Policy Matters Ohio

Executive Summary
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Severance Tax Changes Don't Meet Ohio's Needs

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House Bill 375 as passed by the House falls short of creating a modern and adequate severance tax for the growing oil and gas industry in Ohio. The rate is so low and the base so narrowed by exemptions and deductions that the new tax would not raise adequate revenue for the state and impacted communities.

HB 375 would retain the current severance tax on conventional, vertical wells, but horizontal, fracked wells would be taxed on value of production. Severance tax rates on vertical wells are cut in half. The severance tax on horizontal wells would be 2.5 percent of value - very low compared to other producing states – on a base narrowed by deductions. Severance tax revenues would be distributed for three purposes: industry oversight, regulation and services through the Ohio Department of Natural Resources, which would get the first $21 million each year; impacted local governments, which would get 17.5 percent of collections, and income tax cuts, which get the rest of the funding.

Key findings

- HB 375 might cost the state's General Revenue Fund $19.3 million in tax breaks by the 5th year, fiscal year 2019; no revenues from severance tax are provided to make up loss.
- New deductions and breaks in HB 375 as passed by the House reduce collections by at least $23 million by fiscal year 2019, the 5th year, compared to the prior version of bill.
- HB 375 might provide $0 to $30 million for impacted local governments in FY 2019, too little for infrastructure needs.
- Even under the highest estimate, tax cuts under HB 375 would be worth perhaps $10 per year on average to middle-income Ohioans.

House Bill 375 fails to provide a fair share of the value of Ohio's oil and gas for the people of the state and communities impacted by the growth of the industry. The rate is so low and the base so riddled with deductions and exemptions there may be little for local needs. Even under the highest production estimate of the Legislative Service Commission, income tax cuts would be worth perhaps $10 per year on average to middle-income Ohioans. The legislation could be improved to:

- Subject oil and gas extracted in Ohio to a single severance tax of 5 percent of value, based on the definition of value in House Bill 472 as introduced by the Kasich Administration.
- Add a 2.5 percent fee for a permanent fund for long-term redevelopment of impacted communities and to provide a backstop in case of environmental disaster.
- Eliminate loopholes, credits, exemptions and deductions from the severance tax. Grant no tax holidays for initial earnings; fracking is no longer an unusual, experimental technique. Eliminate the exclusions from the Commercial Activity Tax, the basic business tax in Ohio.
- Narrowly target and create a sunset date for any tax credits for homeowners or farmers. This will encourage re-negotiation of leases to eliminate their severance tax liability.
- Designate 25 percent of funds to local governments, including communities without wells but impacted by trucking, waste disposal, pipelines and other activities related to drilling.
- Do not use funds for income tax cuts. The size of possible tax cuts to the average family is negligible. Ohio needs investment to assist impacted communities, make college affordable, restore local government funding and rebuild schools.