S.B. 71

SEVERANCE TAX LAW CHANGES

1998 GENERAL SESSION

STATE OF UTAH

Sponsor: Alarik Myrin

AN ACT RELATING TO THE OIL AND GAS SEVERANCE TAX; EXTENDING THE TAX CREDIT FOR RECOMPLETIONS AND WORKOVERS UNTIL DECEMBER 31, 2004; EXTENDING ANNUAL DEPOSITS OF TAXES INTO THE UINTA BASIN REVITALIZATION FUND UNTIL DECEMBER 31, 2004; AND MAKING TECHNICAL CHANGES.

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

AMENDS:

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

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

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

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

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

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

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

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

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

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

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

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

SB0071

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

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

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

(2) No tax is imposed upon:

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

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

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

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

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

(3) (a) [~~A~~] <u>Through December 31, 2004, a</u> working interest owner who pays for all or part of the expenses of a recompletion or workover is entitled to a tax credit equal to 20% of the amount paid.

(b) The tax credit for each recompletion or workover may not exceed [~~$50,000 per well during each calendar year through December 31, 1994, and beginning January 1, 1995,~~] $30,000 per well during each calendar year [~~through December 31, 1999~~]. The tax credit shall apply to the taxable year in which the recompletion or workover is completed and shall be claimed quarterly beginning on the third quarter after recompletion or workover is completed under rules made by the commission.

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

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

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

saved, and sold or transported from the premises.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Legislative Review Note
as of 1-29-98 12:05 PM

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

Office of Legislative Research and General Counsel