Policy Matters Ohio

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Ohio must consider a fracking tax

Communities could gain with adequate tax rates, smaller tax breaks

Revenue from a tax on fracking would help communities pay for the impact of this type of oil and natural gas drilling on their roads and services, turn streetlights back on, open senior centers and put supervisors back on playgrounds around the state, according to a new report by Policy Matters Ohio. A 5 percent rate could generate up to $1.8 billion in revenue for the state over four years; an additional fee of 2.5 percent could be used to establish a permanent fund to help build a stronger, more diverse economy after the oil and gas are gone.

The report explores how revenue from a fracking tax could bolster vital public services if it is not used to finance income tax cuts that would mostly benefit wealthy Ohioans, as Gov. John Kasich has proposed.

Legislators stripped Kasich's severance tax proposal from this spring's primary budget bill (HB 487). The governor proposed taxing dry natural gas at 1 percent, a slight tax break, but raises the tax on oil to 4 percent, and adds taxation of natural gas liquids at the same rate as oil. Owners of wells with a horizontal bore that require stimulation (hydrofracking or other methods) would be eligible for a tax break that reduces their severance tax rate to 1.5 percent for up to 24 months. A small share of the revenues – no more than what would be raised at the low severance tax rates now imposed on more conventional forms of drilling – would be used for oversight and regulation of the industry. The rest would be used for income tax cuts.

"The General Assembly needs to allow the debate on the Governor's proposal, and hear other recommendations as well," said Wendy Patton, report author and senior project director at Policy Matters. "Once the oil and gas are taken from the land, it will never be replenished. What should be an important contribution to Ohio's future is lost."

Michigan taxes natural gas at 5 percent and oil at 6.6 percent; West Virginia taxes oil at 5 percent. Texas taxes natural gas at 7.5 percent. Ohio should at least match its neighbors and consider following Texas' lead.

General Assembly should eliminate loopholes, tax cuts in proposal

While Gov. Kasich's proposal to raise taxes on fracking is a good step, it includes loopholes that lower the tax rate on oil and natural gas liquids for 12 months, with extensions up to 24 months, and this break could shelter income from energy companies during peak production. This is an expensive tax break, costing as much as $603 million over four years.

The income tax cuts proposed by the governor would average only $42 for middle-income Ohioans but 55 times more – $2,300 – for the wealthiest.

"The deep tax cuts given to the wealthy and corporations in Ohio in 2005 have had the same effect as tax cuts on the national level – they hurt our ability to respond to the recession and they slow our recovery," said Patton. "More of the same will continue to undermine our state's future."

Tax would help strengthen communities and economy

Ohio also needs to help communities deal with the impacts of drilling, such as strains on infrastructure and potential environmental problems, and the severance tax is how energy-producing states pay for this. The tax won't discourage oil companies that have spent billions on land leases in Ohio.

"The industry has leased Ohio land because the resource is there," said Patton. "Oil and gas production could be worth around $50 billion over the next four years. Reserving a share to restore jobs and services devastated by years of spending cuts, to assist impacted communities and to invest in tomorrow's diversified economy is the right thing to do."

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