# ** Independent Fiscal Office (IFO) Study Overview **

***Shale development is dramatically bolstering our economy and nation's security, and providing consumers with affordable, clean-burning energy. More taxes would jeopardize these shared, broad-based benefits. Let's avoid a race-to-the-bottom and continue to get this generational opportunity right – now and for years to come.***

## KEY POINTS: A Flawed Analysis that Provides No New, Meaningful Information

### *No New Information*

- These 72 pages offer very little -- if any -- new information, data, or policy analysis that we do not already know.

### *Incomplete and Flawed Analysis*

- While Pennsylvania does not have a severance tax on oil and natural gas development, nor any other extractive industry, the Commonwealth has a host of taxes and fees that other oil and gas producing states do not have.
    - For example, and as IFO indicates, **Pennsylvania has "the highest statutory corporate income tax rate (9.99 percent)"** among energy-producing states, whereas **"Ohio and Texas do not levy a corporate income tax"** (pgs. 29-30).
- Though IFO readily acknowledges this, it stands to reason that its incomplete analysis lacks an "apples to apples" comparison of the total tax liability for oil and natural gas producers across states. Rather, it reflects a narrow snapshot of exclusively energy production taxes.

### *The Reality in Pennsylvania*

- Those who oppose shale development will inevitably seek to leverage this flawed analysis as a rallying cry, based purely on politics rather than objective facts and economic realities, for higher energy taxes on businesses and families. Such policies would have a chillingly negative impact on job creation, economic growth and responsible energy production in the Commonwealth.
- According to a Fraser Institute survey, energy companies are increasingly concerned about Pennsylvania's high tax climate and heavy regulations. More taxes mean fewer Pennsylvania jobs and less energy production.
- Pennsylvania shale producers have paid more than $400 million in impact fees, which overwhelming benefit local communities, as well as $2.1 billion in various taxes, and have invested over $1 billion in road construction and improvements. These investments -- and this safe production -- are helping to support the employment of nearly 240,000 Pennsylvanians, all while helping to drive U.S. $CO_2$ emissions to a 20-year low.

## KEY TAKEAWAYS

### *Poor Methodology*

- IFO states clearly that its methodology -- based on available data and overall tax liabilities in comparable shale-producing states -- makes **"it difficult to generate an 'apples to apples' comparison of state severance tax systems,"** adding that **"statutory [severance] tax rates alone are not comparable due to the unique features inherent in each state's tax code."** (pg. 1)
- IFO goes on to further underscore this critically important fact: **"These dissimilarities [across states] further complicate attempts to compare tax policies related to natural gas extraction,"** and note that **"sufficient information is not available to consolidate other types of taxes into the effective tax rate measure."** (pg. 1)
- IFO offers this **"cautionary note"** about its methodology specific to tax structures and other associated costs in shale-producing states:
    - **"The report … does not include other relevant costs such as labor, transportation and drilling. A state may levy a relatively high severance tax, but still attract significant investment due to low non-tax costs. Alternatively, a state could levy a low severance tax, but appear less attractive because other tax and non-tax costs are relatively high."** (pg. 3)

***Narrow Focus***

- IFO makes clear that it is not able or attempting to comprehensively compare tax liabilities across states.

    - "Natural gas extractors remit or pay various taxes including severance, income, property and other miscellaneous taxes and fees. **The analysis focuses on severance taxes** because those taxes are more easily quantified." (pg. 10)

- Adds IFO: **While "corporate income, personal income, personal property and sales taxes are discussed, data do not exist to quantify those taxes adequately and they are not included in the effective tax rate computations."** (pg. 36)

    - And further: "While the analysis is conducive to a comparison of state severance tax policies, **it cannot be used to estimate the aggregate amount of tax revenues that would be generated by a particular policy."** (pg. 36)

- Corporate profit, sales and personal property taxes as well as miscellaneous fees vary greatly across energy-producing states. IFO states:

    - **"It is much more difficult to quantify any income taxes** that would be levied on the profits from extraction. … **It is unclear how much [profits] would be taxed** at a particular state corporate income tax rate. … **It is not possible to quantify the tax paid** due to the various rates, policies and broad exemptions relevant in most states. … **This analysis does not attempt** to quantify [personal property tax] amounts." (pg. 10)

- IFO, once again, states clearly that **"many taxes and fees, such as sales and use taxes, are not easily quantified and do not lend themselves to interstate comparison."** (pg. 27)

***Fails to Consider Key Facts***

- **Pennsylvania has "the highest statutory corporate income tax rate (9.99 percent)"** among energy-producing states, whereas **"Ohio and Texas do not levy a corporate income tax"** (pgs. 29-30).

    - For context: **Pennsylvania's corporate income tax is more than double that of Colorado, North Dakota and Ohio, and more than ten times higher than Texas'.**

- **Pennsylvania's state sales & use tax rates, and permit and bond fees are exceptionally high** (pgs. 31-33).

    - Second only to Arkansas and Texas by a small fraction, **Pennsylvania's 6% State Sales & Use Tax Rate is of the highest across all shale-producing states**.
    - **West Virginia and Pennsylvania, far and away, have the highest well permit fees**. In fact, **Pennsylvania's $5,000 well permit fee is 10x higher than Texas'.** Industry proactively supported increases to ensure Pa. DEP is effectively staffed while not placing any financial burden on taxpayers.
    - **Pennsylvania's well bonding fees also far exceed those in other energy-producing states**. In Pennsylvania, multi-well pads -- which accounts for virtually all shale development -- bonding fees **can be as high as $600,000**. In Texas and West Virginia, these fees are at most $250,000. Arkansas' and Colorado's fees are at most $100,000. And in Ohio, these fees are capped at $15,000.

- Various issues **"cloud comparisons of state income tax systems,"** writes IFO.

    - **"These taxes are not easily quantified** using available public data. Furthermore, dissimilarities in the tax base, administration and compliance costs among the states **dilute the value of comparisons** based on statutory tax rates." (pg. 38)

**MORE INFORMATION ON PENNSYLVANIA'S BUSINESS CLIMATE**

- **Pa. ranked 46th among all states for corporate tax rate.** (Tax Foundation's 2013 State Business Tax Climate Index)
- **"Report: Pennsylvania's business climate remains unfriendly"** (Tribune-Review, 10/10/12)
- **"Pennsylvania Hits Bottom in New Business Tax Ranking"** (Allegheny Institute, 3/12)
- Survey Ranks Most (and Least) Small Business-Friendly States. **Pennsylvania's 2013 rankings**:

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|---|---|
| -- Overall Business Friendliness: 34th | -- Regulatory friendliness: 34th |
| -- Ease of Starting Business: 35th | -- Employment, Labor, and Hiring: 35th |