

2020 Regular Session

HOUSE BILL NO. 506

BY REPRESENTATIVE DEVILLIER

TAX/SEVERANCE TAX: Reduces the severance tax rate for oil over a certain period of time, clarifies the severance tax rate for oil produced from certain incapable wells, and authorizes the reduction of the severance tax rate on natural gas

1 AN ACT

2 To amend and reenact R.S. 47:633(7)(a), (b), and (c)(i)(aa) and (9)(a)(ii) and (d)(i), relative
3 to severance tax; to reduce the severance tax rate on oil over a certain period of time;
4 to clarify the severance tax rate on oil produced from certain wells; to reduce the
5 severance tax rate on natural gas under certain circumstances; to provide for certain
6 limitations; to provide for an effective date; and to provide for related matters.

7 Be it enacted by the Legislature of Louisiana:

8 Section 1. R.S. 47:633(7)(a), (b), and (c)(i)(aa) and (9)(a)(ii) and (d)(i) are hereby
9 amended and reenacted to read as follows:

10 §633. Rates of tax

11 The taxes on natural resources severed from the soil or water levied by R.S.
12 47:631 shall be predicated on the quantity or value of the products or resources
13 severed and shall be paid at the following rates:

14 * * *

15 (7)(a)(i) On oil ~~twelve and one-half percentum of its value at the time and~~
16 ~~place of severance,~~ at the following rate:

17 (aa) For taxable periods beginning on or after January 1, 2020, and before
18 July 1, 2021, twelve and one-half percent of its value at the time and place of
19 severance. However, if the price of oil falls below thirty dollars per barrel at any

1 time during the period of July 1, 2020, through June 30, 2021, the rate of the tax
2 from the time the price falls below thirty dollars per barrel until the price per barrel
3 equals or exceeds thirty dollars per barrel shall be two percent of its value at the time
4 and place of severance. This two percent rate shall be applicable only when the price
5 of oil falls below thirty dollars per barrel.

6 (bb) For taxable periods beginning on or after July 1, 2021, and before July
7 1, 2022, twelve percent of its value at the time and place of severance.

8 (cc) For taxable periods beginning on or after July 1, 2022, and before July
9 1, 2023, eleven and one-half percent of its value at the time and place of severance.

10 (dd) For taxable periods beginning on or after July 1, 2023, and before July
11 1, 2024, eleven percent of its value at the time and place of severance.

12 (ee) For taxable periods beginning on or after July 1, 2024, and before July
13 1, 2025, ten and one-half percent of its value at the time and place of severance.

14 (ff) For taxable periods beginning on or after July 1, 2025, and before July
15 1, 2026, ten percent of its value at the time and place of severance.

16 (gg) For taxable periods beginning on or after July 1, 2026, and before July
17 1, 2027, nine and one-half percent of its value at the time and place of severance.

18 (hh) For taxable periods beginning on or after July 1, 2027, and before July
19 1, 2028, nine percent of its value at the time and place of severance.

20 (ii) For taxable periods beginning on or after July 1, 2028, and thereafter,
21 eight and one-half percent of its value at the time and place of severance.

22 (ii) ~~Such~~ The value shall be the higher of (1) the gross receipts received from
23 the first purchaser, less charges for trucking, barging and pipeline fees, or (2) the
24 posted field price. In the absence of an arms length transaction or a posted field
25 price, the value shall be the severer's gross income from the property as determined
26 by R.S. 47:158(C).

27 (b) On oil produced from a well classified by the commissioner of
28 conservation as an oil well, and determined by the collector of revenue that such well
29 is incapable of producing an average of more than twenty-five barrels of oil per

1 producing day during the entire taxable month, and which also produces at least fifty
 2 percent salt water per day, the tax rate applicable to the oil severed from such well
 3 shall be ~~one-half of the rate set forth in Subparagraph (a) of this Paragraph~~ six and
 4 one-quarter percent of its value at the time and place of severance and such well shall
 5 be defined, for severance tax purposes, as an incapable well, provided that such well
 6 has been certified by the Department of Revenue as incapable of such production on
 7 or before the twenty-fifth day of the second month following the month of
 8 production. Oil severed from a multiple well lease or property is not subject to the
 9 reduced rate of tax provided for herein, unless all such wells are certified as
 10 incapable.

11 (c)(i)(aa) On oil produced from a well classified by the commissioner of
 12 conservation as an oil well, and certified by the Department of Revenue that such
 13 well is incapable of producing an average of more than ten barrels of oil per
 14 producing day during the entire taxable month, the tax rate applicable to the oil
 15 severed from such well shall be ~~one-quarter of the rate set forth in Subparagraph (a)~~
 16 ~~of this Paragraph~~ three and one hundred twenty-five thousandths percent of its value
 17 at the time and place of severance and such well shall be defined, for severance tax
 18 purposes, as a stripper well, provided that such well has been certified by the
 19 Department of Revenue as a stripper well on or before the twenty-fifth day of the
 20 second month following the month of production. Once a well has been certified and
 21 determined to be incapable of producing an average of more than ten barrels of oil
 22 per producing day during an entire month, such stripper well shall remain certified
 23 as a stripper well until the well produces an average of more than ten barrels of oil
 24 per day during an entire calendar month.

25 * * *

26 (9)(a)

27 * * *

28 (ii) The rate as set forth in Item (i) of this Subparagraph shall be in effect
 29 until June 30, 1992. Effective July 1, 1992 the rate shall be seven cents per thousand

1 cubic feet, and this rate shall also be subject to the annual rate adjustment as
 2 provided in Item (d)(i) of this Paragraph. However, if the price of natural gas falls
 3 below one dollar and ninety cents per thousand cubic feet at any time during the
 4 period of July 1, 2020, through June 30, 2021, the rate of the tax for natural gas shall
 5 be reduced by eighty percent from the time the price falls below one dollar and
 6 ninety cents per thousand cubic feet until the price equals or exceeds one dollar and
 7 ninety cents per thousand cubic feet. This reduced rate shall be applicable only when
 8 the price of natural gas falls below one dollar and ninety cents per thousand cubic
 9 feet.

10 * * *

11 (d)(i) ~~The~~ Except as provided for in Item (a)(ii) of this Paragraph, the gas tax
 12 rate provided in Subparagraph (a) of this Paragraph shall be adjusted annually on
 13 July first for the ensuing twelve calendar months as hereinafter set forth but shall
 14 never be less than seven cents per thousand cubic feet. On or before April 30, 1991,
 15 and annually thereafter, the secretary shall determine, using the "gas base rate
 16 adjustment" as hereinafter provided, the new gas tax rate for the twelve calendar
 17 months beginning July 1, 1991, and respectively for each twelve-month period
 18 beginning annually thereafter. The new gas tax rate shall be the rate provided in
 19 Subparagraph (a) of this Paragraph multiplied by the gas base rate adjustment. The
 20 "gas base rate adjustment" shall be determined by the secretary of the Department
 21 of Natural Resources. The "gas base rate adjustment" for the applicable
 22 twelve-month period is a fraction, the numerator of which shall be the average of the
 23 New York Mercantile Exchange (NYMEX) Henry Hub settled price on the last
 24 trading day for the month, as reported in the Wall Street Journal for the previous
 25 twelve-month period ending on March thirty-first, and the denominator of which
 26 shall be the average of the monthly average spot market prices of gas fuels delivered
 27 into the pipelines in Louisiana as reported by the Natural Gas Clearing House for the
 28 twelve-month period ending March 31, 1990 (1.7446 \$/MMBTU). For the twelve-
 29 month period ending March 31, 2003, the monthly average gas prices used in making

Present law provides that the tax rate on oil is 12.5% of its value at the time and place of severance. The value of the oil shall be the higher of the gross receipts received from the first purchaser, less charges for trucking, barging and pipeline fees, or the posted field price.

Proposed law reduces the tax rate on oil over an eight-year period from 12.5% as follows:

- (1) For taxable periods beginning on or after July 1, 2021, and before July 1, 2022, to 12%.
- (2) For taxable periods beginning on or after July 1, 2022, and before July 1, 2023, to 11.5%.
- (3) For taxable periods beginning on or after July 1, 2023, and before July 1, 2024, to 11%.
- (4) For taxable periods beginning on or after July 1, 2024, and before July 1, 2025, to 10.5%.
- (5) For taxable periods beginning on or after July 1, 2025, and before July 1, 2026, to 10%.
- (6) For taxable periods beginning on or after July 1, 2026, and before July 1, 2027, to 9.5%.
- (7) For taxable periods beginning on or after July 1, 2027, and before July 1, 2028, to 9%.
- (8) For taxable periods beginning on or after July 1, 2028, to 8.5%.

Proposed law authorizes the reduction of the severance tax rate for oil from 12.5% to 2% during the period of July 1, 2020, through June 30, 2021, if the price of oil falls below \$30 per barrel at any time during that period. The 2% severance tax rate shall be applicable only when the price of oil falls below \$30 per barrel.

Present law provides for a reduced severance tax rate of 6.25% for oil produced from a well classified by the commissioner of conservation as an oil well, and determined by the Dept. of Revenue (DOR) that the well is incapable of producing an average of more than 25 barrels of oil per producing day during the entire taxable month, and which also produces at least 50% salt water per day. Further requires such a well to be defined, for severance tax purposes, as an incapable well, provided that the well has been certified by DOR as incapable of production on or before the 25th day of the second month following the month of production.

Proposed law retains present law.

Present law provides for a reduced severance tax rate of 3.125% for oil produced from a well classified by the commissioner of conservation as an oil well, and certified by DOR that the well is incapable of producing an average of more than 10 barrels of oil per producing day during the entire taxable month. Further requires such a well to be defined, for severance tax purposes, as a stripper well, provided that the well has been certified by DOR as a stripper well on or before the 25th day of the second month following the month of production.

Proposed law retains present law.

Present law provides that the rate of the severance tax levied on natural gas shall be seven cents per thousand cubic feet; however, this rate shall be annually adjusted on July 1st for the ensuing 12 calendar months in accordance with the gas base rate adjustment which is

determined by the secretary of the Dept. of Natural Resources. Present law prohibits the severance tax rate to be less than seven cents per thousand cubic feet.

Proposed law authorizes a narrow exception to the prohibition of the severance tax rate on natural gas to be less than seven cents per thousand cubic feet during the period of July 1, 2020, through June 30, 2021. During this period, if the price of natural gas falls below \$1.90 per thousand cubic feet, the rate of the tax for natural gas shall be reduced by 80%. This reduced rate shall be applicable only when the price of natural gas falls below \$1.90 per thousand cubic feet.

Effective upon signature of governor or lapse of time for gubernatorial action.

(Amends R.S. 47:633(7)(a), (b), and (c)(i)(aa) and (9)(a)(ii) and (d)(i))

Summary of Amendments Adopted by House

The Committee Amendments Proposed by House Committee on Ways and Means to the original bill:

1. Specify that the date ranges for the graduated reduction in the severance tax rate for oil refer to taxable periods.
2. Authorize the reduction in the severance tax rate for oil to 2% of its value at the time and place of severance if the price of oil falls below \$30 per barrel at any time from July 1, 2020, through June 30, 2021. This 2% severance tax rate shall be applicable only during the time that the price of oil falls below \$30 per barrel.
3. Authorize an 80% reduction in the severance tax rate for natural gas if the price of natural gas falls below \$1.90 per thousand cubic feet at any time from July 1, 2020, through June 30, 2021. This 80% severance tax rate reduction shall be applicable only during the time that the price of natural gas falls below \$1.90 per thousand cubic feet.