SUBJECT: Property Tax -- State Tax Commissioner's Statement for the Determination of Oil and Gas Operating Expenses for Property Tax Purposes for Tax Year 2000, Pursuant to § 110 CSR 1J-4.3.

On March 10, 1999 the State Legislature approved a Legislative Rule for the appraisal of oil and gas properties (See § 110 CSR 1J-1 et seq.). This notice will address one of the valuation 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

Prior to the passage of the above-mentioned amended Legislative Rule, the Tax 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 Tax 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 involved in the production of oil and gas. The Tax 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. As required in the amended Rule, the Tax Department will biennially review such rates.

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 Tax Department will accept and review documentation on wells for the previous five years that is provided by the producer. 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 CSR 1J-1 et seq. or call the State Tax Department at (304) 558-3940.

Issued: January 28, 2000

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