# **72 Am Jur 2d State and Local Taxation § 615**

***American Jurisprudence 2d (AMJUR)* > *State and Local Taxation* > *PART NINE. Assessment and Levy of State and Local Taxes* > *XLI. Valuation of Property for Assessment of State and Local Taxes* > *C. Real Property Valuation for State and Local Taxes* > *3. Particular Real Property Valuations for State and Local Taxes***

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**§ 615 *Oil* and gas interests or leases valued for state and local taxation**

The assessor of ***oil*** and gas properties must make a determination of the fair market value of all reserves using the criteria that would be used by knowledgeable buyers and sellers of properties bearing such reserves; although discounted to reflect a riskier investment, "probable" and "possible" ***oil*** and gas reserves are considered by knowledgeable and informed persons in valuing a petroleum property for purchase and sale. [[1]](#footnote-2)1The "modified capitalization of income approach" is the most commonly accepted valuation method of the market value of ***oil*** and gas property interests; this involves converting a future income stream into a stated value by capitalizing the sum of anticipated future installments of net income, less an allowance for interest and the risk of partial or no receipt of income. [[2]](#footnote-3)2When valuing ***oil*** and gas producing property for tax purposes, to arrive at the future net income, the appraiser (1) estimates proved reserves, (2) determines the expected schedule of future production from those reserves and estimates the future gross income, and (3) subtracts the estimated costs of production. [[3]](#footnote-4)3The appraisal unit of an ***oil*** and gas property for purposes of determining property tax assessments consists of four components: (1) proved reserves; (2) wells, casing and parts thereof; (3) land other than mineral interests; and (4) improvements. [[4]](#footnote-5)4

Unlike most property interests, the value of an ***oil*** and gas leasehold interest, taxable as real property, comes not from the physical space or land the leasehold occupies, but rather, from the quantity and value of ***oil*** and gas underground. [[5]](#footnote-6)5A statutory formula for valuing an ***oil*** and gas leasehold is intended to gauge the value of the ***oil*** in the ground and is not a tax on the amount of ***oil*** actually produced. [[6]](#footnote-7)6

One approach to valuing ***oil*** and gas leases is a "netback method" for the deduction of gathering, processing, and transportation costs from the final, downstream selling price of ***oil*** or gas, used in calculating the wellhead selling price, which is used in determining the "actual value" of an ***oil*** and gas leasehold for purposes of property taxation. [[7]](#footnote-8)7A netback deduction depends on whether the operator contracts with a related or an unrelated party to perform the gathering, processing, and transportation services. [[8]](#footnote-9)8

**Reference**

West's Key Number Digest, Taxation [westkey]2514 to 2519

A.L.R. Index, Fair Market Value

A.L.R. Index, Taxpayers

A.L.R. Index, Value and Valuation

West's A.L.R. Digest, Taxation [westkey]2514 to 2519

West's Key Number Digest, Taxation [westkey]2519

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1. 1 California Minerals, L.P. v. County of ***Kern***, 152 Cal. App. 4th 1016, 62 Cal. Rptr. 3d 1 (5th Dist. 2007). [↑](#footnote-ref-2)
2. 2 Chevron USA, Inc. v. County of ***Kern***, 230 Cal. App. 4th 1315, 179 Cal. Rptr. 3d 372 (5th Dist. 2014), as modified on other grounds on denial of reh'g, (Nov. 19, 2014). [↑](#footnote-ref-3)
3. 3 Chevron USA, Inc. v. County of ***Kern***, 230 Cal. App. 4th 1315, 179 Cal. Rptr. 3d 372 (5th Dist. 2014), as modified on other grounds on denial of reh'g, (Nov. 19, 2014). [↑](#footnote-ref-4)
4. 4 Chevron USA, Inc. v. County of ***Kern***, 230 Cal. App. 4th 1315, 179 Cal. Rptr. 3d 372 (5th Dist. 2014), as modified on other grounds on denial of reh'g, (Nov. 19, 2014). [↑](#footnote-ref-5)
5. 5 CO2 Committee, Inc. v. Montezuma County, 2021 COA 36M, 491 P.3d 516 (Colo. App. 2021), as modified on other grounds on denial of reh'g, (May 13, 2021) and certiorari granted in part, 2022 WL 904627 (Colo. 2022) and rev'd, 2023 CO 8, 2023 WL 2130715 (Colo. 2023).

   For the valuation of ***oil*** and gas leases as personal property, see § 605. [↑](#footnote-ref-6)
6. 6 Petron Development Co. v. Washington County Bd. of Equalization, 91 P.3d 408 (Colo. App. 2003), judgment aff'd, 109 P.3d 146 (Colo. 2005). [↑](#footnote-ref-7)
7. 7 Kinder Morgan CO2 Co., L.P. v. Montezuma County Board of Commissioners, 2017 CO 72, 396 P.3d 657 (Colo. 2017). [↑](#footnote-ref-8)
8. 8 Kinder Morgan CO2 Co., L.P. v. Montezuma County Board of Commissioners, 2017 CO 72, 396 P.3d 657 (Colo. 2017). [↑](#footnote-ref-9)