DEPARTMENT OF TAXATION
2019 Fiscal Impact Statement

1. Patron Jeffrey L. Campbell

2. Bill Number HB 1948

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

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

3. Committee House Finance

4. Title Local Salt Severance License Taxes

5. Summary/Purpose:

This bill would authorize any locality to levy, in lieu of a tax on gross receipts from mineral lands, a license tax on any person engaging in the business of severing salt from the earth at a rate of up to one percent of the fair market value of the salt severed from within such locality. The bill would require that all salt severance license taxes levied by a locality be paid to the locality in which the salt was severed from the earth. The bill would define "gross receipts" to mean the fair market value of salt measured at the time it is (i) utilized or sold for utilization in the county or city within which it is severed or (ii) placed in transit for shipment. The bill would disallow deductions from gross receipts for depreciation, marketing fees, overhead, maintenance, transportation fees, and personal property taxes. The bill would also exempt the salt severance tax from the uniform ordinance provisions regarding licensure and gross receipts.

If enacted during the 2019 Regular Session of the General Assembly, this bill would become effective July 1, 2019.

6. Budget amendment necessary: No.

7. No Fiscal Impact (See Line 8.)

8. Fiscal implications:

<u>Administrative Cost</u>

This bill would have no impact on state administrative costs. This bill may have an impact on administrative costs in localities that choose to levy a tax as a result of this bill.

<u>Revenue Impact</u>

This bill could have an unknown positive impact on localities that choose to levy the tax authorized by this bill. This bill would have no impact on state revenues.

9. Specific agency or political subdivisions affected:

Localities that choose to levy the tax.

10. Technical amendment necessary: No.

11. Other comments:

Local Severance Taxes

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. According to *Virginia Local Tax Rates 2017*, the city of Norton and the Counties of Buchanan, Dickenson, Russell, Scott, and Tazewell report imposing the severance tax at a rate of one percent. Lee County currently imposes the tax at two percent while Tazewell and Wise Counties maintain a 1.5 percent levy.

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.

Uniform Ordinance provisions

Code of Virginia § 58.1-3703.1 provides uniform provisions that apply to all ordinances levying a tax, including licensure ordinances. The provisions contain rules regarding:

- Procedural and threshold requirements for licensure,
- Due dates and penalties,
- Situs for the calculation of gross receipts where applicable,
- Statute of limitations and applications for extension,
- The administrative appeals process as it would pertain to appeals to either the local revenue official or the Tax Commissioner,
- Judicial review of decisions by the Tax Commissioner,
- The process to request a ruling from the local assessing official,

- Record-keeping and audits, and
- Proration relating to when a locality changes its license year.

Proposal

This bill would authorize any locality to levy, in lieu of a tax on gross receipts from mineral lands, a license tax on any person engaging in the business of severing salt from the earth at a rate of up to one percent of the fair market value of the salt severed from within such locality. The bill would require that all salt severance license taxes levied by a locality be paid to the locality in which the salt was severed from the earth. The bill would define "gross receipts" to mean the fair market value of salt measured at the time it is (i) utilized or sold for utilization in the county or city within which it is severed or (ii) placed in transit for shipment. The bill would disallow deductions from gross receipts for depreciation, marketing fees, overhead, maintenance, transportation fees, and personal property taxes. The bill would also exempt the salt severance license tax from the uniform ordinance provisions regarding licensure procedure and gross receipts but would not affect the application of the provisions regarding due dates, penalties, statute of limitations, applications for time extensions, administrative appeals, judicial review, ruling requests, record-keeping, audits, or provisions relating to changing of license year.

If enacted during the 2019 Regular Session of the General Assembly, this bill would become effective July 1, 2019.

Similar Legislation

Senate Bill 1165 would extend the sunset for the local gas road improvement tax from January 1, 2020 to January 1, 2022.

cc : Secretary of Finance

Date: 1/9/2019 VB
DLAS File Name: HB1948F161