

February 11, 2019

Pennsylvania's New Natural Gas Severance Tax Proposal

ENERGY & RESOURCES, STATE AND LOCAL TAX, TAX
BY SCHNEIDER DOWNS PROFESSIONAL

On February 5, many Pennsylvanians listened to Governor Tom Wolf's annual budget address to the state legislature, in which the governor said, in part:

"Today I put forth my budget proposal. And let me cut to the chase. This proposal asks for no new taxes. Not one dollar. Not one dime. Not one penny."

What many Pennsylvanians may have missed a few days earlier, however, was the governor's announcement of his "Restore Pennsylvania" initiative designed to address the state's infrastructure issues, a measure slated to be funded by a proposed severance tax on natural gas. While Pennsylvania currently has an impact fee that goes to local communities, it does not have a state severance tax. Restore Pennsylvania is considered by Governor Wolf to be outside the scope of the state budget.

According to Mr. Wolf, the proposed tax will be price-sensitive to the natural gas industry, with a direct correlation between the price of natural gas and the rate of tax. As the price goes up, so will the severance tax rate. The suggested structure is as follows:

- A natural gas price range of \$0.01 - \$2.99 will be taxed at \$0.091 per thousand cubic feet.
- A natural gas price range of \$3.00 - \$4.99 will be taxed at \$0.109 per thousand cubic feet.
- A natural gas price range of \$5.00 - \$5.99 will be taxed at \$0.131 per thousand cubic feet.
- A natural gas price range of \$6.00 or more will be taxed at \$0.157 per thousand cubic feet.

The proposed severance tax will be levied in addition to the impact fees already paid by gas companies and addresses a number of the same or similar infrastructure issues identified by Restore Pennsylvania at the local level.

The governor believes the price-based severance tax will result in effective rates similar to other major natural gas producing states, with expected rates starting out at 4.5% in 2019/2020 and dropping to 3.0% by the 2023/2024 fiscal year.

The proposed tax will only apply to wells that are subject to the impact fee and will include the following exemptions:

- Natural gas provided to a lessor for no consideration.
- Natural gas severed from a storage field.
- Natural gas severed, sold and delivered by a producer at or within five miles of the producing site for the processing or manufacture of tangible personal property.

The proposed effective date of the tax, if enacted, is March 1, 2020.

You've heard our thoughts... We'd like to hear yours

The Schneider Downs Our Thoughts On blog exists to create a dialogue on issues that are important to organizations and individuals. While we enjoy sharing our ideas and insights, we're especially interested in what you may have to say. If you have a question or a comment about this article – or any article from the Our Thoughts On blog – we hope you'll share it with us. After all, a dialogue is an exchange of ideas, and we'd like to hear from you. Email us at contactSD@schneiderdowns.com.

Material discussed is meant for informational purposes only, and it is not to be construed as investment, tax, or legal advice. Please note that individual situations can vary. Therefore, this information should be relied upon when coordinated with individual professional advice.

© 2024 Schneider Downs. All rights-reserved. All content on this site is property of Schneider Downs unless otherwise noted and should not be used without [written permission](#).