

Revenue Information Bulletin No. 15-012

June 18, 2015

Severance Tax

Act 120

**Horizontally Drilled Wells and Horizontally Drilled Recompletion Wells
Oil and Natural Gas**

Act No. 120 was passed by both bodies of the legislature during the 2015 Regular Legislative Session. The Act applies to horizontally drilled wells and horizontally drilled recompletion wells for which production occurs on or after July 1, 2015. Horizontally drilled wells and horizontally drilled recompletion wells currently in production are limited to an exemption of twenty-four (24) months or until payout of the well cost is achieved, whichever comes first. The Department of Natural Resources will determine payout of the well. The Department of Revenue shall determine the oil price and the natural gas price upon which the exemption shall be based.

Oil

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 30th for the prior twelve months. The amount of the exemption for a horizontal well that produces oil shall be as follows:

1. The exemption shall be one hundred percent if the price of oil is at or below seventy dollars per barrel. Therefore, no tax is due.
2. The exemption shall be eighty percent if the price of oil is above seventy dollars and at or below eighty dollars per barrel. Therefore, tax is due at the full rate of 12.5% of the gross value on the remaining disposition (amount sold) of 20%.
3. The exemption shall be sixty percent if the price of oil is above eighty dollars and at or below ninety dollars per barrel. Therefore, tax is due at the full rate of 12.5% of the gross value on the remaining disposition (amount sold) of 40%.
4. The exemption shall be forty percent if the price of oil is above ninety dollars and at or below one hundred dollars per barrel. Therefore, tax is due at the full rate of 12.5% of the gross value on the remaining disposition (amount sold) of 60%.
5. 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. Therefore, tax is due at the full rate of 12.5% of the gross value on the remaining disposition (amount sold) of 80%.

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6. There shall be no exemption in effect if the price of oil exceeds one hundred ten dollars per barrel. Therefore, tax is due at the full rate of 12.5% of the gross value on the entire disposition (amount sold).

Natural Gas

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 30th for the prior twelve months. The amount of the exemption for a horizontal well that produces natural gas shall be as follows:

1. The exemption shall be one hundred percent if the price of natural gas is at or below four dollars and fifty cents per million BTU. Therefore, no tax is due.
2. The exemption shall be by eighty 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. Therefore, tax is due at the full rate of 15.8 cents per MCF on the remaining production of 20%.
3. The exemption shall be sixty 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. Therefore, tax is due at the full rate of 15.8 cents per MCF on the remaining production of 40%.
4. The exemption shall be forty 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. Therefore, tax is due at the full rate of 15.8 cents per MCF on the remaining production of 60%.
5. 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. Therefore, tax is due at the full rate of 15.8 cents per MCF on the remaining production of 80%.
7. There shall be no exemption in effect if the price of natural gas exceeds seven dollars per million BTU. Therefore, tax is due at the full rate of 15.8 cents per MCF.

Questions concerning these severance tax values and rates should be directed to the Louisiana Department of Revenue's Office Audit Division at 225-219-7656, option 2 then 1.

Tim Barfield
Secretary