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Case Study

$1.89 Million in Severance Tax Value Uncovered



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Rebuilding a Severance Tax Record With No Paper Trail

The Risk Behind Routine Reporting

For a Texas-based natural gas producer, severance tax reporting appeared to be operating as expected. Returns were being submitted through a previous accounting provider, production continued, and there was little reason to suspect the reporting history required further examination. However, when Valor began reviewing the account, a significant issue emerged: the client had no copies of its previously filed severance tax returns or supporting documentation of the exemptions and deductions that had been claimed.

Without access to these records, the producer had limited visibility into whether its leases were classified correctly, applicable deductions had been captured, or reported amounts accurately reflected production and revenue. Beyond the potential financial implications, the absence of historical documentation also made it difficult to substantiate prior filings in the event of a state examination.

Valor initiated a focused review in August 2026 to reconstruct the client's severance tax history and evaluate the accuracy of its reporting. What began as an effort to establish a reliable record ultimately uncovered recurring classification errors and reporting discrepancies across multiple leases, revealing opportunities that had gone unidentified under the previous accounting process.

The Review at a Glance

7
affected leases

0
prior returns on hand

6
months of amended filings

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Reconstructing the Record

Without access to the client's original filing history, Valor could not simply compare current returns against prior submissions. The team first had to establish what had been reported to the state, then determine whether those figures were supported by the producer's actual operations.

01

Recovering the Filing History

Valor obtained authorization to access the client's severance tax records through the Texas Comptroller. The team established the necessary EDI filing infrastructure, assembled lease and purchaser information, and retrieved prior returns and exemption records through the state's CONG system.

02

Reconciling the Financial Data

The reconstructed filings were compared against natural gas and NGL purchases, production records, check stubs, and supporting invoices. The review also examined Lease Use Fuel reporting requirements and deductions associated with the client's actual operations.

03

Identifying and Correcting Discrepancies

Across seven leases, Valor uncovered recurring Type 05 classification errors, inaccurate reported values, and overlooked deductions affecting both tax filings and production reporting. The team verified and documented the corrections, resulting in amendments covering six months of filings.

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The Financial Impact of a Closer Look

What began as an effort to reconstruct missing tax records ultimately uncovered substantial financial opportunities within the producer's historical severance tax reporting.

$1.89 Million

Combined reported amount of identified refunds, lease reclassification savings, and marketing cost deductions.

A Breakdown of the Findings

Financial Finding	Amount
Marketing cost deductions identified	$1,200,000
Type 05 lease reclassification savings identified	$650,000
Type 01 reporting refund filed	$40,000

More Than a Financial Correction

The engagement addressed more than the immediate reporting discrepancies. Valor reconstructed a historical record that the client had not previously maintained, established supporting documentation for the identified corrections, and improved visibility into the producer's severance tax position.

By examining the relationship between state filings, production activity, and underlying financial records, the team also identified potential areas of exposure that routine reporting had not brought to light.

Looking Beyond the Initial Review

The findings raised an important question: if recurring discrepancies existed across the reviewed filings, could similar issues be present in earlier periods?

With limited historical documentation available and multiple reporting errors identified, Valor recommended expanding the review to examine filings dating back to 2025.

The proposed next phase would apply the same lease-level reconciliation process to determine whether additional deductions, classification corrections, or reporting discrepancies existed beyond the initial review period.

The Value of Proactive Oversight

A producer can remain current on its severance tax filings without having complete visibility into the accuracy of those filings.

This engagement illustrates how a closer examination of historical reporting can uncover meaningful financial opportunities while establishing the documentation needed to support more accurate reporting going forward.

Are Your Severance Tax Filings Telling the Full Story?

Valor helps oil and gas operators uncover reporting discrepancies, evaluate potential tax savings, and maintain more accurate, well-documented financial records.

Connect with Our Team →

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