Roth: Oklahoma's energy tax incentives

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Oklahoma's energy tax incentives

Oklahoma's state budget is in trouble. And the shrinking revenue picture keeps getting worse, which has led some legislators to call for an end, or at least a moratorium, on some state tax incentives that attract investment.

We are in a difficult place for sure. So what to do when multiple good causes are competing for the same dwindling dollars?

One idea is getting early consideration and probably deserves a more cautious approach from state leaders: the idea to eliminate or freeze state tax incentives.

Here’s a quick look at those existing tax incentives, at least those related to Oklahoma energy production:

Oil and gas

• Gross production tax: The production of oil, gas, or oil and gas from wells spudded by July 1, 2015, shall be taxed at a rate of 2 percent starting with the month of first production for 36 months.

• Secondary recovery projects: For projects approved or starting by July 1, 2000, and before July 1, 2020, any incremental production attributable to the working interest owners shall be exempt from the gross production tax for a period not to exceed five years from the initial project beginning date or for a period ending upon the termination of the secondary recovery process, whichever occurs first.

• Tertiary recovery projects: For projects starting by July 1, 1993, and before July 1, 2020, any incremental production attributable to the working interest owners shall be exempt from the gross production tax from the project beginning date until project payback is achieved, not to exceed a period of 10 years.

• Inactive wells and production enhancement projects: Exempt from gross production tax for 28 months from the date production is re-established before July 1, 2020.

• Horizontally drilled wells, deep wells, ultra-deep wells, new discovery, three-dimensional seismic shoot and wells not eligible for any other exemption: Production started after July, 1, 2015, taxed at 2 percent for first 36 months.

• Economically at-risk oil or gas lease: Exemption extended from the gross production tax for production through Dec. 31, 2020, on lease during the previous calendar year. If the gross production tax rate levied was 7 percent, then the exemption shall equal six-sevenths of the gross production tax levied. If the gross production tax was 4 percent, then the exemption shall equal three-fourths of the gross production tax levied.

• Deductions of marketing costs: Producers of natural gas and casing head gas who incur marketing costs of the gas produced may deduct the costs from the gross value subject to the gross production tax.

Wind

• Five-year ad valorem exemption that phases out Dec. 31, 2016.

• Zero-emissions tax credit for electricity generated on or after Jan. 1, 2007 but prior to Jan. 1, 2021 of $0.0050 per kilowatt-hour.

Coal

• Oklahoma Coal Production Incentive Act. There shall be allowed a credit against the tax imposed … for every person primarily engaged in mining, producing or extracting coal, and holding a valid permit issued by the Oklahoma Department of Mines. … For tax years beginning on or after Jan. 1, 2007, the credit shall be $5 for each ton of coal mined.

Gov. Mary Fallin rightly urged state lawmakers to be very cautious about reining in tax credits, as companies like Boeing may discontinue investment plans in Oklahoma if our sales strategies change mid-sale, so-to-speak. The same is certainly true for the billions of dollars deployed each year based upon the energy incentives. I hope state leaders take forward steps very carefully to not more deeply harm our ability to come out of this current downturn, as quickly as possible.

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