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ISSUE BRIEF

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Fair Royalty Rates Raise Revenue for American Taxpayers and Don't Discourage Oil and Gas Production

The federal onshore oil and gas leasing system generates significant revenue for both federal and state taxpayers. Applying a fair, market-based royalty rate is essential to properly valuing America's vast oil and gas resources and ensuring taxpayers receive a fair return from their development. The current onshore royalty rate of 16.67% is expected to generate billions in additional revenue. Rolling it back to the outdated 12.5% rate would shortchange taxpayers for decades to come.

Over the last decade, 2015-2024, taxpayers would have received an additional **$1.5 billion** every year had the more competitive, fair market rate of **16.67%** been applied to all production

Onshore leasing provisions enacted in 2022—including increases to the royalty rate, minimum bid at auction, rental rates, and other fees—are projected to generate **$12.7 billion** over **20 years**, 2023-2042.

The increased annual revenue would have a particular windfall for states with high levels of oil and gas production:

$945 million
New Mexico

$269 million
Wyoming

$110 million
North Dakota

Federal Onshore Oil and Gas Leasing Program

The United States is home to vast onshore mineral estates owned by the American public. The Bureau of Land Management (BLM), within the Department of the Interior (DOI), manages the development of these taxpayer-owned oil and gas resources. To facilitate this development, the BLM auctions leases to private entities. In 2024, the onshore leasing system generated more than $7.6 billion in revenue,[1] which is shared between the federal government and the state where development occurs.[2]

The program generates revenue through four primary mechanisms:

- **Royalties –** A fixed percentage of the value of extracted oil and gas.
- **Bonus Bids –** Upfront payments made by companies at competitive auctions for drilling rights.
- **Rent –** Annual per-acre fees paid by leaseholders before production begins.
- **Miscellaneous Fees –** Including inspection fees and civil penalties.

Royalties make up the bulk of the program's income. In 2024, they accounted for 97% of all revenue DOI collected from onshore leases.[3]

Federal Royalty Rate Unchanged For Over A Century

Over 100 years ago, Congress established the federal royalty rate for oil and gas extracted from federal lands in the Mineral Leasing Act of 1920 (MLA), setting a statutory minimum of 12.5% of the resource's market value. Royalty rates are lease-specific, and while the Secretary of the Interior has authority to set higher rates, that authority has rarely been exercised. In practice, the effective royalty rate—the actual rate collected after deductions and royalty relief—has often fallen below the statutory minimum. According to the DOI Office of Inspector General, between 2016 and 2020 the average effective onshore royalty rate was 0.49 percentage points below the minimum for oil and 2.58 percentage points lower for gas.[4]

The federal 12.5% rate remained unchanged for over 100 years—until a higher rate of 18.75 percent was proposed in bipartisan legislation in 2020 and a 16.67 rate was enacted into law in 2022 as part of the Inflation Reduction Act. The new law raised the federal onshore royalty rate to 16.67% through August 2032, after which 16.67% will become the minimum.

How Much Do Taxpayers Stand to Lose from a Lower Royalty Rate?

Using historical production data, we can gain a better understanding of how much taxpayers stand to gain in the coming years as new leases under the 16.7% royalty rate enter production—and how much could be lost if the current rate is reduced.

Between 2015 and 2024, private companies extracted and sold $359 billion worth of oil, gas, and natural gas liquids from federal lands—an average of $36 billion annually. At a 12.5% royalty rate, that would generate $4.5 billion per year. At 16.67%, revenue would total $5.98 billion annually—an increase of approximately $1.5 billion per year, shared between the federal government and affected states and communities.

Other groups have estimated potential gains from the new rate—and losses under proposed rollbacks—by projecting future production, with some estimating additional revenue of $6 billion or more over the next decade.[5]

According to BLM estimates, the modernized leasing terms enacted in 2022—including increases to the royalty rate, minimum bid, rent, and other fees—are projected to generate $12.7 billion for federal and state taxpayers between 2023 and 2042.[6] Because the new rates apply only to leases issued after the law's enactment, revenue impacts will grow over time—starting with $2.3 billion from 2023 to 2031, and increasing to $10.4 billion from 2032 to 2042 as more new leases enter production.

Current Royalty Rate Raises Important Revenue for State and Federal Taxpayers

The federal government has a responsibility to ensure taxpayers receive a fair return from oil and gas development on public lands. The recent increase in the federal onshore royalty rate from 12.5% to 16.7%—the first in more than a century—along with other updated leasing terms, is projected to generate billions in new revenue without reducing production on federal land.

State and Private Landowners Charge a Higher Royalty Than the Federal Government

Historically, the federal government has applied lower royalty rates for oil and gas production on public lands than those charged on state or private lands—resulting in significantly less revenue for taxpayers. The longstanding federal rate of 12.5% remained unchanged for more than a century, even as states adjusted their rates to reflect market conditions and ensure a fair return.

By comparison, oil- and gas-producing states routinely charge higher royalty rates. Texas charges a royalty rate of 20-25%, while New Mexico imposes rates of 18.75-25%. Other states—including Colorado, North Dakota, Oklahoma, Pennsylvania, Utah, and Wyoming—commonly issue leases with royalty rates ranging from 16.67-20%, all of which exceed the old, outdated federal rate of 12.5%.

Current Federal vs. State Rates

Leasing Jurisdiction	Oil & Gas Royalty Rate
Alaska	12.5% minimum,[7] generally 16.67%[8]
California	16.67%[9]
Colorado	20%[10]
Louisiana	12.5% minimum,[11] generally 20% to 25%[12]
New Mexico	18.75% to 25%[13]
North Dakota	16.67% or 18.75%[14]
Ohio	12.5%[15]
Oklahoma	18.75%[16]
Pennsylvania	12.5% minimum,[17] generally 20% for leases issued after 2018[18]
Texas	12.5% minimum on state lands, 20% to 25% minimum on public school lands[19]
Utah	16.67%[20]
West Virginia	20%[21]
Wyoming	5% to 16.67%[22]
Federal Lands	16.67%[23]
Note: States shown are the top 10 producers of oil and/or gas, 2018-2023, in alphabetical order.	

Royalty Rates Have Little Impact on Leasing and Production Decisions

Oil and gas companies' production decisions are driven primarily by physical constraints and market conditions. Production occurs where oil and gas reserves are located—whether on state, private, or federal land—often regardless of the royalty rate.

In evaluating a potential increase in the federal onshore royalty rate to 18.75%, the nonpartisan Congressional Budget Office (CBO) estimated it would generate roughly $400 million over the first decade, with a "negligible" impact on oil and gas production on federal lands.[24] According to the CBO, companies base their decisions largely on factors such as the probability of discovering oil or gas, expected volumes, extraction costs, commodity prices (both current and projected), and cost of capital. Leasing terms like royalty rates have a relatively minor influence. The Government Accountability Office (GAO) reached similar conclusions, finding that studies show raising federal royalty rates would reduce production on federal lands "by a small amount or not at all," while still increasing federal revenue.[25]

History Shows Increasing the Royalty Rate Doesn't Impact Industry Interest

Market evidence confirms that royalty increases can be absorbed without significantly affecting production or investor interest. The Department of the Interior found that demand for leases in the Gulf of Mexico remained strong after the royalty rate was increased from 16.67% to 18.75% in 2008.[26]

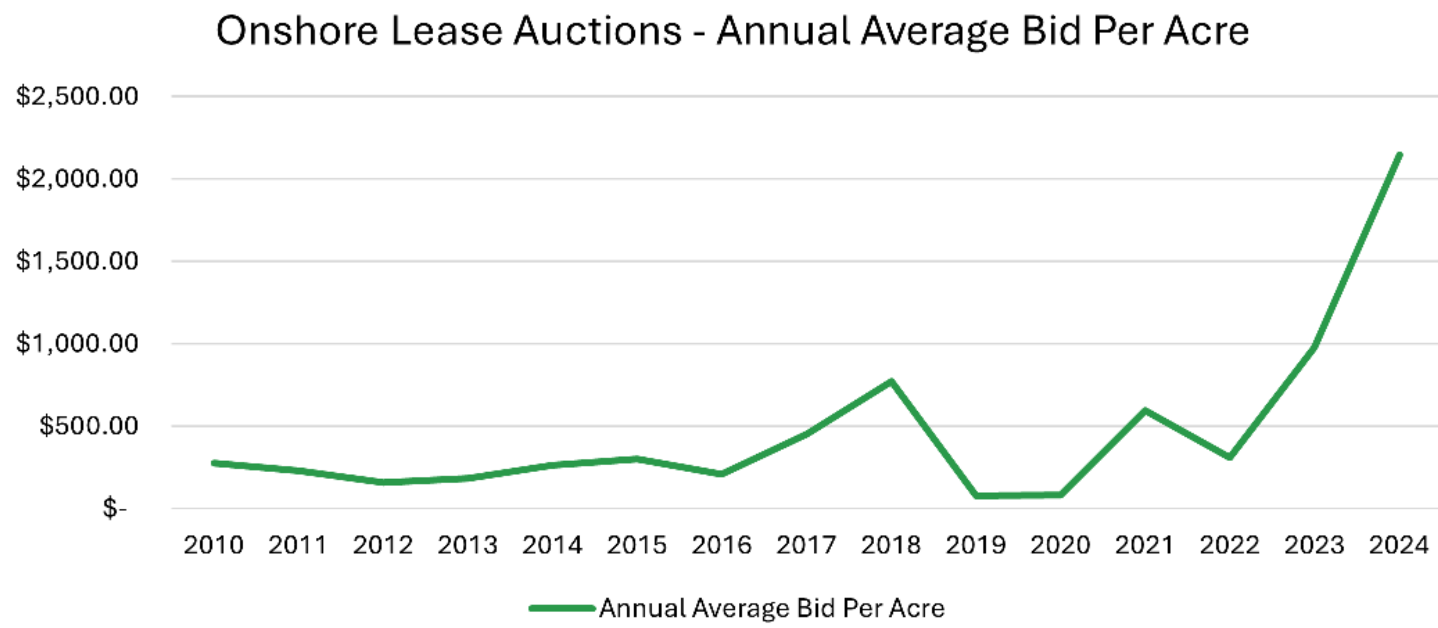
States that already charge higher royalty rates continue to see robust development and competitive leasing. Texas, for example, has charged a 25% royalty on new state land leases for more than 30 years. In 2008, Utah's School and Institutional Trust Lands Administration (SITLA) increased its standard royalty rate on new leases to 16.67%. Colorado raised its royalty rate for oil and gas leases twice—in 2011 to 16.67%, and again in 2016 to 20%. In each case, industry participation remained strong.

Recent Auctions Under the Current Rate Remain Competitive

Lease sales in 2023 and 2024 conducted under updated fiscal terms—including the higher royalty rate, increased minimum bids and rental rates, and the elimination of noncompetitive leasing—have remained highly competitive. These sales have generated strong bidding activity and increased revenue for both federal and state taxpayers.

Contrary to claims that higher fiscal terms would dampen industry interest, recent sales show otherwise. In 2023 and 2024, the BLM sold 55% and 67% of acres offered at auction, respectively—well above the 2010–2019 country-wide average of just 22%.[27] The average bid per acre during these sales was also the highest in over a decade. In 2023, across thirteen onshore oil and gas lease sales, the average bid reached $978 per acre.[28] In 2024, across fourteen sales, it more than doubled to $2,149 per acre.

Photo by Natalia Bratslavsky



Source: TCS analysis of DOI auction results 2010-2024.

These results clearly demonstrate that modernized leasing—including the updated royalty rate—have not deterred industry participation. On the contrary, they have promoted more selective, competitive leasing that better reflects the value of public resources and delivers higher returns to taxpayers.

Conclusion

The federal government has a responsibility to ensure a fair return for the public from oil and gas development on taxpayer-owned lands. The increase in the onshore royalty rate from 12.5% to 16.7%—the first in over a century—together with other updated leasing terms, is helping generate billions in new revenue by more accurately valuing valuable public resources.

Photo by Wyoming Bureau of Land Management

Endnotes

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