

Notice

Notice Number:

Tax Type:

Mineral Severance Tax

Brief Description:

Mineral Severance Tax 1998 LEGISLATIVE UPDATE

Keywords:

Body:

NOTICE TO ALL OIL AND GAS PRODUCERS AND OPERATORS 1998 LEGISLATIVE UPDATE

The following is a summary of this year's mineral tax legislation.

EXEMPTIONS

1. Effective July 1, 1998 beginning with the reporting period of July 1998, the severance and production of gas which is severed from a well having an average daily production during a calendar month having a gross value of not more than \$87.00 per day shall be exempt.

2. Effective July 1, 1998 beginning with the reporting period of May 1998, the exemption requirements for the severance and production of oil are as follows:

A. From a lease or unit whose average daily production is five or less barrels of oil per day.

B. From a lease or unit with a depth of 2000 ft or more and whose average daily production is six or less barrels of oil per day. This exemption level is determined by the average price of oil, which is \$17.64 for the production period of May, 1998 through April, 1999.

C. From a water flood lease or unit with a depth less than 2000 ft and whose average daily production is six or less barrels of oil per day.

D. From a water flood lease or unit with a depth of 2000 ft or more and whose average daily production is seven or less barrels of oil per day. This exemption level is determined by the average price of oil, which is \$17.64 for the production period of May, 1998 through April, 1999.

3. The incremental severance and production of oil or gas resulting from a production enhancement project begun on or after July 1, 1998 shall be exempt unless the weighted average price of oil or gas exceeds established statutory thresholds.

A production enhancement project includes workovers, recompletions, secondary recovery projects, installation or enhancement of certain equipment, and new discoveries as a result of use of new technology. The Kansas Corporation Commission (KCC) will certify the eligibility of the enhancement project. A base production level will be established by the taxpayer and filed with the KCC. Determination of base production levels must adhere to the criteria established by the KCC. The monthly increase of incremental production will be exempt for a period of seven years. Qualifying guidelines and procedures are currently being developed by the KCC and the department to administer this new exemption.

INCOME TAX CREDIT FOR PLUGGING AN ABANDONED WELL

The 1998 legislature created an income tax credit for taxpayers who make expenditures during the tax year to plug an abandoned oil or gas well on their land in accordance with the rules and regulations of the Kansas Corporation

Commission (KCC). The credit is 50% of the expenditures made during the tax year and is applicable for taxable years beginning after Dec. 31, 1997 and before Jan. 1, 2001. If the credit exceeds the income tax liability for the taxable year the expenditures are made, any unused credit may be carried forward until used. However, the total amount of credits taken by all taxpayers (including any credit carry over) may not exceed \$250,000 in any fiscal year. Taxpayers qualifying for the credit will receive the credit on "first filed, first serve" basis.

For purposes of this credit, an abandoned oil or gas well is any well: 1) the Kansas Corporation Commission has the authority to plug, replug or repair because such well is polluting or is likely to pollute any usable water strata or supply, or causing the loss of usable water; 2) on which drilling began prior to January 1, 1970; and 3) is located on land owned by the taxpayer claiming the credit.

For more information on plugging an abandoned oil or gas well or production enhancement project, contact the:

Kansas Corporation Commission
Conservation Division
130 S. Market, Room 2078
Wichita KS 67202-3802
(316) 337-6200

If you have any questions concerning the changes to the oil and gas exemption requirements, contact the:

Customer Relations - Mineral Tax
Kansas Department of Revenue
915 SW Harrison St.
Topeka KS 66625-0001
(785) 296-7713.

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