

# Severance Taxes

West Virginia Public Energy Authority

December 7, 2022

# Background Information

Source: U.S. Census Bureau, *State Government Tax Collections*

- **Severance taxes** are incurred when [non-renewable natural resources](#) are extracted (or severed) within a taxing jurisdiction. (Wikipedia Definition)
- Severance Taxes Imposed in 35 States
  - Oil, Natural Gas and Coal the three top minerals subject to tax
  - \$14.5 Billion in collections in FY2013 (1.3% of total State Tax collections)
  - More prevalent in small states, less prevalent in larger states
    - No Severance Tax imposed in New York, Pennsylvania, Illinois
    - Pennsylvania: Drilling Impact Fee - \$200 million + per year yield [Collected by PPUC]
- Texas, North Dakota and New Mexico account for two-thirds of total tax receipts
  - Per Capita Collections: \$529 in Alaska, \$2,134 in North Dakota & \$754 in Wyoming
  - Per Capita Collections: \$153 in West Virginia, \$1,742 in Texas, \$19 in Kentucky
- Tax Collection Patterns Highly Volatile & Uncertain

# Origin of the State Severance Tax

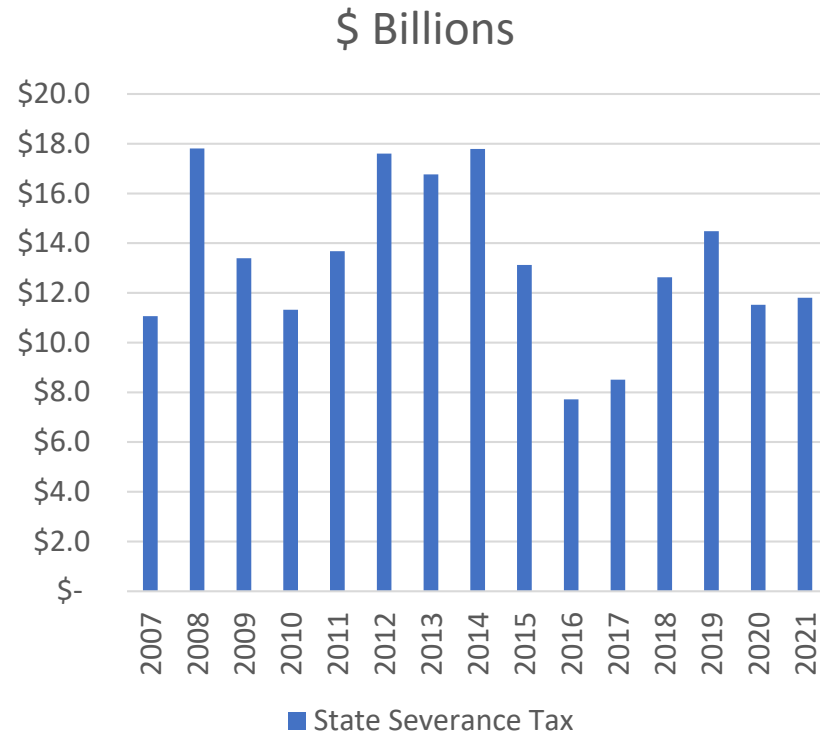
## Gross Sales Tax Law - 1921

- The “fairest tax” replaced a tax on corporate profits & an unconstitutional gas pipeline tax as of July 1, 1921
- Base of tax was business gross receipts > \$10,000
- Tax Rate on Mining:                      0.40% of gross receipts

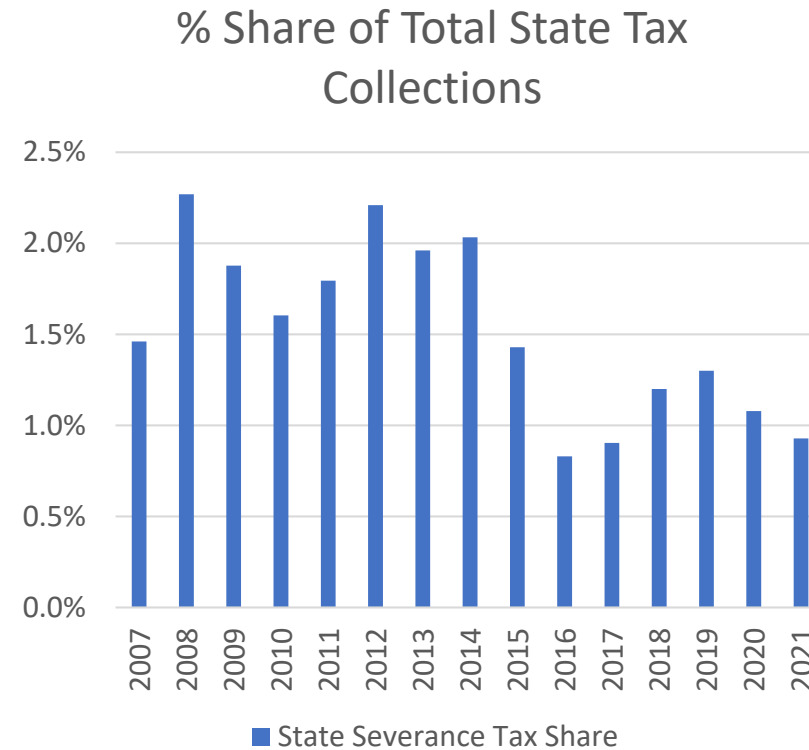
# Volatile Severance Tax Collections: 2007-2021

Source: U.S. Census Bureau: State Government Tax Collections

## Severance Tax Collections-All States Fiscal Year 2007- Fiscal Year 2021

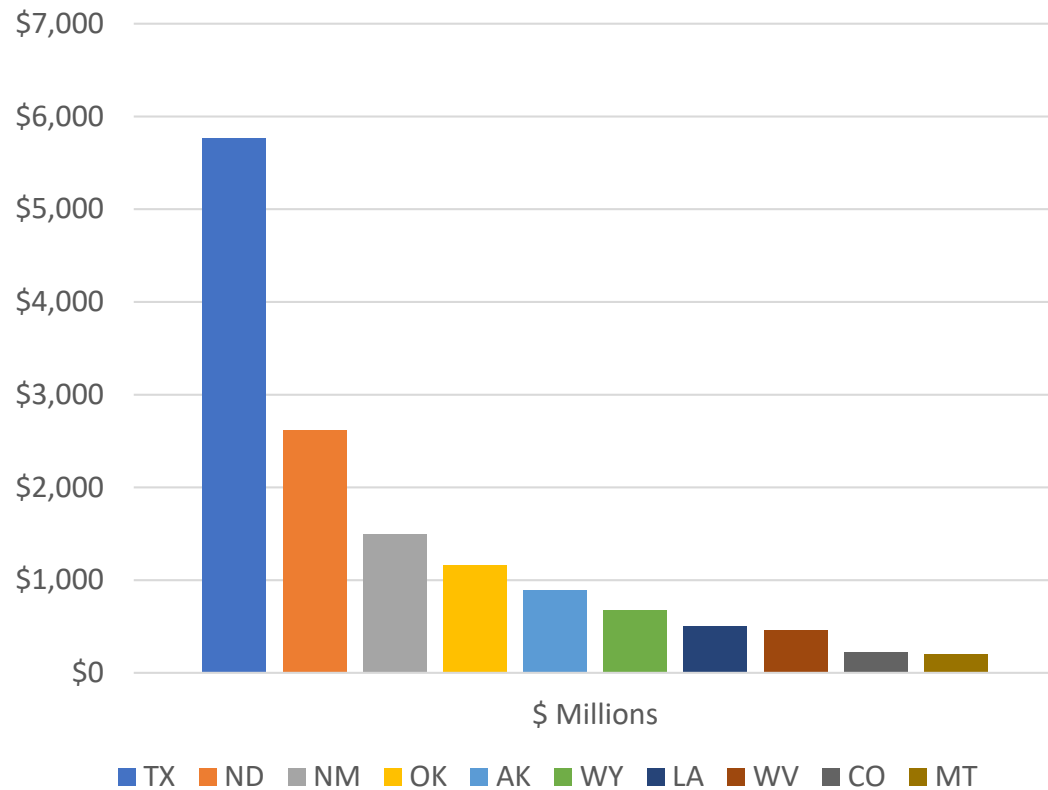


## Severance Tax Share Falling To Less Than 1% of Total Taxes

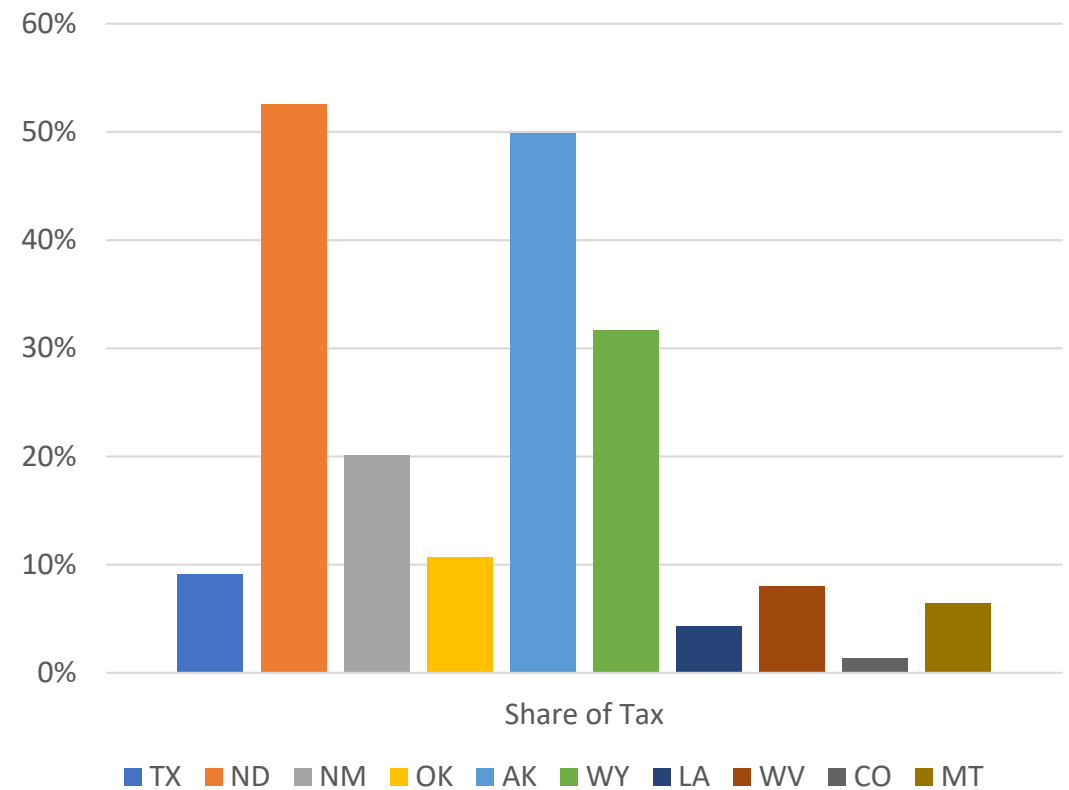


# Distribution of Severance Taxes Among States

FY2019 State Severance Tax Collections

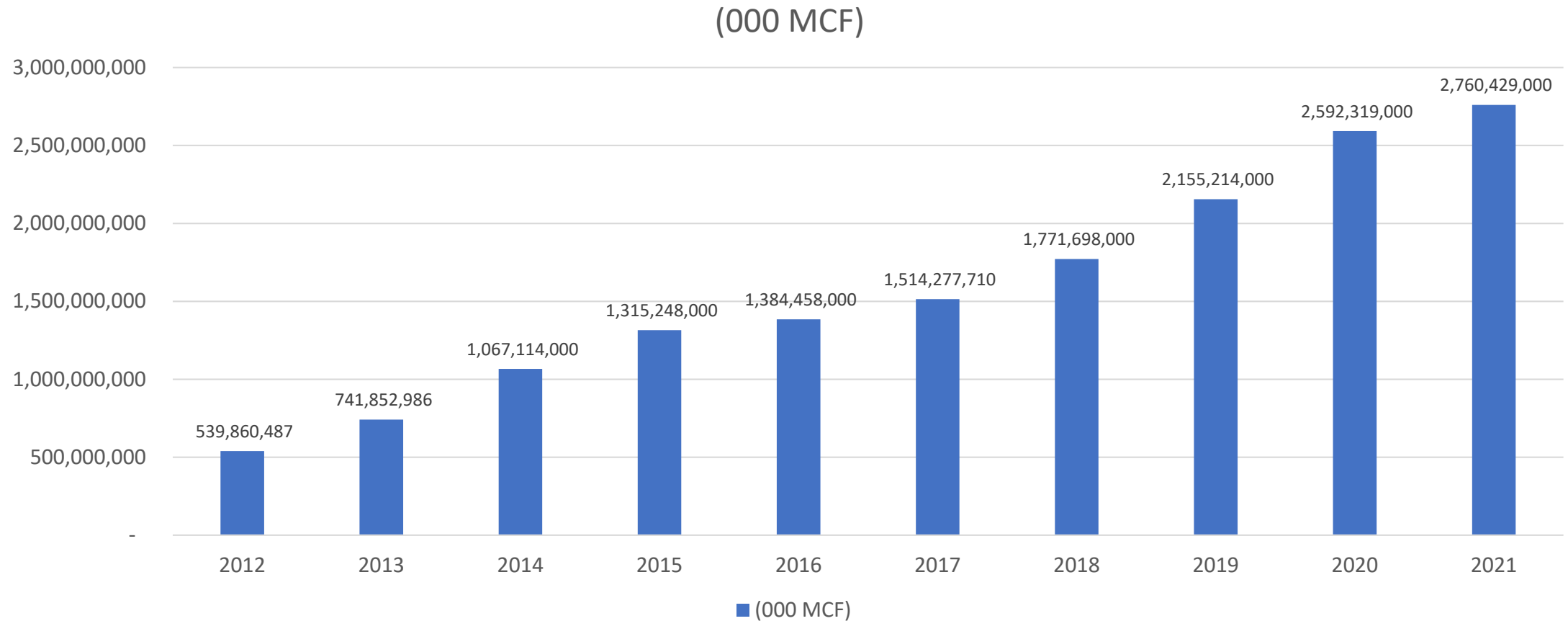


Severance Tax Share of Total State Taxes



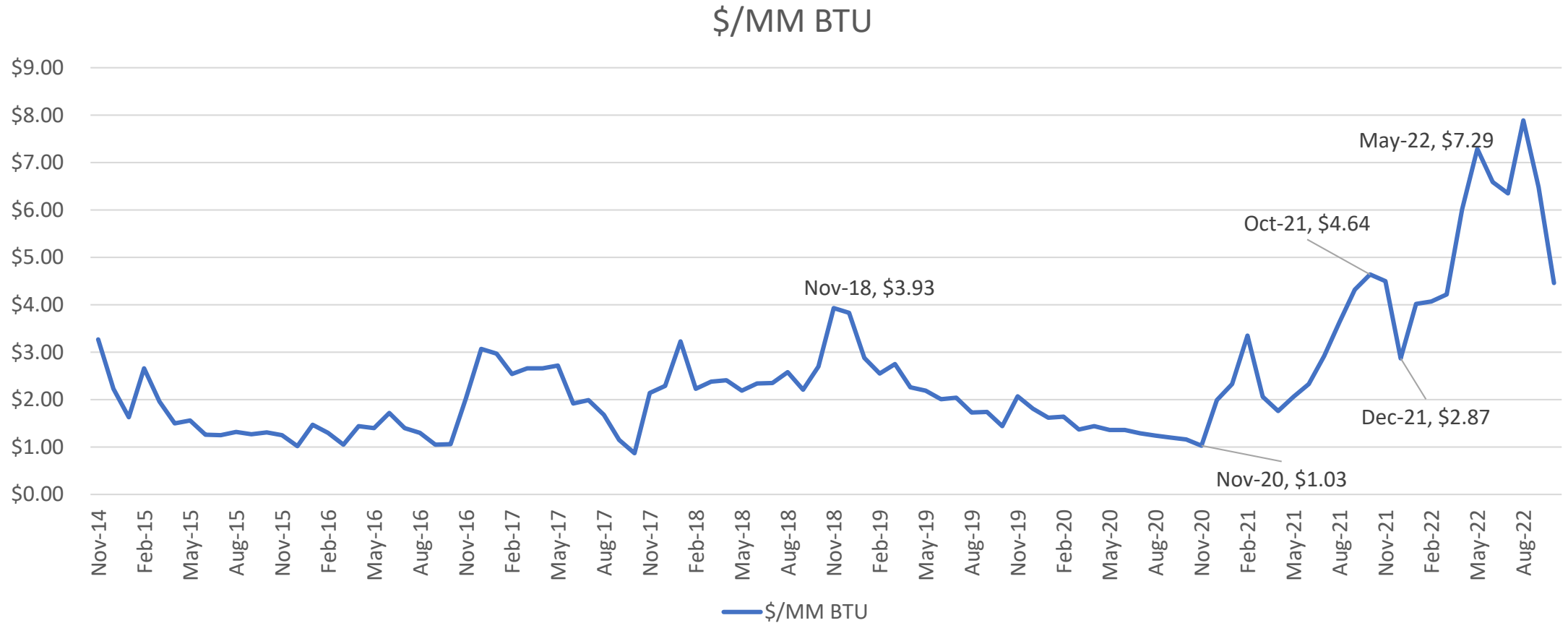
# WV Natural Gas Production: 2012-2021

Source: U.S. Energy Information Administration



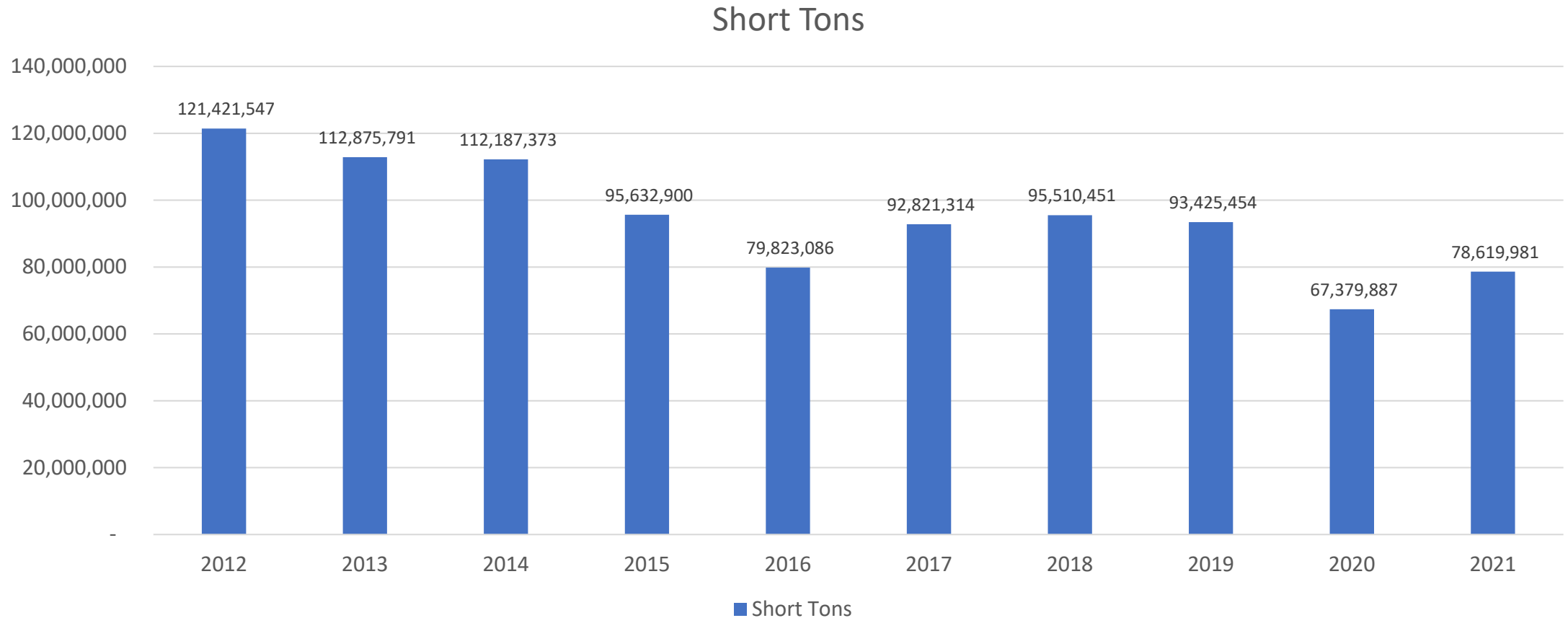
# Average Monthly Natural Gas Prices-Eastern Gas Hub

Source: Natural Gas Intelligence



# West Virginia Coal Production: 2012-2021

Source: U.S. Energy Information Administration

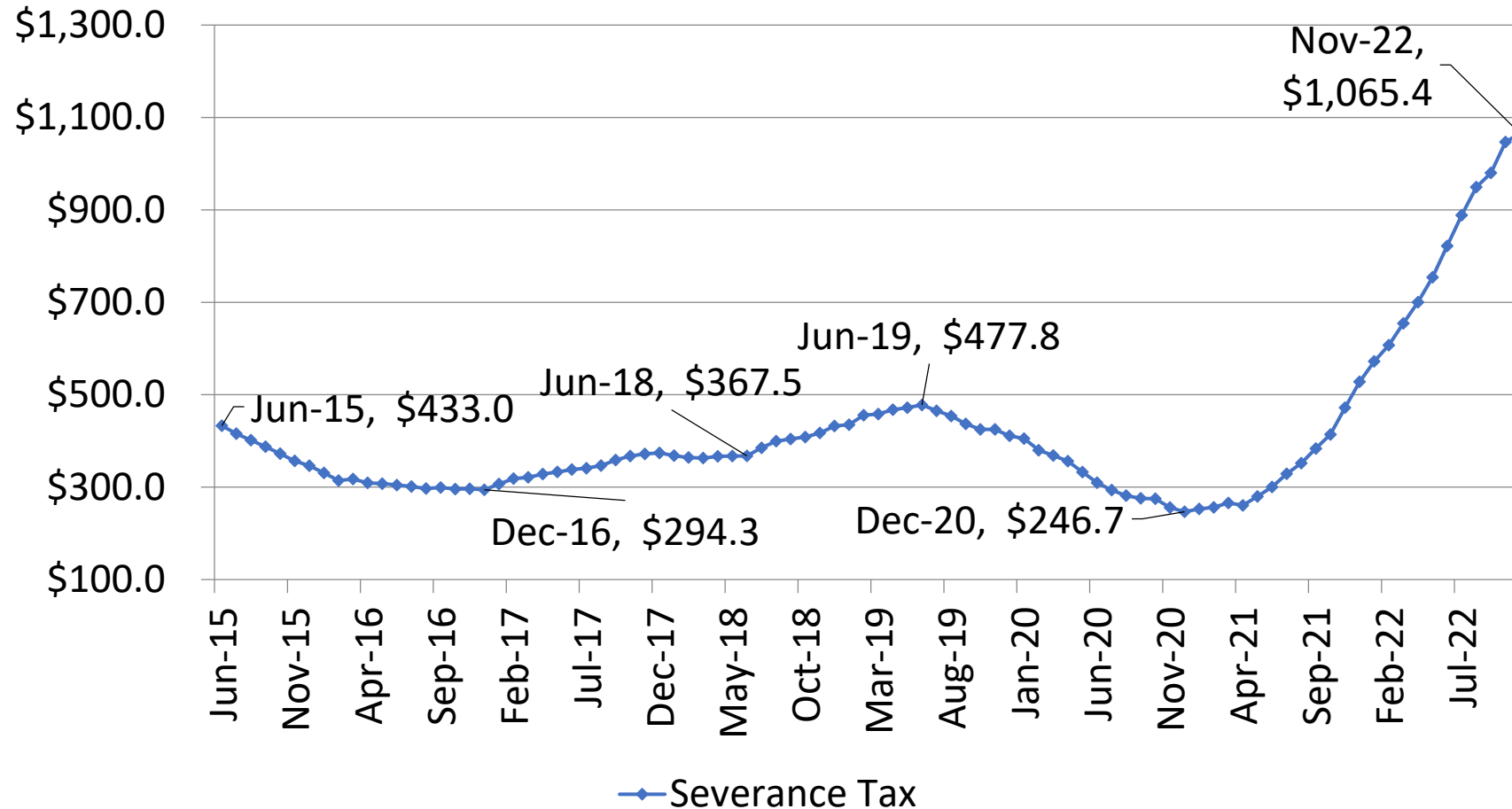




# Regular Severance Tax (June 2015-Present)

Trailing 12 Month Trend (6<sup>th</sup> of Month to 5<sup>th</sup> of Next Month)

\$ Millions

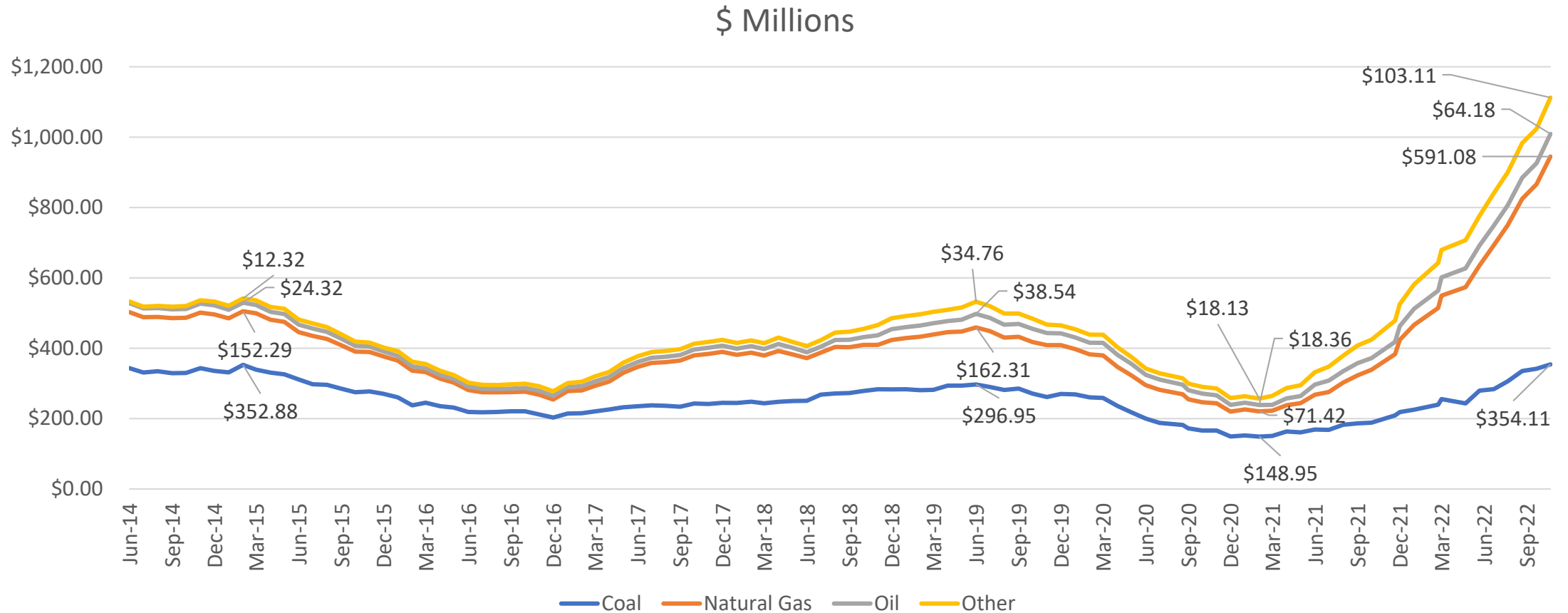


# 12-Month Trailing Trend on Severance Tax Collections by Type

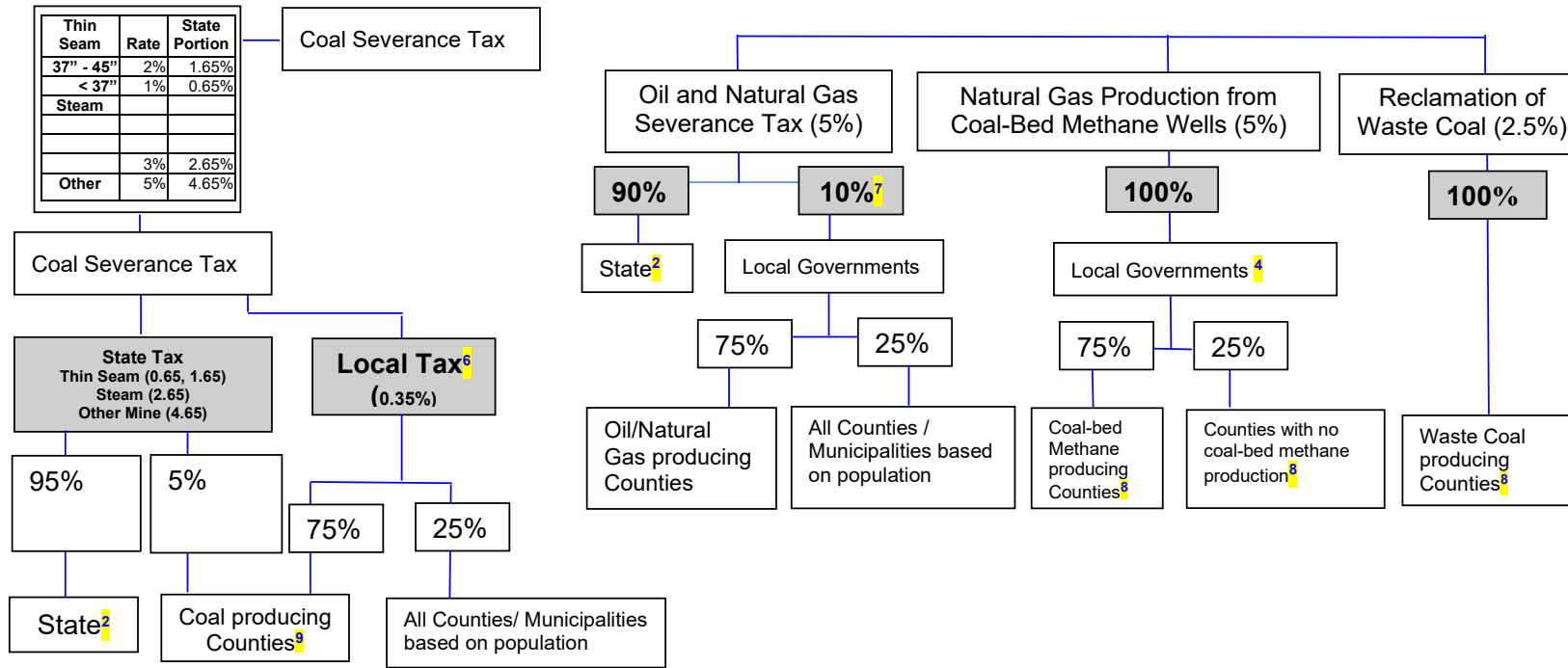
Peaks of \$541.8 million as of February 2015 and \$532.6 Million as of Jun 2019

Most Recent Trough of \$256.9 Million as of February 2021

Most Recent Peak of \$1.112 Billion as of October 2022 & Rising



## West Virginia Severance Taxes<sup>1</sup>



<sup>1</sup> This represents severance taxes deposited into the General Revenue Fund and does not include the annual severance taxes allocated to the Debt Service Fund, or the severance taxes distributed back to local governments.

<sup>2</sup> May be subject to a reduction of 3% for the Future Fund. See West Virginia Code §11-13A-5b.

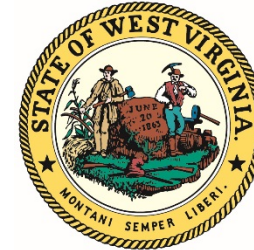
<sup>3</sup> The total reallocation of State coal severance tax to coal producing counties may not exceed \$20 million in any fiscal year.

<sup>4</sup> The distribution of severance tax revenues from natural gas from coal-bed methane wells to local governments is capped at \$4 million a year, any additional revenues beyond this cap is retained by the State. To date severance tax from natural gas from coal-bed methane wells has not exceeded \$4 million in any year so the State has not retained any revenue from this source.

<sup>5</sup> Effective July 1, 2019, and thereafter, W. Va. Code §11-13A-6a requires that the portion of the severance tax on coal imposed by §11-13A-3 that is dedicated and distributed for the use and benefit of the coal producing counties shall be not less than the amount distributed for the fiscal year beginning July 1, 2018. After July 1, 2019, the minimum amount available for distribution will be \$11,975,088.09. In no fiscal year may the proceeds dedicated to the coal producing counties exceed the sum of \$20 million pursuant to W. Va. Code §11-13A-6a.

TAX DEPARTMENT ADMINISTRATIVE FEES			
FN	Authority	Amount	From
6	11-13A-6(k)	\$35K	Distribution of the additional 0.35% severance tax for the benefit of counties
7	11-13A-5A(k)	\$35K	10% dedication and distribution of the oil and gas severance tax for the benefit of counties
8	11-10-27(a)	1%	Deposits into the Waste Coal Producing Counties fund and the Coalbed Methane Gas Distribution Fund
9	11-10-27(b)	1%	Deposits into the Coal County Reallocated Severance Tax Fund

W E S T V I R G I N I A



# DEPARTMENT OF REVENUE

Questions?