

2017 Regular Session

HOUSE BILL NO. 364

BY REPRESENTATIVE IVEY

TAX/SEVERANCE TAX: Provides with respect to the rate and base for the state tax on certain natural resources severed from the soil or water

1 AN ACT

2 To amend and reenact R.S. 47:633(7)(a) and (d)(introductory paragraph) and (8) and to  
3 repeal R.S. 47:633(7)(d)(i) and (ii), relative to severance tax; to provide for certain  
4 tax rates; to provide with respect to the exemption for certain production from a  
5 horizontally drilled well; and to provide for related matters.

6 Be it enacted by the Legislature of Louisiana:

7 Section 1. R.S. 47:633(7)(a) and (d)(introductory paragraph) and (8) are hereby  
8 amended and reenacted to read as follows:

9 §633. Rates of tax

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

13 \* \* \*

14 (7)(a) On oil ~~twelve and one-half~~ eight percentum of its value at the time and  
15 place of severance. Such value shall be the higher of (1) the gross receipts received  
16 from the first purchaser, less charges for trucking, barging and pipeline fees, or (2)  
17 the posted field price. In the absence of an arms length transaction or a posted field  
18 price, the value shall be the severer's gross income from the property as determined  
19 by R.S. 47:158(C).

20 \* \* \*

1 (d) There shall be an exemption from severance tax as provided in this  
2 Subparagraph for production from any horizontally drilled well, or, on any  
3 horizontally drilled recompletion well, from which production occurs on or after July  
4 1, 2015. The exemption shall last for a period of ~~twenty-four~~ sixty months or until  
5 payout of the well cost is achieved, whichever comes first, and shall be equal to one-  
6 half of the tax rate imposed under this Section. For the purposes of this Section  
7 "horizontal drilling" shall mean high angle directional drilling of bore holes with  
8 fifty to three thousand plus feet of lateral penetration through productive reservoirs  
9 and "horizontal recompletion" shall mean horizontal drilling in an existing well bore.  
10 Payout of well cost shall be the cost of completing the well to the commencement  
11 of production as determined by the Department of Natural Resources. The  
12 provisions of this Subparagraph shall not apply to a well certified as a stripper or  
13 incapable well.

14 \* \* \*

15 (8) On distillate, condensate, or similar natural resources severed from the  
16 soil or water either with oil or gas, ~~twelve and one-half~~ eight percentum of gross  
17 value at the time and place of severance. For the levy of this tax, gross value shall  
18 be as defined by R.S. 47:633(7)(a). However, natural gasoline, casinghead gasoline  
19 and other natural gas liquids, including but not limited to ethane, methane, butane  
20 or propane, all of which occur naturally or which are recovered through processing  
21 gas after separation of oil, distillate, condensate, or similar natural resources shall not  
22 be subject to the levy provided for in this Paragraph, but shall be subject to the levy  
23 provided for in R.S. 47:633(9).

24 Section 2. R.S. 47:633(7)(d)(i) and (ii) are hereby repealed in their entirety.

25 Section 3. This Act shall become effective September 1, 2017.

26 Section 4. The provisions of this Act shall take effect on January 1, 2018, and only  
27 become operative if the proposed amendment of Article VII of the Constitution of Louisiana  
28 contained in the Act which originated as House Bill No. 356 of this 2017 Regular Session  
29 of the Legislature is adopted at a statewide election and becomes effective and if the Acts

- 1 which originated as House Bill Nos. 357, 358, 359, 360, 361, 362, and 363 of this 2017  
 2 Regular Session of the Legislature are enacted and become effective.

## DIGEST

The digest printed below was prepared by House Legislative Services. It constitutes no part of the legislative instrument. The keyword, one-liner, abstract, and digest do not constitute part of the law or proof or indicia of legislative intent. [R.S. 1:13(B) and 24:177(E)]

HB 364 Engrossed

2017 Regular Session

Ivey

**Abstract:** Decreases the severance tax rate for oil, distillate, condensate, or similar natural resources severed from the soil or water and extends the duration of the exemption for production from a horizontally drilled well from 2 to 5 years, and specifies a value for the exemption.

Present law imposes a tax on natural resources severed from the soil or water based upon quantity or value of the products or resources severed. The severance tax rate for oil is 12.5% of value. The severance tax rate for natural gas is a minimum of 7¢ per 1,000 cubic feet but is subject to an annual rate adjustment based on the prior year's price of natural gas. The severance tax rate for distillate, condensate, or similar natural resources severed from the soil or water either with oil or gas is 12.5% of value.

Proposed law changes present law by reducing the tax rate on oil from 12.5% to 8% of value, and reducing the tax rate on distillate, condensate, or similar natural resources severed from the soil or water either with oil or gas from 12.5% to 8% of value.

Present law establishes an exemption from severance tax for oil production from a horizontally drilled well or horizontally drilled recompletion well that commences production on or after July 1, 2015. The duration of the exemption is 24 months or until payout, whichever occurs first. The amount of the exemption is based upon the price of oil as determined by the secretary of the Dept. of Natural Resources on July 1<sup>st</sup> of each year for the ensuing 12 months based on the average New York Mercantile Exchange prices per barrel from the previous 12 months. The amount of the exemption for a horizontally drilled well or recompletion well that produces oil shall be as follows:

- (1) 100% if the price of oil is at or below \$70 per barrel.
- (2) 80% if the price is above \$70 and at or below \$80 per barrel.
- (3) 60% if the price is above \$80 and at or below \$90 per barrel.
- (4) 40% if the price is above \$90 and at or below \$100 per barrel.
- (5) 20% if the price is above \$100 and at or below \$110 per barrel.
- (6) No exemption if the price of oil exceeds \$110 per barrel.

Present law establishes an exemption from severance tax for natural gas production from a horizontally drilled well or horizontally drilled recompletion well that commences production on or after July 1, 2015. The amount of the exemption is based upon the price of natural gas as determined by the secretary of the Dept. of Natural Resources on July 1<sup>st</sup> of each year for the ensuing 12 months based on the average New York Mercantile Exchange prices per million BTU per month from the previous 12 months. The amount of the exemption for a horizontally drilled well or recompletion well that produces natural gas shall be as follows:

- (1) 100% if the price of natural gas is at or below \$4.50 per million BTU.
- (2) 80% if the price is above \$4.50 per million BTU and at or below \$5.50 per million BTU.
- (3) 60% if the price is above \$5.50 per million BTU and at or below \$6 per million BTU.
- (4) 40% if the price is above \$6 per million BTU and at or below \$6.50 per million BTU.
- (5) 20% if the price is above \$6.50 per million BTU and at or below \$7 per million BTU.
- (6) No exemption if the price of natural gas exceeds \$7 per million BTU.

Proposed law changes present law by extending the duration of the exemption from 24 months or until payout to 60 months or until payout. The amount of the exemption is changed from variable based on the price of the commodity to 50% of the tax rate.

Proposed law specifies that the exemption for horizontal drilling does not apply to a well certified by the Dept. of Natural Resources as an incapable or stripper well.

Effective if and when the proposed amendment of Article VII of the Constitution of La. contained in the Act which originated as House Bill No. 356 of this 2017 R.S. of the Legislature is adopted at a statewide election and becomes effective and if and when House Bill Nos. 357, 358, 359, 360, 361, 362, and 363 of this 2017 R.S. are enacted and become effective.

(Amends R.S. 47:633(7)(a) and (d)(intro. para.) and (8); Repeals R.S. 47:633(7)(d)(i) and (ii))

#### Summary of Amendments Adopted by House

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

1. Provides that the exemption for horizontal drilling does not apply to a well certified by the Dept. of Natural Resources as an incapable or stripper well.
2. Adds contingent effectiveness for proposed law if HB356, 357, 358, 359, 360, 361, 362, and 363 of this 2017 R.S. become effective.