An Act

ENROLLED SENATE
BILL NO. 1577

By: Bingman and Mazzei of the Senate

and

Hickman and McBride of the House

An Act relating to gross production tax exemption; amending 68 O.S. 2011, Section 1001.3a, as amended by Section 2, Chapter 346, O.S.L. 2014 (68 O.S. Supp. 2015, Section 1001.3a), which relates to exemption for economically at-risk oil or gas leases; modifying definition; defining term; limiting production eligible for exemption; clarifying time period during which refund may be paid; modifying required documentation; deleting time limit for specified determination; providing an effective date; and declaring an emergency.

SUBJECT: Gross production tax exemption

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

SECTION 1. AMENDATORY 68 O.S. 2011, Section 1001.3a, as amended by Section 2, Chapter 346, O.S.L. 2014 (68 O.S. Supp. 2015, Section 1001.3a), is amended to read as follows:

Section 1001.3a. A. As used in this section:

1. ~~"Economically~~ Prior to January 1, 2015, "economically at-risk oil or gas lease" means any oil or gas lease operated at a net

loss or at a net profit which is less than the total gross production tax remitted for such lease during the previous calendar year; ~~and~~

2. On or after January 1, 2015, "economically at-risk oil or gas lease" means any oil or gas lease with one or more producing wells with an average production volume per well of ten (10) barrels of oil or sixty (60) MCF of natural gas per day or less operated at a net loss or at a net profit which is less than the total gross production tax remitted for such lease during the previous calendar year; and

3. "Lease" shall be defined as in Section 1001.2 of this title.

B. When certified as such pursuant to the provisions of this section, production from an economically at-risk oil or gas lease shall be eligible for an exemption from the gross production tax levied pursuant to subsection B of Section 1001 of this title for production on such lease during the previous calendar year in the following amounts:

1. If the gross production tax rate levied pursuant to subsection B of Section 1001 of this title was seven percent (7%), then the exemption shall equal six-sevenths (6/7) of the gross production tax levied;

2. If the gross production tax rate levied pursuant to subsection B of Section 1001 of this title was four percent (4%), then the exemption shall equal three-fourths (3/4) of the gross production tax levied; and

3. If the gross production tax rate levied pursuant to subsection B of Section 1001 of this title was one percent (1%) or two percent (2%), no exemption shall apply.

C. For all production exempt from gross production taxes pursuant to this section, a refund of gross production taxes paid for production in the previous calendar year in the amounts specified in ~~this~~ subsection B of this section, subject to the limitations specified in subsection D of this section, shall be issued to the well operator or a designee. ~~The~~ For production in calendar years ending on or before December 31, 2015, the refund

shall not be claimed until after July 1 of the year ~~subsequent to~~ following the year of production. For production in the calendar year ending December 31, 2016, and each year thereafter, the refund shall be claimed before July 1 of the year following the year of production. The Tax Commission shall not accept or pay any claim for refund filed on or after July 1 of each year following the year of production.

D. For oil and natural gas produced from qualifying leases in calendar years 2015 through 2020, the total amount of refunds authorized in this section for each calendar year shall not exceed Twelve Million Five Hundred Thousand Dollars ($12,500,000.00) for all products combined. If the amount of claims exceeds Twelve Million Five Hundred Thousand Dollars ($12,500,000.00), the Tax Commission shall determine the percentage of the refund which establishes the proportionate share of the refund which may be claimed by any taxpayer so that the maximum amount authorized by this subsection is not exceeded.

E. Any operator making application for an economically at-risk oil or gas lease status under the provisions of this section shall submit documentation to the Tax Commission, as determined by the Tax Commission to be appropriate and necessary ~~including, but not limited to, the operator's federal income tax return for the previous year for such lease~~.

~~E.~~ F. For the purposes of this section, determination of the economically at-risk oil or gas lease status shall be made by subtracting from the gross revenue of that lease for the previous calendar year severance taxes, if any, royalty, operating expenses of the lease to include expendable workover and recompletion costs for the previous calendar year, and including overhead costs up to the maximum overhead percentage allowed by the Council of Petroleum Accountants Societies (COPAS) guidelines. For the purposes of this calculation, depreciation, depletion or intangible drilling costs shall not be included as lease operating expenses.

~~F.~~ G. The Tax Commission shall have sole authority to determine if an oil or gas lease qualifies for certification as an economically at-risk oil or gas lease ~~and shall make the determination within sixty (60) days after an application is filed for economically at-risk oil or gas lease status~~. The Tax

Commission shall promulgate rules governing the certification process.

~~G.~~ H. Except as provided in subsection ~~H~~ I of this section, gross production tax exemptions under the provisions of this section shall be limited to production from calendar years 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012 and 2013; provided, no claims for refunds for calendar years provided in this subsection shall be paid on or after December 31, 2015.

~~H.~~ I. Gross production tax exemptions claimed under the provisions of this section shall be limited to production from calendar years 2014 through 2020; provided, no claims for refunds for the calendar years 2014 ~~through 2020~~ and 2015 shall be claimed or paid more than eighteen (18) months after the first day of the fiscal year during which the refund is first available. For production in calendar years 2016 through 2020, no claim for refund filed on or after July 1 following the calendar year shall be claimed or paid.

SECTION 2. This act shall become effective July 1, 2016.

SECTION 3. It being immediately necessary for the preservation of the public peace, health and safety, an emergency is hereby declared to exist, by reason whereof this act shall take effect and be in full force from and after its passage and approval.

Passed the Senate the 25th day of May, 2016.

Presiding Officer of the Senate

Passed the House of Representatives the 19th day of May, 2016.

Presiding Officer of the House
of Representatives

OFFICE OF THE GOVERNOR

Received by the Office of the Governor this 25th

day of May, 20 16, at 5:28 o'clock P M.

By: Audrey Rockwell

Approved by the Governor of the State of Oklahoma this 6th

day of June, 20 16, at 4:02 o'clock P M.

Governor of the State of Oklahoma

OFFICE OF THE SECRETARY OF STATE

Received by the Office of the Secretary of State this 6th

day of June, 20 16, at 4:53 o'clock P. M.

By: Chris Benge