UTAH OIL AND GAS RECOVERY INCENTIVES

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WORKOVERS / RECOMPLETIONS

A working interest owner who pays for all or part of the expenses of a recompletion or workover is entitled to a tax credit equal to 20% of those expenses. The tax credit may not exceed $50,000 per well during each calendar year until Dec. 31, 1994, and $30,000 per well during each calendar year, beginning Jan. 1, 1995.

Citation: Utah Code Ann. § 59-5-102(6)

Effective date: January 1, 1990; no sunset

Goal: To encourage investment in and continued production of wells, increase recovery, delay abandonment, establish new production and provide for economic gains in areas of the state which have oil and gas activity. Since the cost of a workover is only a fraction of the cost to drill a new well, a workover incentive is expected to extend the producing life of wells in the Uintah Basin, thereby creating jobs and tax revenue in that region. Impact: This is an effective and widely used incentive.

Active supporters: Petroleum industry, county and state governments.

GRADUATED SEVERANCE TAX RATE

For oil, the severance tax rate is 3% up to and including the first $13 per barrel, and 5% of the value exceeding $13 per barrel. The severance tax rate for natural gas is 3% for the first $1.50 per Mcf, and 5% of value above $1.50.

Citation: Utah Code Ann. § 59-5-102(2)

Effective date: Jan. 1, 1992; no sunset

Goal: To provide tax relief during periods of low prices, encouraging continued production.

MARGINAL / STRIPPER WELLS

Stripper wells are tax exempt unless the exemption prevents the severance tax from being treated as a deduction for federal tax purposes. Stripper wells are defined as wells which produce an average of less than 20 BOPD for one year, or 60 Mcf or less of natural gas per day for 90 consecutive days.

Citation: Utah Code Ann. § 59-5-102(5)(b)

Effective date: Jan. 1, 1984; no sunset

Goal: Encourage continued production and avoid premature abandonment of marginal wells.

WILDCAT WELLS

No severance tax is imposed on the first 12 months of production from wildcat wells started after January 1, 1990.

Citation: Utah Code Ann. § 59-5-102(5)(c)

Effective date: Jan. 1, 1990; no sunset

Goal: To encourage exploration activity.

NEW WELLS

The first six months of production from new wells started after Jan. 1, 1984, but before January 1, 1990, and development wells started after Jan. 1, 1990, is exempt from severance taxes.

Citation: Utah Code Ann. § 59-5-102(5)(d)

Effective dates: Jan. 1, 1984, (new wells); no sunset, and Jan. 1, 1990 (development wells); no sunset

Goal: To encourage exploration activity.

ENHANCED RECOVERY

A 50% reduction in severance tax is available for the incremental production achieved from an enhanced oil or gas recovery project.

Citation: Utah Code Ann. § 59-5-102(7)

Effective date: January 1, 1996; no sunset

Goals: Encourage initiation of enhanced recovery projects, use of marginal wells, increase production and avoid premature abandonment of marginal wells.

Active supporters: Industry and state government.