



May 8, 2023

Governor Gavin Newsom
1021 O Street, Suite 9000
Sacramento, CA 95814

RE: Oil and Gas Industry Subsidies

Dear Governor Newsom,

We applaud your recent leadership to take on Big Oil and rein in gas price gouging during the special session. Given your leading voice in aligning California policy with the State's climate policies, we wanted to bring another matter to your attention.

In January you forecasted the State budget deficit at \$22 billion. To help balance the budget you proposed several funding shifts and cuts, eliminating \$6 billion in climate spending from last year's \$54 billion five-year climate commitment. We understand the State must balance the budget, but core programs — which include investments needed to achieve the state's climate goals — should be protected on an ongoing basis, not just in a budget surplus year.

The Department of Finance annually reports on tax expenditures.¹ We'd like to request that your Administration review all current tax expenditures both specifically for the oil and gas industry and broader corporate tax expenditures that the oil and gas industry benefit from and utilize.

Specifically, we request that the Administration estimate the value and eliminate the following significant tax benefits that are currently benefiting the oil and gas industry using North American Industry Classification System (NAICS) codes for the following corporation tax expenditures:

- Water's Edge Election (\$5 billion for all industries): Water's Edge Election is a tax expenditure that allows multinational corporations to compute the income attributable to California on the basis of a water's edge or domestic-only combined report, as opposed to a worldwide combined report. This allows a corporation to elect to compute its California tax by reference to only the income and factors of a limited number of entities.
- Research and Development Credit (\$3 billion for all industries): Corporations are allowed a credit for research expenditures.
- Accelerated Depreciation of Research and Experimental Costs (\$90 million for all industries): Corporations are allowed the option to deduct research and experimental costs currently or amortized over a 60-month period.

We also request that the Administration further eliminate the following additional tax expenditures that currently benefit the oil and gas industry:

- Corporate tax: Percentage of Depletion of Mineral and Other Natural Resources (\$10 million)
- Corporate tax: Intangible Drilling Cost Expensing (\$6 million)

Finally we request that the Administration restrict the following tax expenditure from benefitting the oil and gas industry:

- Sales tax: Exemption for Manufacturing and Research and Development Equipment (\$495 million for all industries)

We can protect the funding needed to combat climate change and protect communities by cutting subsidies for major polluters. Your proposed budget makes cuts to critical investments for zero-emission-vehicle acceleration programs, sustainable transportation infrastructure, clean energy programs, and equitable building decarbonization, community resilience, among others.

¹ https://dof.ca.gov/wp-content/uploads/sites/352/Forecasting/Revenue_and_Taxation/TaxExpenditureReport.pdf

Ending subsidies for the oil and gas industry is consistent with the state's climate goals and could provide an important alternate source of revenue to continue to ensure California leads the way in staving off the worst impacts of climate change. Ongoing savings associated with excluding the oil and gas industry from utilizing these tax expenditures (after calculating the benefit to Proposition 98) should be utilized to fund climate programs that were cut or delayed in the January Budget as part of the 2023-24 Budget Act. The statutory changes can be contained within a trailer bill to effectuate these changes.

Now more than ever, we must maintain our commitment to programs that safeguard communities from the impacts of climate change while building a clean energy economy.

Sincerely,

Laura Deehan
State Director, Environment California

Bill Magavern
Policy Director, Coalition for Clean Air

Bill Allayaud
California Director of Government Affairs,
Environmental Working Group

Amee Raval
Policy & Research Director, Asian Pacific
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Brandon Dawson
Director, Sierra Club California

Dominic Frongillo
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Jenna Tatum
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Arnold Sowell Jr.,
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cc: Senator Toni Atkins, pro Tempore of the Senate
Assemblymember Anthony Rendon, Speaker of the Assembly
Senator Nancy Skinner, Senate Budget Committee, Chair
Assemblyman Phil Ting, Assembly Budget Committee, Chair
Joe Stephanshaw, Department of Finance, Director