DEPARTMENT OF TAXATION
2013 Fiscal Impact Statement

1. Patron James W. Morefield

2. Bill Number HB 2110

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

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

3. Committee House Finance

4. Title Local Coal Severance Taxes

5. Summary/Purpose:

This bill would allow those localities that comprise the Virginia Coalfield Economic Development Authority to use the portion of the revenue from the local coal and gas road improvement tax currently dedicated to the construction, repair, or enhancement of water and sewer systems and lines also to use that portion of the revenue for the construction, repair, or enhancement of natural gas systems and lines. The Virginia Coalfield Economic Development Authority is comprised of the City of Norton, and the Counties of Buchanan, Dickenson, Lee, Russell, Scott, Tazewell, and Wise.

The localities that comprise the Virginia Coalfield Economic Development Authority may impose a local coal and gas road improvement tax that is capped at a rate of one percent of the gross receipts from the sale of coal and gases severed within the locality. Under current law, the revenues generated from this tax are allocated as follows: 75% are paid into a special fund in each locality called the Coal and Gas Road Improvement Fund, where at least 50% are spent on road improvements and 25% may be spent on new water and sewer systems within the locality; and the remaining 25% of the revenue is paid to the Virginia Coalfield Economic Development Fund. The authority for the local coal and gas road improvement tax will expire on December 31, 2014.

The effective date of this bill is not specified.

6. Budget amendment necessary: No.

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

8. Fiscal implications:

This bill would have no impact on state or local revenues.

The bill allows the localities comprising the Virginia Coalfield Economic Development Authority to divert revenue originally dedicated to the construction, enhancement, and repair of water and sewer systems to the construction, enhancement, and repair of natural gas systems.

9. Specific agency or political subdivisions affected:

Localities comprising the Virginia Coalfield Economic Development Authority: City of Norton, and the Counties of Buchanan, Dickenson, Lee, Russell, Scott, Tazewell, and Wise

10. Technical amendment necessary: No.

11. Other comments:

<u>Local Severance Taxes</u>

Under current law, localities are generally prohibited from imposing a license tax or fee on any person engaged in the business of severing minerals from the earth for the privilege of selling the severed minerals at wholesale at the place of severance.

However, localities are authorized to levy a severance tax that is capped at one percent of the gross receipts from the sale of coal or gases severed within such county. The gross receipts are the fair market value measured at the time the coal or gases are utilized or sold for utilization in the locality or at the time they are placed in transit for shipment from the locality. In calculating the fair market value, no person engaging in the production and operation of severing gases from the earth in connection with coal mining is permitted to take any deductions, including but not limited to, depreciation, compression, marketing fees, overhead, maintenance, transportation fees and personal property taxes. The City of Norton and the Counties of Buchanan, Dickenson, Lee, Russell, Scott, Tazewell, and Wise all impose the severance tax at a rate of one percent.

Those localities that comprise the Virginia Coalfield Economic Development Authority may also impose a local coal and gas road improvement tax that is capped at a rate of one percent of the gross receipts from the sale of coal and gases severed within the locality. The revenues generated from this tax are allocated as follows: 75% are paid into a special fund in each locality called the Coal and Gas Road Improvement Fund, where at least 50% are spent on road improvements and 25% may be spent on new water and sewer systems within the locality; and the remaining 25% of the revenue is paid to the Virginia Coalfield Economic Development Fund. The Virginia Coalfield Economic Development Authority is comprised of the City of Norton, and the Counties of Buchanan, Dickenson, Lee, Russell, Scott, Tazewell, and Wise.

In addition, a county or city may allocate 25% of the revenue in the Coal and Gas Road Improvement Fund to the construction, repair, or enhancement of water and sewer systems; however, if this option is initiated by the county or city, it must develop and adopt by resolution an annual plan for such projects and their funding. 2004 House Bill 1426 (Chapter 871, 2004 Acts of Assembly) provided that any revenues dedicated for water and sewer systems would be distributed directly to the local public service authority.

A county or city may also levy an additional license tax on every person engaging in the business of severing gases from the earth at a rate not to exceed one percent of the gross receipts from the sale of gases severed within such locality. The revenue received from the tax is paid into the general fund, except for the localities that comprise the Virginia Coalfield Economic Development Authority. In those localities, 50% of the revenues are paid to the Virginia Coalfield Economic Development Fund.

Proposal

This bill would allow those localities that comprise the Virginia Coalfield Economic Development Authority to use the portion of the revenue from the local coal and gas road improvement tax currently dedicated to the construction, repair, or enhancement of water and sewer systems and lines also to use that portion of the revenue for the construction, repair, or enhancement of natural gas systems and lines. The Virginia Coalfield Economic Development Authority is comprised of the City of Norton, and the Counties of Buchanan, Dickenson, Lee, Russell, Scott, Tazewell, and Wise.

The effective date of this bill is not specified.

Similar Legislation

House Bill 1771 and **House Bill 1846** would impose the local gas severance tax, the local gas road improvement tax, and the additional local gas severance tax on the fair market value of natural gas severed from the earth, measured at the time it is produced at the wellhead. Fair market value would be defined as the gross receipts from the first sale by the taxpayer or its related parties to a nonrelated party, less all reasonable, actual costs of moving and processing the gas from the wellhead to the point of sale.

House Bill 2100 and **Senate Bill 918** would reduce the rates of the local coal severance tax and the local coal road improvement tax on coal severed from the earth by small mines from one percent to 0.75 percent. The bill would also provide that gross receipts for the purpose of the local coal severance taxes is defined as the purchase price received by a producer for the sale of coal to an unaffiliated purchaser in an arm’s length transaction.

cc : Secretary of Finance

Date: 1/14/2013 AM
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