TITLE 710. OKLAHOMA TAX COMMISSION
CHAPTER 45. GROSS PRODUCTION

RULEMAKING ACTION: Notice of proposed **PERMANENT** rulemaking.

PROPOSED RULES:
Chapter 45. Gross Production
Subchapter 9. Exemptions and Exclusions
Part 21. MARKETING COSTS DEDUCTION
710:45-9-102. Qualifying criteria [AMENDED]
Part 27. ORPHAN WELL RECOVERY PROJECT
10:45-9-142. Qualification and reduced rate [NEW]

SUMMARY:
The proposed amendment to Section 710:45-9-102 clarifies the documentation requirements for marketing cost deductions, specifying that supporting materials are required only when a taxpayer files a claim for a deduction or refund.

The proposed promulgation of new Sections 710:45-9-140, 710:45-9-141, and 710:45-9-142 establishes procedures for administering the reduced gross production tax rate for certain orphan well recovery projects set forth in HB 1372 (2025), defines qualifying criteria, and sets forth documentation and reporting requirements for registration and eligibility.

AUTHORITY: 68 O.S. §§ 203, 1001, & 1013; Oklahoma Tax Commission

COMMENT PERIOD: Persons wishing to present their views in writing may do so by 4:30 p.m., January 6, 2026, at the following address: Oklahoma Tax Commission, Tax Policy and Research Division, Oklahoma City, Oklahoma 73194, Attention: Corey Jager, or by email to OTCadminrules@tax.ok.gov.

PUBLIC HEARING: A public hearing is scheduled for 9 a.m., on Tuesday, January 6, 2026, at the Oklahoma Tax Commission, in Conference Room 6, located on the 28th Floor, 123 Robert S. Kerr Ave, Oklahoma City, Oklahoma. Those wishing to make oral comments at the public hearing should request placement on the docket well in advance of the hearing date by calling (405) 521-3133. Time limitations may be imposed on oral presentations to ensure that all persons who have filed written requests for placement on the docket will have an opportunity to speak.

To facilitate entry into the building, those wishing to appear should contact the Tax Policy and Research Division at (405) 521-3133 at least 24 hours prior to the hearing date to complete their visitor pre-registration. To gain access to the hearing, attendees must register at the information desk in the lobby by presenting a driver license or other photo identification.

REQUEST FOR COMMENTS FROM BUSINESS ENTITIES: Although nothing in this rulemaking action has been determined to adversely impact small business, the Oklahoma Tax Commission requests that, pursuant to 75 O.S. § 303(B)(6), business entities affected by these rules provide the OTC, within the comment period, in dollar amounts, if possible, information on any increase in direct costs, such as fees, and indirect costs, such as those associated with reporting, recordkeeping, equipment, construction, labor, professional services, revenue loss, or other costs expected to be incurred by a particular entity due to compliance with the proposed rules.

COPIES OF PROPOSED RULES: Copies of the proposed rules may be obtained from the below listed contact person. The proposed rules may also be viewed on the agency's website at tax.ok.gov.

RULE IMPACT STATEMENT: Pursuant to 75 O.S. § 303(D), a Rule Impact Statement is available from the below listed contact person. The Rule Impact Statement may also be viewed on the agency's website at tax.ok.gov.

CONTACT PERSON: Corey Jager, Agency Liaison, Tax Policy Division, Oklahoma Tax Commission, Oklahoma City, Oklahoma 73194; Telephone number: (405) 521-4155; Email: corey.jager@tax.ok.gov

CHAPTER 45. GROSS PRODUCTION

SUBCHAPTER 9. EXEMPTIONS AND EXCLUSIONS

PART 21. MARKETING COSTS DEDUCTION

710:45-9-102. Qualifying criteria

Qualified deductions of marketing costs shall comply with the provisions of (1) through (5) of this Subsection. The documentation requirements of this Subsection apply only when a taxpayer files a claim for a marketing cost deduction or refund, and do not apply to the filing of a gross production tax return or to the payment of gross production taxes. The marketing cost deduction may be disallowed by the Tax Commission for failure to submit supporting documentation sufficient to validate the deduction at the time of application.

(1) Marketing costs shall not include any costs incurred in the production of gas, oil or condensate or in the separation therefrom of any product subject to gross production tax.

(2) Taxes shall be computed on gross proceeds, including tax reimbursement, less the cost of gathering, compressing, and treating the gas sold.

(3) Documents required to be submitted with the application for refund shall include all of the following:

(A) A notarized affidavit stating the costs requested as deductions to the gross proceeds are for marketing expenses and not for production of the lease.

(B) An electronic spreadsheet of the operator's claimed marketing expenses allowed by Appendix A.

(C) Supporting documentation for the remitter's previously claimed marketing cost deductions, including:

(i) Check stubs; and

(ii) Settlement statements.

(D) Supporting documentation for operator's marketing cost deductions. If invoices are used as documentation, invoices for all costs claimed shall clearly indicate the facility incurring the cost and include a detailed description of the cost. If the invoice does not specify the cost was incurred on allowable marketing equipment, a job/work ticket must accompany the invoice describing the work that was done. Journal entries are not eligible as documentation of support for services provided by third parties.

(E) Electronic spreadsheet documenting the operator's pumper and compressor expenses allocated by production unit number.

(F) Electronic depreciation schedules:

(i) Any claimed depreciable equipment must be supported by documentation showing the original depreciable value. If the depreciable equipment was purchased, the original invoice is required. If the depreciable equipment was obtained through an acquisition of wells, documents from the acquisition indicating how the value of the depreciable equipment was determined must be provided.

(ii) Depreciation schedule allocating the equipment cost over the life of equipment by production unit number.

(iii) Allocation schedule of depreciation for equipment used for multiple production unit numbers.

(4) The Tax Commission may require additional information, including, but not limited to, copies of the operator's federal income tax return, joint interest billings, or other documentation regarding lease production or expenses.

(5) The burden of establishing the right to, and the validity of, a credit or refund is on the claimant.

PART 27. ~~ORPHAN WELL RECOVERY PROJECTS~~ORPHAN WELL RECOVERY PROJECT

710:45-9-140. Purpose

The purpose of this section is to administer the reduced gross production tax rate authorized by 68 O.S. § 1001(D)(5) for certain orphan well recovery projects.

710:45-9-141. Definitions

The following words and terms, when used in this section, shall have the meaning provided, unless the context clearly indicates otherwise:

"Orphan well recovery project" means a project involving the production of oil or gas from a well that has been removed from the Orphan Well List maintained by the Oklahoma Corporation Commission (OCC) and that satisfies the bonding and reporting requirements established by statute and these rules.

"Project start date" means the date on which the production from a qualifying orphan well recovery project begins under an approved operator, as reported and verified by the OCC.

"Reduced rate" means the gross production tax rate equal to 2.5% (i.e., fifty percent of the 5% gross production tax rate).

710:45-9-142. Qualification and reduced rate

(a) **Scope.** The reduced gross production tax rate of 2.5% applies to production beginning on or after July 1, 2025, that results from a qualified recovery project on a well that was removed from the OCC's orphan well list.

(b) **Qualification.** To qualify for the reduced rate, the well must have been removed from the OCC's Orphan Well List and have the required surety bond on file with the Oklahoma Secretary of State.

(c) **Tax rate.**

(1) A well that qualifies under this section shall be eligible for the 2.5% reduced rate for a period of 36 months beginning on the project start date or July 1, 2025, whichever is later. The reduced rate shall not apply to production occurring prior to July 1, 2025.

(2) Following the 36 months of the reduced rate period, the gross production tax rate shall revert to the standard rate of 7%.

(d) **Registration with Oklahoma Tax Commission; determination; approval.**

Any operator who desires registration of a well as an orphan well recovery project shall submit all of the following documentation electronically through the Oklahoma Taxpayer Access Point (OkTAP):

(1) OTC Form 340 – Production Unit Number Registration or Change Request;

(2) A copy of OCC Form 1073 – Transfer of Operator or OCC Form 1073I – Transfer of Underground Injection Well Operatorship; and

(3) Documentation to show a corporate surety bond for the orphan well was filed with the Secretary of State pursuant to 68 O.S. § 1001(D)(5), including a copy of the supporting documentation submitted to secure the bond (e.g., corporate surety bond, letter of credit, confirmation of cash deposit, or certificate of deposit).

(e) **Denial of an application**. Failure to submit all required documentation at the time of application may result in denial of the registration.

(f) **Burden of proof**. The burden of establishing the right to, and the validity of, a rate reduction, credit, or refund is on the claimant.

(g) **Monthly reporting requirements.** Operators receiving the reduced rate for an orphan well recovery project shall submit monthly production reports (OTC Form 341) in accordance with OAC 710:45-5-1 through 710:45-5-3. Failure to submit the required reports may result in penalties, as outlined in OAC 710:45-5-4.

TITLE 710. OKLAHOMA TAX COMMISSION
CHAPTER 45. GROSS PRODUCTION TAX

RULE IMPACT STATEMENT

Pursuant to 75 O.S. § 303(D), the Oklahoma Tax Commission provides the following rule impact statement with regard to proposed rule changes to Chapter 45 of Title 710 of the Oklahoma Administrative Code.

DESCRIPTION: Amends 710:45-9-102 to clarify that certain requirements do not apply to standard monthly gross production tax reporting or remittance and establishes procedures to implement HB 1372 (2025), including the application process, definitions, and qualification criteria for the reduced tax rate on production from orphaned wells.

No federal mandate governs this rulemaking.

STATEMENT OF NEED AND LEGAL BASIS: Pursuant to 68 O.S. § 203, the Oklahoma Tax Commission is authorized to promulgate and enforce all rules necessary for the administration and collection of state taxes. Additional rule changes in this Chapter are authorized under 68 O.S. §§ 219 and 221(D).

The rule changes were initiated in response to taxpayer inquiries indicating a need for additional clarification and to implement emergency legislation effective immediately. The amendments provide necessary administrative guidance for applying the new statutory provisions under HB 1372.

CLASSIFICATION OF RULE: Nonmajor. The rules are not anticipated to have implementation and compliance costs.

CLASSES AFFECTED: Oil and natural gas industry taxpayers may be affected by the proposed rules.

CLASSES BENEFITED: Affected taxpayers may benefit from increased clarity of documentation requirements and the establishment of procedures for claiming the reduced gross production tax rate for orphan well recovery projects.

COMPREHENSIVE ECONOMIC IMPACT AND METHODOLOGY: The promulgation of these rules is not intended or expected to have any economic impact. The proposed rules are not anticipated to affect the full-time employee count of the agency. Implementation can be managed with existing staff and resources.

The rulemaking action does not levy, implement, or increase any fees.

No direct compliance costs are expected for affected taxpayers. Accordingly, no adverse effect on the state economy is anticipated.

The economic impact analysis was conducted by reviewing statutory requirements, assessing agency resource needs, and evaluating potential effects on affected parties. This review confirmed that the rules do not impose additional financial burdens and instead provide clarity and structure for program administration.

ECONOMIC IMPACT ON POLITICAL SUBDIVISIONS: The promulgation of this rule is not intended or expected to have any economic impact on any political subdivisions or require their cooperation in implementing or enforcing the rule.

SMALL BUSINESS IMPACT: After consideration pursuant to the Oklahoma Small Business Regulatory Flexibility Act, it has been determined that the proposed rules will have no adverse impact on small businesses.

MEASURES TO MINIMIZE COSTS OF COMPLIANCE: There are no less costly or non-regulatory methods or less intrusive methods for achieving the purpose of the proposed rules. No formalized compliance cost minimization measures have been pursued.

DETERMINATION OF THE EFFECT ON PUBLIC HEALTH, SAFETY AND ENVIRONMENT: The agency does not anticipate any impact on public health, safety, or environment as a result of implementation of the proposed rules at this time.

DETERMINATION OF THE DETRIMENTAL EFFECT WILL THERE BE ON THE PUBLIC HEALTH, SAFETY, AND ENVIRONMENT IF THE RULE CHANGE IS NOT IMPLEMENTED: The agency does not anticipate any detrimental effect on public health, safety, or environment as a result of failure to implement the proposed rules at this time.

DATE PREPARED: November 13, 2025