
SENATE BILL 6748

State of Washington

59th Legislature

2006 Regular Session

By Senators Jacobsen and Kline

Read first time 01/20/2006. Referred to Committee on Ways & Means.

1 AN ACT Relating to the taxation of oil and gas production; adding
2 a new section to chapter 84.36 RCW; adding a new chapter to Title 82
3 RCW; creating a new section; and providing an effective date.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

5 NEW SECTION. **Sec. 1.** DEFINITIONS. Unless the context clearly
6 requires otherwise, the definitions in this section apply throughout
7 this chapter.

8 (1) "Department" means the department of revenue.

9 (2) "Oil" means crude oil, condensate, distillate, or other oil, or
10 other liquid hydrocarbon extracted from any lands or waters of this
11 state, regardless of gravity.

12 (3) "Gas" means natural gas and casinghead gas, or other gaseous
13 hydrocarbon from any lands or waters of this state, regardless of
14 whether produced from a gas well or from a well producing oil or other
15 liquid hydrocarbons.

16 (4) "Value" means the fair market value of the oil or gas at the
17 time of severance and at the point of production.

18 (5) "Operating producer" means a producer who shares in the
19 production expenses of the severed product, and who conducts,

1 personally or by lease or contract, the daily operations of the
2 business of producing the product, including, but not limited to, the
3 sale of the product, receipt of proceeds of sale, and the payment of
4 expenses.

5 (6) "Severance" means the taking from the lands or waters of this
6 state of any oil and gas in any manner.

7 (7) "Person" means "person" as defined in RCW 82.04.030.

8 (8) "Producer" means any person having an economic interest in the
9 severed product, whether engaged in the business of producing or
10 extracting oil or gas or not, who has, as a result of the ownership of
11 such interests, a right to receive a part or all of the oil and gas
12 produced or has a right to receive all or a part of the proceeds of the
13 oil or gas severed. Such persons include, but are not limited to,
14 persons owning a royalty interest, an overriding royalty interest, a
15 working or operating interest, a net profit interest, or any
16 combination thereof, but does not include laborers or employees working
17 on or at the production site.

18 (9) "Point of production" means:

19 (a) For oil, the point where it is severed and is first metered or
20 measured in a manner approved by the department;

21 (b) For gas recovered from or in association with oil, where it is
22 severed and is first metered or measured in a manner approved by the
23 department after separation from the oil;

24 (c) For gas not recovered from or in association with oil, where it
25 is severed and is first metered or measured in a manner approved by the
26 department.

27 NEW SECTION. **Sec. 2.** IMPOSITION AND RATE OF SEVERANCE TAX. (1)
28 In addition to any other tax, an excise tax is imposed upon the
29 severance of oil and gas from any lands or waters of this state, less
30 the value of any part of the oil or gas, the ownership or right to
31 which is exempt from taxation under section 4 of this act.

32 (2) The rate of the tax imposed is six percent.

33 (3) The measure of the tax is the value of the oil and gas at the
34 time and point of production.

35 NEW SECTION. **Sec. 3.** PAYMENT AND COLLECTION OF TAX. (1) The
36 taxes imposed by this chapter on the severance of oil and gas is the

1 liability of the producer or producers. The operating producer shall
2 file the return with the department, shall pay the tax due, and shall
3 deduct and withhold the rateable share of the tax from payments made to
4 other producers in proportion to their interest.

5 (2) If oil or gas on which the severance and conservation taxes are
6 due is not sold at the time of production but is retained by the
7 producer, the operating producer shall pay to the department the taxes
8 due with respect to the oil and gas severed but not sold and shall
9 deduct or withhold the rateable share of the tax from payments made to
10 other producers in proportion to their interest.

11 (3) The department may require taxes to be paid upon the basis of
12 the prevailing price being paid at the time and point of production of
13 other oil or gas of like kind, character, quality, or comparable source
14 when the value reported to the department does not represent the market
15 value of oil or gas sold or retained.

16 NEW SECTION. **Sec. 4.** EXEMPTIONS. The following are exempt from
17 the taxes imposed under this chapter:

18 (1) The value of any oil or gas reinjected for storage, provided
19 that any subsequent removal of oil or gas produced in this state from
20 storage for sale, use, or other retention shall constitute a severance
21 within the meaning of this chapter.

22 (2) The value of any oil or gas owned by a producer or producers
23 exempt from tax by reason of federal law or a compact negotiated by the
24 state with a tribal government.

25 NEW SECTION. **Sec. 5.** APPLICABILITY OF GENERAL ADMINISTRATIVE
26 PROVISIONS--DEPARTMENTAL RULES. All of chapter 82.32 RCW applies to
27 the tax imposed by this chapter. The department shall provide for the
28 effective administration of this chapter by rules which shall include,
29 but are not limited to, the determination of value at the time and
30 point of production and a determination of metering methods and
31 measuring the severance of oil and gas.

32 NEW SECTION. **Sec. 6.** COLLECTION AND DEPOSIT OF REVENUE FROM THE
33 SEVERANCE TAX--SHARING OF REVENUE FROM THE SEVERANCE TAX WITH LOCAL
34 GOVERNMENTS. (1) The department shall deposit eighty percent of the
35 amount collected by it under section 2 of this act in the general fund.

1 (2) The local government severance taxation account is established
2 in the state treasury into which twenty percent of the taxes collected
3 under section 2 of this act shall be deposited. Money in the account
4 may be spent after appropriation. Money in this account shall be used
5 solely for making distributions to those local governments in which
6 impacts from oil and gas production activities occur, after
7 appropriation by statute.

8 NEW SECTION. **Sec. 7.** SHORT TITLE. This chapter may be known and
9 cited as the oil and gas severance and conservation act.

10 NEW SECTION. **Sec. 8.** A new section is added to chapter 84.36 RCW
11 to read as follows:

12 EXEMPTION OF OIL AND GAS RESERVES AND LEASES. (1) The following
13 property is exempt from ad valorem taxation: Oil or gas reserves and
14 leases on the rights to develop and operate upon or within any lands
15 and waters of this state for oil or gas and the property rights
16 attached to or inherent therein.

17 (2) This section does not in any way exempt the land, improvements,
18 or other personal property from ad valorem taxation.

19 NEW SECTION. **Sec. 9.** Sections 1 through 7 of this act constitute
20 a new chapter in Title 82 RCW.

21 NEW SECTION. **Sec. 10.** If any provision of this act or its
22 application to any person or circumstance is held invalid, the
23 remainder of the act or the application of the provision to other
24 persons or circumstances is not affected.

25 NEW SECTION. **Sec. 11.** Captions used in this act are not part of
26 the law.

27 NEW SECTION. **Sec. 12.** Sections 1 through 8 of this act take
28 effect January 1, 2007.

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