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Pennsylvania Governor Wolf's Severance Tax Proposal

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BY

Pennsylvania Governor Tom Wolf released his anticipated proposal, the Pennsylvania Education Reinvestment Act, for a severance tax on natural gas production. The governor's proposal includes a five percent (5%) severance tax and a fee of 4.7 cents per thousand cubic feet on natural gas production. The impact fee that is currently imposed on drillers would expire as part of Wolf's proposal, but local government entities would receive funding they've come to expect from the new severance tax.

The governor anticipates that the severance tax would raise \$1 billion per year. The new funds are aimed at increasing funding for Pennsylvania's education system. It is also expected that a smaller percentage of the funds from the severance tax would be dedicated to the state agency in charge of regulating the industry, the [Department of Environmental Protection](#). The allocation of new tax dollars hasn't been finalized, although it is expected a portion of the revenue will go to alternative energy initiatives and local government, as it does under the current impact fee.

Governor Wolf compared his proposal most closely to the severance tax structure that exists in neighboring West Virginia. However, the [Pennsylvania Independent Oil and Gas Association \(PIOGA\)](#) highlighted the decreased rig count in West Virginia, which it indicates is a result of the severance tax. Furthermore, there is concern within the industry that a severance tax combined with the current low oil and gas prices will increase the risk that capital and jobs will flee Pennsylvania.

The governor's proposal requires approval from the state legislature, where a lively debate is expected.

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