TAX INCENTIVES ASSOCIATED WITH ENHANCED RECOVERY OF OIL AND GAS

This memorandum was requested to provide information regarding tax incentives associated with enhanced oil recovery (EOR) using carbon dioxide (CO_2), the degree to which each incentive has been used, and the fiscal impact of each incentive. Information pertaining to the usage and fiscal impact of each incentive was provided by the Tax Department.

Incentive	Description	Usage and Fiscal Impact
Oil extraction tax exemptions for incremental production from a secondary or tertiary recovery project	North Dakota Century Code Section 57-51.1-03 provides for a 5-year oil extraction tax exemption for incremental production from a secondary recovery (water flooding) project certified by the Industrial Commission after July 1, 1991. A 10-year oil extraction tax exemption is provided for incremental production from a tertiary recovery (including CO_2 injection) project certified as a qualified project by the Industrial Commission. Incremental production from a tertiary project from a horizontal well drilled and completed within the Bakken and Three Forks Formations, certified as a qualified project by the Industrial Commission, is not exempt from July 1, 2015, through July 30, 2017, but is thereafter exempt from the oil extraction tax for 5 years from July 1, 2017, or the date the incremental production begins, whichever is later.	From fiscal year 2002 through fiscal year 2016, there have been three qualifying secondary recovery projects, including the smaller Amor North Red River Unit and Grand River Red River B Unit projects and the more sizeable Cedar Hills Unit project, which produced exempt incremental oil from 2002 through 2007. Fiscal information for the incentive is not readily available as computerized production statistics are available only for data pertaining to the last 6-year period.
Sales and use tax exemption for materials incorporated into specified CO_2 systems for use in EOR	Section 57-39.2-04.14 provides a sales and use tax exemption for materials used in compressing, gathering, collecting, storing, transporting, or injecting CO_2 for use in enhanced recovery of oil or natural gas. The tangible personal property must be incorporated into the system for the exemption to apply. The exemption does not apply to items purchased to replace an existing system unless the replacement results in an expansion of the system.	The incentive has not been claimed.
Sales and use tax exemption for CO_2 used for EOR	Sections 57-39.2-04(49) and 57-40.2-04(24) provide for a sales and use tax exemption for CO_2 used for the enhanced recovery of oil or natural gas.	The incentive has not been claimed.
Sales and use tax exemption for environmental upgrade materials used in power plants and processing plants	Sections 57-39.2-04.2 and 57-40.2-04.2 provide a sales and use tax exemption for machinery, equipment, and related facilities purchased to reduce emissions or increase efficiency at an existing power plant if the total investment in environmental upgrades is greater than $25 million or $100,000 per megawatt of installed nameplate capacity, whichever is less. A sales and use tax exemption is also provided for purchases of machinery, equipment, and related facilities for reducing emissions, increasing efficiency, or enhancing reliability of equipment at a new or existing oil refinery or gas processing plant that processes crude oil or natural gas.	The incentive has been claimed for seven projects from fiscal year 2008 through fiscal year 2016. The combined fiscal impact of the incentive for all qualifying projects totals $25,762,400 in state sales tax exemptions.
Carbon dioxide capture system exemption from ad valorem and coal conversion facilities privilege tax	Section 57-60-06 provides that a CO_2 capture system located at a coal conversion facility and any equipment directly used for enhanced recovery of oil or natural gas is exempt from all ad valorem taxes, and exempt from the coal conversion facilities privilege tax. The exemption does not apply to the land on which the capture system or equipment is located.	Information pertaining to this incentive is being compiled.
Property tax exemption for pipeline property and associated transportation and storage equipment used for CO_2 EOR	Section 57-06-17.1 provides that property, excluding land, is exempt from taxation during construction and for the first 10 taxable years following initial operation if it consists of a pipeline and necessary associated equipment for the transportation or storage of CO_2 for use in EOR. Pursuant to Section 57-06-17.2, the property is subject to payments in lieu of property taxes during the time the property is exempt from taxation.	Information pertaining to this incentive is being compiled.

Incentive	Description	Usage and Fiscal Impact
Coal conversion facilities privilege tax credit for CO_2 capture	Section 57-60-02.1 provides for a carbon capture credit for a coal conversion facility that achieves a 20 percent capture of CO_2 emissions in a taxable period after December 31, 2009. The credit is equal to a 20 percent reduction in the general fund share of the coal conversion facilities privilege tax imposed under Section 57-60-02 during the taxable period. A facility is entitled to an additional reduction of 1 percent of the general fund share of the tax for every additional 2 percentage points of its capture of CO_2 emissions, up to a 50 percent reduction for 80 percent or more capture. The reduction is available for 10 years from the date CO_2 was first captured by the facility or from the date the facility is eligible to receive the credit.	Information pertaining to this incentive is being compiled.