



North Dakota Legislative Council

Prepared for the Water Topics Overview Committee
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STRIPPER WELL OIL EXTRACTION TAX EXEMPTION STUDY - STATUS UPDATE

OVERVIEW

Study Background

House Bill 1483 (2025) provided for a Legislative Management study regarding the oil extraction tax exemption for stripper wells and stripper well properties, and the study was assigned to the Tax Reform and Relief Advisory Committee. A memorandum entitled [Stripper Well Exemption Study - Background](#) provides more detailed information on the history of oil and gas taxes and the administration of the tax exemption. The committee's study plan included receiving information regarding oil production statistics, stripper well tax exemptions in other selected states, and the estimated fiscal impact of the stripper well tax exemption.

Oil and Natural Gas Taxes

Oil production in North Dakota is subject to a gross production tax of 5 percent and an oil extraction tax of 5 percent before considering any tax exemptions or rate reductions. Both taxes are based on the value of the oil produced at the wellhead.

Natural gas production in North Dakota is subject to a gross production tax applied to the volume of natural gas produced before considering any tax exemptions. The tax rate is adjusted annually by the Tax Commissioner, and the current rate is 6.55 cents per thousand cubic feet of natural gas produced.

Stripper Well Tax Exemption

Pursuant to North Dakota Century Code Section 57-51.1-03, oil production from a certified stripper well is exempt from the oil extraction tax. The Department of Mineral Resources certifies oil wells as stripper wells. To be eligible for certification as a stripper well, average daily oil production in the preceding 12 months must be less than or equal to a certain threshold. For example, average daily oil production must be less than or equal to 35 barrels per day for an oil well of more than 10,000 feet in the Bakken and Three Forks Formations to qualify as a stripper well. Upon certification, a certified stripper well remains eligible for the stripper well tax exemption even if oil production exceeds the qualification threshold.

OIL PRODUCTION STATISTICS

As reported by the Department of Mineral Resources in March 2026, approximately 54 percent of North Dakota's producing oil wells are certified as stripper wells, and those wells account for approximately 16 percent of the state's oil production. Based on historical production data, the department estimated an oil well reaches the qualifying oil production threshold for stripper well status within 10 years after initial production. Approximately 900 new oil wells begin production each year, all of which could qualify as stripper wells in the future as oil production declines over the life of the well.

As reported by the Energy and Environmental Research Center in June 2026, 75 percent of oil wells in the Bakken may qualify for stripper well status within 7 years after initial production, and an estimated 70 to 90 percent of the well's total lifetime production is recovered before qualifying for stripper well status. Advances with enhanced oil recovery techniques, such as refracturing, may increase oil production from a well delaying qualification for stripper well status.

STRIPPER WELL TAXATION IN OTHER STATES

The schedule below provides information on the structure of oil and gas taxation, including stripper well taxation, in other selected states as reported by the Tax Commissioner in December 2025. In other states, stripper well taxation may apply to marginal wells, stripper wells, or low-producing wells.

State	Oil and Gas Taxation Structure	Stripper Well Taxation Structure
Montana	Variable rate on the gross taxable value of oil and natural gas production based on the type of well	Variable rate applied to the gross taxable value based on the type of well and type of production
Alaska	35 percent on the net value of oil production and 13 percent on the gross value of natural gas production	No specific provisions
Oklahoma	7 percent on the gross value of oil and natural gas production	An exemption from 6/7 of the tax if the tax rate is 7 percent or an exemption from 4/5 of the tax if the tax rate is 5 percent
Wyoming	6 percent on the fair market value of oil and natural gas production	Reduced tax rate of 4 percent
Texas	4.6 percent on the market value of oil and 7.5 percent on the market value of natural gas production	Credits for low-producing wells ranging from 25 to 100 percent of the tax due
New Mexico	6.9 percent on the taxable value of oil and natural gas	Reduced tax rate of 1.875 or 2.8125 percent

ESTIMATED FISCAL IMPACT OF THE STRIPPER WELL TAX EXEMPTION

Based on oil production data for the 2023-25 biennium, the Tax Department estimated the fiscal impact of the stripper well tax exemption resulted in a \$406.6 million reduction to the oil extraction tax collections. Under an alternate stripper well taxation scenario, oil extraction tax collections could increase by \$81.2 million per biennium if new stripper wells were subject to a 1 percent oil extraction tax rather than being exempt from the tax.

INDUSTRY COMMENTS AND COMMITTEE DISCUSSION

Industry comments noted the stripper well tax exemption improves the economics of low-producing wells allowing those wells to continue producing which is important for small operators in the state.

Committee members noted the oil and gas industry's contribution to the state's economy should be considered when evaluating any proposals to modify the stripper well oil extraction tax exemption.

The Tax Reform and Relief Advisory Committee has not made any recommendations regarding the stripper well oil extraction tax exemption study as of August 2026.