

LEGISLATIVE BUDGET AND FINANCE COMMITTEE

A JOINT COMMITTEE OF THE PENNSYLVANIA GENERAL ASSEMBLY

A Study Pursuant to House Resolution 2023 - 131: An Examination of Natural Gas Tax Structures

June 2024



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Phone: 717.783.1600 Email: lbfcinfo@palbfc.us

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We also note Pennsylvania's impact fee is different in that while the per-well fee varies depending on the national natural gas price, the amount paid does not fluctuate based on the volume of gas produced. According to the National Conference of State Legislators, in other states where natural resources are mined or extracted, those states assess either a market-value or volume-based charge for "severing" materials from the ground (known as a severance tax). In the subsections below, we further highlight the historical perspective of each state's tax. In Issue Area B, which follows, we discuss the specifics of how the tax is calculated.

Pennsylvania

In 2012, Pennsylvania enacted Act 13, which amended the state's oil and gas production statutes and established an "impact fee" to assess unconventional natural gas wells drilled in the commonwealth.

The law distinguishes between conventional and unconventional gas wells. An "unconventional gas well" is "a bore hole drilled or being drilled for the purpose of, or to be used for the production of natural gas from an unconventional formation."⁴ Correspondingly, the law sets impact fees for wells based on age and the average annual price of natural gas.

Producers are not required to pay the fee for wells that have stopped producing natural gas and have been plugged in accordance with Department of Environmental Protection (DEP) regulations.

The impact fee is paid on April 1 of each year. The law also authorizes the Public Utility Commission (PUC) to refrain from issuing permits for new wells to any driller with unpaid impact fees from previous years.

Texas

Texas imposes a 7.5 percent severance tax on natural gas extraction based on natural gas market value. While this rate has varied since the tax was first assessed in 1931, the current severance tax rate has remained unchanged since 1969.⁵

Texas also assesses an Oil-Field Cleanup Regulatory Fee on Natural Gas, which is paid monthly along with the severance tax. This fee is one-fifteenth of one cent (\$.000667) per 1,000 cubic feet (mcf) of gas.

⁴ Pennsylvania Act 13 of 2012, § 2301.

⁵ Texas Comptroller of Public Accounts, *Sources of Revenue: A History of State Taxes and Fees, 1972-2022*, January 2023.

Natural gas drillers also pay an Ad Valorem Production tax and an Ad Valorem Production Equipment tax. The Production tax is based on the assessed value of natural gas extracted,¹⁴ and the Production Equipment tax is based on the equipment located at each site.¹⁵ The tax rates for both are set annually by local taxing authorities (counties and school districts) for each site. These taxes are paid to the state Taxation and Revenue Department, although much of the funds are distributed to local governments. They function like local property taxes.

Additionally, operators of natural gas processing plants in New Mexico pay a Natural Gas Processors Tax based on the volume of gas delivered to each plant.¹⁶ The New Mexico Taxation and Revenue Department calculates the tax rate annually based on the average annual taxable value of natural gas during the previous fiscal year. The rate for the year ending June 30, 2024, was .0282 per million BTU.

According to the New Mexico State Investment Council, the state has collected severance taxes on natural resource extraction since the 1930s.

Property Taxes

In addition to severance taxes, per-well impact fees, and restoration and clean-up fees, natural gas property owners must also pay property taxes on the value of the land and its wellhead equipment in most jurisdictions. The tax rates, exclusions, deductions, and calculation methods for such taxes differ in every jurisdiction. A national comparison of average state property tax rates published by Bankrate.com found the following 2023 effective property tax rates for the five states we studied:

- West Virginia: 0.49%
- Louisiana: 0.62%
- New Mexico: 0.62%
- Texas: 1.20%
- Pennsylvania: 1.33%

¹⁴ NM Statutes § 7-32-4.

¹⁵ Ibid.

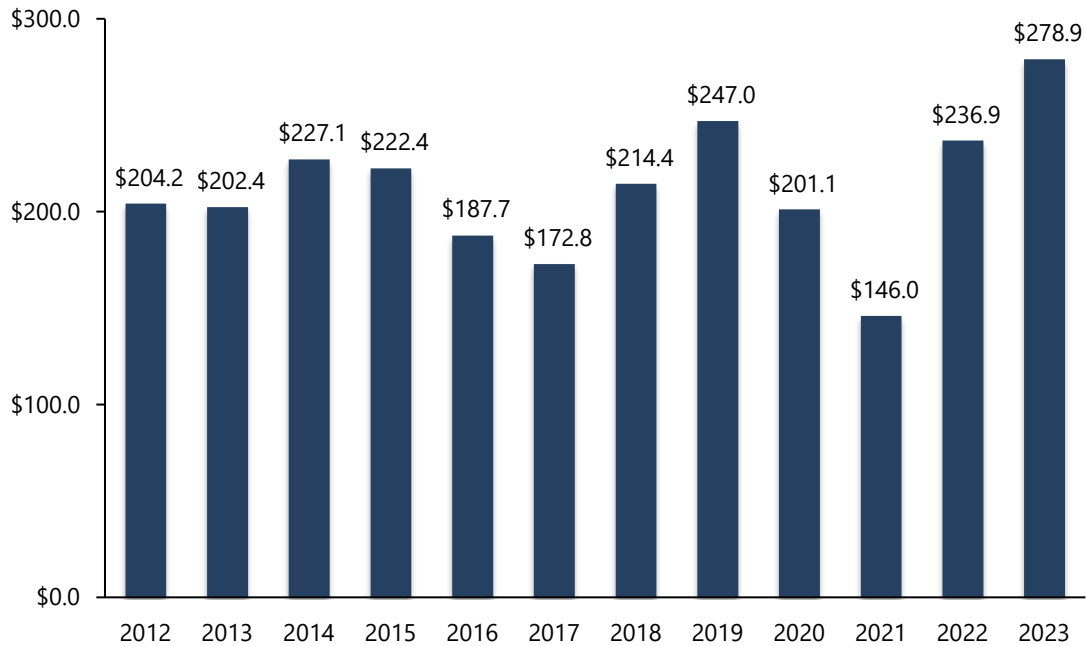
¹⁶ Ibid.

Pennsylvania

Since 2012, Pennsylvania's Act 13 impact fee has generated more than \$2.5 billion in revenue. Exhibit 6 shows the amount of fees collected each year through 2023.

Exhibit 6

Pennsylvania Impact Fee Revenue By Year (\$Millions)



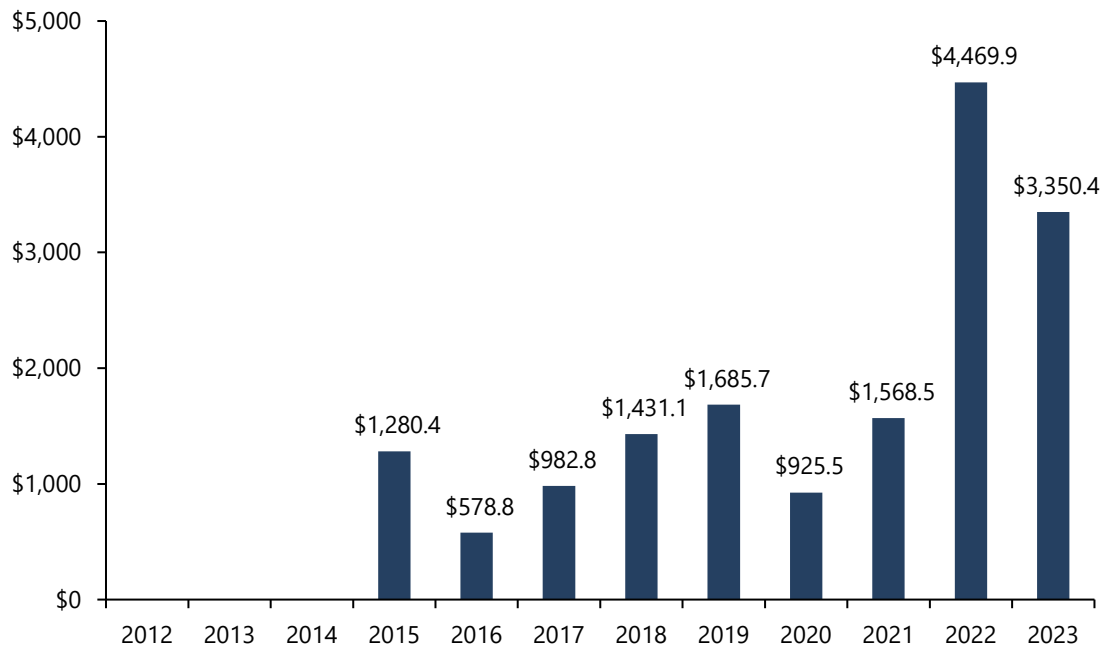
Source: Developed by LBFC staff from information obtained from the PUC's website.

The amount of impact fees collected has ranged from \$146 million in 2021 to \$279 million in 2023, an average of about \$212 million per year. Although the impact fee is assessed per well, the fee amount changes if there is a large change in the national market price of natural gas, as described in Section III, Issue Area E. Impact fee revenue collected in 2021, which reflects fees assessed on 2020 wells, was the lowest of any year because the national price of natural gas was at its lowest point during this period, averaging less than \$2.00 per mcf for the first seven months of 2020. Gas prices then increased dramatically, reaching over \$9.00 per mcf in August 2022, subsequently leading to 2023 being the highest year for impact fee revenue.³³

³³ On June 18, 2024 the PUC reported that the distribution of 2024 Act 13 impact fees would be \$179.6 million, or about \$100 million less than last year, driven primarily by the decreased average price of natural gas in 2023, which generated a lesser impact fee payment for each well in 2023, along with the addition of only 423 new wells during 2023.

Exhibit 9

**Texas Severance Tax Revenue
By Fiscal Year
(\$Millions)**



Note: */ Severance tax revenue amounts are unavailable for the fiscal years 2012, 2013, and 2014.

Source: Developed by LBFC staff from information obtained from Texas' comptroller website.

Although total natural gas production in Texas increased eight percent in 2022 and six percent in 2023, severance tax revenue dramatically increased in fiscal years 2022 and 2023 due to higher natural gas prices.³⁵ The national average annual price of natural gas per million BTU, as reported by Pennsylvania's PUC over the last four calendar years, was as follows:³⁶

2020:	\$2.08
2021:	\$3.84
2022:	\$6.64
2023:	\$2.74

³⁵ Percentage change in annual natural gas production calculated from Monthly Oil & Gas Production data compiled by the Texas Railroad Commission.

³⁶ See each year's annual Pennsylvania Public Utility Commission order summarizing specific Act 13 data as published in the *Pennsylvania Bulletin*.

population to that of the overall county, and half is split using the ratio of the highway miles within each municipality to that of the overall county.

A total of \$1.3 billion has been distributed to county and municipal governments in Pennsylvania in this manner. Exhibit 19 displays the counties that have received the most impact fee revenue from 2012 through 2023 under this section of Act 13.

Exhibit 19

Pennsylvania Counties Receiving the Most Act 13 §2314 (d) Disbursements 2012-2023 (\$Millions)

County	Amount
Washington	\$204.8
Bradford	\$191.5
Susquehanna	\$182.8
Greene	\$141.1
Lycoming	\$118.7
Tioga	\$109.7
Butler	\$60.8
Wyoming	\$36.2
Westmoreland	\$34.9
Fayette	\$34.4

Note/* Includes both amounts distributed to municipalities within these counties and amounts allocated directly to county governments under § 2314 (d) (1).

Source: Developed by LBFC staff from information published by the PUC.

As shown above, the counties receiving the most impact fee revenue are those with the most wells (i.e., “impacted” by natural gas activity). Specifically, the §2314 (d) funds distributed to the counties shown in Exhibit 19, make up 86 percent (\$1.1 billion) of the \$1.3 billion total distributed directly to counties and municipalities.

As noted earlier, more than half of the money that Act 13 allocates to local governments in counties with wells is distributed directly to municipalities, based on the complex allocation formulas specified in § 2314 (d) (e.g., population, number of wells, proximity to wells, etc.). Exhibit 20 shows the municipalities that have received the most impact fee revenue from 2012 through 2023 under this section of Act 13.