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Oklahoma Policy Institute

2018 POLICY PRIORITY: END OIL AND GAS TAX BREAKS

Background

Oklahoma's historical tax rate on oil and gas drilling is 7 percent, but a special tax break gives the industry a 2 percent rate for the first 3 years of any new well. This subsidy costs hundreds of millions annually and is a major reason for the state's chronic budget shortfalls and inability to fund our schools and other vital public services.

In fiscal year 2019, this subsidy will cost Oklahoma \$333 million in lost gross production tax revenue, based on the most recent forecasts from the Oklahoma Tax Commission.



The Solution

Oklahoma should put an end to an unnecessary subsidy to a profitable industry by taxing all production at 7 percent, thereby boosting state revenue collections by over \$300 million.

At 7 percent, Oklahoma's tax rate would remain below that of other major energy states. In a fair comparison of all taxes on the value of oil and gas combined, producers pay an effective rate of 8.3 percent in Texas and North Dakota, 13.3 percent in Louisiana, and 13.4 percent in Wyoming, according to a 2017 report by the Covenant Group.

Studies consistently find that tax rates and tax breaks are of very minor significance in determining companies' decisions on where and when to drill. A survey of Oklahoma oil and gas companies found tax incentives to be the least important factor affecting drilling decisions. Ending this tax break will not reduce economic activity, because Oklahoma will remain an attractive location to drill due to our ample reserves, existing levels of production, skilled workforce, and established infrastructure.

What You Can Do

Contact your state Representative and Senator and urge them to support doing away with the subsidy for oil and gas producers and taxing all drilling at the standard rate of 7 percent.

You can look up your Senator and Representative at <http://okpolicy.org/find-your-legislator/>, call the House switchboard at 405-521-2711, and call the Senate switchboard at 405-524-0126.

To join the grassroots coalition of Oklahomans working to connect Oklahoma values with better budget and tax priorities, visit www.togetherok.org. To receive SMS advocacy alerts on important budget and tax issues, text OKBUDGET to 51555.