POLICY POINTS

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Marcellus Shale Impact Fee

Principles and Facts on Taxing Natural Gas

Companies should pay for the cost of government they use. Many advocates of a new tax simply want more money for Harrisburg politicians to dole out.

Five Principles

1. **Businesses should pay the cost for government they use.** If a business is not paying for its negative impacts on the environment and/or infrastructure, it is appropriate to charge a fee to pay for the government's cost to remediate the problem. Since drilling's impact on government does not increase if a gas well is more profitable, a "fee" should not be tied to production.
2. **Any fee should be directly related to uncompensated costs of government.** A new fee should not be imposed to extract additional revenue for unrelated government purposes or subsidies. For example, Growing Greener is not directly related to remediating problems caused by the natural gas industry.
3. **Any fee rate should be established in the context of what businesses are already paying in taxes, fees, and contributions to local communities and the state,** setting the fee rate at a level to only cover those uncompensated costs of government.
4. **Any fee should be imposed at the county or municipal level, not at the state level.** This ensures competition between local governments, discourages excessive fee rates, and reduces the threat of cross-subsidization and redistribution of additional fee revenues to unrelated government purposes.
5. **Before imposing a new fee, elected officials should consider if current local taxes and fees should be revised to cover any uncompensated costs of government.** For example, would it be appropriate to adjust local hotel and emergency services taxes to better address the influx of large numbers of workers into sparsely populated areas of Pennsylvania? Or, are there other fee/tax mechanisms that can be more directly tied to any uncompensated costs of government?

Frequently Asked Questions

Is the natural gas industry avoiding taxes? No. There's no tax loophole for drillers. The industry pays the same taxes as every other business in the state, including the second highest corporate tax rate in the nation. The industry has paid more than $1.2 billion in state taxes since 2006.

Are drilling companies paying their "fair share"? The gas industry should pay for their environmental and infrastructure impacts or government services used. Direct fees for services, road maintenance agreements, and insurance requirements for environmental costs are proper ways of dealing with drilling's impacts. Actual impacts should be measured against what the industry is already paying in taxes and fees.

Actual impacts should be measured against what the industry is already paying in taxes and fees. In addition to taxes and fees, gas companies put $200 million into improving local roads last year. Drilling companies are providing transportation funding far above what drilling communities receive from the state. And state oversight for drilling is entirely funded through natural gas permits. Drillers pay millions in permitting fees to cover the cost of inspection each year. In addition, the state is expected to receive $60 million in royalties from drilling on state-owned lands next year.

The industry has paid out an estimated $7 billion in lease and royalty payments to residents since 2006.

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But that's not the only way counties benefit economically: Local governments are receiving increased revenues from local taxes and processing fees. For example, in 2010, Bradford County received an estimated $1 million from the drilling industry through minor revenue streams like recording and copying fees.

Doesn't every other state have a natural gas tax? That's only part of the story. States with natural gas taxes have friendlier business climates—for instance, Texas and Wyoming have neither income nor corporate taxes. Pennsylvania already has the 10th highest tax burden in the nation. Most states with similarly difficult-to-drill natural gas, like Arkansas and Louisiana, have reduced or delayed their severance taxes to allow drilling companies to recoup their up-front costs. Pennsylvania is currently one of the most expensive states in which to drill; it cost 25 percent more to drill a well in Pennsylvania than Texas, a cost of $1 million in additional costs.

The drilling companies won't leave because the gas is here, right? While the drilling industry won't disappear if a severance tax is enacted, there will be an impact—it's through reduced investment in the state, lower wages, reduction in job growth or a reduction in spending on things like road improvements. A severance tax would hurt Pennsylvania landowners, because a typical lease splits severance tax obligations between drilling companies and landowners.

How is drilling impacting the economy? Dozens of drilling companies are investing in Pennsylvania and boosting the economy by creating high-paying, permanent jobs for locals. Communities with Marcellus Shale development have seen increases in sales tax collections, job growth and increased property values. In 2009 alone, Penn State economists estimate Marcellus activity spurred more than 24,000 new jobs in Pennsylvania.

How do residents in the rest of the state benefit? Pennsylvania consumers have benefited from a 70 percent reduction in natural-gas prices since 2008, in large part due to the dramatic growth in shale gas. Last year, Marcellus gas production saved Pennsylvanians an estimated $633 million in utility costs, or about $200 for every family of four. This savings has been especially beneficial for low-income families, who spend almost a quarter of their after-tax income on energy. An attack on affordable energy is an attack on low-income families' ability to heat their homes, run hot water, and cook food.

Does Marcellus Shale exploration harm the environment? No. Pennsylvania laws ensure drilling companies, and not taxpayers, are held responsible for environmental and infrastructure damages. For example, when EOG Resources had an accident in Clearfield County, the company paid eight times in fines the cost of the investigation and cleanup.

Top Natural Gas Producing States

Top Natural Gas Producing States in 2009	State	Severance Tax on Natural Gas	Severance Tax Exemptions and Incentives for Unconventional Wells	Top Corporate Net Income Tax	State & Local Tax Burden as a Percentage of State Income/National Rank (Tax Foundation 2010)
1	Texas	7.5% of market value	Rate reduction appr. 2% for up to 10 years	0%	7.9% / 45
2	Wyoming	6% of taxable value (gross sales minus certain processing and transportation costs)	Gas transporation costs are significant and are subtracted from the taxable value	0%	7.8% / 46
3	Oklahoma	7% plus 0.095% excise tax	Exempt from severance tax for four years or until gas production pays for the cost of the well	6%	8.7% / 37
4	Louisiana	$0.03 - 0.13 per MCF	Severance tax suspension on horizontally drilled well for 2 years or until payback	8%	8.2% / 42
5	Colorado	2% to 5% based on gross income	Allows producers to deduct 87.5% of their property taxes paid to gov. from severance tax to state.	4.63%	8.6% / 39
6	New Mexico	3.75%		7.60%	8.4% /41
7	Arkansas	5%	1.5% on new discovery wells for 24 months and on high cost wells for 36 months (can get extension)	6.50%	9.9% / 14
8	Utah	3% - 5%	6 months exemption for development wells	5%	9.7% / 20
9	Alaska	25% to 50% net value	Reduction for all drilling in Cook Inlet basin and when gas is used instate; result minimal tax (appr. 1%). State also gives certain tax credits for exploration	6.50%	6.3% / 50
10	Kansas	8% on gross value severed from earth	There is 3.67% tax credit for ad valorem taxes paid, effectively reducing the severance tax to 4.33%	7.05%	9.7% / 19
11	California	Less than 0.01 per mcf		8.84%	10.6% / 6
12	Pennsylvania	No Tax		9.99%	10.1% / 10
13	West Virginia	5% plus $0.047 per MCF		8.50%	9.4% / 27
14	Alabama	4-8% of gross value		6.50%	8.5% / 40
15	Michigan	5%		4.95%	9.7% / 21

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