Colorado
Legislative
Council
Staff

Room 029 State Capitol, Denver, CO 80203-1784
(303) 866-3521 FAX: 866-3855 TDD: 866-3472

MEMORANDUM

November 15, 2006

TO: Representative Bernie Buescher

FROM: Ron Kirk and Todd Herreid, Economics Staff, 303-866-3521

SUBJECT: Tax Burden for Oil and Gas Producers in Five Western States

This memorandum responds to your request for information on the state and local taxes that oil and gas producers pay in selected western states. For comparison purposes, estimates of tax burden are based upon the gross production value of oil and natural gas in calendar year 2004. It was assumed that production in 2004 resulted in severance tax, income tax, and sales tax liabilities that were collected in state fiscal year 2004-05. Estimates of property taxes paid were based on 2005 assessed values and mill levies which reflect production values in 2004.

Tax Burden For Oil and Gas Producers

The following table compares the amount of state and local taxes paid by oil and gas producers in five western states — Colorado, Wyoming, Utah, New Mexico, and Oklahoma. For each state, the total gross production value is followed by estimates of tax liabilities for severance, property, income, and sales taxes. Data for severance taxes and property taxes were obtained directly from state tax administrators or published reports. Corporate income taxes attributable to oil and natural gas production were estimated by multiplying the state's proportion of operating surplus resulting from mining production by the amount of corporate income taxes collected in the state.[1] Some states also provided direct estimates of corporate income taxes that were derived from oil and gas production. Wyoming does not impose an income tax.

The final column in Table 1 shows the percentage of taxes paid on the value of oil and gas production. For comparison purposes, the percentages are a measure of the *effective tax rate* on oil and gas production in each state. The effective tax rate accounts for each state's unique tax exemptions, deductions, and credits, which are factored into the actual amount of tax collected. Thus, the effective tax rate provides a direct comparison of the tax burden faced by oil and gas producers in each state.

When looking at the total taxes paid by oil and gas producers in five western states including Colorado, Utah has the smallest estimated tax burden at 4.5 percent ($4.50 on each $100 of oil and gas production). Colorado is the next lowest at 5.7 percent, followed by Oklahoma at 7.0 percent, New Mexico at 9.4 percent, and Wyoming at 11.2 percent. Figure 1 illustrates effective tax rates for these states.

Table 1
State and Local Tax Burden for Oil and Natural Gas Producers
(in millions)

State	Total Oil and Gas Production Value (gross)*	Severance Taxes	Property Taxes*	Income Taxes	Sales Taxes	Total State and Local Taxes	Taxes/Production Value (Effective Tax Rate)
Colorado	$6,889.4	$132.0	$227.5	$19.5	$13.2	$392.2	5.7%
Wyoming	$10,376.9	$567.0	$539.9	** N/A	$58.0	$1,164.9	11.2%
Utah	$2,145.2	$53.5	$31.1	$4.8	$7.6	$97.0	4.5%
New Mexico	$11,867.0	$815.2	$127.5	$74.6	$94.4	$1,111.6	9.4%
Oklahoma	$11,694.7	***$778.5	N/A	$30.6	$7.9	$817.0	7.0%

* Production values for oil and gas are for calendar year 2004. Property taxes are based upon 2005 assessed values and county-specific mill levies for production values in 2004.
** Wyoming does not levy a state income tax.
***Oklahoma's severance tax is levied in lieu of local property taxes and most state/local sales taxes. In addition, an excise tax is added to the severance tax amount which is also levied on oil and gas producers.

Differences in the state and local tax burden for oil and gas producers can be attributed to each state's tax structure. For example, Utah and Colorado have relatively low tax burdens because of low severance and property tax rates. The severance tax rate is

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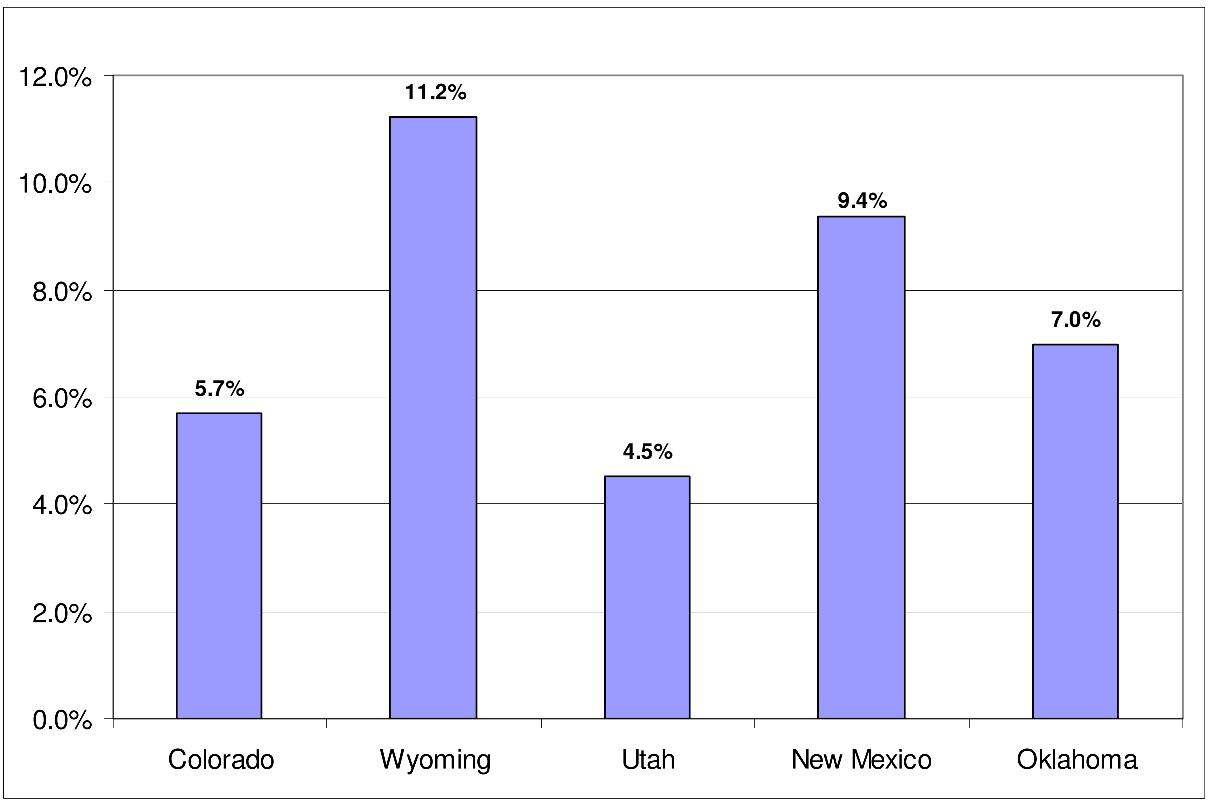
[1] The Bureau of Economic Analysis prepares annual estimates of Gross State Product, by industry. The estimates for each industry include data on operating surplus. The mining industry's share of total state operating surplus was used to estimate the proportion of corporate income tax revenue attributable to oil and gas production. This estimate could be high or low depending upon the availability of special tax breaks (exemptions, deductions, or credits) for the mining industry relative to other industries in the state.

comparable in Utah and Colorado, ranging from 2 to 5 percent in Colorado and 3 to 5 percent in Utah; however, the severance tax burden is lower in Colorado because the state provides a large tax credit for local property taxes due from oil and gas production. Conversely, the local property tax burden is higher in Colorado than Utah. The average property tax rate imposed on oil and gas production in Colorado is about 3.3 percent, while in Utah it is about 1.4 percent. It should also be noted that Colorado's tax burden has fluctuated between 5.5 percent and 6.0 percent over the last four years because of changes in the value of the property tax credit.

Figure 1
State and Local Taxes Imposed on Oil and Natural Gas Producers, as a Percentage of Total Production Value



Wyoming and New Mexico impose a greater tax burden on oil and gas production. Wyoming has no income tax, but it has a higher severance tax rate than Colorado and it allows a smaller amount of tax credits, exemptions, and deductions. The net result is that the effective severance tax rate in Wyoming is almost 3 times greater than in Colorado. In addition, the local property tax burden in Wyoming is greater, at about 5.2 percent versus 3.3 percent. In New Mexico, the effective severance tax rate is also higher than Colorado, although the local property tax burden is smaller. Oklahoma's tax burden is slightly higher than Colorado's because of higher severance tax rates, which are imposed in-lieu of local property taxes and most sales and use taxes.