Policy Points

from the COMMONWEALTH FOUNDATION

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Natural Gas Severance Tax

PENNSYLVANIA'S ECONOMY IS NOT COMPETITIVE.

A severance tax must be considered in light of the state's total tax structure. Pennsylvania taxes the natural gas industry many ways that don't exist in other drilling states. For example, there is no corporate income tax or personal income tax in Texas or Wyoming, and the corporate income tax in West Virginia is 6.5%, compared to Pennsylvania's 9.99% rate.

Top Natural Gas Producing States 2013	States	Severance Tax on Natural Gas	Exemptions and Incentives for Unconventional Wells	Top Corporate Net Income Tax Rate	State and Local Tax Burden (as a percentage of State income/national rank)
1	Texas	7.5% of market value	Rate reduction appr. 2% for up to 10 years	none	7.5% / 47
2	Pennsylvania	2.1 *		9.99%	10.3% / 10
3	Louisiana	$0.03-0.13 per MCF	Severance tax suspension on horizontally drilled well for 2 years or until payback	8%	7.6% / 46
4	Oklahoma	7% plus 0.095% excise tax	Exempt from severance tax for 4 years or until gas production pays for the cost of the well	6%	8.5% / 39
5	Wyoming	6% of taxable value	Gas transportation costs subtracted from the taxable value	none	6.9% / 50
6	Colorado	2% - 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%	9% / 32
7	New Mexico	3.75%		7.3%	8.6% / 37
8	Arkansas	5%	1.5% on new discovery wells for 24 months and on high cost wells for 36 months (can get extension)	6.5%	10.3% / 12
9	West Virginia	5% + $0.047 per MCF		6.5%	9.7% / 19
10	Utah	3% - 5%	6 months exemption for development wells	5%	9.4% / 28
11	Alaska	25% - 50% net value	Reduction for all drilling in Cook Inlet basin and when gas in used in state; Limited tax credits for exploration	9.4%	7% / 49
12	Kansas	8% on gross value severed from earth	3.67% tax credit for ad valorem taxes paid, effectively reducing the severance tax to 4.33%	7%	9.4% / 26
13	California	<0.01 per MCF		8.84%	11.4% / 4

*Pennsylvania levies an impact fee (akin to a tax) based chiefly on the number of natural gas horizontal wells.
Sources: Energy Information Administration, Independent Fiscal Office, Tax Foundation

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DRILLERS PAY THEIR FAIR SHARE

- On top of Pennsylvania's high taxes, the natural gas industry has provided:
  - About $7.7 billion in royalties to landowners from 2007-2012,according to the Department of Revenue. State income taxes collections on royalties resulted in $235 million;
  - $318 million in other state taxes since 2009, according to the Department of Revenue. Supporting businesses paid another $1.4 billion in state taxes;
  - More than $600 million from the state impact fee from 2011-13;
  - $45.5 million in energy savings for PA schools in 2012-13;
  - $582 million from the lease of state forest land through 2012;
  - Permit fees, bonds for wells, and fines levied by DEP;
  - 166,642 additional jobs since 2010.

EDUCATION FUNDING AND SCHOOL DISTRICT SPENDING ARE AT AN ALL-TIME HIGH

- The proposed Education Reinvestment Act places a 5% severance tax plus 4.7 cents per thousand feet of volume on natural gas extraction. The tax is expected to generate over a billion dollars in fiscal year 2017, primarily for increasing k-12 education spending.
- Our education woes stem from our broken funding system, not a lack of education dollars.
  - Pennsylvania's public schools spend $3,000 more per student than the national average.

JOBS ARE AT RISK

- The gas industry is already pulling out of Pennsylvania because of low gas prices and better opportunities elsewhere.
  - Huntley & Huntley Energy Exploration withdrew a subsurface lease offer for approximately 90 acres of land owned by Harmar Township due to tax uncertainty.
  - Universal Well Service recently announced the closure of a facility in Meadville.
  - Last month, Chevron announced layoffs in Moon.
  - It's not just drilling jobs: Workers at Sunoco Logistics' Marcus Hook Industrial Complex outside of Philadelphia depend on high natural gas production.

RATHER THAN ASK PENNSYLVANIANS TO PAY MORE IN TAXES, WE NEED TO CONTROL GOVERNMENT SPENDING.

- Instead of taking more, government should limit spending growth to inflation and population growth.
- Such a limit would have erased any deficit and avoided the need for more and higher taxes.

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*To find more information on **Natural Gas** visit CommonwealthFoundation.org.*