



## Over 70% of Marcellus Shale Wells Will be Subject to 3.07% Personal Income Tax – Not the Corporate Net Income Tax

June 29, 2009

The Pennsylvania Legislature is debating whether the state should levy a severance tax on the extraction of natural gas to help reimburse state and local governments for environmental, infrastructure, and societal costs imposed by the industry. Until recently, Pennsylvania has had a modest natural gas extraction industry. The commercial development of the Marcellus Shale, which underlies 55 counties in Pennsylvania, seems poised to make the state a major supplier over the coming decades.

In enacting a severance tax on natural gas, the state would be joining every other state with greater natural gas production than Pennsylvania. These states already levy a severance tax or environmental fee on gas drilling.

One of the central claims of critics regarding the proposed tax is that it is unneeded as drillers here “face the highest corporate tax rate in the nation.” A closer look at the evidence shows that this is not the case for most companies. In fact, the drillers of more than 70% of the wells in the Marcellus Shale will pay the state’s 3.07% Personal Income Tax (PIT) rather than the 9.99% Corporate Net Income Tax (CNIT).<sup>i</sup> The following table lists all companies with permits to operate wells in the Marcellus Shale and highlights the firms that are paying the lower PIT rate.

**TABLE 1. Over 70% of Wells Drilled in Marcellus Shale are Not Subject to Corporate Net Income Tax**

Company Name	Regional Headquarters	Marcellus Shale Wells
AB RESOURCES PA LLC	BRECKSVILLE, OH	6
ALTA OPR CO LLC	HOUSTON, TX	7
AMER OIL & GAS LLC	WAYNESBURG, PA	2
ANADARKO E&P CO LP	THE WOODLANDS, TX	23
ANSCHUTZ EXPLORATION CORP	DENVER, CO	3
ATLAS RESOURCES LLC	CORAOPOLIS, PA	208
BAKER GAS INC	WORTHINGTON, PA	2
BLX INC	KITTANNING, PA	7
CABOT OIL & GAS CORP	CHARLESTON, WV	92
CARRIZO (MARCELLUS) LLC	HOUSTON, TX	1
CARRIZO OIL & GAS INC	HOUSTON, TX	1
CHESAPEAKE APPALACHIA LLC	CHARLESTON, WV	220
CHIEF OIL & GAS LLC	DALLAS, TX	45
CNX GAS CO LLC	BLUEFIELD, WV	46
DL RESOURCES INC	SMICKSBURG, PA	1
DOMINION EXPLORATION & PROD INC	INDIANA, PA	23
DOMINION TRANS INC	CLARKSBURG, WV	1
EAST RESOURCES INC	WARRENDALE, PA	103
EASTERN AMER ENERGY CORP	CHARLESTON, WV	18
ENERVEST OPR LLC	CHARLESTON, WV	1
EOG RESOURCES INC	CANONSBURG, PA	68
EQT PRODUCTION CO	CHARLESTON, WV	27
EXCO NORTH COAST ENERGY INC	AKRON, OH	34
FORTUNA ENERGY INC	HORSEHEADS, NY	64
GUARDIAN EXPLORATION LLC	HUNT, TX	9
INTERSTATE GAS MKT INC	INDIANA, PA	2
J W OPERATING CO	ADDISON, TX	5
M & M ROYALTY LTD	NORTH CANTON, OH	4
MARATHON OIL CO	NASHVILLE, TN	4

**TABLE 1 (CONTINUED).**

Company Name	Regional Headquarters	Marcellus Shale Wells
MDS ENERGY LTD	KITTANNING, PA	4
OPEN FLOW GAS SUPPLY CORP	DU BOIS, PA	4
PA GEN ENERGY CO LLC	WARREN, PA	28
PC EXPLORATION INC	WARRENDALE, PA	24
PETRO DEV CORP	BRIDGEPORT, WV	2
QUAIL ENERGY CORP	MOUNT GILEAD, OH	2
RANGE RESOURCES APPALACHIA LLC	CANONSBURG, PA	238
REX ENERGY OPERATING CORPORATION	STATE COLLEGE, PA	24
RICE DRILLING B LLC	MILTON, MA	3
SAMSON RES CO	TULSA, OK	7
SCHRADER KEVIN E	LAKE COMO, PA	1
SENECA RESOURCES CORP	WILLIAMSVILLE, NY	19
SNEE & EBERLY & PEOPLE NATURAL GAS	UNKNOWN, PA	1
SNYDER BROS INC	KITTANNING, PA	23
SOUTHWESTERN ENERGY PROD CO	FAYETTEVILLE, AR	5
STONE ENERGY CORP	LAFAYETTE, LA	11
TANGLEWOOD EXPL LLC	FORT WORTH, TX	2
TURM OIL INC	BUTLER, PA	32
ULTRA RESOURCES INC	ENGLEWOOD, CO	10
VISTA OPR INC	PITTSBURGH, PA	2
WILLIAM MCINTIRE COAL OIL & GAS	SHELOCTA, PA	5
WILLIAM S BURKLAND	LIGONIER, PA	2
XTO ENERGY INC	INDIANA, PA	28
<b>TOTAL</b>		<b>1,504</b>
<b>Operating Marcellus Shale wells that are not subject to CNIT (shaded companies):</b>		<b>1,062</b>
		<b>70.6%</b>

Operator and Well Number Source. Pennsylvania Department of Environmental Protection.

[http://www.dep.state.pa.us/dep/deputate/minres/oilgas/new\\_forms/marcellus/Reports/MARCELLUS%20Active%20Operators.xls](http://www.dep.state.pa.us/dep/deputate/minres/oilgas/new_forms/marcellus/Reports/MARCELLUS%20Active%20Operators.xls)

Yellow: Operating as individual, LLC, or LP in PA (subject to PIT rather than CNIT)

White: Appear to be filing as a normal corporation (subject to CNIT)

### Methodology

On June 23, the House Environmental Resources and Energy Committee amended and approved House Bill 1489 to exempt low producing wells from the proposed severance tax. This effectively limits taxation to the wells drilled in the Marcellus Shale. The Pennsylvania Department of Environmental Protection (DEP) issues periodic reports summarizing the companies operating and the number of wells drilled in the Marcellus Shale, most recently on June 16. These companies were examined for their operating structure. Initially, the companies including LLC or LP in their corporate name reported to DEP were identified as companies that would be paying PIT in Pennsylvania. For the other companies, publicly available Securities and Exchange Commission filings and corporate reports were examined to determine the operations being conducted in Pennsylvania. If these reports indicated that drilling operations in Pennsylvania were being conducted by a subsidiary listed as an LLC or LP, the company in question was added to the list of those not subject to CNIT. The wells owned by these companies (1,062) were compared to the total number of wells in the Marcellus Shale (1,504) to arrive at the 70.6% figure.

<sup>1</sup> Corporations with a limited number of shareholders operating in Pennsylvania can legally pay the lesser PIT rate by organizing as a limited partnership (LP), limited liability corporation (LLC), or subchapter S corporation. Even if the parent corporation has many shareholders, it can create a subsidiary that qualifies as an LP, LLC, or S corporation. All of the business in a state is then conducted through the subsidiary, which pays the lower PIT rate.