PUBLICATION

Louisiana Severance Tax Exemptions in Jeopardy

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The 2015 Louisiana legislative session is in full swing and the lawmakers are dealing with a projected $1.6 billion budget shortfall. Of the many tax credits, exemptions and deductions that are in the legislature's crosshairs, the horizontal drilling severance tax exemption has garnered particular interest.

Louisiana currently has a severance tax rate for oil at 12.5% of value and a severance tax rate for natural gas at a minimum of 7 cents per 1,000 cubic feet, subject to rate adjustments based on the prior year's price of natural gas. The severance tax is currently suspended on production from a horizontally drilled well for a period of 24 months or until payout of the well cost is achieved, whichever comes first. However, the following bills would reduce or eliminate the severance tax exemption for Louisiana producers:

- House Bill 483 (Rep. Morris, R-Monroe) would reduce the exemption period from the current 24 months to 12 months.
- House Bill 549 (Rep. Thibaut, D-New Roads) narrows the definition of "horizontal drilling" and would reduce the exemption from 100% to an amount varying between 100% and 0% based on the price of oil or natural gas as established by the Annual Energy Outlook report.
- House Bill 558 (Rep. James, D-Baton Rouge) would extend the exemption period from the current 24 months to 48 months, but would reduce the exemption to 50% of the severance tax.
- House Bill 631 (Rep. Harris, R-Alexandria) would extend the exemption period from the current 24 months to 48 months, but would reduce the exemption from 100% to an amount varying between 100% and 0% based on the price of oil or natural gas as established by the Department of Natural Resources.
- Senate Concurrent Resolution No. 3 (Sen. Adley, R-Benton) would remove all exclusions, exemptions, deductions, credits and lower rates granted against severance taxes from July 1, 2015 through June 30, 2016.

We will continue to monitor these bills closely as the session proceeds.