Ohio Environmental Council

[UNLEASHING THE POWER OF GREEN]

Fact Sheet

Oil & Gas Severance Tax

"Frack Tax" Should Help Protect from Impacts

The Issue

Ohio Governor John Kasich has proposed to increase the state's severance tax on oil and gas production. The Ohio Environmental Council supports an increase in the state's severance tax.

But the OEC believes the revenue from this proposed "frack tax" should go to protection from the serious risks to human health and air and water quality that drilling and disposal of resulting toxic-laced wastes poses, NOT tax relief.

Current Severance Tax

Ohio's existing severance tax on oil and gas drilling are among the lowest of all oil and gas producing states.

The lucrative industry pays a mere dime per barrel of oil for the severance tax and another dime in a state conservation fee.

Whether oil is selling for $35 or $150 per barrel, Ohio receives just 20 cents in severance tax. The severance tax on natural gas also is low, just 3 cents (including a half-cent conservation fee) per thousand cubic feet (MCF).

Gov. Kasich's Proposal

Gov. Kasich proposes raising severance tax rates on shale oil and natural gas liquids to 4 percent with a tax break that lowers the effective rate to 1.5 percent for the first 24 months of production. Shale dry gas would be taxed at just 1 percent.

A small share of the revenues – no more than what would be raised at today's low, existing rates – would be used for oversight and regulation of the industry. The rest would help fund a state income tax cut.

OEC Proposal

Ohio's current tax rate on oil and gas drilling is way too low, and the Governor's proposed increase is still too low.

Policy Matters Ohio found that Ohio's effective severance tax rate on oil over the past 10 years has been just 0.19 percent (www.policymattersohio.org/beyond-boom-dec2011).

Many big oil and gas producing states have much higher severance tax rates.

For example, North Dakota taxes oil at 11.5 percent and Alaska at 12.5 percent for early years and 15 percent later. The OEC proposes a 5 percent tax on oil and natural gas, with no tax break during the first 24 months of production.

We propose that these resources be used to help fund emergency preparedness and mitigation of impacts to local communities, boost state enforcement by hiring more state oil and gas inspectors, and cap orphan oil and gas wells.

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