

# NEWSLETTER

---

March, 1993

**UPDATE AND EXTENSION OF CES'S  
STUDY OF STATE AND LOCAL TAXES ON  
E&P - by Allan Pulsipher**

Two years ago the Center for Energy Studies published a study comparing the state and local tax bills of the leading oil and gas producing states. Previous studies largely had been limited to severance taxes. Our analysis showed that severance tax comparisons didn't tell the whole story and, in fact, were quite misleading. Oil and gas companies also pay corporate income and franchise taxes as well as property and sales taxes and the relative reliance on these taxes varies considerably among states. There is also considerable variation in the relationship between severance and property taxes. Some states substitute severance taxes for property taxes, others levy both taxes, and Colorado allows the property tax payment to be subtracted from the severance tax liability. Moreover the base of the property tax varies, with states such as Texas taxing the value of oil and gas in the ground while others such as Louisiana tax only the value of structures and equipment.

The most surprising finding of the study was how close the tax bills of competing states were when all taxes were included in the comparison. Some states such as North Dakota and Alaska were clearly higher than the average and others such as Oklahoma and California clearly lower-than-average; but, in general, the differences in the total tax bill among competitive states such as Louisiana, Texas and Mississippi, or, Colorado, New Mexico and Kansas were well within the likely margin of error of the data we collected for the study.

A summary of the report was published in the Oil & Gas Journal (April 22, 1991) and became a standard point of reference by both industry and governmental analysis during subsequent considerations of energy taxes in several states.

Because of the interest in the study and with financial support provided by CNG Producing Company, we have updated the study to incorporate newly available and revised data and extended its scope by providing comparisons based on "percent of value" as well as "dollars per barrel." The results are summarized in Figures One and Two.

Figure One shows the average tax bill expressed in dollars per barrel for the states included in the study. Tax data varies from year to year and often undergoes major revisions, thus we use a four-year average rather than data for individual years. Although the averages in Figure One include another year of data as well as some substantial revisions, the pattern is quite similar to the one described in our earlier article. Louisiana's tax bill of \$1.17 is only barely above the \$1.16 average for the eleven states in the study. Louisiana's higher severance taxes are offset by higher property taxes in Texas and higher corporate taxes in Mississippi so the total tax bills among these three Gulf Coast states are roughly equivalent on a per

barrel basis. As the figure illustrates, similar offsets tend to equalize tax bills between such states as Colorado and New Mexico despite major differences in the apparent amount of severance taxes paid.

Figure Two compares the average tax bills calculated on a per barrel basis with tax bills expressed as a percent of the value of total oil and gas produced in the state. The pattern among the states remains roughly the same when the value of oil and gas production rather than the physical volume of production is used but, there are some exceptions.

Alaska becomes the highest tax state when value is used because such high transportation costs are incurred in moving its oil from the North Slope to market. High transportation costs reduces the value of oil at the well head (where severance taxes are collected) considerably below that of more accessible oil produced in other states. Similarly, California's heavier, sourer crude is priced below lighter, sweeter oils produced in states like Louisiana.

Differences in the proportions of oil and gas produced account for most of the rest of the difference between the two measures. States such as Louisiana and New Mexico which produce considerably more gas than oil move "up" in the ratings because gas prices were well below oil prices (on an energy equivalent basis) throughout this period. Thus the value of oil and gas production is lower in these states and taxes represent a larger percentage of total value. Based on value, Louisiana moves from a tie for sixth to the fifth highest among the eleven states in the study.

Using value rather than volume also changes the relationships among Louisiana and its two Gulf Coast competitors. On an energy equivalent basis, Texas and Mississippi both produce about the same amount of oil and gas; but Louisiana produces about twice as much gas as it does oil. As a consequence, Mississippi's tax bill, which is above Louisiana's on a volume basis, falls below it on a value basis. More importantly, the relative tax spread between Louisiana and Texas grows. On a volume basis, Louisiana's tax bill is only about four and one half percent above that of Texas. However, if value is used to make the comparison, Louisiana's tax bill is almost 7 percent above Texas.'

A complete report describing the study will be available in April.

The research reported in this issue was supported financially by an unrestricted grant from:

**CNG Producing  
Company**  

---

**A CNG® COMPANY**

Figures 1 and 2  
currently not  
available.

**Center for Energy Studies**  
**Louisiana State University**  
**1 E. Fraternity Circle**  
**Baton Rouge, LA 70803-0301**

Nonprofit Organization  
U. S. Postage  
**P A I D**  
BATON ROUGE, LA.  
PERMIT NO. 733