

# Colorado Severance Taxes

Legislative Oversight Committee on Tax Policy

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# Severance Tax - Overview

Established in House Bill 77-1076,  
39-29-101(1), C.R.S.:

*The general assembly hereby finds and declares that, when nonrenewable natural resources are removed from the earth, the value of such resources to the state of Colorado is irretrievably lost. Therefore, it is the intent of the general assembly to recapture a portion of this lost wealth through a special excise tax, in addition to other business taxes, on the nonrenewable natural resources removed from the soil of this state and sold for private profit.*

Natural resources subject to state severance tax:

- Oil & gas
- Coal
- Metallic minerals
- Molybdenum ore
- Oil shale (no production)

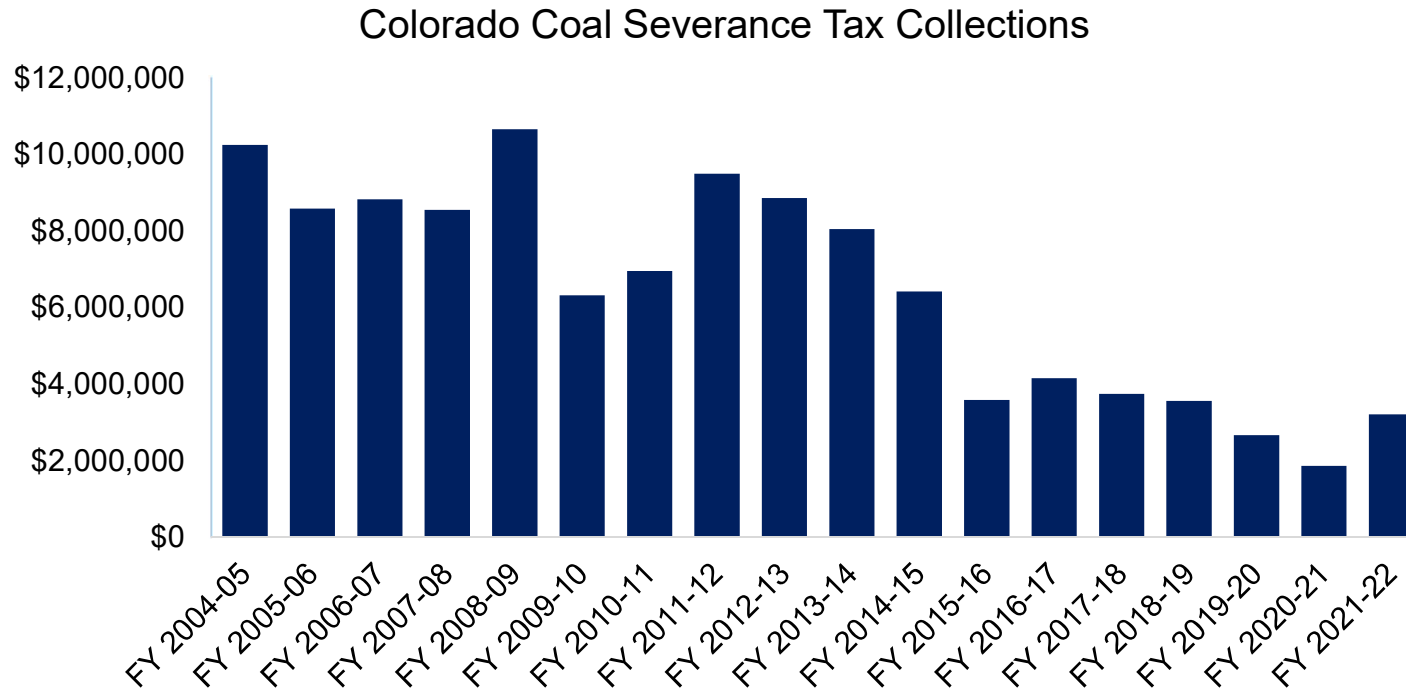


# Severance Taxes on Other Minerals

Commodity	Severance Tax Rate	FY22 Sev Tax Revenue (Preliminary)	Credits/Exemptions	Production
Coal	\$0.824/ton	\$3.2M	<ul style="list-style-type: none"> <li>- Coal tonnage exemption (first 300k tons/quarter)</li> <li>- 50% tax credit for coal mined underground</li> <li>- 50% tax credit for lignitic coal mined</li> </ul>	<ul style="list-style-type: none"> <li>- Six active mines all in Western CO (as of 2019)</li> <li>- Seven coal-fueled electrical power plants</li> </ul>
Metallic minerals	2.25% at all gross income levels	\$2.7M (combined with moly)	<ul style="list-style-type: none"> <li>- First \$19M deducted from gross income at each mine</li> <li>- AV credit of 100% of local property taxes assessed or paid – capped at 50% of sev tax liability</li> </ul>	Gold and silver at Cripple Creek & Victor Mine
Molybdenum	\$0.05/ton	\$2.7M (w/metals)	- First 625k tons or \$31,250 exempted per quarter	Climax and Henderson mines



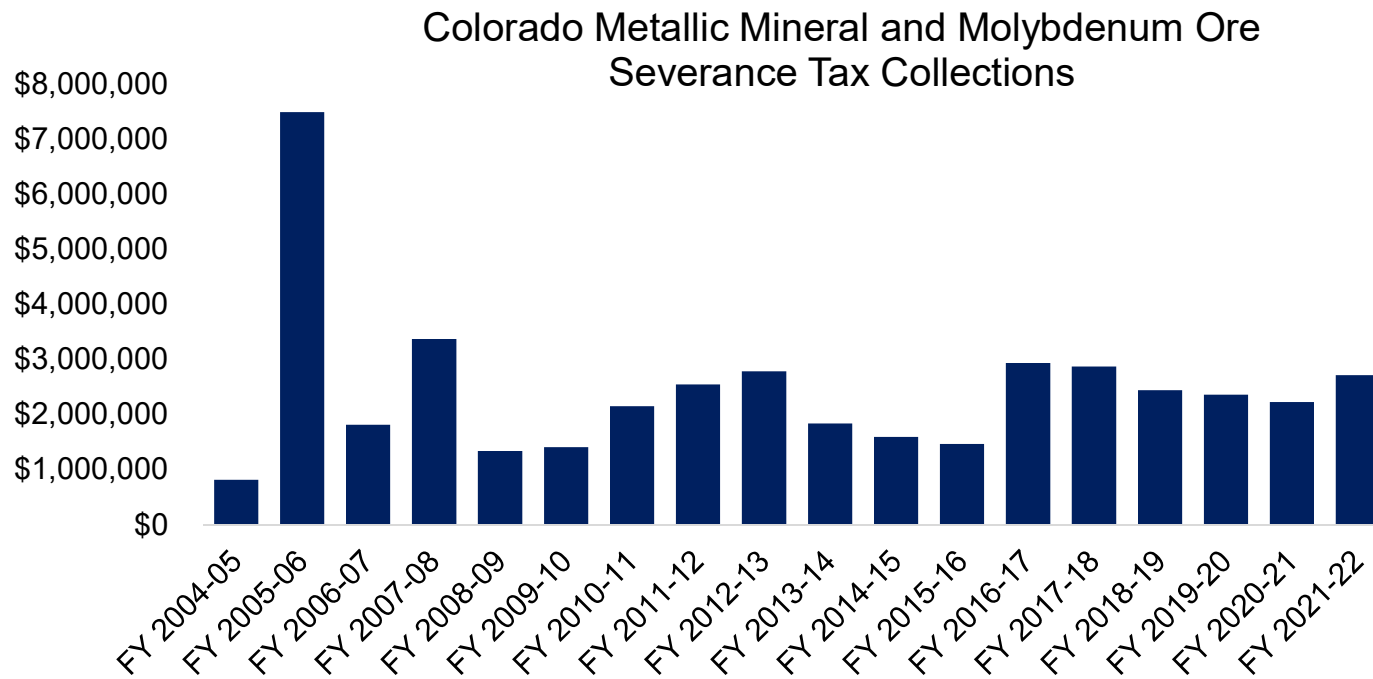
# Severance Tax Collections – Coal Revenue



Source: Colorado Department of Revenue



# Severance Tax Collections – Metallic Mineral and Molybdenum Ore Revenue



Source: Colorado Department of Revenue



# Severance Tax on Oil & Gas

Gross Income	Severance tax rate
Under \$25,000	2%
\$25,000 - \$99,999	3%
\$100,000 – \$299,999	4%
\$300,000 and above	5%

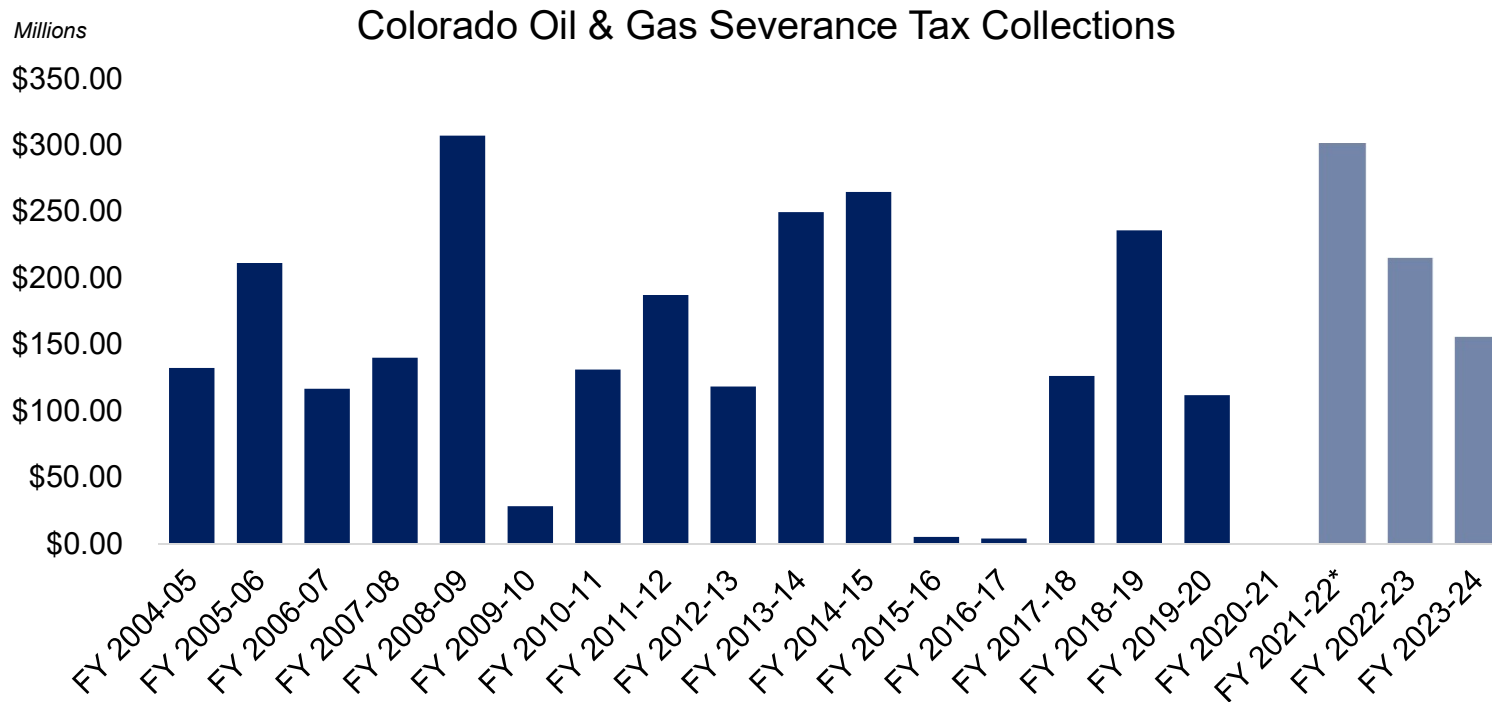
Credits/Exemptions	
Stripper well exemption	Exempts production from wells that produce less than 15 barrels of oil per day or 90 thousand cubic feet (MCF) of gas per day
Ad valorem credit	Taxpayers can claim a credit of 87.5% of the property taxes paid to local governments on the value of production against their severance tax liability

Taxpayers	Tax filing	# of taxpayers*
Operators/Large interest owners	Accrual basis	200
Smaller interest owners	Cash basis	12,800

*\*# of taxpayers is an estimate from the Colorado Department of Revenue.*



# Severance Tax Oil and Gas - Collections & Forecast



Source: Colorado Department of Revenue; OSPB June 2022 Forecast  
 \*Indicates preliminary total revenue for FY 2021-22.



# Severance Tax Revenue Distribution

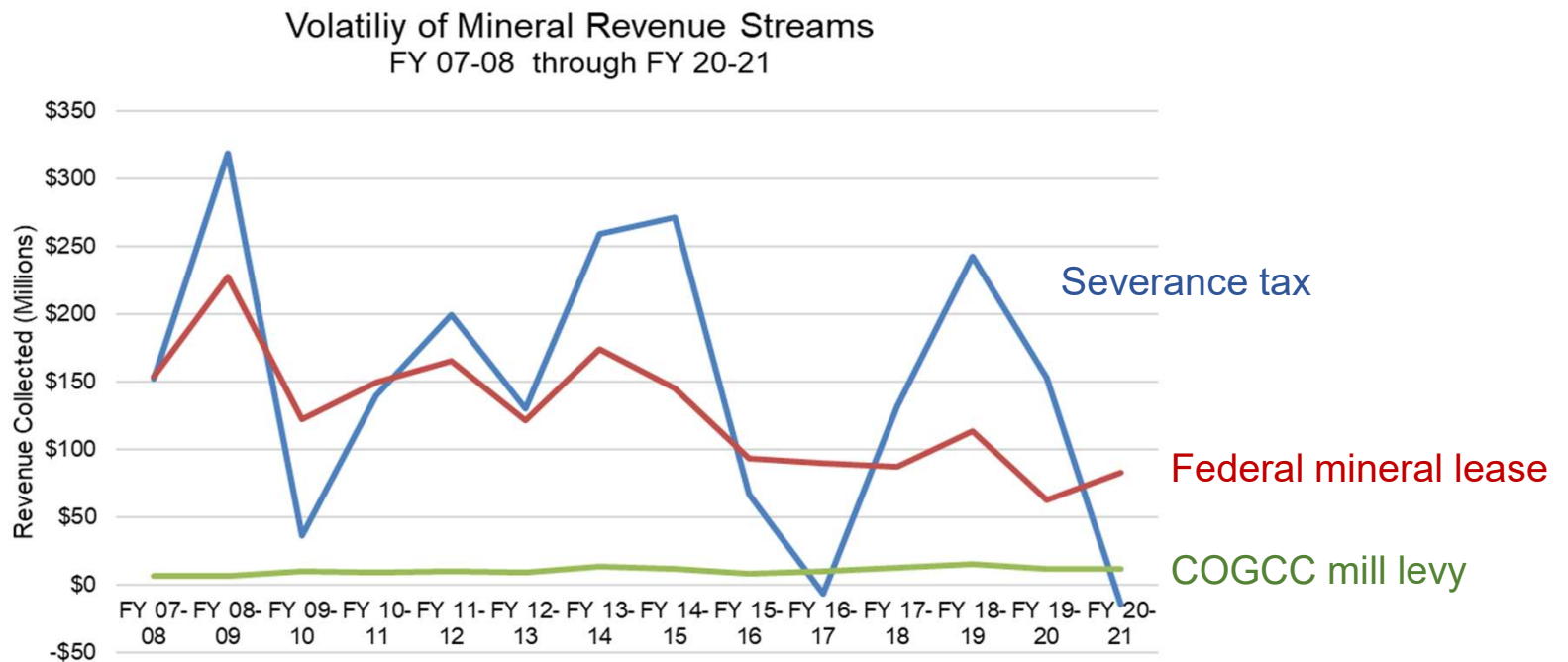


Source: Legislative Council Staff Online Tax Handbook.

- When severance tax revenue is not sufficient to fund ongoing programs paid out of these funds, transfers from the General Fund have backfilled at times.
- Conversely, when General Fund revenue has fallen suddenly, these funds are often swept to backfill GF expenditures.

# Severance Tax Volatility:

More significant than other energy-related revenue streams

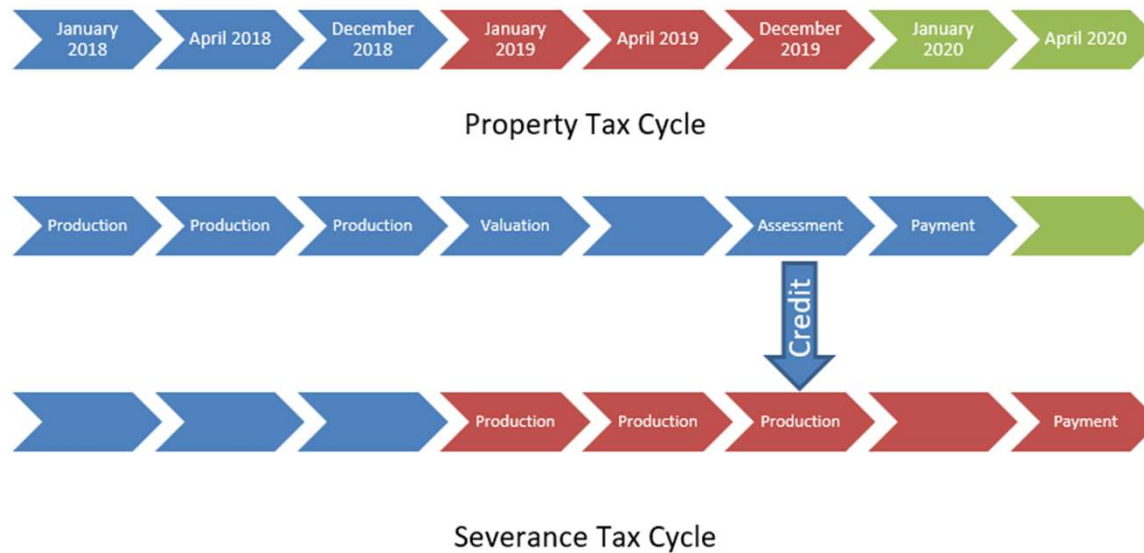


Source: COGCC; Colorado Department of Revenue; SB21-281 Severance Tax Working Group report.



# Severance Tax Volatility: AV credit timing mismatch

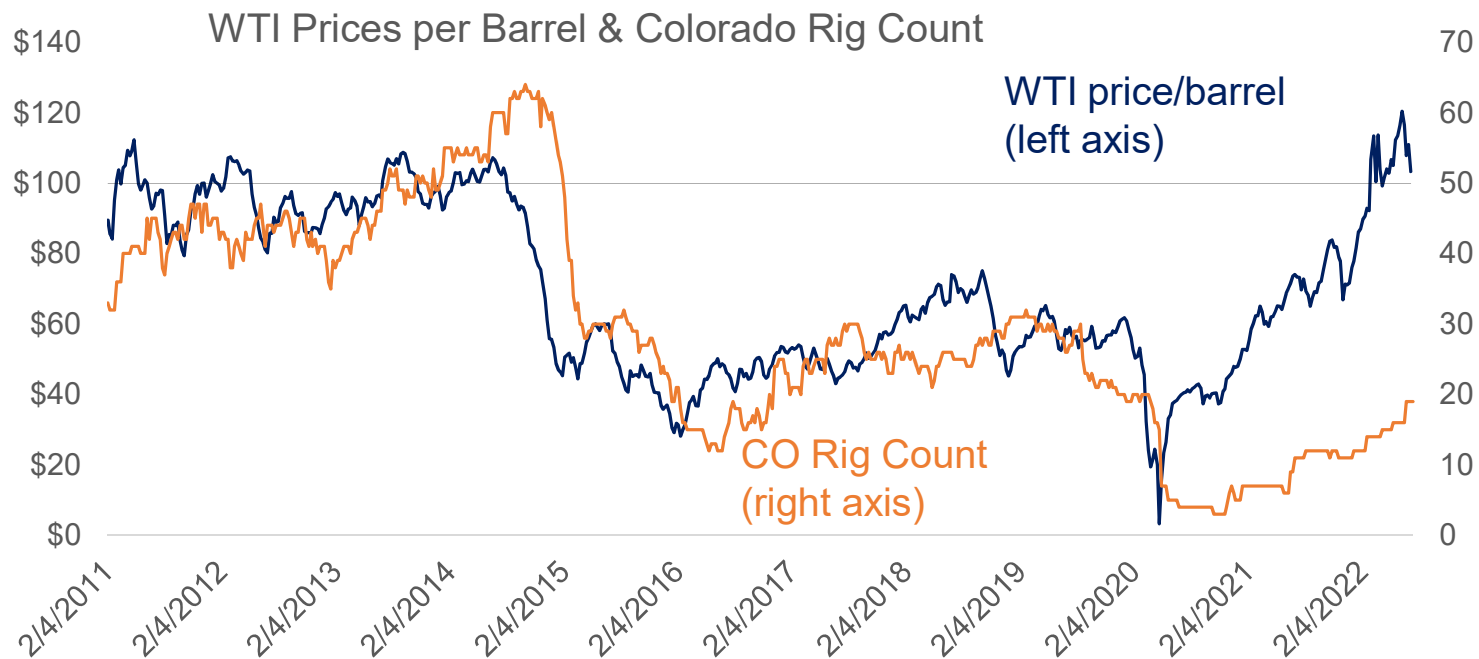
## Accrual Basis Taxpayer (Calendar-Year Severance Filer)



Source: Colorado Department of Revenue; SB21-281 Severance Tax Working Group report.



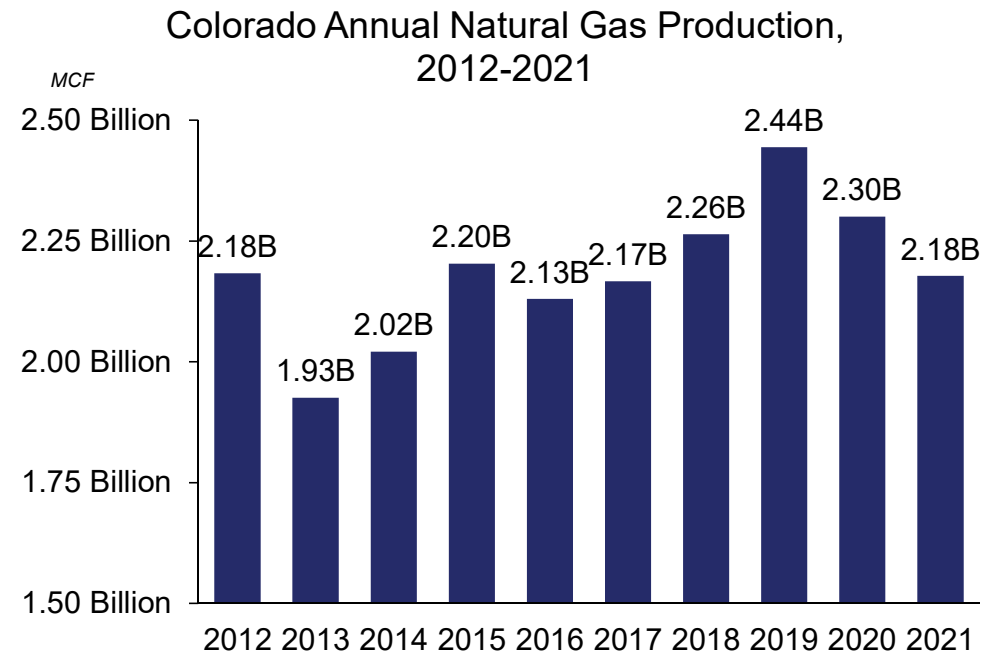
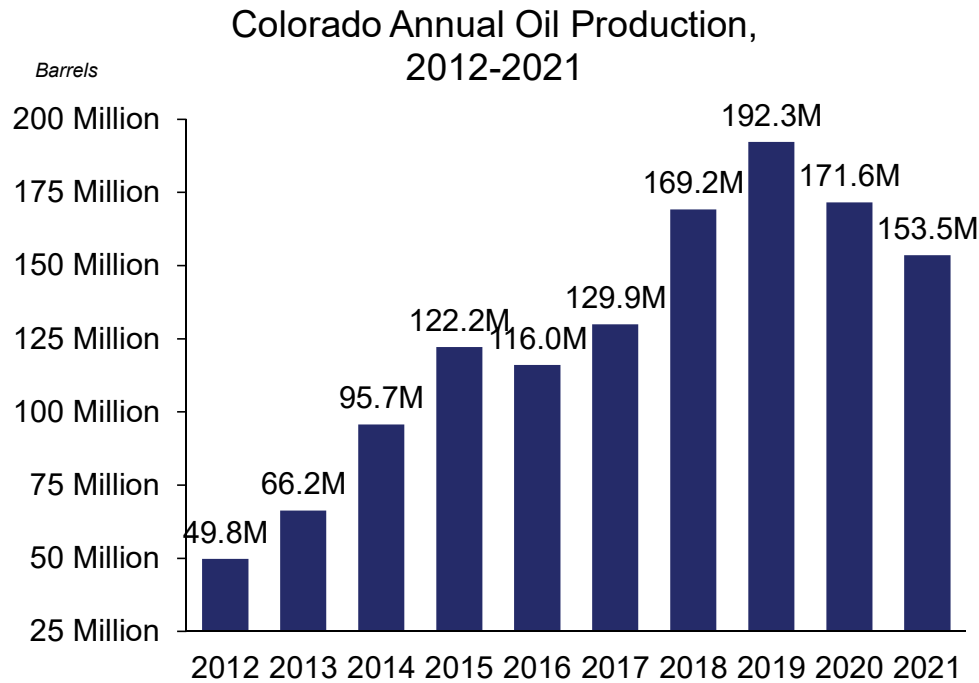
# Severance Tax Volatility: Energy Markets



Source: Energy Information Agency, Baker Hughes.



# Colorado Oil & Gas Production

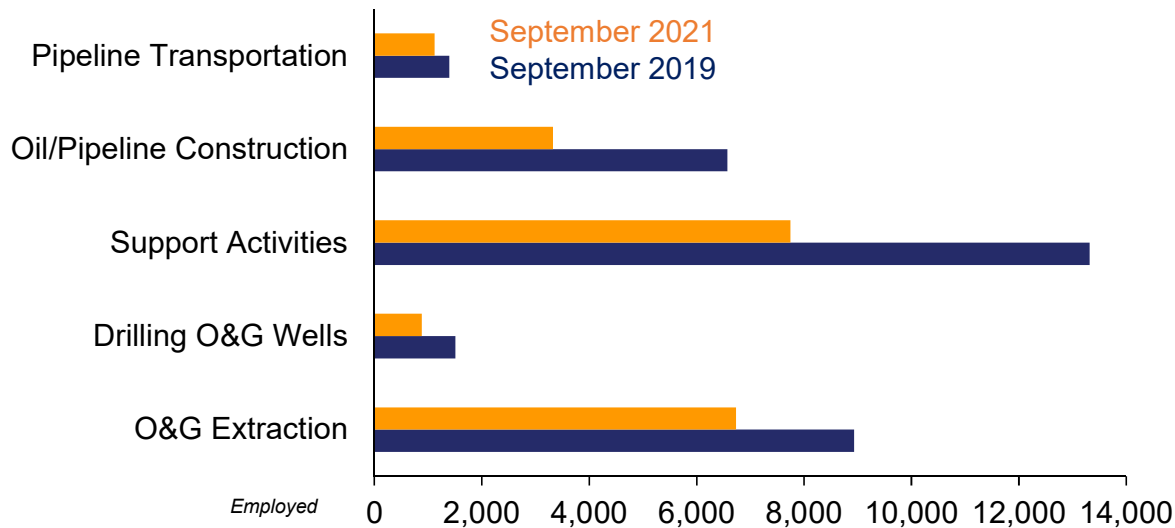


Source: Colorado Oil and Gas Conservation Commission



# CO Oil & Gas Employment

Colorado Oil and Gas Industry Employment



## Select Oil & Gas Employment

September 2019: 31,733

September 2021: 19,817

Total 2-Year Change: **(11,916)**

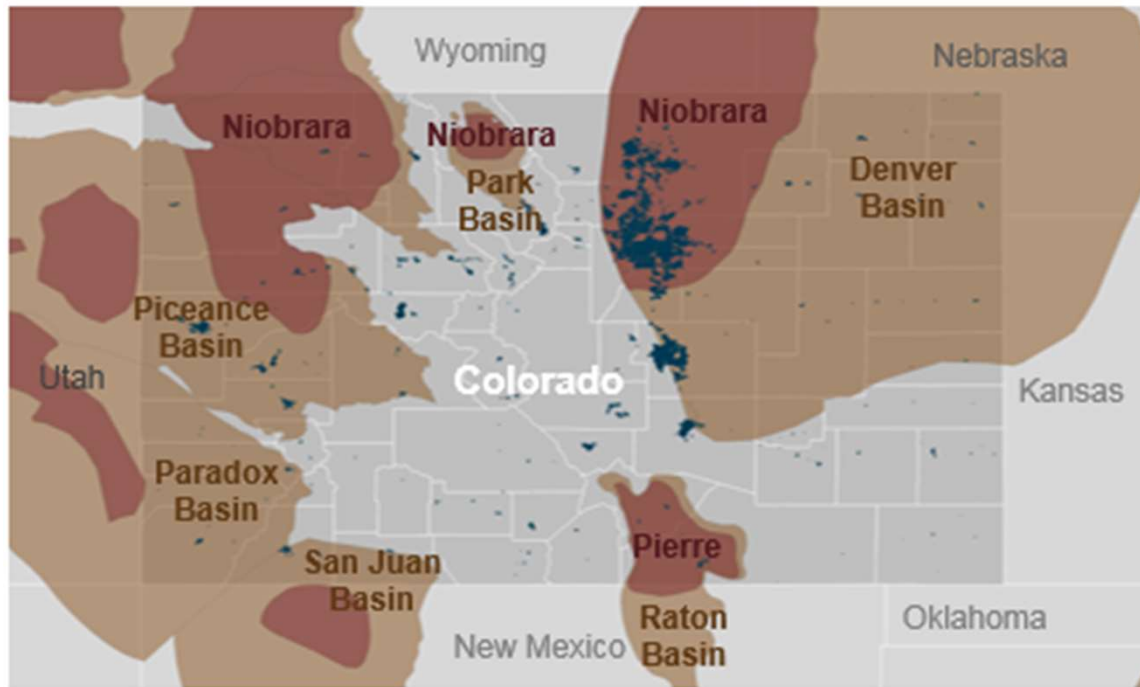
Total 2-Year % Change: **-37.6%**

Source: Colorado Department of Labor and Employment



# Colorado Oil and Gas Basins

Colorado shale plays and basins and municipalities



shale basins

shale plays

municipal areas

Source: Energy Information Agency

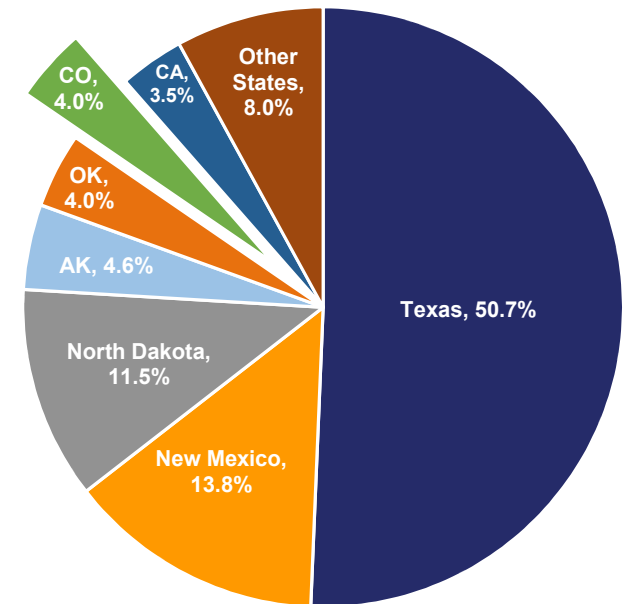


# US Oil Production State Ranking

## U.S. Oil Production State Rankings as of Dec. 2021

<u>Rank</u>	<u>State</u>	<u>12/2021 Avg. Barrels Per Day</u>
1	Texas	4,988,000
2	New Mexico	1,362,000
3	North Dakota	1,128,000
4	Alaska	451,000
5	Oklahoma	397,000
<b>6</b>	<b>Colorado</b>	<b>393,000</b>
7	California	343,000
8	Wyoming	236,000
9	Utah	116,000
10	Louisiana	88,000

December 2021 U.S. Oil Production By State



Source: Energy Information Agency

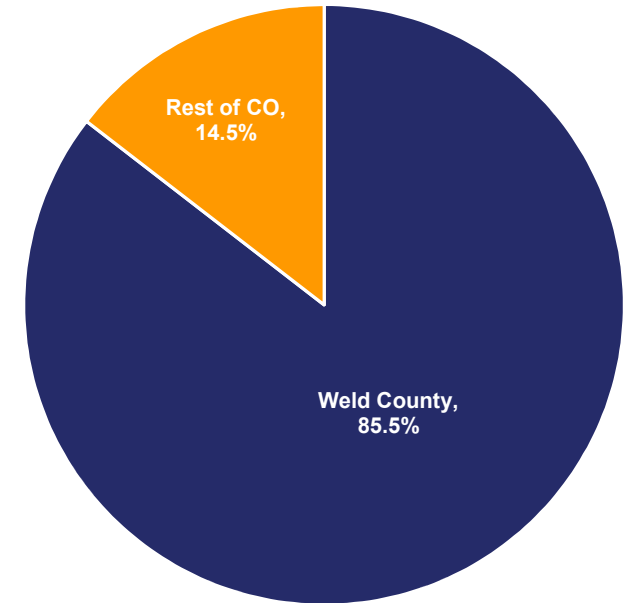


# CO County Oil Production

## 2021 CO Oil Production County Rankings

<u>Rank</u>	<u>County</u>	<u>2021 Production (Barrels)</u>
1	Weld	131,178,453
2	Adams	8,074,216
3	Larimer	3,227,850
4	Rio Blanco	3,097,669
5	Arapahoe	2,017,412
6	Broomfield	1,869,127
7	Garfield	1,034,454
8	Cheyenne	727,450
9	Jackson	669,112
10	Lincoln	460,340

2021 Colorado Oil Production Share



Source: Colorado Oil and Gas Conservation Commission

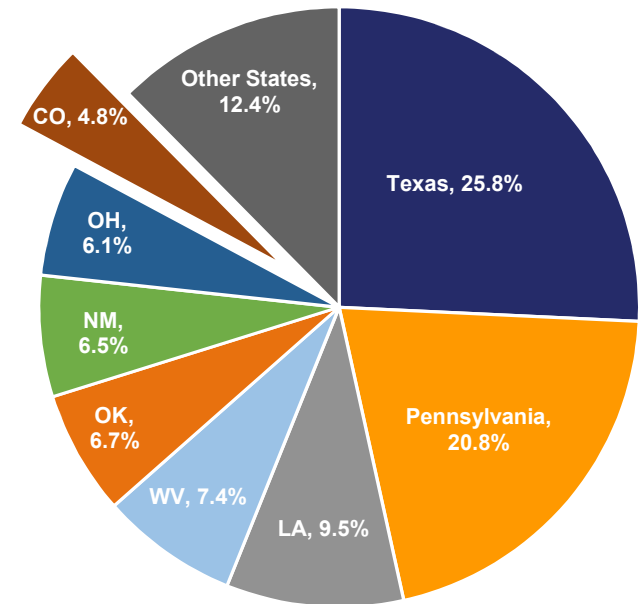


# US Gas Production State Ranking

## U.S. Gas Production State Rankings as of Dec. 2021

<u>Rank</u>	<u>State</u>	<u>12/2021 MCF Production</u>
1	Texas	843,633,000
2	Pennsylvania	680,706,000
3	Louisiana	312,720,000
4	West Virginia	242,327,000
5	Oklahoma	219,187,000
6	New Mexico	213,755,000
7	Ohio	200,174,000
<b>8</b>	<b>Colorado</b>	<b>156,530,000</b>
9	Wyoming	102,767,000
10	North Dakota	83,883,000

December 2021 U.S. Gas Production By State



Source: Energy Information Agency

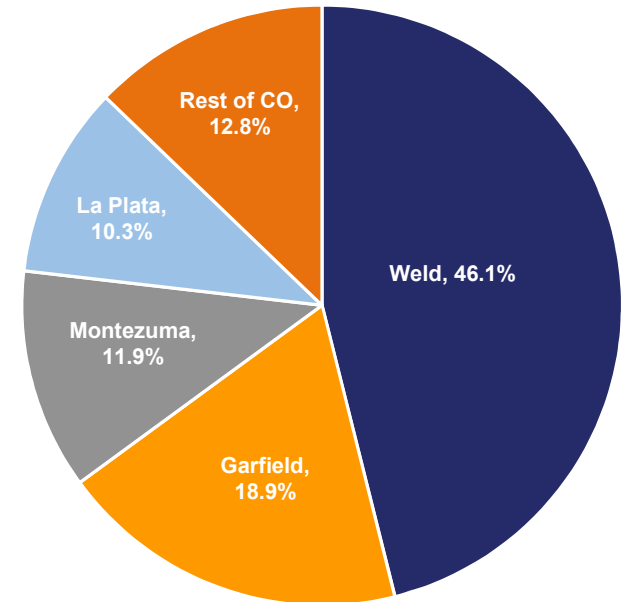


# CO County Gas Production

## 2021 CO Natural Gas Production County Rankings

<u>Rank</u>	<u>County</u>	<u>2021 Production (MCF)</u>
1	Weld	1,003,937,713
2	Garfield	410,499,021
3	Montezuma	258,974,146
4	La Plata	225,239,522
5	Rio Blanco	58,468,927
6	Las Animas	43,443,152
7	Mesa	36,585,212
8	Adams	35,237,405
9	Dolores	18,552,378
10	Archuleta	17,564,852

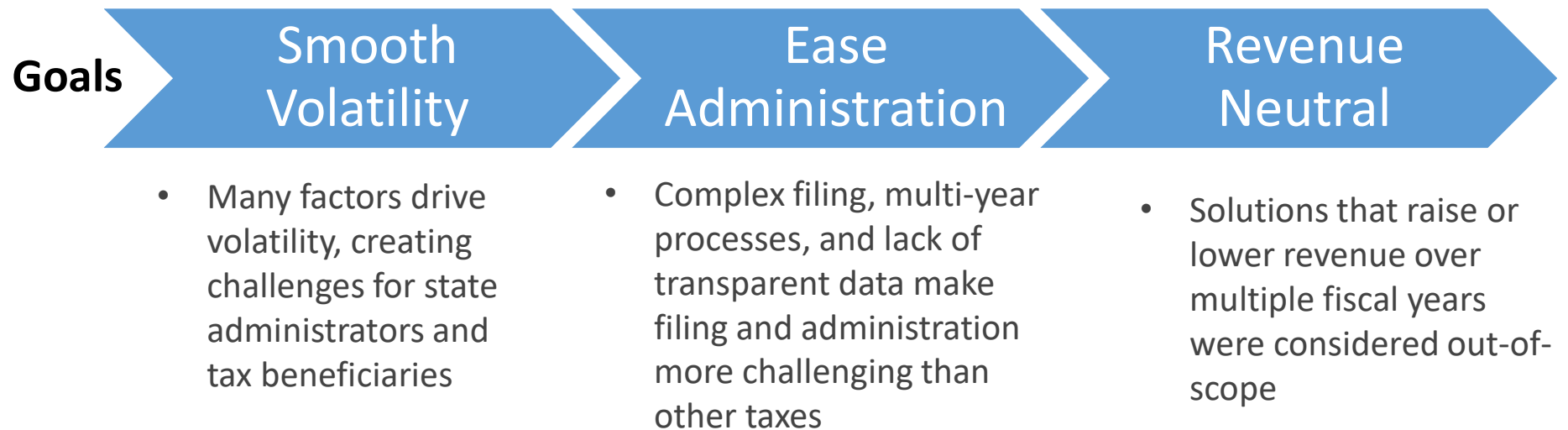
2021 Colorado Gas Production By County



Source: Colorado Oil and Gas Conservation Commission



# SB 21- 281: 1<sup>st</sup> Severance Tax Working Group



**Who:** OSPB, DNR, DOLA, DOR, CDE + input from public stakeholder group

**Report:** <https://leg.colorado.gov/sites/default/files/sevtax-02-03-22.pdf>



# SB21-281 Working Group Recommendations

1. Shift from taxing all interest owners to only operators
2. Base the ad valorem tax credit on severance tax year gross income and prior year mill levy rate
3. Implement and require an electronic filing system
4. Require additional reporting
5. Further evaluate SB 21-281 impacts on metropolitan districts and additional considerations for metropolitan district service plan approval
6. Potential shifts in distribution methodology
7. Creation of a constitutional severance tax perpetual trust
8. Evaluate stripper well exemption thresholds



# SB 22- 1391: Current Sev Tax Working Group

1) New ad valorem credit calculation (based on prior year's property tax paid)

2) Shifting tax incidence from interest owners to operators

3) Require electronic filing of sev tax returns

4) Requiring additional electronic data collection

*NOTE: Working group is required to recommend legislative and administrative steps necessary to implement #1 and #2 in a revenue-neutral manner "to the greatest extent possible"*

**Who:** OSPB, DOR, DNR, CDE, DOLA + input from public stakeholder group

**Report:** Due to JBC by January 15, 2024



# HB22-1391 Working Group Timeline

TODAY at 1pm: First public stakeholder meeting

July 28, 2022: First public technical workgroup meeting

Periodic: Future stakeholder and technical meetings

Goal: Report submitted to JBC early, by 11/1/23, to give General Assembly more time to propose legislation before ad valorem credit changes go live on 1/1/25



# Questions?

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