

# OKLAHOMA TAX COMMISSION

TAX POLICY AND RESEARCH DIVISION  
TONY MASTIN, DIRECTOR

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

November 17, 2005

Re: Our File No. LR-05-193 (Gross Production Tax) Reporting procedures.

Dear

This letter is in response to your inquiry as to certain procedures and statutory requirements for reporting gross production tax. Below I have restated each of your questions and provided a response.

1. What is the statute of how we need to be reporting the gas volume is it by well head or processed gas?

For the purpose of filing the monthly gross production tax report, the volume required to be reported would be the gross volume associated with the gross value of the product as defined by Tax Commission Rule 710:45-1-2 which states:

**"Gross value of the production"** means the gross proceeds realized from the first sale of such production, including the actual cash value and all premiums otherwise given to or reserved for the producer and all interest owners of such production, without any deduction for costs whatsoever.

In the event a deduction for compression and gathering is to be taken, it shall be reported as an exempt code 9 on the report wherein the deducted cost would be reported as exempt value with no adjustment made to the gross volume which is reflected as taxable volume.

2. What statute tells us for state tax are there any deducts that can be used for gathering, low/high pressure transportation, transportation fuel – low/high pressure, treating/sweetening, dehydration, compression and processing?

Currently neither Oklahoma statutes nor Tax Commission Rules recognize the deduction for compression and gathering costs. The Oklahoma Tax Commission adopted a policy in

1979 allowing operators of gas wells to deduct such costs from their gross production tax due. Attached are the guidelines for reporting the compression and gathering deduction.

3. For transportation and processing are deducts based on "contract rate" or "calculated cost service rate" for non-arm's length functions or does OTC care between the arm's length and non-arm's length functions?

See attached guidelines for compression and gathering deduction.

4. Can you tell me what the statute of limitations is for going back and correcting reports and is there a different statute between if it is a credit or a balance due?

Title 68 O.S. Section 223 establishes a limitation period for assessment of tax due and Title 68 O.S. Section 227 establishes a limitation period on claims for refund. I have attached a copy of both statutes, which clearly outline the limitation periods and criteria for the administration of the statute.

5. Can you tell me how the statute is worded exactly as to what costs can be included in the payout calculation for the Horizontal Incentive Refunds? Also, can you tell me what statute states this and where I can find it to have for future reference?

The applicable citation is Title 68 O.S. Section 1001 (E) which states in part:

"For purposes of subsection D of this section and this subsection, project payback shall be determined as of the date of the completion of the well and shall not include any expenses beyond the completion date of the well, and subject to the approval of the Tax Commission."

Oklahoma Tax Commission Rule 710:45-9-23 further defines allowable costs as follows:

**Costs allowed in computing horizontally drilled well payout**

Costs allowed in computing horizontally drilled well payout shall include only the costs of drilling and completing the well and shall not include any cost incurred after the completion date. Neither shall it include lease acquisition costs, tank batteries, meters, pipelines or other external equipment.

If you should have any questions or need additional information, you may contact me at 405-522-5739.

This response applies only to the circumstances set out in your request of November 9, 2005. 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.

Sincerely,  
*Oklahoma Tax Commission*

Mark J. Hendrix  
*Tax Policy Analyst*