LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office — Fiscal Notes

Fiscal Note On: **HB 418** HLS 24RS 611
Bill Text Version: **ENROLLED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: June 2, 2024 6:35 PM	**Author:** BEAULLIEU
Dept./Agy.: Revenue/ Energy & Natural Resources	
Subject: Severance Tax Rate Reduction: Inactive/Orphan Wells	**Analyst:** Benjamin Vincent

TAX/SEVERANCE TAX EN -$900,000 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 rate applies for a period of ten years. In order to qualify for either reduced 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 for eligible orphan wells for ten years for all eligible production. Proposed law additionally extends the deadline for DENR certification from June 30, 2023 to June 30, 2028. Ten-year rate reductions are applicable to wells that commence production prior to September 30, 2028.
Effective October 1, 2024.

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.	**($825,000)**	**($825,000)**	**($825,000)**	**($825,000)**	**($825,000)**	**($4,125,000)**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	**($75,000)**	**($75,000)**	**($75,000)**	**($75,000)**	**($75,000)**	**($375,000)**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**($900,000)**	**($900,000)**	**($900,000)**	**($900,000)**	**($900,000)**	**($4,500,000)**

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure. Extension of the DENR certification deadline is not anticipated to result in additional administrative costs, as no administrative costs were reported for the initial certification period.

REVENUE EXPLANATION

LDR reports that since July 2018, 89 applications for the current-law reduced-severance production at inactive oil or gas wells were received under the existing June 30, 2023 deadline, and that 49 of those wells are still producing.

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.

Due to proposed law's rate reduction on certified wells in isolation, this figure implies an annual severance tax loss of approximately $350,000. This impact is entirely driven by existing activity in eligible wells, as new orphan well production is not assumed in this analysis.

The bill's extension of the DENR certification deadline for eligible wells will serve to further reduce severance tax revenues. Preliminary and rough estimates from DENR indicate that production from newly-eligible wells may reduce severance collections by an additional estimated $550,000 annually. The actual impact of this provision will depend on the volume of applications to DENR for certification of orphan and inactive wells.

The likely overall severance tax reduction in any given year is estimated at $900,000, and the overall reduction will include reduced parish allocations of severance tax amounting to approximately $75,000 statewide. Impacts are anticipated to be allocated among the state general fund and dedicated/other funds as reflected in the table above.

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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