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| Nick Jordan, Secretary of Revenue Steve Stotts, Director of Taxation | Department of Revenue | Sam Brownback, Governor |

May 1, 2011

SEVERANCE TAX INCENTIVES UPDATE

Important information regarding severance tax incentives

Minimum Production Exemption

- The minimum production level for an oil exemption will remain at six barrels per day for wells 2000 feet or greater, five barrels for wells less than 2000 feet.

Incremental Production Exemption

- The seven year incremental or enhanced recovery exemption for both oil and gas wells will continue not to be in effect.

Oil Lease Property Tax Refund

- The Oil Lease Property Tax refund is not applicable for the 2003 through 2011 property tax years.

Minimum Production Exemption

The oil exemption amount, in average daily number of barrels produced, depends on the average price per barrel paid by the first purchaser of crude oil for a six-month period ending December 31 of the preceding year. The Secretary of Revenue is to obtain the data from the United States Department of Energy and determine the average oil price by April 15th of each year. The average oil price is used to determine the oil exemption amounts for the twelve-month period beginning May 1st of that year through April 30th of the following year.

Below are the first purchaser statistics obtained from the Petroleum Marketing Division, Office of Oil and Gas, Energy Information Administration of the Department of Energy.

| Report Period | Average Price Per Barrel (Volume Weighted) | Report Period | Average Price Per Barrel (Volume Weighted) |
|----------------------|---|----------------------|---|
| July 2010 | \$68.96 | October 2010 | \$74.54 |
| August 2010 | \$69.50 | November 2010 | \$77.01 |
| September 2010 | \$68.33 | December 2010 | \$81.94 |

The average oil price to be used to determine oil exemptions for the period of May 1, 2011 through April 30, 2012 is **\$73.38**. Based on that average, the exemption level for wells greater than 2000 feet is six barrels per day, seven barrels for water floods.

Incremental Production Exemption

The incremental production of oil or gas that results from a production enhancement project beginning on or after July 1, 1998, may be exempt for a period of seven years from the startup date of the project. However, these exemptions are not allowed for twelve months beginning on July 1, if the weighted average price at the wellhead in the previous calendar year exceeded \$20 per barrel of oil or \$2.50 per Mcf of natural gas.

The calendar year 2010 average price per barrel of oil is **\$ 72.33**. Since the average price of oil is greater than \$20 per barrel, the exemption is not allowed for the twelve-month period beginning on July 1, 2011.

The calendar year 2010 average price per Mcf of natural gas is **\$ 4.16**. Since the average price of natural gas is greater than \$2.50 per Mcf, the exemption is not allowed for the twelve-month period beginning on July 1, 2011.

Oil Lease Property Tax Refund

An operator is allowed to claim a refund equal to 50% of the timely paid personal property tax on certain oil leases. This refund applies only to oil wells with an average daily production of less than 15 barrels when the average price of oil is less than \$16.00 for the applicable tax year.

The Division of Property Valuation determines the average price of oil for this refund. The average is published in the Appraisal Guide of the applicable tax year (i.e., the January 2008 Appraisal Guide applies to the 2008 tax year). Since the price of oil was above \$16.00 in the January 2003 through 2011 Appraisal Guides, the oil lease property tax refund will not be available for the 2003 through 2011 property tax years. For a copy of the Appraisal Guide, visit the Department of Revenue website at www.ksrevenue.org and select the Division of Property Valuation.

If you have any questions, please call the Mineral Tax Section at (785) 296-7713.