

SEVERANCE TAXES

Tax Data, Fiscal Years 2015 – 2018

Severance taxes are taxes generally imposed on the privilege of mining minerals such as coal, oil, natural gas, limestone, and sandstone among others. Most taxes either apply to the gross receipts related to mining activity or to units of mining production.

West Virginia severance taxes on mining date back to a gross sales tax first imposed at a rate of 0.4% as of July 1, 1921. The name of the tax changed to Business and Occupation Tax in 1925 and to Severance Tax in 1987. The State currently imposes the following Severance Tax rates on coal, oil, natural gas, and other extraction activity:

- **5.0%** on gross receipts at the well-head attributable to the production of oil and natural gas;
- **5.0%** gross receipts tax on the extraction of sand, gravel, limestone, sandstone, and any other mineral extracted with the exception of coal, waste coal and timber;
- **4.65%** State Severance Tax on the value of coal production and coal processing along with an additional **0.35%** local coal severance taxes. Coal mined from qualified new underground thin-seam mines first placed in service on or after April 11, 1997 is subject to a lower state severance tax rate of **0.65%** for seams with average thickness of less than 37" and **1.65%** for seams with average thickness between 37" and 45";
- **2.5%** State Severance Tax on the reclamation of coal from coal waste ponds and coal gob piles;
- **1.5%** on gross receipts of timber extraction beginning July 1, 2016 and ending June 30, 2019. Prior to 2007, the tax on timber extraction was imposed at a rate of 3.22% on gross receipts at the point of extraction. The tax rate was subsequently reduced to 1.22% as of January 1, 2007 and to 0% as of January 1, 2010.

Ten percent of the net proceeds of Severance Tax collections from oil and natural gas production are dedicated for local government use. Under current law, 100% of the proceeds from the regular Severance Tax on natural gas production from coal-bed methane wells and 100% of the proceeds from the regular Severance Tax on reclamation of waste coal are dedicated to local governments.

In addition to the local 0.35% Coal Severance Tax, the State also began sharing a portion of State Coal Severance Tax collections with producing counties in Fiscal Year 2013. The share increased from 1.0% in Fiscal Year 2013 to 2.0%, 3.0%, 4.0%, and 5.0% in Fiscal Year 2014, Fiscal Year 2015, Fiscal Year 2016, and Fiscal Year 2017, respectively. The 5% share remains in effect in Fiscal Year 2018 and for each year thereafter.

The Tax Department annually receives \$35,000 in regular Coal Severance Tax receipts and \$35,000 in regular Oil and Natural Gas Severance Tax receipts to help defray the costs associated with the administration of the various local government Severance Tax distribution programs. In addition, beginning in Fiscal Year 2018, the Tax Department receives an administrative fee of 1.0% to cover its costs of administering the local coal-bed methane tax, the local waste coal Severance Tax, and the 5.0% coal sharing Severance Tax allocation to producing counties. These receipts are not reflected in the net severance tax collection table.

Temporary additional severance taxes on coal, natural gas, and timber went into effect on December 1, 2005. These additional privilege taxes included a 56 cents per ton tax on coal production, a 4.7 cents per thousand cubic foot tax on natural gas production, and a 2.78% gross receipts tax on timber extraction. Proceeds from these temporary taxes were dedicated to the Workers' Compensation Debt Reduction Fund (Old Fund) to aid in the retirement of old debts associated with the state-run workers' compensation system that was operational prior to the privatization of such system in 2006. These additional temporary taxes were originally scheduled to expire at the beginning of the month following a day when an independent certified actuary determined that the unfunded liability of the Old Fund "has been paid or provided for in its entirety." However, legislation enacted in early 2016 terminated these taxes effective July 1, 2016 and redirected revenues from these taxes collected between March 1, 2016 and June 30, 2016 to the State's General Revenue Fund.

The enclosed tables show fiscal year Severance Tax collection data by type of natural resource, type of tax, and use of funds. The regular State Severance Tax is dedicated toward funding the State's Infrastructure Bond Fund (varies each year according to debt service needs from a high of \$23 million to amounts less than \$19.4 million), Division of Forestry (regular Timber Severance Tax only), and the State General Revenue Fund. Other than the temporary diversion to the General Revenue Fund between March 1, 2016 and June 30, 2016, the special Workers' Compensation severance taxes are fully dedicated to the Old Fund. Local government distributions include the Local Coal Severance Tax, the 10.0% share of the State Oil and Natural Gas Severance Tax, and 100% of the proceeds of the regular State Severance Tax associated with natural gas production from coal-bed methane wells. More detailed information concerning amounts of severance tax paid to each local government by distribution period is available on the West Virginia State Treasurer's web site at the following link: <http://www.wvtreasury.com/Banking-Services/Revenue-Distributions>.

Severance Tax Summary – Fiscal Year 2018

Updated 8/27/18 (Preliminary **)

	Regular State Severance Tax *	Workers' Comp Debt Fund ***	Local Government Tax Distribution	Total Severance Tax
Coal	\$ 218,668,347	\$ -	\$ 31,179,801	\$ 249,848,148
Natural Gas	111,072,541	-	10,115,487	121,188,028
Oil	16,391,598	-	1,265,066	17,656,663
Sand, Gravel	160,705	-	-	160,705
Limestone, Sandstone	1,099,528	-	-	1,099,528
Timber	1,510,690	-	-	1,510,690
Other	17,892,715	-	-	17,892,715
Unclassified	5,396	-	-	5,396
Total	\$ 366,801,521	\$ 334,245	\$ 42,560,353	\$ 409,696,119

* First \$19.377 million collected is dedicated to the State Infrastructure Bond Fund.

** Preliminary results as reconciled with OASIS reports. Subject to change or revision.

*** All collections for expired tax are aggregated in a single total.

Severance Tax Summary – Fiscal Year 2017

Updated 8/27/18

	Regular State Severance Tax *	Workers' Comp Debt Fund	Local Government Tax Distribution	Total Severance Tax
Coal	\$ 208,793,864	\$ 5,343,040	\$ 25,653,239	\$ 239,790,143
Natural Gas	101,639,602	6,862,862	9,950,820	118,453,284
Oil	13,830,698	-	768,049	14,598,747
Sand, Gravel	1,580,796	-	-	1,580,796
Limestone, Sandstone	936,872	-	-	936,872
Timber	1,336,937	513,500	-	1,850,437
Other	16,275,248	28,841	-	16,304,089
Unclassified	29,308	7,264	-	36,571
Total	\$ 344,423,326	\$ 12,755,506	\$ 36,372,108	\$ 393,550,940

* First \$22.05 million collected is dedicated to the State Infrastructure Bond Fund.

Severance Tax Summary – Fiscal Year 2016

Updated 8/17/16

	Regular State Severance Tax *	Workers' Comp Debt Fund	Local Government Tax Distribution	Total Severance Tax
Coal	\$ 190,902,362	\$ 46,615,726	\$ 27,820,221	\$ 265,338,309
Natural Gas	47,384,418	62,164,717	15,187,205	124,736,341
Oil	7,553,311	-	2,119,248	9,672,559
Sand, Gravel	1,592,107	-	-	1,592,107
Limestone, Sandstone	1,458,381	-	-	1,458,381
Timber	-	3,152,125	-	3,152,125
Other	11,151,854	-	-	11,151,854
Unclassified	-	24,864	-	24,864
Total	\$ 260,042,432	\$ 111,957,432	\$ 45,126,675	\$ 417,126,539

* First \$22.5 million collected is dedicated to the State Infrastructure Bond Fund.

Severance Tax Summary – Fiscal Year 2015

Updated 8/27/15

	Regular State Severance Tax *	Workers' Comp Debt Fund	Local Government Tax Distribution	Total Severance Tax
Coal	\$ 276,715,111	\$ 64,390,147	\$ 34,453,053	\$ 375,558,311
Natural Gas	123,930,147	57,675,755	12,594,931	194,200,833
Oil	18,863,640	-	2,297,077	21,160,717
Sand, Gravel	223,343	-	-	223,343
Limestone, Sandstone	1,251,469	-	-	1,251,469
Timber	-	3,430,520	-	3,430,520
Other	14,457,674	-	-	14,457,674
Unclassified	1,731,116	207,503	-	1,938,619
Total	\$ 437,172,499	\$ 125,703,925	\$ 49,345,061	\$ 612,221,486

* First \$23 million collected is dedicated to the State Infrastructure Bond Fund.