2016 First Extraordinary Session

HOUSE BILL NO. 107

BY REPRESENTATIVE HUNTER

TAX/SEVERANCE-EXEMPTION: Provides for the extent of the exemption for horizontal well production

AN ACT

To amend and reenact R.S. 47:633(7)(d) and to repeal R.S. 47:633(7)(d), relative to severance tax; to provide with respect to special tax treatment regarding the severance taxes on oil and natural gas; to provide for the severance tax on production from certain horizontally drilled wells; to provide for the amount and duration of the exemption for certain horizontally drilled wells; to provide for applicability; to provide for effectiveness; and to provide for related matters.

Be it enacted by the Legislature of Louisiana:

Section 1. R.S. 47:633(7)(d) is hereby amended and reenacted to read as follows:

§633. Rates of tax

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

* * *

(7)

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(d) There shall be an exemption from severance tax as provided in this Subparagraph for production from any horizontally drilled well, or, on any horizontally drilled recompletion well, from which production occurs on or after July

1, 2015. The exemption shall last for a period of twenty-four months or until payout of the well cost is achieved, whichever comes first. For the purposes of this Section "horizontal drilling" shall mean high angle directional drilling of bore holes with fifty to three thousand plus feet of lateral penetration through productive reservoirs and "horizontal recompletion" shall mean horizontal drilling in an existing well bore. Payout of well cost shall be the cost of completing the well to the commencement of production as determined by the Department of Natural Resources.

(i) The secretary shall determine the oil price upon which the exemption for a horizontal well that produces oil shall be based on July First of each year for the ensuing twelve months based upon the average New York Mercantile Exchange Price per barrel of crude oil per month on the close of business June Thirtieth for the prior twelve months. The amount of the exemption for a horizontal well that produces oil shall be as follows:

(aa) The exemption shall be ~~one hundred~~ eighty percent if the price of oil is at or below seventy dollars per barrel.

(bb) The exemption shall be ~~eighty~~ sixty percent if the price of oil is above seventy dollars and at or below eighty dollars per barrel.

(cc) The exemption shall be ~~sixty~~ forty percent if the price of oil is above eighty dollars and at or below ninety dollars per barrel.

(dd) The exemption shall be ~~forty~~ twenty percent if the price of oil is above ninety dollars and at or below one hundred dollars per barrel.

(ee) ~~The exemption shall be twenty percent if the price of oil is above one hundred dollars and at or below one hundred ten dollars per barrel.~~

~~(ff)~~ There shall be no exemption in effect if the price of oil exceeds one hundred ~~ten~~ dollars per barrel.

(ii) The secretary shall determine the natural gas price upon which the exemption for a horizontal well that produces natural gas shall be based on July First of each year for the ensuing twelve months based upon the average New York Mercantile Exchange Price per million BTU per month on the close of business June

Thirtieth for the prior twelve months. The amount of the exemption for a horizontal well that produces natural gas shall be as follows:

(aa) The exemption shall be one ~~hundred~~ eighty percent if the price of natural gas is at or below four dollars and fifty cents per million BTU.

(bb) The exemption shall be ~~eighty~~ sixty percent if the price of natural gas is above four dollars and fifty cents per million BTU and at or below five dollars and fifty cents per million BTU.

(cc) The exemption shall be ~~sixty~~ forty percent if the price of natural gas is above five dollars and fifty cents per million BTU and at or below six dollars per million BTU.

(dd) The exemption shall be ~~forty~~ twenty percent if the price of natural gas is above six dollars per million BTU and at or below six dollars and fifty cents per million BTU.

(ee) ~~The exemption shall be twenty percent if the price of natural gas is above six dollars and fifty cents per million BTU and at or below seven dollars per million BTU.~~

~~(ff)~~ There shall be no exemption in effect if the price of natural gas exceeds ~~seven~~ six dollars and fifty cents per million BTU.

* * *

Section 2. R.S. 47:633(7)(d) is hereby repealed in its entirety.

Section 3. The provisions of Sections 1, 3, and 4 of this Act shall become effective on April 1, 2016, and shall be applicable to production occurring on or after April 1, 2016.

Section 4. The provisions of Section 2 of this Act shall become effective on December 31, 2020.

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 107 Original 2016 First Extraordinary Session Hunter

Abstract: Changes the severance tax exemption for production of oil and natural gas from horizontally drilled wells and horizontally drilled recompletion wells by reducing the maximum percentage of exemption and dollar thresholds for the extent of 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.

Present law provides for the suspension of a percentage of the levy of severance tax on production from a horizontally drilled well or horizontally drilled recompletion well for a period of 24 months or until payout of the well cost is achieved, whichever comes first, commonly known as the "horizontal well exemption".

Present law, for purposes of the exemption, defines "horizontal drilling" as high angle directional drilling of bore holes with 50 to 3,000 plus feet of lateral penetration through productive reservoirs, and "horizontal recompletion" shall mean horizontal drilling in an existing well bore.

Present law for the severance tax exemption on oil production from horizontally drilled wells and recompletion wells commencing on or after July 1, 2015, establishes tiered values for the exemption based upon Crude Oil Spot Prices in nominal dollars, and West Texas Intermediate Spot prices per barrel as adopted by the Energy Information Administration (EIA) and published in the Annual Energy Outlook (AEO) report. The amount of the exemption is as follows:

(1) No severance tax if the price of oil is at or below $70 per barrel.

(2) The tax rate is reduced by 80% if the price is above $70 and at or below $80 per barrel.

(3) The tax rate is reduced by 60% if the price is above $80 and at or below $90 dollars per barrel.

(4) The tax rate is reduced by 40% if the price is above $90 and at or below $100 per barrel.

(5) The tax rate is reduced by 20% if the price is above $100 and at or below $110 per barrel.

(6) There is no exemption if the price of oil exceeds $110 per barrel.

Proposed law changes present law by reducing the percentages of exemption and the dollar value thresholds as follows:

(1) If oil is at or below $70 per barrel, the exemption is changed from 100% to 80%.

(2) If oil is above $70 per barrel and at or below $80 per barrel, the exemption is changed from 80% to 60%.

(3) If oil is above $80 per barrel and at or below $90 per barrel, the exemption is changed from 60% to 40%.

(4) If oil is above $90 per barrel and at or below $100 per barrel, the exemption is changed from 40% to 20%.

(5) The price level at which there is no exemption is reduced from $110 per barrel to $100 per barrel.

Present law for the severance tax exemption on natural gas production from horizontally drilled wells and recompletion wells commencing on or after July 1, 2015, establishes tiered values for the exemption based upon the Natural Gas Spot Price at Henry Hub, nominal dollars per million BTU, adopted by the EIA and published in the AEO report. The amount of the exemption shall be as follows:

(1) No severance tax if the price of natural gas is at or below $4.50 per million BTU.

(2) The tax rate is reduced by 80% if the price is above $4.50 per million BTU and at or below $5.50 per million BTU.

(3) The tax rate is reduced by 60% if the price is above $5.50 per million BTU and at or below $6.00 per million BTU.

(4) The tax rate is reduced by 40% if the price is above $6 per million BTU and at or below $6.50 per million BTU.

(5) The tax rate is reduced by 20% if the price is above $6.50 per million BTU and at or below $7 per million BTU.

(6) There is no exemption if the price of natural gas exceeds $7 per million BTU.

Proposed law changes present law by reducing the percentages of exemption and the dollar value thresholds as follows:

(1) If the price of natural gas is at or below $4.50 per million BTU, the exemption is reduced from 100% to 80%.

(2) If the price is above $4.50 per million BTU and at or below $5.50 per million BTU, the exemption is reduced from 80% to 60%.

(3) If the price is above $5.50 per million BTU and at or below $6 per million BTU, the exemption is reduced from 60% to 40%.

(4) If the price is above $6 per million BTU and at or below $6.50 per million BTU, the exemption is reduced from 40% to 20%.

(5) The price at which there is no exemption is reduced from $7 per million BTU to $6.50 per million BTU.

Present law and proposed law are repealed Dec. 31, 2020, thereby eliminating the exemption from severance tax on oil and natural gas.

Applicable to production occurring on and after July 1, 2015.

Sections 1, 3, and 4 of this Act are effective April 1, 2016.

Section 2 of this Act is effective December 31, 2020.

(Amends R.S. 47:633(7)(d); Repeals R.S. 47:633(7)(d))