OHIO'S JOBS BUDGET 2.0

JOBS. MOMENTUM. TRANSFORMATION.

Modernizing Ohio's Severance Tax

A Fair, Competitive Tax on Oil and Gas Drillers Will Mean Lower Income Taxes for Every Ohioan

Asking energy corporations to pay a fair share of the profits they make by tapping Ohio's oil and gas resources is a key part of Gov. John Kasich's plan to cut state income taxes for every working Ohioan, including small-business owners who are key to job creation. At the same time, the governor's plan will eliminate the severance tax rates for traditional, small-volume gas producers, who have long been the backbone of Ohio's local oil and gas industry, and require companies that are using new high-volume horizontal drilling technology to pay a modest increase in severance taxes, which are still below other oil and gas producing states.

The Kasich Plan Tackles an Urgent Problem: Ohio's High Income Taxes Hold Back Job Creation: Ohio taxpayers carry one of the heaviest income tax burdens in America according to the Tax Foundation, which compares taxation rates in the 50 states. High income taxes not only limit the economic well-being and purchasing power of Ohio families, they also slow the state's economic recovery and consume dollars that small-business owners could invest in new jobs. Gov. Kasich's tax reform plan attacks this problem head-on by reducing income tax rates for every Ohioan – a 20 percent tax cut over the next three years. Fair and competitive severance tax rates on the largest crude oil and natural gas drillers are an important part of the plan.

Ohio's Obsolete Taxes on Oil and Gas Drilling Create a Windfall for Corporate Giants: It's been nearly 30 years since the state has comprehensively updated the way it taxes oil and gas drillers, going back to an era when most Ohio producers ran small, local operations. But new technology allows producers to extract millions of dollars' worth of natural gas, natural gas liquids and oil from beneath our feet. Today, Ohio's mineral riches are traded in a vast global marketplace and the world's largest and most important energy corporations are flocking here to drill. In fact, more than $3 billion has been invested in Ohio by these energy companies over the past year.

Current severance tax rates are:

- 20 cents on a $96 barrel of oil (NYMEX Cushing price – 1/29/2013)
- 3 cents on a $3.23 MCF (million cubic feet) unit of natural gas – (NYMEX Henry Hub price – 1/29/2013)

New Tax Rules on Oil and Gas Drilling Will Be Fair, Reasonable and Competitive with Other States: While the largest oil and gas producers will see modest tax increases on the resources they extract from Ohio, the new rates they pay will be lower than in almost every other oil- and gas-producing state. In fact, most other states with resource-rich shale formations – Pennsylvania (which assesses an impact fee on gas based on price and well production decline similar to a severance tax), West Virginia, Texas, and North Dakota – all have higher severance taxes than those proposed in this plan.

In addition to maintaining Ohio's competitive edge among other resource-rich states, the Kasich plan:

- Eliminates severance taxes for small-volume natural gas producers (less than 10 MCF per day). This means that almost all of the state's small, conventional natural gas producers (90 percent of more than 44,000 wells) will no longer pay any severance tax on natural gas.
- Revenue generated through this severance tax modernization will allow virtually all small businesses in Ohio to benefit from the overall tax plan's 50 percent cut in their taxes.

- Severance tax rates for natural gas produced by new horizontal wells will be changed from the current 3 cents per MCF to 1.0 percent of the average price of product produced each quarter.
- To help new horizontal-well drillers during the initial start-up year, they will pay a 1.0 percent severance tax rate on gas and a 1.5 percent special first-year rate on oil and natural gas liquids.
- Severance tax rates for crude oil from small producers will remain unchanged at the current 20 cents/barrel. Conventional gas severance tax will be 1.0 percent of price and is capped at 3 cents/MCF.
- Ohio currently does not apply a separate severance tax on natural gas liquids produced by small, vertical wells. That won't change. These hydrocarbons are valuable, highly-sought raw materials for plastics and other advanced polymers.
- Ohio's current severance tax rates are among the lowest in the country. Under this plan, Ohio will retain that competitive edge.

NEW SEVERANCE TAX RATES ARE FAIR AND COMPETITIVE		
Product	**Conventional Wells**	**High-Volume Horizontal Wells ("Shale Wells")**
Crude Oil	20 cents per barrel (unchanged)	1.5% for first year, 4% following years
Natural Gas	No tax for wells less than10MCF/day, 1% for wells more than10MCF/day, capped at 3 cents/MCF	1%
Natural Gas Liquids	Currently no separate tax is applied (unchanged)	1.5% for first year, 4% in following years

SEVERANCE TAX RATES IN OTHER OIL AND GAS STATES		
State	**Crude Oil**	**Natural Gas**
Michigan	6.6%	5%
North Dakota	5%/6.5%[3]	11.43 cents/MCF[3]
Texas	4.6%	7.5%[4]
West Virginia	5%	5%
Pennsylvania	n/a	2.2%[5]

[3]North Dakota Tax Department website (1/29/13)

[4]Lower rate is applied by Texas to certain high-cost gas wells until well construction costs have been recovered.

[5] Based on estimated first year production of a Marcellus gas well.

BOTTOM LINE: Who should have lower taxes – out-of-state oil companies or Ohio families?

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