



# HOUSE BILL No. 5038

September 13, 1995, Introduced by Reps. McBryde, Randall, McNutt, Alley and Bodem and referred to the Committee on Tax Policy.

A bill to amend sections 3 and 12 of Act No. 48 of the Public Acts of 1929, entitled as amended

"An act levying a specific tax to be known as the severance tax upon all producers engaged in the business of severing oil and gas from the soil; prescribing the method of collecting the tax; requiring all producers of such products or purchasers thereof to make reports; to provide penalties; to provide exemptions and refunds; to prescribe the disposition of the funds so collected; and to exempt those paying such specific tax from certain other taxes,"

being sections 205.303 and 205.312 of the Michigan Compiled Laws.

## THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 Section 1. Sections 3 and 12 of Act No. 48 of the Public  
2 Acts of 1929, being sections 205.303 and 205.312 of the Michigan  
3 Compiled Laws, are amended to read as follows:

4 Sec. 3. (1) Except as provided in ~~subsection (2)~~  
5 SUBSECTIONS (2) AND (3), the severance tax required to be paid by

1 each producer at the time of rendering each monthly report, or by  
2 a pipeline company, common carrier, or common purchaser, for and  
3 on behalf of a producer, ~~shall be in the amount of~~ IS 5% of the  
4 gross cash market value of the total production of gas or 6.6% of  
5 the gross cash market value of the total production of oil during  
6 the preceding monthly period, exclusive of the production or pro-  
7 ceeds from the production attributable to the state, the govern-  
8 ment of the United States, or a political subdivision of the  
9 state or government of the United States. ~~The value of all pro-~~  
10 ~~duction shall be computed as of the time when and at the place~~  
11 ~~where the production was severed or taken from the soil immedi-~~  
12 ~~ately after the severance. Except as otherwise provided in this~~  
13 ~~section, the payment of the severance tax shall be required of~~  
14 ~~each producer. If the production is sold or delivered to a pipe-~~  
15 ~~line company and is transported by the pipeline company through~~  
16 ~~lines connected with the oil or gas well of the owner, or of a~~  
17 ~~common purchaser, the pipeline company, or common purchaser shall~~  
18 ~~receive and accept all the oil and gas, subject to a lien as pre-~~  
19 ~~scribed in section 8, and the pipeline company shall withhold out~~  
20 ~~of the proceeds or price to be paid for the products severed, the~~  
21 ~~proportionate parts of the tax due by the respective owners of~~  
22 ~~the oil and gas at the time of severance and, at the time~~  
23 ~~required for the filing of the monthly reports required in sec-~~  
24 ~~tion 2, shall pay to the department of revenue all the tax money~~  
25 ~~so collected or withheld. Each pipeline company, common carrier,~~  
26 ~~or common purchaser shall deduct from the purchase price paid to~~  
27 ~~a producer from whom it may receive the oil or gas the amount of~~

~~1 the severance tax levied in this section before making the~~  
~~2 payment. If under the terms of a contract the pipeline company,~~  
~~3 common carrier, or common purchaser shall be required to reim-~~  
~~4 burse a producer of oil or gas for the amount of the severance~~  
~~5 tax or a part thereof, the tax reimbursement shall not be consid-~~  
~~6 ered a part of the gross cash market value of the total produc-~~  
~~7 tion of the oil or gas.~~

8 (2) The severance tax required to be paid by each producer  
9 at the time of rendering each monthly report, or by a pipeline  
10 company, common carrier, or common purchaser, for and on behalf  
11 of a producer, on stripper well ~~crude oil, as defined in section~~  
12 ~~8 of the emergency petroleum allocation act of 1973, 15 U.S.C.~~  
13 ~~757 and on crude oil from marginal properties as defined in part~~  
14 ~~212, subpart D, of chapter II of title 10 of the code of federal~~  
15 ~~regulations 10 CFR 212.72 to 212.77, shall be in the amount of~~  
16 ~~4%—~~ PRODUCTION, MARGINAL WELL PRODUCTION, OR HORIZONTAL WELL PRO-  
17 Duction FROM A WELL, THE DRILLING OF WHICH COMMENCED BEFORE  
18 JANUARY 1, 1995, IS 2% of the gross cash market value of the  
19 total production of the oil OR GAS, during the preceding monthly  
20 period, exclusive of the production or proceeds from the produc-  
21 tion attributable to the state, the government of the United  
22 States, or a political subdivision of the state or ~~government~~  
23 ~~of the United States. The value of all production shall be~~  
24 ~~computed as of the time when and at the place where the produc-~~  
25 ~~tion was severed or taken from the soil immediately after the~~  
26 ~~severance.~~

1       (3) THE SEVERANCE TAX REQUIRED TO BE PAID BY EACH PRODUCER  
2 AT THE TIME OF RENDERING EACH MONTHLY REPORT, OR BY A PIPELINE  
3 COMPANY, COMMON CARRIER, OR COMMON PRODUCER, FOR AND ON BEHALF OF  
4 A PRODUCER, ON GAS AND OIL FROM A NEW WELL IS 4% OF THE GROSS  
5 CASH MARKET VALUE OF THE TOTAL PRODUCTION OF GAS AND 5.6% OF  
6 GROSS CASH MARKET VALUE OF THE TOTAL PRODUCTION OF OIL AND ON  
7 STRIPPER WELL PRODUCTION, MARGINAL WELL PRODUCTION, AND HORIZON-  
8 TAL WELL PRODUCTION FROM A WELL, THE DRILLING OF WHICH COMMENCED  
9 AFTER DECEMBER 31, 1994, 1% OF THE GROSS CASH MARKET VALUE OF THE  
10 TOTAL PRODUCTION DURING THE PRECEDING MONTHLY PERIOD, EXCLUSIVE  
11 OF THE PRODUCTION OR PROCEEDS FROM THE PRODUCTION ATTRIBUTABLE TO  
12 THIS STATE, THE GOVERNMENT OF THE UNITED STATES, OR A POLITICAL  
13 SUBDIVISION OF THIS STATE OR THE UNITED STATES.

14       (4) THE VALUE OF ALL PRODUCTION TAXED UNDER THIS SECTION  
15 SHALL BE COMPUTED AS OF THE TIME WHEN AND AT THE PLACE WHERE THE  
16 PRODUCTION WAS SEVERED OR TAKEN FROM THE SOIL IMMEDIATELY AFTER  
17 THE SEVERANCE. EXCEPT AS OTHERWISE PROVIDED IN THIS SECTION, THE  
18 PAYMENT OF THE SEVERANCE TAX IS REQUIRED OF EACH PRODUCER. IF  
19 THE PRODUCTION IS SOLD OR DELIVERED TO A PIPELINE COMPANY AND IS  
20 TRANSPORTED BY THE PIPELINE COMPANY THROUGH LINES CONNECTED WITH  
21 THE OIL OR GAS WELL OF THE OWNER OR OF A COMMON PURCHASER, THE  
22 PIPELINE COMPANY OR COMMON PURCHASER SHALL RECEIVE AND ACCEPT ALL  
23 THE OIL AND GAS, AND THE PIPELINE COMPANY SHALL WITHHOLD OUT OF  
24 THE PROCEEDS OR PRICE TO BE PAID FOR THE PRODUCTS SEVERED THE  
25 PROPORTIONATE PARTS OF THE TAX DUE BY THE RESPECTIVE OWNERS OF  
26 THE OIL AND GAS AT THE TIME OF SEVERANCE AND, AT THE TIME  
27 REQUIRED FOR THE FILING OF THE MONTHLY REPORTS REQUIRED IN

1 SECTION 2, SHALL PAY TO THE DEPARTMENT OF REVENUE ALL THE TAX  
2 MONEY COLLECTED OR WITHHELD. EACH PIPELINE COMPANY, COMMON CAR-  
3 RIER, OR COMMON PURCHASER SHALL DEDUCT FROM THE PURCHASE PRICE  
4 PAID TO A PRODUCER FROM WHOM IT MAY RECEIVE THE OIL OR GAS THE  
5 AMOUNT OF THE SEVERANCE TAX LEVIED IN THIS SECTION BEFORE MAKING  
6 THE PAYMENT. IF UNDER THE TERMS OF A CONTRACT THE PIPELINE COM-  
7 PANY, COMMON CARRIER, OR COMMON PURCHASER IS REQUIRED TO REIM-  
8 BURSE A PRODUCER OF OIL OR GAS FOR THE AMOUNT OF THE SEVERANCE  
9 TAX OR A PART OF THE SEVERANCE TAX, THE TAX REIMBURSEMENT IS NOT  
10 A PART OF THE GROSS CASH MARKET VALUE OF THE TOTAL PRODUCTION OF  
11 THE OIL OR GAS.

12 Sec. 12. (1) AS USED IN THIS ACT:

13 (A) "HORIZONTAL WELL PRODUCTION" MEANS OIL OR GAS PRODUCED  
14 FROM A WELL IN WHICH A PORTION OF THE WELLBORE IS DRILLED  
15 ENTIRELY WITHIN THE HYDROCARBON PRODUCTIVE POOL AT AN ANGLE  
16 BETWEEN 75 DEGREES AND 120 DEGREES FROM THE VERTICAL AND EXTENDS  
17 THROUGH THE HYDROCARBON PRODUCTIVE POOL FOR A CONTINUOUS DISTANCE  
18 OF NOT LESS THAN 200 FEET.

19 (B) "MARGINAL WELL PRODUCTION" MEANS 1 OR MORE OF THE  
20 FOLLOWING:

21 (i) OIL PRODUCED FROM A PROPERTY WHOSE MAXIMUM AVERAGE DAILY  
22 RATE OF PRODUCTION, EXCLUDING CONDENSATE RECOVERED IN NONASSOCI-  
23 ATED PRODUCTION, PER WELL DURING ANY CONSECUTIVE 12-MONTH PERIOD  
24 DOES NOT EXCEED 30 BARRELS PER DAY IF THE AVERAGE COMPLETION  
25 DEPTH OF THE WELLS ON THE PROPERTY IS 6,000 FEET OR GREATER AND  
26 LESS THAN 8,000 FEET OR DOES NOT EXCEED 35 BARRELS PER DAY IF THE

1 AVERAGE COMPLETION DEPTH OF THE WELLS ON THE PROPERTY IS 8,000  
2 FEET OR GREATER.

3 (ii) OIL PRODUCED FROM A WELL WHOSE MAXIMUM AVERAGE DAILY  
4 RATE OF PRODUCTION, EXCLUDING CONDENSATE RECOVERED IN NONASSOCI-  
5 ATED PRODUCTION, DURING ANY CONSECUTIVE 12-MONTH PERIOD DOES NOT  
6 EXCEED 30 BARRELS PER DAY IF THE COMPLETION DEPTH OF THAT WELL IS  
7 6,000 FEET OR GREATER AND LESS THAN 8,000 FEET OR DOES NOT EXCEED  
8 35 BARRELS PER DAY IF THE COMPLETION DEPTH OF THE WELL IS 8,000  
9 FEET OR GREATER.

10 (iii) PRODUCTION CLASSIFIED AS MARGINAL PROPERTY CRUDE OIL  
11 AS OF DECEMBER 31, 1994 BY THE DEPARTMENT.

12 (C) "NEW WELL" MEANS ANY OIL OR GAS WELL, THE DRILLING OF  
13 WHICH COMMENCED AFTER DECEMBER 31, 1994. NEW WELL DOES NOT  
14 INCLUDE MARGINAL WELL PRODUCTION, STRIPPER WELL PRODUCTION, OR  
15 HORIZONTAL WELL PRODUCTION.

16 (D) "Person" ~~as used in this act shall include any person,~~  
17 MEANS AN INDIVIDUAL, firm, concern, receiver, receivers, trustee,  
18 executor, administrator, agent, institution, association, part-  
19 nership, company, ~~corporations, and persons~~ LIMITED LIABILITY  
20 COMPANY, CORPORATION, OR A PERSON acting under ~~declarations~~ A  
21 DECLARATION of trust.

22 (E) ~~(2)~~ "Producer" ~~as used in this act~~ means a person  
23 who owns, or is entitled to delivery of a share in kind or a  
24 share of the monetary proceeds from the sale of, gas or oil as of  
25 the time of its production or severance.

1 (F) "PROPERTY" MEANS A SINGLE LEASE FOR OIL AND GAS  
2 PRODUCTION OR MULTIPLE LEASES THAT ARE VOLUNTARILY OR  
3 COMPULSORILY POOLED OR UNITIZED.

4 (G) "STRIPPER WELL PRODUCTION" MEANS 1 OR MORE OF THE  
5 FOLLOWING:

6 (i) OIL OR GAS PRODUCED FROM A PROPERTY WHOSE MAXIMUM AVER-  
7 AGE DAILY RATE OF PRODUCTION PER WELL DURING ANY CONSECUTIVE  
8 12-MONTH PERIOD DOES NOT EXCEED 25 BARRELS IN THE CASE OF AN OIL  
9 WELL OR 145 MILLION BRITISH THERMAL UNITS IN THE CASE OF A NATU-  
10 RAL GAS WELL.

11 (ii) OIL OR GAS PRODUCED FROM A WELL WHOSE MAXIMUM AVERAGE  
12 DAILY RATE OF PRODUCTION DURING ANY CONSECUTIVE 12-MONTH PERIOD  
13 DOES NOT EXCEED 25 BARRELS IN THE CASE OF AN OIL WELL OR 145 MIL-  
14 LION BRITISH THERMAL UNITS IN THE CASE OF A NATURAL GAS WELL.

15 (iii) PRODUCTION CLASSIFIED AS STRIPPER WELL CRUDE OIL AS OF  
16 DECEMBER 31, 1994 BY THE DEPARTMENT.