

# SENATE SELECT ENERGY COMMITTEE INDUSTRY PRESENTATION

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March 22, 2018



Colorado  
Petroleum Council  
A Division of API



# Oil and Gas Production Tax Types

- **Conservation Mill Levy**

- Statewide Mill Levy Up - currently 1.1
- Funds COGCC

- **Ad Valorem Tax**

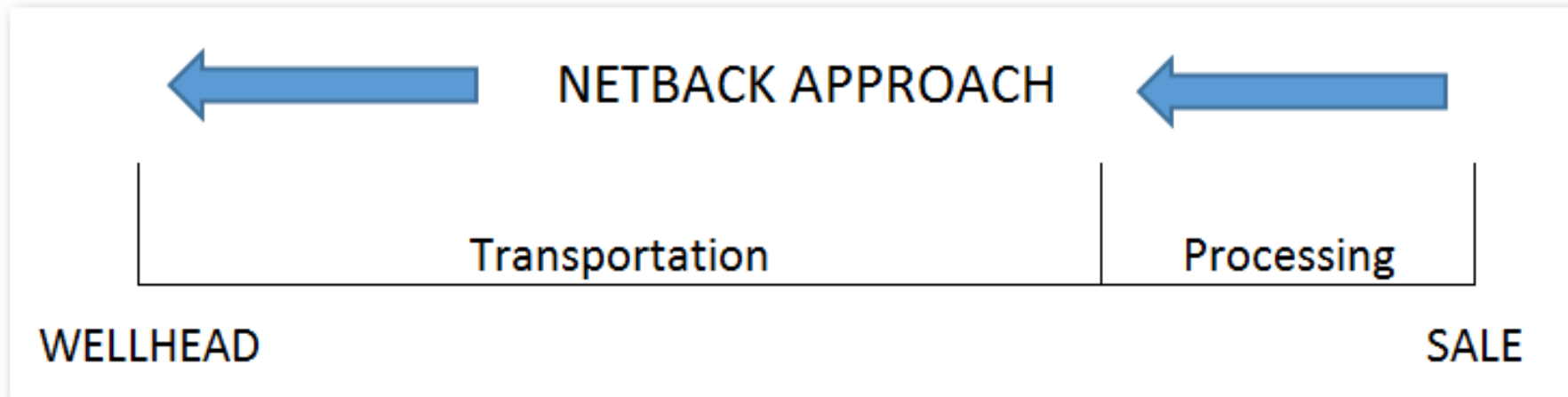
- Location specific – includes School, County, Town, Special Districts...
- Rate varies substantially by location

- **Severance Tax**

- 2%-5% rate based taxable revenue
- Rate varies by owner

# Production Tax Determination

- **Based on wellhead revenues**
  - Statutorily mandated and supported by court decision
  - Revenues are not the same as income
- **Wellhead Revenue - Netback Approach**



# Netback Calculation

• Revenue Received	\$1,000
• Subtract Netback Costs	
• Transportation Costs	(200)
• Processing Costs	(100)
• Manufacturing Costs	<u>0</u>
• Wellhead Value	<u><u>\$700</u></u>

# Ad Valorem Tax Calculation

Wellhead Value	\$ 700
Assessment Ratio	<u>87.5%</u>
Taxable Value	\$ 615
Tax Rate (3%-49%)	<u>6%</u>
Tax Due	<u><u>\$ 37</u></u>

# Ad Valorem Assessment



**7.2%**

**29%**



**87.5%!!**



# Ad Valorem Tax Calculation

	Oil		Commercial		House	
Value	\$	700	\$	700	\$	700
Assessment Ratio		87.5%		29%		7.2%
Taxable Value	\$	615	\$	200	\$	50
Tax Rate (3%-49%)		6%		6%		6%
Tax Due	\$	37	\$	12	\$	3

# Ad Valorem Tax Rate Example

TAX AREA 5260			
<b><u>Authority Name</u></b>			
WELD COUNTY		1.58%	
SCHOOL DISTRICT RE3-J KEENSBURG		2.01%	
CENTRAL COLORADO WATER (CCW)		0.18%	
LOCHBUIE TOWN		1.90%	
GREATER BRIGHTON FIRE		1.18%	
AIMS JUNIOR COLLEGE		0.63%	
HIGH PLAINS LIBRARY		0.33%	
Subtotal w/o Metro Districts			7.80%
SILVER PEAKS METRO DIST #1		6.12%	
SILVER PEAKS METRO DIST #2		6.72%	
SILVER PEAKS METRO DIST #3		6.12%	
SILVER PEAKS METRO DIST #4		6.12%	
SILVER PEAKS METRO DIST #5		6.12%	
ALTAMIRA METRO #5		5.50%	
SAND HILLS METRO		5.50%	
Subtotal - Metro Districts			42.19%
TOTAL LEVY		49.99%	49.99%

Adding just one almost doubles the tax rate

# Severance Tax Calculation

Wellhead Value	\$ 700
Stripper Well Revenues	(100)
Taxable Value	\$ 600
Tax Rate (2%-5%)	5%
Tax	\$ 30
Ad Valorem Tax Credit (87.5%)	(20)
1% Tax Withheld + Estimates	(10)
<b>Tax Due With Return</b>	<b>\$ -</b>

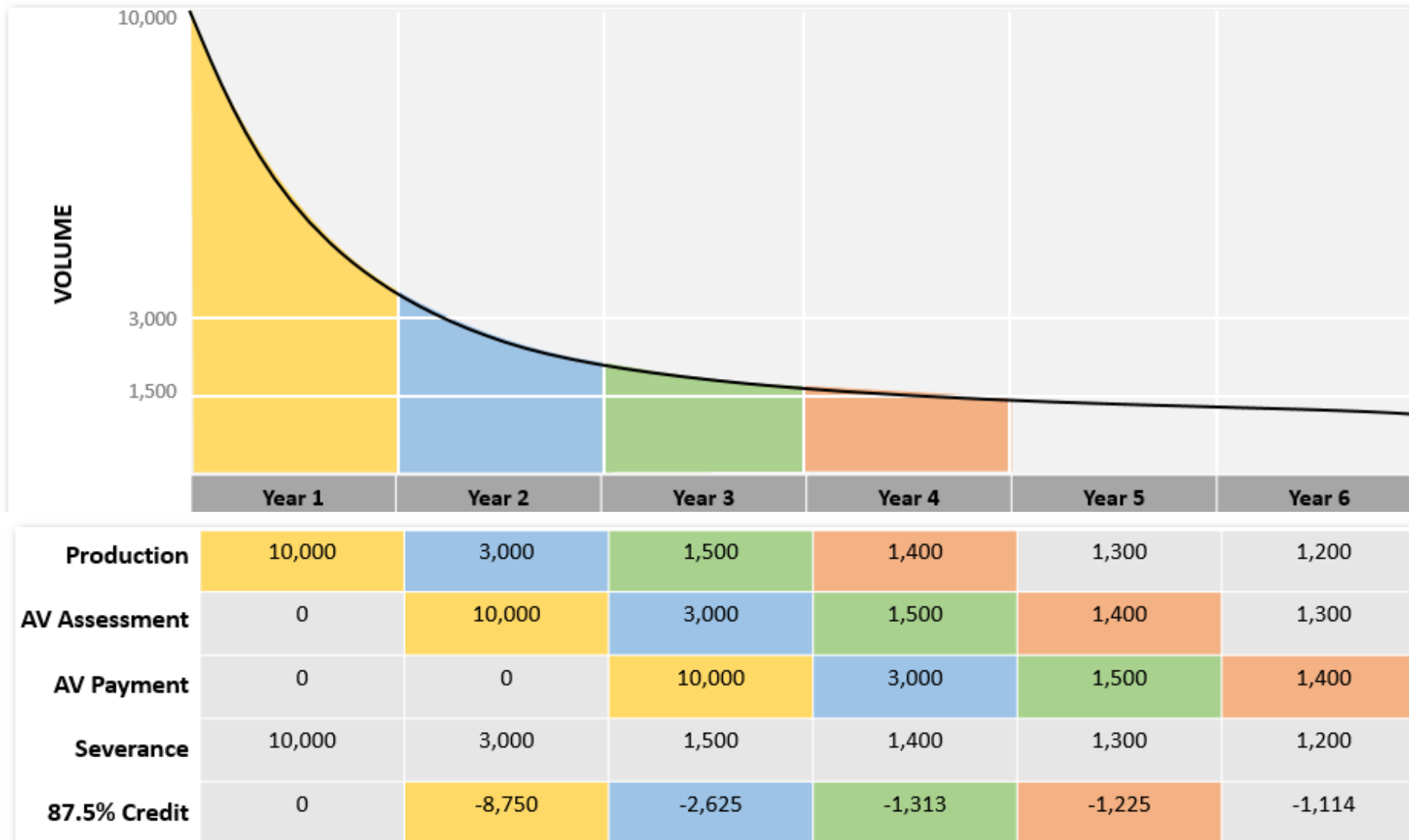
# Tax Payments

- **Conservation**
  - Quarterly to the COGCC
- **Severance**
  - 1% monthly withholding to Department of Revenue
  - In addition, many corporations make estimated severance tax payments
- **Ad Valorem**
  - Annually in the year following assessment (2017 paid in 2018)

# Annual Reporting to Owners

- **Each owner is responsible for the filing of Colorado severance tax returns.**
- **Annual Tax Form to Owners (DR21W)**
  - Cash and Accrual basis information
    - Income, Stripper, Ad Valorem
  - Severance tax withheld

# Timing of Production Taxes



# Unique Issues with Production Taxes

- **Conservation**
- **Ad Valorem**
  - Assessed at 87.5%
  - Wide range of local tax rates (3% - 49%)
  - Growing number of overlapping special districts ( DJ Basin)
- **Severance**
  - Tiered rate 2% - 5%
  - Timing of production taxes
  - High local rates

# Why should Colorado care?

- Competition with other states/countries for investment
- Major contributor to state's economy (>\$32B Annually)
- Support of K-12 education through Ad Valorem Assessments (\$ 200-500MM Annually)

# What's Next?