



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

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Oil and Gas Personal Property

TO: Assessors, Equalization Directors and Interested Parties

FROM: State Tax Commission

SUBJECT: Reporting of Oil and Gas Personal Property

The purpose of this Bulletin is to clarify reporting requirements for Oil and Gas Well properties. These reporting requirements are effective for 2013 reporting. The State Tax Commission also intends to use this bulletin to resolve open 154 petitions pending in front of the State Tax Commission. If an assessor determines that potential omitted or incorrect reporting of property has occurred, they are encouraged to seek the direction of the Commission.

A. Reporting Requirements

Beginning with the 2012 tax year, all wells capable producing oil, gas, or condensate and all brine disposal wells, hazardous waste injection wells and gas storage wells and fields are considered reportable units and must be reported using Form 632. The status of a well (active, producing, shut-in, temporarily abandoned, plugging approved, etc.) is determined from the Department of Environmental Quality Oil and Gas Database as of 12/31 each year. Wells that have been permanently abandoned (plugging approved) must be reported for the year after abandonment and may then be omitted from future reporting requirements. No assessment shall be made on these wells for the year after abandonment. Requirements for reporting property as Construction in Progress vs. in service can be found in the instructions to Form 632; Personal Property Statement.

Personal property associated with multiple wells under common ownership within a Township will be listed by permit number on a separate form to be released by the State Tax Commission.

B. Reportable Costs

Costs to be reported would include tangible and intangible drilling costs, unless specifically noted below. These drilling costs include: casing and tubing (which must include all costs of drilling, tangible and intangible, including daywork drilling, footage based drilling or turnkey contract drilling). Included in the above costs must be all costs, tangible and intangible, associated with cementing, and the costs for overhead, indirect expenses and contract and company labor associated with the drilling activity.

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Also to be included are all costs of reservoir development. These include the building of platforms, laying gathering pipelines, installing processing plants and completing interconnections to the main pipeline system or the tank battery.

Equipment associated with the production phase include pumps, meters, generators, compressors, scrubbers, dehydrators, separators, heater-treater equipment, communication equipment, furniture and fixtures, etc. Small equipment shelters (less than 600 SF) which may contain compressors, meters and pumpheads are to be reported as personal property. Larger structures greater than 600 SF, are expected to be valued and assessed as real estate.

The proper cost basis for reporting can be found in the instructions to Form 632; Personal Property Statement. Please note that as with any other personal property, oil and gas well property may be eligible for an idle equipment allowance provided that it meets all the idle equipment requirements.

C. Examples of Costs Not Reported

The Commission advises the following are examples of costs that are not taxable and do not have to be reported:

Costs associated with: Acidizing, fracturing, frac plugs, frac truck rental/trucking, lease costs and title options, producing royalties, survey, local/surface damages, road and location, seismic work, flow testing, perforating, mud services, logging, daily equipment rentals, and all costs associated with dry holes. Also note that certain costs associated with Water Pollution Control Facilities are not reportable but must be disclosed according to the instructions to Form 632; Personal Property Statement.

D. Economic Obsolescence

Assessors are advised that they may consider economic obsolescence for wells that are categorized as shut-in or temporarily abandoned. Assessor can check the status of a well on the Department of Environmental Quality website at www.michigan.gov/deq (not a live link) under Land, Oil, Gas and Minerals. The Commission advises that these wells may be considered for up to 50% economic obsolescence based upon the documentation provided to the assessor.