

# FYI – For Your Information

## Colorado Oil and Gas Severance Withholding Requirements

### GENERAL INFORMATION

Operators and first purchasers who disburse income from oil and gas production in Colorado to any interest owner — royalty, working or any other type of interest — must:

1. Open and maintain a Colorado oil and gas severance withholding tax account with the Colorado Department of Revenue.
2. Withhold one percent (1%) from the gross income disbursed and remit such withholding to the department quarterly.
3. File with the department an annual reconciliation of withholding.
4. Notify each interest owner annually of the amount of severance tax withheld from his/her interest payments.

The “withholding agent” is whoever disburses the income to the interest owners, either the operator or the first purchaser. The operator must keep a record of whether the operator or the first purchaser is responsible for reporting and remitting the severance tax withholding and furnish that information to the Department of Revenue upon request.

The withholding agent shall withhold one percent (1%) of the gross income from oil and gas owed to every interest owner, including the withholding agent if such agent is an interest owner. **Exception:**

Gross income from oil and gas interests owed to the United States or to the State of Colorado or to any political subdivision of the State of Colorado is exempt from severance tax withholding.

### PRODUCTS TAKEN IN KIND

When an interest owner elects to take production in kind, such interest owner is responsible for withholding and paying the severance tax on the products taken in kind. All books, accounts and records of such transactions shall be open for examination by the department.

### STRIPPER WELLS

Colorado law exempts from severance tax:

- Oil produced from any individual well that produces 15 barrels per day or less of oil for the average of all producing days during a taxable year.
- Gas produced from any well that produces 90,000 cubic feet or less of gas per day for the average of all producing days during a taxable year.

Income distributed from qualified stripper well production as defined above is exempt from severance withholding tax. A "Severance Tax Waiver" is no longer required from the Colorado Department of Revenue to waive the withholding requirement on income from such oil and gas production. However, the waiver can be requested if it is needed for a third party.



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)  
Fuel Tax (303) 205-5602

The operator must submit a written request (Form DR 0023 "Request for Severance Withholding Tax Waiver") to:

Business Tax Accounting Section  
Colorado Department of Revenue  
1375 Sherman St., Room 208  
Denver, Colorado 80261

The withholding agent is not required to provide an annual withholding statement (Form DR 0021W "Oil & Gas Withholding Statement for Calendar Year") to the interest owners or the department if all gross payments or ad valorem taxes to be reported are from stripper well production. If at the end of the year, however, it is determined that a presumed stripper well does not qualify as such, the agent must provide interest owners and the department with an annual withholding statement (Form DR 0021W) even if no severance tax was withheld. All disbursements must maintain records of barrels of oil and cubic feet of gas produced and of disbursements based on production from any qualifying stripper well, and provide that information to the interest owners.

#### **HOW TO OPEN A COLORADO OIL AND GAS SEVERANCE WITHHOLDING TAX ACCOUNT**

In order to open a severance withholding tax account, complete and return to the Department of Revenue a "Colorado Business Registration" (CR 0100). Be sure to indicate on your CR 0100 that you are applying for an **oil and gas withholding tax account**.

This form is a multi-purpose application for all types of state business tax accounts, including wage or income withholding. Therefore, clearly indicate the type(s) of tax account(s) you want to open.

#### **FILING QUARTERLY SEVERANCE WITHHOLDING TAX RETURNS**

After you open a severance withholding tax account, the department will send you "Quarterly Return of Oil and Gas Tax Withholding" forms (DR 0461). You must complete and return these forms with the amount withheld according to the schedule in the box in the next column.

TAX WITHHELD DURING THE MONTHS OF:	MUST BE REMITTED BY:
January, February & March	June 1
April, May & June	September 1
July, August & September	December 1
October, November & December	March 1 (of following year)

#### **THE ANNUAL RECONCILIATION REQUIREMENT**

In addition to quarterly severance withholding tax returns, the department will send you an "Annual Reconciliation of Severance Tax Withheld from Oil and Gas Payments" (DR 0456).

This form is due April 15. Complete and return it with copies of all "Oil and Gas Withholding Statements" (DR 0021W) for the calendar year covered in your DR 0456.

#### **THE ANNUAL OIL AND GAS WITHHOLDING STATEMENT REQUIREMENT**

Withholding agents are responsible for completing by March 1 of each year an "Oil and Gas Withholding Statement" (DR 0021W) for each interest owner from whom you have withheld. On the "Oil and Gas Withholding Statement," you must provide for the entire calendar year:

1. Gross disbursements made to the interest owner.
2. Total amount of severance tax withheld from the gross income payments disbursed to the interest owner.
3. Total amount of the interest owner's share of any ad valorem taxes.

Copies of the "Oil and Gas Withholding Statement" (DR 0021W) are available from the department upon request. This form consists of four self-carbon copies. Retain one copy for your records. Mail two copies to the interest owner by March 1 of the year following the calendar year

covered by the statement [C.R.S. 39-29-111(4)]. Attach one copy to your "Annual Reconciliation of Severance Tax Withheld from Oil and Gas Payments" (DR 0456) and send it to the Department of Revenue by the April 15 deadline.

If you prefer to print computer facsimiles of the "Oil and Gas Withholding Statement" (DR 0021W), you may do so provided that all the information requested on the form is included and sufficient copies are made for distribution to interest owners and the Department of Revenue. For assistance call (303) 238-SERV (7378).

#### ***FURTHER INFORMATION***

- FYI General 4 "Severance Tax Information for Owners of Any Interest in Any Oil and Gas (including Carbon Dioxide) Produced in Colorado."

FYIs and commonly used forms are available on the Web at [www.taxcolorado.com](http://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.