

Major Changes for Crude Oil and Natural Gas Taxes

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Implementation of new computer programs for crude oil and natural gas taxes will occur by Dec. 31, 2007, to meet the requirements of new legislative changes. It will also provide greater accountability of taxes reported, collected and refunded and will allow the Comptroller's office to furnish information efficiently for taxpayers to file original and amended tax reports. Implementation will cause several major changes listed below:

Real Time

✓ Data corrections entered to a taxpayer's account will be reflected in real time.

✓ Additions and corrections to a taxpayer's report data and any type of activity on payment records will be updated immediately.

Web Access

✓ With a password, taxpayers will be able to view their current:

- outstanding liability and credit balances;
- payment records, such as payments received and credit transfers;
- refunds issued;
- detailed reported data; and
- report errors identified.

✓ Taxpayers will be able to order and retrieve an account history.

✓ Users can search for:

- drilling permit numbers;
- lease names and numbers;

- approved exemptions; and
- taxpayer names, numbers and addresses.

Report Format

Original and amended tax report forms with the current format will not be accepted after Dec. 31, 2007, unless a taxpayer is granted an extension.

Original Report Forms for Crude Oil and Natural Gas Taxes

✓ The new format is required for any report filed on or after Jan. 1, 2008.

Additions and corrections to a taxpayer's report data and any type of activity on payment records will be updated immediately.



✓ The following new fields will be added:

1. Indicate "yes" or "no" if a drilling permit number is being reported in place of a lease number.
2. The American Petroleum Institute (API) number is required on leases with approved well exemptions.
3. On the crude oil tax report, statewide barrels and value will be entered on the report summary, instead of a lease detail item.
4. New fields added to the natural gas tax report only:
 - Indicate "yes" or "no" if the transaction is an off lease sale for a producer report.
 - Indicate "yes" or "no" if tax reimbursement is included in calculating the value of the lease reported.
 - Governmental royalty volume field added.
 - Net taxable value block added for "Type 5" exemption leases.

For more information, visit our Web site www.window.state.tx.us. Receive tax help via e-mail at congtax@cpa.state.tx.us.

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Amended Report Forms For Crude Oil and Natural Gas Taxes

- ✓ The new format is required with any report filed on or after Jan. 1, 2008.
- The amended tax report form has the same fields as the original tax report form.
- Two methods of amending a report are available:
 1. The “replacement data” method can be used by reporting a locator number.
 2. The “net adjustment” method can be used by net adjusting the volumes and values.

Limited Power of Attorney (LPOA)

✓ Consultants and service providers are required to file a LPOA indicating the date range of the filing periods for which they have authority to file reports and access information. Unless a shorter period is indicated, the LPOA will be active for one year from the signature date. If a LPOA is not active for the consultant and/or service provider, then electronic and paper reports and credit transfer forms (signed by a consultant and/or service provider) will not process.

- ✓ A consultant and service provider can have Web access to a taxpayer’s account, only if they have:
 - registered through the Web;
 - obtained a password; and
 - a current LPOA on file.

Electronic Filers (EDI)

- ✓ Current electronic filers will need to submit TEST EDI reports and be approved to file in the new EDI format.
- ✓ Taxpayers filing reports not using the Comptroller’s EDI software will need to update their programs using the new 813 EDI map layouts that will be available on the Comptroller’s Web site.
- ✓ Taxpayers using the Comptroller’s EDI software will need to upgrade to the new Version 3.0. Those using the import feature will now be able to import data for multiple reporting periods.
- ✓ Accountants, consultants and service providers will be assigned an identification number and must submit TEST EDI reports to be approved in order to file in the new format

for their clients. The LPOA is required.



- ✓ Confirmation e-mails of Test and Production file uploads will contain detailed information on the data sent.

Report Errors

- ✓ Error letters will replace the current adjustment notice. A cover letter and a list of report errors will be generated electronically or on paper.
- ✓ If an electronic report cannot process due to high-level errors, the sender will be immediately notified by e-mail.

A self-paced presentation explaining the changes to the Crude Oil and Natural Gas Production Tax reports will be available on the Comptroller’s Web site, “Window on State Government.” The Web site address is www.window.state.tx.us.

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Payment Records

✓ The producer and purchaser records for payments received and transfers of credit will be posted separately. Payments received and transfers of credit will be processed by “subtype” and will be posted to either the producer and/or purchaser account as designated by a taxpayer. The subtype identifies whether a taxpayer is a producer or purchaser for each tax type. **Table 1** shows the codes for each tax type and subtype.

Table 1: Codes for Tax Type and Subtype

Tax	Subtype	Filing Type
36	36	Monthly Crude Oil Purchaser
36	48	Monthly Crude Oil Producer
37	37	Monthly Natural Gas Purchaser
37	49	Monthly or Annual Natural Gas Producer

✓ The transaction codes for payments submitted electronically will change after Jan. 1, 2008.

✓ Taxpayers using the Addenda method should correct their own software or instruct the bank transmitting their Addenda record to make the correction(s) in time for the due date of their payments.

✓ **Table 2** shows the new transaction codes.



If an electronic report cannot process due to high-level errors, the sender will be immediately notified by e-mail.

Table 2: New Transaction Codes

Code	Description	Due Date
36020	Purchaser Crude Oil Regular Payment	01/25/2008
36040	Purchaser Crude Oil Audit Payment	
36820	Purchaser Crude Oil Protest/Regular Payment	01/25/2008
48020	Producer Crude Oil Regular Payment	01/25/2008
48040	Producer Crude Oil Audit Payment	
48820	Producer Crude Oil Protest/Regular Payment	01/25/2008
37020	Purchaser Natural Gas Regular Payment	01/22/2008
37040	Purchaser Natural Gas Audit Payment	
37820	Purchaser Natural Gas Protest/Regular Payment	01/22/2008
49020	Producer Natural Gas Regular Payment	01/22/2008
49040	Producer Natural Gas Audit Payment	
49820	Producer Natural Gas Protest/Regular Payment	01/22/2008

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If you have questions regarding electronic reporting and/or electronic payments, please call the Electronic Reporting Section at (800) 531-5441, ext. 3-3630.

If you need further assistance, please call Tax Assistance at (800) 252-1384.

If you have suggestions or comments, please e-mail congtax@cpa.state.tx.us.

For more information, visit our Web site www.window.state.tx.us. Receive tax help via e-mail at congtax@cpa.state.tx.us.



New Types of Billings

- 1. Estimated Billings** will automatically generate on original tax reports not filed after 90 days from the due date of a filing period. A delinquent notice will be sent to the taxpayer 30 days before sending the estimated billing. The estimate will be based on an average of previously reported data. After a delinquent report is filed, the estimated billing will be canceled and the cycle of processing the report data and computing tax, penalty and interest (if any) will begin again.
- 2. Discrepancy Billings:** If a producer and purchaser report volumes and values for the same county and lease number and both parties report as not being liable for the tax for the same filing period, then a letter will be sent to both parties identifying the county and lease number and volumes and values. The letter requests at least one party pay the tax and file an amended report to change the "Are you liable for tax?" block to "Yes" and add the "net taxable value." If no response is received from either party, then

a bill will be generated and sent to both producer and purchaser, and collection actions will occur until taxes are paid.

Credit Transfer Forms

✔ Credits listed on the transfer form are subject to verification before processing the transfer.

✔ No transfer of credit will occur if a filing period in the "From" column is in error status. This rule applies whenever a credit is transferred from:

- A taxpayer's own account and/or
- One taxpayer account to another. A signed *Assignment of Rights to Refund* form (#00-985) must be submitted with the credit transfer form to process the transfer from one taxpayer account to another.

✔ Reason codes must be entered for each credit amount transferred. See **Table 3** below.

Table 3: Reason Codes for Credit Transfers

Code	Description
2	Legislative exemption
4	Overpaid tax
5	Value reduction
6	Credit interest
1	Marketing costs (for natural gas only)
3	Tax reimbursement (for natural gas only)
7	Trucking costs (for crude oil only)

✔ A letter must be attached to the credit transfer form indicating the specific grounds on which the credit is based for marketing costs, value reduction, and tax reimbursement reasons. The letter must indicate the lease name(s) and number(s) and the specific reason(s) that created each credit amount listed on the credit transfer form.