

**OIL AND GAS SEVERANCE TAX**

**AMENDMENTS**

1998 GENERAL SESSION

STATE OF UTAH

**Sponsor: Beverly Ann Evans**

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6 AN ACT RELATING TO THE OIL AND GAS SEVERANCE TAX; EXTENDING THE TAX  
7 CREDIT FOR RECOMPLETIONS AND WORKOVERS UNTIL DECEMBER 31, 2004;  
8 EXTENDING ANNUAL DEPOSITS OF TAXES INTO THE UINTA BASIN  
9 REVITALIZATION FUND UNTIL DECEMBER 31, 2004; **h** **REQUIRING THE TAX REVIEW**  
9a **COMMISSION TO STUDY THE OIL AND GAS SEVERANCE TAX AND REPORT ITS FINDINGS AND**  
9b **RECOMMENDATIONS TO THE REVENUE AND TAXATION INTERIM COMMITTEE; h** AND MAKING  
9c TECHNICAL  
10 CHANGES.

11 This act affects sections of Utah Code Annotated 1953 as follows:

12 AMENDS:

13 **59-5-102**, as last amended by Chapter 271, Laws of Utah 1996

14 **59-5-116**, as enacted by Chapter 341, Laws of Utah 1995

15 *Be it enacted by the Legislature of the state of Utah:*

16 Section 1. Section **59-5-102** is amended to read:

17 **59-5-102. Severance tax -- Rate -- Computation -- Annual exemption.**

18 (1) (a) Each person owning an interest, working interest, royalty interest, payments out of  
19 production, or any other interest, in oil or gas produced from a well in the state, or in the proceeds  
20 of the production, shall pay to the state a severance tax equal to 4% of the value, at the well, of the  
21 oil or gas produced, saved, and sold or transported from the field where the substance was  
22 produced.

23 (b) Beginning January 1, 1992, the severance tax rate for oil is as follows:

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

25 (ii) 5% of the value from \$13.01 and above per barrel for oil.

26 (c) Beginning January 1, 1992, the severance tax rate for natural gas is as follows:

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

1 (ii) 5% of the value from \$1.51 and above per MCF for gas.

2 (d) Beginning January 1, 1992, the severance tax rate for natural gas liquids is 4% of the  
3 taxable value for natural gas liquids.

4 (e) If the oil or gas is shipped outside the state, this constitutes a sale, and the oil or gas  
5 is subject to the severance tax.

6 (f) If the oil or gas is stockpiled, the tax is not applicable until it is sold, transported, or  
7 delivered. However, oil or gas that is stockpiled for more than two years is subject to the  
8 severance tax.

9 (2) No tax is imposed upon:

10 (a) the first \$50,000 annually in gross value of each well or wells as defined in this part,  
11 to be prorated among the owners in proportion to their respective interests in the production or in  
12 the proceeds of the production;

13 (b) stripper wells, unless the exemption prevents the severance tax from being treated as  
14 a deduction for federal tax purposes;

15 (c) the first six months of production for wells started after January 1, 1984, but before  
16 January 1, 1990;

17 (d) the first 12 months of production for wildcat wells started after January 1, 1990; or

18 (e) the first six months of production for development wells started after January 1, 1990.

19 (3) (a) ~~h [A] THROUGH DECEMBER 31, 2004, A h~~ working interest owner who pays for all or  
19a part of the expenses of a recompletion  
20 or workover is entitled to a tax credit equal to 20% of the amount paid.

21 (b) The tax credit for each recompletion or workover may not exceed ~~h [\$50,000 per well~~  
22 ~~during each calendar year through December 31, 1994, and beginning January 1, 1995,] h~~ \$30,000  
23 per well during each calendar year ~~h [through December 31,] h [1999] h [2004] h~~ . The tax credit  
23a shall apply

24 to the taxable year in which the recompletion or workover is completed and shall be claimed  
25 quarterly beginning on the third quarter after recompletion or workover is completed under rules  
26 made by the commission.

27 ~~[(c) Subsection (3) shall terminate at midnight on December 31, 1999.]~~

28 (4) A 50% reduction in the tax rate is imposed upon the incremental production achieved  
29 from an enhanced recovery project.

30 (5) These taxes are in addition to all other taxes provided by law and are delinquent, unless  
31 otherwise deferred, on June 1 next succeeding the calendar year when the oil or gas is produced,

1 saved, and sold or transported from the premises.

2 (6) With respect to the tax imposed by this chapter on each owner of oil or gas or in the  
3 proceeds of the production of those substances produced in the state, each owner is liable for the  
4 tax in proportion to the owner's interest in the production or in the proceeds of the production.

5 (7) The tax shall be reported and paid by each producer who takes oil or gas in kind  
6 pursuant to agreement on behalf of the producer and on behalf of each owner entitled to participate  
7 in the oil or gas sold by the producer or transported by the producer from the field where the oil  
8 or gas is produced.

9 (8) Each producer shall deduct the tax from the amounts due to other owners for the  
10 production or the proceeds of the production.

10a h (9)(a) THE TAX REVIEW COMMISSION SHALL REVIEW THE TAX PROVIDED FOR IN THIS  
10b PART ON OR BEFORE THE OCTOBER 2002 INTERIM MEETING.

10c (b) THE TAX REVIEW COMMISSION SHALL ADDRESS IN ITS REVIEW THE FOLLOWING  
10d STATUTORY PROVISIONS:

10e (i) THE SEVERANCE TAX RATE STRUCTURE PROVIDED FOR IN THIS SECTION;

10f (ii) THE EXEMPTIONS PROVIDED FOR IN SUBSECTION (2);

10g (iii) THE CREDIT PROVIDED FOR IN SUBSECTION (3), INCLUDING:

10h (A) THE COST OF THE CREDIT;

10i (B) THE PURPOSE AND EFFECTIVENESS OF THE CREDIT; AND

10j (C) WHETHER THE CREDIT BENEFITS THE STATE;

10k (iv) THE TAX RATE REDUCTION PROVIDED FOR IN SUBSECTION (4);

10l (v) OTHER STATUTORY PROVISIONS OR ISSUES AS DETERMINED BY THE TAX REVIEW  
10m COMMISSION; AND

10n (vi) WHETHER THE STATUTORY PROVISIONS THE TAX REVIEW COMMISSION REVIEWS  
10o UNDER THIS SUBSECTION (9) SHOULD BE:

10p (A) CONTINUED;

10q (B) MODIFIED; OR

10r (C) REPEALED.

10s (c) THE TAX REVIEW COMMISSION SHALL REPORT ITS FINDINGS AND RECOMMENDATIONS  
10t REGARDING THE TAX PROVIDED FOR IN THIS PART TO THE REVENUE AND TAXATION INTERIM  
10u COMMITTEE ON OR BEFORE THE NOVEMBER 2002 INTERIM MEETING. h

11 Section 2. Section 59-5-116 is amended to read:

12 **59-5-116. Disposition of certain taxes collected on Ute Indian land.**

13 (1) Except as provided in Subsection (2), commencing July 1, 1996, there shall be  
14 deposited into the Uintah Basin Revitalization Fund established in Section 9-10-102:

15 (a) 33% of taxes imposed and collected under Section 59-5-102 from all wells existing on  
16 or before June 30, 1995, producing from oil and gas or other hydrocarbon substances attributable  
17 to interests:

18 (i) held in trust by the United States for the Tribe and its members; and

19 (ii) until December 31, [~~1999~~] 2004, on lands identified in Pub. L. No. 440, 62 Stat. 72  
20 (1948); and

21 (b) 80% of taxes imposed and collected under Section 59-5-102 from new wells beginning  
22 production on or after July 1, 1995, producing from oil and gas or other hydrocarbon substances  
23 attributable to interests:

24 (i) held in trust by the United States for the Tribe and its members; and

25 (ii) until December 31, [~~1999~~] 2004, on lands identified in Pub. L. No. 440, 62 Stat. 72  
26 (1948).

27 (2) (a) The maximum amount deposited in the Revitalization Fund may not exceed  
28 \$2,000,000 in a given fiscal year.

29 (b) Any amounts in excess of the maximum shall be deposited into the General Fund.

**Legislative Review Note**  
**as of 12-16-97 12:22 PM**

A limited legal review of this bill raises no obvious constitutional or statutory concerns.

**Office of Legislative Research and General Counsel**