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TO: Chairman Knox and Members of the Joint Committee on Energy and Environmental Policy

From: Charles Reimer, Assistant Revisor

Date: November 19, 2012

RE: 2012 Session Changes to Severance Tax

SEVERANCE TAX LAW CHANGES (K.S.A. 79-4216 *et. seq.*)

I. Background

Tax imposed on severance and production of coal, oil or gas for sale, transport, storage, profit or commercial use.

Tax borne ratably by all producers (as defined by law) in proportion to respective beneficial interest in oil or gas severed.

Tax rate of 8% applied to the gross value of each barrel of oil and metered volume of gas severed.

Collected by Kansas Department of Revenue from the first purchaser, who collects tax by withholding from payments to producer, or from operator if operator so elects.

Credit of 3.67% of gross value of oil or gas severed and taxable applied against the severance tax for each taxpayer who is liable for personal property taxes on oil or gas property.

II. Change to New Pool Production Exemption, amends K.S.A. 79-4217.

A. Prior 24 Month new pool production exemption

Exemption for the first 24 months of production of oil or gas from a pool.

“Pool” means oil or gas in a single and separate natural reservoir with a single pressure system so that production from one part of the pool affects the reservoir pressure throughout the pool.

No production limit

B. Senate Substitute for HB 2117

1. Limits the prior exemption to pools from which oil or gas was first produced prior to July 1, 2012.

2. New exemption for oil production only:

Twenty-four month exemption for new oil pool from which oil first produced after June 30, 2012.

Joint Energy and Environmental  
Policy Committee  
November 19 and 20, 2012

Attachment: 3

Exemption is limited based on production: Available for production from a well only if production does not exceed 50 barrels per well per day. KDOR Notice 12-02

C. Implementation as indicated by KDOR  
Fifty barrel per day production limitation based on average daily severance and production during initial six month production period. Notice 12-02.

D. Numbers--State General Fund Receipts from Severance Tax

1. Department of Revenue Numbers (May 10, 2012) as reported in Supplemental Note on Senate Substitute for House Bill No. 2117 (As Amended by Senate Committee of the Whole)

FY 2013 \$18.0 million increase estimated.

FY 2014 45.0 million increase estimated

2. New Consensus Revenue Estimate (Nov. 6, 2012). (As reported by Department of Revenue.)

FY 2012 (Actual) \$107,253,000

Gas 40,276,000

Oil 66,977,000

FY 2013 \$100,100,000

Gas 21,200,000

Oil 78,900,000

FY 2014 \$137,400,000

Gas 33,400,000

Oil 104,000,000

III. Other changes

A. House Sub. For SB 294

Amends K.S.A. 2011 Supp. 79-4227 to provide for transfers from severance tax revenues each month above the consensus revenue estimates for that month to fund a technical education fund and the incentive for technical education incentive fund. Capped by statute.

B. Senate Sub. For HB 2597

Changes to administration of the oil and gas depletion fund.