

SENATOR MICHAEL REESE, *Chairman*



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**LOUISIANA TAX INSTITUTE**  
**APPROVED MARCH 26, 2021**  
**MINUTES**  
March 5, 2021

**I. CALL TO ORDER**

A meeting of the Louisiana Tax Institute was held on Friday, March 5, 2021 in Committee Room A-B at the State Capitol in Baton Rouge, Louisiana. The chairman, Senator Mike Reese called the meeting to order at 10:33 AM

**II. ROLL CALL**

The secretary called the roll and the following was noted:

**MEMBERS PRESENT**

Senator Mike Reese  
Mr. Angelico  
Mr. Kolb (designee for Mr. Bergeron)  
Mr. Richardson (designee for Mr. Block, *via phone*)  
Ms. Calhoun  
Mr. Cole  
Mr. DeCuir  
Mr. Robideaux  
Secretary Robinson  
Professor Sheffrin

**MEMBERS ABSENT**

Mr. Bergeron  
Mr. Block  
Professor Carter  
Professor Fasullo

**STAFF MEMBERS PRESENT**

Leonore F. Heavey, Chief Revenue Counsel  
Shannon C. Simpson, Senior Secretary  
Anita Carr, Administrative Secretary (streamer)

## DISCUSSIONS:

- **LSU Center for Energy Studies report entitled *Mineral Revenues in Louisiana*, generated as a result of SCR 4 of 2018 2<sup>nd</sup> Extraordinary Session previously discussed by the Louisiana Tax Institute presented Greg Upton, Ph.D. (see handout)**

Dr. Gregory B. Upton, Jr. of the Louisiana State University Center for Energy Studies presented LSU's study entitled "Mineral Revenues in Louisiana (the Report)." (see handout)

Mr. Robideaux and Dr. Upton discussed the presentation slide referencing the state by state comparison of tax structure for oil and gas.

Mr. Cole and Dr. Upton discussed the dispute between companies that are primarily shale gas producers and companies that operate in south Louisiana.

Mr. Cole and Dr. Upton discussed analyzing and modeling comparable wells in Louisiana and Texas. They also discussed transportation marketing cost and high cost well exemption in Texas.

Mr. Angelico and Dr. Upton discussed research on the differences between oil and gas in terms of 12% of value and 4% of volume. They also discussed BTU measurements and it was concluded that BTU measurements were unfeasible for technical reasons of when the measurements are made, etc.

Mr. DeCuir and Dr. Upton discussed severance tax reform for 2021 session. Dr. Upton explained he is not lobbying for any specific bill. His role is to answer questions and make recommendations based on specific criteria. If industry, legislators or anyone has technical changes with a specific bill and he is asked his opinion, LSU can help incorporate the changes. It is out of LSU's role to take comments back and try to redraft/renegotiate legislation.

Mr. DeCuir and Attorney Heavey discussed multiple instruments, or a single instrument, needed to accomplish LSU's recommendations that met the goals of the study. Attorney Heavey explained it could be accomplished with a single piece of legislation and it would have to originate in the House of Representatives because the increase in the gas severance tax would raise revenue.

Professor Sheffrin discussed funds going into a trust fund.

Dr. Richardson chimed in via text through Secretary Robinson and clarified the "Edwardian Logic" of the former Governor Edwin Edwards and that market conditions controlled his logic.

Secretary Robinson and Dr. Upton discussed responses to LSU's Report from LMOGA and LOGA. Also, Dr. Upton clarified that the Report does not propose two different tax systems to be administered by the Department of Revenue. The Report proposed one system with different tax rates depending on when the well was drilled. The Report suggested moving all wells to a volumetric rate no matter when it was drilled. The volumetric rate is to be published by the Department of Natural Resources. The question would be if that well would be at a "pre- tax" or "post- tax" rate. DOR would apply that rate to all wells. The incentives would sunset in 2030.

Ms. Calhoun discussed LSU's recommendations and questioned if they were for simplicity, fairness to oil producers or based on economics.

Mr. Robideaux and Dr. Upton discussed if he considered how inactive wells would be treated.

Attorney Heavey discussed SCR 4, 2018, 2<sup>nd</sup> Extraordinary Session and the specific goals that Dr. Upton were to attain. The goals are to preserve and improve the competitiveness in the oil and gas extraction sector in Louisiana, decrease or remove the difference in the tax rates from oil and gas, create an equal table system of severance tax exemptions for all wells not just horizontal wells, hold constant or increase mineral revenues for the state, explore other reasons why all oil and gas production is fluctuating, and any changes needed to be made for increasing production.

- ***PAR Louisiana Constitution Reform Part II, Chapter 1. An Enduring Fiscal Framework presented by Robert Travis Scott. (see handouts) (Also, Chapter 2, Serious Money; Taxation in Louisiana Tax; and, PAR's Examples of Offsets.)***

Mr. Scott presented his report.

Mr. Scott discussed the Constitution Reform Project. There are complaints about the Constitution; the length and how often it is amended (over 200 times). The presentation deals with the state fiscal part of the Constitution. Part III will deal with the state and local issues, plus the broader aspects of the Constitution beyond fiscal issues and property taxes.

Chapter One focuses on culture, trust and reform. It is the executive summary which covers all four chapters. The second handout is Chapter 2 and is about taxes, spending, and all the funds in the Constitution. There are 28 funds.

There is a resistance to removing limits in the Constitution unless it is understood what the plan is. The political reality when changes are made to the Constitution, is that the public and the legislature want to be informed. PAR is in favor of having a cleaner constitution.

Mr. Scott hopes that when the Constitution is changed, the amendments are permissive. It doesn't have to replace one set of restrictions with another set of restrictions.

Mr. Scott discussed that the franchise tax it is not a good tax. There was a task to the Louisiana Tax Institute to review ways of reducing, phasing out or eliminating franchise tax. There have to be revenue offsets to eliminate it. A list of *PAR's Examples of Offsets* was handed out. It was based on the FY2019 figures.

Mr. Cole and Mr. Scott discussed taking detail out of the Constitution and replacing it with  $\frac{2}{3}$  vote threshold to make people comfortable .

- ***Report by Louisiana Tax Institute: Centralized LA Sales Tax presented by Jason DeCuir. (see handout)***

Mr. DeCuir presented his report.

Ms. Calhoun and Chairman Reese discussed the role of the Louisiana Tax Institute with respect to legislation that may be submitted and will the Tax Institute have an opportunity to review, make changes and/or recommendations. Chairman Reese responded that the Tax Institute can endorse things and as the bills get filed can decide how to proceed in terms of hearing the bills and debating those issues. Whether to debate them broadly, or whether we debate the instruments themselves to solicit the most input and help in the process.

- ***Alternative Minimum Taxes and the Corporate Franchise Tax*** presented by **Steven M. Sheffrin, Ph.D. (see handout)**

Professor Sheffrin presented his report.

Mr. Cole and Professor Sheffrin discussed various states using a capital stock tax as an alternative minimum tax. In those states, an alternative minimum tax is baked into the corporate tax and there are no credits, deductions and/or very limited credits and deductions.

Professor Sheffrin discussed changing the threshold would remove a lot of taxpayers from being affected. If it goes below \$5 million, 2/3 of taxpayers could be removed and exempted from the tax. The revenue loss would be virtually nothing. The franchise tax is very highly centralized. A clean up measure to basically only make this for taxpayers above \$5 million taxing value would cost very little revenue and would go a long way to make it simpler for smaller taxpayers.

Mr. Cole and Professor Sheffrin discussed credits in Louisiana compared to other states. Louisiana spends much more on credits out of our tax system than other states.

Mr. Cole and Professor Sheffrin discussed the numbers based in his report regarding the franchise tax and changing to an alternative minimum tax.

Mr. Angelico and Professor Sheffrin discussed an alternative whereby a phase-out of the franchise tax, over 5 or 10 years, would have less of a revenue impact initially, and eventually, the state could wean itself off, to some extent, of the revenue. If the legislature simplified the corporate income tax and the individual income tax to the point where hopefully it can attract more companies to come to Louisiana and do business, Louisiana would end up with one tax instead of two.

Ms. Calhoun and Professor Sheffrin discussed "add back" statutes.

Mr. Robideaux and Professor Sheffrin discussed his report and overall economic impact relative to the benefits to larger corporations; number of jobs created and average wages.

Mr. DeCuir and Professor Sheffrin discussed his report and evaluating Mississippi's phase-out of franchise tax. Professor Sheffrin responded that he did not study Mississippi.

Chairman Reese discussed the next Louisiana Tax Institute meeting being scheduled on Friday, March 26, 2021. The agenda will entail presentations by the Louisiana Budget Project, entitled "*Thinking Clearly about Louisiana Tax*", and The Pelican Institute, entitled "*A Tax Reform Plan to Unlock LA Economic Potential*".

The Louisiana Tax Institute will get deeper into the discussion of relevant policies that are going to be contemplated in the 2021 session.

**WITNESS CARDS**

Information Only

Greg Upton

Robert Travis Scott, PAR

**V. CONSIDERATION OF ANY OTHER MATTERS THAT MAY COME BEFORE THE COMMITTEE**

**VI. ADJOURNMENT**

There being no further business before the committee, Senator Robideaux moved to adjourn. Without objection, the meeting adjourned at 1:04 PM.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Mike Reese", is written over a horizontal line.

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Senator Mike Reese, Chairman

MARCH 26, 2021  
Approval Date