

30 (a) "Royalty rate" means the percentage of the interests described in Subsection
31 (2)(b)(i) as defined by a contract between the United States, the state, an Indian, or an Indian
32 tribe and the oil or gas producer.

33 (b) "Taxable value" means the total value of the oil or gas minus:

34 (i) any royalties paid to, or the value of oil or gas taken in kind by, the interest holders
35 described in Subsection (2)(b)(i); and

36 (ii) the total value of oil or gas exempt from severance tax under Subsection (2)(b)(ii).

37 (c) "Taxable volume" means:

38 (i) for oil, the total volume of barrels minus:

39 (A) for an interest described in Subsection (2)(b)(i), the product of the royalty rate and
40 the total volume of barrels; and

41 (B) the number of barrels that are exempt under Subsection (2)(b)(ii); and

42 (ii) for natural gas, the total volume of MCFs minus:

43 (A) for an interest described in Subsection (2)(b)(i), the product of the royalty rate and
44 the total volume of MCFs; and

45 (B) the number of MCFs that are exempt under Subsection (2)(b)(ii).

46 (d) "Total value" means the value, as determined by Section [59-5-103.1](#), of all oil or
47 gas that is:

48 (i) produced; and

49 (ii) (A) saved;

50 (B) sold; or

51 (C) transported from the field where the oil or gas was produced.

52 (e) "Total volume" means:

53 (i) for oil, the number of barrels:

54 (A) produced; and

55 (B) (I) saved;

56 (II) sold; or

57 (III) transported from the field where the oil was produced; and

58 (ii) for natural gas, the number of MCFs:

59 (A) produced; and

60 (B) (I) saved;

61 (II) sold; or

62 (III) transported from the field where the natural gas was produced.

63 (f) "Value of oil or gas taken in kind" means the volume of oil or gas taken in kind

64 multiplied by the market price for oil or gas at the location where the oil or gas was produced

65 on the date the oil or gas was taken in kind.

66 (2) (a) Except as provided in Subsection [(+) (2)(b), a person owning an interest in oil

67 or gas produced from a well in the state, including a working interest, royalty interest, payment

68 out of production, or any other interest, or in the proceeds of the production of oil or gas, shall

69 pay to the state a severance tax on [the basis of the value determined under Section 59-5-103.1]

70 the owner's interest in the taxable value of the oil or gas:

71 (i) produced; and

72 (ii) (A) saved;

73 (B) sold; or

74 (C) transported from the field where the substance was produced.

75 (b) [This section applies to an interest in oil or gas produced from a well in the state or

76 in the proceeds of the production of oil or gas produced from a well in the state except for:]

77 The severance tax imposed by Subsection (2)(a) does not apply to:

78 (i) an interest of:

79 (A) the United States in oil or gas or in the proceeds of the production of oil or gas;

80 [(ii) an interest of] (B) the state or a political subdivision of the state in oil or gas or in

81 the proceeds of the production of oil or gas; [or] and

82 [(iii) an interest of] (C) an Indian or Indian tribe as defined in Section 9-9-101 in oil or

83 gas or in the proceeds of the production of oil or gas produced from land under the jurisdiction

84 of the United States[-(2) (a) Subject to Subsection (2)(d), the]; and

85 (ii) the value of:

86 (A) oil or gas produced from stripper wells, unless the exemption prevents the
87 severance tax from being treated as a deduction for federal tax purposes;

88 (B) oil or gas produced in the first 12 months of production for wildcat wells started
89 after January 1, 1990; and

90 (C) oil or gas produced in the first six months of production for development wells
91 started after January 1, 1990.

92 (3) (a) The severance tax on oil shall be calculated as follows:

93 (i) dividing the taxable value by the taxable volume;

94 (ii) (A) multiplying the rate described in Subsection (4)(a)(i) by the portion of the
95 figure calculated in Subsection (3)(a)(i) that is subject to the rate described in Subsection
96 (4)(a)(i); and

97 (B) multiplying the rate described in Subsection (4)(a)(ii) by the portion of the figure
98 calculated in Subsection (3)(a)(i) that is subject to the rate described in Subsection (4)(a)(ii);

99 (iii) adding together the figures calculated in Subsections (3)(a)(ii)(A) and (B); and

100 (iv) multiplying the figure calculated in Subsection (3)(a)(iii) by the taxable volume.

101 (b) The severance tax on natural gas shall be calculated as follows:

102 (i) dividing the taxable value by the taxable volume;

103 (ii) (A) multiplying the rate described in Subsection (4)(b)(i) by the portion of the
104 figure calculated in Subsection (3)(b)(i) that is subject to the rate described in Subsection
105 (4)(b)(i); and

106 (B) multiplying the rate described in Subsection (4)(b)(ii) by the portion of the figure
107 calculated in Subsection (3)(b)(i) that is subject to the rate described in Subsection (4)(b)(ii);

108 (iii) adding together the figures calculated in Subsections (3)(b)(ii)(A) and (B); and

109 (iv) multiplying the figure calculated in Subsection (3)(b)(iii) by the taxable volume.

110 (c) The severance tax on natural gas liquids shall be calculated by multiplying the
111 taxable value of the natural gas liquids by the severance tax rate in Subsection (4)(c).

112 (4) Subject to Subsection (8):

113 (a) the severance tax rate for oil is as follows:

114 (i) 3% of the taxable value of the oil up to and including the first \$13 per barrel for oil;
115 and

116 (ii) 5% of the taxable value of the oil from \$13.01 and above per barrel for oil[-];

117 (b) [~~Subject to Subsection (2)(d),~~] the severance tax rate for natural gas is as follows:

118 (i) 3% of the taxable value of the natural gas up to and including the first \$1.50 per
119 MCF for gas; and

120 (ii) 5% of the taxable value of the natural gas from \$1.51 and above per MCF for
121 gas[-]; and

122 (c) [~~Subject to Subsection (2)(d),~~] the severance tax rate for natural gas liquids is 4% of
123 the taxable value of the natural gas liquids.

124 [~~(d)(i) On or before December 15, 2004, the Office of the Legislative Fiscal Analyst
125 and the Governor's Office of Management and Budget shall prepare a revenue forecast
126 estimating the amount of revenues that:]~~

127 [~~(A) would be generated by the taxes imposed by this part for the calendar year
128 beginning on January 1, 2004 had 2004 General Session S.B. 191 not taken effect; and]~~

129 [~~(B) will be generated by the taxes imposed by this part for the calendar year beginning
130 on January 1, 2004.]~~

131 [~~(ii) Effective on January 1, 2005, the tax rates described in Subsections (2)(a) through
132 (c) shall be:]~~

133 [~~(A) increased as provided in Subsection (2)(d)(iii) if the amount of revenues estimated
134 under Subsection (2)(d)(i)(B) is less than the amount of revenues estimated under Subsection
135 (2)(d)(i)(A); or]~~

136 [~~(B) decreased as provided in Subsection (2)(d)(iii) if the amount of revenues
137 estimated under Subsection (2)(d)(i)(B) is greater than the amount of revenues estimated under
138 Subsection (2)(d)(i)(A).]~~

139 [~~(iii) For purposes of Subsection (2)(d)(ii):]~~

140 [~~(A) subject to Subsection (2)(d)(iv)(B):]~~

141 [~~(f) if an increase is required under Subsection (2)(d)(ii)(A), the total increase in the tax~~

142 ~~rates shall be by the amount necessary to generate for the calendar year beginning on January 1,~~
 143 ~~2005 revenues equal to the amount by which the revenues estimated under Subsection~~
 144 ~~(2)(d)(i)(A) exceed the revenues estimated under Subsection (2)(d)(i)(B); or]~~

145 ~~[(H) if a decrease is required under Subsection (2)(d)(ii)(B), the total decrease in the~~
 146 ~~tax rates shall be by the amount necessary to reduce for the calendar year beginning on January~~
 147 ~~1, 2005 revenues equal to the amount by which the revenues estimated under Subsection~~
 148 ~~(2)(d)(i)(B) exceed the revenues estimated under Subsection (2)(d)(i)(A); and]~~

149 ~~[(B) an increase or decrease in each tax rate under Subsection (2)(d)(ii) shall be in~~
 150 ~~proportion to the amount of revenues generated by each tax rate under this part for the calendar~~
 151 ~~year beginning on January 1, 2003.]~~

152 ~~[(iv) (A) The commission shall calculate any tax rate increase or decrease required by~~
 153 ~~Subsection (2)(d)(ii) using the best information available to the commission.]~~

154 ~~[(B) If the tax rates described in Subsections (2)(a) through (c) are increased or~~
 155 ~~decreased as provided in this Subsection (2)(d), the commission shall mail a notice to each~~
 156 ~~person required to file a return under this part stating the tax rate in effect on January 1, 2005~~
 157 ~~as a result of the increase or decrease.]~~

158 ~~[(3)]~~ (5) If oil or gas is shipped outside the state:

- 159 (a) the shipment constitutes a sale; and
- 160 (b) the oil or gas is subject to the tax imposed by this section.

161 ~~[(4)]~~ (6) (a) Except as provided in Subsection ~~[(4)]~~ (6)(b), if the oil or gas is stockpiled,
 162 the tax is not imposed until the oil or gas is:

- 163 (i) sold;
- 164 (ii) transported; or
- 165 (iii) delivered.

166 (b) ~~[Notwithstanding Subsection (4)(a), if]~~ If oil or gas is stockpiled for more than two
 167 years, the oil or gas is subject to the tax imposed by this section.

168 ~~[(5) A tax is not imposed under this section upon:]~~

169 ~~[(a) stripper wells, unless the exemption prevents the severance tax from being treated~~

170 as a deduction for federal tax purposes;]

171 ~~[(b) the first 12 months of production for wildcat wells started after January 1, 1990;~~
172 ~~or]~~

173 ~~[(c) the first six months of production for development wells started after January 1,~~
174 ~~1990.]~~

175 ~~[(6)]~~ (7) (a) Subject to Subsections ~~[(6)]~~ (7)(b) and (c), a ~~[working interest owner]~~
176 taxpayer who pays for all or part of the expenses of a recompletion or workover may claim a
177 nonrefundable tax credit equal to 20% of the amount paid.

178 (b) The tax credit under Subsection ~~[(6)]~~ (7)(a) for each recompletion or workover may
179 not exceed \$30,000 per well during each calendar year.

180 ~~[(c) If any amount of tax credit a taxpayer is allowed under this Subsection (6) exceeds~~
181 ~~the taxpayer's tax liability under this part for the calendar year for which the taxpayer claims~~
182 ~~the tax credit, the amount of tax credit exceeding the taxpayer's tax liability for the calendar~~
183 ~~year may be carried forward for the next three calendar years.]~~

184 (c) A taxpayer may carry forward a tax credit allowed under this Subsection (7) for the
185 next three calendar years if the tax credit exceeds the taxpayer's tax liability under this part for
186 the calendar year in which the taxpayer claims the tax credit.

187 ~~[(7)]~~ (8) A 50% reduction in the tax rate is imposed upon the incremental production
188 achieved from an enhanced recovery project.

189 ~~[(8)]~~ (9) The taxes imposed by this section are:

190 (a) in addition to all other taxes provided by law; and

191 (b) delinquent, unless otherwise deferred, on June 1 ~~[next succeeding]~~ following the
192 calendar year when the oil or gas is:

193 (i) produced; and

194 (ii) (A) saved;

195 (B) sold; or

196 (C) transported from the field.

197 ~~[(9)]~~ (10) With respect to the tax imposed by this section on each owner of an interest

198 in the production of oil or gas or in the proceeds of the production of [~~those substances~~
199 ~~produced~~] oil or gas in the state, each owner is liable for the tax in proportion to the owner's
200 interest in the production or in the proceeds of the production.

201 [~~(10)~~] (11) The tax imposed by this section shall be reported and paid by each producer
202 that takes oil or gas in kind pursuant to an agreement on behalf of the producer and on behalf of
203 each owner entitled to participate in the oil or gas sold by the producer or transported by the
204 producer from the field where the oil or gas is produced.

205 [~~(11)~~] (12) Each producer shall deduct the tax imposed by this section from the
206 amounts due to other owners for the production or the proceeds of the production.

207 [~~(12) (a) The Revenue and Taxation Interim Committee shall review the applicability~~
208 ~~of the tax provided for in this chapter to coal-to-liquids, oil shale, and tar sands technology on~~
209 ~~or before the October 2011 interim meeting.]~~

210 [~~(b) The Revenue and Taxation Interim Committee shall address in its review the cost~~
211 ~~and benefit of not applying the tax provided for in this chapter to coal-to-liquids, oil shale, and~~
212 ~~tar sands technology.]~~

213 [~~(c) The Revenue and Taxation Interim Committee shall report its findings and~~
214 ~~recommendations under this Subsection (12) to the Legislative Management Committee on or~~
215 ~~before the November 2011 interim meeting.]~~

216 Section 2. Section **59-5-103.1** is amended to read:

217 **59-5-103.1. Valuation of oil or gas -- Deductions.**

218 (1) (a) For purposes of the tax imposed under Section **59-5-102** and subject to
219 Subsection (2), the value of oil or gas shall be determined at the first point closest to the well at
220 which the fair market value for the oil or gas may be determined by:

221 (i) a sale pursuant to an arm's-length contract; or
222 (ii) for a sale other than a sale described in Subsection (1)(a)(i), comparison to other
223 sales of oil or gas.

224 (b) For purposes of determining the fair market value of oil or gas under this
225 Subsection (1), a person subject to a tax under Section **59-5-102** may deduct:

226 (i) all processing costs from the value of[:] oil or gas, including processing costs
 227 attributable to the value of oil and gas that is exempt from taxation under Section 59-5-102;
 228 and
 229 ~~[(A) oil; or]~~
 230 ~~[(B) gas; and]~~
 231 (ii) ~~[(A)]~~ except as provided in Subsection (1)~~[(b)(ii)(B);]~~(c), all transportation costs
 232 from the value of[:]oil or gas, including transportation costs attributable to the value of oil and
 233 gas that is exempt from taxation under Section 59-5-102.

234 ~~[(F) oil; and]~~
 235 ~~[(H) gas; and]~~
 236 ~~[(B) notwithstanding Subsection (1)(b)(ii)(A), the]~~
 237 (c) The deduction for transportation costs may not exceed 50% of the value of the[:] oil
 238 or gas.

239 ~~[(F) oil; or]~~
 240 ~~[(H) gas;]~~
 241 (2) Subsection (1)(a)(ii) applies to a sale of oil or gas between:
 242 (a) a parent company and a subsidiary company;
 243 (b) companies wholly owned or partially owned by a common parent company; or
 244 (c) companies otherwise affiliated.

Section 3. **Effective date.**

246 If approved by two-thirds of all the members elected to each house, this bill takes effect
 247 upon approval by the governor, or the day following the constitutional time limit of Utah
 248 Constitution, Article VII, Section 8, without the governor's signature, or in the case of a veto,
 249 the date of veto override.

Section 4. **Retrospective operation.**

251 This bill has retrospective operation for a taxable year beginning on or after January 1,
 252 2015, and applies to an oil and gas severance tax for any taxable year, including a taxable year
 253 beginning before January 1, 2015, that is the subject of an appeal that was filed or pending on

254 or after January 1, 2016.