

Opinion No. 602**Oil and Gas—Royalties—State Royalty
Oil—Taxation—Federal
Producers' Tax.**

HELD: The royalty oil of the state, produced from lands granted the state under a land grant from the United States, is exempt from the Federal Producers' Tax.

August 28, 1934.

You inquire if a Federal tax upon crude petroleum, known as a producer's tax and authorized under Section 604 of the Revenue Act of the United States of 1934, may be collected on royalty oil produced from lands granted the state under a land grant from the United States.

"It is an established principle of our constitutional system of dual government that the instrumentalities, means and operations whereby the United States exercises its governmental powers are exempt from taxation by the states, and that the instrumentalities, means and operations whereby the states exert the governmental powers belonging to them are equally exempt from taxation by the United States." (Indian Motorcycle Co. v. United States, 283 U. S. 570.)

The question seems to be determined by the case of *Burnet v. Coronado Oil & Gas Co.*, 285 U. S. 393, wherein it was held that the Federal Income Tax could not be enforced as to income derived by a lessee from a lease of school lands, the property of the State of Oklahoma. The income of a lessee is certainly much further removed from this prohibition of taxation than the direct interest of the state. It would seem that there can be no question but that the royalty oil of the state is exempt from such taxation.