ADMINISTRATIVE NOTICE 97-06

SUBJECT: Property Tax -- State Tax Commissioner's Policy Statement for the Determination of Oil and Gas Operating Expenses for Property Tax Purposes for Tax Year 1997, Pursuant to § 110-1J-4.5.

On July 1, 1996, the Department of Tax and Revenue filed valuation variables to be used in conjunction with Legislative Regulations for the appraisal of oil and gas properties (See §§ 110 CSR 1-J-1 et seq.). This notice will address one of the variables, oil and gas operating expenses setting forth procedures used in developing these expenses and their application against receipts for the working interest of oil and gas producing properties.

DISCUSSION

The Department mailed questionnaires to major oil and gas producers in an effort to solicit, among other data, information concerning annual ordinary operating expenses directly incurred in the production of gas and oil. In addition, the Department reviewed regulatory reports (Federal Energy Regulatory Commission Forms and Public Service Commission Forms) for annual ordinary operating expenses directly incurred by various regulated public service corporations in the production of oil and gas. The Department has developed the following criteria for the direct ordinary operating expenses as a result of this research activity. Direct ordinary operating expenses will be estimated to be 25% of the gross receipts derived from gas production, not to exceed $5,000, 30% of gross receipts derived from oil production, not to exceed $7,000, and 30% of the gross receipts derived from enhanced recovery oil wells, not to exceed $9,000.

In instances where the well is producing both oil and gas, the allotted maximum ordinary operating expense will vary between $5,000 and $7,000 depending on the percentage of gas versus oil receipts involved.

In the event a producer's ordinary expenses as a direct result of the production exceeds the stated maximums for oil and gas production, the Department will accept and review documentation provided by the producer for the previous five years on a well-by-well or lease-by-lease basis. This information must be submitted on or before September 1, the due date for the Oil and Gas Producer/Operator return.

For additional information concerning oil and gas annual operating expenses see § 110-1J-1 et seq. or call the Department of Tax and Revenue at (304) 558-3940.

Issued: January 29, 1997

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