

# Land Owners Could Be Paying Piece of Proposed Severance Tax

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Whether or not the latest natural gas severance tax proposal gets passed into law in Pennsylvania, [House Bill 542](#) contains some interesting language land owners who have signed lease agreements with energy companies need to know that could affect their pocketbooks.

The bill - being tracked by [Barley Snyder](#) attorneys and passed by the Pennsylvania Senate on July 27 - imposes a severance tax on natural gas produced from shale wells in the state. The rate of the severance tax is based on the annual average cost of natural gas produced in the preceding year. The rate ranges from a low of \$0.015 up to \$0.035 per 1000 cubic feet of natural gas sold.

Property owners that have leased their drilling rights to energy companies should review their lease terms to determine their potential responsibility if the tax becomes law. Many leases contain language that provides the parties split such a severance tax at the same rate that royalties are paid, so if a property owner was paid a 15 percent royalty, they would be required to contribute 15 percent of the severance tax due.

There are additional provisions of the bill that don't affect land owners, but will have an impact on the natural gas industry. One aspect calls for a tax at the rate of 57 mills for natural gas sold by natural gas supply or distribution companies to retail gas customers. That equates to 57 cents for every \$100 of natural gas sold or delivered.

The bill also creates a "Natural Gas Optimization Program," which would be used to fund certain projects that promote the use of natural gas. The projects include ones that expand access to natural gas infrastructure expand access to natural gas in residential areas.

The bill is back in the Pennsylvania House of Representatives this week for further discussion before it can reach Gov. Tom Wolf's desk for final approval.

If you have any questions on this or any other lease rights issues, [please contact me](#) or any of the attorneys in the [Barley Snyder Real Estate Practice Group](#).

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