

Researchers release new report on possible impact of gas severance tax

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A severance tax on natural gas extraction in Pennsylvania would add to the operating costs of gas drilling companies, but the resulting increase in state revenue would yield positive results for the state's economy and population, according to a new report by two researchers at Penn State.

The report, "Benchmarks for Assessing the Potential Impact of a [Natural Gas](#) Severance Tax on the Pennsylvania Economy," examines the potential impact of a proposed severance tax on companies extracting natural gas in Pennsylvania. The study was designed to estimate the effect a gas tax might have on the state's economic picture.

The report comes amid the rapid growth of the state's gas-drilling industry. A number of companies have begun extracting natural gas from the state's Marcellus Shale formation on the heels of new drilling technology. The Marcellus Shale, one of the largest gas fields in the world, spans from northern West Virginia across much of Pennsylvania into southern New York.

The report was issued Sept. 13 by Rose M. Baker and David L. Passmore, researchers in Penn State's Institute for Research in Training & Development. The two assessed the impact that every \$100 million of revenue collected through a natural gas severance tax between 2011 and 2015 would have on Pennsylvania's business sales, employment, income and population during those years.

"Of course, what is revenue for the Commonwealth becomes, at the

same time, a production cost for Pennsylvania gas producers,” said Passmore. The researcher explained the market price of natural gas is established nationally, so firms in the natural gas industry are probably best described as "price takers," who do not have the market power to alter their prices without losing their customers to competitors.

“Because of this, we treated the revenue collected as a production cost that gas producers cannot pass along to customers," he said.

The study also considered the economic consequences for Pennsylvania of spending severance tax revenue collected under various revenue distribution plans. In addition, the study benchmarks the potential impacts of distributing the \$100 million revenue through state and local spending and through deferred spending by saving some revenue to mitigate potential environmental, safety and health problems.

Baker and Passmore found that potentially every \$100 million in production costs imposed on oil and gas companies through a severance tax would have a slight negative impact on the state’s economy and population. This is because, with an increased tax burden, the gas companies would create somewhat less employment, output and disposable income for Pennsylvanians.

For example, in 2015 each \$100 million in additional production costs imposed on gas extraction by the severance tax will result in a decline in total employment numbers of 292. Under this scenario, business sales will drop by \$22 million; personal income will be down by \$20 million; and population will decline by 143.

However, these negative impacts could be more than offset by increased spending of the severance tax revenue by state and local governments.

“In 2015, for each \$100 million in state and local spending of the severance tax [revenue](#), estimated total employment could increase by

1,400 workers; business sales would be up \$80 million; personal income could climb by \$20 million; and population in the state would increase by 1,300 people,” said Baker.

The researchers used the Regional Economic Models Inc. (REMI), a well-accepted and leading economic forecasting and policy analysis model, to simulate the outcomes.

Pennsylvania is the only major natural gas-producing state that does not impose a severance tax. Gov. Ed Rendell and proponents see the proposed tax as critical to funding programs aimed at protecting the state’s environment, repairing and maintaining infrastructure and helping to support local governments.

The Pennsylvania General Assembly passed the state budget July 6, with the provision that a gas severance tax be in place by Oct. 1. State lawmakers are still considering passage of the tax.

The IRTD report is available at PA-SevTax.notlong.com/ online.

Provided by Pennsylvania State University

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