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Chapter No. 533  
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***HOUSE BILL NO. 1698***

Originated in House  Clerk

HOUSE BILL NO. 1698

AN ACT TO AMEND SECTIONS 27-25-501, 27-25-503, 27-25-505, 27-25-701, 27-25-703 AND 27-25-705, MISSISSIPPI CODE OF 1972, TO REDUCE THE SEVERANCE TAX ON OIL AND NATURAL GAS PRODUCED FROM HORIZONTALLY DRILLED WELLS OR HORIZONTALLY DRILLED RECOMPLETION WELLS FROM WHICH PRODUCTION COMMENCES FROM AND AFTER JULY 1, 2013, FOR A PERIOD OF 30 MONTHS BEGINNING ON THE DATE OF FIRST SALE OF PRODUCTION; TO PROVIDE THAT THE REVENUE FROM SUCH REDUCED TAX SHALL BE APPORTIONED TO THE COUNTY IN WHICH THE OIL OR NATURAL GAS WAS PRODUCED; TO AUTHORIZE COUNTIES TO ENTER INTO ROAD MAINTENANCE AGREEMENTS WITH TAXPAYERS ELIGIBLE FOR SUCH REDUCED SALES TAX WHEREBY THE TAXPAYER REPAIRS OR PAYS THE COST OF REPAIRING COUNTY ROADS DAMAGED AS A RESULT OF DRILLING ACTIVITY CONDUCTED BY THE TAXPAYER; AND FOR RELATED PURPOSES.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MISSISSIPPI:

**SECTION 1.** Section 27-25-501, Mississippi Code of 1972, is amended as follows:

27-25-501. Whenever used in this article, the following words and terms shall have the definition and meaning ascribed to them in this section, unless the intention to give a more limited meaning is disclosed by the context:

(a) "Tax commission" or "department" means the Department of Revenue of the State of Mississippi.

(b) "Commissioner" means the Commissioner of Revenue of the Department of Revenue.

(c) "Annual" means the calendar year or the taxpayer's fiscal year when permission is obtained from the commissioner to use a fiscal year as a tax period in lieu of a calendar year.

(d) "Value" means the sale price, or market value, at the mouth of the well. If the oil is exchanged for something other than cash, or if there is no sale at the time of severance, or if the relation between the buyer and the seller is such that the consideration paid, if any, is not indicative of the true value or market price, then the commissioner shall determine the value of the oil subject to tax, considering the sale price for cash of oil of like quality. With respect to salvaged crude oil as hereinafter defined, the term "value" shall mean the sale price or market value of such salvaged crude oil at the time of its sale after such salvaged crude oil has been processed or treated so as to render it marketable.

(e) "Taxpayer" means any person liable for the tax imposed by this article. With respect to the tax imposed upon salvaged crude oil as hereafter defined, the term "taxpayer" shall mean the person having title to the salvaged crude oil at the time it is being processed or treated so as to render it marketable.

(f) "Oil" means petroleum, other crude oil, natural gasoline, distillate, condensate, casinghead gasoline, asphalt or other mineral oil which is mined, or produced, or withdrawn from

below the surface of the soil or water, in this state. Any type of salvaged crude oil which, after any treatment, becomes marketable shall be defined as crude oil which has been severed from the soil or water.

(g) "Severed" means the extraction or withdrawing from below the surface of the soil or water of any oil, whether such extraction or withdrawal shall be by natural flow, mechanically enforced flow, pumping or any other means employed to get the oil from below the surface of the soil or water, and shall include the withdrawing by any means whatsoever of oil upon which the tax has not been paid, from any surface reservoir, natural or artificial, or from a water surface. Provided, however, that in the case of salvaged crude oil, "severed" means the process of treating such oil so that it will become marketable and the time of severance shall occur upon completion of the treatment.

(h) "Person" means any natural person, firm, copartnership, joint venture, association, corporation, estate, trust or any other group, or combination acting as a unit, and the plural as well as the singular number.

(i) "Producer" means any person owning, controlling, managing or leasing any oil property, or oil well, and any person who produces in any manner any oil by taking it from the earth or water in this state, and shall include any person owning any royalty or other interest in any oil or its value, whether

produced by him, or by some other person on his behalf, either by lease contract or otherwise.

(j) "Engaging in business" means any act or acts engaged in (personal or corporate) by producers, or parties at interest, the result of which, oil is severed from the soil or water, for storage, transport or manufacture, or by which there is an exchange of money, or goods, or thing of value, for oil which has been or is in process of being severed, from the soil or water.

(k) "Barrel" for oil measurement, means a barrel of forty-two (42) United States gallons of two hundred thirty-one (231) cubic inches per gallon, computed at a temperature of sixty (60) degrees Fahrenheit.

(l) "Production" means the total gross amount of oil produced, including all royalty or other interest; that is, the amount for the purpose of the tax imposed by this article shall be measured or determined by tank tables compiled to show one hundred percent (100%) of the full capacity of tanks without deduction for overage or losses in handling. Allowance for any reasonable and bona fide deduction for basic sediment and water, and for correction of temperature to sixty (60) degrees Fahrenheit will be allowed. If the amount of oil produced has been measured or determined by tank tables compiled to show less than one hundred percent (100%) of the full capacity of tanks, then such amount

shall be raised to a basis by one hundred percent (100%) for the purpose of the tax imposed by this article.

(m) "Gathering system" means the pipelines, pumps and other property used in gathering oil from the property on which it is produced, the tanks used for storage at a central place, loading racks and equipment for loading oil into tank cars or other transporting media, and all other equipment and appurtenances necessary to a gathering system for transferring oil into trunk pipelines.

(n) "Discovery well" means any well producing oil from a single pool in which a well has not been previously produced in paying quantities after testing.

(o) "Development wells" means all oil producing wells other than discovery wells and replacement wells.

(p) "Replacement well" means a well drilled on a drilling and/or production unit to replace another well which is drilled in the same unit and completed in the same pool.

(q) "Three-dimensional seismic" means data which is regularly organized in three (3) orthogonal directions and thus suitable for interpretation with a three-dimensional software package on an interactive work station.

(r) "Two-year inactive well" means any oil or gas well certified by the State Oil and Gas Board as having not produced oil or gas in more than a total of thirty (30) days during a

twelve-consecutive-month period in the two (2) years before the date of certification.

(s) "Horizontally drilled well" means a well in which the deviation of the borehole is at least eighty degrees (80°) from vertical so that the borehole penetrates a productive formation in a manner parallel to the formation and in which there is at least one thousand (1,000) feet of lateral penetration through productive reservoirs.

(t) "Horizontally drilled recompletion well" means an existing well in which the deviation of the borehole is at least eighty degrees (80°) from vertical so that the borehole penetrates a productive formation in a manner parallel to the formation and in which there is at least one thousand (1,000) feet of lateral penetration through productive reservoirs.

**SECTION 2.** Section 27-25-503, Mississippi Code of 1972, is amended as follows:

27-25-503. (1) (a) Except as otherwise provided \* \* \* in this section, there is \* \* \* levied, to be collected \* \* \* as provided \* \* \* in this article, annual privilege taxes upon every person engaging or continuing within this state in the business of producing, or severing oil \* \* \* from the soil or water for sale, transport, storage, profit or for commercial use. The amount of \* \* \* the tax shall be measured by the value of the oil produced, and shall be levied and assessed at the rate of six

percent (6%) of the value \* \* \* of the oil at the point of production.

(b) \* \* \* The tax shall be levied and assessed at the rate of three percent (3%) of the value of the oil at the point of production on oil produced by an enhanced oil recovery method in which carbon dioxide is used; provided, that such carbon dioxide is transported by pipeline to the oil well site and on oil produced by any other enhanced oil recovery method approved and permitted by the State Oil and Gas Board on or after April 1, 1994, pursuant to Section 53-3-101 et seq.

(c) (i) The tax shall be levied and assessed at the rate of one and three-tenths percent (1.3%) of the value of the oil at the point of production on oil produced from a horizontally drilled well or from any horizontally drilled recompletion well from which production commences from and after July 1, 2013, for a period of thirty (30) months beginning on the date of first sale of production or until payout of the well cost is achieved, whichever first occurs. Thereafter, the tax shall be levied and assessed as provided for in paragraph (a) of this subsection.

(ii) Payout of a horizontally drilled well or horizontally drilled recompletion well shall be deemed to have occurred the first day of the next month after gross revenues, less royalties and severance taxes, equal to the cost to drill and complete the well.

(iii) Each operator must apply by letter to the State Oil and Gas Board for the reduced rate provided in this paragraph (c), and shall provide the board with the status of payout on a semiannual basis of any horizontally drilled well or horizontally drilled recompletion well by signed affidavit executed by a company representative.

(iv) This paragraph (c) shall be repealed from and after July 1, 2018; however, any horizontally drilled well or horizontally drilled recompletion well from which production commences before July 1, 2018, shall be taxed as provided for in this paragraph (c) notwithstanding that the repeal of this paragraph (c) has become effective.

(2) The tax is \* \* \* levied upon the entire production in this state regardless of the place of sale or to whom sold, or by whom used, or the fact that the delivery may be made to points outside the state, and the tax shall accrue at the time \* \* \* the oil is severed from the soil, or water, and in its natural, unrefined or unmanufactured state.

(3) (a) Oil produced from a discovery well for which drilling or re-entry commenced on or after April 1, 1994, but before July 1, 1999, shall be exempt from the taxes levied under this section for a period of five (5) years beginning on the date of first sale of production from such well, provided that the average monthly sales price of such oil does not exceed Twenty-five Dollars (\$25.00) per barrel. The exemption for oil

produced from a discovery well as described in this paragraph (a) shall be repealed from and after July 1, 2003, provided that any such production for which a permit was granted by the board before July 1, 2003, shall be exempt for an entire period of five (5) years, notwithstanding that the repeal of this provision has become effective. Oil produced from development wells or replacement wells drilled in connection with discovery wells for which drilling commenced on or after January 1, 1994, but before July 1, 1999, shall be assessed at the rate of three percent (3%) of the value of the oil at the point of production for a period of three (3) years. The reduced rate of assessment of oil produced from development wells or replacement wells as described in this paragraph (a) shall be repealed from and after January 1, 2003, provided that any such production for which drilling commenced before January 1, 2003, shall be assessed at the reduced rate for an entire period of three (3) years, notwithstanding that the repeal of this provision has become effective.

(b) Oil produced from a discovery well for which drilling or re-entry commenced on or after July 1, 1999, shall be assessed at the rate of three percent (3%) of the value of the oil at the point of production for a period of five (5) years beginning on the date of first sale of production from such well, provided that the average monthly sales price of such oil does not exceed Twenty Dollars (\$20.00) per barrel. The reduced rate of assessment of oil produced from a discovery well as described in

this paragraph (b) shall be repealed from and after July 1, 2003, provided that any such production for which a permit was granted by the board before July 1, 2003, shall be assessed at the reduced rate for an entire period of five (5) years, notwithstanding that the repeal of this provision has become effective. Oil produced from development wells or replacement wells drilled in connection with discovery wells for which drilling commenced on or after July 1, 1999, shall be assessed at the rate of three percent (3%) of the value of the oil at the point of production for a period of three (3) years. The reduced rate of assessment of oil produced from development wells or replacement wells as described in this paragraph (b) shall be repealed from and after January 1, 2003, provided that any such production for which drilling commenced before July 1, 2003, shall be assessed at the reduced rate for an entire period of three (3) years, notwithstanding that the repeal of this provision has become effective.

(4) (a) Oil produced from a development well for which drilling commenced on or after April 1, 1994, but before July 1, 1999, and for which three-dimensional seismic was utilized in connection with the drilling of such well shall be assessed at the rate of three percent (3%) of the value of the oil at the point of production for a period of five (5) years, provided that the average monthly sales price of such oil does not exceed Twenty-five Dollars (\$25.00) per barrel. The reduced rate of assessment of oil produced from a development well as described in

this paragraph (a) and for which three-dimensional seismic was utilized shall be repealed from and after July 1, 2003, provided that any such production for which a permit was granted by the board before July 1, 2003, shall be assessed at the reduced rate for an entire period of five (5) years, notwithstanding that the repeal of this provision has become effective.

(b) Oil produced from a development well for which drilling commenced on or after July 1, 1999, and for which three-dimensional seismic was utilized in connection with the drilling of such well shall be assessed at the rate of three percent (3%) of the value of the oil at the point of production for a period of five (5) years, provided that the average monthly sales price of such oil does not exceed Twenty Dollars (\$20.00) per barrel. The reduced rate of assessment of oil produced from a development well as described in this paragraph (b) and for which three-dimensional seismic was utilized shall be repealed from and after July 1, 2003, provided that any such production for which a permit was granted by the board before July 1, 2003, shall be assessed at the reduced rate for an entire period of five (5) years, notwithstanding that the repeal of this provision has become effective.

(5) (a) Oil produced before July 1, 1999, from a two-year inactive well as defined in Section 27-25-501 shall be exempt from the taxes levied under this section for a period of three (3) years beginning on the date of first sale of production from such

well, provided that the average monthly sales price of such oil does not exceed Twenty-five Dollars (\$25.00) per barrel. The exemption for oil produced from an inactive well shall be repealed from and after July 1, 2003, provided that any such production which began before July 1, 2003, shall be exempt for an entire period of three (3) years, notwithstanding that the repeal of this provision has become effective.

(b) Oil produced on or after July 1, 1999, from a two-year inactive well as defined in Section 27-25-501 shall be exempt from the taxes levied under this section for a period of three (3) years beginning on the date of first sale of production from such well, provided that the average monthly sales price of such oil does not exceed Twenty Dollars (\$20.00) per barrel. The exemption for oil produced from an inactive well shall be repealed from and after July 1, 2003, provided that any such production which began before July 1, 2003, shall be exempt for an entire period of three (3) years, notwithstanding that the repeal of this provision has become effective.

(6) [Repealed]

(7) The State Oil and Gas Board shall have the exclusive authority to determine the qualification of wells defined in paragraphs (n) through ( \* \* \*t) of Section 27-25-501.

**SECTION 3.** Section 27-25-505, Mississippi Code of 1972, is amended as follows:

[With regard to any county which is exempt from the provisions of Section 19-2-3, this section shall read as follows:]

27-25-505. (1) All taxes \* \* \* levied in this article and collected by the \* \* \* Department of Revenue shall be paid into the State Treasury on the same day collected.

(2) Except as otherwise provided in this section, the commissioner shall apportion all \* \* \* the tax collections made pursuant to this article to the state and to the county in which the oil was produced, in accordance with the following schedule and so certify such apportionment to the State Treasurer at the end of each month:

On the first Six Hundred Thousand Dollars (\$600,000.00) or any part thereof, sixty-six and two-thirds percent (66-2/3%) to the state and thirty-three and one-third percent (33-1/3%) to the county.

On the next Six Hundred Thousand Dollars (\$600,000.00) or any part thereof, ninety percent (90%) to the state and ten percent (10%) to the county through June 30, 1989; eighty-five percent (85%) to the state and fifteen percent (15%) to the county from July 1, 1989, through June 30, 1990; and eighty percent (80%) to the state and twenty percent (20%) to the county for each fiscal year thereafter.

Above and exceeding One Million Two Hundred Thousand Dollars (\$1,200,000.00), ninety-five percent (95%) to the state and five percent (5%) to the county through June 30, 1989; ninety percent

(90%) to the state and ten percent (10%) to the county from July 1, 1989, through June 30, 1990; and eighty-five percent (85%) to the state and fifteen percent (15%) to the county for each fiscal year thereafter.

(3) The state's share of all oil severance taxes collected pursuant to this \* \* \* article shall be deposited as provided for in Section 27-25-506.

(4) The commissioner shall apportion all the tax collections made pursuant to Section 27-25-503(1)(c) to the county in which the oil was produced.

(5) The State Treasurer shall remit the county's share of \* \* \* taxes collected pursuant to this article on or before the twentieth day of the month next succeeding the month in which \* \* \* the collections were made, for division among the municipalities and taxing districts of the county. He shall accompany his remittance with a report to the county receiving \* \* \* the funds prepared by the commissioner showing from whom \* \* \* the tax was collected. Upon receipt of \* \* \* the funds, the board of supervisors of \* \* \* the county shall allocate the \* \* \* funds to the municipalities and to the various maintenance and bond and interest funds of the county, school districts, supervisors districts and road districts, as \* \* \* provided in this subsection.

When there \* \* \* are any oil producing properties within the corporate limits of any municipality, then \* \* \* the municipality

shall participate in the division of the tax returned to the county in which the municipality is located, in the proportion which the tax on production of oil from any properties located within the municipal corporate limits bears to the tax on the total production of oil in the county. In no event, however, shall the amount allocated to municipalities exceed one-third (1/3) of the tax produced in the municipality and returned to the county. Any amount received by any municipality as a result of the allocation \* \* \* provided for in this subsection shall be used only for such purposes as are authorized by law.

The balance remaining of any amount of tax returned to the county after the allocation to municipalities shall be divided among the various maintenance and bond interest funds of the county, school districts, supervisors districts and road districts, in the discretion of the board of supervisors, and \* \* \* the board shall make the division in consideration of the needs of the various taxing districts. The funds so allocated shall be used only for purposes as are authorized by law.

**[With regard to any county which is required to operate on a countywide system of road administration as described in Section 19-2-3, this section shall read as follows:]**

27-25-505. (1) All taxes \* \* \* levied in this article and collected by the \* \* \* Department of Revenue shall be paid into the State Treasury on the same day collected.

(2) Except as otherwise provided in this section, the commissioner shall apportion all \* \* \* the tax collections made pursuant to this article to the state and to the county in which the oil was produced, in accordance with the following schedule and so certify such apportionment to the State Treasurer at the end of each month:

On the first Six Hundred Thousand Dollars (\$600,000.00) or any part thereof, sixty-six and two-thirds percent (66-2/3%) to the state and thirty-three and one-third percent (33-1/3%) to the county.

On the next Six Hundred Thousand Dollars (\$600,000.00) or any part thereof, ninety percent (90%) to the state and ten percent (10%) to the county through June 30, 1989; eighty-five percent (85%) to the state and fifteen percent (15%) to the county from July 1, 1989, through June 30, 1990; and eighty percent (80%) to the state and twenty percent (20%) to the county for each fiscal year thereafter.

Above and exceeding One Million Two Hundred Thousand Dollars (\$1,200,000.00), ninety-five percent (95%) to the state and five percent (5%) to the county through June 30, 1989; ninety percent (90%) to the state and ten percent (10%) to the county from July 1, 1989, through June 30, 1990; and eighty-five percent (85%) to the state and fifteen percent (15%) to the county for each fiscal year thereafter.

(3) The state's share of all oil severance taxes collected pursuant to this \* \* \* article shall be deposited as provided for in Section 27-25-506.

(4) The commissioner shall apportion all the tax collections made pursuant to the tax levied in Section 27-25-503(1)(c) to the county in which the oil was produced.

(5) The State Treasurer shall remit the county's share of \* \* \* the taxes collected pursuant to this article on or before the twentieth day of the month next succeeding the month in which \* \* \* the collections were made, for division among the municipalities and taxing districts of the county. He shall accompany his remittance with a report to the county receiving \* \* \* the funds prepared by the commissioner showing from whom \* \* \* the tax was collected. Upon receipt of \* \* \* the funds, the board of supervisors of \* \* \* the county shall allocate the \* \* \* funds to the municipalities and to the various maintenance and bond and interest funds of the county and school districts, as \* \* \* provided in this subsection.

When there \* \* \* are any oil producing properties within the corporate limits of any municipality, then \* \* \* the municipality shall participate in the division of the tax returned to the county in which the municipality is located, in the proportion which the tax on production of oil from any properties located within the municipal corporate limits bears to the tax on the total production of oil in the county. In no event, however,

shall the amount allocated to municipalities exceed one-third (1/3) of the tax produced in the municipality and returned to the county. Any amount received by any municipality as a result of the allocation \* \* \* provided in this subsection shall be used only for such purposes as are authorized by law.

The balance remaining of any amount of tax returned to the county after the allocation to municipalities shall be divided among the various maintenance and bond interest funds of the county and school districts, in the discretion of the board of supervisors, and \* \* \* the board shall make the division in consideration of the needs of the various taxing districts. The funds so allocated shall be used only for purposes as are authorized by law.

**SECTION 4.** Section 27-25-701, Mississippi Code of 1972, is amended as follows:

27-25-701. Whenever used in this article, the following words and terms shall have the definition and meaning ascribed to them in this section, unless the intention to give a more limited meaning is disclosed by the context:

(a) "Tax commission" or "department" means the Department of Revenue of the State of Mississippi.

(b) "Commissioner" means the Commissioner of Revenue of the Department of Revenue.

(c) "Annual" means the calendar year or the taxpayer's fiscal year when permission is obtained from the commissioner to use a fiscal year as a tax period in lieu of a calendar year.

(d) "Value" means the sale price, or market value, at the mouth of the well. If the gas is exchanged for something other than cash, or if there is no sale at the time of severance, or if the relation between the buyer and the seller is such that the consideration paid, if any, is not indicative of the true value or market price, then the commissioner shall determine the value of the gas subject to tax, considering the sale price for cash of gas of like quality in the same or nearest gas-producing field.

(e) "Taxpayer" means any person liable for the tax imposed by this article.

(f) "Gas" means natural and casinghead gas and any gas or vapor taken from below the surface of the soil or water in this state, regardless of whether produced from a gas well or from a well also productive of oil or any other product; provided, however, the term "gas" shall not include carbon dioxide.

(g) "Casinghead gas" means any gas or vapor indigenous to an oil stratum and produced from such stratum with oil.

(h) "Severed" means the extraction or withdrawing by any means whatsoever, from below the surface of the soil or water, of any gas.

(i) "Person" means any natural person, firm, copartnership, joint venture, association, corporation, estate, trust, or any other group, or combination acting as a unit, and the plural as well as the singular number.

(j) "Producer" means any person owning, controlling, managing or leasing any oil or gas property, or oil or gas well, and any person who produces in any manner any gas by taking it from the earth or water in this state, and shall include any person owning any royalty or other interest in any gas or its value, whether produced by him, or by some other person on his behalf, either by lease contract or otherwise.

(k) "Engaging in business" means any act or acts engaged in (personal or corporate) by producers, or parties at interest, the result of which gas is severed from the soil or water, for storage, transport or manufacture, or by which there is an exchange of money, or goods, or thing of value, for gas which has been or is in process of being severed from the soil or water.

(l) "Production" means the total gross amount of gas produced, including all royalty or other interest; that is, the amount for the purpose of the tax imposed by this article shall be measured or determined by meter readings showing one hundred percent (100%) of the full volume expressed in cubic feet at a standard base and flowing temperature of sixty (60) degrees Fahrenheit and at the absolute pressure at which the gas is sold and purchased; correction to be made for pressure according to

Boyle's law, and for specific gravity according to the gravity at which the gas is sold and purchased or if not so specified, according to test made by the balance method.

(m) "Gathering system" means the pipelines, compressors, pumps, regulators, separators, dehydrators, meters, metering installations and all other property used in gathering gas from the well from which it is produced if such properties are owned by other than the operator, and all such properties, if owned by the operator, beyond the first metering installation that is nearest the well.

(n) "Discovery well" means any well producing gas from a single pool in which a well has not been previously produced in paying quantities after testing.

(o) "Development wells" means all gas-producing wells other than discovery wells and replacement wells.

(p) "Replacement well" means a well drilled on a drilling and/or production unit to replace another well which is drilled in the same unit and completed in the same pool.

(q) "Three-dimensional seismic" means data which is regularly organized in three (3) orthogonal directions and thus suitable for interpretation with a three-dimensional software package on an interactive work station.

(r) "Two-year inactive well" means any oil or gas well certified by the State Oil and Gas Board as having not produced oil or gas in more than a total of thirty (30) days during a

twelve-consecutive-month period in the two (2) years before the date of certification.

(s) "Horizontally drilled well" means a well in which the deviation of the borehole is at least eighty degrees (80°) from vertical so that the borehole penetrates a productive formation in a manner parallel to the formation and in which there is at least one thousand (1,000) feet of lateral penetration through productive reservoirs.

(t) "Horizontally drilled recompletion well" means an existing well in which the deviation of the borehole is at least eighty degrees (80°) from vertical so that the borehole penetrates a productive formation in a manner parallel to the formation and in which there is at least one thousand (1,000) feet of lateral penetration through productive reservoirs.

**SECTION 5.** Section 27-25-703, Mississippi Code of 1972, is amended as follows:

27-25-703. (1) (a) Except as otherwise provided \* \* \* in this section, there is hereby levied, to be collected \* \* \* as provided \* \* \* in this article, annual privilege taxes upon every person engaging or continuing within this state in the business of producing, or severing gas \* \* \* from below the soil or water for sale, transport, storage, profit or for commercial use. The amount of \* \* \* the tax shall be measured by the value of the gas produced and shall be levied and assessed at a rate of six percent

(6%) of the value \* \* \* of the gas at the point of production, except as otherwise provided in subsection (4) of this section.

(b) (i) The tax shall be levied and assessed at the rate of one and three-tenths percent (1.3%) of the value of the gas at the point of production on gas produced from a horizontally drilled well or from any horizontally drilled recompletion well from which production commences from and after July 1, 2013, for a period of thirty (30) months beginning on the date of first sale of production or until payout of the well cost is achieved, whichever first occurs. Thereafter, the tax shall be levied and assessed as provided for in paragraph (a) of this subsection.

(ii) Payout of a horizontally drilled well or horizontally drilled recompletion well shall be deemed to have occurred the first day of the next month after gross revenues, less royalties and severance taxes, equal to the cost to drill and complete the well.

(iii) Each operator must apply by letter to the State Oil and Gas Board for the reduced rate provided in this paragraph (b), and shall provide the board with the status of payout on a semiannual basis of any horizontally drilled well or horizontally drilled recompletion well by signed affidavit executed by a company representative.

(iv) This paragraph (b) shall be repealed from and after July 1, 2018; however, any horizontally drilled well or horizontally drilled recompletion well from which production

commences before July 1, 2018, shall be taxed as provided for in this paragraph (b) notwithstanding that the repeal of this paragraph (b) has become effective.

(2) The tax is \* \* \* levied upon the entire production in this state, regardless of the place of sale or to whom sold or by whom used, or the fact that the delivery may be made to points outside the state, but not levied upon that gas, lawfully injected into the earth for cycling, repressuring, lifting or enhancing the recovery of oil, nor upon gas lawfully vented or flared in connection with the production of oil, nor upon gas condensed into liquids on which the oil severance tax of six percent (6%) is paid; \* \* \* however, if any gas so injected into the earth is sold for such purposes, then the gas so sold shall not be excluded in computing the tax. The tax shall accrue at the time the gas is produced or severed from the soil or water, and in its natural, unrefined or unmanufactured state.

(3) Natural gas and condensate produced from any wells for which drilling is commenced after March 15, 1987, and before July 1, 1990, shall be exempt from the tax levied under this section for a period of two (2) years beginning on the date of first sale of production from such wells.

(4) (a) Any well which begins commercial production of occluded natural gas from coal seams on or after March 20, 1990, and before July 1, 1993, shall be taxed at the rate of three and one-half percent (3-1/2%) of the gross value of the occluded

natural gas from coal seams at the point of production for a period of five (5) years after such well begins production.

(b) Any well which begins commercial production of occluded natural gas from coal seams on or after July 1, 2004, and before July 1, 2007, shall be taxed at the rate of three percent (3%) of the gross value of the occluded natural gas from coal seams at the point of production for a period of five (5) years beginning on the date of the first sale of production from such well.

(5) (a) Natural gas produced from discovery wells for which drilling or re-entry commenced on or after April 1, 1994, but before July 1, 1999, shall be exempt from the tax levied under this section for a period of five (5) years beginning on the earlier of one (1) year from completion of the well or the date of first sale from such well, provided that the average monthly sales price of such gas does not exceed Three Dollars and Fifty Cents (\$3.50) per one thousand (1,000) cubic feet. The exemption for natural gas produced from discovery wells as described in this paragraph (a) shall be repealed from and after July 1, 2003, provided that any such production for which a permit was granted by the board before July 1, 2003, shall be exempt for an entire period of five (5) years, notwithstanding that the repeal of this provision has become effective. Natural gas produced from development wells or replacement wells drilled in connection with discovery wells for which drilling commenced on or after January

1, 1994, shall be assessed at a rate of three percent (3%) of the value thereof at the point of production for a period of three (3) years. The reduced rate of assessment of natural gas produced from development wells or replacement wells as described in this paragraph (a) shall be repealed from and after January 1, 2003, provided that any such production for which drilling commenced before January 1, 2003, shall be assessed at the reduced rate for an entire period of three (3) years, notwithstanding that the repeal of this provision has become effective.

(b) Natural gas produced from discovery wells for which drilling or re-entry commenced on or after July 1, 1999, shall be assessed at a rate of three percent (3%) of the value thereof at the point of production for a period of five (5) years beginning on the earlier of one (1) year from completion of the well or the date of first sale from such well, provided that the average monthly sales price of such gas does not exceed Two Dollars and Fifty Cents (\$2.50) per one thousand (1,000) cubic feet. The reduced rate of assessment of natural gas produced from discovery wells as described in this paragraph (b) shall be repealed from and after July 1, 2003, provided that any such production for which a permit was granted by the board before July 1, 2003, shall be assessed at the reduced rate for an entire period of five (5) years, notwithstanding that the repeal of this provision has become effective. Natural gas produced from development wells or replacement wells drilled in connection with discovery wells for

which drilling commenced on or after July 1, 1999, shall be assessed at a rate of three percent (3%) of the value thereof at the point of production for a period of three (3) years. The reduced rate of assessment of natural gas produced from development wells or replacement wells as described in this paragraph (b) shall be repealed from and after January 1, 2003, provided that any such production for which drilling commenced before January 1, 2003, shall be assessed at the reduced rate for an entire period of three (3) years, notwithstanding that the repeal of this provision has become effective.

(6) (a) Gas produced from a development well for which drilling commenced on or after April 1, 1994, but before July 1, 1999, and for which three-dimensional seismic was utilized in connection with the drilling of such well, shall be assessed at a rate of three percent (3%) of the value of the gas at the point of production for a period of five (5) years, provided that the average monthly sales price of such gas does not exceed Three Dollars and Fifty Cents (\$3.50) per one thousand (1,000) cubic feet. The reduced rate of assessment of gas produced from a development well as described in this subsection and for which three-dimensional seismic was utilized shall be repealed from and after July 1, 2003, provided that any such production for which a permit was granted by the board before July 1, 2003, shall be assessed at the reduced rate for an entire period of five (5)

years, notwithstanding that the repeal of this provision has become effective.

(b) Gas produced from a development well for which drilling commenced on or after July 1, 1999, and for which three-dimensional seismic was utilized in connection with the drilling of such well, shall be assessed at a rate of three percent (3%) of the value of the gas at the point of production for a period of five (5) years, provided that the average monthly sales price of such gas does not exceed Two Dollars and Fifty Cents (\$2.50) per one thousand (1,000) cubic feet. The reduced rate of assessment of gas produced from a development well as described in this paragraph (b) and for which three-dimensional seismic was utilized shall be repealed from and after July 1, 2003, provided that any such production for which a permit was granted by the board before July 1, 2003, shall be assessed at the reduced rate for an entire period of five (5) years, notwithstanding that the repeal of this provision has become effective.

(7) (a) Natural gas produced before July 1, 1999, from a two-year inactive well as defined in Section 27-25-701 shall be exempt from the taxes levied under this section for a period of three (3) years beginning on the date of first sale of production from such well, provided that the average monthly sales price of such gas does not exceed Three Dollars and Fifty Cents (\$3.50) per one thousand (1,000) cubic feet. The exemption for natural gas

produced from an inactive well as described in this subsection shall be repealed from and after July 1, 2003, provided that any such production which began before July 1, 2003, shall be exempt for an entire period of three (3) years, notwithstanding that the repeal of this provision has become effective.

(b) Natural gas produced on or after July 1, 1999, from a two-year inactive well as defined in Section 27-25-701 shall be exempt from the taxes levied under this section for a period of three (3) years beginning on the date of first sale of production from such well, provided that the average monthly sales price of such gas does not exceed Two Dollars and Fifty Cents (\$2.50) per one thousand (1,000) cubic feet. The exemption for natural gas produced from an inactive well as described in this paragraph (b) shall be repealed from and after July 1, 2003, provided that any such production which began before July 1, 2003, shall be exempt for an entire period of three (3) years, notwithstanding that the repeal of this provision has become effective.

(8) The State Oil and Gas Board shall have the exclusive authority to determine the qualification of wells defined in paragraphs (n) through ( \* \* \*t) of Section 27-25-701.

**SECTION 6.** Section 27-25-705, Mississippi Code of 1972, is amended as follows:

**[With regard to any county which is exempt from the provisions of Section 19-2-3, this section shall read as follows:]**

27-25-705. (1) All taxes \* \* \* levied in this article and collected by the \* \* \* department shall be paid into the State Treasury on the same day in which \* \* \* the taxes are collected.

(2) Except as otherwise provided in this section, the commissioner shall apportion all \* \* \* the tax collections made pursuant to this article to the state and to the county in which the gas was produced, in the proportion of sixty-six and two-thirds percent (66-2/3%) to the state and thirty-three and one-third percent (33-1/3%) to the county.

(3) The commissioner shall apportion all the tax collections made pursuant to Section 27-25-703(1)(b) to the county in which the gas is produced.

(4) \* \* \* When the producer of gas subject to the tax levied in this article increases the price of the gas sold and such increase is subject to approval by a federal regulatory board or commission, and when the producer of the gas so requests, the State Treasurer is hereby authorized to hold the severance tax collected on \* \* \* the price increase in escrow until such time as the price increase or a portion thereof is finally granted or approved. The severance tax thus held in escrow shall be deposited by the State Treasurer to an account in a state depository to be invested in an interest-bearing account in the manner provided by law. When the price increase in question or a portion thereof is granted or approved, the commissioner shall compute the correct severance tax due on \* \* \* the increase and

certify the amount of tax thus computed. This amount and interest earned from the depository shall be distributed to the General Fund and to the county or counties proportionately as \* \* \* provided in this subsection. The balance, if any, of the tax and interest held in escrow on the price increase shall be returned to the taxpayer.

(5) The state's share of all gas severance taxes collected pursuant to this section shall be deposited as provided for in Section 27-25-506.

(6) The commissioner shall certify at the end of each month the apportionment to each county to the State Treasurer, who shall remit the county's share of \* \* \* the funds on or before the twentieth day of the month next succeeding the month in which \* \* \* the collections were made for division among the municipalities and taxing districts of the county. The commissioner shall submit a report to the State Treasurer for distribution to each county receiving \* \* \* the funds showing from whom \* \* \* the tax and interest, if any, were collected. Upon receipt of \* \* \* the funds, the board of supervisors of the county shall allocate the \* \* \* funds to the municipalities and to the various maintenance and bond and interest funds of the county, school districts, supervisors districts and road districts, as \* \* \* provided in this subsection.

When there \* \* \* are any gas producing properties within the corporate limits of any municipality, then \* \* \* the municipality

shall participate in the division of the tax and interest, if any, returned to the county in which the municipality is located in the proportion which the tax on production of gas from properties located within the municipal corporate limits bears to the tax on total production of gas in the county. In no event, however, shall the amount allocated to the municipalities exceed one-third (1/3) of the tax and interest produced in the municipality and returned to the county. Any amount received by any municipality as a result of the allocation \* \* \* provided for in this subsection shall be used for such purposes as are authorized by law.

The balance remaining of any funds returned to the county after the allocation to municipalities shall be divided among the various maintenance and bond and interest funds of the county, school districts, supervisors districts and road districts, in the discretion of the board of supervisors, and \* \* \* the board shall make the division in consideration of the needs of the various taxing districts. The funds so allocated shall be used only for such purposes as are authorized by law.

**[With regard to any county which is required to operate on a countywide system of road administration as described in Section 19-2-3, this section shall read as follows:]**

27-25-705. (1) All taxes herein levied in this article and collected by the \* \* \* department shall be paid into the State Treasury on the same day in which \* \* \* the taxes are collected.

(2) Except as otherwise provided in this section, the commissioner shall apportion all \* \* \* the tax collections made pursuant to this article to the state and to the county in which the gas was produced, in the proportion of sixty-six and two-thirds percent (66-2/3%) to the state and thirty-three and one-third percent (33-1/3%) to the county.

(3) The commissioner shall apportion all the tax collections made pursuant to Section 27-25-703(1)(b) to the county in which the gas is produced.

(4) \* \* \* When the producer of gas subject to the tax levied in this article increases the price of the gas sold and \* \* \* the increase is subject to approval by a federal regulatory board or commission, and when the producer of the gas so requests, the State Treasurer is hereby authorized to hold the severance tax collected on \* \* \* the price increase in escrow until such time as the price increase or a portion thereof is finally granted or approved. The severance tax thus held in escrow shall be deposited by the State Treasurer to an account in a state depository to be invested in an interest-bearing account in the manner provided by law. When the price increase in question or a portion thereof is granted or approved, the commissioner shall compute the correct severance tax due on \* \* \* the increase and certify the amount of tax thus computed. This amount and interest earned from the depository shall be distributed to the General Fund and to the county or counties proportionately as \* \* \*

provided in this subsection. The balance, if any, of the tax and interest held in escrow on the price increase shall be returned to the taxpayer.

(5) The state's share of all gas severance taxes collected pursuant to this section shall be deposited as provided for in Section 27-25-506.

(6) The commissioner shall certify at the end of each month the apportionment to each county to the State Treasurer, who shall remit the county's share of \* \* \* the funds on or before the twentieth day of the month next succeeding the month in which \* \* \* the collections were made for division among the municipalities and taxing districts of the county. The commissioner shall submit a report to the State Treasurer for distribution to each county receiving \* \* \* the funds showing from whom \* \* \* the tax and interest, if any, were collected. Upon receipt of \* \* \* the funds, the board of supervisors of the county shall allocate the \* \* \* funds to the municipalities and to the various maintenance and bond and interest funds of the county and school districts, as \* \* \* provided in this subsection.

When there \* \* \* are any gas producing properties within the corporate limits of any municipality, then \* \* \* the municipality shall participate in the division of the tax and interest, if any, returned to the county in which the municipality is located in the proportion which the tax on production of gas from properties located within the municipal corporate limits bears to the tax on

total production of gas in the county. In no event, however, shall the amount allocated to the municipalities exceed one-third (1/3) of the tax and interest produced in the municipality and returned to the county. Any amount received by any municipality as a result of the allocation \* \* \* provided for in this subsection shall be used for such purposes as are authorized by law.

The balance remaining of any funds returned to the county after the allocation to municipalities shall be divided among the various maintenance and bond and interest funds of the county and school districts, in the discretion of the board of supervisors, and \* \* \* the board shall make the division in consideration of the needs of the various taxing districts. The funds so allocated shall be used only for such purposes as are authorized by law.

**SECTION 7.** A county may, by resolution spread upon its minutes, enter into a road maintenance agreement with a taxpayer that is eligible for the reduced severance tax levied pursuant to Section 27-25-503(1)(c) or 27-25-703(1)(b).

**SECTION 8.** This act shall take effect and be in force from and after July 1, 2013.

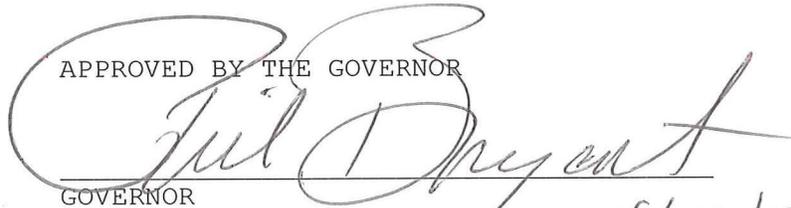
PASSED BY THE HOUSE OF REPRESENTATIVES  
April 1, 2013

  
SPEAKER OF THE HOUSE OF REPRESENTATIVES

PASSED BY THE SENATE  
April 1, 2013

  
PRESIDENT OF THE SENATE

APPROVED BY THE GOVERNOR

  
GOVERNOR

4/23/13

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