

Indiana

Department of Local Government Finance



Committed to a fair and equitable property tax system for Hoosier taxpayers.

Oil, Gas, Coal, & Land Assessments

August 31, 2016

WELCOME!



Oil, Gas, Coal, & Land Assessment

Derek Grimes – Department of Local Government Finance; Assessment Field Representative

Herschel McDivitt – Department of Natural Resources; Director, Division of Oil & Gas



Overview

- Oil & Gas Assessment
 - Indiana Code Citations
 - Indiana Administrative Code
 - Real Property Guidelines
 - Where do the prices come from?
 - G&O Form 1
 - Questions
- Strip Mined Land
- Classified Forrest Changes



Oil & Gas

IC 6-1.1-4-12.4

- “Oil or gas interests”; assessment
 - **Sec. 12.4.** (a) For purposes of this section, the term "oil or gas interest" includes but is not limited to:
 - (1) royalties;
 - (2) overriding royalties;
 - (3) mineral rights; or
 - (4) working interest; (continued)
 - in any oil or gas located on or beneath the surface of land which lies within this state.



Oil & Gas

- (b) Oil or gas interest is subject to assessment and taxation as real property. Notwithstanding section 4 or 4.2 of this chapter, each oil or gas interest shall be assessed annually by the assessor of the township in which the oil or gas is located, or the county assessor if there is no township assessor for the township. The township or county assessor shall assess the oil or gas interest to the person who owns or operates the interest.



Oil & Gas

- (c) A piece of equipment is an appurtenance to land if it is incident to and necessary for the production of oil and gas from the land covered by the oil or gas interest. This equipment includes but is not limited to wells, pumping units, lines, treaters, separators, tanks, and secondary recovery facilities. (Continued)



Oil & Gas

- These appurtenances are subject to assessment as real property. Notwithstanding section 4 or 4.2 of this chapter, each of these appurtenances shall be assessed annually by the assessor of the township in which the appurtenance is located, or the county assessor if there is no township assessor for the township. The township or county assessor shall assess the appurtenance to the person who owns or operates the working interest in the oil or gas interest.



Oil & Gas

IC 6-1.1-4-12.6

- Assessed value of oil or gas interests
- **Sec. 12.6.** (a) For purposes of this section, the term "secondary recovery method" includes but is not limited to the stimulation of oil production by means of the injection of water, steam, hydrocarbons, or chemicals, or by means of in situ combustion.



Oil & Gas

- (b) The total assessed value of all interests in the oil located on or beneath the surface of a particular tract of land equals the product of:
 - (1) the average daily production of the oil;
multiplied by
 - (2) three hundred sixty-five (365); and
multiplied by
 - (3) the posted price of oil on the assessment date.



Oil & Gas

- However, if the oil is being extracted by use of a secondary recovery method, the total assessed value of all interests in the oil equals one-half ($1/2$) the assessed value computed under the formula prescribed in this subsection. The appropriate township assessor (if any), or the county assessor if there is no township assessor for the township, shall, in the manner prescribed by the department of local government finance, apportion the total assessed value of all interests in the oil among the owners of those interests.



Oil & Gas

- (c) The appropriate township assessor, or the county assessor if there is no township assessor for the township, shall, in the manner prescribed by the department of local government finance, determine and apportion the total assessed value of all interests in the gas located beneath the surface of a particular tract of land.



Oil & Gas

- (d) The department of local government finance shall prescribe a schedule for township and county assessors to use in assessing the appurtenances described in section 12.4(c) of this chapter.



Oil & Gas

- Indiana Administrative Code
 - 50 IAC 1-3-1 - Assessment of oil and gas wells, equipment, and royalty interests
 - Sec. 1. ASSESSMENT OF OIL AND GAS WELLS AS REAL PROPERTY IN ACCORDANCE WITH IC 6-1.1-1-15, 6-1.1-4-12.4 AND 6-1.1-4-12.5.



Oil & Gas

- In order to provide for a uniform method of assessment of oil and gas wells, the State Board of Tax Commissioners has prescribed the following procedures. The number of barrels of oil in storage shall be valued at the posted price of oil as of the assessment date. The posted price of oil as of the assessment date will be computed by this Board, taking into consideration the tier pricing policy in effect at that time, and issued as an addendum to STB Directive 78-2.



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- **NOTE:** The State Board of Tax Commissioners is no longer in existence, and in its place the Department of Local Government Finance and the Indiana Board of Tax Review were created.



Oil & Gas

- The price for crude oil will be stated in terms of price per barrel while the price for natural gas will be stated in terms of price per 1,000 cubic feet (MCF) in said Directive.



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- Oil on hand at a lease site shall be assessed like any other inventory (to be reported on Form 103 [Form 103, renumbered 50 IAC 4-10-3–50 IAC 4-10-10 by the revisor, was repealed, filed Jan 23, 1980, 2:33 pm: 3 IR 1311]) and shall be computed by multiplying the number of barrels in storage by the price of oil per barrel by 0.21667. (This results in the same assessed value that would be realized by multiplying the number of barrels by the price of oil, less 35% times $\frac{1}{3}$).



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- The interests in oil or gas shall be valued at the average daily production times the posted price established by this Board for oil or gas times 365. This value must be divided by 3 to determine the assessed value. For those leases being produced by a secondary recovery method, the “interest in oil assessment” is to be reduced by $1/2$, as is indicated on the schedule.



Oil & Gas

- **NOTE:** Despite this language in the Indiana Administrative Code, “Inventory” is no longer assessed as personal property. Further, real property is no longer assessed at 1/3 but, rather it is assessed at its market value-in-use. Both of these references have been superseded since originally written.



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- To further assure uniformity, equipment incidental to and necessary for the production of oil and gas has been defined as an appurtenance to land and is to be assessed to the working interest. The assessed value per producing oil well and assessed valuation per producing gas well will be determined by this Board and issued as an addendum to STB Directive 78-2 along with the prices to be utilized for the valuation of petroleum products.



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- Equipment not constituting an appurtenance shall be returned by the taxpayer as personal property on Forms 103 and 104.



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- Royalty and overriding royalty interests which bear no part of the expense of a lease have been recognized to have a higher value than the working interests, therefore, to arrive at a total assessed value for these interests a factor of 1.50 is used. This is also indicated on the schedule.



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- All information shall be filed on schedules previously prescribed as G&O Form #1 by the State Board of Tax Commissioners or on a similar form conforming thereto. A separate schedule is to be filed for each lease with the township assessor on or before May 15 each year. Each schedule shall show the name and address of the operator, the name, township and legal description of the lease, and the name, address, and proportionate interest of each taxpayer.



Oil & Gas

- Real Property Guidelines, Chapter 2, Page 96
- **Valuation of Oil and Gas Interests:** Oil or gas interests include, but are not limited to; royalties, overriding royalties, mineral rights, or working interests in any oil or gas located on or beneath the surface of the land.



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- An oil or gas interest is subject to assessment and taxation as real property annually by the assessing official. This interest is assessed to the person who owns or operates each oil or gas interest. The total assessed value of interest in oil located on or beneath the surface or of interest in gas located beneath the surface of a particular tract of land equals the product of the following:



Oil & Gas

- The average daily production of the oil;
- Three hundred and sixty-five (365); and
- One hundred percent (100%) of the posted price of oil on the assessment date.



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- A piece of equipment is an appurtenance to the land and assessable as real property annually by the assessing official if it is incidental to and necessary for the production of oil and gas from the land covered by the oil or gas interest. Each of the appurtenances is assessed to the person who owns or operates the working interest in the oil or gas interest. This equipment includes, but is not limited to, the following: wells, pumping units, lines, treaters, separators, tanks, and secondary recovery facilities.



Oil & Gas - Prices

- Where does the Department find the prices?
 - Oil: Countrymark
(<http://www.countrymark.com/countrymark/crudeoil/crudeprice.aspx>)
 - Gas: Wall Street Journal Commodities
(http://online.wsj.com/mdc/public/page/mdc_commodities.html?mod=mdc_topnav_2_3014)



Oil & Gas

- Spreadsheets
 - Oil & Gas tracking sheet
 - Oil & Gas Historical comparison
 - Oil & Gas Appurtenances calculations



Oil & Gas

- Memo: Addendum to: 50 IAC 1-3-1 (STB Directive 78-101 - Real Property) - Assessments of Oil and Gas
- [http://www.in.gov/dlgf/files/pdf/160127 -
Wood Memo - Addendum to 50 IAC 1-
3-1 - Assessments of Oil and Gas.pdf](http://www.in.gov/dlgf/files/pdf/160127_Wood_Memo_-_Addendum_to_50_IAC_1-3-1_-_Assessments_of_Oil_and_Gas.pdf)



Oil & Gas

- G & O Form 1 Overview

Reset Form



PROPERTY SCHEDULE FOR GAS AND OIL WELL ASSESSMENT
State Form 9931 (R8 / 11-15)
Prescribed by Department of Local Government Finance

January 1, 20

**FORM
G & O-1**

INSTRUCTIONS:

1. File separate schedule for each gas and oil lease.
2. The form is to be filed with the appropriate Township or County Assessor not later than May 15 of each year.
3. Gas and oil interests are assessable per IC 6-1.1-4-12.4 and IC 6-1.1-4-12.6.

PRIVACY NOTICE

The records in this series are confidential; however an oil or gas interest listed on the delinquent property tax list may be disclosed to the public according to IC 6-1.1-35-9 (g).

SECTION 1 TAXPAYER INFORMATION

Name	Telephone number ()
Address (number and street, city, state, and ZIP code)	
(Check one) <input type="checkbox"/> Owner <input type="checkbox"/> Operator	Contact person
Title of contact person	E-mail address of contact person

SECTION 2 LEASE INFORMATION

Location	County	Township	DLGF taxing district number
Lease	Legal description	Section	Township
		Range	Acres

Check if the well is an oil well using secondary recovery method. Also check if the well stimulates oil production by means of injection of water, steam, hydrocarbons, or chemicals, or by in situ combustion. (IC 6-1.1-4-12.6)

SECTION 3 FACTORS FOR BASIS OF ASSESSMENT

A.	Price per unit of gas or oil on assessment date (per DLGF)	3A.	Per MCF or barrels
B.	Average daily production of gas or oil	3B.	
C.	Annual production value (multiply 3A. by 3B. by 365)	3C.	



Oil & Gas FAQ

- *Question: With the assessment date moving up to January 1, 2016 from March 1, 2015, aren't the producers getting double taxed on production from January-March if we ask them to report from January to January?*



Oil & Gas FAQ

- Answer: No. The Code speaks in terms of 365 days versus a specific “March to March” or “January to January” period. The producer will have paid tax on a daily average over 365 days for 2015, and a separate tax on a daily average over 365 days in 2016. The fact that the data points overlap does not result in double taxation.



Oil & Gas FAQ

- *Question: We have a taxpayer who has operated a gas well on his property for personal use for several years. In 2015, he quit using the well and abandoned it. However, it has not been plugged. Does he still need to report this and pay taxes on it?*



Oil & Gas FAQ

- Answer: Since the well remains unplugged, it is the Department's opinion that the well would be considered a working interest that has been paused. The taxpayer would report the well with a 0 daily production value, and report any appurtenances upon the land.



Oil & Gas FAQ

- *Question: What changes have been made to the Oil & Gas roll date?*
- Answer: Keep in mind that since Oil & Gas assessments are considered real property assessments, Oil & Gas values will need to be rolled, along with the rest of the real property values, on or before June 1 beginning in 2017.



Oil & Gas FAQ

- *Question: When determining Oil & Gas assessments, should the assessed value be rounded to the nearest \$100 or \$10?*
- **Answer:** Since Oil & Gas assessments are determined to be “real property assessments,” the assessed value would be rounded to the nearest \$100 of value.



Oil & Gas FAQ

- *Question: Can we assess the taxpayer a penalty for not filing the G & O Form 1 timely or for failure to file at all?*
- Answer: Statute makes no mention of a “statutory” due date. Though administrative code suggests May 14, it makes no mention of a penalty to be assessed for late filing (ala personal property). Absent a specific statute/rule, the Department is of the opinion the assessor should not assess a penalty.



Oil & Gas FAQ

- Other Questions?



Strip Mined Land

- Chapter 2, page 96 of Real Property manual regarding productivity factors:
- If coal has been strip mined from agricultural land subsequent to the creation of the detailed soil map for the area, the assessor must apply a special productivity factor to that land:



Strip Mined Land

- For land strip mined on or before December 31, 1977, identify the “Soil I.D.” as “SBD7” and apply a productivity factor of 0.75.
- For land strip mined after December 31, 1977, identify the “Soil I.D.” as “SAD7” and apply a productivity factor of 0.68.



Legislative Changes to Classified Forest

- The legislature made two changes to the Classified Forest & Wildlands Program through HB 1246 and SB 308.
- **HB 1246** was a minor change. It changed “county auditor” to “county assessor” in several places in the law to reflect that it is the assessor that changes the assessment of land when it goes into or out of the program not the auditor.



Legislative Changes to Classified Forest

- **SB 308** changed the assessed value of classified land from \$1/acre to \$13.29/acre as of the January 1, 2017 assessment date. The assessed value for classified land will be updated annually by the percentage change in the Consumer Price Index for All Urban Consumers.



Legislative Changes to Classified Forest

- *Question: Where did the \$13.29/acre AV originate from?*
- **Answer: When the Classified Forest Program began in 1921, the assessed value for land enrolled in the program was set to \$1/acre. \$13.29 is the current value of a 1921 dollar.**



Legislative Changes to Classified Forest

- *Question: What is the Consumer Price Index for All Urban Consumers?*
- Answer: The Consumer Price Index for All Urban Consumers (CPI-U) is a measure of inflation determined by the US Department of Labor, Bureau of Labor Statistics. CPI-U is a measure of the average change over time in prices paid by urban consumers for a set of consumer goods and services: food and beverages, housing, apparel, transportation, medical care, recreation, education and communication, and other goods and services (tobacco, personal services, funeral expenses).



Legislative Changes to Classified Forest

- The percentage change in the CPI-U for the past five years is as follows:
 - 2011 3.2%
 - 2012 2.1%
 - 2013 1.5%
 - 2014 1.6%
 - 2015 0.1%
- For more information about the CPI-U visit the Bureau of Labor Statistics webpage (<http://www.bls.gov/cpi/cpifaq.htm>).

Source: [http://www.in.gov/dnr/forestry/files/fo-2016 Legislative Changes Classified Forest.pdf](http://www.in.gov/dnr/forestry/files/fo-2016%20Legislative%20Changes%20Classified%20Forest.pdf)



Land

QUESTIONS?



Contact the Department

Derek Grimes

- Telephone: 317.234.8889
- Fax: 317.974.1629
- E-mail: dgrimes@dlgf.in.gov
- Website: www.in.gov/dlgf
- “Contact Us”: www.in.gov/dlgf/2338.htm