



# Vote NO on HB 210, Severance Tax Amendments: Utah's Natural Riches Can Help Meet Today's Needs *and* Tomorrow's<sup>1</sup>

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## Overview

HB 210 (Nielson) would require the deposit of **100%** of all severance tax revenues from oil, gas and mining into the permanent state trust fund.<sup>2</sup> The rationale is that future generations deserve to benefit from Utah's natural wealth.

**No one is against saving for the future**, but to tie up **100%** of severance tax revenue in perpetuity would be a serious mistake. It would short-change today's kids in favor of future generations. Moreover, absent dramatic cuts in General Fund programs, adoption of this legislation would undermine Utah's ability to bond for infrastructure investments.

**Fortunately, Utah can have it both ways.** We can continue to add to the permanent trust fund **and** support today's children by asking that oil, gas, and mining corporations pay their fair share of the wealth they remove from Utah. To make this a reality, the state should close loopholes in the severance tax on oil and gas. It also should begin to charge severance tax on coal, beryllium and other minerals.

## Recommendations

- **Vote no on HB 210.** This ensures that severance tax revenue continues to be directed to both the General Fund and the permanent state trust fund.
- **Maximize the amount invested in today's children and those of future generations** by requiring that oil, gas and mining companies pay their fair share of the riches that they remove from Utah.

**Vote NO on HB210: Utah *can* have it both ways.**

*See reverse for additional information*

## *Additional information relevant to HB 210*

### **Fiscal Impact**

If HB 210 is adopted, the General Fund would lose \$48 million in FY13, and \$96 million every year beginning in FY14. The General Fund helps families that are struggling with the effects of the recession. It also pays for higher education, the courts, public safety, transportation, and more.

In FY11, the General Fund remained **12% below its FY 07 level**. That year, severance taxes helped stabilize the General Fund, contributing **4%** of revenues to fund ongoing programs.

### **Investment in Children Pays Higher Dividends than Any Trust Fund**

The return on investment (ROI) in children's health and education is nearly **10% per year**, according to University of Chicago economics professor and Nobel Laureate, James Heckman.<sup>3</sup>

### **Severance Tax Revenues Provide Needed Flexibility**

In 2011, policymakers actually moved the opposite direction of HB 210, adding additional severance tax revenues to the General Fund to balance the budget. HB 210 would remove the Legislature's flexibility to meet its budgetary priorities in future years, including FY 2013.

### **Corporations that Benefit from Utah's Natural Wealth Can Afford to Pay Their Fair Share**

Utah's severance tax on oil and gas is riddled with loopholes and outdated exemptions. In addition, severance tax rates are lower than in most other oil and gas producing states.<sup>4</sup>

Meanwhile, corporations are making record profits from these resources. Simply removing loopholes would bring in an additional \$26.5 million per year in revenue, according to the Legislative Fiscal Analyst.<sup>5</sup> This would not affect the amount that oil and gas companies extract, according to an independent report commissioned by the Utah Tax Review Committee.<sup>6</sup>

Utah currently charges **little or no** severance tax on the extraction of coal, beryllium, and other valuable minerals. We shortchange Utah's children today and tomorrow by failing to require corporations to pay their fair share of these riches.

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<sup>1</sup> HJR 6, would amend the Utah Constitution to require that all severance tax revenues be deposited into the permanent state trust fund. The proposal would be submitted to voters in November 2012 for amendment.

<sup>2</sup> The exception would be severance tax revenues directed by statute to the Ute Indian Tribe and Navajo Nation.

<sup>3</sup> See [www.heckmanequation.org](http://www.heckmanequation.org).

<sup>4</sup> *Memorandum on Effective Severance Tax Rates*. 2006. Colorado Legislative General Council Staff.

<sup>5</sup> Fiscal note for HB 112, 2011 Legislative Session.

<sup>6</sup> *The Effect of Proposed 2009 Tax Changes on Utah's Oil and Gas Industry*. 2008. Gabriel Lozada, Department of Economics, University of Utah.