Approved March 23, 1983
Date

MINUTES OF THE HOUSE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Representative Jim Braden at
Chairperson

9:00 a.m./~~p.m.~~ on March 10, 1983 in room 519S of the Capitol.

All members were present except: Representatives, Rolfs, Crowell, and Lowther, who were excused.

Committee staff present:

Wayne Morris, Research Department
Tom Severn, Research Department
Don Hayward, Revisor of Statutes' Office
Nancy Wolff, Secretary to the Committee

Conferees appearing before the committee:

Jim Weisgerber, Department of Revenue
Senator Roy Ehrlich
Sylvia Hoagland, Department of Aging

The meeting was called to order by the Chairman. The minutes of February 24, 25, 28 and March 1, 2, 3, and 4 were approved as written.

Wayne Morris of Staff, introduced Jim Weisgerber, an attorney in the Department of Revenue who proceeded to review Senate Bill 15 which would amend the Kansas Inheritance Tax Act to provide that the gross estate of a decedent dying after December 31, 1982, shall include or "recapture" for inheritance tax purposes, gifts given within one year of death only when the donor retains control over the asset given, or when the gifts made to any transferee have a value of more than $10,000. (Attachment I)

Mr. Weisgerber also reviewed Senate Bill 16 which would bring Kansas into conformity with Federal law, relating to use value appraisal of farms and closely held businesses for inheritance tax purposes. (Attachment I)

Senator Ehrlich, sponsor of Senate Bill 118 which would allow cities and counties to increase the tax levy authority for elderly service programs by 1/2 mill, appeared as a proponent of the bill. (AttachmentII)

Sylvia Hoagland, Secretary of the Department of Aging, appeared as a proponent of Senate Bill 118.

Wayne Morris and Tom Severn proceeded to give a review of Severance Tax in other states, (Attachment III), severance tax options, (Attachment IV), and substitute for Senate Bill 267 (Attachment V).

The meeting was adjourned.

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

DATE: March 10, 1983

GUEST REGISTER

HOUSE

ASSESSMENT & TAXATION
COMMITTEE

NAME	ORGANIZATION	ADDRESS
Sylvia Hougland	KDOA	
Jim Weisgerber	Dept of Rev.	
Sen Roy M. Ehrlich		
Kathy Castello - WU	WU - Social Work Dept.	
Sharon Thomas	W.U. " " "	

MEMORANDUM

ATTACHMENT I

TO: House Assessment and Taxation Committee

DATE: March 10, 1983

SUBJECT: SENATE BILLS 15 AND 16

FROM: Kansas Department of Revenue

SENATE BILL 15

RECAPTURE OF GIFTS MADE IN CONTEMPLATION OF DEATH

Prior to the Economic Recovery Tax Act of 1981, federal law required that transfers made by a decedent within three years of death be included in the decedent's gross estate, except where the transfer was under $3,000 per donee or did not otherwise require a gift tax return to be filed. Under the new federal law, transfers made within three years of death will not be included in the decedent's gross estate unless they are: (1) gifts of life insurance; (2) transfers with a retained life estate; (3) transfers taking effect at death; (4) revocable transfers; or (5) powers of appointment. The annual gift tax exclusion per donee was also raised from $3,000 to $10,000 and an unlimited gift tax exclusion was allowed for payment of either an individual's school tuition or medical care expenses.

Under K.S.A. 1981 Supp. 79-1549, only gifts made within one year of death are presently included in the decedent's gross estate; such gifts are "recaptured" regardless of amount. If Kansas were to conform completely to the estate tax provisions of ERTA in this area, a decedent could essentially avoid all Kansas inheritance taxes by making "death-bed" transfers of property.

ATTACHMENT I
(3-10-83)

BUREAU/DIVISION: DEPARTMENT OF REVENUE

BY: Jim Weisgerber

TITLE: TAX SPECIALIST

AS/os-16
(8/76)

JW:acs

Senate Bill 15 would amend the Kansas Inheritance Tax Act (79-1549) to provide that the gross estate of a decedent dying after December 31, 1982 (line 0042-0044), shall include or "recapture" for inheritance tax purposes, gifts given within one year of death only when the donor retains control over the asset given, as specified in K.S.A. 1982 Supp. 79-1550 to 79-1556, (line 0047-0051), or when the gifts made to any transferee have a value of more than $10,000 (line 0042-0046).

The gross estate of a decedent dying after December 31, 1982 would not include the value of any lifetime gift of less than $10,000 made to a beneficiary where the decedent had made the gift absolute and had not retained any incidents of control or ownership. The Bill provides conformity to federal law by exempting absolute gifts (of $10,000 or less) from taxation, and follows federal law in recapturing certain gifts which are not absolute, regardless of amount. By limiting a gift's exemption from taxation to a maximum of $10,000, the possibility of deathbed transfers to avoid taxation is eliminated.

SENATE BILL 16

SPECIAL USE VALUATION

Special Use Valuation in Kansas, (K.S.A. 1982 Supp. 79-1545) was designed to bring Kansas into conformity with Federal law. The changes made by Senate Bill 16 are designed to continue that conformity.

The deletion of lines 27 through 33 are due to the fact that spouses are now exempt from estate and inheritance tax, thereby eliminating a need for special valuation techniques for property passing to them.

Amendments at lines 36 through 40 allow an increase in the allowable aggregate decrease due to special use valuation. The aggregate values which are established for each year are in conformity with Federal law.

Amendments at lines 44, 49, and 64 reflect technical amendments to conform to Federal language, as does deletion at lines 59 through 61.

Amendment at lines 86 through 99 allows material participation by the decedent or a member of the decedent's family to be established by a decedent who was disabled. The definition of "disabled" is also set out. This amendment provides conformity to Federal law.

Amendment at lines 100 through 111 allows a surviving spouse to establish their material participation in the operation of a farm or business which they received from their predeceased spouse by showing their "active management" of the farm or business. "Material participation" is otherwise determined pursuant to 79-1545 (d)(6); here line 170 through 173."Active Management" is defined by new section (d) (10), here line 224 through 226.

Amendment at line 119 through 123 provides special use pursuant to K.S.A. 79-1545 can only be elected where a special use election pursuant to 2032A is made on the Federal level. In addition, the election is made irrevocable in conformity with Federal law.

Amendment at lines 131 through 140 is technical in nature, and brings Kansas into conformity with Federal law. The only effect of the amendment is to expand the definition of "member of the family" to include step relationships.

Amendment at lines 184 through 193 allows the value of property to be determined from net share rentals, such as crop share rentals, and defines "net share rental". This amendment brings Kansas law into conformity with Federal law. An estate may now elect to use either net share rentals, or cash rentals, which was the only method previously allowed.

Amendment at lines 197 and 198 relates to amendment at lines 184 through 193.

The amendments referenced above will continue Kansas Special Use Valuation (K.S.A. 1982 Supp. 79-1545) in conformity with Federal law. As previously noted, this provision can be used only when a Federal election pursuant to 2032A is made. However, Kansas does allow the use of another valuation technique whenever no Federal election is made.

This alternative method allows the exclusion of a statutorily established portion of qualified property from the decedent's gross estate, and is found at K.S.A. 1982 Supp. 79-1545b. In essence, the terms and definitions of 79-1545b are incorporated by reference from 79-1545, except where special provisions are made. A major difference between 79-1545 and 79-1545b is that 79-1545 does not have a recapture provision if the use made of the property is discontinued (since a Federal audit will report this to the state), while

79-1545b does have a provision to recapture the excluded property into the decedent's estate.

Amendment at line 238 repeals sunset provision for this statute.

Amendment at line 272 make an election under this statute irrevocable.

Amendment at line 285 expands the recapture period from 5 to 10 years. Prior Federal law allowed property which was discontinued in a qualified use to be recaptured for a period of 15 years following the decedent's death. The Federal recapture period has been reduced to 10 years by ERTA. This amendment expands the state's recapture period, but brings it into conformity with Federal law.

The amendment at lines 304 to 319 expands the statutory definition of when real property is deemed to have ceased to be used for a qualified use. This expansion continues Kansas in conformity with Federal law. The "qualified use" referenced relates back to the initial qualification provisions of 79-1545(b), which are incorporated by reference.

The amendment at lines 320 to 348 provides that qualified real property shall not be recaptured into the estate where the commencement date of the qualified use is delayed for a period not to exceed two years, and the property was held by an "eligible qualified heir". An "eligible qualified heir" is defined at lines 339 through 344. The purpose of this amendment is to liberalize the recapture provision as it applies to certain select heirs, and to continue conformity to Federal law.

In addition, to the comments in the preceding paragraph, the additions made at lines 330 through 338 should be noted. These additions allow "active management" by a qualified heir, or by a fiduciary representing that heir, to qualify as "material participation" for 79-1545b (9)(2)(B). This allows property to avoid recapture for failure of the qualified heir to materially participate in the operation of the farm or other business.

We hope this information is of assistance. Thank you for your help and cooperation.

TESTIMONY OF SB-118
FOR SENATOR ROY M. EHRLICH

BILL IN BRIEF

SB-118 was introduced to allow cities and counties to increase the tax levy authority for elderly service programs. By increasing the maximum limit for all cities and counties, local units of government will have the option, if the public so desires, to assess locally, a tax levy up to 1.500 mill on all tangible property in the city and/or county.

TESTIMONY

Under the current provisions of K.S.A. 12-1680 et seq., cities and counties are allowed to authorize a tax levy for elderly service programs. Such services are rendered by either the local municipalities or designated nonprofit organizations to provide the older Kansan community, specifically those 60 years or more in age, programs which will enhance their individual needs in the community and allow them to remain in their homes, as long as possible. However, such taxing authority is in addition to all other tax levies authorized or limited by present Kansas statutes and is not subject to or within the limitations upon the levy of taxes, already imposed through K.S.A. 79-5001 to 79-5016 et seq.

The statutes further stipulate that to call for an election on the proposition of a tax levy, at least 5% of the local units registered voters must petition for the referendum. Upon approval of the proposed mill levy authority, the jurisdiction's elected officials will then annually set the mill rate, which is then not to exceed 1.000 mill or the amount approved by the voters.

SB-118 provides local units of government the option to better serve and support the elderly programs created within their communities. Since the 1974 enactment of the mill levy authority, sixty counties have elected to have a tax levy for aged service programs. The local need and demand to fund such programs was again demonstrated in the November election, when 4 new counties passed aging services mill authorization ballots, all establishing limits at the maximum of 1.000 mill. It is up to the local elected officials to now authorize the annual mill rate up to the amount specified in the proposal and/or not to exceed 1.000 mill.

The increase in mill authority limits as proposed would provide greater flexibility and opportunity for existing Kansas counties to enhance their service levels. With speculation of FY-84 Federal budget cuts to various social and community service programs, local units of government need a local option, if they so choose. Without such latitude, cities and counties will find it difficult to effectively serve the needs of older Kansans.

SB-118 introduces a safeguard provision for those counties, with such approved maximum mill limits, from the fall of defeat if the county places a mill limit increase on the ballot. Like the election of the initial proposition, the proposal to increase the maximum limit would also require a referendum, with 5% of the registered voters of the jurisdiction petitioning for the election. The proviso for a "proposition increase" would protect those counties, in case of voter rejection, from having their initial levy authorization rescinded totally.

The bill also still provides a mechanism for cities and counties presently without an elderly service mill authority, to pursue voter approval, if the citizen support and need exists. The raising of the maximum limit should not discourage new counties from proposing elderly service programs and County Commissioners would still have the option to set the rate.

I strongly support SB-118, as an effective means for our Kansas local elected officials to determine what is needed.

KANSAS DEPARTMENT ON AGING

KANSAS COUNTIES WITH MILL LEVY FOR AGING SERVICES

FEBRUARY 1983

COUNTY	ASSESSED VALUATION	MILL LEVY	AMOUNT GENERATED
Allen	$ 56,685,477	.500	$ 28,342
Atchison	49,915,510	1.000	49,915
Bourbon	50,143,320	1.000	50,143
Brown	50,656,853	.880	44,578
Butler	207,039,253	.579	119,875
Chase	29,090,253	.490	14,254
Chautauqua	28,743,194	1.000	28,743
Cherokee	60,426,486	.330	19,940
Clay	43,949,094	.800	34,795
Cloud	54,983,868	1.000	54,983
Cowley	154,229,066	.710	109,502
Crawford	81,628,064	1.000	81,628
Dickinson	77,476,772	.660	51,134
Doniphan	32,008,765	1.000	32,008
Douglas	195,807,240	.927	181,513
Elk	24,509,038	1.000	24,509
Ellsworth	69,320,643	.210	14,557
Finney	261,960,670	.690	180,752
Franklin	67,927,381	.470	31,925
Geary	58,238,489	.500	29,119
Greeley	50,387,036	.501	20,233
Greenwood	53,597,914	.750	40,198
Hamilton	42,605,259	.330	14,059
Harper	72,506,259	.850	61,630
Harvey	120,927,215	.360	43,533

COUNTY	ASSESSED VALUATION	MILL LEVY	AMOUNT GENERATED
Hodgeman	$ 41,737,911	.370	$ 15,443
Jackson	33,210,837	.870	28,893
Jefferson	43,248,158	.500	21,629
Kearny	160,099,947	.250	40,024
Kingman	102,071,211	1.000 (1)	n/a
Leavenworth	103,842,025	.497	51,690
Marion	67,358,405	.590	39,741
Marshall	57,452,010	.600	34,471
McPherson	170,020,702	.910	154,718
Miami	73,949,443	.700	51,764
Mitchell	41,238,748	.500	20,619
Montgomery	129,334,528	.486	62,856
Morris	36,052,890	.500	18,026
Morton	122,451,612	.420	51,429
Neosho	66,906,841	.500	33,453
Ness	78,100,021	1.000 (1)	n/a
Norton	33,385,817	.500	16,692
Osage	50,415,117	.910	45,877
Ottawa	40,843,106	.870	35,533
Rawlins	36,696,512	.250	9,174
Reno	245,061,228	1.000	245,061
Rice	105,637,199	.570	60,213
Riley	114,642,939	1.000	114,542
Saline	162,765,530	.807	131,351
Shawnee	437,096,467	.650	284,112
Sedgwick	1,297,592,690	1.000 (1)	n/a
Sherman	46,219,471	1.000	n/a
Sumner	111,887,374	.690	77,202

COUNTY	ASSESSED VALUATION	MILL LEVY	AMOUNT GENERATED
Thomas	$ 61,315,057	.790	$ 42,920
Waubuansee	32,894,188	.920	30,262
Wallace	24,078,296	.750	18,058
Wichita	36,467,997	.480	17,504
Wilson	47,379,268	.500	23,689
Woodson	37,193,302	.900	33,473
Wyandotte	382,143,758	1.000	382,143

Explainations:

(1) Mill levy authorization passed in November, 1982. Annual tax levy has yet to be set by the County Commission.

(2) Mill levy authorization passed in November, 1982. Will not become effective until April, 1984. Annual tax levy has yet to be set by the County Commission.

MEMORANDUM

March 9, 1983

TO: House Committee on Assessment and Taxation

FROM: Kansas Legislative Research Department

RE: Background Materials for Severance Tax

This memorandum presents updated background information relating to severance taxes requested by Chairman Braden. Included are severance tax rates in other states, national production figures on oil, gas, and coal, estimates of 1982 property taxes on oil and gas properties for each producing county in Kansas, the estimated property tax as a percentage of production values, and a summary of recently enacted changes in the federal crude oil windfall profit tax.

Severance Taxes

Severance taxes on oil and gas have been enacted in 22 states, not including states such as Kansas which have enacted relatively minor taxes for regulatory purposes, such as pollution control or conservation. In six of those 22 states, the severance tax is levied in lieu of any property tax on the oil or gas properties. Table 1 presents a review of the severance tax rates in those 22 states.

TABLE 1

OIL, GAS, AND COAL SEVERANCE TAX RATES

(Excluding Regulatory Taxes)

State	Severance Tax Rates: Oil	Gas	Coal	Property Tax on Oil and Gas	Exemptions or Lower Rates
Alabama	10%	10%	33.5 cents/ton	Yes	Yes[1]
Alaska	15%	10%	—	Yes	Yes[2]
Arkansas	5%	$.003/mcf.	2 cents/ton	Yes	Yes[3]
Colorado	2%-5%	2%-5%	78.6 cents/ton	Yes	Yes[4]
Florida	8%	5%	—	No	Yes[5]
Idaho	2%	2%	2%	Yes	
Indiana	1%	1%	—	Yes	No
Kentucky	4.5%	4.5%	4.5%	Yes	No
Louisiana	12.5%	7 cents/mcf.	10 cents/ton	No	Yes[6]
Michigan	6.6%	5%	—	No	Yes[7]
Mississippi	6%	6%	—	No	No
Montana	5% (6% after 3-31-83)	2.65%	20-30% surface; 3-4% underground	Yes	Yes[8]
Nebraska	3%	3%	—	Yes	Yes[9]
New Mexico	3.75% plus privilege tax of 2.55%	12.6 cents mcf. plus privilege tax of 2.55%	82.6 cents/ton	Yes	Yes[10]
North Dakota	5% plus 6.5% extraction tax	5%	85 cents/ton, indexed for inflation	No	Yes[11]
Oklahoma	7.085%	7.085%	5 cents/ton	No	
Oregon	6%	6%	—	Yes	Yes[12]

State	Severance Tax Rates Oil	Gas	Coal	Property Tax on Oil and Gas	Exemptions or Lower Rates
South Dakota	4.5%	4.5%	4.5%	Yes[13]	No
Tennessee	1.5%	1.5%	20 cents/ton	Yes	No
Texas	4.6%	7.5%	—	Yes	No
Utah	2.0%	2.0%	—	Yes	Yes[14]
Wyoming	6.0%	6.0%	10.5%	Yes	Yes[15]

Source: Commerce Clearing House, State Tax Guide, updated through 2-83.

1) Tax rates shown for total of oil and gas production tax of 2 percent and oil and gas severance tax of 8 percent. The severance tax rate on oil is 4 percent for wells producing less than 10 barrels of oil per day.

2) Oil: 12.25 percent on leases coming into production after June 30, 1981 for first five years, and 15 percent thereafter.

3) Oil: 4 percent on stripper wells. Oil producers who dispose of their salt water through approved underground disposal systems are allowed a credit equal to the cost of the system but not in excess of the tax.

4) Tax on oil and gas is based on "gross income," defined as market value at wellhead or the value of the severer's income as computed for Colorado and federal income tax depletion purposes, whichever is higher.

Gross Income	Rate of Tax
Under $25,000	2%
$25,000 and under $100,000	3
$100,000 and under $300,000	4
$300,000 and over	5

Stripper oil wells (less than 10 barrels per day) are exempt. A credit is allowed for 87.5 percent of all property taxes paid during the tax year, excluding property taxes upon equipment and facilities.

Coal: tax is not imposed upon the first 8,000 tons of coal produced in each quarter. There are also two credits: (1) 50 percent of tax on coal from underground mines; and (2) an additional 50 percent on the production of lignite coal.

5) Oil: wells producing less than 100 barrels per day or oil produced by tertiary methods, 5 percent.

6) Oil: wells incapable of producing more than 25 barrels of oil per day which also produce at least 50 percent salt water per day, 6 1/4 percent; wells incapable of producing more than 10 barrels of oil per day, 3 1/8 percent; natural gas liquids, 10 percent; gas at 15.025 pounds per square inch pressure, 7 cents per m.c.f.; gas from oil well at 50 pounds per square inch pressure; 3 cents; gas from well incapable of producing average of 250,000 cubic feet per day, 1.3 cents. Working interest owners in an oil or gas well that discover a new field are exempt from 50 percent of all severance taxes for the first 24-months, up to a certain amount.

7) Oil: 4 percent on stripper oil.

8) Gas: wells at least 5,000 feet deep on which drilling was commenced after December 31, 1976 but before December 31, 1982 are exempt for three years; Coal: rate varies according to B.T.U. per pound of coal, and first 20,000 tons produced in a year are exempt.

9) Oil: 2 percent on stripper wells.

10) A severance tax credit is allowed if a contract entered into by producer prior to January 1, 1977 or a federal regulation does not allow the producer to obtain reimbursement from the purchaser for all or part of the increased severance tax (rates were revised July 1, 1980). When computing the value of oil for the severance tax or the value of oil and gas for the privilege tax, a deduction is allowed for royalties paid to the United States, the state of New Mexico or any Indian or Indian tribe, as well as the reasonable expense of trucking any produce to market. Severance tax rates on gas and coal are combinations of base tax plus surtax tied to C.P.I.

11) Oil: stripper oil and a limited amount of royalty interest oil is exempt from the oil extraction tax.

12) The first $3,000 in gross sales each quarter from a well are exempt and a credit is allowed against the property taxes on the leases and equipment.

13) Mineral reserves are not subject to property tax. No personal property is taxed in South Dakota, so only oil and gas equipment forming a part of realty is subject to the property tax.

14) The first $50,000 of production per well is exempt.

15) Oil: 4 percent on stripper oil.

National Production Amounts

Tables 2, 3, and 4 present the total U.S. production figures for oil, gas, and coal, respectively, by state in 1980. Kansas ranked eighth in oil production, fifth in natural gas production, and twenty-second in coal production.

TABLE 2

1980 U.S. CRUDE OIL PRODUCTION BY STATE

State	Rank	Barrels (Thousands)
Texas	1	977,436
Alaska	2	591,646
Louisiana	3	469,141
California	4	356,923
Oklahoma	5	150,140
Wyoming	6	126,362
New Mexico	7	75,324
KANSAS	8	60,158
Florida	9	42,886
North Dakota	10	40,337
Mississippi	11	35,945
Michigan	12	33,808
Colorado	13	29,802
Montana	14	29,584
Utah	15	24,978
Illinois	16	22,702
Alabama	17	22,153
Arkansas	18	18,210
Ohio	19	12,928
Nebraska	20	6,240
Kentucky	21	5,946
Indiana	22	4,978
Pennsylvania	23	2,651
West Virginia	24	2,336
Nevada	25	880
New York	26	824
South Dakota	27	765
Tennessee	28	743
Arizona	29	406
Missouri	30	130
Virginia	31	10

Source: U.S. Bureau of Mines, Petroleum Statement, Annuals

TABLE 3

1980 U.S. MARKETED PRODUCTION OF NATURAL GAS BY STATE[1]

State	Rank	Amount (Million Cubic Feet)
Texas	1	7,115,889
Louisiana	2	6,639,416
Oklahoma	3	1,891,824
New Mexico	4	1,149,781
KANSAS	5	735,035
Wyoming	6	409,541
California	7	309,783
Alaska	8	230,588
Colorado	9	188,001
Mississippi	10	175,061
Michigan	11	158,302
West Virginia	12	156,551
Ohio	13	138,856
Arkansas	14	111,808
Pennsylvania	15	97,439
Alabama	16	65,294
Kentucky	17	57,180
Utah	18	87,766
Montana	19	51,867
North Dakota	20	42,346
Florida	21	40,638
New York	22	15,645
Virginia	23	7,812
Nebraska	24	2,550
Illinois	25	1,574
Tennessee	26	1,241
South Dakota	27	1,193
Indiana	28	463
Arizona	29	214
Maryland	30	68
Oregon	31	5

1) Marketed production of natural gas represents gross withdrawals less gas used by repressuring and quantities vented and flared.

Source: U.S. Energy Information Administration, Natural Gas Annuals

TABLE 4

1980 U.S. COAL PRODUCTION BY STATE

State	Rank	Amount (Thousand Short Tons)
Kentucky	1	145,986
West Virginia	2	120,349
Wyoming	3	94,968
Pennsylvania	4	92,951
Illinois	5	62,361
Virginia	6	40,569
Ohio	7	39,178
Indiana	8	30,970
Texas	9	30,180
Montana	10	29,948
Alabama	11	27,067
Colorado	12	19,320
New Mexico	13	19,297
North Dakota	14	16,927
Utah	15	13,263
Arizona	16	10,905
Tennessee	17	9,157
Missouri	18	5,473
Oklahoma	19	5,389
Washington	20	5,140
Maryland	21	3,771
KANSAS	22	1,010
Alaska	23	728
Iowa	24	586
Arkansas	25	182

Source: U.S. Department of Energy, Coal Production - 1980.

Kansas Production

The following table shows the history of energy mineral production in Kansas from 1971-1982.

TABLE 5

ENERGY MINERAL PRODUCTION IN KANSAS
1971-1982

Year	Crude Oil Quantity (1,000 barrels)	Crude Oil Value $(1,000)	Natural Gas Quantity (mmcf)[a]	Natural Gas Value $(1,000)	Natural Gas Liquids Quantity (1,000 barrels)	Natural Gas Liquids Value $(1,000)	Coal Quantity (1,000 short tons)	Coal Value $(1,000)
1971	78,532	$ 276,433	885,144	$ 127,267	28,602	$ 51,254	1,151	$ 6,579
1972	73,744	259,578	889,268	127,859	30,604	56,340	1,227	7,840
1973	66,227	264,910	897,289	138,521	30,456	71,504	1,305	8,390
1974	61,700	431,900	894,308	141,268	30,570	141,233	680	4,302
1975	59,106	647,212	850,786	184,621	29,858	96,694	517	10,022
1976	58,714	610,628	836,206	332,810	30,201	114,439	576	11,520
1977	57,496	715,845	787,917	382,928	31,022	190,811	1,043	19,388
1978	56,586	733,923	862,099	489,672	32,300	232,559	1,378	26,038
1979	56,995	1,245,015	804,535	548,693	33,888	292,791	997	21,961
1980	61,877	2,108,805	741,273	616,639	29,000[c]	478,500	982	26,051
1981	65,810	2,303,357	645,338	622,106	26,918	471,065	1,313	35,747
1982[b]	70,525	2,147,500	433,242	511,226	NA	NA	1,396	35,958

a) Million cubic feet.

b) 1982 values estimated by the Kansas Geological Survey using oil at $30.45 per barrel, natural gas at $1.18 per m.c.f., and coal at $25.76 per ton; natural gas liquids figures are not yet available.

c) Revised by more than 5 percent from data previously published by the Kansas Geological Survey.

Source: Kansas Mineral Industry Reports, published annually by the Kansas Geological Survey, 1972-1978, and The Journal, published annually by the Kansas Geological Survey, 1979- .

Kansas Taxation

Oil and gas leaseholds, including royalty interests and equipment used in production, are assessed as tangible personal property in Kansas. Guides for assessing oil and gas properties have been prescribed by the Director of Property Valuation, Department of Revenue, for use by county appraisers. After appraised values are determined, the properties are assessed at 30 percent of such values and are subject to the total general property tax rate according to the situs of the property.

According to Attachment I it is estimated that 1982 property tax levies on oil and gas properties were $117 million, up from $104 million in 1981.

Table 6, below, summarizes oil and gas property taxes for the 1981 and 1982 property tax years. Estimated oil property taxes in 1982 are $79,456,000, and estimated gas property taxes in 1982 are $38,013,000, for a total of $117,469,000. Also shown on the table is each year's property tax as a percentage of oil and gas production values for the prior year. The property tax is shown as a percentage of the preceding year's production values, because one year's property tax is based on production levels from the preceding year. Because of declining oil prices and declining gas production in 1982, the 1982 taxes as a percentage of 1982 production values would be higher than the figures shown below.

TABLE 6

Estimated Oil and Gas Property Taxes in Kansas

($000)

	Estimated Oil Property Taxes					Estimated Gas Property Taxes					
Tax Year	Average Mill Levy	Working Interests	Royalty Interests	Total Oil	Tax as Percentage of Prior Year's Production Value[1]	Average Mill Levy	Working Interests	Royalty Interests	Total Gas	Tax as Percentage of Prior Year's Production Value[1]	Total Oil and Gas Property Taxes
1981	70.7 Mills	$59,185	$12,131	$71,316	3.38%	46.3 Mills	$27,643	$5,084	$32,727	5.31%	$104,043
1982	69.5 Mills	$65,359	$14,097	$79,456	3.45%	47.6 Mills	$32,221	$5,792	$38,013	6.11%	$117,469

1) Production values as estimated by the Kansas Geological Survey, as follows:

	1980 Value ($000)	1981 Value ($000)	1982 Value ($000)
Oil	$2,108,805	$2,303,357	$2,147,500
Gas	616,639	622,106	511,226
TOTAL	$2,725,444	$2,925,463	$2,658,726

Table 7, shown below, recaps the estimated property tax levies on oil and gas properties for the past 10 years, the oil and gas production values, and the estimated property tax as a percentage of value for the prior year.

TABLE 7

ESTIMATED PROPERTY TAX AS A PERCENTAGE OF
OIL AND GAS PRODUCTION VALUES
IN KANSAS, 1973-1982

Year	Oil and Gas Property Tax[1] $(1,000)	Oil and Gas Production Values[2] $(1,000)	Current Year Property Tax As a Percentage of Prior Year's Value
1973	$ 17,321	$ 403,431	4.47%
1974	32,252	573,168	7.99
1975	34,464	831,833	6.01
1976	38,993	943,438	4.69
1977	49,228	1,098,773	5.22
1978	54,600	1,223,595	4.97
1979	60,518	1,793,708	4.95
1980	94,971	2,725,444	5.29
1981	104,043	2,925,463	3.82
1982	117,469	2,658,726	4.02
10-Year Total	$ 603,859	$15,177,579	4.68

1) Oil and gas leaseholds, including royalty interests and equipment used in production, are assessed as tangible personal property in Kansas. The Division of Property Valuation, Department of Revenue, annually estimates the amount of property taxes paid on such oil and gas properties by multiplying the properties' assessed values times the average rural tax rate in each county reporting oil and gas valuations.

2) Estimated crude oil and natural gas values, as reported by the Kansas Geological Survey (does not include the value of natural gas liquids).

Sources: Reports of the Division of Property Valuation, Kansas Department of Revenue, and the Kansas Geological Survey.

A large factor in the increase in the above property taxes over the past 10 years has been the increase in the price of oil. The calculation of the value of the gross reserves of oil is the most important step in valuing the oil lease. This value is calculated by multiplying the total annualized production for the previous year times a net price figure times a present worth factor. The net price figures for stripper oil that have been used in the Oil and Gas Appraisal Guide reflected the actual selling prices of oil and were as follows:

Year	Net Price of Stripper Oil
1982	$ 30.30*
1981	31.96*
1980	31.11*
1979	16.02
1978	15.02
1977	14.07
1976	11.75
1975	11.42
1974	9.92

* Net of windfall profits tax for independent producers.

Prices shown are for 36 gravity oil.

In addition to the property tax, oil and gas producers, like other businesses, pay sales and income taxes. Oil and gas producers also pay taxes or fees for anti-pollution and conservation activities of the state. The oil and gas production tax, for pollution control, is levied at the rate of $.001 per barrel for each barrel of oil and $.00005 for each one thousand cubic feet of gas produced. The conservation assessment is $.003 per barrel of oil and $.0008 for each one thousand cubic feet of gas.

Windfall Profit Tax Changes

The federal Economic Recovery Tax Act of 1981 amended the federal crude oil windfall profit tax in four major areas. Those changes, along with their estimated impacts in Kansas, are summarized below.

A. Royalty Owners Credit and Exemption

1. The Act granted royalty owners a credit of $2,500 against windfall profit tax liability in 1981.

2. The Act exempted two barrels of royalty production per day per lease from the tax for 1982-1984; the exemption will be three barrels of royalty production per day for 1985 and following years.

3. Senator Dole's office has estimated that the above changes will result in the following savings for Kansas royalty owners:

Federal FY	Savings (In Millions)
1982	$ 30.5
1983	23.7
1984	24.7
1985	29.8
1986	32.0
TOTAL	$ 140.7

B. Independent Stripper Oil Exemption

1. Former law taxed stripper oil produced by independents at the rate of 30 percent, rather than the 60 percent tax rate applied to stripper production by major companies and on royalty oil.

2. The Act exempted independent stripper oil from the tax, beginning in 1983.

3. It has been estimated that the above exemption will save independent producers in Kansas approximately $100 million in windfall profit tax liability in the 1983 calendar year (the exact figure is dependent on the amount of oil that qualifies as independent producer oil), using a $29 sales price for oil and an adjusted base price of $20.50. The amount of tax savings could be overestimated due to the limitation that the windfall profit may not exceed 90 percent of the net income attributable to a barrel of oil. Thus, the impact of that limitation is determined by use of an income factor; figures not available to the Research Department.

C. Rate on Newly Discovered Oil

1. Former law taxed newly discovered oil at a 30 percent rate.

2. The Act reduced the rate on newly discovered oil as follows:

Year	Rate
1982	27.5%
1983	25.0
1984	22.5
1985	20.0
1986 and after	15.0

4. Senator Dole's office has estimated that the above rate changes will result in the following savings for Kansas producers:

Federal FY	Savings (In Millions)
1982	$ 3.6
1983	12.2
1984	25.0
1985	41.6
1986	73.3
TOTAL	$ 155.7

Examples of a Severance Tax Impact on Oil and Gas Property Taxes

A severance tax, if enacted in Kansas, would have an impact on oil and gas property tax appraisals by lowering net price figures used in the Guide. The Guide uses the price actually paid to the producer on January 1 of the assessment year less state and federal wellhead taxes levied on value or volumes produced, and less applicable transportation charges. Thus, the federal crude oil windfall profit tax (WPT) was deducted from the sales price of oil. A severance tax, if enacted in the 1983 Session, would lower net prices used for 1984 oil and gas property tax appraisals. The impact of a 5 percent severance tax, with royalty interests exempt, on four example wells is illustrated below.

The two example oil wells — numbers 1 and 2 — show three calculations. Examples 1a and 2a show former law, that is, no severance tax and with the 1982 windfall profit tax provisions. Examples 1b and 2b show the law as it exists in 1983. Examples 1c and 2c show the 1983 windfall profit tax changes along with the impact of a 5 percent severance tax, which exempts royalty interests.

Example 1 - Independent stripper oil well, producing 3 barrels per day, for 1983 tax year.

1. Independent producer, stripper oil, net price:

   a. $30, no WPT on royalty = $30.00 net price — royalty interest
      $30, minus WPT on working = $26.71 net price — working interest

   b. $30, no WPT = $30.00 net price

   c. $30, no WPT minus 5% severance tax = $30.00 net price -- royalty
      = $28.50 net price -- working

Gross Reserve Calculation:

	Production		Net Price		Gross Income		Present Worth Factor		Gross Reserve Value
1a - royalty	1,095	x	$30.00	=	$32,850	x	2.679	=	$ 88,005
- working	1,095	x	26.71	=	29,247	x	2.679	=	78,353
1b	1,095	x	30.00	=	32,850	x	2.679	=	88,005
1c - royalty	1,095	x	30.00	=	32,850	x	2.679	=	88,005
- working	1,095	x	28.50	=	31,208	x	2.679	=	83,606

Assessed Valuations (Gross Reserve Value x Decimal Interest)		1a	1b	1c
1. Royalty Interest	x .125	$ 11,001	$ 11,001	$ 11,001
		x .30	x .30	x .30
2. Royalty Interest Assessed Value - 30%		$ 3,300	$ 3,300	$ 3,300
3. Working Interest	x .875	$ 68,559	$ 77,004	$ 73,155
4. Deduct Operating Cost Allowance Producing Well - $22,200/well		-22,200	-22,200	-22,200
5. Subtotal		$ 46,359	$ 54,804	$ 50,955
6. Add Prescribed Equipment Value Producing Well - $5,200/well		+5,200	+5,200	+5,200
7. Total Working Interest Market Value		$ 51,559	$ 60,004	$ 56,155
8. Working Interest Assessed Value		x .30	x .30	x .30
(30% of line 7)		$ 15,468	$ 18,001	$ 16,847
9. Total Royalty and Working Interest (lines 2 and 8)		$ 18,768	$ 21,301	$ 20,147

1c is 5.42% less than 1b.
1b is 13.50% greater than 1a.
1c is 7.35% greater than 1a.

Example 2 - Major producer, well producing 11 barrels per day, for 1983 tax year.

2. Major producer, Tier 1 oil

a. $30, no WPT on royalty = $30.00 net price — royalty interest
$30 minus WPT on working = $20.23 net price — working interest

b. $30, no WPT on royalty = $30.00 net price — royalty
$30 minus WPT on working = $20.23 net price — working

c. $30 minus WPT on working interest, minus 5% severance tax = $30.00 net price — royalty
= $19.22 net price -- working

Gross Reserve Calculation:

	Production		Net Price		Gross Income		Present Worth Factor		Gross Reserve Value
2a - royalty	4,015	x	$30.00	=	$ 120,450	x	2.679	=	$322,686
- working	4,015	x	20.23	=	81,223	x	2.679	=	217,596
2b - royalty	4,015	x	30.00	=	120,450	x	2.679	=	322,686
- working	4,015	x	20.23	=	81,223	x	2.679	=	217,596
2c - royalty	4,015	x	30.00	=	120,450	x	2.679	=	322,686
- working	4,015	x	19.22	=	77,168	x	2.679	=	206,734

Assessed Valuations (Gross Reserve Value x Decimal Interest)		2a	2b	2c
1. Royalty Interest	x .125	$ 40,336	$ 40,336	$ 40,336
		x .30	x .30	x .30
2. Royalty Interest Assessed Value		$ 12,101	$ 12,101	$ 12,101
3. Working Interest	x .875	$190,397	$190,397	$180,892
4. Deduct Operating Cost Allowance Producing Well - $22,200/well		-22,200	-22,200	-22,200
5. Subtotal		$168,197	$168,197	$158,692
6. Add Prescribed Equipment Value Producing Well - $5,200/well		+5,200	+5,200	+5,200
7. Total Working Interest Market Value		$173,397	$173,397	$163,892
8. Working Interest Assessed Value		x .30	x .30	x .30
(30% of line 7)		$ 52,019	$ 52,019	$ 49,168
9. Total Royalty and Working Interest (lines 2 and 8)		$ 64,120	$ 64,120	$ 61,269

2c is 4.45% less than 2b or 2a
2b equals 2a

Example 3 - Gas well producing 2,000 mcf per day, for 1983 tax year, selling to interstate pipeline with F.E.R.C. pass on of 6 percent for ad valorem tax.

a. $1.26 net price with 6 percent pass-on — royalty and working.

b. $1.26 net price with 5 percent severance tax.

$1.26 net price, 6 percent pass-on — royalty
$1.197 net price, 11 percent pass-on — working

Gross Reserve Calculation:

	Production		Net Price		Gross Income		Present Worth Factor		F.E.R.C. Rate Adjustment		Gross Reserve Value
3a	730,000	x	$ 1.26	=	$ 919,800	x	4.88	x	1.06	=	$4,757,941
3b - royalty	730,000	x	1.26	=	919,800	x	4.88	x	1.06	=	4,757,941
- working	730,000	x	1.197	=	873,810	x	4.88	x	1.11	=	4,733,254

Assessed Valuations (Gross Reserve Value x Decimal Interest)			3a	3b
1. Royalty Interest	x	.125	$ 594,743	$ 594,743
2. Royalty Interest Assessed Value			x .30	x .30
			$ 178,423	$ 178,423
3. Working Interest	x	.875	$4,163,199	$4,141,597
4. Deduct Operating Cost Allowance Producing Well - $11,000/well			-11,000	-11,000
5. Subtotal			$4,152,199	$4,130,597
6. Add Prescribed Equipment Value Producing Well - $500/well			+500	+500
7. Total Working Interest Market Value			$4,152,699	$4,131,097
8. Working Interest Assessed Value (30% of line 7)			x .30	x .30
			$1,245,810	$1,239,329
9. Total Royalty and Working Interest (lines 2 and 8)			$1,424,233	$1,417,752

3b is 0.46 percent less than 3a.

Example 4 - Gas well producing 2,000 mcf per day, for 1983 tax year, selling to intrastate purchase with no pass-on provision.

a. $1.26 net price, no pass-on — royalty and working

b. $1.26 net price with 5 percent severance tax
$1.26 net price, no pass-on — royalty
$1.197 net price, no pass-on — working

Gross Reserve Calculation:

	Production		Net Price		Gross Income		Present Worth Factor		Rate Adjustment		Gross Reserve Value
4a	730,000	x	$ 1.26	=	$919,800	x	4.88	x	1.00	=	$4,488,624
4b - royalty	730,000	x	1.26	=	919,800	x	4.88	x	1.00	=	4,488,624
- working	730,000	x	1.197	=	873,810	x	4.88	x	1.00	=	4,264,193

Assessed Valuations (Gross Reserve Value x Decimal Interest)		4a	4b
1. Royalty Interest	x .125	$ 561,078	$ 561,078
2. Royalty Interest Assessed Value		x .30	x .30
		$ 168,323	$ 168,323
3. Working Interest	x .875	3,927,546	3,731,169
4. Deduct Operating Cost Allowance Producing Well — $11,000/well		-11,000	-11,000
5. Subtotal		$3,916,546	$3,720,169
6. Add Prescribed Equipment Value Producing Well - $500/well		+500	+500
7. Total Working Interest Market Value		$3,917,046	$3,720,669
8. Working Interest Assessed Value		x .30	x .30
(30% of line 7)		$1,175,114	$1,116,201
9. Total Royalty and Working Interest (lines 2 and 8)		$1,343,437	$1,284,524

4b is 4.39% less than 4a

ATTACHMENT I

1982 OIL AND GAS ASSESSED VALUATIONS AND ESTIMATED PROPERTY TAXES

County	Assessed Value 1982 Oil Production (Working Int.)	Est. Tax on Oil Working Interest	Assessed Value 1982 Oil Production (Royalty Int.)	Est. Tax on Oil Royalty Interest	Assessed Value 1982 Gas Production (Working Int.)	Est. Tax on Gas Working Interest	Assessed Value 1982 Gas Production (Royalty Int.)	Est. Tax on Gas Royalty Interest
Allen	$ 5,606,920	$ 469,299	$ 1,678,645	$ 140,503	$ 13,225	$ 1,107	$ 2,060	$ 172
Anderson	2,416,820	181,262	839,025	62,927	5,175	388	465	35
Atchison	—	0	—	0	—	0	—	0
Barber	18,423,560	1,276,753	4,117,685	285,356	15,019,755	1,040,869	2,910,010	201,664
Barton	69,710,000	4,154,716	14,931,255	889,903	—	0	—	0
Bourbon	2,055,735	228,803	608,255	67,699	19,080	2,124	1,950	217
Brown	70,660	7,306	38,050	3,934	—	0	—	0
Butler	39,624,510	3,142,224	8,498,495	673,931	—	0	—	0
Chase	1,052,010	99,625	184,355	17,458	174,265	16,503	46,915	4,443
Chautauqua	9,145,125	702,346	2,476,135	190,167	192,645	14,795	43,030	3,305
Cherokee	—	0	—	0	—	0	—	0
Cheyenne	969,960	78,179	141,260	11,386	353,165	28,465	90,120	7,264
Clark	14,214,012	814,463	3,453,499	197,885	8,400,775	481,364	1,788,028	102,454
Clay	—	0	—	0	—	0	—	0
Cloud	—	0	—	0	—	0	—	0
Coffey	4,478,330	179,133	934,405	37,376	—	0	—	0
Comanche	9,721,025	601,731	2,276,960	140,944	9,544,160	590,784	2,095,735	129,726
Cowley	25,567,905	2,272,987	6,101,690	542,440	1,373,655	122,118	363,555	32,320
Crawford	560,950	54,693	155,510	15,162	5,495	536	860	84
Decatur	8,306,605	594,753	1,841,945	131,883	—	0	—	0
Dickinson	1,450,740	129,841	248,825	22,270	—	0	—	0
Doniphan	—	0	—	0	—	0	—	0
Douglas	505,250	46,635	98,380	9,080	—	0	—	0
Edwards	15,534,368	874,585	3,002,935	169,065	8,183,298	460,720	1,603,938	90,302
Elk	2,949,385	279,602	621,640	58,931	806,680	76,473	116,855	11,078
Ellis	85,587,856	5,058,242	17,372,602	1,026,721	—	0	—	0
Ellsworth	12,801,155	775,750	2,865,625	173,657	702,845	42,592	129,915	7,873
Finney	17,717,450	1,165,808	3,142,175	206,755	39,115,905	2,573,827	5,848,920	384,859
Ford	627,155	63,405	137,785	13,930	2,105,065	212,822	457,505	46,254
Franklin	2,935,110	269,150	793,035	72,721	75,125	6,889	11,030	1,011
Geary	425	28	—	0	—	0	—	0
Gove	7,342,800	577,878	1,624,435	127,843	—	0	—	0
Graham	31,211,180	2,393,898	6,543,420	501,880	—	0	—	0
Grant	1,502,475	62,954	253,455	10,620	99,092,070	4,151,958	16,198,715	678,726
Gray	4,893,430	397,347	1,123,030	91,190	43,850	3,561	12,580	1,021
Greeley	1,761,625	94,599	380,295	20,422	8,900,145	477,938	1,961,600	105,338
Greenwood	14,086,320	1,345,244	2,725,710	260,305	700	67	—	0
Hamilton	—	0	—	0	14,331,530	975,977	2,627,940	178,963
Harper	10,273,415	860,912	2,288,385	191,767	7,174,130	601,192	1,497,105	125,457
Harvey	5,308,725	448,587	1,257,550	106,263	2,413,165	203,912	510,340	43,124
Haskell	13,397,265	700,677	2,698,025	141,107	34,490,910	1,803,875	5,549,420	290,235
Hodgeman	14,344,385	1,097,345	2,845,965	217,716	—	0	—	0
Jackson	68,840	7,676	17,820	1,987	—	0	—	0
Jefferson	—	0	—	0	—	0	—	0
Jewell	—	0	—	0	—	0	—	0
Johnson	368,650	40,146	40,910	4,455	171,795	18,708	15,210	1,656

County	Assessed Value 1982 Oil Production (Working Int.)	Est. Tax on Oil Working Interest	Assessed Value 1982 Oil Production (Royalty Int.)	Est. Tax on Oil Royalty Interest	Assessed Value 1982 Gas Production (Working Int.)	Est. Tax on Gas Working Interest	Assessed Value 1982 Gas Production (Royalty Int.)	Est. Tax on Gas Royalty Interest
Kearny	$ 3,791,875	$ 151,675	$ 1,333,415	$ 53,337	$ 94,530,890	$ 3,781,236	$ 18,898,905	$ 755,956
Kingman	18,453,195	1,188,386	4,075,415	262,457	18,659,660	1,201,682	3,827,275	246,477
Kiowa	13,408,510	691,879	2,715,400	140,115	15,220,545	785,380	3,271,950	168,833
Labette	369,990	40,255	151,470	16,480	—	0	—	0
Lane	12,036,665	953,304	2,462,305	195,015	—	0	—	0
Leavenworth	239,525	27,282	54,710	6,231	—	0	—	0
Lincoln	—	0	—	0	—	0	—	0
Linn	239,302	12,611	96,389	5,080	2,295	121	134	7
Logan	4,178,390	294,159	870,065	61,253	—	0	—	0
Lyon	1,238,450	101,181	296,965	24,262	21,960	1,794	3,360	275
Marion	5,997,070	520,546	1,448,239	125,707	1,419,053	123,174	360,669	31,306
Marshall	—	0	—	0	—	0	—	0
McPherson	26,530,560	2,069,384	4,211,635	328,508	929,200	72,478	174,960	13,647
Meade	5,866,525	336,152	1,394,455	79,902	13,075,300	749,215	2,786,225	159,651
Miami	2,602,215	231,857	835,015	74,400	—	0	—	0
Mitchell	—	0	—	0	—	0	—	0
Montgomery	4,238,550	411,987	1,035,285	100,630	164,345	15,974	32,255	3,135
Morris	2,467,660	192,447	529,765	41,322	794,225	61,950	194,845	15,198
Morton	22,000,485	820,618	3,457,500	128,965	52,773,905	1,968,467	8,964,310	334,369
Nemaha	100,390	8,955	13,525	1,206	—	0	—	0
Neosho	5,099,475	525,246	985,785	101,536	7,560	779	380	39
Ness	32,675,860	2,081,452	7,043,130	448,647	—	0	—	0
Norton	3,913,340	350,244	895,175	80,118	—	0	—	0
Osage	144,430	12,710	19,460	1,712	—	0	—	0
Osborne	6,497,465	455,472	1,296,515	90,886	—	0	—	0
Ottawa	—	0	—	0	—	0	—	0
Pawnee	10,074,830	724,380	2,304,200	165,672	3,647,340	262,244	744,400	53,522
Phillips	18,481,955	1,395,388	3,317,135	250,444	—	0	—	0
Pottawatomie	52,747	2,600	9,777	482	—	0	—	0
Pratt	13,529,070	1,072,855	3,774,215	299,295	6,559,380	520,159	1,386,525	109,951
Rawlins	6,184,465	585,669	1,296,035	122,735	—	0	—	0
Reno	11,805,217	1,066,011	2,693,424	243,216	1,449,504	130,890	100,513	9,076
Republic	—	0	—	0	—	0	—	0
Rice	24,374,250	1,584,326	5,924,666	385,103	1,056,221	68,654	208,272	13,538
Riley	468,735	38,530	114,310	9,396	—	0	—	0
Rooks	44,269,865	2,315,314	10,375,303	542,628	—	0	—	0
Rush	7,998,436	711,061	1,599,144	142,164	917,476	81,564	195,024	17,338
Russell	46,120,680	3,283,792	9,799,440	697,720	169,185	12,046	38,280	2,726
Saline	2,480,740	195,482	570,935	44,990	—	0	—	0
Scott	1,951,990	139,567	379,755	27,152	529,585	37,865	81,945	5,859
Sedgwick	9,079,760	691,878	2,096,340	159,741	—	0	—	0
Seward	12,091,360	911,689	2,185,295	164,771	26,442,660	1,993,777	4,509,135	339,989
Shawnee	—	0	—	0	—	0	—	0
Sheridan	4,715,227	448,890	1,001,502	95,343	—	0	—	0
Sherman	375,845	36,006	66,400	6,361	—	0	—	0
Smith	—	0	—	0	—	0	—	0
Stafford	30,215,070	1,806,861	6,945,100	415,317	1,342,370	80,274	297,810	17,809
Stanton	694,600	36,605	151,085	7,962	29,205,690	1,539,140	4,930,890	259,858
Stevens	1,591,245	47,419	337,725	10,064	154,979,395	4,618,386	25,107,485	748,203
Sumner	20,156,210	2,025,699	4,368,195	439,004	1,549,920	155,767	280,215	28,162

County	Assessed Value 1982 Oil Production (Working Int.)	Est. Tax on Oil Working Interest	Assessed Value 1982 Oil Production (Royalty Int.)	Est. Tax on Oil Royalty Interest	Assessed Value 1982 Gas Production (Working Int.)	Est. Tax on Gas Working Interest	Assessed Value 1982 Gas Production (Royalty Int.)	Est. Tax on Gas Royalty Interest
Thomas	$ 1,490,559	$ 137,728	$ 330,370	$ 30,526	$ —	$ 0	$ —	$ 0
Trego	24,905,338	1,586,470	5,645,763	359,635	—	0	—	0
Wabaunsee	2,214,705	208,404	369,380	34,759	—	0	—	0
Wallace	74,315	5,522	11,905	885	—	0	—	0
Washington	—	0	—	0	—	0	—	0
Wichita	338,685	23,403	53,440	3,693	166,450	11,502	7,480	517
Wilson	3,149,020	258,220	849,670	69,673	434,105	35,597	102,850	8,434
Woodson	12,840,745	993,874	2,097,010	162,309	23,935	1,853	3,355	260
Wyandotte	—	0	—	0	—	0	—	0
TOTAL	$ 940,407,722	$65,360,027	$ 202,248,308	$14,096,448	$ 678,780,762	$32,221,532	$ 120,393,248	$5,791,716

Exhibits: Total estimated oil tax = $79,456,475; total estimated gas tax = $38,013,248; total estimated oil and gas taxes = $117,469,723

Source: County abstracts and records of the Division of Property Valuation

83-32/WM

MEMORANDUM

November 29, 1982

FROM: Kansas Legislative Research Department

RE: Severance Tax Options

This memorandum briefly summarizes and discusses the severance tax options you requested.

I. Add-On Severance Tax

An add-on severance tax would have the advantages of: (1) becoming an additional source of state revenue; (2) preserving the existing personal property tax treatment of oil and gas; and (3) probably being the easiest type of severance tax to administer. At least two opinions of former Kansas Attorneys General have stated that an "in addition to" severance tax could be enacted constitutionally. In an opinion dated September 13, 1954, the Attorney General concluded:

> ". . . it is our opinion that a gross production or severance tax would probably be constitutional if levied to the exclusion of property taxes or if levied in addition to property taxes on mineral products. We do not believe that a provision exempting the equipment and other property used in production would be constitutional."

The above opinion was confirmed in another opinion, dated June 5, 1969:

> "We have studied the (1954) opinion and agree with his conclusion stated therein. We are unable to find any recent case which would alter that conclusion. However, we would again emphasize that a severance tax act could not exempt the equipment and other property used in the production of oil and gas from ad valorem taxes."

Disadvantages of an "add-on" tax are that:

1. it would lower the net price figures used in the Oil and Gas Appraisal Guide, and thus lower property tax appraisals;

2. producers and appraisers would still face the administrative costs of preparing oil and gas renditions and computing the valuations; and

3. there would continue to be varying total tax burdens on oil and gas properties, i.e., the oil and gas property tax, as a percent of oil and gas production values, vary widely across the state.

The attached memorandum (Attachment 1) illustrates the potential impact of an add-on severance tax on property tax appraisals. Two additional points should be noted in this regard, however. First, removal of the federal windfall profits tax on independent stripper oil in 1983 will increase appraisals on properties exempted from the tax. And second, an add-on tax will not affect natural gas appraisals where contracts allow the pass-on of increased costs.

Based on estimates for 1981, property taxes on oil were 2.69 percent of oil production value (oil property tax of $62,041,000 and production value of $2,303,357,000); property taxes on natural gas were 6.85 percent of natural gas production value (natural gas property tax of $42,602,000 and production value of $622,106,000). Testimony from producers has indicated, however, that effective property tax rates on their production may vary widely from county-to-county. Equipment is included in the property tax figures.

To offset the impact on property tax appraisals of an add-on severance tax, it would be possible to rebate a portion of the severance tax to producing counties. As the attached memorandum illustrates, however, the impact of such a tax can vary widely among counties, depending on the type of production (independent or major), the type of contracts (pass-on or nonpass-on for natural gas), and property tax rates.

II. Add-On Severance Tax with Credit for Property Taxes Paid

An add-on severance tax with a credit for property taxes paid would have the advantages of: (1) becoming an additional source of state revenue, if the rates were sufficient to exceed property taxes paid; (2) preserving (possibly) the existing property tax treatment of oil and gas; and (3) equalizing total tax burden on oil and gas properties.

Disadvantages of such an approach are that:

1. it would complicate administration of the severance tax, and it might make revenue estimates more difficult because another variable factor — property taxes — would have to be considered;

2. it would continue the expensive process of preparing oil and gas renditions and computing the valuations (especially since no net revenue will result);

3. it could lead to abuses in property tax appraisals because all property tax money would be "coming back from the state"; and

4. the credit might jeopardize the severance tax adjustment that should otherwise be allowed as a deduction when computing the federal windfall profit tax on oil.

To qualify for a severance tax adjustment for windfall profit tax provisions, the severance tax must apply to the entire value of oil. In Colorado local property taxes are levied on oil and gas in a manner similar to the Kansas property tax, and then a credit against the state severance tax is allowed for 87.5 percent of the property taxes on the oil or gas. This seems to be identical to the proposal to allow a credit against a Kansas severance tax for Kansas oil and gas property taxes. In I.R.S. Revenue Ruling 82-92, the severance tax adjustment for the Colorado severance tax was disallowed because of the property tax credit. The I.R.S. said the "severance tax on each barrel is reduced by an amount unrelated to the gross value of the extracted oil." Thus, it does seem probable that the I.R.S. would issue a similar ruling with regard to a Kansas property tax credit.

III. In Lieu of Severance Tax

A severance tax "in lieu of" property taxes would have the advantages of: (1) becoming an additional source of state revenue assuming that the tax rate were high enough; and (2) eliminating the rather complicated process of appraising oil and gas properties for property tax purposes.

Disadvantages of an in lieu of tax are:

1. such a tax would cause a major disruption of the property tax base across the state, with significant impact on school finance, aid to other local units, and bonded indebtedness (see 1969 interim study on this point, Attachment 3);

2. it would be very difficult (if not impossible) to equitably redistribute a portion of such a tax to all local units affected to replace lost property tax revenues; and

3. there is some question as to whether an in lieu of tax could constitutionally exempt the property tax on equipment (see Attorney General opinions quoted under I, above).

According to the attached table (Attachment 2), 89 counties received property taxes from oil and gas properties in the 1981 tax year. These oil and gas taxes ranged from 0.02 percent of property taxes in Geary County to 70.37 percent of property taxes in Stevens County.

Conceptually, it is easy to say that an in lieu tax would be shared with local units in order to offset the loss of property tax revenue. That could be done if one were concerned only with the statewide total offset, but a serious problem arises when it comes to achieving equity among all producing counties and their school districts, townships, and special districts. This is because:

1. effective property tax rates on oil and gas vary greatly among counties and local units therein so that the portion of a uniform severance tax earmarked for return to local governments could enrich some and penalize others (see Attachment 4);

2. oil and gas property taxes vary from year-to-year; and

3. the rate of increase (decrease) in property taxes varies from county-to-county, e.g., the increase in total oil and gas property taxes from 1980 to 1981 was 9.55 percent, but in at least two counties — Allen and Ellsworth — oil and gas taxes went down in 1981, even with higher mill levies, and other counties experienced increases larger or smaller than the statewide average.

MEMORANDUM

Kansas Legislative Research Department

March 9, 1983

SEVERANCE TAX

This memorandum was prepared to answer questions of various legislators concerning the fiscal effect of Sub. for S.B. 267, as amended by the Senate Committee of the Whole and passed by the Senate.

Sub. for S.B. 267, as amended, imposes a severance tax upon the privilege of severing coal, salt, oil, or gas in Kansas. The rate of the tax is 8 percent. Exemptions include the first 24 months' production from new oil and gas wells, low-producing oil and gas wells, and certain other low-producing oil wells employing enhanced recovery methods. Gas used on the production unit for agricultural or domestic purposes also is exempt. A credit against the severance tax is allowed for property taxes levied in the prior year on coal, salt, oil, or gas property, but the credit on gas property is allowed only when the property tax was not allowed as a pass through. Eight percent of the tax collected shall be returned to producing counties and school districts, $1,000,000 shall be credited to the Low Income Energy Assistance Program, Elderly, and the remainder shall be credited to the State General Fund. The severance tax expires on July 1, 1986.

Sub. for S.B. 267, as amended, is estimated to raise $97 million in FY 1984 -- $88 million for the State General Fund, $1 million for the Low Income Energy Assistance Plan, Elderly, and $8 million for counties and unified school districts. Receipts by source are shown in the table below:

ESTIMATED SEVERANCE TAX UNDER SUBSTITUTE FOR S.B. 267, AS AMENDED, FY 1984, BY SOURCE

(In Millions)

Source	FY 1984 Collections
Oil	$ 54
Gas	35
Coal	3
Salt	5
	$ 97

This estimate is based on the following assumptions and estimates:

Production. Crude oil production* is estimated to total 72.0 million barrels annually; natural gas production,* 450 million mcf; and coal production,* 1.47 million tons. Rock salt production was estimated to be 670,000 tons and production of evaporated salt was estimated to be 930,000 tons, for a total of 1.6 million tons.

ATTACHMENT V

(3-10-83)

Price. A posted price of $29/bbl, which is approximately the current price, was assumed for crude oil, with an average discount of $1/bbl for the lower A.P.I. gravity oil produced in Kansas, for a net price of $28/bbl. The average price of gas was estimated to be $1.35/mcf.* The price of coal was estimated to be $26.15/ton.* The price of evaporated salt was estimated to be $61.60/ton, and the price of rock salt was estimated to be $11.60/ton.

Property Tax Credit. For FY 1984, property taxes were assumed to equal those levied in 1982 for oil and gas. No reliable data exist for property taxes on coal or salt producing properties but such taxes were assumed to be negligible.

For FY 1984, an estimated 72 percent of oil production would be taxable; therefore, only 72 percent of the estimated property taxes on oil properties were included as credits. An estimated 86 percent of gas production would be taxable.

Gas Eligible for Credit. It was assumed that 80 percent of gas produced in Kansas is interstate gas, and that all of such gas would qualify for a pass through of property taxes. Of the remainder (intrastate gas), it was assumed that half, or 10 percent of all gas produced in Kansas, would qualify for a pass through and half would not. If it were assumed that none of the intrastate gas would qualify for a pass through, then estimated receipts from the severance tax on gas would be $3 million less than the estimate above.

Low Production Exemption.* Primary production of wells producing up to 3 bbl at the various depths specified in the bill is estimated to make up 13.5 percent of total oil production. Gas wells producing 60 mcf or less are estimated to produce 6.7 percent of total gas production.

Enhanced Oil Recovery Exemption.* The production exempted by the more liberal low production exemption for enhanced recovery methods is estimated to be 4.7 percent of total oil production.

Agricultural and Domestic Use Exemption.* Gas used on the production unit for agricultural or domestic purposes is estimated to be 1.0 percent of total production.

New Well Exemption.* It was estimated that 2,500 new oil wells would be brought into production annually, producing an average of 13 bbl daily for their first year and 7 bbl daily for their second year. It was estimated that 200 wells might be held out of production until May 1, 1983, in order to qualify for the new well exemption. Thus, production from new wells would be approximately 9.7 percent of total oil production in FY 1984, and 21.6 percent in FY 1985.

It was estimated that 400 new gas wells will be brought into production annually, producing an average of 200 mcf daily for their first year and 180 mcf daily for their second year. It was assumed that connections of new gas wells would not be deferred. New gas was assumed to sell at a price of \$2.20/mcf. The value of gas production from new wells was thus estimated to be 5.9 percent of the value of total gas produced in FY 1984 and 17.2 percent in FY 1985.

Effect of Implementation Date.* It is estimated that approximately 11 months' revenues will be received in FY 1984.

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* Staff of the Legislative Research Department, the Division of the Budget, the Department of Revenue, and the State Geological Survey have cooperated in the estimation of receipts from a severance tax. The staffs have agreed on the estimates and assumptions indicated.