.: Revenue
Subject: Reduction of Oil Severance Tax Rate
Analyst: Benjamin Vincent

TAX/SEVERANCE TAX OR DECREASE GF RV See Note

Reduces the severance tax rate for oil over a certain period of time and specifies the severance tax rate for oil produced from certain wells

Present law imposes a severance tax of 12.5% of the value of oil produced in the state from productive wells. Wells producing less than 25 barrels (bbl) per day and a minimum of 50% salt water ("incapable wells") are taxed at 6.25%, and wells producing less than 10 bbl per day ("stripper wells") are taxed at 3.125%.

Proposed law gradually reduces the full rate from 12.5%, in 0.5 percentage-point annual increments beginning in FY 26 at 12.0%, to 8.5% by FY 33. Proposed law maintains current rates on incapable and stripper wells.

Effective upon governor's signature. The initial new rate of 12.0% will apply to production as of July 1, 2025.

EXPENDITURES	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**5 -YEAR TOTAL**
State Gen. Fd.	**SEE BELOW**	**SEE BELOW**	**SEE BELOW**	**SEE BELOW**	**SEE BELOW**	
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	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	**($10,100,000)**	**($20,300,000)**	**($29,900,000)**	**($39,000,000)**	**($99,300,000)**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	**($800,000)**	**($1,500,000)**	**($2,200,000)**	**($3,000,000)**	**($7,500,000)**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**($10,900,000)**	**($21,800,000)**	**($32,100,000)**	**($42,000,000)**	**($106,800,000)**

EXPENDITURE EXPLANATION

The Dept. of Revenue is anticipated to incur minor costs in additional staff time to design, modify, and test tax systems to accommodate the annual rate reductions. Costs will recur each year that the severance tax rate changes, through FY 33. Such costs are typically absorbed by the department initially, but become a component of budget funding as legislative changes accumulate over time.

REVENUE EXPLANATION

Severance Tax Impacts

Based upon current REC mineral revenue forecasts and the expected share of severance tax collections specifically due to crude oil production, the gradual reduction of the severance tax rate on oil from 12.5% to 8.5% will reduce total severance tax collections by an estimated $10.8 M in FY 26, with an annual revenue impact that increases to approximately $42.4 M in FY 29, and $84.9 M by FY 33.

These reduced collections would cause a reduction in severance tax revenues allocated to parishes of approximately $800,000 in FY 26, increasing to approximately $3.0 M in FY 29, and $6.0 M by FY 33. The remainder of the revenue reductions would be borne by the state general fund.

Mineral Royalty Impacts

As mineral royalty payments are calculated after severance taxes are paid, proposed law would mechanically result in an increase in mineral royalty payments to the state (and other landowners). A portion of these increased royalty payments would also be allocated among the parishes, partially offsetting the reduction in severance tax collections and allocations.

This effect is anticipated to increase total royalty collections by approximately $110,000 in FY 26, increasing to $420,000 in FY 29, and $850,000 in FY 33. Of these amounts, parishes are anticipated to receive approximately $10,000 in FY 26, $40,000 in FY 29, and $90,000 by FY 33.

The numbers reflected in the table above indicted the anticipated net revenue impacts to the state general fund and the parish allocations. A breakdown of the components of the net impact by year is included on page 2.

Senate	Dual Referral Rules	House
[ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}		[ ] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
[x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}		[ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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Chief Economist

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CONTINUED EXPLANATION from page one:

(All figures in $millions)

FY	Total Severance Tax	Parish Sev Allocation	SGF Sev	Total Royalties	Parish Royalties Alloc	SGF Royalties
26	-10.8	-0.8	-10.0	+0.11	+0.01	+0.10
27	-21.6	-1.5	-20.1	+0.22	+0.02	+0.19
28	-31.8	-2.2	-29.6	+0.32	+0.03	+0.29
29	-42.4	-3.0	-39.4	+0.42	+0.04	+0.38
30	-53.0	-3.7	-49.3	+0.53	+0.05	+0.48
31	-63.7	-4.5	-59.2	+0.64	+0.06	+0.57
32	-74.3	-5.2	-69.1	+0.74	+0.07	+0.67
33	-84.9	-6.0	-78.9	+0.85	+0.09	+0.76

(Totals Do Not Equal Individual Components Due to Rounding)

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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