

# **Comparison of Oil Tax Burdens in The Ten Largest Oil-Producing States**

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The conclusions and opinions expressed in this study are those of the authors and do not necessarily reflect the opinions of LECG.

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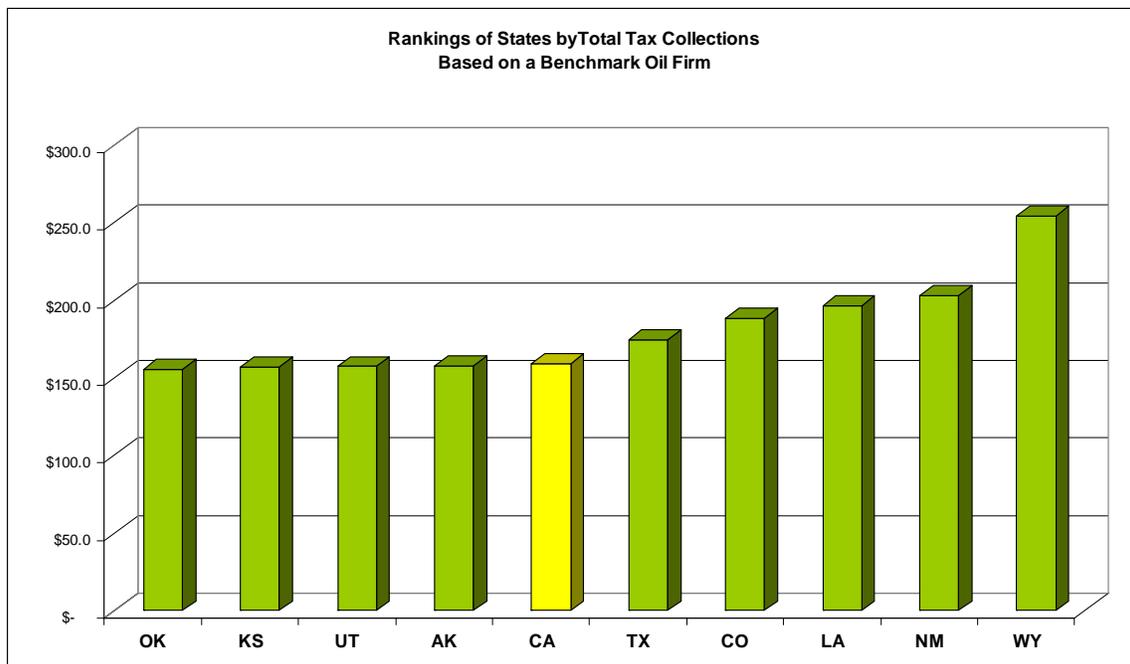
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## Executive Summary.

The total tax burden borne by oil companies depends on three factors: (a) the *type* of taxes to which they are subject, (b) the tax *base*, and (c) the tax *rate*.

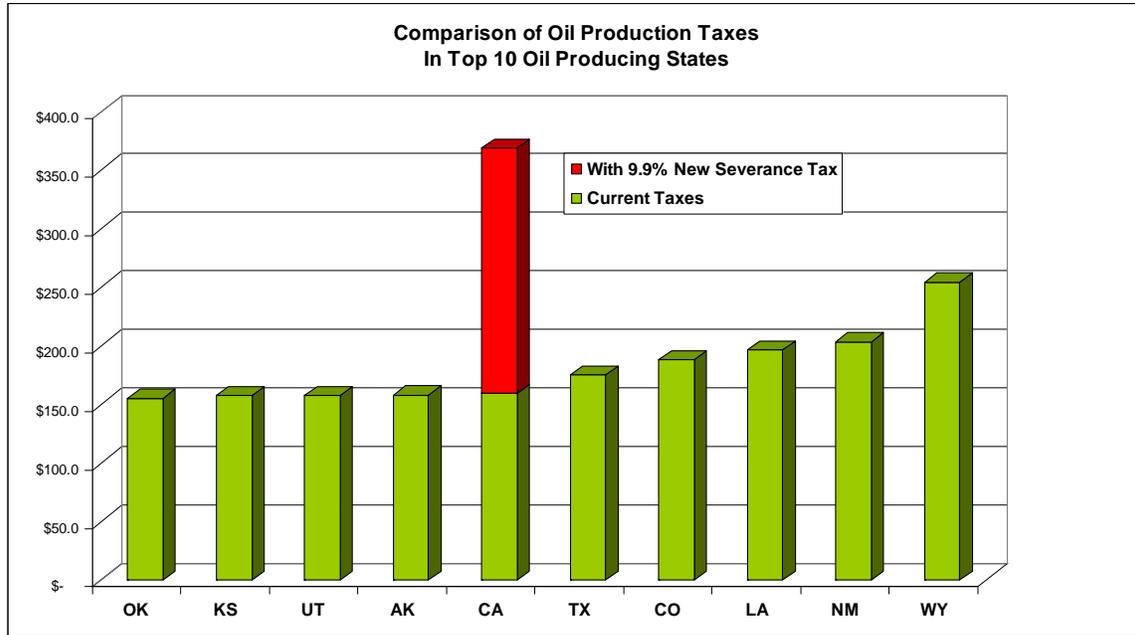
Most states rely on some combination of severance taxes (taxes on production), corporate income taxes, property taxes, and sales taxes to raise money from oil companies. A comparison of tax burdens across states is difficult and highly complex because each state employs a different combination of taxes with different tax bases and different tax rates. To avoid these difficulties, this study compares tax burdens for a hypothetical oil firm with the profit characteristics of an average publicly traded oil company (“benchmark oil firm”). The results from this analysis are shown in Figure 1.

**Figure 1**



As the chart illustrates, even without a severance tax, the tax burden that California imposes on oil companies is average when compared to the tax burden imposed by other oil producing states. California’s relatively high corporate income and sales tax rates account for the State’s average tax burden.

The study also analyzes the impact of a 9.9% severance tax, recently proposed by Governor Arnold Schwarzenegger, on California's tax burden rank. If the Governor's proposal is approved, the tax burden that California imposes on oil producers would be significantly higher than in any of the other nine largest oil producing states.



# I. Introduction.

## A. Overview

On November 6 2008, California's Governor proposed a number of actions to help reduce the State's General Fund budget deficit. One of his proposals was "to impose an oil severance tax upon any oil producer extracting oil from the earth or water in California"<sup>1</sup>. The tax would be "applied to the gross value of each barrel of oil at a rate of 9.9 percent. Any oil produced by a stripper well, in which the average value of oil as of January 1 of the prior year is less than fifty dollars (\$50) per barrel", would be exempt from the tax.<sup>2</sup> The Governor's proposal assumes that the average price of oil is \$58 a barrel, and that the tax will generate \$530 million per year.

Oil companies generally pay the same taxes as other corporations, as well as production taxes levied on the value of oil extracted from the ground. Each oil-producing state has adopted a different strategy for taxing the industry. Some emphasize severance taxes on the value of current production, while others rely more on property taxes or corporate income taxes. Revenues from each of these taxes will increase to some degree when oil prices rise, but some taxes are more responsive than others.

To give interested parties a sense of how California's oil companies are taxed relative to their counterparts in other states, we compare the total tax burdens imposed on the oil companies in ten major producing states.<sup>3</sup> Different methods can be used to perform such a comparison. For example, one could compare the provisions of each state's tax laws. Such an approach, however, has two major disadvantages. First, since each tax has a different tax base (*i.e.*, corporate income tax fall on profits, while the severance tax is imposed on production), it is impossible to calculate a total tax bill by direct comparison of statutory provisions. Second, given the multiplicity of tax code provisions, the rates that an oil company actually pays (the effective rate) are rarely identical to the rates established in the

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<sup>1</sup> [http://www.dof.ca.gov/documents/special\\_session\\_08-09\\_web.pdf](http://www.dof.ca.gov/documents/special_session_08-09_web.pdf)

<sup>2</sup> *Ibidem*.

<sup>3</sup> To the extent that the tax burden influences the profitability of investment projects, oil companies will tend to invest more in states with a smaller tax burden and less in states with a larger burden.

statute. Another method of comparing tax burdens across states would rely on information from actual tax returns filed by oil companies. This information, however, is not available in most states. To perform the comparison, we created a hypothetical oil company with the characteristics of the average oil company in California,<sup>4</sup> and estimated the tax burden it would bear in each of the top ten producing state. The 10 states covered by our study are: Alaska, California, Colorado, Kansas, Louisiana, New Mexico, Oklahoma, Texas, Utah and Wyoming. While the specific tax burdens computed for our hypothetical company may not correspond to the payments made by any actual company in these states, this method yields valid rankings across states.

This report first examines the differences in severance, corporate income, property and sales taxes in each of the ten states, as they apply to oil production. The following section provides estimates of relative tax burdens facing the hypothetical oil company. Finally, the study analyzes California's relative tax burden if the 9.9% oil severance tax is enacted.

## ***B. Purpose of the Report.***

Our analysis is intended to assist interested parties compare the tax burden imposed on a typical oil company operating in California to the burden that would be imposed on this company if it operated in each of the other nine large oil-producing states. The study takes no position on the merits of different approaches to taxing oil companies.

This report was prepared at the request of the Western States Petroleum Association, and we were compensated for its preparation. We were given complete control of the report's contents. The conclusions presented in the report are the product of independent and objective analysis, and do not necessarily reflect the views of either LECG or the Western States Petroleum Association.

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<sup>4</sup> The results obtained by our method are sensitive to the parameters chosen for the hypothetical firm used for the comparison. For example, California's oil industry differs from other states' because the fields in California tend to be older (requiring more steam injection) and produce less oil. In addition, the average oil company in California is significantly larger than the average oil company in other states. Because our focus is on the proposed adoption of a severance tax for California, we believe the use of a hypothetical firm representative of California oil producers is appropriate.

## II. Taxes Imposed on Oil Companies.

### A. Types of Taxes.

Oil companies pay four major types of taxes:

- *Production taxes* levied on the value of the oil extracted from the ground;
- *Corporate Income taxes* levied on the net income of corporations;
- *Property taxes* applicable to oil properties, which may be based on the assessed value of future expected production from oil reserves in the ground;<sup>5</sup> and
- *Sales Taxes* on purchases of both inputs and equipment needed for capital improvements.

Not all states with oil production levy all of these taxes, nor do all states use the same rates or even the same taxable bases. Moreover, many of these taxes interact with one another. For example, corporate income taxes often allow deduction of other taxes, particularly severance taxes and property taxes, when computing taxable income.

### B. Differences in Statutory Tax Structures.

#### 1. Severance Taxes.

All states included in this study levy either a severance tax or some other direct tax on oil production. Since these taxes are largely value-based, their yield rises as oil prices go up. Severance taxes are assessed on oil production at rates that vary by state. Although California does not levy a severance tax, it imposes a *de minimis* tax on oil production (about 5 cents per barrel in 2006) to cover the operating cost of the Department of Conservation's Division of Oil, Gas and Geothermal Resources.

While most states treat oil in the same way, and levy the severance tax on the value of production, comparing effective severance tax rates across states is complicated by statutory

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<sup>5</sup> Mill levies used to compute property taxes usually vary by county

complexities, which may include different types of exemptions, differences in measured tax bases, and special features of each state's tax structure such as those that pertain to the treatment of low production "stripper- wells."<sup>6</sup>

In 2007, 77.4% of all oil wells in the United States produced less than 10 barrels a day. These wells accounted for 13.3% of total oil production. The size distribution of wells, however, differs among states. In California, for example, 16.8% of oil production comes from stripper wells, while the corresponding percentages for Kansas, Oklahoma and Texas are 59.9%, 30.8% and 26.6%.<sup>7</sup> The tax treatment of stripper wells also differs significantly across states. Some statutes exempt stripper well oil production from the tax,<sup>8</sup> while others (e.g., Louisiana and New Mexico) have exemptions with price triggers and rate reductions thus complicating the determination of the effective severance tax rate.<sup>9</sup>

In September 1995, the Energy Information Agency of the Department of Energy published a study of State Energy Severance Taxes covering the period 1985-1993, but the study has not been updated.<sup>10</sup> More recently, Professor Shelby Gerking from the University of Central Florida analyzed the impact of severance taxes in the ten largest oil-producing states for the period 2001-2003.<sup>11</sup>

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<sup>6</sup> In several states, the value of the oil that is taxed is reduced by other factors, most notably, property taxes. In Colorado and Kansas, property taxes directly offset some of the severance tax liability. Moreover, in several states (e.g., *Colorado*), the tax is progressive and the rate increases with the volume of sales.

<sup>7</sup> [http://www.eia.doe.gov/pub/oil\\_gas/petroleum/petrosystem/petrosysog.html](http://www.eia.doe.gov/pub/oil_gas/petroleum/petrosystem/petrosysog.html).

<sup>8</sup> See, for example Colorado's Revised Statute 39-39-105: "except that oil produced from any wells that produce fifteen barrels per day or less of oil and gas produced from wells that produce ninety thousand cubic feet or less of gas per day for the average of all producing days for such oil or gas production during the taxable year shall be exempt from the tax".

<sup>9</sup> See, for example Louisiana's Revised Statute 47:633: "(aa) On oil produced from a well classified by the commissioner of conservation as an oil well, and certified by the Department of Revenue that such well is incapable of producing an average of more than ten barrels of oil per producing day during the entire taxable month, the tax rate applicable to the oil severed from such well shall be one-quarter of the rate set forth in Subparagraph (a) of this Paragraph and such well shall be defined, for severance tax purposes, as a stripper well, provided that such well has been certified by the Department of Revenue as a stripper well on or before the twenty-fifth day of the second month following the month of production....

"(bb) Crude oil produced from certified stripper wells shall be exempt from severance tax in any month in which the average value set forth in Subparagraph (a) of this Paragraph is less than twenty dollars per barrel."

<sup>10</sup> State Energy Severance Taxes, 1985-1993, DOE/EIA-TR/0599, September 1995.

<sup>11</sup> Shelby Gerking, *Effective Tax Rates on Oil and Gas Production: A Ten State Comparison*, May 2005.

Lacking reliable information on the actual severance tax paid in each state, we calculate the *effective* severance tax rate for each state by dividing actual severance-tax revenues by the value of oil production. This calculation reflects the unique features of each state's severance tax, as well as the different methods used by the states to compute an oil company's tax liability.<sup>12</sup> We use 2007 data taken from the U.S. Census Bureau's *State Government Tax Collections*, which reports revenues from different taxes (including the severance tax) collected by each state.<sup>13</sup> Because these data combine revenues from both oil and natural gas, we estimate the value of oil and natural gas production by state using price and production estimates provided by the Department of Energy.<sup>14</sup> The resulting tax rate estimates range from 0 for California to more than 6% for Louisiana and New Mexico. Alaska collects an oil royalty in addition to the severance tax which we consider part of the burden on oil companies.

## 2. Corporate Income Taxes.

All of the states included in this report, except Wyoming, levy a form of corporate income tax. (Texas imposes a "marginal" franchise tax classified as an income tax by the Financial Accounting Standards Board) Statutory rates for corporate income taxes differ across states. Moreover, in some states, the rates are constant at all income levels, while in other states they rise with income. For Kansas, the study uses information obtained from the state's Department of Revenue.<sup>15</sup> For all other states it uses tax rates compiled by the Federation of Tax Administrators (FTA).<sup>16</sup>

Effective corporate income tax rates differ from statutory rates as a result of deductions from taxable income. This study uses a report published by the Multistate Tax Commission -- a joint agency of state governments created in 1967 and composed of each

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<sup>12</sup> While this approach uses an average tax rate, instead of rising marginal rates in a few states, most producers already are at the higher tax brackets as a result of recent oil prices, so the potential underestimation of revenues implied by using the average is likely to be minimal.

<sup>13</sup> <http://ftp2.census.gov/govs/statetax/07staxss.xls>

<sup>14</sup> [http://tonto.eia.doe.gov/dnav/pet/pet\\_crd\\_crpdn\\_adc\\_mbbl\\_m.htm](http://tonto.eia.doe.gov/dnav/pet/pet_crd_crpdn_adc_mbbl_m.htm) and [http://tonto.eia.doe.gov/dnav/ng/ng\\_prod\\_sum\\_dcu\\_sco\\_a.htm](http://tonto.eia.doe.gov/dnav/ng/ng_prod_sum_dcu_sco_a.htm).

<sup>15</sup> <http://www.ksrevenue.org/pdf/TaxRates.pdf>

<sup>16</sup> [http://www.taxadmin.org/fta/rate/corp\\_inc.html](http://www.taxadmin.org/fta/rate/corp_inc.html)

state's tax administrator -- that includes estimates of effective corporate income tax rates by state.<sup>17</sup> These rates range from zero in Wyoming to 7.4% in California, with most states in the range of 3.5-5.6%.

The Department of Energy considers wells producing less than 10 barrels a day to be marginally economic,<sup>18</sup> and the Interstate Oil and Gas Compact Commission considers that these wells "operate on the lower edge of profitability".<sup>19</sup> Given that the number of stripper wells varies significantly across states, we have excluded them from the base of the Corporate Income tax, in order to put the comparison across states on an apples to apples basis.

### **3. Property Taxes.**

All of the states analyzed in this report, except Louisiana<sup>20</sup> and Oklahoma,<sup>21</sup> impose a property tax on oil properties. The basis of the tax in most states is the value of oil reserves, although four exceptions must be considered:

1. In Wyoming, minerals are exempt from the property tax, but they must pay a gross products tax.
2. New Mexico imposes "ad valorem production" and "ad valorem production equipment" taxes in lieu of property taxes. The assessed value equals the taxable value of the product times the uniform assessment ratio (1/3). In turn, the taxable value equals 150 percent of the value of the products after deducting: royalties paid to the U.S. government, the State of New Mexico,

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<sup>17</sup>[http://www.mtc.gov/uploadedFiles/Multistate\\_Tax\\_Commission/Resources/Studies\\_and\\_Reports/Corporate\\_Tax\\_Sheltering/Tax%20Shelter%20Report.pdf](http://www.mtc.gov/uploadedFiles/Multistate_Tax_Commission/Resources/Studies_and_Reports/Corporate_Tax_Sheltering/Tax%20Shelter%20Report.pdf) The effective rates adjust for tax sheltering, and do not adjust for deductions for other taxes paid.

<sup>18</sup> <http://fossil.energy.gov/programs/oilgas/marginalwells/>. A common misperception is that oil left behind remains readily available for production when oil prices rise again. In most instances, this is not the case: when marginal fields are abandoned, the surface infrastructure – the pumps, piping, storage vessels, and other processing equipment – is removed and the lease is forfeited. Since much of this equipment was probably installed over many years, replacing it over a short period if oil prices were to rise again is enormously expensive. As a result, once a marginal field is abandoned, the oil that remains behind is often lost forever. The costs of re-drilling a plugged well may be as much as or more than drilling a new well.

<sup>19</sup> *Marginal Wells: 2007 Report*, IOGCC,

<sup>20</sup> <http://www.rev.state.la.us/>

<sup>21</sup> [www.tax.ok.gov/gptaxindex.html](http://www.tax.ok.gov/gptaxindex.html)

and/or Indian tribes; and (2) trucking expenses (i.e. allowable transportation and processing expenses).<sup>22</sup>

3. In Kansas, the property tax on oil is assessed as:

Value of oil sold \* Present Worth Factor (PWF) \* 30%.

The PWF is based on a 15% discount rate and five years of income (“Table I”) or seven years of income (“Table II”), depending on the depth of the well. Its purpose is to discount future income to present value combined with a depleting income stream (reservoir decline). The PWF incorporates the life and performance characteristics of a reserve based on the percentage rate of decline that is computed for each particular lease as set out under the “Percentage Rate of Decline”.<sup>23</sup>

4. Colorado’s Revised Statute CRS 39-7-102 establishes that in the case of oil properties: *“the assessor shall value such oil ... leaseholds and lands for assessment, as real property, at an amount equal to eighty-seven and one-half percent of the selling price of the oil ... sold therefrom during the preceding calendar year”*.

For the other three states, the taxable value is assumed to be the value of the company’s reserves, estimated as the net present value of expected operating cash flows over a period of 15 years. In other words, the standardized firm models are used to estimate operating cash flows. The net present value of those cash flows during 15 years is then calculated using a 12% discount rate — Morgan Stanley estimate of the oil industry’s approximate cost of capital.<sup>24</sup>

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<sup>22</sup> *New Mexico Oil and Gas Ad Valorem Production and Production Equipment Taxes -- Description and Summary of Statistical Reports* by Tom Clifford and Al Maury, Tax and Revenue Department. <http://www.tax.state.nm.us/pubs/TaxreseStat/AdValoremProductionandEquipmenttaxes.pdf>

<sup>23</sup> *2008 Year Oil&Gas Appraisal Guide*, State of Kansas, Department of revenue.

<sup>24</sup> *Integrated Oil*, March 2008.

In the case of Wyoming, the effective rate is taken from Gerking (2005).<sup>25</sup> For the property tax mill rates of the other six states, the following published sources are used:

- California: *California City Documentary and Property Transfer tax Rates*;<sup>26</sup>
- Colorado: *Thirty-Sixth Annual Report to the Governor and to the General Assembly* (2006);
- Kansas: Information from the Director of Property Valuation in the Department of Revenue;<sup>27</sup>
- New Mexico: *2006 Property Tax Facts*;<sup>28</sup>
- Texas: *2006 Annual Property Tax Report* prepared by the State Comptroller;<sup>29</sup>
- Utah: Utah State Tax Commission Property Tax Division.<sup>30</sup>

#### **4. Sales Taxes.**

All of the states analyzed in this report impose a sales tax. The state sales tax rates used for this report are those listed by the FTA,<sup>31</sup> and it is assumed that the sales tax is imposed only on equipment and materials acquired by the firm to purchase or upgrade physical assets such as property, industrial buildings or equipment (*i.e.*, capital expenditures).<sup>32</sup> The rates range from zero in Alaska to 7.25% in California.

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<sup>25</sup> [http://ccg.co.campbell.wy.us/assessor/html/oil\\_gas\\_valuation.html](http://ccg.co.campbell.wy.us/assessor/html/oil_gas_valuation.html)  
<http://revenue.state.wy.us/PortalVBVS/uploads/ProjectAR10-05.pdf>; Shelby Gerking, “Effective Tax Rates on Oil and Gas Production: A Ten State Comparison”, 2005.

<sup>26</sup> <http://www.californiacityfinance.com/PropTransfTaxRates.pdf>

<sup>27</sup> (<http://www.ksrevenue.org/pdf/pvd2008MVlevy.pdf>)

<sup>28</sup> <http://www.tax.state.nm.us/pubs/TaxreseStat/2006propertytaxfacts.pdf>

<sup>29</sup> <http://www.window.state.tx.us/taxinfo/proptax/annual06/96-318.pdf> issued January 2008.

<sup>30</sup> Utah Property Tax, Annual Statistical Report, Prepared by: Property Tax Division, Utah State Tax Commission, <http://propertytax.utah.gov/finalannualstats/2006annual.pdf> and <http://propertytax.utah.gov/taxrates/taxarearates2007.pdf>.

<sup>31</sup> <http://www.taxadmin.org/fta/rate/sales.html>

<sup>32</sup> This analysis will understate the total sales tax revenue to the extent that there are other taxable inputs (*i.e.*, non-capital goods used in production) excluded from this analysis.

### III. The standardized Firm.

Not only do oil companies pay different taxes, with different assessed bases, and with different rates; the companies themselves are dissimilar. Some produce mainly oil, while others produce almost equal amounts of oil and natural gas. Some are integrated with refining operations, while others have pipeline transportation assets. Accordingly, the seemingly straight-forward estimation of cost structures, which is crucial when comparing tax contributions across states, is actually complex. Because our focus is on the consequences of different tax structures, this study constructs a hypothetical standardized stand-alone oil company using characteristics that are representative of companies operating in California. We then compare the tax burden that this company would bear in California with the tax burden that it would bear if it operated in other states.<sup>33</sup> We assume the price of oil to be \$58 a barrel – the same assumption made by Governor Schwarzenegger in his oil severance tax proposal.

In constructing the standardized firm, we gathered financial, production, and reserves information for publicly-traded companies. Data was obtained from publicly traded companies in the oil extraction sector.<sup>34</sup> While none of the comparables were strictly oil producers, the companies included in our research have oil reserves accounting for more than two-thirds of the total value of their oil and gas reserves.<sup>35</sup> We tested the reasonableness of the parameters derived from this information by consulting with industry experts familiar with the California oil industry. The standardized firm used in this study is assumed to produce 100,000 barrels of oil per day (bopd), have annual sales of \$2.12 billion, and own reserves expected to last 15 years.

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<sup>33</sup> If the standard of measure was another state, both the size of the standardized firms and their cost structures could be different.

<sup>34</sup> Source: Reuters.

<sup>35</sup> The analysis first identified all oil companies, and eliminated those that had significant integrated operations (*i.e.*, refining). Information from the most recent annual 10K filings for each company was obtained from the SEC and production, costs, reserves, and profitability measures were compiled. After eliminating companies with missing information, the remaining companies were used to compute medians for the key information required for the model.

Sales tax liabilities are estimated using data on capital expenditures. The tax base of the state corporate tax is estimated by subtracting other taxes (property and severance taxes) from net income, and excluding wells producing less than 10 barrels a day because they are marginally economic. We then calculated liabilities by applying the effective rate for each state to our estimate of the tax base. In typical fashion, the firm's net income is obtained by subtracting costs of goods sold (largely lease expenses, gathering, transportation and work over costs) from total sales to get gross profits, and then subtracting D,D,&A and G&A<sup>36</sup>. For California, Texas and Utah, the property tax base is the value of oil reserves in the ground, estimated to be the long-run net present value of expected cash flows at each assumed price.<sup>37</sup> In the case of the other states, the base for the property tax is the value of production.

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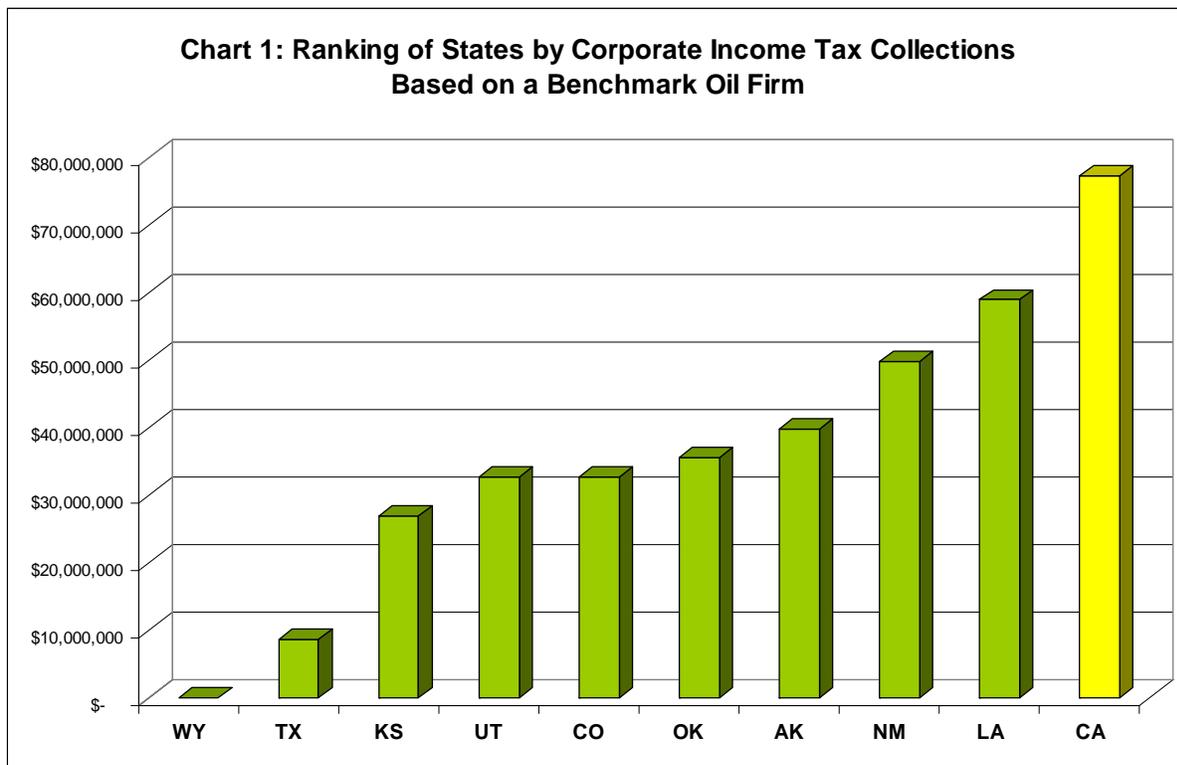
<sup>36</sup> Sources are based on median values from the public companies.

<sup>37</sup> Cash flows are based on net income after taxes less capital expenditures and adding back depreciation.

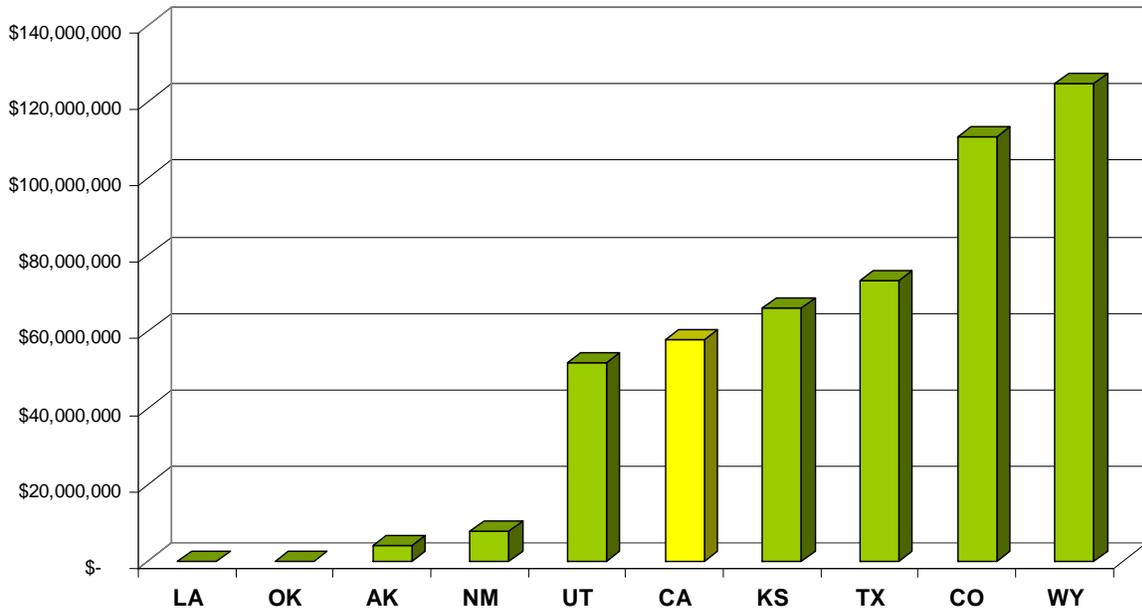
## IV. Results.

### A. Overview.

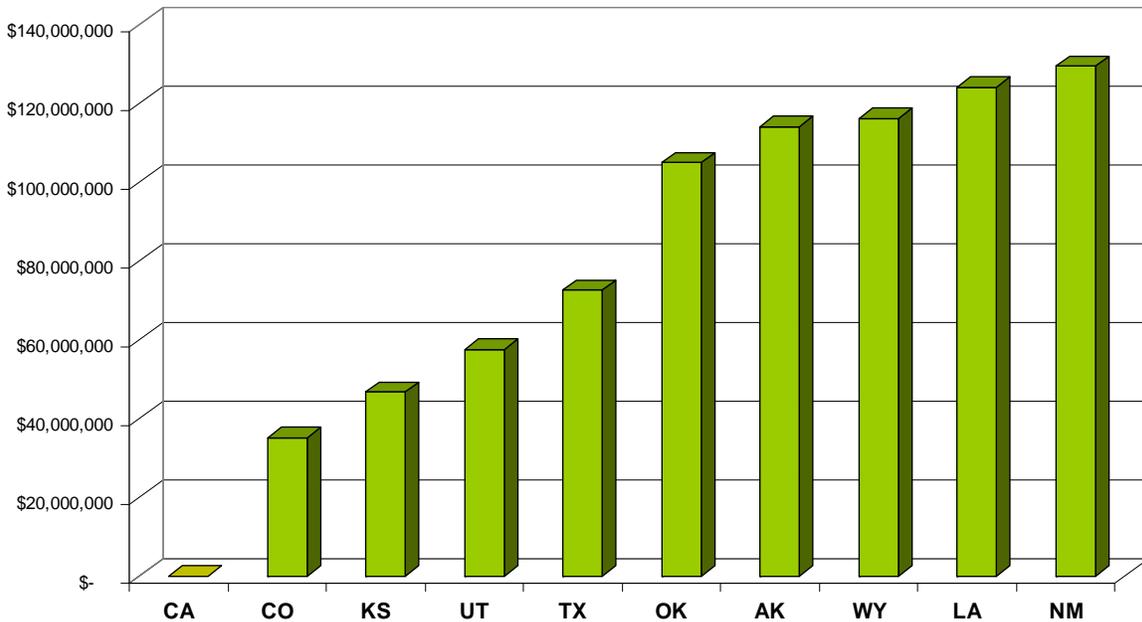
Results from our analysis are shown in Charts 1-4, which present severance tax collections, corporate income tax collections, property tax collections, and sales tax collections from our standardized or benchmark firm. These charts show that the 10 states place different emphasis on different taxes when raising money from oil companies, with some relying primarily on property taxes while others rely on income taxes. The charts also show that, while there are important differences in total tax collections among states, most fall in a narrow band.

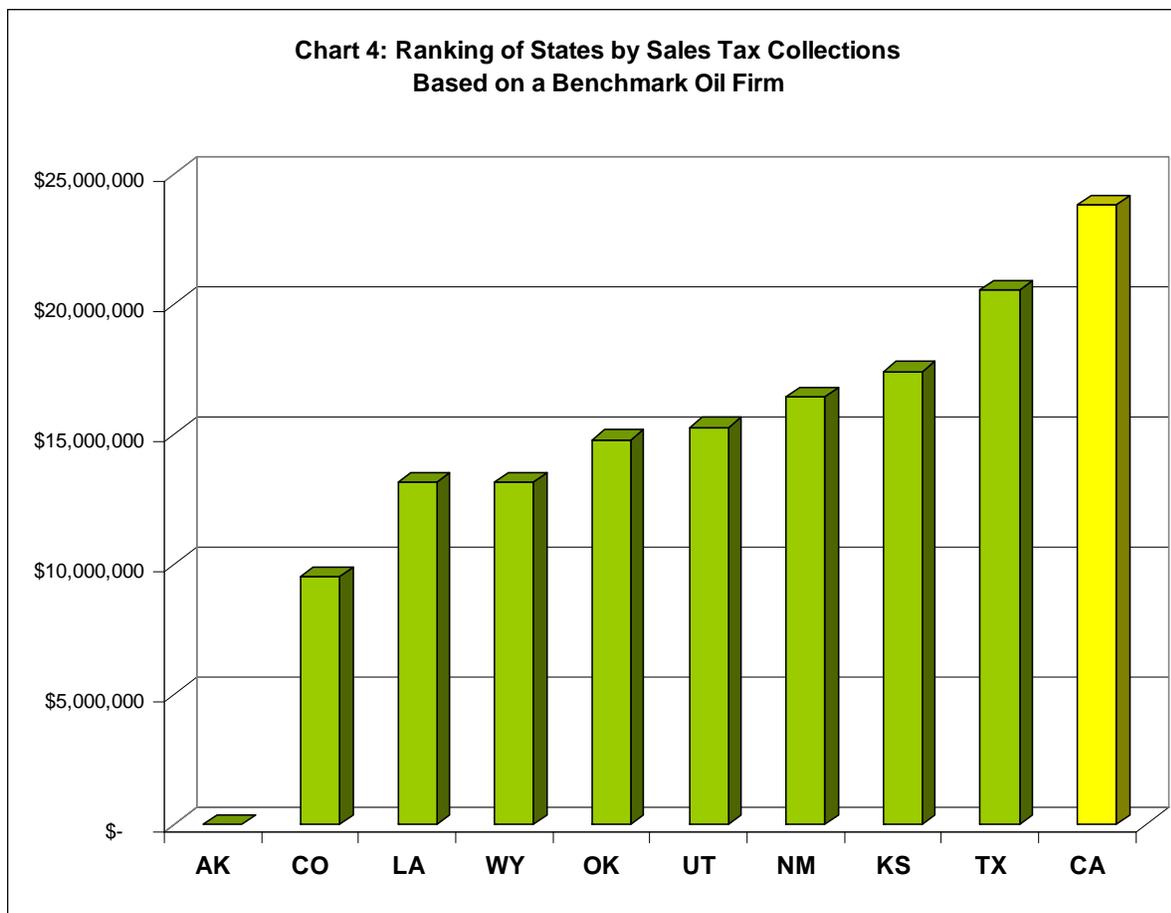


**Chart 2: Ranking of States by Property Tax Collections  
Based on a Benchmark Oil Firm**



**Chart 3: Ranking of States by Severance Tax Collections  
Based on a Benchmark Oil Firm**





***B.Differences in Tax Emphasis among States.***

As Charts 1-4 make clear, the ten top oil-producing states do not take the same approach to taxing oil companies. Wyoming, for example, ranks lowest in corporate income tax collections but the highest in property tax collections. California, in contrast, relies primarily on corporate and sales taxes, and makes relatively less use of production and property taxes. The following characterizations stem from the four charts:

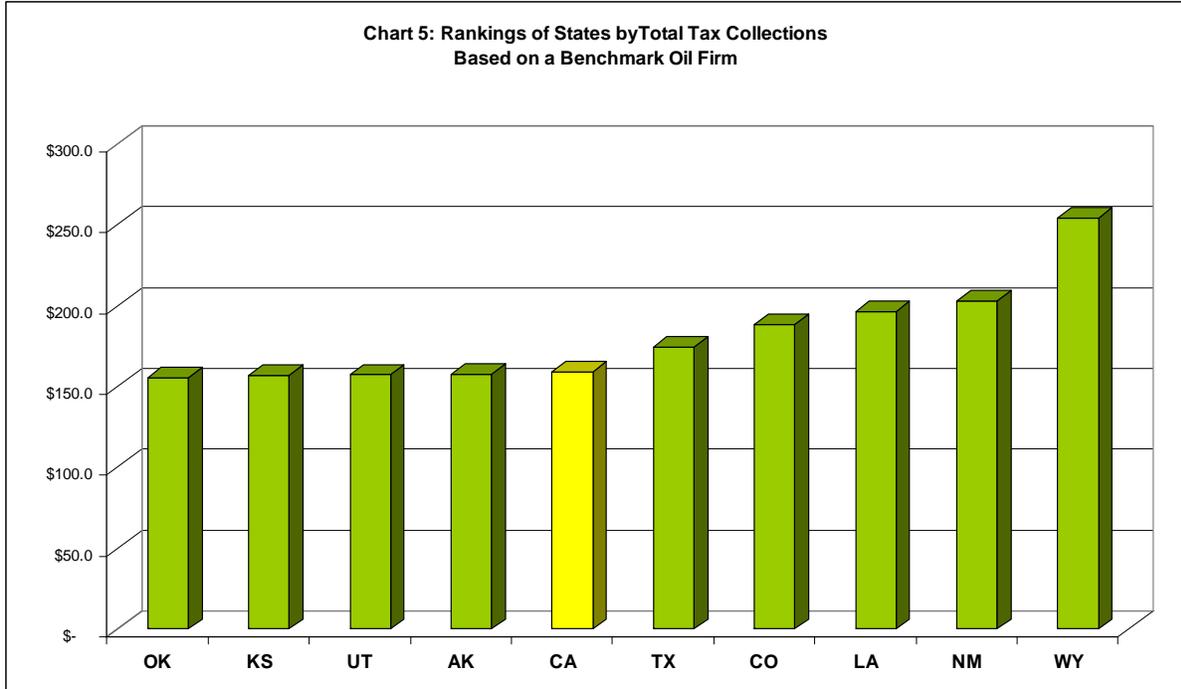
- Wyoming raises 95% of its revenues from property and severance tax collections.
- California relies on standard business taxes, using a higher corporate income tax rate than in most states, and lower property tax rates.

- Colorado relies heavily on taxes that vary proportionately with the price of oil, with both severance tax and property tax collections directly associated with the value of production.
- Most of the other states put primary emphasis on severance tax collections, with the percentage share of total tax collections ranging from the high 30's in Texas to the mid 60's in Alaska and Louisiana. The combined corporate and sales tax burdens in these states range in percentage terms from the mid 20's to the high 30's of total tax collections.

### ***C. Total Tax Collections.***

As noted throughout this report, tax structures vary across states. By using a benchmark firm, we are able to add the tax burdens resulting from each state's array of taxes to determine the overall tax burden imposed on oil companies in each state. As Chart 5 makes clear, the top ten oil-producing states can be divided into three groups:

1. A group of five states –Oklahoma, Kansas, Utah, Alaska and California – in which the tax burden is practically the same.
2. A second group of four states – Colorado, Texas, Louisiana and New Mexico – in which the tax burden is about 20% higher than in the previous group; and
3. Wyoming, which has the second highest severance tax and a high property tax.



On a total tax collection basis, California ranks in the middle of the pack. Thus, despite not having a severance tax, California imposes an average tax burden on oil companies, as a result of having the highest corporate income and sales tax rates.

## V. Additional Tax Liability Created By the Proposed Severance Tax.

Governor Schwarzenegger severance tax proposal would be “applied to the gross value of each barrel of oil at a rate of 9.9 percent. Any oil produced by a stripper well, in which the average value of oil as of January 1 of the prior year is less than fifty dollars (\$50) per barrel, would be exempt from the tax”. In California, almost 17% of oil production comes from 27,000 stripper wells that produce less than 10 barrels per day.

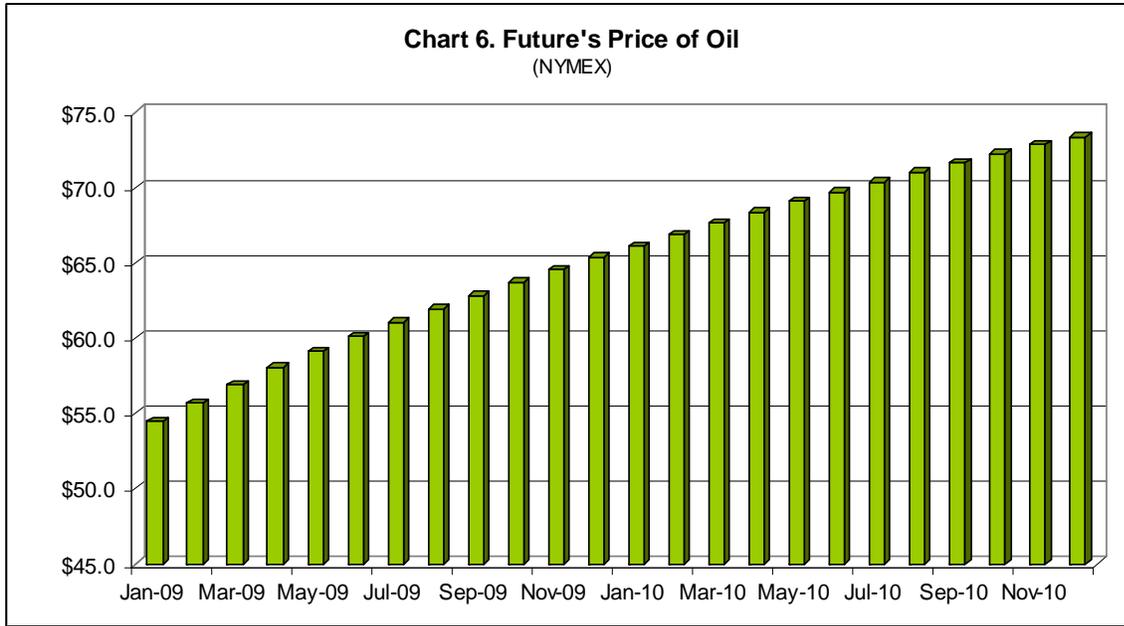
**Number Of Oil Stripper Wells By Daily Production<sup>38</sup>**

Production Rate Bracket	Number of oil Wells	Annual Oil Production (Mbbbl)	Average Daily Oil production per well (bbl/day)
0-1	4,336	750	0.5
1-2	4,241	2,141	1.4
2-4	6,574	6,633	2.8
4-6	4,864	8,241	4.6
6-8	3,979	9,485	6.5
8-10	3,096	9,470	8.4
Subtotal <=10	27,090	36,720	3.7

Oil futures on NYMEX currently trade above \$50 per barrel so all of production from stripper wells –even those producing less than a barrel, would be subject to the tax.

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<sup>38</sup> [http://www.eia.doe.gov/pub/oil\\_gas/petrosystem/us\\_table.html](http://www.eia.doe.gov/pub/oil_gas/petrosystem/us_table.html)

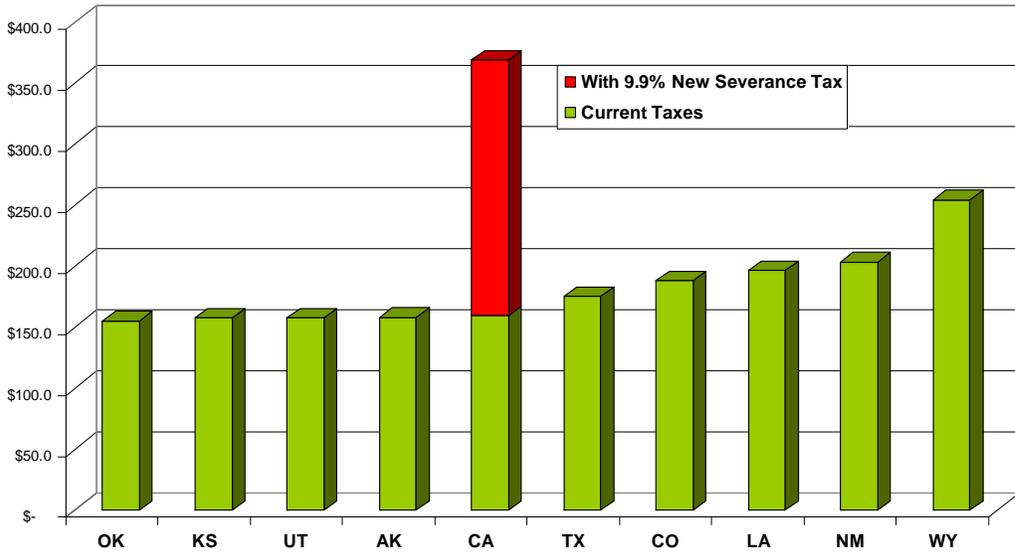


To estimate the additional tax liability paid by a standard firm, we assume that the severance tax rate is 9.9%. This rate would be higher – by more than 50% -- than the rates imposed by the other nine states considered in this study.<sup>39</sup> As can be seen in Chart 7, if the Governor’s proposed severance tax is enacted, the tax burden on oil firms in California would significantly higher than in any other state.

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<sup>39</sup> The severance tax rates go from 1.7% in Colorado to 6.1% in New Mexico.

Chart 7: Comparison of Oil Production Taxes  
In Top 10 Oil Producing States



## **VI. Conclusions**

Tax burden comparisons across states are complicated by the multiplicity of tax programs and the fact that different taxes differ in their response to price changes. To give interested parties a sense of how California's oil companies are taxed relative to oil companies in other states, we compare total tax burdens imposed by ten major producing states. To make this comparison, we use a hypothetical standardized oil company. While the specific tax burdens computed for this hypothetical company may not correspond to payments made by a real-world oil company, the rankings across states is more revealing than comparisons of specific tax rates. The hypothetical oil company used in this study is representative of oil companies operating in California.

Given that sales tax and corporate income tax rates in California are the highest of the states considered, on a total tax collection basis, California falls in the middle. Thus, while California does not impose a severance tax, the higher corporate income and sales tax collections make its total tax collections from oil companies average among the oil producing states we considered. The 9.9% severance tax proposed by Governor Schwarzenegger would be the highest severance tax rate among the top ten oil producing states, and if enacted, would cause California to become the state with the heaviest tax burden.