PA Severance Tax

In Pennsylvania, unconventional natural gas is a huge part of the state's economy, so of course, it's also highly political. Some Harrisburg politicians—including the governor—are claiming shale gas producers are not paying their fair share of taxes and that Pennsylvania is the only state that doesn't have a severance tax. Is that true? Or do some Pinocchios need to be handed out?

Let's begin with the severance tax, which is a tax on oil and natural gas production. It is true that Pennsylvania is the only major producing state that doesn't have a severance tax. But making that claim is highly misleading because Pennsylvania is also the only state that imposes an "Impact Fee." And that impact has been big. $1.4 billion has been generated since 2011. Funds have been spent on such things as public infrastructure like storm and sewer systems, social services, information technology, public safety and environmental programs. Harrisburg politicians complaining about the state not having a severance tax on unconventional shale gas production when they are fully aware there is an Impact Fee are trying to deliberately deceive the public. For that, we give them 3 out of 5 Pinocchios.

Now let's consider the charge that the shale gas industry is not paying its fair share in taxes. The best way to do that would be to compare Pennsylvania to other states, but that's not so easy to do because no state applies their taxes and tax breaks in the same way. Pennsylvania's Independent Fiscal Office calculates an effective tax rate for the Impact Fee, at an average of 3.6 percent since the fee was created. That's quite a bit less than Texas, for example, which has a 7.5 percent severance tax. But that high tax rate comes down significantly in real terms because of discounts for unconventional wells over a decade and another steep discount for drilling costs. And if you're comparing Pennsylvania to Texas, you need to mention that PA has the second-highest corporate income tax rate in the country at a whopping 10 percent and Texas doesn't even have a corporate income tax. Nor does Ohio, Pennsylvania's regional competitor.

Louisiana is another big natural gas producer. In 2017 the Pelican State charged a severance tax of just under 10 cents per mcf, but Louisiana doesn't tax horizontal wells for two years or until the well has paid for itself. That's not confusing, is it? West Virginia has one of the highest severance taxes in the country at 5 percent. But maybe that punitive tax explains why Pennsylvania produces nearly three and a half times more natural gas than West Virginia even though the two states have similar geology.

This kind of apples to strawberries to bananas comparison is what exists across all producing states, so it's darn-near impossible to compare one state's taxes to another.

However, there is one solid barometer to consider, which is where investors are putting their money, and that means where you find the drilling rigs. In recent years Texas has claimed the largest number of rigs by far. Pennsylvania, the nation's second largest shale gas producer, hasn't attracted near the number of rigs as the industry leader. Certainly, low natural gas prices don't help, but neither does talk of adding a severance tax on top of an Impact Fee on top of a sky-high corporate income tax.

Harrisburg politicians who are trying to claim that Pennsylvania shale gas producers aren't paying their fair share in taxes ought to take a look at where the drilling rigs are working. Their Pinocchios… 4 out of 5… could wind up sending more rigs to states like Texas and Oklahoma. That's all for now, but more Pinocchios will be awarded to Pennsylvania politicians in the months ahead.

For the Clear Energy Alliance, I'm Mark Mathis. Power On.