AN ECONOMIC ANALYSIS OF THE OKLAHOMA GROSS PRODUCTION TAX, WITH PARTICULAR APPLICATION TO OIL AND NATURAL GAS

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CHAPTER I

INTRODUCTION

A. Statement of the Problem

The payment of the gross production tax shall be in full and in lieu of all taxes by the State, counties, cities, towns, townships, school districts and other municipalities; upon any property attached or inherent in the right of such minerals, upon producing leases, upon the mineral rights and privileges for the minerals aforesaid belonging or apertaining to land, upon the machinery, appliances and equipment used in and around any well producing petroleum or other crude oil or natural gas and for casinghead gas; and also upon the oil, gas during the tax year in which the same is produced; and upon any investment in any of leases, rights, privileges, minerals or other property; and any interest in land; and oil in storage produced and on hand at the date as of which property assessed for general and ad valorem taxation for any subsequent tax year, shall be assessed and taxed as other property within the taxing district in which such property is situated at the time. No equipment, material or property shall be exempt from the payment of ad valorem tax by reason of the payment of the gross production tax except such equipment which is actually necessary and is being used in producing oil or gas.....The State Board of Equilization, upon its own initiative, may, and upon complaint of any person who claims that he is taxed too great a rate hereunder, shall, take testimony to determine whether the taxes herein imposed are greater, or less than the general ad valorem tax for all purposes would be on the property of such producer subject to taxation in the district or districts where the same is situated and also the value of oil, gas, or mineral leases or of the ....mineral rights, ...and any other element of value in lieu of which the tax herein is levied. The said board shall have power and it shall be its duty to raise or lower the rates herein imposed to conform thereto.[1]

[1]68 Oklahoma Statute Annotated Section 821.

The rate of the gross production tax has been five per cent since 1935 whereas the total rate levied on property has increased generally since 1935. The gross production tax is five per cent of the cash value, at the well, of the gross amount of oil or gas produced. It is true the base of the gross production tax has increased throughout the years, but at the same time the base of the property tax has increased generally. Based on the assumption that the rate of the gross production tax and the ad valorem property tax were such that the two taxes were equivalent in 1935, it is the purpose of this study to survey the possibility that this equivalence has not been maintained.

In addition it is the purpose of this study to examine the revenue productivity of the gross production tax as a source of future revenue for the State of Oklahoma. The gross production tax is levied on an exhaustible resource which advances the question as to the reliability of the tax as a future source of revenue for the State.

B. Method

Three years, 1935, 1945 and 1955, will be used in this study for purposes of comparing the gross production tax rate with the property tax rate. The above period was selected for the reason that the property tax rates are available for these three years.

Counties with gross production tax collections of one million dollars or more in fiscal year 1955-56 were selected for the objective of comparing the gross production tax and the ad valorem property tax.

In analyzing the gross production tax as a future source of revenue data are presented pertaining to the physical production of oil and gas in the state in the past 42 years. Proved reserves, as published by the Bureau of Mines, are also presented.

C. Gross Production Versus Ad Valorem Property

Taxation of Oil and Gas

The distinguishing feature between ad valorem property tax and the [gross production] tax is that the former is an annual levy on the assessed valuation of the unrecovered minerals whereas the latter is a specific or ad valorem tax on minerals extracted from the ground during a specified period.[2]

Minerals have characteristics which set them apart from other forms of property and wealth and which, in turn, makes it necessary to give them special treatment for taxation purposes. First, the appraisal of mineral resources for ordinary ad valorem taxation is difficult. The true value of a mineral resource depends on both the quantity and the quality of the deposit. The value of the mineral resource is not easily measured. Secondly, mineral deposits are commonly located in sparsely populated areas. When the ad valorem property tax is used to tax oil and gas in sparsely populated areas low assessment and low millage rates might result because a small population might not require a large amount of revenue. Thirdly, mineral resources are exhausted in the process of exploitation.

There is the possibility that an ad valorem property tax on gas and oil might encourage speeding up of resource production in order that funds

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[2]H. Kenneth Allen, "Ad Valorem versus Severance Taxation of Minerals," <u>National Tax Association Proceedings of the Forty Fifth Annual Conference on Taxation</u>, ed., Ronald B. Welch, (Sacramento, California 1953), p. 574.

are available to pay annual taxes. Many students of tax problems feel that levying a tax at the time of production is a check on this possibility.[3]

Students of taxation point out advantages of the gross production type of taxation. First of all, the state as a whole can benefit from the revenue of the gross production tax instead of a few isolated communities. The Legislature of Oklahoma is prohibited by the Constitution from levying an ad valorem property tax for state purposes. Therefore any revenue received from property taxation of oil and gas would be retained by the county in which the resource is located. Secondly, the gross production tax can be effectively and economically administered. The gross production tax avoids the difficulties involved in assessment. Thirdly, collections are made when the oil or gas well is producing. Lastly, being a heritage of the state, an exhaustible resource should be taxed in such a manner as to reimburse the state to some extent as the wealth becomes depleted.[4]

Some students point out objections to the gross production tax. The gross production tax produces an unstable and unpredictable yield, fluctuating from year to year. Secondly, the gross production tax needs to be supplemented by some other form of taxation because it does not apply to non-producing wells.[5]

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[3]Earl C. Crockett, "Some Policy Questions Relating To The Taxation of Mineral Resources," National Tax Association Proceedings of The Forty-First Annual Conference on Taxation, ed., Ronald B. Welch, (Sacramento, California, 1948), pp. 223-227.

[4]Ibid., p. 227.

[5]Ibid., p. 228.

CHAPTER II

THE GROSS PRODUCTION TAX: THE PRESENT LAW AND ITS HISTORICAL BACKGROUND

The first law which taxed oil and gas separately from the ad valorem property tax was passed in 1910. The act levied a gross revenue tax in addition to the taxes which were levied on an ad valorem basis. The rate of the tax was one-half of one per cent of the gross receipts from total production of petroleum, or other mineral oil or natural gas. Within 30 days of the last day of the last month of each quarter a report was required to be filed with the State Auditor which was to show the location of each well, the gross amount produced, and the actual cash value of the oil or gas produced. At the same time the party filed this information, payment of the tax was to be made to the State Treasurer.[1]

Legislation enacted in 1913 provided that the gross production tax be in lieu of the ad valorem property tax. Oil or gas on hand for more than 30 days would be subject to the ad valorem property tax. Also in 1913 the rate was increased to three-quarters of one per cent of the gross value of the production of petroleum or other mineral oil, or natural gas.[2]

A 1915 law added that the tax and penalty for delinquency would constitute a lien upon the property, assets and effects of the party

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[1] Revised Laws of Oklahoma Annotated 1910 Sect. 7464.

[2] Session Laws of Oklahoma 1913, Ch. 240, p. 639, art 2, subd. A, Sect. 1.

until the tax was paid.[3]

Section 7464 of the Revised Laws of 1910 was amended in 1916.[4] The law of 1916 required that information be filed concerning the amount of royalty payable, to whom payable, whether it was to be claimed that such property was exempt from taxation, and the facts on which such a claim was based. The rate of the tax was also raised in 1916 to three per cent of the gross value of the production of petroleum or crude or mineral oil, and natural gas less the royalty interest. The owner of the royalty interest was to pay the State Auditor the tax imposed on the royalty interest, i.e. three per cent of the gross value. It was also provided in 1916 that the tax was to be in lieu of all other taxes including machinery and equipment used in and around the well, and upon any investment in any of the leases. Further, oil in storage or produced and on hand at the date on which property was assessed for ad valorem property taxation for any subsequent tax year was to be assessed and taxed as other property within the taxing district in which such property was located. The 1916 law also provided that the State Board of Equalization upon complaint was to hear testimony to decide whether the gross production tax imposed was greater or less than the ad valorem property tax would have been had oil and gas properties been subject to the property tax. The Board was to have the power to raise or lower the rates imposed by law to conform to the ad valorem tax. If the tax payers were not satisfied with the decision of the State Equalization Board, appeal could be made to the State Supreme Court.

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[3] Laws 1915, Ch. 107, Art 2, subd. A, Sect. 1.

[4] Laws 1916, Ch. 39, p. 102, Sect. 1.

A change was made in 1933 providing that the reports and payments be made to the Oklahoma Tax Commission.[5] The rate was three per cent, as before, levied on the gross value of petroleum or crude oil based upon 42 U.S. gallons of 231 cubic inches per gallon computed at a temperature of 60 degrees farenheit for oil measurement. The quarterly system of filing reports and making payments changed, effective June 30, 1933, to a monthly arrangement. It was also provided that no equipment or machinery be exempt from the payment of the ad valorem property tax because of payment of the gross production tax except the equipment or machinery which was actually necessary for the production of oil or gas.

Section 5, Chapter 103 of the Session Laws of 1933 was amended in 1935.[6] The rate was raised to five per cent, and the tax levied was to attach to and be levied on the royalty interest.

The existing law[7] provides that any person engaged in the production of crude or mineral oil, natural gas and/or casinghead gas shall file with the Oklahoma Tax Commission a statement under oath showing the location of each oil or gas well operated or controlled by said person. Also to be included in the report is the kind of mineral oil or gas produced, the gross amount produced, and the actual cash value of the oil or gas at the time and place of production, the amount of royalty payable on said oil or gas, and the facts on which any claim to exemption of royalty is claimed. At the same time the report is filed a tax equal to five per

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[5]Laws 1933, Ch. 103, p. 202, Sect. 5.

[6]Laws 1935, p. 271, Sect. 1.

[7]68 Okl. St. Ann. Sect. 821.

cent of the gross value of the production of oil or gas is to be paid to the Oklahoma Tax Commission. The tax attaches to and is levied on what is known as the royalty interest and shall constitute a lien on such interest.

The payment of the gross production tax is in lieu of all taxes levied on property by the state, counties, cities, towns, townships and school districts. It is in lieu of any tax on producing leases, upon mineral rights and privileges for minerals belonging to or apertaining to land. The gross production tax is also in lieu of any tax on machinery, appliances, and equipment used in and around any well producing oil or gas. Oil in storage and on hand at the date when property is assessed for ad valorem taxation is to be taxed as other property within the taxing district in which the oil or gas in storage is located.

Some questions have arisen as to interpretation of the above section of the present law. Since the gross production tax is an in lieu tax it was thought by some owners of interests in oil and gas properties that it is also in lieu of the State Income Tax. However, the courts have held the gross production tax to be in lieu of the ad valorem property tax only and does not relieve the taxpayer from paying the State Income Tax on income derived from the production of oil and gas.[8] It was also questioned whether, because of oil or gas beneath the surface, the land should be assessed at a value greater than the surface value. The courts held that

[8]68 Okl. St. Ann. Sect. 821, Notes of Decisions, Note 6, p. 127. Shaffer v. Carter, 40 S. Ct. 221, 252 U.S. 37, 64 L. Ed. 445 (1920).

sub-surface values in oil and gas resources may not be included in the assessment of land for ad valorem purposes.[9]

Some difficulty ensues when determining whether oil or gas is produced and in storage or is in the process of production. The courts hold that, "oil may be said to be produced for gross production tax purposes when it is brought to the surface and confined in such a manner as to permit its measurement as to quantity and its testing as to value."[10] In another case it was declared that,

> oil produced from leasehold in state and retained in stock tanks on premises where produced for purpose of being gauged as to quantity and gravity is in process of being produced and does not constitute oil in storage and oil so retained on January first of any year is not subject to assessment ad valorem for the succeeding year.[11]

The present law pertaining to the gross production tax makes it clear that only equipment and machinery which is actually necessary and is being used in producing oil or gas is exempt from ad valorem property taxation. The law explicitly states that ice plants, hospitals, office buildings, garages, residences, gasoline abstractions or absorption plants, water systems, fuel systems, and rooming houses are not to be exempt from ad valorem property taxation because of payment of a gross production tax. In one instance certain machinery and equipment were devoted to two different uses. The issue was whether these items should be taxed under the ad

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[9]Ibid., Note 8, p. 128. Kenoyer v. Board of Equalization of Ottawa County, 130 Okl. 3, 264 P. 891 (1928).

[10]Ibid., Note 12, p. 130. Sinclair Prairie Oil Co., 175 Okl. 289, 53 P. 2d 221 (1936).

[11]Ibid., Note 12, p. 130.

valorem property tax. The decision was that, "where machinery and equipment are devoted to two uses, one of which if exclusive, would excuse property from payment of ad valorem taxes, and the other of which, if exclusive, would subject it to ad valorem taxes, and where different component parts are capable of classification according to exclusive use, taxable status of property must be determined on pro rata basis according to use."[12]

In another situation storage tanks for crude oil were located 75 miles away from producing wells. It was held that these storage tanks were not exempt from ad valorem property tax.[13]

Other equipment which has been held not to be equipment used around the well for the purpose of producing oil or gas are large casings used in drilling an oil well,[14] rotary drilling rigs used only for drilling oil wells,[15] and oil company's warehouses and materials therein.[16]

In still another instance, the plaintiff erected steel storage tanks for crude petroleum which was produced from his own wells. The plaintiff was operating several hundred producing wells and the oil was pumped from

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[12]Ibid., Note 13, p. 130. Magnolia Petroleum Co. v. Carter County, 175 Okl. 572, 54 P. 2d. 155 (1936); Magnolia Petroleum Co. v. State, 175 Okl. 11, 52 P. 2d. 81 (1936) Shaffer Oil and Refining Co. v. Treasurer of Creek County, 175 Okl. 6, 52 P. 2d 76 (1936).

[13]Ibid., Note 14, p. 130. Board of Equalization of Tulsa County v. Indian Territory Illuminating Oil Co., 159 Okl. 15,13 P. 2d 585 (1932).

[14]Ibid., Note 14, p. 130. Sinclair Prairie Oil Co., 175 Okl. 289, 53 P. 2d 222 (1936).

[15]Ibid., Note 14, p. 130. Prairie Oil and Gas Co's Submitted Property Assessment List, 159 Okl. 181, 13 P. 2d 580 (1932).

[16]Ibid., Note 14, p. 131.

the wells into small receiving tanks. From these small receiving tanks the oil was conveyed through a private pipe line to steel tanks where oil could be stored until it was marketed. The latter tanks were located from six to ten miles away from the producing well. The plaintiff contended that the storage tanks and pipe line should be exempt from ad valorem property tax. The court's decision was that steel storage tanks and the pipe lines were not equipment used in and around the well necessary for the production of oil and therefore was not exempt from the ad valorem property tax.[17]

As a general rule, "in order for property or equipment to be exempt from the payment of other tax under this section, [ad valorem property tax] such property must be an indispensible agency in the discovery and production of petroleum, and must be used in and around a producing well and actually be used in the operation of such a well."[18]

Only machinery, appliances and equipment used in the production of oil and gas and subject to the gross production tax on January first of any year are not subject to assessment for ad valorem property tax purposes for the succeeding fiscal year.[19]

Section 822 of the present law states that the tax will become delinquent after the date fixed for each quarter annual report to be filed in the office of the State Auditor. From the time the tax becomes delinquent it will, as a penalty for delinquency, bear interest at a rate of 18 per

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[17]Ibid., Note 14, p. 130. Going v. Shaffer, 89 Okl. 46, 213 P. 736 (1923).

[18]Ibid., Note 14, p. 131.

[19]Ibid., Note 17, p. 131. Sinclair Prairie Oil Co. 175 Okl. 289, 53 P. 2d 221 (1936).

cent per annum.[20] This section appears as mentioned above in Revised Laws 1910 section 7465.

If an ad valorem property tax on oil or gas, which is refined in the state of Oklahoma, has been paid the State Auditor is authorized to rebate the just proportion of the taxes paid.[21] This provision was first included in Revised Laws 1919, section 7466.

Section 824 of the present law provides a method of collecting delinquent taxes.[22] The Oklahoma Tax Commission issues a warrant directed to the sheriff of the county concerned, to collect the tax, interest and penalty. If the taxes cannot be collected then the required assets of the party is put up for public sale. The state of Oklahoma is permitted to make bids at such sales in an amount equal to the tax plus the penalty and costs which have accrued. If the state of Oklahoma acquires the property, any taxpayer has the right, within one year, to redeem the property upon the payment of all tax penalties and costs accrued to the date of redemption. After the expiration of one year the State of Oklahoma may sell the property at public auction upon giving 30 days notice published in a newspaper which is generally circulated in the county where such property is located. All revenue derived from the sale, in addition to any delinquent tax, penalty and costs, will be apportioned as the gross production tax is apportioned. Prior to the present law the State Auditor was

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[20] 68 Okl. St. Ann. Sect. 822, p. 135.

[21] Ibid., Sect. 823, p. 135.

[22] Ibid., Sect. 824 pp. 136-137.

given the authority to sell property for delinquent taxes.[23] The law as it is today on this point was written into the law in 1933.[24]

Throughout the years in which the State of Oklahoma has used the gross production tax it has been apportioned in different ways. The 1915 law required that the tax be paid into the State Treasury one half of the tax collected was to be credited to the General Revenue Fund. If, at the close of the fiscal year, there was a balance of the tax in the General Revenue Fund the unexpended balance was to be credited to the common school fund of the state. The other one half of the gross production tax was distributed to the County Treasurer of the county from which the tax was collected, for the purpose of support of the common schools.[25]

In 1916 the law provided that two thirds of the gross production tax collected be apportioned to the State for the current expenses of the state government, one-sixth was apportioned to the county, in which oil or gas was produced, for the purpose of constructing permanent roads and bridges.[26] The apportionment was changed again in 1935 - seventy-eight per cent of the tax collected to the General Revenue Fund of the state;[26a] ten per cent to various school districts in the county where the gross production tax was collected, on a per capita student attendance basis, for the maintenance of common schools; and two per cent to the Oklahoma

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[23] Revised Laws of Oklahoma 1910, Sect. 7467, Laws 1913, Ch. 240, p. 641, art. 2, subd. A, Sect. 2; Laws 1915, Ch. 107, art. 2, subd. A., Sect. 2; Laws 1916, Ch. 39, p. 106, Sect. 2.

[24] Laws, 1933, Ch. 103, p. 204, Sect. 6.

[25] Laws, 1915, Ch. 107, Art. 2, subd. A, Sect. 4.

[26] Laws, 1916, Ch. 39, p. 108, Sect. 5.

[26a] Ten percent is apportioned to the producing county for the maintenance of county roads.

Tax Commission for collection of revenues and for enforcement of the law.[27] The apportionment at present is set forth in section 827 of the present law and is the same as the 1935 law with the exception of the part on the apportionment to counties for the purpose of support of the common schools. The 1935 law required that a majority school district, as a condition for receiving a portion of the gross production tax, make an ad valorem tax levy of one and one-half mills.[28] The present law requires, as a condition for receiving gross production tax money, that majority school districts must make an ad valorem tax levy of 20 mills for the school year. The schools in question must have a legal average daily attendance of 13 or more pupils, and they must maintain 12 years of instruction.[29]

The Osage Indian Agency is governed by a federal statute rather than the state law.[30] Fifty-eight per cent of the revenue from the gross production tax is earmarked for general revenue. Twenty per cent of the tax revenue is apportioned to Osage County schools. Twenty per cent of the tax revenue is apportioned to Osage County roads. Two per cent of the tax revenue is paid into the Oklahoma Tax Commission Fund.

In an attempt properly to enforce the provisions of the present law certain reports are required. Railway Companies, pipeline companies, and transportation companies must file information relative to the amount of

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[27] Laws, 1935, p. 273, Sect. 2.

[28] Ibid., p. 273.

[29] 68 Okl. St. Ann. Sect. 827, pp. 139-140.

[30] 54 U.S. Stat. 168.

crude oil or gas transported and subject to the gross production tax. Persons, firms, or corporations engaged in refining must file monthly information relative to the amount of crude oil or other mineral oil, which is subject to the gross production tax, that has been processed during such monthly period. Those engaged in the purchase of or storing crude oil or other mineral oil must file a report to the Oklahoma Tax Commission showing the amount of oil in storage plus information showing the location, identity, character and capacity of the storage receptacle in which the oil is stored. A fine of twenty-five dollars for each day is levied for failure to furnish such information as outlined above.[31] The 1916 law provided for a penalty of one hundred dollars a day for every day in which a report was failed to be made.[32] This provision was included in the 1933 Act.[33]

Section 825 of the present law states that any person who makes a false oath to any of the required reports is guilty of perjury.[34] This provision was written into the first law of 1910.[35]

Section 833 of the present law makes provisions as to who is to pay the tax. On oil or gas sold at the time of production the tax is to be paid by the purchaser. The purchaser in turn is authorized to deduct the tax in making settlements with the producer and/or royalty owner. If the

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[31] Ibid., Sect. 829, pp. 144-145.

[32] Laws, 1916, Ch. 39, p. 107, Sect. 107.

[33] Laws 1933, Ch. 103, p. 207, Sect. 9.

[34] 68 Okl. St. Ann. Sect. 825, p. 139.

[35] R.L. 1910 Sect. 7468.

oil is not sold at the time of production the tax is to be paid by the producer including the tax on the royalty not sold. In settlement with the royalty owner the producer has the right to deduct the amount of the tax he paid on royalty oil. In case the oil is not sold at the prevailing price, the Oklahoma Tax Commission may require that the tax be paid upon the basis of the prevailing price being paid at the time of production.[36]

In connection with the payment of the gross production tax it was customary to apply the ninety-seven per cent rule. This rule allowed for a reduction of three per cent from oil, because of dirt and sediment, in determination of the gross amount of oil produced. A number of statutes have been re-enacted and amended without mention of the ninety-seven per cent rule so the court has held that the state would be considered as having approved such a rule.[37]

Those who pay the gross production tax must also file, along with payment, the following information: a full description of the property by lease name, subdivision of quarter section, section, township and range, from which the oil or gas was produced. The information must include the name of the producer. Information as to the gross amount of oil or gas purchased also must be provided. Also required is information pertaining to the total value of the oil or gas at the price paid, if purchased at the time of production, and the prevailing market price of oil sold at the time of production.[38]

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[36] 68 Okl. St. Ann. Sect. 833, pp. 149-150.

[37] 68 Okl. St. Ann. Sect. 834, Notes of Decisions, Note 1, p. 154, Stanolind Crude Oil Purchasing Co. v. Cornish, D.C. Okla., 16 F. Supp. 464 (1936).

[38] 68 Okl. St. Ann. Sect. 834, p. 152.

Section 839 of the present law requires that, persons, firms, associations or corporations operating refineries or processing plants obtain a permit which is in the form of a license from the Oklahoma Tax Commission. A bond may be required for the purpose of idemnifying the State of Oklahoma against loss by reason of non-payment of the gross production tax. If a permit is not obtained the state can restrain the party from operating the refinery or processing plant.[39] This section of the present law was enacted in 1933.[40]

If the reports filed with the Oklahoma Tax Commission do not give enough information to enable the Commission to know where the gross production tax is to be apportioned the Tax Commission, after six months, is to distribute the undistributed portion to the General Revenue Fund.[41] The above section of the present law was enacted in 1933.[42]

If any producer, refiner, processor or purchaser of oil or gas fails to comply with the provisions of the act they are deemed to commit a misdemeanor. Upon conviction, the guilty party is punished by the imposition of a fine which is not to exceed one thousand dollars or a jail sentence which is not to exceed six months or both fine and jail sentence.[43] This provision was written into law in 1933.[44]

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[39] Ibid., Sect. 839, p. 156.

[40] Laws 1933, Ch. 69, p. 123, Sect. 2.

[41] 68 Okl. St. Ann. Sect. 840, p. 157.

[42] Laws, 1933, Ch. 69, p. 123, Sect. 3.

[43] 68 Okl. St. Ann. Sect. 841, p. 157.

[44] Laws, 1933, Ch. 69, p. 124, Sect. 4.

Several cases have arisen through the years to test the validity of the gross production tax laws. In 1917 two cases tested the validity of 1916 Laws, Chapter 39 which imposed a tax of three per cent of the gross value of the production of oil and gas. The Oklahoma Constitution, Article 10, Section 9, declares that the state levy on an ad valorem basis shall not in any case exceed three and one half mills on the dollar. The section of the 1916 law which levied a three per cent tax on oil and gas was held not to be repugnant to the above section of the Constitution as the gross production tax was not a tax on an ad valorem basis.[45]

Some question arose over whether the gross production tax, which was enacted into law in 1915 as a tax in lieu of the ad valorem property tax, was not in violation of the Constitution which prohibits exemption of property from taxation. The court held that the gross production tax law did not exempt property from taxation but merely substituted one form of taxation for another.[46]

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[45] 68 Okl. St. Ann. Sect. 821, Notes of Decisions, Note 1, p. 123. Whitehill v. Howard, 63 Okl. 176, 163 P. 947 (1917); Large Oil Co. v. Howard, 63 Okl. 143, 163 P. 537 (1917).

[46] Ibid., Note 1, p. 124. Wolverine Oil Co., 53 Okl. 24, 154 P. 362, L.R.A. 1916 F, 141 (1916).

CHAPTER III

A COMPARISON OF THE GROSS PRODUCTION TAX WITH THE AD VALOREM PROPERTY TAX

The rate of the gross production tax was changed in 1935 from three per cent to five per cent. When the legislature changed the rate it seems reasonable to assume that the five per cent rate would establish equivalence as between the gross production tax and the ad valorem property tax. This assumption is made on the basis of the law which states, "the payment of the gross production tax shall be in lieu of all taxes by the state, counties, cities, towns, townships, school districts and other municipalities."[1] If the gross production tax is in lieu of the ad valorem property tax the two should be equivalent. The gross production tax rate of five per cent has not been changed since 1935. In this chapter data will be examined to determine if ad valorem rates have changed since 1935. If property tax rates have changed, the question arises as to whether equivalence has been maintained during the period, 1935 to 1955.

A. Method

Data on changes in the ad valorem rate on property will be examined for seven counties which had gross production tax collections over one

[1]68 Okl. St. Ann. Sect. 821.

million dollars each, in the fiscal year 1955-56. These counties are Carter, Creek, Garvin, Lincoln, Oklahoma, Seminole and Stephens. Osage County also had gross production tax collections of more than one million dollars in fiscal year 1955-56, but was omitted from this study because of the special treatment given to this county under the gross production tax law.

An attempt was made to arrive at a representative total mill levy for each of the aforementioned counties for the years, 1935, 1945, and 1955. A county levy was derived by summing the General Fund levy, the Sinking Fund levy, and county wide school levy for 1955 or the separate school levy for 1935 and 1945.

A numerical array of the levies for the General Fund for all school districts in the county was arranged and the median was derived as the representative school district levy for the county. The same process was followed for the Sinking Fund levy and the Building Fund levy. When a representative levy for each of these funds was derived they were added to get a total school district levy. This process was followed for each of the years 1935, 1945, and 1955.

The median was used as a measure of central tendency, rather than the arithmetic mean, because of a few high and low extremes which were present in the combined school district levies of several counties. Had the arithmetic mean been used, with these extremes, the school district levy, so derived, would have been less representative than the school district levy derived by using the median.

The total county levy and the total representative school district levy were then totaled to derive a representative total millage levy for each county in the study for each of the years aforementioned.

Reference is made to tables one through seven which show the result of the method used in this study. Figure one in turn combines the information in these seven tables.

B. Purpose

The purpose of the above procedure was to investigate the trend of the property tax rate in the seven counties for the years 1935, 1945, and 1955. By referring to Figure one, in each of the seven counties the millage levy in 1955 is above the millage levy in 1935. In two of the counties, Creek and Stephens, the millage levy in 1945 was less than it was in 1935. But even in these two counties the 1955 millage levy is higher than the 1945 millage levy.

C. Summary of Data on Changes in the Ad Valorem Rates

From the study of the property tax in the seven selected Counties it is concluded that the property tax rate has increased between 1935 and 1955. During this same period the gross production tax rate on oil and gas has remained the same at five per cent.

If the legislature fixed the gross production tax rate at five per cent in 1935 as a rate which would establish equivalence between the gross production tax and the property tax, and assuming a proportional increase in the base of both the gross production tax and the ad valorem property tax, then in 1955 the gross production tax and the ad valorem property tax are no longer equivalent.

TABLE I

TOTAL PROPERTY TAX MILLAGE LEVY FOR CARTER COUNTY FOR 1935, 1945, AND 1955

1955		1945		1935	
County Levy:					
General Fund	8.85	General Fund	7.40	General Fund	6.49
County Wide School	4.00	Separate School	2.00	Separate School	1.55
Sinking Fund New	1.70	Sinking Fund Old	1.32	Sinking Fund Old	5.59
				Special	.26
Total County Levy:	14.55		10.72		13.89
School District Levy:					
General Fund	21.00	General Fund	17.50	General Fund	10.59
Sinking Fund	4.19	Sinking Fund	2.40	Sinking Fund	6.59
Building Fund	5.00	Building Fund	5.00	Building Fund	----
Total School District Levy:	30.19		24.90		17.18
Total School District Levy and County Levy:	44.74		35.62		31.07

Source: Data on Property Tax levies for the state of Oklahoma collected in a study of the General Property Tax by Raymond D. Thomas, Dean Emeritus of the School of Business, Oklahoma State University.

TABLE II

TOTAL PROPERTY TAX MILLAGE LEVY FOR CREEK COUNTY FOR 1935, 1945, AND 1955

1955		1945		1935	
County Levy:					
General Fund	7.90	General Fund	6.40	General Fund	4.80
County Wide School	4.00	Separate School	1.95	Separate School	1.61
		Sinking Fund Old	1.70	Sinking Fund Old	8.14
				Special	.20
Total County Levy:	11.90		10.05		14.75
School District Levy:					
General Fund	20.75	General Fund	16.00	General Fund	10.10
Sinking Fund	4.85	Sinking Fund	5.00	Sinking Fund	8.71
Building Fund	5.00	Building Fund	5.00	Building Fund	5.00
Total School District Levy:	30.60		26.00		23.81
Total School District Levy and County Levy:	42.50		36.05		38.56

Source: Data on Property Tax levies for the state of Oklahoma collected in a study of the General Property Tax by Raymond D. Thomas, Dean Emeritus of the School of Business, Oklahoma State University.

TABLE III

TOTAL PROPERTY TAX MILLAGE LEVY FOR GARVIN COUNTY FOR 1935, 1945, AND 1955

1955		1945		1935	
County Levy:					
General Fund	8.30	General Fund	7.05	General Fund	.01
County Wide School	4.00	Separate School	1.75		
Total County Levy:	12.30		8.80		.01
School District Levy:					
General Fund	20.00	General Fund	15.11	General Fund	10.15
Sinking Fund	5.17	Sinking Fund	2.68	Sinking Fund	3.66
Building Fund	5.00	Building Fund	1.50	Building Fund	- --
Total School District Levy:	30.17		19.29		13.81
Total School District Levy and County Levy:	42.47		28.09		13.82

Source: Data on Property Tax levies for the state of Oklahoma collected in a study of the General Property Tax by Raymond D. Thomas, Dean Emeritus of the School of Business, Oklahoma State University.

TABLE IV

TOTAL PROPERTY TAX MILLAGE LEVY FOR LINCOLN COUNTY FOR 1935, 1945, AND 1955

1955		1945		1935	
County Levy:					
General Fund	9.90	General Fund	9.40	General Fund	8.00
County Wide School	4.00	Separate School	1.88	Separate School	1.00
		Sinking Fund, Old	2.59	Sinking Fund, Old	3.59
Total County Levy:	13.90		13.87		12.59
School District Levy:					
General Fund	20.00	General Fund	14.35	General Fund	5.76
Sinking Fund	4.28	Sinking Fund	2.35	Sinking Fund	6.58
Building Fund	5.00	Building Fund	5.00	Building Fund	- --
Total School District Levy:	29.28		21.70		12.34
Total School District Levy and County Levy:	43.18		35.57		24.93

Source: Data on Property Tax levies for the state of Oklahoma collected in a study of the General Property Tax by Raymond D. Thomas, Dean Emeritus of the School of Business, Oklahoma State University.

TABLE V

TOTAL PROPERTY TAX MILLAGE LEVY FOR OKLAHOMA
COUNTY FOR 1935, 1945, AND 1955

1955		1945		1935	
County Levy:					
General Fund	7.00	General Fund	5.75	General Fund	5.20
County Wide School	4.00	Separate School	2.00	Separate School	1.65
Sinking Fund New	2.50	Sinking Fund Old	.76	Sinking Fund Old	2.51
Special	6.03	Sinking Fund New	.36	Special	.48
Total County Levy:	19.53		8.87		9.84
School District Levy:					
General Fund	23.00	General Fund	15.00	General Fund	5.68
Sinking Fund	5.80	Sinking Fund	1.79	Sinking Fund	3.62
Building Fund	5.00	Building Fund	5.00	Building Fund	5.00
Total School District Levy:	33.80		21.79		14.30
Total School District Levy and County Levy:	53.33		30.66		24.14

Source: Data on Property Tax levies for the state of Oklahoma collected in a study of the General Property Tax by Raymond D. Thomas, Dean Emeritus of the School of Business, Oklahoma State University.

TABLE VI

TOTAL PROPERTY TAX MILLAGE LEVY FOR SEMINOLE
COUNTY FOR 1935, 1945, AND 1955

1955		1945		1935	
County Levy:					
General Fund	10.00	General Fund	8.00	General Fund	5.57
County Wide School	4.00	Separate School	1.88	Separate School	1.75
Sinking Fund	1.18	Sinking Fund, Old	1.48	Sinking Fund, Old	4.42
Total County Levy:	15.18		11.36		11.74
School District Levy:					
General Fund	20.00	General Fund	15.00	General Fund	10.70
Sinking Fund	4.75	Sinking Fund	2.78	Sinking Fund	7.89
Building Fund	5.00	Building Fund	5.00	Building Fund	2.23
Total School District Levy:	29.75		22.78		20.82
Total School District Levy and County Levy:	44.93		34.14		32.56

Source: Data on Property Tax levies for the state of Oklahoma collected in a study of the General Property Tax by Raymond D. Thomas Dean Emeritus of the School of Business, Oklahoma State University.

TABLE VII

TOTAL PROPERTY TAX MILLAGE LEVY FOR STEPHENS COUNTY FOR 1935, 1945, AND 1955

1955		1945		1935	
County Levy:					
General Fund	8.00	General Fund	6.60	General Fund	5.79
County Wide School	4.00	Separate School	1.18	Separate School	.94
		Sinking Fund, Old	1.15	Sinking Fund, Old	6.13
				Special	.22
Total County Levy:	12.00		8.93		13.19
School District Levy:					
General Fund	20.00	General Fund	15.00	General Fund	12.57
Sinking Fund	3.73	Sinking Fund	2.32	Sinking Fund	5.81
Building Fund	5.00	Building Fund	5.00	Building Fund	----
Total School District Levy:	28.73		22.32		18.38
Total School District Levy and County Levy:	40.73		31.25		31.57

Source: Data on Property Tax levies for the state of Oklahoma collected in a study of the General Property Tax by Raymond D. Thomas, Dean Emeritus of the School of Business, Oklahoma State University.

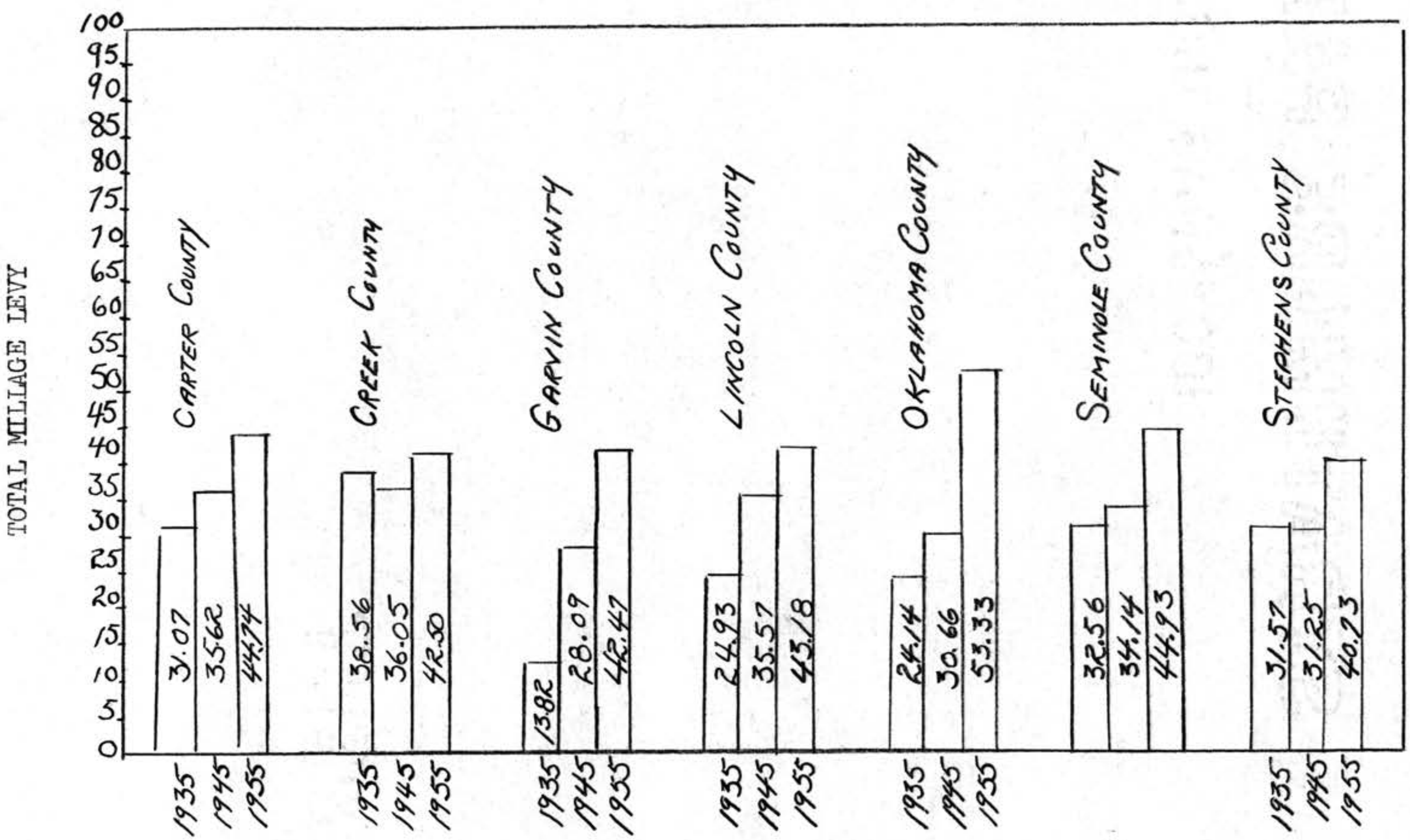

FIGURE 1: TOTAL MILLAGE LEVY FOR SELECTED COUNTIES FOR YEARS 1935, 1945, 1955
SOURCE: TABLES I, II, III, IV, V, VI, VII

D. Limitations

Comparison of the equivalence of the gross production tax and the ad valorem property tax as has been done in this study has definite limitations.

The first limitation is the assumption that the base of the gross production tax and the base of the ad valorem property tax were such, that with the given rates of each, there was equivalence in 1935.

The second limitation is the assumption that the base of the gross production tax did not increase enough to maintain equivalence even though the rate of the ad valorem property tax increased and the rate of the gross production tax remained the same through the period 1935 to 1955.

For purpose of illustration a hypothetical problem will be presented. Suppose for Carter County the base and rate of the gross production tax were such that they were equivalent in 1935. With reference to Table One it is seen the ad valorem property tax rate increased from three and one-tenth per cent in 1935 to four and four-tenths per cent in 1955. If the base of the gross production tax and the ad valorem property tax would have been the same in 1955 as they were in 1935 then equivalence would not have been maintained. If the base of both taxes would have increased at approximately the same rate then equivalence would not have been maintained. Another possibility is that the base of the gross production tax may have increased enough so as to maintain equivalence even though the rate of the ad valorem property tax has increased and the rate of the gross production tax has remained the same.

E. Conclusion

The law states that the gross production tax is to be in lieu of the property tax on oil and gas. If the gross production tax replaces the ad valorem tax on oil and gas then it appears the gross production tax should be equivalent to the tax it replaces. As was noted in Chapter Two the gross production tax rate has been increased by the legislature from one-half of one per cent, to three quarters of one per cent, to three per cent, to five per cent in the 46 years this type of taxation has been levied. It is doubtful if these increases were made in order to bring the gross production tax into equivalence with the ad valorem property tax. Had this been the case it appears there would have been many more rate changes in an attempt to maintain equivalence.

The conclusion drawn from this study is that the gross production tax is legally in lieu of the ad valorem property tax, but this does not necessarily mean that the two taxes are equivalent as should be the case of an in lieu of tax.

CHAPTER IV

THE GROSS PRODUCTION TAX AS

A SOURCE OF REVENUE

A. The Importance of the Gross Production Tax As A Source of Revenue

The gross production tax is not only a tax on gas and oil but a tax on mineral ores as well. Ores such as zinc and lead are taxed at three quarters of one per cent of the gross value of these ores. The importance of mineral ores, as compared with gas and oil, is negligible in Oklahoma. Therefore, the gross production tax figures used in the following chapter reflects mainly the gross production tax on gas and oil. The importance of mineral ores as compared with gas and oil in Oklahoma can easily be seen by examining the following figures for 1951:[1]

Mineral	Value of Production
Petroleum	$480,250,000
Natural Gas	28,554,000
Zinc	19,456,000
Lead	5,735,000
	$533,995,000

The total value of the aforementioned minerals was $533,995,000.

[1]United States Department of Interior, Bureau of Mines, Minerals Yearbook, (Washington, 1954), p. 65.

Petroleum and natural gas accounted for $508,804,000 or approximately 95 per cent of the total value of these minerals.

In the fiscal year 1955-56 the leading taxes, according to tax collections by the Oklahoma Tax Commission, were, in order of their importance, the gasoline excise tax, the sales tax, the gross production tax and motor vehicle licenses. Of the total tax collections by the Tax Commission, as shown in Figure Two, the gasoline excise tax accounted for 23.53 per cent, the gross production tax 14.47 per cent, the sales tax 21.43 per cent and motor vehicle licences 13.46 per cent. These four taxes, together, accounted for 72.89 per cent of the tax collections in the fiscal year 1955-56.

Twenty years ago, in fiscal year 1935-36, the gross production tax was the second largest revenue source in the state of Oklahoma. Ten years ago, in fiscal year 1945-46, the gross production tax was fourth in order of importance as a revenue source and in fiscal year 1955-56 the gross production tax took over the third position as a source of revenue.

Upon examination of Table eleven it is quite easily seen that the gross production tax collections have grown from a quite insignificant $1,642,266.33 in fiscal year 1915-16 to a much larger $31,724,334.17 in fiscal year 1955-56. It is concluded that the gross production tax is a major source of revenue for the state of Oklahoma.

B. Cost of Administration

It was mentioned earlier that one of the advantages of the gross production tax was its low cost of administration. This is due mainly to the fact that a great deal of the paper work is done by the taxpayer. Auditing procedures are relatively simple.

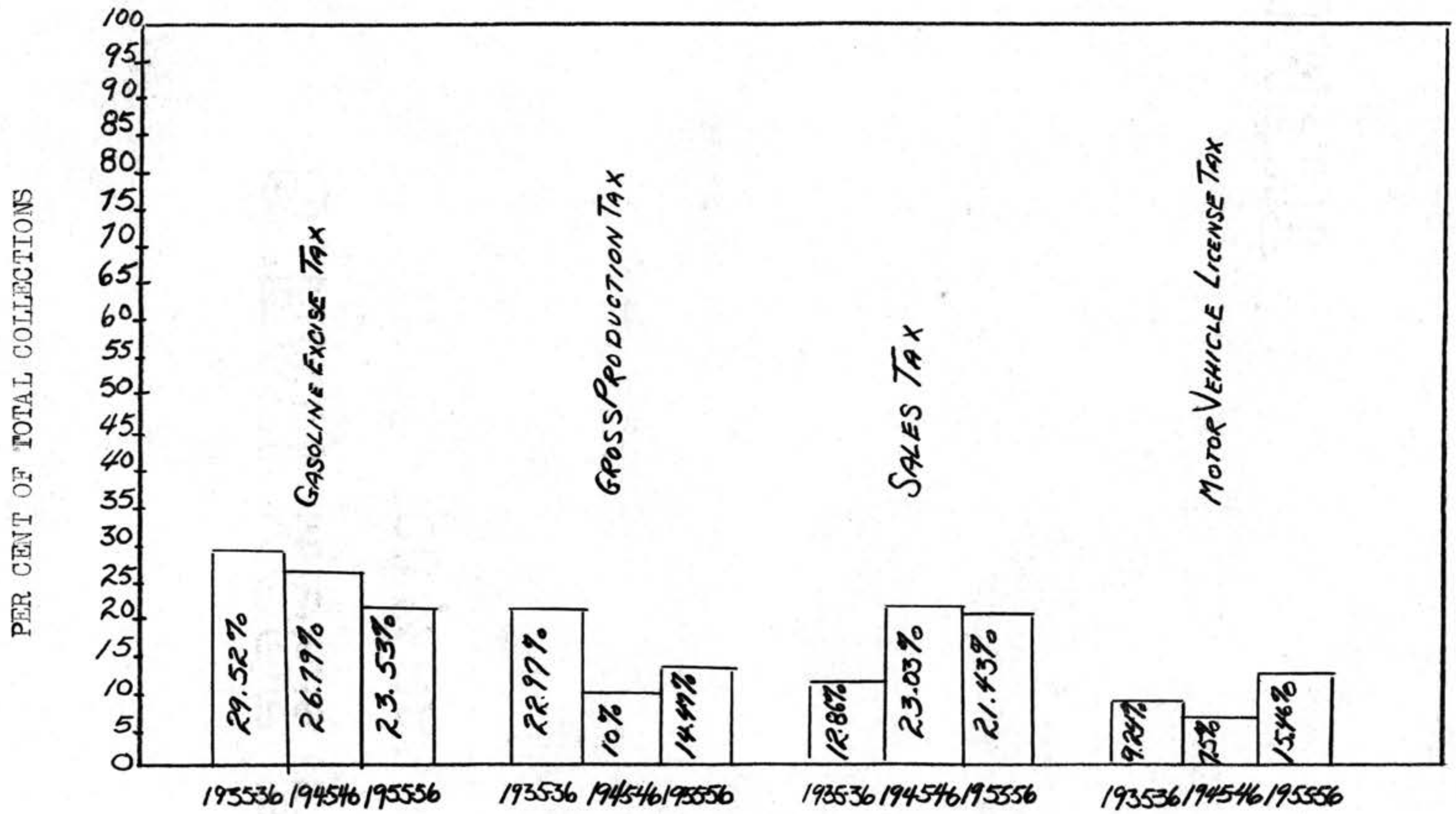

FIGURE 2: LEADING FOUR TAXES COLLECTED BY OKLAHOMA TAX COMMISSION IN 1955-56
SOURCE: TABLE X

TABLE VIII

TAX COLLECTIONS BY THE OKLAHOMA TAX COMMISSION
FISCAL YEAR 1935-36

Type of Tax	Amount Collected	Per Cent of Total
Gasoline Excise Tax	$ 13,395,048.46	29.52%
Gross Production Tax	10,420,478.66	22.91%
Sales Tax	5,835,464.79	12.86%
Income Tax	4,726,329.27	10.42%
Motor Vehicle Licenses	4,194,586.67	9.24%
Cigarette Licenses and Tax	1,936,652.36	4.2%
Beverage Licenses and Tax	893,529.20	1.97%
Franchise Tax	648,247.67	1.43%
Inheritance and Estate Tax	451,432.10	.99%
All other	543,041.96	1.20% * 5.13%
Total	$ 43,044,811.14	100%

* Reserves from prior period 3.16%; Motor Carrier Tax 1.97%

Source: Second Biennial Report of The Oklahoma Tax Commission, Chart 3, p. 41.

TABLE IX

TAX COLLECTIONS BY THE OKLAHOMA TAX COMMISSION:
FISCAL YEAR 1945-46

Type of Tax	Amount Collected	Per Cent of Total
Gasoline Excise Tax	$ 27,080,567.92	26.79%
Sales Tax	23,274,658.85	23.03%
Income Tax	12,611,654.11	12.48%
Gross Production Tax	10,107,081.19	10.00%
Motor Vehicle Licenses	7,580,212.70	7.5%
Cigarette Licenses and Tax	7,249,828.22	7.17%
Beverage Licenses and Tax	5,488,655.67	5.43%
Tobacco Products License and Tax	1,098,775.92	1.09%
Inheritance and Estate Tax	1,319,094.83	1.31%
Franchise Tax	995,875.10	.98%
Motor Vehicle Excise Tax	757,353.04	.75%
Use Tax	702,793.68	.70%
All other	2,915,071.79	2.87%
Total	101,181,623.02	100%

Source: Seventh Biennial Report of The Oklahoma Tax Commission, Table I, p. 26.

TABLE X

TAX COLLECTIONS BY THE OKLAHOMA TAX COMMISSION:
FISCAL YEAR 1955-56

Type of Tax	Amount Collected	Per Cent of Total
Gasoline Excise Tax	49,420,274.41	23.53%
Sales Tax	46,978,154.29	21.43%
Gross Production Tax	31,724,334.17	14.47%
Motor Vehicle Licenses	29,514,790.55	13.46%
Income Tax	21,921,722.26	10.00%
Cigarette License and Tax	10,266,960.14	4.68%
Motor Vehicle Excise Tax	6,961,910.38	3.18%
Beverage Licenses and Tax	6,330,541.91	2.89%
Inheritance and Estate Tax	3,482,163.81	1.59%
Franchise Tax	2,477,9.7.28	1.13%
Use Tax	2,180,995.36	.99%
Tobacco Products License and Tax	1,049,391.50	.48%
All other	6,955,371.75	2.17%
Total	219,264,528.31	100%

Source: Twelfth Biennial Report of The Oklahoma Tax Commission, Chart 2, p. 28.

TABLE XI

GROSS PRODUCTION TAX COLLECTIONS IN OKLAHOMA
FISCAL YEARS 1915-16 TO 1955-56

Fiscal Year	Gross Production Tax Collections	Total Oklahoma Tax Collections	Gross Production Tax As Per Cent of Total Tax Collections by Tax Commission
1915-16	1,642,266.33		
1916-17	2,545,546.36		
1917-18	3,474,645.03		
1918-19	4,212,611.82		
1919-20	5,029,796.11		
1920-21	7,858,955.89		
1921-22	5,238,730.96		
1922-23	7,395,602.03		
1923-24	7,493,151.84		
1924-25	8,288,335.57		
1925-26	9,928,654.65		
1926-27	12,102,426.28		
1927-28	10,264,787.14		
1928-29	9,647,879.29		
1929-30	10,010,345.26		
1930-31	6,556,006.97		
1931-32	4,117,752.58	22,355,070.34*	18.42%
1932-33	3,794,023.05	20,459,359.82	18.54%
1933-34	4,790,603.62	26,401,929.60	18.14%
1934-35	6,414,310.12	31,340,504.53	19.48%
1935-36	10,420,478.66	43,937,227.26	22.97%

TABLE XI (Continued)

Fiscal Year	Gross Production Tax Collections	Total Oklahoma Tax Collections	Gross Production Tax As Per Cent of Total Tax Collections by Tax Commission
1936-37	13,160,411.21	56,429,543.04	23.32%
1937-38	12,976,519.53	61,718,991.61	21.03%
1938-39	9,349,744.02	56,252,182.13	16.62%
1939-40	8,129,747.44	54,450,625.74	14.93%
1940-41	7,885,394.87	55,209,737.85	14.28%
1941-42	9,306,144.09	71,112,027.21	13.09%
1942-43	8,388,388.90	68,615,731.00	12.23%
1943-44	7,852,101.13	71,200,722.15	11.03%
1944-45	9,519,077.22	76,713,050.23	11.10%
1945-46	10,107,081.19	101,079,193.42	10.00%
1946-47	11,965,026.82	113,383,592.28	10.55%
1947-48	17,293,317.01	125,771,961.17	13.75%
1948-49	21,444,140.61	138,317,404.18	15.5%
1949-50	20,329,562.12	151,329,044.82	13.434%
1950-51	24,193,359.80	168,759,274.13	14.33%
1951-52	25,692,679.30	179,526,491.83	14.311%
1952-53	26,984,830.23	187,455,863.66	14.40%
1953-54	30,732,657.01	194,411,510.38	15.81%
1954-55	28,632,631.73	201,204,067.55	14.23%
1955-56	31,724,334.17	219,264,528.31	14.47%

* First Biennial Report came out in 1931. Information on Total Oklahoma Tax Collection and Per Cent The Gross Production Tax is to the Total not available prior to Fiscal Year 1931-32.

Source: First through Twelfth Biennial Reports of Oklahoma Tax Commission.

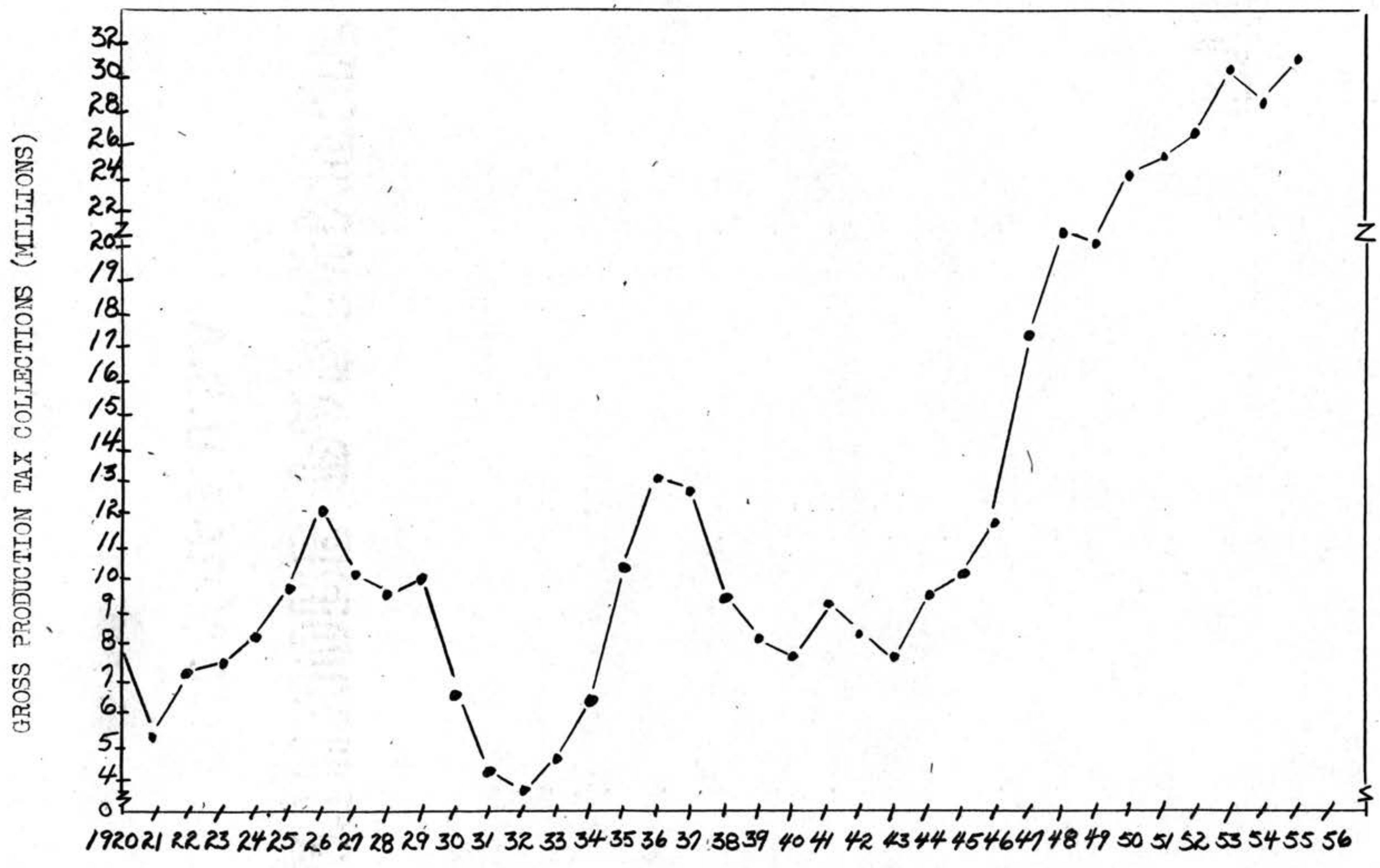

FIGURE 3: GROSS PRODUCTION TAX COLLECTIONS IN OKLAHOMA BY YEAR: 1920-1955
SOURCE: TABLE XI

Table twelve shows that the gross production tax expense, as a per cent of the total expense of the Oklahoma Tax Commission, is quite low at 1.881 per cent. It is more significant if one examines the top four taxes, in fiscal year 1955-56, as to current operating expense as a per cent of their collections. It cost $48,677.96 to collect $31,724,334.17 in gross production taxes, or the current operating expense to total collections was approximately two-tenths of one per cent. The expense of collecting gasoline excise tax revenue totaling $49,420,274.41 was $404,240.94 or nine-tenths of one per cent of the collections. The sales tax operating expense to total collections is approximately the same as the gross production tax at two-tenths of one per cent. In fiscal year 1955-56, the amount of sales tax collected was $46,978,154.29 and the expense incurred by the sales tax division was $96,964.35. The motor vehicle license division had an operating expense of $514,406.89 and its collections were $29,514,790.55. Less was collected by the motor vehicle license division than the other three divisions mentioned above and the expenses incurred by this division were the highest. The motor vehicle license division current operating expense to amount of revenue collected is approximately one and one-half per cent.

Of the gross production tax collected two per cent is apportioned to the Gross Production Tax Division of the Oklahoma Tax Commission to cover collection expenses. In fiscal year 1955-56 $629,368.80 was allocated to the gross production division and the expense for this same period was only $48,677.96. Less than one per cent of the total revenue received from the gross production tax is spent in collection.

TABLE XII

COST OF ADMINISTRATION OF OKLAHOMA TAX COMMISSION
BY DIVISIONS, FISCAL YEAR 1955-56

Division	Total Expense	Per Cent of Total
Headquarters	$ 51,540.83	1.992
Accounting	26,583.38	1.027
Ad Valorem	47,476.34	1.835
Beverage	45,961.30	1.776
Cashier	38,167.38	1.475
Franchise	15,480.50	.59
General Enforcement	257,701.68	9.959
Gross Production	48,677.96	1.881
Income	489,103.45	18.902
Mail	72,847.10	2.815
Legal	32,664.40	1.262
Motor Fuel	404,240.94	15.622
Motor Vehicle	514,406.89	19.879
Research	7,335.08	.283
Sales	96,964.35	3.747
Supply, Micro Film - Maintenance	84,389.95	3.360
Tabulating	87,323.31	3.375
Cigarette and Tobacco	67,576.16	2.612
Inheritance and Estate	59,020.12	2.281
Printing and Reproduction	76,203.13	2.945

TABLE XII (Continued)

Division	Total Expense	Per Cent of Total
State Examiner	25,505.24	.986
Old Age Security Insurance	35,912.46	1.388
Total	2,587,635.14	100%

Source: Twelfth Biennial Report of The Oklahoma Tax Commission, p. 113.

C. The Disadvantages of the Gross Production Tax

The disadvantage of the gross production tax as mentioned in Chapter one above is that it produces an unstable and unpredictable yield fluctuating from year to year. If the authorities, in planning state expenditures, cannot depend upon a stable income from an important revenue source such as the gross production tax (14.47 per cent of total tax collections in 1955-56) then this is a valid criticism.

In examining Table eleven it can be seen that the gross production tax collections varied from $1,642,266.33 in fiscal year 1915-16 to $10,101,345.26 in fiscal year 1929-30. In fifteen years collections varied more than eight million dollars. In a matter of seven years, the gross production tax collections went from a high of $12,102,426.28 in fiscal year 1926-27 to a low of $3,794,023.05 in fiscal year 1932-33. From fiscal year 1932-33 gross production tax collections continued to climb until a significant drop of better than three million dollars between fiscal year 1937-38 and fiscal year 1938-39. From fiscal year 1938-39 to fiscal year 1955-56 the gross production tax collections have increased with only insignificant declines in this period.

There are three reasons why collections from the gross production tax would change from year to year. First of all, the physical production of oil and gas might increase or decrease. An increase or decrease in the physical production of oil or gas in turn can be caused by an increase or decrease in demand for these two products or an increase or decrease in the reserves of oil and gas. Secondly, the price of oil or gas may increase or decrease. Lastly, the gross production tax rate may increase or decrease.

The large fluctuation of gross production tax collections in Oklahoma came between the relatively good times of the late 1920's and the early depression days of the early 1930's. One alternative to the gross production tax is the ad valorem property tax. It can be argued that during a depression the property tax base would not decrease and the tax collections would therefore be more stable. It could also be argued that during a depression if oil and gas cannot be sold the persons involved will not be able to raise enough money to pay the ad valorem property tax on oil and gas property. Therefore, in depression days the ad valorem property tax would suffer a great deal from delinquency problems.

Although the gross production tax is not a stable source of revenue it appears to the writer that the problem of instability is offset by the advantages of low cost of administration and fairness to the taxpayer. Fairness to the taxpayer means that the taxpayer is not burdened with the tax to as great an extent in a depression period as in times of prosperity. The ad valorem property tax might be a heavy burden in time of depression.

D. The Gross Production Tax As A Future Source of Revenue

The gross production tax is levied on exhaustible resources, i.e. oil and gas. This fact presents a problem. If the oil and gas resources decline in the future then the state of Oklahoma will be without an important source of revenue.

In examining Table fifteen and sixteen one thing is quite clear and that is the proved oil reserves and proved natural gas reserves have not increased a great deal in the last ten years and seven years respectively. As long as these proved reserves do not decline a great deal, then the

TABLE XIII

CRUDE OIL PRODUCTION IN OKLAHOMA BY YEARS, 1910-1952

Year	Barrels	Year	Barrels
1910	52,028,718	1932	153,244,000
1911	56,069,637	1933	182,251,000
1912	51,427,071	1934	180,107,000
1913	63,579,384	1935	185,288,000
1914	73,631,724	1936	206,555,000
1915	97,915,243	1937	228,839,000
1916	107,071,715	1938	174,994,000
1917	107,507,471	1939	159,913,000
1918	103,347,070	1940	156,164,000
1919	86,911,000	1941	154,759,000
1920	106,206,000	1942	140,690,000
1921	114,634,000	1943	123,152,000
1922	149,571,000	1944	124,616,000
1923	160,929,000	1945	139,299,000
1924	173,538,000	1946	134,974,000
1925	176,768,000	1947	141,019,000
1926	179,195,000	1948	154,455,000
1927	277,775,000	1949	151,660,000
1928	249,857,000	1950	164,599,000
1929	255,004,000	1951	187,789,000
1930	216,486,000	1952	192,671,000
1931	180,574,000		

Sources: 1910-1940, J. O. Beach, Oklahoma Geological Survey, Report No. 13, Norman, Oklahoma, 1942, pp. 17-18.
1940-1952: Minerals Yearbook.

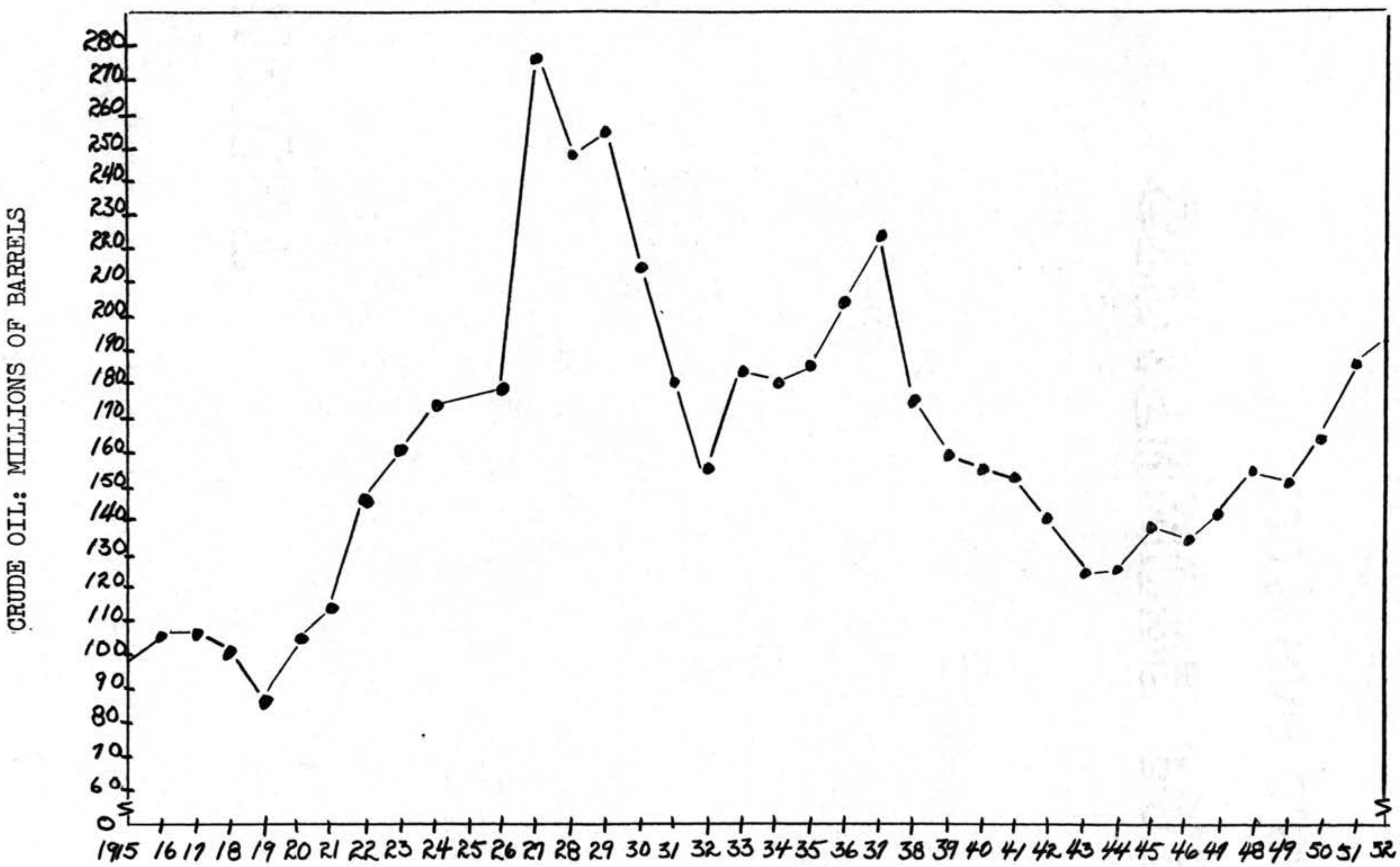

FIGURE 4: PRODUCTION OF CRUDE OIL IN OKLAHOMA BY YEAR: 1915-52
SOURCE: TABLE XIII

TABLE XIV

NATURAL GAS PRODUCTION IN OKLAHOMA BY YEARS, 1910-1952

Year	M. Cu. Ft.	Year	M. Cu. Ft.
1910	50,429,646	1932	255,487,000
1911	67,275,608	1933	245,759,000
1912	73,799,319	1934	254,457,000
1913	75,017,668	1935	274,313,000
1914	78,167,414	1936	280,481,000
1915	87,516,753	1937	296,260,000
1916	123,517,385	1938	263,164,000
1917	137,617,101	1939	250,875,000
1918	124,317,179	1940	257,626,000
1919	163,649,000	1941	234,054,000
1920	154,467,200	1942	269,704,000
1921	124,058,000	1943	285,045,000
1922	140,631,000	1944	310,888,000
1923	203,082,000	1945	357,530,000
1924	214,452,000	1946	380,938,000
1925	249,285,000	1947	419,010,000
1926	286,421,000	1948	480,573,000
1927	326,864,000	1949	435,262,000
1928	320,861,000	1950	482,360,000
1929	357,893,000	1951	538,756,000
1930	348,116,000	1952	554,033,000
1931	263,685,000		

Sources: 1910-1940, J. O. Beach, Oklahoma Geological Survey, Report No. 13, Norman, Oklahoma, 1942, p. 16.
1940-1952: Minerals Yearbook.

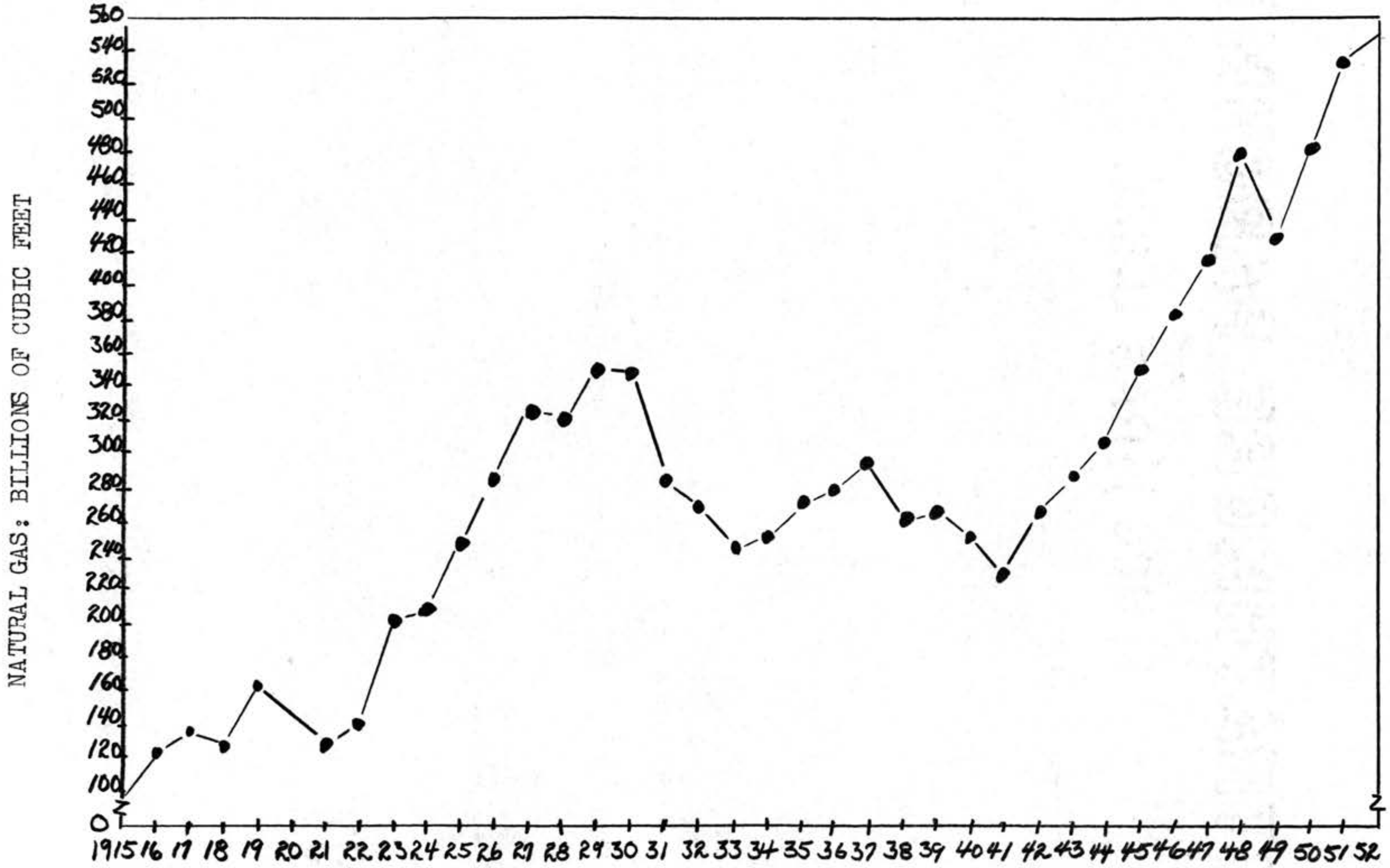

FIGURE 5: PRODUCTION OF NATURAL GAS IN OKLAHOMA BY YEAR: 1915-52
SOURCE: TABLE XIV

TABLE XV

ESTIMATES OF PROVED OIL RESERVES IN OKLAHOMA
ON DECEMBER 31, 1942-52

Year	Reserves:* Millions of Barrels	Total U.S. Millions of Barrels
1942	1,036	19,589
1943	969	20,083
1944	909	20,064
1945	889	19,942
1946	898	20,874
1947	953	21,488
1948	1,250	23,280
1949	1,330	24,649
1950	1,397	25,268
1951	1,476	27,468
1952	1,558	27,961

* Note: The change in reserves during any year represents total new discoveries, extensions, and revisions, minus production.

Source: Minerals Yearbook, 1942-1952.

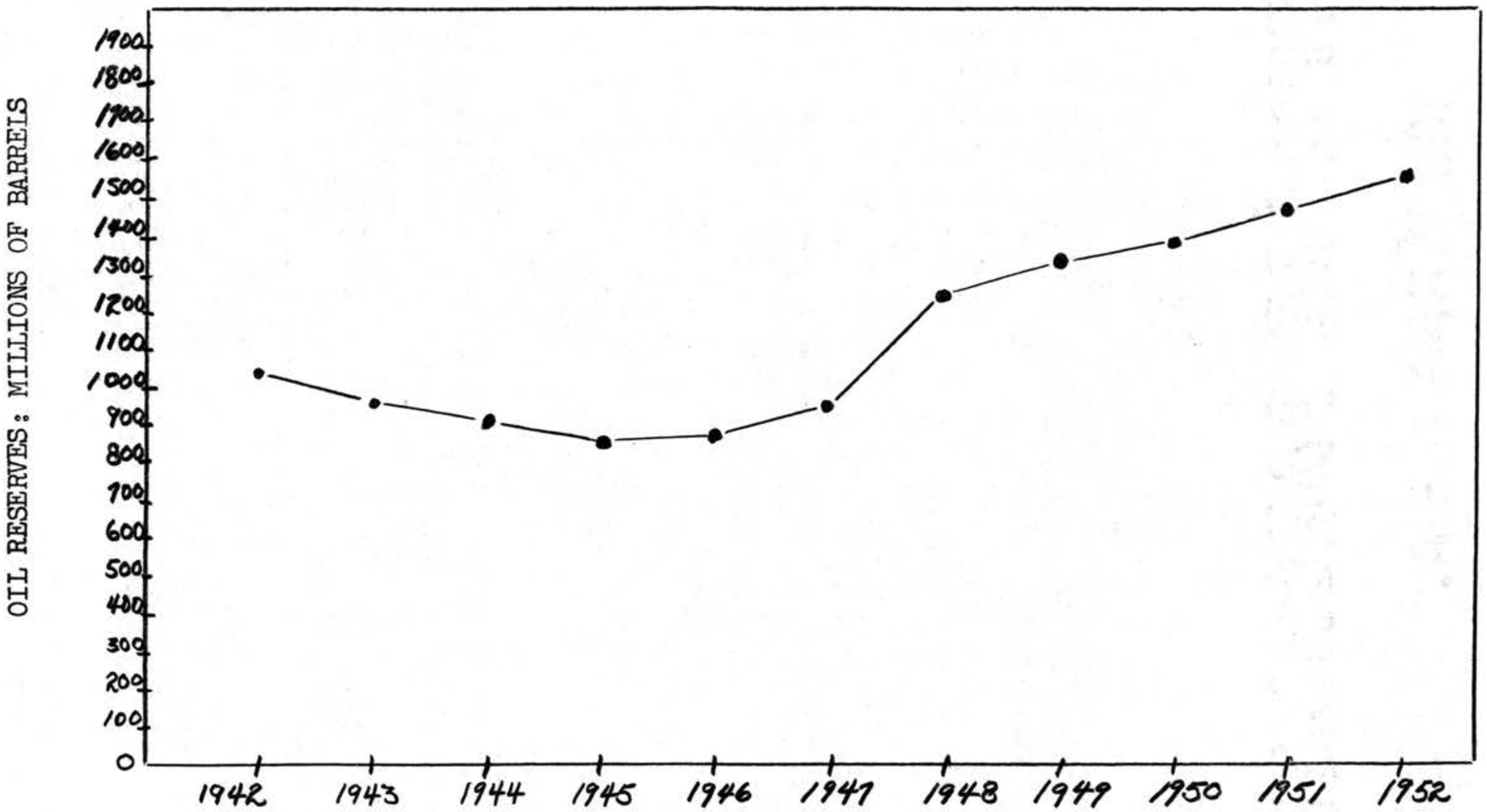

FIGURE 6: PROVED OIL RESERVES IN OKLAHOMA - 1942-1952
SOURCE: TABLE XV

TABLE XVI

ESTIMATES OF PROVED NATURAL GAS RESERVES IN OKLAHOMA
ON DECEMBER 31, 1945-52*

Year	Reserves: Millions of Cubic Feet	Total U.S. Millions of Cubic Feet
1945	10,079,938	147,789,367
1946	10,735,845	160,575,901
1947	11,350,864	165,929,914
1948	11,332,445	173,869,340
1949	11,625,979	180,381,344
1950	11,634,287	185,592,699
1951	11,804,337	193,811,500
1952	11,764,829	199,716,225

* Note: Proved reserve figures on Natural Gas not printed in Minerals Yearbook before 1945.

Source: Minerals Yearbook, 1945-1952.

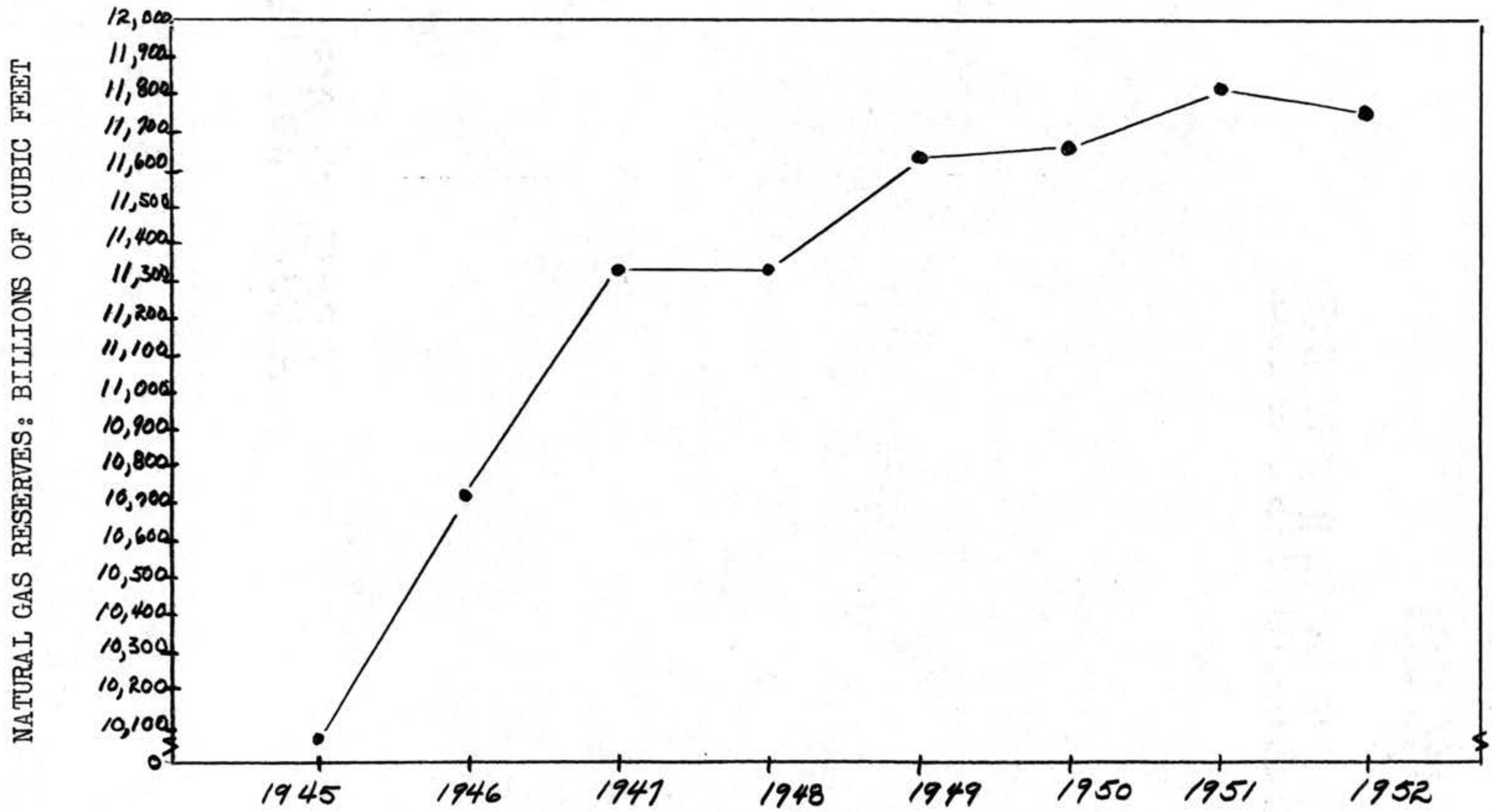

FIGURE 7: PROVED NATURAL GAS RESERVES IN OKLAHOMA 1945-1952
SOURCE: TABLE XVI

gross production tax collections will remain fairly stable, assuming a given value per unit of production.

In case there is a marked decline in the amount of oil and gas produced in the future this decline could conceivably be met by an increase in the gross production tax rate. The problem in deciding to increase the tax rate would be whether production which had been carried on at the lower rate could or would be continued.

It is not within the scope of this study to suggest a solution to the problem of possible declining gross production tax collections. Instead the study endeavors to point out that the problem exists. Wise state officials should realize there is such a problem and make plans for the future accordingly.

CHAPTER V

CONCLUSION

This study points up several aspects of policy and practice in connection with the gross production tax which might well engage the attention of the people of Oklahoma.

First of all if the gross production tax is to be in lieu of the ad valorem property tax, constant watch should be kept by the Oklahoma Legislature to maintain equivalence between the gross production tax and the ad valorem property tax. Also pointed out in Chapter three concerning maintaining the equivalence of the gross production tax and the ad valorem property tax were certain limitations encountered in this study because of lack of information. It is merely one more instance showing the need for adequate and reliable statistical data.

Secondly, the importance of the gross production tax as a source of revenue for the state of Oklahoma was pointed out. It was emphasized that the gross production tax is a major source of revenue for the state of Oklahoma. In fiscal year 1955-56 the gross production tax accounted for better than 14 per cent of the total tax collections by the Oklahoma Tax Commission. Any tax which is so important needs constant attention by the tax authorities.

The ease and low cost of administration of the gross production tax was pointed out as one of the principle advantages of the gross production tax. The point was made that the low cost of administration served to offset the disadvantage of unstable receipts.

Lastly, this thesis showed concern that there is a possibility of decreasing oil and gas deposits in the future and any serious decline would have a marked effect on total revenue receipts.

It appears to the writer that considering all the pros and cons of both gross production taxation and ad valorem property taxation of oil and gas the former is the better of the two.

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