DEPARTMENT OF TAXATION
2014 Fiscal Impact Statement

1. Patron Phillip P. Puckett

2. Bill Number SB 338
House of Origin:
_____ **Introduced**
_____ **Substitute**
_____ **Engrossed**

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

3. Committee House Finance

4. Title Local Gas Severance Taxes; Agreements

5. Summary/Purpose:

This bill would authorize Commissioners of the Revenue to enter into agreements with taxpayers pertaining to the fair market value of mineral lands for purposes of the real property tax, including where the locality has elected to impose a severance tax on all coal and gases extracted from the land. Additionally, the bill would authorize Commissioners of the Revenue to enter into agreements with taxpayers pertaining to the fair market value of gases subject for purposes of the local gas severance tax. All agreements entered into on or after January 1, 2013, but prior to July 1, 2014, would be deemed to be bona fide and would be valid and enforceable.

This bill would be declarative of existing law.

6. Budget amendment necessary: No.

7. No Fiscal Impact. (See Line 8.)

8. Fiscal implications:

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

9. Specific agency or political subdivisions affected:

Localities imposing gas severance taxes

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. Localities imposing the BPOL severance tax on coal or gases may not impose this tax relating to gross receipts.

Severance Tax

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 licenses taxes on businesses severing coal or gases. The tax 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.

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. 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 authorize Commissioners of the Revenue to enter into agreements with taxpayers pertaining to the fair market value of mineral lands for purposes of the real property tax, including where the locality has elected to impose a severance tax on all coal and gases extracted from the land. Additionally, the bill would authorize Commissioners of the Revenue to enter into agreements with taxpayers pertaining to the fair market value of gases subject for purposes of the local gas severance tax. All agreements entered into on or after January 1, 2013, but prior to July 1, 2014, would be deemed to be bona fide and would be valid and enforceable.

This bill would be declarative of existing law.

Similar Legislation

House Bill 1028 and **Senate Bill 552** would extend the sunset date for the local gas road improvement and Virginia Coalfield Economic Development Authority tax.

cc : Secretary of Finance

Date: 02/12/2014 AM
DLAS File Name: SB338FE161