

Revenue Information Bulletin No. 08-015
June 30, 2008
Severance Tax

Deducting Transportation Costs from Taxable Value of Oil or Condensate

Article VII, Section 4, of the Constitution of Louisiana authorizes the imposition of a tax on the value of all oil and condensate severed from the soil or water of this state. Subject to certain conditions being met, the producer of the oil or condensate may deduct transportation costs from the taxable value of the product computed in accordance with the provisions of Louisiana Administrative Code 61:I.2903.

With respect to deducting transportation costs from the taxable value of oil or condensate, LAC 61:I.2903(A)(h) provides:

h. *Transportation Costs*--there shall be deducted from the value determined under the foregoing provisions the charges for trucking, barging, and pipeline fees actually charged the producer. In the event the producer transports the oil and/or condensate by his own facilities, \$0.25 per barrel shall be deemed to be a reasonable charge for transportation and may be deducted from the value computed under the foregoing provisions. The producer can deduct either the \$0.25 per barrel or actual transportation charges billed by third parties but not both. Should it become apparent the \$0.25 per barrel charge is inequitable or unreasonable, the secretary may prospectively redetermine the transportation charge to be allowed when the producer transports the oil and/or condensate in his own facilities.

For purposes of interpreting LAC 61:I.2903(A)(h) and deducting transportation costs from the taxable value of the oil or condensate, the following terms, phrases, or explanations are deemed to have the following meanings:

“Barge” means a large, usually flatbottom, freight boat that is generally unpowered and towed or pushed by other craft.¹

“Gathering,” “Gathering Lines,” “Gathering Systems,” “Gathering Stations,” and “Gathering Facilities” are excluded from the definitions of “transportation” and “transportation costs.” By their definitions,² the excluded terms refer to processes or services associated with collecting or moving the oil or condensate prior to its being moved off the lease and placed into a truck, barge, or pipeline. Thus, costs, charges, fees, or other expenses incurred, attributed to, or otherwise associated with such process, line, system, station, facility, or the like are not entitled to the benefit of the deduction provided for transportation costs and shall not be deducted from the value of the oil or condensate.

“Pipeline” means a tube or series of tubes used for transporting crude and natural gas from the field or gathering system to the refinery.³

¹ The American Heritage Collection Dictionary 110 (3rd ed. 2000).

² Williams and Meyers, Manual of Oil and Gas Terms 435-436 (13th ed. 2006).

³ Schlumberger Oilfield Dictionary at <http://www.glossary.oilfield.slb.com/>.

“Producer” means the severer of the oil or condensate sold and transported, regardless of whether such person is the owner of the oil or condensate or property from which it is severed, or severed the oil or condensate under contracts or agreements requiring payment directly to the owners of any royalty interest, excess royalty, or working interest, either in money or in kind. The term “producer” is used interchangeably and treated as being synonymous with the terms “severer” and “operator,” with no distinction.

“Transportation” means a substantial movement of oil or condensate by truck, barge, or pipeline to a point of sale or delivery off the lease. “Transportation” does not include moving the oil or condensate by means of gathering, gathering lines, gathering systems, gathering stations, gathering facilities, or by any other means or process associated with collecting or moving the oil or condensate prior to its being moved off the lease and placed in or on a truck, barge, or pipeline.

“Transportation Costs” means the reasonable, actual costs incurred for moving the oil or condensate by truck, barge, or pipeline to a point of sale or delivery off the lease after gathering. The term “transportation costs” shall not include any cost associated with or attributed to moving the oil or condensate by means of gathering, gathering lines, gathering systems, gathering stations, gathering facilities or the like occurring prior to the product being moved off the lease.

“Transports the oil and/or condensate by his own facilities” means that at the time the oil or condensate is moved by truck, barge, or pipeline to a point of sale or delivery off the lease, the producer of the product is also the owner of truck, barge, or pipeline in which the product is transported.

“Truck” means any of various heavy motor vehicles designed for carrying or pulling loads.⁴

Transportation Costs Producers May Deduct

If you are both the producer of the oil or condensate and the owner of the truck, barge, or pipeline in which the oil or condensate is transported, you are allowed to deduct \$0.25 per barrel from the value of the oil or condensate, provided \$0.25 per barrel is reasonable and equitable.

If you are the producer of the oil or condensate and the product is transported in a truck, barge, or pipeline of which you are not the owner, you are allowed to deduct only the actual, reasonable transportation costs billed by third parties for trucking, barging, and pipeline fees. You cannot deduct the \$0.25 per barrel. The \$0.25 per barrel deduction is allowed only if the producer of the oil or condensate is also the owner of the truck, barge, or pipeline in which the oil or condensate is transported.

Purchasers Reporting Gross Value Received by Producer

If you purchased the oil or condensate and are required to deduct or withhold severance taxes from the amount due the producer, you must report on the oil severance tax return the gross value received by the producer, and at the same time pay the amount of the tax deducted or withheld, or the amount of taxes and interest due if not deducted or withheld.

If you are paying the severance tax on behalf of the producer, you may, for purposes of determining and reporting the gross value received by the producer, deduct transportation costs as follows:

⁴ The American Heritage College Dictionary 1450 (3rd ed. 2000).

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1. If the producer is the owner of the truck, barge, or pipeline in which the purchased oil or condensate is transported to the point of sale or delivery off the lease, you may deduct \$0.25 per barrel of oil or condensate from the gross value received by the producer.
2. If the producer is not the owner of the truck, barge, or pipeline in which the purchased oil or condensate is transported to the point of sale or delivery off the lease, you may deduct from the gross value received by the producer only the reasonable, actual charges for trucking, barging, or pipeline fees incurred by the producer. You cannot deduct \$0.25 per barrel from the gross value received by the producer. The \$0.25 per barrel deduction is allowed only if the producer of the oil or condensate is also the owner of the truck, barge, or pipeline in which the oil or condensate is transported.

If you have any questions concerning the deduction of transportation costs, please contact Larry Joseph or the Severance Tax Unit at (225) 219-2270.

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By:

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