

Notice

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Tax Type: Corporate Income Tax; Individual Income Tax; Property Tax
Brief Description: Oil Lease Working Interest Credit (Senate Bill 45)
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Body:

NOTICE 99-03
Oil Lease Working Interest Credit

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). This credit allowed under K.S.A. 79-32,206 may not be taken in the same year as the Oil Lease Working Interest Credit. Many working interest owners have taken advantage of the credit under K.S.A. 79-32,206 by filing Schedule K-64 with their 1998 income tax return. With the passage of SB 45, eligible working interest owners may file an amended 1998 return replacing the 15% credit, if claimed, with the Schedule K-50, Oil Lease Working Interest Credit.

A working interest owner who is an individual or corporation and has not filed their 1998 income tax return, may complete either Schedule K-50 to claim their proportionate share of the 75% income tax credit or complete Schedule K-64 to claim their proportionate share of the 15% income tax credit on qualified business machinery and equipment. (See Notice 99-01.)

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-640, 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.

S-CORPORATIONS, 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.

Topeka Assistance Center	Metropolitan Assistance Center	Wichita Assistance Center
(785) 296-0222	(913) 677-0158	(316) 337-6140
Docking State Office Building	Cloverleaf Office Park, Bldg. 3	Finney State Office Building
915 SW Harrison, 1st Floor	6405 Metcalf Ave., Suite 120	230 E. William, Room 7150
Topeka, KS 66612-1588	Overland Park, KS 66202-3928	Wichita, KS 67202-4002

Notice 99-03
May 27, 1999

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[Return to KSA Listing](#)