

# DEPARTMENT OF TAXATION

## 2009 Fiscal Impact Statement

1. **Patron** Phillip P. Puckett

2. **Bill Number** SB 1507

3. **Committee** House Finance

**House of Origin:**

☐ Introduced

☐ Substitute

☐ Engrossed

4. **Title** Business, Professional, Occupational, and  
License Tax; Taxation of Gases; Buchanan  
County

**Second House:**

☒ In Committee

☐ Substitute

☐ Enrolled

### 5. **Summary/Purpose:**

This bill would authorize the Commissioner of the Revenue of Buchanan County to reassess gas wells and related improvements for purposes of imposing the Real Property Tax on an annual basis, provided that gas wells and related improvements are reassessed in the general reassessment for the locality. This bill would also provide that Buchanan County and a taxpayer may enter into a settlement agreement that would provide a methodology for determining the fair market value of such property. In addition, this bill would clarify that when determining the fair market value of gases severed from Buchanan County for purposes of the license tax imposed upon individuals engaging in the business of severing gases from the earth, such individuals are prohibited from taking any deductions, unless the deductions are permitted in a settlement agreement entered into with Buchanan County.

Under current law, local commissioners of the revenue are required, as soon as practicable after January 1 of each year, to separately assess all mineral lands and the improvements thereon, and to enter these assessments into the county land books for purposes of determining the Real Property Tax levied upon each parcel of land. Other real estate in Buchanan County is subject to reassessment every six years. Current law also authorizes localities to levy a license tax on every person engaging in the business of severing coal or gases from the earth at a maximum rate of one percent of the gross receipts from the sale of coal or gases severed. Currently, gross receipts constitute the fair market value measured at the time the gases are utilized or sold for utilization in the locality or at the time they are placed in transit for shipment from the locality, without any deductions.

The effective date of this bill is not specified.

6. **Fiscal Impact Estimates are:** Not available. (See Line 8.)

7. **Budget amendment necessary:** No.

## **8. Fiscal implications:**

This bill would have no impact on state revenues. As this bill would allow certain deductions in calculating gross receipts if such deductions are permitted in a settlement agreement, this bill would decrease taxable gross receipts for people engaged in the business of severing gases from the earth. This would result in a local revenue decrease, the magnitude of which is unknown.

## **9. Specific agency or political subdivisions affected:**

Buchanan County

## **10. Technical amendment necessary: No.**

## **11. Other comments:**

### Real Property Tax

Localities are authorized to levy taxes on real property, and must periodically conduct assessments of property in order to determine the rate of real property tax that will be imposed.

Buchanan County currently conducts its general reassessment of real estate every six years. Localities must separately assess at the fair market value all mineral lands on an annual basis and enter those assessments separately from assessments of other lands and improvements. Mineral lands are taxed at the same rate as other real estate in the locality.

Alternatively, localities may elect to impose a severance tax on all coal and gases extracted from the land located within that locality under *Va. Code* § 58.1-3286 at a maximum rate of one percent of the gross receipts of the coal or gases extracted.

### License Tax on Individuals Engaged in Severing Coal and Gases

Governing bodies of any county or city may levy a Business, Professional, and Occupational License ("BPOL") Tax severance tax on persons engaged in the business of severing gas or coal from the earth. The amount of the tax levied may not exceed one percent of the gross receipts from the sale of gas or coal severed within such county or city. A locality that elects to impose this license tax may not impose the severance tax authorized by *Va. Code* § 58.1-3286. Individuals engaged in production and operation of severing gases from the earth are not permitted to take any deductions, including depreciation, compression, marketing fees, overhead, maintenance, transportation fees, and personal property taxes in calculating gross receipts. According to Virginia Local Tax Rates, 2008, published by the Weldon Cooper Center for Public Service, currently, the following city and counties benefit from this tax: the City of Norton and the Counties of Buchanan, Dickenson, Lee, Russell, Scott, Tazewell, and Wise.

## Proposal

This bill would authorize the Commissioner of the Revenue of Buchanan County to reassess gas wells and related improvements for purposes of imposing the Real Property Tax on an annual basis, provided that gas wells and related improvements are reassessed in the general reassessment for the locality. This bill would also provide that Buchanan County and a taxpayer may enter into a settlement agreement that would provide a methodology for determining the fair market value of such property. In addition, this bill would clarify that when determining the fair market value of gases severed from Buchanan County for purposes of the license tax imposed upon individuals engaging in the business of severing gases from the earth, such individuals are prohibited from taking any deductions, unless the deductions are permitted in a settlement agreement entered into with Buchanan County.

This bill contains an enactment clause that states that it does not constitute a change in existing law except in connection with severing gases from the earth in connection with coal mining

The effective date of this bill is not specified.

## Similar Legislation

**Senate Bill 1337** would provide that revenues from the local Business, Professional, and Occupational License ("BPOL") Tax coal and gas road improvement tax that are designated for water and sewer systems must be directly distributed to the local industrial development authority, local economic development authority, or the local public service authority.

**House Bill 2186** would extend the sunset date for the local Business, Professional, and Occupational License ("BPOL") Tax coal and gas road improvement tax from December 31, 2012 to December 31, 2014.

cc : Secretary of Finance

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