

Second Regular Session
Seventieth General Assembly
STATE OF COLORADO

INTRODUCED

LLS NO. 16-1286.01 Ed DeCecco x4216

HOUSE BILL 16-1468

HOUSE SPONSORSHIP

Becker K. and Hullinghorst,

SENATE SPONSORSHIP

Steadman,

House Committees

State, Veterans, & Military Affairs

Senate Committees

A BILL FOR AN ACT

101 CONCERNING COSTS THAT MAY BE DEDUCTED BY A TAXPAYER AS
102 TRANSPORTATION, MANUFACTURING, AND PROCESSING COSTS
103 FOR PURPOSES OF CALCULATING THE NET AMOUNT REALIZED BY
104 THE TAXPAYER FOR THE SALE OF OIL AND GAS.

Bill Summary

(Note: This summary applies to this bill as introduced and does not reflect any amendments that may be subsequently adopted. If this bill passes third reading in the house of introduction, a bill summary that applies to the reengrossed version of this bill will be available at <http://www.leg.state.co.us/billsummaries>.)

The bill limits the costs that may be deducted by a taxpayer for transportation, manufacturing, and processing costs for purposes of calculating the net amount realized by the taxpayer for the sale of oil and

Shading denotes HOUSE amendment. Double underlining denotes SENATE amendment.
Capital letters indicate new material to be added to existing statute.
Dashes through the words indicate deletions from existing statute.

gas for purposes of calculating the excise tax on the severance of oil and gas.

1 *Be it enacted by the General Assembly of the State of Colorado:*

2 **SECTION 1.** In Colorado Revised Statutes, 39-29-102, **amend**
3 (3) (a); and **repeal** (7) as follows:

4 **39-29-102. Definitions.** As used in this article, unless the context
5 otherwise requires:

6 (3) "Gross income" means:

7 (a) For oil and gas, the net amount realized by the taxpayer for
8 sale of the oil or gas, whether the sale occurs at the wellhead or after
9 transportation, manufacturing, and processing of the product. Net amount
10 shall be calculated on the basis of the gross lease revenues, less
11 deductions for ~~any transportation, manufacturing, and processing costs~~
12 ~~borne by the taxpayer~~ THE DIRECT COSTS ACTUALLY PAID BY THE
13 TAXPAYER FOR TRANSPORTING, MANUFACTURING, AND PROCESSING
14 IDENTIFIABLE, MEASURABLE OIL OR GAS, INCLUDING GAS THAT IS NOT IN
15 NEED OF INITIAL SEPARATION, FROM THE POINT AT WHICH IT IS FIRST
16 IDENTIFIABLE AND MEASURABLE TO THE SALES POINT OR OTHER POINT
17 WHERE VALUE IS ESTABLISHED. ANY COMPRESSION DOWNSTREAM OF THE
18 METER OR MEASUREMENT POINT IS DEDUCTIBLE AS A COMPONENT OF
19 TRANSPORTATION. "GATHERING" MEANS THE MOVEMENT OF AN
20 UNSEPARATED, BULK PRODUCTION STREAM TO A POINT, ON OR OFF THE
21 LEASE, WHERE THE PRODUCTION STREAM UNDERGOES INITIAL SEPARATION
22 INTO IDENTIFIABLE OIL, GAS, OR FREE WATER AND IS NOT DEDUCTIBLE AS
23 TRANSPORTATION. THIS DEFINITION SHALL NOT BE CONSTRUED TO AFFECT
24 THE LEGAL RELATIONSHIP BETWEEN ROYALTY OWNERS AND LESSEES.
25 Where the parties to the sale are related parties and the sales price is

1 lower than the price for which that oil or gas could otherwise have been
2 sold to a ready, willing, and able buyer and where the taxpayer was
3 legally able to sell the oil or gas to such a buyer, gross income shall be
4 determined by reference to comparable arms-length sales of like kind,
5 quality, and quantity in the same field or area, less deductions for
6 transportation, manufacturing, and processing done prior to the sale. For
7 purposes of this paragraph (a), "related parties" shall be defined by the
8 department of revenue pursuant to rules and regulations.

9 (7) ~~"Transportation" means the cost of moving identifiable,~~
10 ~~measurable oil or gas, including gas that is not in need of initial~~
11 ~~separation, from the point at which it is first identifiable and measurable~~
12 ~~to the sales point or other point where value is established. Any~~
13 ~~compression downstream of the meter or measurement point is deductible~~
14 ~~as a component of transportation. "Gathering" means the movement of an~~
15 ~~unseparated, bulk production stream to a point, on or off the lease, where~~
16 ~~the production stream undergoes initial separation into identifiable oil,~~
17 ~~gas, or free water and is not deductible as transportation. This definition~~
18 ~~shall not be construed to affect the legal relationship between royalty~~
19 ~~owners and lessees.~~

20 **SECTION 2. Act subject to petition - effective date -**
21 **applicability.** (1) This act takes effect at 12:01 a.m. on the day following
22 the expiration of the ninety-day period after final adjournment of the
23 general assembly (August 10, 2016, if adjournment sine die is on May 11,
24 2016); except that, if a referendum petition is filed pursuant to section 1
25 (3) of article V of the state constitution against this act or an item, section,
26 or part of this act within such period, then the act, item, section, or part
27 will not take effect unless approved by the people at the general election

1 to be held in November 2016 and, in such case, will take effect on the
2 date of the official declaration of the vote thereon by the governor.

3 (2) This act applies to severance tax years that begin on or after
4 January 1, 2016.