

# Taxes and Economic Contributions From Pennsylvania's Oil & Natural Gas Industry



Oil and natural gas developers drilling in Pennsylvania pay taxes – a significant and growing amount of taxes – that are providing a positive impact on communities, counties and the entire Commonwealth. While the Marcellus Shale industry remains in its early stages of activity, a number of reports, studies and real-world statistics bear out both the tax and economic contributions being realized in Pennsylvania from this unprecedented investment of private capital. This new development, combined with the already existing economic and tax contributions of the historic conventional industry, underscores how important this industry is to the Commonwealth.

## Paying Our Fair Share – A Vital Industry to the Commonwealth

The oil and gas industry currently plays an important role in the state's economy. From direct employment and compensation to suppliers and distributors and beyond to leasing of state-owned land, the industry brings a wealth of opportunity to small towns and large urban areas across the Commonwealth.

From 2006 to 2011, the Pennsylvania Department of Revenue reported the oil and natural gas industry and related suppliers paid more than \$1.1 billion in state taxes. Additionally, since 2006, the industry is estimated to have paid over \$7 billion in lease and royalty payments, which are taxable by the state; the Commonwealth also expects to receive \$60 million in royalties from drilling on state-owned lands in fiscal year 2011-2012.

## The Investment

Since 2005, 4,826 wells have been drilled. More than 20,000 non-Marcellus wells were drilled over the same period. An estimated investment of \$4 million is required

to drill a horizontal Marcellus well in the Commonwealth, representing a current capital investment of \$10 billion in drilling activity. Combining this with an investment of approximately \$1 million per mile of pipeline built, it can be estimated that the Marcellus industry generated more than \$7 billion of value to Pennsylvania's economy in 2010 alone. The value of this investment is also reflected in new jobs; employment in Pennsylvania's mining and natural resources industries increased by more than 25 percent in 2010 and an additional 17 percent in 2011.

## The Ripple Effect and New Tax Revenues

In addition to the infusion of investments, the Marcellus industry also provides a significant and increasing source of revenue back to state and local governments. Marcellus producers, contractors, employees, suppliers, landowners and other related business contribute an influx of dollars in corporate taxes, personal incomes taxes, sales taxes, fuel taxes, local earned income taxes and federal taxes, as represented at right.

Local communities are also seeing new revenue streams through local hotel taxes. For example, in Tioga County, local hotel taxes hovered at \$7,600 in 2008 before drilling, soared to \$264,000 in 2009 and \$365,000 in 2010 with the increase in drilling activity.

## The Economic Studies on Marcellus Shale

Like any new and significant economic initiative, the Marcellus Shale industry has been the subject of several initial studies analyzing its current and projected impact in the Commonwealth, including tax payments.

## PAYING OUR FAIR SHARE

Claims that the natural gas industry is operating in Pennsylvania "tax free" are simply incorrect. Natural gas producers, their contractors, technical consultants and land owners pay the taxes summarized here. In addition, the industry's permitting fees fully support the Department of Environmental Protection's oil and gas regulatory oversight program, amounting to \$11 million in 2009.

### Marcellus Producers

- PA Corporate Net Income,
- S-Corp & Franchise Tax
- PA Sales & Use Tax
- PA Fuel Tax
- Local Property Tax

### Land Owners

- PA Personal Income Tax
- PA Sales & Use Tax
- PA Fuel Tax
- Local Earned Income Tax

### Related Business

- PA Corporate Net Income,
- S-Corp & Franchise Tax
- PA Sales & Use Tax
- PA Fuel Tax

### Contractors & Suppliers

- PA Corporate Net Income,
- S-Corp & Franchise Tax
- PA Sales & Use Tax
- PA Fuel Tax

### Jobs & Wages

- PA Personal Income Tax
- PA Sales & Use Tax
- PA Fuel Tax
- Local Earned Income Tax

A study conducted in 2010 by Natural Resource Economics, Inc. found an increase in state and local tax contributions in 2009 of more than \$389 million as a result of business activities associated with the Marcellus Shale industry. This figure is based on an estimated 710 wells drilled in the Commonwealth in calendar year 2009 (actual total number of wells drilled during 2009 was subsequently determined to be 768, according to DEP).

A similar study conducted by Penn State University in May 2010 estimated a similar total of \$396 million dollars in state and local taxes in 2009. This study goes on to estimate a \$735 million total tax contribution to the state in 2010, based on an estimate of 1,725 wells drilled that year. DEP records released after the completion of this study show that 1,386 Marcellus wells were actually drilled in 2010, resulting in tax payments of approximately \$590 million, using a similar methodology to calculate earlier estimated totals. Beyond 2010, researchers are estimating an ongoing rise in tax revenue along with drilling activity - increasing by nearly 155% - or more than \$1.8 billion by 2020.

## The Growing Proof: State Sales Tax and Personal Income Tax Revenue

Counties with Marcellus Shale activity have created significant positive trends in tax revenue over the past three years, compared to those counties with minimal or no drilling activity. Between July 2007-July 2010, sales tax payments to the state in counties with 150 or more wells increased by more than 11 percent, while sales tax receipts from counties with no drilling activity decreased by more than 6 percent. This 17 percent gap in general business activity, as represented by sales tax payment is difficult to ignore.

Similarly, an early snapshot of income tax payments in 2007-2008 increased at more than twice the state average, with a 6.96 percent increase in counties with 10 or more wells at the time against a state average increase of 2.04 percent. As additional income tax analysis is completed for years 2009 and 2010, this trend will continue to reflect the broad and positive tax payments to the Commonwealth.

## State Regulatory/Tax Realities

Much has been made of the claim that Pennsylvania is the only state without a severance tax, though a detailed look tells a different “global” story about tax structures and incentives offered by some states to encourage natural gas development. Texas and Wyoming, which have severance taxes in place, provide examples of this unequal measure of tax calculations.

A CNN/Money Magazine study in 2009 ranked Pennsylvania with the 11th highest tax burden in the country – a measure of the cumulative tax payments. Texas ranked 43rd, and Wyoming ranked 48th in this study. Neither state imposes a personal income tax nor a corporate income tax; while Pennsylvania’s personal income tax rate is 3.07 percent, and its corporate net income tax is 9.99 percent.

In 1996, Texas established an attractive tax abatement program to provide incentives for new investment in developing natural gas from shale and other tight formations. In May 2010, the state rolled back its 7.5 percent severance tax in the three-county area of the Eagle Ford Shale play for a 10-year period. Given the reduced price of natural gas and the formula used to develop Texas’ tax abatement program, the effective severance tax on new Eagle Ford wells is zero.

### Average change in state income tax by county (2007-2008)

<i>Marcellus Activity in County</i>	<i>Change in Number of Returns Files</i>	<i>Change in Taxable Income</i>
Ten or more Marcellus wells drilled	0.29%	6.96%
At least one but fewer than ten Marcellus wells drilled	-0.01%	3.08%
No Marcellus wells drilled	0.31%	0.89%
State average	.025%	2.04%

### Average change in state sales tax by county (July 1, 2007-June 30, 2010)

<i>Marcellus Activity in County</i>	<i>Change</i>
150 or more Marcellus wells drilled	11.35%
At least one but fewer than 150 Marcellus wells drilled	-3.11%
No Marcellus wells drilled	-6.55%
State average	-3.77%