Oil Assessment Guidelines

The following steps and examples explain how to calculate the oil property tax assessment values. Assessments are calculated only for active leases.

Step 1 Determine the total dollar value (less Severance Tax) paid for the oil produced from your lease/well for the twelve months prior to the January 1 assessment date.

Step 2 Determine your correct decimal interest of ownership in the lease/well.

Step 3 Select your appropriate departmental oil property assessment factor. The current oil property tax assessment factors are as follows:

Total dollar value (less Severance Tax) for lease/well oil production = $6,500 or less:

- Working Interest Factor = 0.95
- Royalty & Overriding Interest Factor = 1.70

Total dollar value (less Severance Tax) for lease/well oil production = $6,501 or more:

- Working Interest Factor = 1.74
- Royalty & Overriding Interest Factor = 3.12

Step 4 Determine any appropriate allowance credit to be used in the oil assessment formula. The allowance credits are as follows:

- First year oil production = .33
- Second year oil production = .67
- Waterflood oil production = .60
- All other conditions = 1.00

NOTE: The waterflood allowance is granted to working interest owners only.

Step 5 Compute the assessment value for a lease/well by using the following formula:

\[ \text{Total \$ Value of Oil Prod.} \times \text{Decimal Int. of Ownership} \times \text{Dept. Factor} \times \text{Allow. Credit} = \text{Assessment Value} \]

Example A

Total dollar value (less Severance Tax)
for lease/well oil production = $10,000
Interest owned as of January 1 = .875 working
Year of production = 5th
Waterflood = Yes

Based on these assumptions, the working interest assessment value is computed as follows:
Total $ Value of Oil Prod. x Decimal Int. of Ownership x Dept. Factor x Allow. Credit = Assessment Value

$10,000 x 875 x 1.74 x .60 = $9,135

Example B

Total dollar value (less Severance Tax) for lease/well oil production = $100,000
Interest owned as of January 1 = .875 working
Year of production = 1st
Waterflood = No

Based on these assumptions, the working interest assessment value is computed as follows:

Total $ Value of Oil Prod. x Decimal Int. of Ownership x Dept. Factor x Allow. Credit = Assessment Value

$100,000 x .875 x 1.74 x .33 = $50,242

Note: the credit for a second year well is 0.66.

Example C

Total dollar value (less Severance Tax) for lease/well oil production = $6,500
Interest owned as of January 1 = .875 working
Year of production = 7th year
Waterflood = No

Based on these assumptions, the working interest assessment value is computed as follows:

Total $ Value of Oil Prod. x Decimal Int. of Ownership x Dept. Factor x Allow. Credit = Assessment Value

$6,500 x .875 x .95 x 1.0 = $5,403

Example D

Total dollar value (less Severance Tax) for lease/well oil production = $75,000
Interest owned as of January 1 = 1.00 total
Year of production = 5th year
Waterflood = No

Based on these assumptions, the working interest assessment value is computed as follows:
<table>
<thead>
<tr>
<th>Total $ Value of Oil Prod.</th>
<th>Decimal Int. of Ownership</th>
<th>Dept. Factor</th>
<th>Allow. Credit</th>
<th>Assessment Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>$75,000</td>
<td>x .875</td>
<td>1.74</td>
<td>1.0</td>
<td>$114,188</td>
</tr>
<tr>
<td>$75,000</td>
<td>x .125</td>
<td>3.12</td>
<td>1.0</td>
<td>$29,250</td>
</tr>
</tbody>
</table>

Total Assessment = $143,438

NOTE: Example D indicates that if a producer/operator owns all interest (working and royalty) in a property, the assessment will be based on the industry standard of .875 working and .125 royalty.