Gov. Wolf's Proposed Severance Tax: "Modeled On" West Virginia Tax, or Highest in the Nation?

Gov. Tom Wolf has repeatedly said his natural gas severance tax proposal is "modeled on" and "mirrors" the provisions of West Virginia's tax – a tax that has slowed the growth of the Mountain State's natural gas industry in the past several years, especially in comparison to that experienced in Pennsylvania. A factual review of the details of Wolf's proposal and West Virginia's severance tax prove differently, and show instead that Wolf's tax would have an effective rate in 2016 of about 17.3% percent and 7.3% in 2018, easily the highest in the nation.

The Wolf Detail	The West Virginia Reality
Proposal calls for a 4.7 cent tax on every one thousand feet of natural gas produced that will remain in effect until superseded by the passage of a law changing the tax structure.	Tax of 4.7 cents per thousand feet of gas is dedicated solely to paying down the Mountain State's previously unfunded workers' compensation fund debt, and is expected to expire in 2016 when the liability has been fully paid. This will significantly reduce the cumulative severance tax paid by producers in West Virginia and make Pennsylvania's tax rate far more onerous.
Proposes an additional 5% tax on dry natural gas production "at the wellhead" based on a three-month "weighted average price per unit" at the Commonwealth's interstate pipeline hubs.	Actually imposes the tax "at the wellhead" by allowing for the deduction of transportation expenses from the actual sales proceeds to "net back" to the product's wellhead value, effectively allowing for at least a 15% reduction of gross sales revenue.
States the three-month "weighted average market price per unit" must be "at least $2.97 per unit for each calendar quarter" even if actual market prices are below this minimum artificial "floor" price.	Tax is based on actual sales proceeds, no matter how low market prices go.
Proposes a tax of 5% on natural gas liquids based on a minimum "floor" price of $20 per barrel, even if actual market prices are below this minimum artificial "floor" price.	As with the tax on dry natural gas, tax is based on the actual price received, with no minimum artificial "floor" price.
Proposal does not allow for the deduction of expenses, such as transportation costs, from the 5% tax on both dry natural gas and natural gas liquids.	Allows for the deduction of transportation and related costs to tax these products at their wellhead value.
Proposal prohibits natural gas producers from sharing any portion of severance tax with mineral owners receiving royalty payments for natural gas produced from their land.	Tax honors the contractual agreements between producers and mineral owners, which can include provisions to share a percentage of the tax with mineral owners.
No tax credits allowed.	Allows each reporting "economic unit" an annual $500 credit against its severance tax.

These seven key elements of the Wolf Administration's tax proposal make one point clear: the tax is not modeled after West Virginia's approach – it replaces West Virginia's many commonsense features that reflect the realities of the oil and natural gas business with unreasonable and unlawful features that make its impact on the industry and its supply chain business partners in Pennsylvania even more onerous than the West Virginia tax that slowed the growth of that state's oil and natural gas industry. The result is a much higher effective tax rate for Pennsylvania operators, with the difference becoming even greater with the expiration of West Virginia's workers' compensation fund debt as early as next year.

Pennsylvania has seen thousands of layoffs and reduced capital expenditures by the industry of about $9 billion in 2015 alone as a result of sagging commodity prices for natural gas. Gov. Wolf's severance tax would be certain to continue this downward spiral.