DEPARTMENT OF TAXATION
2001 Fiscal Impact Statement

1. Patron: Stump

2. Bill Number: HB 2221

House of Origin:
X **Introduced**
_____ **Substitute**
_____ **Engrossed**

Second House:
_____ **In Committee**
_____ **Substitute**
_____ **Enrolled**

3. Committee: House Finance

4. Title: Gas Severance Tax

5. Summary/Purpose:

This bill would authorize any county or city to levy an additional license tax on every person engaged in the business of severing gases from the earth. The rate of the additional tax would not exceed two percent of the gross receipts from the sale of gases severed within the county or city. Revenues from this tax would be used exclusively for constructing new and improved water systems and lines in areas with natural water supplies that are insufficient from the standpoint of quality or quantity.

Current law allows counties and cities to levy license taxes on businesses severing gases at a rate not to exceed three percent. This bill would authorize localities to increase that rate to a maximum of five percent.

The effective date of this bill is not specified.

6. Fiscal Impact Estimates are: Unknown (See line 8).

7. Budget amendment necessary: No.

8. Fiscal implications:

This bill would have no impact on state revenues. The revenue impact of this bill on localities is unknown because localities may or may not enact the additional gas severance taxes this bill authorizes.

This bill would have a positive impact on local revenues for those localities that elect to impose the additional tax authorized by this bill. Local revenues would depend on the rate of tax imposed and the amount and value of gas produced. The production and price of natural gas varies from day to day and from locality to locality.

If all localities currently levying a gas severance tax were to enact the additional 2% tax authorized by this bill, local revenues would increase by $4.7 million annually, based on historic data provided by the localities which now levy the tax.

Currently there are unresolved issues involving the valuation of natural gas that is used or sold for use outside of the locality in which it is severed. Resolution of these issues may affect gross receipts and, thus, the amount of severance taxes collected from the existing and additional gas severance taxes.

9. Specific agency or political subdivisions affected:

All localities in which businesses sever gases

10. Technical amendment necessary: No.

11. Other comments:

The additional 2% tax authorized by this bill, when combined with the 1% gas severance tax authorized under *Code of Virginia* § 58.1-3712, the 1% Local Coal and Gas Road Improvement and Virginia Coalfield Economic Development Authority tax authorized in *Code of Virginia* § 58.1-3713, and the additional 1% gas severance tax authorized under *Code of Virginia* § 58.1-3713.4, increases the maximum allowable local tax rate on gases to 5%.

Only seven counties currently receive revenues from the gas severance taxes – Buchanan, Dickenson, Lee, Russell, Scott, Tazewell, and Wise.

House Bill 2526 would authorize a county or city to impose an additional 1% license tax on every person engaging in the business of severing gases from the earth.

cc: Secretary of Finance

Date: 1/13/01/JEM

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