

Severance Tax Index

Question: *How does an accrual basis taxpayer file a severance tax return when a third party producer is able to provide only cash basis income and ad valorem information?*

Answer: An accrual basis taxpayer is required to report all gross income and ad valorem tax paid when the income or tax is accrued. However, some producers are unable to provide the accrual basis information on the DR 21W as required. This makes the filing of an accurate severance return impossible for the taxpayer who is lacking the accrual information from a third party producer.

In this situation, the taxpayer will have to file the severance tax return using the cash basis income and ad valorem taxes for only that production for which accrual information is not available. The taxpayer must be able to substantiate that:

- the accrual information is not available (including documentation from their contacts with the noncomplying producer),
- the cash basis is used consistently each year for that production, and
- the difference between the cash and accrual information is de minimis.

An accrual taxpayer may never use cash basis income and ad valorem tax on its severance tax return for its own production.

If the difference between the cash and accrual information is not de minimis, the taxpayer will be required to obtain production data and copies of the ad valorem tax bills from the operator. These will be used to show the calculated accrual information, which will be the income and total tax paid for the property multiplied by the company's working interest for the tax year.