OKLAHOMA
OIL & GAS ASSOCIATION

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56TH LEGISLATURE INCREASES TAXES ON THE OIL AND GAS INDUSTRY BY $141 MILLION

For a third year in a row, Oklahoma will increase its dependency on the oil and natural gas industry by increasing taxes

OKLAHOMA CITY (May 26, 2017) – In conclusion of the first regular session of Oklahoma's 56th Legislature, the oil and natural gas industry will face an additional $141 million in new taxes for fiscal year 2018. The tax increases were passed in bills HB 2377 and HB 2429, making it the third year in a row for Oklahoma to increase the oil and natural gas industry's tax burden.

HB 2377, authored by Appropriations Chairs Rep. Leslie Osborn and Sen. Kim David, and presented by Rep. Jon Echols and Sens. Roger Thompson and Bryce Marlatt, ended all gross production tax (GPT) rebates. This simplifies and enforces a clear two-tiered GPT structure of 2 percent for 36 months and 7 percent thereafter for the life of the well, which is more than 30 years. The Oklahoma Tax Commission estimated HB 2377 would result in net positive revenue of $46.3 million in fiscal year 2018.

HB 2429, authored by Appropriations Chairs Rep. Osborn and Sen. David, and presented by Rep. Kevin Wallace and Sens. Marlatt and Thompson, changed the tax rate on more than 5,700 producing wells from 1 percent to 4 percent for the remainder of the 48-month time period. HB 2429 applies to horizontal wells that were spudded on or prior to July 1, 2015, before the current, permanent two-tiered GPT structure took effect. The Oklahoma Tax Commission estimated the legislation would result in net positive revenue of $95 million for fiscal year 2018.

"The 56th Legislature faced significant challenges this session, and we appreciate the long hours and time away from family that they took to seek agreement on many critical issues," said Chad Warmington, president of OKOGA. **"The greater disappointment in this session is that a small group of Legislators blocked a compromise on reasonable funding solutions to help the state address its budget shortfall this year without significantly affecting economic growth and job creation. Due to**

this impasse, the Legislature passed a risky solution to address state funding by increasing taxes by roughly 300 percent on thousands of currently producing wells. It will serve as a determent in the future for any growing industry who sees that Oklahoma will change the game on its promises once the investment is made."

Over the past three years, the state has increased taxes on the oil and natural gas industry in the following ways:

- In 2017, the oil and natural gas industry will pay an additional **$141 million in tax increases** by ending all GPT rebates and by changing the rate on horizontal wells with a 1 percent GPT rate for 48 months to 4 percent for the remainder of time for the initial lower rate.
- In 2016, the oil and natural gas industry paid an additional **$120 million in tax increases** when the state placed a cap on the economically at-risk well rebate and limited the amount of production wells would qualify for the rebate.
- In 2015, the state increased taxes on horizontal drillers by **100 percent**, when it implemented the permanent two-tiered GPT rate for all wells of 2 percent for the first 36 months and 7 percent for the remaining life of the well, on average more than 30 years.
- In 2015, the state also **eliminated more than half of the GPT rebates**, six of the 11 rebates of which some had existed dating back to the early 1990s.

In the state of Oklahoma, the oil and natural gas industry pays the following state and local taxes: petroleum excise tax, state land office mineral revenue tax, state sales and use tax for industry sales, state sales and use tax for industry purchase, corporate income tax, personal income taxes, energy resources revolving fund tax, marginal well tax, GPT, local property taxes, and local sales and use tax.

"The oil and natural gas industry is the single largest tax contributor to the state budget, and this is the third year in a row the state will further increase its dependency on the industry with additional tax increases," added Warmington.

Background

The Oklahoma Oil & Gas Association, founded in 1919, is the oldest energy trade association in the United States. Nearly a century later, the association remains dedicated to the advancement and improvement of the oil and natural gas industry within the state of Oklahoma and throughout the nation. It is a non-profit association composed of oil and gas producers, operators, purchasers, pipelines, transporters, processors, refiners, marketers and service companies which represent a substantial sector of the oil and natural gas industry within Oklahoma. The activities of OKOGA include support for legislative and regulatory measures designed to promote both the well-being and best interests of the citizens of this state and a strong and vital petroleum industry within the State of Oklahoma and throughout the United States.

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