LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office — Fiscal Notes

Fiscal Note On: **HB 418** HLS 24RS 611
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action: **w/ SEN COMM AMD**
Proposed Amd.:
Sub. Bill For.:

Date: April 22, 2024 6:50 PM
Author: BEAULLIEU
Dept./Agy.: Revenue/ Energy & Natural Resources
Subject: Severance Tax Rate Reduction: Inactive/Orphan Wells
Analyst: Benjamin Vincent

TAX/SEVERANCE TAX EG1 -$350,000 GF RV See Note
Reduces severance tax rates on oil and gas produced from inactive wells and orphan wells

Present law imposes a severance tax rate on most crude oil produced in the state at 12.5% of value. Wells that have been inactive for two or more years or having 30 days or less of production during the last two years (inactive wells) pay one-half the full-rate. Wells designated as orphan wells for sixty months or more pay one-quarter the full rate. The reduced tax rate applies to applicable production for a period of ten years, and in order to qualify for either the inactive or orphan rate, an application for certification must have been made to DENR between July 1, 2018 and June 30, 2023.
Proposed law reduces the existing oil and gas severance tax rates on inactive and orphan wells by half, applying a new rate of one-quarter of the full rate for inactive wells, and one-eighth of the full rate for orphan wells that have been designated as orphan wells for sixty months or more. Applicable to taxable periods between October 1, 2024, and September 30, 2028.

EXPENDITURES	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
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	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

REVENUES	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**5 -YEAR TOTAL**
State Gen. Fd.	**($270,000)**	**($325,000)**	**($325,000)**	**($325,000)**	**($55,000)**	**($1,300,000)**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	**($20,000)**	**($25,000)**	**($25,000)**	**($25,000)**	**($5,000)**	**($100,000)**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**($290,000)**	**($350,000)**	**($350,000)**	**($350,000)**	**($60,000)**	**($1,400,000)**

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION

LDR reports that since July 2018, 89 applications for reduced-severance production at inactive oil or gas wells have been received, and that 49 of those wells are still producing.

DENR reports that approximately 4,700 wells have been designated orphan wells in the state, however it is unclear how many have been designated as such for longer than the required sixty months. LDR reports that a single designated orphan well was approved for production at the existing orphan well severance rate, but did not initiate production.

Historically, wells with similar production levels have accounted for the majority of wells in the state, while accounting for a relatively small amount of overall production. For informational purposes, in 2023, approximately 19,500 wells had production of greater than 0 bbl/day, but less than 1 bbl/day. These wells accounted for approximately 4% of production volumes in the state, while accounting for approximately 77% of total wells in the state.

Under the existing half-rate and quarter-rate for severance for inactive and orphan wells respectively, average severance tax revenues foregone over the last three fiscal years have amounted to approximately $700,000 annually. This figure implies an annual severance tax loss of approximately $350,000 due to proposed law, including a reduction in parish allocations of severance tax amounting to approximately $25,000 statewide (reflected in the table above as reduced Dedications/Other). A smaller amount of increased mineral royalties may potentially partially offset this loss, to the extent that inactive wells that would produce under the proposed new partial rates may be on state lands. LFO notes that the revenue impact is entirely driven by existing inactive well activity, and not by assumed new orphan well activity.

The anticipated full-year overall severance tax reduction of $350,000, allocated among the state general fund and dedicated/other funds, is reflected in the table above. Partial-year amounts are indicated for FY25 and FY29, due to the effectiveness of the bill beginning and ending in October for those years.

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}
☐ 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}

Deborah Vivien
Chief Economist