Q. How do state and local severance taxes work?

A. Thirty-four states levy severance taxes, which are taxes on the extraction of natural resources (including oil and natural gas). The revenue from these taxes is extremely volatile because it rises and falls with the price and production of natural resources.

HOW MUCH REVENUE DO STATE AND LOCAL GOVERNMENTS RAISE FROM SEVERANCE TAXES?

State and local governments collected $8 billion from severance taxes in 2016. Nearly all this revenue came from state taxes. Only 12 states allowed local severance taxes in 2016, collecting a combined $225 million that year.

Severance taxes accounted for less than 1 percent of national state and local own-source general revenue in 2016, but provided a substantial amount of own-source revenue in a few resource-rich states, such as North Dakota (21 percent) and Wyoming (10 percent) (figure 1). “Own-source” revenue excludes intergovernmental transfers.

The states with the next-highest contributions from severance taxes were Alaska, New Mexico, and West Virginia—all collected 4 percent of state and local own-source revenue from severance taxes. Severance taxes in Texas account for 30 percent of national state and local severance tax revenue, but they provide only 1 percent of Texas’s state and local own-source revenue. Sixteen states and the District of Columbia do not levy severance taxes.

Alaska typically depends on severance tax revenue more than any other state. However, the price and production of oil have fallen dramatically and so has the state’s tax revenue. In 2012, Alaska’s severance tax revenue was nearly $6 billion and accounted for over 40 percent of the state’s combined state and local own-source general revenue. Since then, however, revenue has fallen to $4 billion in 2013 (33 percent), $2 billion in 2014 (23 percent), $636 million in 2015 (8 percent), and $337 million in 2016 (4 percent).

Alaska highlights the volatility of severance taxes and the challenges that poses to states that heavily rely on them. Therefore, these states must have flexible budgeting arrangements or significant rainy day funds to accommodate unforeseen changes in severance tax revenue flows.
The State of State (and Local) Tax Policy

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**FIGURE 1**

Severance Tax Revenue as a Percentage of State and Local Own-Source General Revenue
2016

Source: US Census Bureau, Census of Governments.
Note: Own-source general revenue does not include intergovernmental transfers.

Data Sources


Further Reading