Commonwealth Forum: Should Pennsylvania Enact a Natural Gas Severance Tax?

YES

Severance taxes are fees levied on the extraction of natural resources from the ground, such as coal, petroleum, and natural gas. Because of technology advances, Pennsylvania has become the second largest producer of natural gas in the United States over the last decade. However, we are the only major producer of natural gas that does not have a severance tax. Pennsylvania's Independent Fiscal Office estimates that the tax proposal supported by Governor Tom Wolf would raise $218 million dollars during the 2018–2019 fiscal year, with revenue growing to $420 million by 2022–2023.

Opponents of the severance tax support their argument with two major claims that don't hold up to scrutiny. First, they state that the severance tax would increase the cost of natural gas to Pennsylvanians, thus hurting vulnerable populations that already have difficulty paying for electricity and heat. Data from the U.S. Energy Information Administration show that Pennsylvania is among the largest net exporters of natural gas in the country. States like New York, New Jersey, and Maryland rely on our imports, and newer pipelines are getting ready to ship more gas to other Mid-Atlantic and Midwestern states. In effect we are subsidizing natural gas being used in other states by not having a severance tax. What's the sense in that? Opponents also claim that Pennsylvanians are already taxed enough. Ironically, the other four largest natural gas producers all have severance taxes: Texas, Oklahoma, Louisiana, and Wyoming. No one would call these states hotbeds of tax and spend liberalism. The other states adopted the severance tax for a reason: it shifts the tax burden from their citizens to consumers in other states. That just makes sense. So whether you support investments in new policy programs or cuts to the state income tax or local property tax relief, there is one thing we should all agree on: a severance tax on natural gas in Pennsylvania would benefit our citizens.

NO

Governor Wolf ran for election on the pledge to enact a natural gas severance tax in Pennsylvania. Since the beginning of his tenure, he has pushed to implement the tax on gas producers in the state, but to no avail, and for good reason. Pennsylvania already has high corporate net income taxes, 9.99 percent, and an impact fee, essentially a tax, on each new well drilled as enacted under Governor Corbett in 2012. According to the Pennsylvania Public Utility Commission, gas companies have paid in excess of $1.4 billion in fees since 2012. This does not include corporate taxes. This money is then distributed across the state to drilling counties and municipalities, as well as distributed in smaller measure to nondrilling governments for use in defined programs such as tax reduction, social services, emergency preparedness, and environmental or infrastructure improvements. The Marcellus Shale Coalition estimates that the average nonconventional well produces about $310,000 in impact fees over an operation of fifteen years.

The state also allocates some of the impact fee to the Pennsylvania Department of Environmental Protection, the Pennsylvania Fish and Boat Commission, and the Pennsylvania Emergency Management Agency. Every county receives a portion of the fee for recreation and conservation efforts. Some money is also dedicated to statewide environmental and infrastructure initiatives such as Growing Greener and water and sewer projects.

Gas drillers are subject to the personal income tax if they are registered as LLCs, Partnerships, or S Corporations. They also pay the sales and use tax, and the liquid fuels tax. In essence, natural gas companies are already paying a severance tax on drilling. Call it a fee, but a tax under any other name is still a tax.

For More Information

Conservation Voters of PA (https://www.conservationpa.org) is a 501(c)(4) political action committee dedicated to electing candidates for responsible environmental stewardship in the state of Pennsylvania.

The **Marcellus Shale Coalition** (http://marcelluscoalition.org) works with producers and supply chain companies in the Marcellus and Utica Shale regions to represent their interests to the public and policy makers.

Penn Future (https://www.pennfuture.org) is a nonprofit based in Harrisburg advocating for clean air, water, and a healthy environment.

The **Pennsylvania Public Utility Commission** (http://www.puc.state.pa.us) balances the needs of consumers and utilities, regulates reliable utility service, and educates consumers about utility choices.

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