



OFFICE OF THE ATTORNEY GENERAL OF TEXAS  
AUSTIN

GERALD C. MANN  
ATTORNEY GENERAL

Honorable I. Predecki  
County Auditor, Galveston County  
Galveston, Texas

Dear Sir:

Opinion No. O-2366  
Re: Taxability of oil payments

This will acknowledge receipt of your letter dated May 13, 1940, in which you requested an opinion of this Department on the following question, to-wit:

"Will you kindly advise me whether or not an outstanding oil payment is a determining factor in arriving at and fixing the valuation to be placed on a leasehold interest for ad valorem tax purposes?"

You stated in your letter that you had been following our Opinion No. O-75, dated January 23, 1939, addressed to Mr. J. F. Bryan, County Attorney of Brazoria County, and had been assessing the value of the full 7/8 working interest against the lease owner regardless of the fact that an oil payment might be outstanding.

The Supreme Court of Texas decided this question on November 22, 1939, in the case of State, et al v. Quintana Petroleum Company, et al, 133 S.W. (2) 12, Opinion by Judge Smedley, Commissioner. In that case, it was held that the oil payment holder owned an interest in land, which was subject to the real estate ad valorem taxes, to the extent of its fair market value, and that the lease owner was subject to the payment of real estate ad valorem taxes on the fair market value of the interest which he held, and that the value placed upon the interest held by the lease owner plus the value placed upon

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the oil payment should equal the fair market value of the full leasehold estate, usually a 7/8 working interest, when considered as being free and clear of any oil payment.

It is our opinion that the opinion in the Quintana case covers your question, and that an outstanding oil payment should be assessed against the oil payment holder for the value determined by the tax assessor under the statutes to be its taxable value, and that the lease owner should be assessed by the tax assessor for the value of the full leasehold estate, which is usually a 7/8 working interest, less the value determined to be the taxable value of the oil payment or oil payments payable out of the leasehold estate.

We are enclosing herewith copy of the opinion in the Quintana Case.

Trusting that this satisfactorily answers your request, we are

Yours very truly

ATTORNEY GENERAL OF TEXAS

APPROVED MAY 31, 1940

*[Handwritten signature]*

By

*[Handwritten signature]*

FIRST ASSISTANT  
DDM:BT ATTORNEY GENERAL

D. D. Mahon  
Assistant

