SUPREME COURT OF UTAH

ExxonMobil Corporation v. Utah State Tax Commission

ExxonMobil Corp. v. Utah State Tax Comm'n, 86 P.3d 706 (Utah 2003) · No. No. 20021023 · Decided November 25, 2003

SUMMARY

The Utah Supreme Court reviewed the Utah State Tax Commission's denial of ExxonMobil's request for a refund of severance taxes on oil and gas interests. The court held that valuation must occur in the immediate vicinity of the well, while the oil or gas remains in a relatively natural state, rather than at the point of eventual sale. The court reversed and applied its holding prospectively to parties other than ExxonMobil.

CASE DETAILS

COURT	Supreme Court of Utah
WRITING FOR THE COURT	Justice Wilkins; Chief Justice Durham; Associate Chief Justice Durrant; Justice Nehring; Justice Parrish
JURISDICTION	Utah
DECIDED	November 25, 2003
DOCKET	No. 20021023
DISPOSITION	reversed
PROCEDURAL POSTURE	ExxonMobil petitioned the Utah Supreme Court for review of a Utah State Tax Commission decision denying its request for a refund of allegedly overpaid severance taxes. The Tax Commission had entered summary judgment against ExxonMobil after determining, by a tie vote, that severance-tax valuation should occur at the point of sale.
STANDARD OF REVIEW	The court reviewed the Tax Commission's statutory interpretations for correctness and accorded them no deference because they presented questions of law.
PRECEDENTIAL VALUE	Published Utah Supreme Court opinion; precedential
PARTIES	ExxonMobil Corporation v. Utah State Tax Commission, State of Utah

TOPICS

oil and gas · tax · statutory interpretation · administrative law · appellate procedure

PRACTICE AREAS

state and local taxation | administrative law | appellate procedure

QUESTIONS PRESENTED

1. Whether Utah's severance-tax statutes require valuation of oil and gas at the eventual point of sale or in the immediate vicinity of the well where production is completed.
2. Whether the Tax Commission erred by denying ExxonMobil's refund request based on a tie vote and the Auditing Division's point-of-sale interpretation.
3. Whether the court's valuation rule should apply retroactively to parties other than ExxonMobil.

HOLDINGS

1. Under Utah Code sections 59-5-101(19) and 59-5-102(1)(a), severance-tax valuation must occur in the immediate vicinity of the well, with the oil and gas remaining in a relatively natural state. The valuation point need not be the precise point of physical removal from the earth, but it must be a practicable point where sales are not a distinct rarity, such as a separator tank near the well head.
2. The Tax Commission erred in determining that severance taxes should be based on the value of oil and gas at the point of eventual sale. ExxonMobil was entitled to further adjudication of its refund claim under the proper immediate-vicinity-of-the-well valuation rule.
3. The court's valuation rule applies prospectively to all parties other than ExxonMobil, including parties with refund requests, deficiency proceedings, or similar matters pending before the Tax Commission.

KEY QUOTATIONS

> *"Applying this standard, we hold that valuation does not necessarily occur at the point of sale, wherever that may be, but rather in the immediate vicinity of the point at which the oil or gas is physically removed from the earth."* (711)

> *"We reverse the Tax Commission's determination that severance taxes should be based on the value of oil and gas at the point of eventual sale."* (712)

FACTUAL BACKGROUND

From 1993 through 1998, ExxonMobil operated oil and gas wells in southeastern Utah and paid severance taxes on production from those wells. Oil and gas emerged from the well in an emulsion containing basic sediment and water, was generally separated or further treated near the well, and was then sold or transported. The Tax Commission generally calculated the tax using the price at the actual point of sale, even though prices for sales near the well were adjusted downward for impurities and transportation costs.

PROCEDURAL HISTORY

The Auditing Division denied ExxonMobil's refund request. ExxonMobil appealed to the Tax Commission, which bifurcated the factual and legal issues and ultimately denied relief after a tie vote, treating the Auditing Division as the prevailing party. Summary judgment was entered against ExxonMobil, and ExxonMobil petitioned the Utah Supreme Court for review. The Supreme Court reversed the Tax Commission's valuation determination and held that ExxonMobil was entitled to further adjudication of its refund claim, while making the new rule prospective as to all other parties.

DISPOSITION

reversed

REMAND INSTRUCTIONS

ExxonMobil is entitled to further adjudication of its refund claim under the court's valuation rule. The rule applies prospectively to parties other than ExxonMobil.

CASES CITED

- Atlas Steel, Inc. v. Utah State Tax Comm'n, 2002 UT 112, 61 P.3d 1053
- In re Worthen, 926 P.2d 853, 866 (Utah 1996)
- County Bd. of Equalization of Wasatch County v. Utah State Tax Comm'n, 944 P.2d 370, 373-74 (Utah 1997)
- Salt Lake County v. State Tax Comm'n, 779 P.2d 1131, 1132 (Utah 1989)
- Rio Algom Corp. v. San Juan County, 681 P.2d 184, 196 (Utah 1984)
- V-1 Oil Co. v. Utah State Tax Comm'n, 942 P.2d 906, 914 (Utah 1996), vacated on other grounds, 942 P.2d 915 (Utah 1997)