

# The State of State (and Local) Tax Policy

SPECIFIC STATE AND LOCAL TAXES

## How do state and local severance taxes work?

**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 \$9 billion from severance taxes in 2017. Nearly all this revenue came from state taxes. Only 12 states allowed local severance taxes in 2017, collecting a combined \$53 million that year.

Severance taxes accounted for less than 1 percent of national state and local own-source general revenue in 2017, but provided a substantial amount of own-source revenue in a few resource-rich states, such as North Dakota (22 percent), Wyoming (8 percent), Alaska (7 percent), and New Mexico (6 percent) (figure 1). "Own-source" revenue excludes intergovernmental transfers.

The states with the next-highest contributions from severance taxes were Montana and West Virginia, each of which collected 3 percent of state and local own-source revenue from severance taxes. Severance taxes in Texas account for 37 percent of national state and local severance tax revenue, but they provide only 2 percent of Texas's state and local own-source revenue. Sixteen states and the District of Columbia do not levy severance taxes. California does not have a severance tax but levies an assessment fee on oil and gas produced in California, and Census records this as severance tax revenue.

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), \$337 million in 2016 (4 percent), and \$585 million in 2017 (7 percent).

Alaska highlights the volatility of severance taxes and the challenge they pose to states that heavily rely on them. These states must have flexible budgeting arrangements or significant rainy day funds to accommodate unforeseen changes in severance tax revenue flows.

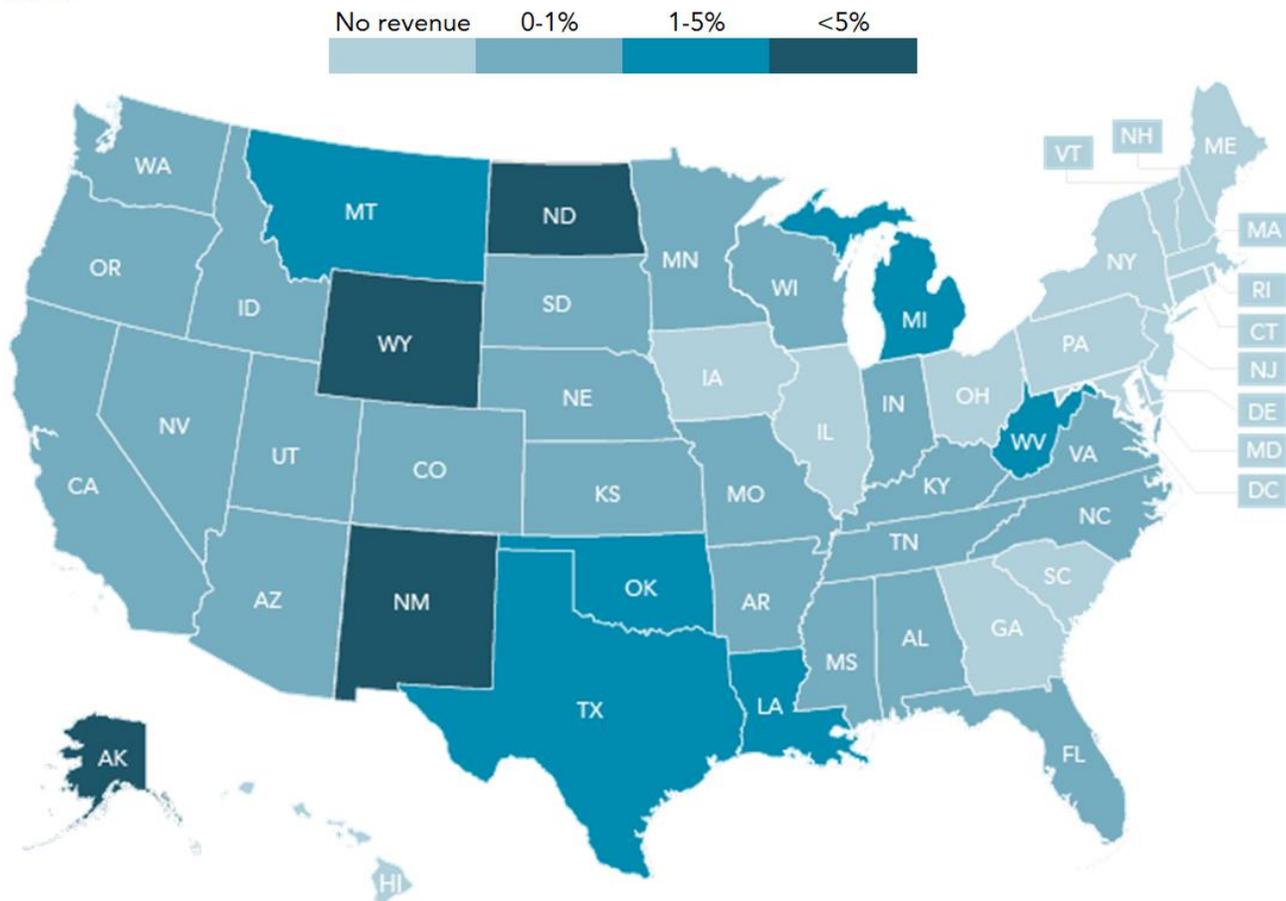
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**FIGURE 1**

Severance Tax Revenue as a Percentage of State and Local Own-Source General Revenue  
2017



**Source:** U.S. Census Bureau, Annual Survey of State and Local Government Finances, Government Finances, Volume 4, and Census of Governments.

**Note:** Own-source general revenue does not include intergovernmental transfers.

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## Data Sources

Urban-Brookings Tax Policy Center. [“State and Local Finance Initiative, Data Query System.”](#) Washington, DC: Urban-Brookings Tax Policy Center.

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US Census Bureau. *Annual Survey of State and Local Government Finances*.

———. *Census of Governments*, vol. 4, *Government Finances*.

### Further Reading

Francis, Norton. 2014. "[What Falling Oil Prices Will Mean for State Budgets.](#)" *TaxVox* (blog). November 25.

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