Senate Bill 45 was recently passed and signed into law providing tax relief to the oil industry. This legislation allows an income tax credit to working interest owners equal to 75% of the 1998 personal property tax paid on the working interest of an oil lease, from which the average daily production per well is 15 barrels or less. The property tax must have been levied for property tax year 1998 and timely paid during the income tax year in which the credit is taken. The amount of credit which exceeds the tax liability will be refunded. The credit is effective for the tax year beginning after December 31, 1997.

For taxable years commencing after December 31, 1998, an income tax credit is allowed equal to 50% of the personal property tax paid on the working interest of an oil lease, from which the average daily production per well is 15 barrels or less, when the price per barrel of oil is $16 or less as shown for the applicable tax year in the oil and gas appraisal guide prescribed by the Director of Property Valuation, Kansas Department of Revenue. The property tax must have been timely paid during the income tax year for which the credit is taken. The amount of credit which exceeds the tax liability will be refunded.

Average daily production per well is defined as the annual lease production divided by 365 divided by the number of wells on that lease. For the 75% tax credit, use 1997 production in the calculation of the average daily production per well. For 1999 and later years, use the property tax year rendition production, e.g., 1999 property tax year use 1998 production year.

Last year, legislation was passed providing a 15% income tax credit for personal property tax paid on qualified business machinery and equipment for the oil industry (K.S.A. 79-32,206). In order for the working interest owner to claim the credit on the working interest of an oil lease, an operator must provide each working interest owner with:

- a copy of the tax receipt showing timely payment of the property tax;
- the amount of tax paid on the working interest of an oil lease; and
- the working interest owner’s share of those taxes.

As an alternative to the above method, an operator may choose instead to file an information return with the Kansas Department of Revenue. This information return, form K-64O, is enclosed. The operator must attach to the information return a copy of the tax receipt showing timely payment of the property tax for each lease and a schedule showing the following for each lease:

- the amount of tax paid on the working interest of an oil lease;
- the name and identification number (SSN or federal EIN) of each working interest owner, and
- each working interest owner’s share of the qualifying taxes.

For working interest owners who are S-corporations, partnerships or limited liability companies, the individual shareholders, partners or members will claim the credit on their tax returns as outlined below.

**SCORPORATIONS, Partnerships, and Limited Liability Companies**

Shareholders, partners and members will claim the Oil Lease Working Interest credit on their tax returns by completing Kansas Schedule K-50. In order to do this, the S-corporation, partnership or limited liability company must provide each shareholder, partner, or member with:

- a copy of the tax receipt showing timely payment of the property tax;
• a breakdown of the tax paid on the working interest of an oil lease; and
• the shareholder, partner or member’s proportionate share of the taxes paid.

TAXPAYER ASSISTANCE

To obtain Schedule K-50, Schedule K-64 or Schedule K-64O, call the Kansas Department of Revenue’s voice mail forms request line at (785) 296-4937 or download them from our web site: www.ink.org/public/kdor. For more information about the credit or for assistance in completing the form, contact any of the department’s offices listed below. Contact your county officials for information or assistance in determining the amount of personal property taxes paid on the working interest of an oil lease.

<table>
<thead>
<tr>
<th>Topeka Assistance Center</th>
<th>Metropolitan Assistance Center</th>
<th>Wichita Assistance Center</th>
</tr>
</thead>
<tbody>
<tr>
<td>(785) 296-0222</td>
<td>(913) 677-0158</td>
<td>(316) 337-6140</td>
</tr>
<tr>
<td>Docking State Office Building</td>
<td>Cloverleaf Office Park, Bldg. 3</td>
<td>Finney State Office Building</td>
</tr>
<tr>
<td>915 SW Harrison, 1st Floor</td>
<td>6405 Metcalf Ave., Suite 120</td>
<td>230 E. William, Room 7150</td>
</tr>
<tr>
<td>Topeka, KS 66612-1588</td>
<td>Overland Park, KS 66202-3928</td>
<td>Wichita, KS 67202-4002</td>
</tr>
</tbody>
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Notice 99-03
May 27, 1999

Date Composed: 05/27/1999 Date Modified: 10/10/2001

Return to KSA Listing