Policy Matters Ohio

Press statement

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policymattersohio.org/severance-tax-jul2012

Taxing fracking is a good idea; swapping it for income tax is not

Governor proposes doing the right thing, wrong use

Gov. John Kasich is right to propose a tax on the proceeds from fracking. But the rates he proposes are too low and the use – a tax cut that would give middle-income taxpayers less each year than the cost of a tank of gas – is a poor choice. The production of oil and gas depleted forever from the land should be taxed and reinvested in the long-term interest of the people of the state.

During the current two-year state budget, schools lost $1.8 billion dollars in funding and local governments were cut by $1 billion. Across the state, street lights have been dimmed, trash collections slowed, recreation centers closed or curtailed, senior services consolidated or eliminated, potholes left unrepaired. Firehouses have been closed and police laid off. The severance tax could restore some of these cuts. It could also help communities impacted by the onslaught of drilling, where roads and bridges bear unaccustomed trucks and traffic, rents soar as work crews seek lodging and other local services are strained by fast growth and new industrial demand. When the legislature stripped the governor's severance tax proposal from the corrections bill this spring, they took with it the recommendations for new revenue sources: local impact fees and new valuation for mineral reserves.

The state has pressing revenue needs, while a tax cut would have little impact on most families' budgets. Poor and middle-income Ohioans would get little out of Gov. Kasich's proposed income-tax cut: The middle fifth of Ohio residents, making between $32,000 and $49,000 a year, on average would get about $42 – not enough for a tank of gasoline at today's prices. The highest-income Ohioans would see reductions on average in the thousands of dollars, according to a report by Policy Matters Ohio (policymattersohio.org/tax-cut-impact-march2012). The analysis found that Ohioans in the top 1 percent of the income spectrum earning at least $321,000 a year on average would receive roughly $2,300 a year in reduced taxes. The report comes from an analysis by the Institute on Taxation & Economic Policy, a Washington, D.C., based research group with a sophisticated model of the tax system. The estimates are based on the Kasich administration's early projection of $500 million in annual income-tax cuts funded from a tax boost on oil and gas produced by hydraulic fracturing.

Ohio's taxes on oil and gas are low compared to other energy-producing states. Ohio's effective severance tax rate on oil over the past 10 years has been .19 percent (policymattersohio.org/beyond-boom-dec2011). It should be 5 percent, with an additional 2.5 percent to mitigate local impacts (policymattersohio.org/taxing-fracking-may2012). This is modest compared to the big producing states: North Dakota taxes oil at 11.5 percent, Alaska at 12.5 percent for early years and 15 percent later.

"Gov. Kasich said every Ohioan should benefit from the wealth in shale oil and gas, not just out-of-state shareholders in oil and gas companies. Yet he proposes to give the money raised from a higher severance tax mostly to upper-income Ohioans," said Wendy Patton, senior project director at Policy Matters Ohio. "Instead, we all must benefit from better education and public services that otherwise are being cut in the current state budget. Moreover, we need to reserve a portion of the increased revenue for the costs fracking is likely to create."