BROAD EXPERIENCE COVERAGE:

CRUDE OIL & NATURAL GAS INTERESTS

Vantage One Tax Solutions, Inc.

40 yrs of Property Tax Consulting Experience

THE APPRAISAL OF OIL AND GAS

The appraisal of Oil & Gas is a complicated valuation process that requires a unique specialization. From the valuation of oil & gas equipment and refineries to the appraisal of the mineral interests, our professional valuation relies on 25 years of experience inside the oil & gas industry.

Mineral interests are individual undivided interests in an oil or gas lease. The method generally used to value mineral properties (as set out by the Texas Comptroller and the PTC) is a modified income approach known as the Discounted Cash Flow Approach. A DCF appraisal represents the calculated future economic recoverable reserves and the corresponding future income for each oil or gas lease discounted to present worth as of January 1 of the valuation year. The valuation and estimated market value on mineral properties is not an estimate of prior annual income, but is an estimate of anticipated future income of the reserves. There are many factors that enter into a DCF valuation of mineral properties; however, the most common factors are:

Start Rate of Production: An estimate of a reasonable average daily rate (barrels) for oil or average daily rate (MCF) for gas. Historic data is relevant, but other factors are considered.

Price of Oil or Gas: The Property Tax Code sets out the methodology to be used. Generally, it is the monthly average price for the preceding calendar year adjusted by the Comptroller's Market Condition Factor.

Operating Expenses: This is generally based on historical data.

Production Decline: This is based on production projections, historical data, or other considerations.

Discount Rate: Based on risk considerations of the property as well as the cost of money as of January 1.

In a mineral appraisal, there are two separate calculations, one for the working interest (WI) and one for the royalty interest (RI). This is because working interest must pay for the cost to operate the property and royalty does not and as a result the WI gets an LOE credit each year that the appraisal runs into the future. All mineral interest owners in a producing or completed lease are assessed annually based on their undivided interest in the estimated market value of the lease.

For a current review of your tax liability, contact a Vantage One professional today.