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Economic Impacts of an Oil Severance Tax

The Proposed Oil Tax

The Governor and Legislature are considering the imposition of a 9.9 percent severance tax on oil production in California. The proposal assumes that the tax will generate $855 million during the fiscal year 2009-2010.

The Research Team

An economic and fiscal impact analysis of the proposed oil tax was prepared by Dr. José Alberro and Dr. William Hamm of the Law and Economics Consulting Group (LECG). Dr. Alberro is an international expert on petroleum and valuation. He has consulted for the United Nations, the International Monetary Fund and the World Bank. Dr. Hamm served as California's non-partisan Legislative Analyst where he earned a nationwide reputation for objectivity, expertise and credibility on public policy issues.

Findings

- California's oil production is already among the most heavily taxed in the country. This new oil tax would make California's combined taxes on petroleum the highest in the nation by far.
- Imposing this new oil tax will reduce the supply of oil produced in California between 54,706 and 80,306 barrels per day during the next 30 years.
- To offset the loss of in-state oil production, California's dependency on oil imports would have to increase. The cost of such imports could top $1.3 billion a year.
- Because the transportation, distribution, and refining cost of importing oil are greater than the corresponding costs associated with California oil production, consumers will pay higher gasoline prices as a result of the severance tax.
- The introduction of the severance tax would result in the loss of 9,850 jobs in California.
- Already declining oil production in California and decreased production caused by a new oil tax would reduce state revenues from the new tax to $240 million a year by 2039.
- Because of the volatility of oil prices, revenues from the severance tax could vary up to 30 percent a year, thus increasing the instability of state revenues.
- The proposed severance tax will induce decreases in revenue collections under the Corporation Tax, the Personal Income Tax, and the Sales Tax, amounting to at least 14 percent of the initial revenue yielded by the severance tax.
- Local governments in Kern, Los Angeles, Ventura and Santa Barbara counties will lose property tax revenues if a state oil tax is imposed, most of which would be lost to local schools. Kern County alone could expect to lose between $12.7 and $15.9 million annually.