Ending Subsidies and Tax Breaks for Fossil Fuels in California

California's leadership in climate action demands decisive steps to end subsidies and tax breaks benefiting the fossil fuel industry. Despite recent strides in holding Big Oil accountable, significant tax benefits continue to bolster the oil and gas sector. With a projected $78 billion deficit looming and global agreements to transition from fossil fuels, it's imperative to prioritize Californians' well-being over industry profits.

Polluting oil and gas companies are reaping record profits while clean air and climate programs face elimination. Ending fossil fuel subsidies ensures California invests in its historic climate budget rather than subsidizing Big Oil.

Why End Fossil Fuel Subsidies?

Subsidies and tax breaks for oil and gas industries benefit polluters at the expense of all of us, a healthy environment, and a livable future. Ending these "tax expenditures" can add money to the budget to pay for critical climate initiatives, zero-emission transportation, and clean air programs. Vulnerable communities rely on clean air and climate programs to transition equitably to zero-emission transportation and reduce harmful air pollution.

And let's not forget that our state is suing the five biggest oil companies and the American Petroleum Institute for years of fraud and obfuscation, while their operations and products wrecked the planet. It makes no sense for the state to reward these companies with taxpayer dollars while taking them to court for harming taxpayers' lives and futures.

Proposed action by Newsom to eliminate subsidies is a step in the right direction.

Governor Newsom's January Budget proposed eliminating oil and gas subsidies beginning in tax year 2024, which is projected to increase General Fund revenues by $22 million in 2024-25 and by $17 million annually thereafter.[1] These reductions include:

- **Immediate Deduction for Intangible Drilling Costs:** Current law allows immediate deductions for drilling expenses, favoring oil and gas corporations. Normal tax laws require deductions once benefits are realized.

---

[1] https://calbudgetcenter.org/resources/first-look-understanding-the-governors-2024-25-state-budget-proposal/

- **Percentage Depletion Rules:** Oil and gas corporations benefit from fixed percentage deductions on gross income for resource depletion, providing preferential treatment for fossil fuel extraction.

- **Enhanced Oil Recovery Costs Credit:** Certain oil producers receive a nonrefundable credit for enhanced oil recovery costs, excluding retailers and refiners from eligibility.

California should take action to eliminate ALL subsidies and tax breaks benefiting fossil fuel companies.

Reviewing current tax expenditures that benefit polluting industries is an important step to identify new funding sources for climate investments needed to meet the state's ambitious climate goals.

California should require the Franchise Tax Board to complete an evaluation to assess the revenue impact of eliminating tax breaks for the oil and gas industry and determine the best approach for implementation. The Franchise Tax Board should also advise the best way to collect the information necessary to implement the elimination of Water's Edge tax break for oil and gas companies given the complexities of the organization and industry categorization of multinational corporations.

The Budget proposal must include language to eliminate subsidies for the oil and gas industry, including the Water's Edge Election and Research and Development credits. Eliminating these subsidies and tax benefits could result in over $7 billion of recovered funds[2] that can be directed toward California's clean air and climate programs.

What is the Water's Edge Election?

Water's Edge Election is a tax utilized in most states that allows businesses to exclude income and factors of non-US affiliates when calculating their income in California. The Department of Finance estimates the total Water's Edge exemption for 2023-24 results in $4.8B in State General Fund losses for all corporations.[3] The current Water's Edge exemption includes a tax benefit for multinational companies—including oil and gas companies. State law should exclude oil and gas companies from claiming the Water's Edge tax expenditure to ensure Californians are not subsidizing the same industry policymakers took on to avoid price gouging.

---

[2] https://environmentamerica.org/california/resources/coalition-calls-on-gov-newsom-to-end-fossil-fuel-subsidies/

[3] https://environmentamerica.org/california/resources/coalition-calls-on-gov-newsom-to-end-fossil-fuel-subsidies/

Chevron benefits from Water's Edge

The state's biggest polluters avoid paying their fair share of taxes by hiding profits in offshore accounts while receiving tax benefits. Oil and gas companies are well practiced at avoiding hundreds of millions in taxes by using offshore tax havens.[4] In 2022, Chevron was the third largest company based in California by revenue, after Apple and Google.[5]

In 2015, a U.S. Senate investigation found that Chevron hides $31 billion in profit within companies based in 13 different offshore tax havens.[6] The information was submitted by companies themselves. Reuters explained after analyzing tax records that oil and gas companies, "use subsidiaries in the Bahamas, Switzerland, Bermuda, the UK Channel Islands and Ireland to provide their global operations with banking, insurance and oil-trading services." These subsidiaries are then able to book profits that are not taxed by the company's home country or state.[7]

Chevron's wholly owned subsidiaries, based in tax haven countries, provide insurance to Chevron. It has also been documented that oil companies lend money to themselves at exorbitant interest rates to avoid taxes.[8] Another article from Reuters in 2017 documented how Chevron loaned money to itself to avoid taxes in Australia. When the Australian government sued the company over the practice it recouped $268 million from the company in unpaid taxes.[9]

---

4 https://www.reuters.com/article/global-oil-tax-havens/special-report-how-oil-majors-shift-billions-in-profits-to-island-tax-havens-idUSKBN28J1IK

5 https://www.statista.com/statistics/312707/california-s-top-companies-by-revenue/

6 https://www.budget.senate.gov/imo/media/doc/legalized-tax-fraud.pdf

7 https://www.reuters.com/article/global-oil-tax-havens/special-report-how-oil-majors-shift-billions-in-profits-to-island-tax-havens-idUSKBN28J1IK

8 https://www.reuters.com/article/global-oil-tax-havens/special-report-how-oil-majors-shift-billions-in-profits-to-island-tax-havens-idUSKBN28J1IK

9 https://www.reuters.com/article/australia-chevron-taxavoidance/chevron-drops-appeal-over-landmark-australian-tax-ruling-idUSL4N1L41TK