

1 STATE OF OKLAHOMA

2 2nd Session of the 60th Legislature (2026)

3 COMMITTEE SUBSTITUTE
4 FOR

5 HOUSE BILL NO. 3986

6 By: Caldwell (Trey)

7 COMMITTEE SUBSTITUTE

8 An Act relating to taxes; amending 68 O.S., Section
9 1001, as last amended by Section 1, Chapter 51,
10 O.S.L. 2025 (68 O.S. Supp. 2025, Section 1001), which
11 relates to gross production tax; requiring certain
12 completion methods for specific exemptions; and
13 providing an effective date.

14 BE IT ENACTED BY THE PEOPLE OF THE STATE OF OKLAHOMA:

15 SECTION 1. AMENDATORY 68 O.S. 2021, Section 1001, as
16 last amended by Section 1, Chapter 51, O.S.L. 2025 (68 O.S. Supp.
17 2025, Section 1001), is amended to read as follows:

18 Section 1001. A. There is hereby levied upon the production of
19 asphalt, ores bearing lead, zinc, jack and copper a tax equal to
20 three-fourths of one percent (3/4 of 1%) on the gross value thereof.

21 B. On or after the effective date of this act and except as
22 provided by paragraph 4 of this subsection, there shall be levied a
23 tax on the gross value of the production of oil and gas as follows:

24 1. Upon the production of oil a tax equal to seven percent (7%)
of the gross value of the production of oil based on a per barrel

1 measurement of forty-two (42) U.S. gallons of two hundred thirty-one
2 (231) cubic inches per gallon, computed at a temperature of sixty
3 (60) degrees Fahrenheit;

4 2. Upon the production of gas a tax equal to seven percent (7%)
5 of the gross value of the production of gas;

6 3. Notwithstanding the levies in paragraphs 1 and 2 of this
7 subsection, the production of oil, gas, or oil and gas from wells
8 spudded prior to the effective date of this act, and on or after the
9 effective date of this act, shall be taxed at a rate of five percent
10 (5%) commencing with the month of first production for a period of
11 thirty-six (36) months. Thereafter, the production shall be taxed
12 as provided in paragraphs 1 and 2 of this subsection; and

13 4. If the provisions of Article XIII-C of the Oklahoma
14 Constitution are approved by the people pursuant to adoption of
15 State Question No. 795, the rate of gross production tax imposed by
16 paragraph 3 of this subsection shall be reduced to two percent (2%)
17 for the first thirty-six (36) months of production and thereafter
18 the rate of taxation shall be seven percent (7%).

19 C. The taxes hereby levied shall also attach to, and are levied
20 on, what is known as the royalty interest, and the amount of such
21 tax shall be a lien on such interest.

22 D. 1. Except as otherwise provided in this section, for
23 secondary and tertiary recovery projects approved or having an
24 initial project start date on or after July 1, 2022, all production

1 which results from such secondary and tertiary recovery projects
2 shall be exempt from the gross production tax levied pursuant to
3 this section for a period not to exceed five (5) years from the
4 initial project start date or for a period ending upon the
5 termination of the secondary and tertiary recovery process,
6 whichever occurs first.

7 2. For purposes of this subsection, "project start date" means
8 the date on which the injection of liquids, gases, or other matter
9 begins on an enhanced recovery project.

10 3. For new secondary and tertiary recovery projects approved by
11 the Oklahoma Corporation Commission on or after July 1, 2022, such
12 approval shall constitute qualification for an exemption.

13 4. For all production exempted pursuant to this subsection, a
14 refund against gross production taxes shall be issued as provided in
15 subsection F of this section.

16 5. Except as otherwise provided in this section, any production
17 which results from a recovery project from a well on the Corporation
18 Commission's orphaned well list shall receive a fifty-percent
19 reduction from the gross production tax levied pursuant to paragraph
20 3 of subsection B of this section from the project beginning date
21 for a period of thirty-six (36) months, after which the rate shall
22 increase to the full rate of tax prescribed by paragraph 3 of
23 subsection B of this section. Furthermore, before any production
24 from a recovery project under this paragraph occurs the producer

1 overseeing the project shall file a corporate surety bond, letter of
2 credit from a banking institution, cash, or a certificate of deposit
3 with the Secretary of State in the sum of Twenty-five Thousand
4 Dollars (\$25,000.00), per well transferred from the Corporation
5 Commission's orphaned well list, conditioned upon recovery under
6 this project for thirty-six (36) months. The Secretary of State
7 shall hold such corporate surety bond, letter of credit from a
8 banking institution, cash, or certificate of deposit for the benefit
9 of the Corporation Commission Plugging Fund if such well is
10 abandoned by the producer and returns to the Corporation
11 Commission's orphaned well list.

12 E. Except as otherwise provided by this section, the production
13 of oil, gas, or oil and gas from wells ~~drilled but not completed as~~
14 ~~of July 1, 2021, which are~~ completed with the use of recycled water
15 ~~on or after July 1, 2022,~~ shall earn an exemption from the gross
16 production tax levied from the date of first sales for a period of
17 twenty-four (24) months. The exemption provided in this subsection
18 shall be proportional to the percentage of the total amount of water
19 used to complete the well that is recycled water. For all
20 production exempted pursuant to this subsection, a refund against
21 gross production taxes shall be issued as provided in subsection F
22 of this section. For purposes of this subsection, "recycled water"
23 means oil and gas produced water and waste that has been

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1 reconditioned or treated by mechanical or chemical processes into a
2 reusable form.

3 F. On or after July 1, 2022, for all oil and gas production
4 exempt from gross production taxes pursuant to subsections D and E
5 of this section during a given fiscal year, a refund of gross
6 production taxes shall be issued to the well operator or a designee
7 in the amount of such exempted gross production taxes paid during
8 such period, subject to the following provisions:

9 1. A refund shall not be claimed until after the end of the
10 fiscal year. As used in this subsection, a fiscal year shall be
11 deemed to begin on July 1 of one calendar year and shall end on June
12 30 of the subsequent calendar year;

13 2. Unless otherwise specified, no claims for refunds pursuant
14 to the provisions of this subsection shall be filed more than
15 eighteen (18) months after the first day of the fiscal year in which
16 the refund is first available;

17 3. Any person claiming a refund pursuant to the exemption
18 provided in subsections D and E of this section shall file an
19 application with the Tax Commission which, upon determination of
20 qualification by the Corporation Commission, shall approve the
21 application for such exemption;

22 4. The Tax Commission may require any person claiming a refund
23 pursuant to the exemptions provided in subsections D and E of this
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1 section to furnish information or records concerning the exemption
2 as is deemed necessary by the Tax Commission;

3 5. No claims for refunds pursuant to the provisions of this
4 subsection shall be filed by or on behalf of persons other than the
5 operator or a working interest owner of record at the time of
6 production;

7 6. No entity, including subsidiaries of the entity, shall be
8 authorized to receive refunds claimed pursuant to the exemption
9 provided in subsection D of this section that exceed twenty percent
10 (20%) of the limitation provided in paragraph 7 of this subsection;
11 and

12 7. The total amount of refunds authorized shall not exceed
13 Fifteen Million Dollars (\$15,000,000.00) pursuant to the exemption
14 provided in subsection D of this section and Ten Million Dollars
15 (\$10,000,000.00) pursuant to the exemption provided in subsection E
16 of this section for any fiscal year. If the amount of claims for
17 refunds exceed the limits provided in this paragraph, the Tax
18 Commission shall determine the percentage of the refund which
19 establishes the proportionate share of the refund which may be
20 claimed by any taxpayer so that the maximum amounts authorized by
21 this paragraph are not exceeded.

22 G. On or after July 1, 2022, all persons shall only be entitled
23 to either the exemption granted pursuant to subsection D or E of
24 this section for each oil, gas, or oil and gas well drilled or

1 recompleted in this state. However, any person who qualifies for
2 the exemption granted pursuant to subsection E of this section shall
3 not be prohibited from qualification for the exemption granted
4 pursuant to subsection D of this section if the exemption granted
5 pursuant to subsection E of this section has expired.

6 H. The Tax Commission shall have the power to require any such
7 person engaged in mining or the production or the purchase of such
8 asphalt, mineral ores aforesaid, oil, or gas, or the owner of any
9 royalty interest therein to furnish any additional information by it
10 deemed to be necessary for the purpose of correctly computing the
11 amount of the tax; and to examine the books, records and files of
12 such person; and shall have power to conduct hearings and compel the
13 attendance of witnesses, and the production of books, records and
14 papers of any person.

15 I. Any person or any member of any firm or association, or any
16 officer, official, agent or employee of any corporation who shall
17 fail or refuse to testify; or who shall fail or refuse to produce
18 any books, records or papers which the Tax Commission shall require;
19 or who shall fail or refuse to furnish any other evidence or
20 information which the Tax Commission may require; or who shall fail
21 or refuse to answer any competent questions which may be put to him
22 or her by the Tax Commission, touching the business, property,
23 assets or effects of any such person relating to the gross
24 production tax imposed by this article or exemption authorized

1 pursuant to this section or other laws, shall be guilty of a
2 misdemeanor, and, upon conviction thereof, shall be punished by a
3 fine of not more than Five Hundred Dollars (\$500.00), or
4 imprisonment in the jail of the county where such offense shall have
5 been committed, for not more than one (1) year, or by both such fine
6 and imprisonment; and each day of such refusal on the part of such
7 person shall constitute a separate and distinct offense.

8 J. The Tax Commission shall have the power and authority to
9 ascertain and determine whether or not any report herein required to
10 be filed with it is a true and correct report of the gross products,
11 and of the value thereof, of such person engaged in the mining or
12 production or purchase of asphalt and ores bearing minerals
13 aforesaid and of oil and gas. If any person has made an untrue or
14 incorrect report of the gross production or value or volume thereof,
15 or shall have failed or refused to make such report, the Tax
16 Commission shall, under the rules prescribed by it, ascertain the
17 correct amount of either, and compute the tax.

18 K. The payment of the taxes herein levied shall be in full, and
19 in lieu of all taxes by the state, counties, cities, towns, school
20 districts and other municipalities upon any property rights attached
21 to or inherent in the right to the minerals, upon producing leases
22 for the mining of asphalt and ores bearing lead, zinc, jack or
23 copper, or for oil, or for gas, upon the mineral rights and
24 privileges for the minerals aforesaid belonging or appertaining to

1 land, upon the machinery, appliances and equipment used in and
2 around any well producing oil, or gas, or any mine producing asphalt
3 or any of the mineral ores aforesaid and actually used in the
4 operation of such well or mine. The payment of gross production tax
5 shall also be in lieu of all taxes upon the oil, gas, asphalt or
6 ores bearing minerals hereinbefore mentioned during the tax year in
7 which the same is produced, and upon any investment in any of the
8 leases, rights, privileges, minerals or other property described
9 herein. Any interest in the land, other than that herein
10 enumerated, and oil in storage, asphalt and ores bearing minerals
11 hereinbefore named, mined, produced and on hand at the date as of
12 which property is assessed for general and ad valorem taxation for
13 any subsequent tax year, shall be assessed and taxed as other
14 property within the taxing district in which such property is
15 situated at the time.

16 L. No equipment, material or property shall be exempt from the
17 payment of ad valorem tax by reason of the payment of the gross
18 production tax except such equipment, machinery, tools, material or
19 property as is actually necessary and being used and in use in the
20 production of asphalt or of ores bearing lead, zinc, jack or copper
21 or of oil or gas. Provided, the exemption shall include the
22 wellbore and non-recoverable down-hole material, including casing,
23 actually used in the disposal of waste materials produced with such
24 oil or gas. It is expressly declared that no ice plants, hospitals,

1 office buildings, garages, residences, gasoline extraction or
2 absorption plants, water systems, fuel systems, rooming houses and
3 other buildings, nor any equipment or material used in connection
4 therewith, shall be exempt from ad valorem tax.

5 SECTION 2. This act shall become effective January 1, 2027.

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