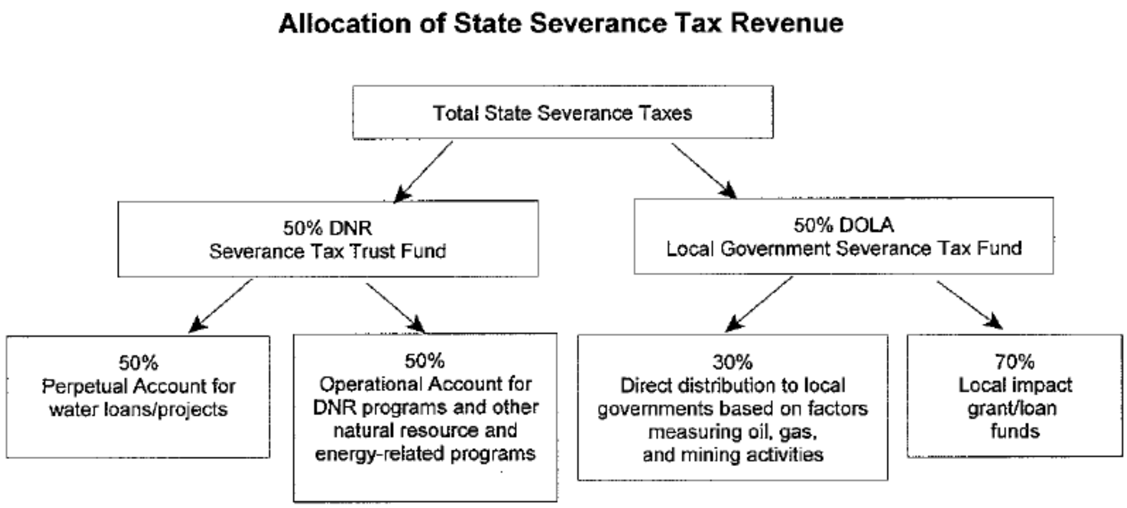
# Oil and Natural Gas

Oil and natural gas production accounts for approximately 95 percent of severance tax collections in Colorado. Severance tax revenue supports programs that build strong communities and funds natural resource management throughout the state.




Colorado law applies the severance tax rate to the value of the oil and natural gas when it is taken or '*severed*' from the Earth. However, because there is no dollar amount for oil and gas when it is taken from the Earth, it is calculated by deducting the costs of transportation, manufacturing, processing, and cost of capital from the market value.

**Oil & Gas Well**

**Market Value**

Gas Station

**Taxable Value**

$$

Costs of
Market Value:
Transportation
Manufacturing
Processing
Cost of Capital

Deductions from
Market Value:
Transportation
Manufacturing
Processing
Cost of Capital


Abbey Pizel
720-379-3019 x 229
pizel@coloradofiscal.org

Taxes and fees applied to oil and gas taxable income:

**Severance Tax:**

The Colorado oil and natural gas severance tax rate is 2 to 5 percent on a graduated scale.

**Ad Valorem (Property) Tax:**

Oil and natural gas is property is assessed at 87.5 percent, then individual county mill levies are applied. County mill levies can vary substantially across the state.

**Oil and Gas Conservation Fee:**

The Oil and Gas Conservation Commission increased the fee for oil and gas production from .7 to 1.1 mills as of April 2018.

Oil and gas producers are allowed a variety of credits, exemptions, and deductions to offset severance tax liabilities.

**Ad Valorem Credit**

This credit allows producers to take up to 87.5 percent of their property taxes owed against their severance tax liability.

**Stripper Well Exemption**

This exemption excludes low production wells from severance tax collections. Low producing wells produce less than 15 barrels of oil or 90,000 MCF of natural gas per day.

**Cost of Capital Deduction**

In 2016, the Colorado Supreme Court ruled on the *BP America vs. Colorado Department of Revenue* case. The decision allows producers to include return on investment and cost of capital as deductible "costs" when calculating taxable income for oil and gas.

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