

SECTION Q

Oil and Gas Severance Tax and Oil and Gas Conservation Tax

BASIC PROVISIONS AND TAX BASE

The severance tax is levied at the rate of three percent of the value of non-stripper oil and natural gas severed from the soil of Nebraska. Stripper wells producing oil remit severance tax at the rate of two percent. The tax is paid by the first purchaser if the oil or natural gas is sold in Nebraska, or by the person doing the severing if the oil or natural gas is sold outside Nebraska. The tax collected is identified either as coming from school lands or from all other lands. The entire amount is credited to the Severance Tax Fund.

The Severance Tax Administration Fund receives one percent of the gross severance tax receipts, excluding those receipts from tax derived from oil and natural gas severed from school lands. The balance of the Severance Tax Fund received from school lands is credited to the Permanent School Fund. The balance of the Severance Tax Fund received from other than school lands is allocated as follows:

- (a) The Legislature may transfer an amount to be determined by the Legislature through the appropriations process up to \$300,000 for each year to the State Energy Office Cash Fund;
- (b) The Legislature may transfer an amount to be determined by the Legislature through the appropriations process up to \$30,000 for each year to the Public Service Commission for administration of the Municipal Rate Negotiations Revolving Loan Fund; and
- (c) The remainder shall be credited to the Permanent School Fund.

The State Treasurer transferred \$250,000 from the Severance Tax Administration Fund to the Department of Revenue Enforcement Fund on July 1, 2010.

In addition to the severance tax, the value of oil or gas is subject to the conservation tax. The conservation tax is levied and assessed in the same manner as the severance tax. The tax is imposed on the value at the well of all oil and gas produced, saved, and sold or transported from the premises in Nebraska. The producer of the oil or gas pays the tax unless the oil or gas is sold within Nebraska. If the oil or gas is sold in Nebraska, then the first purchaser in Nebraska pays the tax.

The conservation tax rate is set by the Oil and Gas Conservation Commission. Effective April 1, 2010, the tax rate is 0.2%. Revenue from the conservation tax is deposited in the Oil and Gas Conservation Fund.

**Statutory Reference
and Description**

**Estimated Tax
Expenditure Cost
(NA = Not Available)**

EXCLUSIONS

Section 57-702

Oil or gas used only in severing operations or for re-pressuring or recycling purposes is excluded from the oil and gas severance tax.

NA

EXEMPTIONS

The Nebraska Department of Revenue has received an Attorney General's Opinion that interests of government units and Native American Indian tribes are exempt from the severance tax.

None

PREFERENTIAL TAX RATES

Section 57-701(7) & (8)

Oil produced from stripper wells that have a base production level of ten or fewer barrels per day is subject to a severance tax of two percent, rather than three percent.

Minimal

RECOMMENDATIONS

The Nebraska Department of Revenue has no recommendations.