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Commissioner

State of Alabama Department of Revenue

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50 North Ripley Street
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Secretary

NOTICE

ALL OIL & GAS OFFSHORE SEVERANCE TAX FILERS **Revision to the Oil & Gas Production & Privilege Tax Laws**

Governor Bob Riley signed Act Number 2009-147 into law on March 25, 2009. This Act becomes effective May 1, 2009. The following is a summary of the act concerning oil & gas offshore severance taxes:

- Offshore production occurring at depths greater than 8,000 feet will now be taxed based on a percentage of gross proceeds from the sale of oil or natural gas.
- The **production** tax rate for production from these wells will be **1.66%** of the gross proceeds attributable to the offshore production.
- The **privilege** tax rate for production from these wells will be **3.65%** of the gross proceeds attributable to the offshore production.
- This change will not affect the way taxes are paid on offshore production from wells producing at depths of 8,000 feet or less but will affect the method by which those taxes are reported. (See second section of memo.)
- These new rates are flat rates and will not be affected by a well's permit date or its monthly production.
- **Gross proceeds** for each month are the sum of the month's market proceeds and non-market proceeds and no adjustments or deductions may be taken when calculating gross proceeds.
- Only exempt interest attributable to an exempt producer may be deducted from the total gross proceeds each month.
- Allowable **transportation charges** as defined in the Act may be used to adjust the unit sales price by which the market proceeds are calculated.

How the revised taxes affect the reporting methods of deep well and shallow well production:

- The first returns to incorporate the revised taxes will be due **July 15th for May 2009 production**.
- Revised offshore returns are being prepared and will be mailed to each taxpayer and placed on the website in time to file the first return. Once the new forms are received, you may revise your own computer generated returns to match the revisions. Returns not conforming to the revised department returns will not be accepted.
- Both deep and shallow well producers will be reporting taxes on the same return with two different schedules being utilized for the two separate taxation methods.
- Production occurring within the corporate limits of Dauphin Island will also be reported on the same return with no need for the use of a supplemental return.

If you would like a copy of this Act or if you have any questions please contact:

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