The Senate Committee on Finance
Budget Bulletin
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HB 3142: Coal Severance Tax Cut

House Bill 3142, passed during the 2019 Legislative Session, reduces the coal severance tax collected by the state. Legislators are often forced make difficult decisions regarding taxation. Taxes are essential for raising revenue to pay for the state's many services. However, all taxes come with a tradeoff. For instance, putting taxes on coal operators can put them at a competitive disadvantage with other states and countries. By reducing these taxes, legislators hope to encourage investment in coal mining in the state and produce more jobs in the state. The hope is this economic growth will offset the revenue lost through the lower tax rate.

What is a Severance Tax?

Severance tax is collected from natural resource producers or those with natural resource royalties. The tax compensates the state for the loss of its nonrenewable resource base. Producers must still pay income taxes on top of what is owed for severance.

HB 3142 Key Facts

Introduced: February 22, 2019

Completed Legislative Action: March 9, 2019

Signed by Governor: March 27, 2019

Estimated Cost: $64,150,000 per year

West Virginia's Severance Tax

West Virginia's severance tax is based on the value, rather than volume, of resources extracted. As laid out in §11-13A of the WV Code, the gross value that is taxed is based on fair market value at the time the coal is sold, minus any federal energy tax. The tax rate on coal before HB 3144 was implemented (on July 1st, 2019) was 5%.

HOW THE SEVERANCE TAX IS DISTRIBUTED

Most of the money collected goes into to the General Revenue collections, to be used to fund state programs. A .35% share of the tax goes into a special account in the Treasurer's Office to be distributed to counties. Of that money, 75% goes to coal-producing counties and the rest gets distributed to other counties based on the Treasurer's formula.

CHANGES MADE AS A RESULT OF HB 3144

The bill reduces the coal severance tax rate by 2%, from 5% of value at sale to 3%. The bill does not affect the .35% share that goes to counties. To lessen the impact to state finances, the 2% reduction will be phased in over a three year period as follows:

- 35% of the reduction in the first year (beginning July 1, 2019)
- 65% of the reduction in the second year (beginning July 1, 2020)
- 100% of the reduction in the third year (beginning July 1, 2021)

ECONOMIC IMPACT

The net economic impact will depend on several factors, including competition from other industries and the overall health of the national economy. In the short term, the state will almost certainly have lower revenue collections than it has otherwise been getting. The fiscal note prepared by the Tax Department estimates that the loss to general revenue will be $58.6 million in the first year and $64.2 million each year after.

Lowering the tax rate will make West Virginia coal more competitive with mines in other states and countries. Over time, loss in revenue due to a lower tax rate should be counteracted by an increase in overall mining activity. In addition, consultants from PricewaterhouseCoopers predict the following economic benefits:

- An increase of 1,864 jobs in West Virginia
- An increase of $132 million in labor income paid to West Virginia workers
- An increase of $299 million in WV GDP