

DEPARTMENT OF TAXATION

2013 Fiscal Impact Statement

1. **Patron** John C. Watkins

3. **Committee** Senate Finance

4. **Title** State Severance Tax; Uranium

2. **Bill Number** SB 919

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would impose a state license tax on every person engaged in the business of severing uranium from the earth at a rate of three percent of the gross receipts from the sale of the uranium. Gross receipts would be defined as the fair market value measured at the time the uranium is utilized or sold for utilization in the Commonwealth or at the time the uranium is placed in transit from the Commonwealth. The tax would be administered by the Department in the same manner as the income tax. Fifty percent of the revenues would be dedicated to the General Fund and 50 percent of the revenues would be dedicated to the subfund within the newly created Economic Development and Environmental Trust Fund established for the county or city from which the uranium was severed.

Under current law, no permit application for uranium mining may be accepted by any agency of the Commonwealth until a program for permitting uranium mining is established by statute.

The effective date of this bill is not specified.

6. **Budget amendment necessary:** Yes.

ITEM(S): Page 1, Revenue Estimates

Economic Development and Environmental Trust Fund (New Fund)

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

8. **Fiscal implications:**

Administrative Costs

The Department considers implementation of this bill as routine, and does not require additional funding.

Revenue Impact

This bill would result in an unknown increase in state and local revenues. The price of uranium is very volatile and difficult to predict. Currently, the spot price of uranium is approximately \$43.50 per pound.

According to “The Socioeconomic Impact of Uranium Mining and Milling in the Chatham Labor Shed, Virginia,” produced by Chmura Economics & Analytics (November 29, 2011), the life of the mine in Coles Hill (currently, the only uranium mine in Virginia) would be about 35 years. The study estimates that the average annual production during the first 21 years of mining would be about 1.76 million pounds using a process known as primary stoping. After that point, primary stoping could not be used. A process known as pillar extraction would be used in years 22-35 to produce about 0.66 million pounds of uranium annually. Additionally, a variety of scenarios are presented using a range of prices from \$45 to \$75 per pound. Lyntek, Inc. and BRS Engineering also prepared a “Preliminary Economic Assessment Update” (September 6, 2012), that assumes 2 million pounds of yellowcake production on an annual basis and presents scenarios using a price range of \$55 to 85 per pound. Based on estimates provided by the studies, if Virginia allowed uranium mining, the annual revenues from the new tax imposed by this bill potentially would range from \$2 million to \$4.5 million.

9. Specific agency or political subdivisions affected:

Department of Taxation
County of Pittsylvania

10. Technical amendment necessary: No

11. Other comments:

Background

Under current law, no permit application for uranium mining may be accepted by any agency of the Commonwealth until a program for permitting uranium mining is established by statute.

Local Severance Taxes

Under current law, 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. According to *Tax Rates 2011*, Virginia’s Cities, Counties, and Selected Towns, by Weldon Cooper Center for Public Policy, the City of Norton and the Counties

of Buchanan, Dickenson, Lee, Russell, Scott, Tazewell, and Wise report imposing 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.

Legislation in the 2012 General Assembly Session required the Tax Commissioner to convene a working group consisting of representatives of the localities levying severance taxes and the coal and gas companies subject to the tax. The working group reviewed the methodology for determining gross receipts subject to the severance taxes and such other issues related to the imposition of severance taxes. One issue of controversy included the allowable deductions from fair market value when determining gross receipts.

Proposal

This bill would impose a license tax on every person engaged in the business of severing uranium from the earth at a rate of three percent of the gross receipts from the sale of the uranium. Gross receipts would be defined as the fair market value measured at the time the uranium is utilized or sold for utilization in the Commonwealth or at the time the uranium is placed in transit from the Commonwealth. The tax would be administered by the Department in the same manner as the income tax. Fifty percent of the revenues would be dedicated to the General Fund and 50 percent of the revenues would be dedicated to the subfund within the newly created Economic Development and Environmental Trust Fund established for the county or city from which the uranium was severed.

The effective date of this bill is not specified.

Similar Legislation

House Bill 1804 is similar to this bill, except that 50% of the tax revenues would be dedicated to the General Fund and 50% of the revenues would be distributed to the locality from which the uranium was severed.

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 on coal and the local coal road improvement tax 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: 1/15/2013 AM
DLAS File Name: SB919F161