Part VIII Miscellaneous Tax, Subpart 02 Gas Severance Tax

Chapter 02 Determining the Sales Price or Market Value of Natural Gas

100 General Provisions

101 Miss. Code Ann. Section 27-25-701(d) requires the sales price or market value of natural gas to be determined at the mouth of the well.

102 If natural gas is used by the producer or owner of the well, resulting in no actual sale, a sales price or market value must still be determined to compute severance tax.

103 The actual sales price negotiated for the sale of natural gas occurring at the mouth of the well shall be the sales price or market value of the natural gas for severance tax purposes under Miss. Code Ann. Section 27-25-701(d) unless the relationship between the buyer and the seller is such that the consideration paid, if any, is not indicative of the true market value.

104 If the sale of natural gas occurs at the mouth of the well but is not indicative of the true market value, the Commissioner may use the valuation requirements for natural gas that is used by the producer or owner of the well to determine the sales price or market value for severance tax purposes under Miss. Code Ann. Section 27-25-701(d).

105 Natural gas which is used by the producer or owner of the well shall be valued at the same value per MCF as that of gas of like quality that is sold in the same or nearby field.

106 If there is no sale of gas of like quality in the same or nearby field, the value of the gas used shall be reported at the statewide benchmark to be determined by the Commissioner. The statewide benchmark shall be reviewed and amended as needed but no more often than quarterly.

107 In circumstances where the sale of natural gas does not occur at the mouth of the well, the market value of the natural gas shall be determined by deducting allowable marketing and transportation costs from the producer's gross proceeds from the sale of gas and by adding back the value of byproducts created while processing the gas for sale.

108 (Reserved)

200 Allowable Deductions for the Determination of the Value of Natural Gas sold at the Well Head

201 Certain marketing costs and third party transportation will be considered allowable deductions for the determination of the value of natural gas. Costs which are not allowed as a deduction under any circumstances include, but are not limited to, costs associated with production, costs associated with normal lease separation, insurance premiums, and all operating expenses.

202 Marketing costs and third party transportation are those costs incurred by the producer to get the unmarketable gas to a salable state and /or deliver the gas from the mouth of the well to the market. Deductible marketing costs are limited to:

1. Sweetening which is defined as any activity that removes acid gases, such as hydrogen sulfide and carbon dioxide, from the well stream. Sweetening includes absorption, stabilization, thermal and catalytic conversions, chemical reaction and regeneration;
2. Dehydration which is defined as any activity which removes water vapor that is commonly associated with raw natural gas;
3. Compression which is defined as any activity associated with processing or transporting gas which mechanically increases the pressure of natural gas;
4. Third party transportation which will only be an allowable deduction if the actual charges are for trucking, barging, and pipeline fee charged the producer by an entity other than the purchaser.

203 Natural gas used by the owner or producer on a leased property is subject to the provisions of this Chapter of the Mississippi Administrative Code as well as applicable statutory provisions. The value of natural gas used shall be reported as that of like quality that is sold in the same or nearby field.

204 The deductions for marketing costs and third party transportation cannot exceed an 8% limit of the sales price of the gas, there will be no carryover deduction allowed.

205 Taxpayers utilizing available deductions are required to report these deductions to the Mississippi Department of Revenue when filing monthly gas severance tax returns.

206 Taxpayers must report the total gross proceeds from the sale of gas and enter the deductions taken on each lease as a separate entry on the monthly gas severance tax return. If a producer has received approval for deductions previously, the producer must resubmit the request and documentation for the deductions.

207 (Reserved)

300 A school district's royalty interest in sixteenth section land is exempt from gas severance. Gas producers or purchasers will report total cubic feet of gas produced or purchased on sixteenth section land and use code 8 on the return to exempt the school district's royalty interests from the total produced or purchased.

400 (Reserved)