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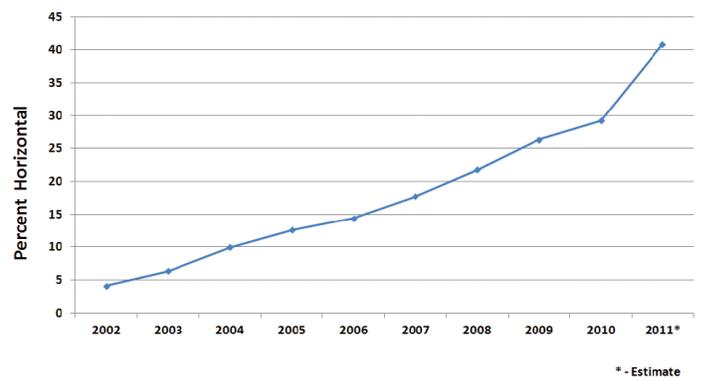
## Oklahoma Policy Institute

### UNNECESSARY AND UNAFFORDABLE: THE CASE FOR CURBING OKLAHOMA'S OIL AND GAS TAX BREAKS

Oklahoma should eliminate tax breaks for the oil and gas industry that are no longer needed and are squeezing out resources for schools, roads, public safety, and other keys to long-term economic growth. Policymakers created the tax exemptions to encourage what were once novel and risky methods of drilling, but these techniques are now standard practice, making the exemptions not only unnecessary but counterproductive.

The state paid out or accrued \$645 million in tax rebates and credits to the industry over the latest 3-year period (FY 2010 – FY 2012). Most of the credits - \$537 million – went to producers of horizontal wells. As a growing share of Oklahoma production comes from horizontally-drilled wells, the cost of these credits will continue to grow exponentially in coming years and could reach \$400 million or more annually without legislative action.

Oklahoma Horizontal Well Completions as a Percentage of Total  
Data From IHS Energy through January 1, 2012



Curtailing these tax breaks won't harm Oklahoma's economy for several reasons:

- **State oil and gas tax preferences do not significantly influence the decision to drill.** Oklahoma's oil and gas companies have ranked tax incentives as the least important factor affecting drilling decisions;
- **Oil and gas tax preferences are rarely decisive for the profitability of drilling.** Even though drilling costs are high, horizontal and deep wells have considerably higher production rates and greater reserves than do vertical wells;
- **Companies are unlikely to shift production elsewhere based on tax breaks.** Oklahoma will remain an attractive location to drill due to our ample reserves, existing levels of production, skilled workforce, and established infrastructure.

Oklahoma should eliminate or curtail tax breaks for horizontal and deep well drilling in favor of more uniform tax treatment that allows energy producers to operate profitably without draining taxpayer funds.

**For the full-length issue brief, go to: [www.okpolicy.org/unnecessary-and-unaffordable](http://www.okpolicy.org/unnecessary-and-unaffordable)**