CHAPTER 45. GROSS PRODUCTION

SUBCHAPTER 9. EXEMPTIONS AND EXCLUSIONS

PART 21. MARKETING COSTS DEDUCTION

710:45-9-102. Qualifying criteria

Qualified deductions of marketing costs shall comply with the provisions of (1) through (5) of this Subsection. The documentation requirements of this Subsection apply only when a taxpayer files a claim for a marketing cost deduction or refund, and do not apply to the filing of a gross production tax return or to the payment of gross production taxes. The marketing cost deduction may be disallowed by the Tax Commission for failure to submit supporting documentation sufficient to validate the deduction at the time of application.

(1) Marketing costs shall not include any costs incurred in the production of gas, oil or condensate or in the separation therefrom of any product subject to gross production tax.

(2) Taxes shall be computed on gross proceeds, including tax reimbursement, less the cost of gathering, compressing, and treating the gas sold.

(3) Documents required to be submitted with the application for refund shall include all of the following:

(A) A notarized affidavit stating the costs requested as deductions to the gross proceeds are for marketing expenses and not for production of the lease.

(B) An electronic spreadsheet of the operator's claimed marketing expenses allowed by Appendix A.

(C) Supporting documentation for the remitter's previously claimed marketing cost deductions, including:

(i) Check stubs; and

(ii) Settlement statements.

(D) Supporting documentation for operator's marketing cost deductions. If invoices are used as documentation, invoices for all costs claimed shall clearly indicate the facility incurring the cost and include a detailed description of the cost. If the invoice does not specify the cost was incurred on allowable marketing equipment, a job/work ticket must accompany the invoice describing the work that

was done. Journal entries are not eligible as documentation of support for services provided by third parties.
(E) Electronic spreadsheet documenting the operator's pumper and compressor expenses allocated by production unit number.
(F) Electronic depreciation schedules:
(i) Any claimed depreciable equipment must be supported by documentation showing the original depreciable value. If the depreciable equipment was purchased, the original invoice is required. If the depreciable equipment was obtained through an acquisition of wells, documents from the acquisition indicating how the value of the depreciable equipment was determined must be provided.
(ii) Depreciation schedule allocating the equipment cost over the life of equipment by production unit number.
(iii) Allocation schedule of depreciation for equipment used for multiple production unit numbers.

(4) The Tax Commission may require additional information, including, but not limited to, copies of the operator's federal income tax return, joint interest billings, or other documentation regarding lease production or expenses.
(5) The burden of establishing the right to, and the validity of, a credit or refund is on the claimant.

PART 27. ~~ORPHAN WELL RECOVERY PROJECTS~~ORPHAN WELL RECOVERY PROJECT

710:45-9-140. Purpose

The purpose of this section is to administer the reduced gross production tax rate authorized by 68 O.S. § 1001(D)(5) for certain orphan well recovery projects.

710:45-9-141. Definitions

The following words and terms, when used in this section, shall have the meaning provided, unless the context clearly indicates otherwise:

"Orphan well recovery project" means a project involving the production of oil or gas from a well that has been removed from the Orphan Well List maintained by the Oklahoma Corporation Commission (OCC) and that satisfies the bonding and reporting requirements established by statute and these rules.

"Project start date" means the date on which the production from a qualifying orphan well recovery project begins under an approved operator, as reported and verified by the OCC.

"Reduced rate" means the gross production tax rate equal to 2.5% (i.e., fifty percent of the 5% gross production tax rate).

710:45-9-142. Qualification and reduced rate

(a) **Scope.** The reduced gross production tax rate of 2.5% applies to production beginning on or after July 1, 2025, that results from a qualified recovery project on a well that was removed from the OCC's orphan well list.

(b) **Qualification.** To qualify for the reduced rate, the well must have been removed from the OCC's Orphan Well List and have the required surety bond on file with the Oklahoma Secretary of State.

(c) **Tax rate.**

(1) A well that qualifies under this section shall be eligible for the 2.5% reduced rate for a period of 36 months beginning on the project start date or July 1, 2025, whichever is later. The reduced rate shall not apply to production occurring prior to July 1, 2025.

(2) Following the 36 months of the reduced rate period, the gross production tax rate shall revert to the standard rate of 7%.

(d) **Registration with Oklahoma Tax Commission; determination; approval.**

Any operator who desires registration of a well as an orphan well recovery project shall submit all of the following documentation electronically through the Oklahoma Taxpayer Access Point (OkTAP):

(1) OTC Form 340 – Production Unit Number Registration or Change Request;

(2) A copy of OCC Form 1073 – Transfer of Operator or OCC Form 1073I – Transfer of Underground Injection Well Operatorship; and

(3) Documentation to show a corporate surety bond for the orphan well was filed with the Secretary of State pursuant to 68 O.S. § 1001(D)(5), including a copy of the supporting documentation submitted to secure the bond (e.g., corporate surety bond, letter of credit, confirmation of cash deposit, or certificate of deposit).

(e) **Denial of an application**. Failure to submit all required documentation at the time of application may result in denial of the registration.

(f) **Burden of proof**. The burden of establishing the right to, and the validity of, a rate reduction, credit, or refund is on the claimant.

(g) **Monthly reporting requirements.** Operators receiving the reduced rate for an orphan well recovery project shall submit monthly production reports (OTC Form 341) in accordance with OAC 710:45-5-1 through 710:45-5-3. Failure to submit the required reports may result in penalties, as outlined in OAC 710:45-5-4.