

By: Representative Ford

To: Ways and Means

HOUSE BILL NO. 552

1 AN ACT TO AMEND SECTION 27-25-503, MISSISSIPPI CODE OF 1972,
2 TO EXTEND THE EXEMPTION FROM OIL SEVERANCE TAX ON CERTAIN
3 PRODUCTION FROM DISCOVERY WELLS AND PRODUCTION FROM TWO-YEAR
4 INACTIVE WELLS; TO EXTEND THE REDUCED RATE OF OIL SEVERANCE TAX ON
5 CERTAIN PRODUCTION FROM DEVELOPMENT WELLS AND REPLACEMENT WELLS;
6 TO AMEND SECTION 27-25-703, MISSISSIPPI CODE OF 1972, TO EXTEND
7 THE EXEMPTION FROM GAS SEVERANCE TAX ON CERTAIN PRODUCTION FROM
8 DISCOVERY WELLS AND PRODUCTION FROM TWO-YEAR INACTIVE WELLS; TO
9 EXTEND THE REDUCED RATE OF GAS SEVERANCE TAX ON CERTAIN PRODUCTION
10 FROM DEVELOPMENT WELLS AND REPLACEMENT WELLS; AND FOR RELATED
11 PURPOSES.

12 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MISSISSIPPI:

13 SECTION 1. Section 27-25-503, Mississippi Code of 1972, is
14 amended as follows:

15 27-25-503. (1) Except as otherwise provided herein, there
16 is hereby levied, to be collected hereafter, as provided herein,
17 annual privilege taxes upon every person engaging or continuing
18 within this state in the business of producing, or severing oil,
19 as defined herein, from the soil or water for sale, transport,
20 storage, profit or for commercial use. The amount of such tax
21 shall be measured by the value of the oil produced, and shall be
22 levied and assessed at the rate of six percent (6%) of the value
23 thereof at the point of production. However, such tax shall be
24 levied and assessed at the rate of three percent (3%) of the value
25 of the oil at the point of production on oil produced by an
26 enhanced oil recovery method in which carbon dioxide is used;
27 provided, that such carbon dioxide is transported by pipeline to
28 the oil well site and on oil produced by any other enhanced oil
29 recovery method approved and permitted by the State Oil and Gas
30 Board on or after April 1, 1994, pursuant to Section 53-3-101 et
31 seq.

32 (2) The tax is hereby levied upon the entire production in
33 this state regardless of the place of sale or to whom sold, or by
34 whom used, or the fact that the delivery may be made to points
35 outside the state, and the tax shall accrue at the time such oil
36 is severed from the soil, or water, and in its natural, unrefined
37 or unmanufactured state.

38 (3) Oil produced from a discovery well for which drilling or
39 re-entry commenced on or after April 1, 1994, shall be exempt from
40 the taxes levied under this section for a period of five (5) years
41 beginning on the date of first sale of production from such well,
42 provided that the average monthly sales price of such oil does not
43 exceed Twenty-five Dollars (\$25.00) per barrel. The exemption for
44 oil produced from a discovery well as described in this subsection
45 shall be repealed from and after July 1, 2000, provided that any
46 such production for which a permit was granted by the board before
47 July 1, 2000, shall be exempt for an entire period of five (5)
48 years, notwithstanding that the repeal of this provision has
49 become effective. Oil produced from development wells or
50 replacement wells drilled in connection with discovery wells for
51 which drilling commenced on or after January 1, 1994, shall be
52 assessed at the rate of three percent (3%) of the value of the oil
53 at the point of production for a period of three (3) years. The
54 reduced rate of assessment of oil produced from development wells
55 or replacement wells as described in this subsection shall be
56 repealed from and after January 1, 2000, provided that any such
57 production for which drilling commenced before January 1, 2000,
58 shall be assessed at the reduced rate for an entire period of
59 three (3) years, notwithstanding that the repeal of this provision
60 has become effective.

61 (4) Oil produced from a development well for which drilling
62 commenced on or after April 1, 1994, and for which
63 three-dimensional seismic was utilized in connection with the
64 drilling of such well shall be assessed at the rate of three
65 percent (3%) of the value of the oil at the point of production

66 for a period of five (5) years, provided that the average monthly
67 sales price of such oil does not exceed Twenty-five Dollars
68 (\$25.00) per barrel. The reduced rate of assessment of oil
69 produced from a development well as described in this subsection
70 and for which three-dimensional seismic was utilized shall be
71 repealed from and after July 1, 2000, provided that any such
72 production for which a permit was granted by the board before July
73 1, 2000, shall be assessed at the reduced rate for an entire
74 period of five (5) years, notwithstanding that the repeal of this
75 provision has become effective.

76 (5) Oil produced from a two-year inactive well as defined in
77 Section 27-25-501 shall be exempt from the taxes levied under this
78 section for a period of three (3) years beginning on the date of
79 first sale of production from such well, provided that the average
80 monthly sales price of such oil does not exceed Twenty-five
81 Dollars (\$25.00) per barrel. The exemption for oil produced from
82 an inactive well shall be repealed from and after July 1, 2000,
83 provided that any such production which began before July 1, 2000,
84 shall be exempt for an entire period of three (3) years,
85 notwithstanding that the repeal of this provision has become
86 effective.

87 (6) The State Oil and Gas Board shall have the exclusive
88 authority to determine the qualification of wells defined in
89 paragraphs (n) through (r) of Section 27-15-501.

90 SECTION 2. Section 27-25-703, Mississippi Code of 1972, is
91 amended as follows:

92 27-25-703. (1) Except as otherwise provided herein, there
93 is hereby levied, to be collected hereafter, as provided herein,
94 annual privilege taxes upon every person engaging or continuing
95 within this state in the business of producing, or severing gas,
96 as defined herein, from below the soil or water for sale,
97 transport, storage, profit or for commercial use. The amount of
98 such tax shall be measured by the value of the gas produced and
99 shall be levied and assessed at a rate of six percent (6%) of the

100 value thereof at the point of production, except as otherwise
101 provided in subsection (4) of this section.

102 (2) The tax is hereby levied upon the entire production in
103 this state, regardless of the place of sale or to whom sold or by
104 whom used, or the fact that the delivery may be made to points
105 outside the state, but not levied upon that gas, including carbon
106 dioxide, lawfully injected into the earth for cycling,
107 repressuring, lifting or enhancing the recovery of oil, nor upon
108 gas lawfully vented or flared in connection with the production of
109 oil, nor upon gas condensed into liquids on which the oil
110 severance tax of six percent (6%) is paid; save and except,
111 however, if any gas so injected into the earth is sold for such
112 purposes, then the gas so sold shall not be excluded in computing
113 the tax, unless such gas is carbon dioxide which is sold to be
114 used and is used in Mississippi in an enhanced oil recovery
115 method, in which event there shall be no severance tax levied on
116 carbon dioxide so sold and used. The tax shall accrue at the time
117 the gas is produced or severed from the soil or water, and in its
118 natural, unrefined or unmanufactured state.

119 (3) Natural gas and condensate produced from any wells for
120 which drilling is commenced after March 15, 1987, and before July
121 1, 1990, shall be exempt from the tax levied under this section
122 for a period of two (2) years beginning on the date of first sale
123 of production from such wells.

124 (4) Any well which begins commercial production of occluded
125 natural gas from coal seams on or after March 20, 1990, and before
126 July 1, 1993, shall be taxed at the rate of three and one-half
127 percent (3-1/2%) of the gross value of the occluded natural gas
128 from coal seams at the point of production for a period of five
129 (5) years after such well begins production.

130 (5) Natural gas produced from discovery wells for which
131 drilling or re-entry commenced on or after April 1, 1994, shall be
132 exempt from the tax levied under this section for a period of five
133 (5) years beginning on the earlier of one (1) year from completion

134 of the well or the date of first sale from such well, provided
135 that the average monthly sales price of such gas does not exceed
136 Three Dollars and Fifty Cents (\$3.50) per one thousand (1,000)
137 cubic feet. The exemption for natural gas produced from discovery
138 wells as described in this subsection shall be repealed from and
139 after July 1, 2000, provided that any such production for which a
140 permit was granted by the board before July 1, 2000, shall be
141 exempt for an entire period of five (5) years, notwithstanding
142 that the repeal of this provision has become effective. Natural
143 gas produced from development wells or replacement wells drilled
144 in connection with discovery wells for which drilling commenced on
145 or after January 1, 1994, shall be assessed at a rate of three
146 percent (3%) of the value thereof at the point of production for a
147 period of three (3) years. The reduced rate of assessment of
148 natural gas produced from development wells or replacement wells
149 as described in this subsection shall be repealed from and after
150 January 1, 2000, provided that any such production for which
151 drilling commenced before January 1, 2000, shall be assessed at
152 the reduced rate for an entire period of three (3) years,
153 notwithstanding that the repeal of this provision has become
154 effective.

155 (6) Gas produced from a development well for which drilling
156 commenced on or after April 1, 1994, and for which
157 three-dimensional seismic was utilized in connection with the
158 drilling of such well, shall be assessed at a rate of three
159 percent (3%) of the value of the gas at the point of production
160 for a period of five (5) years, provided that the average monthly
161 sales price of such gas does not exceed Three Dollars and Fifty
162 Cents (\$3.50) per one thousand (1,000) cubic feet. The reduced
163 rate of assessment of gas produced from a development well as
164 described in this subsection and for which three-dimensional
165 seismic was utilized shall be repealed from and after July 1,
166 2000, provided that any such production for which a permit was
167 granted by the board before July 1, 2000, shall be assessed at the

168 reduced rate for an entire period of five (5) years,
169 notwithstanding that the repeal of this provision has become
170 effective.

171 (7) Natural gas produced from a two-year inactive well as
172 defined in Section 27-25-701 shall be exempt from the taxes levied
173 under this section for a period of three (3) years beginning on
174 the date of first sale of production from such well, provided that
175 the average monthly sales price of such gas does not exceed Three
176 Dollars and Fifty Cents (\$3.50) per one thousand (1,000) cubic
177 feet. The exemption for natural gas produced from an inactive
178 well as described in this subsection shall be repealed from and
179 after July 1, 2000, provided that any such production which began
180 before July 1, 2000, shall be exempt for an entire period of three
181 (3) years, notwithstanding that the repeal of this provision has
182 become effective.

183 (8) The State Oil and Gas Board shall have the exclusive
184 authority to determine the qualification of wells defined in
185 paragraphs (n) through (r) of Section 27-15-701.

186 SECTION 3. This act shall take effect and be in force from
187 and after January 1, 1999.