

OKLAHOMA TAX COMMISSION

TAX POLICY AND RESEARCH DIVISION
TONY MASTIN, DIRECTOR

PHONE (405) 521-3133
FACSIMILE (405) 522-0063

September 27, 2001

Re: Our file number LR 01-154; Income Tax Withholding - Nonresident Royalty Owners

Dear

This is in response to your email of September 6, 2001 wherein you inquired about SB 495 and its impact on payments made under the Production Revenue Standards Act (Blanchard interest payments).

Under this type of an arrangement, purchasers pay Blanchard interest payments to operators, and the operators in turn disperse royalty payments to royalty interest owners. In some cases, the operator receives both a royalty payment and a Blanchard interest payment from a purchaser. There are some purchasers whose internal accounting systems do not distinguish between payments made as a royalty or as a Blanchard interest payment. Their systems treat these types of payments the same and the analysis is made to withhold based on the recipient's residency. There are some cases where withholding will be made on a Blanchard interest, and then a subsequent withholding will be made when the operator distributes the royalty payment to the royalty interest owner. This causes withholding to be made twice.

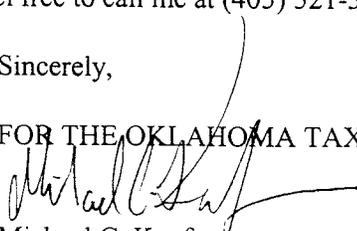
A careful reading of 68 O.S. § 2385.25 et seq. requires withholding to be made only on payments to royalty interest owners. Payments made to Blanchard interest owners should not be subject to withholding. The Tax Commission cannot make any exception to the statute.

This response applies only to the circumstances set out in your request of September 6, 2001. Pursuant to Commission Rule 710:1-3-73(e), this Letter Ruling may be generally relied upon **only** by the entity to whom it is issued, assuming that all pertinent facts have been accurately and completely stated, and that there has been no change in applicable law.

If I can be of further assistance, please feel free to call me at (405) 521-3133.

Sincerely,

FOR THE OKLAHOMA TAX COMMISSION


Michael C. Kaufmann
Tax Policy Analyst

2501 NORTH LINCOLN BOULEVARD • OKLAHOMA CITY • OKLAHOMA 73194

IT IS OUR MISSION TO SERVE THE PEOPLE OF OKLAHOMA BY PROMOTING TAX COMPLIANCE THROUGH QUALITY SERVICE AND FAIR ADMINISTRATION