

1 1. Upon the production of oil a tax equal to seven percent (7%)
2 of the gross value of the production of oil based on a per barrel
3 measurement of forty-two (42) U.S. gallons of two hundred thirty-one
4 (231) cubic inches per gallon, computed at a temperature of sixty
5 (60) degrees Fahrenheit;

6 2. Upon the production of gas a tax equal to seven percent (7%)
7 of the gross value of the production of gas;

8 3. Notwithstanding the levies in paragraphs 1 and 2 of this
9 subsection, the production of oil, gas, or oil and gas from wells
10 spudded prior to the effective date of this act, and on or after the
11 effective date of this act, shall be taxed at a rate of five percent
12 (5%) commencing with the month of first production for a period of
13 thirty-six (36) months. Thereafter, the production shall be taxed
14 as provided in paragraphs 1 and 2 of this subsection; and

15 4. If the provisions of Article XIII-C of the Oklahoma
16 Constitution are approved by the people pursuant to adoption of
17 State Question No. 795, the rate of gross production tax imposed by
18 paragraph 3 of this subsection shall be reduced to two percent (2%)
19 for the first thirty-six (36) months of production and thereafter
20 the rate of taxation shall be seven percent (7%).

21 C. The taxes hereby levied shall also attach to, and are levied
22 on, what is known as the royalty interest, and the amount of such
23 tax shall be a lien on such interest.

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1 D. 1. Except as otherwise provided in this section, for
2 secondary recovery projects approved or having an initial project
3 start date on or after July 1, 2022, any incremental production
4 attributable to the working interest owners which results from such
5 secondary recovery projects shall be exempt from the gross
6 production tax levied pursuant to this section for a period not to
7 exceed five (5) years from the initial project start date or for a
8 period ending upon the termination of the secondary recovery
9 process, whichever occurs first.

10 2. Except as otherwise provided in this section, for tertiary
11 recovery projects approved and having a project start date on or
12 after July 1, 2022, any incremental production attributable to the
13 working interest owners which results from such tertiary recovery
14 projects shall be exempt from the gross production tax levied
15 pursuant to this section from the project start date until project
16 payback is achieved, but not to exceed a period of ten (10) years.
17 Project payback pursuant to this paragraph shall be determined by
18 appropriate payback indicators which provide for the recovery of
19 capital expenses and operating expenses, excluding administrative
20 expenses, in determining project payback. The capital expenses of
21 pipelines constructed to transport carbon dioxide to a tertiary
22 recovery project shall not be included in determining project
23 payback pursuant to this paragraph.

1 3. The provisions of this subsection shall not apply to any
2 enhanced recovery project using fresh water as the primary
3 injectant, except when using steam.

4 4. For purposes of this subsection:

- 5 a. "incremental production" means the amount of crude oil
6 or other liquid hydrocarbons which is produced during
7 an enhanced recovery project and which is in excess of
8 the base production amount of crude oil or other
9 liquid hydrocarbons. The base production amount shall
10 be the average monthly amount of production for the
11 twelve-month period immediately prior to the project
12 start date minus the monthly rate of production
13 decline for the project for each month beginning one
14 hundred eighty (180) days prior to the project start
15 date. The monthly rate of production decline shall be
16 equal to the average extrapolated monthly decline rate
17 for the twelve-month period immediately prior to the
18 project start date as determined by the Corporation
19 Commission based on the production history of the
20 field, its current status, and sound reservoir
21 engineering principles, and
- 22 b. "project start date" means the date on which the
23 injection of liquids, gases, or other matter begins on
24 an enhanced recovery project.

1 5. The Corporation Commission shall promulgate rules for the
2 qualification for this exemption which shall include, but not be
3 limited to, procedures for determining incremental production as
4 defined in subparagraph a of paragraph 4 of this subsection, and the
5 establishment of appropriate payback indicators as approved by the
6 Oklahoma Tax Commission for the determination of project payback for
7 each of the exemptions authorized by this subsection.

8 6. For new secondary recovery projects and tertiary recovery
9 projects approved by the Corporation Commission on or after July 1,
10 2022, such approval shall constitute qualification for an exemption.

11 7. Any person seeking an exemption shall file an application
12 for such exemption with the Tax Commission which, upon determination
13 of qualification by the Corporation Commission, shall approve the
14 application for such exemption.

15 8. The Tax Commission may require any person requesting such
16 exemption to furnish information or records concerning the exemption
17 as is deemed necessary by the Tax Commission.

18 9. Upon the expiration of the exemption granted pursuant to
19 this subsection, the Tax Commission shall collect the gross
20 production tax levied pursuant to this section.

21 E. 1. Except as otherwise provided by this section, any
22 incremental production which results from a production enhancement
23 project shall be exempt from the gross production tax levied
24 pursuant to subsection B of this section for a period of twenty-

1 eight (28) months from the date of first sale after project
2 completion of the production enhancement project. This exemption
3 shall take effect July 1, 2022, and shall apply to production
4 enhancement projects having a project start date on or after July 1,
5 2022. For all such production, a refund against gross production
6 taxes shall be issued as provided in subsection F of this section.

7 2. As used in this subsection:

- 8 a. for production enhancement projects having a project
9 start date on or after July 1, 2022, "production
10 enhancement project" means any workover as defined in
11 this paragraph, recompletion as defined in this
12 paragraph, reentry of plugged and abandoned wellbores,
13 or addition of a well or field compression,
- 14 b. "incremental production" means the amount of crude
15 oil, natural gas, or other hydrocarbons which are
16 produced as a result of the production enhancement
17 project in excess of the base production,
- 18 c. "base production" means the average monthly amount of
19 production for the twelve-month period immediately
20 prior to the commencement of the project or the
21 average monthly amount of production for the twelve-
22 month period immediately prior to the commencement of
23 the project less the monthly rate of production
24 decline for the project for each month beginning one

1 hundred eighty (180) days prior to the commencement of
2 the project. The monthly rate of production decline
3 shall be equal to the average extrapolated monthly
4 decline rate for the twelve-month period immediately
5 prior to the commencement of the project based on the
6 production history of the well. If the well or wells
7 covered in the application had production for less
8 than the full twelve-month period prior to the filing
9 of the application for the production enhancement
10 project, the base production shall be the average
11 monthly production for the months during that period
12 that the well or wells produced,

13 d. for production enhancement projects having a project
14 start date on or after July 1, 2022, "recompletion"
15 means any downhole operation in an existing oil or gas
16 well that is conducted to establish production of oil
17 or gas from any geologic interval not currently
18 completed or producing in such existing oil or gas
19 well within the same or a different geologic
20 formation, and

21 e. "workover" means any downhole operation in an existing
22 oil or gas well that is designed to sustain, restore,
23 or increase the production rate or ultimate recovery
24 in a geologic interval currently completed or

1 producing in the existing oil or gas well. For
2 production enhancement projects having a project start
3 date on or after July 1, 2022, workover includes, but
4 is not limited to:

5 (1) acidizing,

6 (2) reperforating,

7 (3) fracture treating,

8 (4) sand, paraffin, or scale removal or other
9 wellbore cleanouts,

10 (5) casing repair,

11 (6) squeeze cementing,

12 (7) installation of compression on a well or group of
13 wells or initial installation of artificial lifts
14 on gas wells, including plunger lifts, rod pumps,
15 submersible pumps, and coiled tubing velocity
16 strings,

17 (8) downsizing existing tubing to reduce well
18 loading,

19 (9) downhole commingling,

20 (10) bacteria treatments,

21 (11) upgrading the size of pumping unit equipment,

22 (12) setting bridge plugs to isolate water production
23 zones, or

24 (13) any combination thereof.

1 "Workover" shall not mean the routine maintenance, routine
2 repair, or like-for-like replacement of downhole equipment such as
3 rods, pumps, tubing, packers, or other mechanical devices.

4 F. On or after July 1, 2022, for all oil and gas production
5 exempt from gross production taxes pursuant to subsection E of this
6 section during a given fiscal year, a refund of gross production
7 taxes shall be issued to the well operator or a designee in the
8 amount of such gross production taxes paid during such period,
9 subject to the following provisions:

10 1. A refund shall not be claimed until after the end of such
11 fiscal year. As used in this subsection, a fiscal year shall be
12 deemed to begin on July 1 of one calendar year and shall end on June
13 30 of the subsequent calendar year;

14 2. Unless otherwise specified, no claims for refunds pursuant
15 to the provisions of this subsection shall be filed more than
16 eighteen (18) months after the first day of the fiscal year in which
17 the refund is first available;

18 3. No claims for refunds pursuant to the provisions of this
19 subsection shall be filed by or on behalf of persons other than the
20 operator or a working interest owner of record at the time of
21 production; and

22 4. No refund shall be paid unless the person making the claim
23 for refund demonstrates by affidavit or other means prescribed by
24 the Tax Commission that an amount equal to or greater than the

1 amount of the refund has been invested in the exploration for or
2 production of crude oil or natural gas in this state by such person
3 not more than three (3) years prior to the date of the claim. No
4 amount of investment used to qualify for a refund pursuant to the
5 provisions of this paragraph may be used to qualify for another
6 refund pursuant to the provisions of this paragraph.

7 If there are insufficient funds collected from the production of
8 oil or gas to satisfy the refunds claimed for oil or gas production
9 pursuant to subsection E of this section, the Tax Commission shall
10 pay the balance of the refund claims out of the gross production
11 taxes collected from either the production of oil or gas, as
12 necessary.

13 G. On or after July 1, 2022, all persons shall only be entitled
14 to either the exemption granted pursuant to subsection D or E of
15 this section for each oil, gas, or oil and gas well drilled or
16 recompleted in this state. However, any person who qualifies for
17 the exemption granted pursuant to subsection E of this section shall
18 not be prohibited from qualification for the exemption granted
19 pursuant to subsection D of this section if the exemption granted
20 pursuant to subsection E of this section has expired.

21 H. The Tax Commission shall have the power to require any such
22 person engaged in mining or the production or the purchase of such
23 asphalt, mineral ores aforesaid, oil, or gas, or the owner of any
24 royalty interest therein to furnish any additional information by it

1 deemed to be necessary for the purpose of correctly computing the
2 amount of the tax; and to examine the books, records and files of
3 such person; and shall have power to conduct hearings and compel the
4 attendance of witnesses, and the production of books, records and
5 papers of any person.

6 ~~E.~~ I. Any person or any member of any firm or association, or
7 any officer, official, agent or employee of any corporation who
8 shall fail or refuse to testify; or who shall fail or refuse to
9 produce any books, records or papers which the Tax Commission shall
10 require; or who shall fail or refuse to furnish any other evidence
11 or information which the Tax Commission may require; or who shall
12 fail or refuse to answer any competent questions which may be put to
13 him or her by the Tax Commission, touching the business, property,
14 assets or effects of any such person relating to the gross
15 production tax imposed by this article or exemption authorized
16 pursuant to this section or other laws, shall be guilty of a
17 misdemeanor, and, upon conviction thereof, shall be punished by a
18 fine of not more than Five Hundred Dollars (\$500.00), or
19 imprisonment in the jail of the county where such offense shall have
20 been committed, for not more than one (1) year, or by both such fine
21 and imprisonment; and each day of such refusal on the part of such
22 person shall constitute a separate and distinct offense.

23 ~~F.~~ J. The Tax Commission shall have the power and authority to
24 ascertain and determine whether or not any report herein required to

1 be filed with it is a true and correct report of the gross products,
2 and of the value thereof, of such person engaged in the mining or
3 production or purchase of asphalt and ores bearing minerals
4 aforesaid and of oil and gas. If any person has made an untrue or
5 incorrect report of the gross production or value or volume thereof,
6 or shall have failed or refused to make such report, the Tax
7 Commission shall, under the rules prescribed by it, ascertain the
8 correct amount of either, and compute the tax.

9 ~~G.~~ K. The payment of the taxes herein levied shall be in full,
10 and in lieu of all taxes by the state, counties, cities, towns,
11 school districts and other municipalities upon any property rights
12 attached to or inherent in the right to the minerals, upon producing
13 leases for the mining of asphalt and ores bearing lead, zinc, jack
14 or copper, or for oil, or for gas, upon the mineral rights and
15 privileges for the minerals aforesaid belonging or appertaining to
16 land, upon the machinery, appliances and equipment used in and
17 around any well producing oil, or gas, or any mine producing asphalt
18 or any of the mineral ores aforesaid and actually used in the
19 operation of such well or mine. The payment of gross production tax
20 shall also be in lieu of all taxes upon the oil, gas, asphalt or
21 ores bearing minerals hereinbefore mentioned during the tax year in
22 which the same is produced, and upon any investment in any of the
23 leases, rights, privileges, minerals or other property described
24 herein. Any interest in the land, other than that herein

1 enumerated, and oil in storage, asphalt and ores bearing minerals
2 hereinbefore named, mined, produced and on hand at the date as of
3 which property is assessed for general and ad valorem taxation for
4 any subsequent tax year, shall be assessed and taxed as other
5 property within the taxing district in which such property is
6 situated at the time.

7 H. L. No equipment, material or property shall be exempt from
8 the payment of ad valorem tax by reason of the payment of the gross
9 production tax except such equipment, machinery, tools, material or
10 property as is actually necessary and being used and in use in the
11 production of asphalt or of ores bearing lead, zinc, jack or copper
12 or of oil or gas. Provided, the exemption shall include the
13 wellbore and non-recoverable down-hole material, including casing,
14 actually used in the disposal of waste materials produced with such
15 oil or gas. It is expressly declared that no ice plants, hospitals,
16 office buildings, garages, residences, gasoline extraction or
17 absorption plants, water systems, fuel systems, rooming houses and
18 other buildings, nor any equipment or material used in connection
19 therewith, shall be exempt from ad valorem tax.

20 SECTION 2. This act shall become effective July 1, 2022.

21 SECTION 3. It being immediately necessary for the preservation
22 of the public peace, health or safety, an emergency is hereby
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1 declared to exist, by reason whereof this act shall take effect and
2 be in full force from and after its passage and approval.

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4 COMMITTEE REPORT BY: COMMITTEE ON APPROPRIATIONS AND BUDGET, dated
5 03/02/2022 - DO PASS, As Amended and Coauthored.

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