

DEPARTMENT OF TAXATION

2009 Fiscal Impact Statement

1. **Patron** Phillip P. Puckett

3. **Committee** Senate Finance

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

2. **Bill Number** SB 1507

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

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 the gas wells and related improvements are reassessed in the general reassessment for the locality. In addition, for purposes of determining the license tax imposed upon individuals engaging in the business of severing gases from the earth, this bill would define gross receipts for gases severed in Buchanan County that are sold on or after July 1, 2009, as the actual purchase price paid for the gases at the time of the first arms-length sale of such gases, minus a deduction of \$0.40 for each 1,000 cubic feet (MCF) of gases included in the arms-length sale. In computing gross receipts for gases, no other deduction would be permitted.

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 a deduction from the gross receipts based on the amount of gas purchased, 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, subject to the approval of the Board of Supervisors, to reassess gas wells and related improvements annually, provided that the gas wells and related improvements are reassessed in the general reassessment for the locality, for purposes of determining the Real Property Tax to be levied.

This bill would modify the calculation of fair market value for purposes of determining the rate of license tax to be levied on individuals engaged in the business of severing coal or gases from the earth in Buchanan County. For gases that are severed in Buchanan County and sold after July 1, 2009, this bill would allow a deduction of \$0.40 per 1000 cubic feet of gases from the actual purchase price paid for such gases at the time of the first arms-length sale of such gases in order to calculate gross receipts. No other deduction for expenses would be permitted under the provisions of this bill. This prohibition would be extended to gases severed in Buchanan County 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 make the local Business, Professional, and Occupational License ("BPOL") Tax coal and gas road improvement tax permanent.

cc : Secretary of Finance

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