Natural Resource Tax Expenditures - Oil and Gas Production

The following is a list of tax expenditures for the natural resource taxes. The majority of these exemptions take the form of lower tax rates for producers who meet certain qualifications.

The table shows the value of each tax expenditure. After the table is a description of how oil and natural gas qualifies for the reduced rates. Detailed information on the tax rates shown below is in 15-36-304, MCA.

Oil and Natural Gas Production Tax Expenditures

Oil	FY 2006	FY 2007	FY 2008
Reduced Rates for:			
Post-1999 Production	$35,669,308	$45,805,139	$49,807,214
Horizontally Completed Wells First 18 Months	$56,434,134	$58,481,947	$44,849,421
Vertically Completed Wells First 12 Months	$1,209,869	$1,756,218	$1,922,834
Stripper Wells	$467,872	$962,642	$998,218
Horizontally Recompleted Wells First 18 Months	$465,140	$329,400	$140,615
Total	**$94,246,322**	**$107,335,347**	**$97,718,302**
Natural Gas	FY 2006	FY 2007	FY 2008
Reduced Rates for:			
Post-1999 Production	$27,352,802	$24,884,777	$28,014,159
Horizontally Completed Wells First 18 Months	$8,587,315	$5,763,620	$5,146,211
Vertically Completed Wells First 12 Months	$4,120,915	$6,010,413	$8,707,542
Total	**$40,061,033**	**$36,658,810**	**$41,867,912**

Reduced Rate for Oil and Gas Wells Completed After 1/1/1999

Oil and gas production from wells completed on or after 1/1/1999 is taxed at a reduced rate of 9.26% (instead of 12.76% for oil and 15.06% for gas). This reduced rate provides an incentive for the exploration, development, and production of oil and gas.

Reduced Rates for "New" Oil and Gas Production

Oil or gas from a well that qualifies as "new" production is taxed at a reduced rate of 0.76% (instead of 9.26% for oil and 15.06% for gas). This reduced rate applies for the first 12 months of production from a conventional well and the first 18 months of production from a horizontally completed well. New production includes production from new wells and from wells that have not produced oil or gas during the previous 60 months. This reduced rate provides an incentive for the exploration, development and production of oil and gas.

Reduced Rate for Horizontally Recompleted Oil Wells
The first 18 months of production from a horizontally recompleted well is taxed at 5.76%. After this period the tax rate reverts to 9.26% for post-99 wells or 12.76% for pre-99 wells.

Reduced Rates for Incremental Oil Production from Enhanced Recovery Projects
In any quarter when the average price of West Texas Intermediate (WTI) crude oil is less than $30 per barrel, incremental production from secondary recovery projects is taxed at 8.76%, and incremental production from tertiary recovery projects is taxed at 6.06%. In quarters when the average price of WTI is at least $30 per barrel, these wells are taxed at 9.26% for post-99 wells and 12.76% for pre-99 wells. The reduced rates provide incentives for the use of enhanced recovery technologies when prices are low.

Reduced Rates for Stripper Exemption (Super Stripper) and Stripper Oil Wells
In any quarter the average price of West Texas Intermediate crude oil is less than $38 per barrel (stripper exemption or super stripper oil), oil from wells on leases that produce less than three barrels per well per day is taxed at 0.76%. If the price of WTI is equal to or greater than $38 per barrel this oil is taxed at 6.26%.

From wells on leases that produce between 3 and 15 barrels per well per day (stripper oil), the first 10 barrels per day are taxed at 5.76% and remaining production is taxed at 9.26% in quarters when the average price of WTI is less than $30 per barrel. In quarters when the average price of WTI is at least $30 per barrel, stripper oil is taxed at 9.26% for post-99 and 12.76% for pre-99 wells. The reduced rates on super stripper and stripper oil provide an incentive to keep low-volume wells in production.

Reduced Rate for Horizontally Completed Gas Wells
After the first 18 months of production, production from a horizontally completed gas well is taxed at 9.26% (instead of 15.06%). The reduced rate provides incentive to use horizontal drilling technology.

Reduced Rate for Stripper Gas Wells
Gas wells that were completed before 1/1/1999 and produce less than 60 mcf per day are taxed at 11.26% (instead of 15.06%). The reduced rate provides incentive to keep low-volume wells in production.