Pennsylvania Resource Manufacturing Tax Credit

Background

In mid-March, Shell Chemical LP announced that it signed a land-option agreement to potentially build a **$4 billion** ethane "cracker" plant in Beaver County, opening the door for the creation of as many as **20,000 new jobs** both directly and indirectly.

Shell's proposed cracker plant would remove ethane and ethane derivatives from natural gas to make a variety of industrial products of many types:

- Pool liners, Window siding, trash bags, sealants, carpet backing, insulation, detergent, pipes, food packaging, bottles, cups, footwear, clothes, diapers, toys, tires, paint, antifreeze, adhesives, coatings, and paper coatings.

The Shell project would be the largest economic development project in southwestern Pennsylvania in more than a decade, and would be a large job and prosperity generator for the region.

- The plant's initial construction is estimated at **$4 billion**, making it the most modern, state-of-the-art facility of its type.

- The plant would produce an estimated one million tons of ethylene in a year, a huge supply of feedstock for plastics and related industries, giving them all the more incentive to locate in western Pennsylvania.

- The construction alone is expected to immediately **employ 10,000** people, generating an immediate impact in terms of income and sales tax revenues as well as general economic prosperity in Beaver County and southwestern Pennsylvania region. *[Pittsburgh Tribune-Review, March 18, 2012]*

- **Spinoff jobs** could number as many as **10,000.**

- The plant itself will directly employ **400 full-time workers** at industry level wages.

PA became the preferred site for construction of this plant, in large measure by offering tax incentives and drawing on the extensive skilled workforce, cultural amenities and affordable cost of living.

  - While Pennsylvania is the preferred site, West Virginia and Ohio could still make a play for the project
  - There is a very real possibility that a plant would not be built in Appalachia and our natural gas containing ethane would be piped to the Gulf Coast where 26 of the nation's 29 crackers are located.

The new plant is expected to spur billions of dollars more in investment and thousands of related jobs:

- The American Chemistry Council, in a report last year, estimated the new petrochemical complex could attract up to **$16 billion in private investment** through related companies building around it. *[Associated Press, March 16, 2012]*

- Spinoff jobs could number **as high as 10,000** as plastics, chemical and paint companies – to name a few – spring up in the vicinity of the plant to avail themselves of inexpensive and plentiful raw materials.

- Shell's commitment to the plant would **guarantee continued heavy drilling activity in the state's Marcellus gas fields** and opens the door to construction of more pipelines and processing plants. Dominion, the energy giant, has said it will make future expansion decisions based on the cracker information. A Dominion spokesman said the firm has **two more processing plants** in mind based on the cracker decision. *[Pittsburgh Business Times, March 16, 2012]*

- The area where the plant would be built in is a proposed **Keystone Opportunity Zone**, freeing the company of certain property and income taxes for a period of time pending approval by the county, school district and local municipalities. This has been done in numerous other plant relocations throughout the state and is designed to create jobs in areas hardest hit by recession and plant closures. The site of the proposed Shell plant is the former Horsehead Corp. zinc plant, which is slated for closure, resulting in nearly **700 lost jobs.**

- **West Virginia passed similar tax breaks** in an effort to lure the plant to their state.

What is the tax credit and who is it for?

The Pennsylvania Resource Manufacturing Tax Credit will grant **a 5-cent-per-gallon tax credit** for manufacturers who process natural gas into ethane. This credit would assure that all facets of the petrochemical supply chain remain in PA. Tax Credits would be limited to 20% of the taxpayer's qualified PA tax liabilities incurred in the taxable year for which the credit was approved.

In order to qualify for the tax credit, **a manufacturer will be required to make, at a minimum, an investment of $1 Billion dollars in the construction of a plant, and must show that at least 2,500 jobs were created during the construction phase** of a plant.

It is important to note that **these tax credits are a credit against tax liabilities, not a hand-out of taxpayer dollars.** In fact, when the cracker is up and running, and the associated spin-off industries are in operation, tax revenues will actually increase.

Tax credits would be nonrefundable credits against the tax liabilities of Pennsylvania corporations and the personal income tax liabilities of partners, members and shareholders of pass-through entities such as partnerships, LLC's, and S corporations.

- Tax credits may be assigned or purchased from Shell or another company that would build a cracker to:

    - **Upstream companies that are extracting natural gas containing ethane and selling it to a manufacturer who processes the natural gas into ethane.**

    - **Companies in related industries such as plastics manufacturers and chemical processors operating a plant in Pennsylvania.**

    - **Buyers of tax credits assigned or purchased would offset up to 50% of its PA Tax liability.**

    - While the credit would apply to Shell, it would also be provided to **any other company building such a processing plant**, which would help the state build a **new and diverse industrial base.**

The goal of the tax credit is to establish a robust petrochemical industry in Pennsylvania rather than passively allowing ethane to be pipelined to other areas of the country that already have well-established petrochemical industries. This will ensure a critical supply of feedstock ethane to any cracker facility located in Pennsylvania.