



# Colorado Severance Taxes

Prepared by the Office of  
State Planning & Budgeting

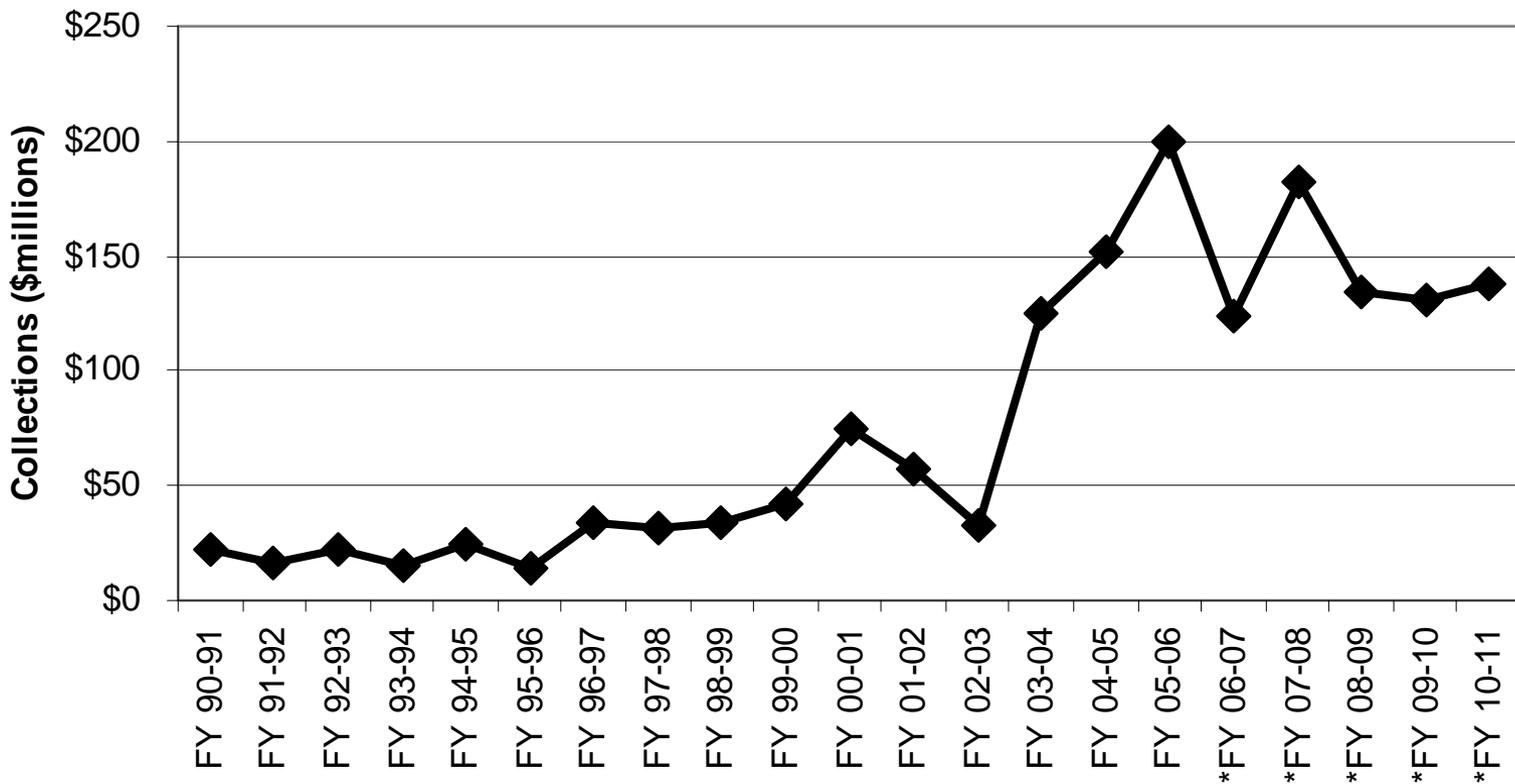


# Severance Taxes

- Collected primarily on the production value of oil and gas.
  - ½ to Department of Natural Resources, ½ to Department of Local Affairs
    - Operational Account at DNR is largely subject of debate (roughly ¼ of all severance tax revenue).
  - Extremely volatile due to sensitivity to price of commodities. Potential forecast error is large.

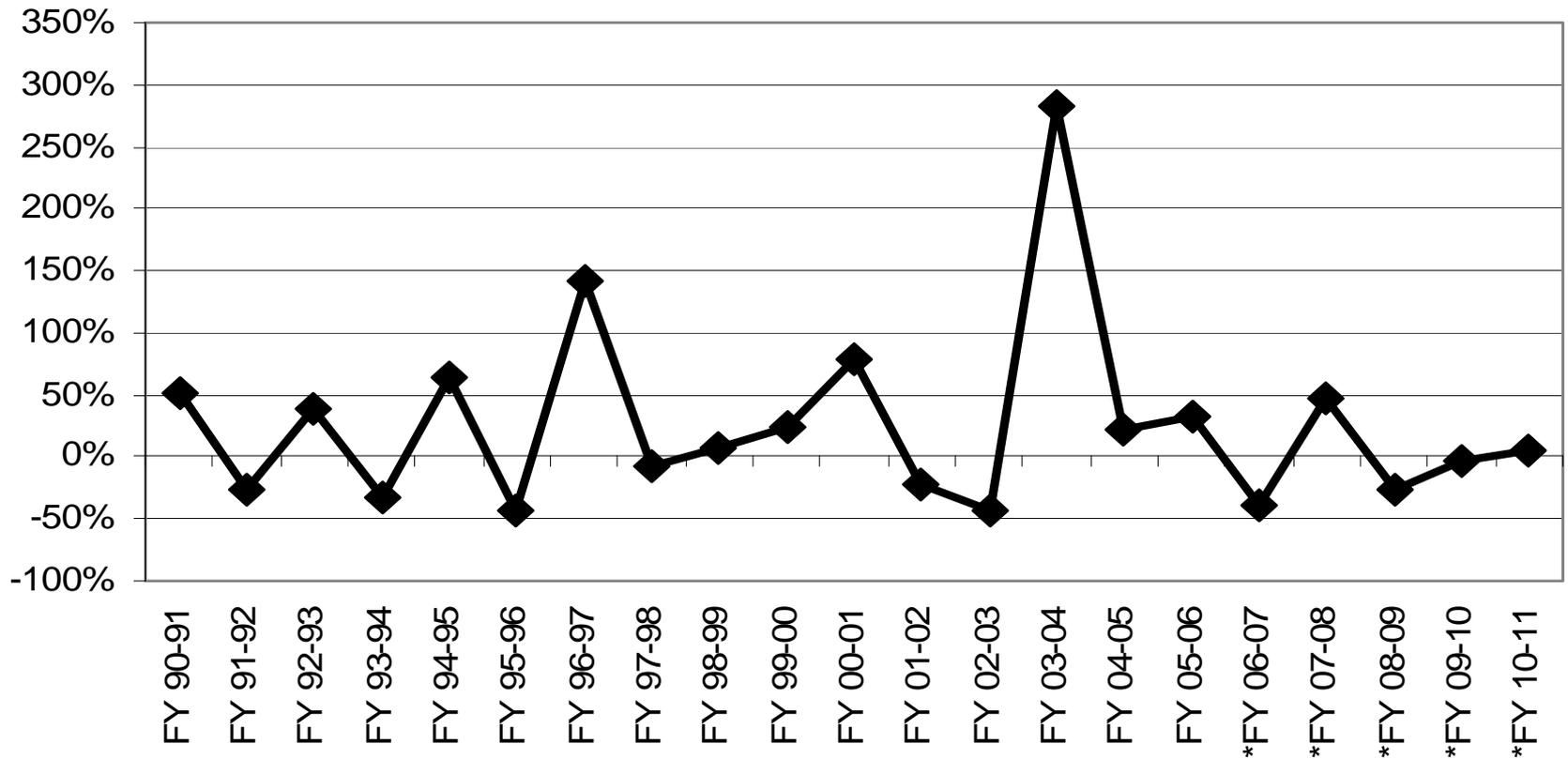


# Severance Tax Volatility





# Severance Tax Volatility





# How Does Colorado Compare?

- 4<sup>th</sup> out of 5 states in terms of total tax burden
- Only Utah has less production.

Source: Legislative Council Staff

## Estimated Total Tax Burden FY 2005-06

State	Effective Tax Rate
Wyoming	11.2%
New Mexico	9.4%
Oklahoma	7.0%
<i>Colorado</i>	<i>5.7%</i>
Utah	4.5%



# How Does Colorado Compare?

- Would have had to increase total tax burden by approximately \$250 million in FY 2005-06 to reach average total tax burden of the surveyed states.
- Total State Severance Tax Collections were \$234 million.



# Additional Considerations

- Ad Valorem Tax Credit
- State Severance Tax Rates
- Minimum Tax Rate

Note: All require voter-approval.



# Ad Valorem Tax Credit

- Producers get non-refundable credit on 87.5% of the property taxes paid on the production value of extracted minerals.
  - Worth \$100 million to \$120 million per year over the next several years.
  - Could fluctuate wildly with price shocks and impact would be felt greatest in Weld County because higher property tax rates than other producing counties.



# Tax Rate Changes

## Estimated Impacts of Severance Tax Rate Changes\* (\$millions)

Tax Rate Increase	<u>FY 06-07</u>		<u>FY 07-08</u>		<u>FY 08-09</u>	
	Low	High	Low	High	Low	High
1%	\$43.0	\$65.0	\$47.0	\$70.0	\$45.0	\$67.0
2%	\$87.0	\$130.0	\$93.0	\$140.0	\$89.0	\$134.0
3%	\$130.0	\$195.0	\$140.0	\$209.0	\$134.0	\$200.0

\*Based on forecasted production values of oil and gas provided by Legislative Council Staff and the Department of Local Affairs



# Minimum Tax Rate

- Could function similar to the federal Alternative Minimum Tax. If, after deductions and credits, a producer's liability falls below a certain threshold, then they would be required to pay based on a minimum tax rate.
  - Setting a 2% floor would have increased FY 2005-06 collections by \$32.7 million (LCS).