

Wyoming Petroleum Severance & Ad Valorem Tax Concepts

Taxability Ratio (TR)

- TR is the ratio of taxable value to total sales value
- Taxable Value is determined by subtracting allowable transportation deductions, processing deductions and exempt royalties
- Deductions are statutorily defined
- Exemptions are outlined in the constitution

Natural Gas Taxability Ratios

- Virtually all natural gas is processed and transported
- Some natural gas production in Wyoming requires extensive processing drastically reducing its taxable value
- Coalbed methane requires very little to no processing as defined in the statutes
- Transportation rates are volumetrically based so when prices fall the percentage of transportation costs increase lowering the TR
- AS CBM production fell the overall percentage of production the more highly processed gas streams increased lowering the state-wide TR of natural gas

OIL Taxability Ratios

- Virtually all oil is sold on the lease so transportation and processing costs occurring after the sale are non deductible
- Therefore, exempt royalties are the dominant variable that impacts the taxability ratio of oil production

Taxability Ratios

Year	Gross Sales Value - TD Oil GP	Taxable Value - TD Oil GP	Oil Taxability Ratio	Gross Sales Value - TD Gas GP	Taxable Value - TD Gas GP	Gas Taxability ratio
1999	954,462,257	894,146,215	93.681%	2,085,008,899	1,539,529,674	73.838%
2000	1,553,323,075	1,464,074,018	94.254%	4,387,930,342	3,497,985,929	79.718%
2001	1,150,951,156	1,081,828,547	93.994%	4,876,392,624	3,899,538,990	79.968%
2002	1,188,806,242	1,102,795,018	92.765%	3,371,372,315	2,573,095,351	76.322%
2003	1,366,487,736	1,266,649,427	92.694%	6,726,617,490	5,299,757,904	78.788%
2004	1,779,432,943	1,645,869,066	92.494%	8,695,657,480	6,870,564,028	79.011%
2005	2,326,294,769	2,154,709,054	92.624%	12,239,039,982	9,838,500,190	80.386%
2006	2,814,494,490	2,564,966,412	91.134%	10,736,006,655	8,622,637,633	80.315%
2007	3,161,148,033	2,871,940,422	90.851%	9,019,269,685	7,361,751,957	81.622%
2008	4,528,039,363	4,114,999,085	90.878%	14,586,429,131	12,112,233,019	83.038%
2009	2,714,828,004	2,459,031,667	90.578%	7,624,624,606	5,896,379,787	77.333%
2010	3,626,484,847	3,286,078,153	90.613%	10,014,438,332	7,583,985,784	75.731%
2011	4,552,325,760	4,130,123,535	90.726%	9,635,628,163	7,040,691,674	73.069%
2012	4,692,637,241	4,263,101,954	90.847%	6,555,559,084	4,348,732,851	66.337%
2013	5,399,694,127	4,913,499,456	90.996%	7,373,883,425	5,082,969,490	68.932%
2014	6,115,853,706	5,590,565,071	91.411%	8,255,239,220	5,840,876,255	70.754%
2015	3,561,070,720	3,250,240,970	91.271%	4,748,608,752	2,919,325,432	61.477%
2016	2,703,458,015	2,466,455,144	91.233%	3,992,230,756	2,395,697,435	60.009%
2017	3,528,006,438	3,226,458,128	91.453%	4,760,347,755	3,143,387,001	66.033%
Grand Total	57,717,798,922	52,747,531,342	91.389%	139,684,284,696	105,867,640,384	75.791%

Impact of Federal Royalties on TR, “State Revenues” and Ad Valorem Taxes

- The percentage of Federal Royalties impacts cash flows for both the “State” and the Ad Valorem tax
- As Federal Royalty percentage increases the TR decreases
- As Federal Royalty percentage increases “State” revenues increase
- As Federal Royalty percentage increases the ad valorem tax decreases

Federal Royalty Percentage Implications

A	Total Revenue	\$10,000,000.00	\$10,000,000.00
B	Allowable deduction for determining Federal Royalties	\$2,000,000.00	\$2,000,000.00
C=A-B	Royalty Bearing Value	\$8,000,000.00	\$8,000,000.00
D	Percentage of Acreage Federaly Owned	100.00%	50.00%
E	Federal Royalty Rate	12.50%	12.50%
F=C*D*E	Federal Royalty Owed	\$1,000,000.00	\$500,000.00
G	Allowable deduction for determining Wyoming Production Taxes	\$2,000,000.00	\$2,000,000.00
H=A-F-G	Wyoming Production Tax Taxable Value	\$7,000,000.00	\$7,500,000.00
I	Wyoming Allocation of Federal Royalty	48.00%	48.00%
J=F*I	Wyoming "State" Dollars of Federal Royalty	\$480,000.00	\$240,000.00
K	Wyoming Severance Tax Rate	6.00%	6.00%
L=H*K	Wyoming Severance Tax Collected	\$420,000.00	\$450,000.00
M=I+L	Total Tax and Royalty to Wyoming "State"	\$900,000.00	\$690,000.00
N	Ad Valorem Tax Rate from Oil Producing Tax Districts 2017	6.40%	6.40%
O=H*N	Ad Valorem Tax Collected	\$448,000.00	\$480,000.00
P=M+O	Total (State) & (County)	\$1,348,000.00	\$1,170,000.00
Q=H/A	Taxability Ratio	70.0000%	75.0000%

Other Taxability Questions

- When comparing Wyoming to other states are the deductions exactly the same even in Netback or work-back scenarios
- Wyoming's point of valuation can be one of four positions for natural gas.

Changing CFR Interpretations

A	Total Revenue	\$10,000,000.00	\$10,000,000.00
B	Allowable deduction for determining Federal Royalties	\$2,000,000.00	\$1,500,000.00
C=A-B	Royalty Bearing Value	\$8,000,000.00	\$8,500,000.00
D	Percentage of Acreage Federaly Owned	100.00%	100.00%
E	Federal Royalty Rate	12.50%	12.50%
F=C*D*E	Federal Royalty Owed	\$1,000,000.00	\$1,062,500.00
G	Allowable deduction for determining Wyoming Production Taxes	\$2,000,000.00	\$2,000,000.00
H=A-F-G	Wyoming Production Tax Taxable Value	\$7,000,000.00	\$6,937,500.00
I	Wyoming Allocation of Federal Royalty	48.00%	48.00%
J=F*I	Wyoming "State" Dollars of Federal Royalty	\$480,000.00	\$510,000.00
K	Wyoming Severance Tax Rate	6.00%	6.00%
L=H*K	Wyoming Severance Tax Collected	\$420,000.00	\$416,250.00
M=I+L	Total Tax and Royalty to Wyoming "State"	\$900,000.00	\$926,250.00
N	Ad Valorem Tax Rate from Oil Producing Tax Districts 2017	6.40%	6.40%
O=H*N	Ad Valorem Tax Collected	\$448,000.00	\$444,000.00
P=M+O	Total (State) & (County)	\$1,348,000.00	\$1,370,250.00
Q=H/A	Taxability Ratio	70.0000%	69.3750%

Private Royalties

- Royalties paid to private parties are not exempt in Wyoming
- Private Royalties are a dollar for dollar expense to the producers just as Federal, State or Tribal royalties are
- Study appears to address only those instances where production is from 100% Federal properties
- What implications are there when comparing to other states with much less Federal properties? Texas for instance

Additional Ad Valorem Rate Comments

- Oil production Ad valorem tax rate for 2017 was 6.4%
- Converse and Campbell County Ad valorem tax rates for oil have historically been less than 6%

Wyoming Ad Valorem Exemptions

- Wyoming Constitution Article 15 Section 12
 - “Public” property is exempt from property tax
 - So very little land is available for taxation
 - What implications does this have for governmental revenues
 - Texas (for instance) has very little “Public Lands” therefore a much larger tax base regarding property taxation

Wyoming Ad Valorem Exemptions

- Wyoming Constitution Article 15 Section 3
 - Paraphrase..All mines and mining claims shall be taxed... in lieu of taxes on the lands
 - Therefore even private property from which minerals are extracted are exempt from property taxes further eroding that mechanism as a basis for taxation
 - Is this the same for all other states?

Ad Valorem Systems

- The Ad Valorem tax in Wyoming is based upon the previous years production.
- Other states use a discounted cash flow mechanism to value the present value of all future mineral production
- Given the same Assessment ratio as Wyoming uses for mineral production (100%) the DCF method will return higher taxes

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