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## Analysts look at gap in taxing coal and gas in WV

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In a policy memo comparing fossil fuel taxation in West Virginia with Wyoming, analysts found a big gap between the two states, and within the Mountain State, a gap between two industries.



According to the West Virginia Center on Budget and Policy, Wyoming collected approximately \$2.1 billion in taxes from coal and natural resource companies in 2008, while West Virginia collected \$787 million. Further, within West Virginia, natural gas producers paid out an average tax rate of 8.2 percent versus coal producers, who paid an average rate of 6.5 percent.

"This is largely attributed to differences in average property tax rates," the report states. "Natural gas producers in West Virginia pay about three percent of their gross production value in taxes while coal producers pay a little less than one percent. This could be attributed to the different ways that coal and natural gas property is assessed and taxed in the state."

The WVCBP points out the example that unlike coal, oil and gas properties are appraised and assessed on both royalty landowner and the producer. The center estimates "perhaps 94 percent" of the value of active coal property is not assessed.

The policy memo, released Friday morning, compares major taxes imposed on fossil fuel producers in both West Virginia and Wyoming. Ted Boettner, executive director of WVCBP, said the memo was a response to questions raised by the West Virginia Senate Economic Development committee.

"The real reason for the disparity between the average effective rate for natural gas and coal is really the way we tax personal property for coal and natural gas differently," Boettner said. "This shows decisively that there is a huge disparity between the average property tax rate on coal and average property tax rate on gas. They should be the same."

Boettner said the discrepancy is a "huge disagreement" likely to end up as matter for courts to settle.

The numbers were analyzed based on 2008 production values of natural gas and coal. WVCBP compared severance, property, corporate income, sales and use and "several additional taxes unique to each state." Licenses, fees, bonds and permits were not included for calculation.

The memo's basic findings include an average effective tax rate on coal of 10.6 percent in Wyoming and 6.5 percent in West Virginia, an average effective natural gas tax rate of 10.2 percent in Wyoming and 8.2 percent in West Virginia.

Additionally, the policy memo describes average property tax rate of about 4.8 percent for each industry in Wyoming. In West Virginia, the property tax rate varied – 3 percent for natural gas properties and 1 percent on coal property.

The report also calculates the result of replacing West Virginia's current personal property tax scheme with Wyoming's county gross production tax – a move that would have netted an additional \$115 million in tax revenue in 2008, the memo states.

West Virginia also exempts a portion of direct purchases made by coal and gas companies, a tax break not granted to producers in Wyoming.

Comparison of the two energy states has been made as lawmakers look into the possibility of a West Virginia Future Fund. The idea would be to create a trust fund from severance taxes collected to fund future economic development.

"I think in the short term, our goal was to prove that West Virginia doesn't overtax natural gas and coal as some people would like to think and that it's entirely possible for West Virginia to have a Future Fund or a permanent mineral trust fund," Boettner said.

Boettner added that he has seen wide support of a mineral trust fund, but he was not surprised the fund was not created this legislative session. He said he is optimistic about support for the mineral tax fund, though there may be some debate about re-dedicating current severance taxes or increasing severance taxes.

A full copy of the policy memo is available here:

<http://www.wvpolicy.org/downloads/TaxResponsibilities030212.pdf>

A previous story by State Journal energy reporter Pam Kasey further explained the difference in oil and gas property tax versus coal property tax: <http://www.statejournal.com/Global/story.asp?S=15780743>

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