Texas Severance Tax Incentives

With oil and gas prices at all-time lows, E&P companies should make sure they are taking advantage of all available credits and incentives available to them. Two of the most beneficial severance tax credits available are the credit for qualifying low-producing oil leases and the credit for qualifying low-producing gas wells.

Tax Credit for Qualifying Low-Producing Oil Leases
The amount of the credit is based on the average taxable price of oil, adjusted to 2005 dollars, during the previous three months. In addition, the credit is only available to "qualifying low-producing oil leases," defined as an oil well that is part of a lease with production during a 90-day period less than 15 barrels of oil per day or 5 percent recoverable oil per barrel of produced water. The production per day is determined by using the monthly lease production report filed with the Texas Railroad Commission for three consecutive months divided by the number of well days within that three month time frame. Taxpayers must file Form AP-216 with the Texas Comptroller to establish that an oil lease meets the production requirements.

Oil from qualified leases becomes eligible for different levels of credit based on the Comptroller's certified average price for the reporting month. The breakdown of the credit is:

Certified Avg Price	Exemption
> $30	None
>$25 to $30	25%
>$22 to $25	50%
$22 or Less	100%

Based on the certified average price, credits were available beginning in February, 2016. Producers that have not previously claimed this credit may apply for refund claims for the four preceding years.

Tax Credit for Qualifying Low-Producing Gas Wells

Similar to the credit available for low-producing oil leases, there is a credit for qualifying low-producing gas wells. To qualify for the credit, production on an eligible gas well reported to the Texas Railroad Commission during the prior three month period cannot exceed 90 Mcf per day. The amount of the credit is based on the average taxable price of gas, adjusted to 2005 dollars, during the previous three month period. Taxpayers must file form AP-217 with the Texas Comptroller to establish that a gas well meets the production requirements.

Gas from qualified wells becomes eligible for different levels of credit based on the Comptroller's certified average for the reporting month. The breakdown of the credit is:

Certified Avg Price	Exemption
> $3.50	None
>$3.00 to $3.50	25%
>$2.50 to $3.00	50%
$2.50 or Less	100%

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Based on the certified average price, this credit has been available for all but five months since 2012. Producers that previously have not taken this credit may apply for refunds for the four preceding years.

In addition to the credits previously discussed, there are several other severance tax credits and sales and use tax exemptions available to E&P companies. Please contact Dan Manley at (214) 393-9452 or John Van Zanten at (817) 259-9052 to discuss potential opportunities for your company.