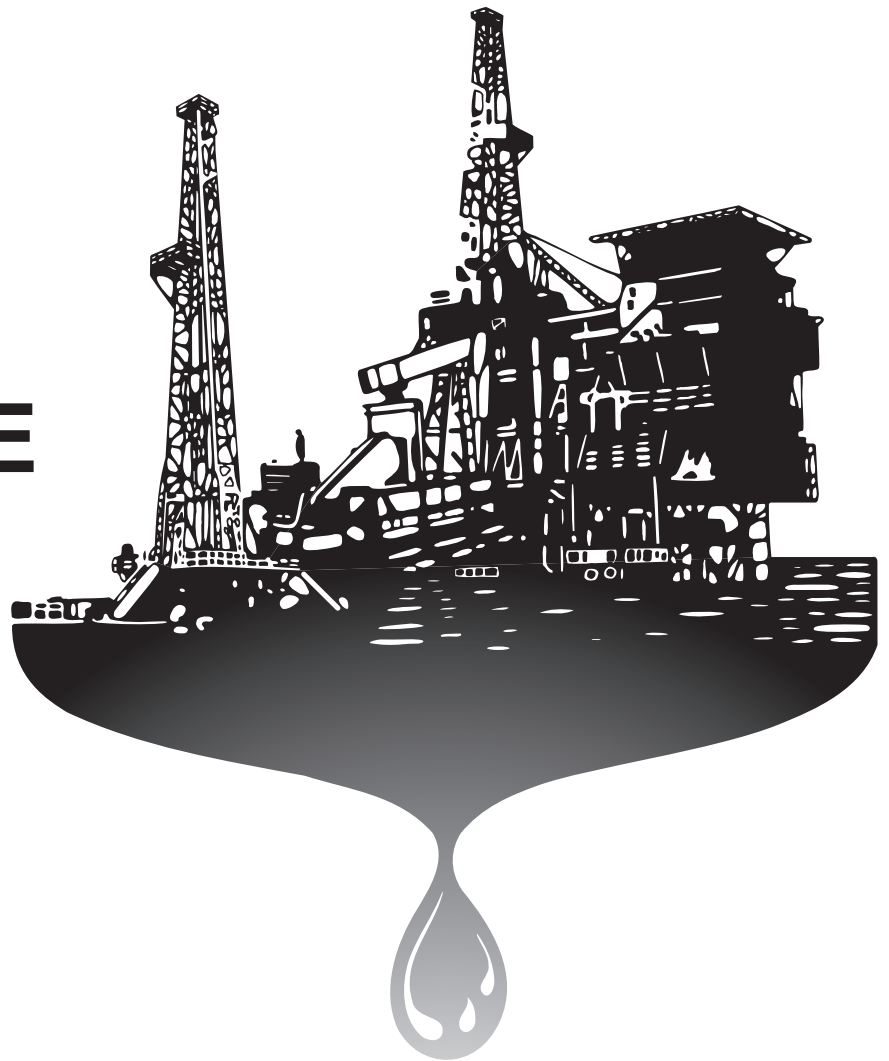


2011 COLORADO SEVERANCE TAX



Forms and Instructions

This booklet contains:

DR 0021

Oil and Gas Severance Tax Return

DR 0021D

Oil and Gas Severance Tax Computation Schedule

DR 0021PD

Detail Information for Producers

DR 0021S

Application for Extension of Time to File Colorado
Severance Tax Return

Severance Tax Forms

All forms in this booklet may be photocopied. Other
severance tax forms and schedules not included in
this booklet can be accessed on the Web site at:
www.TaxColorado.com



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www.TaxColorado.com

GENERAL INFORMATION

WHAT IS THE COLORADO SEVERANCE TAX?

Colorado severance tax is imposed upon nonrenewable natural resources that are removed from the earth in Colorado. The tax is calculated on the gross income from oil and gas and carbon dioxide production.

WHO MUST FILE THE COLORADO SEVERANCE TAX OIL AND GAS RETURN (DR 0021)?

Anyone who receives taxable income from oil or gas produced in Colorado. If you are a producer or own a working interest, or a royalty interest in any oil or gas (including carbon dioxide) produced in Colorado, or if you receive royalties on Colorado oil shale, you must pay severance tax to the State of Colorado. Severance tax might be due even though you do not realize a net profit on your investment.

A **limited partnership, LLC or S Corporation** must file at the entity level. Partners, members, or shareholders do not file a severance tax return to report oil and gas income received by the pass-through entity. A **General Partnership** will not file at the entity level. Each partner, and not the general partnership, is required to file the return.

Oil and gas production from “**stripper wells**” is exempt from severance tax. This includes oil from a well that produces 15 barrels or less of crude oil per day or gas from a well that produces 90,000 cubic feet or less of gas per day, for the average of all producing days during the taxable year.

HOW WILL I KNOW HOW MUCH HAS BEEN WITHHELD FROM MY OIL AND GAS INCOME PAYMENTS?

Producers or first purchasers who disburse funds must withhold 1 percent of the gross income of **all** interest owners. This includes royalty, working or any other interest owner.

The producer or first purchaser is required to send you an “Oil and Gas Withholding Statement” (DR 0021W) by **March 1 of each year**. This form lists your gross income and the amount of severance tax the producer has withheld and paid to the state from your royalty or production payments. If you own an interest in more than one well or field, you should receive a separate withholding statement from each producer or first purchaser. **A copy of each withholding statement must be attached to your severance tax return (DR 0021).**

The producer or first purchaser will also list your share of “ad valorem” taxes, if any, on the withholding statement. Ad valorem taxes are paid by the producer to local governments (cities and counties). You are allowed a credit against severance tax of 87.5% of your share of ad valorem taxes paid or assessed on actual oil or gas production (not the tax on facilities or equipment). However, **ad valorem taxes on production from “stripper wells” should not be included in the credit.** Specific instructions for this deduction are on the “Colorado Oil and Gas and Carbon Dioxide Severance Tax Schedule” (DR 0021D). You should verify that the withholding statements accurately report the same information as shown on your division of interest statements and revenue checks.

****Note** Partners of a General Partnership**

Partners of a General Partnership should attach a copy of the partnership’s DR 0021W and a schedule detailing their individual portion of gross income and taxes paid or withheld as reported on their individual returns.

WHAT IS MY TAX YEAR?

Your federal income tax year or filing period is also your severance tax year or filing period.

WHAT IS MY FILING STATUS?

Your Colorado filing status will always be joint if you are married for federal income tax purposes. For example, if you file a joint or married filing separate federal return, you must file a joint Colorado return. If you file a single or head of household federal return, you must file a single Colorado return.

WHEN IS THE COLORADO SEVERANCE TAX RETURN DUE?

You must complete and file a “Colorado Oil and Gas Severance Tax Return” (DR 0021) annually. The return and your payment, if any, are due by the 15th day of the fourth month after the close of your taxable year. Therefore, if your taxable year ends on December 31, your severance tax return is due April 15 of the following year. The envelope must be postmarked by the due date, or the next business day if the deadline falls on a Saturday, Sunday or holiday.

Mail your Colorado severance tax return and, if applicable, tax payment to:

**Colorado Department of Revenue
Denver, CO 80261-0007**

CAN I GET AN EXTENSION OF TIME FOR FILING THE SEVERANCE TAX RETURN?

Yes. If you are unable to complete your severance tax return by the filing deadline and you estimate that you will owe severance tax, you can request a six-month extension by filing the DR 0021S included as page 11 of this booklet. The DR 0021S is an extension of time for filing your return. It is not an extension of time for paying your severance tax.

An extension of time for filing your federal or Colorado income tax return does not qualify as an extension of time for filing your severance tax return if you owe severance tax. If no balance of severance tax is due, an extension for filing is not required.

CAN I AMEND MY COLORADO SEVERANCE TAX RETURN?

Yes. You are required to file a DR 0021X to make a change or correction on your return. The DR 0021X is available on the Web site at www.TaxColorado.com

CAN I FILE SEVERANCE TAX RETURNS FOR PRIOR YEARS?

Yes. However, the statute of limitations for claiming a severance tax refund is three years from the due date.

GENERAL INFORMATION (continued)

ARE ESTIMATED SEVERANCE TAX PAYMENTS REQUIRED?

Corporations who expect their Colorado severance tax liability for the year to exceed their Colorado severance credits by \$5,000 or more are required to make estimated tax payments. Estimated tax payments are due each month by the 15th day of that month and must be submitted by Electronic Funds Transfer (EFT). A paper voucher for these tax payments is not required; the EFT transaction is the filing. You may obtain information (form DR 5782) and an application (form DR 5785) for EFT transactions at www.TaxColorado.com Individuals are not required to make estimated payments for severance tax.

HOW DO I FILE ON BEHALF OF A DECEASED TAXPAYER?

If you are a surviving spouse or legal representative of someone who died during 2011, you may file a return on the deceased's behalf. Write "deceased" across the top of the return, check the box after the deceased person's name, and write the date of death next to the deceased person's name. Additionally, you must sign the return and write "filing as surviving spouse" or "filing as legal representative" by your signature. Any person other than the surviving spouse who files a return and requests a refund on behalf of a deceased person must file a DR 0102, available on our Web site, and a copy of the death certificate with the return.

HOW LONG SHOULD I KEEP MY SEVERANCE TAX RECORDS?

Keep all records you used in preparing your return for at least three years after the due date or filing date of your return, whichever is later. If your return is audited by the Colorado Department of Revenue, you must be able to provide backup documents for all claims and credits listed on your return. Please note that you are not protected from audit adjustments to your severance tax return simply because an operator or purchaser supplied the information. Also, the Department of Revenue may request copies of your federal and Colorado income tax return or other documentation in connection with your Colorado severance return.

DO I ALSO HAVE TO PAY COLORADO STATE INCOME TAXES ON MY OIL AND GAS INCOME?

Yes. Severance tax is different from income tax. If you receive oil, gas or CO₂ income from Colorado sources you must also complete and file a Colorado state income tax return. The form 104 is available on the Web site at www.TaxColorado.com
Do not claim severance tax withholding as a tax credit on your Colorado income tax return.

NONFILERS

If you have a severance tax account or a severance withholding account open with the Colorado Department of Revenue or if you have oil and gas income subject to severance tax and do not file a return for any period, you will be sent a nonfiler notice. The nonfiler will remain due and payable until you file your return or close your account. If you are no longer doing business in the State of Colorado, you are required to close your account by filing a DR 1102, Account Change or Closure Form. The form can be found on the department's Web site at www.TaxColorado.com

WHAT ARE THE COMMON FILING ERRORS ON SEVERANCE TAX RETURNS?

Be alert to the following filing tips to avoid delays in return processing, payments and refunds.

- Use the correct tax year form when filing a Colorado severance tax return.
- Married couples must file jointly.
- Taxpayers must complete the DR 0021D, Colorado Oil and Gas Severance Tax Schedule, and attach it to the DR 0021 return. Both of these forms are in this booklet.
- Be sure to carry the correct totals from the DR 0021D schedule to the DR 0021 return.
- Attach all DR 0021Ws (Oil and Gas Withholding Statement) to the DR 0021 return. Missing DR 0021Ws result in delayed refunds.
- Add up all the DR 0021W withholding statements, then round to the nearest dollar. Do not round each individual DR 0021W statement and then add them.
- Do not use a 1099-MISC withholding document for severance tax filing. 1099s are income tax withholding documents. They will not prove severance tax withholding and the department will not allow credit based on the withholding shown on a 1099 document.
- Do not try to claim a percentage of the withholding shown on the DR 0021W and do not create spreadsheets to show the ownership percentage. Use the amounts on the DR 0021W. The ownership percentage has already been calculated by the entity that issued the DR 0021W withholding statement.
- Do not claim all of the withholding but only part of the income.
- Taxpayers must not deduct gross payments attributable to stripper well production if these are not shown on a DR 0021W.
- Taxpayers are either on an accrual basis or a cash basis—not both. Most individuals are on a cash basis while most corporations are on an accrual basis.
- If a return should be filed on behalf of an entity, such as partnership or limited liability company, do not try to file as an individual.

Corporations that expect their Colorado severance tax liability for a tax year to exceed their Colorado severance tax credits by \$5,000 or more are required to make estimated tax payments.

To avoid underestimation penalties, corporations must make severance tax estimated payments by the 15th day of the month and must payments be submitted by Electronic Funds Transfer (EFT).

For more information, please review publication FYI General 4, Severance Tax Information for Owners of any Interest in any Oil and Gas Produced in Colorado.

INSTRUCTIONS FOR PREPARING SEVERANCE TAX FORM DR 0021

WHO MUST FILE

Every individual, corporation, business trust, limited partnership, LLC, partner in a general partnership, association, estate, trust or any other legal entity that received income from oil and gas produced in Colorado must file a severance tax return. The return must be made for the same tax year used for federal income tax purposes and is due on or before the 15th day of the fourth month following the end of the taxable year. See general information section for exception.

Controlled group: corporations, family group, or other type of group

In the case of a controlled group of corporations as defined in section 613A of the Internal Revenue Code where more than one member of the group is subject to the severance tax, the tax must be jointly computed and the severance tax return must be jointly filed under the name of the principal taxpaying corporation. DR 0021AS, available upon request from the Department of Revenue, must be attached.

Joint returns

A married couple must file a joint return even if there is no income reportable by one of the spouses. A family (man and/or woman with minor children), when more than one member of the family is subject to the severance tax, must compute the severance tax on one combined return filed under the parent(s) Social Security number.

SOCIAL SECURITY OR COLORADO ACCOUNT NUMBER

Individuals must use a Social Security number as the Colorado account number. Business entities must provide the Colorado account number and the Federal Employer Identification Number (FEIN). Whether you are an individual or a business entity, once you have been assigned a Colorado account number by the Colorado Department of Revenue, use the Colorado account number on all returns and correspondence submitted to the Department. For Privacy Act Notice, see FYI General 2.

TAX AND CREDIT—Complete schedule DR 0021D first to calculate your severance tax.

1. **Oil and Gas Severance Tax:** Enter on line 1 your net tax from line 5 of schedule DR 0021D.
2. **Impact Assistance Credit:** A credit against the severance tax is allowed with respect to contributions to local government that are deemed to be necessary because of a new severance operation or the increase in production at an existing operation. The amount of the credit must be certified by the Executive Director of the Department of Local Affairs. Enter your impact assistance credit for the year on line 2.
3. **Net Tax:** Subtract line 2 from line 1, and enter the difference on line 3. If line 2 is larger than line 1, enter zero.

PREPAYMENTS

4. **Severance Tax Withheld:** Enter on line 4 the total amount shown on all of your oil and gas withholding statements (DR 0021W) as Colorado severance tax withheld. Add all amounts, then round to the nearest dollar. **Be sure to attach your DR 0021W forms to your return; missing DR 0021Ws will delay your refund. Do not claim credit for conservation tax or ad valorem taxes on this line.**
5. **Estimated Tax and Extension Payments:** Enter on line 5 the total amount of your estimated tax and extension payments made for the taxable year.

REFUND OR BALANCE DUE

7. **Overpayment:** Subtract line 3 from line 6 and enter the difference on line 7. The Department will send you a refund check for this amount if your form is properly completed.
8. Enter the amount from line 7 that you wish to have refunded. The Department can deposit your refund directly in to your account at a U.S. bank or other financial institution (such as a mutual fund, brokerage firm, or credit union) in the United States.
9. **Refund Applied to Future Period:** enter on line 9 the amount of overpayment, if any, you wish credited to estimated severance tax payment for next year.
10. **Tax You Owe:** If line 3 is more than line 6, you have additional tax to pay. Subtract line 6 from line 3 and enter the difference on line 10. This is the amount you owe. Attach to your return a check or money order in this amount payable to the Colorado Department of Revenue. **Be sure to write your Social Security number or Colorado account number on your check or money order to ensure credit for your payment.**
11. **Interest:** If the return is filed after the due date, interest at the current statutory rate will accrue on any balance of tax due until paid. The interest rate is 6% per year if we bill you and your payment is made more than 30 days after you receive your bill. If you pay your tax with your return or within 30 days of receiving a bill, the interest rate is 3% per year. Enter the amount of late filing interest on line 11.
12. **Penalty:** The penalty on any late filed return with a balance of tax due is \$30 or 30% of the balance of tax due, whichever is greater. Enter the amount of late filing penalty on line 12.
13. **Estimated Tax Penalty:** Corporations that underpay the estimated tax must enter the penalty due from the DR 0206.

BE SURE TO SIGN YOUR RETURN! IF FILING A JOINT RETURN, BOTH SPOUSES MUST SIGN. TO ENSURE PROPER PROCESSING, PLEASE INCLUDE YOUR ACCOUNT NUMBER ON THE RETURN.

10/28/11

FORM DR 0021-2011
COLORADO SEVERANCE TAX
RETURN
OIL AND GAS
(7001)

Vendor ID

For calendar year 2011
or other tax year beginning _____, 2011 _____ Ending _____, 20_____.

Form section with fields: Last Name (or Corporation Name), First Name and Middle Initial, Deceased, Social Security Number or Colorado Account No., Your Spouse (see controlled group definition), Spouse's Social Security Number, Address, Federal Employer ID Number, City, State, ZIP Code, Telephone.

If this is a final return check this box.....

Are you a producer of Colorado Oil or Gas? YES NO ROUND TO THE NEAREST DOLLAR

Table with 3 columns: Description, Amount, and Balance. Rows include: 1. Oil and gas tax, enter amount from line 5, DR 0021D; 2. Impact assistance credit; 3. Net tax, line 1 minus line 2 but not less than zero.

Table with 3 columns: Description, Amount, and Balance. Rows include: 4. Severance tax withheld, attach forms DR 0021W; 5. Estimated tax and extension payments; 6. Total prepayments, add lines 4 and 5.

Table with 3 columns: Description, Amount, and Balance. Rows include: 7. If line 6 is larger than line 3, enter your overpayment; 8. Enter amount from line 7 you want refunded.



Routing number [] [] [] [] [] [] [] [] [] [] Type: Checking Savings
Account number []

Table with 3 columns: Description, Amount, and Balance. Rows include: 9. Enter amount from line 7, if any, you want credited to estimated tax for next year; 10. If line 3 is larger than line 6, enter the balance due here; 11. Interest on balance due; 12. Penalty on balance due; 13. Estimated tax penalty (corporations only); 14. Total amount due, add lines 10, 11, 12 and 13. Paid by EFT

The State may convert your check to a one time electronic banking transaction. Your bank account may be debited as early as the same day received by the State. If converted, your check will not be returned. If your check is rejected due to insufficient or uncollected funds, the Department of Revenue may collect the payment amount directly from your bank account electronically.

MAIL YOUR SEVERANCE TAX RETURN SEPARATELY FROM YOUR INCOME TAX RETURN.

MAIL TO AND MAKE CHECKS PAYABLE TO: Colorado Department of Revenue
Denver, CO 80261-0007

Under penalty of perjury in the second degree, I declare that I have examined this return and to the best of my knowledge and belief it is true, correct, and complete.
Signature of Individual Taxpayer, Spouse's Signature, Signature of Corporate Officer, Date, Name, address and telephone number of person preparing return.

ATTACH FORM DR 0021W WITHHOLDING FORMS

INSTRUCTIONS FOR PREPARING SEVERANCE TAX SCHEDULE DR 0021D

PURPOSE OF FORM

Use the DR 0021D to calculate the amount of Colorado severance tax to enter on line 1 of the DR 0021.

Based on your accounting method (cash or accrual basis), use the amounts listed on the DR 0021W you received to complete DR 0021D. **If you disagree with the information provided by a producer/first purchaser, you must request a corrected DR 0021W prior to completing the DR 0021D.** Round all amounts to whole dollars.

COLUMN

- (A) **PRODUCER NAME.** Enter in column (A) the name of the producer/first purchaser from each DR 0021W. All information entered on form DR 0021D must have a form DR 0021W included with the return.
- (B) **GROSS INCOME.** Enter in column (B) the gross income as reported on DR 0021W. This is your share of the gross income received or accrued on oil or gas production.
- (C) **GROSS INCOME ATTRIBUTABLE TO STRIPPER WELL PRODUCTION.** Enter in column (C) the gross income attributable to stripper well production as reported on the DR 0021W.
- (D) **NET GROSS INCOME.** Enter in column (D) the net gross income by subtracting the stripper well gross income listed in column (C) from the gross income listed in column (B).
- (E) **AD VALOREM TAX.** Enter in column (E) the ad valorem tax as reported on the DR 0021W. This is the amount paid or accrued to Colorado local governments in the taxable year on oil and gas production. Do not include ad valorem tax on buildings, improvements, or equipment. A percentage of ad valorem tax is allowed as a reduction to the severance tax.
- (F) **AD VALOREM TAX ATTRIBUTABLE TO STRIPPER WELL PRODUCTION.** Enter in column (F) the ad valorem tax attributable to stripper well production as reported on the DR 0021W.
- (G) **NET AD VALOREM TAX.** Enter in column (G) the net ad valorem tax by subtracting the stripper well ad valorem tax listed in column (F) from the ad valorem tax listed in column (E).

Cash or Accrual Basis. Oil and gas revenue and related ad valorem tax must be reported on a basis consistent

****Note** Reporting revenue and ad valorem taxes in the correct tax year is critical to filing a correct return. Please review the following information.**

with the basis used for filing your federal income tax return. Thus, if you are a cash-basis federal taxpayer (this applies to most individuals), reporting income when received and deductions when paid, you must report the same way on the severance tax schedule (DR 0021D). You should include only the income received in the tax period. If you use the accrual basis (this applies to most corporations), you must report income from all production in the tax period whether you actually received the income or not, including deferred amounts if they are reported on the federal income tax return.

Reporting Ad Valorem Tax. (This information applies to the following examples.)

- 2009—year of oil or gas production.
- Dec. 2010—ad valorem tax levy assessed on 2009 production.....\$1,000
- April 2011—ad valorem tax paid on 2009 production.....\$1,000
- Ad valorem tax related to 2009 production from stripper wells.....\$250

Cash-Basis Taxpayers. Report only ad valorem tax (on production) actually paid to the county assessor during the severance tax year. Payments to operators of wells do not qualify, only actual payments to the assessor. If a payment is skipped during a tax year, (for example, delinquent) no claim for tax is allowed. Catch-up or double payments must all be claimed in the year paid and cannot be carried back or forward.

Example 1. Taxpayer files a severance tax return for the calendar year 2009 or fiscal year ending in 2009 based upon information given above.

Result: Taxpayer cannot claim ad valorem tax on 2009 return since the tax was not paid in the taxpayer's tax year.

Example 2. Taxpayer files a severance tax return for the calendar year 2011 or fiscal year ending April or later in 2011.

Result: Since the tax was paid in the tax year, 2011, taxpayer may report ad valorem tax of \$750.

(INSTRUCTIONS CONTINUED ON PAGE 8)

COLORADO OIL AND GAS SEVERANCE TAX SCHEDULE

(ATTACH TO FORM DR 0021)

Vendor ID

Page ____ of ____

**Please round dollars
 to whole dollars.**

For tax year beginning _____, 20____ ending _____, 20 ____

Taxpayer's Name					Social Security or Colorado Account No.	
(A) Producer Name List each 0021W on a Separate Line	(B) Gross Income	(C) Gross Income Attributable to Stripper Well Production	(D) Net Gross Income (Column B-C)	(E) Ad Valorem	(F) Ad Valorem Attributable to Stripper Well Production	(G) Net Ad Valorem (Column E-F)

Check Accounting Method **cash-basis** or **accrual basis**

1. Net gross income [total of column (D)] • 1	00	
2. Tax on total net gross income (see tax rate schedule below) • 2	00	
3. Net ad valorem tax [total of column (G)] • 3	00	
4. Ad valorem tax credit, 87.5% of the amount on line 3 • 4	00	
5. Net tax on oil and gas income, line 2 minus line 4. If line 4 is larger enter 0. Enter here and on line 1 of form DR 0021 5	00	

TAX RATE SCHEDULE	
If total net gross income is:	The tax is:
Under \$25,000	2% of gross income
\$25,000–\$99,999	\$500 plus 3% of the excess over \$24,999
\$100,000–\$299,999	\$2,750 plus 4% of the excess over \$99,999
\$300,000 and over	\$10,750 plus 5% of the excess over \$299,999



0.65 in



