

1 STATE OF OKLAHOMA

2 2nd Extraordinary Session of the 56th Legislature (2018)

3 HOUSE BILL 1001

By: Perryman

4
5
6 AS INTRODUCED

7 An Act relating to revenue and taxation; amending
8 Section 1, Chapter 5, 1st Extraordinary Session,
9 O.S.L. 2017 (68 O.S. Supp. 2017, Section 1001), which
10 relates to gross production tax; limiting the period
11 where certain tax rate is applicable; providing for
12 rate based on certain average; requiring periodic
13 calculation and publication of rate; and defining
14 term.

15 BE IT ENACTED BY THE PEOPLE OF THE STATE OF OKLAHOMA:

16 SECTION 1. AMENDATORY Section 1, Chapter 5, 1st
17 Extraordinary Session, O.S.L. 2017 (68 O.S. Supp. 2017, Section
18 1001), is amended to read as follows:

19 Section 1001. A. There is hereby levied upon the production of
20 asphalt, ores bearing lead, zinc, jack and copper a tax equal to
21 three-fourths of one percent (3/4 of 1%) on the gross value thereof.

22 B. 1. Effective July 1, 2013, through June 30, 2015, except as
23 otherwise exempted pursuant to subsections D, E, F, G, H, I and J of
24 this section, there shall be levied upon the production of oil a tax
equal to seven percent (7%) of the gross value of the production of
oil based on a per barrel measurement of forty-two (42) U.S. gallons

1 of two hundred thirty-one (231) cubic inches per gallon, computed at
2 a temperature of sixty (60) degrees Fahrenheit.

3 2. Effective July 1, 2013, through June 30, 2015, except as
4 otherwise exempted pursuant to subsections D, E, F, G, H, I and J of
5 this section, there shall be levied a tax equal to seven percent
6 (7%) of the gross value of the production of gas.

7 3. Effective July 1, 2015, except as otherwise provided in this
8 section, there shall be levied a tax on the gross value of the
9 production of oil and gas as follows:

10 a. upon the production of oil a tax equal to seven
11 percent (7%) of the gross value of the production of
12 oil based on a per barrel measurement of forty-two
13 (42) U.S. gallons of two hundred thirty-one (231)
14 cubic inches per gallon, computed at a temperature of
15 sixty (60) degrees Fahrenheit,

16 b. upon the production of gas a tax equal to seven
17 percent (7%) of the gross value of the production of
18 gas, ~~and~~

19 c. notwithstanding the levies in subparagraphs a and b of
20 this paragraph, the production of oil, gas, or oil and
21 gas from wells spudded on or after July 1, 2015, and
22 prior to the effective date of this act, shall be
23 taxed at a rate of two percent (2%) commencing with
24 the month of first production for a period of thirty-

1 six (36) months. Thereafter, the production shall be
2 taxed as provided in subparagraphs a and b of this
3 paragraph, and

4 d. notwithstanding the levies in subparagraphs a and b of
5 this paragraph, the production of oil, gas, or oil and
6 gas from wells spudded on or after the effective date
7 of this act shall be taxed at a rate equal to the
8 average of the rates that would otherwise be
9 applicable to such production in surrounding states at
10 the beginning of the calendar year in which the
11 production occurred less one-quarter of one percent
12 (0.25%). The Oklahoma Tax Commission shall calculate
13 and publish each year by December 31 the rate as
14 described in this paragraph that shall be applicable
15 for the following calendar year. For purposes of this
16 paragraph, "surrounding states" means all states that
17 share a border with Oklahoma.

18 C. The taxes hereby levied shall also attach to, and are levied
19 on, what is known as the royalty interest, and the amount of such
20 tax shall be a lien on such interest.

21 D. 1. Except as otherwise provided in this section, for
22 secondary recovery projects approved or having an initial project
23 beginning date on or after July 1, 2000, and before July 1, 2017,
24 any incremental production attributable to the working interest

1 owners which results from such secondary recovery projects shall be
2 exempt from the gross production tax levied pursuant to this section
3 for a period not to exceed five (5) years from the initial project
4 beginning date or for a period ending upon the termination of the
5 secondary recovery process, whichever occurs first; provided
6 however, that the exemption provided by this paragraph shall not
7 apply to production occurring on or after July 1, 2017.

8 2. Except as otherwise provided in this section, for tertiary
9 recovery projects approved and having a project beginning date on or
10 after July 1, 1993, and before July 1, 2017, any incremental
11 production attributable to the working interest owners which results
12 from such tertiary recovery projects shall be exempt from the gross
13 production tax levied pursuant to this section from the project
14 beginning date until project payback is achieved, but not to exceed
15 a period of ten (10) years; provided however, that the exemption
16 provided by this paragraph shall not apply to production occurring
17 on or after July 1, 2017. Project payback pursuant to this
18 paragraph shall be determined by appropriate payback indicators
19 which will provide for the recovery of capital expenses and
20 operating expenses, excluding administrative expenses, in
21 determining project payback. The capital expenses of pipelines
22 constructed to transport carbon dioxide to a tertiary recovery
23 project shall not be included in determining project payback
24 pursuant to this paragraph.

1 3. The provisions of this subsection shall also not apply to
2 any enhanced recovery project using fresh water as the primary
3 injectant, except when using steam.

4 4. For purposes of this subsection:

- 5 a. "incremental production" means the amount of crude oil
6 or other liquid hydrocarbons which is produced during
7 an enhanced recovery project and which is in excess of
8 the base production amount of crude oil or other
9 liquid hydrocarbons. The base production amount shall
10 be the average monthly amount of production for the
11 twelve-month period immediately prior to the project
12 beginning date minus the monthly rate of production
13 decline for the project for each month beginning one
14 hundred eighty (180) days prior to the project
15 beginning date. The monthly rate of production
16 decline shall be equal to the average extrapolated
17 monthly decline rate for the twelve-month period
18 immediately prior to the project beginning date as
19 determined by the Corporation Commission based on the
20 production history of the field, its current status,
21 and sound reservoir engineering principles, and
- 22 b. "project beginning date" means the date on which the
23 injection of liquids, gases, or other matter begins on
24 an enhanced recovery project.

1 5. The Corporation Commission shall promulgate rules for the
2 qualification for this exemption which shall include, but not be
3 limited to, procedures for determining incremental production as
4 defined in subparagraph a of paragraph 4 of this subsection, and the
5 establishment of appropriate payback indicators as approved by the
6 Tax Commission for the determination of project payback for each of
7 the exemptions authorized by this subsection.

8 6. For new secondary recovery projects and tertiary recovery
9 projects approved by the Corporation Commission on or after July 1,
10 1993, and before July 1, 2017, such approval shall constitute
11 qualification for an exemption.

12 7. Any person seeking an exemption shall file an application
13 for such exemption with the Tax Commission which, upon determination
14 of qualification by the Corporation Commission, shall approve the
15 application for such exemption.

16 8. The Tax Commission may require any person requesting such
17 exemption to furnish information or records concerning the exemption
18 as is deemed necessary by the Tax Commission.

19 9. Upon the expiration of the exemption granted pursuant to
20 this subsection, the Tax Commission shall collect the gross
21 production tax levied pursuant to this section.

22 E. 1. Except as otherwise provided in this section, the
23 production of oil, gas or oil and gas from a horizontally drilled
24 well producing prior to July 1, 2011, which production commenced

1 after July 1, 2002, shall be exempt from the gross production tax
2 levied pursuant to subsection B of this section from the project
3 beginning date until project payback is achieved but not to exceed a
4 period of forty-eight (48) months commencing with the month of
5 initial production from the horizontally drilled well. For purposes
6 of subsection D of this section and this subsection, project payback
7 shall be determined as of the date of the completion of the well and
8 shall not include any expenses beyond the completion date of the
9 well, and subject to the approval of the Tax Commission.

10 2. Claims for refund for the production periods within the
11 fiscal years ending June 30, 2010, and June 30, 2011, shall be filed
12 and received by the Tax Commission no later than December 31, 2011.

13 3. For production commenced on or after July 1, 2011, and prior
14 to July 1, 2015, the tax levied pursuant to the provisions of this
15 section on the production of oil, gas or oil and gas from a
16 horizontally drilled well shall be reduced to a rate of one percent
17 (1%) for a period of forty-eight (48) months from the month of
18 initial production; provided however, such production occurring on
19 or after July 1, 2017, for the remainder of such forty-eight-month
20 period shall be subject to a reduced rate of four percent (4%);
21 further provided, any reduced rate provided by this paragraph shall
22 not apply to production occurring during or after the first full
23 month following the effective date of this act. The taxes collected
24 from the production of oil shall be apportioned pursuant to the

1 provisions of paragraph 7 of subsection B of Section 1004 of this
2 title. The taxes collected from the production of gas shall be
3 apportioned pursuant to the provisions of paragraph 3 of subsection
4 B of Section 1004 of this title.

5 4. The production of oil, gas or oil and gas on or after July
6 1, 2011, and prior to July 1, 2015, from these qualifying wells
7 shall be taxed at a rate of one percent (1%) until the expiration of
8 forty-eight (48) months commencing with the month of initial
9 production.

10 5. As used in this subsection, "horizontally drilled well"
11 shall mean an oil, gas or oil and gas well drilled or recompleted in
12 a manner which encounters and subsequently produces from a
13 geological formation at an angle in excess of seventy (70) degrees
14 from vertical and which laterally penetrates a minimum of one
15 hundred fifty (150) feet into the pay zone of the formation.

16 F. 1. Except as otherwise provided by this section, the
17 severance or production of oil, gas or oil and gas from an inactive
18 well shall be exempt from the gross production tax levied pursuant
19 to subsection B of this section for a period of twenty-eight (28)
20 months from the date upon which production is reestablished;
21 provided however, that the exemption provided by this paragraph
22 shall not apply to production occurring on or after July 1, 2017.
23 This exemption shall take effect July 1, 1994, and shall apply to
24 wells for which work to reestablish or enhance production began on

1 or after July 1, 1994, and for which production is reestablished
2 prior to July 1, 2017. For all such production, a refund against
3 gross production taxes shall be issued as provided in subsection L
4 of this section.

5 2. As used in this subsection, for wells for which production
6 is reestablished prior to July 1, 1997, "inactive well" means any
7 well that has not produced oil, gas or oil and gas for a period of
8 not less than two (2) years as evidenced by the appropriate forms on
9 file with the Corporation Commission reflecting the well's status.
10 As used in this subsection, for wells for which production is
11 reestablished on or after July 1, 1997, and prior to July 1, 2017,
12 "inactive well" means any well that has not produced oil, gas or oil
13 and gas for a period of not less than one (1) year as evidenced by
14 the appropriate forms on file with the Corporation Commission
15 reflecting the well's status. Wells which experience mechanical
16 failure or loss of mechanical integrity, as defined by the
17 Corporation Commission, including but not limited to, casing leaks,
18 collapse of casing or loss of equipment in a wellbore, or any
19 similar event which causes cessation of production, shall also be
20 considered inactive wells.

21 G. 1. Except as otherwise provided by this section, any
22 incremental production which results from a production enhancement
23 project shall be exempt from the gross production tax levied
24 pursuant to subsection B of this section for a period of twenty-

1 eight (28) months from the date of first sale after project
2 completion of the production enhancement project; provided however,
3 that the exemption provided by this paragraph shall not apply to
4 production occurring on or after July 1, 2017. This exemption shall
5 take effect July 1, 1994, and shall apply to production enhancement
6 projects having a project beginning date on or after July 1, 1994,
7 and prior to July 1, 2017. For all such production, a refund
8 against gross production taxes shall be issued as provided in
9 subsection L of this section.

10 2. As used in this subsection:

11 a. for production enhancement projects having a project
12 beginning date on or after July 1, 1997, and prior to
13 July 1, 2017, "production enhancement project" means
14 any workover as defined in this paragraph,
15 recompletion as defined in this paragraph, reentry of
16 plugged and abandoned wellbores, or addition of a well
17 or field compression,

18 b. "incremental production" means the amount of crude
19 oil, natural gas or other hydrocarbons which are
20 produced as a result of the production enhancement
21 project in excess of the base production,

22 c. "base production" means the average monthly amount of
23 production for the twelve-month period immediately
24 prior to the commencement of the project or the

1 average monthly amount of production for the twelve-
2 month period immediately prior to the commencement of
3 the project less the monthly rate of production
4 decline for the project for each month beginning one
5 hundred eighty (180) days prior to the commencement of
6 the project. The monthly rate of production decline
7 shall be equal to the average extrapolated monthly
8 decline rate for the twelve-month period immediately
9 prior to the commencement of the project based on the
10 production history of the well. If the well or wells
11 covered in the application had production for less
12 than the full twelve-month period prior to the filing
13 of the application for the production enhancement
14 project, the base production shall be the average
15 monthly production for the months during that period
16 that the well or wells produced,

17 d. for production enhancement projects having a project
18 beginning date on or after July 1, 1997, and prior to
19 July 1, 2017, "recompletion" means any downhole
20 operation in an existing oil or gas well that is
21 conducted to establish production of oil or gas from
22 any geologic interval not currently completed or
23 producing in such existing oil or gas well within the
24 same or a different geologic formation, and

1 e. "workover" means any downhole operation in an existing
2 oil or gas well that is designed to sustain, restore
3 or increase the production rate or ultimate recovery
4 in a geologic interval currently completed or
5 producing in the existing oil or gas well. For
6 production enhancement projects having a project
7 beginning date on or after July 1, 1997, and prior to
8 July 1, 2017, "workover" includes, but is not limited
9 to:

- 10 (1) acidizing,
- 11 (2) reperforating,
- 12 (3) fracture treating,
- 13 (4) sand/paraffin/scale removal or other wellbore
14 cleanouts,
- 15 (5) casing repair,
- 16 (6) squeeze cementing,
- 17 (7) installation of compression on a well or group of
18 wells or initial installation of artificial lifts
19 on gas wells, including plunger lifts, rod pumps,
20 submersible pumps and coiled tubing velocity
21 strings,
- 22 (8) downsizing existing tubing to reduce well
23 loading,
- 24 (9) downhole commingling,

- 1 (10) bacteria treatments,
2 (11) upgrading the size of pumping unit equipment,
3 (12) setting bridge plugs to isolate water production
4 zones, or
5 (13) any combination thereof.

6 "Workover" shall not mean the routine maintenance,
7 routine repair, or like for like replacement of
8 downhole equipment such as rods, pumps, tubing,
9 packers, or other mechanical devices.

10 H. 1. For purposes of this subsection, "depth" means the
11 length of the maximum continuous string of drill pipe utilized
12 between the drill bit face and the drilling rig's kelly bushing.

13 2. Except as otherwise provided in subsection K of this
14 section:

- 15 a. the production of oil, gas or oil and gas from wells
16 spudded between July 1, 1997, and July 1, 2005, and
17 drilled to a depth of twelve thousand five hundred
18 (12,500) feet or greater and wells spudded between
19 July 1, 2005, and July 1, 2015, and drilled to a depth
20 between twelve thousand five hundred (12,500) feet and
21 fourteen thousand nine hundred ninety-nine (14,999)
22 feet shall be exempt from the gross production tax
23 levied pursuant to subsection B of this section from
24 the date of first sales for a period of twenty-eight

1 (28) months; provided however, that the exemption
2 provided by this subparagraph shall not apply to
3 production occurring on or after July 1, 2017,

4 b. the production of oil, gas or oil and gas from wells
5 spudded between July 1, 2002, and July 1, 2005, and
6 drilled to a depth of fifteen thousand (15,000) feet
7 or greater and wells spudded between July 1, 2005, and
8 July 1, 2011, and drilled to a depth between fifteen
9 thousand (15,000) feet and seventeen thousand four
10 hundred ninety-nine (17,499) feet shall be exempt from
11 the gross production tax levied pursuant to subsection
12 B of this section from the date of first sales for a
13 period of forty-eight (48) months,

14 c. the production of oil, gas or oil and gas from wells
15 spudded between July 1, 2002, and July 1, 2011, and
16 drilled to a depth of seventeen thousand five hundred
17 (17,500) feet or greater shall be exempt from the
18 gross production tax levied pursuant to subsection B
19 of this section from the date of first sales for a
20 period of sixty (60) months,

21 d. the tax levied pursuant to the provisions of this
22 section on the production of oil, gas or oil and gas
23 from wells spudded between July 1, 2011, and July 1,
24 2015, and drilled to a depth between fifteen thousand

1 (15,000) feet and seventeen thousand four hundred
2 ninety-nine (17,499) feet shall be reduced to a rate
3 of four percent (4%) for a period of forty-eight (48)
4 months from the date of first sales; provided, the
5 reduced rate provided by this subparagraph shall not
6 apply to production occurring during or after the
7 first full month following the effective date of this
8 act. The taxes collected from the production of oil
9 shall be apportioned pursuant to the provisions of
10 paragraph 7 of subsection B of Section 1004 of this
11 title. The taxes collected from the production of gas
12 shall be apportioned pursuant to the provisions of
13 paragraph 3 of subsection B of Section 1004 of this
14 title,

- 15 e. the tax levied pursuant to the provisions of this
16 section on the production of oil, gas or oil and gas
17 from wells spudded between July 1, 2011, and July 1,
18 2015, and drilled to a depth of seventeen thousand
19 five hundred (17,500) feet or greater shall be reduced
20 to a rate of four percent (4%) for a period of sixty
21 (60) months from the date of first sales; provided
22 however, the reduced rate provided by this
23 subparagraph shall not apply to production occurring
24 during or after the first full month following the

1 effective date of this act. The taxes collected from
2 the production of oil shall be apportioned pursuant to
3 the provisions of paragraph 7 of subsection B of
4 Section 1004 of this title. The taxes collected from
5 the production of gas shall be apportioned pursuant to
6 the provisions of paragraph 3 of subsection B of
7 Section 1004 of this title, and

8 f. the provisions of subparagraphs b and c of this
9 paragraph shall only apply to the production of wells
10 qualifying for the exemption provided under these
11 subparagraphs prior to July 1, 2011. The production
12 of oil, gas or oil and gas on or after July 1, 2011,
13 and before July 1, 2015, from wells qualifying under
14 subparagraph b of this paragraph shall be taxed at a
15 rate of four percent (4%) until the expiration of
16 forty-eight (48) months from the date of first sales
17 and the production of oil, gas or oil and gas on or
18 after July 1, 2011, and before July 1, 2015, from
19 wells qualifying under subparagraph c of this
20 paragraph shall be taxed at a rate of four percent
21 (4%) until the expiration of sixty (60) months from
22 the date of first sales.
23
24

1 3. Except as otherwise provided for in this subsection, for all
2 such wells spudded, a refund against gross production taxes shall be
3 issued as provided in subsection L of this section.

4 I. Except as otherwise provided by this section, the production
5 of oil, gas or oil and gas from wells spudded or reentered between
6 July 1, 1995, and July 1, 2015, which qualify as a new discovery
7 pursuant to this subsection shall be exempt from the gross
8 production tax levied pursuant to subsection B of this section from
9 the date of first sales for a period of twenty-eight (28) months;
10 provided however, that the exemption provided by this subsection
11 shall not apply to production occurring on or after July 1, 2017.
12 For all such wells spudded or reentered, a refund against gross
13 production taxes shall be issued as provided in subsection L of this
14 section. As used in this subsection, "new discovery" means
15 production of oil, gas or oil and gas from:

16 1. For wells spudded or reentered on or after July 1, 1997, and
17 prior to July 1, 2015, a well that discovers crude oil in paying
18 quantities that is more than one (1) mile from the nearest oil well
19 producing from the same producing interval of the same formation;

20 2. For wells spudded or reentered on or after July 1, 1997, and
21 prior to July 1, 2015, a well that discovers crude oil in paying
22 quantities beneath current production in a deeper producing interval
23 that is more than one (1) mile from the nearest oil well producing
24 from the same deeper producing interval;

1 3. For wells spudded or reentered on or after July 1, 1997, and
2 prior to July 1, 2015, a well that discovers natural gas in paying
3 quantities that is more than two (2) miles from the nearest gas well
4 producing from the same producing interval; or

5 4. For wells spudded or reentered on and after July 1, 1997,
6 and prior to July 1, 2015, a well that discovers natural gas in
7 paying quantities beneath current production in a deeper producing
8 interval that is more than two (2) miles from the nearest gas well
9 producing from the same deeper producing interval.

10 J. Except as otherwise provided by this section, the production
11 of oil, gas or oil and gas from any well, drilling of which is
12 commenced after July 1, 2000, and prior to July 1, 2015, located
13 within the boundaries of a three-dimensional seismic shoot and
14 drilled based on three-dimensional seismic technology, shall be
15 exempt from the gross production tax levied pursuant to subsection B
16 of this section from the date of first sales as follows:

17 1. If the three-dimensional seismic shoot is shot prior to July
18 1, 2000, for a period of eighteen (18) months; and

19 2. If the three-dimensional seismic shoot is shot on or after
20 July 1, 2000, for a period of twenty-eight (28) months; provided
21 however, that the exemption provided by this subsection shall not
22 apply to production occurring on or after July 1, 2017. For all
23 such production, a refund against gross production taxes shall be
24 issued as provided in subsection L of this section.

1 K. 1. The exemptions provided for in subsections F, G, I and J
2 of this section, the exemption provided for in subparagraph a of
3 paragraph 2 of subsection H of this section, and the exemptions
4 provided for in subparagraphs b and c of paragraph 2 of subsection H
5 of this section for production from wells spudded before July 1,
6 2005, shall not apply:

7 a. to the severance or production of oil, upon
8 determination by the Tax Commission that the average
9 annual index price of Oklahoma oil exceeds Thirty
10 Dollars (\$30.00) per barrel calculated on an annual
11 calendar year basis, as adjusted for inflation using
12 the Consumer Price Index-All Urban Consumers (CPI-U)
13 as published by the Bureau of Labor Statistics of the
14 U.S. Department of Labor or its successor agency.
15 Such adjustment shall be based on the most current
16 data available for the preceding twelve-month period
17 and shall be applied for the fiscal year which begins
18 on the July 1 date immediately following the release
19 of the CPI-U data by the Bureau of Statistics.

20 (1) The "average annual index price" will be
21 calculated by multiplying the West Texas
22 Intermediate closing price by the "index price
23 ratio". The index price ratio is defined as the
24 immediate preceding three-year historical average

1 ratio of the actual weighted average wellhead
2 price to the West Texas Intermediate close price
3 published on the last business day of each month.

4 (2) The average annual index price will be updated
5 annually by the Oklahoma Tax Commission no later
6 than March 31 of each year.

7 (3) If the West Texas Intermediate Crude price is
8 unavailable for any reason, an industry benchmark
9 price may be substituted and used for the
10 calculation of the index price as determined by
11 the Tax Commission,

12 b. to the severance or production of oil or gas upon
13 which gross production taxes are paid at a rate of one
14 percent (1%) pursuant to the provisions of subsection
15 B of this section, and

16 c. to the severance or production of gas, upon
17 determination by the Tax Commission that the average
18 annual index price of Oklahoma gas exceeds Five
19 Dollars (\$5.00) per thousand cubic feet (mcf)
20 calculated on an annual calendar year basis as
21 adjusted for inflation using the Consumer Price Index-
22 All Urban Consumers (CPI-U) as published by the Bureau
23 of Labor Statistics of the U.S. Department of Labor or
24 its successor agency. Such adjustment shall be based

1 on the most current data available for the preceding
2 twelve-month period and shall be applied for the
3 fiscal year which begins on the July 1 date
4 immediately following the release of the CPI-U data by
5 the Bureau of Statistics.

6 (1) The "average annual index price" will be
7 calculated by multiplying the Henry Hub 3-Day
8 Average Close price by the "index price ratio".
9 The index price ratio is defined as the immediate
10 preceding three-year historical average ratio of
11 the actual weighted average wellhead price to the
12 Henry Hub 3-Day Average Close price published on
13 the last business day of each month.

14 (2) The average annual index price will be updated
15 annually by the Oklahoma Tax Commission no later
16 than March 31 of each year.

17 (3) If the Henry Hub 3-Day Average Close price is
18 unavailable for any reason, an industry benchmark
19 price may be substituted and used for the
20 calculation of the index price as determined by
21 the Tax Commission.

22 2. Notwithstanding the exemptions granted pursuant to
23 subsections F, G, I, J, paragraph 1 of subsection E, and
24 subparagraph a of paragraph 2 of subsection H of this section, there

1 shall continue to be levied upon the production of petroleum or
2 other crude or mineral oil or natural gas or casinghead gas, as
3 provided in subsection B of this section, from any wells provided
4 for in subsections F, G, I, J, paragraph 1 of subsection E, and
5 subparagraph a of paragraph 2 of subsection H of this section, a tax
6 equal to one percent (1%) of the gross value of the production of
7 petroleum or other crude or mineral oil or natural gas or casinghead
8 gas. The tax hereby levied shall be apportioned as follows:

9 a. fifty percent (50%) of the sum collected shall be
10 apportioned to the County Highway Fund as provided in
11 subparagraph b of paragraph 1 of subsection B of
12 Section 1004 of this title, and

13 b. fifty percent (50%) of the sum collected shall be
14 apportioned to the appropriate school district as
15 provided in subparagraph c of paragraph 1 of
16 subsection B of Section 1004 of this title.

17 Upon the expiration of the exemption granted pursuant to
18 subsection E, F, G, H, I or J of this section, the provisions of
19 this paragraph shall have no force or effect.

20 L. 1. Prior to July 1, 2015, and except as provided in
21 subsection M of this section, for all oil and gas production exempt
22 from gross production taxes pursuant to subsections E, F, G, H, I
23 and J of this section during a given fiscal year, a refund of gross
24 production taxes shall be issued to the well operator or a designee

1 in the amount of such gross production taxes paid during such
2 period, subject to the following provisions:

3 a. a refund shall not be claimed until after the end of
4 such fiscal year. As used in this subsection, a
5 fiscal year shall be deemed to begin on July 1 of one
6 calendar year and shall end on June 30 of the
7 subsequent calendar year,

8 b. unless otherwise specified, no claims for refunds
9 pursuant to the provisions of this subsection shall be
10 filed more than eighteen (18) months after the first
11 day of the fiscal year in which the refund is first
12 available,

13 c. no claims for refunds pursuant to the provisions of
14 this subsection shall be filed by or on behalf of
15 persons other than the operator or a working interest
16 owner of record at the time of production,

17 d. no refunds shall be claimed or paid pursuant to the
18 provisions of this subsection for oil or gas
19 production upon which a tax is paid at a rate of one
20 percent (1%) as specified in subsection B of this
21 section, and

22 e. no refund shall be paid unless the person making the
23 claim for refund demonstrates by affidavit or other
24 means prescribed by the Tax Commission that an amount

1 equal to or greater than the amount of the refund has
2 been invested in the exploration for or production of
3 crude oil or natural gas in this state by such person
4 not more than three (3) years prior to the date of the
5 claim. No amount of investment used to qualify for a
6 refund pursuant to the provisions of this subsection
7 may be used to qualify for another refund pursuant to
8 the provisions of this subsection.

9 If there are insufficient funds collected from the production of
10 oil to satisfy the refunds claimed for oil production pursuant to
11 subsection E, F, G, H, I or J of this section, the Tax Commission
12 shall pay the balance of the refund claims out of the gross
13 production taxes collected from the production of gas.

14 2. On or after July 1, 2015, for all oil and gas production
15 exempt from gross production taxes pursuant to subsections F and G
16 of this section during a given fiscal year, a refund of gross
17 production taxes shall be issued to the well operator or a designee
18 in the amount of such gross production taxes paid during such
19 period, subject to the following provisions:

20 a. a refund shall not be claimed until after the end of
21 such fiscal year. As used in this subsection, a
22 fiscal year shall be deemed to begin on July 1 of one
23 calendar year and shall end on June 30 of the
24 subsequent calendar year,

- 1 b. unless otherwise specified, no claims for refunds
2 pursuant to the provisions of this subsection shall be
3 filed more than eighteen (18) months after the first
4 day of the fiscal year in which the refund is first
5 available, or September 30, 2017, whichever is sooner,
6 c. no claims for refunds pursuant to the provisions of
7 this subsection shall be filed by or on behalf of
8 persons other than the operator or a working interest
9 owner of record at the time of production,
10 d. no refunds shall be claimed or paid pursuant to the
11 provisions of this subsection for oil or gas
12 production upon which a tax is paid at a rate of two
13 percent (2%), and
14 e. no refund shall be paid unless the person making the
15 claim for refund demonstrates by affidavit or other
16 means prescribed by the Tax Commission that an amount
17 equal to or greater than the amount of the refund has
18 been invested in the exploration for or production of
19 crude oil or natural gas in this state by such person
20 not more than three (3) years prior to the date of the
21 claim. No amount of investment used to qualify for a
22 refund pursuant to the provisions of this paragraph
23 may be used to qualify for another refund pursuant to
24 the provisions of this paragraph.

1 If there are insufficient funds collected from the production of
2 oil or gas to satisfy the refunds claimed for oil or gas production
3 pursuant to subsection F or G of this section, the Tax Commission
4 shall pay the balance of the refund claims out of the gross
5 production taxes collected from either the production of oil or gas,
6 as necessary.

7 3. Notwithstanding any other provisions of law, after the
8 effective date of this act, no refund of gross production taxes
9 shall be claimed for oil and gas production exempt from gross
10 production taxes pursuant to subsections E, F, G, H, I and J of this
11 section for production occurring prior to July 1, 2003.

12 4. Notwithstanding any other provision of this section, no
13 claims for refunds pursuant to the provisions of subsections F, G, I
14 and J and subparagraph a of paragraph 2 of subsection H of this
15 section shall be filed or accepted on or after October 1, 2017.

16 M. Claims for refunds pursuant to the provisions of subsections
17 F, G, I and J and subparagraph a of paragraph 2 of subsection H of
18 this section for production periods ending on or before June 30,
19 2017, shall be paid pursuant to the provisions of this subsection.
20 The claims for refunds referenced herein shall be paid in equal
21 payments over a period of thirty-six (36) months. The first payment
22 shall be made after July 1, 2018, but prior to August 1, 2018. The
23 Tax Commission shall provide, not later than June 30, 2018, to the
24

1 operator or designated interest owner, a schedule of rebates to be
2 paid out over the thirty-six-month period.

3 N. 1. The Corporation Commission and the Tax Commission shall
4 promulgate joint rules for the qualification for the exemptions
5 provided for in this section and the rules shall contain provisions
6 for verification of any wells from which production may be qualified
7 for the exemptions. The Tax Commission shall adopt rules and
8 regulations which establish guidelines for production of oil or gas
9 after July 1, 2011, which is exempt from tax pursuant to the
10 provisions of paragraph 1 of subsection E and subparagraphs b and c
11 of paragraph 2 of subsection H of this section to remit tax at the
12 reduced rate provided in paragraph 2 of subsection E and
13 subparagraphs d and e of paragraph 2 of subsection H of this section
14 until the end of the qualifying exemption period.

15 2. Any person requesting any exemption shall file an
16 application for qualification for the exemption with the Corporation
17 Commission which, upon finding that the well meets the requirements
18 of this section, shall approve the application for qualification.

19 3. Any person seeking an exemption shall:

20 a. file an application for the exemption with the Tax
21 Commission which, upon determination of qualification
22 by the Corporation Commission, shall approve the
23 application for an exemption, and
24

1 b. provide a copy of the approved application to the
2 remitter of the gross production tax.

3 4. The Tax Commission may require any person requesting an
4 exemption to furnish necessary financial and other information or
5 records in order to determine and justify the refund.

6 5. Upon the expiration of an exemption granted pursuant to this
7 section, the Tax Commission shall collect the gross production tax
8 levied pursuant to this section. If a person who qualifies for the
9 exemption elects to remit his or her own gross production tax during
10 the exemption period, the first purchaser shall not be liable to
11 withhold or remit the tax until the first day of the month following
12 the receipt of written notification from the person who is qualified
13 for such exemption stating that such exemption has expired and
14 directing the first purchaser to resume tax remittance on his or her
15 behalf.

16 O. 1. Prior to July 1, 2015, persons shall only be entitled to
17 either the exemption granted pursuant to subsection D of this
18 section or the exemption granted pursuant to subsection E, F, G, H,
19 I or J of this section for each oil, gas or oil and gas well drilled
20 or recompleted in this state. However, any person who qualifies for
21 the exemption granted pursuant to subsection E, F, G, H, I or J of
22 this section shall not be prohibited from qualification for the
23 exemption granted pursuant to subsection D of this section, if the
24

1 exemption granted pursuant to subsection E, F, G, H, I or J of this
2 section has expired.

3 2. On or after July 1, 2015, all persons shall only be entitled
4 to either the exemption granted pursuant to subsection D of this
5 section or the exemption granted pursuant to subsection F or G of
6 this section for each oil, gas, or oil and gas well drilled or
7 recompleted in this state. However, any person who qualifies for
8 the exemption granted pursuant to subsections F and G of this
9 section shall not be prohibited from qualification for the exemption
10 granted pursuant to subsection D of this section if the exemption
11 granted pursuant to subsection F or G of this section has expired.
12 Further, the exemption granted pursuant to subsection D of this
13 section shall not apply to any production upon which a tax is paid
14 at a rate of two percent (2%).

15 P. The Tax Commission shall have the power to require any such
16 person engaged in mining or the production or the purchase of such
17 asphalt, mineral ores aforesaid, oil, or gas, or the owner of any
18 royalty interest therein to furnish any additional information by it
19 deemed to be necessary for the purpose of correctly computing the
20 amount of the tax; and to examine the books, records and files of
21 such person; and shall have power to conduct hearings and compel the
22 attendance of witnesses, and the production of books, records and
23 papers of any person.

24

1 Q. Any person or any member of any firm or association, or any
2 officer, official, agent or employee of any corporation who shall
3 fail or refuse to testify; or who shall fail or refuse to produce
4 any books, records or papers which the Tax Commission shall require;
5 or who shall fail or refuse to furnish any other evidence or
6 information which the Tax Commission may require; or who shall fail
7 or refuse to answer any competent questions which may be put to him
8 or her by the Tax Commission, touching the business, property,
9 assets or effects of any such person relating to the gross
10 production tax imposed by this article or exemption authorized
11 pursuant to this section or other laws, shall be guilty of a
12 misdemeanor, and, upon conviction thereof, shall be punished by a
13 fine of not more than Five Hundred Dollars (\$500.00), or
14 imprisonment in the jail of the county where such offense shall have
15 been committed, for not more than one (1) year, or by both such fine
16 and imprisonment; and each day of such refusal on the part of such
17 person shall constitute a separate and distinct offense.

18 R. The Tax Commission shall have the power and authority to
19 ascertain and determine whether or not any report herein required to
20 be filed with it is a true and correct report of the gross products,
21 and of the value thereof, of such person engaged in the mining or
22 production or purchase of asphalt and ores bearing minerals
23 aforesaid and of oil and gas. If any person has made an untrue or
24 incorrect report of the gross production or value or volume thereof,

1 or shall have failed or refused to make such report, the Tax
2 Commission shall, under the rules prescribed by it, ascertain the
3 correct amount of either, and compute the tax.

4 S. The payment of the taxes herein levied shall be in full, and
5 in lieu of all taxes by the state, counties, cities, towns, school
6 districts and other municipalities upon any property rights attached
7 to or inherent in the right to the minerals, upon producing leases
8 for the mining of asphalt and ores bearing lead, zinc, jack or
9 copper, or for oil, or for gas, upon the mineral rights and
10 privileges for the minerals aforesaid belonging or appertaining to
11 land, upon the machinery, appliances and equipment used in and
12 around any well producing oil, or gas, or any mine producing asphalt
13 or any of the mineral ores aforesaid and actually used in the
14 operation of such well or mine. The payment of gross production tax
15 shall also be in lieu of all taxes upon the oil, gas, asphalt or
16 ores bearing minerals hereinbefore mentioned during the tax year in
17 which the same is produced, and upon any investment in any of the
18 leases, rights, privileges, minerals or other property described
19 herein. Any interest in the land, other than that herein
20 enumerated, and oil in storage, asphalt and ores bearing minerals
21 hereinbefore named, mined, produced and on hand at the date as of
22 which property is assessed for general and ad valorem taxation for
23 any subsequent tax year, shall be assessed and taxed as other

24

1 property within the taxing district in which such property is
2 situated at the time.

3 T. No equipment, material or property shall be exempt from the
4 payment of ad valorem tax by reason of the payment of the gross
5 production tax except such equipment, machinery, tools, material or
6 property as is actually necessary and being used and in use in the
7 production of asphalt or of ores bearing lead, zinc, jack or copper
8 or of oil or gas. Provided, the exemption shall include the
9 wellbore and non-recoverable down-hole material, including casing,
10 actually used in the disposal of waste materials produced with such
11 oil or gas. It is expressly declared that no ice plants, hospitals,
12 office buildings, garages, residences, gasoline extraction or
13 absorption plants, water systems, fuel systems, rooming houses and
14 other buildings, nor any equipment or material used in connection
15 therewith, shall be exempt from ad valorem tax.

16 U. The exemption from ad valorem tax set forth in subsections S
17 and T of this section shall continue to apply to all property from
18 which production of oil, gas or oil and gas is exempt from gross
19 production tax pursuant to subsection D, E, F, G, H, I or J of this
20 section.

21

22 56-2EX-50292 JM 12/18/17

23

24