FYI – For Your Information

Severance Tax Information for Owners of any Interest in any Oil and Gas Produced in Colorado

WHAT IS THE COLORADO SEVERANCE TAX AND WHO MUST PAY IT?

Colorado severance tax is a tax imposed upon nonrenewable natural resources that are removed from the earth. [§39-29-101, C.R.S.]. The tax is applied to gross oil and gas income. "Oil" means crude oil and condensate, and "gas" means natural gas, coalbed methane, and carbon dioxide.

If you are a producer or own a working interest, a royalty interest or any other interest from any oil and gas produced in Colorado, you must pay severance tax to the State of Colorado. Severance tax might be due even though you do not realize a net profit on your investment.

Oil and gas income from "stripper wells," is exempt from severance tax. (i.e., oil from wells that produce an average of 15 barrels or less of oil per producing day; or gas from wells that produce an average of 90,000 cubic feet or less of gas per producing day).

WHAT FORMS ARE NEEDED TO PAY SEVERANCE TAX ON OIL AND GAS INCOME AND WHERE CAN THEY BE OBTAINED?

You must complete and file a “Colorado Severance Tax Return” (DR 0021) annually. The return and your payment are due on the 15th day of the fourth month after the close of the taxable year. Therefore, if your taxable year ends on Dec. 31, your severance tax return is due April 15 of the following year.

If you determine that a severance tax amended return must be filed, you are required to use the proper amended form (DR 0021X) "Amended Colorado Oil and Gas Severance Tax Return."

You also must complete and attach to your severance tax return a “Colorado Oil and Gas and Carbon Dioxide Severance Tax Schedule” (DR 0021D).

For tax years beginning on or after January 1, 2007, oil and gas producers must also complete and attach schedule DR 21PD "Detail Information for Producers."

These forms are available on the Department of Revenue Web site at *www.taxcolorado.com*

Colorado Department of Revenue
Taxpayer Service Division
1375 Sherman St.
Denver, Colorado 80261

Forms and other services:
(303) 238-FAST (3278)
Assistance:
(303) 238-SERV (7378)

www.taxcolorado.com

HOW WILL I KNOW HOW MUCH HAS BEEN WITHHELD FROM MY OIL AND GAS INCOME PAYMENTS?

Producers or first purchasers must withhold one (1) percent of the gross income of **all** interest owners including royalty, working or any other interest including their own interest. [§39-29-111, C.R.S.].

The producer or first purchaser will send you an "Oil and Gas Withholding Statement" (DR 0021W) by March 1 of each year. This form lists your gross income on which you must calculate your severance tax and the amount the producer has withheld and paid to the state from your royalty or production payments. If you own interest in more than one well or field, you should receive a separate withholding statement from each producer. A copy of each withholding statement **must** be attached to your severance tax return (DR 0021).

The producer or first purchaser also will list your share of "ad valorem" taxes, if any, on the withholding statement. Ad valorem taxes are paid by the producer to local governments (cities and counties). You are allowed to deduct 87.5 percent of your share of ad valorem taxes paid on actual oil or gas production (but not on property or equipment). However, ad valorem taxes paid on production from "stripper wells" on which no severance tax was withheld should **not** be included in the deduction. [§39-29-105, C.R.S.] Specific instructions for this deduction are on the "Colorado Oil and Gas and Carbon Dioxide Severance Tax Schedule" (DR 0021D).

In summary, calculate the amount of severance tax based on your share of gross income from production. Then deduct 87.5 percent of your share of any ad valorem taxes paid to local governments on production. Finally, deduct the amount withheld from your royalty or interest payments to determine whether you owe the State of Colorado additional severance tax or whether Colorado owes you a refund.

NON-FILERS

If you have a severance tax account or a severance withholding account open with the Colorado Department of Revenue and do not file a return for any period, you will be sent a non-filer notice. The non-filer will remain due and payable until you file your return or close your account. If you are no longer doing business in the State of Colorado, you are required to close your account by filing a DR 1102 "Account Change or Closure" form. The form can be found on the Department's web site at *www.taxcolorado.com*

DO I ALSO HAVE TO PAY COLORADO STATE INCOME TAXES ON MY OIL AND GAS INCOME?

Yes. Severance tax is different from income tax. If you receive oil and gas income from Colorado sources you must also complete and file a Colorado state income tax return. You may, however, claim a deduction for severance taxes paid on the Federal Schedule E "Supplemental Income and Loss." The deduction is accounted for in your federal taxable income, which is the basis of your **Colorado** income tax. The Colorado state income tax Form 104 is available on the Web at *www.taxcolorado.com*

NOTE: A Colorado severance tax refund must be reported as income on your federal return if it was used as a deduction on the Schedule E for the previous tax year.

FURTHER INFORMATION

FYIs and commonly used forms are available on the Web at *www.taxcolorado.com*

For additional income tax information visit the "Tax Information Index" which covers a variety of topics including links to forms, publications, regulations, statutes and general questions and answers. The "Tax Information Index" is located at *www.taxcolorado.com*

FYIs provide general information concerning a variety of Colorado tax topics in simple and straightforward language. Although the FYIs represent a good faith effort to provide accurate and complete tax information, the information is not binding on the Colorado Department of Revenue, nor does it replace, alter, or supersede Colorado law and regulations. The Executive Director, who by statute is the only person having authority to bind the Department, has not formally reviewed and/or approved these FYIs.