TAXPAYERS *for* COMMON SENSE

REPORT

September 2026

Royalty Rip-Off

How below-market federal oil and gas royalty rates cost taxpayers $25 billion over a decade

Bureau of Land Management Photo

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.

Federal and state taxpayers would have received $25 billion more in revenue from 2016 through 2025 if an 18.75% royalty rate had been applied to the development of taxpayer-owned oil and gas on federal lands, as opposed to the current, grossly outdated royalty rate set in 1920. Lost potential revenue hit a record high of $4.6 billion in 2022 alone as oil and gas prices spiked. Bringing the federal onshore royalty rate into the modern era, in line with rates applied to oil and gas production on state lands and offshore, will stem the losses and generate billions of dollars more for federal and state coffers in the coming decades.

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, BLM auctions leases to private entities. In 2025, the onshore oil and gas leasing system generated more than $7.2 billion in revenue,[1] which is shared evenly 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 2025, DOI collected $6.9 billion in oil and gas royalties — accounting for 96% of revenue from the onshore oil and gas program and 90% of revenue from all onshore mineral and energy resources, including coal and geothermal leases.

"The BLM has announced a lease sale for oil and gas parcels in Utah." BLM Photo.

Federal Royalty Rate First Set Over a Century Ago

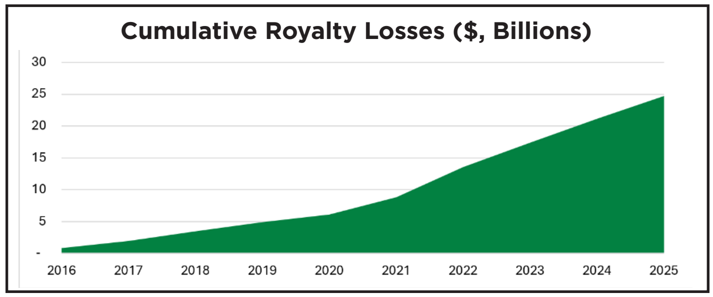
Over 100 years ago, Congress established the federal royalty rate for oil and gas extracted from federal lands in the Mineral Leasing Act of 1920 (MLA), setting a statutory minimum of 12.5% of the resource's market value. Royalty rates are lease-specific. While the Secretary of the Interior has the authority to set higher rates, that authority has rarely been exercised. In practice, the effective royalty rate—the amount actually collected after deductions and royalty relief—has often fallen below the statutory minimum. According to DOI Office of Inspector General, between 2016 and 2020 the average effective onshore royalty rate was 0.49 percentage points below the legal minimum for oil and 2.58 percentage points below it for natural gas.[3]

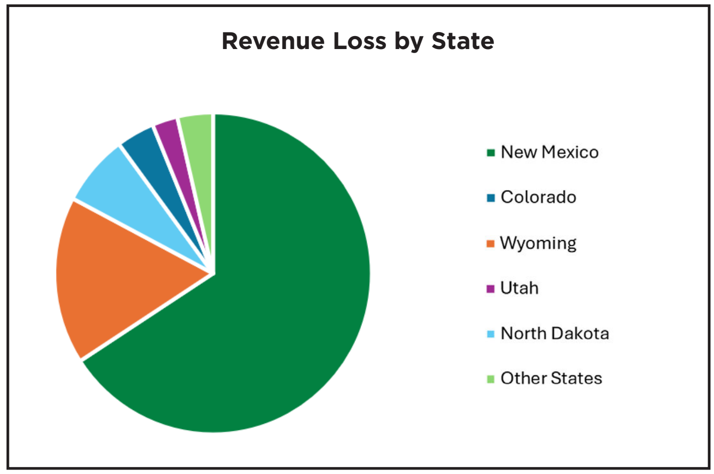
The federal royalty rate of 12.5% remained unchanged for more than a century until it was raised to 16.67% in August 2022.[4] According to BLM estimates, the modernized leasing terms enacted in 2022, including increases to the royalty rate, minimum bid, rent, and other fees, were projected to generate $12.7 billion for federal and state taxpayers between 2023 and 2042.[5] Because the new rates applied only to leases issued after the law's enactment, the revenue effects were expected to grow over time, from $2.3 billion between 2023 and 2031 to $10.4 billion between 2032 and 2042 as more new leases entered production.

In July 2025, the royalty rate was lowered again to a minimum of 12.5% for new leases. Using production projections from new leases issued under these terms, taxpayers are on track to lose $1.5 billion in potential revenue over the next decade, with losses growing as more leases are issued under the lower rate.[6]

A 12.5% Royalty Rate Shortchanges Federal and State Taxpayers $25 Billion

The Office of Natural Resources Revenue reported collecting $47 billion in royalties on $402 billion worth of oil and gas sold from federal lands between 2016 and 2025.[7] If an 18.75% royalty rate had been applied to these sales, the federal government would have collected an additional $25 billion, with $12.4 billion directed to the federal Treasury and $12.4 billion to state coffers, since nearly half of royalty revenue collected by the federal government is returned to the state where development occurs.[8]





This higher royalty rate would have provided substantial additional revenue to western states. As the largest producer of federal oil and gas, New Mexico stands to gain the most state revenue from a modernized royalty rate. Over the last decade, taxpayers lost $16.2 billion in potential revenue from oil and gas development on federal lands in New Mexico, meaning the state itself lost out on $8.1 billion. Other major oil- and gas-producing states suffered similar losses to their local budgets, including $2.1 billion in Wyoming, $887 million in North Dakota, $481 million in Colorado, and $322 million in Utah.

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

Examples of Royalty Rates Charged on State Lands

Leasing Jurisdiction	Oil & Gas Royalty Rate
Alaska	16.67%[10]
California	16.67%[11]
Colorado	20%[12]
Louisiana	20% to 25%[13]
New Mexico	18.75% to 25%[14]
North Dakota	16.67% to 18.75%[15]
Oklahoma	18.75%[16]
Pennsylvania	20%[17]
Texas	20% to 25%[18]
Utah	16.67%[19]
West Virginia	20%[20]
Wyoming	16.67%[21]
Federal Lands	**12.5%[22]**

The 12.5% minimum royalty rate charged on federal lands stands in stark contrast to the higher rates charged by many states with significant oil and gas deposits. Although BLM has the authority to charge more than the minimum royalty rate, the agency has done so only once, in a 2022 lease sale.[9] By contrast, Texas typically charges royalty rates of 20% to 25%, while New Mexico imposes rates of 18.75 to 25%. Other states, including Colorado, North Dakota, Oklahoma, Pennsylvania, Utah, and Wyoming, commonly issue leases with royalty rates ranging from 16.67% to 20%.

Congress has long considered increasing the minimum federal royalty rate, including during a major overhaul of the onshore oil and gas leasing system in 1987. At the time, DOI officials cited the use of a 12.5% rate on state and private lands as a reason for maintaining the same rate for federal leases.[23] Since then, many states have adopted higher rates, weakening that rationale for continuing the 12.5% minimum on federal leases.

Royalty rates have also changed for leases in federal waters. Between 2006 and 2008, the Bush Administration increased royalty rates for offshore drilling in federal waters. In 2025, Congress lowered the rates for new offshore leases to between 12.5% and 16.7%, down from a minimum of 16.67% and a maximum of 18.75%.

Oil Pumping Site in New Mexico by Kara Grubis

Royalty Rates Don't Impact Leasing and Production Decisions

Leasing and production decisions are driven primarily by resource potential and market conditions, rather than royalty rates. Production occurs where oil and gas reserves are located, whether on state, private, or federal land, and factors such as commodity prices and extraction costs drive that leasing and production. Royalty rates do, however, have a direct impact on federal and state revenue.

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

Market evidence also suggests that higher royalty rates can be absorbed without significantly affecting production or investor interest. DOI 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 charge higher royalty rates have likewise continued 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 increased its standard royalty rate on new leases to 16.67%. Colorado raised its royalty rate twice, to 16.67% in 2011 and 20% in 2016. In each case, industry participation remained strong.

Federal leasing over the last decade tells a similar story. Production on federal lands continued under both the higher 16.67% royalty rate and the lower 12.5% rate, and companies continued to invest, drill, and bid in competitive lease sales. In fact, average bids nationwide were higher in 2023 and 2024 under the higher rate, at $2,149 and $1,085 per acre, respectively, than the $288-per-acre average from 2013 through 2022.[27] There is no evidence that raising the federal royalty rate to 16.67% decreased leasing or development.

Photo by Larry Zuckerman
BLM Wyoming

Time for Reform

Low royalty rates on oil and natural gas produced on federal lands have deprived the federal Treasury and state coffers of billions of dollars in potential revenue. Congress and the Administration both have options to reform oil and gas royalty collection policies. Congress can pass legislation to raise the minimum royalty rate to 18.75%. The Administration can also increase royalty rates for oil and gas produced on federal lands through rulemaking or on a lease sale-by-lease sale basis.

As oil prices rise, the cost of maintaining a below-market royalty rate grows as well. Bringing the federal oil and gas system into the modern era would help ensure taxpayers receive a fair return for the development of publicly owned resources. Increasing the minimum royalty rate from 12.5% to 18.75% would better align federal terms with those used elsewhere and reduce future revenue losses.

Endnotes

1 TCS analysis of data from the Department of the Interior (DOI) Office of Natural Resources Revenue (ONRR), accessed August 7, 2026.
2 In most cases, revenue from onshore oil and gas leasing is distributed to States (49%), the Reclamation Fund (40%), the Permit Processing Improvement Fund (1%), and the Treasury General Fund (10%). In Alaska, 88% of all revenues are disbursed to the state, with the remainder credited to the Treasury as miscellaneous receipts.
3 DOI Office of Inspector General, "The U.S. Department of the Interior Does Not Analyze Effective Royalty Rates," June 2023. https://www.doioig.gov/sites/default/files/2021-migration/Final%20Inspection%20Report_EffectiveRoyaltyRates_Public.pdf
4 Royalty rate was set at 16.67% through August 2032, after which 16.67% would have become the minimum
5 Bureau of Land Management (BLM), "Fluid Minerals Leasing Final Regulatory Impact Analysis 1004-AE80 4.9.24," April 2024, pg. 78. https://www.regulations.gov/document/BLM-2023-0005-130198
6 Taxpayers for Common Sense (TCS), "By the Numbers: Federal Onshore Oil and Gas Leasing Revenue Loss," accessed August 5, 2026. https://www.taxpayer.net/by-the-numbers-federal-onshore-oil-and-gas-leasing-revenue-loss/
7 Office of Natural Resources Revenue, "Federal sales," accessed August 5, 2026. https://revenuedata.onrr.gov/downloads/federal-sales/
8 As previously noted, the effective royalty rate often falls below the statutory minimum. From 2016-2025, the effective royalty rate was 11.7%, largely due to $3.4 billion in approved allowances. TCS's estimate of potential royalty revenue collected under an 18.75% royalty rate accounts for the $3.4 billion in allowances granted to oil and gas operators for sales conducted in 2016-2025.
9 TCS, "Bureau of Land Management Holds First Oil and Gas Lease Sales of the Biden Administration," July 18, 2022. https://www.taxpayer.net/article/bureau-of-land-management-holds-first-oil-and-gas-lease-sales-of-the-biden-administration/
10 12.5% minimum, generally 16.67%. Source: The Alaska State Legislature, "Section 38.05.180 Oil and Gas and Gas Only Leasing." https://www.akleg.gov/basis/statutes. asp#38.05.180; Alaska Department of Natural Resources Division of Oil and Gas, "Summary of State Competitive Oil and Gas Lease Sales – 1959 to Present," November 2024. https://dog.dnr.alaska.gov/Documents/Leasing/SaleResults/Summary_of_All_Lease_Sale_Results.pdf.
11 California Legislative Information, "Article 2. Provisions Relating to Oil and Gas Leases Generally." https://leginfo.legislature.ca.gov/ faces/codes_displayText.xhtml?lawCode=PRC&division=6.&title=&part=2.&chapter=3.&article=2.
12 Colorado State Board of Land Commissioners, "Oil and Gas Development Policy," May 2024. https://drive.google.com/file/d/1Fwig_ XL6uzFSRjJynCZpczGFKM4obVxP/view?pli=1.
13 12.5% minimum, generally 20% to 25%. Source: Louisiana State Mineral and Energy Board, "Mineral Lease Royalty Rates," April 2013. https://app.lla.state.la.us/PublicReports.nsf/DB918AD8E33411F286257B490074B82A/$FILE/00031C97.pdf; Louisiana State Legislature, "Revised Statutes 30:127." https://www.legis.la.gov/legis/Law.aspx?d=86943
14 New Mexico Legislature, "SB 23 Oil and Gas Royalty Rate Changes," April 2025. https://www.nmlegis.gov/Sessions/25%20Regular/ final/SB0023.pdf.
15 North Dakota Board of University and School Lands, "Chapter 85-06-06 Oil and Gas." https://www.land.nd.gov/sites/www/files/ documents/Minerals/rules.pdf
Ohio Legislative Service Commission, "Section 155.34," March 2025. https://codes.ohio.gov/ohio-revised-code/section-155.34.
16 Oklahoma Commissioners of the Land Office, "Oil and Gas Mining Lease – CLO (Sample)." https://clo.ok.gov/wp-content/ uploads/2015/03/SampleCLOOGLease1.pdf.

17 12.5% minimum, generally 20% for leases issued after 2018. Source: Pennsylvania General Assembly, "Act of Jul. 20, 1979, P.L. 183, No. 60." https://www.legis.state.pa.us/WU01/LI/LI/US/ HTM/1979/0/0060..HTM ; Pennsylvania Department of Conservation and Natural Resources, "Oil and Gas Lease for Publicly-Owned Streambeds for 1,028.4 acres on Monongahela River with Chevron Appalachia, LLC," January 2018. https://patreasury.gov/transparency/e-library/ ContractFiles/439443_M-2102007-04%20Monongahela%20River%20Lease%20Chevron%20Appalachia%20 01_04_2018.pdf.

18 12.5% minimum on state lands, 20% to 25% minimum on public school lands. Source: Texas Legislature, "Natural Resources Code," https://statutes.capitol.texas.gov/docs/sdocs/naturalresourcescode.pdf

19 Utah Office of Administrative Rules, "Rule 20: Mineral Resources," effective date July 27, 2026. https://adminrules.utah.gov/public/rule/R652-20/Current%20Rules?

20 West Virginia Department of Commerce, Mineral Development - About the Process, https://wvmineraldevelopment.org/about-the-process

21 060-18 Wyo. Code R. §§ 18-7 – Royalties https://www.law.cornell.edu/regulations/wyoming/060-18-Wyo-Code-R-SS-18-7

22 30 U.S.C. 226(b)(1)(A)

23 J. Steven Griles – Assistant Secretary for Land and Minerals Management, U.S. DOI – in testimony before the House Committee on Interior and Insular Affairs, Subcommittee on Mining and Natural Resources. July 28, 1987.

24 Congressional Budget Office, "Options for Increasing Federal Income From Crude Oil and Natural Gas on Federal Lands," April 2016. https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51421-oil_and_gas_options-OneCol-3.pdf

25 U.S. Government Accountability Office (GAO), "Oil, Gas, And Coal Royalties: Raising Federal Rates Could Decrease Production on Federal Lands but Increase Federal Revenue," June 2017. https://www.gao.gov/assets/gao-17-540.pdf

26 GAO, "Oil and Gas Resources: Actions Needed for Interior to Better Ensure a Fair Return," December 2013. p. 14, www.gao.gov/products/GAO-14-50

27 TCS analysis of competitive federal onshore oil and gas lease sales.