



5 March, 2014

Dear Legislator,

I write to you today regarding the on-going debate over Oklahoma's horizontal oil and natural gas severance tax. Americans for Tax Reform asks that you make the current rate permanent and avoid any "rob Peter to pay Paul" schemes, including increasing the oil natural gas severance tax to lower the personal income tax rate.

Some lawmakers have sought to use the threat of the expiration of the current horizontal rate as a means to pursue a "slightly higher" rate than what is currently law. This risky game is ill advised. The current severance tax structure has ushered in unprecedented development of Oklahoma's unconventional resources while generating millions for state coffers and should be made permanent.

Short of letting the current severance tax rate expire, there are some proposals that would increase rates on horizontal drillers by as much as 500 percent. Such a large increase would do irreparable harm to the Oklahoma economy and impel job loss. Even worse, the industry is already under assault from the Obama administration in Washington, D.C. facing tax proposals that could cut drilling budgets by as much as 30 percent. Oklahoma Republicans should implement tax policies that foster job growth and economic expansion, not take their cues from D.C. Democrats.

Raising the oil and gas severance tax could limit Oklahoma's ability to attract oil and natural gas developers. Texas's High-Cost Gas Incentive grants a 50 percent exemption from severance taxes on well costs. For 24 months, companies in Arkansas pay a severance tax rate of 1.5 percent on new gas discoveries – the timeline is extended to 36 months for high cost gas. In Louisiana, producers are exempt from severance taxes on horizontal wells for two years or until well payback. Increasing the oil and natural gas severance tax could send business and jobs to nearby states with more favorable tax policies. Were this to happen, Oklahoma would necessarily suffer — the oil and natural gas industry is the single largest source of capital spending in Oklahoma. In 2012 alone, oil and natural gas developers spent \$12 billion within the state.

In place since 2009, I urge you to make the current severance tax rate for horizontal drilling permanent.

Onward,

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President, Americans for Tax Reform

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