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California's Families Can't Afford Nava's Oil Tax Scheme

By Joe Armendariz

In a recent article that appeared in the Santa Barbara Independent, Nick Welch, the paper's executive editor, let the cat out of the bag as it relates to Pedro Nava's true motive for pushing AB1604, which if passed would impose a 10% severance tax on California domestic oil production. In the article, Nick points out that Nava's reason for pushing this new tax legislation is to gain favor with environmentalists who he hopes will help him in his race for Attorney General.

In other words, the Nava oil tax scheme isn't about good fiscal policy, sound economic policy, or even smart environmental policy...it is about politics and Pedro's personal ambition. And that is of course bad enough. But it's even worse when you consider the impacts on our state's families if Nava's oil tax scheme were to become law.

Indeed, if passed, Nava's oil tax scheme would be imposed on all of California's oil and gas operators' gross oil production. Nava and his bill's proponents claim this is justified in light of the fact that Texas and Alaska impose a similar tax. They suggest, therefore, that California is giving oil companies that do business in this state a "free ride".

First this ignores the amount of taxes and the level of taxation that is already imposed on oil companies (and all other companies) doing business in California. Second, it also ignores the fact that the Nava oil tax scheme differs substantially from the severance tax currently imposed on oil operators doing business in Alaska for example.

In Alaska, the oil severance tax is imposed on net oil production after substantial allowances, exemptions, deductions, etc. Indeed, in Alaska, very few companies actually pay the severance tax at all due to the many allowances, and exemptions. In California, every operator, irrespective of size, or volume of production, would be hit with Nava's new tax. And as a result, according to a recent economic analysis, Nava's tax would immediately cause the loss of roughly 10,000 good paying jobs in our state at a time when we already have one of the highest unemployment rates in the nation.

Moreover, the Nava tax would cause more than lost jobs, although that is reason enough to oppose it. The Nava tax would also result in California importing even more of our oil than we already do currently. Today, 48% of the oil we use here in California is imported from foreign nations some of which are not what you would call friendly to America, such as Venezuela, and Angola. When you consider the fact that 96% of our state's transportation fuels are petroleum based, and 48% of that oil is imported, with more than 50% of that being imported from the Middle East, you can begin to see why this might not be a good economic strategy.

Do California's families really want to put the integrity of our state's transportation system, and our families mobility in the hands of Middle Eastern governments? I don't think so. A better strategy is to produce more of our own oil that exists right here off the Central Coast, and do it ethically, safely, and responsibly. And we can because we have. The safety record of this industry is nothing short of outstanding.

But it's also worth revisiting the claim by Nava and his supporters that oil companies doing business in California get a free ride because of the fact there is currently not a severance tax imposed in this state. California taxes oil producers in ways other states do not. For example, we have the highest corporate income tax in the country. Texas, Nevada and others have none. California charges a sales tax on the purchase of the expensive manufacturing equipment used in oil production. Most states do not. Oil companies pay an ad valorem (property) tax. Several other states don't. In fact, right here in Santa Barbara County, the largest property taxpayer is ExxonMobil.

So the truth of the matter is not only are oil companies who do business in California not getting a free ride, they are already paying more taxes than they do in the other states in which they do business, including Texas and Alaska.

It never ceases to amaze me that there are those in public office whose first answer to every problem we face is to raise taxes. Thankfully the overwhelming majority of families here in California, and around the nation, understand intuitively that we are already overtaxed, not undertaxed. Indeed, these families also understand that as Ronald Reagan explained in 1980, corporations don't pay taxes, people do. We either pay for higher taxes through lost jobs...or by paying at the end of the production line in the form of higher prices.

We don't need Nava's oil tax scheme...we need a diversified energy portfolio, and the revenues those energy sources will generate. And we also need to fix our economy in order to create more good paying jobs for California's families and anything that stands in the way of these goals should be rejected out of hand.

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