

## **History of Oil Property Taxation**

The formula established in 1948 for the assessment of oil production, although very involved and difficult for both the taxpayer and the assessing officials to use is based upon facts established after an intense study by a qualified engineer from a wealth of data relative to the actual operating experience of many leases and has the further merit of putting the burden of taxes upon those wells most able to bear it and lightening the tax load on the stripper class wells.

In 1945, several of the major oil companies operating in Illinois, in conjunction with the Illinois Department of Revenue, entered into a study for the purpose of working out a formula for the assessment of production which would have as its basis the composite operating experience of many leases. Actual figures on gross production, operating costs, and net income were submitted for each lease up to the date of the study, and with the aid of engineers, the life of each lease was projected into the future to that date at which it estimated production would cease. The net income thus obtained was capitalized to arrive at net worth or the value of each lease separately. These values were then combined to get a composite value.

By 1948, it was determined that due to the increase in market value of crude oil, a revision

would be necessary, and the new schedule was calculated, based upon fact and puts the tax burden where it belongs with different age categories and production categories. Although, there has been some revisions to the original schedule, our present day schedule is largely unchanged from that one developed in 1948.

Each year the assessor committee and members of the Illinois Oil and Gas Association meet and determine what changes need to occur with the schedule based upon current practices. At that time, the schedule's values are adjusted by the difference in the average price of oil from year to year. Later in that year, the assessors that have oil production in their county, meet and formally adopt that schedule and its changes/revisions. The 2017 schedule is set to see a 44% decrease in values from the year before.

Once the assessor receives the information from the operator (total production for the year, and a current ad-velorem listing of all interest holders in the lease, among other things), they can begin breaking down the values of the total working interest and the total value of the royalty and over-riding interests. The assessor's office then breaks the royalty and over-riding interests down to the individual owner based upon their percentage of the royalty they own. The working interest is usually billed to the operator unless it is specified differently.

**One fact should always be remembered- the property being assessed is the oil in storage still**

**in the ground, or the oil reserves. The only use of the daily average production for the previous year is as a yard stick to measure the value of oil still left in the ground on the first day of January.**

### **Top 10 Oil Producing Counties in IL (2015 Production)**

1. White County
2. Marion County
3. Crawford county
4. Lawrence County
5. Fayette County
6. Wabash County
7. Wayne County
8. Clay County
9. Edwards County
10. Richland County







### **Who comes up with how oil is taxed?**

The Illinois Oil and Gas Association and the oil and gas committee of the Chief County Assessment Officials adopt a schedule that is used state wide. This schedule is based upon the yearly average of the price of oil from oil purchasers in Illinois and the production amount for the individual lease. There are reductions for leases based upon age, secondary recovery methods and production.

### **My parents died and how do I get this interest in my name?**

You need to contact the pipeline company that is buying the oil from the operator. They will tell what they require whether it is a deed, death certificate or division order.

### **How come you are so far behind on taxing me for my oil?**

We aren't. Minerals are assessed in one year for the year's prior production. In Illinois property taxes are paid a year behind so it seems like it is 2 years behind. Example, 2016 assessment is calculated utilizing 2015 production. The tax bill will be payable in 2017.

### **Why did my taxes go up on my oil?**

Every lease is different. If your bill increased it could be the production has increased as well as the schedule increased or it could be the tax rate increased. We recommend that you contact your county assessor's office and schedule a time when you might talk to the person that is responsible for the calculation of the oil production in that county.

### **How come I have to pay taxes on this, I don't hardly get anything anymore?**

Remember, the actual data used to calculate the tax bill you are receiving now is over 2 years old. In that time, many things could have changed, such as the individual lease's production amounts and the price of oil. If there is a drastic reduction in either, then the tax bill will not reflect today's conditions. For the current production, you won't receive a tax bill reflecting that for 2 more years.

### **Why is my tax bill double the checks I am receiving?**

Minerals are assessed in one year for the years' prior production. In Illinois property taxes are paid a year behind so it seems like it's 2 years behind. Example, 2016 assessment is calculated utilizing 2015 production. The tax bill will be payable in 2017. The checks an owner is receiving today will not reflect on a tax bill until 2018. Also, we are not assessing the oil that has already been taken out of the ground and sold; rather, we are assessing the reserves left in the ground based upon a calculation using the past production of a lease.

## **YOUR OIL AND GAS ASSESSMENT QUESTIONS ANSWERED**



### **What gives you the right to tax me for this?**

Illinois State Statutes allow counties to tax the minerals: (35 ILCS 200/1-130)

Sec. 1-130. Property; real property; real estate; land; tract; lot.

(a) The land itself, with all things contained herein, and also all buildings, structures and improvements, and other permanent fixtures thereon, **including all oil, gas, coal, and other minerals in the land and the right to remove oil, gas and other minerals**, excluding coal, from the land, and all rights and privileges belonging or pertaining thereto, except where otherwise specified by this Code....

**This brochure is a joint effort from the Illinois Oil and Gas Association and the Chief County Assessment Officers. It is meant as just a guideline, if you have more specific questions please contact your County Assessor.**